

LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 79/2018

19 June 2018

SOVEREIGNS

Sovereign Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Negative

Sovereign Rating History:

Date	Rating	Outlook/Alert
12/06/17	BBB+	Negative
10/06/15	BBB+	Stable

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RATIONALE

TRIS Rating affirms the sovereign rating and the ratings of outstanding senior unsecured bonds of the Lao People's Democratic Republic (Lao PDR) at "BBB+", with "negative" outlook. The ratings reflect the sovereign credit profile of the Lao PDR as a small, fast growing and developing economy. The ratings are constrained by the continued rise in the nation's external debt, widening fiscal deficit, and persistently low foreign reserves. The Lao PDR government is expected to continue relying on external finance to fund public investment over the next few years. The lack of the up-to-date economic, financial, and fiscal data is another credit constraint.

KEY RATING CONSIDERATIONS

Rising GDP

The real gross domestic product (GDP) of the Lao PDR is expected to grow by 6.9% in 2017, according to the Ministry of Finance of the Lao PDR (MOFL). GDP in 2018 is expected to rise by 6.5%-7.0%. The Lao PDR's economic growth has shown an improving trend in 2018 thanks to the improvement in commodity prices, construction activities, and exports.

Widening fiscal deficit

The government fiscal deficit has widened since 2015. In 2017, the fiscal deficit registered at US\$941.4 million, increased 46.86% from US\$641 million in 2015. Fiscal deficit rose mainly because government expenditures rose rapidly. Government revenues grew at a slower rate amid economic slowdown in recent years. The Lao PDR government forecasts revenues to grow by 9.49% in 2018, compared with 3.86% in 2017. Expenditures are projected to increase by 8.9% in 2018, compared with 7.1% in 2017.

Low foreign exchange reserves, though improving

According to the Bank of the Lao PDR (BOL), foreign exchange reserves at the end of 2017 were US\$1,015.83 million, up 24.66% from US\$814.83 million in 2016. During the past five years, official foreign exchange reserves averaged US\$859 million. Annual ratio of debt services to foreign exchange reserves averaged 33.47%. The ratio is forecast at 45.66% in 2017 and 47.31% in 2018 based on TRIS Rating's base case scenario.

Rising public debts over the medium term

The external public debt of the Lao PDR is expected to rise to over US\$8,600 million by the end of 2017. This level is equal to about 50.0% of the country's GDP in the same year. All of the external debt has been used to finance government infrastructure projects and hydropower projects. TRIS Rating expects the Lao PDR government to continue relying on bilateral project loans and bond issuances in Thailand's debt capital market to fund its deficit in the medium term.

Bilateral and multilateral loans comprise most of public debt

At the end of 2017, the Lao PDR's outstanding bonds issued in Thailand equaled US\$1,436.71 million, accounting for 16.74% of total external debts. Bilateral loans, most of which are long-term amortized project loans related to government infrastructure investments, accounted for the largest portion (64.82% at the end of 2017) of total external debt. More than 50.0% of total

outstanding loans, including multilateral and bilateral loans, are owed to the Chinese creditors.

Political stability yields continuity

The political situation in the Lao PDR has been stable for 40 years, since the establishment of the Lao PDR in 1975. The nation has a single political party, the Lao People's Revolutionary Party, which has ruled the country for more than 40 years. The National Assembly of the Lao PDR appoints a president who will appoint the prime minister, vice presidents, ministers, and other officials with the consent of the National Assembly. The degree of political stability in the Lao PDR supports the continuation of the government's economic development plans and policies in a meaningful, effective manner.

RATING OUTLOOK

The "negative" outlook reflects TRIS Rating's concerns regarding the continued rise of government debt and low foreign exchange reserves. A rise in external public debt will increase the foreign currency debt service burden of the Lao PDR government over the medium to long term and add pressure on foreign exchange reserves. The large amount of external public debt also exposes the Lao PDR government to foreign exchange risk.

RATING SENSITIVITIES

A change in outlook to "stable" is dependent upon a fall in the level of external debt, higher and more stable foreign exchange reserves, and lower government budget deficit on a sustainable basis. The broadening of tax base and the completion of hydropower and other productive government investment projects could increase the government's revenue and reduce the government's dependency on external sources of fund.

On the contrary, a materially worsening trend in foreign exchange reserves and external public debt will lead to a rating downside scenario.

COUNTRY OVERVIEW

The Lao PDR is the smallest economy in the Association of Southeast Asian Nations (ASEAN). In 2017, the Lao PDR's GDP was Kip140.75 trillion (approximate US\$17.16 billion), according to the Lao Statistical Bureau. The Lao PDR's economy trailed in size the economies of Myanmar, Cambodia, and Brunei Darussalam. However, the Lao PDR is among the fast growing GDP per capita economies.

According to the International Monetary Fund (IMF), in 2017, the Lao PDR's GDP per capita was projected to be US\$1,821. Per capita GDP was estimated to grow in real term by an annual average of 4.91% in 2017. The Lao PDR government's 8th Five Year National Socio-Economic Development Plan (2016-2020) sets a target of 7.5% as the average annual growth rate of GDP.

The Lao PDR has abundant natural resources, such as copper, gold, and lignite. The Lao PDR has positioned itself as the "Battery of Asia" as it has plenty of water resources suitable for generating power. Electricity exports to neighboring countries have been an important part of the revenues of the Lao PDR's government.

KEY PERFORMANCE

Table 1: Real Growth Rates of Gross Domestic Product Per Capita of ASEAN-10¹

Unit: %

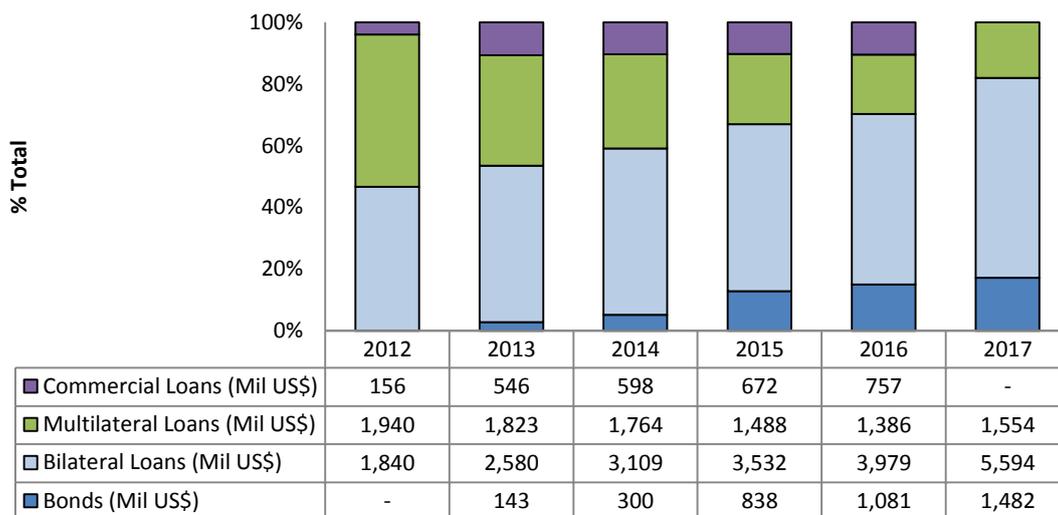
Country	2011	2012	2013	2014	2015	2016	2017p
Brunei Darussalam	2.01	-0.51	-3.48	-3.96	-1.79	-4.01	-0.79
Singapore	4.16	1.56	3.42	2.54	1.04	1.08	3.53
Thailand	0.40	6.74	2.17	0.46	2.75	3.07	3.73
Indonesia	4.26	4.55	4.12	3.61	3.52	3.72	3.75
Malaysia	3.58	3.87	2.26	4.30	3.42	2.75	4.53
Philippines	1.92	4.12	5.22	4.35	4.31	5.18	4.58
Lao P.D.R. ²	5.96	6.29	6.05	5.62	5.27	5.02	4.91
Cambodia	5.42	5.39	5.86	5.48	5.61	5.46	5.37
Vietnam	5.14	4.10	4.31	4.85	5.53	5.09	5.73
Myanmar	4.75	6.42	7.49	7.07	6.11	5.04	5.93

Source: World Economic Outlook (WEO) Database, IMF

Note: ¹ ASEAN-10 includes all 10 member countries of the Association of Southeast Asian Nations (ASEAN).

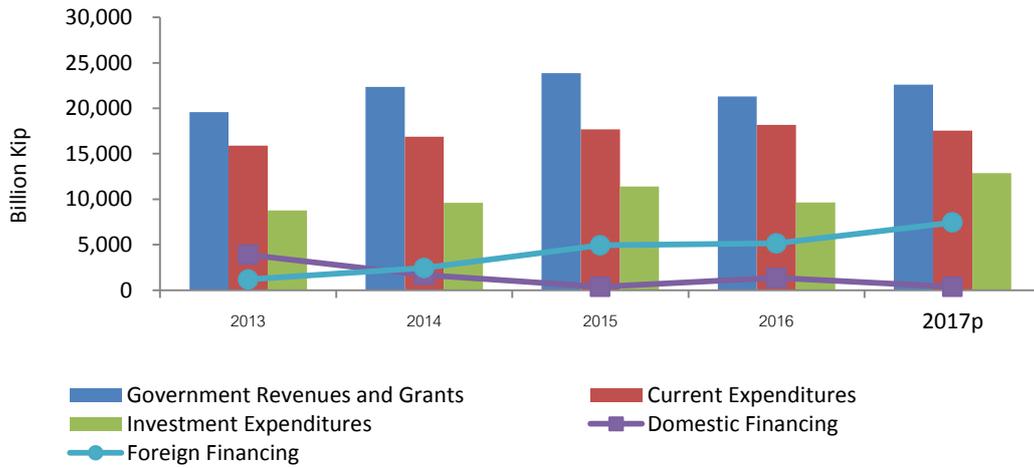
² Lao PDR's GDP per capita real growth rates calculated by TRIS Rating

Chart 1: Proportions of External Public Debt by Creditors



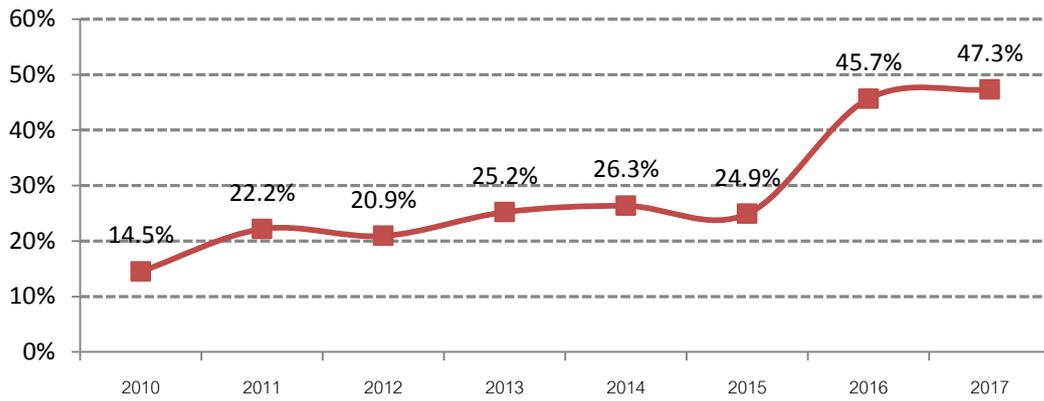
Source: MOFL

Chart 2: Government Budgets and Financings



Source: MOFL

Chart 3: External Debt Services/Foreign Exchange Reserves



Source: TRIS Rating

KEY ECONOMIC INDICATORS OF LAO PDR

	2012	2013	2014	2015	2016	2017p
GDP (US\$ million)	10,193	11,980	13,274	14,420	15,916	16,964
GDP per capita (US\$)	1,534	1,770	1,924	2,051	2,222	2,324
Real GDP growth rate (%)	8.3	8.0	7.6	7.3	7.0	6.9
Real GDP per capita growth rate (%)	6.3	6.0	5.6	5.3	5.0	4.9
Government revenue (US\$ million)	2,122	2,500	2,779	2,934	2,624	2,726
Government revenue (% growth)	18.05	17.78	11.16	5.59	(10.20)	3.86
Government revenue (% of GDP)	20.8	20.9	20.9	20.3	16.5	16.1
Government revenue from tax (% of total revenues)	64.2	64.6	65.1	66.3	77.3	74.8
- Direct tax	17.3	15.5	12.4	13.5	15.7	15.2
- Indirect tax	46.9	49.1	52.7	52.8	61.6	59.6
Government revenue from non-tax (% of total revenues)	8.9	10.3	11.8	11.4	13.7	15.5
Grant (% of total revenues)	26.9	25.1	23.1	22.3	9.0	9.7
Government expenditures (US\$ million)	2,251	3,148	3,290	3,580	3,423	3,667
Government expenditures (% growth)	15.1	39.8	4.5	8.8	(3.9)	7.1
- Current expenditures (% of total expenditures)	52.0	64.4	63.7	60.8	65.4	57.6
- Capital expenditures (% of total expenditures)	48.0	35.6	36.3	39.2	34.6	42.4
Government budget balance (deficit)(% of GDP)	(1.3)	(5.4)	(3.9)	(4.5)	(5.0)	(5.5)
Government external debts (US\$ million)	3,937	5,092	5,723	6,531	7,203	8,585
Government external debts (% of GDP)	38.6	42.5	43.1	45.3	45.3	50.6
Government external debts (% growth)	33.7	29.4	12.4	14.1	10.3	19.2
- Bilateral (% of external debts)	46.7	50.7	54.3	54.1	55.2	46.3
- Multilateral (% of external debts)	49.3	35.8	30.8	22.8	19.2	16.1
Government external debt services (US\$ million)	154.7	166.8	214.9	245.6	368.6	463.8
Government external debt services (% of foreign exchange reserves)	20.9	25.2	26.3	24.9	45.2	45.7
Balance of payments (US\$ million)	61	(78)	154	171	(172)	201
Official foreign exchange reserves (US\$ million)	740	662	816	987	815	1,016

Sources: BOL, MOFL, and estimation by TRIS Rating
P= Projection

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BBB+
Issue Ratings:	
MOFL186A: Bt1,000 million senior unsecured bonds due 2018	BBB+
MOFL19NA: Bt4,802.90 million senior unsecured bonds due 2019	BBB+
MOFL206A: Bt5,000 million senior unsecured bonds due 2020	BBB+
MOFL200A: Bt2,791.30 million senior unsecured bonds due 2020	BBB+
MOFL21NA: Bt1,870.50 million senior unsecured bonds due 2021	BBB+
MOFL220A: Bt1,019.80 million senior unsecured bonds due 2022	BBB+
MOFL23NA: Bt1,063.80 million senior unsecured bonds due 2023	BBB+
MOFL240A: Bt340.90 million senior unsecured bonds due 2024	BBB+
MOFL256A: Bt6,000 million senior unsecured bonds due 2025	BBB+
MOFL26NA: Bt1,371.50 million senior unsecured bonds due 2026	BBB+
MOFL270A: Bt2,967.00 million senior unsecured bonds due 2027	BBB+
MOFL28NA: Bt1,891.30 million senior unsecured bonds due 2028	BBB+
MOFL290A: Bt1,505.50 million senior unsecured bonds due 2029	BBB+
MOFL320A: Bt5,375.50 million senior unsecured bonds due 2032	BBB+
MOFL25DA: US\$162 million senior unsecured bonds due 2025	BBB+
MOFL27DA: US\$20 million senior unsecured bonds due 2027	BBB+
Rating Outlook:	Negative

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