

# LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 87/2023  
19 May 2023

## SOVEREIGNS

**Sovereign Rating:** BBB-  
**Issue Ratings:**  
Senior unsecured BBB-  
**Outlook:** Negative

**Last Review Date:** 20/05/22

### Company Rating History:

Date	Rating	Outlook/Alert
20/05/22	BBB-	Stable
14/05/21	BBB-	Negative
15/05/20	BBB	Negative
28/06/19	BBB	Stable
12/06/17	BBB+	Negative
10/06/15	BBB+	Stable

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## RATIONALE

TRIS Rating affirms the sovereign rating on the Lao People's Democratic Republic (Lao PDR) and the ratings on the Lao PDR's outstanding senior unsecured debentures at "BBB-". At the same time, we revise the rating outlook on the Lao PDR to "negative" from "stable" to reflect the worse-than-expected deterioration of its external position and public debt burden following the substantial depreciation of the Laotian kip (LAK) over the past 12 months, and the likelihood of continued deterioration in the near term. The outlook also reflects the country's high inflation, which in our view, continues to undermine the credibility of the monetary authority in maintaining price stability to support a sustainable economic recovery.

The "BBB-" ratings reflect the Lao PDR's sovereign profile as a small economy with high growth potential and political stability. We expect investments in productive infrastructure assets will provide the Lao government with stable revenue sources in the long term. However, the ratings also reflect the country's limited financial buffer and high public debt level relative to the size of its economy, recently exacerbated by its currency depreciation.

## KEY RATING CONSIDERATIONS

### Hands-on debt management plan

We expect the Lao PDR will be able to meet its near-term commercial debt obligations as it has prepared sufficient funding for debt repayment. With that said, the current ratings reflect the country's modest financial buffer and a certain degree of liquidity management risk. Over the next few years, we expect major sources of funding, in foreign currencies, to meet the country's external debt services to include the following: 1) the government's revenue inflows; 2) monetising of certain state-owned assets; 3) receipts from offering of mining concessions to private investors; 4) receipts of debt repayments from the government's on-lending to certain state-owned enterprises (SOEs); 5) borrowings from domestic commercial banks; and 6) issuance of government securities in the domestic bond market. Ongoing negotiations on the rescheduling of concessional debt repayments with the country's major lender provides further financial flexibility, in our view.

Lao PDR has scheduled total external debt services of USD1.53 billion in 2023, according to the Ministry of Finance of the Lao PDR (MOFL). Of this amount, USD884 million are interest expenses and principal repayments of commercial debt obligations. Of the total public debt outstanding of USD10,413 million as of end-2021, around 60% were concessional, 85% were fixed-rate, and 88% were long-term borrowings.

### Higher public debt relative to the GDP

The country's public debt stood at 98% of gross domestic product (GDP) at end-2022, well above our previous forecast of around 70%, due to the LAK's sharp depreciation. We estimate the figure to gradually decline towards 80% at end-2024 as the nominal GDP continually expands, assuming the LAK does not depreciate substantially further from the current level, and the debt outstanding in original currency terms gradually falls thanks to the fiscal consolidation. In 2023-2024, we expect the country to sustain a primary fiscal surplus of around 1% of GDP and an overall fiscal deficit of around 1.4% of GDP. The gap between the two largely reflects expenditure on public investment projects funded by concessional borrowing.

Public debt rose to 98% of GDP at end-2022 from 76% of GDP at end-2021 due to a sharp depreciation of the LAK by 54.7% in 2022. The exchange rate effect further raised the public debt interest burden as a percentage of government revenue to 21% in 2022, from 16% in the previous year. However, public debt outstanding in original currency terms stayed near the same level at end-2022, compared with end-2021. According to MOFL, the external public debt stood at approximately USD10,800 million, near USD10,412 million at end-2021. Likewise, domestic debt outstanding was at LAK 24,900 billion at end-2022, near LAK23,234 billion at end-2021.

Contingent liabilities consisting mainly of loan guarantees to Électricité du Laos (EDL) represented approximately 16% of GDP at end-2022. The prospect of these liabilities turning into direct obligations remains limited, in our view.

### External position remains vulnerable

We expect a gradual improvement in the country's vulnerable external position over the next few years. With that said, structural weakness of the balance of payments (BOP) and a modest level of foreign exchange (FX) reserves should continue to characterise the country's vulnerability to external shocks. As such, we estimate the FX reserves to rise towards USD1.32 billion at end-2024, equivalent to around 2 months of goods imports. The FX reserve, however, declined to USD1.12 billion at end-2022, below our previous forecast of USD1.41 billion or 2.6 months of imports. The FX reserve was USD1.26 billion at end-2021.

Improvements in the BOP should materialise as exports continually expand, oil prices gradually decline, and foreign direct investment (FDI) picks up. Major catalysts include growth in generation capacity of electricity exports and re-opening of the Chinese border supported by the Lao-China rail link. Previously approved FDI, notably in the mining sector, should continue to be realised in 2023-2024. To some extent, recent measures introduced by the Bank of Lao (BOL) could facilitate more timely inflows of offshore capital and reduce outflows of domestic funds. The current account (CA) in 2022, however, did not sustain similar improvements as those seen in 2021: the CA deficit was 0.1% of GDP, compared with a surplus of 2.7% in 2021. This largely reflects high oil import bills, which outweigh growth in exports of electricity, mineral and agricultural products, and tourist arrivals. Other unfavourable developments were subpar FDI inflows, and financial outflows from debt repayments and tightening of global financial conditions.

We expect the Lao PDR's net external debt to remain elevated at around 171% of current-account receipts (CAR) in 2022. External debt services should remain close to the size of the FX reserves over the next few years. We estimate the combined public- and private-sector external debt balance to be around USD17 billion in 2022.

### Some economic stability expected

Our economic assessment reflects a modest income level of the Lao PDR with GDP per capita estimated at USD2,071 per annum in 2022. This has fallen from USD2,305 in 2021 due to the exchange rate effect. We expect real GDP growth in LAK terms to be around 4.5% over the next few years with an improving domestic economy, a more stable macroeconomic environment and China's re-opening. Real GDP growth was 4.4% in 2022, near our previous forecast of 4.5%.

We also expect the average year-on-year (y-o-y) change in the consumer price index (CPI) to trend lower from 23% in 2022, a level far above that of the country's key trading partners. At the same time, we expect to see some stabilisation of the LAK from gradual improvements in the BOP and easing of the global financial conditions.

The effectiveness of the monetary policy should remain limited given a high degree of dollarisation. As an indication, foreign-currency deposits made up 67% of total deposits in the banking system at end-2022.

### BASE-CASE ASSUMPTIONS

- Real GDP Growth: 4.5% in 2023-2024
- FX Reserve: USD1.2-USD1.3 billion in 2023-2024
- Fiscal Balance: around -1.4% of GDP in 2023-2024 (Primary Balance: around 1.0% of GDP in 2023-2024)
- Public Debt/GDP: 80%-90% in 2023-2024

### RATING OUTLOOK

The "negative" outlook reflects the likelihood of a continued deterioration in the external position and public debt burden as the LAK continues to depreciate in the near term. The outlook also reflects our view that exceptionally high inflation is continuing to undermine the credibility of the monetary authority in maintaining price stability to support a sustainable economic recovery.

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**RATING SENSITIVITIES**

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We could downgrade the ratings if the external position and public debt burden of the Lao PDR do not show signs of sustained improvement. We could also downgrade the ratings if there are signs of heightened liquidity risk, or if there is a material deterioration in the fiscal position.

We could revise the outlook to “stable” if there are clear signs of improvement in the external position and public debt burden. This could happen, for instance, if the LAK shows signs of strengthening, the BOP improves leading to a sustained build-up of FX reserves, inflation trends down sustainably, and/or the economy continues to recover.

We could upgrade the ratings if the country can demonstrate material progress in improving its economic fundamentals, its fiscal and external positions, and in stabilising its funding sources to service debt obligations.

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**COUNTRY OVERVIEW**

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The Lao PDR is the smallest economy in the Association of Southeast Asian Nations (ASEAN). The Lao PDR’s GDP was approximately USD15 billion at end-2022, according to estimates from the BOL. The country’s real GDP in 2022 grew by 4.4% in local currency terms. In terms of size, the Lao PDR’s economy trailed the economies of Myanmar, Cambodia, and Brunei Darussalam. We estimate the Lao PDR’s GDP per capita to be USD2,071 in 2022.

The Lao PDR has abundant natural resources, such as copper, gold, and lignite, whilst positioning itself as the “Battery of Asia” as it has plenty of water resources suitable for generating power. Electricity, mineral and agricultural exports to neighbouring countries constitute an important part of the revenues of the Lao PDR, accounting for more than 63% of total goods export value in 2021. However, government capital investment in several infrastructure projects since 2015, the COVID-19 pandemic and a recent depreciation of the LAK caused the country’s public debt burden to reach 98% of GDP in 2022, from 56% in 2016.

Over the medium term, the Lao government has made significant efforts to address the country’s fiscal and external vulnerabilities. However, most of these will take time to implement and yield the target results. Relevant measures include improved tax collection, a modernised public procurement system, removal of duplicate public administrative layers, and a contraction of the public-sector workforce. Importantly, under the 9th National Socio-Economic Development Plan (NSED), which spans the period of 2021-2025, the country aims to lower its budget deficits to 1%-2%. The plan emphasises allocations of additional government budgets towards public debt repayments, whilst delaying non-strategic capital investments. Other priorities include ways to increase revenues and cut expenses, criteria for eligible public investments, centralised fiscal and debt databases, and an improved legal framework. In addition, the Public Debt Management Law (2018) laid out a legal framework on eligibility and approval procedures of public investments and borrowing. The law is applicable country-wide to all government entities, SOEs, and other parties related to public debt management.

Similarly, promotion of local small- and medium-sized enterprises (SMEs) towards food-import substitution, diversification of agricultural exports, and re-prioritising towards export-oriented FDI, once successful, should greatly help improve the country’s CA position. To improve the stability of the LAK, the monetary authority has engaged in currency swaps to support payments of FDI-related imports by directly using the currencies of some major trading country counterparties.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS**

	2018	2019	2020	2021	2022
GDP (mil. USD)	17,824	18,311	18,601	16,509	15,048
GDP per capita (USD)	2,585	2,654	2,634	2,305*	2,071 *
Real GDP growth rate (%)	6.3	5.5	3.0	3.5	4.4
Nominal GDP per capita growth rate (%) (LAK)	7.8	6.7	3.9	5.5*	14.9 *
Government revenue (mil. USD)	2,849	2,976	2,343	2,426	2,267
Government revenue (% growth)	3.6	4.5	(21.3)	3.5	(6.5)
Government revenue (% of GDP)	16.0	16.3	12.6	14.7	15.1
Government revenue from tax (% of total revenues)	70.1	67.1	72.4	68.2	75.1
Government revenue from non-tax (% of total revenues)	4.9	22.9	15.8	18.3	15.4
Grant (% of total revenues)	6.2	10.0	11.8	13.5	9.5
Government expenditures (mil. USD)	3,552	3,447	3,319	2,633	2,319
Government expenditures (% growth)	(3.9)	(2.9)	(3.7)	(20.7)	(11.9)
- Current expenditures (% of total expenditures)	62.6	67.1	64.0	67.9	67.9
- Capital expenditures (% of total expenditures)	37.4	32.9	36.0	32.1	32.1
Government budget balance (deficit) (% of GDP)	(4.4)	(2.6)	(5.2)	(1.3)	(0.3)
Government primary balance (deficit) (% GDP)	(0.3)	(0.6)	(2.3)	(0.1)	1.4
Government external debts (mil. USD)	9,548	9,936	10,574	10,413	10,800
Government external debts (% of GDP)	53.5	54.2	56.7	62.3	86.6
Government external debts (% growth)	9.4	4.1	6.4	(1.5)	3.7
Government external debt services (mil. USD)	644	750	1,203	1,275	1,144
Government external debt services (% of foreign exchange reserves)	73.8	78.8	93.8	103.8	105.4
External debts (mil. USD)	15,137	15,654	16,287	16,210*	16,852 *
External debts (% of GDP)	84.9	85.5	87.6	98.2	112.0
Net external debts (% of current account receipts)	205.7	195.5	216.2	179.3	171.5
Balance of payments (mil. USD)	(143)	124	322	(57)	(130)
Official foreign exchange reserves (mil. USD)	873	997	1,319	1,263	1,121
Official foreign exchange reserves as months of imports (months)	1.7	1.9	2.9	2.4	1.9

Sources: 1) Bank of Lao (BOL)  
2) Ministry of Finance of Lao (MOFL)  
\* Estimates by TRIS Rating

**RELATED CRITERIA**

- Sovereign Rating Methodology, 26 August 2022
- Issue Rating Criteria, 15 June 2021

**Lao People's Democratic Republic (Lao PDR)**

<b>Sovereign Rating:</b>	BBB-
<b>Issue Ratings:</b>	
MOFL23NA: THB1,063.80 million senior unsecured bonds due 2023	BBB-
MOFL23NB: THB2,546.50 million senior unsecured bonds due 2023	BBB-
MOFL24OA: THB340.90 million senior unsecured bonds due 2024	BBB-
MOFL253A: THB1,119.2 million senior unsecured bonds due 2025	BBB-
MOFL256A: THB6,000 million senior unsecured bonds due 2025	BBB-
MOFL263A: THB3,880.8 million senior unsecured bonds due 2026	BBB-
MOFL26NA: THB1,371.50 million senior unsecured bonds due 2026	BBB-
MOFL27OA: THB2,967.00 million senior unsecured bonds due 2027	BBB-
MOFL28NA: THB1,891.30 million senior unsecured bonds due 2028	BBB-
MOFL28NB: THB532.50 million senior unsecured bonds due 2028	BBB-
MOFL29OA: THB1,505.50 million senior unsecured bonds due 2029	BBB-
MOFL30NA: THB2,153.20 million senior unsecured bonds due 2030	BBB-
MOFL32OA: THB5,375.50 million senior unsecured bonds due 2032	BBB-
MOFL25DA: USD162 million senior unsecured bonds due 2025	BBB-
MOFL27DA: USD20 million senior unsecured bonds due 2027	BBB-
<b>Rating Outlook:</b>	Negative

**TRIS Rating Co., Ltd.**

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