

## Developing the Government Bond Market in Lao PDR: Advancing Domestic Market-Based Financing<sup>1</sup>

June 8, 2026

*Developing the domestic government bond market is essential to achieving long-term fiscal sustainability and financing resilience in Lao PDR. However, market development remains constrained by a combination of structural bottlenecks, including paper-based securities, inadequate market infrastructure, and uncompetitive coupon rates. Deepening the market will require modernizing and dematerializing securities and market infrastructure to ensure transactional safety and efficiency. Furthermore, the government should diversify its investor base by aligning bond design—including pricing and issuance frequency—with market appetite. These cross-sectoral efforts will require stronger interagency coordination. Ultimately, sustaining macroeconomic stability will be critical to bolstering sovereign credibility and promoting long-term de-dollarization, thereby catalyzing sustained demand for local-currency government securities.*

### I. Introduction

1. **Since the 1997-1998 Asian Financial Crisis (AFC), the development of local currency bond markets has been a policy priority among ASEAN+3 member economies.** The crisis highlighted the systemic risks posed by the "double mismatches" in maturity and currency within bank and corporate borrowing (Figure 1).<sup>2</sup> Consequently, the need for developing local-currency bond markets emerged as an alternative to foreign-currency bank loans, leading to the launch of the Asian Bond Markets Initiative (ABMI) in 2002 under the ASEAN+3 Finance Ministers' and Central Governors' initiative. Alongside the Chiang Mai Initiative Multilateralization (CMIM), which provides short-term liquidity support during balance-of-payments (BOP) crises, the ABMI serves as a dual pillar for regional financial stability. The Asian Development Bank (ADB), serving as the ABMI secretariat, has provided technical assistance, and remarkable progress has been seen within ASEAN—specifically in Thailand, the Philippines, Indonesia, and Vietnam.

2. **While bond market development in Lao PDR is still in its early stages, its importance has been rising.** As of end-2024, the total bonds outstanding in Laos in both foreign and local currencies was only 15.7 percent of GDP—significantly smaller than the local currency-denominated bond markets of its regional peers (Figure 2). The market is also skewed toward

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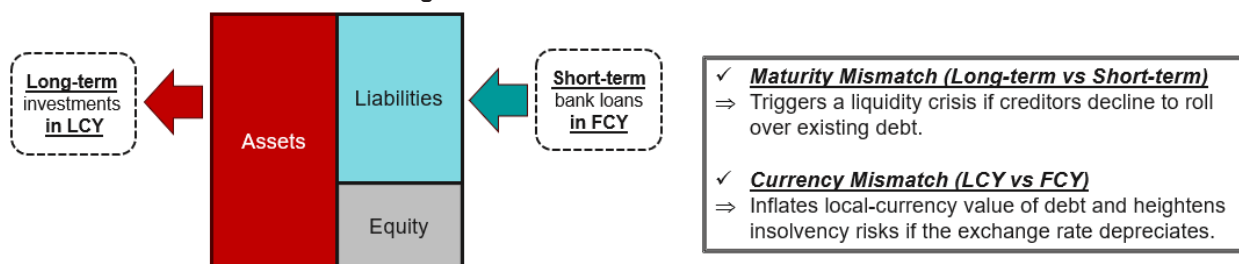
<sup>1</sup> Prepared by Akifumi Fujii under the guidance of Thi Kim Cuc Nguyen, Deputy Group Head; reviewed by Kian Heng Peh, Group Head; and authorized for distribution by Dong He, Chief Economist. The author would like to thank Sang Bum Ko and Yoki Okawa for helpful comments and suggestions. The views expressed in this note are the authors' and do not necessarily represent those of AMRO or AMRO management.

<sup>2</sup> The "double-mismatch" problem refers to a systemic vulnerability where a country's financial institutions and corporations face simultaneous imbalances in maturity and currency on their balance sheets. A maturity mismatch occurs when short-term funding is utilized for long-term, illiquid investments, potentially triggering a liquidity crisis if creditors decline to roll over existing debt. A currency mismatch arises when liabilities are denominated in foreign currency while the underlying assets or income streams remain in local currency, heightening insolvency risks if the exchange rate depreciates.

government securities, with corporate bond issuance remaining extremely limited.<sup>3</sup> Meanwhile, the Lao government’s heavy reliance on foreign-currency borrowing has been a key source of fiscal vulnerability. The recent depreciation of the kip has inflated the local-currency value of these debts, complicating public debt management (Figure 3). In this context, developing a local-currency bond market is an increasingly important objective for the Lao authorities.

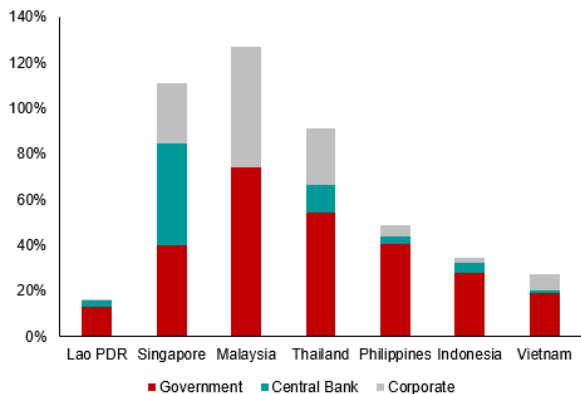
3. This Analytical Note provides a comprehensive assessment and policy recommendations for the development of the government bond market in Lao PDR. First, Section II outlines the building blocks required for market development. Then, Section III evaluates the current landscape of Lao PDR based on the framework established in the previous section. Finally, Section IV proposes a comprehensive set of policy measures that reflect Lao PDR’s context and practical constraints.

Figure 1. “Double Mismatches” Problem



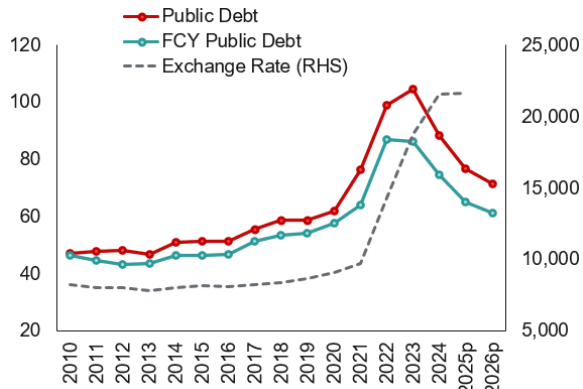
Source: AMRO staff compilations

Figure 2. Outstanding Bond as of end-2024 (% of GDP)



Source: Asia Bond Monitor; LMOF, AMRO staff estimates  
 Note: Data for Lao PDR includes both local and foreign-currency bonds, while data for other countries covers local-currency bonds only.

Figure 3. Public Debt Levels and Exchange Rate (LHS: % of GDP, RHS: LAK/USD (Average))



Source: LMOF; AMRO staff estimates  
 Note: Public debt increased primarily due to infrastructure borrowing in the 2010s and the kip depreciation in the early 2020s but subsequently declined owing to the authorities’ macroeconomic stabilization efforts, including fiscal consolidation and exchange rate stabilization. For further details, see paragraphs 7 and 8.

## II. Building Blocks for Government Bond Market Development

4. The development of a government bond market is typically prioritized over that of a corporate bond market. While the government is often regarded as the most creditworthy entity within a country, the creditworthiness of corporate issuers varies significantly. Heterogeneous credit quality makes standardized disclosure rules and a functioning credit rating system prerequisites for a sound corporate bond market—requirements that can pose a significant burden for emerging economies. In addition, a government bond market provides the foundation for corporate bond

<sup>3</sup> The scale of the corporate bond market in Lao PDR remains limited. As of end-2025, the Lao Securities Exchange (LSX) hosted only one listed corporate bond—a 4-year, USD 300 million instrument issued in 2023. There was no new listing recorded in 2024-2025.

issuance by establishing a benchmark risk-free rate, which serves as a critical reference for pricing corporate debt. Furthermore, high-quality liquid assets like government bonds offer wider auxiliary benefits. They enhance bank liquidity management by serving as collateral for interbank transactions, and provide investment opportunities for long-term investors—such as insurance companies and pension funds—seeking to match their long-term liabilities.

5. **A liquid government bond market relies on a diverse range of stakeholders.** Figure 4 illustrates these participants, whose respective roles are summarized below:

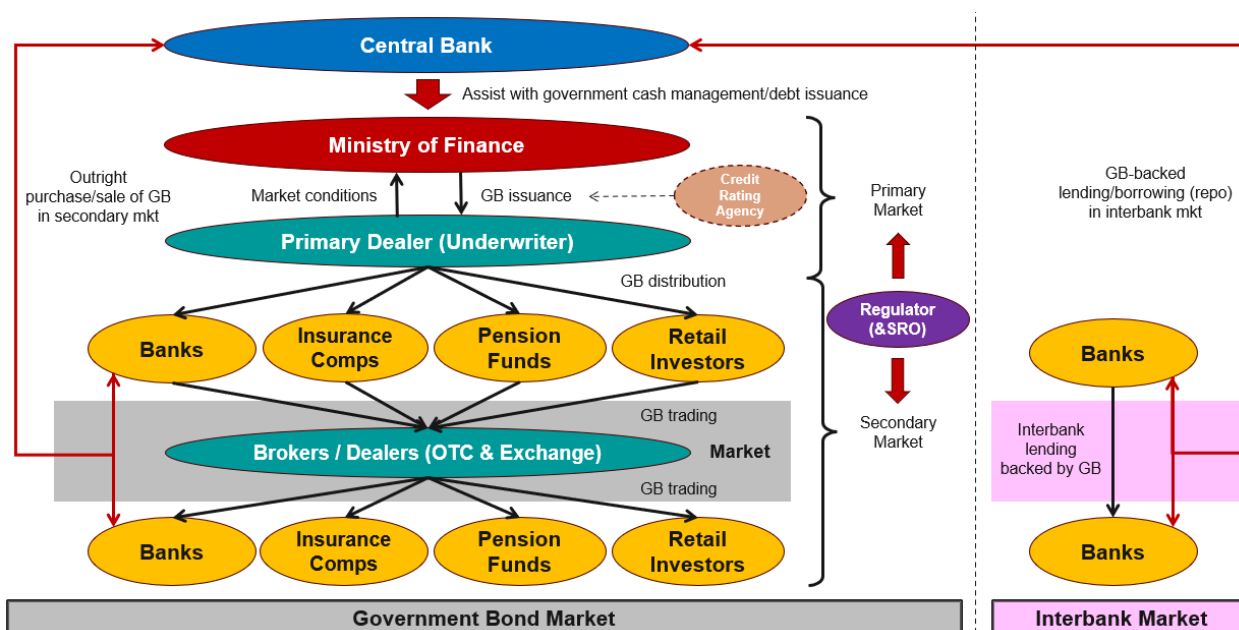
- **Ministry of Finance:** Issues government bonds to finance fiscal deficits or to raise funds necessary for repaying maturing debt.
- **Central Bank:** Acts as a fiscal agent for the government, providing essential support for cash management and debt issuance. As part of its open market operations, the bank may trade government bonds in the secondary market. Furthermore, it facilitates interbank repo transactions by allowing these bonds to be used as collateral.<sup>4</sup>
- **Securities Market Regulator:** Regulates and supervises the issuance and trading of securities, including government bonds, as well as the conduct of market participants.
- **Primary Dealers/Underwriters:** Typically granted exclusive rights to participate in government bond auctions in exchange for the obligation to underwrite a fixed portion of the issuance. They generate profit by reselling these bonds to other investors. Additionally, they assist in pricing bonds by providing information regarding market conditions.
- **Investors:** Purchase government bonds either directly from the government or via primary dealers and subsequently trade with other participants. The investor base is divided into two categories—retail investors and institutional investors, such as commercial banks, insurance companies and pension funds.
- **Markets:** Serve as a place for trading securities and provide a price discovery function. They are categorized into securities exchanges and over-the-counter (OTC) markets, where trades are conducted directly between parties.
- **Brokers/Dealers:** Act as intermediaries in the secondary market, facilitating transactions by connecting buyers and sellers of securities.
- **Self-Regulatory Organizations (SROs):** Non-governmental entities that establish and enforce self-regulatory rules for their members to ensure market integrity.
- **Credit Rating Agencies:** Provide credit ratings for issuers and specific bonds to support investors in their risk assessment and investment decision-making.

While SROs and credit rating agencies are not strictly essential for developing a government bond market, their presence is desirable in fostering a corporate bond market, which is characterized by a broader diversity of issuers.

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<sup>4</sup> A central bank can stimulate demand for government bonds by enhancing their utility as collateral in the interbank market.

Figure 4. Stakeholders in Government Bond Market



Source: AMRO staff compilations

6. **In addition to engaging relevant stakeholders, a comprehensive ecosystem needs to be established.** A key driver of investment demand is the credibility of the government as the sovereign issuer—built through a track record of timely debt servicing, sound macroeconomic management, and a transparent and well-communicated issuance strategy. This must be supported by both "soft infrastructure," such as legal and regulatory frameworks, and "hard infrastructure," including settlement systems that facilitate real-time and secure transactions, a central securities depository, and trading platforms. Several other factors play a vital role, including transparent and credible fiscal disclosure, the announcement of regular bond issuance schedules, and the implementation of market-based bond pricing mechanisms. On the demand side, broadening the institutional investor base is typically the priority in early-stage markets, complemented by efforts to improve financial literacy, particularly that of retail investors. Some countries stimulate demand for government bonds through the strategic use of tax incentives (Table 1). Despite differences in market size and capacity, Thailand’s experience provides useful lessons on sequencing reforms and institutional coordination (Box A).

Table 1. Enablers for Government Bond Market Development

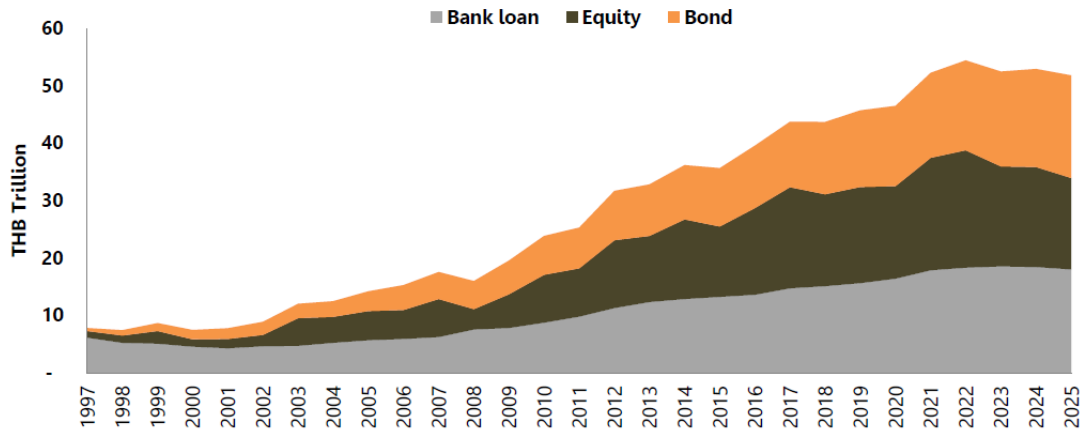
| Enabler                                       | Detail/Example  |
|---|---|
| <b>Government Credibility</b>                 | ✓ Macroeconomic environment such as growth, inflation, FX stability, fiscal balance, public debt level, etc.  |
| <b>Legal/Regulatory Framework</b>             | ✓ Corporate law, bankruptcy law, securities law, etc.   |
| <b>Settlement System</b>                      | ✓ <u>Dematerialization</u> : bond issuance/trading in electronic form, rather than in paper<br>✓ <u>Central securities depository (CSD)</u> : single place for bond safekeeping/settlement<br>✓ <u>Real-time gross settlement (RTGS)</u> : instant settlement of interbank transfers<br>✓ <u>Delivery-versus-payment (DVP)</u> : simultaneous settlement of cash/securities |
| <b>Transparent/Credible Fiscal Disclosure</b> | ✓ Disclosure of revenue, expenditure, financing, debt level, cash balance, etc.<br>✓ Announcement of a regular and credible GB issuance schedule  |
| <b>Market-based Pricing</b>                   | ✓ Competitive auction in the primary market<br>✓ Price information dissemination in the secondary market  |
| <b>Financial Literacy</b>                     | ✓ Especially for retail investors   |
| <b>Taxation</b>                               | ✓ Tax incentives/exemptions (e.g., sukuk issuance in Malaysia, GB investment by non-residents in Thailand)  |

Source: AMRO staff compilations

### Box A. Regional Experience: Thailand

Thailand has one of the largest bond markets in the ASEAN region. As of end-2024, the outstanding balance of its local-currency bonds reached 91.3 percent of GDP. Having been heavily reliant on bank loans and consequently among the hardest hit by the AFC, Thailand has since undertaken a wide range of initiatives to develop its domestic bond market (Figure A1).

Figure A1. Financial Market Outstanding Balances in Thailand (THB Trillion)

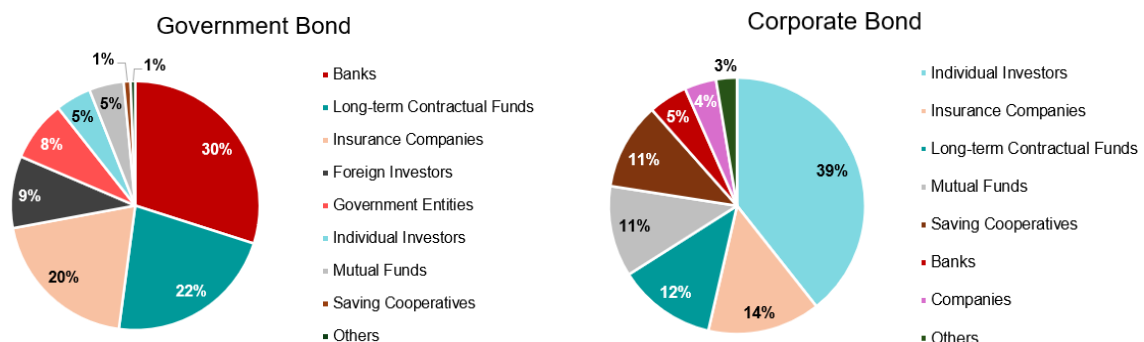


Source: ThaiBMA

Note: Outstanding balances cover both local and foreign currency-denominated instruments.

**A robust and diverse investor base has underpinned the development of Thailand’s bond market.** Commercial banks have served as foundational investors, a role further bolstered by the Basel capital and liquidity framework. Under these regulations, banks are incentivized to hold government bonds due to their low risk-weights and high liquidity. Beyond the banking sector, non-bank institutional and retail investors—such as social security funds, savings cooperatives,<sup>5</sup> and high-net-worth individuals—have consistently supported demand for both government and corporate bonds. These institutional investors provide stable long-horizon demand due to their liability profiles, while low deposit rates have encouraged retail and high-net-worth investors to seek higher-yielding bonds. The strategic issuance of savings bonds<sup>6</sup> has also bolstered retail participation, supported by the widespread adoption of digital platforms like the Pao Tang mobile application, which has streamlined the subscription process. Furthermore, foreign investor participation has been supported by a combination of market depth (including the presence of benchmark government bonds and transparent pricing information) and policy incentives. In particular, the exemption of withholding tax on income and capital gains for foreign investors has stimulated international demand for government securities (Figure A2).<sup>7</sup>

Figure A2. Investor Composition for Government and Corporate Bond (%)



Source: ThaiBMA

Note: Data is as of end-2025

<sup>5</sup> Saving cooperatives are member-owned financial institutions formed by individuals with a common bond, typically occupational or community-based, focusing on member savings and credit.

<sup>6</sup> Savings bonds are government-issued debt securities specifically designed for retail investors. Unlike standard government bonds, they are often issued in smaller denominations to encourage domestic savings and broaden the sovereign investor base.

<sup>7</sup> For instance, juristic persons established under foreign laws and not operating in Thailand were exempted from 15-percent withholding tax on income and capital gains for government bonds issued and held before October 13, 2010.

**In addition to leveraging the robust investor base, the authorities embarked on concerted efforts to address multi-faceted structural challenges, with a focus on the government bond market.** Immediately after the AFC, the Domestic Bond Market Development Committee—comprising the Ministry of Finance (TMOF), the Bank of Thailand (BOT), the Securities and Exchange Commission, the Thai Bond Dealing Center (now the Thai Bond Market Association, or ThaiBMA), and commercial banks—was established. Guided by the Domestic Bond Market Development Plan (2000–2004), priority was initially given to developing the government bond market. To this end, comprehensive reforms were implemented. These include the enhancement of settlement infrastructure,<sup>8</sup> the publication of regular issuance calendars, the introduction of a primary dealer system, and the promotion of interbank repos. Furthermore, the re-opening strategy, which increased the outstanding size of benchmark issues, played a critical role in constructing a reliable benchmark yield curve.

**Initiatives to deepen the government bond market have continued, while gradually expanding policy focus into the corporate and ESG bond segments.** Under the subsequent development plan (2005–2014), the TMOF was authorized to issue government bonds for purposes other than financing budget deficits, increasing the supply of government securities. To improve secondary market liquidity, the BOT established bond lending and collateral management units to further facilitate interbank repo transactions. The central bank also upgraded its settlement systems to accommodate growing transaction volumes. Simultaneously, the ThaiBMA began functioning as a centralized bond information hub, disseminating real-time pricing data to the public.<sup>9</sup> As the government bond market matured, the development roadmap shifted toward the corporate and, more recently, ESG bond segments.

**Thailand’s experience aligns with the principles discussed in Section II, highlighting the importance of coordinated approach to multi-sectoral issues.** By prioritizing the government bond market, improving market infrastructure and liquidity, and enhancing inter-agency coordination, Thailand has successfully transitioned from a bank-centric system to a diversified and resilient financial market.

### III. Current Landscape of Lao PDR: Achievements and Challenges

#### *(i) Recent Developments and Current Situation*

7. **Lao PDR’s elevated public debt reflects a combination of infrastructure borrowing and the impact of sharp currency depreciation.** External debt began to rise in the 2010s as the government expanded borrowing—primarily from bilateral and multilateral lenders—mainly to finance infrastructure projects such as hydropower plants. A large portion of these loans was on-lent to the state-owned power utility, Electricité du Laos (EDL), with the government also providing guarantees for EDL’s borrowing, making EDL-related liabilities a key source of contingent fiscal risk. While most sovereign borrowing remains on concessional terms, the sharp kip depreciation in the early 2020s has substantially increased the local currency value of the external debt stock.

8. **The share of domestic bonds in the public debt portfolio is on an upward trend, driven by foreign-currency-denominated instruments.** While foreign-currency loans from bilateral and multilateral lenders still account for the majority of the country’s public debt stock, disbursement from these sources has been restricted, as several international organizations have assessed the nation’s public debt as unsustainable. Furthermore, with access to the Thai bond market becoming

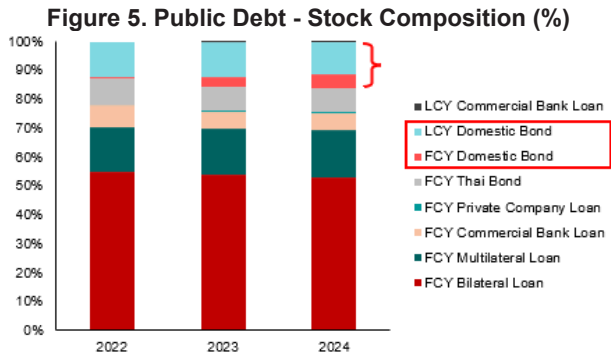
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<sup>8</sup> The BOT operates the Real-Time Gross Settlement (RTGS) system, the Central Securities Depository (CSD), and the auction systems for government bonds, enabling seamless Delivery versus Payment (DVP) settlement. See Section III for details on these market infrastructures.

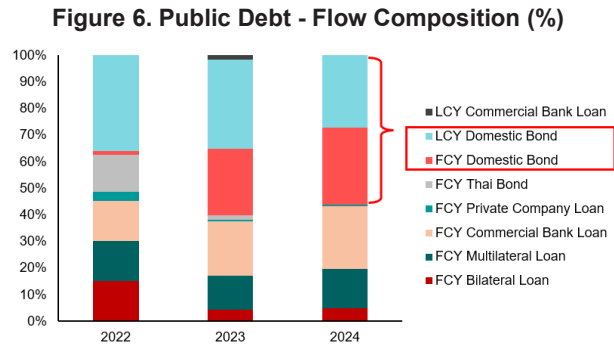
<sup>9</sup> Market participants, including those in OTC trades, are mandated to report transaction terms to the ThaiBMA within 30 minutes of execution. Upon receipt, the ThaiBMA discloses this information to the public to ensure market transparency.

more constrained,<sup>10</sup> the government has relied more on domestic bonds—particularly those denominated in foreign currencies—to manage its external debt obligations (Figure 5 & 6).

**9. Heavy reliance on foreign-currency borrowing both reflects and reinforces the economy’s high dollarization.** About 90 percent of the public debt stock is denominated in foreign currencies (mostly in U.S. dollars). Within the domestic banking sector—the primary buyers of government bonds—the ratio of foreign-currency deposits to total deposits remains elevated. While the recent rise in real kip deposit rates has contributed to a moderation of dollarization, these gains remain fragile and could reverse if inflation or currency depreciation pressures re-emerge (Figure 7). Persistent dollarization constrains the development of Lao PDR’s local-currency bond market by weakening demand for kip assets, hindering efficient pricing, and limiting longer-tenor issuance.

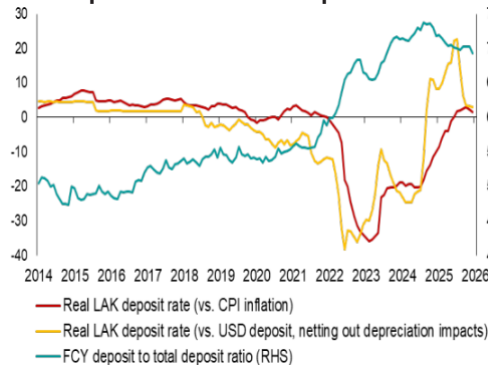


Source: LMOF; ThaiBMA; AMRO staff estimates



Source: LMOF; ThaiBMA; AMRO staff estimates

**Figure 7. Real LAK Deposit Rate & FCY Deposit to Total Deposit Ratio (%)**



Source: BOL; CEIC; AMRO staff calculations

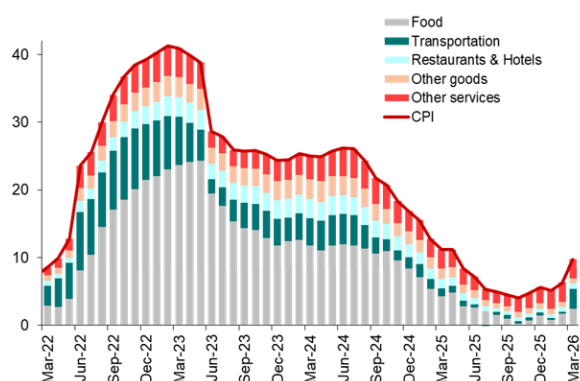
**10. The government’s creditworthiness has shown gradual signs of improvement alongside broader macroeconomic stabilization.** The authorities’ effective policy response—including tighter monetary policy, strengthened FX management, and sustained fiscal consolidation—have helped curb inflation and stabilize the currency. These efforts have also contributed to a decline in the public debt-to-GDP ratio (Figures 3, 8 & 9). Furthermore, the government’s cash management has been enhanced through the progressive centralization of cash flows into a Treasury Single Account (TSA) at the central bank, supporting more predictable debt management.<sup>11</sup> Reflecting these gains, Lao PDR was rated CCC+ from both S&P Global Ratings and Fitch Ratings, and Caa2 from Moody’s in 2025. While these ratings still indicate very high credit risk, they represent an improvement from previous ratings. Building on this progress,

<sup>10</sup> Access to the Thai bond market was constrained primarily by two factors: (i) in September 2023, a Thai credit rating agency downgraded Lao PDR’s sovereign rating to BB+, or below investment grade, and (ii) in January 2024, the Securities and Exchange Commission of Thailand (Thai SEC) amended its regulations to require non-resident issuers to obtain an investment-grade rating (BBB or higher) from an international credit rating agency in order to issue bonds in Thailand.

<sup>11</sup> While approximately 30 percent of government expenditure continues to be processed through commercial bank accounts, fiscal revenue has been fully unified into the TSA. By optimizing cash management through a functional TSA, the government can minimize idle cash buffers and reduce unnecessary borrowing costs.

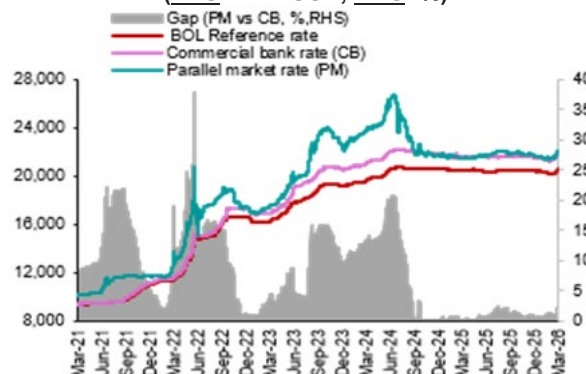
the government successfully issued USD-denominated sovereign bonds on the Singapore Exchange in November 2025.<sup>12</sup>

Figure 8. Headline CPI Inflation (yoy %)



Source: Lao Statistics Bureau

Figure 9. Kip Exchange Rate (LHS: LAK/USD, RHS: %)



Source: BOL; AMRO staff calculations

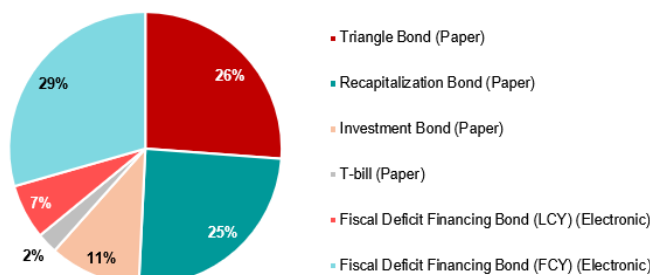
11. **The government issues a mix of conventional and special-purpose domestic bonds through different channels, with most securities still in paper form.** Conventional bonds comprise two instruments aimed at financing cash flow and fiscal deficits. Treasury bills (T-bills) are short-term papers up to one-year maturity, issued through the Bank of the Lao PDR (BOL). Fiscal deficit financing bonds are longer-term instruments, issued via the Lao Securities Exchange (LSX). In addition, there are three types of unconventional bonds, which are directly issued by the Ministry of Finance (LMOF) on an ad hoc basis (Box B). Triangle bonds and investment bonds (collectively referred to as arrear clearance bonds) are issued to settle government payment arrears on past public investment projects. Recapitalization bonds are used for capital injections to state-owned enterprises (Table 2). Most securities remain in paper form, dominating the total outstanding balance (Figure 10).

Table 2. Types of Government Bonds in Lao PDR

| Market   | Product  | Channel                    | Listing | Form       | Currency        | Investor             |
|----------|--|----------------------------|---------|------------|-----------------|----------------------|
| Domestic | T-bill   | BOL                        | ×       | Paper      | LAK             | Institutional        |
|          | Fiscal Deficit Financing Bond                    | LSX                        | ○       | Electronic | LAK/USD/THB/CNY | Institutional/Retail |
|          | Arrear Clearance Bond (Triangle/Investment Bond) | LMOF                       | ×       | Paper      | LAK             | Institutional        |
|          | Recapitalization Bond                            | LMOF                       | ×       | Paper      | LAK             | Institutional        |
| Offshore | International Bond                               | Thailand/Singapore Markets | ○       | Electronic | THB/USD         | Institutional/Retail |

Source: Nomura Research Institute (NRI); AMRO staff compilations

Figure 10. Outstanding Share of Domestic Government Bonds (%)



Source: LMOF; AMRO staff compilations  
Note: Data is as of end-2024.

<sup>12</sup> See AMRO blog, “Lao PDR’s Singapore Bond Issuance and Its Path to Improved Debt Sustainability” for details.

## (ii) Remaining Structural Challenges

12. **The absence of a market-based pricing mechanism in the primary market is a root cause of the sluggish investor demand for government bonds.** Except for T-bills, government bonds are issued without an auction process. Instead, they are issued at par based on coupons pre-set by the government. Although auctions are conducted for T-bills, a price ceiling (currently 5.8 percent) is imposed on bids. Consequently, these bills are effectively issued at the ceiling rate in every issuance, although investors demand higher yields. Administered low coupons can help lower near-term borrowing costs but deters investor participation, hinders price discovery, prevents the formation of a benchmark yield curve and impedes secondary market development. Since the coupons on all types of government bonds fail to reflect market conditions and remain below kip-denominated bank deposit rates and the returns on other financial instruments,<sup>13</sup> investors have little incentive to purchase government securities (Table 3). Furthermore, the country has yet to adopt a primary dealer system, which is essential for gauging market demand and investor preferences. As a result, the volume of bonds absorbed by the market consistently falls short of the government's targets, with the shortfall most pronounced for longer-tenor instruments (Table 4).<sup>14</sup>

**Table 3. Coupon Rates for Government Bonds vs Bank Deposit Rates (%)**

| Product                              |     | 1Y                | 2Y  | 3Y  | 4Y  | 5T   | 6Y         | 7Y  | 8Y  | 9Y  | 10Y  |
|--------------------------------------|-----|-------------------|-----|-----|-----|------|------------|-----|-----|-----|------|
| <b>T-bill</b>                        | LAK | Auctioned (< 5.8) |     |     |     |      |            |     |     |     |      |
| <b>Fiscal Deficit Financing Bond</b> | LAK | 5.8               | 6.9 | 7.6 |     | 7.75 |            | 7.9 |     |     | 8.15 |
| <b>Triangle Bond</b>                 | LAK | 4.5               |     | 5.0 | 5.1 | 5.2  | 5.3        | 5.5 | 5.8 | 5.9 | 6.0  |
| <b>Investment Bond</b>               | LAK |                   |     | 5.0 | 5.1 | 5.2  | 5.3        | 5.5 | 5.8 | 5.9 | 6.0  |
| <b>Recapitalization Bond</b>         | LAK | 0.5               | 1.0 | 1.5 | 2.0 | 2.5  | 3.0        |     |     |     |      |
| <b>Avg. Bank Fixed Deposit Rates</b> | LAK | 7.0               | 7.3 | 8.1 | 8.2 | 8.0  | 9.0 (> 5Y) |     |     |     |      |

Source: BOL; Nomura Research Institute (NRI); AMRO staff compilations  
Note: Data is as of March 2026.

**Table 4. Undersubscription of Fiscal Deficit Financing Bond**

|                                      | LAK Bond           |                     | USD Bond           |                   | THB Bond           |                   | CNY Bond           |
|--------------------------------------|--------------------|---------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
| <b>Plan (Issuance Year)</b>          | 3 trillion (2023)  | 1.2 trillion (2024) | 100 million (2024) | 20 million (2025) | 3.5 billion (2024) | 5 billion (2025)  | 1.5 billion (2025) |
| <b>Tenor</b>                         | 2-10 years         | 1 year              | 2-5 years          | 7-10 years        | 2-10 years         | 1 year            | 1-5 years          |
| <b>Subscribed Amount (% of Plan)</b> | 2.3 trillion (77%) | 1.1 trillion (91%)  | 76 million (76%)   | 1 million (6%)    | 2.4 billion (69%)  | 4.8 billion (96%) | 0.5 billion (29%)  |
| <b>Remaining Amount (% of Plan)</b>  | 0.7 trillion (23%) | 0.1 trillion (9%)   | 24 million (24%)   | 19 million (94%)  | 1.1 billion (31%)  | 0.2 billion (4%)  | 1.0 billion (71%)  |

Source: LSX; AMRO staff compilations  
Note: Data is as of February 2026.

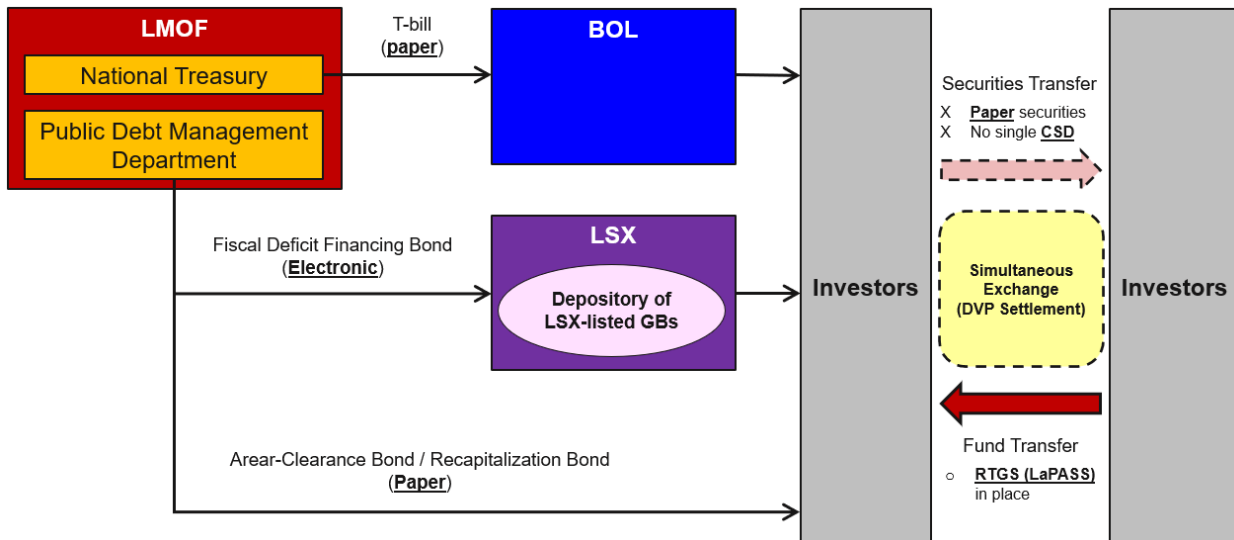
13. **The lack of adequate market infrastructure, compounded by the predominance of paper-based securities, significantly limits secondary market liquidity.** Safe and efficient bond trading requires two core infrastructures: (i) a Central Securities Depository (CSD), which centrally records and stores all government securities, and (ii) a Real-Time Gross Settlement (RTGS) system, which enables instantaneous interbank fund transfers. The integration of these two

<sup>13</sup> For instance, the BOL issues central bank bills (BOL bills) and the policy interest rate for 7-day BOL bills has been set at 8.0 percent since February 24, 2026. This stands in sharp contrast to the 5.8 percent coupon for 1-year T-bills.

<sup>14</sup> So far, the undersubscription has not posed a critical issue, as the government has maintained a fiscal surplus since 2023.

systems, alongside the dematerialization of securities, is a prerequisite for Delivery-versus-Payment (DVP) settlement—the simultaneous exchange of securities and funds that eliminates settlement risk. In Lao PDR, while the BOL already operates an RTGS system (LaPASS), a single CSD covering all government securities has yet to be established. The LSX maintains a proprietary depository, but its coverage is limited to fiscal deficit financing bonds, which are currently the only dematerialized instruments. The absence of a unified infrastructure makes DVP settlement unfeasible, thereby stifling secondary market activity (Figure 11 & Table 5).<sup>15</sup> Furthermore, the reliance on paper-based T-bills prevents the efficient use of these securities as collateral for repo transactions.<sup>16</sup>

**Figure 11. Flow of Government Bond Issuance & DVP Settlement and Supporting Infrastructures**



Source: AMRO staff compilations

Note: In 2026, the responsibility for T-bill issuance is scheduled to be transferred from the National Treasury to the Public Debt Management Department of the LMOF, centralizing the management of all government securities under a single department.

**Table 5. Secondary Market Transactions on LSX**

| Year | Currency | Total Trading Value | # of Transactions |
|------|----------|---------------------|-------------------|
| 2022 | USD      | USD4,781,305        | 2                 |
| 2024 | LAK      | LAK900,000          | 3                 |
|      | USD      | USD972              |                   |
| 2025 | LAK      | LAK700,000          | 13                |
|      | USD      | USD20,611           |                   |
|      | THB      | THB7,000            |                   |
| 2026 | USD      | USD9,350            | 1                 |

Source: LSX; AMRO staff compilations

Note: Data is as of February 2026. All transactions in the table were conducted by retail investors. The minimum investment sizes for government bonds in Lao PDR are: LAK100,000, USD100, THB1,000 and CNY1,000.

**Box B. Arrear Clearance and Recapitalization Bonds**

**Arrear clearance bonds and recapitalization bonds represent a significant portion of the total outstanding government bond.** Their scale and non-market features pose a structural challenge to the development of the government bond market in Lao PDR.

<sup>15</sup> Due to the negligible secondary market activity, investors and brokers are not mandated to report transaction terms to the LSX in real-time. Consequently, the exchange cannot disseminate the transparent price discovery information to attract new participants.

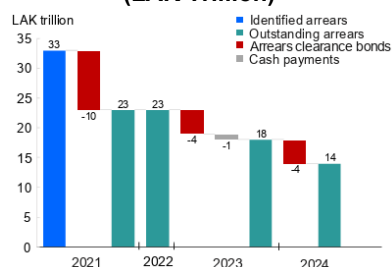
<sup>16</sup> Repo operations between the BOL and banks have not been executed since 2014. Currently, the BOL manages liquidity in the banking system primarily through the issuance of BOL bills, which have already been dematerialized.

**Arrear clearance bonds are primarily issued to settle outstanding government arrears arising from past public investment projects.** These arrears were largely incurred by local governments that committed payments for contractors without budget allocations from the central government. To date, a total of LAK33 trillion has been identified and verified as arrears. Since 2021, the government has cleared these liabilities through a combination of bond issuances and cash payments from the budget (Figure B1). The settlement mechanism operates as follows:

- **Investment Bonds:** Issued directly to the contractors to whom the government owes payments.
- **Triangle Bonds:** Issued to the commercial banks that provided credit to those contractors.

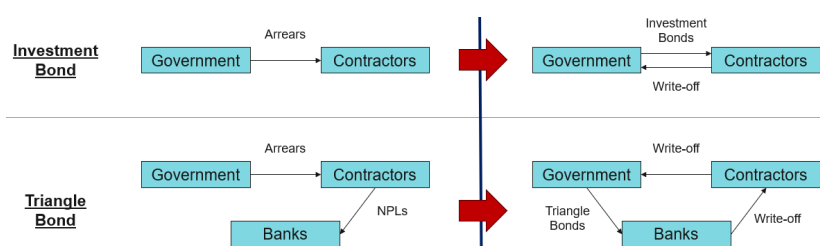
Under both instruments, the government gradually resolves the arrears and associated non-performing loans (NPLs) by servicing the bond principal and interest to the contractors and banks, respectively (Figure B2).

**Figure B1. Arrear Clearance (LAK Trillion)**



Source: LMOF

**Figure B2. Settlement Mechanism of Investment/Triangle Bonds**



Source: NRI; AMRO staff compilations

**Recapitalization bonds were issued to inject capital into two state-owned commercial banks and a state-owned debt and asset management company.** In 2021 and 2022, the government issued and injected these bonds to the Lao Development Bank and the Agricultural Promotion Bank as a contribution in kind. This was followed by the issuance in 2023 to the Debt and Asset Management State Sole Company.<sup>17, 18</sup>

**The unconventional formats and terms of these bonds hinder their tradability in the secondary market.** Both instruments are issued in paper form, complicating transfer and settlement. Furthermore, as these special-purpose bonds were not intended for broad public distribution, their coupons were set at rates lower than those of T-bills or fiscal deficit financing bonds. These structural impediments have contributed to the persistent illiquidity of the government bond market in Lao PDR.

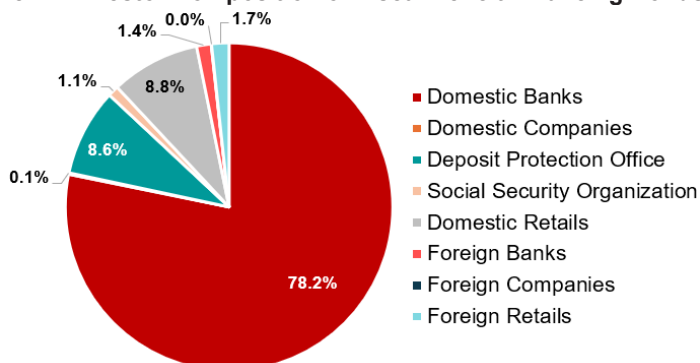
14. **While improved fiscal disclosures and a regular bond issuance calendar have bolstered investor confidence, these mechanisms should be further refined to meet evolving market needs.** In addition to publishing annual budgets and fiscal outturns, the government now provides public debt disclosures in accordance with the Public Debt Management Law. Given the country's persistent debt challenges, transparent and timely data dissemination remains essential for sustaining market trust. Furthermore, the regular issuance of T-bills (twice weekly) and fiscal deficit financing bonds (twice monthly) has significantly enhanced market predictability and improved liquidity planning among participants. However, the current issuance frequency—particularly for fiscal deficit financing bonds—may not yet be sufficient to accommodate the dynamic liquidity requirements of a diverse institutional investor base. In the absence of a functional secondary market, investors in Lao PDR must rely almost exclusively on the primary market for asset acquisition and portfolio adjustment. Increasing primary issuance could partially address this constraint in the near term although the more fundamental solution is to develop secondary market liquidity through infrastructure and pricing reforms.

<sup>17</sup> The government established the Debt and Asset Management State Sole Company in August 2023, with the mandate to purchase NPLs from banks.

<sup>18</sup> Between 2021 and 2023, the BOL supported the monetization of the recapitalization and triangle bonds by purchasing a portion of these securities from commercial banks. The resulting expansion of the monetary base added to the country's exchange rate and inflation pressures.

15. **The investor composition of government bonds highlights a narrow investor base, heavily concentrated in domestic banks.** Domestic commercial banks hold approximately 80 percent of the fiscal deficit financing bonds listed on the LSX, while holdings by institutional investors—such as insurance companies, the Lao Social Security Organization (LSSO), and the Deposit Protection Office (DPO)—and by retail investors remain limited (Figure 12).<sup>19</sup> A combination of factors discourages these non-bank investors from participating in the government bond market (Box C). These include a history of technical payment delays,<sup>20</sup> uncompetitive coupon rates, expectations of kip depreciation, infrequent primary market issuances, and limited secondary market liquidity. Furthermore, insufficient financial literacy among retail investors may create additional barriers to entry.

**Figure 12. Investor Composition of Fiscal Deficit Financing Bonds (%)**



Source: LSX; AMRO staff compilations

Note: Data covers outstanding bonds in all currencies (LAK, USD, THB, and CNY) as of July 2025.

### **Box C. Non-bank Investors in the Government Bond Market**

**Four types of non-bank investors participate in the government bond market:** insurance companies, the Lao Social Security Organization (LSSO), the Deposit Protection Office (DPO), and retail investors. Currently, the market is dominated by commercial banks, with the share of these non-bank investors remaining marginal. This Box describes these non-bank investors and identifies the major bottlenecks to their participation.

#### ***Insurance Companies***

**Demand for government bonds from the insurance sector remains limited.** While nearly 30 insurance companies operate in Lao PDR, the market size is constrained by the country's small population. Furthermore, the market is heavily skewed toward general (non-life) insurance, with life insurance accounting for an extremely small share.<sup>21</sup> Consequently, there is minimal demand for long-term government bonds to match long-term liabilities. Even for shorter-tenor instruments, investment is hindered by uncompetitive coupon rates, risks of currency depreciation, infrequent primary market issuances, and an illiquid secondary market.

#### ***LSSO and DPO***

**Both the LSSO and DPO possess untapped potential for increased investment in government bonds.** Although their holdings remain significantly smaller than those of the banking sector, both institutions have experienced substantial growth in asset size in recent years. This expansion suggests room for increasing their asset allocation to government bonds.

<sup>19</sup> In general, banks are considered less sensitive to coupon levels than other institutional or retail investors. While institutional and retail investors shift to bank deposits when government bond coupons are low, banks are reluctant to place deposits with their competitors.

<sup>20</sup> Prior to 2021, the government frequently experienced technical delays in meeting its principal and interest payments on government bonds. This history of payment arrears has led some institutional investors to maintain a cautious stance toward government securities.

<sup>21</sup> According to a major insurance company in Lao PDR, life insurance accounts for less than 1 percent of its total sales. This is attributed to cultural factors and the tendency of Lao residents to purchase life insurance from Thai providers.

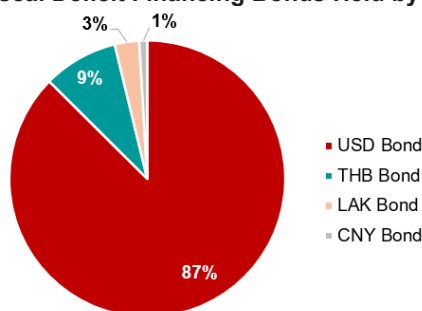
- **LSSO:** As the nation’s social security fund, the LSSO collects premiums from three schemes—Government, Enterprise, and Voluntary—and provides benefits across nine categories, including health, pension, and unemployment insurance. Driven by recent private-sector wage increases in response to inflation, total assets under management (AUM) reached approximately LAK4 trillion as of end-2025. Investment is restricted to LAK-denominated assets; over 90 percent is currently held in bank deposits, with the remainder allocated to government bonds.
- **DPO:** The DPO serves as the deposit insurance fund, collecting premiums from member commercial banks and providing compensation to depositors in the event of a bank failure. Amid a rising number of bank accounts in Lao PDR, premium income has increased, with total assets reaching approximately LAK2.5 trillion by end-2025. Investments are limited to LAK-denominated assets. While the DPO is required to deposit at least 2.5 percent of total assets with the BOL, it also invests in government bonds.

Nevertheless, expanding their asset allocation to government securities is also hindered by structural hurdles facing insurance companies. To mobilize these growing asset pools, the government needs to coordinate more closely with these institutions to address specific bottlenecks and align issuance designs with their investment needs.

### Retail Investors

**Uncompetitive coupon rates and other structural factors deter retail investment in government bonds.** Low coupon rates remain a significant structural barrier for retail investors as well. The composition of acquired bonds reveals a strong preference for USD-denominated assets over the local currency instruments, reflecting persistent concerns regarding inflation and exchange rate stability (Figure C1). Furthermore, according to the Asian Development Bank Institute (ADB, 2019), the overall financial literacy scores in Lao PDR were at the lower end of the range compared to the 30 economies cited by the OECD (2016), with a majority of the population lacking a basic understanding of bond mechanics. That said, the recent launch of a Mobile Trading System (MTS) by a major securities firm has triggered a surge in transaction volume mainly in the primary market,<sup>22</sup> suggesting improving digital and financial literacy particularly among younger generations.

**Figure C1. Composition of Fiscal Deficit Financing Bonds Held by Domestic Retail Investors (%)**



Source: LSX; AMRO staff compilations  
Note: Data is as of February 2026.

16. **While inter-agency coordination has been promoted by the Lao Securities Commission (LSC) and the Lao Securities Commission Office (LSCO), remaining structural challenges necessitate even stronger collaboration among key stakeholders.** Beyond their regulatory mandates, these bodies serve as central coordinators among stakeholders. The LSC, which includes high-level officials such as the Minister of Finance and the Governor of the BOL, is responsible for strategic coordination and key policy decisions on policies for capital market development. The LSCO, as the implementing agency, handles day-to-day regulatory functions,<sup>23</sup>

<sup>22</sup> According to the securities firm, daily transaction volume surged ten-fold, from LAK 100million to LAK1 billion, within the first six months following the MTS launch in October 2025.

<sup>23</sup> These responsibilities include drafting regulations and guidelines, monitoring LSX operations and market transactions, licensing securities firms, approving public offerings, and enforcing administrative sanctions for non-compliance.

and coordinates inter-agency initiatives to promote market development.<sup>24</sup> However, deeper collaboration across relevant authorities and stakeholders is essential to address structural bottlenecks that span supply-side, demand-side, and infrastructural issues.

#### IV. Policy Discussions

17. **Lao PDR should prioritize the development of its government bond market while continuing to strengthen macroeconomic stability.** A mature sovereign debt market serves as a foundational ecosystem, establishing the necessary infrastructure, a diversified investor base, and a benchmark yield curve that supports the subsequent development of a functional corporate bond market. Enhancing sovereign and currency credibility through macroeconomic stability—underpinned by structural improvements including in debt and cash management—is essential to stimulate demand for local-currency securities and support long-term de-dollarization. However, as de-dollarization is a gradual process and the government remains reliant on the foreign-currency liquidity for external debt servicing, the continued issuance of foreign-currency-denominated bonds remains a pragmatic necessity in the near term. Such issuance should, however, be deployed selectively to support external debt management rather than as a substitute for local-currency market development.

18. **Securities and market infrastructure should be consolidated and modernized to ensure transactional security and efficiency.** Given the country's capacity constraints, reforms should be carefully sequenced, prioritizing instrument consolidation, dematerialization, and a unified settlement infrastructure. In the near term, the government should consolidate fragmented bond categories and issuance channels, and accelerate the dematerialization of all government securities. Unconventional instruments—such as arrear clearance bonds and recapitalization bonds—should be phased out to facilitate a transition toward a market dominated by standardized, "plain-vanilla" T-bills and fiscal deficit financing bonds. Simultaneously, all paper-form T-bills should be abolished in favor of a centralized digital registry. Strengthening market infrastructure for secure trading remains an urgent priority. While a CSD could be hosted by various entities, effective DVP settlement requires close integration between the CSD and the central bank's RTGS system (LaPASS) for cash settlements. During the transition, seamless connectivity between the LSX depository and LaPASS should be established. Ultimately, hosting the CSD within the BOL could be considered to better streamline governance and operations. In the medium to long run, these improvements would enable repo market development, thereby stimulating sustained demand for government securities.

19. **Reflecting market appetite in bond design is essential, with a strategic focus on the requirements of institutional investors.** Uncompetitive coupon rates undermine demand for government bonds and hinder the broadening of the investor base. However, moving toward more market-based rates is likely to increase near-term borrowing costs—a sensitive trade-off given Lao PDR's fiscal constraints—and therefore requires careful sequencing. For instance, the government could start by increasing the frequency of coupon rate reviews to better align with market conditions, rather than immediately transitioning to a full auction system. In addition, allowing pricing flexibility first for shorter-tenor instruments before extending it to longer-tenor bonds would be a more realistic approach. While a primary dealer system is an effective tool for gauging investor sentiment, its introduction should follow coupon rate reforms; otherwise, primary dealers will struggle to distribute debt. Furthermore, tailoring issuance frequency to institutional needs will enhance market depth. Given the scale of potential capital, the government should prioritize institutional entities—such as

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<sup>24</sup> Key initiatives include upgrading market infrastructure (with the LSX), facilitating discussions on the introduction of a primary dealer system (with the LMOF, BOL, and LSX), and launching the Capital Market Education Program alongside joint outreach activities to broaden the investor base (with the LSX and securities firms).

commercial banks, the LSSO, and the DPO—ahead of the retail segment. Looking ahead, regulations aimed at strengthening asset-liability management (ALM) will also help generate demand for long-term, kip-denominated bonds.

20. **Enhanced market liquidity and improved information dissemination can reinforce each other, creating a virtuous cycle toward a more efficient and deeper bond market.** By upgrading market infrastructure and effectively capturing investor demand, the authorities can deepen the pool of market participants and increase trading frequency, thereby strengthening the market's price discovery function. Consolidating issuance into a limited number of benchmark tenors through re-openings will also help build more actively traded issues to anchor the yield curve. Furthermore, fostering the development of the BOL's repo and collateralized lending operations could support secondary-market liquidity by strengthening the role of government bonds as collateral.<sup>25</sup> Centralizing and disseminating real-time pricing information through institutions like the LSX will not only improve secondary market liquidity but also ensure a more efficient pricing process in the primary market. When coupled with strengthened government disclosures and initiatives to enhance financial literacy, these efforts will accelerate financial deepening within the domestic market, fostering a more resilient and sophisticated financial ecosystem in Lao PDR.

21. **To effectively advance these multifaceted initiatives, the government should further strengthen coordination among relevant authorities and stakeholders.** Developing a robust government bond market requires a multi-pronged approach—simultaneously addressing supply-side, demand-side, and infrastructural factors. Achieving this synergy necessitates close collaboration between key authorities, such as the LMOF, the BOL, and the LSC/LSCO, as well as active engagement with commercial banks, securities firms, and other institutional and retail investors. The LSC and LSCO, which currently lead inter-agency coordination, should continue their efforts to enhance this collaborative framework to ensure the seamless execution of market reforms. In facilitating cross-sectoral collaboration, a comprehensive roadmap should be shared with relevant stakeholders, drawing on the experiences of other countries and recommendations from international organizations that have provided relevant analysis and technical assistance.

**Table 5. Summary of Policy Discussions**

| Remaining Structural Challenges                  | Key Policy Recommendations   |  |
|--|--|--|
|  | Short-Term   | Medium- to Long-Term   |
| Fragile government credibility and dollarization | <ul style="list-style-type: none"> <li>• Macroeconomic stabilization</li> <li>• Selective FCY bond issuance</li> </ul>                       | <ul style="list-style-type: none"> <li>• Gradual de-dollarization</li> </ul>   |
| Inadequate market infrastructure                 | <ul style="list-style-type: none"> <li>• Securities dematerialization</li> <li>• CSD Establishment</li> <li>• DVP settlement</li> </ul>      | <ul style="list-style-type: none"> <li>• Repo market development</li> </ul>  |
| Absence of market-based pricing                  | <ul style="list-style-type: none"> <li>• More frequent coupon rate reviews</li> </ul>  | <ul style="list-style-type: none"> <li>• Introduction of a primary dealer system</li> <li>• Transition to a full auction system</li> </ul>   |
| Narrow investor base                             | <ul style="list-style-type: none"> <li>• Bond design tailored to institutional investors (e.g., coupon rates, issuance frequency)</li> </ul> | <ul style="list-style-type: none"> <li>• Centralized bond Information dissemination</li> <li>• ALM regulations for institutional investors</li> <li>• Financial literacy among retail investors</li> </ul> |
| Multi-faceted challenges                         | <ul style="list-style-type: none"> <li>• Stronger inter-agency coordination</li> </ul>   |  |

Source: AMRO staff compilations

<sup>25</sup> Over the medium to long term, the BOL could support bond market development by monitoring the secondary and interbank markets and intervening to contain excessive bond price volatility, aligning with the practices of central banks in other countries.

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