DEBT SUSTAINABILITY ANALYSIS WORKSHOP
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DEBT SUSTAINABILITY ANALYSIS
CASE OF LAO P.D.R.
(2005 ARTICLE IV CONSULTATION)

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Debt Sustainability Analysis
Case of Lao P.D.R.
(2005 Article IV Consultation)

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Outline

- Background
- Medium-term macroeconomic framework
- Debt sustainability outlook (baseline and alternative scenarios)
- Multilateral debt relief initiatives
**Background**

Lao P.D.R. is a heavily indebted low-income country.

**Lao P.D.R.: External Public Debt Indicators**

<table>
<thead>
<tr>
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<th>Indicative Threshold</th>
<th>End-2004</th>
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</thead>
<tbody>
<tr>
<td><strong>NPV of debt in percent of</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>30</td>
<td>55</td>
</tr>
<tr>
<td>Exports</td>
<td>100</td>
<td>199</td>
</tr>
<tr>
<td>Revenues</td>
<td>200</td>
<td>495</td>
</tr>
<tr>
<td><strong>Debt service in percent of</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>Revenues</td>
<td>25</td>
<td>19</td>
</tr>
</tbody>
</table>
External public and publicly-guaranteed debt stock declined in recent years.............
....but the external debt service burden increased.
Medium-term macroeconomic framework (Baseline scenario)

Assuming that economic reform continues, the medium-term macroeconomic outlook will remain favorable.

### Lao P.D.R.: Key Macroeconomic Assumptions
(In percent, unless stated otherwise)

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<tbody>
<tr>
<td>Real GDP growth</td>
<td>6.2</td>
<td>6.5</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Export growth</td>
<td>7.0</td>
<td>10.4</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>Revenue (% of GDP)</td>
<td>11.8</td>
<td>12.4</td>
<td>13.6</td>
<td></td>
</tr>
<tr>
<td>Gross public borrowing (% of GDP)</td>
<td>6.1</td>
<td>5.5</td>
<td>4.0</td>
<td></td>
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</tbody>
</table>
Most importantly, fiscal consolidation will gradually continue, while external current account deficit will shrink.
The baseline scenario suggests that achieving long-term debt sustainability is feasible, with debt ratios falling toward indicative thresholds......
...and debt service ratios remain well under the thresholds.
Alternative scenario

- However, the outlook is susceptible to several risks
  - Lower GDP growth and exports growth;
  - Weaker revenue performance and larger borrowing

- Run the DSA again under alternative assumptions
  - GDP and export growth rates: 1 percent lower than baseline
  - Revenue will stay at 11 percent of GDP
  - Gross public borrowing will stay at 6 percent of GDP
Under the alternative scenario, the debt outlook is significantly less benign.
Multilateral debt relief initiative

- Lao P.D.R. was eligible for debt relief under HIPC Initiative and the MDRI in 2004.

Ratio of NPV of debt to exports
199 percent at the end of 2004

> HIPC Initiative Threshold
150 percent
If Lao P.D.R. had decided to take HIPC/MDRI, debt stock would be significantly reduced.

**Lao P.D.R.: Potential impact of debt relief**

*(NPV of debt)*

- In percent of exports
- In percent of revenue
- In percent of GDP
And, long-run debt burden would be significantly lower.
However, the impact on net resource flows remained unclear, because IDA allocation and access to concessional loans from bilateral donors could be significantly lower.

At the time of 2005 Article IV consultation, Lao P.D.R. government decided not to avail itself of debt relief under HIPC and MDRI.
Thank you very much