Managing risk, enabling trade

# Atradius Country Report

## Asia Pacific – March 2018

# Contents

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

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

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

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

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

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

# China

## Main import sources (2016, % of total)

| | |
|---|---|
| South Korea: | 10.0 % |
| Japan: | 9.2 % |
| Taiwan: | 8.7 % |
| USA: | 8.5 % |
| Germany: | 5.4 % |

## Main export markets (2016, % of total)

| | |
|---|---|
| USA: | 18.4 % |
| Hong Kong: | 13.7 % |
| Japan: | 6.2 % |
| South Korea: | 4.5 % |
| Germany: | 3.1 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 6.9 | 6.7 | 6.9 | 6.4 | 6.3 |
| Inflation (y-on-y, % change) | 1.5 | 2.1 | 1.5 | 2.5 | 3.2 |
| Real private consumption (y-on-y, % change) | 7.2 | 7.7 | 7.8 | 7.6 | 7.6 |
| Real government consumption (y-on-y, % change) | 9.7 | 9.3 | 8.8 | 8.5 | 8.2 |
| Industrial production (y-on-y, % change) | 6.1 | 6.0 | 6.6 | 6.1 | 5.8 |
| Real fixed investment (y-on-y, % change) | 6.6 | 6.2 | 5.0 | 4.8 | 4.7 |
| Fiscal balance (% of GDP) | -3.4 | -3.8 | -4.3 | -4.4 | -4.4 |
| Real exports of goods and services (y-on-y, % change) | -0.2 | 3.5 | 6.0 | 5.0 | 4.2 |
| Current account (% of GDP) | 2.7 | 1.7 | 1.0 | 1.1 | 1.0 |

* estimate **forecast Source: Macrobond

# China industries performance outlook

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

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

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

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

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

## March 2018

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

# Industries performance:

### Insolvencies expected to increase further in 2018

Despite better than expected economic growth in 2017 (see below), business insolvencies in China are expected to increase further in 2018. Companies face tighter lending conditions while the economic structure is changing with a rebalancing towards services and consumption. This will inevitably lead to shrinking business opportunities for sectors such as steel, metals, shipping and mining. The situation is exacerbated by the fact that excess capacity and high indebtedness remain an issue in those industries. While listed and state-owned businesses 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 better-performing industries - often suffer from limited financing facilities.

# 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:
1.38 billion

### President Xi is firmly in power

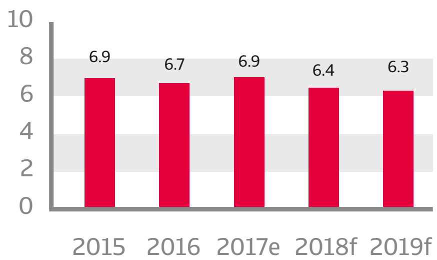
Overall, the political situation in China is stable, with the Chinese Communist Party (CCP) firmly in power. President Xi Jinping has consolidated his power within the CCP at the October 2017 party congress, and is seen as the most powerful Chinese leader since Deng Xiaoping.

The authorities are expected to proceed with an economic policy course characterised by stability and a gradual pace of changes and reforms. In the short term the focus is on reforming state-owned enterprises (SOEs) and the financial sector, on deleveraging indebted local governments and SOEs and on combatting corruption.

China is further increasing its international influence and power projection, e.g. with large direct investments in a range of countries in Asia and Africa (mainly under the umbrella of the 'Belt and Road' initiative) and a more assertive stance in its territorial claims in the South China Sea and the conflict over the Senkaku/Diaoyu islands with Japan. The strengthening of China's geopolitical clout leads to balancing efforts by the USA, Japan and India.

# Economic situation

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



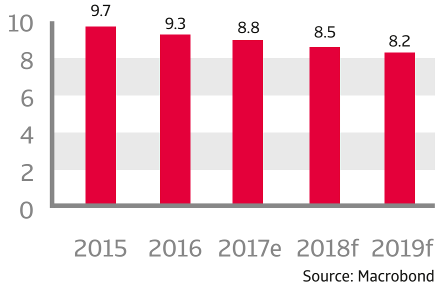

Source: Macrobond

### A growth acceleration in 2017

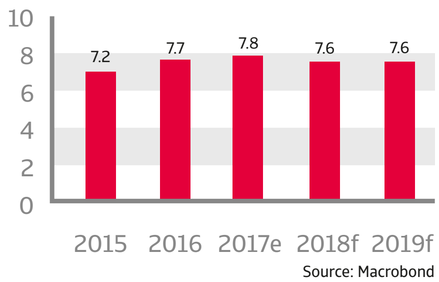
With an economic expansion of 6.9%, 2017 was the first year of (modest) annual GDP growth acceleration since 2010. Exports showed a strong recovery and household consumption remained steady while investment spending bottomed out.

In 2018 China's economy is expected to grow more than 6% as external demand should remain strong. Domestic demand is expected to cool down somewhat due to tighter lending conditions. As a consequence of economic rebalancing – a transition away from export-oriented investments towards more consumption-led growth, China's growth rate is expected to see a gradual, but substantial slowdown reaching a level of about 5.2% in 2022.

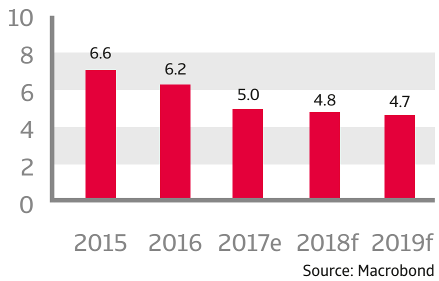
Real government consumption (y-on-y, % change)




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




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




The central government's fiscal deficit should increase further as higher spending is expected to offset tighter monetary policies. While government debt is gradually rising, it still remains at manageable levels. The sovereign's position is supported by a large pool of national savings, which enables the state to finance its debt domestically, reducing any exposure to external shocks (total external debt remains low, at just 13% of GDP in 2018).

## The perils of high debt

The financial situation of local governments is much more tense, not least because of quasi-fiscal spending channelled through Local Government Financing Vehicles, which played a key role in infrastructure investment and growth promotion in the past. At the same time non-financial sector corporate debt is worrying, as it has increased to 142% of GDP in 2017. The financial vulnerabilities visible in the financial, corporate, and real estate sectors and in the local governments are interconnected - a shock in one sector could lead to a chain reaction and impact others.

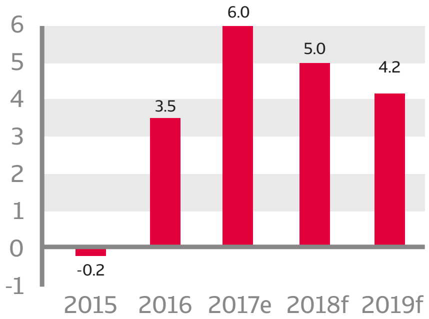
However, Chinese authorities are aware of those risks and have taken some monetary and fiscal actions, while they have proven consistently able and willing to uphold the GDP growth targets that were set for the economy (the central government has tight control over the economic and financial activity in the country). As a consequence the risk of a hard landing, in which a more severe growth slowdown is accompanied by a dramatic unemployment increase and social instability, has diminished - but has not completely disappeared. Due to low public and external debt, and huge international reserves, there is room for both monetary and fiscal stimulus if needed.

The People's Bank of China (PBOC) is eager to reduce the risks stemming from excessive debt and speculative investments by implementing targeted tightening measures. In addition, financial sector regulators have toughened rules. Credit growth slowed from 16.1% at the end of 2016 to 13.6% at the end of 2017 - the first decline in four years. Tighter monetary policy will be accompanied by a recapitalisation of low- and mid-tier banks and corporate debt restructuring programmes. As the bulk of the credits is public debt and lenders are often state-owned, banks can be instructed to refinance debt.

However, the stock of domestic credit will remain at very high levels in the coming years, still posing a major risk to the financial sector, and therefore to the economy as a whole. Monetary tightening could destabilise some lenders, and a relatively large part of commercial loans is potentially at risk of default. There is a need to restructure highly indebted companies, especially in industries with overcapacity like aluminium, cement, coal, construction and steel.

The authorities will probably maintain the capital controls imposed last year in order to limit the threat of potentially large capital outflows. The tighter controls have helped to stabilise the exchange rate, but the expected further monetary tightening in the US this year will probably put downward pressure on the renminbi. However, China holds large international reserves (more than 15 months of import cover in 2018), more than enough to limit the effects of currency depreciation and volatility.

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




Source: Macrobond

## Decline of productivity affects long-term growth prospects

China's total factor productivity, which is a measure of an economy´s long-term dynamism, has continuously weakened in recent years, and it seems this trend will continue until annual GDP growth stabilises at a level of about 4%.

The key to raising productivity growth and creating room for deleveraging would be to implement more economic and social reforms, in order to proceed from low-grade industrial production to a modern centre of innovation. However, for the time being it seems rather improbable that the Chinese government will give market forces a large-enough role to stimulate innovation. The number of large and unprofitable SOEs remains too high and their role too dominant in certain sectors (e.g. oil, mining, telecom, utilities and transport).

# India

### Main import sources (2016, % of total)

| | |
|---|---|
| China: | 17.0% |
| USA: | 5.7 % |
| UAE: | 5.4 % |
| Saudi Arabia: | 5.2 % |
| Switzerland: | 4.2 % |

### Main export markets (2016, % of total)

| | |
|---|---|
| USA: | 16.1 % |
| UAE: | 11.5 % |
| Hong Kong: | 5.1 % |
| China: | 3.4 % |
| United Kingdom: | 3.3 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 7.9 | 7.1 | 6.7 | 7.6 | 8.0 |
| Inflation (y-on-y, % change) | 4.9 | 4.9 | 3.3 | 5.1 | 5.3 |
| Real private consumption (y-on-y, % change) | 6.1 | 8.8 | 7.2 | 8.0 | 7.4 |
| Real government consumption (y-on-y, % change) | 3.0 | 21.1 | 12.1 | 15.4 | 8.1 |
| Real fixed investment (y-on-y, % change) | 6.5 | 2.4 | 2.9 | 5.9 | 7.9 |
| Fiscal balance (% of GDP) | -3.9 | -3.5 | -3.2 | -3.4 | -3.2 |
| Real exports of goods and services (y-on-y, % change) | -5.4 | 4.4 | 3.4 | 3.9 | 3.6 |
| Foreign debt/GDP | 23 | 20 | 19 | 18 | 18 |
| Current account (% of GDP) | -1.1 | -0.5 | -1.9 | -2.1 | -2.0 |

* estimate **forecast Source: Macrobond

# India industries performance outlook

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

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

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## March 2018

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|---|---|---|---|---|
|  |  |  |  |  |
| Consumer Durables | Electronics/ICT | Financial Services | Food | Machines/ Engineering |
|  |  |  |  |  |
| Metals | Paper | Services | Steel | Textiles |
|  |  |  |  |  |

# Political situation

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

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

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

### Population:
1.31 billion

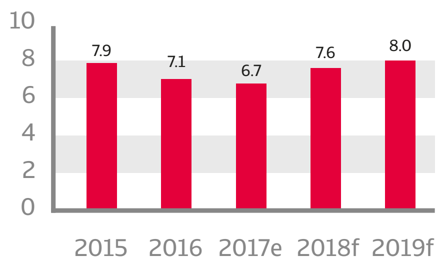
### A reform-minded government in a strong position

The National Democratic Alliance (NDA) coalition, led by Prime Minister Narendra Modi's Bharatiya Janata Party, remains in a strong position, both as union government in New Delhi (where it holds an absolute majority in parliament) and in many larger states. The Modi administration has implemented several major reforms, improving the long-term prospects of the economy. It is expected that socio-economic issues and some tensions within the NDA coalition will not prevent the government from proceeding with reforms in the coming years. Currently it seems probable that the NDA coalition will secure a second five-year term in the 2019 general elections.

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

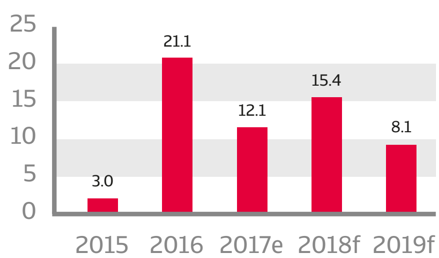
# Economic situation

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



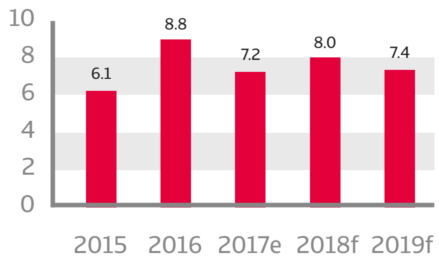

Source: Macrobond

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




Source: Macrobond

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




Source: Macrobond

### Robust growth outlook for 2018

India´s economy benefits from a stable political climate and a reform-oriented government. After growing 6.7% in 2017, real GDP is expected to increase 7.6% in 2018, mainly driven by government expenditures (up 15.4%) and private consumption (up 8.7%), while investments and exports are forecast to grow 5.9% and 3.9% respectively. Inflation is forecast to increase 5.1% in 2018 following a 3.3% increase in 2017. These rates of growth, however, remain within the central bank's target zone of 2%-6%.

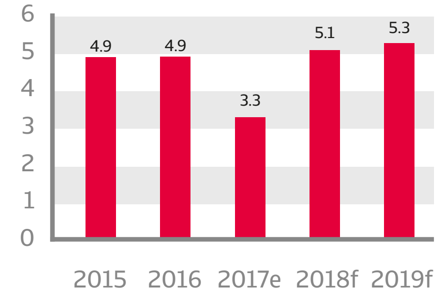
Fiscal consolidation does not show much progress, but the central government's deficit of about 3% of GDP in the coming years remains manageable. Government spending is rising due to subsidy programmes and infrastructure improvements (the government is investing in power infrastructure, one of the largest obstacles to India´s long-term economic growth potential). Revenues have also been increasing, sustained by higher tax income and robust growth.

Public debt as a percentage of GDP (50% of GDP in 2017) is expected to fall gradually and to remain sustainable. It can be widely financed by domestic borrowing and its maturity is long, which mitigates negative effects.

India´s external position is comfortable and the country and sovereign risks remain low. Foreign debt amounted to only 19% of GDP in 2017. The liquidity situation is comfortable with more than eight months of import cover. The current account deficit increased again in 2017 and is expected to remain at a level of about 2% of GDP in 2018 due to rising imports of both consumer and capital goods. Structurally high foreign direct investment and (more volatile) portfolio inflows are high enough to cover the current account deficit and to keep external debt levels low, rendering debt resilient to exogenous shocks. India has an excellent payment record, with no missed payments since 1970, providing it good access to capital markets.

The rupee is expected to depreciate moderately in 2018 (after a relatively strong performance against the USD in 2017), because of the current account deficit, relatively high inflation and monetary policy tightening in the US.

## Inflation (y-on-y, % change)



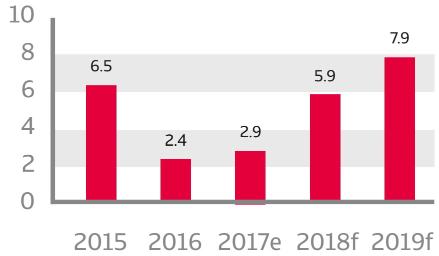
Source: Macrobond

## Important reforms to boost growth in the long-term

The quality of the Indian business environment remains relatively poor due to many structural deficiencies: an underdeveloped agricultural sector, poor infrastructure, inflexible labour laws, excessive bureaucracy, rigid land laws, and a shortage of skilled labour due to the poor education of most of the population. However, the Modi administration has taken steps to improve the business environment, namely a currency exchange initiative introduced in late 2016 and the introduction of a country-wide Goods and Services Tax (GST) in July 2019. While both reforms initially had a negative impact on economic growth in 2017, they will help to push the economic growth rate to a higher level in the coming years.

The currency exchange initiative (in which currency notes were replaced with new series) provides the long-term benefits of enabling the formal economy to grow at the expense of the informal one and increasing tax income. The uniform GST system will create a single national market and enhance the efficiency of domestic trade. That said, reforms in land and labour markets will proceed only gradually at the national level, given strong political opposition from civil society organisations and labour unions.

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



Source: Macrobond

## A weak banking sector and corporate indebtedness remain concerns

While India's economy is expected to maintain its high growth rates in the coming years, private sector investments have decreased in the past few years due to low credit growth from the banking sector and high foreign indebtedness of domestic firms. High levels of non-performing assets at public sector banks are weighing on balance sheets.

While recently announced steps to recapitalise India's state-controlled banks will be supportive for credit growth and stimulate investments, high corporate debt remains a risk for the Indian economy for the time being, and further deterioration of corporates' and public banks' balance sheets cannot be ruled out. To a far greater extent than in other emerging economies, expected losses from non-performing loans and current debt-at-risk is eclipsing bank loan loss reserves in India.

# Indonesia

## Main import sources (2016, % of total)

| | |
|---|---|
| China: | 22.7 % |
| Singapore: | 10.7 % |
| Japan: | 9.6 % |
| Thailand: | 6.4 % |
| USA: | 5.4 % |

## Main export markets (2016, % of total)

| | |
|---|---|
| China: | 11.6 % |
| USA: | 11.2 % |
| Japan: | 11.1 % |
| Singapore: | 7.8 % |
| India: | 7.0 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 4.9 | 5.0 | 5.0 | 5.2 | 5.1 |
| Inflation (y-on-y, % change) | 6.4 | 3.5 | 3.8 | 4.9 | 5.4 |
| Real private consumption (y-on-y, % change) | 4.8 | 5.0 | 5.0 | 4.9 | 5.3 |
| Industrial production (y-on-y, % change) | 4.8 | 4.0 | 5.1 | 4.8 | 5.1 |
| Real fixed investment (y-on-y, % change) | 5.0 | 4.5 | 4.9 | 5.5 | 5.5 |
| Fiscal balance (% of GDP) | -2.6 | -2.5 | -2.8 | -2.3 | -2.2 |
| Real exports of goods and services (y-on-y, % change) | -2.1 | -1.8 | 8.8 | 8.7 | 6.6 |
| Foreign debt/GDP | 36 | 34 | 34 | 33 | 32 |
| Current account (% of GDP) | -2.0 | -1.8 | -1.4 | -1.7 | -2.2 |

* estimate **forecast Source: Macrobond

# Indonesia industries performance outlook

## March 2018


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:
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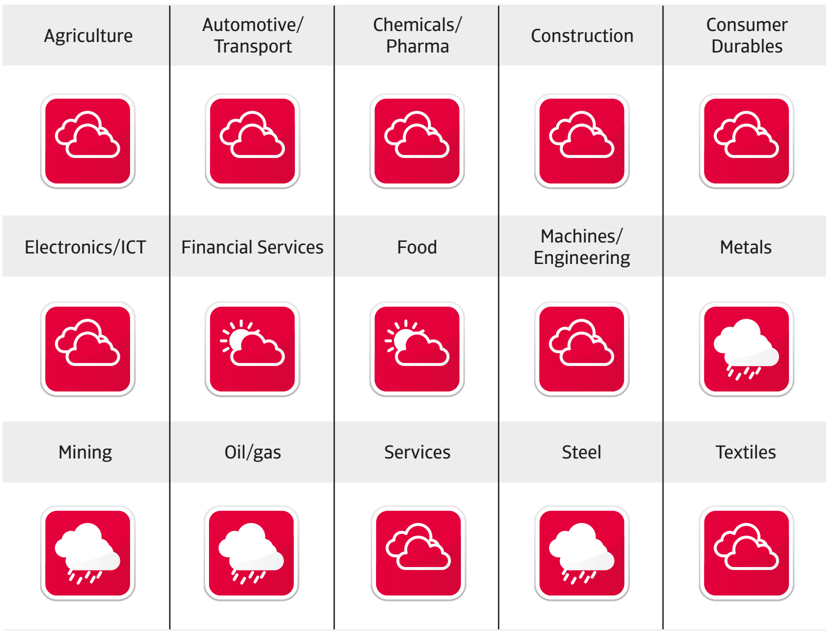


# Political situation

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

### Form of government:
Multi-party coalition government

### Population:
262.0 million

### A reform-minded president

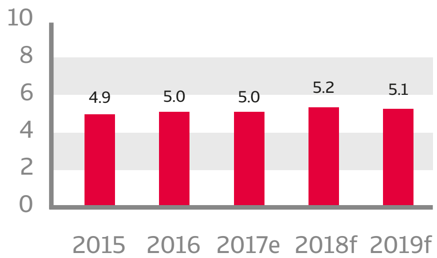
In 2018 it is expected that the government under President Joko Widodo will proceed with implementing economic reforms in order to improve the investment climate. By improving industry competitiveness and consumers' purchasing power, the government aims to attract more foreign direct investments, to broaden exports and develop tourism.

However, the government has been less successful in combatting corruption and reducing bureaucracy (mainly due to obstacles at the local government level) and in removing long-standing protectionist rules governing trade and foreign investment. 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.

The three main parties - DP, Golkar and PDI-P - endorse the Pancasila principle and thus the secular character of Indonesian politics. But the influence of fundamentalist Islam on the society has increased in the last couple of years, leading to intolerance against certain sects and the Christian minority.

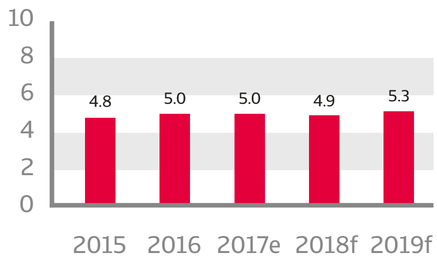
# Economic situation

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



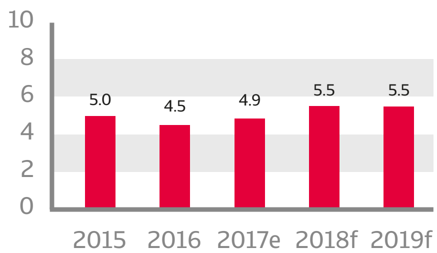

Source: Macrobond

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




Source: Macrobond

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




Source: Macrobond

### Economic growth driven by domestic demand

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.

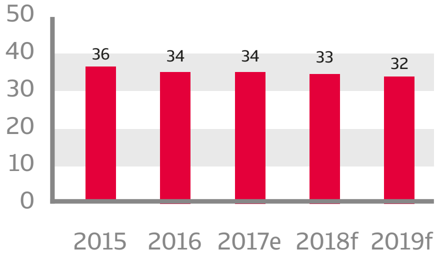
Indonesia´s short-term economic prospects are positive, with real GDP growth expected to remain at about 5% in 2018 and 2019, mainly driven by domestic demand. Private consumption is robust due to lower credit cost, increasing employment and an expansion of social welfare. Investment growth is driven by infrastructure improvement (construction of new roads, ports and power stations).

The government deficit is forecast to decrease to 2.3% of GDP and probably average around that level in the coming years, despite a rather low tax revenue base. The scrapping and/or lowering of subsidies on energy since 2015 has helped to keep the budget deficit under control. Public debt is expected to stay at a sustainable level of about 35% of GDP over the next five years.

While exports grew strongly in 2017, the increase is expected to slow down somewhat in 2018 and 2019 due to lower demand from China. A potential hard landing of the Chinese economy would have a large impact on Indonesia's export sector, however, such a scenario seems rather improbable currently. In any case Indonesia's strong domestic sector would moderate the impact.

Indonesia's external position has improved but remains vulnerable, due to a high dependency on portfolio investments for financing its persistent current account deficits and increased private sector external debt. This makes the economy susceptible to sharply decreasing capital flows to emerging markets, e.g. triggered by further monetary tightening in the US. In such a scenario Indonesian companies that have borrowed in foreign exchange without hedging the currency risk could have problems with their debt obligations, especially if the rupiah were to sharply depreciate against the USD.

## Foreign debt (% of GDP)




Source: Macrobond

That said, Indonesia´s vulnerability to shifts in investor sentiment is mitigated by sound monetary policies, a resilient banking sector and the fact that a large part of public external debt is long term. Due to robust GDP growth the foreign debt ratio is on a downward trend. Foreign debt in relation to exports of goods and services is decreasing as well, diminishing Indonesia's dependency on foreign capital. International reserves remain rather strong with an import cover of more than eight months. Therefore, Indonesia´s external economic situation remains robust, and despite the fact that a further increase in interest rates by the US Federal Reserve in 2018 could put downward pressure on the exchange rate, a strong depreciation of the rupiah is not very likely as investor sentiment towards Indonesia is improving.

As the economic situation is positive and the country's vulnerability to external shocks has declined with decreasing foreign debt, the Atradius STAR Political Risk Rating has been upgraded one notch to 4 (Moderate-Low Risk – Negative).

# Japan

## Main import sources (2016, % of total)

| | |
|---|---|
| China: | 25.8 % |
| USA: | 11.4 % |
| Australia: | 5.0 % |
| South Korea: | 4.1 % |
| Taiwan: | 3.8 % |

## Main export markets (2016, % of total)

| | |
|---|---|
| USA: | 20.2 % |
| China: | 17.6 % |
| South Korea: | 7.2 % |
| Taiwan: | 6.1 % |
| Hong Kong: | 5.2 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 1.4 | 0.9 | 1.8 | 1.5 | 1.6 |
| Inflation (y-on-y, % change) | 0.8 | -0.1 | 0.5 | 1.2 | 1.5 |
| Real private consumption (y-on-y, % change) | 0.0 | 0.1 | 0.9 | 0.8 | 1.1 |
| Real government consumption (y-on-y, % change) | 1.5 | 1.3 | 0.3 | 0.8 | 0.7 |
| Industrial production (y-on-y, % change) | -1.2 | -0.2 | 4.4 | 4.2 | 5.1 |
| Unemployment rate (%) | 3.4 | 3.1 | 2.8 | 2.5 | 2.4 |
| Real fixed investment (y-on-y, % change) | 1.7 | 1.1 | 3.1 | 1.3 | 1.2 |
| Real exports of goods and services (y-on-y, % change) | 2.9 | 1.3 | 6.6 | 4.4 | 5.7 |
| Fiscal balance (% of GDP) | -3.5 | -4.6 | -4.4 | -4.8 | -5.2 |
| Public debt (% of GDP) | 214.7 | 217.7 | 219.7 | 223.3 | 223.8 |

* estimate **forecast Source: Macrobond

# Japan industries performance forecast


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


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


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


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

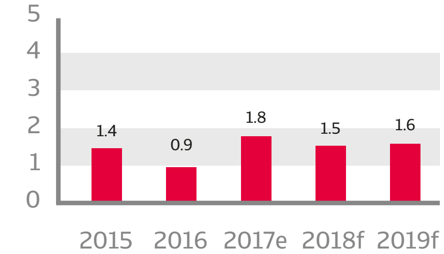

Bleak:
The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend.

## March 2018

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

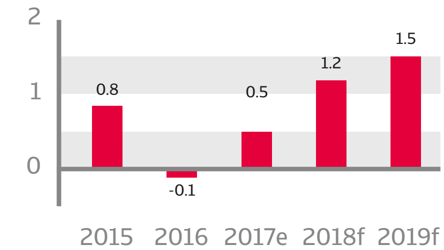
# Economic situation

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



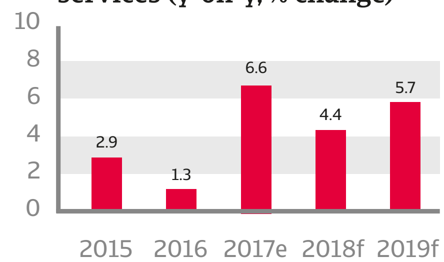

Source: Macrobond

### Inflation
### (y-on-y, % change)



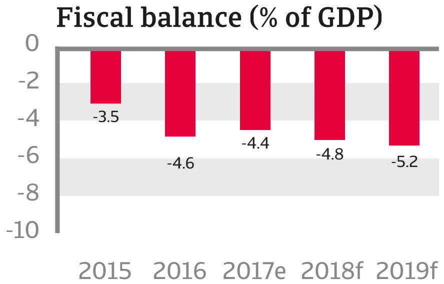

Source: Macrobond

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




Source: Macrobond

### Fiscal balance (% of GDP)




Source: Macrobond

## Growth has picked up again in 2017

With GDP growth of 1.8% in 2017 Japan´s economic expansion was higher than originally expected, mainly due to stronger external demand and a supportive fiscal policy. This positive trend is expected to continue in 2018, with the economy forecast to grow 1.5%, mainly driven by domestic demand.

Exports increased by more than 6% in 2017, mainly helped by depreciation of the yen against the USD since the end of 2016and a pick-up in private investment. Tighter labour market conditions and increasing bank lending to non-financial firms are pushing up domestic demand.

Stronger domestic activity has put upward pressure on inflation, which increased to 0.5% in 2017 after deflation had returned in 2016 (triggered by a strong yen and low oil prices). Consumer prices are expected to increase further in 2018 due to higher oil prices and the weaker yen, but low wage growth inflation is expected to remain far below the 2% target set by the government. Therefore, the Bank of Japan is set to keep its monetary policy ultra-loose with negative rates unchanged in 2018, while the government continues with its stimulus programmes.

## The burden of excessive government debt and other challenges

Following a long period of loose fiscal policy, the Japanese government is struggling with extremely high public debt (about 220% of GDP in 2017). 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.

Japan faces some major challenges. In addition to 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 labour shortages, leading to higher labour costs which is hurting their international competitiveness.

To achieve a sustainable rebound and to boost the country's long-term economic performance, there is an urgent need to make the labour market more flexible, to end protection for farmers, doctors and pharmaceutical companies, and to introduce more business deregulation. The government has repeatedly announced its intention to tackle those issues in its current term, but 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 (2016, % of total)

| | |
|---|---|
| China: | 20.4 % |
| Singapore: | 10.4 % |
| Japan: | 8.2 % |
| USA: | 8.0 % |
| Thailand: | 6.1 % |

### Main export markets (2016, % of total)

| | |
|---|---|
| Singapore: | 14.6 % |
| China: | 12.5 % |
| USA: | 10.2 % |
| Japan: | 8.1 % |
| Thailand: | 5.6 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 5.0 | 4.2 | 5.8 | 5.3 | 5.3 |
| Inflation (y-on-y, % change) | 2.1 | 2.1 | 3.9 | 2.9 | 2.7 |
| Real private consumption (y-on-y, % change) | 6.0 | 6.0 | 7.0 | 6.3 | 6.1 |
| Real government consumption (y-on-y, % change) | 4.4 | 0.9 | 5.4 | 5.0 | 5.2 |
| Real fixed investment (y-on-y, % change) | 3.6 | 2.7 | 6.9 | 5.7 | 5.8 |
| Fiscal balance (% of GDP) | -3.2 | -3.1 | -3.0 | -2.8 | -3.0 |
| Real export of goods and services (y-on-y, % change) | 0.3 | 1.1 | 10.9 | 6.5 | 7.0 |
| Current account (% of GDP) | 3.1 | 2.3 | 2.5 | 2.2 | 2.0 |

* estimate **forecast Source: Macrobond

# Malaysia industries performance outlook

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

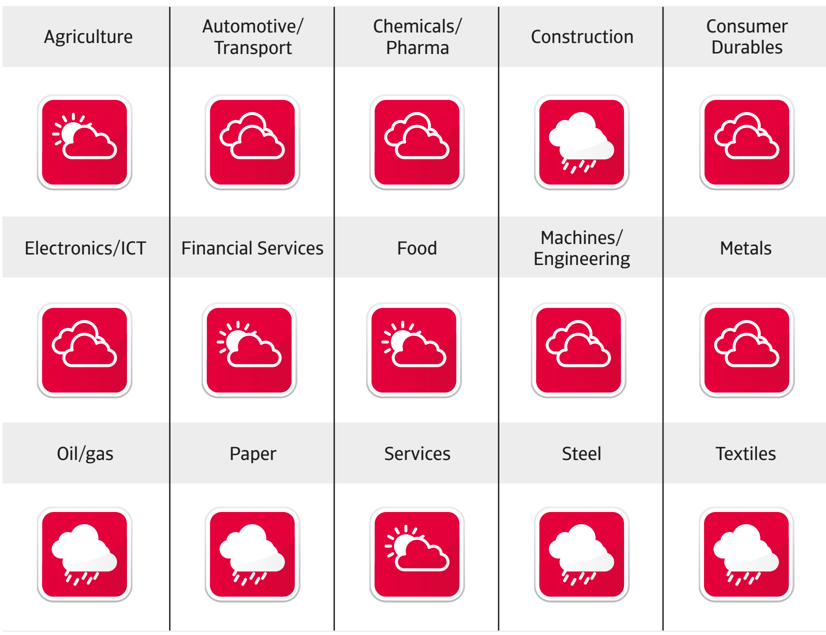
Good:
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend.

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

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

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

## March 2018



# Political situation

### Head of state:
King Mohammad V (since December 2016); the position of the king is primarily ceremonial

### Head of government:
Prime Minister Mohammad 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:
32.1 million

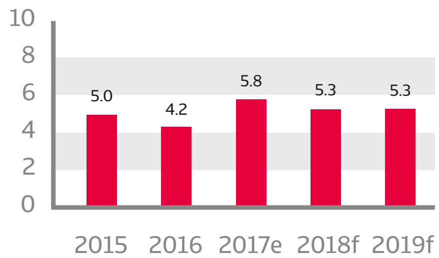
## General elections expected in 2018

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 in the past, UMNO remains firmly in power, while currently the opposition appears to be weak and fractured. It is expected that the government will take advantage of this and call for an early dissolution of parliament and general elections to be held before the summer of 2018. Although the political future of Prime Minister Najib remains uncertain due to his involvement in the so-called MDB financial mismanagement scandal, even in case of his resignation the consequences for political stability would be limited.

# Economic situation

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



Source: Macrobond

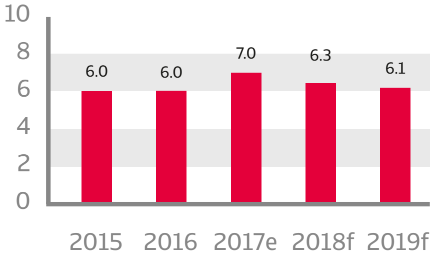
## Persisting robust economic growth

The Malaysian economy is well diversified, with agriculture accounting for 9% of GDP, manufacturing for 37% and the services sector for 54%. The country owns a considerable mining sector and is one of the 30 largest oil producers in the world. While oil reserves are declining, production of natural gas has continued to climb rapidly and reserves are still substantial. Oil and gas account for about 22% of total exports, while machinery & transport equipment account for about 46%. The export sector is a major economic strength, but at the same time the heavy dependence on external trade makes the country vulnerable to fluctuations in global prices for energy and electronics as well as to a slowdown in growth in China.

Malaysia´s economic growth is expected to slow down somewhat in 2018 to 5.3%, mainly due to lower external demand for electronics and electrical goods (the country's largest export category). Consumer spending remains a key driver of growth, prompted by low unemployment and rising wages. The pick-up in private and government infrastructure investments seen in 2017 is set to continue, with a number of major projects expected to start in early 2018.

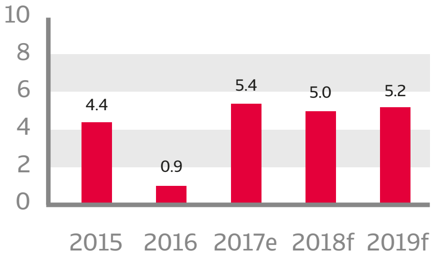
While inflation increased to almost 4% in 2017, mainly due to the scaling-back of subsidies, it is expected to decrease again in 2018, enabling the central bank to maintain an accommodative monetary policy.

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




Source: Macrobond

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




Source: Macrobond

The government budget shows a constant annual deficit of about 3% of GDP, while public debt amounts to about 52% of GDP. High contingent liabilities due to commitments to state-owned companies and a rising share of debt held by non-residents are vulnerabilities. However, the stock of public debt is relatively lightly exposed to currency and financing risks, as more than 90% of it is denominated in ringgit and mainly held by local financial institutions.

## High household debt is a potential issue

Despite high nominal GDP growth rates, foreign debt has increased over the past couple of years, from 58% of GDP in 2014 to 74% of GDP in 2017 (93% as a percentage of exports of goods and services). While those are still manageable levels, it makes Malaysia's external debt vulnerable to volatility in foreign investor sentiment.

Taking into account the flexible exchange rate, with more than five months of import cover, international reserves are still at an adequate level. The ringgit will probably depreciate against the USD in 2018 due to further US monetary tightening. Any sharp deterioration would increase the currency risk on company balance sheets, as the amount of corporate debt is considerable, with some of it denominated in USD.

Malaysia has a well-developed financial sector, with well-capitalised banks, good credit quality and a low share of non-performing loans (about 1%). However, risk factors are the high level of household debt of about 87% of GDP and a high household income-to-debt ratio of 150%, which could become a problem if interest rates rise substantially. However, mitigating factors are the slowdown of credit growth and that private households have large financial buffers on average.

# The Philippines

### Main import sources (2016, % of total)

| | |
|---|---|
| China: | 18.5 % |
| Japan: | 11.9 % |
| USA: | 8.9 % |
| Thailand: | 7.8 % |
| South Korea: | 6.5 % |

### Main export markets (2016, % of total)

| | |
|---|---|
| Japan: | 20.7 % |
| USA: | 15.4 % |
| China: | 11.0 % |
| Hong Kong: | 10.9 % |
| Singapore: | 6.6 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 6.1 | 6.9 | 6.7 | 6.1 | 6.3 |
| Inflation (y-on-y, % change) | 1.4 | 1.8 | 3.2 | 4.0 | 4.9 |
| Real private consumption (y-on-y, % change) | 6.3 | 7.0 | 5.8 | 4.6 | 3.9 |
| Industrial production (y-on-y, % change) | 2.5 | 11.7 | 2.7 | 6.6 | 5.8 |
| Real fixed investment (y-on-y, % change) | 16.8 | 25.4 | 10.3 | 6.0 | 6.0 |
| Real export of goods and services (y-on-y, % change) | 8.7 | 10.8 | 19.2 | 12.1 | 9.6 |
| Fiscal balance (% of GDP) | -0.9 | -2.4 | -2.1 | -2.0 | -2.1 |
| Foreign debt (% of GDP) | 28 | 25 | 24 | 22 | 21 |
| Current account (% of GDP) | 2.5 | -0.3 | -0.3 | 0.4 | 1.0 |

* estimate  **forecast  Source: Macrobond

# Philippines industries performance outlook


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


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


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


Poor:
The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend.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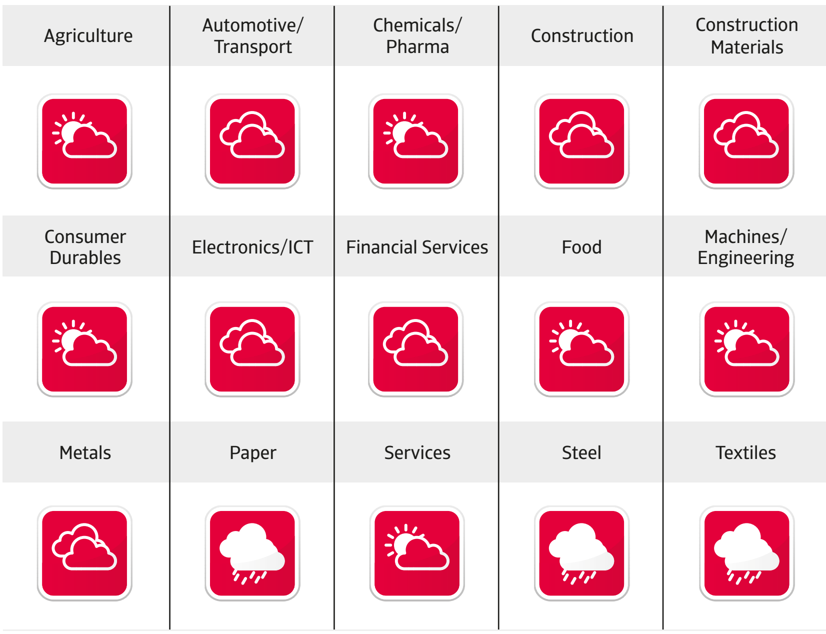
## March 2018



# Political situation

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

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

**Population:**
106.3 million

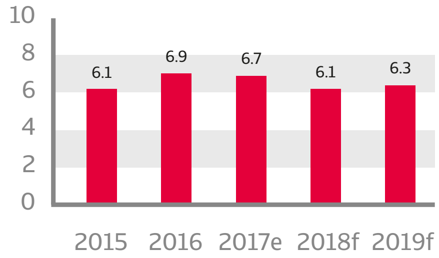
### Growing international concerns over governance

President Duterte´s violent crackdown on drug trade, which has led to the extra-judicial killing of several thousand people, has raised major international concerns over human rights and the government´s commitment to the rule of law. Further uncertainty has triggered signs of trying to strengthen the Philippines' ties with China at the expense of its close political and economic cooperation with the US. Such movements could be a risk for the Philippines' otherwise benign economic outlook by hampering business sentiment, trade and foreign investment.

The security situation in Mindanao has deteriorated after the five-month long battle of Marawi between the security forces and radical Muslim militants in 2017.

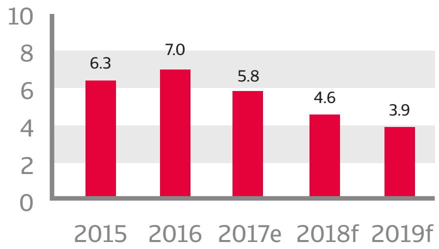
# Economic situation

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




Source: Macrobond

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




Source: Macrobond

### Persistently high growth rates driven by domestic consumption

Since 2012, economic growth has been persistently high, driven mainly by private consumption, which accounts for about 70% of the economy. In the past 15 years the industry of business-process outsourcing (e.g. call centers) has grown from nearly zero to about 9% of GDP. Growth has also been sustained by rising demand for Philippine exports such as electronics. Given that the US and Japan are major export destinations, the Philippines is less affected by lower demand from China than many of its Southeast Asian peers.

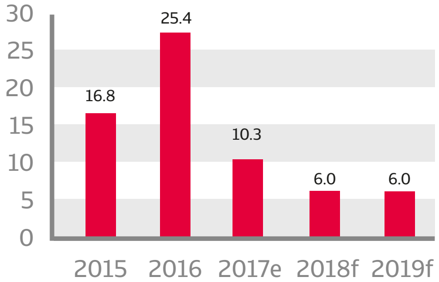
GDP grew by more than 6% in 2017, on the back of increased government spending (infrastructure projects) and buoyant private consumption, which was sustained by decreasing unemployment and the continuing inflow of remittances (which amounted to about USD 31 billion - equivalent to more than 10% of GDP). A growing middle-class is expected to sustain robust private consumption growth over the next couple of years.

However, while still remaining robust, economic expansion is expected to slow down somewhat in 2018 as investor confidence has been affected by the violent campaign against drug trade, anti-US remarks in the past and some controversial economic policy initiatives on rice imports and labour laws.

The Duterte administration is strongly promoting infrastructure projects, with related spending envisaged to increase from 5.2% of GDP in 2016 to 7.4% of GDP in 2022. Indeed, rail networks, ports, roads and airport developments are necessary in order to increase private investments and to safeguard high economic growth rates in the long term.

A comprehensive tax reform programme is planned to finance higher infrastructure spending, and a first package (lower personal income taxes, coupled with an expansion of the value added tax base and higher taxes on fuel and vehicles) was passed by Congress at the end of 2017. Further packages (including a lowering of the corporate-tax rate and a reform of property taxes and taxes on mining) are planned for the future.

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




Source: Macrobond

With the improvement of the tax base, it is expected that the fiscal deficits and public finances remain at an acceptable level, supporting continued government spending. The external macroeconomic situation is robust, with manageable foreign debt (22% of GDP; 54% of exports of goods and services expected in 2018) and ample liquidity. While the current accounts have turned into deficits since 2016 external financing requirements are low and international reserves amount to about eight months of import cover.

# Singapore

### Main import sources (2016, % of total)

| | |
|---|---|
| China: | 14.3 % |
| Malaysia: | 11.4 % |
| USA: | 10.9 % |
| Taiwan: | 8.2 % |
| Japan: | 7.0 % |

### Main export markets (2016, % of total)

| | |
|---|---|
| China: | 13.0 % |
| Hong Kong: | 12.6 % |
| Malaysia: | 10.6 % |
| Indonesia: | 7.8 % |
| USA: | 6.9 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 1.9 | 2.0 | 3.6 | 2.6 | 2.6 |
| Inflation (y-on-y, % change) | -0.5 | -0.5 | 0.6 | 1.2 | 1.3 |
| Real private consumption (y-on-y, % change) | 4.6 | 0.6 | 2.1 | 1.7 | 1.8 |
| Real government consumption (y-on-y, % change) | 8.0 | 6.3 | 5.6 | 7.0 | 5.2 |
| Industrial production (y-on-y, % change) | -5.1 | 3.7 | 10.0 | 2.9 | 6.8 |
| Unemployment rate (%) | 1.9 | 2.1 | 2.2 | 2.2 | 2.1 |
| Real fixed investment (y-on-y, % change) | 1.1 | -2.5 | -1.5 | 1.0 | 3.0 |
| Real exports of goods and services (y-on-y, % change) | 2.6 | 1.6 | 5.0 | 4.0 | 4.5 |
| Fiscal balance (% of GDP) | 0.6 | -1.2 | -1.0 | -1.5 | -0.6 |

* estimate **forecast Source: Macrobond

# Singapore industries performance outlook

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

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

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

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

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

## March 2018

| 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 Halimah Yacob
(since September 2017)

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

**Population:**
5.7 million

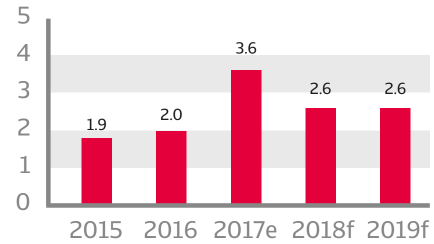
### Stable political situation

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.

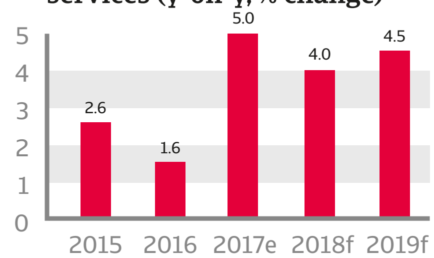
# Economic situation

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



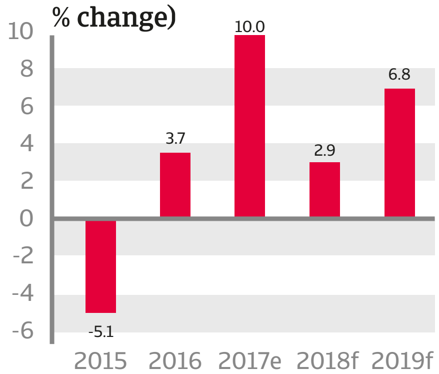

Source: Macrobond

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




Source: Macrobond

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




Source: Macrobond

### Lower growth in 2018, 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 has started to bear fruit in the bio-medical sector, and the government has recently begun to extensively promote business digitalisation.

In 2017 Singapore's economy benefitted from the recovery in global trade and higher-than-expected import demand from China. Exports and industrial production increased 5% and 10% respectively, while private consumption also picked up.

However, economic expansion is likely to moderate in 2018 as Chinese import demand cools down and domestic demand is expected to be held back by weak residential construction activity. In order to support the industry, the government announced it will spend SGD 1.4 billion over the next two years to upgrade walkways and renovate community centres, sports halls, police stations, etc.

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.

However, due to its high dependency on international trade, Singapore is very susceptible to risks stemming from a hard landing of the Chinese economy and any protectionist measures taken by the US government in its trade policy towards Asia.

# South Korea

### Main import sources (2016, % of total)

| | |
|---|---|
| China: | 21.4 % |
| Japan: | 11.7 % |
| USA: | 10.7 % |
| Germany: | 4.7 % |
| Taiwan: | 4.0 % |

### Main export markets (2016, % of total)

| | |
|---|---|
| China: | 21.5 % |
| USA: | 13.5 % |
| Hong Kong: | 6.6 % |
| Vietnam: | 6.6 % |
| Japan: | 4.9 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 2.8 | 2.8 | 3.2 | 2.5 | 2.6 |
| Inflation (y-on-y, % change) | 0.7 | 1.0 | 1.9 | 1.8 | 1.7 |
| Real private consumption (y-on-y, % change) | 2.2 | 2.5 | 2.4 | 2.2 | 2.4 |
| Real government consumption (y-on-y, % change) | 3.0 | 4.3 | 4.0 | 4.5 | 4.0 |
| Industrial production (y-on-y, % change) | -0.5 | 0.7 | 0.4 | 0.7 | 2.0 |
| Unemployment rate (%) | 3.6 | 3.7 | 3.7 | 3.8 | 3.7 |
| Real fixed investment (y-on-y, % change) | 5.1 | 5.2 | 9.5 | 2.5 | 5.0 |
| Real exports of goods and services (y-on-y, % change) | -0.1 | 2.1 | 3.0 | 1.2 | 2.1 |
| Fiscal balance (% of GDP) | 0.0 | 1.0 | 0.9 | -0.3 | -0.1 |

* estimate **forecast Source: Macrobond

# South Korea industries performance outlook

### March 2018


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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Fair:
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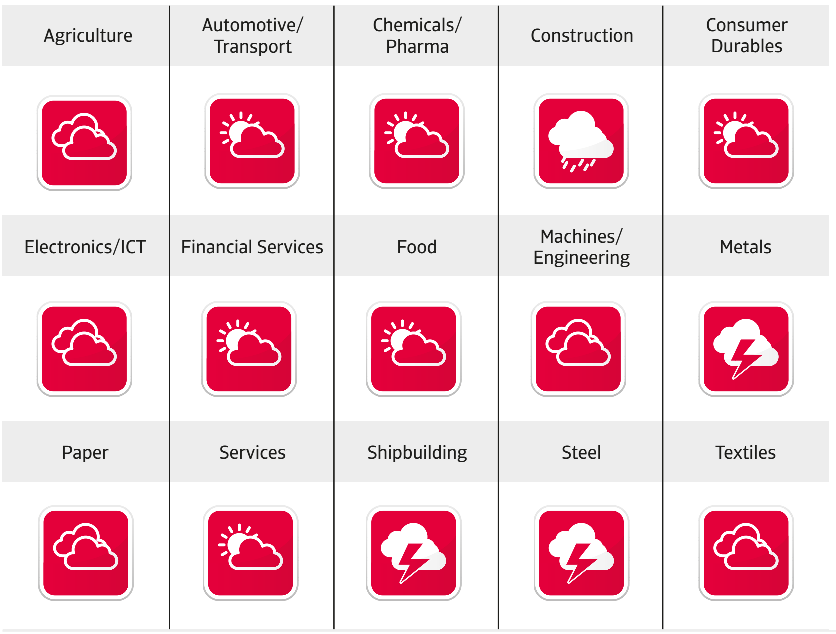


# Political situation

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

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

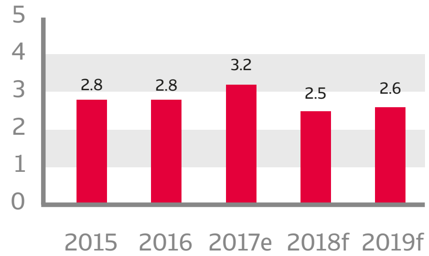
### Population:
51.5 million

### Increased tensions on the Korean Peninsula

Geopolitical tensions on the Korean Peninsula have sharply increased in 2017 due to North Korea´s nuclear and missile tests. Tensions between North and South Korea have abated somewhat in early 2017, but remain high between Washington and Pyongyang. Any increase in tension or even escalation of the conflict would have adverse effects on business and household confidence in South Korea and on foreign investors.

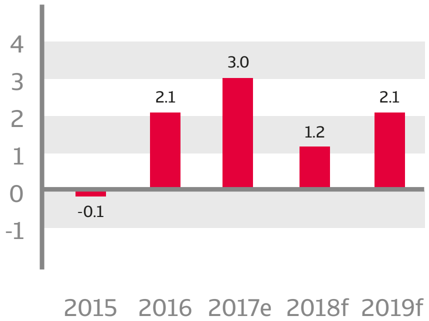
# Economic situation

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



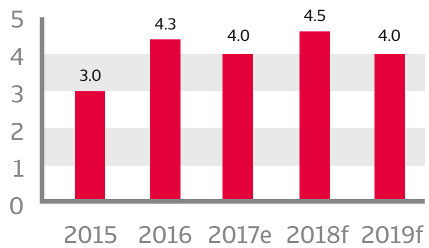

Source: Macrobond

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




Source: Macrobond

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




Source: Macrobond

### A rebound in 2017 due to higher exports

In 2017 the recovery in global trade and higher-than-expected import demand from China has driven South Korea´s GDP growth to more than 3%, with the semiconductor industry leading the export rebound (exports account for about 50% of the country's GDP). Investments recorded a robust increase, while household consumption growth remained muted due to debt repayments by households: with debt levels at about 160% of disposable income, Korean households are, on average, highly indebted.

In 2018 GDP growth is expected to slow down somewhat due to decreasing demand from China. Fiscal support (an increase in public employment and social spending and a minimum wage increase) is expected to sustain economic expansion. The low public debt level (43% of GDP in 2017), low external debt (24% of GDP in 2017) and consistent current account surpluses provide the South Korean government with flexibility in supporting the economy and offer some protection against international investment volatility.

### More reforms needed to diversify the economy

It seems that South Korea's current economic model - export driven and dominated by chaebols (the South Korean form of business conglomerate) - is no longer capable of providing sufficient employment and purchasing power growth. The outcome of government efforts to reform the conglomerates still remains to be seen. More reforms are needed to diversify the economy, away from overly export-oriented towards growth driven by services and domestic consumption. Necessary measures would be an improvement of the business environment through deregulation, increasing labour market flexibility and lowering entry barriers to the still unproductive service sector.

The high level of private debt remains a downside risk for the economy, together with a rapidly ageing population and tougher competition from China in a range of industries (automotive, electronics, and shipbuilding). International competitiveness and businesses' profitability could suffer from the minimum wage increase. Concerns remain over US trade policy: after the Trump administration threatened to withdraw from the bilateral free trade agreement, Seoul had to agree on renegotiations. Early 2018 the US imposed punitive import tariffs on washing machines and solar panels, targeting South Korea among other states.

# Taiwan

### Main import sources (2016, % of total)

| | |
|---|---|
| China: | 19.1 % |
| Japan: | 17.6 % |
| USA: | 12.5 % |
| South Korea: | 6.3 % |
| Germany: | 3.7 % |

### Main export markets (2016, % of total)

| | |
|---|---|
| China: | 26.3 % |
| Hong Kong: | 13.7 % |
| USA: | 12.0 % |
| Japan: | 7.0 % |
| Singapore: | 5.8 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 0.8 | 1.4 | 2.4 | 1.7 | 1.9 |
| Inflation (y-on-y, % change) | -0.3 | 1.4 | 0.6 | 1.3 | 1.0 |
| Real private consumption (y-on-y, % change) | 2.6 | 2.3 | 2.2 | 1.7 | 1.9 |
| Real government consumption (y-on-y, % change) | -0.1 | 3.7 | 0.3 | 2.0 | 2.1 |
| Industrial production (y-on-y, % change) | -1.7 | 1.5 | 3.0 | 1.0 | 1.7 |
| Unemployment rate (%) | 3.8 | 3.9 | 3.8 | 3.9 | 3.8 |
| Real fixed investment (y-on-y, % change) | 1.6 | 2.3 | -0.4 | 1.0 | 2.3 |
| Real exports of goods and services (y-on-y, % change) | -0.4 | 1.9 | 7.0 | 2.1 | 2.2 |
| Fiscal balance (% of GDP) | 0.1 | -0.3 | -0.1 | -0.9 | -1.3 |

* estimate **forecast Source: Macrobond

# Taiwan industries performance outlook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## March 2018

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

### Government type:
Multiparty democratic regime headed by popular vote-elected president.

### Population:
23.6 million

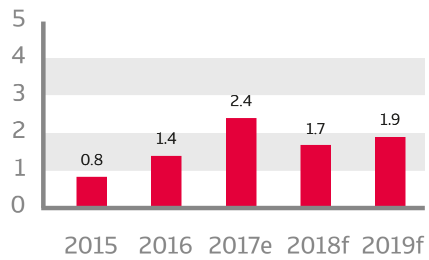
### Relationship with China remains the key issue in Taiwanese politics

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. After the DPP won the January 2016 presidential and general elections, Beijing has scaled down high-level contacts with the new, more pro-independence minded government and has taken a more assertive stance in bilateral relations. However, the Taiwanese government has so far abstained from any actions that could provoke a harsh response from Beijing.

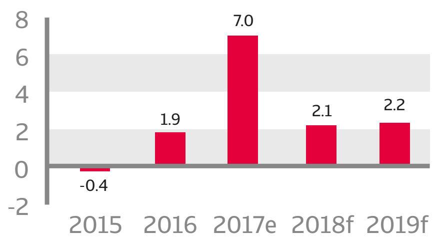
# Economic situation

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



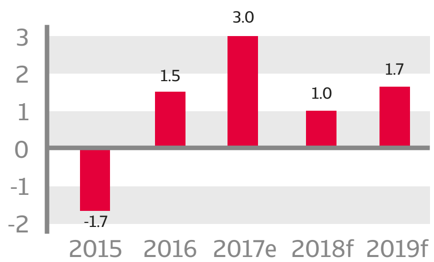

Source: Macrobond

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




Source: Macrobond

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




Source: Macrobond

### Economic growth picked up in 2017 due to higher external demand

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

In 2017 the recovery in global trade and higher-than-expected import demand in China has boosted Taiwan´s economic growth, as exports increased 7% year-on-year. In 2018 it is expected that GDP growth will slow down somewhat due to lower external demand. However, the on-going turnaround in investments in the high-tech (electronics) sector and relatively solid labour market, underpinning consumer confidence and spending, could provide some compensation for weaker external demand.

Public finances are very sound, as government debt remains low at about 30% of GDP. The budget deficit is also expected to stay low, at below 1% of GDP in 2018. Taiwan's external financial situation is very solid, with low external debt. The current account surplus is very large (more than 13% of GDP) and the country has ample foreign reserves.

### Major challenges loom ahead

Currently Taiwanese electronics manufacturers still benefit from economies of scale and have managed to lower unit costs to levels often far below those of their competitors, thereby gaining a competitive advantage. Another strength of the industry is its precision and reliability.

However, as China's industries increasingly climb up the technological value chain, Taiwanese electronic businesses are increasingly getting under competitive pressure. Taiwan will have to look for new high value-added alternatives in the mid- and long-term, with productivity increases and the diversification of the economy being long-term challenges. Additionally the ageing population is an issue, exacerbated by the fact that many talented young Taiwanese are moving abroad for work, including to China. Taiwan´s working age population started shrinking in 2016, and pension liabilities could become a major issue for the public budget in the future.

Print this article

# Thailand

**Main import sources (2016, % of total)**

| | |
|---|---|
| China: | 21.6 % |
| Japan: | 15.8 % |
| USA: | 6.2 % |
| Malaysia: | 5.6 % |
| South Korea: | 3.8 % |

**Main export markets (2016, % of total)**

| | |
|---|---|
| USA: | 11.4 % |
| China: | 11.0 % |
| Japan: | 9.5 % |
| Hong Kong: | 5.3 % |
| Australia: | 4.8 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 3.0 | 3.3 | 3.7 | 3.8 | 3.5 |
| Inflation (y-on-y, % change) | -0.9 | 0.2 | 0.7 | 1.6 | 1.7 |
| Real private consumption (y-on-y, % change) | 2.2 | 3.1 | 3.3 | 3.5 | 3.1 |
| Real government consumption (y-on-y, % change) | 3.0 | 2.0 | 1.2 | 4.4 | 3.7 |
| Real fixed investment (y-on-y, % change) | 4.4 | 2.8 | 1.1 | 3.2 | 4.0 |
| Fiscal balance (% of GDP) | -0.4 | -2.7 | -2.5 | -2.3 | -2.5 |
| Real export of goods and services (y-on-y, % change) | 0.7 | 2.1 | 6.4 | 2.7 | 3.4 |
| Foreign debt (% of GDP) | 33 | 30 | 30 | 30 | 32 |
| Current account (% of GDP) | 8.0 | 11.8 | 11.6 | 11.0 | 10.7 |

* estimate **forecast Source: Macrobond

# Thailand industries performance outlook

## March 2018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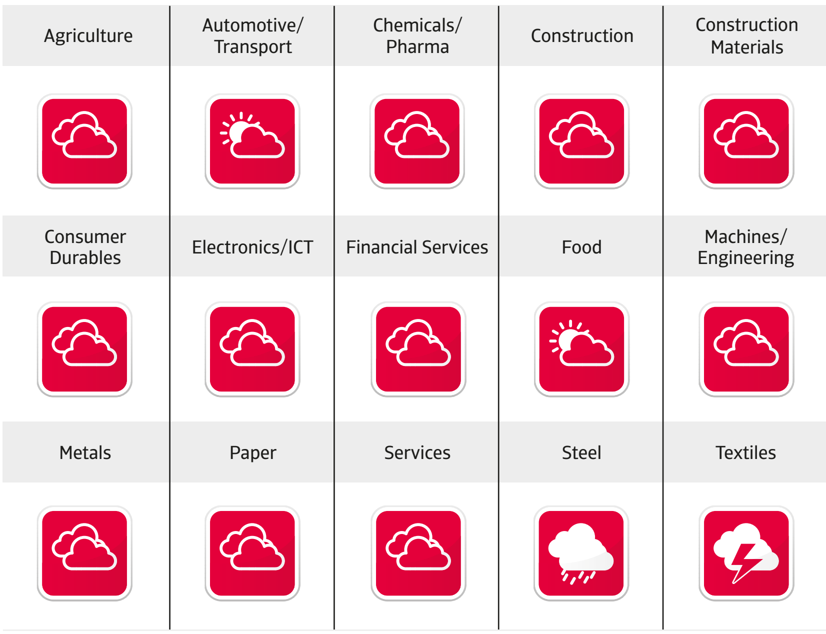


# Political situation

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

### Head of government:
Prime Minister General Prayuth Chan-o-cha (since August 2014)

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

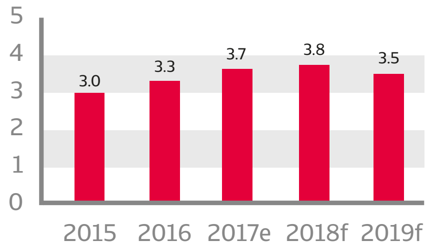
### Population:
69.1 million

### Stability restored for the time being

The military junta, which has been ruling the country since 2014, is determined to remain in power for the time being. A referendum on a new constitution, designed to curb the powers of populist politicians and to preserve the military's major political influence, was held in August 2016 and approved by 61% of voters. The new constitution went into effect in April 2017, while general elections are expected to be held in late 2018. After King Bhumibol's death, his son Maha Vajiralongkorn succeeded him on the throne in December 2016.

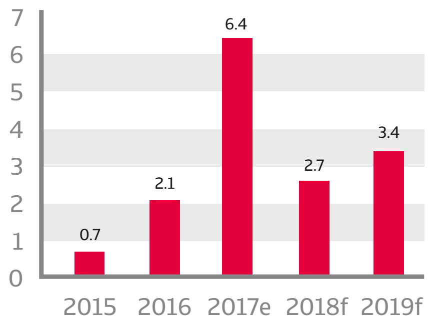
# Economic situation

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




Source: Macrobond

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



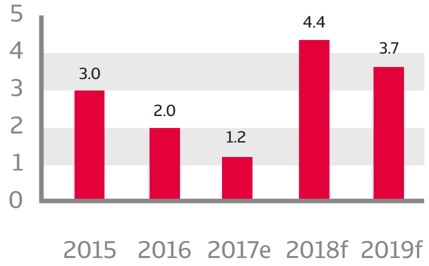

Source: Macrobond

### Higher growth expected in 2018

Thailand's economy grew 3.7% in 2017, mainly due to robust export performance, increased tourist arrivals (tourism accounts for 45% of services output), public expenditure growth and higher private consumption. In 2018 a moderate acceleration in GDP growth to 3.8% is forecast. The economic expansion will again be supported by public investments in infrastructure and an export sector which is benefitting from robust growth in the neighbouring countries. While the military-controlled government has declared economic revival to be its top priority and pursues policies to boost consumption and investments, the remaining political uncertainty has curbed private sector investments. The Thai banking sector is healthy, as banks are well capitalised. Monetary policy by the central bank is expected to remain loose in order to support growth. The Thai baht is subject to a managed floating exchange rate regime, which reduces volatility risks.

Due to rising government spending and lower tax revenues both the fiscal deficit and government debt have increased since 2016. That said, government finances remain sustainable, as government debt remains below 50% of GDP. Public debt composition is quite favourable (only 6% is denominated in foreign currency), and public debt held by non-residents amounts to just about 15%. This insulates the government from external shocks. The country´s solid payment capacity and liquidity is underpinned by moderate foreign debt (in 2017: 30% of GDP and 39% of exports). International reserves are forecast to amount to about 10 months of import cover in 2017 and 2018.

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




Source: Macrobond

### A more subdued long-term outlook

While Thailand´s short-term economic outlook is positive, the long-term perspective is less so, due to decreasing international competition, high private debt levels and long-term political uncertainty. While stable for the time being, Thailand´s political future remains uncertain. The simmering 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 have 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.

# Vietnam

## Main import sources (2016, % of total)

| | |
|---|---|
| China: | 29.8 % |
| South Korea: | 16.6 % |
| Japan: | 8.6 % |
| Taiwan: | 6.6 % |
| Thailand: | 5.0 % |

## Main export markets (2016, % of total)

| | |
|---|---|
| USA: | 20.7 % |
| China: | 10.2 % |
| Japan: | 8.7 % |
| South Korea: | 5.5 % |
| Hong Kong: | 4.3 % |

| Key indicators | 2015 | 2016 | 2017* | 2018** | 2019** |
|---|---|---|---|---|---|
| Real GDP growth (y-on-y, % change) | 6.7 | 6.2 | 6.5 | 6.5 | 6.4 |
| Inflation (y-on-y, % change) | 0.6 | 2.7 | 3.5 | 4.2 | 4.0 |
| Real private consumption (y-on-y, % change) | 9.3 | 7.3 | 6.4 | 6.2 | 6.0 |
| Industrial production (y-on-y, % change) | 9.9 | 7.3 | 9.9 | 6.5 | 6.5 |
| Real exports of goods and services (y-on-y, % change) | 12.6 | 13.9 | 11.7 | 8.5 | 8.4 |
| Fiscal balance (% of GDP) | -6.3 | -5.6 | -5.5 | -5.1 | -5.1 |
| Current account/GDP (%) | 0.5 | 4.1 | -1.2 | -1.9 | -2.3 |
| Foreign debt/GDP (%) | 41 | 43 | 44 | 45 | 45 |
| Foreign debt/Export of goods and services (%) | 42 | 43 | 42 | 43 | 42 |
| International reserves (in months of merchandise imports) | 2.0 | 2.5 | 2.3 | 2.1 | 2.0 |

* estimate **forecast

Source: Macrobond

# Vietnam industries performance outlook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## March 2018

| 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 Tran Dai Quang
(since April 2016)

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

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

### Population:
93.6 million

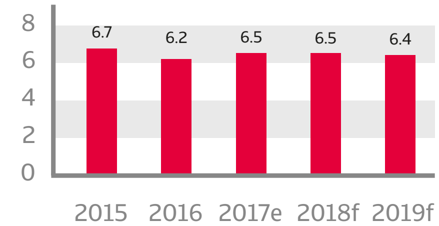
### Economic reforms not followed by political changes

The Vietnamese Communist Party remains firmly in power, despite rising public discontent over the lack of personal freedom, government corruption and land seizures by the administration. At the Communist Party's five-yearly congress in January 2016 the conservative faction within the party seems to have gained more influence. While the new leadership has tightened its grip on the civil society, economic reforms continue.

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

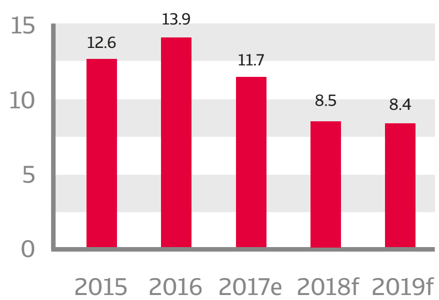
# Economic situation

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




Source: Macrobond

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




Sources: IHS

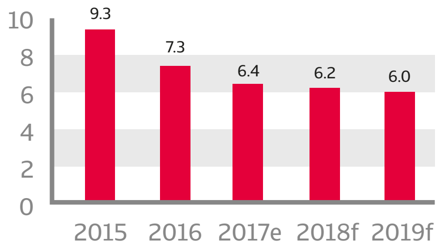
### High growth and inflation back under control

As in 2017, GDP growth is expected to remain high, above 6% in 2018, making Vietnam one of the fastest growing emerging markets in the region. The economic expansion is driven by both domestic demand and exports. While high wage growth supports private consumption, foreign investments, especially in the electronics sector, provide a stimulus to exports. The export sector also benefits from the relocation of export-oriented industries away from China due to Vietnam's relatively low production costs. Business investments are helped by policies to liberalise regulations and to deepen global economic integration.

Inflation increased to 3.5% in 2017 and is expected to rise to more than 4% in 2018, due to rising commodity prices and currency weakness. The central bank will probably tighten monetary policy this year in order to keep inflation under control, but also to remain cautious when rising interest rates as the government does not want to slow down growth and has little room for fiscal expansion.

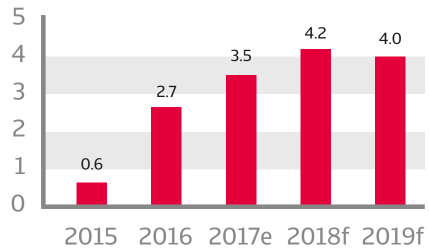
Fiscal consolidation will progress only gradually, with the budget deficit expected to remain above 5% of GDP in the near term. Increasing tax receipts are counterbalancing infrastructure investments and growing welfare costs. Government debt, which peaked at 62.2% of GDP after an increase in the years before, may decrease gradually in the coming years, but will nevertheless remain high.

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



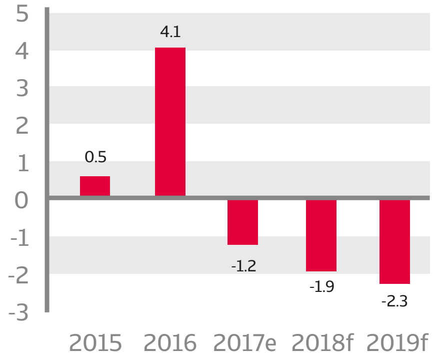

Source: Macrobond

### Inflation (y-on-y, % change)




Source: Macrobond

### Current account (% of GDP)




Source: Macrobond

Vietnam's foreign debt has been fairly stable and well financed over the past couple of years. As a percentage of GDP it will remain high (45% in 2018), but low in relation to export revenues (43%). Foreign debt mainly consists of government debt with long maturities and a low debt service. Despite improvements Vietnam´s liquidity situation remains weak, as international reserves in months of import cover remain low at about 2 months – mainly due to high import growth. However, foreign exchange reserves are sufficient to cover the external financing requirements.

The possibility of the Vietnamese dong weakening in 2018 cannot be excluded, due to a rising current account deficit and further monetary tightening in the US. The central bank has taken steps towards a more market-oriented approach, adjusting the fixed reference rate against the USD on a daily basis. Due to this and Vietnam´s limited international financial integration, sharp exchange rate devaluations are less likely than they were in the past.

## Weaknesses and fundamental challenges remain despite high growth

While high savings and investments and the low share of commodities in exports are strong points of the Vietnamese economy, the business environment continues to be hampered by weak institutions, infrastructure issues and endemic corruption. The level of state intervention remains high, and while the share of state-owned enterprises (SOEs) in the economy is high, many of them are financially weak and inefficient, hampering productivity increases. While privatization efforts are ongoing, the process remains slow.

Foreign-owned businesses account for about 70% of Vietnam´s exports, which makes the economy vulnerable to a slowdown should foreign companies withdraw their operations (e.g. in search of cheaper labour). According to the Asian Development Bank (ADB), only 35% of companies are integrated into export industries as domestic suppliers to foreign-owned export businesses in Vietnam (compared with nearly 60% in Malaysia and Thailand).

Despite some improvements due to the high economic growth rates, the Vietnamese banking sector suffers from low transparency, weak capitalization, state intervention and a high rate of non-performing loans, due mainly to politically motivated lending. Bank restructuring has become a priority for the government, which has set up a dedicated management company to buy bad loans. However, uncertainties about the size of bad debts and the way in which the bargaining takes place, make it unlikely that this problem will diminish soon.

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**Atradius N.V.**
David Ricardostraat 1– 1066 JS Amsterdam
Postbus 8982 – 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111
info@atradius.com
www.atradius.com