

Persisting structural weaknesses

General Information



GDP	USD 9.3 billion (World ranking 135, World Bank 2012)
Population	6.65 million (World ranking 103, World Bank 2012)
Form of state	Communist State
Head of government	Lt. Gen. CHOUMMALI Saignason
Next elections	2016, presidential and legislative



Strengths

- Strong GDP growth
- Member of the WTO (since 2013) and the ASEAN-China Free-Trade Area

Weaknesses

- Weak economic structure
- Large current account deficits
- High external debt
- Low foreign exchange reserves
- Underdeveloped banking sector
- Very weak business environment

Country Rating

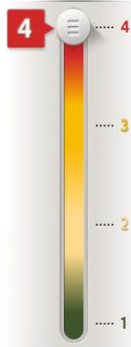
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Country Grade



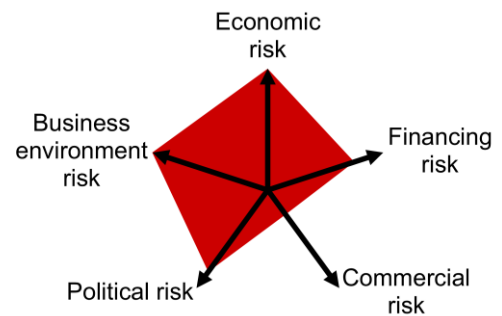
High risk

Country Risk Level



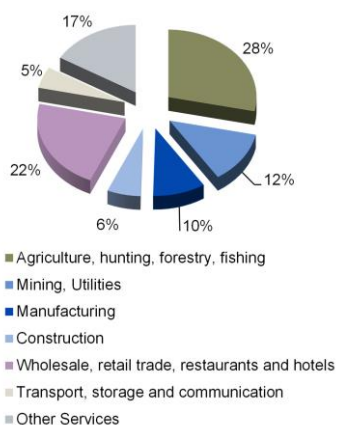
Low risk

Risk Dimensions



Economic Structure

GDP breakdown (2011)



Sources: UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

Exports	Rank	Imports
Thailand	47%	66%
China	34%	11%
Japan	4%	7%
Germany	4%	4%
India	3%	3%

Exports (% of total)	Rank	Imports (% of total)
Non-ferrous meta	72%	24%
Metalliferous ores and metal scrap	8%	15%
Electric current	4%	5%
Cork and wood	2%	4%
Articles of apparel & clothing accessories	2%	4%

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	7.5	8.1	8.0	7.9	8.1	7.7
Inflation (% end-year)	3.9	5.8	7.7	4.7	7.6	10.1
Fiscal balance (% of GDP)	-5.3	-4.7	-2.1	-2.6	-4.5	-4.7
Public debt (% of GDP)	63.2	62.1	56.1	52.8	54.0	53.1
Current account (% of GDP)	-1.1	0.4	-2.6	-4.6	-5.6	-6.0
External debt (% of GDP)	104.4	83.9	76.4	72.8	65.8	59.0

Source: IHS Global Insight, national sources, Euler Hermes

Economic Overview

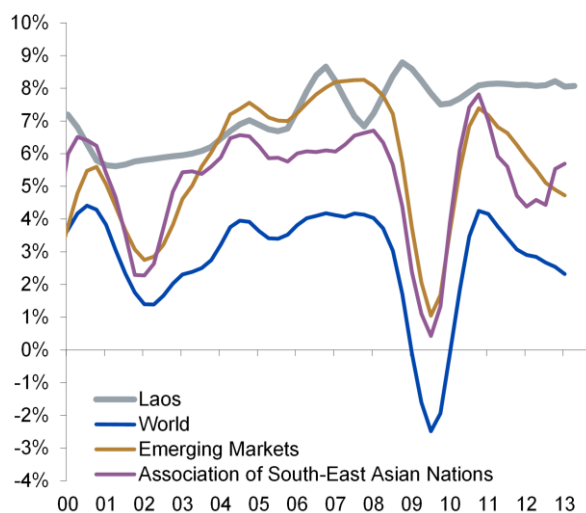
Real GDP growth remains buoyant.

Real GDP grew a strong annual average 7.9% in 2007-2012 and is expected to remain vigorous in 2013 and 2014, driven by both private consumption and investment. The development of several power projects and infrastructure development (e.g. the construction of the Laos-China railway) will continue to boost economic activity. The country will also take advantage of the strong foreign interest in its extractive sector with relatively high international prices for minerals and robust mining investment.

Higher inflation and fiscal deficit

Strong real GDP growth has been overheating from expansionary macroeconomic policies. Monetary policy has been accommodative and, along with rising fresh food prices, inflation is expected to further accelerate in 2014 (to about 10% at year-end). Fiscal policy has also been expansionary, leading to an increase in the fiscal deficit in 2013 (-4.5% compared to -2.6% in 2012). Despite some revenue-raising measures such as a new tax on luxury goods, the fiscal deficit is expected to remain large in 2014, mainly because of infrastructure expenditure and problems with revenue collection that are expected to persist. If policies continue to be accommodative, there is a risk that near-term pressures on inflation and the balance of payments could further rise in a context of very high external vulnerabilities.

GDP growth (% y/y, 4 qtrs cumulated)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Large current account deficit

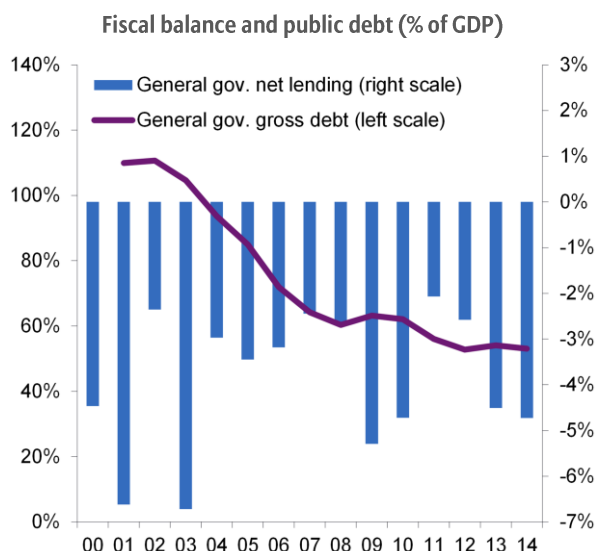
The current account deficit has deteriorated significantly in recent years and is expected to remain large at about 6% of GDP in 2014. Three main facts explain this rise: growing fiscal deficit, currency appreciation in real effective terms and buoyant domestic demand. Exports are expected to increase in 2014, but imports should grow faster because of poor competitiveness of local products and lower tariff barriers – in line with Laos' commitments as a member of the WTO (2013) and the ASEAN-China Free-Trade Area.

Significant external vulnerabilities

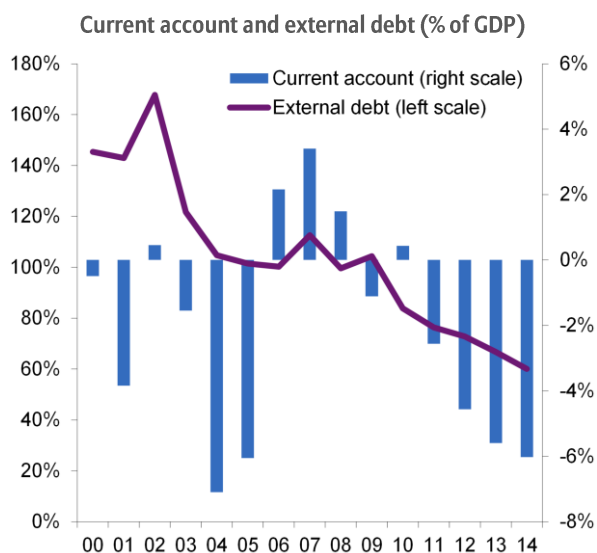
External liquidity indicators are very weak and external debt, although gradually declining, will remain very high at about 60% of GDP in 2014. Despite robust foreign direct investments inflows, foreign exchanges reserves are still very low (sufficient to cover just about one month of imports) as the structural current account deficit remains large. In this context, the economy is highly vulnerable to exogenous shocks and serious risks remain.

Underdeveloped banking sector

The banking sector is still vulnerable. Quasi-fiscal activities of the Central Bank have created substantial excess liquidity in the banking sector. Indeed, rapid credit growth raises concerns about the health of the banking system and banks' asset quality could quickly deteriorate banking supervision is still inadequate.



Sources: IMF, IHS Global Insight, Euler Hermes



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