APAC Sovereign Credit Overview 2Q20

Economic Outlook Gradually Improving as Uncertainty Lingers

Quarterly GDP growth in Asia-Pacific (APAC) should turn positive in 2H20 as lockdowns are eased and external demand gradually improves, following deep contractions in 1H20. The pickup will be led by China, where GDP growth should turn positive in 2Q. Fitch Ratings' forecast for China's full-year growth of just 0.7%, though weak by historical standards, is higher than for other large emerging markets. It also places the economy among a handful in APAC set to expand in 2020. Fitch forecasts APAC GDP to fall by 1.7% in 2020, compared with the global decline of 4.6%.

Many Asian economies entered 2020 with policy space (relative to rating peers) to counter an unexpected downturn, such as Indonesia, Korea and New Zealand. They and many others have implemented sizeable fiscal and monetary policy responses. The former comprise relief measures to cushion the impact of the crisis on households and businesses through transfers and lending programmes. The impact on employment is also being mitigated through schemes to encourage firms to retain employees, such as in Australia and New Zealand.

We project regional growth to rebound strongly in 2021 from the troughs in 2020. The outlook is highly uncertain, and will be influenced by the evolution of the global pandemic and its impact on consumer and business sentiment. In the meantime, weak domestic spending will weigh on growth, and this will be exacerbated by declining exports. Some countries, such as the Maldives and Thailand, are highly reliant on tourism receipts, while others, such as Bangladesh and the Philippines, are dependent on remittances. These will take time to recover.

APAC Sovereign Ratings under Pressure

The majority of the region's sovereign credits are on Stable Outlook. However, this follows a number of negative rating actions so far this year, including downgrades on Hong Kong, the Maldives and Sri Lanka, and the removal of Positive Outlooks on the Philippines, Thailand and Vietnam. Negative Outlooks are in place on six credits. Ratings remain under pressure from the impact of rising public debt ratios in developed markets and investment-grade emerging markets, and from external financing risks in frontier markets, such as Sri Lanka and Laos.

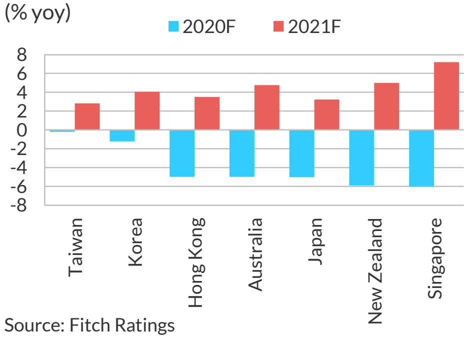
Asia-Pacific Ratings

Sovereign	LT FC IDR[a]	Outlook	LT LC IDR[a]	Outlook
Australia	AAA	Negative	AAA	Negative
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
Laos	B-	Negative	B-	Negative
Macao	AA	Negative	AA	Negative
Malaysia	A-	Negative	A-	Negative
Maldives	B	Negative	B	Negative
Mongolia	B	Stable	B	Stable
New Zealand	AA	Positive	AA+	Stable
Pakistan	B-	Stable	B-	Stable
Philippines	BBB	Stable	BBB	Stable
Singapore	AAA	Stable	AAA	Stable
Sri Lanka	B-	Negative	B-	Negative
Taiwan	AA-	Stable	AA-	Stable
Thailand	BBB+	Stable	BBB+	Stable
Vietnam	BB	Stable	BB	Stable

[a] Long-Term Foreign-Currency/Local-Currency Issuer Default Rating (IDR)
Source: Fitch Ratings

APAC DM GDP Growth

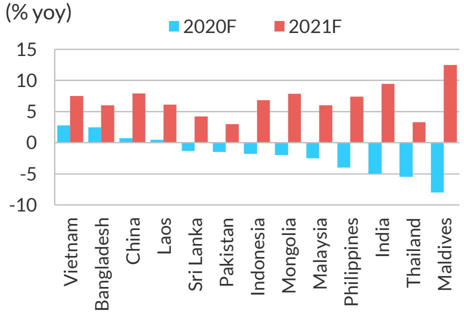
(% yoy)



Source: Fitch Ratings

APAC EM GDP Growth

(% yoy)



Source: Fitch Ratings

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Australia (AAA/Negative)

Outlook Revised to Negative on Fiscal Impact of Coronavirus Shock

The Negative Outlook reflects the significant impact the coronavirus pandemic is having on Australia's economy and public finances. Annual growth will fall sharply in 2020 and government spending in response to the health and economic crisis will cause large fiscal deficits and a sharp increase in government debt/GDP. Australia's 'AAA' rating reflects its strong institutions and effective macroeconomic policy framework, which has supported a long record of stable economic growth prior to the current exogenous shock.

Key Developments

Sharp GDP Contraction: Fitch forecasts GDP to contract by 5% in 2020, driven by a plunge in economic activity during the second quarter due to coronavirus containment measures. The shock ends Australia's 28-year run of stable economic growth. Domestic restrictions are now being eased, but border controls are likely to remain in place for some time, constraining international tourism and the influx of overseas students (service exports). We expect a gradual economic recovery to begin in the second half of 2020 and forecast GDP to grow by 4.8% in 2021.

Public Finances Deteriorate: Fiscal deficits are set to swell at both the Commonwealth and state levels as a result of the discretionary fiscal measures and economic contraction. Fitch forecasts Australia's gross general government debt to jump to over 55% of GDP by FYE21 from around 42% at FYE19 on the back of the wider fiscal deficits. Beyond FY21, Fitch forecasts lower fiscal expenditures and narrower deficits, leading to a debt/GDP ratio of around 60% by FYE24. The authorities have frequently reiterated a commitment to fiscal prudence, but this comes against a rise in debt from 21.9% of GDP when Fitch upgraded Australia to 'AAA' in 2011.

Positive Sensitivities

- Confidence that debt/GDP will be placed on a downward trend over the medium term
- Evidence that policy measures have made economic performance more resilient than we forecast through the global coronavirus shock or that medium-term growth potential is relatively unchanged following the shock.

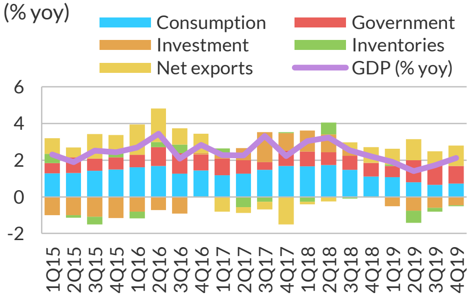
Negative Sensitivities

- Failure to put general government debt/GDP on a downward trajectory over the medium term, for instance from an absence of a sufficient post-coronavirus fiscal consolidation strategy.
- Economic or financial sector distress resulting from impaired household debt-servicing ability, for instance from a structural deterioration in the labour market or substantial decline in housing prices.

Last Rating Review: 21 May 2020

GDP Growth Contributions

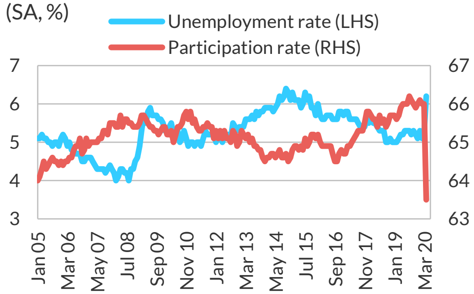
(% yoy)



Source: Fitch Ratings, Australian Bureau of Statistics, Haver

Labour Market

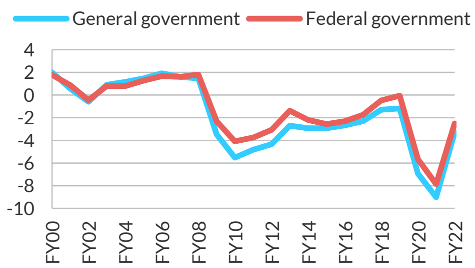
(SA, %)



Source: Fitch Ratings, Australian Bureau of Statistics, Haver

Fiscal Deficit

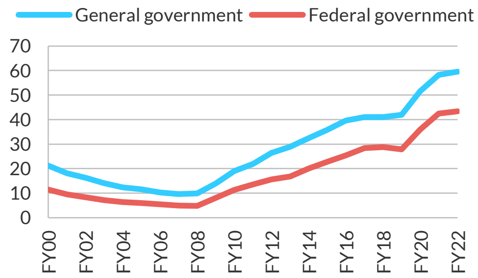
(% of GDP)



Source: Fitch Ratings, Australian Bureau of Statistics, Haver

Government Debt

(% of GDP)



Source: Australian Bureau of Statistics, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	2.5	2.7	1.8	-5.0	4.8
Current account balance (% GDP)	-2.6	-2.1	0.6	-0.2	-0.7
Net external debt (% GDP)	58.2	55.4	57.9	62.2	56.5
Government balance (% GDP)	-2.3	-1.3	-1.2	-6.0	-6.9
Government debt (% GDP)	41.0	41.0	41.9	50.7	55.5

Source: Fitch Ratings

Bangladesh (BB-/Stable)

High Growth and FX Earnings under Pressure

Bangladesh's ratings balance strong GDP growth, high foreign-exchange reserve buffers and moderate, although rising, general government debt against weak structural indicators, including a challenging business environment relative to peers, exceptionally low fiscal revenue and poor banking-sector health. High growth and foreign-exchange earnings are under pressure from reduced remittances and garment exports.

Key Developments

Severe Coronavirus Impact: Several years of high GDP growth of 7% to 8% have been halted by a nationwide lockdown in place since 26 March that has stifled economic activity. The lockdown was extended to the end of May, although some restrictions had been eased earlier and ready-made garment factories were allowed to reopen after closure for about a month. The garment industry, which generates jobs for 2.5% of the population and accounts for around 80% of the country's exports, faces a sharp decline in orders, with orders in June reportedly falling by 45% yoy.

Lower Remittances: Remittances, which play an important role in fuelling household consumption, dropped by USD530 million in March and April combined, 18% lower than in the same months last year. The global slowdown and lower oil prices will likely dampen remittances for the rest of the year, as close to 60% is sent from the Middle East.

Stimulus Package Announced: Government spending increased due to a package worth 3.3% of GDP to provide relief to affected industries and farmers through subsidised loans and salary support for those working in export-oriented industries. The Asian Development Bank provided Bangladesh USD600 million to help finance its COVID-19 related expenditures.

Positive Sensitivities

- Sustained improvement in the structure of public finances in terms of higher government revenue and lower risk of contingent liabilities
- Improved governance that strengthens the business climate and banking-sector health

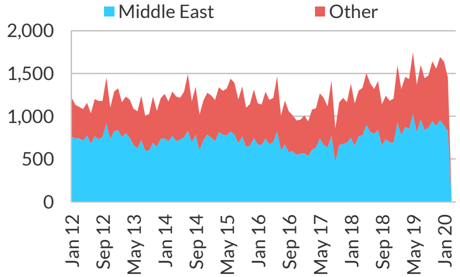
Negative Sensitivities

- A significant rise in the government debt/GDP ratio due to the crystallisation of contingent liabilities related to banks or other state-owned enterprises
- A drop in foreign-exchange reserves, for instance, in combination with a widening of the current account deficit
- Substantial slowdown in GDP growth, for example, related to political or security risks

Last Rating Review: 25 November 2019

Remittance Inflows

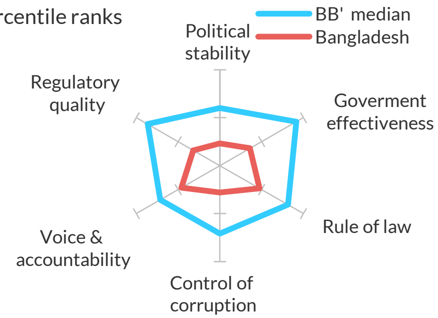
(USDm, Monthly data)



Source: Fitch Ratings, Bangladesh Bank, Haver

Governance Indicators

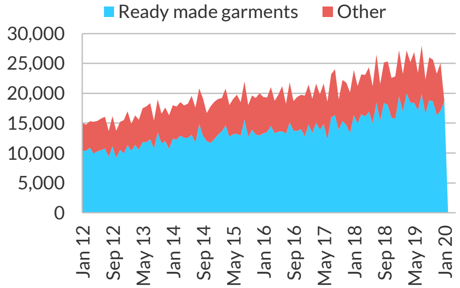
Percentile ranks



Source: Fitch Ratings, WB

Bangladeshi Exports

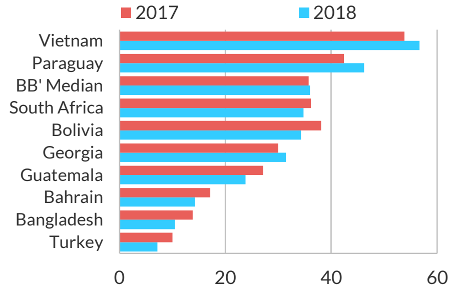
(BDTbn, Monthly data)



Source: Fitch Ratings, Bangladesh Bank, Haver

Political Stability and Violence

WB GI, Percentile Ranks



Source: Fitch Ratings, World Bank

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	7.3	7.9	8.2	2.5	6.0
Current account balance (% GDP)	-2.3	-2.6	-1.0	-1.5	-1.7
Net external debt (% GDP)	4.7	7.6	7.2	7.6	8.6
Government balance (% GDP)	-3.3	-4.6	-5.4	-7.5	-7.0
Government debt (% GDP)	32.6	34.0	35.7	41.1	44.5

Source: Fitch Ratings

China (A+/Stable)

External Finance, Macro Strengths Underpin Ratings

China's ratings are supported by robust external finances, a track record of strong economic performance, and its size as the world's second-largest economy. The ratings are primarily constrained by large structural vulnerabilities in the financial sector, relatively low per capita income, and weaker governance metrics than those of 'A' and 'AA' category peers.

Key Developments

National People's Congress (NPC): The government signalled during the recently concluded NPC a more flexible approach towards macroeconomic policy in 2020 than in the recent past, as it scrapped an explicit growth target and developed a stimulus package that relies more on fiscal measures than large-scale credit loosening. Employment and job creation have been given greater prominence in the government's work reports. Fitch expects the government's fiscal plans to push the general government deficit to 11% of GDP this year, up from around 5% in 2019.

Growth Slowly Recovers: China's economy is now recovering gradually, but is expected to grow by just 0.7% this year, following a 6.8% yoy contraction in 1Q20. Our forecast is subject to considerable uncertainty, including the possibility of further disruptive outbreaks of coronavirus, as well as sustained weakness in external demand as a result of the global recession.

Monetary Policy Response: The monetary policy response as a result of the growth shock has included liquidity injections, targeted cuts to banks' reserve requirement ratios, reductions in the de-facto policy rate (the medium-term lending facility), and measured financial sector regulatory forbearance. This sparked a modest acceleration in credit growth, with Fitch's adjusted measure of aggregate financing rising by 12.2% yoy in April 2020, compared with 11.1% a year prior.

Positive Sensitivities

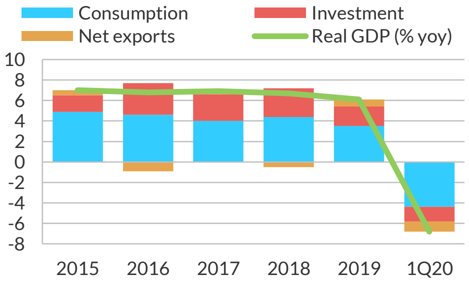
- A material reduction in financial imbalances, for example through a sustained deceleration in credit growth.
- A high degree of confidence that the economy's pervasive contingent liabilities are unlikely to pose a risk to the sovereign balance sheet.
- Widespread adoption of the Chinese yuan as a reserve currency

Negative Sensitivities

- A reversion to credit stimulus policies, leading to a sharp rise in financial vulnerabilities.
- Prolonged large fiscal deficits that lead to a significant rise in public debt ratios.
- Sustained capital outflows sufficient to erode China's external balance sheet strengths.

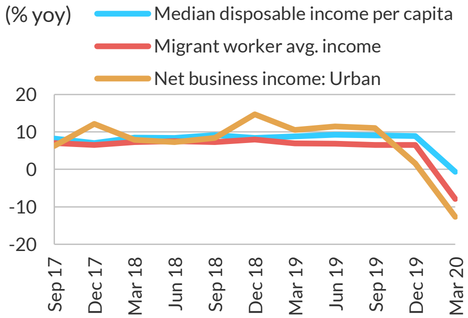
Last Rating Review: 19 November 2019

GDP Growth and Contributors
(pp)



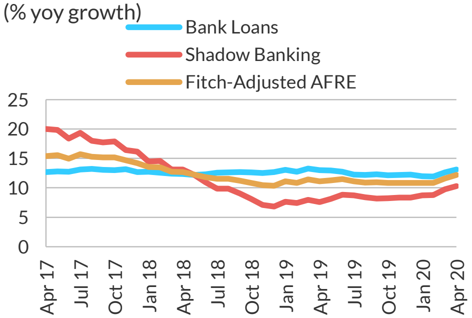
Source: Fitch Ratings, CEIC

Household Income
(% yoy)



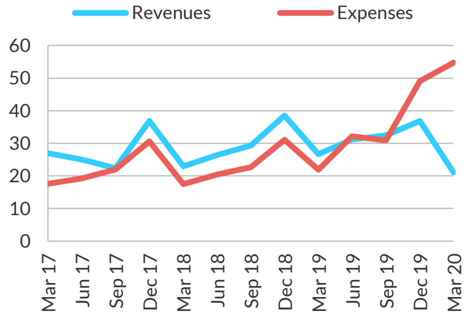
Source: Fitch Ratings, CEIC

Aggregate Financing (AFRE)
(% yoy growth)



Source: Fitch Ratings, CEIC

Social Security Fund: Unemployment
(CNYbn, quarterly)



Source: Fitch Ratings, CEIC

Key Indicators

	2017	2018	2019	2020e	2021f
Real GDP (% change)	6.9	6.7	6.1	0.7	7.9
Current account balance (% GDP)	1.6	0.2	1.0	1.2	0.9
Net external debt (% GDP)	-27.1	-23.1	-22.7	-22.4	-20.8
Government balance (% GDP)	-2.5	-3.8	-4.9	-11.2	-6.5
Government debt (% GDP)	46.5	45.8	47.1	56.3	57.8

Source: Fitch Ratings

Hong Kong (AA-/Stable)

Ratings Downgraded to 'AA-' and the Outlook Reverted to Stable

After prolonged social unrest in 2019, Hong Kong' economy is facing a second major shock from the COVID-19 pandemic. Social distancing efforts to contain the virus have led to a contraction in economic activity and a rise in unemployment, prompting policymakers to announce the most expansionary budget in the territory's history. These challenges have compounded negative rating trends already in place from the reputational damage that anti-government protests were inflicting on perceptions of Hong Kong's business environment and political stability.

Key Developments

GDP Contracts: Fitch forecasts real GDP to fall by 5% in 2020, after a 1.2% contraction in 2019. Efforts to contain the virus locally continue to gain traction, but risks to our forecast remain to the downside and dependent on the evolution of the pandemic globally, given Hong Kong's status as a small, open economy, with significant international trade and financial linkages.

Large Fiscal Easing: In April 2020, Hong Kong's Chief Executive announced a further round of economic relief measures totalling HKD137.5 billion, which follows the HKD120 billion presented during the budget speech for the fiscal year 2020-21 (FY20). Fitch forecasts this year's budget deficit will rise to 11% of GDP, more than double the prior post-handover record, and up from an estimated deficit of 1.5% in FY19. As a result, fiscal reserves will fall to 30% of GDP by end-FY20.

Social Unrest: Hong Kong's deep-rooted socio-political cleavages remain unresolved in Fitch's view. A signal from the US of a possible change in its long-standing policy towards Hong Kong - following the announcement of plans by the central government to enact national security legislation in the city - could heighten uncertainty and dampen investor sentiment, but on its own is unlikely to introduce further downward rating pressure as long as we remain confident the territory will retain a high degree of autonomy over its most salient macro-institutional features such as an independently managed currency, fiscal framework, financial regulation, and the foundations of its business environment.

Positive Sensitivities

- Improvement in mainland China's sovereign credit profile.
- Structural reforms that lead to enhanced growth potential and an increase in fiscal buffers.

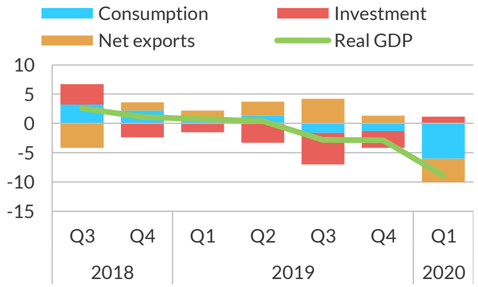
Negative Sensitivities

- Deterioration in mainland China's sovereign credit profile.
- Further bouts of social instability sufficient to undermine Hong Kong's role as a leading international financial centre and the soundness of the business environment.

Last Rating Review: 20 April 2020

Real GDP Growth

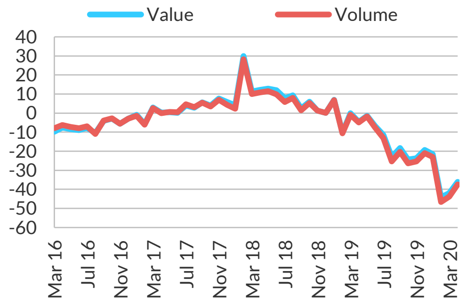
(% yoy)



Source: Fitch Ratings, CEIC

Retail Sales Index

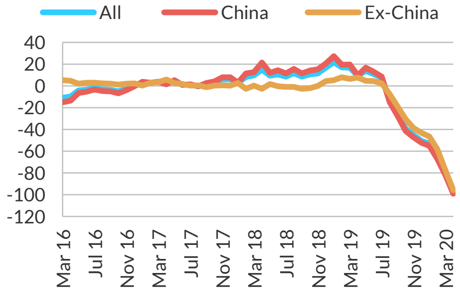
(% yoy)



Source: Fitch Ratings, CEIC

Visitor Arrivals

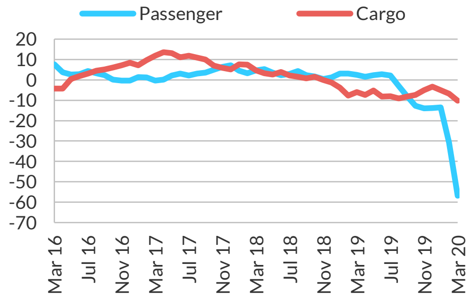
(% yoy 3mma)



Source: Fitch Ratings, CEIC

Airport Movement

(% yoy 3mma)



Source: Fitch Ratings, CEIC

Key Indicators

	2017	2018	2019	2020	2021f
Real GDP (% change)	3.8	3.0	-1.2	-5.0	3.5
Current account balance (% GDP)	4.6	3.7	6.2	3.8	4.9
Net external debt (% GDP)	-289.9	-279.6	-295.9	-306.7	-293.3
Government balance (% GDP)	5.6	2.4	-1.5	-11.0	-2.0
Government debt (% GDP)	43.2	40.9	41.0	42.3	40.1

Source: Fitch Ratings

India (BBB-/Stable)

Coronavirus Damages India's Growth and Fiscal Outlook

The pandemic has drastically weakened India's growth outlook and laid bare the challenges caused by a high public-debt burden. After the global crisis, India's GDP growth is likely to return to higher levels than 'BBB' category peers, provided it avoids further deterioration in financial sector health as a result of the pandemic. The credit profile is strengthened by relative external resilience stemming from solid foreign-reserve buffers, but weakened by some lagging structural factors, including governance indicators and GDP per capita.

Key Developments

Stringent Lockdown Measures: A series of lockdowns that came into effect on 25 March have been repeatedly extended, although some restrictions have been eased from 4 May in zones with fewer infections. However, new cases have continued to rise. To support the economy, the Reserve Bank of India has eased monetary policy by cutting its policy rates and providing liquidity through long-term repo operations. Prudential requirements for banks have also been eased to free up liquidity for lending.

Limited Fiscal Policy Space: The government has announced stimulus measures amounting to 10% of GDP, of which the fiscal component of about 1% of GDP is significantly less than many of India's peers. General government debt already stood at 70% of GDP in FY20, according to our estimate, well above the 'BBB' median of 42%. We now expect India's ratio of public debt/GDP to rise to 84% of GDP in FY21 – up from a forecast of 71% when we affirmed the rating in December. This is based on our expectation of slower economic growth in FY21 and wider fiscal deficits, assuming that the government's fiscal response remains restrained.

Positive Sensitivities

- Greater confidence in a sustained reduction in general government debt over the medium-term to a level closer to the 'BBB' peer median.
- Higher sustained investment and growth rates without the creation of macroeconomic imbalances, such as from successful structural reform implementation.

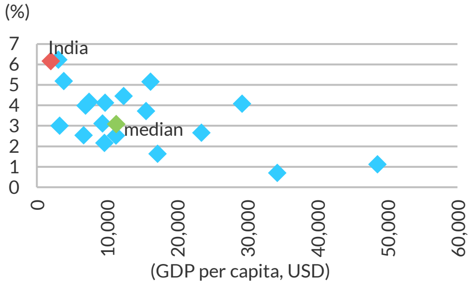
Negative Sensitivities

- A material increase in the fiscal deficit, causing the gross general government debt/GDP ratio to be placed on a sustained upward trajectory.
- 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.

Last Rating Review: 20 December 2019

5-Year Avg. Real GDP Growth

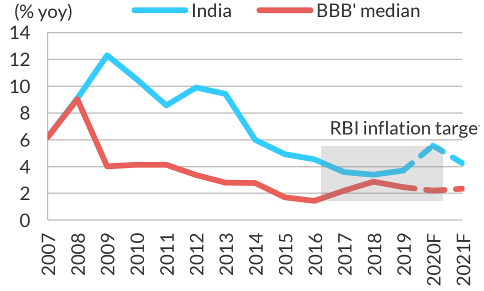
'BBB' category sovereigns



Source: Fitch Ratings, National Authorities

Consumer Price Inflation

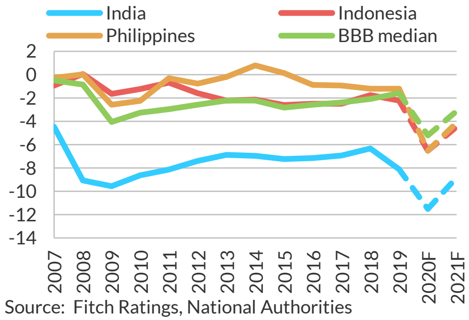
Annual average



Source: Fitch Ratings

General Government Balance

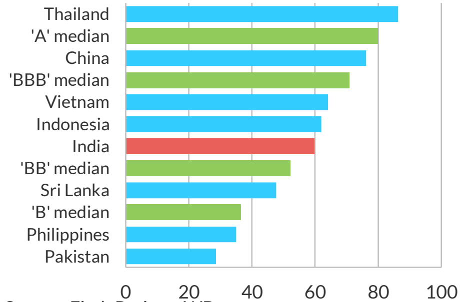
(% of GDP)



Source: Fitch Ratings, National Authorities

Ease of Doing Business

Percentile Rank



Source: Fitch Ratings, WB

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	7.0	6.1	4.2	-5.0	9.5
Current account balance (% GDP)	-1.8	-2.1	-0.8	-0.7	-0.6
Net external debt (% GDP)	0.3	0.5	-0.2	0.4	-0.3
Government balance (% GDP)	-6.9	-6.3	-8.1	-11.5	-8.8
Government debt (% GDP)	67.6	67.4	71.1	84.3	83.9

Source: Fitch Ratings

Indonesia (BBB/Stable)

Fiscal Rules Relaxed in Response to Coronavirus

Indonesia's rating balances a favourable medium-term growth outlook beyond the immediate impact of the pandemic and a small government debt burden against challenges that include a strong dependence on external financing, low government revenue and lagging structural indicators. The impact on medium-term public and external finances of a reduction in fiscal and reserve buffers will determine how much pressure is exerted on Indonesia's sovereign rating.

Key Developments

Budget Ceiling Temporarily Lifted: Scrapping of the budget deficit cap of 3% of GDP for 2020-2022 has given policymakers greater flexibility in responding to the pandemic. The move on 31 March came along with a fiscal stimulus package that officials estimate will push the deficit to 6.3% of GDP in 2020, from 2.2% in 2019. Indonesia's policy record of fiscal prudence, which appears to have broad support across the political spectrum, gives credibility to the authorities' stated aim to return public finances to their pre-crisis track by 2023, when the ceiling is reintroduced.

FX Reserves in Focus: Indonesia's external finances could also be challenged, as the pandemic has led to portfolio outflows from emerging markets. A further drop in Indonesia's foreign-exchange reserves could occur if international sentiment stays weak for a sustained period and pressure on the rupiah returns. Reserves fell sharply by USD8 billion March, but rose again by USD7 billion in April to USD128 billion, in part by successful issuance of USD4.3 billion in US dollar bonds.

Positive Sensitivities

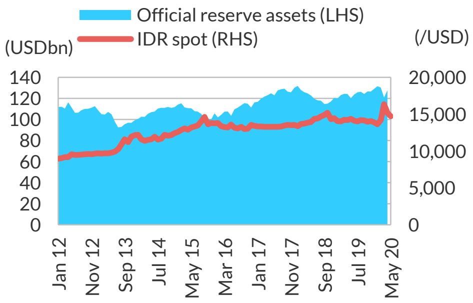
- Reduction in external vulnerabilities, for instance, through a sustained increase in foreign-exchange reserves, reduced dependence on portfolio flows or lower commodity exposure.
- An improvement in the government revenue ratio, for example, from better tax compliance or a broader tax base, which would strengthen public finance flexibility.
- Continued improvement of structural indicators, such as governance standards, closer in line with those of 'BBB' category peers.

Negative Sensitivities

- A sustained decline in foreign-exchange reserve buffers, resulting from a sharp external shock to investor confidence.
- A rapid increase in the overall public debt burden, for example resulting from budget deficits well exceeding the current 3% ceiling or accumulation of the debt of publicly owned entities.
- A weakening of the policy framework that could undermine macroeconomic stability.

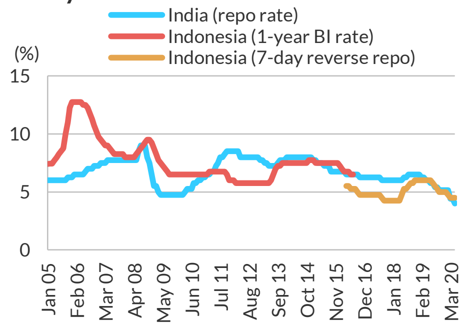
Last Rating Review: 24 January 2020

Foreign Reserves



Source: Fitch Ratings, BI, Haver

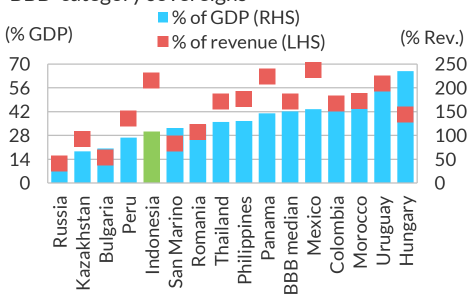
Policy Rates



Source: Fitch Ratings, BI, RBI, Haver

General Government Debt

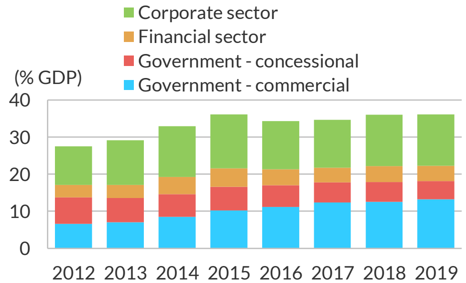
'BBB' category sovereigns



Source: Fitch Ratings, National Authorities

Gross External Debt

Incl. IDR debt held abroad



Source: Fitch Ratings, BI, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	5.1	5.2	5.0	-1.8	6.8
Current account balance (% GDP)	-1.6	-2.9	-2.7	-2.2	-2.7
Net external debt (% GDP)	6.9	9.8	9.8	11.4	10.7
Government balance (% GDP)	-2.5	-1.8	-2.2	-6.5	-4.5
Government debt (% GDP)	29.4	30.4	30.5	38.2	38.9

Source: Fitch Ratings

Japan (A/Stable)

Coronavirus Response Increases Public Debt Challenge

Japan's ratings balance the strengths of an advanced and wealthy economy, with robust governance standards and public institutions, against weak medium-term growth and very high public debt. Strong external finances are underpinned by persistent current account surpluses and large net external credit and investment positions. The public debt ratio is the highest among Fitch-rated sovereigns, and is set to rise to around 260% of GDP.

Key Developments

GDP Growth Hit by Coronavirus: We project full-year GDP to contract by 5% in 2020, on a coronavirus-driven plunge in output in 1H20. The economy was just starting to recover in early 2020 from a contraction in 4Q19 in the aftermath of a severe typhoon in September and consumption tax hike in October. However, GDP fell again in 1Q20, by 2.2% qoq (s.a., annualised) as the coronavirus dampened already weak consumer spending and reduced exports. A national emergency in place since April 7 to encourage social distancing (initially covering Tokyo and large metropolitan regions, and later expanded nationwide) was lifted in late May. We expect growth to turn positive in 2H, paving the way for economic expansion of 3.2% in 2021.

Stimulus Measures Add to Deficit and Debt: The government has so far announced two emergency fiscal relief packages in the form of supplementary budgets in April and May. The headline figures collectively total over 40% of GDP. However, much is in the form of guarantees and lending, with spending measures amounting to a still-considerable 11% of GDP. By our estimates, the general government deficit will rise to 14.3% of GDP in 2020.

Bank of Japan (BoJ) Steps up Asset Purchases: The BoJ has responded with measures to boost liquidity and support financing of SMEs, including through increases in the size and frequency of purchases of JGB bonds, ETFs, commercial paper and corporate bonds. After declining to decades lows, the unemployment rate has recently ticked up and headline inflation has declined. We the BOJ to maintain it low interest rate settings for the foreseeable future.

Positive Sensitivities

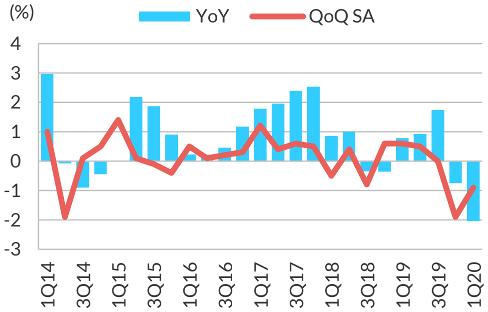
- Sustained improvement in GDP growth and restoration of positive inflation dynamics
- Implementation of a credible fiscal consolidation strategy sufficient to raise confidence in the likelihood of a sustained decline in the ratio of gross general government debt (GGGD) to GDP

Negative Sensitivities

- Inability to sustain a stable or declining trajectory of the GGGD/GDP ratio, either through fiscal loosening or protracted weak nominal GDP growth

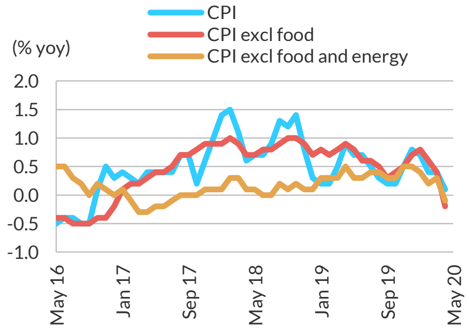
Last Rating Review: 2 February 2020

Real GDP Growth



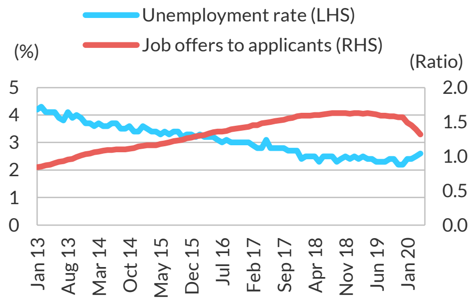
Source: Fitc h Ratings, Cabinet Office of Japan

Inflation



Source: Fitch Ratings, Haver

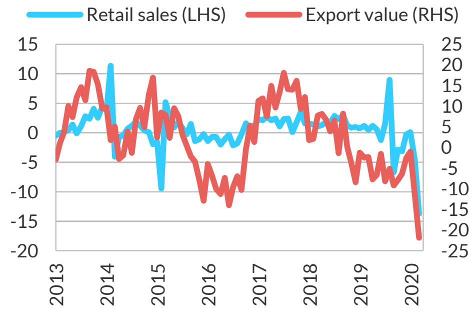
Labour Market Indicators



Source: Fitch Ratings, Ministry of Health, Labour and Welfare, Haver

Retail Sales and Exports

(% yoy)



Source: Fitch Ratings, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	2.2	0.3	0.7	-5.0	3.2
Current account balance (% GDP)	4.2	3.5	3.6	3.5	3.5
Net external debt (% GDP)	-45.5	-43.4	-41.8	-43.0	-41.5
Government balance (% GDP)	-2.9	-2.3	-3.1	-14.3	-10.9
Government debt (% GDP)	230.1	232.7	232.9	258.0	259.8

Source: Fitch Ratings

Korea (AA-/Stable)

Policy Buffers Cushion Ratings Impact of Coronavirus Shock

Korea's robust external finances and record of sound fiscal management provide policy room to counter the immediate effects of the coronavirus shock. We view Korea as having near-term fiscal space to provide stimulus, though in the medium term, we will assess the ongoing commitment to prudent fiscal policies. These strengths are balanced by evolving geopolitical risks related to North Korea and medium-term structural challenges from ageing demographics and low productivity.

Key Developments

GDP Contraction: Fitch forecasts GDP to contract by 1.2% in 2020, before rebounding to growth of 4.0% in 2021. Compared to similar economies, this is a modest hit to economic growth as Korea's virus containment efforts have not necessitated implementation of a severe lockdown. Barring a sharp resurgence in the virus, domestic economic activity should begin to recover from late in 2Q20. Despite the improved domestic situation, Korea is highly exposed to the deteriorating global outlook given its export dependence. Exports were down 46% yoy in the first 10 days of May and weak export prospects will continue to weigh on Korea's outlook.

Fiscal Support: Korea has passed two supplementary budgets worth KRW23.9 trillion (1.2% of GDP) to support payments to households and businesses and recently proposed a third supplementary budget of KRW35.3 trillion (1.8% of GDP). These packages come in addition to an already expansionary fiscal stance, which will lead to a 2.5% budget deficit in 2020 (not yet incorporating the third supplementary budget), reversing the 1.6% surplus in 2018. This will increase the general government debt/GDP ratio to 42.2% in 2020, from 38.1% last year.

Positive Sensitivities

- A structural easing of geopolitical risk to levels more in line with those of rating peers.
- An improvement in governance standards, for example, through further reforms to reduce ties between politics and business.
- Evidence that the economy can expand at a faster pace over time, for instance, resulting from successful structural reforms that spur productivity growth.

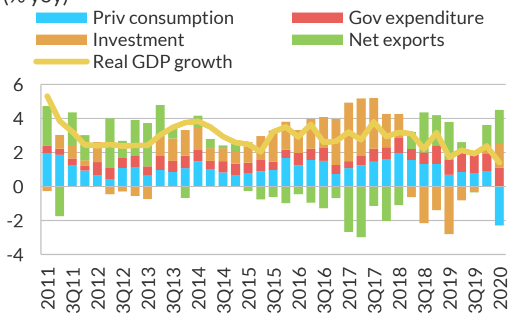
Negative Sensitivities

- Significant escalation of tensions on the Korean peninsula that severely worsen Korea's economic metrics or security level.
- An unexpected large rise in the public-sector debt burden caused by a sustained deviation from the country's record of sound fiscal management.
- Evidence that medium-term growth will be structurally lower than Fitch expects, potentially reflecting challenges to Korea's economic model.

Last Rating Review: 11 February 2020

Real GDP Contributors

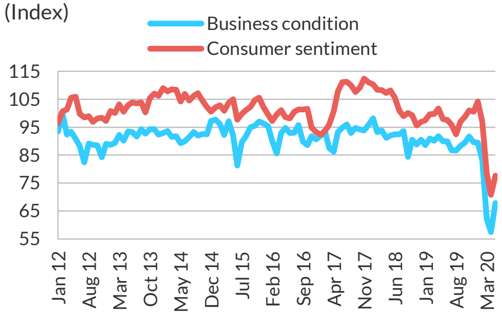
(% yoy)



Source: Fitch Ratings, BoK, Haver

Economic Surveys

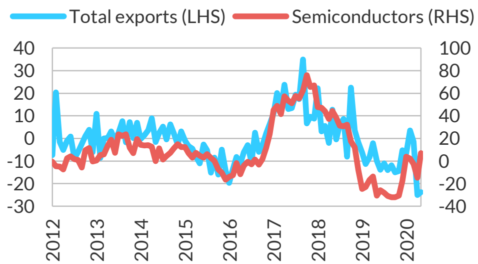
(Index)



Source: Fitch Ratings, BoK, Federation of Korean Industries, Haver

Exports

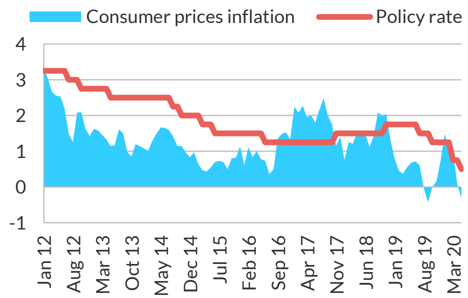
(Monthly data, % yoy)



Source: Fitch Ratings, Ministry of Trade, Industry and Energy, Haver

Inflation and Policy Rate

(Monthly data, (%))



Source: Fitch Ratings, BoK, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	3.2	2.7	2.0	-1.2	4.0
Current account balance (% GDP)	4.6	4.5	3.7	3.5	3.4
Net external debt (% GDP)	-28.7	-27.8	-29.3	-31.2	-29.1
Government balance (% GDP)	1.3	1.6	-0.6	-2.8	-2.1
Government debt (% GDP)	36.0	35.9	38.1	43.2	45.0

Source: Fitch Ratings

Laos (B-/Negative)

Outlook Revised to Negative on External Financing Challenges

The Negative Outlook reflects the economic and financial market effects of the coronavirus shock, which have compounded external financing risks associated with external debt maturities and low foreign exchange buffers. Public finances will also deteriorate from a combination of lower nominal GDP growth, fiscal relief measures and restrictions to contain the pandemic.

Key Developments

External Financing Challenges: About USD900 million in public external-debt service payments (interest and amortisation) are due over the remainder of 2020 and USD1 billion is due annually over 2021-2023. The authorities' plans to issue in international markets will face challenges in the current environment. We assume that Laos will be able to roll over upcoming maturities in the Thai market and have lined up financing from commercial banks. Fitch anticipates that bilateral and multilateral financing, particularly from China, could be forthcoming to fill the financing gap.

Fiscal Deterioration: Revenues are forecast to contract sharply, due in part to stimulus measures including tax exemptions and payment deferrals. The government plans to cut spending to offset the revenue decline. We forecast an increase in the fiscal deficit to about 7.1% of GDP in 2020 from 4.5% in 2019, as we believe it could be difficult to fully offset the contraction in revenues.

Sharp Hit to Economy: We forecast GDP growth to slow to 0.5% in 2020 from 5.5% in 2019, due to the coronavirus shock. The lifting of a domestic lockdown in early May should help spur activity. Border restrictions are likely to be lifted only gradually, hampering tourism. We expect growth to rebound to 6.1% in 2021, but downside risks persist with uncertainty from the pandemic.

Positive Sensitivities

- An increase in foreign-exchange reserves, potentially from unlocking new sources of financing, reducing vulnerability to external shocks and liquidity risks.
- Fiscal consolidation sufficient to stabilise the public and publically guaranteed (PPG) debt/GDP ratio.
- An improvement in governance and institutional capacity, for instance, through an increase in the World Bank governance indicators or enhancements to macroeconomic management.

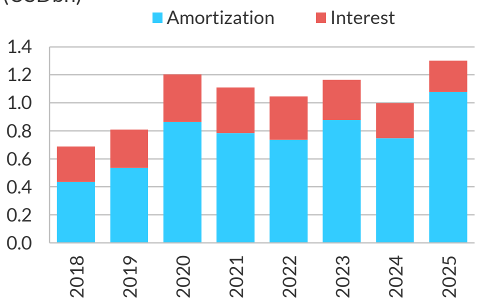
Negative Sensitivities

- Indications that the sovereign is facing near-term external financing strains, for instance, if there is insufficient financing from multilateral or bilateral creditors or the sovereign is unable to roll over bond and commercial-bank financing in order to meet upcoming debt maturities.
- Sustained rise in the PPG debt/GDP ratio, resulting from the government's fiscal policy stance or a materialisation of contingent liabilities.

Last Rating Review: 15 May 2020

Repayment Profile

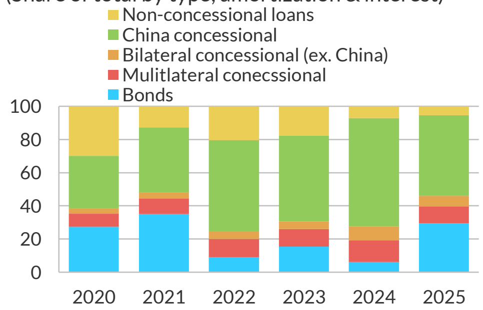
(USDbn)



Source: Fitch Ratings; Ministry of Finance

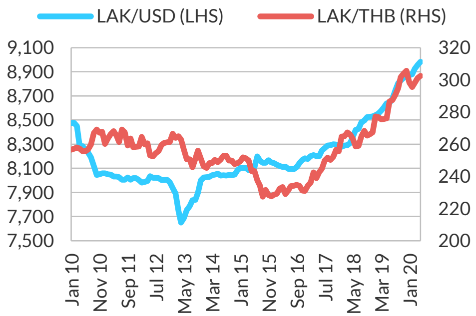
External Debt Service

(Share of total by type; amortization & interest)



Source: Fitch Ratings; Ministry of Finance

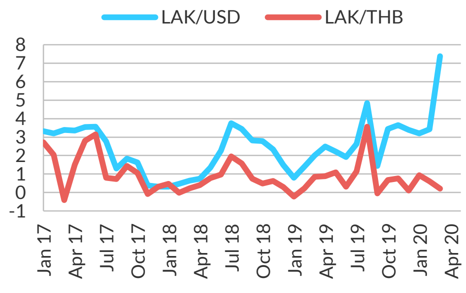
Lao Kip Exchange Rates



Source: Fitch Ratings, Bank of Lao PDR, Haver

Exchange Rate Gap

(Parallel vs. reference rate, (%))



Source: Fitch Ratings, Bank of Lao PDR, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	6.9	6.4	5.5	0.5	6.1
Current account balance (% GDP)	-7.4	-7.9	-4.5	-7.6	-7.3
Net external debt (% GDP)	74.4	78.5	81.9	85.9	84.5
Government balance (% GDP)	-5.6	-4.7	-4.5	-7.1	-5.5
Government debt (% GDP)	55.8	57.2	58.9	64.9	66.5

Source: Fitch Ratings

Macao (AA/Negative)

Robust Finances Provide Support Against Deep Economic Downturn

Macao's sovereign ratings are underpinned by the territory's exceptionally strong public and external finances, and a demonstrated commitment to fiscal prudence throughout economic downturns. The ratings are constrained by Macao's high GDP volatility, overwhelming dependence on the gaming sector and tourism from mainland China, and its susceptibility to changes in China's broader policy environment.

Key Developments

Deep GDP Contraction: Macao's concentration on gaming tourism exposes its economy to substantial disruptions from lockdown measures imposed to contain the coronavirus pandemic. Fitch projects the economy will shrink for a second year by 24% in 2020, based on our assumption for a drop in gross gaming revenue of roughly 40%, after a 4.7% contraction in 2019.

Robust Public Finances: The authorities have unveiled a package of relief measures amounting to about MOP52.6 billion, or 15.6% of projected 2020 GDP, to cushion the economic impact of the pandemic. Fitch estimates this will result in the territory reporting its first budget deficit since the 1999 handover, at about 7% of GDP this year. However, Macao remains the only Fitch-rated sovereign without any government debt. Fiscal reserves were about 133% of GDP at end-2019.

External Buffers Remain Considerable: Fitch projects the territory's external finances will remain equally robust. Macao is a large net external creditor at 233% of GDP and holds considerable sovereign net foreign assets of 200% of GDP, both well above the 'AA' median. We forecast the current account will remain in strong surplus, at around 28% of GDP in 2019-2021, a metric high by any comparison.

Event-Driven Risks: Macao remains susceptible to potential changes in China's broader policy environment. These include policy changes that impact the ability of mainland tourists to travel to Macao, a risk that has recently materialised as a result of the pandemic. An end to the territory's de-jure gaming monopoly across Greater China also would be detrimental to Macao's sovereign credit profile, although this falls well outside of Fitch's expectations.

Negative Sensitivities

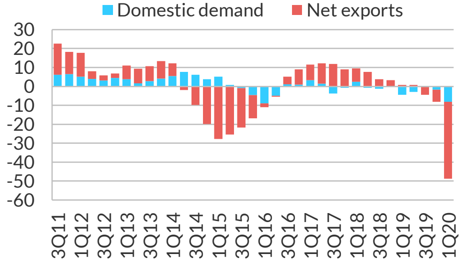
- A sustained decline in gaming revenue if this leads to an erosion of the sovereign balance sheet.
- A deterioration in mainland China's sovereign credit profile.
- Erosion in the prescribed autonomy of the Macao Special Administrative Region government.

Positive Sensitivities

- A robust recovery of the economy and gaming sector, resulting in stronger public finances.
- An improvement in mainland China's sovereign credit profile.

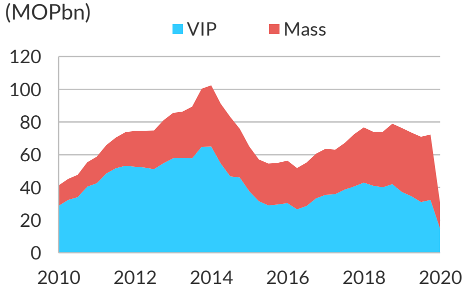
Latest Rating Review: 20 April 2020

GDP Growth and Contributors
(pp)



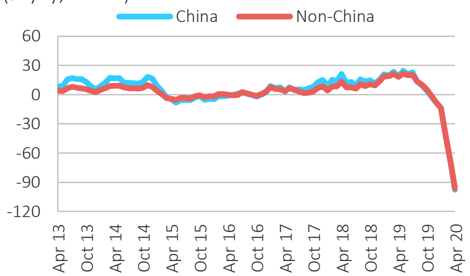
Source: Fitch Ratings, Statistics and Census Service, Haver

Gaming Revenues
(MOPbn)



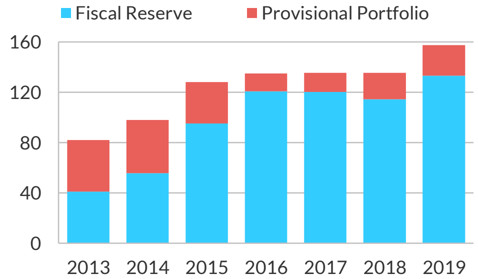
Source: Fitch Ratings, Gaming Inspection and Coordination Bureau, Haver

Tourist Arrivals
(% yoy, 3mma)



Source: Fitch Ratings, Statistics and Census Service, Haver

Fiscal Reserve
(% of GDP)



Source: Fitch Ratings, Official Sources

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	9.9	5.4	-4.7	-24.0	12.6
Current account balance (% GDP)	32.3	34.6	35.3	23.2	25.0
Net external debt (% GDP)	-210.3	-221.3	-232.5	-311.7	-289.0
Government balance (% GDP)	9.9	12.1	11.8	-6.9	3.5
Government debt (% GDP)	0.0	0.0	0.0	0.0	0.0

Source: Fitch Ratings

Malaysia (A-/Negative)

Outlook Revised to Negative Due to Coronavirus and Political Shock

Weaker growth, lower oil prices and stimulus spending have weakened the outlook for Malaysia's public finances. A partial lockdown in place since mid-March has reduced domestic economic activity, and the pandemic has also undermined export earnings from commodities, manufacturing and intermediate goods, and tourism receipts.

Another important rating driver is the government's approach to governance reforms. The previous administration made progress on this front, as was evident in the improvement in Malaysia's World Bank governance scores for 2019. Whether such progress will be sustained under the new administration that took office in early March and whether corruption trials of former officials launched under the previous coalition will continue are uncertain.

Key Developments

Large Stimulus Package: The package announced on 27 March should mitigate the decline in growth in 2020 by 2.8pp, according to the authorities' estimates. It includes additional government spending on health, transfers to low-income individuals and relief for businesses, much of it temporary in nature. Non-fiscal measures include deferment of bank loan and financing repayments for six months, and allowing withdrawals from the Employees Provident Fund.

Limited Fiscal Policy Space: The government raised its 2020 fiscal deficit target to 4.7% of GDP, from 3.4%, itself an increase on the 3.2% target in the initial 2020 budget following an earlier stimulus package. As a result, government debt is forecast to rise further above peer levels to 71.9% of GDP in 2020 from 65.3% in 2019, according to our calculations. The fiscal forecasts are subject to significant downside risk.

Positive Sensitivities

- Greater confidence in a sustained reduction in general government debt over the medium term, for instance due to implementation of a strong fiscal consolidation strategy.
- An improvement in governance standards relative to peers, for instance through greater transparency and control of corruption.

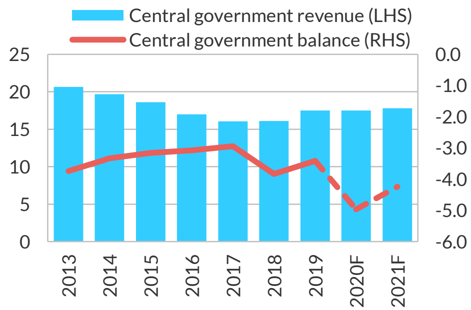
Negative Sensitivities

- Weaker prospects for a reduction in government debt in the medium term, for instance due to insufficient fiscal consolidation after the pandemic or crystallisation of contingent liabilities.
- Deterioration in governance standards, for example indicated by a lower score for the World Bank governance indicators.

Last Rating Review: 9 April 2020

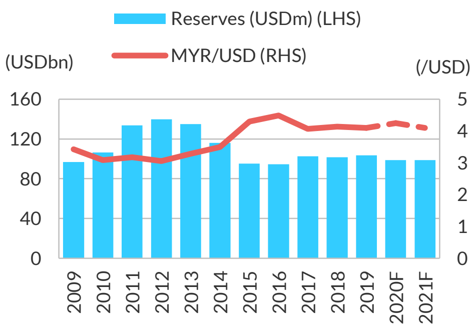
Central Government Finances

(% of GDP)



Source: Fitch Ratings, MoF

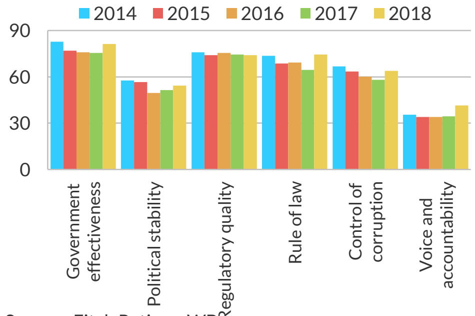
Reserves, Exchange Rate



Source: Fitch Ratings

WB Governance Indicators

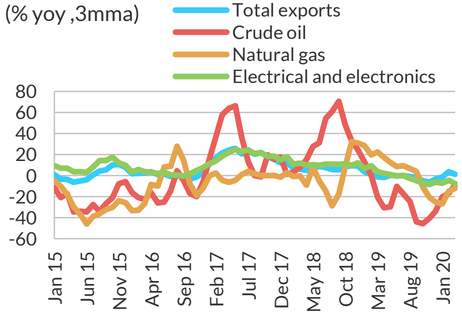
Percentile rank



Source: Fitch Ratings, WB

Growth of Key Exports

(% yoy ,3mma)



Source: Fitch Ratings, Department of Statistics, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	5.7	4.7	4.3	-2.5	6.0
Current account balance (% GDP)	2.8	2.1	3.3	0.7	2.1
Net external debt (% GDP)	-19.3	-12.6	-13.1	-12.1	-11.2
Government balance (% GDP)	-2.4	-3.6	-3.4	-5.0	-4.2
Government debt (% GDP)	60.3	62.6	65.3	71.9	70.1

Source: Fitch Ratings

Maldives (B/Negative)

Global Halt in Tourism Causes Downgrade

Inflows of foreign currency and government revenue will fall significantly as a result of the halt in tourism, which directly accounts for about 25% of the Maldives' GDP, according to national accounts data, and even more indirectly. The government may face challenges in financing the fiscal deficit, as its otherwise strong ability and propensity to tax the luxury tourism sector will be impaired. However, we expect the Maldives to continue to benefit from financial support from its international partners.

The Negative Outlook reflects our assessment that risks remain skewed to the downside given the Maldives' limited external buffers. Gross foreign reserves were USD889 million in April 2020, while reserves net of the monetary authorities' short-term liabilities amounted to USD231 million.

Key Developments

Deep Recession Unavoidable: Our forecast of a 8% contraction in 2020 and a rebound to 12.5% growth in 2021 are subject to significant uncertainty. The Maldives faced similarly severe downturns in 2009, following the global financial crisis (-6.6%) and the 2004 tsunami (-13.4%), which flooded the country. Economic activity in 2020 is still likely to be supported by construction, even though projects may face disruption and delayed imports of materials. Stimulus measures include temporary subsidies for electricity and water, and support for affected businesses.

High Public-Sector Debt: Several large infrastructure development projects undertaken simultaneously over the past few years have resulted in a rise in government and government-guaranteed debt. Projects are, for instance, related to housing and airport development. In this year of recession, we expect government debt to increase to 76% of GDP, from 60% in 2019. Government guarantees rose to 15% of GDP in 2019 from 4% of GDP in 2017.

Positive Sensitivities

- Strengthening of external buffers through accumulation of foreign-currency reserves.
- A reduction in debt owed or guaranteed by the general government, leading to improved public-debt dynamics.

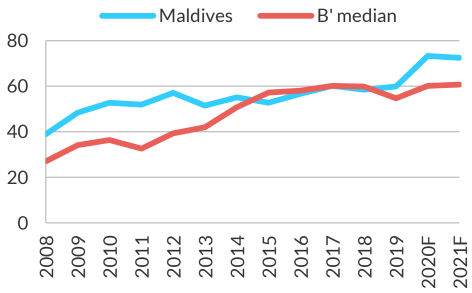
Negative Sensitivities

- External liquidity pressures, for example due to a fall in foreign-currency reserves or an increase in external debt higher than Fitch expects.
- A sharper rise in general government debt or government guarantees to state-owned enterprises than we expect, for example due to a prolonged economic downturn or a rise in public investment spending.

Last Rating Review: 30 March 2020

General Government Debt

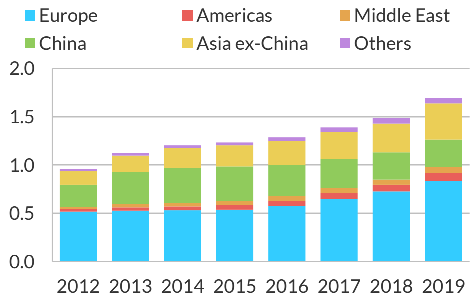
(% of GDP)



Source: Fitch Ratings, National Authorities

Tourist Arrivals

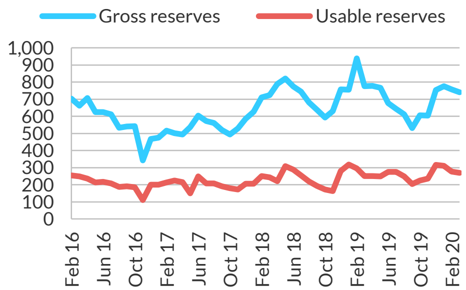
(By origin, million persons)



Source: Fitch Ratings, Ministry of Tourism

Foreign Reserves

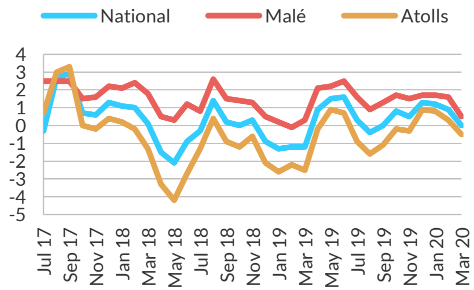
(USDm)



Source: Fitch Ratings, Maldives Monetary Authority

Consumer Price Inflation

(Monthly data, % yoy)



Source: Fitch Ratings, Maldives Monetary Authority

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	6.8	6.9	5.7	-8.0	12.5
Current account balance (% GDP)	-21.7	-26.1	-25.9	-18.8	-19.3
Net external debt (% GDP)	-0.4	-1.0	2.7	7.5	10.7
Government balance (% GDP)	-3.1	-5.2	-5.6	-11.4	-5.8
Government debt (% GDP)	60.3	58.8	61.1	76.0	72.0

Source: Fitch Rating

Mongolia (B/Stable)

Coronavirus Effects Temporary

The recent affirmation of the rating with a Stable Outlook reflects Fitch's assessment that the impact of the coronavirus shock will be temporary, with the economy rebounding and government debt/GDP starting to decline again in 2021. Significant downside risks are present, and are captured at the 'B' rating level. Mongolia's strong structural factors combined with expected access to financing from multilateral and bilateral creditors support the sovereign ratings.

Key Developments

Sharp but Temporary Growth Slowdown: Fitch expects Mongolia's commodity-dependent economy to face significant economic challenges in 2020 as a result of the lockdown measures to combat the coronavirus pandemic and weaker export prospects. We project the economy to decline by around 2% in 2020, before rebounding to grow by 7.9% in 2021.

Public Finances to Deteriorate: We expect a budget deficit of 7.1% of GDP in 2020, from a 1.4% surplus last year, largely as a result of a revenue shock precipitated by the pandemic. In March the authorities unveiled an economic stimulus package valued at around 13% of projected 2020 GDP. However, this includes reordering of expenditure priorities, and Fitch estimates that measures will add directly to the budget deficit are around 4% of GDP.

External Finances Remain Vulnerable: Foreign reserves will fall to USD3.1 billion by end-2020 from USD4.1 billion at end-1Q20. There are no sovereign external bond maturities until April 2021. Nevertheless, low reserves are a rating weakness in view of amortisations in 2021-2023.

Domestic Political Risks Remain: The Mongolian parliament passed a resolution last November requiring the government to review its Oyu Tolgoi investment agreement, underscoring longstanding strained relations with Rio Tinto. We do not currently expect disruptions.

Positive Sensitivities

- The accumulation of larger foreign-currency reserve buffers and the implementation of a debt-management strategy that lowers refinancing risks.
- A reduction of fiscal deficits that puts GGGD/GDP back on a downward trajectory
- A resumption of stronger economic growth and export trends

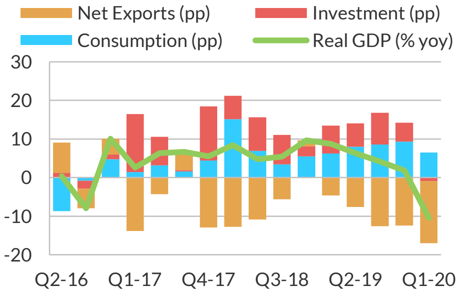
Negative Sensitivities

- Evidence of heightened external financing stress, for example if official multilateral or bilateral inflows are not forthcoming, or in the event of a marked decline in foreign reserves
- Failure to reduce the budget deficit and stabilise the GGGD/GDP ratio after the shock
- Political instability sufficient to significantly disrupt strategic mining projects or FDI inflows

Latest Rating Review: 28 May 2020

GDP Growth and Contributors

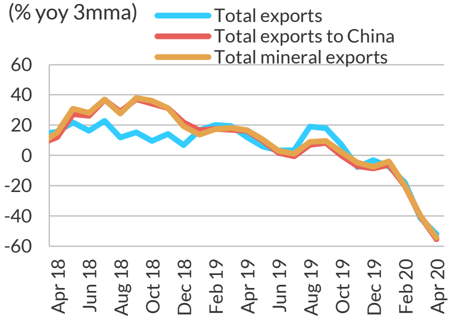
(%)



Source: National Statistical Office of Mongolia, Haver

Monthly Export Value

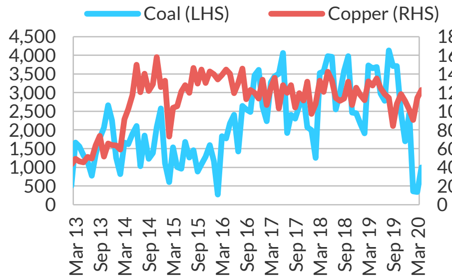
(% yoy 3mma)



Source: Fitch Ratings, Haver

Monthly Export Volumes

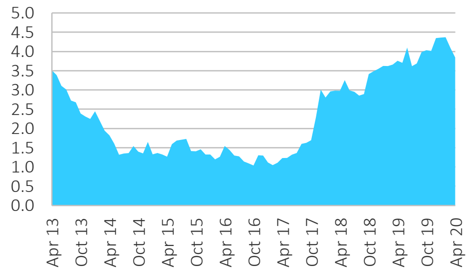
(000 tonnes)



Source: National Statistical Office of Mongolia, Haver

Foreign Exchange Reserves

(USDbn)



Source: Bank of Mongolia, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	5.3	7.2	5.1	-2.0	7.9
Current account balance (% GDP)	-10.1	-14.5	-12.3	-14.7	-11.9
Net external debt (% GDP)	198.0	177.4	175.7	187.7	171.3
Government balance (% GDP)	-3.8	2.6	1.4	-7.1	-3.5
Government debt (% GDP)	81.6	69.0	64.6	69.9	63.5

Source: Fitch Ratings

New Zealand (AA/Positive)

Fiscal Space Supports Response to Coronavirus Shock

The Outlook revision reflects New Zealand's sound fiscal management and low government debt/GDP. Strong public finances provide considerable scope for the government to enact fiscal support measures to help offset the severe economic shock from the coronavirus pandemic. External vulnerabilities from a high net external debt/GDP ratio remain a credit weakness, but the ratio has narrowed considerably from its 2009 peak.

Key Developments

Severe GDP Contraction: Fitch forecasts a sharp 5.9% drop in GDP in 2020, before it returns to growth of 5.0% in 2021. We expect the GDP contraction to be concentrated in 2Q20, when the government implemented a stringent lockdown to combat the spread of the coronavirus. As the virus situation has largely come under control, restrictions have been eased in recent weeks and we expect domestic economic activity to largely return to normal in 3Q20. However, border controls are likely to be in place for quite some time, weighing on the economy by limiting tourism, which accounts for 6% of GDP, though a travel bubble with Australia has been proposed.

Substantial Fiscal and Monetary Stimulus: The government announced sizeable fiscal stimulus of NZD50 billion in its budget on 14 May, which is in addition to NZD12 billion package in March and includes wage subsidies and additional support to households and businesses. The size of the stimulus will lead to significantly higher fiscal deficits and debt/GDP relative to our previous forecasts. The Reserve Bank of New Zealand (RBNZ) cut its policy rate by 75bp on 17 March and said that it will remain at this level for 12 months. In addition, the RBNZ has implemented a Large-Scale Asset Purchase programme of NZD60 billion to buy New Zealand government bonds.

Positive Sensitivities

- Continued strengthening of fiscal resilience from a sustained downward trend in debt/GDP.
- A reduction in New Zealand's net external debt, for example, through a structurally narrower current account deficit.

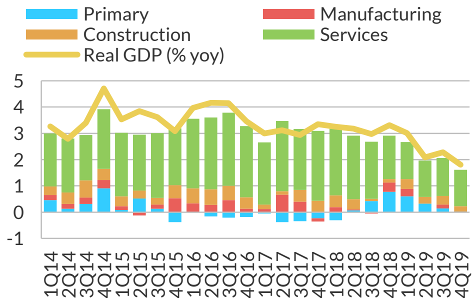
Negative Sensitivities

- A sharp and sustained external financing shock, for instance, through a market disruption that limits access to external financing and raises the net external debt burden
- A negative financial or economic shock that impairs households' ability to service their debt, leading to economic and banking sector distress.
- Indications of a weaker commitment to sound fiscal management, for instance, resulting from sustained fiscal deficits or an upward trajectory in debt/GDP.

Last Rating Review: 22 January 2020

GDP Growth Contributors

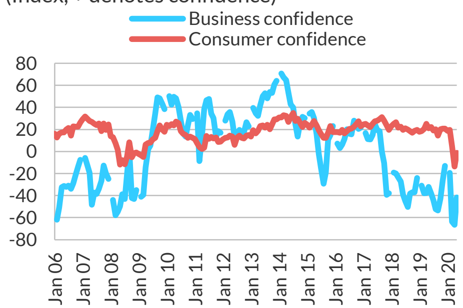
(Production, % yoy)



Source: Fitch Ratings, Stats NZ, Haver

Confidence Indicators

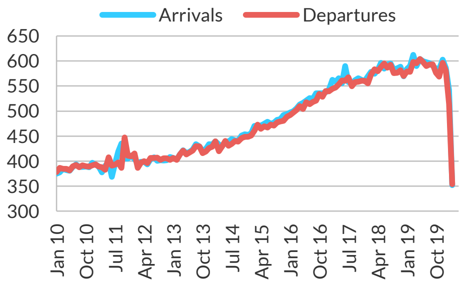
(Index, + denotes confidence)



Source: Fitch Ratings, ANZ, Roy Morgan, Haver

Tourism Flows

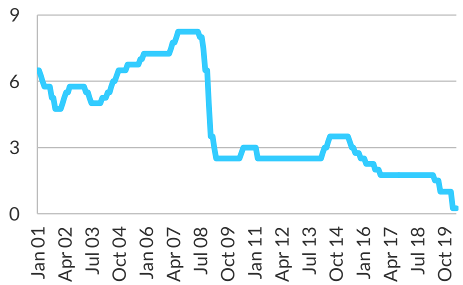
(Persons, 000)



Source: Fitch Ratings, Statistics New Zealand, Haver

RBNZ Policy Rate

(%)



Source: RFitch Ratings, BNZ, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	3.1	3.2	2.3	-5.9	5.0
Current account balance (% GDP)	-2.7	-3.8	-3.0	-3.9	-3.2
Net external debt (% GDP)	51.7	50.6	49.8	58.9	54.7
Government balance (% GDP)	1.4	1.2	1.6	-8.5	-9.4
Government debt (% GDP)	32.7	30.3	26.8	33.3	49.1

Source: Fitch Ratings

Pakistan (B-/Stable)

External and Public Finance Weaknesses Persist

The rating reflects a challenging external position characterised by a high external financing requirement and low reserves, weak public finances including large fiscal deficits and a high government debt-to-GDP ratio, and weak governance indicators. The coronavirus shock further complicates external and public finances, and will dampen GDP growth, but support from the IMF and other multilateral and bilateral creditors provides a cushion.

Key Developments

External Financing Support: Recent global financial market volatility has added to Pakistan's external-financing challenges, but support from multilateral and bilateral creditors partly offset these risks. In April 2020, the IMF board approved USD1.4 billion in lending through its new Rapid Financing Instrument facility, in addition to the existing USD6 billion IMF programme, which remains on track. Other multilateral and bilateral creditors have also provided support. Pakistan has also requested participation in the G-20's Debt Service Suspension Initiative, which will cut payments by an estimated USD1.9 billion in the next year.

Reserves fell to USD10.7 billion in early April due to non-resident outflows, but recovered to USD12.1 billion by 21 May. Pakistan's current account deficit continues to narrow, supported by the plunge in oil prices, which offsets the deterioration in remittance inflows.

Fiscal Deficit to Widen: The government has proposed a fiscal support package of PKR1.2 trillion to support low-income households and businesses during the downturn. These measures will take the deficit to above 9% of GDP and will push debt/GDP above 85%.

Challenging Economic Outlook: Fitch forecasts real GDP to decline by 1.5% in FY20, due to measures to limit the spread of the coronavirus and a deteriorating global outlook. The government has started to ease social distancing restrictions, but the virus has continued to spread adding to downside risks if more stringent measures need to be re-imposed.

Positive Sensitivities

- Continued implementation of policies sufficient to facilitate a rebuilding of foreign-exchange reserves and ease external financing constraints.
- Sustained fiscal consolidation, for instance through a structural improvement in revenue, sufficient to put the debt-to-GDP ratio on a downward trajectory.
- Sustained improvement in the business environment and the security situation, which contribute to improved growth and export prospects.

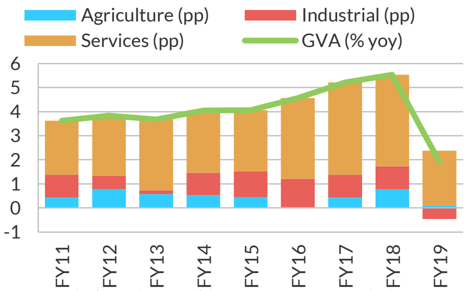
Negative Sensitivities

- Reduced access to external finance that causes financing strains.

Last Rating Review: 13 January 2020

Gross Value-added Growth

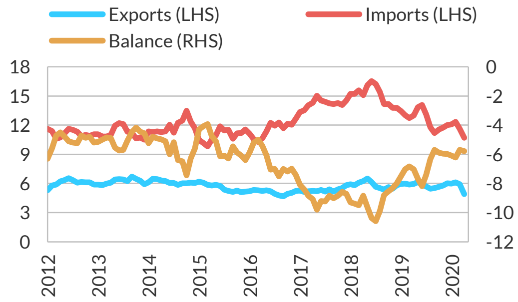
(%, FY, 05-06 rupees)



Source: Fitch Ratings, Pakistan Bureau of Statistics, Haver

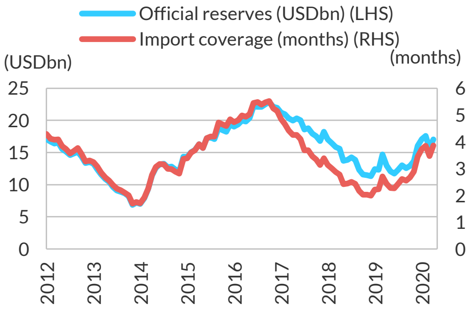
Goods Trade

(USDbn, 3m rolling sum)



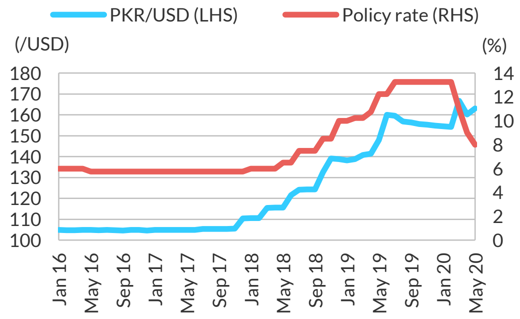
Source: Fitch Ratings, Pakistan Bureau of Statistics, Haver

Pakistan Reserves



Source: Fitch Ratings, Pakistan Bureau of Statistics, Haver

Pakistan Policy and Exchange Rates



Source: Fitch Ratings, State Bank of Pakistan, Haver

Key Indicators

	FY2017	FY2018	FY2019	FY2020e	FY2021f
Real GDP (% change)	5.2	5.5	3.3	-1.5	3.0
Current account balance (% GDP)	-4.1	-6.3	-4.9	-1.8	-1.4
Net external debt (% GDP)	18.1	23.0	30.1	34.1	34.2
Government balance (% GDP)	-5.8	-6.5	-8.9	-9.4	-8.3
Government debt (% GDP)	67.1	72.1	84.8	88.6	89.4

Source: Fitch Ratings

Philippines (BBB/Stable)

Outlook Revised to Stable on Weaker Economic, Fiscal Prospects

Fitch revised the outlook on the Philippines to Stable from Positive as the country's near-term macroeconomic and fiscal outlook deteriorated due to the COVID-19 pandemic and domestic lockdown measures to contain its spread. The rating was affirmed, reflecting the Philippines' fiscal and external buffers, including its lower government debt/GDP ratio than the peer median, net external creditor position and still-strong medium-term growth prospects.

Key Developments

Sharp GDP Contraction: GDP fell by -0.2% yoy in 1Q20, dragged down by weaker private consumption and investment. We cut our 2020 GDP projection to a fall of 4% from a decline of 1% earlier. The government announced a gradual easing of lockdown measures from 1 June, but we think restrictions to contain the spread of the virus will remain in place and continue to dampen domestic demand. Our growth forecasts continue to remain subject to an unusually high degree of downside risk, depending on how the virus runs its course globally and domestically, and the possibility of extension or re-imposition of lockdown measures.

Wider Deficits; Higher Debt: The government has raised its central government deficit projection for 2020 to 8.1% of GDP from 5.3% previously, because it now expects revenue collections to be much lower and expenditure to be somewhat higher than previously forecast. Under our baseline assumptions of a sharper contraction in growth and higher spending than the authorities' forecasts, we expect the central government deficit to widen to about 8.7% of GDP in 2020 from 6.5% previously. We expect the authorities to be able to finance the higher deficit through a mix of domestic and external funding, in line with their planned borrowing mix of 70% domestic and 30% external.

Positive Sensitivities:

- Resumption of strong growth while maintaining macroeconomic stability
- Strengthening of governance standards
- Broadening of the government's revenue base that enhances fiscal finances

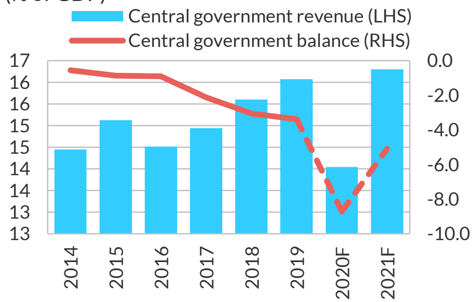
Negative Sensitivities:

- Reversal of reforms or a departure from the existing policy framework that leads to macro instability or weaker fiscal or economic outcomes
- Deterioration in external indicators that lowers the resilience of the economy to shocks
- Deterioration in banks' asset quality that leads to stress in the financial system.

Last Rating Review: 7 May 2020

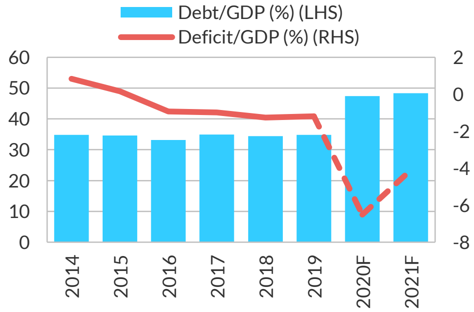
Fiscal Performance

(% of GDP)



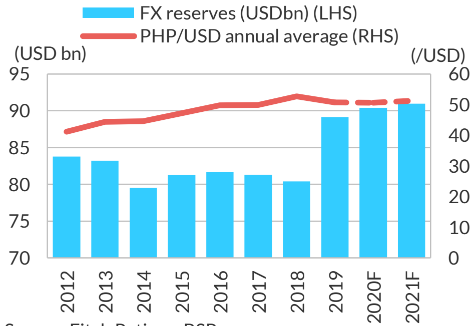
Source: Fitch Ratings, BSP

Government Debt & Deficits



Source: Fitch Ratings, BSP

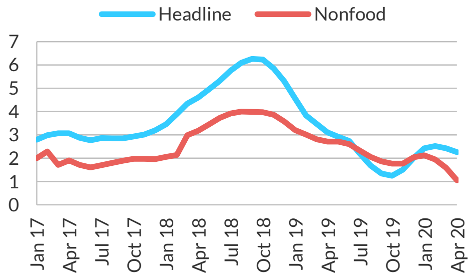
Reserves, Exchange Rate



Source: Fitch Ratings, BSP

Inflation Trends

(% yoy)



Source: Fitch Ratings, PSA, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	6.9	6.3	6.0	-4.0	7.4
Current account balance (% GDP)	-0.7	-2.6	-0.2	-1.7	-2.1
Net external debt (% GDP)	-14.1	-10.7	-8.6	-6.5	-3.9
Government balance (% GDP)	-0.9	-1.2	-1.2	-6.5	-4.1
Government debt (% GDP)	34.9	34.4	34.8	47.4	48.3

Note: Government Balance refers to General Government Balance
Source: Fitch Ratings

Singapore (AAA/Stable)

Strong External and Fiscal Buffers

Singapore's rating reflects its exceptionally strong external and fiscal finances, sound macro-policy framework and a strong business environment. These strengths are balanced against the economy's high degree of openness, which leaves it extremely vulnerable to external shocks.

Key Developments

Large Fiscal Relief Measures: Singapore has announced a series of fiscal packages to cushion the economy from the impact of the COVID-19 pandemic. The FY20 budget presented in February included a support and stabilisation package of SGD6.4 billion (1.3% of GDP), which was followed by three supplementary budgets, taking the combined relief measures to SGD92.9 billion or about 19.2% of GDP. The central government deficit is forecast to now be SGD74.3 billion (about 15.7% of Fitch estimated 2020 GDP). Nevertheless, we believe Singapore's large fiscal reserves and track record of prudent fiscal management should keep public finances from deteriorating significantly, after the coronavirus pandemic. Fitch forecasts Singapore's net international investment position at end-2020 at about 266% of GDP.

Economy Shrinks Considerably: Singapore's 1Q20 GDP contracted by 0.7% yoy, dragged down by a contraction in services. Retail sales in April fell by about 41% yoy. We expect GDP to decline further in 2Q due to the lockdown announced in April, and we have revised our GDP forecast for 2020 to a contraction of 6% (the authorities forecast a fall of 4%-7%). We expect the economy to gradually recover to expand by 7.2% in 2021, but our forecasts remain subject to an unusually high degree of uncertainty. The coronavirus will also affect the economy through reduced tourism, which accounts for about 5.5% of GDP, and exports. For the first four months of 2020, exports fell by 7.4% yoy while tourist arrivals in March were down 85% yoy.

Tough Containment Measures: Following some initial success in controlling the spread of the coronavirus locally, cases increased sharply and the authorities announced tough lockdown measures from April 7. The authorities have begun to relax containment measures in a phased manner, but the risk of a re-imposition measures remains if the number of cases surge.

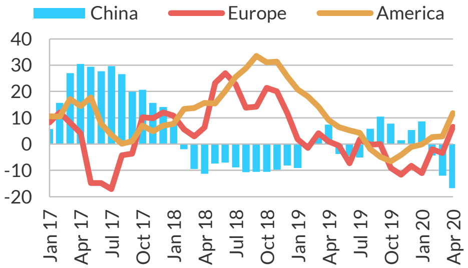
Negative Sensitivities

- A severe regional or global economic shock on a scale that would significantly impair the sovereign's balance sheet. By implication, this would have to be more severe than the global shock of 2008-2009.
- A severe banking system crisis that has a major spillover effect on the economy.

Last Rating Review: 23 August 2019

Exports by Region

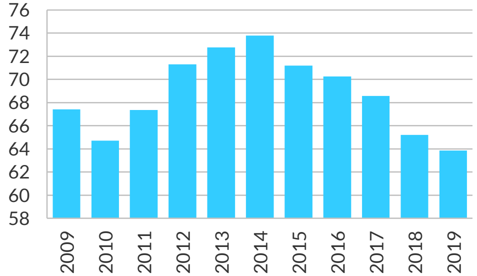
(% yoy, 3mma)



Source: Fitch Ratings, International Enterprise Singapore, Haver

Household Debt

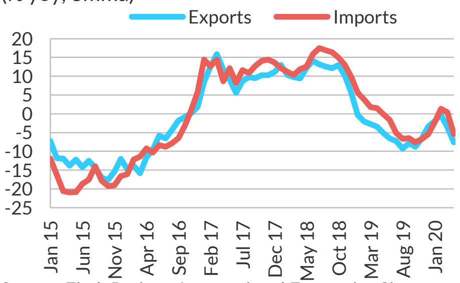
(% of GDP)



Source: Fitch Ratings, Department of Statistics, Singapore

Exports and Imports

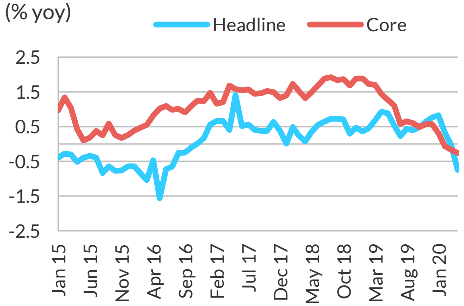
(% yoy, 3mma)



Source: Fitch Ratings, International Enterprise Singapore, Haver

Inflation Trends

(% yoy)



Source: Fitch Ratings, MAS, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	3.9	3.3	0.7	-6.0	7.2
Current account balance (% GDP)	16.2	17.2	17.0	12.4	14.8
Net external debt (% GDP)	-263.7	-262.3	-286.6	-317.6	-310.1
Government balance (% GDP)	11.7	9.5	9.1	3.2	7.4
Government debt (% GDP)	31.0	34.2	39.1	46.6	46.0

Source: Fitch Ratings

Sri Lanka (B-/Negative)

Downgraded on Coronavirus Shock and Deteriorating Debt Sustainability

The downgrade of the sovereign rating reflects the shock to the economy from the coronavirus pandemic and the spill-over effects on Sri Lanka's already weak external and fiscal finances. External funding pressures have increased due to more volatile global financial markets and as large external debt repayments are due while foreign-currency reserves remain low in comparison. USD3.2 billion of sovereign debt will fall due between May and December 2020, including a USD1.0 billion international sovereign bond payment in October. In addition, medium-term external debt repayments remain substantial, with official figures suggesting about USD13.8 billion of foreign-currency debt will be due in 2021-2023.

Key Developments

Risks to Debt Sustainability: Sri Lanka's forecast general government debt/GDP ratio of about 95% of GDP at end-2020 is far greater than the 'B' median, and the risks associated with this have been exacerbated by the pandemic. Under our baseline forecast, we now expect general government debt/GDP to increase to about 96% by 2021 from an estimated 87% in 2019, increasing the risk of debt distress.

Economy to Contract: We expect GDP to fall by 1.3% in 2020 after growing 2.3% in 2019 because measures to contain the pandemic locally will hurt private consumption, which accounts for 70% of GDP. In addition, Sri Lanka's travel and tourism industry, which makes up 12.5% of GDP, is likely to be hit hard as tough travel restrictions remain in place. All inbound commercial flights are suspended. Our forecasts are subject to an unusually high degree of uncertainty, depending on how the pandemic develops in Sri Lanka and globally, though risks are tilted to the downside.

Policy Uncertainty Increases: Parliamentary elections provisionally set for June could be delayed as the virus continues to spread locally, prolonging policy uncertainty and making it difficult to complete the 7th and final review under the existing IMF Extended Fund Facility arrangement.

Positive Sensitivities

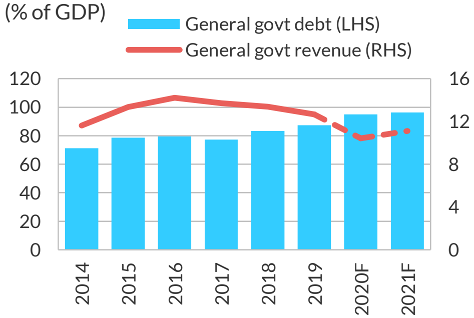
- Improvement in external finances supported by higher non-debt inflows
- Sustainable public and external finances and a reduction in the risk of debt distress
- A credible medium-term fiscal consolidation that supports stronger public finances

Negative Sensitivities

- Further increase in external funding stress that threatens debt repayment capacity
- Prolonged policy uncertainty that leads to loss of investor confidence
- Failure to arrest upward trajectory of the general government debt/GDP ratio

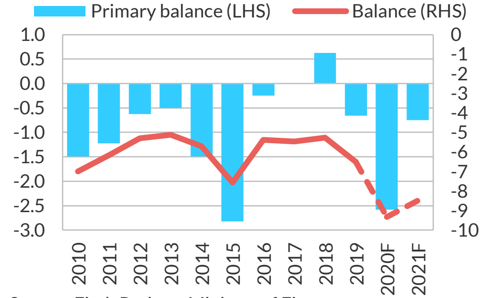
Last Rating Review: 24 April 2020

Government Finances
(% of GDP)



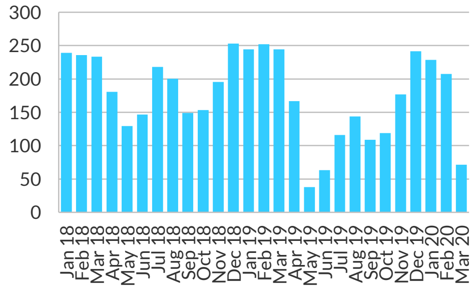
Source: Fitch Ratings, Ministry of Finance

Government Finances
(% of GDP)



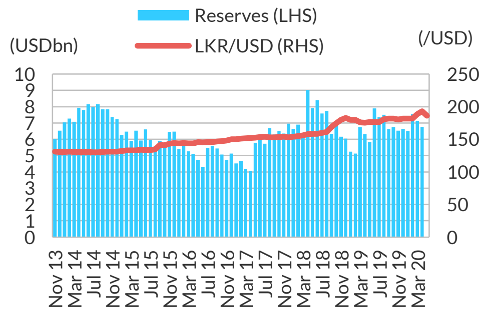
Source: Fitch Ratings, Ministry of Finance

Monthly Tourist Arrivals
(000)



Source: Fitch Ratings, CBSL, Haver

FX Reserves and Exchange Rate



Source: Fitch Ratings, Central Bank of Sri Lanka, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	3.4	3.2	2.3	-1.3	4.2
Current account balance (% GDP)	-2.6	-3.2	-2.2	-3.3	-2.3
Net external debt (% GDP)	45.7	46.8	50.4	56.2	53.7
Government balance (% GDP)	-5.5	-5.3	-6.8	-9.3	-8.5
Government debt (% GDP)	77.4	83.3	87.3	94.9	96.4

Source: Fitch Ratings

Taiwan (AA-/Stable)

Robust External Finances, Persistent Political Uncertainties

Taiwan's ratings are supported by its robust external finances, strong macroeconomic policy framework, competitive business environment and high governance standards. The ratings are principally constrained by Taiwan's per capita income of USD25,898, which is below the 'AA' category median of USD41,894, and complex relations with mainland China that raise the potential for economic and political shocks.

Key Developments

Muted Growth Prospects in 2020: Real GDP growth slowed to 1.6% yoy in 1Q20, from a 3.3% expansion in 4Q19. Weaker private consumption and exports were the main drivers. Recent monthly indicators underscore economic challenges ahead. Fitch expects a GDP contraction of 0.2% in 2020, after rising at an average pace of 2.5% over the last five years. Taiwan's competitiveness in the global manufacturing supply chain should help the economy regain traction in 2021.

Budget Deficits to Widen: Fiscal policy has become more expansionary as the government steps up efforts to mitigate the pandemic shock. The legislature approved two special budgets in March and May worth a cumulative 1.1% of GDP. The additional spending seeks to support vulnerable sectors and avoid layoffs through targeted financial assistance and payment subsidies to companies and households. Fitch forecasts a budget deficit of around 2% GDP, leading to a modest rise in the general government debt-to-GDP ratio that will remain in line with that of rating peers.

Robust External Finances: External finances are among the strongest across Fitch-rated sovereigns, and therefore unlikely to be imperilled by the global health emergency. The current account surplus will narrow this year but remain sizeable at 9.8% of GDP. Taiwan is a large net external creditor on both a sovereign and economy-wide basis. Foreign-reserve buffers are projected to remain at around 17x current external payments in 2020, well in excess of peers.

Sharp Rise in Cross-Strait Tensions Unlikely: The outcome of January's elections underscores geopolitical risks associated with the island's complex relations with the mainland. At this time we do not expect the re-election of President Tsai Ing-wen and renewed legislative majority of the Democratic Progressive Party (DPP) to mark a material shift in cross-Strait relations.

Positive Sensitivities

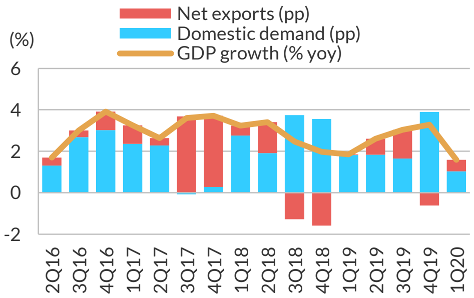
- A return to high economic growth that brings per-capita income closer in line with peers'

Negative Sensitivities

- An adverse macroeconomic or financial shock that weakens medium-term growth prospects and significantly affects public debt dynamics
- Decline in cross-Strait relations that undermines Taiwan's economic or political stability

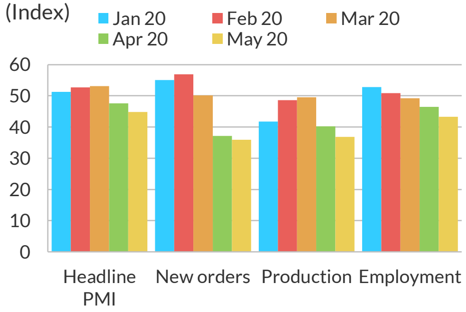
Latest Rating Review: 25 September 2019

GDP Growth and Contributions



Source: Fitch Ratings, DGBAS, Haver

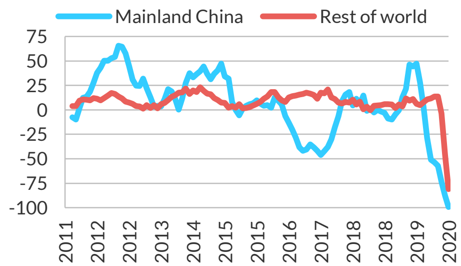
Manufacturing PMI



Source: Fitch Ratings, National Development Council, Haver

Tourist Arrivals

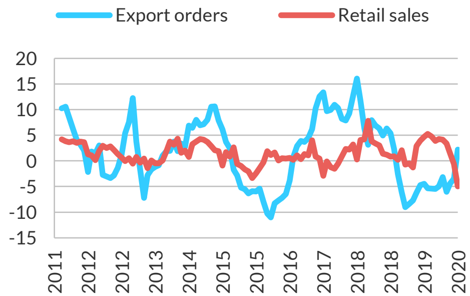
(% yoy, 3mma)



Source: Fitch Ratings, Ministry of Transportation and Communications, Haver

Export Orders and Retail Sales

(% yoy, 3mma)



Source: Fitch Ratings, Ministry of Economic Affairs, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	3.3	2.7	2.7	-0.2	2.8
Current account balance (% GDP)	14.1	11.6	10.5	9.8	10.0
Net external debt (% GDP)	-188.6	-189.0	-201.9	-206.4	-209.0
Government balance (% GDP)	-0.1	0.0	-0.6	-2.2	-1.6
Government debt (% GDP)	39.3	38.5	38.0	40.2	40.5

Source: Fitch Ratings

Thailand (BBB+/Stable)

Growth Hit Hard by Coronavirus Shock

The revision in March of Thailand's Outlook to Stable from Positive reflects the significant risks to growth posed by the global coronavirus shock. The 'BBB+' rating reflects Thailand's sound public and external finances, which serve as cushions against economic and financial shocks. These strengths are balanced by weaker structural features relative to peers, including lower World Bank governance scores and, to a lesser extent, lower income per capita.

Key Developments

Largest Economic Contraction Since 1998: Fitch forecasts real GDP to contract by 5.5% in 2020, from 2.4% growth in 2019. The tourism sector, accounting for around 20% of GDP, is especially vulnerable to the disruptions caused by the pandemic. The country reported no foreign tourist arrivals in April after the closure of its borders. Lockdown and social distancing measures are weighing on economic activity, although curbs are being gradually lifted.

Sound Fiscal Management Despite Larger Fiscal Deficit: The government announced a three-phase stimulus package of THB2.4 trillion, or 15% of projected GDP. The measures include additional health-related spending, direct cash handouts, soft loans and tax benefits for targeted individuals and small businesses affected by the coronavirus outbreak. Fitch forecasts the general government deficit (GFS basis) to widen to 3.8% of GDP in FY20, and the government debt-to-GDP ratio to rise to 44% by FYE20, below the current 'BBB' median level of 50%. A track record of sound fiscal management is further supported by the Fiscal Responsibility Act of April 2018.

Robust External Position: Fitch forecasts Thailand's external finances to remain robust relative to peers, a core strength of the country's credit profile. The baht depreciated against the US dollar by more than 8% in 1Q20, as a result of capital outflows, particularly in March. Capital flows appear to have stabilised, as seen in the 2.5% appreciation of the baht against the US dollar in April and May. We forecast official reserves to cover an average of 9.9 months of current external payments for 2020-2021, which provides a substantial buffer in the event of greater volatility.

Positive Sensitivities

- A resumption of resilient growth without the emergence of imbalances.
- Lower social and political tensions, for instance, reflected by improved governance and development indicators or a record of political stability.

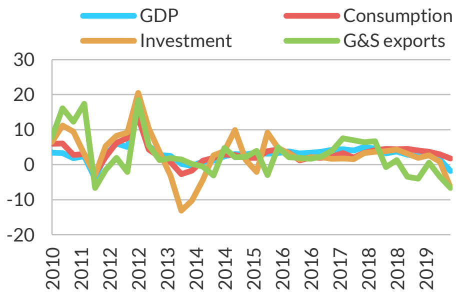
Negative Sensitivities

- Renewed political disruption on a scale sufficient to negatively affect Thailand's economy.
- A significant and sustained rise in Thailand's government-debt ratios; for example, due to fiscal deterioration or appearance of contingent liabilities on the sovereign balance sheet.

Latest Rating Review: 17 March 2020

GDP Expenditure Components

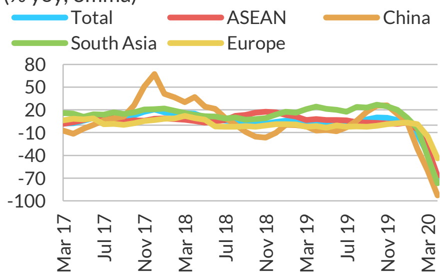
(% yoy)



Source: Fitch Ratings, NESDB, Haver

Tourist Arrivals

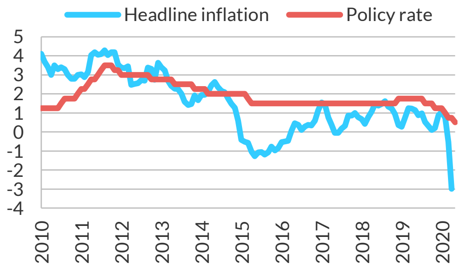
(% yoy, 3mma)



Source: Fitch Ratings, Ministry of Tourism and Sports, Haver

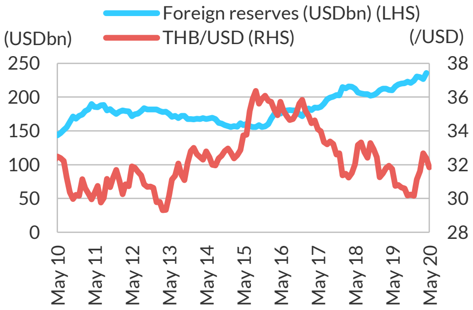
Inflation and Policy Rate

(%)



Source: Fitch Ratings, Ministry of Commerce, Bank of Thailand, Haver

Reserve and Exchange Rate



Source: Bank of Thailand, Haver

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	4.1	4.2	2.4	-5.5	3.3
Current account balance (% GDP)	9.6	5.6	7.0	4.4	5.1
Net external debt (% GDP)	-44.8	-42.1	-43.4	-49.7	-50.0
Government balance (% GDP)	-0.4	0.1	0.4	-3.8	-3.4
Government debt (% GDP)	35.6	36.2	35.9	44.1	47.1

Source: Fitch Ratings

Vietnam (BB/Stable)

Outlook Revised as Coronavirus Weakens Tourism, Exports

Fitch revised the Outlook on Vietnam's rating to Stable from Positive to reflect the impact of the COVID-19 pandemic on the economy through its tourism and export sectors, and weakening domestic demand. The rating was affirmed at 'BB', reflecting strong medium-term growth prospects, a lengthening record of macro-stability, lower government debt levels and stronger external finances relative to peers, including the build-up of FX reserves.

Key Developments

Tourism; Exports Worst Affected: Vietnam's tourism industry and exports are likely to be hit hard by the pandemic. Tourist arrivals for April fell by about 98% yoy. Our baseline assumes the global tourism industry starts to recover gradually from 3Q20. Exports are also forecast to contract sharply, given the decline in demand in Vietnam's key export markets, including the US and China, although the latter has begun to recover. Exports in May were down 15% yoy.

Growth Slows: GDP slowed considerably to 3.8% yoy in 1Q20 from about 7.0% in 4Q19, but was still stronger than that of several other countries in the region. Vietnam's recorded coronavirus cases are much lower than in many APAC neighbours and the authorities began easing lockdown restrictions towards the end of April. Nevertheless, we think economic activity in Vietnam will return to normal only at a gradual pace and measures to contain the virus locally could be reintroduced. We now expect growth of 2.8% in 2020 and 7.5% in 2021 and these forecasts continue to be subject to a high degree of uncertainty.

Fiscals Weaken: Fiscal consolidation is likely to be delayed due to measures to offset the economic impact of the outbreak. We expect the fiscal deficit to widen to 6.5% of GDP in 2020, from an estimated 3.4% in 2019. The relief package to combat COVID-19 so far amounts to about VND242 trillion, but more measures may be introduced if economic pressures intensify.

Positive Sensitivities:

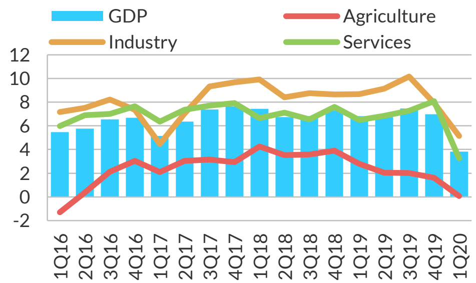
- Sustained record of macroeconomic stability
- Improvement in public finances from smaller budget deficits or lower government debt
- Material reduction in risks from weaknesses in the banking sector.

Negative Sensitivities:

- A shift in the macroeconomic policy mix that results in macroeconomic instability or an increase in macroeconomic imbalances
- Crystallisation of contingent liabilities on the sovereign's balance sheet
- Depletion of foreign-exchange reserves on a scale sufficient to destabilise the economy

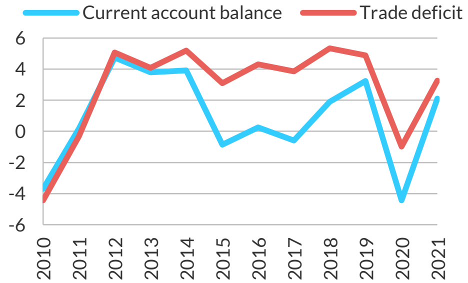
Last Rating Review: 8 April 2020

Real GDP Growth by Sector
(% yoy)



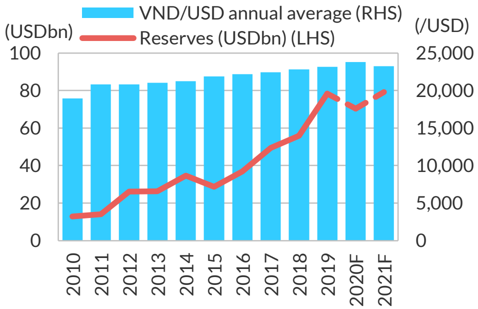
Source: Fitch Ratings, GSOV, Haver

Current Account and Trade Deficit
(% of GDP)



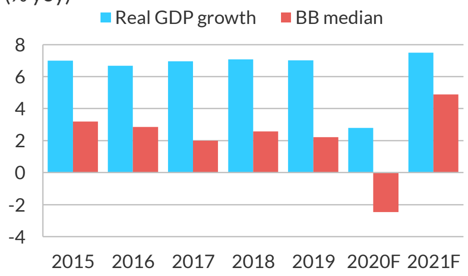
Source: Fitch Ratings, IMF, Haver

Reserves and Exchange Rate



Source: Fitch Ratings

Real GDP Growth
(% yoy)



Source: Fitch Ratings

Key Indicators

	2017	2018	2019	2020f	2021f
Real GDP (% change)	6.9	7.1	7.0	2.8	7.5
Current account balance (% GDP)	-0.6	1.9	3.2	-4.4	2.1
Net external debt (% GDP)	9.9	4.5	-3.3	-0.3	-0.3
Government balance (% GDP)	-3.8	-3.7	-3.4	-6.5	-5.0
Government debt (% GDP)	41.6	39.9	37.8	42.2	42.3

Source: Fitch Ratings