

LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 71/2023
22 June 2023

SOVEREIGNS

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

Last Review Date: 19/05/23

Sovereign Rating History:

Date	Rating	Outlook/Alert
19/05/23	BBB-	Negative
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 bonds at "BBB-" with a "negative" rating outlook. At the same time, TRIS Rating assigns a rating of "BBB-" to the Lao PDR's proposed issue of up to THB3.6103 billion senior unsecured bonds due within four years. The proceeds from the new bonds are intended for debt repayments.

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, exacerbated by its currency depreciation.

The proceeds from the new bond issue should add to the liquidity needed to meet debt obligations of the Lao PDR. Commercial Thai baht debentures due in 2023 amount to THB3.6103 billion. Total scheduled external debt services of the country are 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 billion as of end-2021, around 60% were concessional, 85% were fixed-rate, and 88% were long-term borrowings.

The country's public debt stood at 98% of gross domestic product (GDP) at end-2022, due to the Laotian kip (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.

We expect a gradual improvement in the country's vulnerable external position over the next few years. We estimate the foreign exchange (FX) reserves to rise towards USD1.32 billion at end-2024, equivalent to around two months of goods imports. Improvements in the balance of payment (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. We expect the Lao PDR's net external debt to remain elevated. 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.

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. The average year-on-year (y-o-y) change in the consumer price index (CPI) should trend lower from 23% in 2022. We also 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.

CreditUpdate, reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

Credit Updates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

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.

RATING SENSITIVITIES

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.

RELATED CRITERIA

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

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BBB-
Issue Ratings:	
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-
Up to THB3,610.3 million senior unsecured bonds due within 4 years	BBB-
Rating Outlook:	Negative

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