

LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 74/2018

5 November 2018

SOVEREIGNS

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

Last Review Date :

Date	Rating	Outlook/Alert
19/06/18	BBB+	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 on the Lao People's Democratic Republic (Lao PDR) and the ratings on its outstanding senior unsecured bonds at "BBB+", with "negative" outlook. At the same time, TRIS Rating assigns the rating of "BBB+", with "negative" outlook to the newly issued senior unsecured bonds of up to Bt7 billion.

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.

The real gross domestic product (GDP) of the Lao PDR grew by 6.9% in 2017, according to the Bank of the Lao PDR (BOL). GDP in 2018 is expected to rise between 6.5%-7.0%. TRIS Rating expects GDP growth of the Lao PDR in 2019 will be supported by the improvement of commodity prices, construction activities, and exports. Nonetheless, the trade war between United States and China and China economic slowdown could be among negative factors that may affect Lao PDR economy over the short to medium term.

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.

According to BOL, by the end of June 2018, the foreign exchange reserves dropped by 4.94% to US\$965.67 million from 2017 owing to higher current account deficits in the first half of 2018. The foreign exchange reserves at the end of 2017 were US\$1,015.83 million. During the past five years, annual ratio of debt services to foreign exchange reserves averaged 33.47%. The ratio of debt services to foreign reserves was 45.66% in 2017 and is projected to rise to 49.64% in 2018 based on TRIS Rating's base case scenario.

The external public debt of the Lao PDR rose to over US\$8,600 million by the end of 2017. This level is equal to about 50% 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.

Including upcoming new bond issues of approximately 219 million, the Lao PDR's outstanding bonds issued in Thailand at the end of 2018 will equal to US\$1,740 million accounting for about 16% of total external debts. By the end of 2017, external debts of Lao PDR comprised 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% of total outstanding loans, including multilateral and bilateral loans, are owed to the Chinese creditors.

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.

RELATED CRITERIA

- Sovereign Credit Rating, 8 October 2013

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BBB+
Issue Ratings:	
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 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+
Up to Bt7,000 million senior unsecured bonds due within 12 years	BBB+
Rating Outlook:	Negative

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