TRIS RATING
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CreditNews ข่าวเครดิต

LAO PEOPLE'S DEMOCRATIC REPUBLIC

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SOVEREIGNS

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

Last Review Date: 15/05/20

Sovereign Rating History:

Date	Rating	Outlook/Alert
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 downgrades the sovereign rating on the Lao People's Democratic Republic (Lao PDR) and the ratings on the Lao PDR's outstanding senior unsecured bonds to "BBB-" with a "negative" outlook, from "BBB" with a "negative" outlook. The downgrade reflects the deepening deterioration in the country's fiscal position and the execution risks of the Lao government's liquidity management plan over the next 18 months.

The "negative" outlook reflects the uncertainty of the country's recovery prospects given the potential impact of the resurgence of the Coronavirus Disease 2019 (COVID-19) infections in the region, which could hamper the country's ability in addressing the challenges of liquidity management, fiscal, and external vulnerabilities.

The rating on the Lao PDR reflects its sovereign profile as a small economy with high growth potential. We expect investments in productive infrastructure assets will be able to provide the government with stable revenue sources in the long term. However, over the next few years, the government's ability to manage fiscal and external risks while striving to attain economic development objectives, will be critical. The country's political stability continues to be a positive factor in our assessment.

KEY RATING CONSIDERATIONS

Liquidity management is critical

We expect the Lao PDR to be able to meet its near-term obligations over the next three months, as it has prepared sufficient funding for debt repayment. However, we expect the country to continue relying on timely completion of negotiated debt refinancing, privatisation of state-owned assets, and the offering of concessions to the private sector to meet its obligations over the next 12-18 months. All these suggest significant execution risks associated with the government's ability to meet obligations on a timely basis.

The country has debt services of USD779 million during June to December 2021, of which USD529 million are non-negotiable commercial obligations.

Higher fiscal deficits increase debt burden

In our view, the government's fiscal position has deteriorated materially, leading to an increase in the country's debt burden. Fiscal deficits rose to 5.6% of the gross domestic product (GDP) in 2020, up from 2.6% in 2019. Over the same period, government revenue fell 15% due to the pandemic. The government has made significant efforts to reduce non-strategic investments and non-core current expenditures to secure the budget in order to meet external public debt obligations.

We expect fiscal deficits to lead to a higher public debt level. The government set a deficit target in the range of 2%-3% of GDP in 2021. However, we view there is increasing uncertainty on the prospect of attaining the target given the potential impact from the new wave of COVID-19 infections. We expect the level of debt to GDP and government interest expense to revenue to rise above the levels at the end of 2020. Public debt was 64% of GDP at the end of 2020. Government interest expense was equivalent to 12% of government revenue in the same period. The fiscal position over the next 18 months should depend on the following key factors: a slow revenue recovery from the prolonged economic fallout from COVID-19 pandemic; a fiscal consolidation effort to increase tax revenues and control expenditures; higher government interest expenses; and one-time cash receipt from transaction at the state-enterprise level.

At the same time, we note additional risks to the public debt burden from the depreciating LAK and contingent liabilities at the state-enterprise level. The latter reflects a possibility that the government may have to provide financial support to some key state enterprises. On the contrary, we would view as positive developments if the government could demonstrate a progress in its fiscal consolidation efforts to narrow the deficit gaps over the next few years.

External vulnerability remains high

In our view, external sector vulnerabilities continue to weigh on the country's credit profile. The Lao PDR relies on foreign-currency funding to meet its external debt obligations with a moderate foreign-exchange reserve buffer. In fact, the foreign exchange reserve rose to USD1.3 billion at end-2020, from USD1 billion at end-2019. The level at end-2020 was equivalent to around three months of imports, above the average of two months of imports during 2017-2019. Additionally, when excluding FDI-related imports, the foreign exchange reserve covered around 4.8 months of imports in 2020, up from 3.6 months in 2019. Despite the improvement on foreign exchange reserve, we expect the country's balance of payments to remain under pressure over the next few years amid net repayments of public external debts and lower external borrowing. Current account deficits which narrowed in 2020 may not fully signify a structural shift. Instead, they could reflect a temporary decline in imports as economic activities slowed down during the pandemic. We therefore expect the LAK to remain under downward pressure against the USD and the currencies of its major trading partners, including the CNY and THB. As an indication, the LAK depreciated against the USD by 4.3% in 2020.

We expect the Lao PDR's net external debt to remain elevated at around 225% of current-account receipts (CAR) in 2021. We also estimate external public debt services to make up a high 110%-120% of foreign exchange reserves over the same period. The Ministry of Finance of the Lao PDR (MOFL) estimates external public debt services of USD1.2 billion in 2021. We estimate total external debt to reach USD17 billion in 2021, or around 90% of GDP. Of this amount, we project public external debt at USD10.7 billion.

Slow recovery ahead

TRIS Rating forecasts a moderate economic recovery for the Lao PDR, with real GDP growth of around 4.3% in local currency terms (LCY) for 2021, up from 3.3% in 2020. We project gradual recoveries in tourism and services based on the assumption of gradual removal of travel restrictions in the region to reinvigorate local consumption. However, given the ongoing resurgence of COVID-19 infections in the region, there is increasing uncertainty on the Lao PDR's economic prospects over the next 12 months. Private consumption made up around two-thirds of the Lao economy in 2019. Foreign-direct investment (FDI) inflows for infrastructure projects should gradually decline over the next few years, following fiscal consolidation efforts by the Lao government to curb fiscal deficits. We expect electricity to remain the country's key export, supported by the commissioning of new power projects over the next few years. We also note the relative success of recent government initiatives in support of local agriculture and food industries to lower the country's reliance on food imports and to promote exports of agricultural products.

Addressing multiple vulnerabilities

In our opinion, the Lao government has made significant efforts in addressing the country's fiscal and external vulnerabilities over the past 3-5 years. As part of its fiscal consolidation effort, MOFL aims to lower budget deficits to 1% by 2025. 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. Besides, the government aims to allocate additional budgets towards public debt repayments, whilst delaying non-strategic capital investments. We also view the government's ability and willingness to privatise certain state assets or offer concessions to the private sector to be a source of financial flexibility. 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 help improve the country's current accounts overtime. 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. However, most of these measures will take time to implement and yield the target results. Meanwhile, the impact from the prolonged pandemic will make these multiple vulnerabilities even more challenging to tackle.

RATING OUTLOOK

The "negative" outlook reflects the uncertainty of the country's recovery prospects given the potential impact of the resurgence of COVID-19 infections in the region, which could hamper the country's ability to address the challenges of liquidity management, fiscal, and external vulnerabilities. We also take into account a potential further weakening of the

LAK, given the country's vulnerable external position.

RATING SENSITIVITIES

We could downgrade the rating if there are signs of heightened liquidity risk, or deepening deterioration in the above mentioned vulnerabilities that lead to further weakening of external debt servicing ability of the Lao PDR.

We could upgrade the rating if the country can demonstrate significant progress in addressing the key vulnerabilities, and its ability to build up liquidity buffer and stable funding sources to service its future debt obligations.

COUNTRY OVERVIEW

The Lao PDR is the smallest economy in the Association of Southeast Asian Nations (ASEAN). In 2019, the Lao PDR's GDP was approximately USD18.3 billion, according to the Bank of Laos (BOL). The country's real GDP in 2020 grew by 3.3% in local currency terms. In terms of size, the Lao PDR's economy trailed the economies of Myanmar, Cambodia, and Brunei Darussalam. The Lao PDR's GDP per capita was projected to be USD2,642 in 2020.

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 exports to neighbouring countries have made up an important part of the revenues of the Lao PDR, accounting for more than 20% of total export value in 2017-2019. However, government capital investment in several infrastructure projects since 2015 has escalated public external debt burden from 46% of GDP in 2016 to almost 57% in 2020.

KEY ECONOMIC INDICATORS OF LAO PDR

	2016	2017	2018	2019	2020
GDP (Mil. USD)	15,916	16,964	18,142	18,299	18,456*
GDP per capita (USD)	2,408	2,467	2,585	2,654	2,642
Real GDP growth rate (%)	7.0	6.9	6.3	5.5	3.3
GDP per capita growth rate (%)	7.6	4.6	6.1	9.5	3.1*
Government revenue (Mil. USD)	2,603	2,757	2,900	2,950	2,405
Government revenue (% growth)	(10.3)	5.9	5.2	1.7	(18.5)
Government revenue (% of GDP)	16.4	16.2	16.0	16.1	13.0
Government revenue from tax (% of total revenues)	77.7	74.0	70.1	67.1	69.8
Government revenue from non-tax (% of total revenues)	7.4	8.1	4.9	4.9	10.0
Grant (% of total revenues)	8.3	9.6	6.2	10.0	9.8
Government expenditures (Mil. USD)	3,426	3,706	3,615	3,417	3,326
Government expenditures (% growth)	(8.8)	8.2	(2.5)	(5.5)	(2.6)
- Current expenditures (% of total expenditures)	71.8	57.5	62.6	67.1	65.4
- Capital expenditures (% of total expenditures)	28.2	42.5	37.4	32.9	34.6
Government budget balance (deficit)(% of GDP)	(5.2)	(5.6)	(4.4)	(2.6)	(5.0)
Government external debts (Mil. USD)	7,381	8,729	9,548	9,936	10,508
Government external debts (% of GDP)	46.4	51.5	52.6	54.3	56.9*
Government external debts (% growth)	10.9	18.3	9.4	4.1	5.8
Government external debt services (Mil. USD)	371	444	644	750	1,203
Government external debt services (% of foreign exchange reserves)	45.6	43.7	73.8	78.8	93.9
External debts (Mil. USD)	12,813	14,189	15,137	15,653	16,869*
External debts (% of GDP)	80.5	83.6	83.4	85.5	91.4*
Net external debts (% of current account receipts)	220.8	216.6	207.8	197.9	226.4*
Balance of payments (Mil. USD)	(172)	201	(143)	124	322
Official foreign exchange reserves (Mil. USD)	815	1,016	873	997	1,319
Official foreign exchange reserves as months of imports (months)	1.8	2.2	1.7	1.9	2.9

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

RELATED CRITERIA

- Sovereign Credit Rating, 8 October 2013

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BBB-
Issue Ratings:	
MOFL21NA: THB1,870.50 million senior unsecured bonds due 2021	BBB-
MOFL21NB: THB1,767.80 million senior unsecured bonds due 2021	BBB-
MOFL22OA: THB1,019.80 million senior unsecured bonds due 2022	BBB-
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-
MOFL256A: THB6,000 million senior unsecured bonds due 2025	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-
Rating Outlook:	Negative

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