LAO PEOPLE'S DEMOCRATIC REPUBLIC

No. 84/2025
28 May 2025

SOVEREIGNS

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

Last Review Date: 30/05/24

Company Rating History:

Date	Rating	Outlook/Alert
22/09/23	BB+	Negative
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 affirms the sovereign rating on the Lao People's Democratic Republic (Lao PDR) and the ratings on the Lao PDR's outstanding senior unsecured debentures at "BB+", with a "negative" outlook. The "negative" outlook reflects growing challenges over debt serviceability of the Lao PDR over the next 12-18 months. These reflect increasing near-term commercial debt service burden, risks from contingent liabilities, and potential economic impact of escalating global trade tensions.

The "BB+" ratings reflect Lao PDR's limited financial buffers and liquidity management risks. They also reflect the country's modest income level, vulnerable external sector, high public debt burden, and constrained monetary policy. These vulnerabilities heighten exposure to potential fallout from global trade conflicts. Additionally, delays in official data reporting further weigh on the sovereign's credit profile. Nonetheless, the ratings are supported by Lao PDR's political stability and ongoing improvements in key macroeconomic indicators, including a fiscal surplus, easing inflation, and a more stable currency.

KEY RATING CONSIDERATIONS

Increasing near-term financing needs

Lao PDR is facing growing challenges meeting its near-term financing needs. This is partly due to reliance on short-term commercial borrowings from domestic lenders in foreign currencies (FCY). This reliance stems from the need to refinance matured THB bonds in recent years, amid delays in planned asset sales intended for debt repayment.

Lao PDR's total external debt services amount to USD1.8 billion in 2025, according to the Ministry of Finance of the Lao PDR (MOFL). Of this amount, USD415 million are interest expenses funded by government budgets. Principal repayment of commercial debt obligations is USD1,225 million, which has increased significantly from USD358 million in 2022. This includes mainly THB Bonds issued in Thailand, bonds issued domestically, and loans from domestic commercial banks. We expect ongoing debt rescheduling with Chinese creditors, a major source of government-to-government funding, to provide some relief over the next few years.

In addition, a lack meaningful improvement to the financial position of the Électricité du Laos (EDL) could place further financial burden to the Lao government in the coming years. We estimate MOFL will need to provide approximately USD220 million in addition to the above debt service figure to EDL-Generation Public Company (EDL-GEN) between 2025 and 2028. This support will help repay EDL-GEN's THB bonds, as it struggles to recover sufficient revenue from electricity sold to EDL. We also expect delays in repayments from MOFL's on-lending to state-owned enterprises (SOEs), where EDL and EDL-GEN account for a large share.

Debt servicing relies on multiple sources

Lao PDR's debt management strategy prioritises asset sales, debt rescheduling and refinancing, and higher allocation of state resources for debt services. The intent is to avoid new FCY commercial borrowing, except for refinancing, and seek non-borrowing sources to support debt repayments. Currently, bilateral debt rescheduling of concessional and government-related loans, along with commercial debt refinancing, remains essential to addressing near-term liquidity gaps, given that the progress on asset sales and upfront payments from concessioned projects remains uncertain and subject to ongoing negotiations.

MOFL's recurring sources include budget allocations and repayments from on-lending to state-owned enterprises (SOEs). The Lao National Assembly endorses debt-service budgets, including full interest expense and partial principal repayments, ahead of each fiscal cycle.

Additionally, the domestic financial system can help MOFL meet part of its FCY funding needs. Some domestic banks with excess FCY liquidity have extended loans and purchased FCY-denominated bonds issued by MOFL on the Lao Securities Exchange (LSX). However, the domestic financial system is not sufficiently large to sustainably absorb the country's current level of external debt. Although the Lao government has been effective in negotiating with these lenders, financial institutions and bond investors have already accumulated exposures to MOFL over the recent years. Further exposure to government debt could also limit the financial sector's future capacity to lend and crowd out credit that would otherwise be available to the private sector.

Elevated public debt amid improving fiscal performance

We expect total public debt outstanding in 2025 will remain elevated, close to the end-2024 level. However, the public debt-to-GDP ratio should gradually decline, albeit at a slower pace compared to previous forecast. We project the public debt-to-GDP ratio to drop to 79% in 2025 from 87% at end-2024, as nominal GDP expands by around 15% and assuming no further sharp depreciation of the LAK. We also expect the government to continue its policy of refraining from materially increasing commercial borrowing over the next few years.

Under TRIS Rating's base case, we forecast an overall fiscal deficit of 1% of GDP in 2025, compared with a surplus of 2.3% in 2024. The shift reflects higher capital spending financed by grants and concessional borrowing. We estimate the primary balance at the general government level will moderate to 3.8%-3.9% of GDP over the next few years, down from 5.6% (LAK18.3 trillion) in 2024. This decline reflects a catch-up in previously delayed public spending and downside risks to economic growth. We attribute the overall fiscal improvement to stronger revenue collection and tighter expenditure controls. The primary balance measures available funds in multiple currencies, after deducting current spending—including interest payments—and government-funded capital expenditure from total revenue (including grants).

As of end-2024, public debt outstanding comprised FCY debts of USD10,741 million and potential financial support to EDL-GEN of USD 220 million. Most of the FCY debt is owed to non-residents, and around 60% of the FCY debt are concessional borrowings. The local currency (LCY) portion includes LAK30 trillion in borrowings from the domestic financial sector and remaining government arrears, which we estimate at around LAK13 trillion.

Regarding contingent liabilities, as reported in MOFL's Debt Bulletin Publication, these primarily consist of MOFL's guarantees for EDL's loans from Chinese lenders. The total amount is around USD1.9 billion or 12.9% of GDP at end-2024. We consider this as part of the ongoing debt rescheduling with Chinese lenders and view the likelihood of these guarantees becoming direct obligations as limited.

Global trade tensions could exert downward pressure on Laos's GDP growth

We forecast real GDP growth to moderate to around 3.8% in 2025-2026, down from 4.3% in 2024. The slowdown reflects potential negative impacts from global trade conflicts, particularly on trade and foreign direct investments (FDIs), which remain key drivers of the Lao economy. Despite the relatively small size of Laos's direct exports to the US, its indirect exposure through regional supply chains, FDIs, and geopolitical alignment is significant. Trade tensions between the US and China create uncertainty that can deter FDIs into small, export-reliant economies like Laos. Thus, we expect real GDP per capita in a USD term to remain moderate, at approximately of USD2,100-2,200 per year over 2025-2026. Domestic consumption is also likely to remain subdued. Fiscal consolidation efforts will limit government spending, reducing its role as a driver of economic growth.

Gradual improvement to the external sector

We expect the country's modest foreign exchange reserves to improve gradually over the next few years amid the downside risks. We estimate the total foreign exchange reserve (FX reserve) to be around USD2.2-USD2.3 billion in 2025-2026. This includes an FX swap line with the People's Bank of China (PBOC), which we estimate at approximately USD300 million. The total FX reserve should be sufficient to finance around 2.5-2.7 months of prospective imports. Gross external financing needs – comprising current-account payments, external debt service and non-resident deposits – should remain near 104% of available sources, including current-account receipts and useable FX reserves.

The improvement will likely come from the following. Firstly, we forecast a moderate current account (CA) surplus of around 1% of GDP. Secondly, foreign direct investment (FDI) inflows should remain near current levels. Thirdly, phased-in implementation of the regulations under the Foreign Exchange Management Laws should help reduce uncaptured capital outflows.

Macro-stability has gained some grounds

We expect a gradual return to price stability. Year-on-year inflation, based on the consumer price index (CPI), should ease to the low teens in 2025 and the high single digits in 2026. This outlook assumes a high base effect, stable LAK exchange rates, and oil prices remaining near current levels.

The Bank of the Lao P.D.R. (BOL) has made some progress in curbing informal foreign exchange trading. For example, the gap between commercial bank rates and parallel market rates narrowed to 0.1% at end-2024, down from 20% six months earlier.

That said, structural challenges continue to limit the effectiveness of monetary policy in achieving macroeconomic balance. These include high dollarisation and an early-stage financial system with a small domestic debt capital market. High dollarisation also restricts the BOL's ability to act as a lender of last resort for the financial system.

BASE-CASE ASSUMPTIONS

- Real GDP Growth: around 3.8% in 2025-2026
- FX Reserve: USD2.2-USD2.3 billion in 2025-2026 (inclusive of FX swaps)
- Fiscal Balance: around -1.0% of GDP in 2025 and 0.5% in 2026 (Primary Balance: 3.8%-3.9% of GDP in 2025-2026)
- Public Debt/GDP: 79% in 2025 and 74% in 2026 (not including guarantees)

RATING OUTLOOK

The "negative" outlook reflects growing challenges over debt serviceability of the Lao PDR over the next 12-18 months. These reflect increasing near-term commercial debt service burden, risks from higher contingent liabilities, and potential economic fallout from the global trade conflicts.

RATING SENSITIVITIES

We could downgrade the ratings if there is further material deterioration in the country's debt serviceability or heightened liquidity risk. We could also downgrade the ratings if there is material deterioration in the country's macroeconomic conditions. A significant deterioration in the fiscal position or a material increase in the public debt level could also lead to a downgrade scenario.

We could revise the outlook to "stable" if in our view there is a stabilising trend of the Lao PDR's debt servicing ability, amid sustained improvements in the fiscal and external positions, and macroeconomic stability. In that scenario, we would also expect continued improvement in the balance of payment (BOP), leading to a sustained build-up of FX reserves, and sustained fiscal discipline.

COUNTRY OVERVIEW

The Lao PDR is the smallest economy in the Association of Southeast Asian Nations (ASEAN). The Lao PDR's GDP was approximately USD15 billion at end-2024, according to estimates from the BOL. The country's real GDP in 2024 grew by 4.3% 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 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, mineral, and agricultural exports to neighbouring countries constitute an important part of the revenues of the Lao PDR. However, government's capital investment in several infrastructure projects since 2015, the Coronavirus Disease 2019 (COVID-19) pandemic, and a recent depreciation of the LAK caused the country's public debt burden to reach 85% of GDP in 2024.

Over the medium term, the Lao government has made significant efforts to address the country's fiscal and external vulnerabilities. However, most of these will take time to implement and yield the target results. 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. Importantly, under the 9th National Socio-Economic Development Plan (NSEDP), which spans the period of 2021-2025, the country aims to lower its budget deficits to 1%-2%. The plan emphasises allocations of additional government budgets towards public debt repayments, whilst delaying non-strategic capital investments. Other priorities include ways to increase revenues and cut expenses, criteria for eligible public investments, centralised fiscal and debt databases, and an improved legal framework. In addition, the Public Debt Management Law (2018) laid out a legal framework on eligibility and approval procedures of public investments and borrowing. The law is applicable country-wide to all government entities, SOEs, and other parties related to public debt management.

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 greatly help improve the country's CA position. 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.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

	2020	2021	2022	2023	2024
GDP (mil. USD)	19,097	18,982	15,049	13,827	15,064
GDP per capita (USD)	2,609	2,556	2,013 *	1,824 *	1,960 *
Real GDP growth rate (%)	3.3	3.5	4.4	4.2	4.3
Nominal GDP per capita growth rate (%) (LAK)	0.2	5.5	15.7	21.4	20.9
Government revenue (mil. USD)	2,406	2,789	2,273	2,714	2,931
Government revenue (% growth)	(19.2)	15.9	(18.5)	19.4	8.0
Government revenue (% of GDP)	12.6	14.7	15.1	19.1	19.4
Government revenue from tax (% of total revenues)	72.4	68.2	76.8	68.2	77.0
Government revenue from non-tax (% of total revenues)	15.8	18.3	17.2	22.1	15.5
Grant (% of total revenues)	11.8	13.5	6.0	9.7	7.5
Government expenditures (mil. USD)	3,408	3,028	2,258	2,359	2,580
Government expenditures (% growth)	(1.2)	(11.1)	(25.4)	4.5	9.4
- Current expenditures (% of total expenditures)	64.0	67.9	70.7	66.3	70.9
- Capital expenditures (% of total expenditures)	36.0	32.1	29.3	33.7	29.1
Government budget balance (deficit) (% of GDP)	(5.2)	(1.3)	1.5	0.7	2.3
Government primary balance (deficit) (% of GDP)	n.a.	(0.9)	3.8	2.9	5.6
Government external debts (mil. USD)	10,684	10,426	10,517	10,724	10,741
Government external debts (% of GDP)	57.3	62.3	84.3	81.8	71.7
Government external debts (% growth)	7.5	(2.4)	0.9	0.1	2.0
Government external debt services (mil. USD)	933	894	708	1,118	1,519
Government external debt services (% of foreign exchange reserves)	65.6	64.0	62.4	83.1	84.9
External debts (mil. USD)	19,176	17,493	17,529	19,497	19,363 *
External debts (% of GDP)	100.4	92.2	116.5	141.0	128.5 *
Net external debts (% of current account receipts)	257.9	194.7	178.8	174.6	149.0 *
Balance of payments (mil. USD)	824	(84)	(257)	197	424
Official foreign exchange reserves (mil. USD)	1,821	1,737	1,480	1,677	2,102
Official foreign exchange reserves as months of imports (months)	4.1	3.3	2.5	2.6	2.9

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

RELATED CRITERIA

- Sovereign Rating Methodology, 30 May 2024
- Issue Rating Criteria, 15 June 2021

Lao People's Democratic Republic (Lao PDR)

Sovereign Rating:	BB+
Issue Ratings:	
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 bonds due 2026	BB+
MOFL26NA: THB1,371.50 million senior unsecured bonds due 2026	BB+
MOFL278A: THB480.80 million senior unsecured bonds 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+
Rating Outlook:	Negative

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