



2018. 2.5

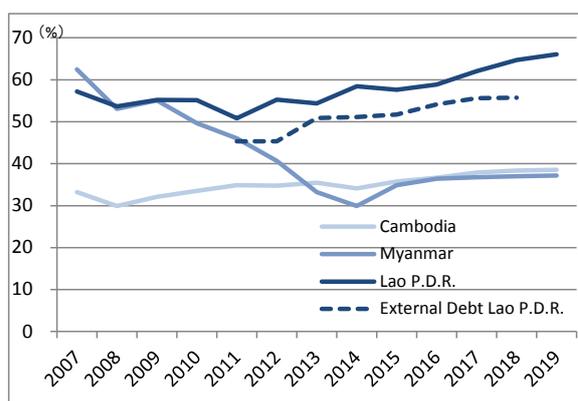
Fostering of Bond Markets in CLM ~ With Focus on Debt Problems in Lao P.D.R.

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Since 2013, the Institute for International Monetary Affairs (IIMA) has been participating, as instructor and advisor, in the training program hosted by JICA that aim to foster the bond markets in CLM countries (Cambodia, Lao People's Democratic Republic, and Myanmar) as part of the technical assistance projects under the Official Development Assistance (ODA) of the Japanese Government.

In recent years, demands have been increasing in these countries for raising funds for improvement of infrastructures and development of industries, and the public debt outstanding has been on a rising trend. Especially in Lao P.D.R., the share of public debts in GDP has been increasing year after year (Chart 1).

(Chart 1) Public Debt Outstanding in CLM



(Chart 2) External Public Debts of Lao P.D.R. (2015)

Lender	In Billions of USD	As the Share of Total External Debt	In percent of GDP
Total	6.5	100%	51.7%
Multilateral	1.5	22.8%	11.8%
Bilateral	4.2	64.4%	33.3%
Bond issuance in Thai market, etc	0.8	12.8%	6.6%

(Source) IMF. The dotted line represents external public debts of Lao P.D.R.

Lao PDR utilizes the funds borrowed from foreign countries to promote the development of hydro power generation and mining. Mainly helped by these developments, the economy has realized high growth, gaining per capita GDP higher than in Cambodia and Myanmar¹. The

¹ Per capita GDP for FY2017(October to September) was \$2,567 for Lao PDR, \$1,389 for Cambodia and \$1,272 for Myanmar (Estimates by the IMF)

country aims at outgrowing the Least Developed country (LDC)² by 2020, and is making efforts to raise funds from the capital markets instead of relying on ODA funds. Out of the external public debts for fiscal year 2015, more than 80% was accounted for by the assistance funds by World Bank, Asian Development Bank, China and Japan, but since 2013 the country has regularly issued government bonds denominated in baht or dollars in the Thai capital market as a way to raise funds without relying on official aids (Chart 2). In addition, corporate bond issuance has become to be seen. Since 2014, EDL-GENERATION PUBLIC COMPANY, a state-managed power company, has been regularly issuing corporate bonds denominated in baht and dollars in Thailand, and also in 2017 Nam Ngum 2 Power (NN2PC), an independent power generation company, issued a project bond denominated in baht.

The share of bonds of the government and state-owned companies of Lao P.D.R. has been rising in the Thai market, and there is a concern over the possible effect of foreign exchange rates on them at a time of their redemption. However, as most of these government bonds and corporate bonds have been issued to finance hydro power generation projects which are one of the means to acquire foreign currencies, the government seems to think that there will be no foreign exchange risks on them because their redemption resources will be covered by the export of electricity generated by the borrowing.

On the other hand, according to the IMF report, the dollar-denominated debts constituted 59.8% of external public debts as of 2015. In order to prepare for the possibility of higher dollar and lower kip associated with U.S. interest rate hikes in the future, the government of Lao P.D.R. should cautiously promote the expansion of debts denominated in foreign currencies.

At the time of Asian Currency Crisis, the financial institutions and corporations in Lao P.D.R. fell into insolvency following a sharp plunge of the local currency as they had heavily relied on the long-term borrowings denominated in foreign currencies. Learning a lesson from these experiences, the ASEAN countries including Lao P.D.R. have been making efforts to foster domestic bond markets and promote long-term finance denominated in local currencies in their domestic markets.

However, CLM countries have been suffering from slow development of domestic financial institutions, while especially in Cambodia and Lao P.D.R. they have a growing problem of dollarization. They will have to further improve financial literacy of the people, and therefore they will have a long way to go before they can overcome the difficulties for promoting the bond market in each of them.

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² It is one of the classifications on social and economic development defined by the United Nations. It refers to the most underdeveloped countries among developing countries.