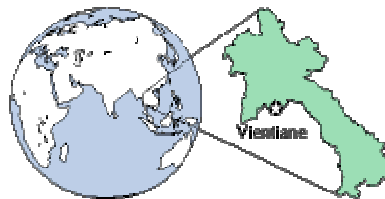


COUNTRY REVIEW

Laos



19 August 2009

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EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Vientiane
GDP:	USD 5.3 bn (2008e)
Population:	6.3 mn (2008e)
GDP per capita:	USD 840 (2008e)
Currency:	Kip (LAK)
Form of state:	Single party (Communist)
Head of government:	Bouasone Bouphavanh
Next elections:	None by direct popular vote

Laos remains a single party (communist) state firmly controlled by the Lao People's Revolutionary Party (LPRP). Although periodic differences appear within the leadership, it is not heavily factionalised and the military is strongly represented. There is little evidence of serious internal or external opposition. In 2006 there was a leadership succession and a new generation of representatives in the National Assembly. New party leader Choummaly Saignason represents continuity and policies of slow reform within a one-party framework are unlikely to change. New PM Bouasone Bouphavanh has introduced mild reforms to make the government more responsive. The short term priority, however, is to cushion the impact of the global recession on Laos' growth, as low growth has replaced inflation as the main potential source of social instability.

Estimated per capita GDP of just over USD500 is one of the lowest in East Asia. Agriculture still accounts for 45% of GDP and 80% of employment. Industry accounts for just over 30% of GDP, though this share has risen just below 20% since 1995. The economy is landlocked but has considerable natural resources, such as minerals (gold and copper) and hydro-electric power). Growth of GDP was a strong annual average 7.4% in 2005-08—driven mainly by the industrial sector, particularly the development of hydro-electricity generation projects and gold and copper mines, but also boosted by infrastructure development. Growth has been impacted by the global recession and official targets have been lowered to 6-7% in FY 2008/09 (Oct-Sept) and 7.5% in FY 2009-10. The ADB and IMF, however, expect growth of just 4-5.5% in calendar 2009.

The fiscal deficit widened to an estimated 5.8% of GDP in FY 2007/8. With lower growth pressuring revenues and planned spending set to increase the deficit will remain under pressure in 2008/9 and 2009/10. External public debt is also relatively high at almost 60% of GDP (end-2007, ADB). Inflation has slowed sharply as food and oil prices have eased and should be in low single digits in 2009 and 2010, providing scope for the loosening of monetary policy underway. The exchange rate has been relatively stable against the USD and THB (important as 70% of imports are from Thailand).

Exports—dominated by copper and gold, with clothing, power and coffee also important—slumped in Q4 2008 as world trade collapsed, but imports fell more. The current account deficit was 18.9% of GDP in 2008 according to the ADB, but this was more than fully covered by inflows of FDI and grants and FX reserves increased over the year. The ADB expects the current account deficit to narrow slightly in 2009 to 16% but FX reserves to decline as FDI and remittances weaken.

The structural business environment is weak. Laos is ranked 201 out of 210 in our assessment. For comparison the World Bank's 2009 Ease of Doing Business survey ranked Laos 165 out of 181, a slight deterioration compared with 2008 though this was an improvement on 2005.

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