

Laos' Gold Market

Introduction

Laos is a landlocked lower-middle income economy bordering Cambodia, China, Vietnam, Myanmar and Thailand with a population of around 9 million. It is one of the fastest growing countries in the region, with an average annual GDP growth of 7% in the past decade – this pace is projected to continue to 2019, according to the World Bank. The country adopted a market-oriented economy in 1986, introducing sweeping reforms under the New Economic Mechanism, which decentralised control. However, it remains one of the poorest countries in Southeast Asia. Its natural resources – water, minerals and forests – contribute to one-third of its economy, while construction, services and tourism are its other main drivers of growth.

Gold in Laos is regarded as more stable than its national currency the kip, and it is often used as a store of wealth and to hedge against any depreciation of the kip. Most Lao families keep gold at home and wear them for special occasions or sell them for cash. Gold is also a very important part of marriage in Lao culture. The gold found in Laos is usually better than 98% purity.

According to AIF Precious Metal Import-Export Service Sole Co. (AIF Gold), the consumption of gold in Laos totalled 10 tonnes, while investment and trading totalled 8 tonnes in 2016.¹ The distribution of gold demand in Laos is as follows – storage of wealth: 60%, jewellery: 35%, industrial uses: 5%.

Price discovery

Laos has an independent gold market, thus gold prices are not necessarily determined by international prices. However, trading prices closely reflect international market prices, and it appears that traders refer to international spot prices as a benchmark, converting it to a local unit (baht) and currency (kip).

Gold mining

The production of gold is driving economic growth in Laos. According to AIF Gold, gold reserves in Laos stands at 500 to 600 tonnes, and there are four major gold mines and more than 30 small mines, with a total production of more than 40 tonnes a year. The main mines are Sepon (operated by MMG Ltd.), Phu Kham (PanAust), and Ban Houayxai (PanAust).

Sepon has long been known to locals as Muang Ang Kham, or “the valley of gold”, as Lao people have collecting gold dust from bomb fragments and plane wreckage around the region been since the early 1980s. Australian mining company CRA conducted a survey of Sepon in 1990. In 1995, their geologists accidentally found a gold vein in the crater caused by aircraft bombing. This led to the development of the Sepon mine, which has become one of the main drivers of the local economy, promoting infrastructure development in the area, including the construction of a hydroelectric dam and roads.

The gold market

The country's gold market is under strict control of the Lao government. AIF Gold is the only licensed company to import and distribute gold, and the only company allowed to provide gold trading and an investment platform for investors in Laos. There are no bullion banks in Laos at this time.

Import tax stands at 10%, and the rate of VAT is 10%.

New Developments

There may be further market integration among countries in the greater Mekong sub-region of Cambodia, Laos, Myanmar, Vietnam and Thailand (CLMVT) in the near future, which would substantially increase the volume of cross-border trades among the countries in the region.

Summary

The Lao government strictly controls the country's gold market, which is supplied with about 40 tonnes annually from its gold mines, and driven by a combined annual demand of about 18 tonnes.

The gold market in Laos is not yet mature and still needs time to grow, but there are many opportunities in this sector as the Lao government is supportive towards mining, particularly to help to drive economic growth. Furthermore, as CLMVT markets become more integrated, there will create more economic opportunities for the precious metals sector.

¹ AIF Precious Metal Import-Export Service Sole Co. Presentation at Asia Pacific Precious Metals Conference. 5 June 2017, Singapore.

Gold Price

24K gold price per Baht (0.49 troy oz./15.24 grams) in Lao kip: 5,074,797.02 LAK
US\$1 = 8,246 LAK

Source: Gold Price Z (25 July 2017)

Economic data (2015)

GDP growth: 7.4%
GDP per capita: US\$1,760
CPI: 1.3%
Exports: US\$2.3 billion
Imports: US\$3.9 billion
Foreign reserves: US\$1 billion

Source: FOCUSECONOMICS

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For enquiries on this report or about SBMA in general, please contact Hawk Namiki at hawk.namiki@sbma.org.sg.