

LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 19/2022
17 February 2022

SOVEREIGNS

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

Last Review Date: 14/05/21

Sovereign Rating History:

Date	Rating	Outlook/Alert
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 issue ratings on the Lao PDR's outstanding senior unsecured bonds at "BBB-" with a "negative" outlook. At the same time, TRIS Rating assigns the rating of "BBB-" to the Lao PDR's proposed issue of up to THB5 billion in senior unsecured bonds.

The "negative" outlook reflects the lingering impacts of the Coronavirus Disease 2019 (COVID-19) pandemic that continues to hamper the country's economic recovery and its ability to address the challenges of liquidity management, and fiscal and external vulnerabilities.

The rating on the Lao PDR reflects its 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, over the medium term, we expect the rating to be constrained by continued vulnerabilities in the country's fiscal and external positions. We expect the government's ability to manage fiscal and debt obligations will likely be a key issue in our rating assessment over the next few years.

The proceeds from the new bond issue should add to the liquidity needed to meet debt obligations of the Lao PDR. The country has external debt services of USD1.14 billion in 2022, according to the Ministry of Finance of the Lao PDR (MOFL). Of this amount, USD748 million are interest expenses of all borrowings and principal repayments of commercial debt obligations.

In 2021, the external debt service burden of the Lao PDR should remain under pressure amid the depreciating Laotian kip (LAK) and the country's fiscal deficits. At the same time, some positive developments included the country's narrowed fiscal deficits, sustained foreign exchange reserves, and improved current-account positions. We expect the following major funding sources to meet the country's upcoming external debt services: 1) the government's ongoing receipts of foreign-currency revenues, and 2) timely completion of negotiated debt refinancing and other non-borrowing sources, as was the case in 2021. The timing risks associated with the latter should largely remain, in our view.

The gross domestic product (GDP) of the Lao PDR expanded 3.5% in real local-currency terms in 2021, according to estimates by the Bank of Lao (BOL). This was below TRIS Rating's prior estimate of 4.3%. A resurgence of COVID-19 infections and the containment measures that followed during the second half of 2021 have caused further delays in the recoveries of private consumption and service activities. Expansion of industrial and agricultural exports remained the key driver of economic growth in 2021.

The following developments pressured the country's balance of payments (BOP) and the LAK in 2021. These were smaller net inflows from borrowing and weak foreign-currency income receipts amid slow regional economic recoveries and a rising global interest rate environment. Between the end of 2021 and 2020, the LAK depreciated 19% and 17%, respectively, against the USD, based on the reference rate and the commercial bank and parallel market rates. At the same time, the balance of payments registered a USD120 million deficit during the first

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three quarters of 2021, compared with a USD355 million surplus in the same period of 2020.

On a more positive note, the country has been able to sustain its foreign exchange reserves, foreign direct investment (FDI) inflows and an improvement in its current-account positions. According to initial estimates from the BOL, the Lao PDR's foreign exchange reserves stood at USD1.26 billion at end-2021, close to USD1.32 billion at end-2020. We see a sustained surplus in the current accounts aided by the favourable trade balance in the first three quarters of 2021. FDI inflows registered USD816 million over the same period, above the USD721 million recorded in the first three quarters of 2020.

We hold the view that the fiscal position and public debt level of the Lao PDR still have further room for improvement until the economy recovers to a greater extent. Based on initial estimates from the MOFL, the fiscal deficits for 2021 narrowed to 2%-3% of GDP, from over 5% in 2020. The major source of the deficits was loan-financed public investment expenditures.

RATING OUTLOOK

The “negative” outlook reflects the lingering impacts of the pandemic that continues to hamper the country’s economic recovery and its ability to address the challenges of liquidity management, and fiscal and external vulnerabilities.

RATING SENSITIVITIES

We could downgrade the ratings if there are signs of heightened liquidity risk, or deepening deterioration in the fiscal and external vulnerabilities that leads to further weakening of the external debt servicing ability of the Lao PDR.

We could revise the outlook to “stable” if there are clear signs that the Lao PDR is able to secure adequate funding to meet its commercial debt obligations over the next 12 to 18 months. We could upgrade the ratings if the country can demonstrate significant progress in addressing key vulnerabilities, and its ability to build up a liquidity buffer and stable funding sources to service its future debt obligations.

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Sovereign Credit Rating, 8 October 2013

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BBB-
Issue Ratings:	
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-
Up to THB5,000 million senior unsecured bonds due in 4 years	BBB-
Rating Outlook:	Negative

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