

LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 102/2019
28 June 2019

SOVEREIGNS

Sovereign Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 05/11/18

Sovereign Rating History:

Date	Rating	Outlook/Alert
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 "stable" outlook, from "BBB+" with "negative" outlook.

The ratings reflect the continual deterioration in the sovereign credit profile of the Lao PDR, accentuated by its critically low foreign exchange reserves and a projected sharp rise in its debt servicing burden over the next three years. We expect the Lao government to continue relying on external finance to fund fiscal deficits and meet debt obligations over the next few years. This means the government debt will continue rising, though at a slower pace.

KEY RATING CONSIDERATIONS

Critically low foreign exchange reserves

According to the Bank of the Lao PDR (BOL), the Lao PDR's official foreign exchange reserves at the end of 2018 were US\$873 million, down by 14% from US\$1,016 million in 2017 and equivalent to just 1.7 months of imports in 2018. This is way below our earlier projection, and in the critical level. The average official foreign exchange reserves were US\$901 million during 2014-2018.

A projected sharp rise in debt service burden over the next three years

We project a sharp rise in scheduled debt repayments, which is expected to be a heavy burden for the Lao government over the next three years. The ratio of debt services to foreign exchange reserves was at 34% in 2017, and is estimated to jump to 78% in 2018. We expect the Lao government to source bilateral loans and bond issuances in Thailand's debt capital market to refinance its due debt obligations in the medium term.

Continual rise in external debt

The external public debt of the Lao PDR is estimated to rise to over US\$9,762 million by the end of 2018, up 14% from US\$8,561 million in 2017. With limited domestic liquidity and the need to fund ongoing public investment projects, we expect the government external debts will continue rising, though at a slower pace compared with the recent years. The ratio of external public debts to gross domestic product (GDP) is expected to be around 54%, up from about 50% in the previous year.

Healthy GDP growth in 2018

The real GDP of the Lao PDR grew by 6.4% in 2018, according to the BOL, which was a healthy growth. TRIS Rating forecasts GDP growth of the Lao PDR in 2019 to be 6.5%-6.8%, supported by ongoing strong tourism services, construction activities, and exports. However, the global economic slowdown could affect the Lao PDR's economy over the short to medium term.

Widening fiscal deficit

In 2017, the fiscal deficit of the Lao PDR was registered at US\$954 million, or 5.6% of GDP. The fiscal deficit in 2018 is estimated to improve from 2017, accounting for 4.6% of GDP. We estimate the Lao government's revenues will grow by only 2%, whereas fiscal expenditures will drop by 2.5%, in US dollar terms, in 2018. However, we project a wider fiscal deficit in 2019, driven by rising public investment expenditures, which will be funded by government

debts. The government debts, therefore, is expected to sustain at a high level, around 60% of GDP. 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 in the long term.

Bilateral and multilateral loans comprise most of external public debt

Bilateral loans, most of which are long-term amortized project loans related to government infrastructure investments, accounted for 65% of total external debt (US\$9,762 million) at the end of 2018. More than 50% of total external public debts, including multilateral and bilateral loans, are owed to the Chinese creditors. At the same time, the Lao PDR's outstanding bonds issued in Thailand were about US\$1,613 million, accounting for 16.5% of total external public debts in 2018. A total value of about US\$200 million in Thai baht bonds will mature in October and November 2019.

RATING OUTLOOK

The "stable" outlook is based on TRIS Rating's view that the updated ratings reflect the sovereign credit profile of the Lao government in the medium term, and the government will be able to refinance its debt obligations during 2019-2020.

RATING SENSITIVITIES

The rating upgrade will depend on a material drop in external debt, significant improvement in foreign exchange reserves, and lower government budget deficits on a sustainable basis.

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

COUNTRY OVERVIEW

The Lao PDR is the smallest economy in the Association of Southeast Asian Nations (ASEAN). In 2018, the Lao PDR's GDP was Kip152.4 trillion (approximate US\$18.14 billion), according to Lao Statistics Bureau, Ministry of Planning and Investment. 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, due to an expected average GDP growth rate above 6% per annum during 2017-2019. The Lao 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's GDP per capita was projected to be US\$2,599 in 2018, growing by 5% from US\$2,467 in 2017.

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 government.

KEY ECONOMIC INDICATORS OF LAO PDR

	2014	2015	2016	2017	2018p
GDP (US\$ million)	13,266	14,363	15,916	16,964	18,142
GDP per capita (US\$)	1,949	2,226	2,408	2,467	2,599
Real GDP growth rate (%)	7.6	7.3	7.0	6.9	6.4
GDP per capita growth rate (%)	10.2	14.2	8.2	2.5	5.4
Government revenue (US\$ million)	2,547	2,669	2,603	2,768	2,810
Government revenue (% growth)	0.4	4.8	(2.5)	6.4	1.5
Government revenue (% of GDP)	20.9	20.3	16.5	16.1	15.7
Government revenue from tax (% of total revenues)	65.1	66.3	77.3	74.8	71.1
Government revenue from non-tax (% of total revenues)	11.8	11.4	13.7	15.5	19.9
Grant (% of total revenues)	23.1	22.3	9.0	9.7	10.0
Government expenditures (US\$ million)	3,308	3,755	3,426	3,706	3,615
Government expenditures (% growth)	4.5	13.58	(8.8)	8.2	(2.5)
- Current expenditures (% of total expenditures)	61.3	58.8	71.8	57.5	62.6
- Capital expenditures (% of total expenditures)	38.7	41.2	28.2	42.5	37.4
Government budget balance (deficit)(% of GDP)	(3.6)	(5.9)	(5.2)	(5.6)	(4.6)
Government external debts (US\$ million)	5,723	6,531	7,717	8,561	9,762
Government external debts (% of GDP)	43.1	45.3	48.5	50.0	54.3
Government external debts (% growth)	12.4	14.1	10.3	19.2	12.3
Government external debt services (US\$ million)	284	227	274	342	679
Government external debt services (% of foreign exchange reserves)	34.9	23.0	33.6	33.6	77.8
Balance of payments (US\$ million)	154	171	(172)	201	(143)
Official foreign exchange reserves (US\$ million)	816	987	815	1,016	873
Official foreign exchange reserves as months of imports (Months)	2.0	2.1	1.8	2.2	1.7

Sources: BOL, Ministry of Finance of Lao (MOFL), and estimation by TRIS Rating
P= Projection

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: Bt5,000.00 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
MOFL21NB: Bt1,767.80 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
MOFL23NB: Bt2,546.50 million senior unsecured bonds due 2023	BBB
MOFL240A: Bt340.90 million senior unsecured bonds due 2024	BBB
MOFL256A: Bt6,000.00 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
MOFL28NB: Bt532.50 million senior unsecured bonds due 2028	BBB
MOFL290A: Bt1,505.50 million senior unsecured bonds due 2029	BBB
MOFL30NA: Bt2,153.20 million senior unsecured bonds due 2030	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:	Stable

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