

LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 111/2023
22 September 2023

SOVEREIGNS

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

Last Review Date: 22/06/23

Company 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 downgrades the sovereign rating of Lao People's Democratic Republic (Lao PDR) and the ratings on the Lao PDR's outstanding senior unsecured debentures to "BB+" from "BBB-" with a "negative" outlook. The downgrade reflects significant deterioration in the debt serviceability of the country, due to weaker-than-expected economic fundamentals and depreciation of the Laotian kip (LAK), and the country's lower financial flexibility. The "negative" outlook reflects the prospect of further deterioration in the country's debt serviceability over the next 12-18 months.

The debt service burden of the Lao PDR relative to the size of the economy will likely remain elevated over the next few years. This departs from our prior view of a gradual decline, due to the deeper-than-expected depreciation of the LAK. The LAK has depreciated by around 13% year-to-date (y-t-d) against the US dollar (USD). Accordingly, we expect the level of public debt to stay near 100% of the gross domestic product (GDP) and the public interest expense to account for 20%-22% of government revenue in 2023-2024. However, we expect the public debt outstanding in original currency terms to stay near the current level, thanks to the government's continued fiscal consolidation. According to the Ministry of Finance of the Lao PDR (MOFL), the external debt outstanding was USD10.5 billion while domestic public debt outstanding was LAK26.6 trillion as of end-2022.

In our view, the Lao PDR has weaker financial flexibility and faces higher liquidity management risk in meeting its external debt obligations over the next few years. The undersubscription of the MOFL's Thai baht (THB) bond issue in August 2023 indicates the increasing challenges the country faces in accessing cross-border funding. With that said, we expect the country to continue relying on multiple sources of foreign-currency funding to meet its commercial debt obligations. These include: 1) the government's revenue inflows; 2) monetizing of certain state-owned assets; 3) receipts from offerings 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. The prospect of rescheduling concessional debt repayments with the country's major lender continues to reflect a certain degree of financial flexibility.

We expect the country's vulnerable external position to improve marginally over the next few years. The unstable exchange rate has affected the prospects of inbound foreign direct investment (FDI). According to the balance of payments (BOP) data from the Bank of Lao (BOL), the foreign exchange (FX) reserves rose to USD1.53 billion as of June 2023, from USD1.12 billion as of end-2022, thanks to growth in exports of goods and services and financial inflows. We expect the FX reserves to hover around USD1.2-USD1.3 billion in 2023-2024, supported by a modest current-account (CA) surplus of around 0.3%-0.7% of GDP and FDI inflows of USD700-USD800 million per year.

Given the increased inflationary pressure, we expect downside risks to our real GDP growth forecast in LAK terms of 4.5% in 2023-2024. The persistently high inflation, fueled in large part by a weaker currency, has undermined a recovery

of the domestic economy. We estimate an average year-on-year (y-o-y) change in the consumer price index (CPI) of around 30% for 2023, against our previous view of trending down from 23% in 2022.

In our view, the effectiveness of the monetary policy is likely to be further constrained by anchored inflation and potentially higher dollarization. The latter has already been high with foreign-currency deposits accounting for 68% of total deposits in the banking system as of June 2022.

RATING OUTLOOK

The “negative” outlook reflects the prospect of further deterioration in the debt serviceability of the Lao PDR over the next 12-18 months.

RATING SENSITIVITIES

We could downgrade the rating if there is further material deterioration in country’s debt serviceability. This could happen if the economic fundamentals continue to worsen from the current level. We could also downgrade the ratings if there are signs of heightened liquidity risk. A significant deterioration in the fiscal position, leading to a material increase in the public debt level could also lead to a downgrade scenario.

We could revise the outlook to “stable” if we are of the view that the debt serviceability of the Lao PDR shows signs of stabilizing. This could happen, for instance, if there is an indication of a return to price stability and stabilization of exchange rates amid a sustained economic recovery. In that scenario, we would also expect continued improvement in the BOP, leading to a sustained build-up of FX reserves, and sustained fiscal discipline.

We could upgrade the rating if there are signs of improvement in the debt serviceability of the Lao PDR, sustained improvements in the external position, price stability, and fiscal discipline. These should also align with our view that the country has adequately strengthened its financial flexibility, for instance, by reinforcing financial buffers for its commercial debt service obligations.

RELATED CRITERIA

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

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BB+
Issue Ratings:	
MOFL23NA: THB1,063.80 million senior unsecured bonds due 2023	BB+
MOFL23NB: THB2,546.50 million senior unsecured bonds due 2023	BB+
MOFL24OA: THB340.90 million senior unsecured bonds due 2024	BB+
MOFL253A: THB1,119.20 million senior unsecured bonds due 2025	BB+
MOFL256A: THB6,000 million senior unsecured bonds due 2025	BB+
MOFL263A: THB3,880.80 million senior unsecured bonds due 2026	BB+
MOFL268A: THB304.70 million senior unsecured debentures due 2026	BB+
MOFL26NA: THB1,371.50 million senior unsecured bonds due 2026	BB+
MOFL278A: THB480.80 million senior unsecured debentures due 2027	BB+
MOFL27OA: THB2,967.00 million senior unsecured bonds due 2027	BB+
MOFL28NA: THB1,891.30 million senior unsecured bonds due 2028	BB+
MOFL28NB: THB532.50 million senior unsecured bonds due 2028	BB+
MOFL29OA: THB1,505.50 million senior unsecured bonds due 2029	BB+
MOFL30NA: THB2,153.20 million senior unsecured bonds due 2030	BB+
MOFL32OA: THB5,375.50 million senior unsecured bonds due 2032	BB+
MOFL25DA: USD162 million senior unsecured bonds due 2025	BB+
MOFL27DA: USD20 million senior unsecured bonds due 2027	BB+
Up to THB2,824.80 million senior unsecured bonds due within 4 years	BB+
Rating Outlook:	Negative

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