

# Atradius Country Report

Asia Pacific – January 2016



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## Asia Pacific Countries: Atradius STAR Political Risk Rating\*:

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

\* 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](#).

## Australia

### Main import sources (2014, % of total)

China:  
USA:  
Japan:  
Singapore:  
Germany:

20.6 %  
10.6 %  
6.8 %  
5.0 %  
4.7 %

### Main export markets (2014, % of total)

China:  
Japan:  
South Korea:  
USA:  
India:

33.9 %  
17.9 %  
7.4 %  
4.1 %  
3.3 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	3.6	2.0	2.6	2.3	2.1
Consumer prices (y-on-y, % change)	1.8	2.4	2.5	1.5	1.9
Private consumption (y-on-y, % change)	2.5	1.7	2.7	2.6	3.1
Retail sales (y-on-y, % change)	1.5	0.9	2.8	2.7	3.5
Industrial production (y-on-y, % change)	3.4	2.1	4.6	1.9	2.0
Unemployment rate (%)	5.2	5.7	6.1	6.1	5.7
Real fixed investment (y-on-y, % change)	8.9	-1.8	-1.9	-4.4	-2.1
Export of goods and non-factor services (y-on-y, % change)	6.0	5.9	6.7	6.0	3.8
Fiscal balance (% of GDP)	-2.3	-1.3	-1.4	-1.9	-1.4

\* estimate    \*\*forecast

Source: IHS

## Australia industries performance forecast

### January 2016

	Excellent: The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend.	Agriculture		Automotive/ Transport		Chemicals/ Pharma		Construction		Construction Materials
	Good: The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.	Consumer Durables		Electronics/ICT		Financial Services		Food		Machines/ Engineering
	Fair: The credit risk situation in the sector is average / business performance in the sector is stable.	Metals		Paper		Services		Steel		Textiles
	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.									

# The insolvency environment

## Insolvency increase in 2015

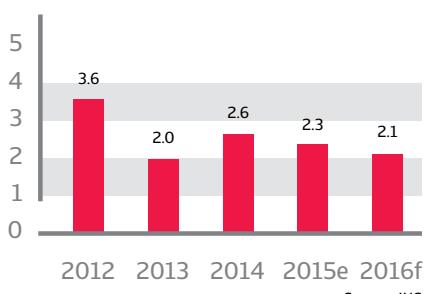
Business insolvencies increased sharply in 2008 and 2009, despite Australia largely managing to escape recession. They remained at an historically high level between 2010 and 2013, before decreasing 18.7 % in 2014. However, in 2015 it is expected that business insolvencies increased again, by 10 %, mainly due to the current slump in the mining sector and lower demand from China. Business failures are forecast to increase further in 2016, by 6 %.

### Australian business insolvencies (year-on-year change)



# Economic situation

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

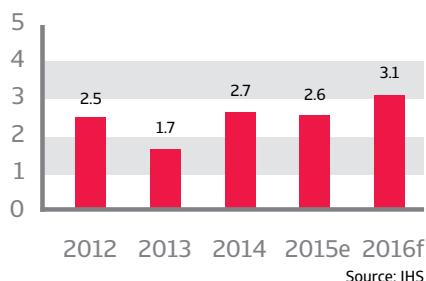


## Economic growth expected to remain modest in 2016

Mining investment decreased in 2014, as major resource projects were completed. But housing activity strengthened as it benefited from low interest rates and a significant increase in house prices, particularly in Sydney. At the same time, consumer spending increased due to rising household income. In 2014, economic growth was boosted by increased production volumes and increased exports of bulk resource commodities. These were made possible by the heavy investment in production capacity in previous years.

While increased exports of bulk commodities continued in 2015, their attribution to economic growth has declined as commodity prices have sharply decreased since June 2014. At the same time, there is not enough momentum in consumer spending and non-mining business investment (which together account for two thirds of GDP) to return economic growth rates to the earlier trend: Australia's GDP growth is expected to slow to 2.3 % in 2015 and 2.1 % in 2016.

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



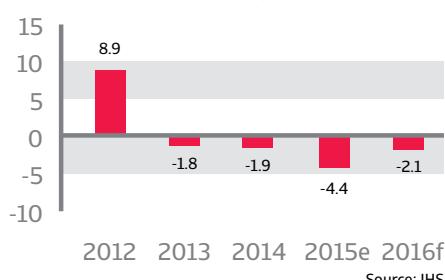
### Stable growth in private consumption

Consumption grew faster than household incomes in 2014, as consumers viewed their financial situation as benign - despite the relatively weak growth in incomes. With modest wage growth in 2015, it is expected that private consumption will increase 3.1 % in 2016.

The Reserve Bank's low interest rate monetary policy supported household consumption and housing construction in 2015. The already low benchmark interest rate of 2.5 % in 2014 was lowered two times in the first half of 2015, to 2.0 % - the lowest rate in 20 years. In Q4 of 2015, the Reserve Bank indicated that this stance is likely to continue into 2016, particularly as inflation is benign. Consumer prices inflation decreased to 1.5 % in 2015 and is expected to increase only modestly in 2016, to 1.9 %.

Unemployment rose from 5.2 % in 2012 to 6.1 % in 2014, as the structural transition from mining investments to mining exports has created an element of frictional unemployment that will take time to absorb. Unemployment is expected to remain at around 6 % in 2016.

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



### Mining and other business investments continue to decrease

The pace of mining investment decline is expected to accelerate as mega-LNG projects move towards completion. Mining investment is forecast to decrease 25 % in 2015 - 2016 and 30 % in 2016 - 2017, cutting about 4% off GDP growth between 2015 and 2017.

There have been massive employee layoffs, huge write-downs on assets and/or projects have been delayed. Exploration activities have basically come to a standstill. At the same time, related sectors like construction and businesses that are servicing the mining industry - such as small airlines that carry miners, restaurants, hospitality and food servicing companies - are also feeling the pinch. It seems that a large shake-out in this sector is underway, with only the big suppliers with world-class assets, high production volumes, high levels of efficiency and low costs able to survive in the mid-term.

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



Non-mining business investment remains subdued, despite historically low interest rates. Many Australian companies perceive business conditions as satisfactory at the moment, but not good enough to lift their investment plans. Uncertainty about future economic and business development remains, and therefore many businesses are still deferring new capital expenditure until they see a sustained improvement in demand.

Real fixed investment decreased 1.9 % in 2014, with declines in both mining and non-mining capital expenditure. This downward trend continued in 2015, with investment decreasing 4.4 %, and another contraction of 2.1 % expected in 2016. A recovery in non-mining investment will be needed to deliver long-term and sustained economic growth in the post-mining boom transition phase.

### The Australian dollar's depreciation is expected to continue

Tourism and other export-oriented industries in manufacturing and agriculture started to benefit from the on-going depreciation of the Australian dollar since the end of 2014. However, the current level of depreciation is still insufficient to achieve balanced growth, and a further depreciation seems to be both likely and necessary.

## China

### Main import sources (2014, % of total)

South Korea:  
Japan:  
USA:  
Taiwan:  
Germany:

### Main export markets (2014, % of total)

USA:  
Hong Kong:  
Japan:  
South Korea:  
Germany:

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	7.7	7.7	7.3	6.9	6.3
Consumer prices (y-on-y, % change)	2.7	2.6	2.0	1.4	2.0
Real private consumption (y-on-y, % change)	7.8	7.5	6.8	6.3	6.0
Retail sales (y-on-y, % change)	11.4	10.2	9.8	9.1	8.5
Industrial production (y-on-y, % change)	10.0	9.7	8.3	6.1	5.8
Real fixed investment (y-on-y, % change)	10.1	9.4	5.6	4.7	4.4
Fiscal balance (% of GDP)	-1.6	-1.8	-1.8	-1.4	-1.4
Export of goods and non-factor services (y-on-y, % change)	7.0	8.7	5.9	0.2	2.7
Current account (% of GDP)	2.6	1.9	2.1	3.9	3.9

\* estimate \*\*forecast

Source: IHS

## China industries performance outlook

### January 2016



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 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.

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

## Industries performance:

### Overcapacity and high gearing are an issue

The massive stimulus package since 2008 has led to overcapacity in many sectors (especially construction, steel and metals, shipping, mining, paper) and high indebtedness. Consequently, many Chinese businesses are currently reluctant to invest.

Listed companies, state-owned businesses and foreign-owned enterprises still benefit from stronger support from banks and shareholders. More caution is recommended when dealing with small and medium-sized private businesses, as many of them - even those active in well-performing industries - often suffer from limited financing facilities. The current economic slowdown has generally led to increasing overdue invoices and insolvencies, and businesses requesting longer payment terms, – a trend that is expected to continue in 2016.

## 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:

1.36 billion

### President Xi is firmly in power

Overall, the domestic political situation in China is stable, with the Chinese Communist Party (CCP) firmly in power. President Xi Jinping continues to consolidate his power within the CCP and is seen as the most powerful Chinese leader since Deng Xiaoping. The government under Xi has launched a campaign against corruption and extravagance by top party officials, leading to the conviction of several prominent party members.

To prevent any major social unrest, the administration's main aim is to preserve economic growth, create jobs and develop a public welfare safety net. While it has become more difficult to prevent public demonstrations and criticism of the government (via the internet), internal stability is strengthened by the fact that the living standards of many Chinese people have improved: GDP per capita has risen from USD 847 in 2000 to USD 7,645 in 2014.

Nevertheless, there is considerable income disparity between the rural and the urban population, and between the coastal provinces and western parts of the country. In recent years, there has been growing social discontent in several provinces, fuelled by corruption in local government, environmental problems and weak protection of property and land rights. So far, protests have flared up only locally and have been swiftly contained by the security forces.

### Growing Chinese assertiveness in the region

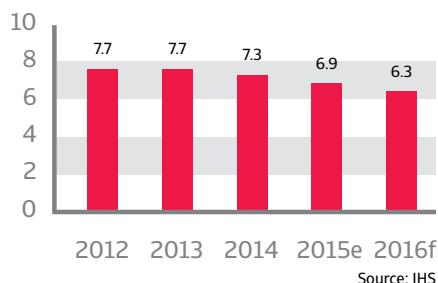
Sino-US relations are generally stable, but Washington has become increasingly concerned about Beijing's military build-up: especially the potential for China's naval and air force to strengthen their power projection in the Pacific. A shift in US defence strategy, with a renewed focus on Asia-Pacific, is motivated mainly by Washington's aim to balance China's rising power in the region.

One issue is Beijing's increasing assertiveness in the South China Sea, where it claims sovereignty over a large U-shaped area. This has brought China into dispute with several neighbouring countries. Since 2013, tensions with the Philippines and Vietnam, over disputed islands in that area have increased. In 2015 massive land reclamation measures by China have raised concerns in the US over the freedom of navigation in the South China Sea.

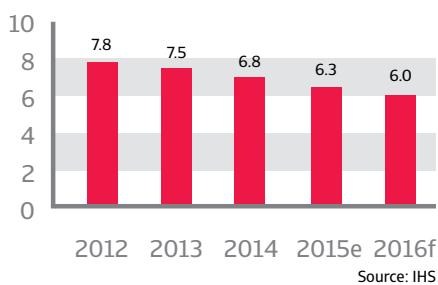
Relations with Japan remain burdened by the conflict over the Senkaku/Diaoyu islands, which are claimed by both sides. After increased tensions in 2013 and 2014, Sino-Japanese relations have improved somewhat after several high-level talks held in 2015.

## Economic situation

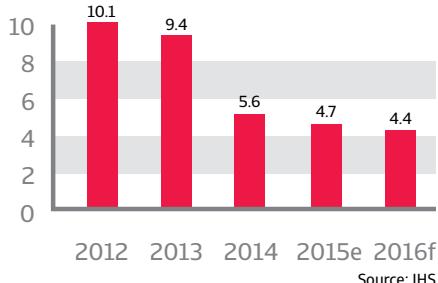
**Real GDP growth  
(y-on-y, % change)**



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



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



### Slowing growth in 2015 and 2016

China's economic growth slowdown accelerated in 2015. Industrial production and investment growth cooled down considerably, and are expected to decrease further in 2016, leading to a 6.3 % GDP growth forecast. The challenge for the Chinese authorities is to implement reforms to reduce the vulnerabilities in the economy and to rebalance economic growth in the medium term - away from investment - and export-and towards more domestic consumption, without overly slowing economic growth.

To a certain degree, private consumption growth has started to balance decreasing investment. Since summer 2015 the government has increased fiscal spending to support the economy. At the same time the central bank, the People's Bank of China (PBOC), has repeatedly loosened its benchmark lending rate since November 2014, to 4.35 %. Given the modest inflation outlook below 2.0 % the PBOC still has room for further monetary policy easing if necessary.

### Stock market shake-up

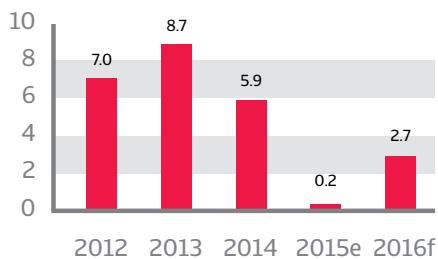
After a steep climb during the late spring 2015, the Chinese stock exchange tumbled, having lost 40 % of its value since mid-July. The Chinese authorities intervened in the market, spending around USD 200 billion to halt the fall, but to no avail. However, the situation stabilised by late August 2015. So far the impact of the stock exchange slump was fairly limited, given that less than 20 % of Chinese household wealth is held in shares, and the part held in shares is fairly concentrated. However, early 2016 Chinese stock exchange suffered another plunge on concerns about the economy, leading to a temporary ban on share sales.

### Devaluation woes

In August 2015 the Chinese central bank took the markets by surprise with a devaluation of the renminbi. While it was small in size (almost 2.0 %), it sent a shock wave through the currency market, especially in Asia, as fears of the Chinese-led currency war rose. Further pressure on the currency forced the PBOC to intervene heavily in the market in order to maintain the renminbi within its band versus the US dollar. The decrease in the foreign exchange reserves in nominal terms was large, but, in relative terms, and compared to other countries, it was modest.

Through the intervention China has shown that it does not wish to wage a currency war. Indeed, the devaluation should be seen as a step towards a more freely floating renminbi as recommended by the IMF.

## Export of goods and non-factor services (y-on-y, % change)



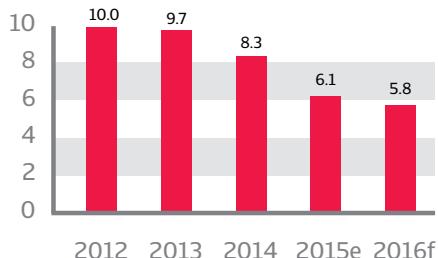
Source: IHS

## Stumbling blocks remain

It is expected that the Chinese authorities will be both willing and able to avoid the risk of a shock in either the financial, corporate, real estate or local government segments triggering problems in other sectors. The central government has tight control over the economic and financial activity in the country and runs a small public deficit. Public and external debt is very low and China has huge international reserves. Domestic savings are high and there are capital controls in place to limit the risk of capital flight. This all creates a cushion for the economy in the event of any external or internal shocks.

However, further government intervention to boost growth has its pitfalls, as it would revert to the investment stimulus. That would run counter to the rebalancing objective towards a more consumption-led growth and the attempts to manage unsustainably high debt levels of local governments, state-owned enterprises and firms.

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



Source: IHS

## The debt issue

The tools that the authorities have will most likely allow China to avoid a hard landing, but the high level of total debt will be an obstacle. China has to deal with a huge debt burden, which is the result of government stimulus programmes that started in 2008. The investment boom since 2008, accompanied by high credit growth, has led to high debt levels for local governments, banks and businesses, amounting to about 280 % of GDP. The debts of the local government and the banking sector remain contingent liabilities for the central government, as do highly leveraged real estate and related industries (including state-owned enterprises in the real estate sector, as well as in the mining and utilities sectors).

The financial vulnerabilities visible in the financial, corporate, and real estate sectors and in the local government are interconnected - a shock in one sector could lead to a chain reaction in another. For instance, investment in real estate has been a major driver of economic growth and a sharp price correction would have an impact on the whole economy via the banking sector and local governments.

## India

### Main import sources (2014, % of total)

China:  
Saudi Arabia:  
UAE:  
USA:  
Switzerland:

12.7 %  
7.1 %  
5.9 %  
4.6 %  
4.4 %

### Main export markets (2014, % of total)

USA:  
UAE:  
China:  
Saudi Arabia:  
Hong Kong:

13.4 %  
10.4 %  
4.2 %  
4.1 %  
4.1 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	5.1	6.9	7.3	7.3	7.6
Consumer prices (y-on-y, % change)	9.7	10.0	6.7	4.9	5.8
Real private consumption (y-on-y, % change)	5.6	6.2	6.3	7.4	8.2
Industrial production (y-on-y, % change)	0.7	0.5	1.8	4.2	4.7
Real fixed investment (y-on-y, % change)	-0.5	3.0	4.7	5.2	5.5
Fiscal balance (% of GDP)	-7.4	-7.6	-6.9	-8.1	-5.8
Export of goods & non-factor services (y-on-y, % change)	6.9	7.2	-0.6	-1.3	8.1
Foreign debt/GDP	20	22	22	19	17
Current account/GDP (%)	-4.8	-2.5	-1.3	-1.4	-2.2

\* estimate \*\*forecast

Sources: IHS, EIU, IMF

## India industries performance outlook

### January 2016



**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.

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 Pranab Mukherjee  
(since July 2012)

### 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:

1.29 billion

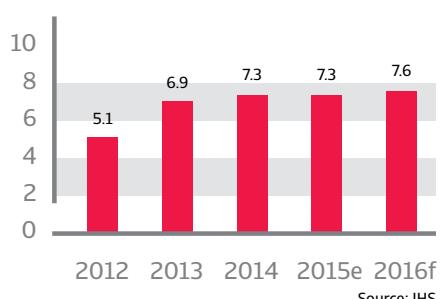
### Landslide victory of the BJP in the 2014 general elections

In the April/May 2014 general elections the opposition BJP gained a landslide victory by winning an absolute majority in parliament (282 of the 543 seats in the Lower House); the first time since 1984 that any party has won a majority. The former coalition government of the United Progressive Alliance (UPA) suffered a major defeat, with the Congress Party gaining only 44 seats (206 seats after the 2009 general elections). Before the elections, the UPA government struggled with widespread public dissatisfaction due to high inflation, slowing growth and several massive corruption scandals.

In contrast, the BJP front runner Narendra Modi had built a strong reputation as a competent administrator and economic reformer during his time as chief minister of the state of Gujarat. Modi and the BJP were also favoured by international financial markets due to their pro-business and reform-minded stance. However, despite the landslide election victory, the government still lacks a majority in the Upper House, which hampers the passing of major structural reforms in parliament.

## Economic situation

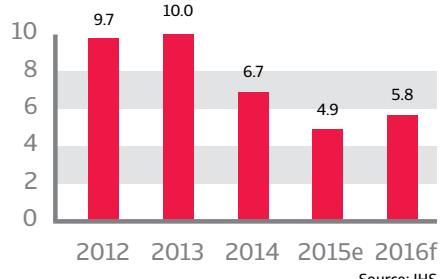
### Real GDP growth (y-on-y, % change)



### Robust growth outlook in 2015 and 2016

India's economic outlook is the most promising in Asia in 2015 and 2016, with GDP forecast to increase 7.3 % and 7.6 % respectively. The economy benefits from a stable government, low oil prices (India is a large net oil importer), and high portfolio and direct investment. Domestic demand is increasing on the back of robust private consumption (up 7.4 % in 2015) and increasing industrial production and investment. That said, the economic slowdown across some major emerging markets like China weighs on India's growth as well - namely through lower demand for Indian exports. However, exports account for just 25 % of GDP, which makes the relatively closed Indian economy less susceptible to decreasing external demand.

### Consumer prices (y-on-y, % change)

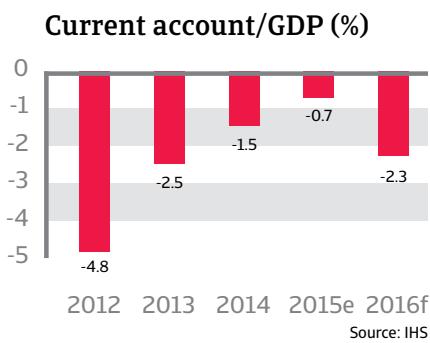


### Inflation decreased below 5.0% in 2015

Inflation has decreased substantially since 2013 (from 10 % in 2013 to less than 5.0 % in 2015), due to lower oil prices and a prudent monetary policy by the Reserve Bank of India, which has adopted lower consumer prices as the major target since the end of 2013. In recent years, stubbornly high inflation of more than 9.0 % and high interest rates deterred both consumer demand and investment. High consumer prices are a serious concern in India, undermining the purchasing power of the many poorer households.

### External solvency is strong

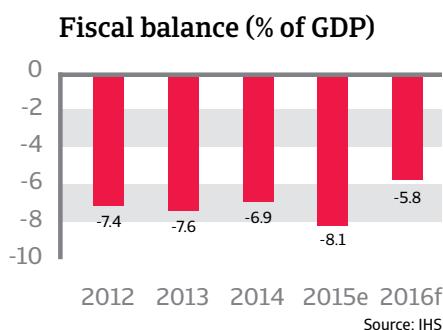
India's country and sovereign risk remain low. Foreign debt amounted to only 2 2% of GDP in 2014 and is expected to decrease below 20 % of GDP in 2015 and 2016 due to the robust economic growth. The liquidity situation is comfortable with more than eight months of import cover, while the current account deficits are expected to remain modest in 2015 and 2016. India has an excellent payment record, with no missed payments since 1970, providing it good access to capital markets. This generates substantial short-term capital and portfolio inflows.



In 2013 India, like some other emerging markets, became susceptible to the reaction of international investors to the anticipated 'tapering' by the US Federal Reserve (i.e. a reduction of its quantitative easing programme). A reversal of foreign capital flows resulted in a sharp depreciation of the Indian rupee and a deterioration in share prices. However, in 2014 India won back the confidence of the international financial markets, and the depreciation of the rupee has eased since then.

### Some major downside risks to higher growth remain

While India's economy currently shows some major strong points, some downside risks to economic growth remain: the threat of government divestment in the face of a high fiscal deficit, the failure to increase business investment due to an overleveraged financial sector, and obstacles against reform efforts necessary to tackle the persisting structural problems.



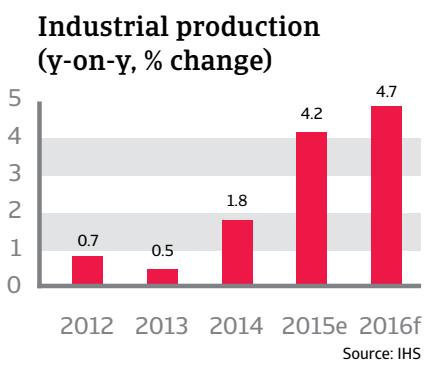
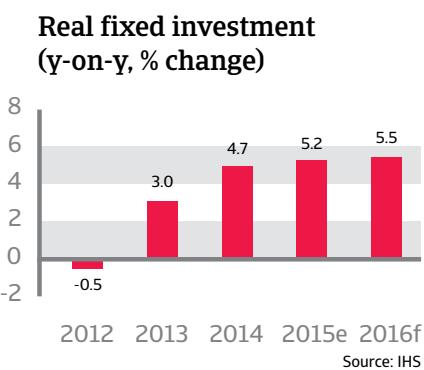
### High public debt and deficits remain an issue

Public finances remain a weakness at both central government and state levels. Both general government debt and the general government fiscal deficit remained large in 2015, at 65 % of GDP and 8+1 % of GDP respectively. The main reasons are the low tax base and still high expenditure on subsidies for fuel, food and fertilizer. However, these deficits can be widely financed by domestic borrowing, which mitigates the negative effects. The downside to domestic borrowing is a crowding out of private sector debtors.

### Troubles in the financial sector and high corporate debt levels

The Indian corporate sector suffers from an overhang of debt: the average debt/equity ratio of Indian non-financial companies is more than 85 %. The dollarization in domestic credit provision has increased significantly since 2013, while Indian businesses with large external debt levels are especially vulnerable to changes in capital flows, rising interest rates, and exchange rate volatility.

It comes as no surprise that the Indian banking sector is suffering from a high amount of bad debt. A major issue in this respect is the lack of a decent bankruptcy law in India, which impedes the successful recovery or restructuring of corporate debt and assets, and leaves non-performing loans (NPL) in the bank's account books longer. According to the World Bank, it takes more than four years to wind up an ailing company in India, and the average recovery of debts amounts to just 25 %. It is estimated that non-performing or restructured loans account for nearly 15 % of the assets of India's public sector banks (public sector banks account for about 70 % of total bank loans). The concern remains that banks will not be able or willing to fund increased business investment in the future, and this would hamper higher economic growth rates. At least the government has launched a bankruptcy reform bill in November 2015, however it remains to be seen if it will be passed by the parliament soon.



## Pace of structural reforms still too slow

India has many structural deficiencies: underdevelopment of the 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. All these factors are barriers to foreign investment and higher growth.

Power supply, roads and railways, and the poor education system need to be urgently addressed, with more public/private investment partnerships needed for infrastructure projects. Even though former governments have repeatedly said they will increase incentives for private investors, so far private sector participation has focused mainly on the telecom sector, with investment in sanitation, power generation, roads and railways much lower than expected. Consequently, there is a continuing problem of power and water shortages in all of India's major cities.

With the BJP adopting a more free-market and business-friendly stance, expectations for the new Modi administration have been high and, given the BJP majority in the Lower House, the chances of passing reforms are better than ever. However, the BJP still lacks a majority in the Upper House, meaning that it needs the support of opposition parties to pass major reforms. At the same time, Modi and the BJP have to take into account public sentiment and the power of labour unions.

So far, the Modi administration has imposed only incremental reforms. It has shied away from major cuts of fuel, food and fertilizer subsidies, which together account for a third of India's huge fiscal deficit, but would be a highly sensitive - and unpopular - issue. In August 2015 crucial parts of a pro-industry land reform bill were withdrawn after meeting fierce resistance from opposition parties in parliament, and in September 2015 nearly 150 million workers, backed by 10 major unions, went on strike against plans to overhaul India's rigid labour laws.

At the heart of the reform efforts is a national goods-and-services tax (GST), which would boost GDP substantially by removing barriers to trade between India's many states and create a single market. Prime Minister Modi plans to launch the GST in April 2016, however, it remains to be seen if this deadline can be kept after the parliamentary opposition raised many obstacles. In any case, a compromise between government and opposition is needed.

# Indonesia

## Main import sources (2014, % of total)

China:  
Singapore:  
Japan:  
South Korea:  
Malaysia:

17.2 %  
14.1 %  
9.6 %  
6.7 %  
6.1 %

## Main export markets (2014, % of total)

Japan:  
China:  
Singapore:  
USA:  
India:

13.1 %  
10.0 %  
9.5 %  
9.4 %  
7.0 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	6.0	5.6	5.0	4.7	4.4
Consumer prices (y-on-y, % change)	4.3	6.4	6.4	3.6	5.1
Real private consumption (y-on-y, % change)	5.5	5.4	5.1	7.4	8.2
Industrial production (y-on-y, % change)	4.1	6.0	4.8	4.5	3.5
Real fixed investment (y-on-y, % change)	9.1	5.1	4.3	3.9	4.5
Fiscal balance (% of GDP)	-2.2	-2.3	-2.4	-2.4	-2.3
Export of goods & non-factor services (y-on-y, % change)	1.6	4.2	1.0	-0.7	2.4
Foreign debt/GDP	29	29	31	31	29
Current account/GDP (%)	-2.8	-3.2	-2.9	-2.5	-2.2

\* estimate \*\*forecast

Sources: IHS, EIU, IMF

# Indonesia industries performance outlook

January 2016



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

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/ government:

President Joko "Jokowi" Widodo  
(Indonesian Democratic Party -  
Struggle, since October 2014)

### Form of government:

Multi-party coalition government

### Population:

256 million

### A reform-minded president, but still low government effectiveness

Joko Widodo (popularly known as 'Jokowi') has won Indonesia's July 2014 presidential election. In the political offices he has held so far, as mayor of Surakarta and governor of Jakarta, he has proved to be a successful reformer and fighter against corruption. Corruption, vested interests and resource nationalism are persistent obstacles to badly needed structural economic reforms and Widodo's election was seen as the best chance to address these issues.

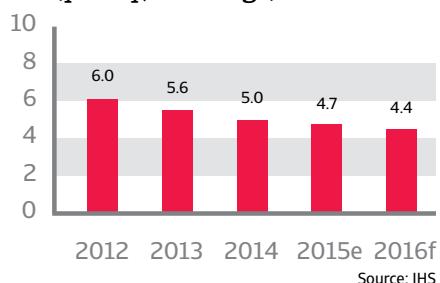
Widodo's term started promisingly, with the decision to cut costly fuel subsidies in November 2014. However, since then concerns about the government's willingness and ability to implement further structural reforms have increased. This is also due to some influential Indonesian political and business establishments opposing the reforms, while President 'Jokowi' heads only a minority government and needs support of smaller parties in the House of Representatives. The government's policies have lacked consistency so far, with policies announced and later scrapped while some ministries seem to pass rulings without consulting other government bodies.

That said, due to the economic slowdown last year (see below), the government has launched a couple of reforms to revive growth since mid-2015. Among them, deregulatory measures to boost foreign investment and tax reforms for businesses. In September 2015, President Widodo reshuffled his cabinet to speed up government spending on infrastructure projects.

Still many industries remain barred from foreign investment, and on a political level, Indonesia's decentralisation after the end of the authoritarian rule of President Suharto still impedes policy coordination for infrastructure development, often leading to spending inefficiencies. Without more reforms to resolve the structural economic problems, Indonesia's economic growth rate remains below its potential.

## Economic situation

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

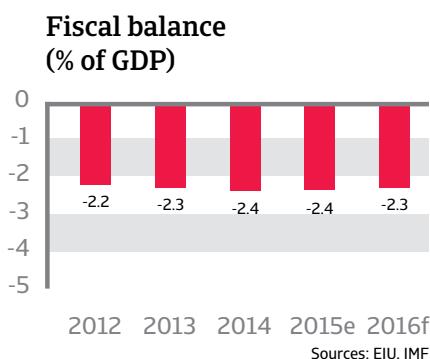


### Economic slowdown in 2015 a consequence of lower exports

Indonesia is a large and relatively closed economy. Structurally it is vulnerable to external shocks, due to a high dependency on commodity exports (which account for more than 60 % of exports), its dependence on oil imports and a high stock of inward portfolio investment.

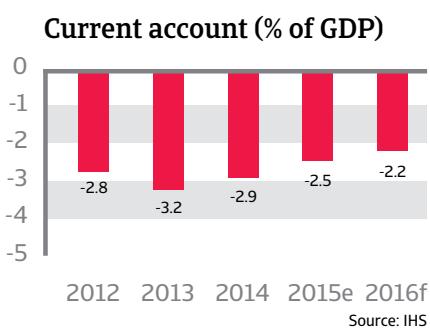
While average annual GDP growth rates have been stable around 5.5 % since 2000, there are still deep structural problems. Red tape, widespread corruption, a poor legal system, an inflexible labour market and poor infrastructure, keep the growth rate below its potential. Despite the on-going reforms, there are still too many barriers to foreign direct investment (FDI), which is severely hampered by poor infrastructure and limited energy supply.

In 2015 weaker domestic consumption, decreased commodity prices and the economic slowdown in China led to lower GDP growth, expected at 4.7 %. With continuing rupiah volatility and demand for commodities (especially from China) expected to remain subdued, the 2016 economic growth is forecast at 4.4 %.



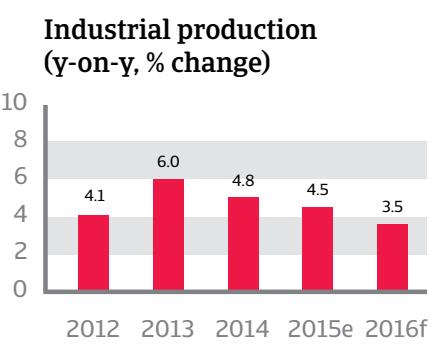
## Robust economic fundamentals

Indonesia's economic fundamentals remain robust. Government finances are stable, with good solvency. Early 2015 gasoline subsidies were scrapped entirely and subsidies for diesel were capped, taking advantage of decreasing oil prices. This move provided a major relief for the national budget, as in the past the share of those subsidies amounted to around 15 % of the total budget. The subsidies cut should allow the government to increase spending on infrastructure improvement, healthcare and education. That said, government finances remain vulnerable to exchange rate risk (43 % of debt is denominated in foreign currency) and external refinancing risk (50 % is externally financed). Fiscal flexibility remains limited by a narrow tax base of just 16 % of GDP. Indonesia's foreign debt level, currently at about 30 % of GDP, remains manageable, although debt service is relatively high. Liquidity is sufficient to cover imports.



## An external position more vulnerable than in the past

Despite generally sound economic fundamentals, Indonesia's external position is currently more vulnerable than in the past. This is due to persistent current account deficits and higher private sector external debt, which make the economy susceptible to investment volatility caused by interest rate increases by the US Federal Reserve. In 2013 Indonesia already experienced a massive international capital outflow when the local currency came under pressure, as the US Federal Reserve tapered its bond-buying programme and foreign investors sold off financial assets and shares. However, since then measures have been taken to diminish exchange rate risks with a tighter monetary policy and interventions by the central bank, which has implemented foreign exchange controls in order to reduce dollarization and to stabilise the rupiah. In 2015 the rupiah depreciated 8 % year-on-year, far less than the currencies of other commodity exporting countries. The depreciation has some negative effects on the Indonesian economy, as it fuels higher inflation through rising import prices, which hamper the previously promising domestic consumption growth.



## External indebtedness poses a risk to Indonesian businesses

Downward pressure on the rupiah will most likely persist in 2016 due to the slowdown in China and low commodity prices, which have reduced exports. While the overall economy is generally shielded against major repercussions due to a relatively low foreign debt level and strong access to capital, Indonesian firms are increasingly vulnerable to currency volatility. This is because of their large share of external debt: corporate external debt has more than doubled since 2010 and currently amounts to more than 70 % of total exports, the highest such ratio in the world. This increases refinancing risk for firms and their vulnerability to exchange rate depreciation.

At the same time, the Indonesian banking sector has, thus far, been resilient to the slowdown in economic growth. Non-performing loans are low at around 2.5 % and capitalisation is strong, with a capital adequacy ratio (CAR) of more than 20 %.

# Japan

## Main import sources (2014, % of total)

China:  
USA:  
Australia:  
Saudi Arabia:  
United Arab Emirates:

## Main export markets (2014, % of total)

USA:  
China:  
South Korea:  
Taiwan:  
Hong Kong:

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	1.7	1.4	-0.1	0.7	1.0
Consumer prices (y-on-y, % change)	0.0	0.4	2.7	0.8	0.4
Private consumption (y-on-y, % change)	2.3	1.7	-1.0	-0.8	1.2
Retail sales (y-on-y, % change)	1.5	0.8	-1.0	-0.7	2.9
Industrial production (y-on-y, % change)	0.2	-0.6	2.1	-0.8	0.8
Unemployment rate (%)	4.3	4.0	3.6	3.4	3.3
Real fixed investment (y-on-y, % change)	3.2	2.6	1.1	0.3	2.6
Export of goods and non-factor services (y-on-y, % change)	-0.2	1.1	8.3	3.0	2.4
Government debt (% of GDP)	212.4	217.5	222.9	225.9	223.7

\* estimate \*\*forecast

Source: IHS

## Japan industries performance forecast

January 2016



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

# The insolvency environment

## Japanese insolvencies expected to decrease further in 2016

Since 2009, annual corporate insolvencies in Japan have decreased. However, smaller players in some sectors like retail and construction are more vulnerable due to shrinking margins. Additionally, businesses that rely on imported products also face increased expenses due to the depreciation of the Japanese yen, which could hurt their financial resilience.

### Japanese business insolvencies (year-on-year change)



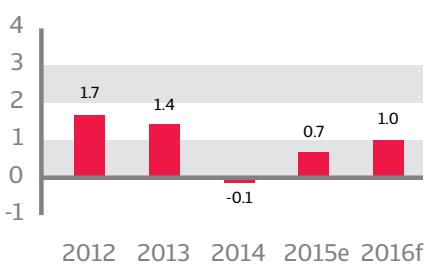
# Economic situation

## Ruling coalition firmly in control with a robust legislative mandate

In the 20 years leading up to 2013, Japan suffered from very low inflation, with bouts of deflation and low economic growth. Deflation depressed domestic consumption as businesses and consumers alike delayed purchases in the hope of getting a better deal in the future.

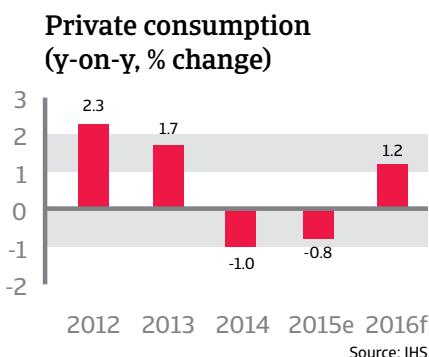
Prime Minister Shinzo Abe, who came into office in December 2012, immediately launched drastic measures to turn around Japan's contracting and deflationary economy. Abe devised the so called 'three arrow' approach, now dubbed 'Abenomics', consisting of drastic monetary easing, fiscal policy measures and structural reforms. In July 2013, he secured a comfortable majority in the Upper House, followed by a victory in the December 2014 snap elections, as he was able to maintain a two-thirds majority of his centre-right coalition government consisting of the Liberal Democratic Party (LDP) and the smaller Komeito Party.

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



## Slow pace of economic recovery

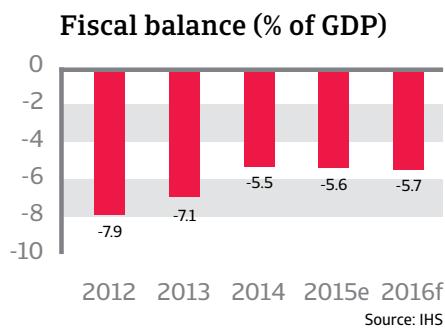
In 2014 GDP growth shrank slightly (down 0.1 %), mainly due to a 1.0 % contraction in private consumption, which accounts for around 60 % of the Japanese economy. The decrease in household spending was due to a value added tax increase in April 2014, implemented in order to consolidate the high public deficit.



With GDP growth of 0.7 %, the pace of Japan's economic recovery remained slow in 2015, with both private consumption and industrial production contracting. While growth was sustained by lower energy prices, an accommodative monetary policy and yen depreciation, the large monetary and fiscal stimulus still struggled to significantly boost higher growth and inflation. Rising business profits have so far not translated into wage growth and business investment, while inflation remains stubbornly low, expected at 0.4 % in 2016.

This comes as a disappointment, given the large fiscal stimulus measures and the fact that since 2013 the Bank of Japan has widely expanded the monetary base through the purchase of long-term bonds (quantitative easing) in order to devalue the Japanese yen - to promote exports, discourage imports and generate inflation. By expanding the amount of cash in circulation, businesses and consumers should have more cash to spend.

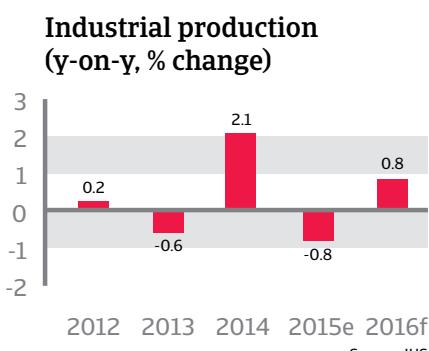
In 2016 the economy is expected to grow 1.0 %, assuming the benefits that the ultra-loose monetary policy provides to private consumption and private sector investment finally bear fruit.



### Public debt remains high

Following a long period of loose fiscal policy, the Japanese government is struggling with extremely high public debt (more than 225 % of GDP in 2015). 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 this level of debt is costly and further increasing government debt would at some point render it unsustainable.

So far, the government's economic policy has failed to address the large fiscal deficit and government debt. The government debt is expected to decrease to slightly below 225 % of GDP in 2016.



### Will structural reforms be implemented at last?

Japan faces some major challenges. Beside the high fiscal deficit 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 a lack of workforce, leading to higher labour costs and 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 all of those 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 (2014, % of total)

China:  
Singapore:  
Japan:  
USA:  
Thailand:

16.4 %  
12.4 %  
8.7 %  
7.8 %  
6.0 %

### Main export markets (2014, % of total)

Singapore:  
China:  
Japan:  
USA:  
Thailand:

13.9 %  
13.5 %  
11.0 %  
8.1 %  
5.5 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	5.5	4.7	6.0	4.8	4.4
Consumer prices (y-on-y, % change)	1.7	2.1	3.1	3.0	3.2
Real private consumption (y-on-y, % change)	8.3	7.2	7.0	5.7	4.8
Industrial production (y-on-y, % change)	5.4	3.4	5.1	4.4	3.3
Real fixed investment (y-on-y, % change)	19.0	8.2	4.8	3.4	4.0
Fiscal balance (% of GDP)	-4.8	-4.5	-3.9	-3.5	-3.0
Export of goods & non-factor services (y-on-y, % change)	-1.7	0.3	5.1	0.3	2.3
Foreign debt/GDP	33	34	34	33	32
Current account/GDP (%)	11.6	6.1	3.7	3.8	3.2

\* estimate \*\*forecast

Sources: IHS, EIU, IMF

## Malaysia industries performance outlook

### January 2016



**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:**  
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**Poor:**  
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**Bleak:**  
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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:

King Tuanku Abdul Halim Mu'adzam Shah (since April 2012); the position of the king is primarily ceremonial

### Head of government:

Prime Minister Mohamed Najib bin Abdul Razak (since April 2009)

### Form of government:

The United Malays National Organization (UMNO) is the leading party in a 13-party coalition-government of National Front (Barisan Nasional, BN).

### Population:

30.5 million

### Prime minister involved in corruption scandal

The Malaysian population is an ethnic and religious mix of Muslim Malay (50 %), Buddhist Chinese (24 %), Hindu Indians (7%) and indigenous people (11 %). Despite its majority, the Malay population possesses only about 19 % of the wealth. 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.

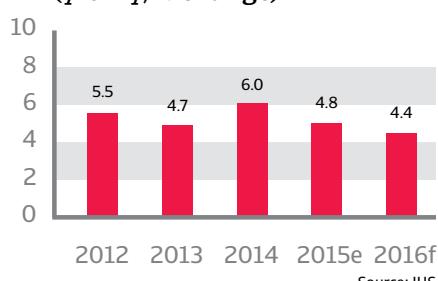
The Barisan Nasional (BN) coalition led by the United Malays National Organisation (UMNO) has been in power since Malaya achieved independence in 1957. Despite growing electoral successes by opposition parties, UMNO remains firmly in power.

However, political tensions have increased since Prime Minister Najib Razak has been confronted with corruption allegations: government investigators found that nearly USD 700 million from a government investment fund was deposited into the prime minister's bank account. The issue has led to street demonstrations against corruption and the dismissal of a couple of ministers, exposing severe wrangling within the administration and the UMNO party.

Externally, the traditionally strained relations with neighbouring Singapore have improved significantly over the last few years, with increased cooperation between the two countries in business development and tourism. Gradual economic integration is expected to continue.

## Economic situation

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



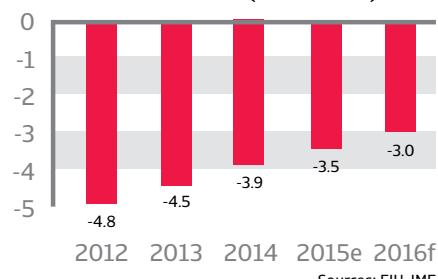
### GDP growth expected to slow down in 2015 and 2016

Malaysia's economic growth is expected to slow down to 4.8 % in 2015 and 4.4 % in 2016, as decreased demand from China and a lower oil price detract from export performance and eat into government revenues. GDP growth is driven by private consumption (despite rising private sector indebtedness and household debt) and high investment, partially driven by government expenditure (e.g. by accelerating public infrastructure projects).

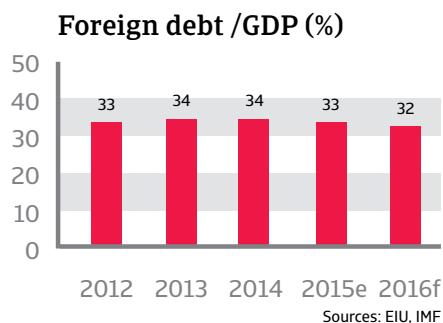
Weak fiscal discipline and huge expenditures on fuel subsidies have led to structurally large budget deficits. Indeed, the country has not had a surplus since 1997. As any improvement in Malaysia's credit rating and in more long-term investment is constrained by this weak fiscal position, the government cut subsidies for gasoline and diesel, followed by the introduction of a goods and services tax (GST) of 6 % in April 2015 in order to decrease the economy's reliance on oil revenues.

The Malaysian ringgit has sharply depreciated in 2015 due to the slump in commodity prices and as the political fall-out from the on-going corruption scandal involving the prime minister has triggered a pull-out by foreign investors from stocks and bonds. Portfolio investment and external finance requirements in Malaysia are high compared to reserves, making the ringgit vulnerable in the current environment. Dependence on foreign currency inflows from substantial oil and commodity exports amplifies this effect. The ringgit is now undervalued and should be expected to rise.

### Fiscal balance (% of GDP)



Sources: EIU, IMF



So far, the sharp currency depreciation has not led to high inflation, mainly due to low oil prices and the waning impact of the GST tax hike in H2 of 2015. The central bank left the benchmark interest rate unchanged at 3.25% since July 2014. A flexible exchange rate serves as an effective shock absorber, increasing export competitiveness.

Malaysia's sovereign payment capacity is guaranteed by low foreign debt (32 % of GDP; 38 % of exports of goods and services in 2015), ample liquidity and a relatively well diversified economy. International reserves amount to more than eight months of import cover.

## The Philippines

### Main import sources (2014, % of total)

China:  
USA:  
Japan:  
South Korea:  
Singapore:

15.2 %  
8.9 %  
8.2 %  
7.7 %  
6.9 %

### Main export markets (2014, % of total)

Japan:  
USA:  
China:  
Hong Kong:  
Singapore:

22.5 %  
14.1 %  
13.0 %  
9.0 %  
7.2 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	6.7	7.1	6.1	5.5	5.3
Consumer prices (y-on-y, % change)	3.2	2.9	4.2	1.5	2.9
Real private consumption (y-on-y, % change)	6.6	5.6	5.4	6.1	5.6
Industrial production (y-on-y, % change)	7.7	13.9	7.3	1.0	4.1
Real fixed investment (y-on-y, % change)	10.8	12.2	6.8	8.8	7.2
Export of goods & non-factor services (y-on-y, % change)	8.6	-1.0	11.3	5.2	5.1
Foreign debt/GDP	27	25	22	20	18
Current account/GDP (%)	2.5	2.8	3.5	2.5	2.6

\* estimate \*\*forecast

Sources: IHS, EIU, IMF

## Philippines industries performance outlook

January 2016



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



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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 Benigno Aquino  
(since June 2010)

### Government type:

Presidential republic. The Philippines' constitution is strongly inspired by the US constitution.

### Population:

100.1 million

### Presidential and general elections due to be held in May 2016

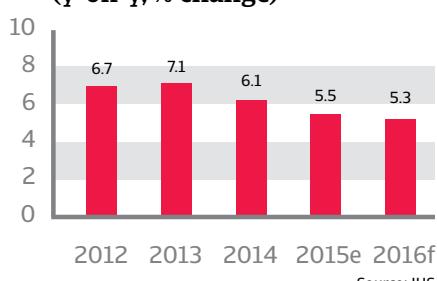
Although the Philippines have traditionally been quite politically volatile, the situation has improved markedly under the current president, Benigno Aquino, whose Liberal Party-led coalition controls a majority in the Lower House and is favoured by most of the population. As the country's constitution bars presidents from serving two consecutive terms in office, Aquino cannot run for another term in the May 2016 presidential elections.

### Increasing problems with China

Relations with China have deteriorated since 2013, due to Beijing's growing assertiveness in the South China Sea. China has repeatedly seized islands claimed by Manila and Chinese ships have blocked supplies to Philippine garrisons in the contested area. The Philippines has regularly tried to convince its ASEAN peers to take a tougher diplomatic stance against China in the South China Sea conflict, with mixed results so far. Against Beijing's resistance Manila has finally brought the case to the Permanent Court of Arbitration (PCA) in order to clarify the legality of China's claims under the United Nations Convention on the Law of the Sea (UNCLOS). In October 2015, the PCA ruled that it has jurisdiction over the case.

## Economic situation

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

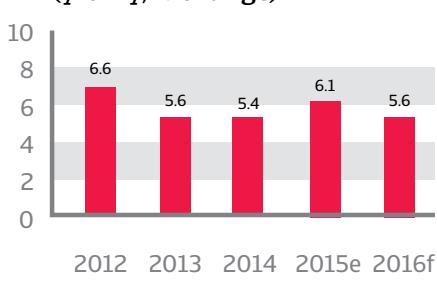


### Persistent high growth rates

Since 2012, economic growth has been persistently high, driven mainly by private consumption which accounts for about 70 % of the economy. Growth has also been sustained by rising demand for Philippine exports such as electronics.

In 2015 and 2016 domestic demand is expected to remain robust, while weaker exports will lead to slightly lower growth rates than in previous years (about 5% per annum in 2015 and 2016). However, despite robust domestic demand, economic expansion is still hampered by a difficult business environment, with corruption and poor infrastructure impeding investments. Necessary rail networks, ports, roads and airport developments have all faced delays, and poor infrastructure drags on higher economic growth. The outgoing Aquino administration has recently started to speed up the launch of public works and infrastructure projects before his term ends in early 2016.

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



Inflation is under control, and decreasing oil prices may even lead to lower inflation than currently forecast. This would give a further boost to consumer spending. Public finances are healthy, supporting continued government spending.

Consolidation has helped the Philippine banking sector to remain healthy. Banks are largely financed by deposits, making them more resilient to tighter credit conditions in the wholesale credit market. Traditionally, banks have been reluctant to lend to the private sector, leading to structural underinvestment.

The external macroeconomic situation is robust, with manageable foreign debt (18% of GDP; 65 % of exports of goods and services expected in 2016) and ample liquidity. The current account is structurally positive due to the inflow of remittances from overseas workers. External financing requirements are low and international reserves amount to more than 15 months of import cover.

## Singapore

### Main import sources (2014, % of total)

China:  
Malaysia:  
USA:  
South Korea:  
Japan:

12.1 %  
10.7 %  
10.3 %  
5.9 %  
5.5 %

### Main export markets (2014, % of total)

China:  
Malaysia:  
Hong Kong:  
Indonesia:  
USA:

12.6 %  
12.0 %  
11.0 %  
9.4 %  
5.9 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	3.4	4.4	2.9	1.9	1.5
Consumer prices (y-on-y, % change)	4.5	2.4	1.0	-0.5	0.8
Real private consumption (y-on-y, % change)	3.4	3.6	2.5	4.4	3.4
Retail sales (y-on-y, % change)	-2.1	-7.3	-0.6	5.2	2.6
Industrial production (y-on-y, % change)	0.3	1.7	2.7	-4.5	1.1
Unemployment rate (%)	2.0	1.9	2.0	1.9	2.1
Real fixed investment (y-on-y, % change)	8.6	1.1	-1.9	0.2	2.5
Export of goods & non-factor services (y-on-y, % change)	1.7	4.5	2.1	2.8	1.8
Fiscal balance (% of GDP)	1.3	1.9	1.3	0.6	0.6

\* estimate    \*\*forecast

Source: IHS

## Singapore industries performance outlook

January 2016



**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.

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 Tony Tan Keng Yam  
(since September 2011)

### Head of government:

Prime Minister Lee Hsien Loong  
(since August 2004)

### Population:

5.7 million

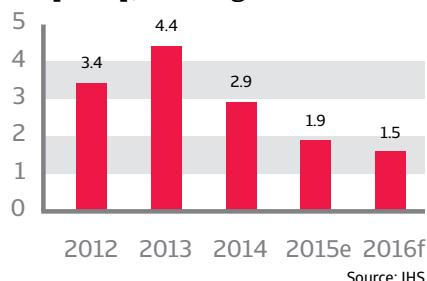
### Stable political situation

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 83 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)

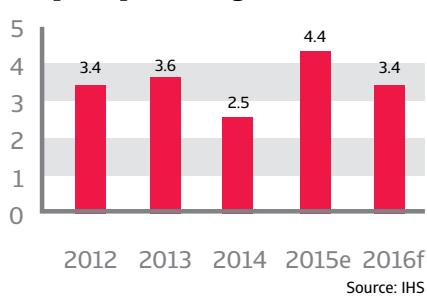


### Slowdown of growth, but strong fundamentals remain

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 certain 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 is starting to bear fruit in the bio-medical sector.

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



After growth of 2.9 % in 2014, Singapore's economic growth is expected to slow down to 1.9 % in 2015 and 1.5 % in 2016, due to lower exports to China and other Asian countries. However, while industrial production contracted in 2015, retail sales grew robustly. Government spending on infrastructure and growing employment in the services sector have helped to boost domestic consumption, with household consumption expected to increase by more than 4.0 % in 2015 and by 3.4 % in 2016.

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 (2014, % of total)

China:  
Japan:  
USA:  
Saudi Arabia:  
Qatar:

17.1 %  
10.2 %  
8.7 %  
7.0 %  
4.9 %

### Main export markets (2014, % of total)

China:  
USA:  
Japan:  
Hong Kong:  
Singapore:

25.4 %  
12.3 %  
5.6 %  
4.8 %  
4.2 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	2.3	2.9	3.3	2.5	2.5
Consumer prices (y-on-y, % change)	2.2	1.3	1.3	0.7	0.7
Private consumption (y-on-y, % change)	1.9	1.9	1.8	1.5	0.6
Retail sales (y-on-y, % change)	2.1	-0.2	0.4	1.3	4.4
Industrial production (y-on-y, % change)	1.7	0.4	0.5	-0.7	2.6
Unemployment rate (%)	3.2	3.1	3.5	3.6	3.4
Real fixed investment (y-on-y, % change)	-0.5	3.3	3.1	3.5	1.5
Export of goods & non-factor services (y-on-y, % change)	5.1	4.3	2.8	1.3	7.6
Fiscal balance (% of GDP)	1.3	1.0	0.6	0.5	0.7

\* estimate \*\*forecast

Source: IHS

## South Korea industries performance outlook

### January 2016

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

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 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.

## Political situation

### Head of state:

President Park Geun-hye  
(since February 2013)

### Head of government:

Prime Minister Hwang Kyo-ahn  
(since June 2015)

### Population:

50.6 million

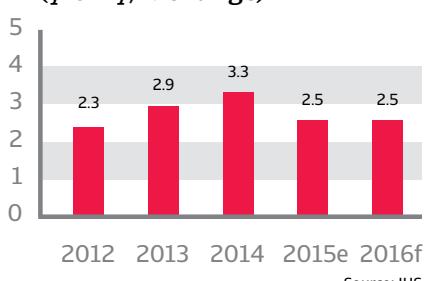
### Stable political situation

The current government is expected to remain in power until the next elections due in 2017. The government of president Park is pursuing a business-friendly policy, while also paying some attention to inequality reduction and social welfare.

The relation with North Korea remains very sensitive but is not expected to escalate. Economic ties with China are getting stronger, with a bilateral free trade agreement signed this year.

## Economic situation

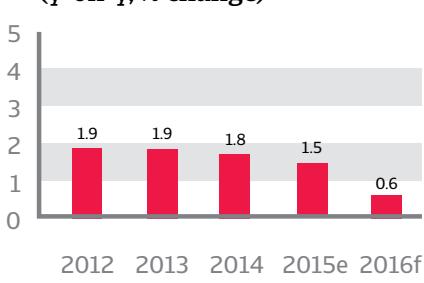
### Real GDP growth (y-on-y, % change)



### Growth slowing due to decreasing exports

After increasing 3.3 % in 2014, South Korea's GDP growth slowed down to 2.5 % in 2015, mainly due to decreasing exports (cars, electronic components), which account for about 50 % of the country's GDP. Exports were negatively affected by decreasing demand from China (South Korea's largest trading partner) and a loss of competitiveness with Japanese businesses in key export markets due to a rise in the won against the Japanese yen. (Japanese firms are the biggest competitors in electronics and car making, among other businesses). Net exports turned negative and industrial production contracted in 2015. It appears that South Korea's 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.

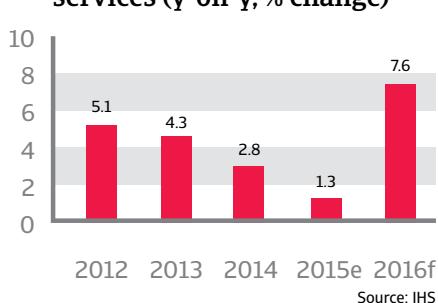
### Real private consumption (y-on-y, % change)



Korean households are, on average, highly indebted (about 160% of disposable income), and this weighs on private consumption and on the health of the financial sector.

In order to spur consumer sentiment and support exporters, the Bank of Korea has cut its key interest rate several times since the end of 2014, down to an all-time low of 1.5 %. Inflation decreased to 0.7 % in 2015, well below the central bank's target of 2.5 % - 3.5 %.

### Export of goods & non-factor services (y-on-y, % change)



The government has increased public spending to support the economy. South Korea is seeking to move away from export-led growth to growth driven by services and domestic consumption. Reform of chaebols, the deregulation of both the labour market and service sector and more support through loans and technical expertise to small and medium enterprises (SMEs) should help to increase competitiveness and support growth. The low public debt level (36 % of GDP in 2014), low external debt and consistent current account surpluses provide the South Korean government with flexibility in times of adverse economic conditions and provide some protection against international investment volatility.

## Taiwan

### Main import sources (2014, % of total)

China:  
Japan:  
USA:  
South Korea:  
Saudi Arabia

17.9 %  
15.6 %  
10.3 %  
5.6 %  
5.1 %

### Main export markets (2014, % of total)

China:  
Hong Kong:  
USA:  
Singapore:  
Japan:

26.2 %  
13.6 %  
11.1 %  
6.5 %  
6.3 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	2.1	2.2	3.8	1.0	2.0
Consumer prices (y-on-y, % change)	1.9	0.8	1.2	-0.3	1.0
Private consumption (y-on-y, % change)	1.8	2.3	3.3	2.4	2.5
Retail sales (y-on-y, % change)	0.5	0.5	3.0	0.7	3.1
Industrial production (y-on-y, % change)	-0.2	0.5	6.4	-1.3	2.2
Unemployment rate (%)	4.2	4.2	4.0	3.8	3.8
Real fixed investment (y-on-y, % change)	-2.8	5.2	1.8	1.3	2.6
Real exports of goods & non-factor services (y-on-y, % change)	0.3	3.5	5.9	-0.1	1.7
Fiscal balance (% of GDP)	-1.5	-0.8	-0.8	-0.7	-0.5

\* estimate \*\*forecast

Source: IHS

## Taiwan industries performance outlook

### January 2016

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

## Political situation

### Head of state:

President Ma Ying-jeou, Kuomintang (KMT), newly-elected president Tsai Ing-wen (DPP) to take over in May 2016.

### Government type:

Multiparty democratic regime headed by popular vote-elected president.

### Population:

23.5 million

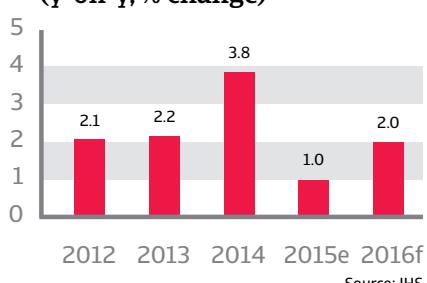
### Relationship with China remains the key issue in Taiwanese politics

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 invade the island in the event of a formal declaration of independence. Since President Ma came to power in 2009, he successfully sought to improve relations and deepen economic ties with China. In June 2013, China and Taiwan agreed on a Trade in Service Agreement (TISA). However, TISA is controversial in Taiwan because it is widely perceived as increasing Taiwan's economic dependence on China. In November 2015 Taiwan's President Ma met China's President Xi Jinping in Singapore - the first meeting between the leaders of the two countries. However, the DPP won the January 2016 presidential and general elections, which could complicate relations with mainland China in the future.

## Economic situation

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



### Slowdown of growth due to decreasing exports

Taiwan succeeded in transforming itself from a developing nation into an industrial high-income country, focusing on the export of electronics and computer equipment, basic metals and plastics. Its economy is mainly export-oriented, 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 China.

This vulnerability became visible in 2015, as lower demand from China had its impact on exports, which contracted 0.1 % year-on-year. Economic growth slowed down to 1.0 % after 3.8 % in 2014. In order to support growth, the Central Bank of Taiwan lowered the interest rate twice at the end of 2015. In 2016 a modest recovery to a 2 % growth rate is expected, as investment, industrial production and exports are forecast to rebound.

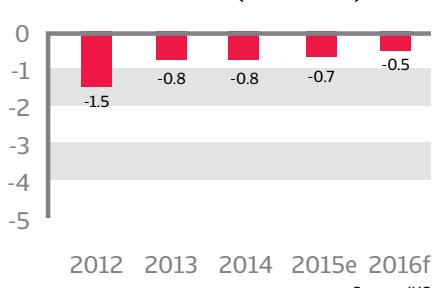
That said, Taiwanese businesses not only suffer from decreased Chinese demand, but also from the fact that China's industries increasingly climb up the technological value chain. As China competes in key sectors (e.g. semiconductors), Taiwan will have to look for new high value-added alternatives. Therefore, productivity increases and the diversification of the economy are the main long-term challenges. The country also suffers from its political isolation, as other countries are reluctant to engage in free-trade talks with Taiwan. Yet Japan, South Korea and China - Taiwan's main competitors - are signing many deals of their own.

Taiwan's external financial situation is very solid. The current account surplus is very large and the country has ample foreign reserves. Taiwan's robust economic fundamentals support its currency but the Central Bank of Taiwan regularly intervenes to prevent a sharp appreciation of the Taiwan dollar, which would hurt export competitiveness. The economy benefits from efficient goods and labour markets, a well-developed financial sector, as well as sophisticated education and healthcare systems and sound infrastructure.

### Export of goods & non-factor services (y-on-y, % change)



### Fiscal balance (% of GDP)



## Thailand

### Main import sources (2014, % of total)

China:  
Japan:  
USA:  
UAE:  
Malaysia:

16.9 %  
15.6 %  
6.4 %  
5.6 %  
5.6 %

### Main export markets (2014, % of total)

China:  
USA:  
Japan:  
Malaysia:  
Hong Kong:

11.0 %  
10.5 %  
9.6 %  
5.6 %  
5.5 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	7.3	2.8	0.9	2.5	2.5
Consumer prices (y-on-y, % change)	3.0	2.2	1.9	-0.9	1.6
Private consumption (y-on-y, % change)	6.3	0.8	0.6	2.0	2.6
Industrial production (y-on-y, % change)	2.1	2.0	-5.0	-1.9	1.6
Real fixed investment (y-on-y, % change)	10.2	-0.8	-2.6	4.1	5.3
Fiscal balance (% of GDP)	-4.8	-2.1	-2.2	-2.3	-2.4
Export of goods & non-factor services (y-on-y, % change)	5.1	2.8	0.0	1.3	3.0
Foreign debt/GDP	27	32	34	35	35
Current account/GDP (%)	-0.4	-0.9	3.2	2.4	1.5

\* estimate \*\*forecast

Sources: IHS, EIU, IMF

## Thailand industries performance outlook

### January 2016



**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.

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 Bhumibol Adulyadej  
(since June 1946)

### Head of government:

Prime Minister General Prayuth Chan-ocha (since August 2014)

### Government type:

Constitutional monarchy. Currently a military interim government is in power.

### Population:

67.9 million

### Stability restored for the time being, but major issues remain

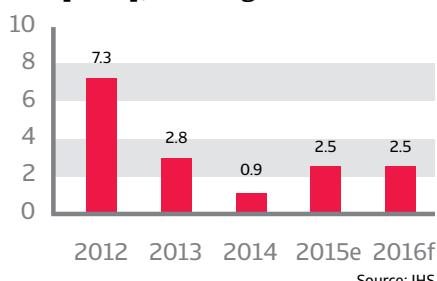
In 2013 and early 2014 the political crisis in Thailand escalated again, combined with mass demonstrations and violent street protests. In May 2014 the removal from office of Prime Minister Yingluck Shinawatra by a Constitutional Court's verdict was immediately followed by a military coup. A National Council for Peace and Order was formed, headed by General Prayuth, who has been appointed prime minister. The military junta imposed martial law and a national curfew, and has repealed the constitution.

The military junta is determined to remain in power for the time being. A new constitution has been drafted, designed to curb the powers of populist politicians, e.g. by transferring major political powers to unelected bureaucrats at the expense of an elected parliament. The government announced that the new constitution will be submitted to a public referendum, however it is still unclear when it will take place. At the same time, the government announced that general elections will not be held before 2017.

This means that a certain degree of political stability seems to be assured in the short term. However, in the long term, political uncertainty remains a major issue, given that the underlying structural conflict arising from the deep political, social and economic division between the old establishment (royal court, 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. High income inequality and poverty has increased social instability, which together with the current autocratic political trend increases the likelihood of renewed large scale protests - and the incentive for the military government to introduce costly populist transfer policies in order to appease the rural poor.

## Economic situation

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

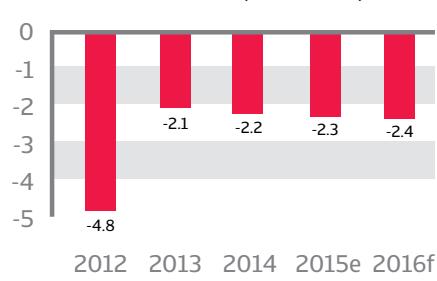


### Modest economic recovery after the military coup

Political uncertainty led to a low 0.9 % economic growth rate in 2014, as investment and government spending decreased and business and consumer confidence were negatively affected. That said, with the return of political stability, growth picked up again in 2015, mainly supported by increased domestic demand and higher government consumption, strong public investments in infrastructure, productivity enhancement and fiscal stimuli for businesses. Government spending is also expected to sustain GDP growth in 2016, forecast at 2.5 %.

The increased public spending is expected to lead to only slightly increasing public deficits in 2015 and 2016, as an expansion of the tax base will generate additional revenues. The military junta has stopped the costly and inefficient rice purchase programmes of the former government, which proved to be a serious liability for government finances.

### Fiscal balance (% of GDP)



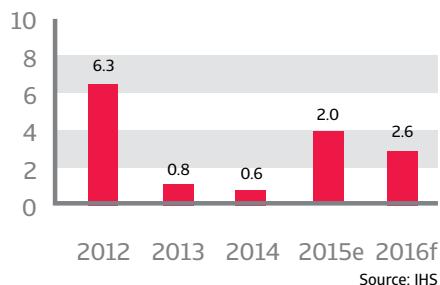
### High household debt could be an issue in the future

Reliance on tourism exposes Thailand to economic downturns in other economies (especially China, which accounts for a major share of tourist arrivals) and risks from security issues. Regarding exports, decreasing Chinese demand has had an impact, but Thailand's export markets are rather diversified. In contrast to some of its Southeast Asian peers, it is not a major mineral exporter which depends on China for the bulk of its exports. Thailand's current account surplus is expected to decrease in 2015 and

2016, and with relative competitiveness in decline, the surpluses will be largely the result of lower import volumes combined with falling commodity import prices.

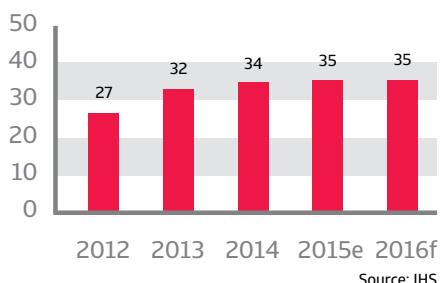
High household debt, inequality and low incomes (especially in rural areas) limit the prospects for future increases in consumer spending. With more than 150 % of GDP, private sector debt is extremely high compared to standards in other Asian countries and more advanced economies. Debt driven domestic demand cannot be expected to rise in the long term, leading to slower growth rates in the future.

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



Source: IHS

### Foreign debt/GDP (%)



Source: IHS

### Some resilient economic fundamentals

Thailand's public debt (47 % of GDP) is sustainable, with external financing amounting to only 15 % of it, while foreign currency denominated debt amounts to just 4.5 % of GDP, insulating the government from external shocks. The country's solid payment capacity and liquidity is underpinned by moderate foreign debt (in 2015: 35 % of GDP and 51% of exports, with short-term debt amounting to 42 % of GDP). International reserves are forecast to amount to about seven months of import cover in 2015 and 2016. Thailand is relatively insulated from negative external trends through its currency, which is one of the most stable ones in Southeast Asia. Short-term portfolio investment is rather low, while inflows of more long-term foreign direct investment (mainly from Japan) is stable.

### A more subdued long-term outlook

Thailand's sovereign and currency risk is low, and the short-term economic outlook is positive, but the long-term perspective is more negative, due to decreasing international competition, high private debt levels and the looming political uncertainty. While current economic growth is mainly based on government investment and a return of business and consumer confidence, the latter could decrease again in case of renewed political turmoil, e.g. before the next general elections. Thailand's political future remains uncertain, given the persistent deep political, social and economic division within the country.

## Vietnam

### Main import sources (2014, % of total)

China:  
South Korea:  
Japan:  
Thailand:  
Singapore:

30.4 %  
15.0 %  
8.9 %  
4.9 %  
4.7 %

### Main export markets (2014, % of total)

USA:  
China:  
Japan:  
South Korea:  
Malaysia:

20.0 %  
10.4 %  
10.3 %  
5.0 %  
3.9 %

Key indicators	2012	2013	2014	2015*	2016**
Real GDP (y-on-y, % change)	5.2	5.4	6.0	6.4	6.4
Consumer prices (y-on-y, % change)	9.1	6.6	4.1	0.7	4.3
Industrial production (y-on-y, % change)	7.0	5.9	7.6	9.9	8.3
Real exports of goods & non-factor services (y-on-y, % change)	15.7	17.4	11.6	8.5	9.1
Fiscal balance (% of GDP)	-4.8	-3.9	-4.4	-4.0	-4.8
Current account/GDP (%)	5.8	5.6	4.8	2.2	1.0
Foreign debt/GDP (%)	39	38	37	35	34
Foreign debt/Export of goods and services (%)	48	43	41	40	37
International reserves (in months of merchandise imports)	2.7	2.3	2.7	3.1	3.3

\* estimate   \*\*forecast

Sources: IHS Global Insight, EIU, IMF

## Vietnam industries performance outlook

January 2016



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 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.

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 Truong Tang Sang  
(since July 2011)

### Head of government:

Prime Minister Nguyen Tan Dung  
(since June 2006)

### Government type:

Communist state with an increasingly market orientated economy.

### Population:

94.3 million

### Disputes within the party over the pace of reforms

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. However, within the party there seems to be an on-going struggle between hardliners and officials more inclined to economic reform. This political division has dampened reform efforts and diminished policy effectiveness in the past. The internal struggle over the future policy direction is about to intensify further before the next National Party Congress due in early 2016, when a new party leadership is expected to be chosen.

Externally, the territorial dispute with China over conflicting claims in the South China Sea escalated in May 2014, when China deployed a drilling rig in waters claimed by Vietnam. This led to confrontation between rival vessels and violent anti-Chinese protests in Vietnam. After the removal of the oil rig in July 2014, both sides began talks to de-escalate the situation and finally agreed to use an existing border dispute mechanism to find a solution to the territorial dispute. However, it is unlikely that this conflict will be resolved anytime soon.

### Diversification of trading relationships

To counter growing Chinese assertiveness in the South China Sea, Vietnam is keen to improve its political and security cooperation with the US and Japan. However, Vietnam lacks the military capability to pose a serious challenge to Chinese actions, and its manufacturing sector depends heavily on imported Chinese raw materials. Moreover, given the ideological similarities of the regimes in both countries, there is still a strong pro-China faction within Vietnam's Communist Party.

Nevertheless, Vietnam has taken steps to further diversify its trading options by joining the US-led Trans-Pacific Partnership (TPP) and by recently reaching an agreement on a free trade deal with the European Union. Should the TPP be ratified by the participating countries, Vietnam's medium-term growth prospects are expected to increase significantly.

## Economic situation

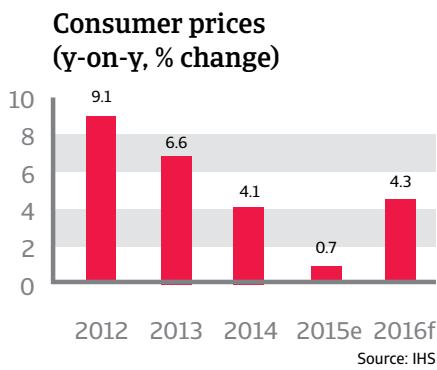
### Real GDP growth (y-on-y, % change)



### High growth and inflation back under control

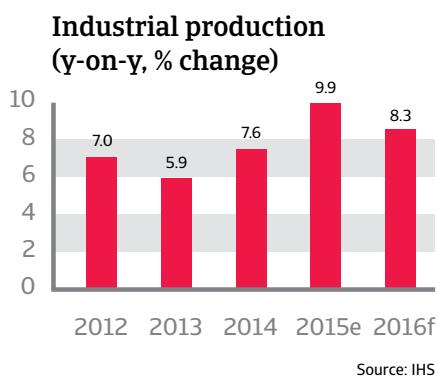
Vietnam is slowly moving from a centralised communist economy to a system of market-socialism. The economy is extremely export-driven, specialising in computers, electronics, textiles and footwear. Economic reform (given the name 'doi moi' when initiated in 1986) has resulted in relatively high economic growth. While the business environment is slowly improving, it continues to be hampered by weak institutions and endemic corruption. The level of state intervention remains high, and many of the state-owned enterprises (SOE) are inefficient.

Since 2000 the Vietnamese economy has recorded relatively high growth rates of 6.5 % on average, and this robust growth is expected to continue in 2016, with continued high increases in export and industrial production. However, foreign-owned businesses accounted for about 70 % of Vietnam's exports in 2015, which makes the economy vulnerable to a slowdown should foreign companies withdraw their operations (e.g. in search of cheaper labour).



The persistently high inflation seen over the last couple of years (with double-digit rates in 2010 and 2011) has, since 2013, finally decreased, enabling the central bank to repeatedly lower the benchmark interest rate to the current rate of 6.5 %. In 2015 consumer prices are expected to increase by only 0.7 %.

Vietnam's public debt has sharply increased in recent years, to 53 % of GDP in 2014, as a result of lax fiscal discipline, expenditure on infrastructure and social welfare and decreasing revenues (as corporate taxes have been cut). Public debt is expected to stabilise in 2015 and 2016. Reforms of inefficient state-owned enterprises and the financial sector are essential. Other structural challenges are improvements to infrastructure, workforce education and the fight against corruption.



### A very weak banking sector

The banking sector, which is dominated by five large state-owned commercial banks, is in a difficult state. The sector suffers from low transparency, weak capitalisation, state intervention and a high rate of non-performing loans (estimated at 10 % to 15 %) due mainly to politically motivated lending. The government has taken some steps to clean up the banks' balance sheets, e.g. by setting up the Vietnam Asset Management Company in order to help recapitalise banks. At the same time, it encourages M&A activity between stronger and weaker banks, but with limited success so far. So far, the banking restructuring efforts have left many Vietnamese businesses with limited access to capital, making it harder for them to compete internationally.

While a comprehensive restructuring of the banking sector still seems remote, any collapse is unlikely as the government would step in to rescue state-owned banks. However, in combination with the high public debt such a bailout could pose a major strain on public finances.



### External economic fundamentals still show some weaknesses

Vietnam has had a strong balance of payments, with solid current account surpluses since 2012. Inflows of foreign direct investment (FDI) are also high. Foreign debt decreased to 35 % of GDP and only 40 % of exports in 2015. More than 80 % of external debt is long term.

Foreign exchange reserves are increasingly sustained by positive current accounts and are more than sufficient to cover the external financing requirements, but with just about three months the import cover remains poor, and liquidity shortages cannot be ruled out. However, given Vietnam's limited international financial integration, sharp exchange rate devaluations are unlikely. While the exchange rate remains pegged to the USD, some moderate devaluations are likely. The exchange rate is strictly managed through a crawled peg system, and recently there have been small devaluations to maintain international competitiveness.

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