

BEST'S COUNTRY RISK REPORT

Laos CRT-5

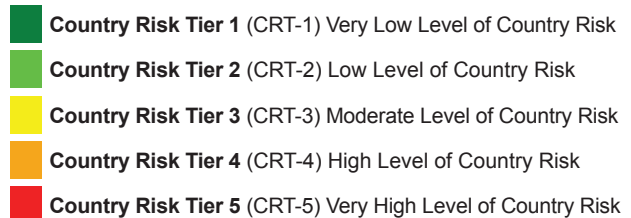
August 22, 2018

Region: Asia

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Laos, a CRT-5, country has a high level of economic and political risk and a very high level of financial system risk. Over the last few years, economic growth has been strong, with 2017 GDP expanding at 6.8%.
- The rapid growth has been driven by the country's electricity sector, while future growth will be supported by investments in infrastructure. Inflation levels are projected to rise slightly this year due to higher global oil prices, reaching 2.3%.
- The countries pictured in the map hold a great deal of the world's economic potential due to their size and large populations.



Regional Summary: Southeast Asia

- Southeast Asia largely consists of the countries located north of Australia, west of New Guinea, east of India, and south of China.
- The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region's countries are trying to implement structural changes to encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.
- Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.
- Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.

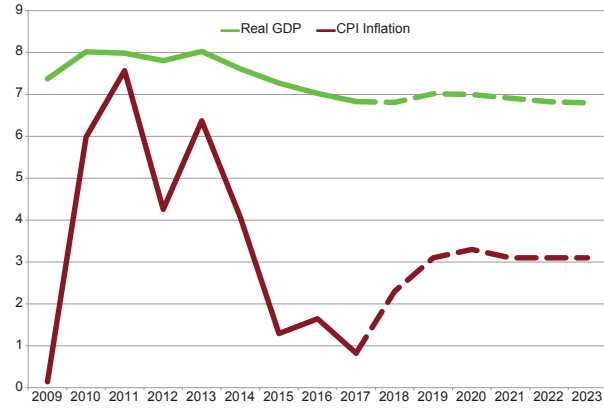
Vital Statistics 2017		
Nominal GDP	USD bn	16.98
Population	mil	6.7
GDP Per Capita	USD	2,542
Real GDP Growth	%	6.8
Inflation Rate	%	0.8
United Nations Estimates		
Literacy Rate	%	79.9
Urbanization	%	40.7
Dependency Ratio	%	60.2
Life Expectancy	Years	64.6
Median Age	Years	23.0
Insurance Statistics - As of 2016		
Insurance Regulator	Ministry of Finance	
Premiums Written (Life)	USD mil	3
Premiums Written (Non-Life)	USD mil	68
Premiums Growth (2016 - 2017)	%	31.2
Regional Comparison		
	Country Risk Tier	
Laos	CRT-5	
Cambodia	CRT-5	
China	CRT-3	
Myanmar	CRT-5	
Thailand	CRT-3	
Vietnam	CRT-4	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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Economic Growth (%)



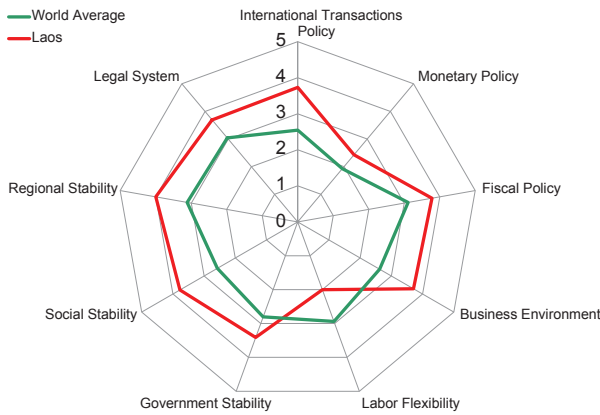
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: High

- Laos' economy is dominated by its hydropower, mineral production, and agricultural sectors. Agriculture generates approximately 20% of the nation's income but employs more than 70% of the population.
- Laos' major trade partners are Thailand, China, and Vietnam. Low mineral prices will likely subdue growth from the mining sector over the near term. Rising oil prices, along with the country's demand for capital goods for infrastructure projects, will boost imports. Increased imports will further widen the current account deficit.
- The economy requires measures to enhance the sustainability of growth. Despite a decline in poverty, per capita income remains low and issues such as a high maternal mortality rate and malnutrition persist. Labor is inexpensive but there is a shortage of human capital.
- Laos' access to the World Trade Organization is likely to support stronger foreign direct investment and lower trade barriers. However, further integration of the economy with neighboring states is recommended.

Political Risk Summary

Score 1 (best) to 5 (worst)

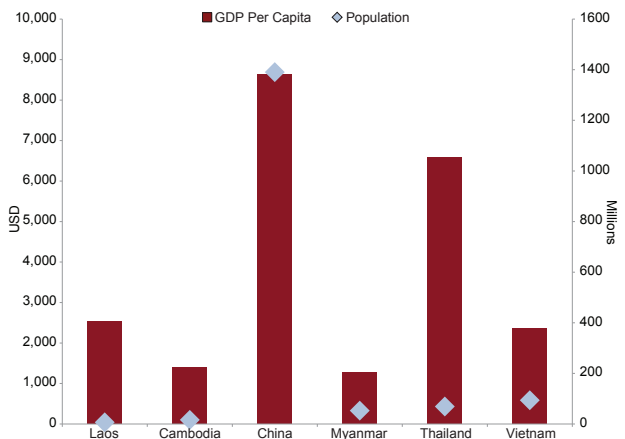


Source: A.M. Best

Political Risk: High

- Laos' one-party government is led by the Lao People's Revolutionary Party (LPRP). With minimal political opposition, government transparency is limited.
- The government's priorities, in addition to securing political stability, are to further liberalize the economy and attract foreign direct investment, especially from countries other than its main trade partners.
- Corruption in various forms is high, creating difficulties for efficient business operations. Laos is ranked 135 out of 180 countries on the Corruption Perception Index.
- The legal system is weak and susceptible to government interference. The rule of law is lacking and the capacity to resolve conflicts fairly and efficiently is low.
- Because of the one-party system, political opposition in Laos is negligible, and protests are very rare. Environmental activism has been increasing, but related movements are mostly peaceful.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very High

- Laos' Ministry of Finance is responsible for regulating the insurance industry, although there is no specific department dedicated to its supervision.
- Laos' tax regime is competitive, with low rates by regional standards and incentives for investments in place. The government is planning on improving the tax collection process to raise revenues.
- The fiscal deficit and public debt are persistently high but should be alleviated somewhat if the government can enforce fiscal consolidation as planned. The current account deficit is likely to worsen owing to high volumes of imports and subdued exports. Downside risks also include high dollarization of the economy and a weak external position.