APAC Sovereign Credit Overview 3Q18

Steady Growth, More Challenging Global Backdrop

Economic activity across the APAC region held up through the first half of 2018 on strong domestic demand and robust exports, despite jitters from rising trade tensions between the US and China. Fiscal policies are supporting increases in infrastructure spending, and monetary conditions remain accommodative, even after recent interest rate hikes in a few economies.

The external environment, however, is becoming more challenging. Rising US interest rates accompanied by US dollar strength, and global risk aversion towards emerging-market assets are generating capital outflows and downward pressure on some of the region's currencies. In response, Bank Indonesia has raised interest rates by 125bp since May 2018. Central banks in the Philippines and India have also responded, albeit motivated by a greater focus on domestic inflationary pressures than Indonesia.

APAC Sovereign Ratings Mostly Stable

Strong fiscal and external buffers, along with shock absorbers embedded in flexible policy frameworks should enable the region's economies to weather these external pressures. After recent upgrades in Vietnam and Mongolia, all of the region's sovereign credits are now on Stable Outlook, with the exception of Pakistan where the newly elected government is under pressure to arrest deteriorating external finances and address fiscal challenges. We recently affirmed Malaysia's rating with a Stable Outlook following the election of a new government that, despite abolishing the GST, shows signs of adhering to fiscal deficit reduction and improving governance.

Growth momentum is moderating in the region's two largest economies of China and Japan, but is so far in line with Fitch Ratings' expectations. The main risks to our outlook stem from the ongoing tightening of global monetary conditions, geopolitics, and policy uncertainty. Higher global interest rates and tighter financing conditions will pass through to debt-servicing costs and will put pressure on economies with high levels of corporate or household debt and large external financing needs. Escalating trade tensions between the US and China pose an additional threat.

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Asia-Pacific Ratings

Sovereign	Long-Term Foreign-Currency IDR[a]	Outlook	Long-Term Local-Currency IDR[a]	Outlook
Australia	AAA	Stable	AAA	Stable
Bangladesh	BB-	Stable	BB-	Stable
China	A+	Stable	A+	Stable
Hong Kong	AA+	Stable	AA+	Stable
India	BBB-	Stable	BBB-	Stable
Indonesia	BBB	Stable	BBB	Stable
Japan	A	Stable	A	Stable
Korea	AA-	Stable	AA-	Stable
Macao	AA	Stable	AA	Stable
Malaysia	A-	Stable	A-	Stable
Maldives	B+	Stable	B+	Stable
Mongolia	B	Stable	B	Stable
New Zealand	AA	Stable	AA+	Stable
Pakistan	B	Negative	B	Negative
Philippines	BBB	Stable	BBB	Stable
Singapore	AAA	Stable	AAA	Stable
Sri Lanka	B+	Stable	B+	Stable
Taiwan	AA-	Stable	AA-	Stable
Thailand	BBB+	Stable	BBB+	Stable
Vietnam	BB	Stable	BB	Stable

[a] Issuer Default Rating (IDR)
Source: Fitch

Australia (AAA/Stable)

Consistent Economic Growth: Australia's 'AAA' rating reflects its high income levels, strong governance and effective policymaking institutions. The economy has experienced more than two decades of uninterrupted growth, despite being buffeted by mining investment downturns and volatile global conditions. This performance is a result of the flexibility offered by a free-floating exchange rate, credible monetary policy framework and low public debt.

Key Developments

Improved Fiscal Performance: Australia's fiscal performance outperformed budget targets during the fiscal year ended June 2018 (FY18) due to buoyant revenue collection from higher corporate earnings and commodity prices, as well as continued expenditure restraint. The new prime minister, Scott Morrison, who most recently served as treasurer, is likely to hold to the broad targets outlined in the government's FY19 budget, released in May 2018. Personal tax cuts in line with those outlined in the budget have been passed, but the proposed corporate tax cuts were dropped. Meanwhile, the government's target of an underlying cash surplus by FY21 is achievable, though highly reliant on macroeconomic outcomes.

Wage Growth Remains Subdued: Firm GDP growth momentum and reduced labour market slack have yet to translate into wage and inflationary pressures. Wage growth continues to be sluggish, which is partly explained by the substantial increase in the participation rate since 2016. Fitch forecasts a gradual rise in wage growth and inflation. As a result, we expect monetary policy to remain accommodative, with the Reserve Bank of Australia keeping policy rates stable in 2018, and beginning its tightening with two 25bp hikes in 2019.

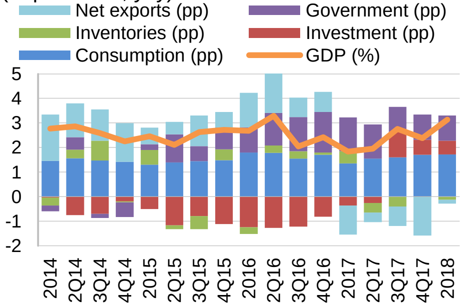
Housing Market Cools: Housing price growth has continued to cool on the back of tighter credit conditions, prudential regulations and higher supply. The slowdown has been particularly acute in Sydney, where house prices registered a year-on-year decline in 1Q18. However, a sharp housing market correction is not Fitch's base case. Accommodative monetary policy and resilient housing demand should continue to support prices. A house price correction that is sharper than our forecast could, however, have negative implications for growth through knock-on effects on consumer spending due to high household debt levels.

Negative Sensitivities

- A sustained widening of the fiscal deficit, leading to a continued rise in the general government debt-to-GDP ratio
- Economic or financial-sector distress from impaired household debt-servicing ability in the event of a negative housing or labour market shock, or a sharp increase in interest rates
- A sharp increase in the current account deficit or a sustained reallocation of foreign capital resulting from a negative external shock, such as an acute slowdown in China or severe tightening in global financial conditions

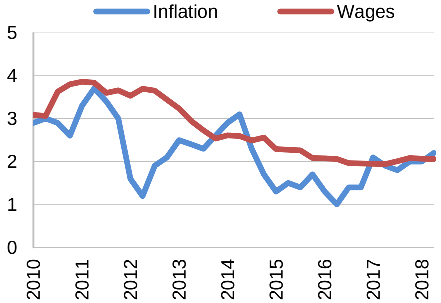
Latest Rating Review: 1 May 2018

GDP Growth and Contributors
(Expenditure; yoy)



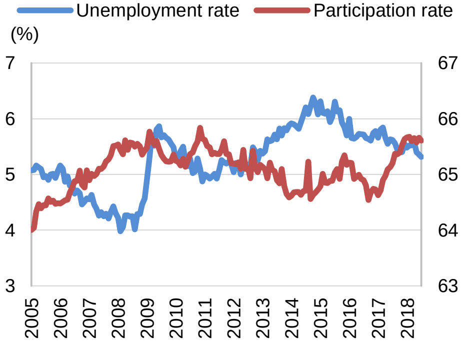
Source: Australian Bureau of Statistics

Inflation and Wages
(% yoy)



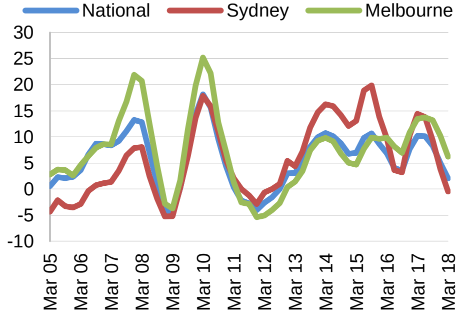
Source: Australian Bureau of Statistics; CEIC

Labour Markets



Source: Australian Bureau of Statistics; CEIC

Residential Housing Prices
(% yoy)



Source: Australian Bureau of Statistics

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	2.6	2.3	2.8	2.7	2.7
Current account balance (% GDP)	-3.0	-2.4	-2.6	-2.8	-2.8
Net external debt (% GDP)	59.2	56.1	53.9	53.2	52.0
Government balance (% GDP)	-2.7	-2.4	-1.7	-1.6	-0.7
Government debt (% GDP)	39.6	41.2	41.7	41.3	40.1

Source: Fitch

Resilient Growth, Weak Governance: Bangladesh's ratings balance strong foreign-currency earnings and high real GDP growth against weak structural indicators, significant political risk and weak banking-sector health.

Key Developments

Strong External Finances: Gross foreign-exchange reserve buffers remained strong at USD32.1 billion as of July 2018. Remittance inflows began declining in mid-2016, especially from the Middle East, but increased by 17% in the year ended 30 June 2018 to USD15 billion. Exports of ready-made garments and knitwear remained robust, up 12.5% in the first five months of 2018 and accounting for about 80% of total exports.

Elections Cause for Uncertainty: General elections are likely in late 2018 and political polarisation continues. The main opposition leader, Khaleda Zia, was sentenced to a five-year prison term on 8 February 2018 in a graft case and may not be able to run. There is a risk of a repeat of the widespread violence and blockades that occurred in the run-up to elections in January 2014. Anti-government student protests for improved road safety turned violent for several days in July and August 2018 after two teenagers were killed when a bus hit a crowd of waiting passengers.

Improvement in Security Conditions: Security conditions appear to have improved over the past 18 months despite the political uncertainty. Foreign investors and buyers of Bangladeshi goods, especially ready-made garments, have continued to do business there and have resumed visiting the country more frequently after a slow period following a notorious terrorist attack in July 2016. Security incidents or political turmoil could inflict long-term economic harm if it deters foreign investors from doing business in the country.

Positive Sensitivities

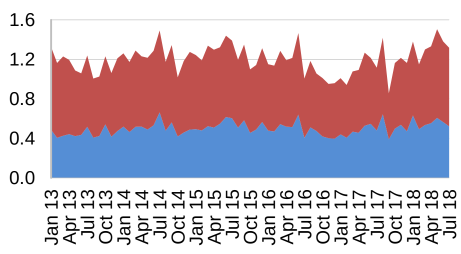
- A reduction in political risk or domestic security concerns
- Sustained high GDP growth, which would support development and bring per capita GDP closer in line with those of peers
- An improvement in governance, which would strengthen the business climate and could improve banking-sector health

Negative Sensitivities

- Substantial slowdown in GDP growth, for example, related to materialising political risk or a deterioration in the security situation
- A significant rise in the government debt-to-GDP ratio, for example, due to substantial government support for the banking sector

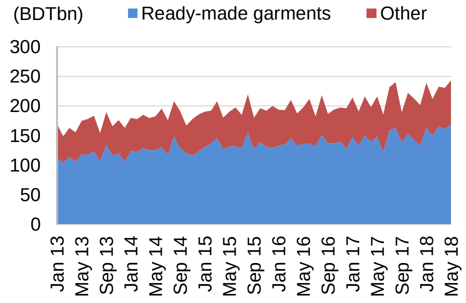
Latest Rating Review: 11 January 2018

Remittance Inflows
Monthly data



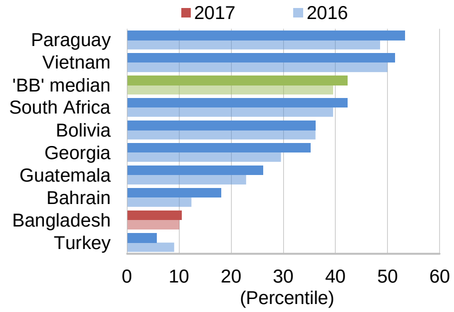
Source: CEIC and Bangladesh Bank

Bangladeshi Exports
Monthly data



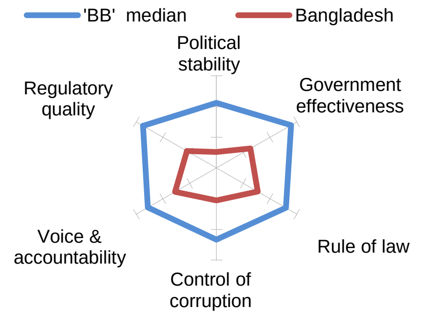
Source: CEIC and Bangladesh Bank

Political Stability and Violence
World Bank indicator



Source: World Bank and Fitch

Governance Indicators
Percentile rank



Source: Fitch

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	7.1	7.3	7.0	6.8	6.7
Current account balance (% GDP)	0.4	-2.4	-2.4	-2.6	-3.0
Net external debt (% GDP)	1.6	4.7	6.0	7.4	9.4
Government balance (% GDP)	-3.7	-3.4	-3.6	-3.7	-3.3
Government debt (% GDP)	32.1	32.1	32.4	32.8	33.4

Source: Fitch

China (A+/Stable)

External Finances, Growth Underpin Ratings: Improved economic momentum in 2017 enabled the authorities to address financial risks and temper further increases in imbalances without jeopardising near-term growth objectives. It remains to be seen, however, whether there has been an enduring shift in policy settings towards stabilising debt levels and away from using credit-driven stimulus to meet growth targets.

Key Developments

Slower Growth Tests Policy Resolve: GDP growth in 2Q18 decelerated to 6.7% yoy, and Fitch forecasts growth will slow to 6.6% in 2018 and 6.3% in 2019 due to a tighter credit environment and cooling property sector. Trade protectionism poses an increasing downside risk, as reflected in a politburo communique in late-July 2018 signalling a pivot towards more supportive fiscal and monetary policies by labelling them "proactive" and "prudent", respectively (previously "prudent and neutral"). Slower growth will test the authorities' commitment to tighter financial regulations and the deleveraging campaign.

Credit Growth Slows Further: Official measures of aggregate financing growth slowed to 10.3% yoy in July 2018 from 13.4% a year earlier, and Fitch's adjusted measure shows an even sharper deceleration – albeit from a higher base. A recent central bank notice and regulatory consultation paper suggest a slight softening in guidance affecting financial institutions' asset-management businesses, such as allowing funds to invest in non-standard credit assets (within limits). This may reflect the authorities' concern that recent measures have resulted in too blunt an impact on the economy and they are now seeking a balance between slowing credit growth to improve the stability of the financial system and avoiding a credit crunch.

Yuan Weakens Considerably: The yuan has depreciated by about 8% against the US dollar since end-March 2018, an unusually large move by historical standards. Part of the adjustment may reflect a desire to return the CFETS index to early 2017 levels after the authorities permitted the currency to appreciate earlier in the year in the face of broad-based strengthening of the US trade-weighted index. Capital outflow pressures have been benign despite ongoing market jitters and balance-of-payment figures for 2Q18 suggest net inflows of USD18 billion, compared with net outflows of USD73 billion in 2017.

Positive Sensitivities

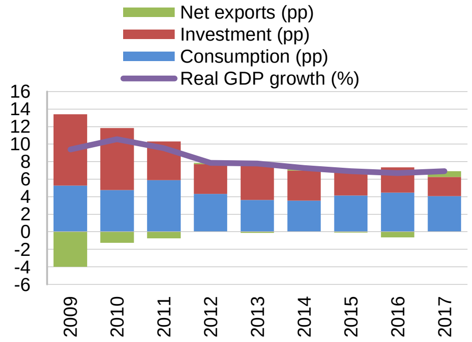
- Greater confidence that the debt problem in the broader economy can be resolved without material negative impact on growth or financial stability
- Widespread adoption of the Chinese yuan as a reserve currency

Negative Sensitivities

- Policy settings resulting in a further build-up of imbalances; an adverse macroeconomic shock that weakens medium-term growth prospects or public finances
- Sustained capital outflows sufficient to erode China's external balance-sheet strengths

Latest Rating Review: 20 March 2018

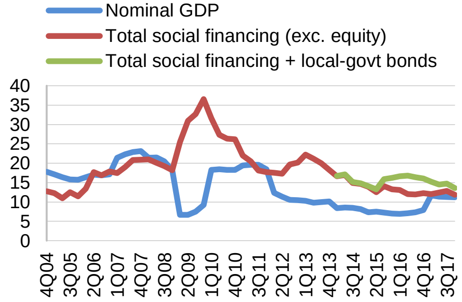
GDP Growth and Contributors



Source: CEIC, Fitch

Credit Growth

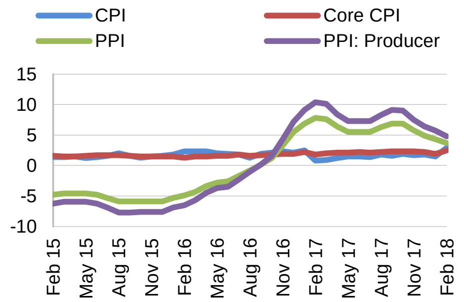
(% yoy)



Source: CEIC, Fitch

Prices

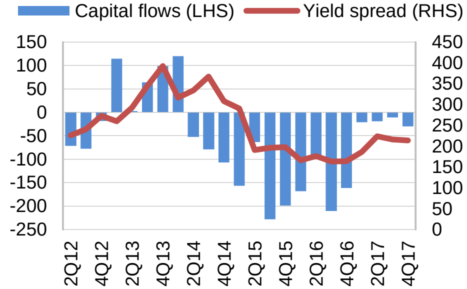
(% yoy)



Source: CEIC, Fitch

Capital Flows

(USDbn)



Spread between 1-year CN and US yields
Source: CEIC, Fitch

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	6.7	6.9	6.6	6.3	6.1
Current account balance (% GDP)	1.8	1.4	1.0	0.8	0.6
Net external debt (% GDP)	-29.9	-27.8	-24.6	-22.7	-21.0
Government balance (% GDP)	-3.8	-3.8	-4.0	-4.5	-4.9
Government debt (% GDP)	48.2	47.5	47.6	48.2	49.2

Source: Fitch

Hong Kong (AA+/Stable)

Strong Economy, High China Exposure: Hong Kong's sovereign ratings are underpinned by its exceptionally strong public and external finances, high income levels, and resilient and flexible economy. The ratings are principally constrained by the territory's deep integration with lower-rated mainland China (A+/Stable), including via the banking sector.

Key Developments

Currency Weakness Manageable: Fitch sees intervention by the Hong Kong Monetary Authority to defend the Hong Kong dollar peg as consistent with the territory's rules-based Linked Exchange Rate System and a prerequisite for local interest rates to rise in tandem with their US counterparts. The authorities have ample resources at their disposal to facilitate this normalisation process as foreign reserves are equivalent to 2x the monetary base.

Strong Public Finances: The fiscal surplus rose to 5.6% of GDP in the fiscal year ended March 2018 (FY18), and Fitch forecasts a surplus of 3.0% in FY19. Fiscal reserves rose to HKD1.1 billion (41% of GDP) by end-March 2018. Government debt is under 4% of GDP after excluding instruments issued to manage the currency board.

Growth Continues to Outperform: Fitch forecasts real GDP growth of 3.6% in 2018 and 3.0% in 2019, above the current 'AA' median of 2.3% and consistent with the economy operating at full employment. The unemployment rate was 2.8% at end-June 2018, around a 20-year low.

Risks, Opportunities from China Integration: The Greater Bay Area initiative could help remove supply-side constraints and bring economic opportunities to Hong Kong. At the same time, deeper integration is likely to link Hong Kong's business cycle more closely to that of mainland China, and further entwine their institutional and regulatory frameworks.

China Exposures Rise: Fitch expects banking-sector capitalisation, liquidity and asset quality trends to remain sound. However, there are risks from rapid loan growth and a further build-up in mainland China-related exposures, which we estimate at USD989 billion (286% of GDP).

Positive Sensitivities

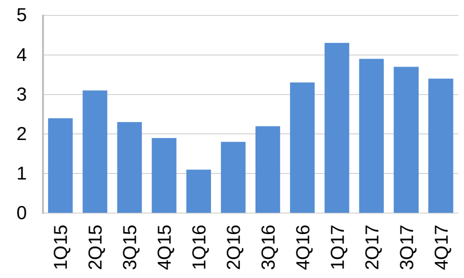
- Confirmation that the economies of both Hong Kong and mainland China are resilient to China's transition away from debt-fuelled growth or resilient to a full economic cycle.

Negative Sensitivities

- Erosion in the independence or quality of Hong Kong's institutional framework, and associated decline in governance standards
- Further concentration of banking-sector exposures in mainland China that make it increasingly difficult to distinguish financial-sector risks in Hong Kong from those in China
- Heightened risk of a sharp slowdown in China or evidence that its structural rebalancing will have a destabilising effect on Hong Kong's financial sector or broader economy

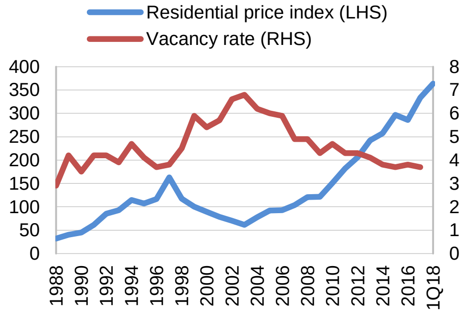
Latest Rating Review: 13 June 2018

Real GDP Growth
(% yoy)



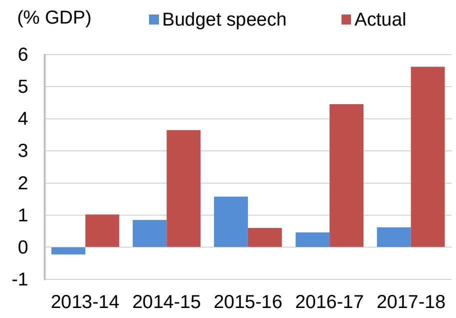
Source: CEIC, Fitch

Property Prices
1999 = 100



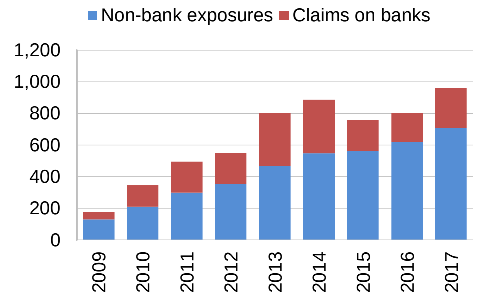
Source: Rating & Valuation Department, CEIC, Fitch

Fiscal Balance vs. Budget Speech



Source: HKSAR Budget Speech, CEIC, Fitch

China Exposure
(USDbn)



Source: HKMA, CEIC, Fitch

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	2.2	3.8	3.6	3.0	2.5
Current account balance (% GDP)	4.0	4.3	2.8	2.5	2.1
Net external debt (% GDP)	-275.9	-292.6	-279.1	-268.4	-260.9
Government balance (% GDP)	4.5	5.6	3.0	2.5	2.0
Government debt (% GDP)	42.9	43.2	37.6	33.2	29.8

Source: Fitch

India (BBB-/Stable)

Weak Public Finances: India's ratings balance a strong medium-term growth outlook and favourable external balances against a weak fiscal position and difficult business environment. However, the implementation and continued broadening of the government's structural-reform agenda will enhance productivity and help support growth.

Key Developments

Start of Tightening Cycle: The Reserve Bank of India (RBI) has hiked its policy rate twice since June 2018, by a cumulative 50bp, in response to rising inflationary pressure from higher oil prices and rupee depreciation. Moreover, the central bank's inflation expectations have edged up and there is a possible inflationary impact from a significant increase in the minimum support price for agricultural products. External pressures have increased with the emerging-market contagion from Turkey and continued Fed tightening, but they should be manageable from a credit perspective as India has large foreign-exchange buffers and low external debt.

Continued GDP Growth Rebound: Fitch expects growth to accelerate to 7.4% in the fiscal year ending March 2019 (FY19), and 7.5% in FY20, from 6.7% in FY18. GDP growth picked up in 1Q18 to 7.7% yoy from 7.0% yoy in the previous quarter. The influence of one-off policy factors, which had been a drag on growth, has now waned. In particular, money supply recovered to its pre-demonetisation level in mid-2017 and is now increasing steadily, in line with the earlier trend; also, disruptions from the rollout of the goods and services tax in July 2017 have gradually diminished.

Delay in Fiscal Consolidation: The government's budget, presented on 1 February 2018, has pushed back fiscal consolidation, leaving much of the task of addressing the country's relatively weak public finances to the next administration. However, the budget target revisions are modest. A ceiling of 60% of GDP for general government debt was adopted, as recommended by the Fiscal Responsibility and Budget Management Review Committee in January 2017. This would be a positive step towards a more prudent fiscal framework, even if debt is unlikely to fall below the ceiling by FY23, as recommended by the committee.

Positive Sensitivities

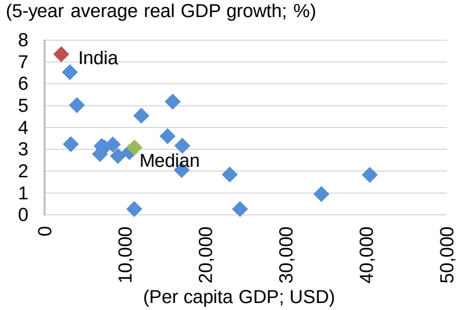
- A reduction in general government debt over the medium term to a level closer to that of rated peers
- Higher sustained investment and growth rates without the creation of macro imbalances, such as from successful structural reform implementation

Negative Sensitivities

- A rise in the public-debt burden, which may be caused by stalling fiscal consolidation or greater-than-Fitch-expected deterioration in the balance sheets of public-sector banks that could prompt large-scale sovereign financial support
- Loose macroeconomic policy settings that cause a return of persistently high inflation and widening current account deficits, which would increase the risk of external funding stress

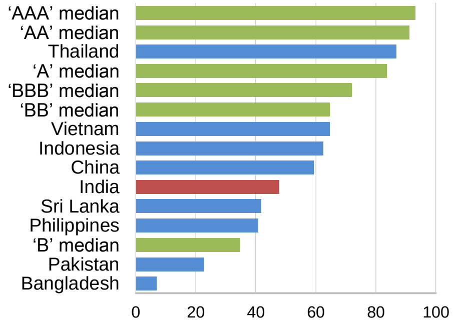
Latest Rating Review: 27 April 2018

Gross Domestic Product
'BBB' category sovereigns



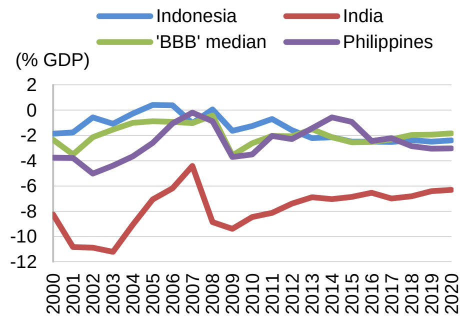
Source: National authorities and Fitch

Ease of Doing Business
Percentile rank



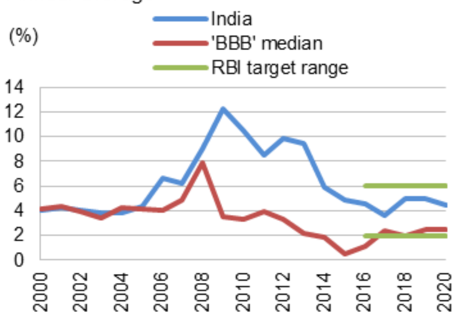
Source: World Bank and Fitch

Government Balance
General government



Source: MoF, national authorities and Fitch

Consumer Price Inflation
Annual average



Source: CEIC and RBI

Key Indicators

	FY16-17	FY17-18	FY18-19f	FY19-20f	FY20-21f
Real GDP (% change)	7.1	6.7	7.4	7.5	7.5
Current account balance (% GDP)	-0.7	-1.6	-2.2	-2.5	-2.7
Net external debt (% GDP)	0.6	0.2	1.0	2.1	3.3
Government balance (% GDP)	-6.5	-7.0	-6.8	-6.4	-6.3
Government debt (% GDP)	67.7	69.0	69.6	69.4	68.7

Source: Fitch

Low Government Debt: Indonesia's ratings balance a low government debt burden, favourable growth outlook and limited sovereign exposure to banking-sector risks with some external challenges, including a strong dependence on commodity exports, and some lagging structural factors, such as a difficult - but improving - business environment.

Key Developments

Pre-Emptive Monetary Tightening: Bank Indonesia (BI) has hiked its policy rate by a cumulative 125bp since May in response to external pressures from global risk aversion towards emerging markets due to Fed policy normalisation, rising US-China trade tensions, and contagion from the Turkey crisis. The turn in Indonesia's monetary cycle is mainly aimed at stemming capital outflows and rupiah depreciation versus the US dollar, which may supress a pick-up in GDP growth. Domestic inflationary pressures remained weak as headline inflation fell to 3.2% in June 2018 from 3.4% in April, remaining at the lower end of the inflation target range (2.5%-4.5%). BI also intervened in the foreign-exchange market, causing FX reserves to drop by a total of USD14 billion since January 2018 to USD118.3 billion by end-July.

Strengthened External Resilience: Indonesian assets may remain under pressure if the emerging-market turmoil continues. However, the credit profile has steadily become more resilient in recent years, and Fitch upgraded Indonesia's rating to 'BBB' in December 2017. Foreign-reserve buffers have swelled and monetary policy has been sufficiently disciplined to limit bouts of volatile capital outflows during challenging periods. Macro-prudential measures have also helped curb a sharp rise in corporate external debt, while financial deepening has coincided with improved market stability. Some external challenges remain, including renewed market pressure from the Fed's policy normalisation.

Positive Sensitivities

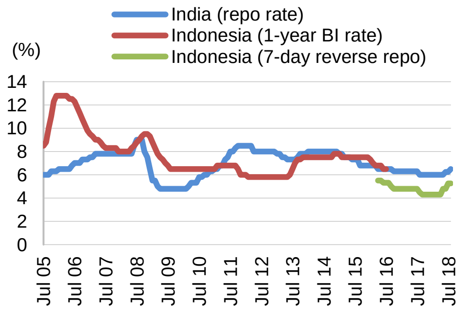
- Strengthening of external finances, for instance, by an increase in foreign-exchange reserves, expansion of the manufacturing export base and lower dependence on volatile portfolio flows
- Continued improvement of structural indicators, such as governance standards
- An improvement in the government revenue ratio, for example, from better tax compliance and a broader tax base

Negative Sensitivities

- A sharp and sustained external shock to foreign and/or domestic investor confidence, leading to a decline in foreign-exchange reserves
- A material increase in the overall public debt burden, for example, resulting from relaxation of the budget deficit ceiling
- A weakening of the policy framework that could undermine macroeconomic stability

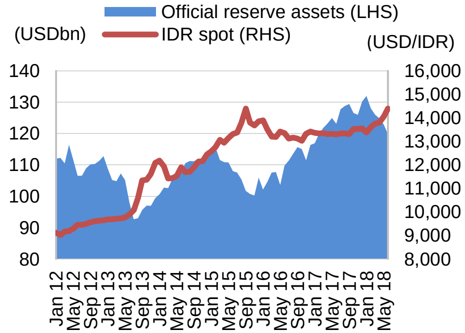
Latest Rating Review: 2 September 2018

Policy Rates



Source: CEIC, Bank Indonesia and Reserve Bank of India

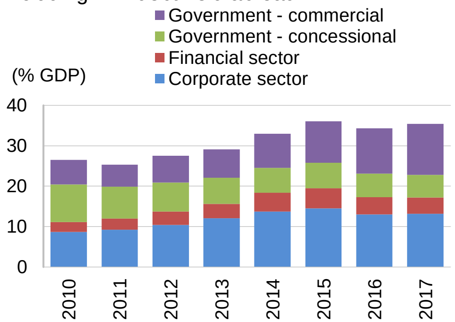
Foreign Reserves



Source: CEIC and Bank Indonesia

Gross External Debt

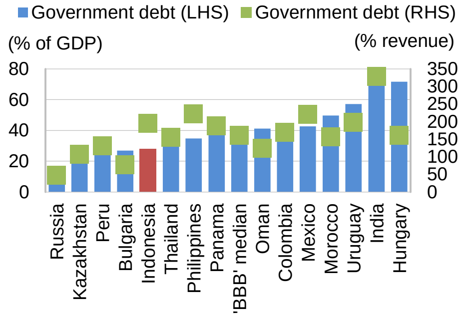
Including IDR debt held abroad



Source: Bank Indonesia

General Government Debt

'BBB' category sovereigns



Source: National authorities and Fitch

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	5.0	5.1	5.1	5.2	5.3
Current account balance (% GDP)	-1.8	-1.7	-2.5	-2.4	-2.4
Net external debt (% GDP)	7.2	7.0	8.9	9.0	8.7
Government balance (% GDP)	-2.5	-2.5	-2.3	-2.1	-2.1
Government debt (% GDP)	28.3	29.0	30.4	30.3	30.0

Source: Fitch

FitchRatings

Japan (A/Stable)

Stronger Growth Buffers Fiscal Risks: Japan's ratings balance the strengths of an advanced and wealthy economy against weak medium-term growth prospects and high public debt. A high domestic savings rate, strong external finances, and home investor bias contribute to the economy's resilience as reflected in perceptions of Japan as a safe haven. At the same time, the gross general government debt (GGGD) ratio of almost 230% of GDP is the highest among Fitch-rated sovereigns. The economy's intrinsic financial strengths could be eroded over time without further reforms to boost potential growth and address the public debt burden.

Key Developments

Cyclical Improvement in Growth: A string of eight consecutive quarters of positive GDP growth – the longest run in at least two decades - came to an end in 1Q18 with a contraction in private consumption due to unfavourable weather conditions. Consumption rebounded strongly in 2Q18, and positive GDP growth resumed (first preliminary estimate). As such, the 1H18 outturn is consistent with our full-year growth projection of 1%, which represents a slowdown from 1.7% in 2017. Our projection for 2018 builds in modestly softer external demand, offset by still-supportive fiscal and monetary policies under the reflation strategy of “Abenomics”. We expect GDP growth to slow further in 2019 and 2020 in line with our estimates of potential GDP growth, and from headwinds in late 2019 of an anticipated consumption tax hike.

Strong Labour Market Conditions: The labour market has continued to tighten despite a steady rise in participation rates. Unemployment has fallen to its lowest level since the early 1990s and gauges of wage inflation have risen.

Monetary Policy to Remain Loose: We expect policy settings under the Bank of Japan's (BoJ) yield curve control framework to remain broadly unchanged, entailing a target for the 10-year treasury yield of 0%. The BoJ announced a slight adjustment to its monetary framework at its July policy meeting by introducing flexibility around the 10-year yield target. We nevertheless expect policy settings to remain loose over the next two years as headline inflation of just 0.7% yoy in June remains significantly short of the BoJ's 2% target introduced in 2013.

Positive Sensitivities

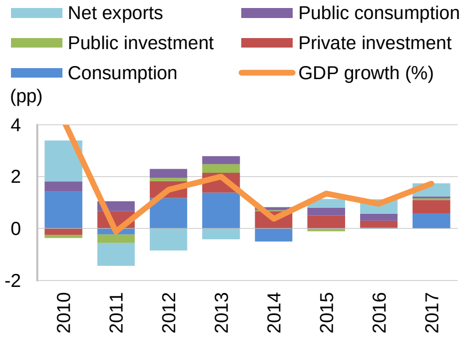
- Announcement of a credible fiscal consolidation strategy, leading to a sustained decline in the GGGD/GDP ratio
- A sustained improvement in real GDP growth and restoration of positive inflation dynamics

Negative Sensitivities

- Inability to sustain a stable or declining trajectory of the GGGD/GDP ratio
- A sharp rise in real interest rates on government debt for a sustained period to a level that undermines debt sustainability
- Sustained weak nominal GDP growth

Latest Rating Review: 25 April 2018

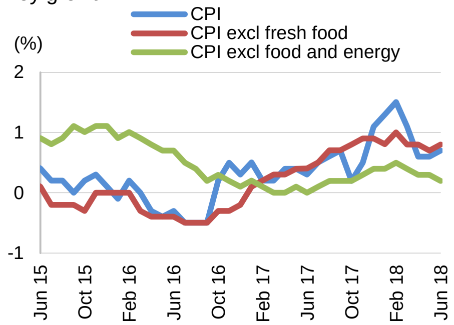
GDP Growth and Contributors



Source: Economic Social Research Council

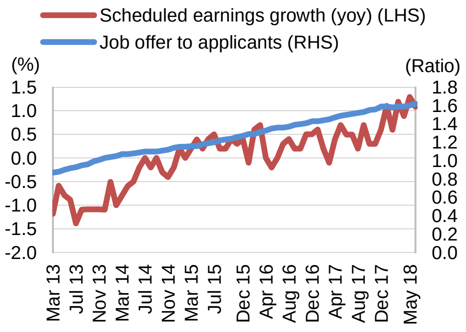
Inflation

Yoy growth



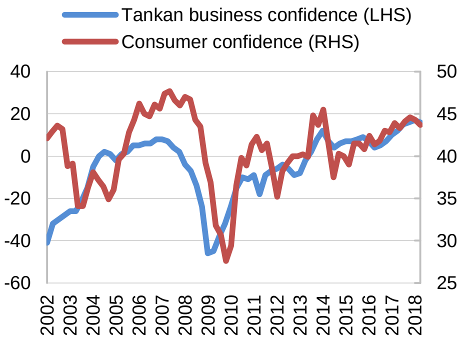
Source: CEIC, Fitch

Labour Market Indicators



Source: Ministry of Health, Labour and Welfare

Confidence Indicators



Source: Bank of Japan; ESRI

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	1.0	1.7	1.0	0.8	0.6
Current account balance (% GDP)	3.9	4.0	3.9	3.9	3.8
Net external debt (% GDP)	-43.3	-45.2	-46.1	-47.3	-49.2
Government balance (% GDP)	-3.4	-4.8	-4.4	-4.1	-3.7
Government debt (% GDP)	230.5	229.0	229.2	229.2	229.2

Source: Fitch

Strong Fundamentals: South Korea's sovereign ratings balance robust external finances and a strong macroeconomic performance with ongoing geopolitical risk from the relationship with North Korea, and longer-run challenges of rapid population ageing and low productivity.

Key Developments

Tensions Eased, but Risks Remain: Geopolitical risk continues to weigh on the rating, even though tensions with North Korea have eased following the summits between the North Korean leader and his counterparts in the South and the US. North Korea's stated commitment to denuclearisation could be the start of a process leading to a further reduction in the risk of confrontation and has the potential to break the decades-long pattern of rising and falling tensions, but the process is likely to be lengthy and prone to breakdown. By early August 2018, relations between the US and North Korea had already cooled after indications that the North was continuing its nuclear and missile programmes.

Strong GDP Growth: Korea's growth performance has been resilient to fluctuations in the perceptions of geopolitical risk. Real GDP growth reached 3.1% last year despite the escalation of tensions during the second half of 2017 and the first months of 2018, and Fitch expects growth momentum to be sustained, albeit at a slightly slower pace of 2.8% in 2018 and 2.7% in 2019. Economic sentiment has deteriorated, however, even though the administration's economic policy focus is on job creation and income-led growth. Higher oil prices will weigh on household real income. The threat of a trade war between the US and China represents a downside risk to Korea's outlook, as 28% of its exports that are destined for China are partly intermediate goods that are subsequently re-exported.

Positive Sensitivities

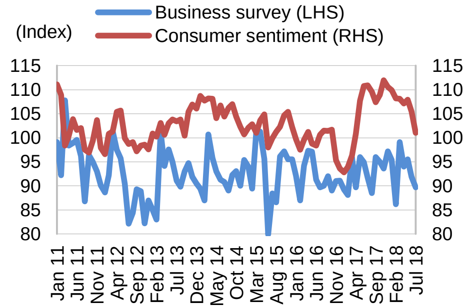
- A structural easing of geopolitical risk to levels more in line with rating peers
- Implementation of a convincing strategy to improve overall debt dynamics for the government and state-linked enterprises
- Evidence that the economy can grow at a relatively high rate over time without deterioration in the aggregate household balance sheet, for instance, resulting from enhanced governance standards or successful reform implementation to spur productivity growth

Negative Sensitivities

- Significant escalation of tensions on the Korean peninsula that would severely worsen Korea's economic metrics or the level of security
- An unexpected large rise in the public-sector debt burden caused by a deviation from the current prudent fiscal-policy framework or crystallisation of contingent liabilities
- Evidence that medium-term GDP growth will be structurally lower than expected, potentially reflecting challenges for Korea's economic model

Latest Rating Review: 21 June 2018

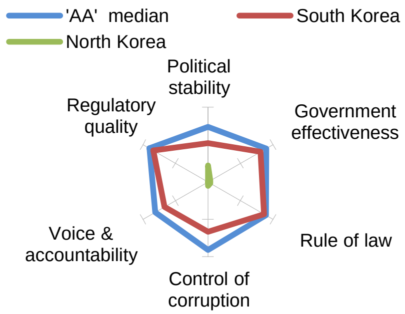
Economic Surveys



Source: CEIC, BoK and Federation of Korean Industries

Governance Indicators

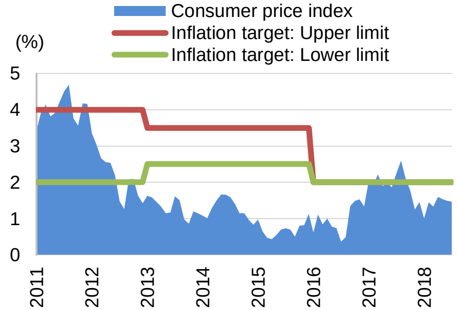
Percentile rank



Source: Fitch

Inflation and Inflation Target

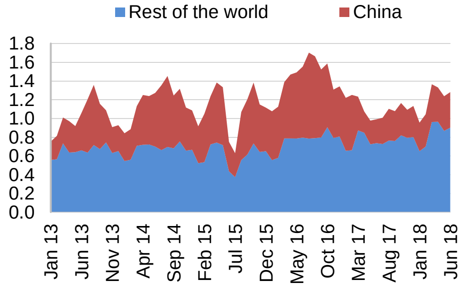
Monthly data (yoy)



Source: CEIC and Bank of Korea

Monthly Arrivals in Korea

By citizenship (m)



Source: CEIC and Korea National Tourism Organization

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	2.9	3.1	2.8	2.7	2.5
Current account balance (% GDP)	7.0	5.1	4.1	4.0	3.6
Net external debt (% GDP)	-26.3	-28.1	-27.0	-28.3	-28.7
Government balance (% GDP)	1.0	1.4	0.8	1.0	0.8
Government debt (% GDP)	38.2	38.1	38.3	38.1	38.3

Source: Fitch

Macao (AA/Stable)

Ratings Upgrade: Fitch upgraded Macao's ratings to 'AA' from 'AA-' in February 2018. The authorities have demonstrated a commitment to fiscal prudence through a period of gaming windfalls and a heavy revenue shock. As a result, the territory's fiscal and external balance sheets have strengthened to levels that more than offset the significant risks associated with its narrow economic base and concentration on mainland Chinese gaming tourism.

Key Developments

Growth Recovers: Real GDP grew by 9.1% in 2017 after three years of declines. The improvement was largely due to a pick-up in gaming activity, though private consumption had also stabilised. We forecast real GDP growth of 6% in 2018, incorporating a moderation in gaming revenue growth and a continuation of ongoing infrastructure initiatives.

Fiscal Surpluses Continue: The fiscal surplus rose to 10% of GDP in 2017 due to a surge in gaming revenue and expenditure restraint. Fitch forecasts a 2018 budget surplus of 7.3%, above the approved budget of 1.6%, reflective of our more optimistic outlook for gaming revenue this year. A Basic Law requirement that Macao maintain balanced budgets and avoid deficits provides an important policy anchor to safeguard medium-term fiscal sustainability.

Large Fiscal and External Buffers: Macao is the only Fitch-rated sovereign without any outstanding government debt. In addition, prudent expenditure management has also permitted the accumulation of large fiscal reserves, which Fitch estimates at 137% of GDP in 2017. Macao's external balance sheets, both on a sovereign and economy-wide basis, are also among the strongest across Fitch-rated sovereigns.

Risks to Gaming: Adverse shocks could result from events such as an unexpected tightening of visa regulations for mainland Chinese visitors or an end of Macao's de-jure gaming monopoly across greater China, although these are outside of Fitch's baseline expectations.

Financial Stability Risks: Fitch sees the mainland China exposures of Macao's banks as a potential risk, though their non-performing loan ratios remain low. The agency estimates mainland China exposures account for 37% of banking system assets, the highest proportion among the eight Asian economies captured in our periodic survey.

Negative Sensitivities

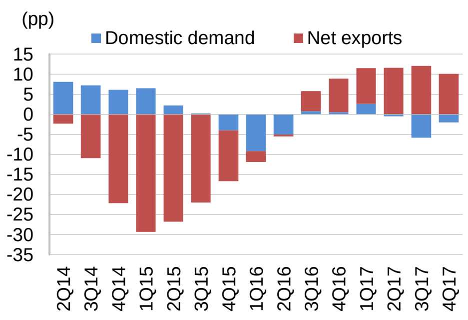
- A sustained decline in gaming revenue, particularly if it leads to an erosion of the sovereign balance sheet
- A severe economic shock from China, in light of the close economic and financial linkages
- A sharp deterioration in financial sector stability

Positive Sensitivities

- Diversification of the economy into sectors less reliant on gaming and China

Latest Rating Review: 13 February 2018

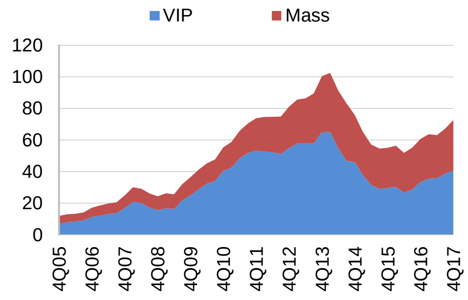
GDP Growth Contributors



Source: DSEC, Fitch

Gaming Revenues

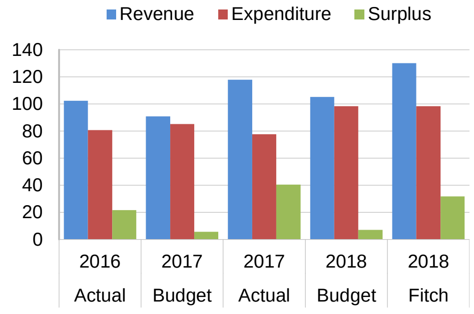
(MOPbn)



Source: CEIC, DICJ, Fitch

Budget Targets

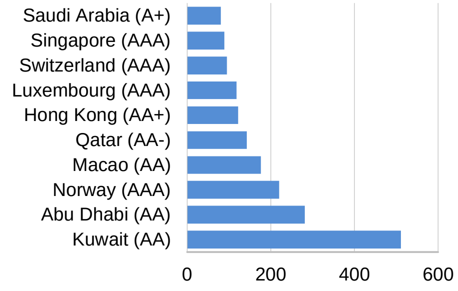
(MOPbn)



Source: DSF, Fitch

Sovereign Net Foreign Assets

Top 10 Fitch-rated sovereigns (% GDP)



Note: End-2017
Source: Fitch Sovereign Data Comparator

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	-0.9	9.1	6.0	3.0	3.0
Current account balance (% GDP)	27.0	32.7	34.9	34.7	34.2
Net external debt (% GDP)	-215.8	-214.3	-224.6	-240.8	-257.0
Government balance (% GDP)	6.0	10.0	7.3	6.2	5.1
Government debt (% GDP)	0.0	0.0	0.0	0.0	0.0

Source: Fitch

Malaysia (A-/Stable)

Rating Affirmed; Outlook Stable: Malaysia's ratings are supported by strong economic growth and its position as a net external creditor, offset by elevated government and private-sector debt, low per-capita incomes and weaker World Bank governance scores relative to rating peers. The recent affirmation not only takes into consideration measures such as the rollback of the goods and services tax (GST), but also the stated intention to reduce fiscal deficits and improve governance.

Key Developments

Rollback of GST Negative: The Pakatan Harapan coalition, which won the May 2018 election, has moved ahead on many of its key election promises, notably repealing the GST. It also plans to continue fuel subsidies in place since early 2018, although they will be made more targeted. Fitch views these measures as negative for the credit profile. However, the government aims to implement offsetting fiscal measures and has indicated its intention to contain the central government deficit. We think the government will be able to achieve its original 2018 deficit target of 2.8% of GDP by cutting excess operational and development spending and implementing one-off revenue measures. Additional oil revenue of 0.4% of GDP due to higher oil prices and dividends from government-linked companies will also help.

Weak Structural Indicators: Malaysia's structural indicators, such as GDP per capita, standards of human development and governance, remain below the 'A' category median. One of the Pakatan Harapan coalition's notable campaign promises was a royal commission inquiry into recent corruption scandals, such as that surrounding the state investment fund, 1Malaysia Development Bhd. Although these measures could raise governance standards over time, improvements may take time to be realised.

High Government Debt: Fitch has raised its estimate of central government debt at end-2017 to about 65% of GDP, from 50.8%, following the government's recognition that it will need to service a large share of explicitly guaranteed debt. This estimate may be further revised as more details become available.

Positive Sensitivities

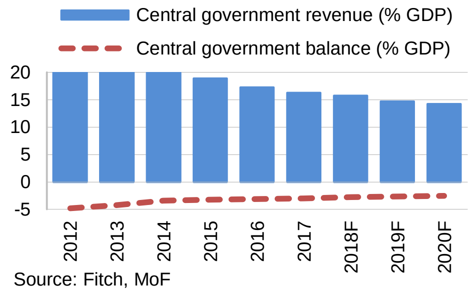
- Narrowing of structural weaknesses relative to peers, including per capita GDP and governance standards
- Material reduction in government debt ratios or contingent liabilities, accompanied by improved transparency

Negative Sensitivities

- Increase in the debt-to-GDP ratio, for example, from a failure to reduce the fiscal deficit or from crystallisation of additional contingent liabilities
- Instability in the financial system, possibly triggered by excessive credit growth and a rise in household debt

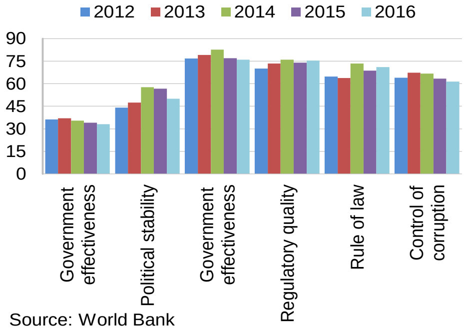
Latest Rating Review: 14 August 2018

Government Revenue & Deficit



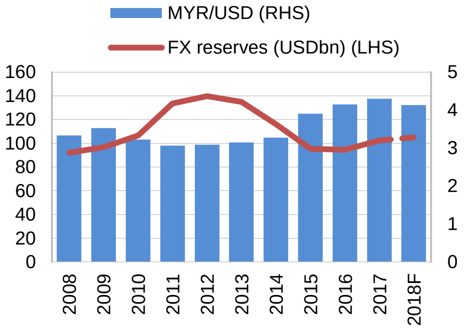
Source: Fitch, MoF

Worldwide Governance Indicators



Source: World Bank

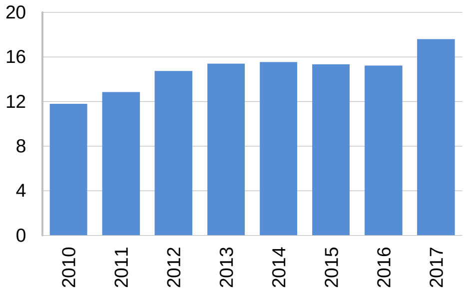
Reserves, Exchange Rate



Source: Fitch, BNM

Explicitly Guaranteed Debt

(% GDP)



Source: MoF

Key Indicators

	2015	2016	2017e	2018f	2019f
Real GDP (% change)	5.0	4.2	5.9	5.2	4.6
Current account balance (% GDP)	3.1	2.3	3.1	3.2	3.2
Net external debt (% GDP)	-20.7	-19.1	-18.7	-17.3	-15.1
Government balance (% GDP)	-2.8	-2.8	-2.9	-2.8	-2.5
Government debt (% GDP)	54.5	52.7	65.5	62.8	60.3

Source: Fitch

Maldives (B+/Stable)

High Debt, Low Reserves: The rating balances the Maldives' strong GDP growth, high government revenue generated by a prosperous tourism sector and favourable structural indicators, such as per-capita GDP levels, against a high government debt burden and low foreign-exchange reserve buffers.

Key Developments

Political Uncertainty Persists: Presidential elections are scheduled in September 2018. Earlier this year, President Abdulla Yameen declared a state of emergency lasting from 5 February to 22 March in response to protests over the government's defiance of a Supreme Court order to release political prisoners. The event highlights the polarised nature of politics in the Maldives that has posed a risk to stability over the last decade. Political instability could hit the country's important tourism sector, which accounts for 25% of GDP directly and much more if the indirect contribution is included.

State of Emergency's Limited Effect: Available official data show the state of emergency only has a limited impact on the economy. Tourism arrivals increased by 7% from March through June 2018 relative to the same period in 2017, and bed nights were up by 10%. Tourism GST revenue also increased 12.8% yoy for March through May. The economic impact of the political situation may still emerge, as tourists may have decided to go ahead with previously booked vacations, but could take the political situation into account when planning future visits.

Economic Risks Remain Significant: Foreign-exchange buffers have increased by USD187 million since end-2017, but remained low at USD773 million in June 2018. Hence, there is a risk of a liquidity squeeze and debt-servicing difficulties in the event of a loss of confidence in the rufiyaa peg, and especially in the case of a prolonged disruption to tourism.

Positive Sensitivities

- Strengthening of external buffers through accumulation of foreign-exchange reserves
- Policy initiatives that lower general government debt
- Diversification of the economy by developing sectors other than tourism; for example, facilitated by implementing structural reforms that enhance the business environment

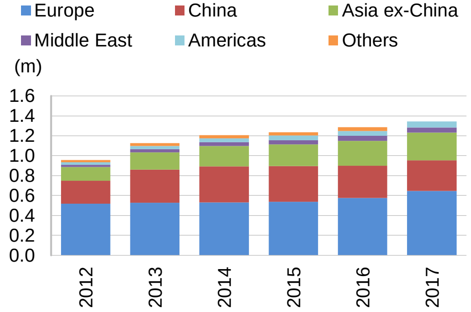
Negative Sensitivities

- Balance-of-payment pressures; for instance, a fall in foreign-exchange reserves or a higher-than-Fitch-expected increase in external debt
- A significant rise in general government debt or government guarantees to state-owned enterprises
- An economic, political or natural shock that negatively affects the country's tourism industry

Latest Rating Review: 15 May 2018

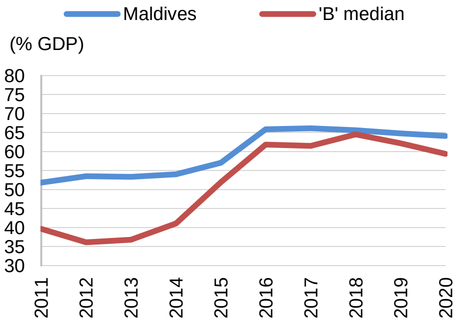
Tourist Arrivals

By origin



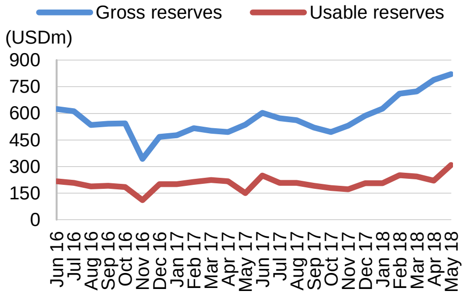
Source: Ministry of Tourism

Government Debt



Source: National authorities and Fitch forecasts

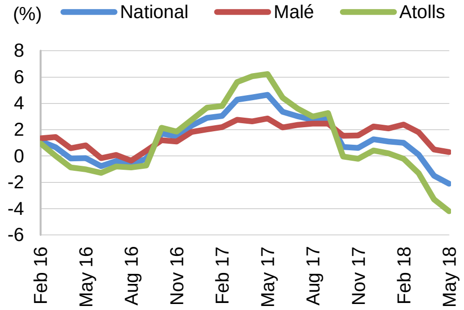
Foreign Reserves



Usable reserves = gross reserves minus ST foreign liabilities, mainly FC deposits of banks at the MMA
Source: Maldives Monetary Authority

Consumer Price Inflation

Monthly data



Source: National Bureau of Statistics

Key Indicators

	2016	2017e	2018f	2019f	2020f
Real GDP (% change)	6.2	6.9	4.5	5.0	5.0
Current account balance (% GDP)	-24.4	-20.6	-16.6	-14.4	-11.0
Net external debt (% GDP)	-5.6	5.3	12.3	17.5	19.6
Government balance (% GDP)	-10.4	-2.0	-4.5	-4.3	-4.0
Government debt (% GDP)	65.9	66.1	65.6	64.7	64.1

Source: Fitch

Mongolia (B/Stable)

Ratings Upgrade: Fitch upgraded Mongolia's Long-Term Foreign- and Local-Currency IDRs to 'B'/Stable from 'B-'/Positive in July 2018 to reflect ongoing improvements to the country's fiscal and external metrics, and progress in meeting key IMF targets.

Key Developments

Improving Public Finances: Fitch forecasts a general government deficit of 3.9% of GDP in 2018, below the authorities' approved budget target of 5.9%. Our baseline forecasts suggest GGGD/GDP will fall to about 70% by end-2020.

IMF Programme on Track: The IMF Executive Board completed its fourth review of Mongolia's three-year Extended Fund Facility in June 2018, citing strong performance under the programme and stated all quantitative targets had been met as of end-March 2018. This enables an additional disbursement of IMF funds, and provides a supportive backdrop for other external donors to approve further disbursements under their own respective arrangements.

Stronger External Buffers: Foreign reserves had risen to USD3.0 billion by end-June 2018 from about USD1.0 billion in early 2017, supported by donor inflows tied to the IMF programme. Fitch forecasts foreign-reserve coverage will rise to 4.5x current-external payments by end-2018 from 2.3x at end-2016, exceeding the 'B' median.

Reform Slippage: The authorities have delayed a variety of structural budgetary reforms amid strong fiscal outperformance. This raises the risk that a waning commitment to further structural reforms could leave fiscal revenue vulnerable to swings in the external environment, or undermine the credibility of recent enhancements to Mongolia's fiscal policy framework.

Political Risks: A history of abrupt changes in leadership raises the potential for political shocks or policy reversals. In addition, commercial disputes persist between Rio Tinto and the government regarding various aspects of the Oyu Tolgoi copper-mining project. Fitch expects the disagreements to ultimately be resolved due to the mine's long-term strategic importance, but this view is likely to be tested in the run-up to Mongolia's parliamentary elections in 2020.

Positive Sensitivities

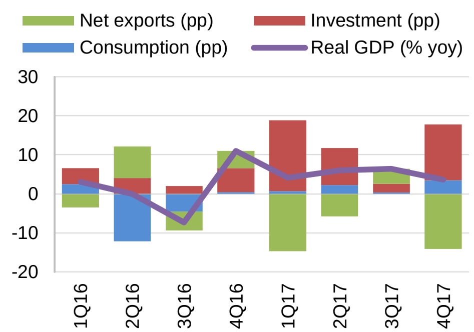
- A track record of fiscal discipline supported by reforms to broaden the revenue base that leads to further declines in GGGD/GDP, bringing it more closely in line with 'B' rated peers
- Continued implementation of credible and coherent macro policy-making that makes the economy less vulnerable to swings in commodity prices and the external environment

Negative Sensitivities

- Failure to meet IMF conditionality, resulting in the programme falling off track
- Fiscal policy settings that put GGGD/GDP back on an ascending trajectory
- Political instability sufficient to significantly disrupt FDI inflows or strategic mining projects

Latest Rating Review: 9 July 2018

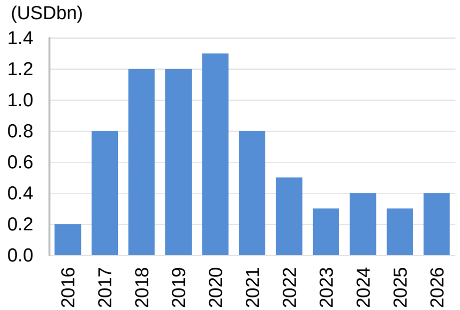
GDP Growth and Contributors



Source: CEIC, Fitch

Oyu Tolgoi Capex Forecasts

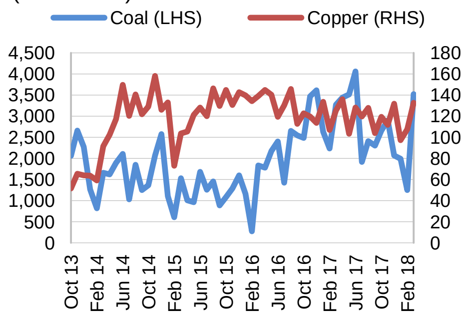
Expansion & sustaining



Source: TRQ filings; Fitch estimates

Monthly Export Volumes

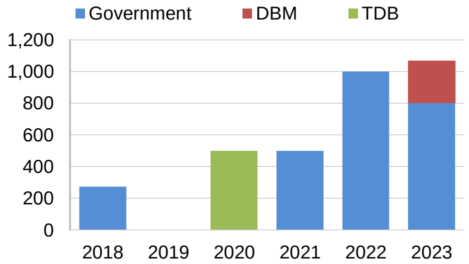
(000 tonnes)



Source: CEIC, Fitch

External Bond Maturities

(USDm)



Note: 2018 includes notes not tendered
Source: Ministry of Finance, Fitch

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	1.2	5.1	5.2	6.3	6.5
Current account balance (% GDP)	-6.1	-10.1	-11.9	-11.1	-9.7
Net external debt (% GDP)	185.6	197.4	180.6	170.2	159.2
Government balance (% GDP)	-15.9	-1.9	-3.9	-4.1	-3.9
Government debt (% GDP)	91.4	81.2	75.3	71.3	67.0

Source: Fitch

FitchRatings

New Zealand (AA/Stable)

Effective Policy Institutions: New Zealand's ratings are underpinned by high governance standards, effective policy institutions, and prudent fiscal management. The country has a high external-debt burden and persistent current account deficits. These are mitigated by an effective policy framework, free-floating exchange rate and largely hedged or local currency-denominated external borrowing, which help buffer the economy from potential external shocks.

Key Developments

GDP Growth Moderates: The outlook is mixed for the remainder of 2018 following the softening of GDP growth in 1Q18. Nevertheless, Fitch expects growth to stay stable at 2.8% for the year. A number of weather-related one-off factors, which dented first-quarter growth, should fade, and fiscal stimulus will pick up more significantly in the third quarter. Business confidence has fallen to its lowest level since 2009, which may inhibit investment in the near term. However, the large deterioration in business sentiment since the Labour-led coalition government took office in October 2017 has yet to significantly impact investment outcomes.

Housing Price Growth Eases: New Zealand's housing price growth has moderated recently, particularly in Auckland where house prices have remained largely flat. The government has implemented several policies to limit house price growth including restrictions on non-resident purchases and tax changes for housing market investors. However, Fitch expects housing price growth to remain fairly stable on low interest rates, continued net migration and tight supply.

Prudent Fiscal Policy: The budget released in May 2018 was largely in line with the new Labour government's increased focus on social spending proposed in last year's Half Year Economic and Fiscal Update. There were some tweaks in the new budget to social expenditure plans, and spending on the Kiwibuild programme was stretched out over a longer horizon, but the expansionary fiscal momentum relative to the previous government's budgets remained. The country's low debt level and commitment to a net debt target as a fiscal anchor leads to our view that fiscal management is prudent despite the loosening.

Positive Sensitivities

- A strengthening of the government's fiscal position through a further reduction in the debt-to-GDP ratio
- A substantial improvement in external debt sustainability, for example, through a structurally narrower current account deficit or a lasting reduction in net external debt

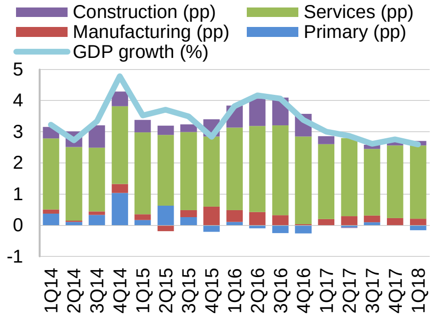
Negative Sensitivities

- A negative financial or economic shock that impairs households' ability to service their debt, leading to economic and banking sector stress
- A sharp and sustained external financing shock, for instance through a rapid rise in global interest rates or market disruption that limits access to external financing and raises the net external debt burden

Latest Rating Review: 14 February 2018

GDP Growth and Contributors

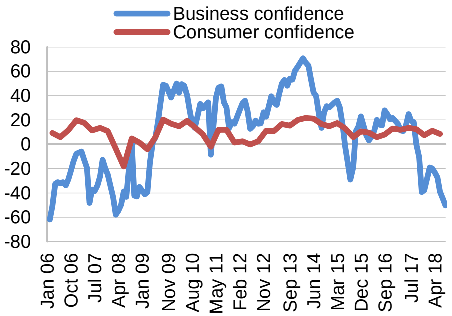
(Production; yoy)



Source: Statistics New Zealand

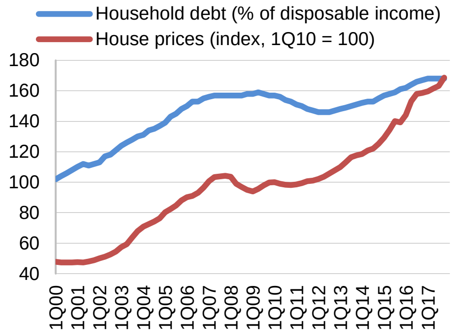
Confidence Indicators

(Index, + denotes confidence)



Source: ANZ, Westpac

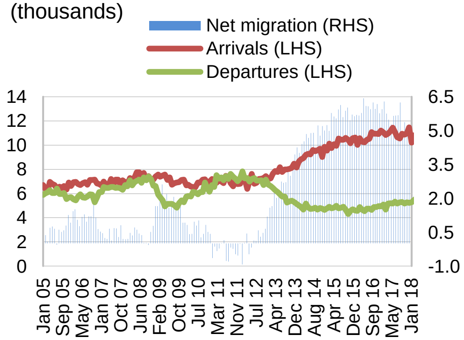
Housing



Source: RBNZ

Migration

(thousands)



Source: Statistics New Zealand

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	4.0	2.8	2.8	3.0	2.9
Current account balance (% GDP)	-2.4	-2.7	-2.8	-3.0	-2.7
Net external debt (% GDP)	55.3	52.6	53.1	53.5	52.7
Government balance (% GDP)	0.7	1.7	0.3	-0.5	0.4
Government debt (% GDP)	34.3	32.7	30.7	29.8	27.9

Source: Fitch

Negative Outlook on Policy Slippage: Loose macroeconomic policies in Pakistan have contributed to a partial reversal of gains made during the IMF-supported programme that ended in September 2016, including a reduction in reserves and a wider fiscal deficit. Recent measures have been taken to address these trends, including currency depreciation and tightening of monetary policy, but they have not yet arrested the decline in reserves.

Key Developments

Elections Usher in New Government: A PTI party-led coalition government, under Prime Minister Imran Khan, took office following the 25 July elections. PTI outlined a broad economic agenda during the election campaign centred on confronting corruption, reducing economic inequality, and expanding social services. However, the new government faces a number of economic challenges that may limit their ability to fully implement this policy agenda.

Erosion of External Buffers: Pakistan's declining foreign-exchange reserves and widening current account deficit are adding to its external financing risks. The current account deficit grew to 5.6% of GDP in the year ended June 2018 (FY18) from 4.1% in FY17, while liquid foreign-exchange reserves were around USD10 billion in mid-August (just over two months of import coverage). Some measures have been taken to arrest this erosion. The central bank raised its policy rate by 100bp on 15 July for a cumulative 175bp increase since January 2018, and has allowed the rupee to depreciate by 18% since December. The measures have not prevented a further widening of the financing gap, which is being bridged with support from China.

Further Policy Tightening Likely: GDP growth in Pakistan reached a 13-year high of 5.8% in FY18. However, Fitch expects growth to slow to 5.0% in FY19 as Pakistan probably needs tighter monetary and fiscal policies to address rising external imbalances and a widening fiscal deficit, which reached 6.6% of GDP in FY18. The government is formulating a financing plan, which reportedly includes additional support from the Saudi-backed Islamic Development Bank, and may well include financing from other multilateral development banks and the IMF.

Positive Sensitivities

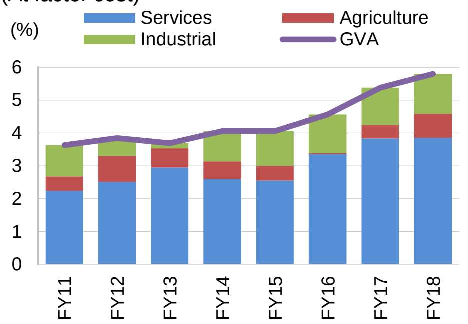
- Implementation of an effective policy stance to address external imbalances and halt the decline in reserves
- Sustained fiscal consolidation and containment of contingent liabilities, for example, through a strengthening of the revenue base
- Sustained strong economic growth, for example, resulting from improvements in the business environment, an improved security situation or decreased political risk

Negative Sensitivities

- Failure to implement and sustain an effective macroeconomic policy mix to address external imbalances leading to a heightened risk of economic and financial instability
- A further rapid loss of reserves or shift in investor confidence sufficient to undermine access to external funding, generating heightened external financing risks
- Deterioration in the fiscal position that leads to a rise in government debt ratios or increase in exposure to contingent liabilities from state-owned enterprises

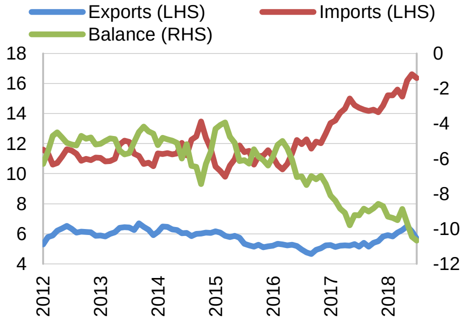
Latest Rating Review: 25 January 2018

Gross Value-Added Growth
(At factor cost)



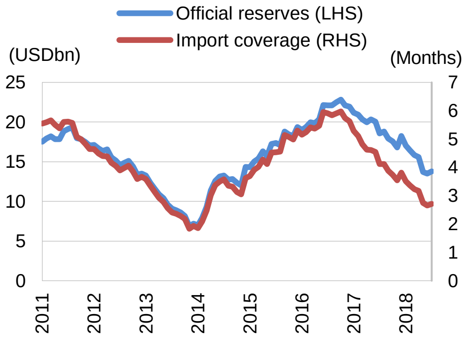
Source: Pakistan Bureau of Statistics; CEIC

Goods Trade
(USDbn; 3m rolling sum)



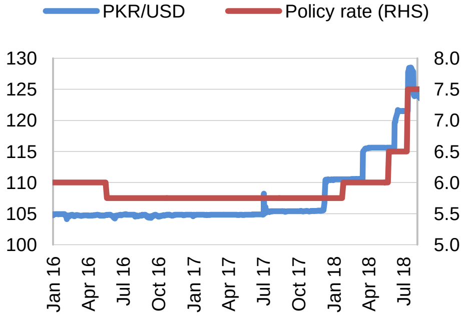
Source: State Bank of Pakistan; CEIC

Pakistan Reserves



Source: CEIC

Policy and Exchange Rates



Source: State Bank of Pakistan; CEIC

Key Indicators

	2016	2017	2018e	2019f	2020f
Real GDP (% change)	4.5	5.4	5.8	5.0	4.7
Current account balance (% GDP)	-1.7	-4.1	-5.6	-4.5	-3.8
Net external debt (% GDP)	16.2	18.0	21.5	21.8	22.0
Government balance (% GDP)	-4.6	-5.8	-6.6	-5.0	-4.5
Government debt (% GDP)	67.6	67.2	72.1	71.3	69.4

Source: Fitch

Sound Policies; Sustainable Growth: The Philippines' rating balances a favourable growth outlook, government debt levels that are below peer medians, a net external creditor position and policies geared towards maintaining macrostability against lower income per capita and weaker governance and business environment indicators compared with rating peers.

Key Developments

Improving Government Revenues: Tax package 1A, the key revenue-raising component of the first of a five-part tax-reform drive to be implemented over the coming years, came into effect at the beginning of 2018. Its key elements include a lowering of personal-income taxes and hikes in excise taxes on petroleum, tobacco and automobiles and the introduction of excise taxes on sugar-sweetened beverages and cosmetics. We expect central government revenues to improve to 16.2% of GDP in 2018 and 16.7% in 2019 from 15.6% in 2017.

High Growth Rates: We expect the economy to perform well in 2018, despite a disappointing 2Q18 outturn, supported by private consumption and investment. Household consumption will benefit in 2018 and 2019 from a steady inflow of remittances and better job prospects due to an expanding business process outsourcing (BPO) sector. Overall investment is likely to increase with a pick-up in government spending on infrastructure. However, the agency believes the economy faces some overheating risks, evident from a recent rise in inflation, rapid credit growth and a widening trade deficit. Steps being taken by the Bangko Sentral ng Pilipinas to tighten monetary policy – policy rates have increased by 100bp since May 2018 - may contain these risks.

Current Account in Deficit: We expect the current account deficit to widen to -1.1% of GDP in 2018 from -0.8% of GDP in 2017, driven by continued strong growth in the import of capital goods associated with the government's public-investment programme and higher oil prices. The BPO sector's strong receipts and steady remittance inflows are offsetting these factors and helping to contain a further widening of the current account deficit. We expect the deficit to widen further to around -1.3% of GDP in 2019 and 2020. Risks to this outlook stem from a further acceleration of imports.

Positive Sensitivities

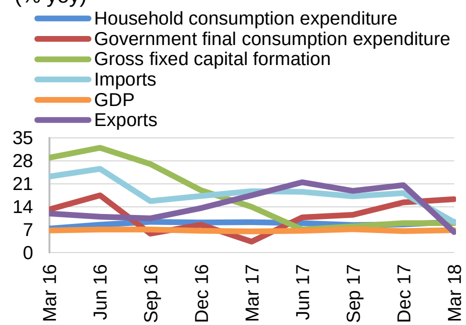
- Continued strong growth without emergence of imbalances and maintenance of external buffers, which narrows income and development differentials with 'BBB' range peers
- Further broadening of the government's revenue base that lends greater stability to government finances

Negative Sensitivities

- Reversal of reforms or a departure from the existing policy framework that leads to macroeconomic instability
- Deterioration in external balances and flows that reduces resilience to shocks

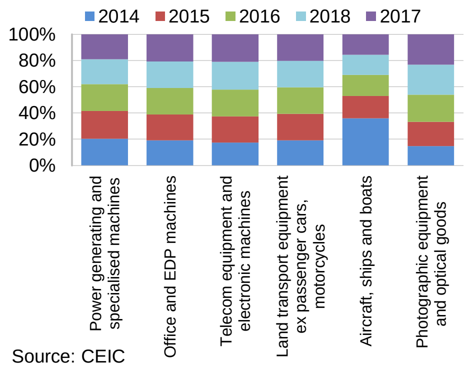
Latest Rating Review: 17 July 2018

GDP Growth Breakdown



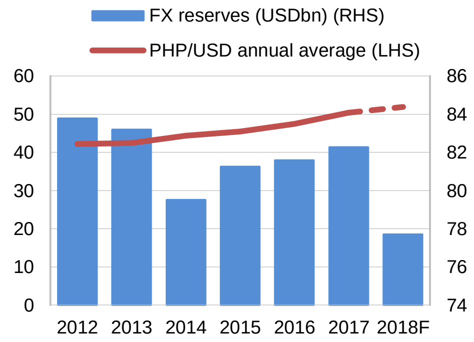
Source: Fitch

Capital Goods Imports



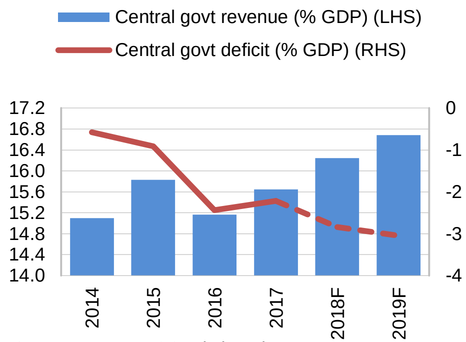
Source: CEIC

FX Reserves, Exchange Rate



Source: BSP, Fitch estimates

Fiscal Performance



Source: DoF, DBCC, Fitch estimates

Key Indicators

	2015	2016	2017e	2018f	2019f
Real GDP (% change)	6.1	6.9	6.7	6.8	6.8
Current account balance (% GDP)	2.5	-0.4	-0.8	-1.1	-1.3
Net external debt (% GDP)	-14.4	-13.8	-13.9	-11.8	-10.2
Government balance (% GDP)	-0.9	-2.4	-2.2	-2.8	-3.0
Government debt (% GDP)	36.2	34.6	36.6	35.9	35.9

Source: Fitch

Singapore (AAA/Stable)

Strong External and Fiscal Performance: Singapore's 'AAA' rating reflects its exceptionally strong external balance sheet and business environment, sound fiscal framework and high per-capita income levels that mitigate the economy's vulnerability to shocks due to significant trade dependence and a financial sector that is highly integrated with the rest of the world.

Key Developments

Expansionary FY18 Budget: The budget for the fiscal year ended March 2018 (FY18) aimed for a small deficit of 0.1% of GDP compared with a surplus of 2.1% in FY17, and included measures to lift revenue over the medium term to address rising social expenditure needs. Revenue measures that were announced included plans to raise the goods and services tax rate from 7% to 9% during 2021-2025. Singapore has been moving towards a more progressive income-tax regime to address social inequality. The budget also builds on earlier initiatives to support productivity growth, which included incentives for businesses to innovate and adopt technologies, and support for worker training. Another feature of the budget was an increase in buyers' stamp duty, the latest in a series of measures over the past several years to prevent housing prices from rising too rapidly.

Exports Support Economic Growth: Continued strong expansion in the manufacturing and services sector supported high GDP growth of 4.1% in 1H18 from 3.6% in 2017. We expect some moderation in export performance in 2H18, but forecast full-year GDP growth of 3.4% in 2018 and 3% in 2019.

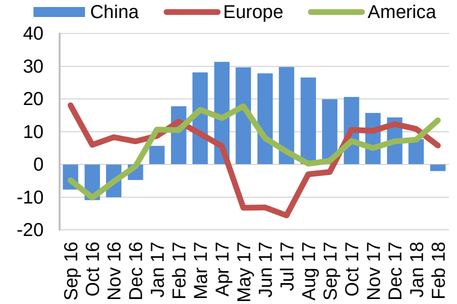
Medium-Term Challenges Remain: Singapore's economy continues to grapple with an ageing population and structural shifts in the composition of output and employment towards more highly automated and technology-driven sectors. A report by the government's committee on future economy concluded that growth is likely to average between 2% and 3% per year over the next decade, down from the earlier expectation of between 3% and 5% as the economy undergoes these structural shifts. High foreign-worker participation in the labour force, concerns about rising income inequality, and social needs arising from an ageing population are increasingly important political issues. The Singapore government announced it will consider providing guarantees to statutory boards and government-owned companies to build infrastructure to support long-term growth.

Negative Sensitivities

- A severe global or regional economic shock that weakens Singapore's balance sheet
- A severe banking-system crisis, which could have a major spillover into the economy because of the large size of the banking sector. By implication, this would have to be more severe than the global shock of 2008-2009

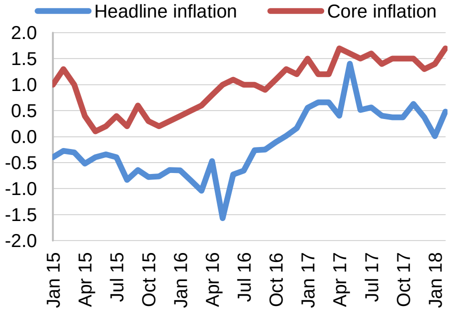
Latest Rating Review: 19 September 2017

Exports by Region
(% yoy, 3mma)



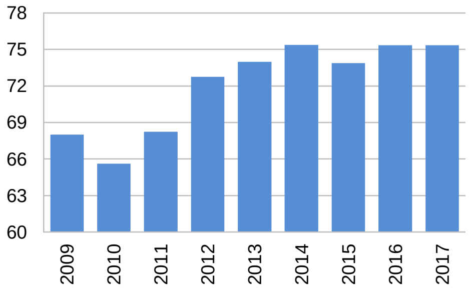
Source: Fitch

Inflation Trends
(% yoy)



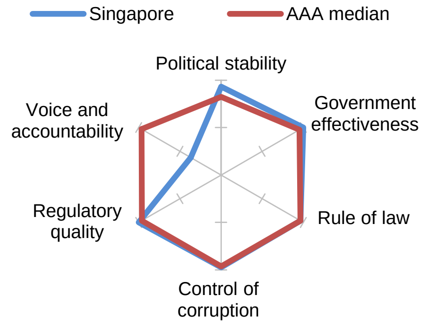
Source: CEIC

Household Debt
(% of GDP)



Source: Singstat, Fitch

Governance Indicators



Source: World Bank, Fitch

Key Indicators

	2015	2016	2017	2018f	2019f
Real GDP (% change)	2.2	2.4	3.6	3.4	3.0
Current account balance (% GDP)	19.0	19.8	19.9	19.1	19.1
Net external debt (% GDP)	-214.7	-228.5	-242.7	-244.3	-253.9
Government balance (% GDP)	14.3	12.4	13.0	13.4	14.0
Government debt (% GDP)	41.9	36.0	41.7	42.3	42.5

Source: Fitch

FitchRatings

Sri Lanka (B+/Stable)

High Refinancing Risks; Improving Framework: Sri Lanka's rating balances an improving policy framework, which supports macroeconomic stability and rising government revenues, against a challenging external debt servicing outlook and high government debt. The rating is supported by higher per-capita income levels and stronger governance standards than the 'B' category median.

Key Developments

IMF Programme Progress; High Debt: The IMF completed its fourth review under a three-year extended fund facility in place since June 2016. Progress has been made on critical fiscal reforms, including approval of an automatic fuel price mechanism effective May 2018. The authorities have also taken steps to introduce an automatic electricity pricing mechanism and establish a committee to develop a detailed restructuring plan for Sri Lankan Airlines. Nevertheless, Sri Lanka's government debt remains high at around 77% of GDP, far above the 'B' median of 66.6%.

High Near-Term External Refinancing Risks: The sovereign's projected debt service payments are significant, at USD15 billion in 2019-2022, from a bunching of sovereign bond redemptions, while its foreign-exchange reserves stood at only USD9.3 billion at end-June. The scale of external refinancing over the next few years creates a potential vulnerability for the sovereign particularly as US interest rates are on the rise.

Political Uncertainty Has Increased: Political uncertainty increased following the ruling coalition's heavy losses during the local elections in February, followed by a vote of no-confidence against the prime minister in April and temporary suspension of parliament in May. The risk of political uncertainty disrupting policy continuity, however, is mitigated by the election schedule, in which presidential elections are not due until end-2019, with parliamentary elections to follow.

Positive Sensitivities

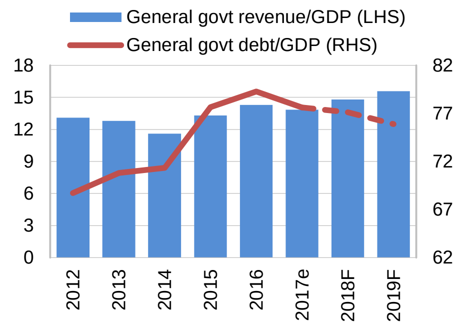
- Further improvement in external finances supported by higher non-debt-creating inflows or a reduction in external sovereign refinancing risks from improved liability management
- Continued improvement in public finances underpinned by a credible medium-term fiscal strategy

Negative Sensitivities

- Reversal of fiscal improvements that leads to a failure to stabilise government debt ratios
- Deterioration in policy coherence and credibility, leading to loss of investor confidence, or a derailment of the IMF-supported programme that leads to external funding stress

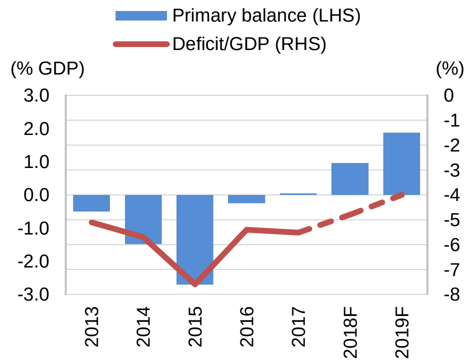
Latest Rating Review: 6 February 2018

General Government Finances
(%)



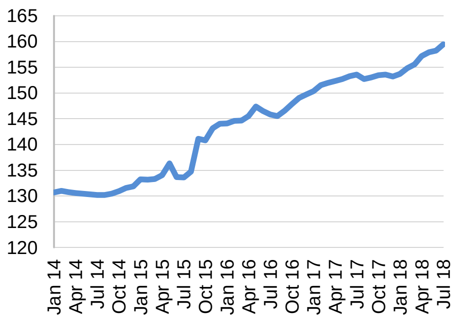
Source: Ministry of Finance, Fitch estimates

Deficit Trends



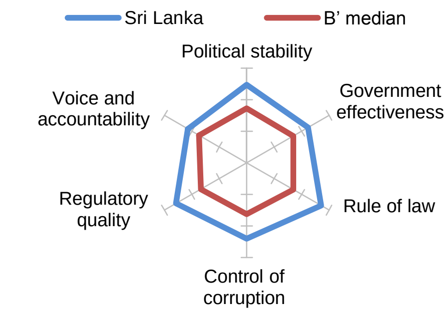
Source: Fitch estimates, Ministry of Finance

Currency Trend
(Spot: LKR/USD)



Source: CEIC

Governance Indicators



Source: World Bank, Fitch

Key Indicators

	2015	2016	2017	2018f	2019f
Real GDP (% change)	4.8	4.4	3.3	3.8	4.5
Current account balance (% GDP)	-2.3	-2.1	-2.6	-2.8	-2.8
Net external debt (% GDP)	43.3	45.9	46.7	46.4	46.7
Government balance (% GDP)	-7.6	-5.4	-5.5	-4.8	-4.0
Government debt (% GDP)	77.6	79.3	77.6	77.1	75.9

Source: Fitch

Taiwan (AA-/Stable)

Strong External Finances, Political Risks: Taiwan's ratings are supported by its exceptionally strong external finances, credible policy framework, supportive business environment and high governance standards as measured in international surveys. The ratings are constrained by high GDP volatility, per-capita income that falls below the 'AA' category median, and complex relations with mainland China that raise the potential for economic and political shocks.

Key Developments

Growth Remains Strong: GDP growth was recorded at 3.3% yoy in 2Q18, a continuation of the strong outturns in excess of 3% witnessed since mid-2017. The potential drag on growth from a softening in export orders has been cushioned by a rising contribution from domestic demand. Net exports' contribution to overall growth fell to 1.3pp in 1H18 from 2.1pp in 2017, while contribution from private and government consumption rose noticeably.

Budget Deficits to Increase: Fiscal policy has become more expansionary, but Fitch expects budget deficits to remain in line with the 'AA' category median of 1%. We project Taiwan's general government deficit will rise to 1.0% of GDP by 2018 from 0.1% in 2017 due to higher capital expenditure associated with the government's infrastructure stimulus plan. The impact on government debt ratios will be broadly neutral based on Fitch's baseline estimates.

Robust External Finances: The strength of Taiwan's external finances is evident from its status as the eighth-largest net external creditor among Fitch-rated sovereigns, and a more than 30-year track record of current-account surpluses. Foreign-reserve buffers are projected to remain sizeable at 15.2x current external payments by end-2018, well above category peers.

Cross-Strait Relations Remain Difficult: Relations have remained frayed since President Tsai Ing-wen took office in May 2016. President Tsai's refusal to accept the so-called "1992 Consensus" prompted Beijing to suspend high-level communications. This initially led to a sharp fall in mainland tourists, which has since stabilised. Taiwan recently lost diplomatic recognition from the Dominican Republic and Burkina Faso, perhaps as a consequence of heightened cross-strait tensions. This leaves just 18 countries that retain formal diplomatic relations with the territory. Nevertheless, cross-strait trade and investment linkages remain broadly unaffected in the agency's assessment.

Positive Sensitivities

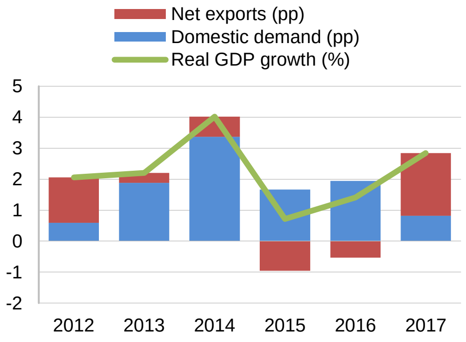
- A return to high economic growth that brings per-capita income closer in line with peers

Negative Sensitivities

- An adverse macroeconomic or financial shock that weakens medium-term growth prospects and negatively affects public debt dynamics, such as a hard landing in mainland China
- Deterioration in cross-strait relations sufficient to undermine Taiwan's basic economic stability

Latest Rating Review: 11 October 2017

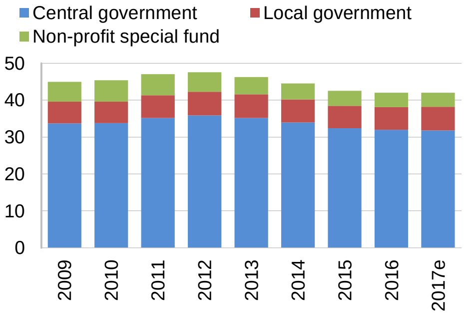
GDP Growth and Contributors



Source: DGBAS, Fitch

General Government Debt

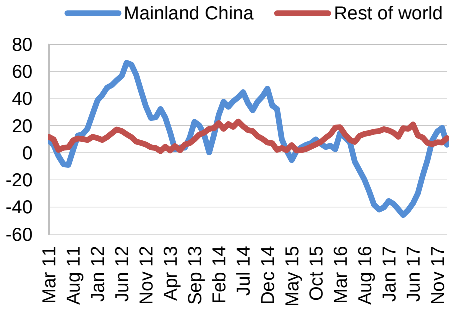
(% GDP)



Source: Ministry of Finance, CEIC, Fitch

Tourist Arrivals

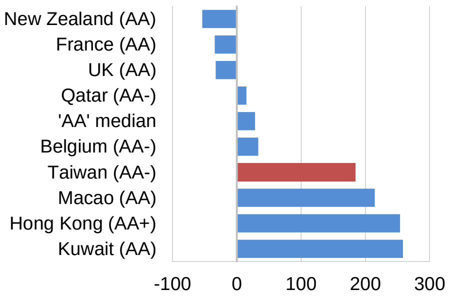
(% yoy, 3mma)



Source: CEIC, Fitch

Net External Creditor

(% GDP)



Source: Fitch Sovereign Data Comparator

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	1.4	2.9	2.5	2.2	2.2
Current account balance (% GDP)	13.7	14.5	14.8	14.3	13.6
Net external debt (% GDP)	-187.7	-189.1	-189.2	-193.6	-196.1
Government balance (% GDP)	-0.3	-0.1	-1.0	-1.0	-1.0
Government debt (% GDP)	41.9	40.6	39.8	39.2	38.3

Source: Fitch

Thailand (BBB+/Stable)

Resilient Economy, Structural Weakness: Strong external finances and low public debt increase Thailand's resilience to economic shocks and underpin the country's ratings. These strengths are balanced by weaker structural factors, such as low income per capita and weak governance indicator scores, compared with 'BBB' rated peers. The risk of renewed political fissures remains, particularly during the prolonged transition back to civilian rule.

Key Developments

Robust Growth Momentum: Fitch forecasts economic growth will accelerate to 4.2% in 2018 from 3.9% in 2017 and 3.3% in 2016. Improving domestic demand, particularly from investment, was a key contributor to Thailand's robust 4.8% growth in 1H18 – the highest two-quarter rate in five years – laying a solid foundation for near-term growth and providing upside potential to our growth forecast. The recent recovery in public investment should continue as the government steps up disbursement rates. Positive private investment momentum should continue amid high business confidence and capacity utilisation rates. Fitch forecasts growth will modestly decelerate after 2018 due to a decline in net exports' contribution to growth as global growth edges down from its 2018 peak.

Loose Fiscal Stance: Fiscal policy is set to remain relatively expansionary as the government takes advantage of its fiscal space to enhance infrastructure development. Fitch expects the general government fiscal deficit to remain relatively stable at 0.9% of GDP in 2018 and remain around this level over the coming years. Infrastructure investment has picked up in recent months as the government has focused on improving the efficiency of project disbursements. The government also passed a THB150 billion supplementary budget in March 2018.

Sustained External Strength: Fitch expects Thailand's current account surplus to remain large over the next few years although it will decline gradually from 10.6% of GDP in 2017 to 7.2% in 2020. The high current account surplus along with capital inflows have led to an appreciation of the baht and accumulation of reserves since 2016. In recent months, however, the baht has weakened due in large part to broad dollar strength and there has been a slight drop in reserves.

Positive Sensitivities

- A sustained and broad-based improvement in growth without the emergence of imbalances
- Resolution of social and political tensions sufficient in scale to improve governance and development indicators

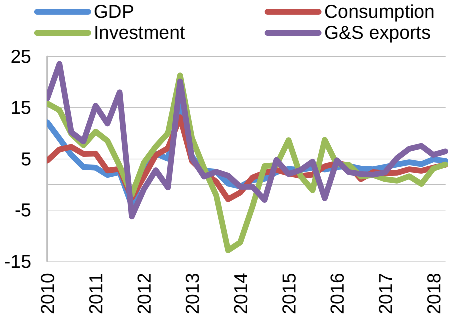
Negative Sensitivities

- Renewed political disruption on a scale sufficient to have a negative impact on Thailand's economy
- A larger and sustained rise in Thailand's government debt ratios, for example, due to a fiscal deterioration or materialisation of contingent liabilities

Latest Rating Review: 7 June 2018

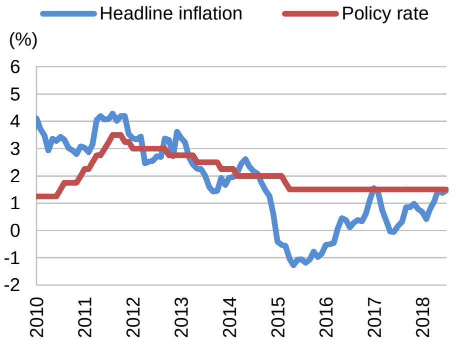
GDP Expenditure Components

(Yoy change, %)



Source: NESDB; CEIC

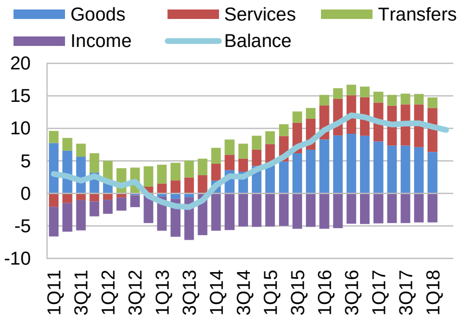
Inflation and Policy Rate



Source: Bank of Thailand; CEIC

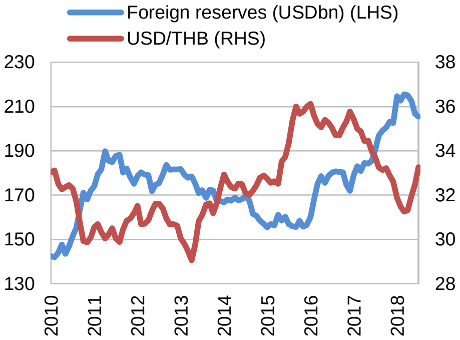
Current Account

(% of GDP)



Source: Bank of Thailand, CEIC

Reserves and Exchange Rate



Source: Bank of Thailand; CEIC

Key Indicators

	2016	2017	2018f	2019f	2020f
Real GDP (% change)	3.3	3.9	4.2	3.9	3.7
Current account balance (% GDP)	11.7	10.6	9.0	8.1	7.2
Net external debt (% GDP)	-42.8	-46.3	-48.5	-52.9	-55.3
Government balance (% GDP)	0.6	-0.9	-0.9	-1.0	-1.0
Government debt (% GDP)	31.2	32.6	34.2	35.3	36.9

Source: Fitch

Macroeconomic Stability; Rising Reserves: Vietnam's rating upgrade reflects the country's high and stable growth rates, current account surpluses and rising FDI inflows. However, the rating is constrained by higher government debt levels than 'BB' peers, unresolved legacy issues in the banking sector and lower levels of per-capita income compared with rating peers.

Key Developments

Better Macroeconomic Performance: GDP growth expanded to an estimated 7.1% in 1H18 from 6.8% in 2017, supported by strong growth in the export-oriented manufacturing sector and continued growth in services. Vietnam's five-year average real GDP growth at end-2017 was 6.2%, far above the 'BB' median of 3.4%. FDI inflows remained strong in 2017, especially into the manufacturing sector, with registered FDI increasing by around 40% from the previous year to USD21.3 billion.

External Buffers Improve: Vietnam's trade surplus widened to USD3.1 billion in the first seven months of 2018 from USD2.9 billion in 2017, supported by continued strong growth in exports. A more flexible exchange-rate regime, in effect since early 2016, has facilitated an accumulation of foreign-exchange reserves, with coverage of external current payments estimated at around three months by end-2018.

High Government Debt: Vietnam's general government debt levels are above the 'BB' median. According to preliminary official estimates, gross general government debt was around 52.4% of GDP at end-2017, above the 44.5% of the 'BB' median. We expect the general government debt level to fall to below 50% of GDP by 2019, aided by inflows from privatisation. The "equitisation" programme for 2016-2020 aims to raise revenue of VND250 trillion.

Positive Sensitivities

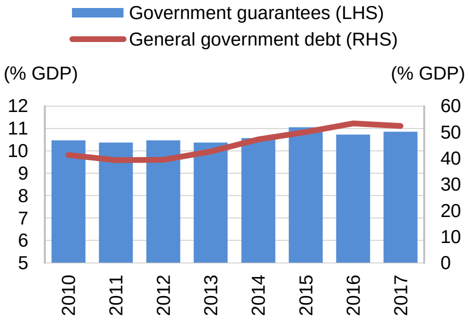
- Commitment to policy-making that entrenches macroeconomic stability, including inflation stability and a further build-up of external buffers
- Broader improvement in public finances through sustained decline in government debt or contingent liabilities
- Sustainable resolution of structural banking-sector weaknesses

Negative Sensitivities

- A shift in the policy mix that results in macroeconomic instability, increased overheating risks, higher inflation and rise in external imbalances
- Depletion of foreign-exchange reserves sufficient to destabilise the economy
- Crystallisation of contingent liabilities on the sovereign's balance sheet

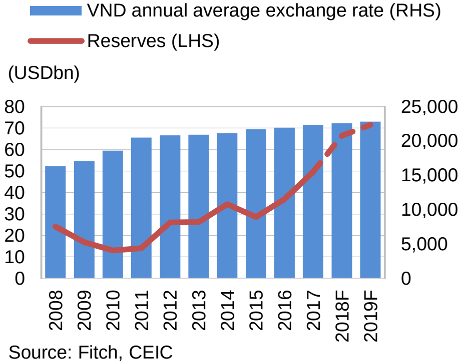
Latest Rating Review: 14 May 2018

Government Debt & Guarantees



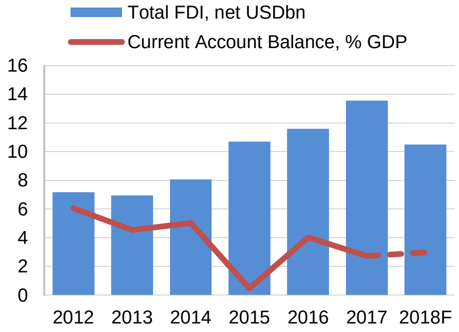
Source: MoF, Fitch

Reserves and Exchange Rate



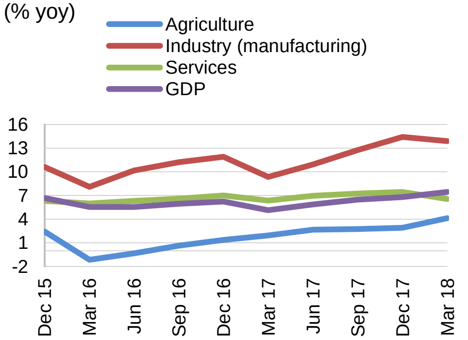
Source: Fitch, CEIC

Foreign Direct Investment Flows



Source: CEIC

GDP Growth by Sector



Source: Fitch

Key Indicators

	2015	2016	2017	2018f	2019f
Real GDP (% change)	6.7	6.2	6.8	6.7	6.7
Current account balance (% GDP)	0.5	4.0	2.7	3.0	3.0
Net external debt (% GDP)	15.5	16.0	12.0	6.3	3.2
Government balance (% GDP)	-6.2	-5.7	-4.7	-4.6	-4.6
Government debt (% GDP)	50.1	52.6	52.4	50.6	49.2

Source: Fitch