Managing risk, enabling trade

Atradius Country Report

Southeast Asia (main ASEAN economies)
February 2015

Contents

South East Asian Countries: Atradius STAR Political Risk Rating*:

Indonesia:	**5 (Moderate Risk) - Positive**
Malaysia:	**3 (Moderate-Low Risk) - Negative**
Philippines:	**5 (Moderate Risk) - Positive**
Singapore:	**1 (Low Risk) - Stable**
Thailand:	**4 (Moderate-Low Risk) - Negative**
Vietnam:	**6 (Moderate-High Risk) - Positive**

* 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.

ASEAN region: political situation

Increasing Chinese assertiveness in the South China Sea

A complex set of overlapping and competing claims in the South China Sea over sovereignty of ocean areas and the Paracel and the Spratly islands is at the core of long-simmering disputes between China and several of its South East Asian neighbours. China claims by far the largest part, while Brunei, Malaysia, the Philippines and Vietnam claim varying shares of the territory. The disputed area is believed to be rich in both oil and natural gas and is important for fishing. The South China Sea also occupies an important geostrategic position in terms of international shipping, with most energy shipments and raw materials that pass through the Malacca Straits continuing through the South China Sea to countries such as China, South Korea and Japan.

In recent years, China´s South China Sea policy has become more assertive, as has its growing maritime power. In 2013 and 2014 tensions between China and several members of the Association of Southeast Asian Nations (ASEAN), most notably the Philippines and Vietnam, have escalated as a result of increasing Chinese incursions.

ASEAN region: economic situation

Growth in the ASEAN region set to increase in 2015

The combined economies of the 10 ASEAN members are expected to grow by 5.1 % in 2015, following growth of 4.6 % in 2014. Major contributors to the anticipated GDP growth in 2015 are expected to be a rise in private consumption (up 4.8 % in 2015 from 4.3 % in 2014) and export growth (up 5.7 % in 2015 after 3.8 % growth in 2014).

A single regional market on the horizon?

ASEAN officially plans to launch the so-called ASEAN Economic Community (AEC) by the end of 2015. This is expected to have far-reaching economic consequences, by significantly promoting intra- and extra- ASEAN trade and investment and by strengthening the global importance of the ASEAN as an economic bloc.

An ambitious goal for a single regional market by the end of this year, but doubts remain whether all ASEAN members are ready for it.

The AEC would unite all the 10 member nations into a single regional market. The concept of this single market and production base is founded on the free flow of goods, services, investment, capital, and skilled labour among ASEAN member nations. The purpose of establishing AEC - and the most sought after outcome from this regional integration - is the elimination of both tariff and non-tariff barriers (NTBs) for its members.

Under the AEC scheme, many Southeast Asian businesses would find it much easier to operate in a more integrated environment. Besides lower trade barriers and increased trade flows, those businesses could access larger markets and enjoy the same incentives as local businesses. There would also be more investment opportunities under this free trade scheme.

However, there are doubts about whether all countries in the region are ready for the AEC. For example, small and medium-sized enterprises in Thailand have asked for a fund to be set up to ensure that they have adequate resources to explore opportunities in other countries. Small Philippine businesses have expressed their belief that they will not benefit from the openings offered by the AEC in 2015. Although the AEC envisions a free flow of labour, professionals have to pass licensing tests in certain countries so that they can practice in those territories.

With AEC scheduled to take effect in less than a year, there is now a greater impetus for businesses across the region to step up protection. Many local businesses can expect a sudden flood of foreign competitors vying with them. Nationalist groups are worried by the possibility of a surge of foreign goods invading their country and resistance to the changes that the AEC will bring about is growing. As a consequence, doubts remain that the changes planned will happen overnight, and a postponement of the AEC launch date of end 2015 cannot be ruled out.

Indonesia

Main import sources (2013, % of total)	
China:	16.0 %
Singapore:	14.7 %
Japan:	10.3 %
Malaysia:	7.1 %
South Korea:	6.2 %

Main export markets (2013, % of total)	
Japan:	14.8 %
China:	2.4 %
Singapore:	9.1 %
USA:	8.6 %
India:	7.1 %

Key indicators	2011	2012	2013	2014*	2015**
Real GDP growth (y-on-y, % change)	6.5	6.3	5.8	5.1	6.0
Inflation (y-on-y, % change)	5.3	4.2	6.4	6.4	6.8
Real private consumption (y-on-y, % change)	4.7	5.3	5.3	5.5	5.1
Real exports of goods & non-factor services (y-on-y, % change)	13.6	2.0	5.3	-1.2	3.7
Fiscal balance (% of GDP)	-1.1	-1.8	-2.3	-2.5	-2.4
Current account/GDP (%)	0.2	-2.8	-3.3	-3.5	-3.2
Foreign debt/GDP (%)	27	29	31	33	30
Foreign debt/export of goods and services (%)	100	119	128	128	120
Short-term debt/international reserves (%)	35	40	49	43	49
International reserves (in months of merchandise imports)	7.3	6.9	5.5	6.2	5.6

* estimate **forecast Sources: IHS Global Insight, EIU, IMF

Indonesia industries performance outlook

January 2015

Excellent

Good

Fair

Poor

Bleak

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

Political situation

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

Government type:
Republic

Form of government:
Multi-party coalition government

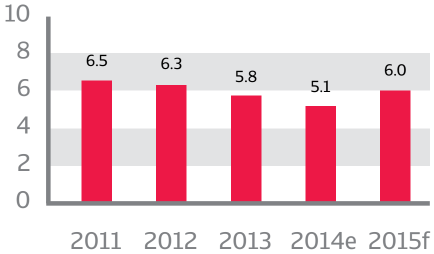
A new and more reform-minded president in office

Indonesia held legislative and presidential elections in 2014. July’s presidential election was won by Joko Widodo (popularly known as ‘Jokowi’), the governor of Jakarta. In the political offices he has held so far, as major 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 Jokowi’s presidency is seen as the best chance to address these issues.

However, he needs the support of smaller parties in the House of Representatives and the legislative elections have left a very fragmented political scene. Jokowi´s Indonesian Democratic Party-Struggle (PDI-P) holds only 19 % of the seats in the House and a coalition of at least four parties is needed to gain an absolute majority. This is likely to hinder structural reforms. Meanwhile, the defeated presidential candidate Prabowo Subianto has shown no willingness to engage in constructive parliamentary opposition but instead seems to be doing his utmost to undermine Jokowi’s policy making.

Economic situation

Real GDP growth (%)



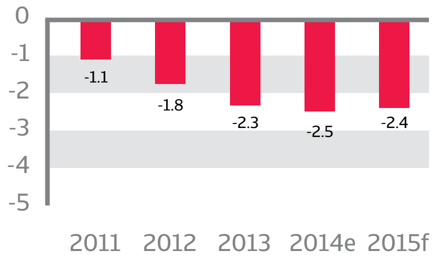
Source: IHS Global Insight, EIU, IMF

Deep structural problems persist

Economic growth was disappointing in 2014, at only 5.1% GDP, partly as a result of an export ban on unprocessed minerals and also because of political uncertainty ahead of the general and presidential elections. Nevertheless, growth is expected to accelerate in 2015: by a forecast of around 6 %. Higher incomes – the result of years of good economic performance - have contributed to the rise of the middle class in Indonesia (estimated to number more than 30 million in a country of 242 million) and this will also bolster domestic consumer spending in the short and medium term.

Despite the generally satisfactory growth rates, there are still deep structural problems, with red tape, widespread corruption, a poor legal system, an inflexible labour market and poor infrastructure all continuing to limit growth. There are still too many barriers to foreign direct investment (FDI), which is severely hampered by the poor infrastructure and energy supply, and so it is no surprise that investment in oil extraction capacity and infrastructure remains disappointing.

Fiscal balance (% of GDP)



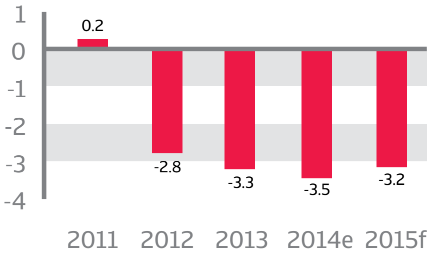
Source: IHS Global Insight, EIU, IMF

Fuel subsidies have at last been cut

The annual budget deficit has increased since 2010, due in large part to costly fuel subsidies that account for more than 15 % of the national budget. These subsidies also eat into public spending for necessary infrastructure investment and social spending, endangering long-term fiscal sustainability. Each year, more public money is spent on fuel subsidies than on social programmes and capital expenditures combined.

In November 2014 President Jokowi finally decided to cut subsidies for gasoline and diesel, raising fuel prices by about 30% to relieve the public budget. Fuel prices are a very sensitive issue in Indonesia, where about 100 million people live on US $2 a day or less, and in the past even modest increases have resulted in social unrest. To contain inflation after the fuel price increase, the Central Bank increased the benchmark interest rate by 25 basis points, to 7.75 %. Finally, on January 1st 2015 gasoline subsidies were scrapped entirely and subsidies for diesel were capped, taking advantage of decreasing oil prices. This move is expected to relieve the national budget and to allow the government to increase spending on infrastructure improvement, healthcare and education.

Current account/GDP (%)



Source: IHS Global Insight, EIU, IMF

More vulnerable external position than in the past

The country´s economic fundamentals are still strong. The foreign debt level remains manageable and liquidity is adequate. But Indonesia's external position is now more vulnerable than in the past because of its current account deficit and higher private sector external debt.

In 2014, Indonesia did not experience a recurrence of the massive international capital outflow of 2013, when the currency came under pressure as the US Federal Reserve tapered its bond-buying programme and foreign investors sold off financial assets and shares. However, the rupiah may come under renewed pressure in the future.

The cut in fuel subsidies is a start, but more structural reforms and a reduction in the external financing requirement are necessary. Without reforms to resolve the structural economic problems, the economic growth rate will remain below its potential.

Malaysia

Main import sources (2013, % of total)

China:	16.4 %
Singapore:	12.3 %
Japan:	8.7 %
USA:	7.9 %
Thailand:	6.0 %

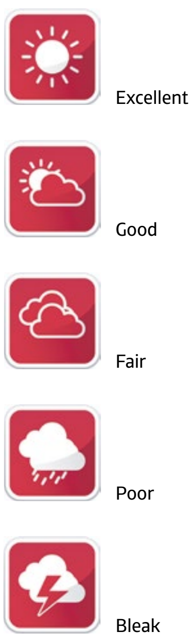
Main export markets (2013, % of total)

Singapore:	13.9 %
China:	13.5 %
Japan:	11.1 %
USA:	8.1 %
Thailand:	5.5 %

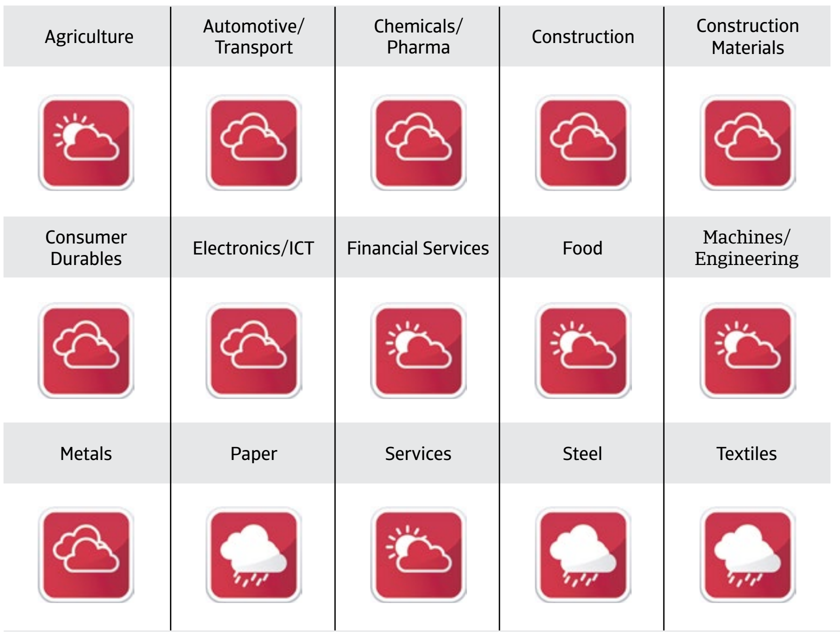
Key indicators	2011	2012	2013	2014*	2015**
Real GDP growth (y-on-y, % change)	5.2	5.6	4.7	5.9	4.8
Inflation (y-on-y, % change)	3.2	1.7	2.1	3.1	4.0
Real private consumption (y-on-y, % change)	6.9	8.2	7.2	6.7	5.7
Real exports of goods & non-factor services (y-on-y, % change)	4.5	-1.8	0.6	5.5	4.1
Fiscal balance (% of GDP)	-4.8	-4.5	-3.9	-3.5	-3.0
Current account/GDP (%)	11.6	6.1	3.7	5.7	3.2
Foreign debt/GDP (%)	33	34	34	33	32
Foreign debt/export of goods and services (%)	34	37	39	38	38
Short-term debt/international reserves (%)	33	34	35	35	37
International reserves (in months of merchandise imports)	9.8	9.9	9.5	9.1	8.6

* estimate **forecast Sources: IHS Global Insight, EIU, IMF

Malaysia industries performance outlook



January 2015



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).

Stable domestic situation

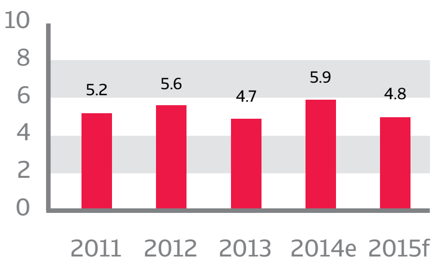
The Malaysian population is an ethnic and religious mix of Muslim Malay (50 %), Buddhist Chinese (24 %), Hindu Indians (7 %) and indigenous people (11 %). Despite its majority, the Malay population possesses only about 19 % of the wealth. Racial tensions have always simmered under the surface, but have 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 National (BN) coalition led by the United Malays National Organisation (UMNO) has been in power since independence in 1957. Despite growing electoral successes by opposition parties, UMNO remains firmly in power. The biggest risk to political stability would be a severe wrangling within UMNO, since the party is divided between conservatives (in favour of continued pro-affirmative action policy) and reformers (in favour of political and economic reforms). While Prime Minister Najib Razak belongs to the reform camp, he also has to accommodate conservative UMNO members.

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

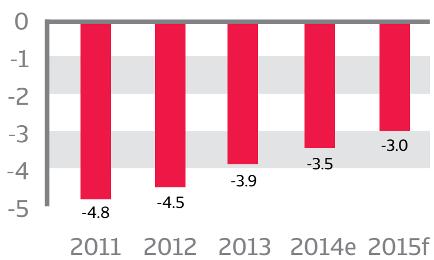
Economic situation

Real GDP growth (%)



Source: IHS Global Insight, EIU, IMF

Fiscal balance (% of GDP)



Source: IHS Global Insight, EIU, IMF

Slightly lower growth in 2015

After strong growth of 5.9 % in 2014, the increase in GDP is expected to be slightly lower in 2015 (4.8 %). While the lower oil price should detract from export performance, growth is expected to be driven by private consumption (strong labour market) and investment in infrastructure (e.g. the high speed train to Singapore). Malaysia's business environment is considered to be far more favourable than that of its regional neighbours, apart from Singapore, and the financial sector is strong: notably with successful Islamic banking.

Strong economic fundamentals

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 to Malaysia's credit rating and to more long-term investment is constrained by this weak fiscal position, the government is determined to reduce the budget deficit by widening the tax base and cutting subsidies. Subsidies for gasoline and diesel have already been cut, and a goods and services tax of 6 % takes effect in April next year. The budget deficit is expected to decrease to 3.0 % in 2015 as a result of the tax increase. Inflation is expected to rise to 4.0 % in 2015.

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.

Print this article

The Philippines

Main import sources (2013, % of total)

China:	13.1 %
USA:	10.9 %
Japan:	8.6 %
South Korea:	7.7 %
Singapore:	6.8 %

Main export markets (2013, % of total)

Japan:	21.2 %
USA:	14.5 %
China:	12.2 %
Hong Kong:	8.2 %
Singapore:	7.4 %

Key indicators	2011	2012	2013	2014*	2015**
Real GDP growth (y-on-y, % change)	3.7	6.8	7.2	5.9	6.2
Inflation (y-on-y, % change)	4.7	3.2	2.9	4.2	3.6
Real private consumption (y-on-y, % change)	5.6	6.6	5.7	5.5	5.2
Real exports of goods & non-factor services (y-on-y, % change)	-2.5	8.5	-1.1	10.3	5.1
Fiscal balance (% of GDP)	-2.0	-2.3	-1.4	-0.7	-0.4
Current account/GDP (%)	2.5	2.8	3.5	2.5	2.6
Foreign debt/GDP (%)	27	25	22	20	18
Foreign debt/export of goods and services (%)	94	82	79	71	65
Short-term debt/international reserves (%)	9	10	10	10	10
International reserves (in months of merchandise imports)	16.9	16.9	17.4	14.9	15.5

* estimate **forecast Sources: IHS Global Insight, EIU, IMF

Philippines industries performance outlook


Excellent


Good


Fair


Poor


Bleak

January 2015

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 Benigno Aquiono
(since June 2010)

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

Increasing problems with China

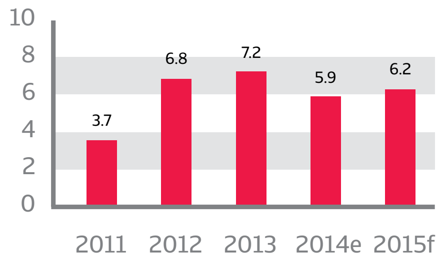
Although the Philippines have traditionally been quite politically volatile, the situation has improved markedly under the current president, Benigno Aquino, whose Liberal Party-led coalition controls a majority in the lower house and is favoured by most of the population.

However, despite improvements in recent years, the security situation in the region of South Mindanao remains poor because of the activities of Moslem separatist rebels.

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. Manila has brought its claims to the UN´s permanent court of arbitration: something that China has so far refused to do.

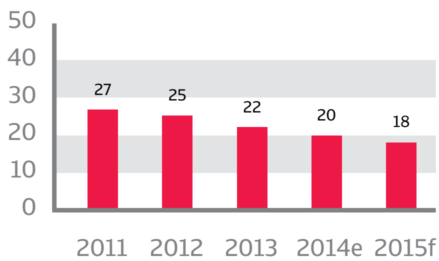
Economic situation

Real GDP growth (%)



Source: IHS Global Insight, EIU, IMF

Foreign debt/GDP (%)



Source: IHS Global Insight, EIU, IMF

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, GDP is expected to grow again - above 6 % - and robust consumer spending, the result of higher remittances from Filipinos working abroad and a growing middle class, increase the potential for robust growth rates in the coming years. However, economic expansion is still hampered by a difficult business environment, with corruption and poor infrastructure impeding more investments.

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 in 2015) and ample liquidity. The current account is structurally positive due to the inflow of remittances from overseas workers. External financing requirements are small and international reserves amount to more than 15 months of import cover.

Singapore

Main import sources (2013, % of total)

Malaysia:	10.6 %
China:	10.3 %
USA:	10.2 %
South Korea:	6.7 %
Taiwan:	6.7 %

Main export markets (2013, % of total)

Malaysia:	12.3 %
Hong Kong:	11.0 %
China:	10.8 %
Indonesia:	10.6 %
USA:	5.5 %

Key indicators	2011	2012	2013	2014*	2015**
Real GDP growth (y-on-y, % change)	6.1	2.5	3.9	3.1	3.4
Consumer price inflation (y-on-y, % change)	5.3	4.5	2.4	1.0	1.9
Real private consumption (y-on-y, % change)	4.3	3.9	2.6	1.7	3.5
Retail sales (y-on-y, % change)	-0.8	-2.1	- 7.3	-0.1	3.7
Industrial production (y-on-y, % change)	7.8	0.3	1.7	3.1	6.2
Unemployment rate (%)	2.0	1.9	1.9	2.0	1.9
Real fixed investment (y-on-y, % change)	4.3	8.9	-1.9	-1.4	1.4
Real exports of goods & non-factor services (y-on-y, % change)	4.6	1.5	3.6	2.3	2.8
Fiscal balance (% of GDP)	1.3	1.9	1.3	0.6	0.6

* estimate **forecast Sources: IHS Global Insight, EIU, IMF

Singapore industries performance outlook

January 2015


Excellent


Good


Fair


Poor


Bleak

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)

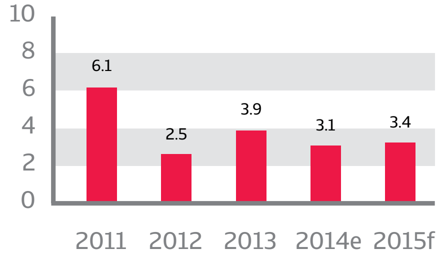
Stable situation

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.

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.

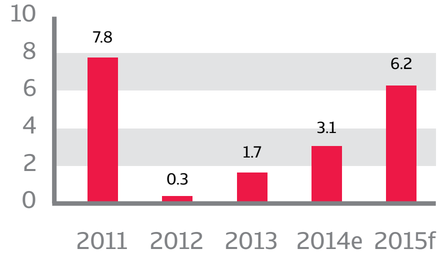
Economic situation

Real GDP growth (%)



Source: IHS Global Insight, EIU, IMF

Industrial production (% change)



Source: IHS Global Insight, EIU, IMF

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 to become a centre of high tech industry. This strategy is starting to bear fruit in the bio-medical sector.

After 3.1 % growth in 2014, Singapore's economic growth is expected to accelerate to 3.4 % in 2015, driven by investment: among other things, in its infrastructure. 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.

Thailand

Main import sources (2013, % of total)

Japan:	16.4 %
China:	15.0 %
UAE:	6.9 %
USA:	5.9 %
Malaysia:	5.3 %

Main export markets (2013, % of total)

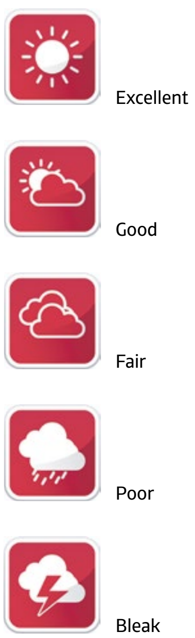
China:	11.9 %
USA: 1	0.1 %
Japan:	9.7 %
Hong Kong:	5.8 %
Malaysia:	5.7 %

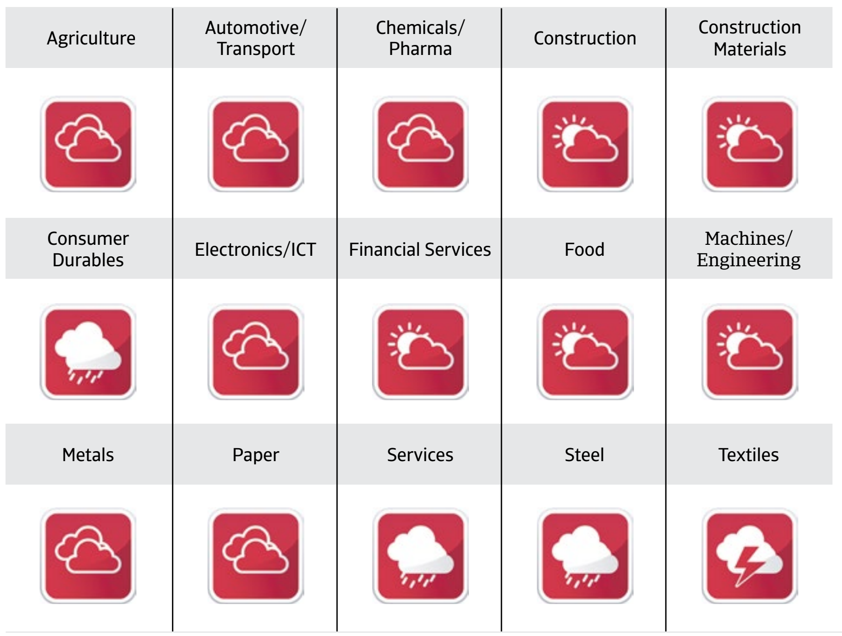
Key indicators	2011	2012	2013	2014*	2015**
Real GDP growth (y-on-y, % change)	0.1	6.5	2.9	0.5	2.9
Inflation (y-on-y, % change)	3.8	3.0	2.2	1.9	1.5
Real private consumption (y-on-y, % change)	1.3	6.6	0.3	0.6	2.6
Real exports of goods & non-factor services (y-on-y, % change)	9.5	3.1	4.2	-1.1	3.7
Fiscal balance (% of GDP)	-0.3	-3.6	-2.2	-2.4	-2.2
Current account/GDP (%)	1.2	-0.4	-1.9	0.6	2.2
Foreign debt/GDP (%)	31	27	29	28	25
Foreign debt/export of goods and services (%)	40	47	41	38	35
Short-term debt/international reserves (%)	26	31	33	32	32
International reserves (in months of merchandise imports)	9.5	9.0	8.2	7.9	7.7

* estimate **forecast Sources: IHS Global Insight, EIU, IMF

Thailand industries performance outlook

January 2015





Political situation

Head of state:
King Bhumibol Adulyadej
(since June 1946)

Head of government:
Prime Minsiter General Prayuth
Chan-ocha (since August 2014)

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

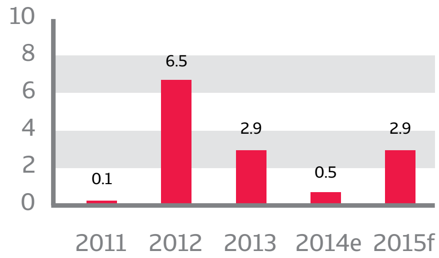
Stability restored for the time being, but underlying problems not yet solved

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. A new and less democratic constitution has been drafted, designed to curb the powers of populist politicians, and will probably be passed in 2015. General elections are expected in 2016 at the earliest.

Compared to the turbulence of earlier months, political stability has been restored – at least for the time being. However, the underlying 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.

Economic situation

Real GDP growth (%)



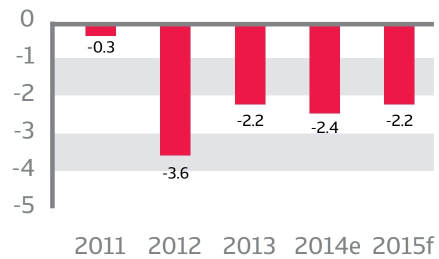
Source: IHS Global Insight, EIU, IMF

Modest economic recovery after the military coup

Political unrest and uncertainty in 2013 and the first half of 2014, together with poor economic governance, has hit both consumer confidence and international tourism revenues, resulting in very low economic growth since Q2 of 2013. However, the military coup in May 2014 has led to renewed political stability, at the expense of some democratic basic rights such as freedom of assembly, which should support economic growth in 2015.

The economy is forecast to have grown 0.5 % in 2014, and to increase 2.9 % in 2015: still below Thailand´s growth potential. Inflation is expected to remain low in 2015 (at 1.5 %), giving the central bank´s monetary policy room for accommodation (i.e. keeping the benchmark interest rate low – currently at 2 %). The Thai banking sector is relatively well developed and generally financially healthy, although not comparable to Malaysia and Singapore.

Fiscal balance (% of GDP)



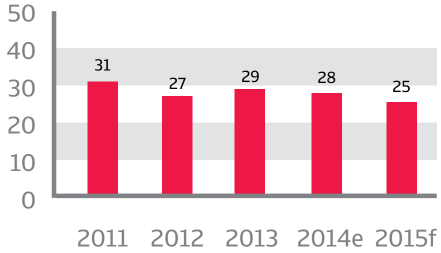
Source: IHS Global Insight, EIU, IMF

Economic policies: mixed results so far

The new 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. However, it will continue to implement - and even expand - an extensive infrastructure investment programme worth US $62 billion originally initiated by ousted Prime Minister Yingluck. The fiscal deficit is expected to decrease to 2.2 % in 2015.

A controversial measure by the new military government was the expulsion of thousands of illegal foreign workers, and this is expected to hurt some labour intensive sectors like construction and fishery. This action has also strained relationships with some neighbouring countries, including Cambodia and Myanmar.

Foreign debt/GDP (%)



Source: IHS Global Insight, EIU, IMF

Economic fundamentals remain resilient against further potential political uncertainty

The exchange rate is resilient to volatility triggered by further political uncertainty. The country´s payment capacity and liquidity are underpinned by low foreign debt (in 2015: 25 % of GDP and 35 % of exports, with short-term debt amounting to 32 % of GDP). International reserves are forecast to total around eight months of import cover in 2015. Thailand´s open and export-oriented economy is expected to benefit from a modest global recovery this year. The political situation is likely to remain stable, for at least the coming 12 months and this will certainly help to improve international investors' sentiment and will encourage more international tourist arrivals.

Vietnam

Main import sources (2013, % of total)

China:	25.4 %
South Korea:	13.7 %
Japan:	10.3 %
Singapore:	6.0 %
Malaysia:	3.0 %

Main export markets (2013, % of total)

USA:	17.2 %
Japan:	14.0 %
China:	8.1 %
South Korea:	4.9 %
Malaysia:	3.9 %

Key indicators	2011	2012	2013	2014*	2015**
Real GDP growth (y-on-y, % change)	6.2	5.2	5.4	5.8	5.9
Inflation (y-on-y, % change)	18.7	9.1	6.6	4.1	3.5
Real private consumption (y-on-y, % change)	n.a.	n.a.	n.a.	n.a.	n.a.
Real exports of goods & non-factor services (y-on-y, % change)	10.8	15.7	10.5	8.1	8.1
Fiscal balance (% of GDP)	-0.5	-4.8	-4.6	-4.4	-4.4
Current account/GDP (%)	0.2	5.8	6.2	5.0	4.1
Foreign debt/GDP (%)	39	38	38	38	39
Foreign debt/export of goods and services (%)	50	48	45	45	44
Short-term debt/international reserves (%)	71	38	45	42	36
International reserves (in months of merchandise imports)	1.6	2.7	2.3	2.8	3.5

* estimate **forecast Sources: IHS Global Insight, EIU, IMF

Vietnam industries performance outlook

Excellent

Good

Fair

Poor

Bleak

January 2015

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

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

Increasing tensions with China over conflicting claims in the South China Sea

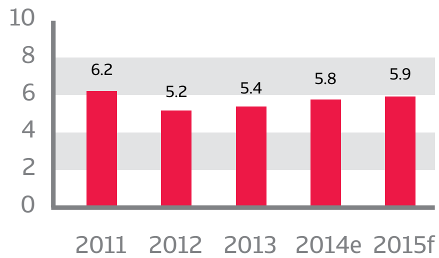
The Vietnamese Communist Party remains firmly in power, despite rising public discontent over the lack of personal freedom, corruption in government and land seizures by the administration. The authorities are aware of the risk this poses and are trying to combat corruption and increase social spending. Within the communist party there seems to be an on-going struggle between hardliners and officials more inclined to economic reform.

Externally, the territorial clash 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 at sea between rival vessels and violent anti-Chinese protests in Vietnam. After the removal of the oil rig in July, both sides began talks to de-escalate the situation and finally agreed in late October 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.

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.

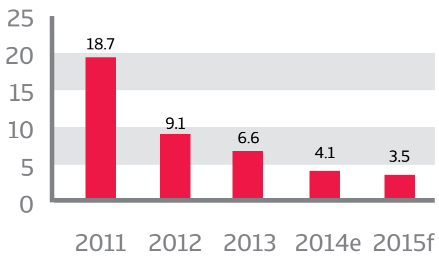
Economic situation

Real GDP growth (%)



Source: IHS Global Insight, EIU, IMF

Inflation (%)



Source: IHS Global Insight, EIU, IMF

Stable growth and inflation back under control

Vietnam is slowly moving from a centralised communist economy to a system of market-socialism. Economic reform to achieve this aim (given the name 'doi moi' when initiated in 1986) has resulted in relatively high economic growth, but growth has decelerated since the 2008 financial crisis and is not expected to return to pre-crisis levels of more than 8 % in the near future.

Vietnam's economy is extremely export-driven, specialising in textiles and footwear; making it vulnerable to deteriorating demand for those goods. The economy is shifting towards higher valueadded sectors such as electronics.

Since 2013, the government has prioritised monetary stability over economic growth. The persistently high inflation seen over the last couple of years (with double-digit rates in 2010 and 2011) has finally decreased (expected to be 3.5 % in 2015), and in March 2014 the Central Bank lowered the benchmark interest rate by 50 basis points, to 6.5 %. With 5.8 % growth expected for 2014, GDP is forecast to grow 5.9 % in 2015.

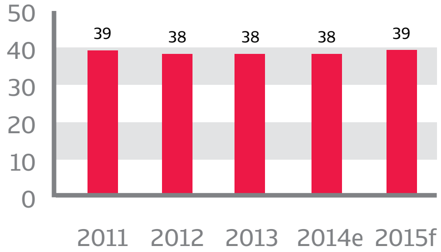
Public finances remain an issue due to persistent fiscal deficits: the result of lax fiscal discipline and expenditure on infrastructure and social welfare. Public debt amounts to more than 55 % of GDP. Reform of inefficient state-owned enterprises and the financial sector are essential. Other structural challenges are improvements to infrastructure, workforce education and the fight against corruption. However, the likelihood of such comprehensive reforms remains some way off as, within the Communist Party, there is a stand-off between the conservative and more reform-minded.

Banking sector troubles will hit some industries

The banking sector, which is dominated by five large state-owned commercial banks , is in bad shape. The sector is bloated in comparison to the size of the Vietnamese economy and nonperforming loans (NPL) are high (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 to help recapitalise banks. As the sector is undergoing some restructuring due to the high NPL ratio, this could adversely affect performance in sectors like construction, steel/metals and finance.

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.

Foreign debt/GDP (%)



Source: IHS Global Insight, EIU, IMF

External economic fundamentals show some weaknesses

Vietnam has achieved a strong balance of payments, with solid current account surpluses, since 2012, together with high inflows of foreign direct investment (FDI). Foreign debt increased to 39 % of GDP and only 45 % of exports in 2014. Despite an expected increase in 2014 and 2015 (to 2.8 and 3.5 months of import cover respectively) import cover remains poor and liquidity shortages cannot be ruled out. However, given Vietnam´s limited international financial integration, there is little risk of sharp exchange rate devaluations. While the exchange rate remains pegged, some moderate devaluations are likely.

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