



cutting through complexity

# Laos

High Growth Markets country profile

Natural resources in the form of forestry, agricultural land, hydropower and minerals comprise more than half of Laos' (Lao People's Democratic Republic) total wealth. The development of these resources has helped the country achieve consistently high economic growth rates throughout the last decade. In spite of this progress, the country's infrastructure is still very underdeveloped, particularly in rural areas. In the longer term, Laos' key challenge is to use the wealth from its abundant resources to transform public infrastructure, services and health and education for all, especially the poor. The annual rate of increase in gross domestic product (GDP) is expected to remain rapid, averaging 8.6 percent from 2014–2015.

## Country overview

### Geography and climate

- **Location:** southeastern Asia, northeast of Thailand, west of Vietnam; the Mekong River forms a large part of the western boundary with Thailand
- **Climate:** tropical monsoon; rainy season (May to November); dry season (December to April)
- **Regions:** 16 provinces and one capital city
- **Major cities:** Vientiane (799,000)

### Political system

- **Type of government:** communist state
- **Capital:** Vientiane

### Population, language and religion

- **Population:** 6.8 million
- **Urban population:** 34%
- **Demographics:** 0–14 years: 35%; 15–64 years: 61%; 65 years and over: 4%
- **Official language:** Lao
- **Prominent religions:** Buddhist, Christian

### Currency and central banking

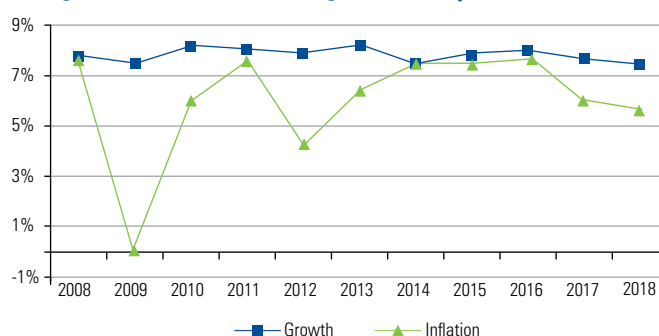
- **Local currency:** Lao kip (LAK)
- **Exchange rate:** 1 LAK = US\$0.0001 (1 April 2014)
- **Foreign exchange reserves:** US\$845.4 million
- **Total debt (2013):** external: US\$6.7 billion; internal public debt: 46.3% of GDP (2013 estimate)

## Business environment

### Economic environment

- **GDP in 2013 was US\$20.8 billion** and is expected to grow by 8.6% annually from 2014–2015.
- **Foreign direct investment (FDI) (billions):** Net inflows: US\$0.3 (2010); US\$0.3 (2011); US\$0.3 (2012)
- **Exports free on board (FOB) (billions):** US\$2.6 (2013); US\$3.1 (2014 forecast); US\$3.7 (2015 forecast)
- **Imports FOB (billions):** US\$3.6 (2013); US\$4.2 (2014 forecast); US\$4.9 (2015 forecast)
- **Sector breakdown:** service: 37.5%; industrial: 32.0%; agriculture: 24.8% (2013 estimate)
- **Trade balance (billions):** deficit of US\$2.9 (2013); US\$3.0 (2014 forecast); US\$2.9 (2018 forecast)
- **Stock exchanges:** Lao Stock Exchange (LSX)

### GDP growth and inflation (average consumer price index (CPI))



Source: International Monetary Fund, 2014

## Investment climate

### Key considerations

- **Fiscal and monetary policy:** The authorities' main priorities for 2014–2015 will be to keep inflationary pressures in check, while maintaining support for the economy and continuing reforms to create a more market-oriented business environment. Severe economic bottlenecks are generating inflationary pressures, along with rapid expansion of the money supply, exacerbated by strong inflows of foreign investment. The government is also rolling out large pay increases for civil servants in 2014.
- **Competition policy:** Competition policy reforms include: a reduction in air fares of up to 37 percent on routes served by low-cost carriers; opening up air transport and routes to low-cost entrants: 30 percent reduction in logistics costs for Thai truckers on the Bangkok–Vientiane route; and the breaking up of Lao's trucking cartel to enable access to all Thai truckers.
- **FDI policy:** Foreign investment is expected to increase in 2014–2015. Financing comes primarily from other Asian countries and is directed at the resources and hydropower sectors.
- **Foreign trade and exchange controls:** Laos joined the World Trade Organization (WTO) in February 2013, and the government will continue its policy of regional and international integration in the years 2014–2016. The government has made progress on reforming Laos' foreign trade regime, spurred by its efforts both to secure WTO membership and to prepare for the establishment of the ASEAN Economic Community (AEC) in 2015.
- **Taxes:** Laos imposes a single tax rate of 24 percent on profits of both domestic and foreign businesses, except for companies registered on the Lao Stock Exchange, which benefit from a five percent reduction of the normal rate for a period of 4 years from the date of registration with the exchange. After this period, the normal tax rate applies. There is a 26 percent tax rate on profits of companies producing, importing and supplying tobacco products. Two percent of the tax paid by tobacco companies contributes to the Cigarette Control Fund (Article 46 of the Law on Tobacco Control). Dividends for residents and non-residents are subject to income tax at 10 percent of the gross dividend received. Capital gains are taxed in the same manner as other operating profits.

## KPMG in Laos

KPMG member firms are among the world's leading providers of Tax, Audit and Advisory services. In Laos, KPMG has approximately 50 professionals and its office in the capital city of Vientiane.

KPMG in Laos aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

**For more information, please visit the KPMG in Laos website: [kpmg.com/th/en/topics/pages/laospractice](http://kpmg.com/th/en/topics/pages/laospractice)**

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014

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