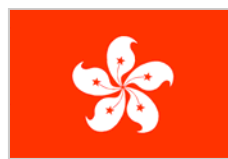


# Asia/Oceania - Regional Economic Outlook

## Executive Briefing

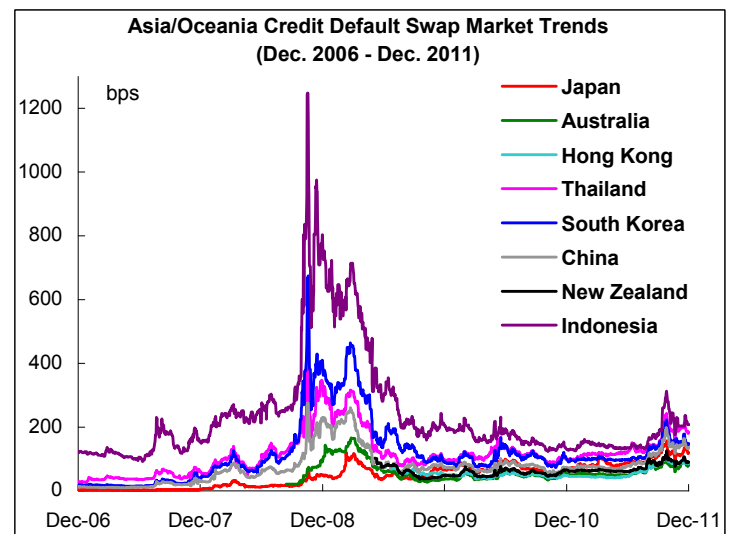
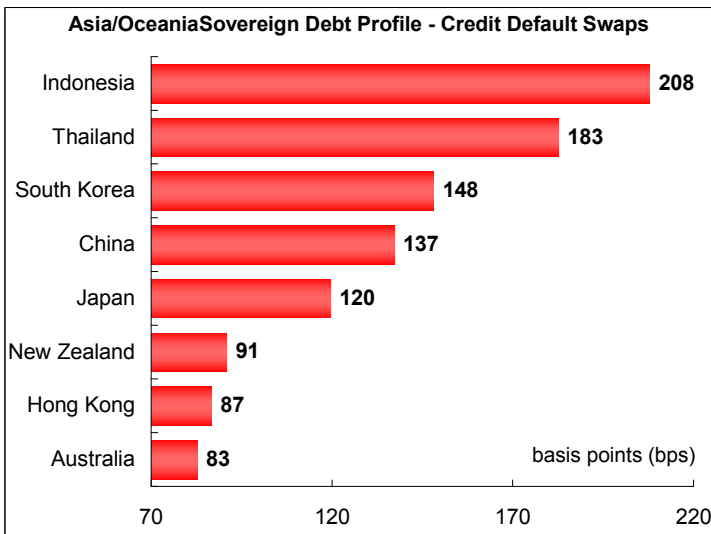
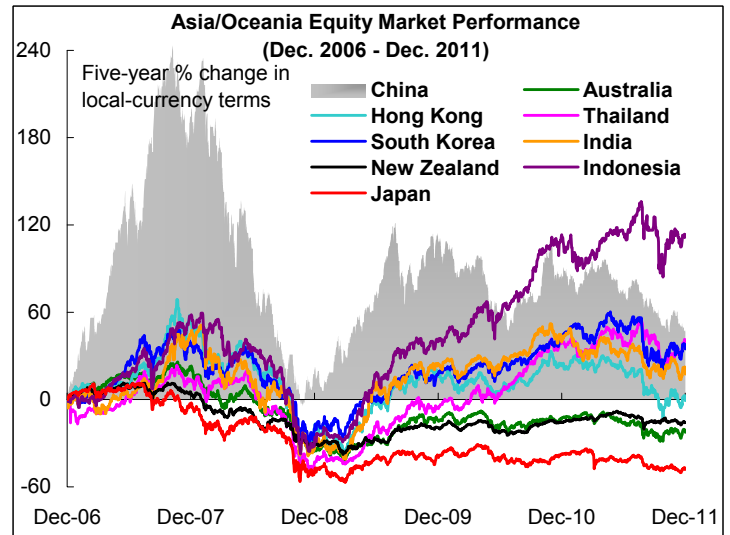
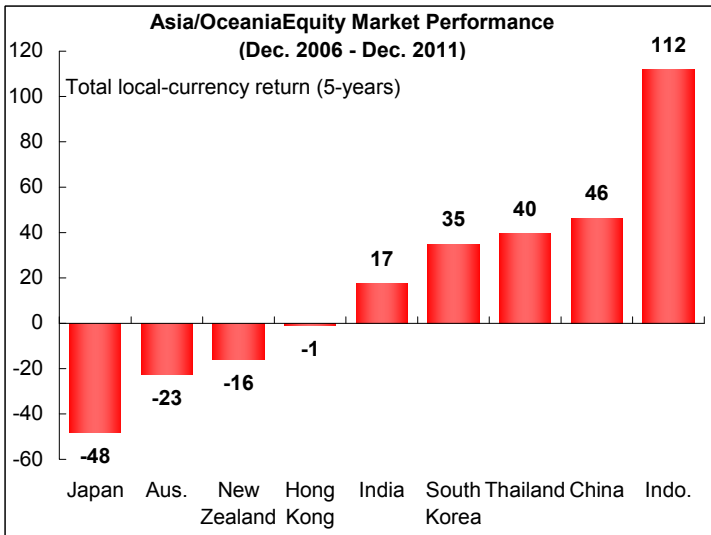
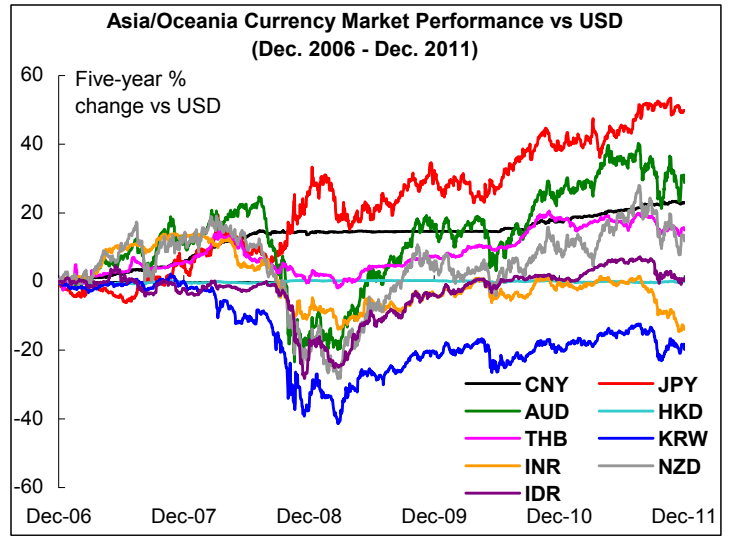
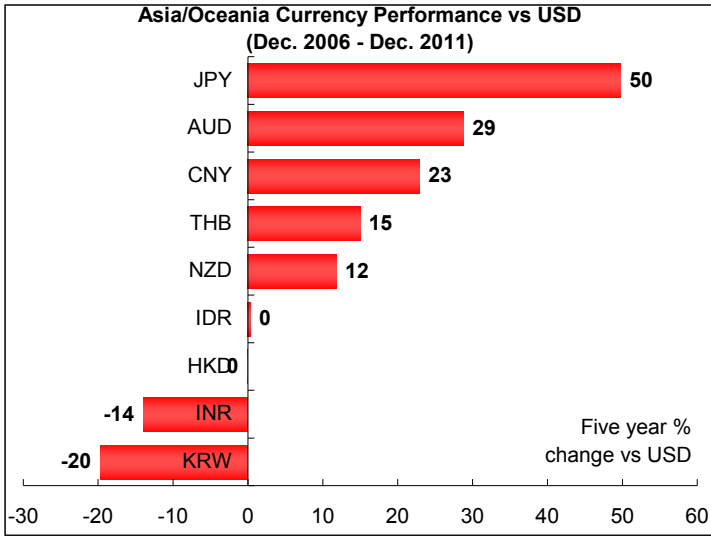
December 2011

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# Asia/Oceania – Regional Economic Outlook

## Financial Market Metrics – December 2011



Source: Bloomberg.

**Asia remains the world's fastest-growing region, yet not immune to the global economic deceleration**

The urgency to restore fiscal sustainability in advanced economies, together with the gradual unwinding of fiscal stimuli post-2008/09 shocks, continues to soften demand conditions worldwide. Nevertheless, Asia remains the global growth pacesetter, with the largest economies – China, India and Japan – offering a promising growth outlook for 2012/13. The region's medium-term outlook will be mainly dictated by domestic demand developments and intra-regional trade flows, as net export growth to Europe and the United States will slow. Latest export data depict strengthening relations with regional neighbours and stalling commercial flows to Europe. Japan will likely see a return to growth and even the disappearance of the deflationary threat in 2012.

The economic rebound will be based on intensifying trade relations with the rest of Asia. As commercial ties with China increase for almost every country in the region, the Asian giant's developments will be a key factor for the region as a whole. In the short term, China's adoption of policies to allow for a "soft landing" will set the tone for the region's economic prospects. In the medium term, China's success in shifting away from an export-led strategy and in favour of domestic demand development will also condition regional outcomes.

**Bullish foreign exchange outlook, though vulnerable to financial market stress and intensifying intervention**

The core group of floating Asian currencies, together with regional "shadow" currencies such as the Australian dollar, will retain market-favourite status throughout the first half of the New Year. Fundamental drivers continue to support the appreciation of the region's floating currencies. Although other factors like global risk aversion will continue to be important, both growth and interest rate differentials favour Asian currencies, implying that the same trends observed post-global financial crisis will remain in place. We do not anticipate any material change in China's or Hong Kong's exchange rate regimes, yet the pace of renminbi-managed appreciation may moderate as a consequence of softer European demand. Japan remains ready to deepen outright intervention to counteract yen strength after multiple years of safe-haven currency appreciation against the US dollar.

**Intensifying, yet divergent, price pressures will continue to trigger monetary response in the Asia/Oceania region**

Price stabilization remains a key priority of most governments within the Asian region. The combined effect of robust economic performance and persistently strong commodity markets has fuelled inflationary pressures, prompting regional central banks to intervene by tightening monetary policy conditions and employing supplementary credit-containment measures. With the exception of a few economies, local currency strength is offsetting adverse inflationary forces.

Monetary policy is becoming increasingly expansionary across the region, as the alleviation of food inflation pressures has led to lower headline inflation readings. Most central banks have already completed their monetary policy tightening cycles, and have now switched to a neutral stance as foreign demand indicators continue to weaken. Although several regional monetary authorities have already lowered their administered interest rates (Indonesia, Australia, Thailand, and New Zealand), or adopted less strict bank reserve requirements (China), inflation is not completely out of the picture. In India, inflation has failed to stabilize because of the still important fuel-driven component. The Indian economy might require further contraction in order to place inflation on a manageable and sustainable path.

**The regional outlook shows evidence of widening fiscal imbalances and narrowing current account surpluses**

The Asia/Oceania region maintains a strong external sector with persistent, yet narrowing, surplus positions in the current account. India, Australia and New Zealand suffer from twin deficits (fiscal and current account), whereas South Korea and Hong Kong are well positioned to record twin surpluses over the next two years. The fiscal gap in both Japan and India is an area of growing concern within the global creditor community.

The current account surpluses in major economies will decline during 2012-13, as domestic demand becomes the main growth driver. Commercial trade flows with developed nations will also trend down over the next two years. Intra-regional trade flows, might partially compensate for this declining trade activity as large regional markets (like India and Indonesia) continue to open up. Therefore, overall flows could remain firm during 2012, and improve significantly during 2013 as developed-country growth stabilizes.

Most countries within Asia will likely adopt fiscal retrenchment in the new year as economic performance improves (implying higher revenue growth) and fiscal stimuli that were implemented following the global recession are withdrawn. This trend might be reverted in the coming quarters should the economic expansion prove too feeble. Fortunately, recent gains have resulted in an improvement of public debt positions, allowing for some flexibility in public finance management.

**Regional creditworthiness remains in manageable territory, with a divergent sovereign credit rating outlook**

The world's second-largest economy –China– appears set to receive a credit rating upgrade. Moody's maintains a "positive" outlook on the country ratings for both China and Hong Kong due to steady improvements in external debt and fiscal profiles. By contrast, the perception of Japan's debt sustainability has weakened following the earthquake/tsunami and nuclear shocks, fuelling the near-term risk of a rating downgrade. While New Zealand suffered from multiple negative rating actions in September, both South Korea and Indonesia have emerged as candidates to receive a credit rating upgrade.



## Capital Market Dynamics

- **Foreign Exchange** ► The renminbi (CNY) will appreciate at a moderated pace through the coming year. The CNY strengthened in the midst of the September meltdown that weakened regional currencies against the USD. Gradual CNY appreciation remains a primary component of a concerted policy to promote domestic market development. While no material structural change in China's currency regime is foreseen, we anticipate further CNY appreciation with year-end rates of CNY6.32 per USD for 2011 and CNY6.07 for 2012. As the single largest foreign holder of US Treasury debt securities (and with US\$3.2 trillion in international reserves), China has the ability to influence global currency market trends.
- **Sovereign Debt & Credit Ratings** ► Investor perception of China's sovereign credit risk remain sound and stable since the spring of 2009. The country's sovereign credit default swap (CDS) has stabilized below the 150 basis point (bps) mark, after widening to 200 bps in early October. We anticipate further compression as investors digest the viability of China's soft landing. The country's long-term foreign currency ratings, upgraded by two credit agencies in late 2010, stand currently as follows: Standard & Poor's "AA-", Moody's "Aa3" with a "positive" outlook, and Fitch "A+". While China's constructive fiscal outlook remains in place, risks associated with state-owned bank balance sheets still condition the sovereign credit outlook.
- **Equity Market** ► The Chinese equity securities market has experienced a 25% downward correction over the past eleven months, and now stands near its 2010 trough. Stock market gains have been limited by an active policy by the People's Bank of China (PBoC) aimed at preventing excessive asset overvaluation. Prolonged asset price adjustments in Chinese equity securities may prompt waves of contagion to other key emerging-market economies worldwide.

## Economic Outlook

- **Growth** ► We expect the Chinese economy to expand at a still solid 9% y/y rate during 2011-12 and by 8.5% in 2013. China's role as the global growth pacesetter will continue in the medium term as domestic demand strength compensates for more subdued export growth. The output gain of 9.1% y/y in the third quarter marked a slowdown from the 9.7% average advance of the first half of the year, as domestic demand shifted downward and exports started to dwindle. A slight retrenchment in household consumption is mainly explained by elevated inflation. Notwithstanding reports of a struggling real estate sector, investment in construction remains reinforced by surging infrastructure developments, such as social housing. However, machinery and equipment outlays are down as their recovery has yet to bring the flow back to year-a-go levels. On the external side, export growth fell in the third quarter, with further near-term deceleration in foreign sales anticipated. We expect the economy to continue to ebb through the final quarter of 2011, which, if accompanied by lower inflation, will open the door for further monetary easing.
- **Inflation & Monetary Context** ► Inflation will continue to stabilize. While food price gains have underpinned the recent buildup in the headline consumer price index, elevated raw material costs still loom in the background. Non-food inflation remains low at 2.7% y/y, but the growth in food costs has eased only slightly to 11.9% from a peak of 14.8% in July. Headline inflation at 5.5% y/y, down from a 6.5% mid-year crest, is expected to converge to 5% by year-end. On the back of falling price pressures, the central bank loosened the required reserve ratio for banks by 50 basis points in November; further moves are expected. Previously, the PBoC had opted to use reserve requirements constraints as the main tool to contain excess liquidity, using interest rate increases mainly to address potential asset overvaluation.
- **Fiscal & Current Account Balance** ► The fiscal balance continues to improve with government income growth outpacing spending. We expect overall deficits to be below 3% of GDP in both 2011 and 2012, lower than the 4% shortfall of 2009, which was underpinned by the stimulus package of 2008. The ratio of government debt to GDP will remain below 25% in 2011-12. Although both import and export growth slowed in the third quarter, the trade surplus still widened. In a context of elevated commodity costs, and with local demand gains outpacing global growth, we expect China's trade and current account surpluses to narrow over the medium term.

## Institutional Framework & Political Environment

- **Governance** ► The Communist Party of China's 12<sup>th</sup> five-year plan stresses domestic market growth as a key national objective, signalling an aim to adopt a more balanced approach to economic development. Foreign policy will continue to be directed towards ensuring access to a steady supply of energy and raw materials. Beijing's resistance to accelerating CNY appreciation will continue to impair bilateral relations with the US, where an initiative to impose import duties on countries suspected of manipulating their currencies has been passed with bipartisan support by the lower house of Congress.
- **Financial Sector** ► Tighter credit and property restrictions are leading to real estate price stabilization. While regulators remain alert to double-digit loan growth (15% y/y), there are now signs of credit moderation. Bank balance sheets appear solid, as industry-wide non-performing loan ratios are comparatively low. With investments continuing to be curtailed in sectors deemed to have excess capacity, and promoted in handpicked geographical regions, a state-controlled approach to funding distribution remains a threat to effective resource allocation.



## Capital Market Dynamics

- **Foreign Exchange** ► The Indian rupee (INR), which has been the worst-performing regional currency in the Asia-Pacific region during the most recent bout of global financial market stress, will reverse some of its losses in the near term on the back of supportive interest rate and growth differentials. Moreover, an end to monetary tightening will stabilize growth sentiment and improve exchange rate prospects. India retains a solid external position with international reserves currently at US\$308 billion, leading us to expect the INR to close the year 2012 at 49 per USD.
- **Sovereign Debt & Credit Ratings** ► Perceptions of India's sovereign creditworthiness have improved on the back of the government's aim to reduce the public deficit over the coming years. With approximately 95% of India's public sector liabilities denominated in the local currency, the country maintains a comfortable net-lender position with the rest of the world. The public balance is thus shielded from exchange rate fluctuations and can serve as a cushion against adverse external shocks. India's long-term foreign currency ratings remain stable at Standard & Poor's "BBB-", Moody's "Baa3", and Fitch "BBB-".
- **Equity Market** ► An advantageous growth outlook will continue to attract foreign portfolio flows into key sectors over the next year. However, the SENSEX Equity Exchange Index was not immune to the recent profit-taking phase, having experienced a downward correction of 18% (in local currency terms) so far in 2011, as investors reassess the economic impact of continued monetary tightening. The still underdeveloped SENSEX Index has a market capitalization valued at INR 14 trillion (US\$270 billion).

## Economic Outlook

- **Growth** ► We expect economic activity to regain momentum with the turn of the year as a broad-based rebound in private investment materializes on the back of cost containment. An improved outlook for the agricultural sector will also support growth and particularly rural discretionary spending, as normal rainfall supplants sub-par monsoons, which caused food prices to surge and inflationary pressures to build. India's economic expansion will average 8% y/y in 2012-13, though we note that economic prospects depend heavily on price pressure containment. In the absence of a moderation in inflation, deteriorating purchasing power and shrinking profit margins could condition domestic demand gains. India's economy grew 6.9% y/y in the third quarter, the weakest advance in over two years. While falling export growth, declining government outlays and persistent monetary tightening drag on output, private local spending remains relatively firm. The outlook for business investment has been dented by upward cost pressures and deteriorated prospects for household spending. With external demand now weakened, the country's economic prospects hinge on a rebound in local demand.
- **Inflation & Monetary Context** ► Inflation remains a key concern in India, in contrast with the downward trend observed elsewhere in Asia. Annual wholesale price gains remained steady at 9.7% y/y over the past three months, as ebbing food costs were compensated by a persistent rise in fuel prices. The latter have been the main force maintaining upward price pressure as the withdrawal of state-backed fuel subsidies has combined with elevated global oil prices and a weakened rupee. The Reserve Bank of India (RBI) has pursued a monetary tightening campaign for close to two years, having increased the benchmark repo rate for the eleventh time in October to 8.5%. Moderating inflationary expectations and some evidence of a fall in core pressures will prompt the central bank to maintain the status quo through the turn of the year. Monetary authorities at the RBI expect yearly inflation to converge towards 7% y/y during the first half of 2012. We expect the trend to continue throughout the year consistent with a 6.5% estimate for end-2012.
- **Fiscal & Current Account Balance** ► Public sector deficit reduction is still a policy priority. While the central government budget for fiscal year 2011-12 calls for a shortfall equivalent to 4.6% of GDP, the deficit will widen towards 5% on the back of revenue underperformance and rising debt service costs. While elevated oil prices, firm consumer spending and business investment continue to support imports, export growth has slowed, leading to a widening trade deficit. Foreign exchange inflows will compensate for part of the trade shortfall given India's role as a global supplier of information technology and business services. As a result, we expect the current account gap to stay elevated at about 3.5% of GDP through 2012.

## Institutional Framework & Political Environment

- **Governance** ► The popularity of Prime Minister Manmohan Singh's United Progressive Alliance (UPA) has been dented by corruption scandals, threatening the administration's capacity to push through further reforms. While the economic outlook remains positive, the administration will maintain a rather cautious approach towards liberalization. Favourable electoral results in four key states earlier this year have failed to reinvigorate the political support necessary to reignite the reform process.
- **Financial Sector** ► The Indian banking system was resilient to the global credit crisis as asset quality did not deteriorate significantly. However, the current economic slowdown has deteriorated the country's credit profile, with non-performing loans inching up and asset/liability mismatches widening. Double-digit overall bank lending implies that credit expansion – underpinned by swelling infrastructure loans and residential mortgages – continues to surpass deposit growth. Despite the large household savings pool, these trends are unsustainable over the medium-term.



## Capital Market Dynamics

- **Foreign Exchange** ► Safe heaven waves will continue to support the Japanese yen (JPY). As the world's best-performing currency over the last few years, the JPY maintains its status as a reserve currency of choice. With the Bank of Japan (BoJ) battling excessive appreciation, exchange rate strengthening forces will be partially offset by an uncertain industrial sector recovery. The availability of a vast pool of domestic funds permits further government intervention in case significant appreciation resumes. The country's domestic savings pool, however, is broad and deep, with the stock of net international assets now over US\$1 trillion (second in US dollar terms only to China). We expect the JPY to initiate a process of gradual weakening and to converge to 82 per USD by the end of 2012.
- **Sovereign Debt & Credit Ratings** ► Japan's sovereign debt profile is weak, with the debt to GDP ratio surpassing the 200% benchmark this year. Credit default swap spreads remain elevated at 123 basis points (bps) on average over the past three months, a level equivalent to that observed at the height of the global financial crisis in 2008. Notwithstanding Japan's private sector wealth, elevated public sector indebtedness and an unpromising government revenue profile are driving rating agencies to question the country's ability to pay. Moody's downgraded the country's rating in August, while Fitch and Standard & Poor's (S&P) adjusted their outlook to "negative" earlier this year, with the latter recently signaling that a downgrade is imminent. Current ratings are as follows: S&P - "AA-", Moody's - "Aa3", and Fitch - "AA".
- **Equity Market** ► The Nikkei Exchange Index has a substantial market capitalization valued at ¥153 trillion (US\$2 trillion) as of December 2011, representing almost 5% of global equity market capitalization. Notwithstanding the quick rebound from the effects of the March earthquake/tsunami, the value of Japanese securities stands below the level observed as a result of the shock, having suffered a 20% contraction so far this year.

## Economic Outlook

- **Growth** ► The Japanese economy will recover during 2012 and converge towards medium term speed in 2013. After a 3.9% y/y gain in 2010, we expect GDP to remain virtually flat in 2011, followed by a 3.2% advance in 2012, and a 2.5% gain in 2013. The recent performance highlights a strong recovery from the effects of the earthquake/tsunami, with GDP advancing by 1.5% q/q (6% y/y) in the third quarter, led by the industrial sector. These results highlight the relevance of Japanese supply chains across Asia, as the rebound in foreign sales occurred notwithstanding the strength of the JPY. While Japan's manufacturing sector was affected once again by renewed assembly line disruptions resulting from excessive flooding in Thailand, the effects are likely to be minor and temporary. We expect economic activity to continue to gain momentum on a sequential basis around the turn of the year, with the reconstruction gathering strength through 2012.
- **Inflation & Monetary Context** ► We expect the Bank of Japan (BoJ) to maintain a loose monetary policy stance. The country's consumer price index registered positive average yearly growth during the third quarter for the first time since late 2008. Therefore, supply-side pressures are already filtering through as a high energy tally and dependence on imported fuel in the context of an economic rebound raise domestic costs. These effects are counterbalancing traditional deflationary forces, which were exacerbated by the March natural disaster. With a near-zero benchmark interest rate, extended quantitative easing by the BoJ will continue to be a key support to the economy. We expect the Japanese economy to return to a muted inflationary environment in 2012.
- **Fiscal & Current Account Balance** ► Public finances are deteriorating, yet the government will secure low-cost financing. Eroding fiscal revenues coupled with rising reconstruction spending will result in a public deficit of over 9% of GDP in 2011. As rebuilding expenditures gain momentum, the country's GDP growth will be bolstered, but public sector debt will increase. The government's balance will improve only slightly to 7.5% in 2012, with government indebtedness remaining above 200% of GDP. Lower exports and higher imports will combine with capital repatriation inflows directed at financing the reconstruction effort to result in a narrowing of the current account surplus through 2012.

## Institutional Framework & Political Environment

- **Governance** ► Mr. Yoshihiko Noda of the ruling Democratic Party of Japan (DPJ) will lead the government during the country's reconstruction process as Japan's sixth prime minister in the last five years. The recent catastrophe added to perceptions of economic malaise, providing some of the conditions necessary for agreement on the country's reconstruction budget. Although the newly acquired sense of national emergency temporarily broke the stalemate in Japanese politics, Mr. Noda may nonetheless be challenged by renewed political deadlock.
- **Financial Sector** ► Japan's financial system is in a relatively strong position to support the recovery process. Enhanced loan loss provisions and capitalization levels since the early 1990s improved the banks' balance sheets. However, sluggish loan growth will weaken profitability. Near-zero yearly credit growth due to the steady decline of exposure to the real estate sector, remains low by Asian standards. Moreover, although the industry's capital ratio has improved, any further delay in the economic recovery could impair the quality of bank portfolios, which would threaten the overall health of the system. Elevated barriers to entry justify the banks' dominant position in the local financial market.



## Capital Market Dynamics

- **Foreign Exchange** ► The Korean won (KRW) has been appreciating against the US dollar (USD) since early October and will remain range-bound in the near term. Firm output gains on the back of resilient domestic demand conditions and steady export performance are compensating for intensifying financial market volatility. While the Bank of Korea (BoK) stands ready to dampen excessive appreciation, the healthy economic rebalancing underway will continue to attract foreign capital flows. Downside currency risk is limited by substantial swap lines with other central banks and an international reserves position of US\$310 billion (30% of GDP). We expect the USDKRW exchange rate to close the year 2012 at 1,070.
- **Sovereign Debt & Credit Ratings** ► South Korea's sovereign creditworthiness has been steadily improving since the steep credit risk-re-pricing that occurred during the third quarter of the year. The country's credit default swap (CDS) spreads have mirrored swings in global volatility, increasing to 228 basis points (bps) in September from 100 bps in July, and are currently priced at 145 bps. Korea's long-term foreign currency rating outlook has recently improved as well, with Fitch's revision to "positive" on November 8<sup>th</sup>, 2011 citing strengthening sovereign and external balance sheets. Current sovereign credit ratings remain as follows: Standard & Poor's - "A", Moody's - "A1", and Fitch - "A+".
- **Equity Market** ► South Korea's KOSPI Exchange Index has a market capitalization valued at KRW 1,085 trillion (US\$969 billion), and represents 2% of the world's equity market capitalization. As is the case of other bourses throughout Asia, Korean equity securities remain immersed in a consolidation phase, having lost 4% in US dollar terms over the past 12 months.

## Economic Outlook

- **Growth** ► We expect the economy to expand by 4.3% y/y on average in 2012/13, following a sub-par 3.8% advance in 2011. Output increased at a 2.8% quarterly annualized rate during the third quarter on the back of steady contributions from both domestic and external demand. The expansion mimicked the previous quarter's performance; however, GDP contributions switched from local activity dominated gains to a more balanced picture. In value terms, net foreign sales propelled growth in the three months to September. However, on a volume basis exports remained flat with shipments to China and Japan offsetting falling sales to Europe and the US, while steady import gains mirrored resilient domestic demand conditions. The highly open South Korean economy is drifting sideways as household demand remains supported by historically low unemployment and generous credit conditions. With consumption and investment spending accounting for 60% and 30% of GDP, respectively, the softer tone on the external trade front will translate into slower spending at home, as activity in locally oriented sectors, such as construction, lags the rest of the economy.
- **Inflation & Monetary Context** ► The BoK has completed its interest rate normalization phase (a 125 bps cumulative benchmark rate hike from July 2010 to July 2011) as inflation has now come down on the back of more muted food price increases. Although inflation trended lower for three months since August to reach 3.9% y/y in October, entering the central bank's 3 ±1% target band for the first time this year, headline pressures picked up again in November to 4.1%. We expect inflation to remain towards the upper end of the BoK's comfort range in 2012 as downshifting demand conditions and a relatively strong KRW will offset underlying pressures in the coming quarters. In a context of record low unemployment (3.1% jobless rate, the lowest since 2008) the central bank's focus has been on averting a wage/price spiral. Notwithstanding persistent elevated inflationary readings, we do not anticipate any monetary policy changes through the turn of the year. The current benchmark interest rate level of 3.25% offers some leeway to adjust to softer economic conditions brought about primarily by slowing sales to Europe.
- **Fiscal & Current Account Balance** ► Public sector finances remain among the strongest in the OECD, with budget surpluses recorded since 2010. We expect the fiscal account to further improve through 2013 as the government continues to prioritize a strong fiscal surplus position. Gross government debt is equivalent to about 30% of GDP, comparing favourably with an overall OECD average of 90%. The trade balance has trended downward throughout 2011, with import growth surpassing the expansion in exports. This trend is likely to continue at least through 2012, leading to a narrowing of the current account surplus to under 2.5% of GDP.

## Institutional Framework & Political Environment

- **Governance** ► President Lee Myung-bak of the Grand National Party (GNP) has one more year to complete his 5-year term in office. Although his party holds a comfortable majority in the legislature, Lee has found it difficult to push ahead with his policy agenda in the face of divisions within the GNP, an erosion of popular support and an obstructionist opposition. Legislative and presidential elections will be held next year in April and December, respectively. Border tensions with North Korea remain an issue of concern for market participants.
- **Financial Sector** ► Korean banks weathered the impact of the global financial turmoil well and continue to be adequately capitalized. Nevertheless, Korea remains a highly leveraged economy with domestic non-financial private sector debt exceeding 200% of GDP, making the banking sector vulnerable to a sudden deterioration in credit conditions. South Korean bank loan growth is among the lowest in Asia at 7% y/y, and has yet to recover to pre-global-recession levels.



## Capital Market Dynamics

- **Foreign Exchange** ► The Indonesian rupiah (IDR) will remain vulnerable to sudden swings in sentiment in the near term, though it will receive support from wide interest rate spreads and relatively rapid GDP growth. A 4% weakening of the IDR during September followed eight months of gains amounting to a 5.5% appreciation against the US dollar (USD). A solid external account buildup and a promising growth outlook will continue to bolster the currency. We expect the IDR to reach 8.75 per USD at end-2011 and 8.5 at end-2012.
- **Sovereign Debt & Credit Ratings** ► Investor perceptions of Indonesia's creditworthiness are sound. Credit default swap (CDS) spreads have moderated to 220 basis points (bps) following a risk-aversion induced 150 bps rise in August-October, however, the current level remains significantly higher than sub-150 bps observed during the first half of the year. The country's long-term foreign currency ratings favour a possible upgrade as two agencies hold a "positive" outlook. Current ratings are as follows: Moody's: "Ba1", S&P: "BB+" and Fitch: "BB+".
- **Equity Market** ► The Jakarta Composite Index stands practically flat in US dollar terms with respect to the beginning of 2011, as a 10% gain in the first half of the year gave way to a sharp downward correction amid the more recent global turmoil. The Indonesia Stock Exchange has a market capitalization of US\$360 billion.

## Economic Outlook

- **Growth** ► Indonesia's economic growth will remain strong through 2013. We expect GDP to expand by a solid 6.5% this year, followed by a 6.4% average gain in 2012-13. The US\$800 billion Indonesian economy is the fifth largest in Asia in purchasing power parity terms, and contains a domestic market that has remained relatively isolated from external headwinds, with commodity price dependence diminishing over the past five years. Real output recorded a steady 6.5% y/y advance through the first three quarters of 2011 on the back of solid local demand growth, while foreign sales also maintained an upward trajectory. Exports have since come down, but continue to expand at a double-digit yearly rate. China has become an important market for commodities, and substantial exports of Indonesian cement, wood and coal have been directed towards reconstruction efforts in Japan. Falling unemployment and rising real wages are likely to remain supportive of household consumption in Indonesia, with rising private investment also underpinning domestic demand strength.
- **Inflation & Monetary Context** ► The central bank will retain a loosening monetary policy stance as inflation continues to stabilize. Headline yearly inflation has trended lower since peaking at 7% y/y in January. While the latest reading of 4.2% y/y in November is an encouraging sign as it could open the door for further monetary policy easing, it is a somewhat artificial result as it relies on a heavy budgetary commitment to subsidy programs. Core inflation, which excludes volatile items like food costs, stood at 4.4% y/y at the last observation. Bank Indonesia (BI) has been a leader in the Asian region as it nimbly adjusted its monetary policy stance in the face of falling local inflation. BI has lowered the monetary policy interest rate by 75 basis points (bps) over the past two months to 6%, moves that contrast with a previous 25 bps hike as recent as February. BI will likely maintain monetary conditions unchanged through year-end.
- **Fiscal & Current Account Balance** ► Public finances remain healthy. Strong economic growth will underpin public revenue gains with prudent spending favouring a growth supportive fiscal stance. Nevertheless, the public deficit is on track to widen towards 2% of GDP this year, with the shortfall expected to narrow slightly in 2012. Indonesia suffers from a relatively low fiscal revenue base as the tax take barely reaches 16% of GDP, significantly constraining public investment spending and leaving infrastructure development needs severely unattended. The external accounts continue to reflect a stellar performance with exports expanding at a double-digit rate through November, notwithstanding the crisis in Europe. Overall exports gained 16.7% y/y in October, a significant loss of momentum after the average 40% y/y advance of the three months to September. Imports remained steady, advancing at a 29% y/y rate, against the 36% gain of the previous quarter. The current account surplus has been trending down over the past two years on the back of robust domestic demand gains. Indonesia's modest current account surplus is well supported by rising private investment and savings rates. We expect the country to retain a small current account surplus through 2013.

## Institutional Framework & Political Environment

- **Governance** ► The government led by Mr. Susilo B. Yudhoyono has been effective in engineering a steady economic expansion in the midst of global headwinds. Mr. Yudhoyono retained voter support by winning a second term in July of 2009, promising to clean up the political apparatus. Recent corruption scandals, however, have dented the ability of the current government to continue to advance policy. Although cabinet reshufflings have been unable to shake off unfavourable perceptions, these have failed to derail the still promising economic outlook. Indonesia will hold general elections in 2014.
- **Financial Sector** ► The banking system is marked by capital adequacy ratios far above the 8% minimum, with non-performing loans safely below 5%. These safety indicators describe a relatively solid banking system notwithstanding double-digit credit growth. According to BI, bank loans to the private sector expanded at 25% y/y rate in October, with loans directed to investment ventures advancing at an over 30% rate, and consumer related loans gaining 24%.



### Capital Market Dynamics

- **Foreign Exchange** ► The Australian dollar (AUD) will remain well supported in the medium term. Notwithstanding adverse depreciation waves in the last months of the year, as the Reserve Bank of Australia (RBA) initiated a monetary easing cycle, the AUD will regain an appreciating trend supported by solid external and improving fiscal account fundamentals, strong ties to Asia and exposure to highly bid commodities. We expect the AUD to close this year at parity and to reach 0.93 per US dollar by end-2012.
- **Sovereign Debt & Credit Ratings** ► Investors' perception of Australia's sovereign credit risk –as measured by credit default swap (CDS) spreads– have improved, coming down from a global-uncertainty induced 110 basis points (bps) in early October to the current level of 80 bps (still far from the 50 bps plateau that has prevailed through most of 2011). The outlook for Australia's long-term foreign currency ratings is stable. At present, ratings are Standard & Poor's "AAA", Moody's "Aaa", and Fitch "AAA".
- **Equity Market** ► A steady growth outlook and links to the dynamic emerging Asian region continue to support corporate profitability. Nevertheless, driven mainly by global recovery uncertainties, Australia's S&P/ASX 200 Exchange Index has lost nearly 10% in US dollar terms so far this year. The Stock Market Exchange Index has a market capitalization of US\$1.2 trillion.

### Economic Outlook

- **Growth** ► The resilient Australian economic expansion will average 3% y/y in 2011-12. The economy continues to display signs of moderate growth notwithstanding evidence of a slowdown in Asian industrial output and falling exports to the euro zone. Rising investment and cautious consumer spending support domestic demand. While moderate bank credit expansion and somewhat softer local asset price gains provide the backdrop for cautious household borrowing, consumer spending has recently accelerated along with domestic vehicle sales. Business conditions have also been improving. Although the country's terms of trade seem to have peaked on the back of a slowdown in Asia, they remain elevated, enticing further investment in the resources sector, with foreign shipments still advancing steadily. The resource sector expansion is trickling down to underlying services industries within Australia. We expect GDP growth to accelerate to 3.3% y/y growth in 2013.
- **Inflation & Monetary Context** ► Inflation will continue to challenge the RBA's 2-3% target. While core inflation eased during the third quarter, the fall was predicated upon a flat reading for the goods group and the strongest pickup in services costs in three years. The results point to persistent local supply side pressures, as implied by favourable conditions within the mining sector where investment spending continues to propel ahead. While labour market pressures are less severe in non-mining sectors, there is no evidence of slack, with the unemployment rate falling once more in October to 5.2%. Nevertheless, the downtrend in inflation and the uncertain global economic outlook, combined with evidence of cooling in the local residential market, have opened the door for looser monetary conditions. The RBA lowered the administered reference cash rate twice – by a cumulative 50 bps to 4.25% – at its latest monetary policy meetings, interrupting a 12-month period of stable monetary conditions.
- **Fiscal & Current Account Balance** ► Policy flexibility will improve as officials aim to streamline public finances. Authorities are determined to balance the public accounts, with the government's commitment to eliminating the deficit by 2012-13 holding steady even in the aftermath of the Queensland floods. Relatively elevated commodity prices continue to support revenues, and are likely to lead to a fiscal shortfall of 4.5 % of GDP in 2011, and an even smaller 3% deficit in 2012. Australian exports have expanded at an average 10% y/y rate so far this year, well ahead of import growth, which translates into persistent trade surpluses. These trends will continue to support a manageable current account deficit, which is likely to widen this year after the 2.7% of GDP shortfall of 2010, the smallest in at least a decade.

### Institutional Framework & Political Environment

- **Governance** ► Given the weak mandate achieved in last year's election, the administration of Prime Minister Julia Gillard of the Labour Party has had to uphold a cooperative relationship with opposition parties in order to spearhead policy. Keenly debated issues, including a government proposed tax on carbon emissions, will play a key role in the run up to the 2013 elections.
- **Financial Sector** ► The Australian financial system continues to perform significantly better than most other developed countries, consistent with high balance-sheet quality supported by a relatively strong domestic economy. Profitability has recovered to near pre-crisis levels, as bad-debt expenses have declined. The 5% downward adjustment in house prices over the past twelve months has somewhat diluted the concerns of regulators related to the economy's propensity for housing market overvaluations. However, relatively large private sector leverage ratios could become troublesome, particularly in the case of large commodity price swings.



## Capital Market Dynamics

- **Foreign Exchange** ► The Thai baht (THB) will remain range-bound with central bank intervention mitigating volatility as policymakers engineer the country's comeback from the recent disaster. The THB has outperformed its Asian peers as the Bank of Thailand (BoT) has been actively moderating currency swings during the recent bearish market phase. Sporadic intervention will continue to be utilized, with no capital control measures envisaged after last year's reinstatement of a 15% withholding tax on foreign investors' capital gains. We expect a THB per US dollar (USD) rate of 30 by the end of 2012.
- **Sovereign Debt & Credit Ratings** ► Market participants' perception of Thailand's creditworthiness has been steadily improving since early October, despite the economic repercussions from severe flooding. Thailand's credit default swaps (CDS), which almost doubled during the period of global financial stress in August and September, have declined to 175 bps from a high of 250 bps. Credit risk assessments have improved on the back of healthier government balances and a public debt level at about 40% of GDP. All three major rating agencies maintain a "stable" outlook on the country's sovereign credit ratings, which are currently set at "Baa1" (Moody's), "BBB+" (Standard and Poor's) and "BBB" (Fitch).
- **Equity Market** ► Thailand's equity securities, as measured by the benchmark SET index, suffered a 30% downward correction in US dollar terms in August-September. The SET, which recovered about 10% since early October, remains vulnerable to shifts in Chinese equity markets. The stock market remains highly concentrated as the state-controlled energy firm PTT accounts for almost 15% of the index. Thailand's equity exchange has a market capitalization value of THB5.9 trillion (US\$205 billion), equivalent to 68% of the nation's GDP and approximately 0.5% of global equity market capitalization.

## Economic Outlook

- **Growth** ► Thailand's economy will experience a significant setback resulting from overextended flooding activity. The country's output expansion will likely slow to 2.8% y/y in 2011 as economic growth went into reverse during the final quarter of 2011. Strong export performance notwithstanding, GDP advanced at a sub-par 3.5% y/y rate in the third quarter, with the adverse effect of widespread flooding yet to be reflected in the data. A public spending freeze caused by a change in administration after the summer elections, and a fall in farm income were the main causes of the slowdown. Fourth quarter data so far display further weakness as evidence of the effect of flooding on the manufacturing sector is emerging. The fall in industrial output and exports will likely be accompanied by a moderation in local demand as a result of damage to the communications infrastructure. We expect growth to rebound strongly to 3.5% y/y in 2012 and 4.5% in 2013 on the back of decisive fiscal stimulus measures.
- **Inflation & Monetary Context** ► Inflationary pressures have yet to stabilize given the strength in local activity prior to the flooding. While the latest headline inflation reading showed a modest increase, the core measure fell slightly to 2.9% y/y, edging close to the upper band of the BoT's 0.5-3% target range. Helped by capped increases in fuel costs and a softer commodity cost mix, core inflation is likely to capitulate soon. The central bank opted to lower the reference repurchase rate by 25 basis points to 3.25% following November's policy-setting meeting, displaying caution about a possible pickup in price pressures as a result of scarcity of basic products. In the midst of a deteriorating global economic scenario compounded by a natural disaster, we anticipate that the central bank will continue to act proactively as inflationary trends stabilize.
- **Fiscal & Current Account Balance** ► Fiscal policy remains expansionary with government revenues likely to fall through year-end due to the unexpected flooding. In light of the natural disaster, the achievement of the public deficit target of 2.5% of GDP for 2012 may be impaired by the implementation of aggressive reconstruction efforts. The external current account remains in surplus, with export values accelerating in the third quarter while imports surged 26% on average on the back of the rebound in domestic demand. Demand from China – Thailand's main export destination, accounting for 19% of overall foreign sales – has been pulling the country forward, with Japan and Europe also remaining important trade partners. A narrowing of the current account surplus is anticipated as foreign sales continue to stabilize in the coming quarters.

## Institutional Framework & Political Environment

- **Governance** ► Prime Minister Yingluck Shinawatra was formally installed on August 8<sup>th</sup> after her Puea Thai party achieved a decisive victory in the July elections, winning 265 of the 500 seats in the lower house of parliament. The prime minister's cabinet, a mixture of Puea Thai party faithful and independent figures, will attempt to navigate the tricky waters of the Thai political establishment. No major political developments are envisaged in the coming months while the country recovers from the devastation caused by the flooding.
- **Financial Sector** ► The health of the Thai financial sector remains sound. The sector's asset quality is improving. Bank balance sheets remain strong with the commercial banks' non-performing loan ratio (currently at 3.5% of total loans) declining since the second quarter of 2003, when it peaked at 16% and resulted in major financial sector restructuring. Bank credit growth was already tapering off prior to the recent widespread flooding, as both consumer and business lending had peaked at about 15% y/y. Private sector lending is likely to slow through the turn of the year and then rebound on the back of the reconstruction effort.



## Capital Market Dynamics

- **Foreign Exchange** ► The Hong-Kong dollar (HKD) will fluctuate within a tight 7.81-7.75 range against the US dollar (USD) for the foreseeable future. While deposits in Chinese renminbi (CNY) are likely to continue to build at a rapid pace, driven predominantly by trade flows, the Hong Kong Monetary Authority (HKMA) has nonetheless reiterated its intention to maintain the USD peg. A shift towards the CNY will only be possible once capital account convertibility is satisfied and a robust, multi-faceted offshore CNY market is established in Hong Kong. We expect the HKD to trade towards 7.75 per USD by end-2012.
- **Sovereign Debt & Credit Ratings** ► Hong Kong's high investment grade sovereign credit ratings remain well supported by a strong external position, minimal public debt (around 1% of GDP), ongoing fiscal surpluses and robust economic performance. Moody's Investors Service assigned a "positive" outlook on Hong Kong's "Aa1" rating in November 2010, on the basis of a sustained improvement in fiscal and external metrics over the last decade. Standard & Poor's and Fitch maintain "AAA" and "AA+" ratings, respectively, on the region's long-term foreign currency debt. Confirming its "stable" outlook, Fitch judged that despite risks related to growing financial exposure to mainland China and rising property prices, investor confidence is preserved by Hong Kong's economic fundamentals and institutional strength. Ratings developments in China will also influence the agencies' view on Hong Kong.
- **Equity Market** ► Hong Kong's Hang Seng stock index has a market capitalization of 5.6 trillion HKD (US\$730 billion). The index has lost over 20% year-to-date, making it one of the worst performing major equity markets in 2011 outside of Europe. With over 50% of the index accounted for by financial and real estate companies, the index is highly vulnerable to cyclical adjustments and liquidity shocks in these sectors.

## Economic Outlook

- **Growth** ► Steady domestic demand conditions will support economic activity in the face of faltering foreign sales. We expect a GDP expansion of 5.3% y/y in 2011 to be followed by an average 4.5% gain in 2012-13. Hong Kong's economy expanded in the third quarter after a lapse in growth in the second quarter due to the adverse shocks to manufacturing supply chains suffered across Asia. A gain of 4.3% y/y in GDP portrays support from solid performance in both household and investment spending, with average export values for the quarter rebounding solidly after the fall in the previous three months. Record low unemployment (3.3% as of October) supports household incomes, which in turn portray a favourable outlook for consumer spending. A positive business investment outlook is underpinned by a favourable tax regime and strengthening links to mainland China, with Hong Kong's thriving service industry functioning as a re-export hub. Looking ahead, ongoing Asian trade flows will partially compensate for the fall in manufacturing and services activity as Europe stalls.
- **Inflation & Monetary Context** ► Inflation remains the government's primary concern. While the headline rate has come down to 5.8% y/y from its July peak, it remains relatively elevated, bucking the downtrend evident in mainland China. Rising rents combined with elevated food and fuel costs continue to generate price pressures, though temporary public subsidies on electricity and housing have quelled some of these forces. Loose monetary conditions in the US and a somewhat procyclical local fiscal stance point to inflationary persistence, with negative real interest rates underpinning asset price gains and further supporting domestic spending. Government statistics continue to show housing prices rising at a double-digit yearly pace.
- **Fiscal & Current Account Balance** ► Fiscal policy remains growth-supportive. Strong public revenue growth underpins a public balance set to record six consecutive years of surpluses. The public budget is likely to remain solid at least through mid-decade backing the currency board arrangement, although a significant fiscal stimulus can be triggered if necessary. Despite the rebound of exports to neighboring Asia, the trade balance will trend downwards as domestic demand gains outpace foreign sales. Persistent momentum in China will continue to contribute to a favourable outlook for exports. The current account will remain at a substantial surplus of over 5% of GDP through 2013 on the back of a steady financial services provision to foreign investors in mainland China.

## Institutional Framework & Political Environment

- **Governance** ► A 1,200-member "election committee" will decide the successor to Donald Tsang, Hong Kong's current chief executive, in March 2012. The two leading candidates, Henry Tang and Leung Chun-ying, will most likely have the support of the central Chinese government. Legislative elections will also take place in 2012, and with ten new seats to be determined by direct voting, this will mark the first time that the majority of policymakers in Hong Kong will be elected democratically.
- **Financial Sector** ► Solid credit growth continues to be supported by household and property related demand for loans. Double-digit gains in real estate prices underpin the surge in credit issuance. While the financial sector remains sound, with adequate liquidity and asset quality, prudential measures on the part of the HKMA will remain key to mitigating the threat of asset bubbles in a negative real interest rate environment. Still rapid mortgage loan expansion in Hong Kong contrasts with the measures of mainland Chinese authorities, which are aimed at ring fencing a possible housing market bubble.



## Capital Market Dynamics

- **Foreign Exchange** ► The New Zealand dollar (NZD) will pare back some of the losses brought about by the wave of uncertainty disrupting global financial markets since July 2011. However, economic underperformance will likely condition a return to early year values as the central bank adopts a growth supportive stance. Positioning in NZD has been less volatile in comparison to the Australian dollar, remaining net-long for most of 2011. We expect the NZD to recover and close the year 2012 at 0.84 per US dollar.
- **Sovereign Debt & Credit Ratings** ► Investor perceptions of New Zealand's creditworthiness remain stable, despite recent downward ratings actions. Credit default swap (CDS) spreads followed the global risk aversion trend, widening substantially in August and September to a peak of 125 basis points (bps), and subsequently moderating to the current level of around 100 bps (still elevated relative to levels prevailing in the first half of the year). On September 29th of this year, both Standard & Poor's and Fitch downgraded New Zealand's long-term foreign currency rating from "AA+" to "AA" with a "stable" outlook. Rising public and private indebtedness, accelerated in the aftermath of the Christchurch earthquakes, and concerns about current account deficit financing amid global financial turmoil motivated the decisions. The externally biased composition of the nation's liabilities (according to Fitch, net external debt was 83% of GDP in 2010), represents an area of particular credit weakness. Nevertheless, both agencies identify prudent fiscal policy consensus, institutional strength and economic resilience as factors supporting the stable outlook. Moody's currently maintains an "Aaa" rating.
- **Equity Market** ► New Zealand's main equity index, the NZX 50 Total Return Index, has a market capitalization of NZD 38.5 billion (US \$28.7 billion), very small in global terms. The nation's broad-based equity market has performed relatively well in 2011, having lost less than 2% year-to-date, far less than most Asia-Pacific and developed-market peers.

## Economic Outlook

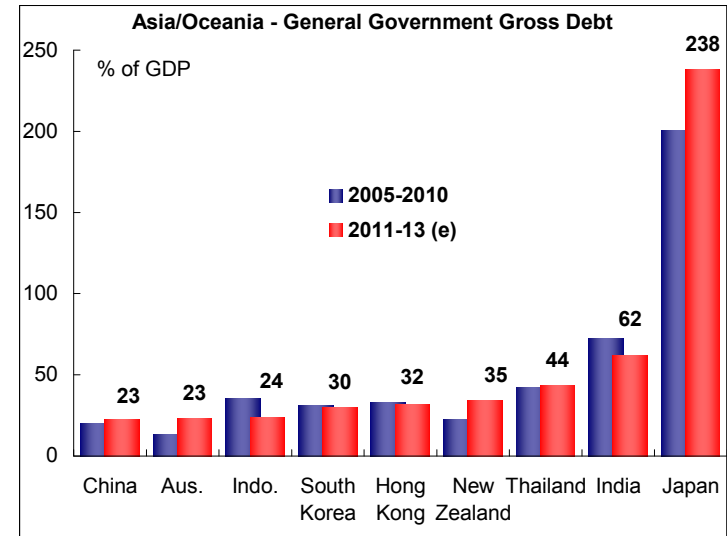
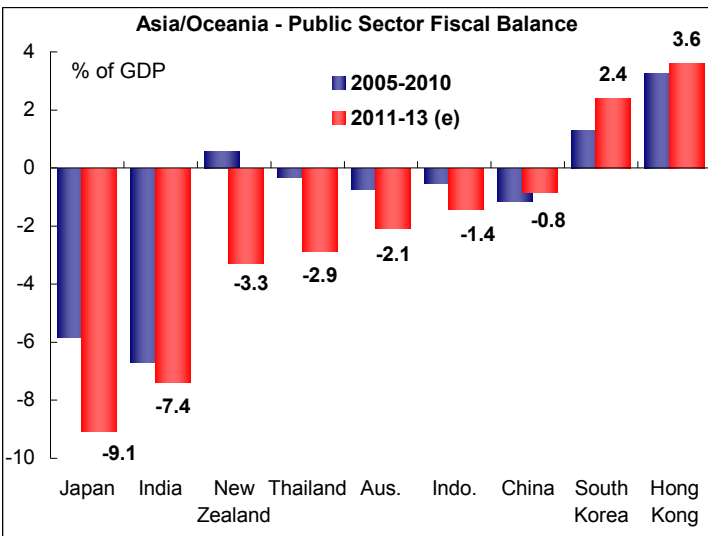
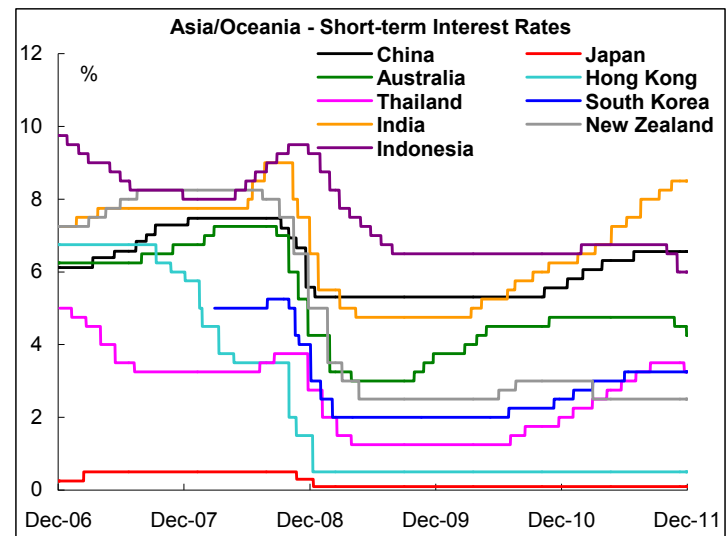
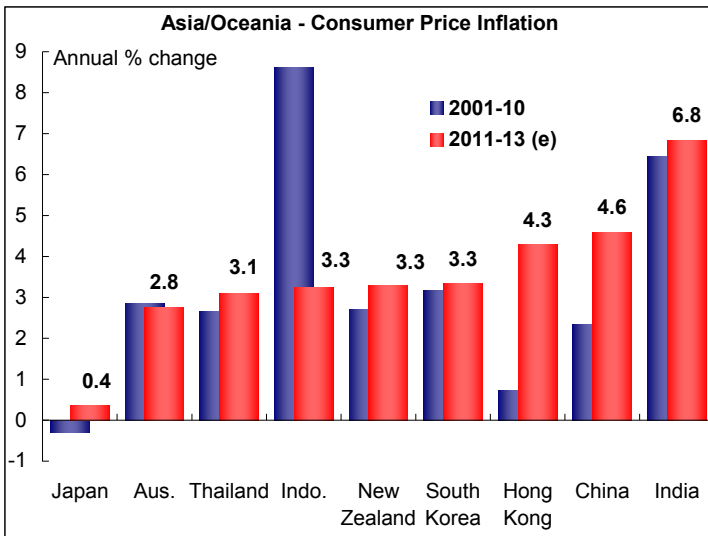
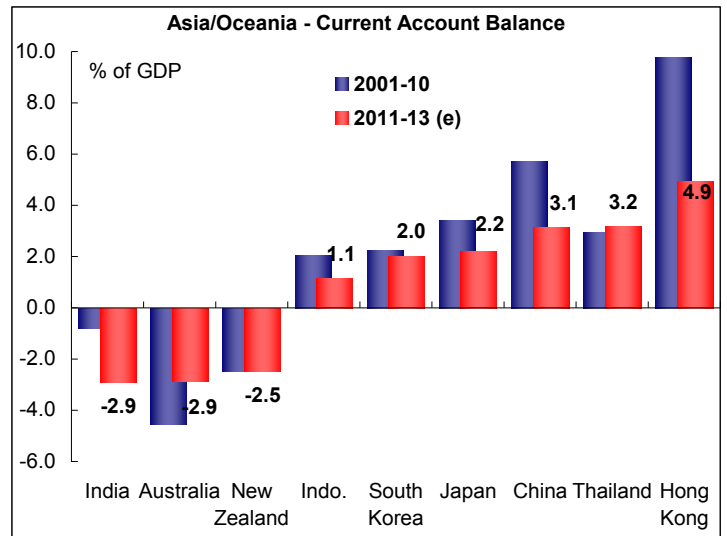
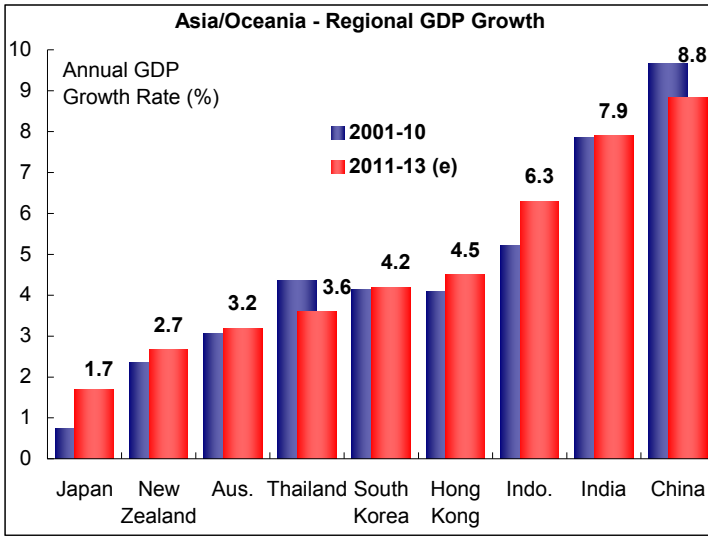
- **Growth** ► We expect the economy to expand at a 3% y/y rate in 2012/13. Weaker economic activity is emerging on both the domestic and external fronts. Local demand is being hurt by a slowdown in household spending and a murkier outlook for businesses. Indicators of consumer spending have displayed a contraction as weak income growth and wealth downgrades hurt purchasing power. Business confidence has taken a turn for the worse, reaching levels observed only in the midst of the Christchurch earthquake that shook the country in the first quarter of 2011. Export values slowed in the third quarter, as foreign shipments to Australia, New Zealand's main trading partner, failed to compensate for the fall in sales to the rest of Asia, Europe and North America.
- **Inflation & Monetary Context** ► Price stabilization will continue through the turn of the year. Annual inflation came down significantly during the third quarter, to 4.6% y/y, on the back of slower price gains in tradable items where NZD strength played a supportive role. Non-tradable goods inflation displayed no change on a sequential basis, although the annual tally did ease on base effects. Overall, headline inflation remains above the Reserve Bank of New Zealand's (RBNZ) 1-3% comfort zone. Central bank authorities remain sanguine about rising price pressures, preferring instead to lean towards growth supportive policies. We expect the RBNZ to maintain the administered interest rate constant at the current 2.5% level through the turn of the year.
- **Fiscal & Current Account Balance** ► Fiscal consolidation will remain a priority in the government's agenda as it recovers from one-off cost effects due to earthquake-reconstruction spending. The budget deficit widened significantly to over 9% of GDP during the current fiscal year. The fiscal imbalance is expected to fall towards 6% of GDP in 2012, in line with a long-term public debt target of 20% of GDP. While export values slowed in the third quarter, they remain well ahead of last year's figures as geographical proximity to Asia continues to support demand for protein and dairy products coming from New Zealand. The trade balance is on track to record a surplus this year, however, the current account will remain in deficit, as the nation's domestic savings pool continues to fall short of investment demand flows.

## Institutional Framework & Political Environment

- **Governance** ► Prime Minister John Key's National Party (NP) obtained 48% of the general vote in the November poll, which provided the NP with 60 out of a possible 121 seats in parliament. While failing to obtain enough support for a majority government, Mr. Key's mandate was nonetheless strengthened, with the NP gaining two congressional seats in the best electoral outcome for the party in 60 years. The prime minister will now be able to advance more forcefully an agenda that includes reductions in the government's deficit and public debt. Agreements with coalition partners will now be more likely as the main opposition, the Labour Party, lost significant support in the form of nine seats in parliament.
- **Financial Sector** ► Healthy capitalization levels and conservative risk appetite still characterize the credit profile of the local financial sector, with loan loss provisions remaining low by international standards. While household sector indebtedness (at close to 150% of disposable income) is elevated by developed country standards—in line with Australia and the U. K.—signs of private sector deleveraging in New Zealand will further improve the medium term outlook of the domestic banking system.

# Asia/Oceania – Regional Economic Outlook


## Macroeconomic Metrics – December 2011





Source: IMF, WEO September 2011, OECD, National Statistics office and Ministry of Finance of each country, Bloomberg and Scotiabank Group.


# Asia/Oceania – Regional Economic Outlook

## Key Economic Indicators – December 2011

<b>China</b>						
Population (millions) as of 2010						
1,330						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	8.5	10.4	9.1	8.9	8.5	
Industrial Production (% change)	16.9	13.3	14.5	13.0	12.0	
Current Account % GDP	6.0	5.1	4.0	3.0	2.4	
Foreign Reserves, Months of Imports	28.7	24.5	20.9	17.5	15.3	
Exchange Rate USDCNY (% change)	0.0	3.2	4.3	4.0	-3.9	
CPI (EOP, % change)	1.9	4.6	5.0	4.5	4.3	
Government Balance (% GDP)	-2.3	-2.5	-2.2	-2.0	-1.8	
Government Debt (% of GDP)	17.7	33.8	20.0	22.0	18.5	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	4,992	5,964	7,070	8,383	9,462	
Exchange Rate USDCNY (EOP)	6.83	6.61	6.32	6.07	5.84	
Central Bank Rate (%)	5.31	5.81	6.56	6.56	6.56	
Exports (USD, bn)	1,201.9	1,578.5	2,200.0	2,600.0	3,000.0	
Imports (USD, bn)	1,003.9	1,393.9	1,925.0	2,400.0	2,900.0	
Trade Balance (USD, bn)	198.1	184.5	275.0	200.0	100.0	
Current Account (USD bn)	297.1	305.4	280.0	255.0	230.0	
Foreign Reserves (USD bn)	2399	2847	3350	3500	3700	

<b>India</b>						
Population (millions) as of 2010						
1,173						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	7.2	9.0	7.6	8.1	8.0	
Industrial Production (% change)	0.2	9.7	9.2	9.5	9.0	
Current Account % GDP	-2.8	-2.6	-3.2	-3.0	-2.6	
Foreign Reserves, Months of Imports	13.2	10.6	7.4	7.3	7.0	
Exchange Rate USDINR (% change)	4.7	3.9	-14.1	3.9	3.8	
CPI (EOP, % change)	7.1	9.4	8.1	6.5	6.0	
Government Balance (% GDP)	-10.0	-8.1	-7.3	-7.0	-6.5	
Government Debt (% of GDP)	69.4	64.1	63.0	62.0	60.9	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	1,202	1,546	1,701	1,878	2,229	
Exchange Rate USDINR (EOP)	46.53	44.71	51.0	49.0	47.15	
Central Bank Rate (%)	4.75	6.25	8.5	7.5	7.00	
Exports (USD, bn)	164.9	222.8	370.0	450.0	530.0	
Imports (USD, bn)	257.2	336.8	500.0	575.0	650.0	
Trade Balance (USD, bn)	-92.3	-114.0	-130.0	-125.0	-120.0	
Current Account (USD bn)	-21.1	-51.9	-54.0	-57.0	-57.0	
Foreign Reserves (USD bn)	283	297	310	350	380	

<b>Japan</b>						
Population (millions) as of 2010						
127						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	-5.5	4.5	0.1	3.2	1.8	
Industrial Production (% change)	-21.8	16.6	-1.5	5.0	3.5	
Current Account % GDP	2.8	3.6	2.2	2.2	2.3	
Foreign Reserves, Months of Imports	21.9	17.7	14.7	13.4	13.2	
Exchange Rate USDJPY (% change)	-2.6	12.8	3.8	-5.1	-2.4	
CPI (EOP, % change)	-1.7	-0.4	0.2	0.4	0.5	
Government Balance (% GDP)	-8.7	-7.8	-11.0	-10.0	-9.0	
Net Government Debt (% of GDP)	110.0	117.2	128.0	132.0	146.4	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	4,985	5,561	6,037	6,200	6,102	
Exchange Rate USDJPY (EOP)	93.03	81.12	78.0	82.0	84.00	
Central Bank Rate (EOP %)	0.10	0.10	0.1	0.1	0.25	
Exports (USD, bn)	573.1	778.0	887.9	974.2	982.0	
Imports (USD, bn)	544.9	701.2	846.8	933.7	958.1	
Trade Balance (USD, bn)	28.3	76.7	41.1	40.5	24.0	
Current Account (USD bn)	140.9	198.1	130.0	135.0	140.0	
Foreign Reserves (USD bn)	997	1036	1040	1045	1055	

<b>South Korea</b>						
Population (millions) as of 2010						
49						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	0.3	6.2	3.8	4.3	4.5	
Industrial Production (% change)	-0.1	16.2	7.7	9.0	10.0	
Current Account % GDP	3.8	2.8	2.3	2.0	1.8	
Foreign Reserves, Months of Imports	10.0	8.2	6.5	6.5	6.7	
Exchange Rate USDKRW (% change)	7.6	3.3	-0.4	5.3	0.0	
CPI (EOP, % change)	2.8	3.0	3.7	3.3	3.0	
Government Balance (% GDP)	-1.1	0.0	1.2	1.4	1.5	
Government Debt (% of GDP)	32.3	32.1	30.8	28.9	26.9	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	852	1,016	1,165	1,313	1,410	
Exchange Rate USDKRW (EOP)	1164	1126	1130	1070	1016.05	
Central Bank Rate (%)	2.00	2.50	3.25	3.25	3.75	
Exports (USD, bn)	363.5	466.4	590.0	620.0	640.0	
Imports (USD, bn)	323.1	425.2	550.0	590.0	610.0	
Trade Balance (USD, bn)	40.4	41.2	40.0	30.0	30.0	
Current Account (USD bn)	32.8	28.2	27.0	26.0	25.0	
Foreign Reserves (USD bn)	270	292	300	320	340	

Source: IMF, WEO September 2011, OECD, Central Bank, National Statistics office and Ministry of Finance of each country and Scotiabank Group.

# Asia/Oceania – Regional Economic Outlook

## Key Economic Indicators – December 2011

<b>Indonesia</b>		Scotiabank Group				
Population (millions) as of 2010						
238						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	4.6	6.1	6.5	6.4	6.0	
Industrial Production (% change)	1.3	4.4	4.0	8.5	8.0	
Current Account % GDP	1.9	0.8	1.3	0.9	1.2	
Foreign Reserves, Months of Imports	8.2	8.5	7.8	6.5	5.5	
Exchange Rate USDIDR (% change)	4.8	-4.3	1.2	-3.8	-3.7	
CPI (EOP, % change)	2.8	7.0	3.7	3.2	2.8	
Government Balance (% GDP)	-1.6	-0.6	-1.9	-1.7	-1.5	
Government Debt (% of GDP)	27.4	25.7	26.5	24.0	22.0	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	547	712	795	887	968	
Exchange Rate USDIDR (EOP)	9.4	9.0	9.1	8.8	8.4	
Central Bank Rate (%)	6.5	6.5	6.5	6.0	6.50	
Exports (USD, bn)	116.5	157.8	210.0	250.0	300.0	
Imports (USD, bn)	96.8	135.7	178.0	220.0	275.0	
Trade Balance (USD, bn)	19.7	22.1	32.0	30.0	25.0	
Current Account (USD bn)	10.6	5.6	10.0	8.0	12.0	
Foreign Reserves (USD bn)	66	96	115	120	125	

<b>Australia</b>		Scotiabank Group				
Population (millions) as of 2010						
22						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	1.4	2.6	2.1	4.2	3.3	
Manufacturing (% change)	-6.9	-2.9	1.0	1.5	1.6	
Current Account % GDP	-4.4	-2.7	-2.9	-3.1	-2.6	
Foreign Reserves, Months of Imports	2.2	1.9	1.7	1.6	1.4	
Exchange Rate AUDUSD (% change)	-2.6	14.3	8.2	1.2	2.3	
CPI (EOP, % change)	2.1	2.7	3.0	2.8	2.5	
Government Balance (% GDP)	-4.1	-4.9	-3.0	-2.8	-2.5	
Government Debt (% of GDP)	-0.6	4.4	7.7	9.4	9.3	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	1,026	1,272	1,456	1,584	1,716	
Exchange Rate AUDUSD (EOP)	0.90	1.02	1.00	1.08	1.10	
Central Bank Rate (%)	3.75	4.75	4.50	5.00	5.50	
Exports (USD, bn)	204.9	266.1	329.6	364.5	399.0	
Imports (USD, bn)	208.6	251.8	304.2	343.9	388.5	
Trade Balance (USD, bn)	-3.7	14.2	25.4	20.5	10.5	
Current Account (USD bn)	-45.3	-34.4	-35.0	-40.0	-45.2	
Foreign Reserves (USD bn)	38	39	44	46	45	

<b>Thailand</b>		Scotiabank Group				
Population (millions) as of 2010						
66						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	-2.4	7.9	2.8	3.5	4.5	
Industrial Production (% change)	-7.3	14.5	1.5	10.0	12.0	
Current Account % GDP	8.2	4.2	3.8	3.2	2.6	
Foreign Reserves, Months of Imports	13.6	12.3	10.6	9.4	8.6	
Exchange Rate USDTHB (% change)	3.9	9.9	-3.1	3.2	3.1	
CPI (EOP, % change)	3.5	3.0	3.5	3.0	2.8	
Government Balance (% GDP)	-5.9	-1.9	-2.5	-3.2	-3.0	
Government Debt (% of GDP)	44.9	43.1	44.0	46.0	48.0	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	265	323	354	381	422	
Exchange Rate USDTHB (EOP)	33.37	30.06	31.0	30.0	29.06	
Central Bank Rate (%)	1.25	2.00	3.5	3.5	4.00	
Exports (USD, bn)	150.7	193.7	240.0	265.0	300.0	
Imports (USD, bn)	118.1	161.4	198.0	230.0	265.0	
Trade Balance (USD, bn)	32.6	32.2	42.0	35.0	35.0	
Current Account (USD bn)	21.9	13.7	13.5	12.0	11.0	
Foreign Reserves (USD bn)	134	166	175	180	190	

<b>Hong Kong</b>		Scotiabank Group				
Population (millions) as of 2010						
7						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	-2.7	7.0	5.0	4.5	4.0	
Industrial Production (% change)	-8.3	11.9	6.0	5.5	3.5	
Current Account % GDP	8.6	6.2	5.8	4.9	4.2	
Foreign Reserves, Months of Imports	8.8	7.4	6.3	5.9	5.6	
Exchange Rate USDHKD (% change)	0.3	-0.3	0.1	0.1	0.0	
CPI (EOP, % change)	1.5	2.9	4.8	4.5	3.6	
Government Balance (% GDP)	-1.9	4.9	-1.0	1.0	0.8	
Government Debt (% of GDP)	0.7	0.6	0.5	0.7	0.8	
<b>Actual Numbers</b>						
Nominal GDP (USD, bn)	209	224	243	266	279	
Exchange Rate USDHKD (EOP)	7.8	7.8	7.8	7.8	7.8	
Central Bank Rate (%)	0.5	0.5	0.5	0.5	0.5	
Exports (USD, bn)	318.8	390.3	489.6	529.0	580.6	
Imports (USD, bn)	347.7	433.4	541.1	580.6	619.4	
Trade Balance (USD, bn)	-28.9	-43.1	-51.5	-51.6	-38.7	
Current Account (USD bn)	18.0	13.9	14.2	12.9	11.6	
Foreign Reserves (USD bn)	256	269	282	285	290	

<b>New Zealand</b>		Scotiabank Group				
Population (millions) as of 2010						
4						
	2009	2010	2011	2012	2013	
<b>Ratios and Rates of Change</b>						
Real GDP (% change)	-2.0	1.7	2.0	3.0	3.0	
Industrial Production (% change)	3.5	6.3	7.5	1.9	2.0	
Current Account % GDP	-1.1	-1.8	-2.1	-2.5	-2.9	
Foreign Reserves, Months of Imports	5.3	5.1	4.7	4.5	4.3	
Exchange Rate NZDUSD (% change)	-5.2	9.8	5.2	1.9	5.8	
CPI (EOP, % change)	2.0	4.0	3.7	3.2	2.9	
Government Balance (% GDP)	-2.6	-5.0	-8.0	-6.0	-5.0	
Government Debt (% of GDP)	22.2	27.5	29.0	30.0	31.0	
<b>Actual Numbers</b>						
Nominal GDP (US\$, bn)	281	268	272	284	285	
Exchange Rate NZDUSD (EOP)	0.72	0.78	0.75	0.81	0.84	
Central Bank Rate (%)	2.5	3	2.5	2.5	2.5	
Exports (USD, bn)	26.3	31.7	42.1	45.2	49.5	
Imports (USD, bn)	26.7	30.8	41.3	43.7	47.9	
Trade Balance (USD, bn)	-0.4	0.9	0.8	1.6	1.7	
Current Account (USD bn)	-3.1	-4.9	-5.7	-7.0	-8.3	
Foreign Reserves (USD bn)	12	13	16	17	17	

Source: IMF, WEO September 2011, OECD, Central Bank, National Statistics office and Ministry of Finance of each country and Scotiabank Group.

# Global Country Ratings

## Foreign Currency Long Term Sovereign Credit Ratings – December 2011

INVESTMENT GRADE														
Moody's					Standard & Poor's					Fitch				
RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA
Aaa	Canada United States(-)	Austria Denmark Finland France Germany Luxembourg Netherlands Norway Sweden Switzerland United Kingdom	Australia New Zealand Singapore		AAA	Canada	Austria(rwn) Denmark Finland(rwn) France(rwn) Germany(rwn) Luxembourg(rwn) Netherlands(rwn) Norway Sweden Switzerland United Kingdom	Australia Hong Kong Singapore		AAA	Canada United States(-)	Austria Denmark Finland France Germany Luxembourg Netherlands Norway Sweden Switzerland United Kingdom	Australia Singapore	
Aa1		Belgium(rwn)	Hong Kong(+)		AA+	United States(-)				AA+	Bermuda	Belgium(-)	Hong Kong	
Aa2	Bermuda			Kuwait Qatar United Arab Emirates	AA	Bermuda	Belgium(rwn)	New Zealand	Kuwait Qatar	AA			Japan(-) New Zealand	Kuwait
Aa3	Cayman Islands Chile	Slovenia(rwn)	China(+) Japan Macao Taiwan	Saudi Arabia	AA-		Czech Republic Slovenia(rwn) Spain(rwn)	China Japan(-) Taiwan	Saudi Arabia	AA-		Slovenia(-) Spain(-)		Saudi Arabia
A1		Czech Republic Slovakia Spain(-)	South Korea	Israel Oman	A+	Chile(+)	Slovakia(rwn)		Israel	A+	Chile	Czech Republic(+) Italy(-) Malta Slovakia	China South Korea(+) Taiwan	
A2		Italy(-) Malta(-) Poland			A	Trinidad and Tobago	Italy(rwn) Malta(rwn)	South Korea	Oman(-)	A				Israel
A3	Bahamas(-)		Malaysia	South Africa(-)	A-	Aruba	Poland	Malaysia		A-		Poland	Malaysia	
Baa1	Mexico Trinidad and Tobago	Russia	Thailand	Bahrain(-)	BBB+		Ireland(rwn)	Kazakhstan Thailand	South Africa	BBB+		Ireland(-)		South Africa
Baa2	Brazil(+)		Kazakhstan		BBB	Bahamas Brazil Mexico Peru	Cyprus(rwn) Russia		Bahrain(-)	BBB	Aruba Brazil Mexico Panama Peru	Cyprus(-) Russia(+)	Kazakhstan(+) Thailand	Bahrain
Baa3	Barbados(-) Colombia Costa Rica Panama(+) Peru(+)	Croatia Cyprus(rwn) Iceland(-) Romania	India	Tunisia(-)	BBB-	Barbados(-) Colombia Panama(+)	Croatia(-) Hungary(rwn) Iceland Portugal(rwn)	India	Morocco Tunisia(-)	BBB-	Colombia	Croatia(-) Hungary(-) Romania	India	Morocco Tunisia(-)

SPECULATIVE GRADE														
Moody's					Standard & Poor's					Fitch				
RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA	RATING	AMERICAS	EUROPE	ASIA & OCEANIA	MIDDLE EAST & AFRICA
Ba1	Guatemala Uruguay	Hungary(-) Ireland(-)	Indonesia	Morocco	BB+	Uruguay	Romania	Indonesia(+)		BB+	Costa Rica Guatemala	Iceland Portugal(-) Turkey	Indonesia(+) Philippines	
Ba2	El Salvador	Portugal(-) Turkey(+)	Philippines	Jordan(-)	BB	Costa Rica Guatemala(-)	Turkey(+)	Philippines	Jordan(-)	BB	El Salvador			Egypt(-)
Ba3					BB-	El Salvador		Mongolia Vietnam(-)		BB-			Sri Lanka	
B1	Dominican Republic St. Vincent and the Grenadines		Mongolia Papua New Guinea Sri Lanka(+) Vietnam(-)	Egypt(-) Lebanon	B+	Dominican Republic Venezuela		Papua New Guinea Sri Lanka(+)	Egypt(-)	B+	Venezuela		Mongolia Vietnam	
B2	Venezuela		Cambodia		B	Argentina		Cambodia	Lebanon	B	Argentina Dominican Republic(+)			Lebanon
B3	Argentina Belize Jamaica Nicaragua		Pakistan		B-	Belize(-) Ecuador(+) Grenada Jamaica(-)		Pakistan		B-	Ecuador Jamaica			
Caa1	Cuba				CCC+					CCC+				
Caa2	Ecuador				CCC					CCC		Greece		
Caa3					CCC-					CCC-				
-					CC		Greece(-)			CC				
-					C					C				
Ca		Greece			SD					RD				

Note : (+) "Positive Outlook"; (-) "Negative Outlook"; (rwn/p) "Rating Watch Negative/Positive"; (RUR-/+) "Rating Under Review Negative/Positive"; (DEV) "Outlook Developing"  
Ratings as at December 2011

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