

Self Assessment Report on Local Bond Market Development [Lao PDR]

I. Recent Trend Of The Bond Market

The domestic bond market is in the preliminary stage, since mid 1990s there has been two types of bonds issued by the government: Treasury Bill and Arrears Clearance Bill.

The Treasury bill issued on regular basis for financing the budget deficit. The amount of each issue is limited to 50-60 billion Kip(equivalent to USD 5-6 million) with the maturity up to 1 year, with a coupon rate (on the average) of 15%.

The arrears clearance Bill is issued on non-regular basis for clearing the government debt to the state-owned enterprises(SOEs). The amount of each issue is limited to 25 billion Kip(equivalent to USD 2.5 million) with annual rate interest rate of 16 percent with the maturity up to 3 year.

As a major investor base, in addition to commercial banks, there is one insurance company, and it plans to enhance life insurance business in Lao PDR. Once developed, such life insurance business should become one of the major investors for government bonds. In addition, there is Social Security Organization (SSO) who manages social security funds for the employees of private sector. As SSO started to invest in T-Bill this year, it is also expected that SSO plays significant role (as an institutional investor) in the bond market in near future.

Related to the corporate bond issuances in future, currently the Government is working on drafting Enterprise Law, which should become the basis for corporate bond issuances once submitted to and approved by the National Assembly.

II. Major Progress In Advancing The Lao Bond Market In 2005

For 2005, total T-Bills issued amounts to 33.00 Billion Kip, with a coupon rate (on the average) of 15%, all of which will be maturing by 2006.

By end of September 2005 MOF is scheduled to issue maximum of 200 Billion Kip of recapitalization bonds to two (2) commercial banks, Banque Pour Le Commerce Extérieur Lao (BCEL) and Lao Development Bank (LDB). The said government bonds will have a maturity of five (5) years at a fixed rate of, inflation (approximately 7 to 10%) plus 1%. The issuance of recap bonds does not only aim to restructure and recapitalize the mentioned state owned commercial banks, but this activity also positively expects stabilization of money supply in the economy in medium-term. In addition, as of early September 2005 Agriculture Promotion Bank's capital restructuring via recap bonds is under evaluation and further discussion between MOF and APB's management.

III. Future Prospects

- (1) Enhancing Issuance Strategy for the Government Securities,
- (2) Developing Regulatory Framework for the Securities Business.
- (3) Developing the secondary market
- (4) Capacity building for related agencies to move forward the domestic bond market.