Atradius
Managing risk, enabling trade

Atradius Country Report

Asia – March 2019

Contents

Asia Countries:
Atradius STAR Political Risk Rating*:

China:	3 (Moderate-Low Risk) – Stable
India:	4 (Moderate-Low Risk) – Negative
Indonesia:	4 (Moderate-Low Risk) – Negative
Japan:	3 (Moderate-Low Risk) – Positive
Malaysia:	3 (Moderate-Low Risk) – Negative
Philippines:	4 (Moderate-Low Risk) – Stable
Singapore:	1 (Low Risk) – Stable
South Korea:	2 (Low Risk) – Negative
Taiwan:	2 (Low Risk) – Negative
Thailand:	4 (Moderate-Low Risk) – Stable
Vietnam:	5 (Moderate Risk) – Negative

* The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk.

The 10 rating steps are aggregated into five broad categories to facilitate their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'Low Risk', 'Moderate-Low Risk', 'Moderate Risk', 'Moderate-High Risk' to 'High Risk', with a separate grade reserved for 'Very High Risk.'

In addition to the 10-point scale, rating modifiers are associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

For further information about the Atradius STAR rating, please click here.

China

Main import sources (2017, % of total)	
South Korea:	9.6 %
Japan:	9.0 %
Taiwan:	8.4 %
USA:	8.4 %
Germany:	5.3 %

Main export markets (2017, % of total)	
USA:	19.0 %
Hong Kong:	12.3 %
Japan:	6.1 %
South Korea:	4.5 %
Vietnam:	3.2 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	6.7	6.8	6.6	6.1	5.8
Inflation (y-on-y, % change)	2.0	1.5	2.1	2.1	2.4
Real private consumption (y-on-y, % change)	8.2	6.6	6.9	6.8	6.5
Real government consumption (y-on-y, % change)	9.9	11.1	8.3	6.8	5.9
Real exports of goods and services (y-on-y, % change)	1.8	6.5	4.7	2.8	4.4
Real fixed investment (y-on-y, % change)	6.7	4.6	4.4	4.4	4.3
Industrial production (y-on-y, % change)	6.3	5.9	5.8	5.0	4.5
Fiscal balance (% of GDP)	-3.6	-3.6	-3.9	-4.1	-3.9
Current account (% of GDP)	1.9	1.3	0.4	0.4	0.3

* estimate **forecast Source: Oxford Economics

China industries performance outlook


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.


Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.


Fair:
The credit risk credit situation in the sector is average / business performance in the sector is stable.


Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.


Bleak:
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

March 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering
				
Metals	Paper	Services	Steel	Textiles
				

Political situation

Head of state:
President and General Secretary of the Chinese Communist Party (CCP) Xi Jinping (since March 2013)

Head of government:
Prime Minister Li Keqiang (since March 2013)

Form of government:
One-party system, ruled by the CCP

Population:
1.42 billion

Growing power projection has caused some international discomfort

Overall, the political situation in China is stable, with the Chinese Communist Party (CCP) firmly in power. President Xi Jinping has consolidated his power within the CCP, and is seen as the most powerful Chinese leader since Deng Xiaoping.

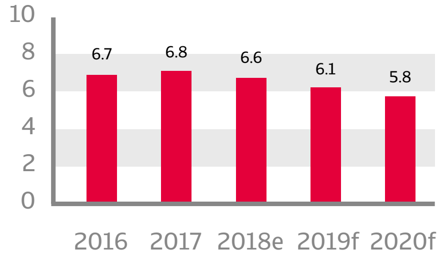
Political stability supports the government in finding the right policy mix necessary to deal with the adverse consequences of the US-China trade dispute, to further rebalance the economy towards service and technology and to deleverage indebted local governments and state-owned enterprises.

China´s growing international influence and power projection, e.g. with large direct investments in a range of countries in Asia and Africa, has caused some worries in both developed and emerging economies. Australia, the EU and Japan share US concerns about intellectual property theft, forced technology transfer and China's less cooperative stance in multilateral organisations. Some emerging economies in Asia and Africa are putting a brake on Chinese 'Belt and Road Initiative' investments in order to avoid one-sided economic and financial dependence.

The strengthening of China's geopolitical clout and a more assertive stance in its territorial claims in the South China Sea, the conflict over the Senkaku/Diaoyu Islands with Japan and the Taiwan issue has led to balancing efforts by the USA, Australia, Japan, India and some smaller regional players.

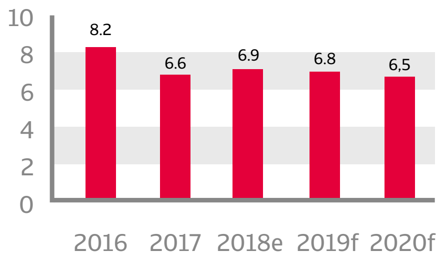
Economic situation

Real GDP growth (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

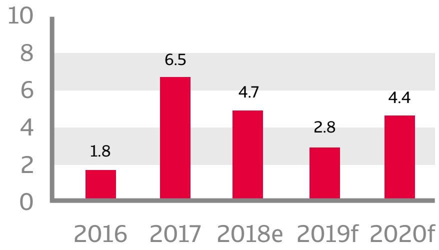
Economic growth to slow down further while downside risks have increased

Growth of Chinese GDP was robust in 2017, but decreased in 2018. Private consumption held up well, but fixed asset investment growth as a key driving force of economic growth began to slow down last year due to government measures to rebalance the economy (away from export-oriented investments towards more consumption-led growth) and efforts of corporations to deleverage. Export growth decreased substantially in Q4 of 2018 due to lower global demand and the repercussions of the Sino-US trade dispute.

We expect the economic slowdown to continue in 2019, and downside risks have increased. It is unsure whether the current trade talks with the US will lead to an agreement. Even if an agreement about tariffs and trade is reached, the structural economic conflict between the US and China remains unsolved.

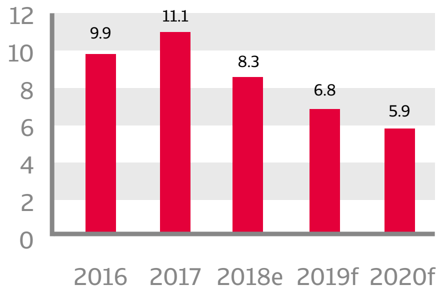
The Chinese authorities have taken measures to support the economy, including tax cuts for businesses, a boost to liquidity, some easing of financial regulations and increasing infrastructure investment. However, the administration still faces a difficult balancing act between supporting economic growth and ensuring an orderly financial deleveraging process. Now that exports are decreasing and stimulus policies are slowing debt reduction, it could be more difficult to avoid a faster slowdown due to financial imbalances and significant excess capacity in some sectors.

Real exports of goods and services (y-on-y, % change)



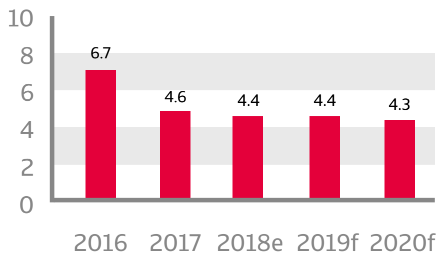
Source: Oxford Economics

Real government consumption (y-on-y, % change)



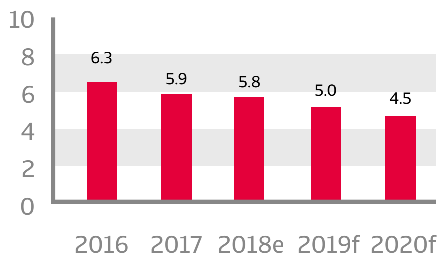
Source: Oxford Economics

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

Non-financial corporate debt has increased to 164% of GDP, with very high leverage in the heavy industry segment. While progress has been made in reining in credit growth, lending to businesses in heavy industry sectors suffering from excess capacity has led to a significant deterioration of the quality of loans. The risk of a systemic financial crisis remains low for the time being, but a renewed pick-up in credit growth could eventually lead to more pronounced financial stress and increase the risk of market turmoil. Meanwhile, a move to dampening credit growth would mean slower, albeit more sustainable, GDP growth.

The central government's fiscal deficit should increase further as stimulus continues, e.g. by lowering several business and consumer taxes and raising infrastructure spending. While government debt is gradually rising, it still remains at manageable levels. The sovereign's position is supported by a large pool of national savings, which enables the state to finance its debt domestically, reducing any exposure to external shocks (total external debt remains low, at 14% of GDP in 2019). However, the financial situation of local governments is much more tense, not least because of quasi-fiscal spending that played a key role in infrastructure investment and growth promotion in the past.

While high credit growth is a worrying development, banks are still adequately capitalized and official ratios of non-performing loans are low. Lowered reserve requirement ratios for most banks will support the financial sector's earnings potential.

Most probably the yuan will slowly depreciate against the USD in 2019 due China's decreasing current account surplus and diverging monetary policies in both countries. Although declining, reserves are still large enough (about 15 months of import cover) to limit the effects of currency depreciation and volatility. Capital account restrictions will be kept tight to limit the threat of potentially large capital outflows The current account surplus has decreased to 0.2% of GDP in 2018 and will turn into a small deficit after 2020, due to weaker growth of goods export and a widening services deficit, the latter largely triggered by increasing outbound tourism.

Business insolvencies expected to increase further in 2019

Business insolvencies in China are expected to increase further in 2019 due to the economic slowdown and the ongoing rebalancing of the economy away from manufacturing and towards services.

Sector-wise highly indebted companies in industries with excess capacity like aluminium, cement, coal, construction steel/metals and commodity trading are very vulnerable. While the majority of listed and state-owned businesses still benefit from stronger support from banks and shareholders, more caution is recommended when dealing with listed companies with a high proportion of pledged shares and stock prices that have fallen substantially. The same accounts for small and medium-sized private businesses, as many of them - even those active in better-performing industries - often suffer from limited financing facilities.

Due to the ongoing uncertainty over the future direction of the US trade policy Chinese businesses dependent on sales to the US remain vulnerable, especially in segments where US competitors are vocal in calling for an end to 'unfair trade', such as metal, electrical machinery/electronics, textiles and tyres.

India

Main import sources (2017, % of total)	
China:	16.2 %
USA:	5.4 %
UAE:	5.2 %
Saudi Arabia:	4.7 %
Switzerland:	4.6 %

Main export markets (2017, % of total)	
USA:	15.6 %
UAE:	9.7 %
Hong Kong:	5.1 %
China:	4.2 %
Singapore:	3.9 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	7.9	6.2	7.4	7.3	7.0
Inflation (y-on-y, % change)	4.9	3.3	4.0	4.2	5.4
Real private consumption (y-on-y, % change)	8.3	5.9	7.2	7.2	7.3
Real government consumption (y-on-y, % change)	9.0	11.7	11.2	7.9	9.0
Real fixed investment (y-on-y, % change)	10.5	5.4	11.5	9.9	8.1
Real exports of goods and services (y-on-y, % change)	2.5	6.5	10.5	5.2	6.2
Fiscal balance (% of GDP)	-3.7	-4.1	-3.7	-3.4	-3.5
Foreign debt/GDP	20	19	19	18	17
Current account (% of GDP)	-0.5	-1.6	-2.4	-1.8	-2.2

* estimate **forecast Source: Oxford Economics

India industries performance outlook


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.


Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.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The credit risk credit situation in the sector is average / business performance in the sector is stable.


Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.


Bleak:
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

March 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	**Electronics/ICT**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
President Ram Nath Kovind
(since July 2017)

Head of government:
Prime Minister Narendra Modi
(since May 2014)

Form of government:
Centre-right coalition government of the National Democratic Alliance (NDA), led by the Bharatiya Janata Party (BJP).

Population:
1.37 billion

General elections due in April/May 2019

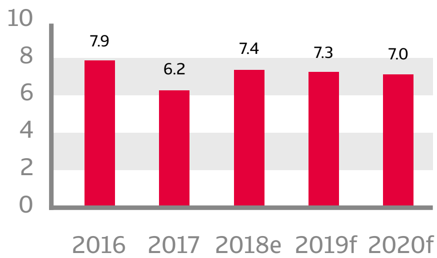
The National Democratic Alliance (NDA) coalition, led by Prime Minister Narendra Modi's Bharatiya Janata Party (BJP), remains in a strong position. It is expected to win the April/May elections, but as the coalition's popularity has declined, it could lose its majority in the Lower House. This would imply that Prime Minsiter Modi has to look for support from other parties.

The Modi administration has implemented several major reforms (e.g. the introduction of a nation-wide Goods and Services Tax, GST), which are improving the long-term prospects of the economy. The uniform GST system will create a single national market and enhance the efficiency of domestic trade. That said, reforms in land and labour markets will proceed only gradually at the national level, given strong political opposition from civil society organisations and labour unions.

India's foreign policy is driven by its aim to be the pre-eminent player in South Asia. New Delhi has deepened ties with the US and Japan, sharing with them the strategic interest of countering China's growing influence in South Asia (e.g. Sri Lanka and Bangladesh) and the whole Asia Pacific region. The relationship with Pakistan remains tense, mainly due to the long-lasting conflict over the Kashmir region.

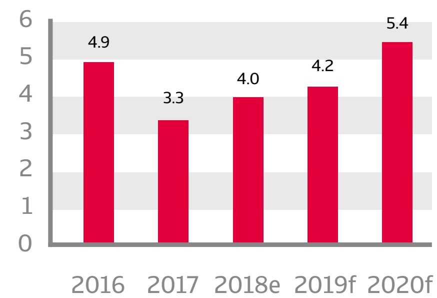
Economic situation

Real GDP growth (y-on-y, % change)



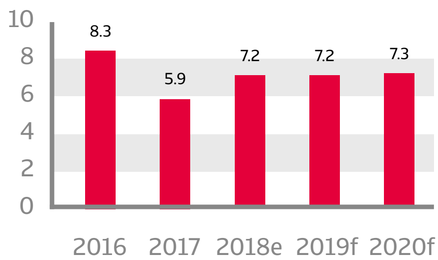
Source: Oxford Economics

Inflation (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Robust growth outlook for 2019 and 2020

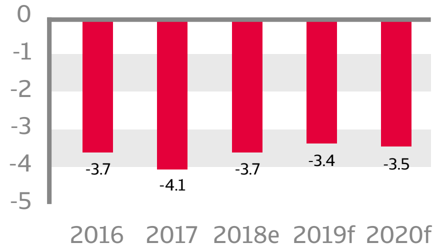
India is expected to again record high annual economic growth rates of about 7% in 2019 and 2020, mostly due to robust domestic demand (private consumption and business expenditures). Additionally net exports will positively contribute to GDP expansion, due to fiscal policies to curb imports, and a weaker rupee. Inflation is forecast to increase in 2018 and 2019, but to remain within the central bank's target range of 2%-6%.

Despite some improvements the quality of the Indian business environment remains relatively poor due to many structural deficiencies: an underdeveloped agricultural sector, poor infrastructure, inflexible labour laws, excessive bureaucracy, rigid land laws, and a shortage of skilled labour due to the poor education of most of the population.

Trade frictions with the US (e.g. on Indian steel and aluminium exports) had only a small negative impact so far, but in early March 2019 President Trump announced his intention to end the preferential GSP trade treatment for India, which lowers US duties on Indian exports worth USD 5.6 billion. This could impact businesses in sectors such as gems, textile, processed foods and engineering.

India´s trade deficit increased in 2018, leading to a current account deficit of almost 3% of GDP in 2018. This deficit is expected to decrease to a sustainable level of about 2% of GDP in 2019 and 2020, but rising oil prices remain a downside risk. India´s external position is comfortable, and both the country and sovereign risks remain low. External debt is low and decreasing while the liquidity situation is good, which makes the economy resilient to external shocks. India has an excellent payment record, with no missed payments since 1970, providing it with good access to capital markets.

Fiscal balance (% of GDP)

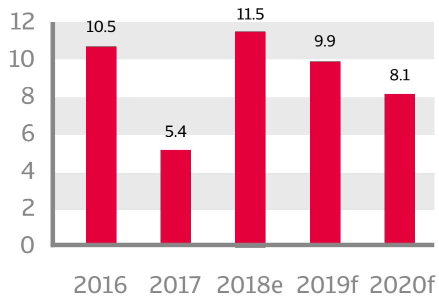


Source: Oxford Economics

Fiscal consolidation is slowing ahead of the April/May 2019 general elections due to more spending for (voter-friendly) subsidies, welfare payments as well as infrastructure improvements (the government is investing in power infrastructure, one of the largest obstacles to India´s long-term economic growth potential). Revenues have increased, sustained by higher tax income and robust growth. The government is expected to resume its efforts to lower the budget deficit after the elections. Public debt will decrease gradually and remain sustainable. Additionally it can be widely financed by domestic borrowing and the maturity is long, which mitigates negative effects.

A weak banking sector and corporate indebtedness remain concerns

Real fixed investment (y-on-y, % change)

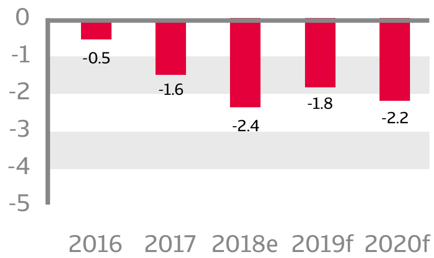


Source: Oxford Economics

Recent reports of banking frauds have led to renewed concerns about corporate governance, banking regulation and the true scale of non- performing assets. Worries about the general health of the financial sector increased after the debt default of a large infrastructure finance and construction company in autumn 2018. However, the government took over the company and guaranteed payments after the default in order to avoid spill over effects.

However, a high level of bad debt is weighing on the balance sheets of Indian banks (mainly public sector banks), with non-performing assets estimated at more than 12% in early 2019. High corporate debt remains a risk for the Indian economy for the time being, and further deterioration of the balance sheets of corporations and public banks cannot ruled out. Despite this, the possibility of a systemic fallout in the financial sector is rather low as the government and the Central Bank would intervene in case of crisis.

Current account balance (% of GDP)



Source: Oxford Economics

In the first nine months of 2018 the rupee exchange rate came under pressure, mainly due to the rising current account deficit and monetary policy tightening in the US, increased aversion to emerging markets risk and concerns about India´s financial sector. Capital outflows and currency volatility could persist in 2019, but the robust and relatively closed economy, contained inflation, sound reserve ratios and manageable external debt are dampening negative consequences of a weakening rupee on the economy.

Indonesia

Main import sources (2017, % of total)	
China:	21.9 %
Singapore:	10.8 %
Japan:	9.0 %
Malaysia:	5.8 %
Thailand:	5.7 %

Main export markets (2017, % of total)	
China:	13.7 %
USA:	10.6 %
Japan:	10.5 %
India:	8.3 %
Singapore:	7.6 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	5.0	5.1	5.2	5.1	5.1
Inflation (y-on-y, % change)	3.5	3.8	3.2	3.3	3.5
Real private consumption (y-on-y, % change)	5.0	5.0	5.1	5.1	5.1
Industrial production (y-on-y, % change)	4.0	4.7	1.5	2.1	4.3
Real fixed investment (y-on-y, % change)	4.5	6.2	6.7	6.3	6.6
Real exports of goods and services (y-on-y, % change)	-1.6	9.1	6.6	4.3	5.4
Fiscal balance (% of GDP)	-2.5	-2.6	-1.8	-1.9	-2.0
Foreign debt/GDP	33	34	35	30	28
Current account (% of GDP)	-1.8	-1.7	-3.1	-2.5	-1.9

* estimate **forecast Source: Oxford Economics

Indonesia industries performance outlook

March 2019

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

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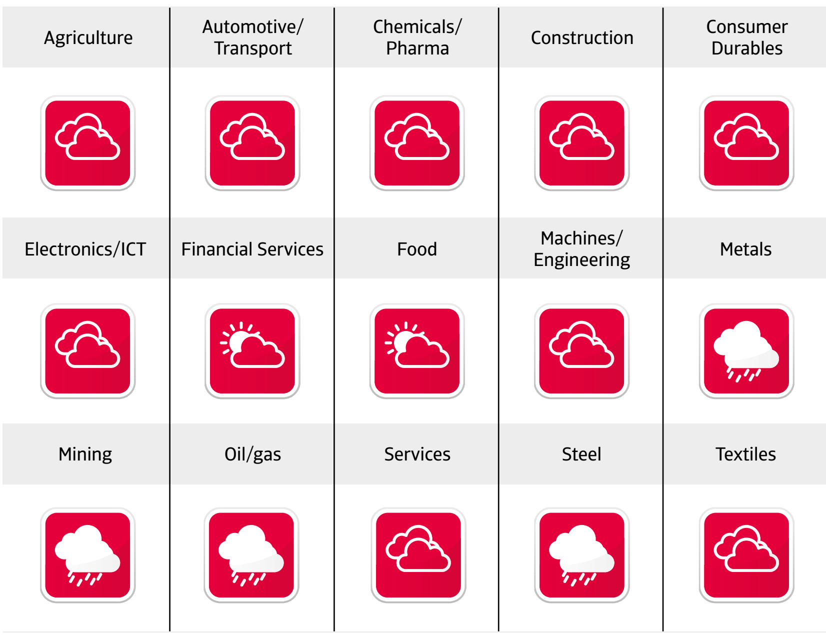


Political situation

Head of state/ government:
President Joko "Jokowi" Widodo (Indonesian Democratic Party of Struggle, since October 2014)

Form of government:
Multi-party coalition government

Population:
267.1 million

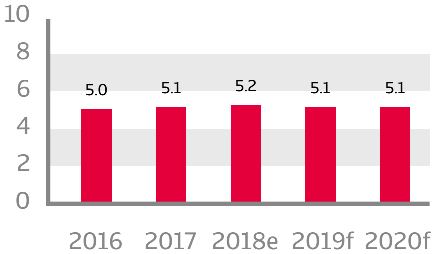
Some successes made in improving economic stability

Presidential elections are due to be held April 17th, 2019, and due to his widespread popularity it is expected that incumbent President Joko Widodo will win a second term. The outcome of the concurrent parliamentary elections may facilitate stronger collaboration between executive and legislative branches of government. The three main parties - DP, Golkar and PDI-P - endorse the Pancasila principle and thus the secular character of Indonesian politics. But the influence of fundamentalist Islam on the society has increased in the last couple of years, leading to intolerance of certain sects and the Christian minority.

The Widodo administration has successfully improved economic stability by reducing regulatory burdens and passing reforms in order to increase productivity and inflow of foreign direct investment. However, despite those efforts economic productivity remains relatively low, hampered by poor infrastructure and the lack of a skilled labour force. Successes in combatting corruption and reducing bureaucracy remain limited, mainly due to obstacles at the local government level.

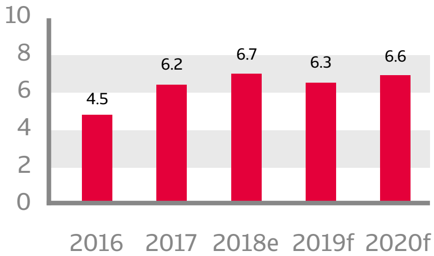
Economic situation

Real GDP growth (y-on-y, % change)



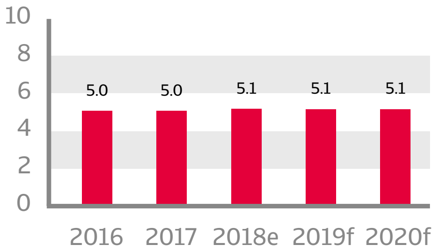
Source: Oxford Economics

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Economic growth driven by domestic demand

Indonesia´s short-term economic prospects are generally positive, with real GDP growth rates expected to remain at about 5% in 2019 and 2020, mainly driven by domestic demand. Election-related spending has supported private consumption in 2018 and in early 2019, while business investments continue to grow. Investment growth is mainly driven by infrastructure improvement (construction of new roads, ports and power stations). Government consumption growth is forecast to remain high in the coming two years.

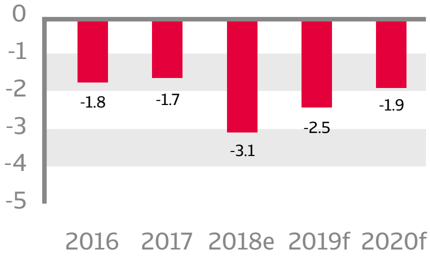
Export growth started to slow down in 2018, as demand from China (especially for commodities) has decreased. In general, lower growth rates in China and its shift towards a more consumption-oriented economy have a negative impact on Indonesian exports. However, exports account for just 22% of GDP, which makes Indonesia less susceptible to global trade downturns than some other Southeast Asian countries. In any case, the robust domestic sector would moderate the impact.

The government deficit is forecast to average around 2% of GDP in the coming years, despite a rather low tax revenue base. The scrapping and/or lowering of subsidies on energy since 2015 has helped to keep the budget deficit under control. Public debt is expected to stay at a sustainable level of about 35% of GDP over the next five years.

Still resilient, but increased vulnerability to external shocks

Indonesia's external position has improved, as both foreign debt in relation to exports of goods and services and the relatively high debt service ratio continue to decrease, diminishing the country´s dependency on foreign capital. However, the annual current account balance is persistently negative, and the deficit increased to more than 2.5% of GDP in 2018, mainly due to a weaker rupiah exchange rate, higher oil prices and rising capital goods imports.

Current account (% of GDP)



Source: Oxford Economics

Indonesia remains vulnerable to sharply decreasing capital flows to emerging markets, e.g. further monetary tightening in the US and/or decreasing risk appetite of global financial markets. This vulnerability is due to a high dependency on portfolio investments for financing the current account deficits, increased private sector external debt and the high share of Indonesian government debt held by foreign investors (about 40%).

In the first nine months of 2018 increased risk aversion of financial markets led to capital outflows, and the rupee came under pressure. The government responded with import tariffs on a variety of consumer goods in order to lower the country's import bill. At the same time the Central Bank used foreign exchange reserves and repeatedly raised the benchmark rate in order to support the rupee exchange rate.

Further exchange rate volatility cannot be ruled out in 2019, but a sharp currency depreciation is rather unlikely, as the external vulnerability is mitigated by robust economic performance, sound monetary policies, a resilient banking sector and because a large part of public external debt is long-term. However, Indonesian companies that have borrowed in foreign exchange without hedging the currency risk could face problems with their debt obligations if the rupee depreciates further.

Japan

Main import sources (2017, % of total)	
China:	24.5 %
USA:	11.0 %
Australia:	5.8 %
South Korea:	4.2 %
Saudi Arabia:	4.1 %

Main export markets (2017, % of total)	
USA:	19.3 %
China:	19.0 %
South Korea:	7.6 %
Taiwan:	5.8 %
Hong Kong:	5.1 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	0.6	1.9	0.7	0.9	0.3
Inflation (y-on-y, % change)	-0.1	0.5	1.0	0.9	1.3
Real private consumption (y-on-y, % change)	-0.1	1.1	0.5	1.2	-0.2
Real government consumption (y-on-y, % change)	1.4	0.3	0.6	0.7	0.7
Industrial production (y-on-y, % change)	0.2	2.9	0.9	0.8	-1.0
Unemployment rate (%)	3.1	2.8	2.4	2.3	2.3
Real fixed investment (y-on-y, % change)	-0.3	3.0	1.0	1.8	0.9
Real exports of goods and services (y-on-y, % change)	1.7	6.8	3.1	1.7	3.1
Fiscal balance (% of GDP)	-3.4	-3.7	-3.4	-3.5	-3.2
Public debt (% of GDP)	223.4	224.7	227.2	226.7	226.0

* estimate **forecast Source: Oxford Economics

Japan industries performance forecast


Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.


Good:
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Bleak:
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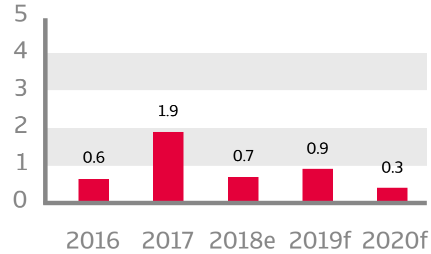
March 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	**Electronics/ICT**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

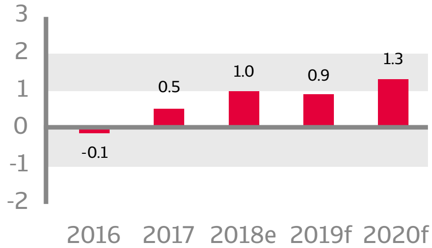
Economic situation

Real GDP growth (y-on-y, % change)



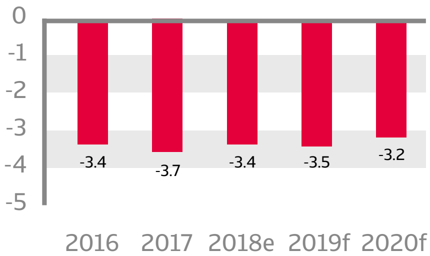
Source: Oxford Economics

Inflation (y-on-y, % change)



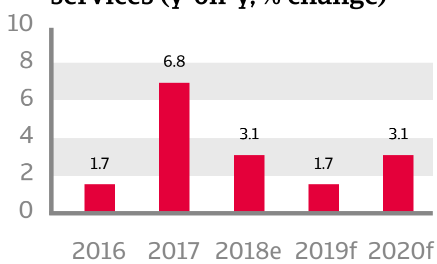
Source: Oxford Economics

Fiscal balance (% of GDP)



Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Growth slowed down again in 2018

Japanese GDP growth slowed to below 1.0% in 2018, mainly due to a less accommodating external environment and the fading out of fiscal stimulus, while business investments kept up. In 2019 the economy is expected to expand at about the same rate.

Export growth will slow down due to lower global trade expansion, less demand from China and the increased risk of protectionism. However, domestic demand is expected to underpin the economic expansion as unemployment is decreasing further and wages are rising. A consumption tax hike due in October 2019 will most probably weigh on spending, but the government has announced it will offset the effect with additional public expenses. Business investment continues to increase, driven by higher R&D spending for new technologies and the 2020 Olympics in Tokyo.

Consumer prices are expected to remain far below the 2% target set by the government. Therefore, the Bank of Japan is expected to maintain its very loose monetary policy for the time being, with negative interest rates unchanged in 2019.

The burden of excessive government debt and other challenges

Following a long period of loose fiscal policy, the Japanese government is struggling with extremely high public debt (about 225% of GDP in 2018). Japan relies mostly on domestic creditors to support its government debt (about 90% is held by Japanese investors), which makes the funding base less susceptible to capital flight. But maintaining such a high level of debt is costly, and further increasing government debt would at some point render it unsustainable.

In addition to high government debt, the country faces demographic challenges: the population is shrinking and the working age population is also declining. Without appropriate measures, Japan will inevitably face a shrinking tax base and rising expenditures on retirement benefits. Many industries already face some difficulties due to labour shortages, leading to higher labour costs, which is hurting their international competitiveness.

To achieve a sustainable rebound and to boost the country's long-term economic performance, there is an urgent need to make the labour market more flexible, to end protection for farmers, doctors and pharmaceutical companies, and to introduce more business deregulation. The government has repeatedly announced its intention to tackle those issues in its current term, but major reforms are still vehemently opposed by powerful interest groups. Still it remains to be seen if and when deep structural reforms will be made.

Malaysia

Main import sources (2017, % of total)	
China:	19.6 %
Singapore:	11.1 %
USA:	8.3 %
Japan:	7.6 %
Taiwan:	6.5 %

Main export markets (2017, % of total)	
Singapore:	14.3 %
China:	13.5 %
USA:	9.5 %
Japan:	8.0 %
Thailand:	5.4 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	4.2	5.9	4.7	4.4	4.0
Inflation (y-on-y, % change)	2.1	3.8	1.0	2.4	2.7
Real private consumption (y-on-y, % change)	6.0	7.0	8.2	5.4	3.7
Real government consumption (y-on-y, % change)	0.9	5.4	4.7	3.9	3.8
Real fixed investment (y-on-y, % change)	2.7	6.2	1.9	4.3	4.3
Industrial production (y-on-y, % change)	4.1	4.3	3.0	2.8	3.3
Real exports of goods and services (y-on-y, % change)	1.3	9.4	2.0	3.4	3.4
Fiscal balance (% of GDP)	-3.2	-3.0	-2.8	-3.6	-3.4
Current account (% of GDP)	2.4	2.9	2.8	2.7	2.2

* estimate **forecast Source: Oxford Economics

Malaysia industries performance outlook

March 2019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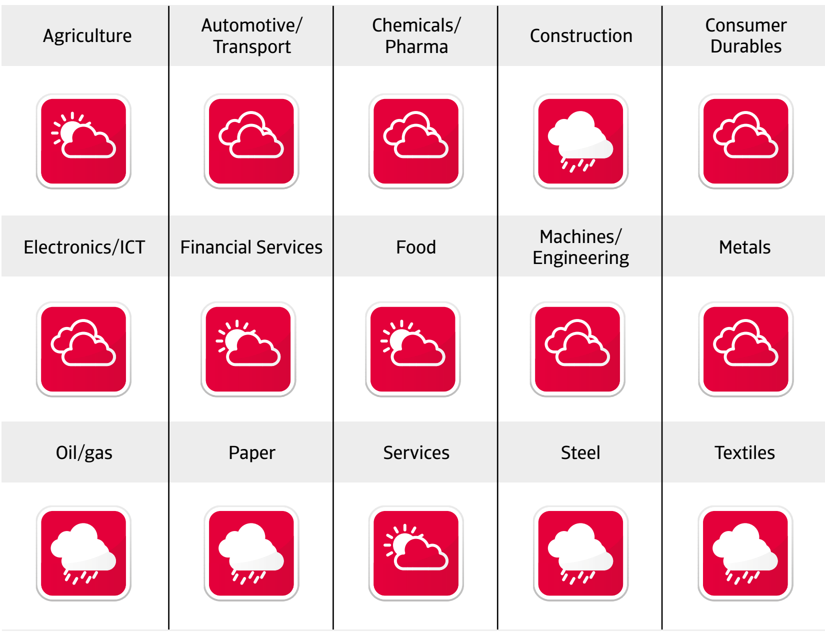


Political situation

Head of state:
King Sultan Abdullah Sultan Ahmad Shah (since January 2019); the position of the king is primarily ceremonial

Head of government:
Prime Minister Mahathir Mohamad (since May 2018)

Form of government:
Pakatatan Harapan (Alliance of hope) coalition government, consisting of four parties.

Population:
32.5 million

A new government with a well-known leader

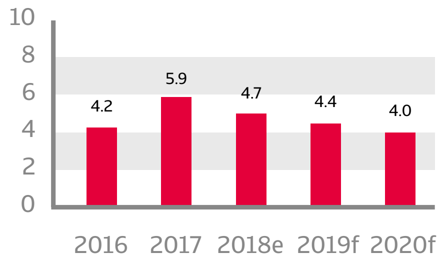
The Malaysian population is an ethnic and religious mix of Muslim Malay and other indigenous groups (69%), Buddhist Chinese (24%), Hindu Indians (7%). Racial tensions have always simmered under the surface, but have not surfaced in over 40 years, thanks mainly to a massive affirmative action policy favouring ethnic Malays. However, this policy has hindered Chinese and Indian minorities in their social and economic progress. The continuation of this so-called 'pro-bumiputra policy' or the possible cutback of it, is one of the major political issues.

In the May 2019 general election the Pakatan Harapan (PH) alliance of opposition parties gained 122 out of 222 seats. It surprisingly won against the The Barisan Nasional (BN) coalition led by the United Malays National Organisation (UMNO), which had been in power since Malaya achieved independence in 1957. Main reasons for BN´s defeat were the introduction of an unpopular goods-and-services tax (GST) of 6% in 2015 (in order to reduce the government's dependence on oil revenues) and the involvement of former Prime Minister Najib in the so-called MDB financial mismanagement scandal (the disappearance of USD 4.5billion from a state development fund).

The new government under Prime Minister Mahathir (who previously was UMNO leader and served as Prime Minister between 1981 and 2003) has abolished the GST tax, reintroduced certain fuel subsidies and cancelled or cut back some megaprojects initiated by the previous government, including pipelines built with Chinese help and a high-speed rail project planned with Singapore.

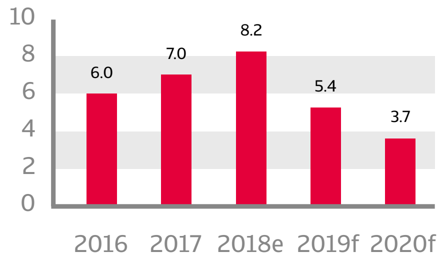
Economic situation

Real GDP growth (y-on-y, % change)



Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Lower external demand impacts economic growth

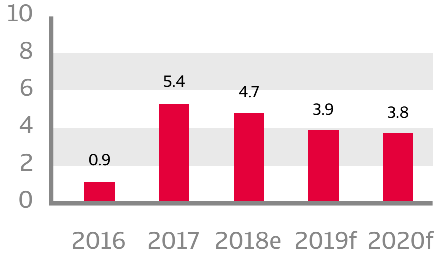
The Malaysian economy is generally well diversified. While oil reserves are declining, production of natural gas has continued to climb rapidly and reserves are still substantial. The export sector is a major economic strength, but at the same time the heavy dependence on external trade makes the country vulnerable to fluctuations in global prices for energy and electronics (the country's largest export category), as well as to slowdowns in global demand (especially from China) and trade protectionism.

Malaysia´s economic growth is expected to slow down somewhat in 2019 and 2020, mainly due to lower export growth as global demand is weakening, and the cooling down of the Chinese economic cycle. The postponement or suspension of some large long-term infrastructure projects is affecting investment expansion.

Domestic demand sustains economic expansion, driven by government consumption and still buoyant household spending. Disposable incomes have increased due to renewed fuel subsidies and the replacement of the GST by a lower sales services tax. However, the impact is expected to dampen in 2019, and higher inflation and rising domestic borrowing rates could lower household purchasing power.

The government budget records regular annual deficits between 3.0% and 3.5% of GDP, while public debt amounts to about 52% of GDP. High contingent liabilities due to commitments to state-owned companies and a rising share of debt held by nonresidents are vulnerabilities. However, the ringgit exchange rate is supported by persistent current account surpluses and the Central Bank's rule that 75% of export proceeds must be converted to local currency.

Real government consumption (y-on-y, % change)



Source: Oxford Economics

High household debt is a potential issue

Malaysia has a well-developed financial sector, with well-capitalised banks, good credit quality and a low share of non-performing loans (1.5%). However, risk factors are the high level of household debt of about 85% of GDP and a high household income-to-debt ratio of 150%, which could become a problem if interest rates rise substantially. Mitigating factors are the slowdown of credit growth and that private households have large financial buffers, on average.

The Philippines

Main import sources (2017, % of total)	
China:	18.1 %
Japan:	11.6 %
South Korea:	8.7 %
USA:	8.2 %
Thailand:	6.9 %

Main export markets (2017, % of total)	
Japan:	15.8 %
USA:	14.1 %
Hong Kong:	13.1 %
China:	11.7 %
South Korea:	6.3 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	6.9	6.7	6.2	6.1	5.8
Inflation (y-on-y, % change)	1.3	2.9	5.2	3.4	4.0
Real private consumption (y-on-y, % change)	7.1	5.9	5.6	5.8	5.5
Industrial production (y-on-y, % change)	7.1	8.4	4.9	7.9	5.5
Real fixed investment (y-on-y, % change)	26.1	9.5	14.0	8.9	8.2
Real exports of goods and services (y-on-y, % change)	11.6	19.5	11.5	9.3	7.6
Fiscal balance (% of GDP)	-2.4	-2.2	-3.0	-3.0	-3.0
Foreign debt (% of GDP)	22	21	21	19	18
Current account (% of GDP)	-0.3	-0.6	-2.7	-2.6	-2.4

* estimate **forecast Source: Oxford Economics

Philippines industries performance outlook

Excellent:
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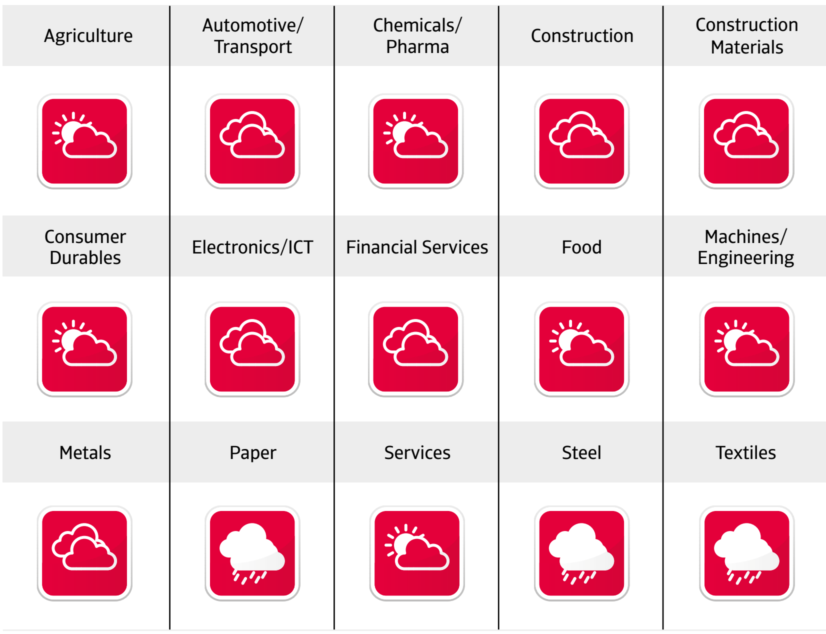
March 2019



Political situation

Head of state:
President Rodrigo Duterte
(since June 2016)

Government type:
Presidential republic. The Philippines´ constitution is strongly inspired by the US constitution.

Population:
108.3 million

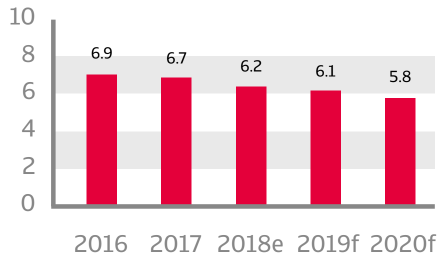
Ongoing international concerns over governance

President Duterte´s violent crackdown on drug trade, which has led to the extra-judicial killing of several thousand people, still raises international concerns over human rights and the government´s commitment to the rule of law. This, and uncertainty over some economic policy initiatives (e.g. curb of rice imports and new labour laws) have increased uncertainty among investors. Mid-term elections are due to be held in May 2019.

The security situation in the largely Muslim populated southern part of Mindanao remains tense, with the threat of terrorist attacks ongoing. However, further progress has been made in the peace process between the government and separatist groups in the region. In a referendum held in January 2019, in the mainly Muslim populated areas, a majority of voters approved a scheme to enhance regional autonomy.

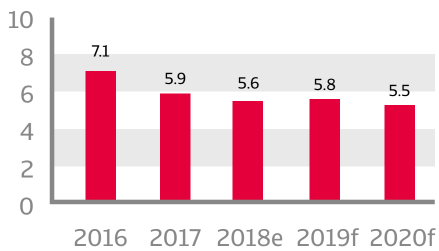
Economic situation

Real GDP growth (y-on-y, % change)



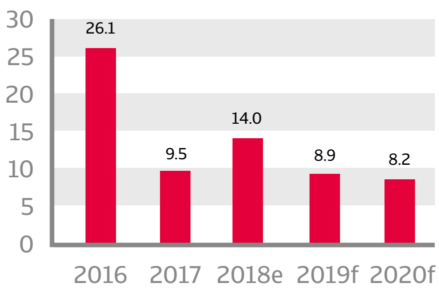
Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Lower growth, but more infrastructure investment

Since 2012 economic growth has been persistently high, driven mainly by private consumption, which accounts for about 70% of the economy. In H2 of 2018 GDP growth decreased as higher inflation (higher food, especially rice prices) impacted private consumption, while infrastructure bottlenecks affected private investment.

In 2019 and 2020 economic expansion will slow down further as fixed investment growth decreases (due to higher interest rates and declining investor confidence affected by uncertainty over future policy initiatives). Additionally the negative contribution of net exports to GDP (as imports of goods and services outweigh exports) will impact growth. That said, the annual GDP growth rate will remain above 5.5%, mainly supported by household consumption (remittances account for more than 10% of GDP) and government expenditures. Inflation is expected to decrease again, to 4%, but it will remain higher than in previous years.

Massive shortfalls in infrastructure have so far prevented more investment in manufacturing. In order to diversify away from services, the Duterte administration is heavily promoting infrastructure projects, with related spending expected to increase from 5% of GDP in 2017 to more than 7% of GDP in 2022. Indeed, rail networks, ports, roads, airports and power generation developments are necessary in order to increase private investments and to safeguard high economic growth rates in the long term.

With the improvement of the tax base due to a tax reform the fiscal deficits and public finances are expected to remain at an acceptable level, supporting continued government spending. The external macroeconomic situation is good, with manageable foreign debt (19% of GDP; 68% of exports of goods and services expected in 2019) and ample liquidity.

Singapore

Main import sources (2017, % of total)	
China:	13.8 %
Malaysia:	11.9 %
USA:	10.6 %
Taiwan:	8.3 %
Japan:	6.3 %

Main export markets (2017, % of total)	
China:	14.5 %
Hong Kong:	12.3 %
Malaysia:	10.6 %
Indonesia:	7.5 %
USA:	6.5 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	2.4	3.6	3.2	2.4	2.3
Inflation (y-on-y, % change)	-0.5	0.6	0.4	1.1	1.7
Real private consumption (y-on-y, % change)	1.7	3.1	3.3	4.1	3.6
Real government consumption (y-on-y, % change)	3.5	4.1	4.6	1.1	2.8
Industrial production (y-on-y, % change)	3.5	10.6	7.2	2.5	3.8
Unemployment rate (%)	2.1	2.2	2.0	2.0	2.0
Real fixed investment (y-on-y, % change)	-0.6	-1.8	0.5	3.3	3.8
Real exports of goods and services (y-on-y, % change)	1.1	4.1	4.3	2.6	3.1
Fiscal balance (% of GDP)	-1.2	-0.3	0.3	-0.5	-0.3

* estimate **forecast Source: Oxford Economics

Singapore industries performance outlook

Excellent:
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Good:
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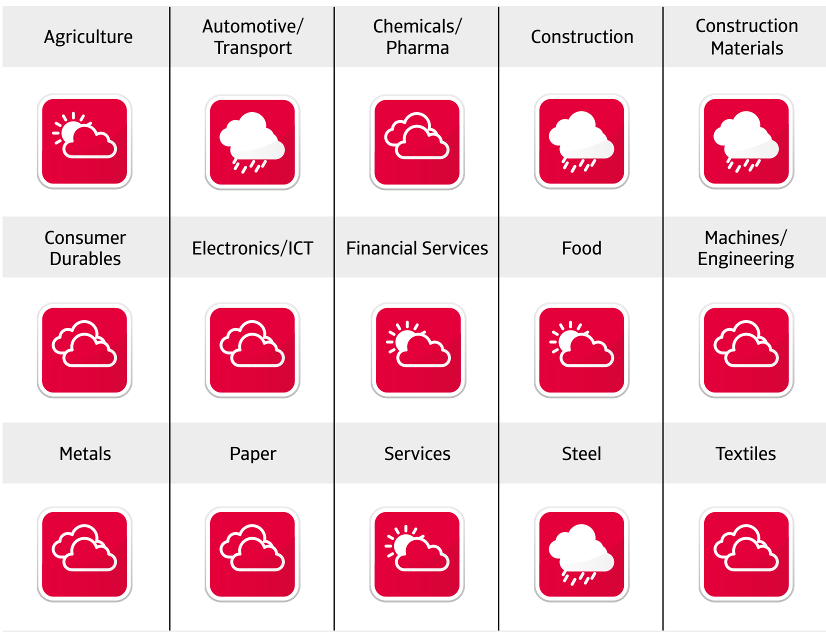
March 2019



Political situation

Head of state:
President Halimah Yacob
(since September 2017)

Head of government:
Prime Minister Lee Hsien Loong
(since August 2004)

Population:
5.8 million

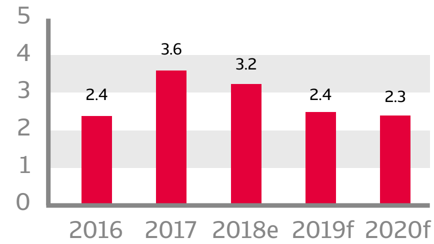
Stable political situation

The People's Action Party (PAP) has been in power since Singapore's independence in 1965. The PAP is business-friendly but, compared to western standards, personal freedoms are limited. The opposition is weak and fragmented and has very few opportunities to present itself in public. In the last general elections held in September 2015 the PAP won nearly 70% of the votes, securing 82 of the 89 seats in parliament.

Singapore's population consists of ethnic Chinese (77%), Malays (14%), Hindu Tamil Indians (8%) and 1% of other nationalities. Income distribution is relatively equal and, in contrast to neighbouring Malaysia, racial tensions are negligible. The biggest potential threat to security is the possibility of terrorist attacks by Muslim extremists, either indigenous or from abroad.

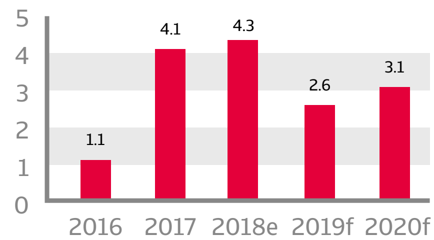
Economic situation

Real GDP growth (y-on-y, % change)



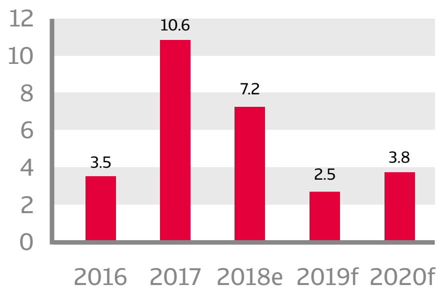
Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

Lower growth in 2019 and 2020, but strong fundamentals remain

Singapore's income per capita and level of development meet OECD standards. This city state is the main transport and financial service hub for Southeast Asia, but its economy is somewhat vulnerable because of its high reliance on demand from its trading partners and the focus on specific sectors such as electronics and pharmaceuticals. Nevertheless, for a small state the economy is relatively well diversified. Singapore's banking sector is healthy and adequately supervised.

The city state´s long-term growth strategy is to move away from being just a trade, transport and financial hub and to become a centre of high-tech industry. This strategy has started to bear fruit in the bio-medical sector, and the government has recently begun to extensively promote business digitalisation.

In 2018 Singapore's economy benefitted from robust growth in global trade. Exports and industrial production recorded increases of more than 4% and 7% respectively, while private consumption remained strong. However, economic expansion is likely to moderate in 2019 and in 2020, as both global trade growth and Chinese import demand have cooled down.

Due to its high dependency on international trade and integration in the Asian supply chain, the Singapore is susceptible to risks stemming from an escalation of the Sino-US trade dispute and a hard landing of the Chinese economy.

However, any destabilising effect should be limited due to Singapore´s economic resilience. The city state continues to be one of the strongest countries in the world in terms of sovereign risk and macroeconomic fundamentals. Therefore, and due to the ample foreign exchange reserves and adequate monetary management of the Singapore Monetary Authority, the exchange rate is unlikely to be affected by changing patterns of international investment.

South Korea

Main import sources (2017, % of total)	
China:	20.5 %
Japan:	11.5 %
USA:	10.6 %
Germany:	4.1 %
Saudi Arabia:	4.1 %

Main export markets (2017, % of total)	
China:	24.8 %
USA:	12.0 %
Vietnam:	8.3 %
Hong Kong:	6.8 %
Japan:	4.7 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	2.9	3.1	2.7	2.3	2.4
Inflation (y-on-y, % change)	1.0	1.9	1.5	1.4	2.4
Real private consumption (y-on-y, % change)	2.5	2.6	2.8	2.3	2.5
Real government consumption (y-on-y, % change)	4.5	3.4	5.6	5.9	4.2
Industrial production (y-on-y, % change)	2.0	2.5	0.4	0.5	3.0
Unemployment rate (%)	3.7	3.7	3.8	3.8	3.5
Real fixed investment (y-on-y, % change)	5.6	8.6	-2.1	1.1	2.5
Real exports of goods and services (y-on-y, % change)	2.6	1.9	3.9	1.0	2.5
Fiscal balance (% of GDP)	1.0	1.4	1.2	0.4	0.5

* estimate **forecast Source: Oxford Economics

South Korea industries performance outlook

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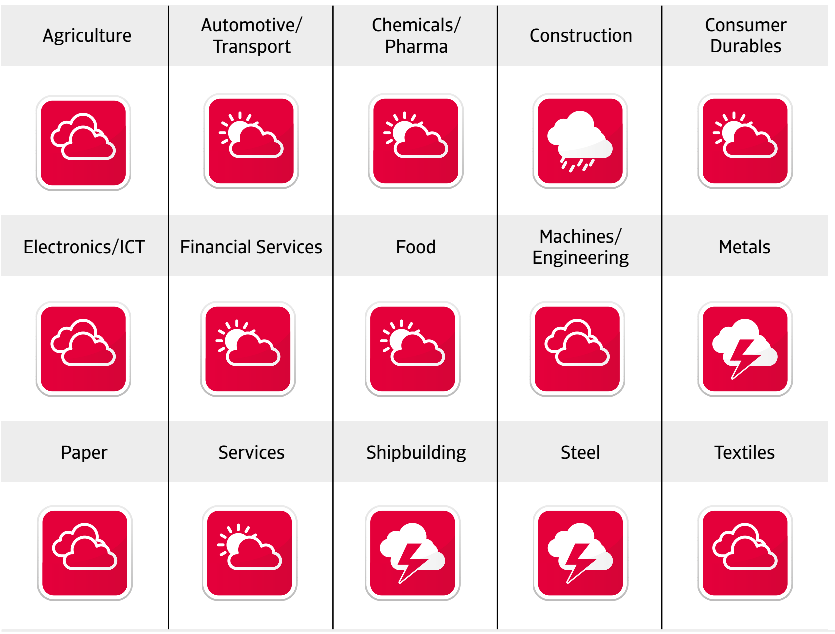
March 2019



Political situation

Head of state:
President Moon Jae-in
(since May 2017)

Head of government:
Prime Minister Lee Nak-yeon
(since June 2017)

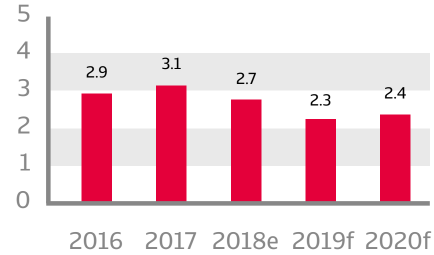
Population:
51.4 million

Decreased tensions on the Korean Peninsula - for the time being

Geopolitical tensions on the Korean Peninsula have decreased somewhat after several meetings between South Korea´s President Moon Jae-in and the North Korea´s leader Kim Jong Un last year and Kim Jong Un´s historical meeting with US-President Trump in June 2018. However, tensions over North Korea´s nuclear and missile program flaring up again cannot be ruled out. This or even an escalation of the conflict on the Korean Peninsula would have adverse effects on business and household confidence in South Korea and on foreign investors.

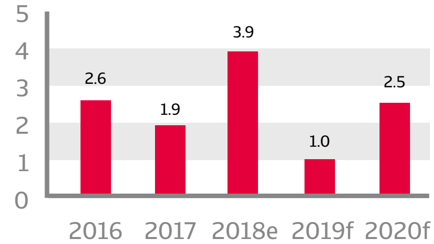
Economic situation

Real GDP growth (y-on-y, % change)



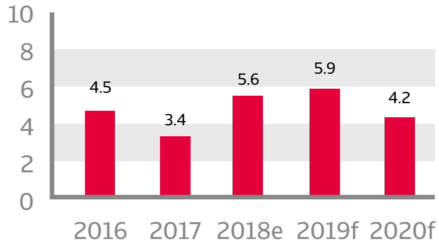
Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Real government consumption (y-on-y, % change)



Source: Oxford Economics

Increased uncertainty over the economic performance

After a year-on-year decrease in 2018, GDP expansion is expected to slow down again in 2019; mainly due to lower export growth. The domestic economy is impacted by a slowdown in construction activity as tighter mortgage lending rules have been imposed in order to contain the high indebtedness of Korean households (with debt levels at about 160% of disposable income). That said, fiscal support (increase in public employment, more social spending and another minimum wage increase) is expected to sustain economic expansion.

The agreement on a revision of the US-South Korea Free Trade Agreement in September 2018 has alleviated fears about the South Korean economy´s exposure to US punitive import tariffs. However, due to its high dependency on international trade and integration in the Asian supply chain South Korea is susceptible to risks stemming from an escalation of the Sino-US trade dispute and a hard landing of the Chinese economy. Exports account for about 50% of the country's GDP, mainly semiconductors and other electronic goods, cars and chemical products.

A low public debt level (43% of GDP in 2018), low external debt (28% of GDP in 2018) and consistent current account surpluses provide the South Korean government with flexibility in supporting the economy and offer some protection against international trade and investment volatility.

More reforms needed to diversify the economy

It seems that South Korea's current economic model - export driven and dominated by chaebols (the South Korean form of business conglomerate) - is no longer capable of providing sufficient employment and purchasing power growth. The outcome of government efforts to reform the conglomerates still remains to be seen. More reforms are needed to diversify the economy, away from an overly export-orientation towards growth driven by services and domestic consumption. The government has started measures to improve innovation and productivity of smaller businesses.

The high level of private debt remains a downside risk for the economy, together with a rapidly ageing population. Competition from China – by far the most important export market - is getting fiercer, as Chinese businesses are successfully climbing up the value chain in some of South Korea´s core export industries like automotive and electronics.

Taiwan

Main import sources (2017, % of total)	
China:	19.1 %
Japan:	17.6 %
USA:	12.5 %
South Korea:	6.3 %
Germany:	3.7 %

Main export markets (2017, % of total)	
China:	26.3 %
Hong Kong:	13.7 %
USA:	12.0 %
Japan:	7.0 %
Singapore:	5.8 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	1.5	3.1	2.6	1.5	1.7
Inflation (y-on-y, % change)	1.4	0.6	1.4	0.8	1.2
Real private consumption (y-on-y, % change)	2.4	2.5	2.1	1.8	2.4
Real government consumption (y-on-y, % change)	3.6	-0.6	3.5	3.0	2.2
Industrial production (y-on-y, % change)	2.0	5.0	3.6	0.9	2.7
Unemployment rate (%)	3.9	3.8	3.7	3.7	3.7
Real fixed investment (y-on-y, % change)	2.4	-0.1	2.6	2.2	3.0
Real exports of goods and services (y-on-y, % change)	1.9	7.4	3.6	2.0	3.3
Fiscal balance (% of GDP)	-0.3	-0.1	-0.5	-1.0	-1.0

* estimate **forecast Source: Oxford Economics

Taiwan industries performance outlook

Excellent:
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.

Good:
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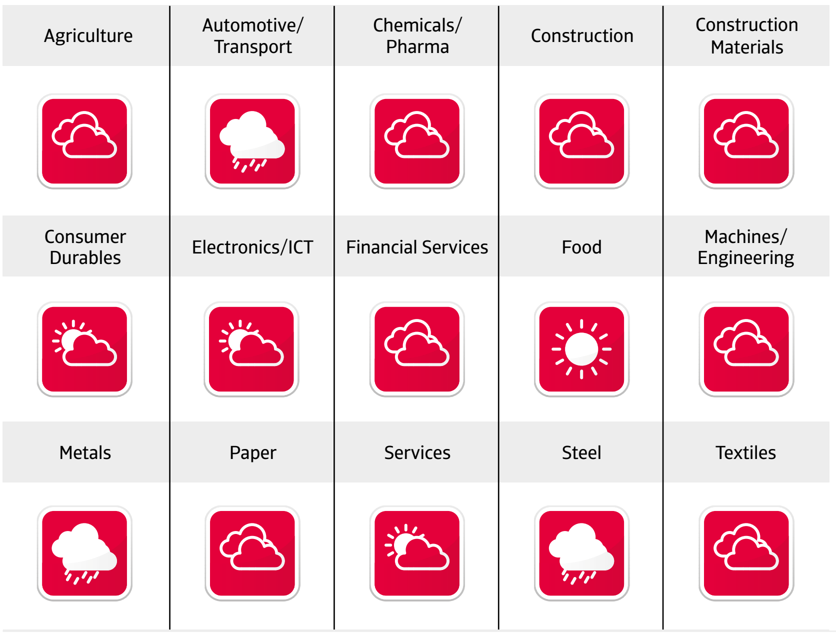
March 2019



Political situation

Head of state:

President Tsai Ing-wen
(DPP, since May 2016).

Government type:

Multiparty democratic regime headed by popular vote-elected president.

Population:

23.5 million

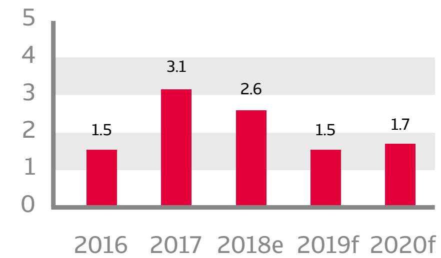
Relationship with mainland China remains the key issue in Taiwanese politics

Taiwan's relationship with mainland China will remain the dominant political issue for the island. The political scene is polarised between pro-unification parties (KMT, PFP and New Party) and pro-independence parties, mainly the Democratic Progressive Party (DPP) and the DSU.

The mainland regards Taiwan as a 'renegade province' and has repeatedly threatened to use force in the event of a formal declaration of independence. After the DPP won the January 2016 presidential and general elections, Beijing has scaled down highlevel contacts with the new, more pro-independence minded government and has taken a more assertive stance in bilateral relations. However, the Taiwanese government has so far abstained from any actions that could provoke a harsh response from Beijing.

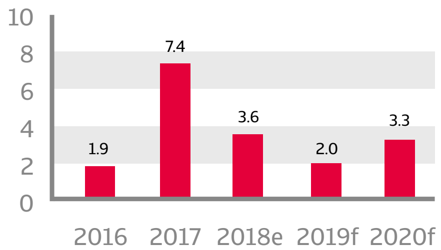
Economic situation

Real GDP growth (y-on-y, % change)



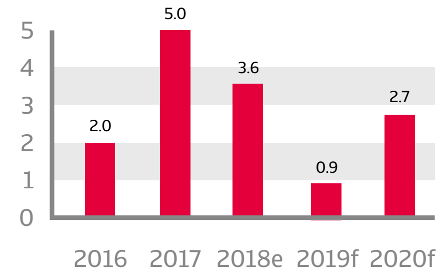
Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Source: Oxford Economics

Industrial production (y-on-y, % change)



Source: Oxford Economics

Economic growth below 2% forecast in 2019 and 2020

Taiwan´s economy is mainly export-oriented (focusing on electronics and computer equipment, basic metals and plastics), with the export of goods and services accounting for more than 70% of GDP, and with 40% of outbound shipments - mostly electronic devices - destined for mainland China.

Economic expansion is likely to moderate in 2019 and in 2020, as both global trade growth and Chinese import demand have cooled down. Domestic demand is impacted by low wage growth and the contraction of tourism from mainland China following President Tsai's election. At the same time, Taiwan has one of the lowest levels of foreign investment in Asia.

Public finances are very sound, as government debt remains low at about 30% of GDP. The budget deficit is also expected to stay low, at below 1% of GDP in 2019. Taiwan's external financial situation is very solid, with low external debt. The current account surplus is very large (more than 10% of GDP in 2019) and the country has ample foreign reserves.

Major challenges loom ahead

High dependence on mainland China as the major export and investment destination makes the Taiwanese economy susceptible to an economic downturn in China and to the repercussions of any escalation of the Sino-US trade dispute.

Taiwanese electronics manufacturers still benefit from economies of scale and have managed to lower unit costs. Another strength of the industry is its precision and reliability. However, as mainland China's industries have accelerated their technological development, Taiwanese electronic businesses are increasingly coming under competitive pressure, especially in the semiconductor segment. This could restrain Taiwan´s export growth momentum in the future. Taiwan will have to look for new high value-added alternatives in the mid- and long-term, with productivity increases and the diversification of the economy being long-term challenges.

Taiwan´s working age population started shrinking in 2016, exacerbated by the fact that many talented young Taiwanese are moving abroad for work, including to the mainland. The ageing of the population could become a social and economic issue in the future (e.g. pension liabilities impacting the public budget). Plans for pension cuts for the civil service and the military led to large demonstrations and protests in 2018.

Thailand

Main import sources (2017, % of total)	
China:	20.0 %
Japan:	14.5 %
USA:	6.7 %
Malaysia	5.3 %
Taiwan:	3.7 %

Main export markets (2017, % of total)	
China:	12.5 %
USA:	11.3 %
Japan:	9.4 %
Hong Kong:	5.2 %
Vietnam:	4.9 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	3.3	3.9	4.2	3.4	3.3
Inflation (y-on-y, % change)	0.2	0.7	1.1	1.1	1.4
Real private consumption (y-on-y, % change)	3.0	3.2	4.5	3.6	3.1
Real government consumption (y-on-y, % change)	2.2	0.5	1.5	3.0	3.1
Real fixed investment (y-on-y, % change)	2.8	0.9	3.8	3.7	3.8
Real exports of goods and services (y-on-y, % change)	2.8	5.5	3.5	3.4	3.8
Fiscal balance (% of GDP)	-2.7	-2.9	-1.6	-2.9	-3.2
Foreign debt (% of GDP)	31	32	31	31	31
Current account (% of GDP)	11.7	11.0	7.4	6.5	5.9

* estimate **forecast Source: Oxford Economics

Thailand industries performance outlook


Excellent:
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March 2019

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	**Electronics/ICT**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
King Vajiralongkorn (Rama X), since December 2016

Government type:
Constitutional monarchy. Currently a military interim government is in power.

Population:
69.3 million

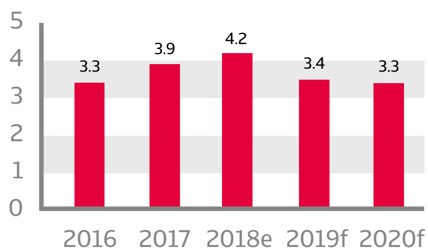
General election in March 2019, but the military will remain in power

After several postponements, a general election took place on March 24, 2019, officially ending the rule of the military government. However, regardless of the election outcome the military will probably continue to strongly influence or even dominate any new administration, either formally or behind the scenes. A new constitution passed in 2017 curbs the powers of populist politicians while preserving the military's major political influence.

Political tensions could re-emerge after the elections, potentially affecting international trade and investment. The simmering conflict arising from the deep political, social and economic division between the old establishment (army, judiciary and urban upper class) in the south and the rural poor in the north has yet to be resolved, and is unlikely to disappear soon.

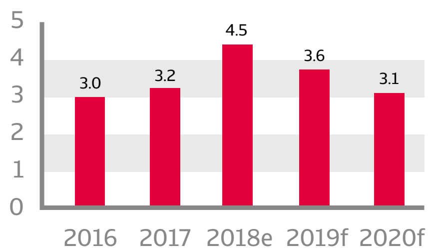
Economic situation

Real GDP growth (y-on-y, % change)



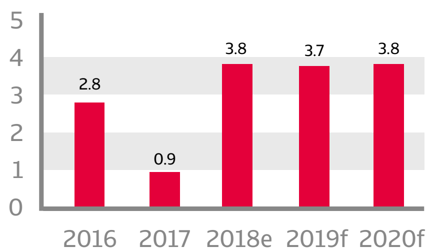
Source: Oxford Economics

Real private consumption (y-on-y, % change)



Source: Oxford Economics

Real fixed investment (y-on-y, % change)



Source: Oxford Economics

Growth continues, but the high level of household debt is a serious issue

Although relying heavily on tourism, merchandise exports and public investments for growth the Thai economy is rather diversified. The service sector accounts for about 55% of GDP, manufacturing for 27% and agriculture/fishing for 9%. The working population will start to decline in 2019, which could produce a significant drag on long-term growth.

Economic expansion is expected to slow down in 2019 and 2010 due to lower export growth, but to remain above 3% p.a., mainly sustained by private consumption and public infrastructure investments. It is expected that after the March 2019 elections any new government will proceed with large infrastructure projects and attract foreign investors with the establishment of a large special economic zone.

Despite increased public spending, government finances remain sustainable. Public debt remains below 50% of GDP and mostly domestically financed, which provides resilience against external shocks. The government tries to finance increased infrastructure spending with higher tax income.

The Thai banking sector is healthy, as banks are well capitalised. The Thai baht is subject to a managed floating exchange rate regime, which reduces volatility risks. However the high level of household debt (78% of GDP in 2018) remains an issue, although bank lending has grown at a slower pace since 2013. Due to low inflation and a large external surplus supporting the baht exchange there is plenty of scope for continued accommodative monetary policy. However, this could encourage businesses and households to borrow even more, resulting in greater financial stress when interest rates start to rise again. An unexpected rise of global interest rates could lead to problems, since Thai lenders finance an increasing share of their loans through wholesale funding.

Vietnam

Main import sources (2017, % of total)	
China:	27.6 %
South Korea:	22.1 %
Japan:	7.9 %
Taiwan:	6.0 %
Thailand:	5.0 %

Main export markets (2017, % of total)	
USA:	19.4 %
China:	16.6 %
Japan:	7.9 %
South Korea:	6.9 %
Hong Kong:	3.5 %

Key indicators	2016	2017	2018*	2019**	2020**
Real GDP growth (y-on-y, % change)	6.2	6.8	7.1	6.7	6.2
Inflation (y-on-y, % change)	2.7	3.5	3.5	3.5	3.8
Real private consumption (y-on-y, % change)	7.3	7.3	8.8	7.0	6.3
Industrial production (y-on-y, % change)	7.6	8.0	8.8	8.6	7.7
Real exports of goods and services (y-on-y, % change)	13.9	16.7	13.4	10.5	9.8
Fiscal balance (% of GDP)	-4.2	-3.5	-3.3	-3.2	-3.0
Current account/GDP (%)	4.1	2.8	4.6	2.7	1.7
Foreign debt/GDP (%)	43	47	39	36	32
Foreign debt/Export of goods and services (%)	46	47	37	34	32
International reserves (in months of merchandise imports)	2.7	2.9	2.8	2.6	2.5

* estimate **forecast Source: Oxford Economics

Vietnam industries performance outlook

March 2019

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Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials
				
Consumer Durables	**Electronics/ICT**	**Financial Services**	**Food**	**Machines/ Engineering**
				
Metals	**Paper**	**Services**	**Steel**	**Textiles**
				

Political situation

Head of state:
President Nguyen Phu Trong
(since October 2018)

Head of government:
Prime Minister Nguyen Xuan Phuc
(since April 2016)

Government type:
Communist state with an increasingly market orientated economy.

Population:
97.4 million

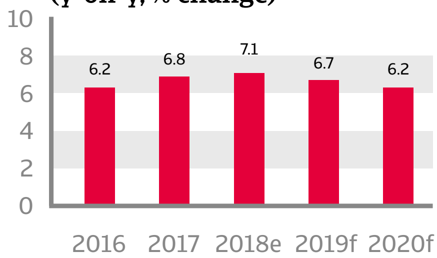
Economic reforms not followed by political changes

The Vietnamese Communist Party remains firmly in power, despite rising public discontent over the lack of personal freedom, government corruption and land seizures by the administration. While the leadership has tightened its grip on the civil society, economic reforms continue.

The territorial dispute with China over conflicting claims in the South China Sea is currently not high on the agenda, but nevertheless remains a serious issue in the bilateral relationship for the future. In order to counter growing Chinese assertiveness, Vietnam is keen to improve its political and security cooperation with the US and Japan. However, despite enhancing its naval forces, Vietnam lacks the military capability to pose a serious challenge to any Chinese actions, and its manufacturing sector depends heavily on raw materials imported from China. Moreover, given the ideological similarities of the regimes in both countries, there is still a strong pro-China faction within Vietnam's Communist Party.

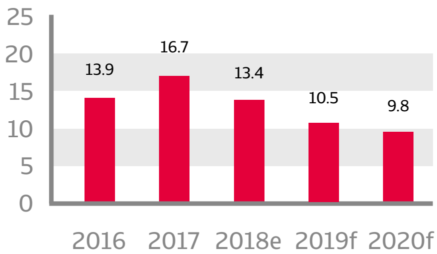
Economic situation

Real GDP growth (y-on-y, % change)



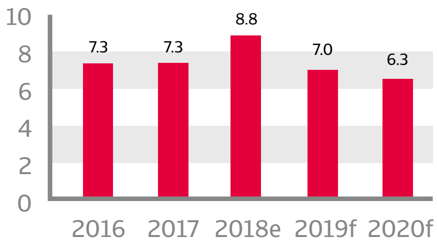
Source: Oxford Economics

Real exports of goods and services (y-on-y, % change)



Sources: IHS

Real private consumption (y-on-y, % change)



Source: Oxford Economics

High growth continues, but downward risks have increased

Economic growth is expected to remain structurally high (above 6%) in 2019 and 2020, driven by both domestic demand and exports. While high wage growth supports private consumption, economic policies to liberalise regulations and deepen global economic integration support business investments.

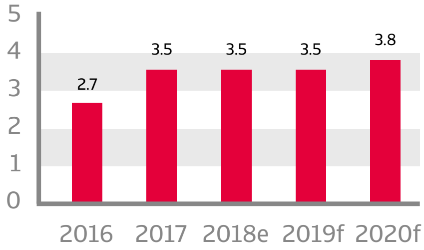
Export growth is expected to remain robust. The export sector benefits from relocation of export-oriented industries away from China, due to Vietnam's relatively low production costs, especially in the ready-made garments (RMG) sector. Vietnam is currently the world's third-largest exporter of RMG, with the share of exports to the US accounting for about 50%.

However, downside risks have increased due to the ongoing Sino-US trade dispute and slowing growth in China. As an open economy heavily dependent on external trade, rising protectionism and/or lower global trade could have significant knock-on effects.

The Vietnamese business environment is still hampered by weak institutions, infrastructure issues and corruption. The share of state-owned enterprises (SOEs) in the economy is high. Many of them are financially weak and inefficient, constraining productivity increases. However, the situation is gradually improving as the government makes (gradual) progress with deregulation, SOE privatization and anticorruption measures. Strong points of the Vietnamese economy are its openness, diversified export basket, and low share of commodities in exports.

High GDP growth and a state-promoted 'bad bank' have reduced non-performing loans, but the high reliance of businesses on bank borrowing has resulted in outstanding credit of 130% of GDP. The average capital adequacy ratio of banks has decreased to about 12%. While financial institutions are gaining strength via consolidation and foreign direct investment, they could struggle to meet the private sector's investment needs in the coming years.

Inflation (y-on-y, % change)



Source: Oxford Economics

The Vietnamese dong is expected to weaken gradually against the USD in 2019, due to a decreasing current account surplus, higher inflation and monetary tightening in the US. The central bank will probably increase official interest rates in order to support the dong. Strong devaluations are less unlikely than they were in the past.

Vietnam's foreign debt has been fairly stable and well financed over the past couple of years. As a percentage of GDP, it is low in relation to export revenues (35% in 2019). Foreign debt mainly consists of government debt with long maturities and a low debt service. Despite improvement, Vietnam´s liquidity situation remains weak, as international reserves in months of import cover remain low at about 2-3 months, mainly due to high import growth. Foreign exchange reserves, however, are sufficient to cover the external financing requirements.

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