

Lao People's Democratic Republic

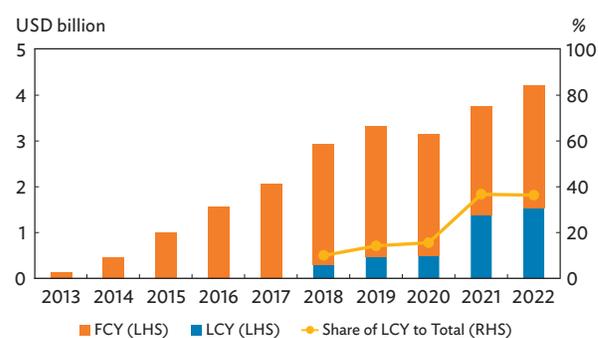
Size and Composition

The Lao People's Democratic Republic's (PDR) bond market has grown significantly in the past decade, reaching a size of USD4.2 billion at the end of December 2022, up from USD0.1 billion in 2013, based on available data. In terms of relative size, the Lao PDR's bond market was equivalent to 34.0% of its gross domestic product (GDP) at the end of December 2022, slightly higher than that of Viet Nam (27.3%) (Figure 1). After the coronavirus disease (COVID-19) pandemic, the Lao PDR's local currency (LCY) bond market witnessed rapid expansion, with LCY bonds' share of the total bond market increasing from 10.0% in 2018 to 36.3% in 2022 (Figure 2).¹⁰ In the same period, the ratio of share of foreign currency (FCY) bonds outstanding to GDP increased relatively less.

The Government of the Lao PDR has been able to raise both LCY and FCY financing from the domestic capital market. The government has been able to issue bonds through the Lao Securities Exchange in both

Lao kip and United States dollars to support cashflow management and strengthen debt management (Figure 3).

Figure 2: Composition of Total Bonds Outstanding in the Lao People's Democratic Republic



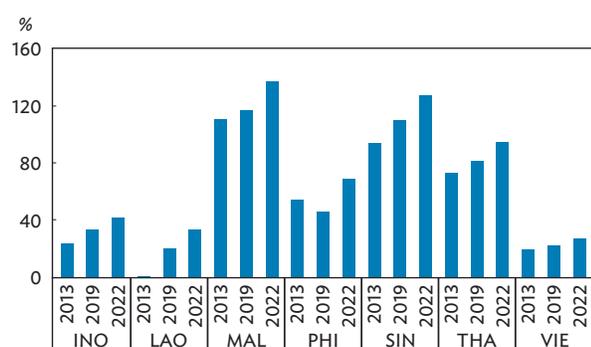
FCY = foreign-currency denominated, LCY = local-currency denominated, LHS = left-hand side, RHS = right-hand side, USD = United States dollar.

Notes:

1. FCY data include bonds issued in the Lao Securities Exchange, Singapore Exchange, and the Thai Bond Market Association.
2. Figures were computed based on 31 December 2022 currency exchange rates to remove currency effects.

Sources: Lao Securities Exchange, Ministry of Finance Lao PDR, Singapore Exchange, and Thai Bond Market Association.

Figure 1: Bond Market as Share of GDP in ASEAN Economies

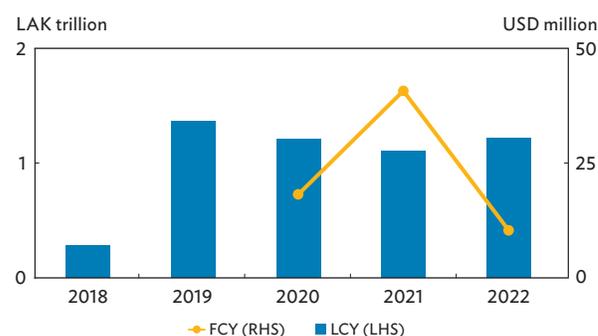


ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, INO = Indonesia, LAO = Lao People's Democratic Republic, MAL = Malaysia, PHI = Philippines, SIN = Singapore, THA = Thailand, VIE = Viet Nam.

Note: Data for GDP is from CEIC Data Company.

Source: AsiaBondsOnline calculations based on various sources.

Figure 3: Government Bonds Issued through the Lao Securities Exchange



FCY = foreign currency, LAK = Lao kip, LCY = local currency, LHS = left-hand side, RHS = right-hand side, USD = United States dollar.

Source: Ministry of Finance Lao People's Democratic Republic.

This market summary was written by Emma Allen of the Lao PDR Resident Mission, ADB, Vientiane; and Angelica Andrea Cruz, consultant, Economic Research and Development Impact Department, ADB, Manila.

¹⁰ Local currency bonds are bonds denominated in Lao kip, while foreign currency bonds are denominated in currencies other than the Lao kip. Definitions do not take into account where the bonds were issued (onshore or offshore).

Local Currency Bond Market Size and Issuance

The Lao PDR's LCY government bond market has grown since 2018, driven by LCY bond financing to support fiscal needs. Total LCY government bonds outstanding reached LAK26.6 trillion at the end of 2022, up from LAK24.0 trillion in 2021, due to the issuance of investment bonds and triangular bonds to finance domestic public investment (Figure 4).¹¹ By the end of 2022, investment bonds accounted for 56.9% (LAK15.1 trillion) of total LCY bonds outstanding, followed by triangular bonds (24.6%, LAK6.5 trillion). Treasury bills issued via the Lao Securities Exchange and the Bank of the Lao PDR collectively accounted for 18.5% (LAK4.9 trillion).

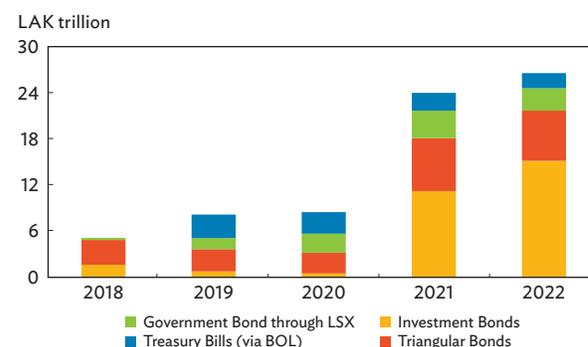
Foreign Currency Bond Market Size and Issuance

FCY bonds outstanding issued by the Government of the Lao PDR and the corporate sector grew from USD0.1 billion in 2013 to USD2.7 billion by the end of December 2022. This left the Lao PDR with the second-highest FCY-bonds-to-GDP share in ASEAN at 21.6% (Figure 5). Central government bonds used to dominate the Lao PDR's FCY bond market until 2018, with their share of the total declining from 56.3% in 2018 to 42.2% by the end of December 2022 as corporate bond issuances increased. In particular, hydropower companies—such as EDL Generation, Xayaburi Power, and Nam Ngum 2 Power—tapped the Thai bond market for financing. Thai baht (THB)-denominated bonds comprised 78.3% and 79.9% of the outstanding FCY government and corporate bonds, respectively, at the end of December 2022 (Figure 6). Meanwhile, USD-denominated bonds accounted for 21.7% of government bonds and 20.1% of corporate bonds outstanding during the same period.

The average maturity of outstanding FCY government bonds in the Lao PDR has been declining since 2017.

At the end of December 2022, 38.8% of total FCY bonds outstanding had remaining tenors of more than 1 year to 3 years, 31.6% had tenors of more than 3 years to 5 years, and 27.7% had a tenor of more than 5 years to 10 years.

Figure 4: Composition of Local Currency Bonds Outstanding in the Lao People's Democratic Republic

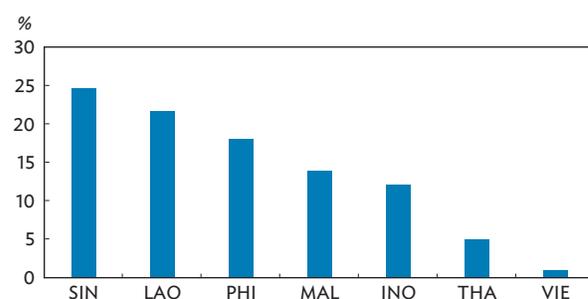


BOL = Bank of the Lao People's Democratic Republic, LAK = Lao kip, LSX = Lao Securities Exchange.

Note: There are no available data for local currency corporate bonds.

Source: Ministry of Finance Lao People's Democratic Republic.

Figure 5: Foreign Currency Bonds Outstanding as Share of GDP in ASEAN, December 2022



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, INO = Indonesia, LAO = Lao People's Democratic Republic, MAL = Malaysia, PHI = Philippines, SIN = Singapore, THA = Thailand, VIE = Viet Nam.

Note: Data for GDP are from CEIC Data Company.

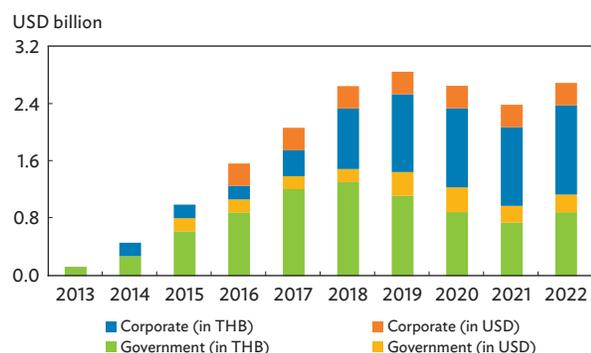
Source: AsiaBondsOnline calculations based on various sources.

(Figure 7). The average size-weighted tenor of FCY bonds outstanding in the Lao PDR declined from 6.8 years in 2017 to 4.0 years at the end of 2022. The shortened maturity profile will have implications for refinancing needs over the next few years.

The issuance of FCY bonds and their average tenor have both declined in recent years. During the pandemic, tightened liquidity conditions in international markets and weaker economic growth, both locally and

¹¹ Ministry of Finance of the Lao PDR. 2023. *Public and Publicly Guaranteed Debt Statistic Bulletin: 2022—Volume 4*. Vientiane.

Figure 6: Composition of Foreign Currency Bonds Outstanding by the Lao People's Democratic Republic

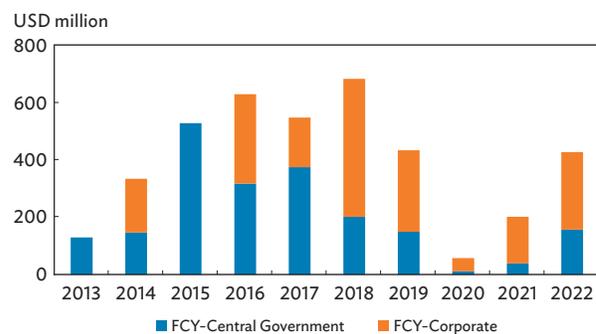


THB = Thai baht, USD = United States dollar.

Note: Figures were computed based on 31 December 2022 exchange rates to remove currency effects.

Sources: Lao Securities Exchange, Singapore Exchange, and Thai Bond Market Association.

Figure 8: Composition of Foreign Currency Bond Issuance in the Lao People's Democratic Republic's Bond Market

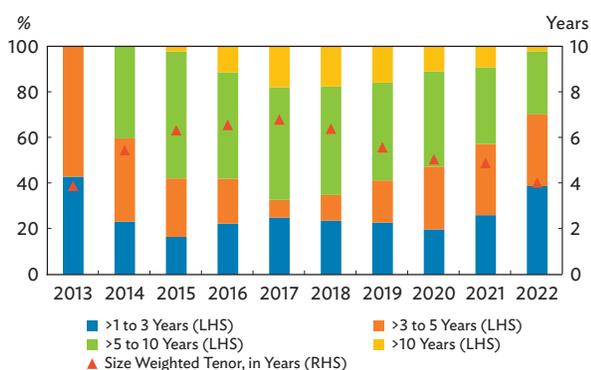


FCY = foreign currency, USD = United States dollar.

Note: Figures were computed based on 31 December 2022 currency exchange rates to remove currency effects.

Sources: Lao Securities Exchange, Singapore Exchange, and Thai Bond Market Association.

Figure 7: Maturity Structure of Foreign Currency Bonds Outstanding Issued in the Lao People's Democratic Republic's Bond Market

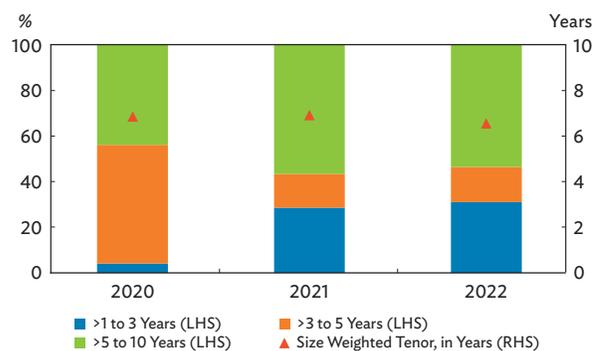


LHS = left-hand side, RHS = right-hand side.

Note: Figures were computed based on 31 December 2022 currency exchange rates to remove currency effects.

Sources: Lao Securities Exchange, Singapore Exchange, and Thai Bond Market Association.

Figure 9: Maturity Structure of Foreign Currency Bonds Issued by the Lao Securities Exchange



LHS = left-hand side, RHS = right-hand side.

Note: All bonds were issued in United States dollar.

Source: Lao Securities Exchange.

abroad, constrained the ability of Lao PDR issuers to tap FCY financing. The government has also reduced its external borrowing to improve its debt sustainability and fiscal position (Figure 8). Since then, the Lao PDR's total FCY government bond issuance volume has fallen. FCY bonds in United States dollars have been issued onshore by the Lao Securities Exchange since 2020. Tenors of these bonds ranged from 1 to 10 years and their coupon rates ranged from 5.0% to 8.0%. The average

size-weighted tenor of these bonds was 6.9 years in 2020, 7.0 years in 2021, and 6.6 years in 2022 (Figure 9).

Recent Developments

The Government of the Lao PDR is taking steps to further develop its domestic bond market, including issuance of bonds in a broader range of currencies, developing the corporate bond market, and expanding the investor base. In June 2023, the Souvanny Home Center, a distributor of construction materials and home products, became the first corporate issuer to sell USD3.0 million, equivalent

to LAK57.2 billion, of USD-denominated bonds via the Lao Securities Exchange. In September 2023, the Government of the Lao PDR expanded the currencies of bond offerings in the domestic market and successfully sold its first bond denominated in Thai baht, worth THB3.0 billion, in its home market. The full subscription of these offerings is a reflection of investors' confidence in onshore issuance of both foreign and local currency bonds in the Lao PDR.

The Lao PDR's domestic bond market represents an important source of alternative funding for both the public and private sectors. It is therefore important to continue to invest in its medium- to long-term development. In the future, the Government of the Lao PDR plans to continue with domestic bond market development, including development of the secondary bond market, enhancing transparency and governance, and piloting use of auction mechanisms and signaling tools to strengthen communication with market participants for supporting cashflow management and enhancing debt management.