

Overview

A. Introduction

The purpose of this Bond Market Guide is to provide an update to current and future domestic, regional, and international market participants on the tremendous developments in the Lao People's Democratic Republic (Lao PDR) securities market.

The bond market of the Lao PDR was constituted in 1994 when the Government of the Lao PDR issued Treasury bills for the first time to help finance the annual budget deficit. The issuance of Treasury bills continues on a regular basis with the primary objectives of financing the budget deficit and repaying public debt. Treasury bills have been issued into the primary market through an auction channel and through the so-called "over-the-counter method," which is distinct from the typical over-the-counter (OTC) secondary market (see also Chapter IV). The primary participants are commercial banks.

The central bank, the Bank of the Lao PDR (BOL), began issuing BOL bills and bonds in 1992 with the objectives of carrying out monetary policy and managing the exchange rate. BOL bills and bonds are sold to central bank constituents, such as commercial banks and other financial institutions, and may be bought and sold in the secondary market among constituents. In addition, BOL conducts open market operations through its Banking Operations Department on a manual basis, using written contracts for three types of transactions: (i) repurchase (repo) agreement, (ii) discount, and (iii) collateralized lending.

In the context of the objectives of the 6th Five-Year National Socio-Economic Development Plan, 2006–2010—which were to promote economic development, increase competitiveness, utilize comparative advantages, and strengthen the positive linkages between economic growth and social development—the Lao Securities Exchange (LSX) was formally established on 10 October 2010 and launched on 11 January 2011. The launching of the LSX was a historic milestone for the capital market in the Lao PDR. The LSX is expected to help attract the huge amount of capital necessary to develop the country, raise the long-term funds needed by companies, and promote the integrity of the Lao PDR's financial markets.

As for the legislative and regulatory framework, the Law on Securities was approved by the National Assembly in 2012 and introduced into the market in 2013. Pursuant to the Law on Securities, other decrees and subsidiary regulations were improved or created. With regard to the bond market, the Lao Securities Commission (LSC) introduced the Corporate Bond Regulation in 2014 and subsequently issued the Decision on Issuance of Corporate Bonds Abroad in 2016. For government bonds, the Ministry of Finance, Lao PDR (MOF) led the drafting of the Decree on Government Bonds, which was released in March 2017; these new government bonds will be listed on and traded at the LSX. Correspondingly, the LSX is developing a dedicated bond listing and trading platform, and will be amending the existing Regulation on Bond Listing after enactment of the new decree.

To support sustainable economic development in the country, and capital market development in particular, the Government of the Lao PDR has approved the Strategic Plan on the Lao Capital Market Development, 2016–2025 that focuses on eight objectives:

1. create all necessary and favorable conditions for enterprises to raise funds through the capital market to increase the quality and quantity of products and services;
2. have market instruments and mechanisms ready to support the reform of enterprises;
3. have a comprehensive regulatory framework in compliance with the Lao PDR's current conditions and international standards;
4. ensure that the exchange, central securities depository (CSD), and securities intermediaries are operated smoothly with limited risks, and that they can integrate with regional and global markets;
5. ensure that information and communications technology development is suitable for the size of capital market expansion and up-to-date;
6. increase public participation, the investor base, and the balance between individual and institutional investor involvement;
7. have adequate capital market regulators, experts, and professionals in terms of both quality and quantity; and
8. enable the Lao PDR capital market to integrate with regional and global markets.

B. The 8th Five-Year National Socio-Economic Development Plan, 2016–2020

The 8th Five-Year National Socio-Economic Development Plan, 2016–2020, which is also referred to as the 8th NSEDP, is a means of implementing the National Strategy on Socio-Economic Development until 2025 and the Government of the Lao PDR's Vision 2030.¹

According to statements contained in the Public Finance, Banking, and Capital Market (Finance) section of the 8th NSEDP, significant efforts have been made in the area of domestic debt service, including discount and bond issuance, of which LAK5,379 billion was in the form of discount, and LAK3,872 billion was in the form of 2-year and 3-year bonds. These efforts have contributed significantly to the reduction of the government's debt service and the creation of a smooth environment for business enterprises.

In the Implementation and Financing Plan section, the 8th NSEDP identifies capital requirements of LAK232 trillion for developments during the 2016–2020 period, of which

- (i) public investment accounts for 24%–28%, investment from the state budget accounts for 9%–11%, and investment from grants and loans accounts for 15%–17% of the total envisaged investment;
- (ii) private domestic and foreign investments account for 55%–57% of the total envisaged investment; and
- (iii) money market (bank credit) and capital market investments account for 17%–19% of the total envisaged investment.

¹ See http://la.one.un.org/images/publications/8th_NSEDP_2016-2020.pdf (Final version. Officially approved at the 8th National Assembly's Inaugural Session. 20–23 April 2016. Vientiane).

C. Cooperation within the ASEAN Framework

The Lao PDR continues to participate in the activities and initiatives of the Association of Southeast Asian Nations (ASEAN), including preparations for integrating into the ASEAN Economic Community. Details on the Lao PDR's participation are also contained in the 8th NSEDP.

In addition, the Lao PDR participates in regional initiatives under the Asian Bond Market Initiative such as the ASEAN+3 Bond Market Forum (ABMF).