



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

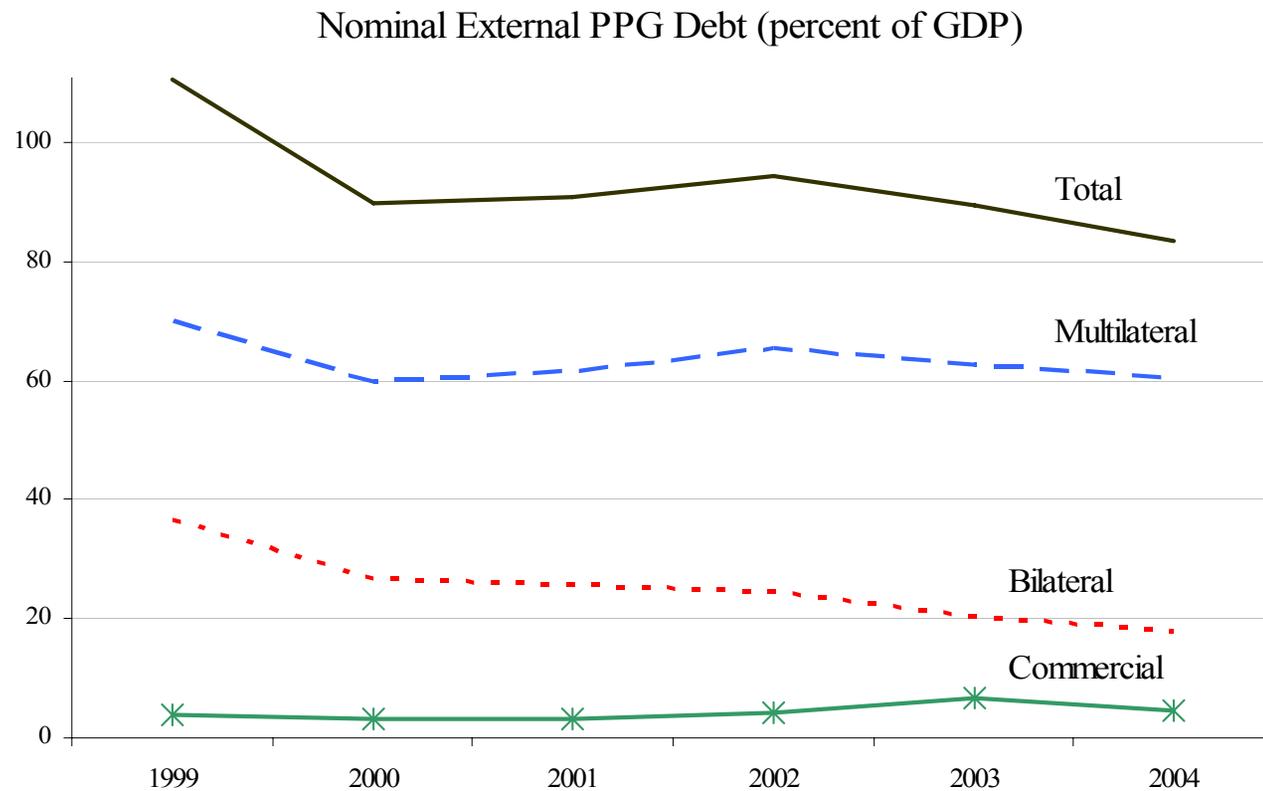
Background

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

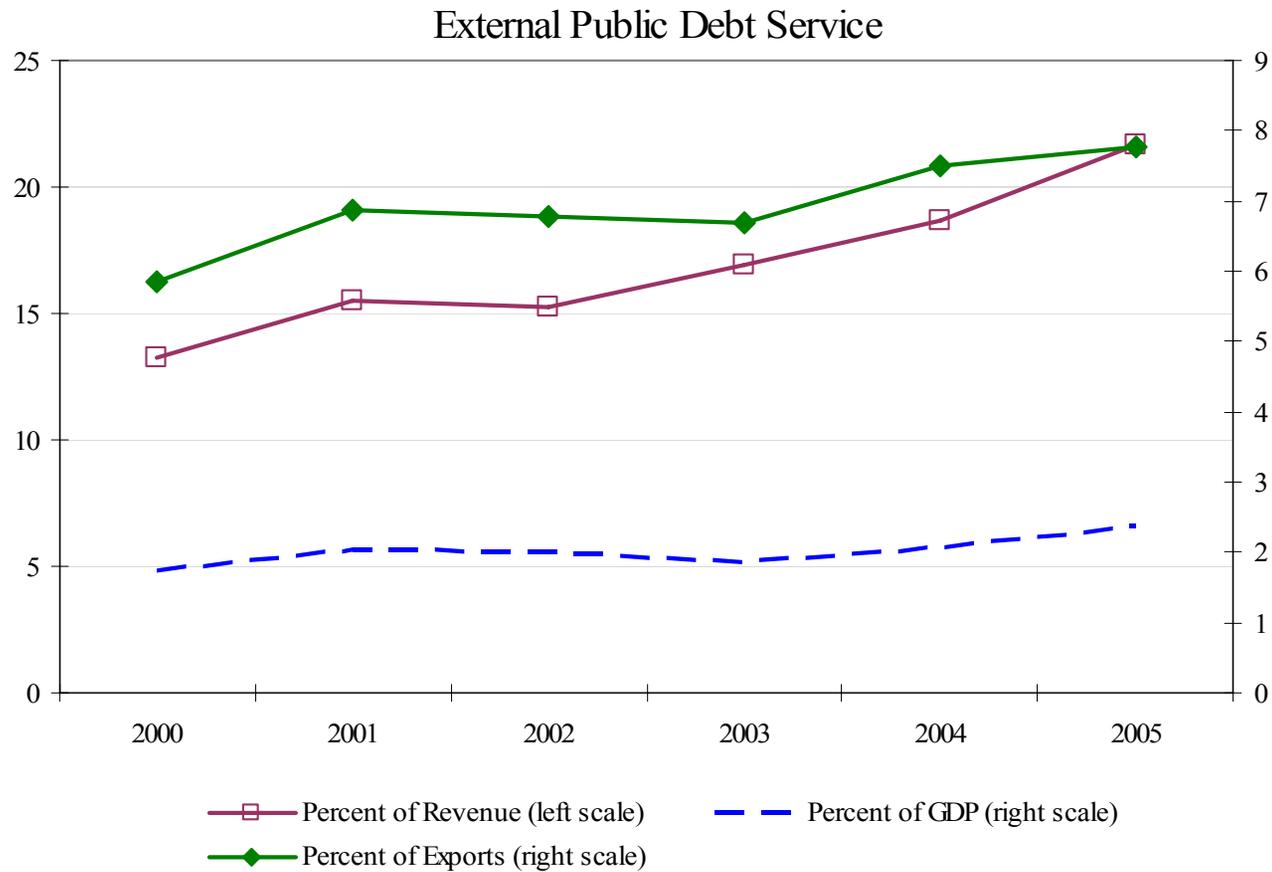
Lao P.D.R.: External Public Debt Indicators

| | Indicative Threshold | End-2004 |
|-----------------------------------|-------------------------|----------|
| NPV of debt in percent of | | |
| <i>GDP</i> | 30 | 55 |
| <i>Exports</i> | 100 | 199 |
| <i>Revenues</i> | 200 | 495 |
| Debt service in percent of | | |
| <i>Exports</i> | 15 | 8 |
| <i>Revenues</i> | 25 | 19 |

■ External public and publicly-guaranteed debt stock declined in recent years.....



-but the external debt service burden increased.



Medium-term macroeconomic framework (Baseline scenario)

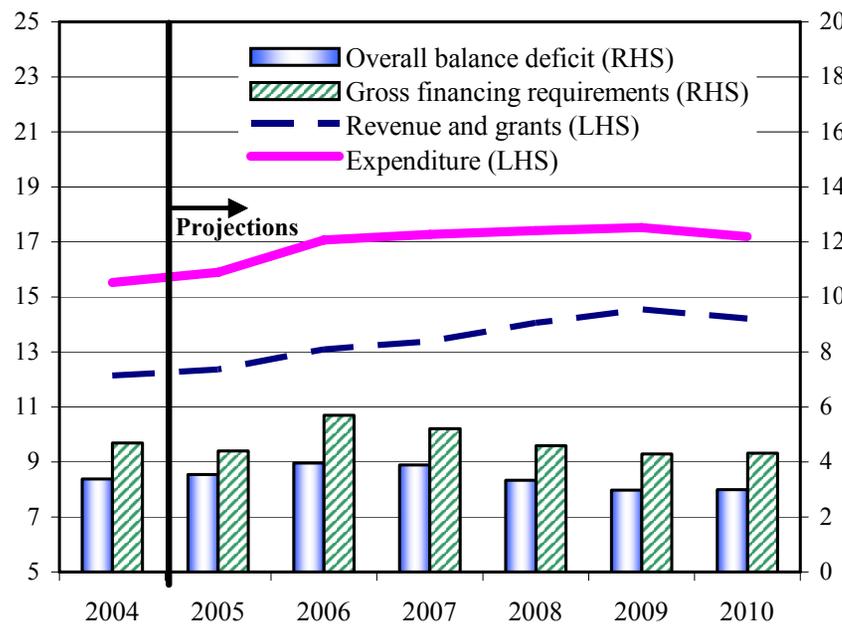
- Assuming that economic reform continues, the medium-term macroeconomic outlook will remain favorable.

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

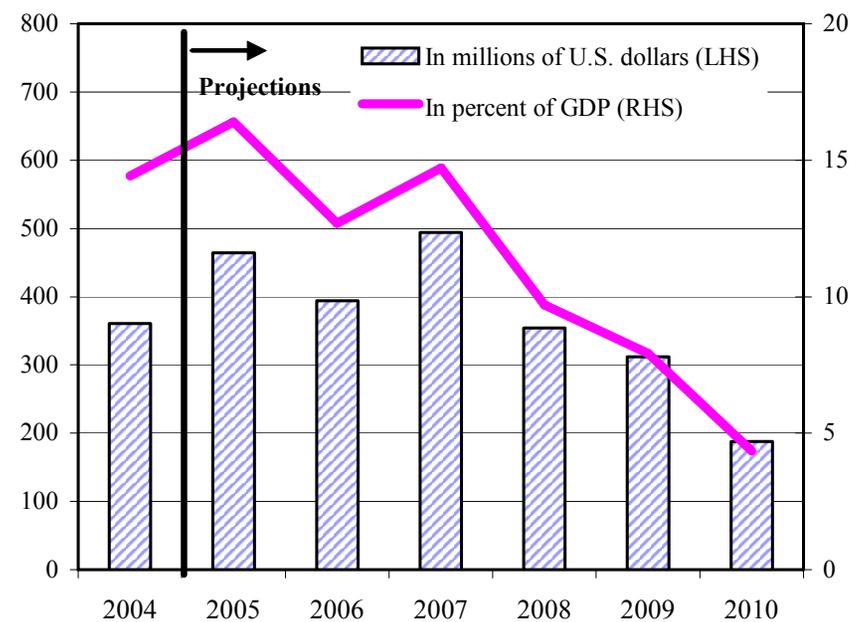
| Period average | 2001–05 | 2006–10 | 2011–25 |
|-----------------------------------|---------|---------|---------|
| Real GDP growth | 6.2 | 6.5 | 5.0 |
| Export growth | 7.0 | 10.4 | 7.0 |
| Revenue (% of GDP) | 11.8 | 12.4 | 13.6 |
| Gross public borrowing (% of GDP) | 6.1 | 5.5 | 4.0 |

Most importantly, fiscal consolidation will gradually continue, while external current account deficit will shrink.

Lao P.D.R.: Medium-Term Fiscal Outlook
(In percent of GDP)



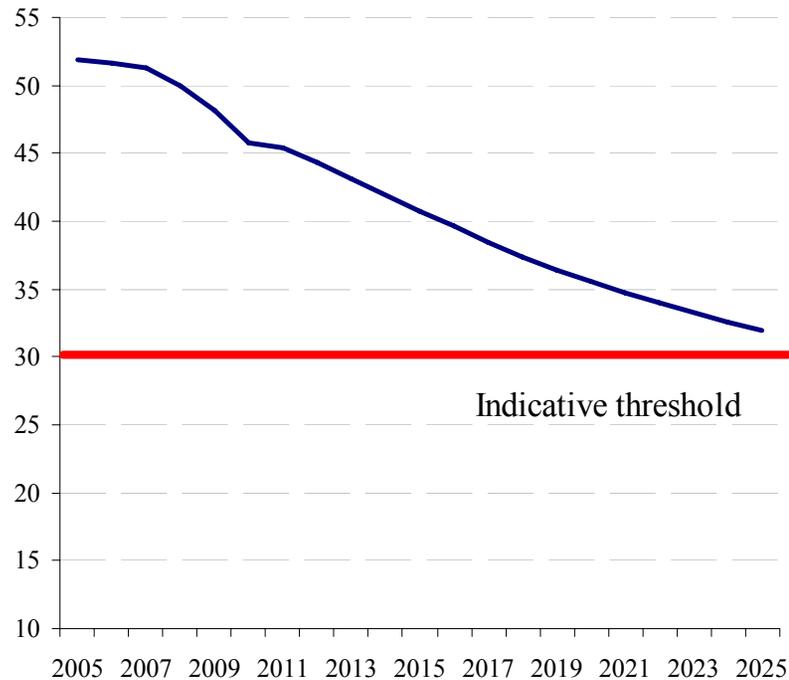
Lao P.D.R.: Medium-Term Current Account Deficit



Debt outlook (Baseline scenario)

- The baseline scenario suggests that achieving long-term debt sustainability is feasible, with debt ratios falling toward indicative thresholds.....

NPV of Debt-to-GDP Ratio

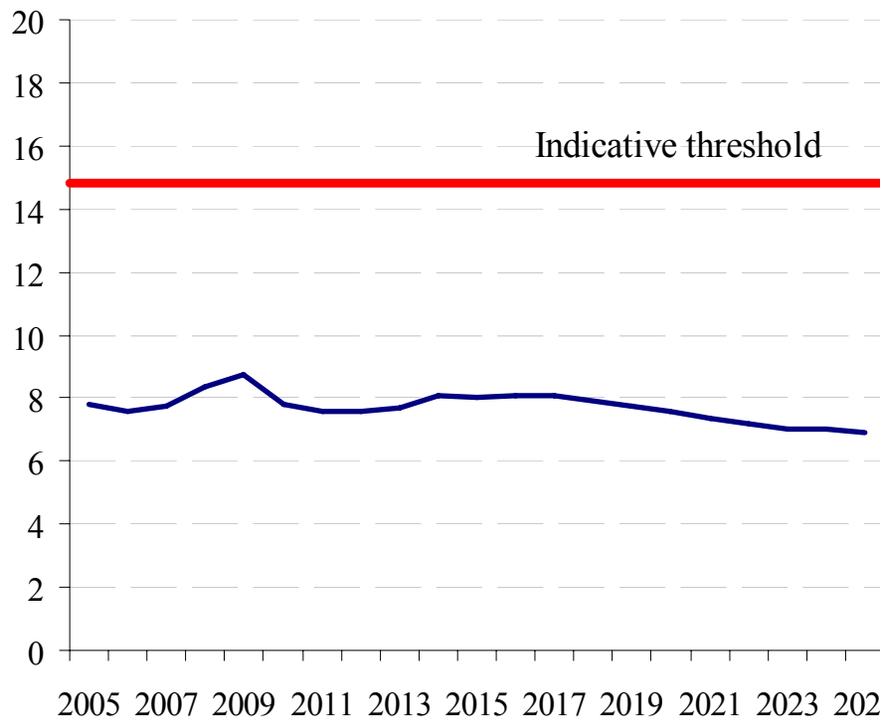


NPV of Debt-to-Exports Ratio

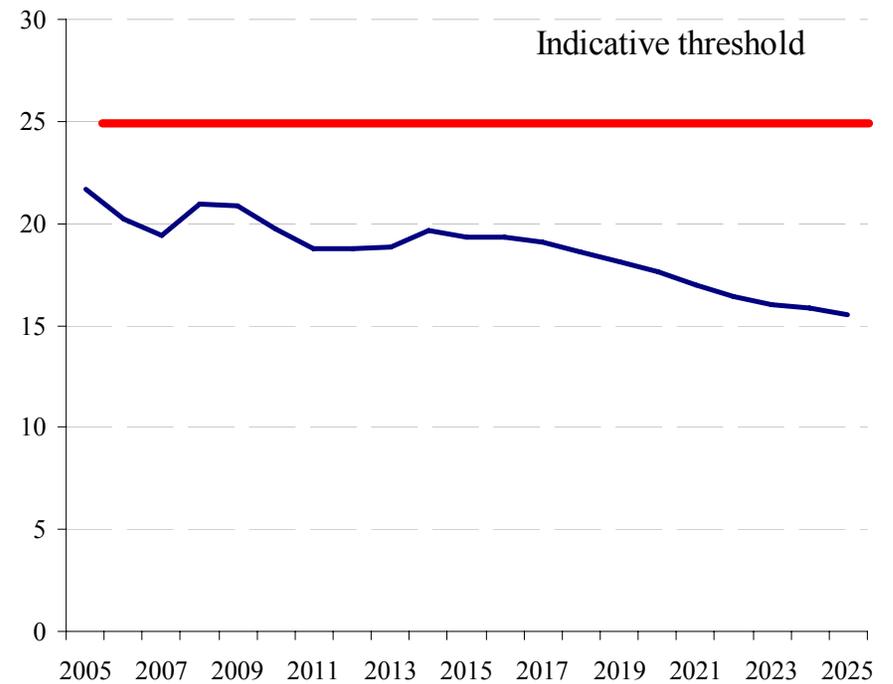


...and debt service ratios remain well under the thresholds.

Debt Service-to-Exports Ratio



Debt Service-to-Revenues Ratio

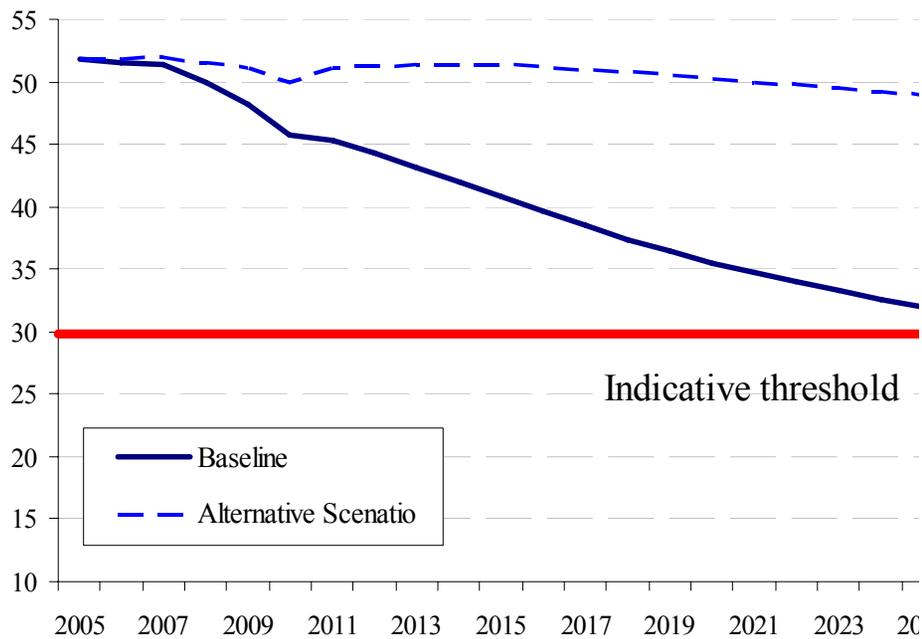


Alternative scenario

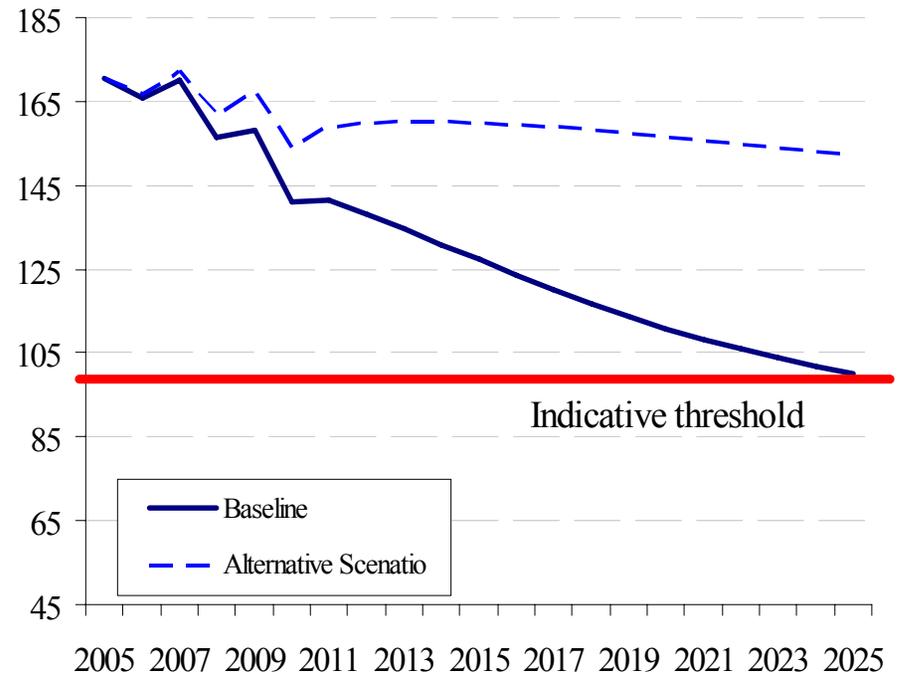
- However, the outlook is susceptible to several risks
 - Lower GDP growth and exports growth;
 - Weaker revenue performance and larger borrowing
- Run the DSA again under alternative assumptions
 - GDP and export growth rates: 1 percent lower than baseline
 - Revenue will stay at 11 percent of GDP
 - Gross public borrowing will stay at 6 percent of GDP

- Under the alternative scenario, the debt outlook is significantly less benign.

NPV of Debt-to-GDP Ratio



NPV of Debt-to-Exports Ratio



Multilateral debt relief initiative

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

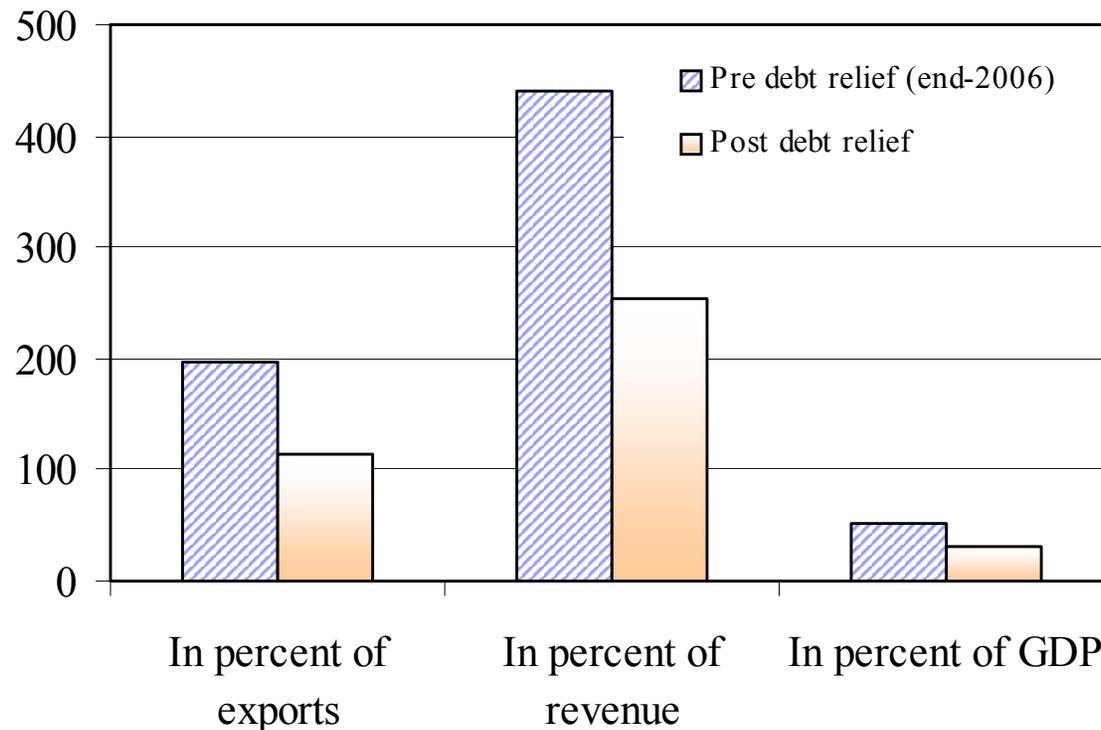
**Ratio of NPV of debt to exports
199 percent at the end of 2004**

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**HIPC Initiative Threshold
150 percent**

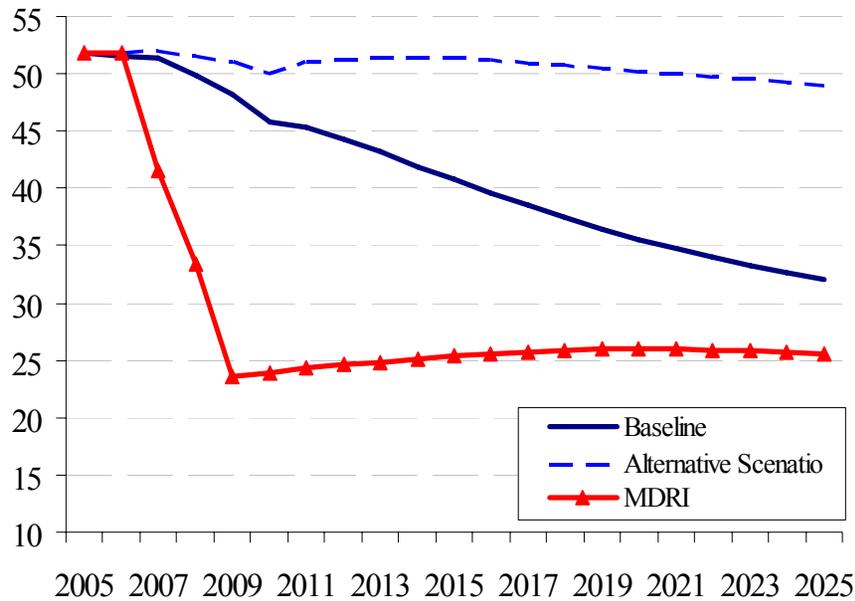
- If Lao P.D.R. had decided to take HIPC/MDRI, debt stock would be significantly reduced.

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

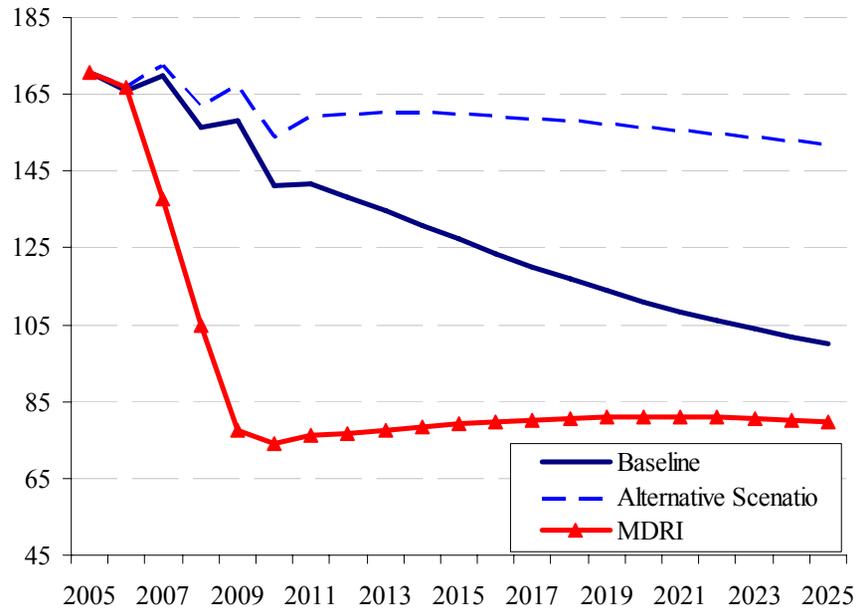


- And, long-run debt burden would be significantly lower.

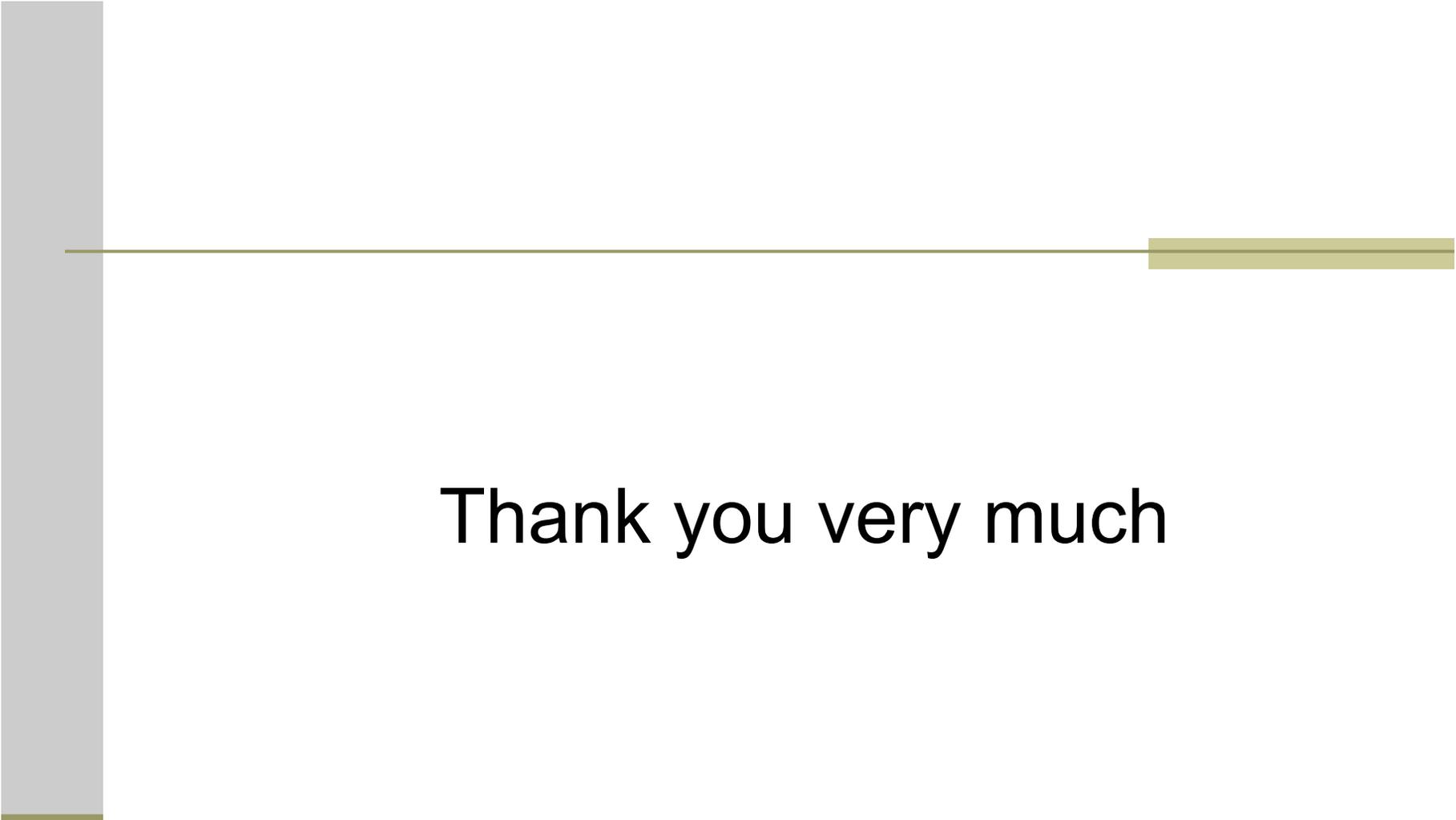
NPV of Debt-to-GDP Ratio



NPV of Debt-to-Exports Ratio



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- 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