

ANZ Economic Monthly

The year ahead: from strength to strength

- Growth forecasts upgraded while price pressures remain muted
- Scenario implies high commodity prices
- Central banks will remove policy accommodation, but stay in neutral range
- Some exchange rate realignment is on the cards

By all indications, 2006 will be another year of solid growth across most of Asia, with recent upgrades to our 2005 growth estimates as well as our 2006 regional growth forecasts. The outlook for Australia and New Zealand is mixed, with Australia expected to return to trend growth while New Zealand falls to well below trend.

Strength in the Asian economies is set against a backdrop of continued above-trend global growth. The trend implies ongoing commodity price support, boosting Australia's resources sector. For New Zealand, falling soft commodity prices paint a more pessimistic scenario. Although high hard commodity prices also imply greater inflation risks, we believe pass through will remain muted, as has been the case for over a year. If so, central banks will not need to go much beyond a neutral policy stance to address inflation. The approaching end of US rate rises followed by rate hikes in Europe and Japan risks a realignment of exchange rates and thus volatility in the financial markets, however.

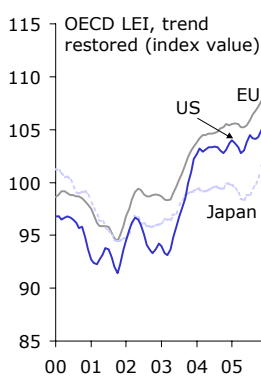
Continued strong global growth

Economic activity seems to have accelerated in Q4 2005, as evidenced by export and industrial production data out of Asia. The Q4 2005 GDP estimates for Singapore and Korea were above expectations due to surging exports; the pattern is likely to repeat across the region.

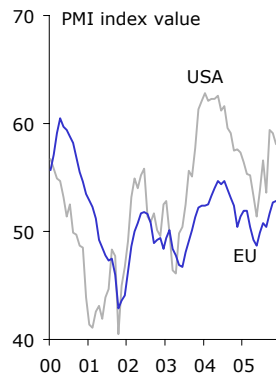
Leading indicators looking good

Leading economic indicators

Purchasing managers' index



Source: Datastream



As seen in the chart, forward-looking indicators such as the OECD's LEI series and our composite index of purchasing managers' surveys are trending upward after dips in mid-2005. Importantly for Asia, semiconductor demand is forecast to increase in 2006, with the Industry Association expecting sales growth of 8% this year and 11% next year.

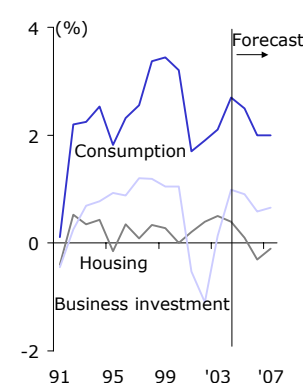
G7 rebalancing good for our region

Much has been made of a potential slowdown in the US economy, the negative implications this would have for Asian exports, and the fall in commodity prices that would result. Our forecast is for US economic growth to slow from a blistering pace of 4.2% in 2004 and 3.5% last year to a very respectable and near trend pace of 3.2% this year. The contribution made by consumption is expected to decline, while investment should pick up.

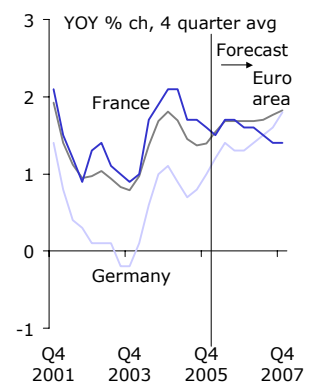
At the same time, growth in Europe is expected to accelerate slightly to 1.9% this year, while Japan's growth should remain around the 2.5% mark. As a result, G7 growth is forecast to pick up slightly in 2006, to 2.7% this year from 2.6% last year.

Growth patterns shift

Contribution to US GDP growth



European GDP growth



Source: Datastream, IMF, Economics@ANZ

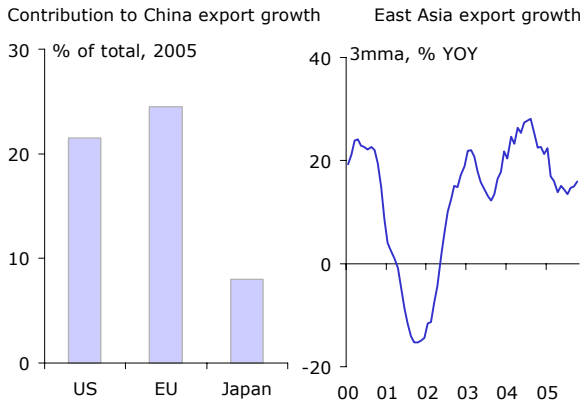
A rebalancing of global growth is positive for the medium term, as it should gradually readjust lopsided savings-investment patterns that now dominate the global markets. More attractive returns in the Europe and Japanese markets should drain capital out of the US, allowing the current account and dollar to adjust gradually and avoid a disruptive correction.

Asian exports outperform expectations

All of this is good news for Asia. Exports to Europe contributed a larger share of China's export growth

last year than did exports to the US. With China absorbing about 20% of Asia's exports and surpassing the United States as Australia's second largest trading partner, what is good for China's demand is good for Asia and Australia. And, of course, Japan remains the largest source of export demand for both Australia and New Zealand.

Export growth still firm



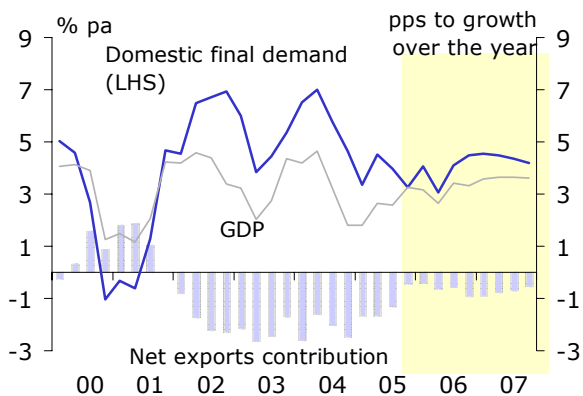
Source: Datastream, Economics@ANZ

Solid export growth means Asia's factories continue to hum. ANZ's index for Asian industrial production was still rising at 13% YOY in Q4, on top of a high base. Given LEI and PMI, and such indicators as Taiwan's electronics orders, all signs point to sustained growth in the coming months.

Outlook for Australia and NZ

The commodity boom has supported the Australian economy through net exports, investment, corporate profits and asset price inflation. This has to some extent offset a soft patch in construction and household consumption.

Australia - measures of growth



Sources: Australian Bureau of Statistics, Economics@ANZ

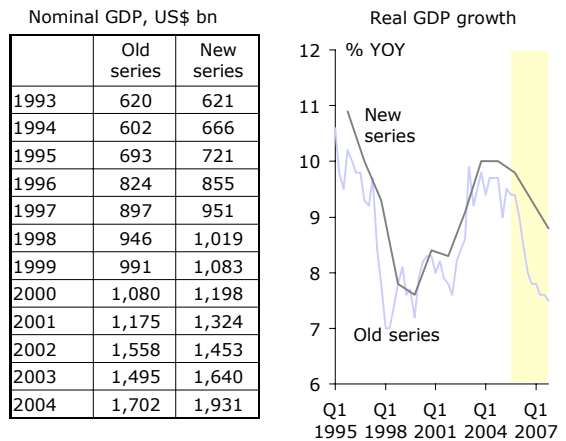
With a turnaround in domestic demand, however, continued investment in the resources sector leaves the economy poised to strengthen again. ANZ forecasts growth of 3.0% this year, and estimates that this is close to the economy's long-term potential growth rate.

Unfortunately for New Zealand, there is no resources sector to offset a concurrent soft patch in housing and consumption that was slammed by three RBNZ rate hikes last year. In a higher interest rate environment, it is hard to identify a source for new momentum in the New Zealand economy, and growth is forecast to slow this year to 1.5%.

China's growth revision

One of the major factors driving our Asian growth upgrade was the massive revision to China's GDP series in January that both increased the size of the economy and raised the rate of growth from what had been previously estimated. The revised series, dating back to 1993, added nearly US\$200 billion to the economy, now estimated at US\$1.9 trillion (on a market exchange rate basis) as at end-2004. This takes China past Italy to become the 6th largest country in the world. China may have surpassed France at #5 by the end of 2005 and be well on track to beat out the UK at #4.

China's GDP revision



Source: Datastream, Economics@ANZ

As can be seen in the chart above, the revision also implies that China's rate of economic expansion since 1999 is considerably higher than previously estimated and was still nearly 10% YOY by the end of 2005 versus expectations of around 9.4%. A growth rate in the 9.5%-10.5% range is very high and unlikely to be sustainable over the medium term. The authorities have indicated that they intend to reach a soft landing in the 8.5-9.5% range, and are targeting growth of 9.3% this year.

The revision also raises the contribution that China makes to Asia's GDP as a whole. Astoundingly, China now provides about 70% of East Asia's output (excluding Japan), versus about 45% in 1994.

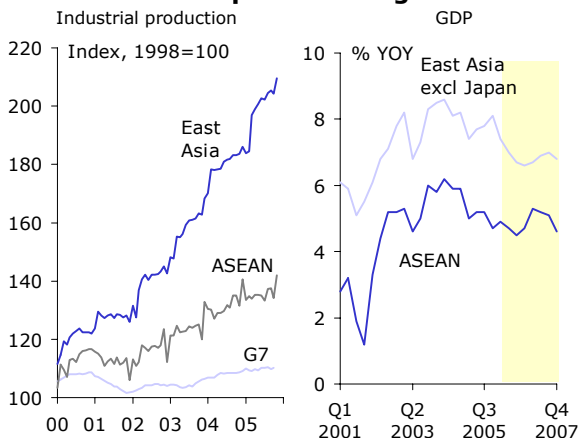
Upward revision affects all of Asia

The upward revision to our OECD growth forecast has effects across the region, and particularly North Asia. With net exports expected to make a more solid contribution to growth this year, we now expect the Asian region (ex Japan) to record

7.7% growth this year, up from 6.7% previously forecast. Growth forecasts for Korea and Taiwan in particular have been revised upward.

Higher exports will help prevent a higher oil import bill from being an outright drag on growth, and is also supportive of manufacturing. Our IP index for Asia is on the upswing at 12.2% YOY growth (6 month trailing rate) as of October 2005 from a multi-year low of 9.4% last May. Again here Southeast Asia trails North Asia, but an upturn in North Asia will filter down across the region.

IP trend positive for growth



Source: Datastream, Economics@ANZ

Regional growth of 7.7% is at trend level, but the revision is due to China. China, the Philippines and Vietnam are the only countries expected to record above trend growth. The rest of Asia will be slightly below trend, but given maturing economies and a drag on consumption from oil prices, the growth forecast is certainly quite solid.

Indonesia will begin its ascent in 2006

2006 may be the year that Indonesia's unrealised economic prowess begins to show itself. With four years left in the SBY administration and a new top-notch economic team in place, there is unprecedented momentum for micro reforms that can quickly improve productivity growth. The rupiah's quick descent from over USD/IDR10,500 last year to under USD/IDR9,500 this month alongside the equity market rally hints at improving confidence and a positive outlook.

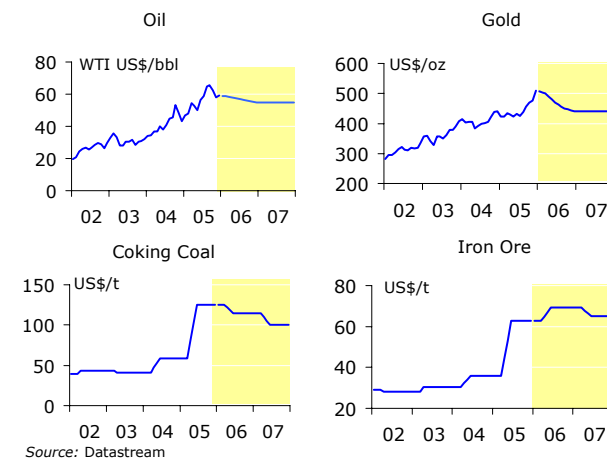
Commodity price forecast also higher

Consistent with strong global growth is an expectation that most commodity prices will remain high. ANZ has raised its 2006 oil price forecast to an average of US\$59/bbl (WTI) from US\$52/bbl. Base metal prices are not expected to receive the same massive increases that were seen last year, but are also unlikely to fall significantly.

As indicated in the chart that follows, the forecast is for gold prices to soften, but remain at elevated levels. There is upside risk to this forecast

considering potential central bank interest. Such interest would be driven by a desire to diversify FX reserves and to protect against underlying inflation risk in an environment of a weaker US dollar.

No steep declines in sight



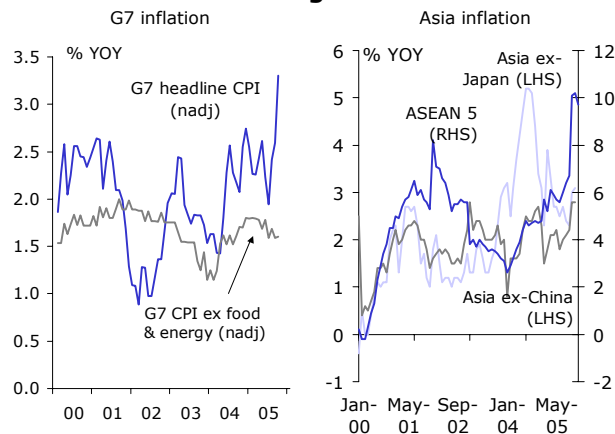
Source: Datastream

The commodities in the chart are beneficial for the Australian economy, but the outlook for the soft commodities that drive New Zealand's exports is, as noted above, far less optimistic. Indeed, ANZ anticipates that the longer-term trend of falling agricultural commodity prices will continue.

Inflation risks are muted

All else being equal, higher commodity prices should lead to cost-push inflation as producers increase prices because of higher input costs. As suggested extensively in previous editions, cost-push pressures were muted in Asia in 2005 because of government fuel subsidies. The removal of those subsidies caused first round price spikes in Indonesia, Thailand and Malaysia late last year. However, the one off increases will fall away over time, and in the longer term represent an important step toward increased energy efficiency.

Inflation returning to normal levels



Second round effects are yet to be felt in much of Asia and indeed the world because of ongoing caps on retail fuel prices in China. By all indications,

this policy will continue as the authorities handed out at least US\$1.2 billion in subsidies to domestic refiners late last year to compensate for losses from price differentials. Absorbing higher oil prices into China's energy sector allows exporters to ignore higher energy prices, holding down the price of manufactured goods all over the world.

Interest rates continue move to neutral

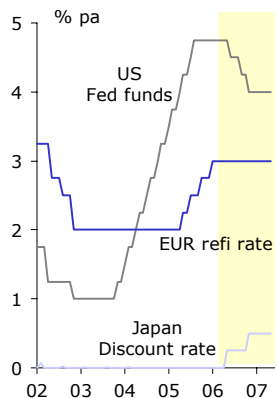
A strong growth outlook means central banks can and will continue to remove the easy monetary conditions in place since 2000. At the same time, our expectations that inflation will remain tame across the OECD and Asia implies that central banks will be able to stop at a "neutral" stance, and avoid adopting tight monetary policies.

Nonetheless, the growth and commodity price outlook – combined with demographically driven limitations on the size of labour markets in OECD countries in the medium term – implies that the risk is for inflation expectations to rise more rapidly than we are currently anticipating.

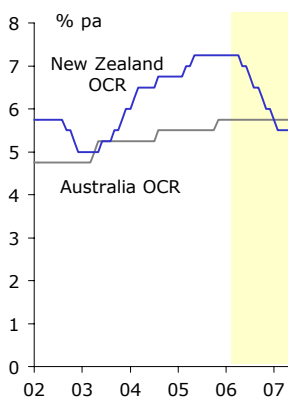
This month ANZ revised its forecast for the top of the US Fed funds rate to 4.75% (vs 4.5% previously) at the March 2006 meeting. We have moved forward our expected RBA rate hike to 5.75% from October to June of this year, but think stable inflation will negate further moves. We also forecast three European Central Bank rate hikes this year to a top of 3%, and for the Bank of Japan to end its zero interest rate policy by the end of 2006. The RBNZ should not have to raise rates again given the pre-emptive tightening of 2005.

Tightening cycle moves to ECB and BOJ

Policy rates – US, EUR, JPY



Policy rates – AU, NZD



Source: Datastream, Bloomberg, Economics@ANZ

In line with the Fed, Hong Kong, Singapore, Taiwan, Thailand and possibly the Philippines are expected to continue to tighten monetary policy in H1 2006. Indonesia and Korea may avoid further rate hikes depending on inflation data. Our projections for policy rates across the Asian economies can be found on the following pages.

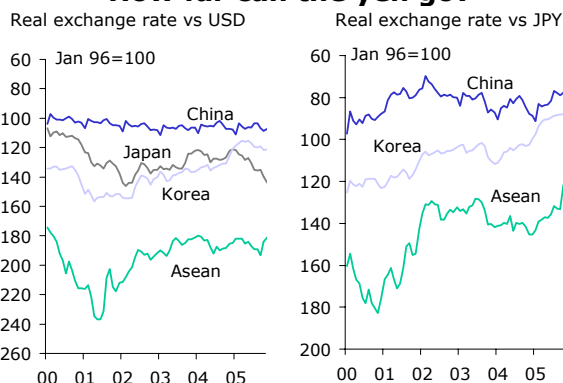
Increased FX volatility and realignment

For currencies, this interest rate outlook implies increased volatility in the first half of the year as expectations as to when the Fed will stop raising rates will be a key driver of the US dollar against major currencies. From April or May onward, however, US dollar weakness is likely to persist at least through the end of the year, based on declining interest rate differentials and the positive outlook for ex-US OECD economies.

In China, we expect the RMB to continue to appreciate gradually along its current path, reaching USD/CNY7.78 by the end of this year. Further liberalisation of the FX regime may introduce greater intra-day volatility, and the authorities will continue to look at ways to manage the massive influx of capital that has driven international reserves above US\$800 billion.

Perhaps a key question for Asia in 2006 will be how far the yen can strengthen against the US dollar. As the charts below show, other Asian currencies have strengthened against the yen over the past year. Should the yen and euro cross rate remain in its trading range while the yen strengthens, there would be little impact upon export competitiveness of an exchange rate below USD/JPY100.

How far can the yen go?



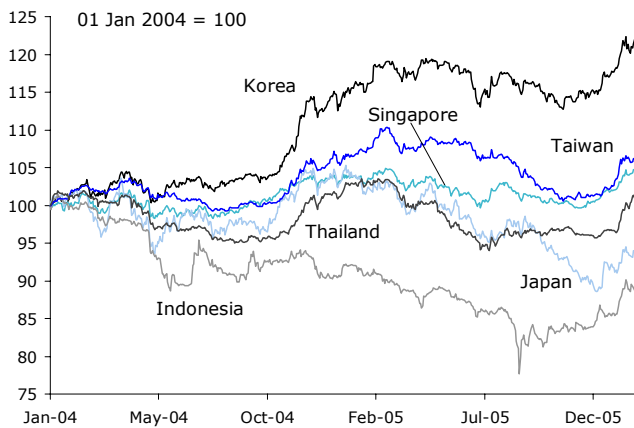
On both charts an upward movement indicates an appreciation of the 'foreign' currency against the 'home' currency (USD or JPY). Any implied % shift is measured as a proportion of the home currency. Sources: Datastream, Economics@ANZ

Our Australian dollar forecast calls for the currency to strengthen to AUD/USD0.76 by the end Q1, and to gradually weaken to AUD/USD0.70 by the end of this year. The NZD is forecast to remain at the current NZD/USD0.68 level in Q1, weakening to NZD/USD0.60 by year-end. The cross rate moves from AUD/NZD1.07 as at December 2005 to AUD/NZD1.20 by the end of this year.

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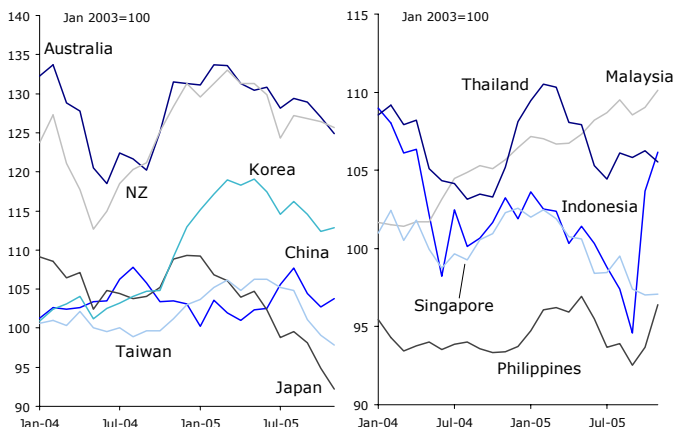
Financial Markets Update

Exchange rates, US\$ per local currency unit, indexed



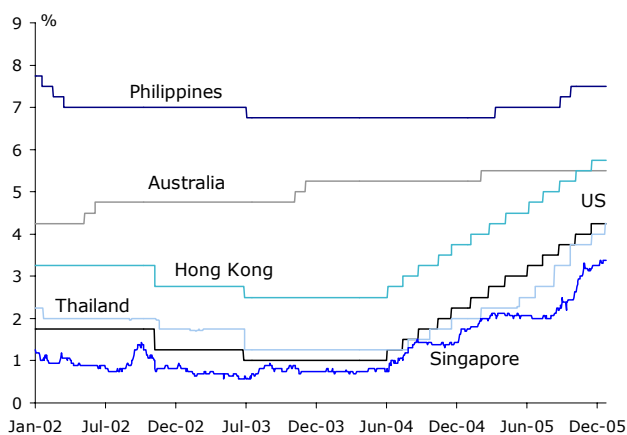
Source: Datastream

Real Exchange rates, US\$ per local currency unit, indexed



Source: Economics@ANZ, Datastream

Policy rates



Source: Bloomberg

Exchange rates

- The FX markets saw significant movement in December and January with speculation as to when the US Fed would stop raising rates. The US dollar weakened against most currencies early in January but has since strengthened marginally.
- The Korean won appreciated significantly against the US dollar and regional currencies after the BOK raised rates in December.
- The Indonesian rupiah has stabilised despite continued double-digit inflation in the aftermath of the October fuel price hikes.
- Strong exchange rates in Asia continue to help tame inflation expectations and allow central banks some room on monetary policy.

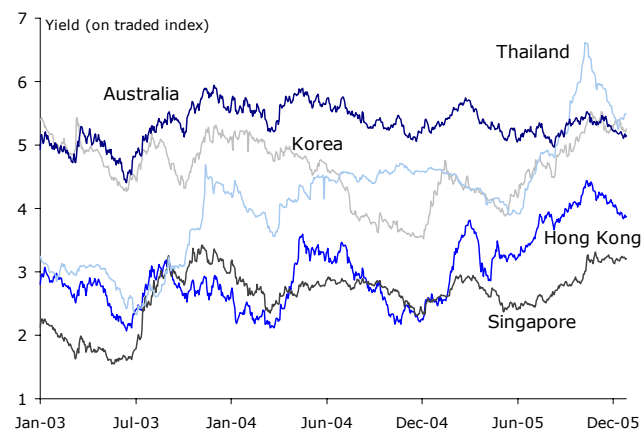
Real Exchange rates

- On an RER basis, the Australian and NZ dollars weakened against the US dollar over the course of 2005.
- Other currencies in Asia experienced a similar trend against the dollar, with the exception of the Korean won which began to strengthen toward year-end.
- The very slow nominal appreciation of the RMB since the 21 July revaluation has been offset by declining inflation in China leading to a real RMB weakening against the USD.
- The real depreciation of the JPY against the USD, and the real appreciation of Asian currencies against the JPY, suggests the JPY has substantial room to strengthen this year.

Policy rates

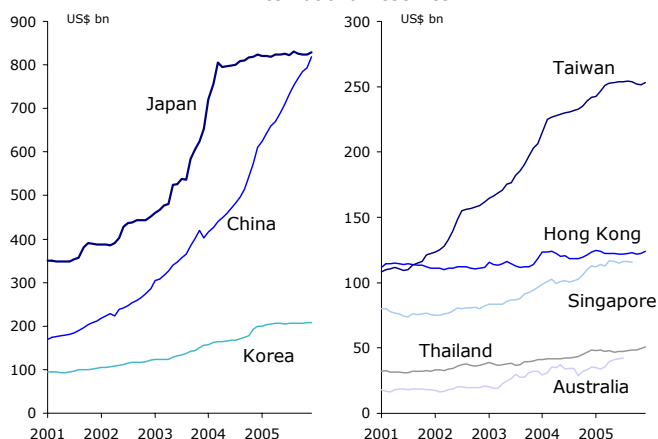
- Since our last report in November, the central banks of New Zealand, Korea, Hong Kong, Indonesia, Taiwan and Thailand have raised their official policy rates.
- ANZ's forecast is that the US Federal Reserve will announce two more rate hikes, one in the January and one in the March meeting. Countries that explicitly or implicitly tie their monetary policy to that of the US will also raise rates in Q1 – Hong Kong, Taiwan and possibly the Philippines.
- We believe that Korea may be able to remain on hold as price pressures are waning. Indonesia may be able to cut rates, unless the authorities announce a significant increase in electricity tariffs in April.

Government Bond Index



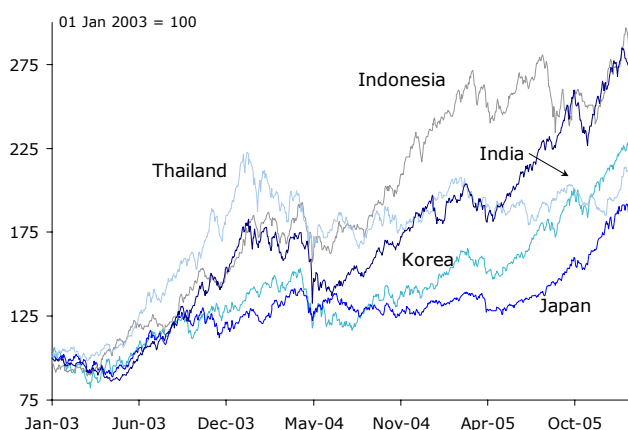
Source: JP Morgan

International reserves



Source: Datastream

Share price indices



Source: Datastream

Bond markets

- Yields have begun to rise, in conjunction with both higher policy rates and rising inflation expectations.
- The longer term yield rises across much of Asia are now bringing yields closer to the levels found in Australia and New Zealand. Nonetheless, Australia and New Zealand continue to offer a substantial premium.
- Yields spiked in Q4 in Thailand as fuel price hikes pushed inflation expectations. With December inflation more favourable, yields have declined significantly.
- We expect that yields will continue to trend up this year, as commodity prices will support inflation expectations while ECB and BOJ policy tightening should reduce global liquidity.

International reserves

- China's reserves rose past US\$800 billion in December, to US\$818 billion, after rising at an average pace of US\$17.4 billion every month in 2005. The 21 July revision to the exchange rate regime did not affect the pace of reserve accumulation, as reserves rose by US\$17.2 billion on average every month after the revaluation versus US\$16.8 billion in H1 2005.
- Japan has virtually stopped accumulating foreign exchange reserves as the BOJ has ceased heavy intervention in the foreign exchange market.
- Nonetheless, Japan and China combined now hold about 40% of global foreign exchange reserves. There has been ongoing speculation around reserve diversification in Asia including to alternative currencies and to gold.

Equity markets

- The Nikkei plunged more than 3% in one day in January following disclosure of legal proceedings against a large internet company. The sell-off sent equity markets tumbling across the region, but a quick recovery followed.
- Indonesia has seen the return of a bull market following a cabinet reshuffle in December that introduced a market-favoured economic team.
- Thailand's equity market performance has fallen behind that of other major countries as the economic outlook has dimmed with higher inflation and little true reform on the table.
- Korea's equity market continues to be fuelled by the gradual recovery in domestic demand combined with continued strong outlook for the export sector.

FX and policy interest rate forecasts

	Dec-05	Jan-06	Feb-06	Mar-06	Jun-06	Sep-06	Dec-06
China							
USD/CNY, eop	8.07	8.05	8.02	8.00	7.92	7.85	7.78
AUD/CNY, eop	5.91	5.97	6.02	6.08	5.86	5.57	5.45
One year base lending rate	5.58	5.6	5.6	5.6	5.6	5.7	5.8
Hong Kong							
USD/HKD, eop	7.75	7.76	7.76	7.77	7.79	7.78	7.78
AUD/HKD, eop	5.68	5.76	5.83	5.91	5.76	5.53	5.45
HKMA discount rate	5.75	6.00	6.00	6.25	6.25	6.25	6.25
India							
USD/INR, eop	45.1	45.4	45.7	46.0	43.0	42.5	42.0
AUD/INR, eop	33.0	33.7	34.3	35.0	31.8	30.2	29.4
Reverse Repo rate	5.25	5.50	5.50	5.50	5.75	5.75	5.75
Indonesia							
USD/IDR, eop	9,830	9,620	9,410	9,200	9,000	8,800	8,750
AUD/IDR, eop	7,203	7,137	7,066	6,992	6,660	6,248	6,125
BI rate	12.75	12.75	12.75	12.75	11.75	10.75	10.25
Korea							
USD/KRW, eop	1010	1010	1010	1010	1015	1008	1005
AUD/KRW, eop	740	749	758	768	751	716	704
Overnight call rate	3.75	3.75	3.75	3.75	3.75	3.75	4.00
Malaysia							
USD/MYR, eop	3.78	3.76	3.74	3.72	3.71	3.69	3.68
AUD/MYR, eop	2.77	2.79	2.81	2.83	2.74	2.62	2.58
Overnight policy rate	3.00	3.00	3.00	3.00	3.25	3.25	3.25
Philippines							
USD/PHP, eop	53.1	52.6	52.2	51.8	51.3	51.0	50.8
AUD/PHP, eop	38.9	39.1	39.2	39.3	37.9	36.2	35.5
Overnight Reverse Repo rate	7.50	7.50	7.75	7.75	7.75	7.75	7.75
Singapore							
USD/SGD, eop	1.66	1.66	1.65	1.65	1.64	1.63	1.61
AUD/SGD, eop	1.22	1.23	1.24	1.25	1.21	1.16	1.13
3-month interbank rate	3.25	3.40	3.40	3.30	3.30	3.00	2.80
Taiwan							
USD/TWD, eop	32.8	32.6	32.3	32.1	31.3	30.5	30.0
AUD/TWD, eop	24.1	24.2	24.3	24.4	23.1	21.7	21.0
Discount rate	2.25	2.40	2.40	2.50	2.50	2.50	2.50
Thailand							
USD/THB, eop	41.0	40.2	39.3	38.5	38.0	37.5	37.0
AUD/THB, eop	30.1	29.8	29.5	29.3	28.1	26.6	25.9
14-day repo rate	4.00	4.25	4.25	4.50	4.50	4.25	4.00
Vietnam							
USD/VND, eop	15,918	15,928	15,938	15,949	15,981	16,012	16,044
AUD/VND, eop	11,664	11,816	11,969	12,121	11,826	11,369	11,231
Japan							
USD/JPY, eop	117.8	118.2	118.6	119.0	118.0	112.0	108.0
AUD/JPY, eop	86.3	87.7	89.0	90.4	87.3	79.5	75.6
Overnight call rate	0.0	0.00	0.00	0.00	0.00	0.00	0.25
Australia							
AUD/USD, eop	0.73	0.74	0.75	0.76	0.74	0.71	0.70
Cash rate	5.50	5.50	5.50	5.50	5.75	5.75	5.75
New Zealand							
NZD/USD, eop	0.68	0.68	0.68	0.68	0.64	0.60	0.58
AUD/NZD, eop	1.07	1.09	1.10	1.12	1.16	1.18	1.21
Overnight call rate	7.25	7.25	7.25	7.25	7.25	7.25	7.00

Real GDP Growth (%)

	2004	2005e	2006f	2007f
Australia	3.2	2.4	3.1	3.7
Cambodia	7.7	6.9	6.4	6.4
China	10.1	9.9	9.3	9.0
Hong Kong	8.2	7.3	4.8	3.5
India⁺	6.9	8.0	7.5	7.0
Indonesia	5.1	5.4	4.8	6.1
Japan	2.3	2.6	2.5	2.0
Korea	4.6	4.7	4.0	4.2
Malaysia	7.1	5.3	5.0	5.0
New Zealand	4.4	2.7	1.5	2.5
Philippines	6.1	5.1	4.8	4.3
Singapore	8.8	6.0	5.6	4.8
Taiwan	6.1	4.2	5.4	4.0
Thailand	6.1	4.6	4.9	4.1
Vietnam	7.7	8.4	7.8	7.4

Nominal GDP (US\$ bn)

	2004	2005e	2006f	2007f
Australia	623.4	702.8	718.1	718.2
Cambodia	4.9	5.2	5.4	5.6
China	1931.0	2175.6	2,437.4	2,680.8
Hong Kong	165.7	173.6	185.7	196.8
India⁺	670	753.0	845.0	935.0
Indonesia	257.6	300.0	345.0	390.0
Japan	4674.7	4,672.30	4,765.7	4,813.4
Korea	681.5	799.7	847.7	890.1
Malaysia	117.7	125.0	136.0	146.0
New Zealand	96.8	107.7	95.4	99.2
Philippines	86.1	98.0	110.0	122.0
Singapore	106.8	114.0	122.0	129.0
Taiwan	305.4	330.7	350.6	368.1
Thailand	161.7	177.0	195.0	208.0
Vietnam	45.3	53.1	61.3	69.6

Inflation (%)

	2004	2005e	2006f	2007f
Australia	2.3	2.7	2.8	2.8
Cambodia	3.8	5.8	5.3	5.0
China	3.9	1.8	2.0	3.8
Hong Kong	0.0	1.2	1.8	1.0
India	3.8	4.1	4.5	3.5
Indonesia	6.1	10.4	9.6	7.5
Japan	0.0	-0.3	0.4	0.8
Korea	3.6	2.8	2.8	3.8
Malaysia	1.4	3.1	3.5	2.5
New Zealand	2.3	3.0	3.0	2.5
Philippines	5.9	7.7	8.0	6.0
Singapore	1.7	0.5	1.5	0.9
Taiwan	1.6	2.3	3.0	2.5
Thailand	2.8	4.5	4.8	3.0
Vietnam	7.8	8.2	6.8	6.5

Fiscal Balance (% of GDP)*

	2004	2005e	2006f	2007f
Australia	0.7	1.2	1.1	1.0
Cambodia	-5.4	-5.6	-5.8	-6.0
China	-2.1	-1.7	-2.0	-1.9
Hong Kong	-0.4	-0.4	-0.4	-0.7
India⁺	-4.5	-4.3	-4.1	-3.6
Indonesia	-1.6	-0.7	-0.8	-0.3
Japan	-6.5	-6.2	-6.0	-5.8
Korea	0.7	-0.3	0.4	-0.2
Malaysia	-4.3	-3.3	-3.0	-2.3
New Zealand	5.3	3.9	4.3	3.0
Philippines	-3.9	-2.9	-2.1	-1.5
Singapore	-0.2	0.1	0.1	0.1
Taiwan	-2.5	-2.5	-2.2	-2.4
Thailand	0.1	-1.2	-1.7	-1.4
Vietnam	-1.7	-2.1	-2.3	-2.9

Current Account (% of GDP)

	2004	2005e	2006f	2007f
Australia	-6.4	-6.0	-6.0	-6.5
Cambodia	-10.1	-10.9	-10.6	-10.3
China	4.0	6.7	4.4	4.0
Hong Kong	9.5	9.3	5.6	2.1
India	-0.1	-2.1	-2.5	-2.5
Indonesia	1.2	0.5	1.2	1.6
Japan	3.8	3.9	4.0	3.5
Korea	4.1	2.4	1.7	1.2
Malaysia	12.5	11.7	8.9	6.6
New Zealand	-6.7	-8.6	-8.7	-8.3
Philippines	2.6	2.0	2.0	1.8
Singapore	26.1	24.5	22.0	20.0
Taiwan	5.8	3.4	3.1	2.5
Thailand	4.1	-1.4	-1.1	-1.0
Vietnam	-2.1	-2.7	-3.6	-4.0

Foreign Exchange Reserves (US\$ bn)

	2004	2005e	2006f	2007f
Australia	33.9	41.0	n.a.	n.a.
Cambodia	0.94	0.95	0.94	0.96
China	609	818	925	850
Hong Kong	123	123	125	127
India	126.5	138	145	150
Indonesia	34.9	32	35	40
Japan	833	828	815	800
Korea	198	215	230	220
Malaysia	66.6	70.5	75	80
New Zealand	4.8	6.5	n.a.	n.a.
Philippines	13.1	16	17.5	18.5
Singapore	112.2	117	122	125
Taiwan	241	253	265	270
Thailand	48.7	50	52	54
Vietnam	7.0	8.9	9.6	10.2

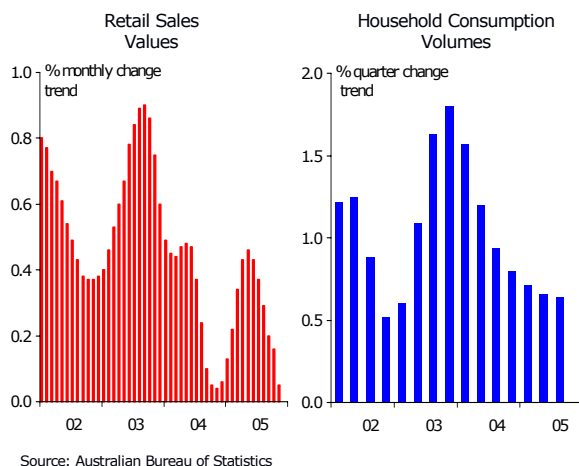
+ : Fiscal year beginning April; * :Fiscal balance for Australia, New Zealand, Malaysia and Singapore corresponds to fiscal year

Long Term Foreign Currency Debt Ratings

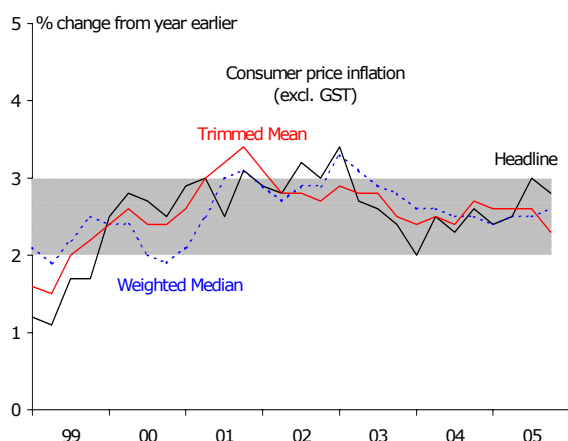
Investment Grade		Sub-Investment Grade	
Moody's	S&P	Moody's	S&P
Aaa Australia Canada France Germany Japan New Zealand Singapore United Kingdom United States	AAA Australia Canada France Germany Singapore United Kingdom United States	Ba1 Bulgaria Costa Rica Egypt Morocco Panama Romania	BB+ Egypt El Salvador India Morocco
Aa1 Belgium	AA+ Belgium New Zealand	Ba2 Colombia Fiji Guatemala Jordan	BB Colombia Costa Rica Jordan Panama Peru
Aa2 Italy	AA	Ba3 Peru Vietnam	BB- Brazil Cook Islands Guatemala Philippines Serbia Turkey Ukraine Vietnam
Aa3 Cayman Islands Taiwan	AA- Hong Kong Italy Japan Taiwan	Brazil Turkey	
A1 Czech Republic Hong Kong Hungary Macau Qatar UAE	A+ Qatar Kuwait	B1 Papua New Guinea Philippines Suriname Ukraine	B+ Ghana Indonesia Pakistan Venezuela
A2 China Cyprus Israel Kuwait Poland	A Chile Cyprus Korea Saudi Arabia	B2 Honduras Indonesia Pakistan Venezuela	B Papua New Guinea Uruguay
A3 Korea Malaysia Saudi Arabia	A- China Czech Republic Hungary Israel Malaysia	B3 Argentina Bolivia Lebanon Uruguay	B- Argentina Bolivia Lebanon Paraguay Suriname
Baa1 Chile Mexico South Africa Thailand Oman	BBB+ Oman Poland Thailand South Africa	Caa1 and below Cuba Ecuador Nicaragua Paraguay Belize	CCC and below Belize Ecuador
Baa2 Mauritius Tunisia Russia	BBB Mexico Tunisia Bulgaria Russia		
Baa3 El Salvador India	BBB- Romania		

Country Update Australia

Consumer spending weakens



Inflation eases, for now...



- Household consumption is likely to remain weak. Trend growth in retail sales was virtually flat in November and has progressively weakened each month since mid-2005. This has not been offset by spending on non-retail items, with growth in the total volume of goods and services consumed by households slowing since early 2004.
- There are tentative signs that the downturn in housing construction is bottoming out. In trend terms, the pace of decline in dwelling construction approvals has moderated in recent months, and in seasonally adjusted terms, approvals rose by 3.4% in November. We continue to expect a pick up in housing construction over the course of 2006 as the market responds to ongoing strong levels of underlying demand and low rental vacancy rates.
- The labour market remains in a holding pattern, albeit at historically strong levels. Employment rose by just 2,100 jobs in December, while the unemployment rate continues to track around 30-year lows at 5.1%.
- Inflation moderated in the December quarter, releasing some steam from the case for an immediate rate rise. Headline inflation fell to 0.5% in the December quarter bringing the annual rate to 2.8%. The various measures of core inflation either remained steady or fell, suggesting there has been little pass-through of higher input costs (or equivalently, that producer margins are narrowing).
- The case for more restrictive policy is likely to build as economic activity accelerates, restoring some pricing power to producers and allowing them to pass through recent cost increases. With headline inflation still near the top of the 2% to 3% target band, this should be sufficient for the RBA to raise rates. Our view remains that this will occur by mid-year.

Mark Rodrigues

Economic data – Australia

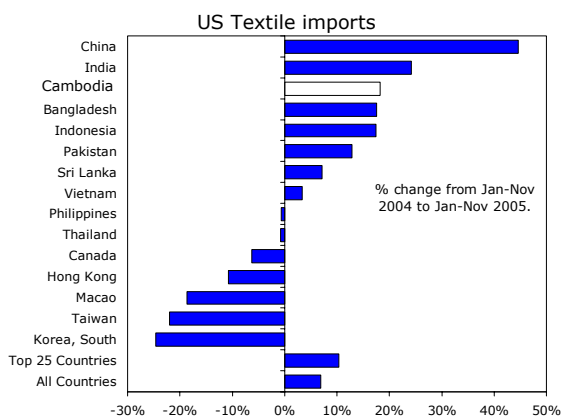
Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Building Approvals, 000's	14.4	14.0	13.0	11.9	12.2	12.1	12.5	n/a
Retail Sales, % YOY	3.1	3.0	2.9	3.4	2.5	3.1	2.9	n/a
Exports, % YOY	16.5	9.0	16.8	12.3	10.3	13.6	15.0	n/a
Imports, % YOY	10.8	4.7	5.9	8.0	5.5	5.0	11.1	n/a
Trade Balance, AUD bn	-1.23	-1.68	-0.89	-1.40	-1.68	-1.38	-2.47	n/a
Foreign Exchange Reserves, US\$ bn	39.6	40.3	40.9	38.0	33.5	38.7	40.4	41.0
Quarterly data	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05	Dec 05
Real GDP, % YOY	4.2	4.6	3.2	1.8	1.8	2.7	2.6	n/a
- Private consumption	6.5	6.4	5.7	4.4	3.6	3.3	2.7	n/a
- Government consumption	3.8	3.3	4.0	3.9	3.1	3.8	1.6	n/a
- Gross fixed capital expenditure	7.9	9.3	5.3	5.4	2.1	7.7	9.5	n/a
Consumer Price Index, % YOY (nsa)	2.0	2.5	2.3	2.6	2.4	2.5	3.0	2.8
Current Account, AUD bn	-12.2	-12.0	-14.2	-16.1	-15.2	-12.0	-13.5	n/a
Capital Account, AUD bn (nsa)	11.4	11.3	15.6	15.5	14.7	11.2	14.9	n/a

Sources: Australian Bureau of Statistics, RBA.

Note: data seasonally adjusted unless otherwise stated

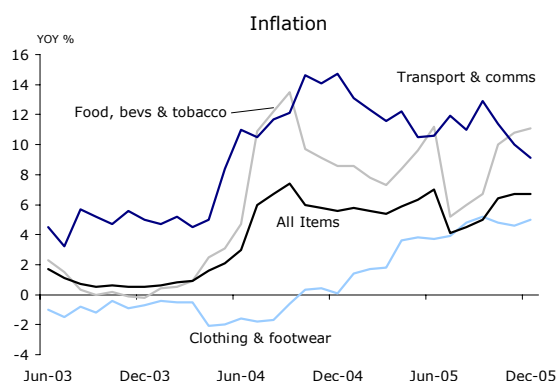
Country Update Cambodia

Cambodia maintains market share in US textile market post-MFA



Source: U.S. Census Bureau Foreign Trade Division

Higher food prices push up inflation



Source: National Institute of Statistics of Cambodia

- Cambodia's real GDP growth is expected to slow from 7.7% in 2004 to around 5½%-6½% in both 2005 and 2006. Growth should be sustained by the resilience of the garments and textiles sector to both the end of the Multi-Fibre Agreement and the increase in competition in the key US market, particularly from China and India. In the year to November 2005, Cambodian textile exports to the US had increased 18.2% despite Chinese exports increasing by 45% and Indian exports rising by 24%. Losing market share were the more developed textiles exporters of Korea (down 25%), Taiwan (down 22%), Macao (down 19%) and Hong Kong (down 11%). Since 2004, Cambodia has managed to slightly increase its market share in the highly competitive US textiles import market to 1.8% from 1.6%, now ranking as the 17th largest importer in the US.
- The services sector will continue to develop as a source of growth, with foreign tourism to Cambodia booming. The number of tourist arrivals surged 45% in the year to November 2005 compared with the same period in 2004. However, this increase in tourist numbers has put a strain on Cambodia's infrastructure, particularly in the World Heritage temple site of Angkor Wat. The Cambodian government plans to spend almost US\$2 billion on public projects in the 2006-08, period in part to help develop infrastructure. Funding for the projects will be sourced from the national budget, foreign aid, and loans. Assisting future expenditure will be the Cambodian government's hope that more of its foreign debts will be written off, as the IMF recently wrote off US\$82 million.
- Going forward, growth should also be supported by a rebound in the agricultural sector, which had contracted significantly in 2004 due to severe drought. Despite decreasing markedly over the past decade agriculture remains a key sector, producing around 30% of GDP. The performance of this sector is also important due to its impact on consumer price inflation, with food being heavily represented in the index.

Alex Joiner

Economic data – Cambodia

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Consumer Price Index, % YOY	6.3	7.0	4.1	4.5	5.0	6.4	6.7	6.7
-Transport & Communication	10.5	10.6	11.9	11.0	12.9	11.4	10.0	9.1
-Food & Beverages	9.6	11.2	5.2	6.0	6.7	10.0	10.8	11.1
Exports, % YOY	11.3	5.1	7.6	14.7	n/a	n/a	n/a	n/a
Imports, % YOY	17.2	16.4	21.6	21.2	n/a	n/a	n/a	n/a
Trade Balance, US\$ mn	-191.3	-133.4	-96.6	-44.2	n/a	n/a	n/a	n/a
Foreign Exchange Reserves, US\$ mn	957.2	943.1	936.7	940.3	937.8	943.1	n/a	n/a
Tourist Arrivals, % YOY	42.5	41.9	44.4	42.3	37.8	41.9	26.8	n/a

GDP Composition	2004	Trading Partners	Exports	Imports
Real GDP, % YOY	7.7	2004 % share	US	55.9
-Agriculture, % YOY	-2.0		Germany	11.7
-Industry, % YOY	16.1		UK	6.9
-Services, % YOY	9.2		Vietnam	4.4
Nominal GDP, US\$ bn	4.89		Japan	3.5
			Vietnam	10.9
			Thailand	22.5
			Singapore	10.8
			China	13.6
			Hong Kong	14.1

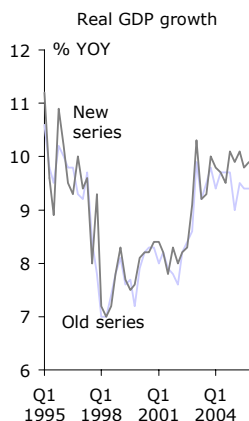
Sources: Datastream, National Institute of Statistics of Cambodia

Country Update China

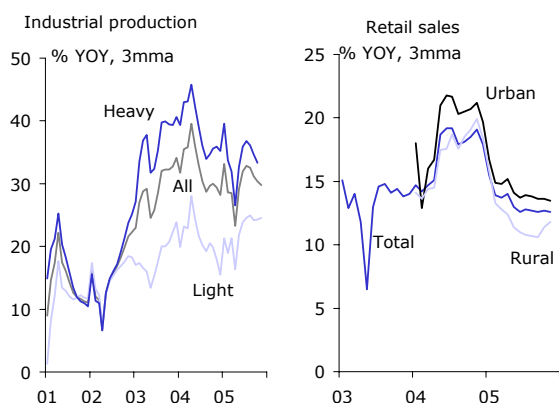
Revised GDP series

Nominal GDP, US\$ bn		
	Old series	New series
1993	620	621
1994	602	666
1995	693	721
1996	824	855
1997	897	951
1998	946	1,019
1999	991	1,083
2000	1,080	1,198
2001	1,175	1,324
2002	1,558	1,453
2003	1,495	1,640
2004	1,702	1,931

Source: Datastream, Economics@ANZ



Growth rotating away from faster sectors



Source: Datastream, Bloomberg, Economics@ANZ

- In one fell swoop, China announced a revision to its GDP data going back 10 years that both increased the size of the economy and raised the rate of growth. The size of the economy, on a market exchange rate basis, is now US\$1.8 trillion versus US\$1.6 trillion previously, and growth has averaged 9.6% over the past decade as against the previous estimate of 8.7%. The reason for the revision was a 10-year economic census that revealed a far larger services sector than represented in old statistics, which is not surprising given the historic tendency to focus on output of goods. However, it is now clear that the domestic economy is quite dynamic, with the services sector contributing 40% of nominal GDP, up from 31% previously, while an indicated decline in the contribution of construction hints at less dependence on investment than was believed.
- Real GDP growth in Q4 2005 was 9.9%, bringing full year growth also to 9.9% - considerably above consensus forecasts 9.4% under the old series. High frequency data shows the economy is gradually slowing, and that growth is rotating away from heavy industry as desired by the authorities, although growth is still quite strong. Industrial production finished 2005 north of 15%, while export growth remained decent at nearly 20% YOY. Import growth surged to above 20% in Q4, indicating a revival of domestic demand in response to faster base money growth. Not surprisingly, the CPI also ticked upward in December to 1.6% from 1.2% previously. There is a possibility that the authorities will re-estimate CPI given widespread criticism of a heavy food weighting.
- The authorities continue to introduce incremental changes to the FX market that increase the potential for higher volatility in the RMB. In January, the method for fixing central parity changed to allow greater inter-day exchange rate shifts. Overall the RMB remains on a steady but slow appreciation path, which we expect to continue.

Amy Auster

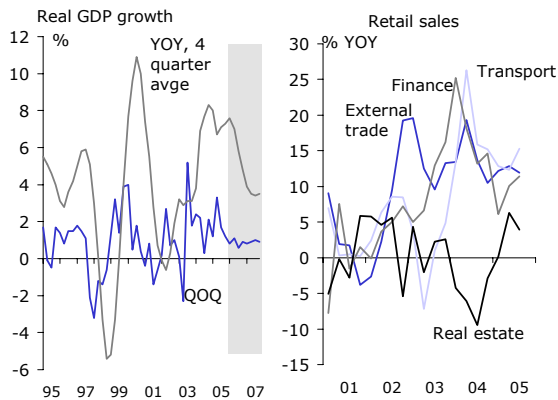
Economic data -China

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Retail Sales, % YOY	12.8	12.9	12.7	12.5	12.7	12.8	12.4	12.5
Consumer Price Index, % YOY	1.8	1.6	1.8	1.3	0.9	1.2	1.3	1.6
Exports, % YOY	30.3	30.6	28.8	33.2	25.8	29.6	18.6	18.2
Imports, % YOY	15.0	15.1	12.4	23.5	23.3	23.4	21.0	22.2
Trade Balance, US\$ bn	9.0	9.7	10.6	10.6	7.6	12.0	10.5	11.0
Foreign Exchange Reserves, US\$ bn	691.0	711.0	732.7	753.2	769.0	784.9	794.2	818.9
Quarterly data	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05	Dec 05
Real GDP, % YOY	9.8	9.6	9.1	9.5	9.9	10.1	9.8	9.9
- Primary sector	4.5	4.9	5.5	6.3	4.6	5.0	5.0	5.2
- Secondary sector	11.6	11.5	11.1	11.1	11.1	11.2	11.1	11.4
- Tertiary sector	8.0	8.1	8.1	8.3	7.7	7.8	8.1	9.6
Nominal GDP, US\$ bn	382.2	410.5	417.1	443.1	431.3	466.2	476.8	n/a
Current Account, US\$ bn	46.1	51.6	76.1	100.8	125.7	137.8	154.1	174.0
FDI (actual), US\$ bn	12.2	29.5	44.2	60.6	13.4	28.6	43.3	60.3

Sources: Datastream, Bloomberg

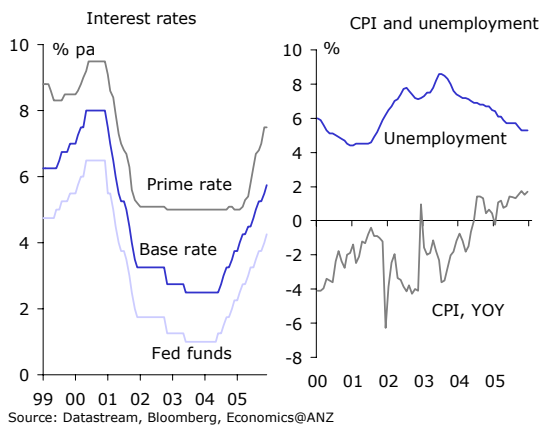
Country Update: Hong Kong

External trade and related sectors are driving growth



Source: Datastream, Bloomberg, Economics@ANZ

Rates rise faster than HKMA intends



Source: Datastream, Bloomberg, Economics@ANZ

- Hong Kong continues to benefit from flows of goods and capital into and out of China. Foreign direct investment through the end of the third quarter was up about 7.5% YOY, and IPOs of large Chinese enterprises on the Hang Seng have brought massive inflows to the local stock market. Similarly, tourism arrivals were up slightly over 7% YOY last year, with about half of all arrivals coming from the mainland. The government revised its growth forecast for 2005 up to 7%, in line with our forecast of just over 7%.
- Local observers have expressed concern about the impact of a higher interest rate environment on the economy, particularly the property market. The HKMA has continued to raise interest rates in line with the US Fed, but late in 2005 commercial banks increased the spread between the HKMA's base rate and the prime lending rate, leading to an even higher rate environment. What this means, however, is that banks may not act to raise prime rates further with the next 1-2 policy hikes expected by the Fed.
- The sectors that contribute most to GDP – external trade, finance and transport / communications – are also growing faster than other more domestically-oriented sectors. Given that these sectors are related to China's explosive growth, they should be somewhat immune to rate rises. Our growth forecast for 2006 remains solid at 4.8%, taking into account rising volumes of global trade; ongoing capital inflows connected with mainland activity; rising property yields; and continued growth in tourism given our outlook for strong regional growth.
- Rising property yields are the result of higher rents, which is also contributing to increased inflation. The CPI rose 0.3% MOM and 1.7% YOY in December and averaged 1.2% for the year. Inflation that is still well under 2% is certainly manageable, and is positive in the sense that Hong Kong has certainly emerged from the post-crisis deflation period.

Amy Auster

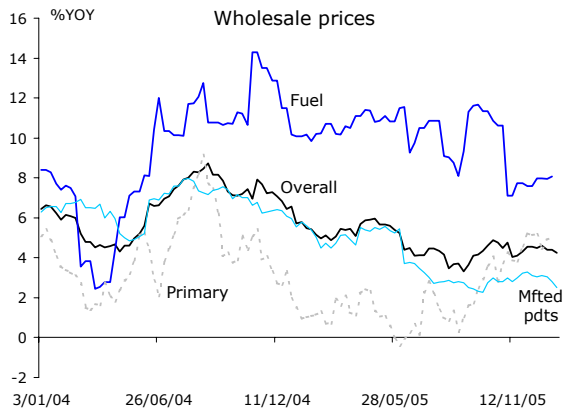
Economic data – Hong Kong

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Visitor Arrivals, %YOY	7.5	5.8	3.8	2.6	5.9	6.2	5.6	n/a
Retail Sales, % YOY	7.1	6.1	7.1	6.2	4.9	4.8	4.2	n/a
Consumer Price Index, % YOY	0.9	1.4	1.4	1.3	1.5	1.7	1.5	1.7
Exports, % YOY	17.0	12.9	8.4	13.1	17.5	12.1	11.8	n/a
Imports, % YOY	16.1	10.8	6.9	13.3	15.7	10.1	13.9	n/a
Trade Balance, US\$ bn	-1.2	-0.9	-0.4	-0.5	-0.5	0.4	-0.5	n/a
Foreign Exchange Reserves, US\$ bn	122.4	122.0	121.9	122.3	122.8	121.9	122.4	124.3
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.9	7.1	12.1	6.8	7.1	5.9	7	8.5
- Private consumption	3.9	5.7	10.8	5.2	5.8	4.4	2.7	4.6
- Government consumption	5.5	5.7	0	-1.3	-1.7	-4.8	-2.3	-1.8
- Gross fixed capital expenditure	2.7	5.1	11.5	2.1	-1.4	0.4	4.5	2.4
Nominal GDP, US\$ bn	40.3	41.1	41.5	41.1	42.0	42.7	44.2	44.8
Current Account, US\$ bn	4.2	1.3	0.6	6.6	7.4	4.3	4.0	5.3
Capital Account, US\$ bn	-0.3	0.0	0.0	-0.2	-0.1	-0.3	-0.2	n/a

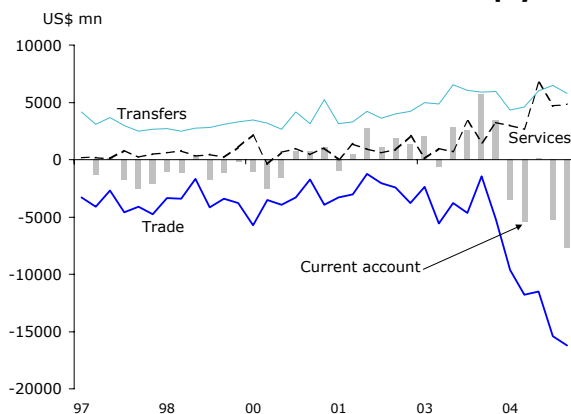
Source: Datastream

Country Update: India

Inflation pressures expected to pick up



Current account deteriorates sharply



Source: Bloomberg

- The economy continues to expand at a robust pace, prompting further upward revisions to the outlook for FY2005/06 (year ending March 2006) and FY2006/07. The central bank lifted its forecast for growth for the current fiscal year to 7.5-8% from 7-7.5%. We have forecast real GDP to expand by an average of 7¾% pa. over the current and next fiscal year, underpinned by solid consumption spending and private sector investment.
- Robust credit expansion, double-digit growth in wages and a strengthening economy have lifted inflationary expectations, prompting the RBI to hike rates again. India's central bank raised the overnight borrowing rate by a quarter point to 5.5% at its meeting on 24 January, the fourth hike since October 2004. Inflation, as measured by the wholesale price index, has edged higher but remains within the target band of 5-5.5%YOY.
- The RBI is expected to maintain a tightening bias. High oil prices have also added further pressure on public finances, raising the risk that the government will have to reduce fuel subsidies further.
- The central government is expected to meet its fiscal deficit target for FY2005/06 of 4.3% of GDP. The budget for FY2006/07, which will be announced next month, is likely to target a further narrowing in the fiscal deficit. However, the consolidated fiscal position (state and central government) remains a major concern with the deficit in excess of 8% of GDP.
- The trade deficit continues to deteriorate as domestic demand accelerates and high oil prices put pressure on the import bill. The current account deficit reached US\$7.7 billion in Q3 2005, bringing the deficit for the first half of FY2005/06 to US\$13 billion compared with US\$0.11 billion for April-September 2004.

Jasmine Robinson

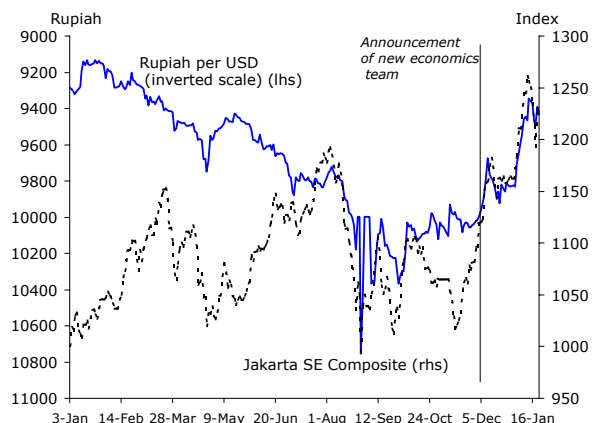
Economic data – India

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	10.6	11.8	4.7	7.5	6.8	9.0	6.8	n/a
Passenger car sales, % YOY	9.8	2.5	-4.2	14.1	11.1	2.3	0.0	1.3
Consumer Price Index, % YOY	3.7	3.4	4.1	3.4	3.6	4.2	5.38	n/a
Exports, % YOY	24.1	25.3	33.3	30.9	17.7	35.9	0.99	21.12
Imports, % YOY	40.2	39.8	33.3	47.8	22.1	37.3	9.4	16.6
Trade Balance, US\$ bn	-3.6	-4.0	-2.7	-3.1	-3.2	-3.3	-3.7	-2.8
Foreign Exchange Reserves, US\$ bn	133.0	132.0	135.0	138.0	137.0	137.0	137	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY (at factor cost)	11.0	8.4	7.6	6.7	6.4	7.0	8.1	8.0
- Agriculture	6.4	7.9	7.6	9.1	9.2	7.3	10.1	7.6
- Industry	18.2	10.4	3.8	0.0	-0.5	1.8	2.0	2.0
- Services	10.6	8.6	9.5	8.2	8.8	9.3	5.7	11.1
Nominal GDP, US\$ bn	151.3	151.4	143.4	140.6	171.9	175.0	166.5	165.6
Current Account, US\$ bn	2.6	5.8	3.4	-3.5	-5.5	0.2	-5.3	-7.7
Capital Account, US\$ bn	5.0	4.0	4.5	3.1	11.7	12.4	6.2	12.5

Source: Datastream, Bloomberg

Country Update: Indonesia

Financial markets reflect optimism over new economics team



Real interest rates take a dive but are expected to improve



Sources: Datastream, Bank Indonesia

- The cabinet reshuffle announced in December 2005 was well received as reflected by the positive response in financial markets. There is renewed hope that the new team, led by Boediono, who is the Coordinating Minister of Economic Affairs, and Finance Minister, Sri Mulyani Indrawati, will deliver more effective policies that will take the economy onto a stronger growth path.
- A stronger-than-expected appreciation in the rupiah has helped to contain imported inflation. The rupiah has strengthened by some 14% since a trough of USD/IDR10,755 in late August 2005. This has kept further interest rate hikes at bay with Bank Indonesia maintaining the benchmark rate at 12.75% at its January meeting. We expect the BI rate to be close to its peak with the potential for a further interest rate hike in the first half of 2006 only if the government raises electricity tariffs by March 2006. Meanwhile, inflation has eased from a high of 18.4% YOY in November to 17.1% YOY in December but remains high against the average of 8% during January-September 2005. For 2006, inflation is forecast to ease slightly to around 9½% from 10.4% in 2005.
- The economy is likely to expand at a slower pace of around 4¾% in 2006 against a higher interest rate and inflation environment but is expected to bounce back to grow by more than 6% in 2007. Renewed efforts to kick-start the privatisation programme and lift infrastructure investment will boost structural reform and offer huge potential for medium-term growth but it remains a wait-and-see situation to see how the new economics team expedites the process. The Infrastructure Investment Summit scheduled for November 05 and which was delayed until February 06, has now been postponed again, as the government finalises regulations for the tender and implementation of projects. There is, however, cautious optimism that a more determined effort will be made to enhance both domestic and foreign investment.

Jasmine Robinson

Economic data - Indonesia

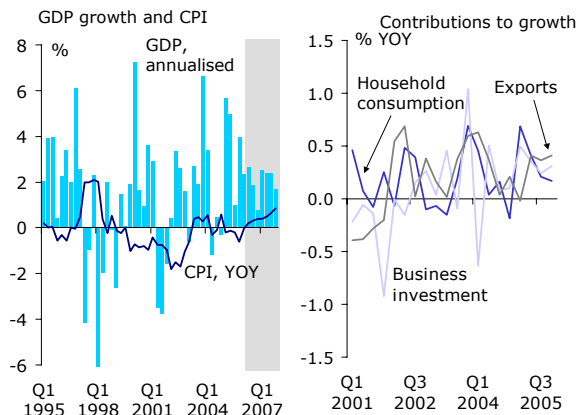
Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	4.7	3.2	-0.8	1.1	-0.8	-9.66	11.34	n/a
Motor cycle sales, % YOY	35.0	44.4	37.4	41.7	21.5	28.5	35.4	-3.0
Consumer Price Index, % YOY	7.4	7.4	7.8	8.3	9.1	17.89	18.38	17.11
Exports, % YOY	28.5	13.4	17.2	10.0	1.9	4.81	11.54	n/a
Imports, % YOY	44.8	24.7	14.9	31.7	15.3	15.31	3.67	n/a
Trade Balance, US\$ bn	2.2	2.0	2.2	1.6	2.5	2.97	2.79	n/a
Foreign Exchange Reserves, US\$ bn	33.2	32.5	30.8	29.7	28.7	31.04	31.56	n/a

Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.8	4.4	4.4	5.1	6.5	6.2	5.9	5.5
- Private consumption	4.9	5.7	5.3	5.0	3.8	3.2	3.6	4.4
- Government consumption	13.3	9.9	5.2	-3.6	-2.8	-6.8	-5.9	15.6
- Gross fixed capital expenditure	-0.5	11.8	13.3	19.2	18.5	13.8	14.3	9.2
Nominal GDP, US\$ bn	61.9	63.5	62.9	64.1	67.2	68.5	69.7	70.3
Current Account, US\$ bn	2.4	-2.2	2.2	2.8	0.3	1.2	-0.8	0.0
Capital & Financial Account, US\$ bn	0.8	1.4	-0.7	0.9	1.1	0.1	-0.5	0.9

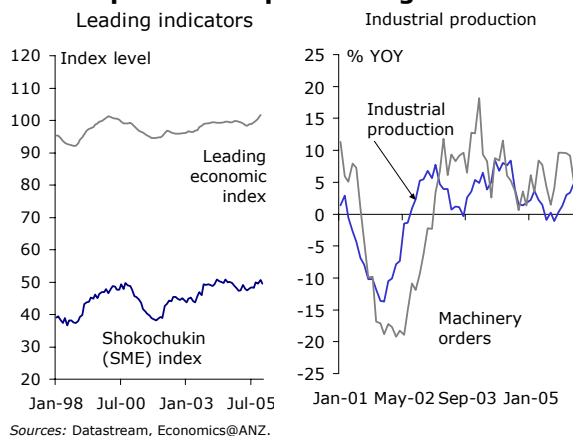
Sources: Bloomberg, Datastream, Bank Indonesia

Country Update: Japan

Economy and prices continue solid recovery



Leading indicators and industrial production performing well



- With positive data flow proceeding apace and our outlook for European growth in particular improving, we have again ratcheted up our forecasts for Japan. Our forecasts now call for growth to reach 2.5% this year, up from 2.0% forecast previously. The major difference is coming from an assumed increase in net exports due to robust external demand, although household consumption and business investment are most important in terms of their contribution to growth.
- Consumer sentiment continues to improve, with the Bank of Japan's quarterly consumer sentiment survey showing that nearly 20% of respondents believe that economic conditions are improving and that they will be improved 12 months from now – up from about 10% in the September quarter and less than 10% in the June quarter. Data on retail sales is encouraging, with department store sales up 3.2% YOY in November and 0.9% YOY in December.
- Exports rose more than 13% YOY (in Yen terms) in the fourth quarter, helping push industrial production up 3.8% YOY in the quarter versus 0.2% YOY in the third quarter. Consumer goods rose 3.1% YOY while producer goods were up 5.5% in the fourth quarter. Other Asian currencies have appreciated against the yen, leaving the currency competitive versus its trading partners.
- The debate between the BOJ and government officials about the timing and method to end Japan's zero interest rate policy is heating up. Core inflation turned positive for the first time since 1998, rising 0.1% YOY in November and December. Expert commentators have suggested an inflation band of 1-3% as a long-term target for the BOJ. We continue to expect that the BOJ will end its quantitative easing policy in the second quarter and raise rates above zero at year-end.

Amy Auster

Economic data - Japan

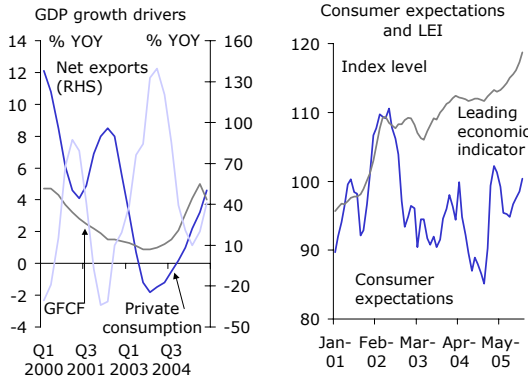
Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	-0.9	0.2	-1.1	0.3	1.3	3.0	3.4	5.0
Retail Sales, % YOY	2.9	3.0	0.6	1.6	0.2	-0.5	0.6	1.2
Consumer Price Index, % YOY	0.2	-0.5	-0.3	-0.3	-0.3	-0.7	-0.8	n/a
Exports, % YOY	6.5	4.2	2.0	8.8	7.7	2.3	1.4	3.0
Imports, % YOY	24.6	11.8	9.2	20.9	16.3	11.7	3.1	11.5
Trade Balance, US\$ bn	2.7	8.0	7.8	1.0	8.6	7.1	5.0	7.7
Foreign Exchange Reserves, US\$ bn	823.9	825.0	821.7	829.9	824.9	823.2	824.3	828.8

Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	2.6	3.6	2.6	2.3	0.6	1.1	2.7	2.8
- Private consumption	1.2	2.1	2.4	2.4	0.8	1.2	1.9	2.0
- Government consumption	2.8	2.8	2.3	1.7	1.4	1.9	1.4	2.0
- Gross fixed capital formation	3.7	3.9	1.9	2.4	-0.8	2.0	4.1	6.4
Nominal GDP, US\$ bn	4179.3	4544.8	4648.8	4522.8	4507.2	4681.6	4773.3	4814.9
Current Account, US\$ bn	146.6	158.6	172.9	171.2	170.6	174.1	171.3	164.7
Capital Account, US\$ bn	-1.9	-2.6	-8.5	-1.1	-2.5	-7.0	-4.7	-2.7

Source: Datastream

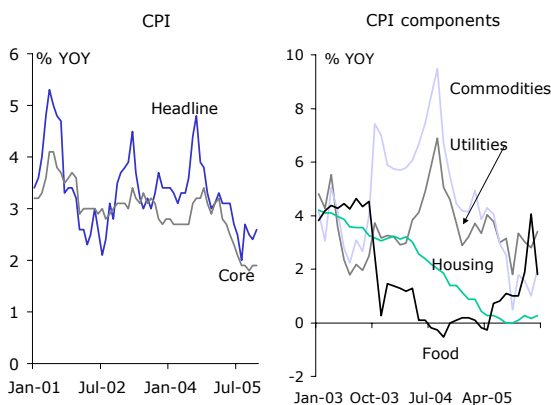
Country Update: Korea

Growth accelerates, outlook is favourable



Sources: Datastream, Economics@ANZ.

Industrial activity still trending with external demand



Sources: Datastream, Economics@ANZ.

- Real GDP rose 5.4% in the fourth quarter and 4.7% for 2005 overall, as private consumption picked up in the second half and exports remained strong. The result was just above than our forecast of 3.9% growth, which did not anticipate a fourth quarter surge in exports. The economy is now firing on all cylinders for the first time since 2000, with domestic consumption, investment and net exports performing strongly in the second half of 2005.
- Korea's growing relationship with China should continue to support external demand and the manufacturing sector, and leading indicators are clearly showing a positive trend for 2006. IP rose 10% YOY in Q4 from 7% YOY in Q3 and 3.6% YOY in the first half on the back of both domestic and external demand; exports rose 12% in Q4, while imports rose 16%. The trade surplus rose to US\$6.1 billion in the fourth quarter from US\$5.0 billion in the third quarter last year.
- Similarly, the consumer expectations index has again risen to above 100 despite Bank of Korea's December interest rate hike. Rising consumer sentiment is also evidenced by retail sales, which were up 5% YOY in the fourth quarter after at 2.6% YOY rise in the third quarter. This is consistent with solid wage growth of 5-6% YOY in the second half of 2005 as well as a recovery in household credit growth.
- Inflation data through the end of December does not provide any evidence of the latent price pressures that the BOK expressed as its main rationale for last month's interest rate hike. Headline inflation ended 2005 at 2.6% YOY in December, averaging 2.8% YOY for the year, while core inflation remains under 2%. Looking at the CPI components, price rises seem to be limited to commodities prices and utilities, with little pass through as yet to other sectors. Given this, and the strength of the won in December and January that will help dampen tradables prices, the BOK should be able to remain on hold for at least a few months.

Amy Auster

Economic data - Korea

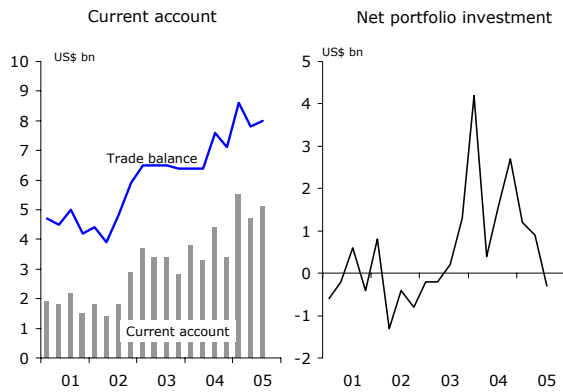
Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	4.2	4.1	6.9	6.4	7.3	8.3	12.1	11.3
Retail Sales, % YOY	4.6	3.7	3.5	4.3	4.2	4.6	6.7	10.5
Consumer Price Index, % YOY	3.1	2.7	2.5	2.0	2.7	2.5	2.4	2.6
Exports, % YOY	11.0	9.5	10.6	17.9	17.7	11.9	12.2	11.2
Imports, % YOY	18.1	14.7	16.7	21.1	24.6	11.3	17.8	18.5
Trade Balance, US\$ bn	2.0	2.5	1.8	1.4	1.9	2.7	2	1.6
Foreign Exchange Reserves, US\$ bn	205.3	204.2	204.9	206.0	206.0	206.6	207.6	210.0

Quarterly data	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05	Dec 05
Real GDP, % YOY	5.2	5.6	4.9	3.0	2.8	3.4	4.6	5.4
- Private consumption	-1.3	-0.5	-0.7	0.5	1.4	2.8	3.9	n/a
- Government consumption	3.0	4.2	2.9	1.9	3.2	4.1	4.6	4.1
- Gross fixed capital expenditure	2.2	4.3	3.0	-1.2	0.1	2.1	2.0	3.7
Nominal GDP, US\$ bn	163.5	167.0	170.8	181.8	191.4	197.6	197.3	n/a
Current Account, US\$ bn	6.4	6.9	7.6	7.3	5.9	2.6	2.6	5.4
Capital Account, US\$ bn	-0.4	-0.5	-0.4	-0.5	-0.5	-0.7	-0.6	-0.5

Source: Datastream

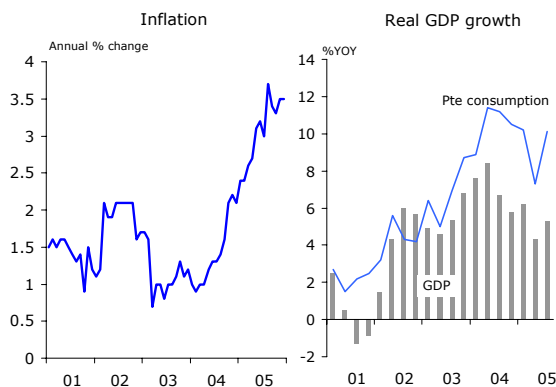
Country Update: Malaysia

Current account surpluses stay strong but net portfolio inflows slip



Source: Datastream

Inflation pressures persist



Sources: Bloomberg, Datastream

- Malaysia continues to chalk up large current account surpluses thanks to a surge in exports. For the first nine months of 2005, the current account surplus totalled US\$15.3 billion, up 33% from the same period in 2004 with merchandise exports growing by 12% YOY while imports rose by 9% YOY.
- Nevertheless, the build-up of capital inflows in anticipation of a revaluation of the ringgit has given way to a significant sell-off in recent months. Foreign exchange reserves stood at US\$70 billion as at December 2005 compared with US\$80 billion as at September 2005. The outlook, however, is for reserves to strengthen in 2006 supported by strong current account surpluses.
- Consumer prices rose 3.5% YOY in December, bringing the average rate for 2005 to 3.1% from 1.4% in 2004. Inflationary pressures are likely to persist as the pass-through impact of subsidy reductions and high oil prices underpin upside risks. The central bank is expected to maintain a tightening bias in response to price pressures and continued strong growth momentum in the economy. Another rate hike is likely in the first half of this year.
- The ringgit has gained some strength in January after a weaker profile towards the end of 2005 reflecting capital outflows in search of better returns. Since the start of the year, the ringgit has appreciated by around 1%. The expectation of higher domestic interest rates and a general appreciation of regional currencies are likely to support to a gradual strengthening of the ringgit over 2006.
- Real GDP is forecast to expand by around 5% in 2006. Growth is likely to be underpinned by private consumption and investment. Fourth-quarter growth is likely to be given a boost by the bringing-forward of purchases of goods and services ahead of the introduction of the GST in January 2007.

Jasmine Robinson

Economic data - Malaysia

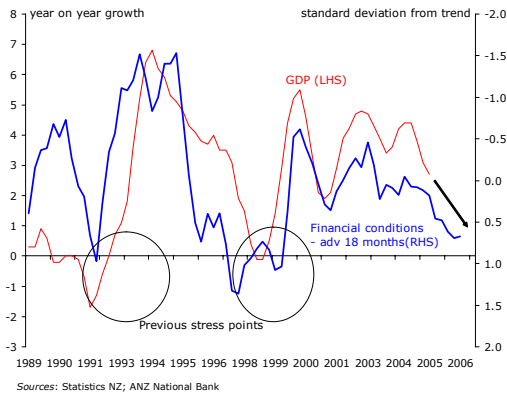
Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	-0.1	3.2	0.2	4.5	4.9	4.4	6.7	n/a
Motor Vehicle sales, % YOY	17.3	1.8	-3.0	21.2	14.7	29.1	7.2	n/a
Consumer Price Index, % YOY	3.1	3.2	3.0	3.7	3.4	3.3	3.5	3.5
Exports, % YOY	10.9	11.7	3.0	13.4	8.4	13.6	12.7	n/a
Imports, % YOY	13.8	6.0	7.6	11.4	9.0	9.3	6.6	n/a
Trade Balance, US\$ bn	1.8	2.0	1.6	2.6	2.0	2.8	2.3	n/a
Foreign Exchange Reserves, US\$ bn	74.9	75.2	78.7	80.8	80.4	77.2	72.9	70.5

Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	7.0	7.8	8.4	6.7	5.8	6.0	4.3	5.3
- Private consumption	8.6	8.9	11.9	11.2	10.2	10.1	7.4	10.4
- Government consumption	13.3	11.8	9.5	1.1	4.2	1.5	0.9	5.9
- Gross fixed capital expenditure	3.6	3.5	3.5	3.2	2.3	2.0	6.7	9.6
Nominal GDP, US\$ bn	27.2	28.2	29.3	30.2	30.7	31.1	31.8	33.6
Current Account, US\$ bn	2.8	3.8	3.3	4.4	3.4	5.5	4.7	5.1
Capital & Financial Account, US\$ bn	-0.6	2.3	0.0	-0.9	2.7	0.9	0.1	1.6

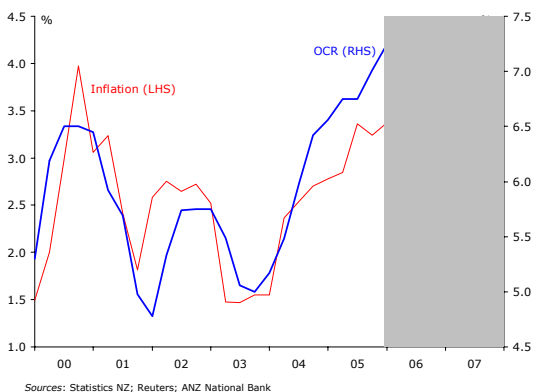
Sources: Datastream, Bloomberg

Country Update: New Zealand

Growth and financial conditions



OCR versus inflation



- Growth is decelerating faster than expected. Economic activity (GDP) came close to stalling in the September quarter (0.2 percent), as momentum associated with the Lions tour reversed and the export sector contracted. Residential investment – a key cyclical barometer – has now contracted for 4 of the previous 5 quarters.
- Forward indicators are giving an ominous reading on growth. Retail sales have fallen for 2 out of the past 3 months. The housing market is cooling. While house prices are up strongly (16 percent) on a year ago, 80 percent of this growth occurred in the first 7 months of the year. New dwelling consents are 42 percent down from their peak, and this decline has yet to completely filter through to residential investment which will act as a major drag on growth over the coming quarters. Business and consumer confidence has plummeted. Firms' own activity expectations from the National Bank's Business Outlook Survey – a key lead growth indicator – suggest growth may in fact have stalled in the December quarter.
- While a deceleration in growth over 2006 is shaping up as being deeper and more pronounced than we envisaged in our previous update, calls for a recession are overblown. We expect growth to trough at a tad under 1.5 percent in 2006.
- Inflation remains a key theme. Receding growth will eventually alleviate inflation pressure although this is clearly taking time, given the magnitude of resource pressure. In particular, unemployment is sitting at a 23 year low and capacity utilisation remains at an elevated level.
- A soft prognosis for growth will see the OCR move lower as opposed to higher. However, a degree of inflation persistence implies this will not be until the second half 2006.
- We expect the New Zealand dollar to remain under pressure over the coming months as growth disappoints, Uridashi redemptions emerge, and the market looks for the inevitable easing in monetary policy.

Cameron Bagrie

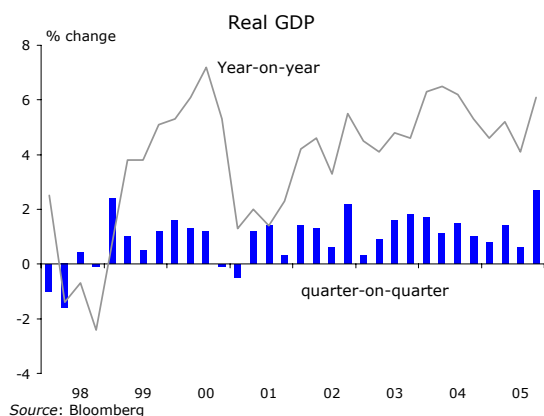
Economic data – New Zealand

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Retail Sales, % YOY	7.3	7.1	7.2	7.1	7.0	7.1	6.9	n/a
Building consents (% YOY)	-2.3	-7.3	-9.5	-18.7	-18.8	-19.7	-15.6	n/a
Exports, % YOY	8.7	8.3	4.5	2.5	1.8	1.6	2.4	n/a
Imports, % YOY	9.6	8.5	9.3	7.2	7.6	7.3	7.1	n/a
Annual Trade Balance, US\$ bn	-3.2	-3.1	-3.6	-3.7	-3.7	-4.0	-4.1	n/a
Quarterly data	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep05	Dec 05
Real GDP, % YOY	3.6	4.2	4.3	4.4	3.7	3.1	2.7	n/a
- Private consumption	6.3	6.5	6.7	6.5	5.8	5.8	5.3	n/a
- Government consumption	3.1	4.9	5.4	5.7	5.2	4.4	4.4	n/a
- Gross fixed capital expenditure	15.1	15.5	15.4	13.2	7.8	5.0	4.1	n/a
Nominal GDP, US\$ bn	85.3	89.4	93.6	97.9	100.5	105.0	107.7	n/a
Annual Current Account, US\$ bn	-4.1	-4.5	-5.6	-6.5	-7.5	-8.4	-9.1	n/a
Consumer Price Index, annual % change	1.5	2.4	2.5	2.7	2.8	2.8	3.4	3.2

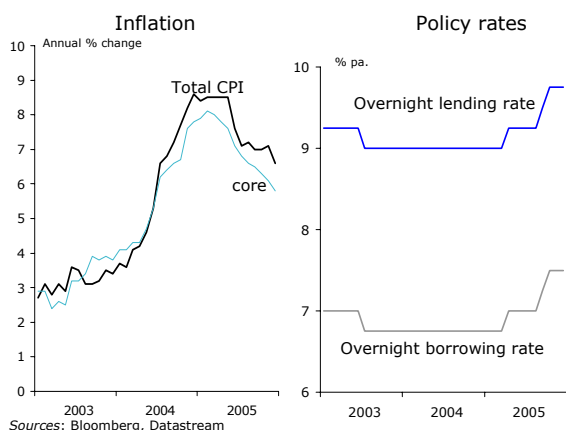
Sources: Statistics NZ, ANZ National Bank

Country Update: Philippines

Growth in Q4 2005 outperforms expectations



Inflation expected to edge up



- Stronger-than-expected economic performance in 2005 and an improved fiscal position have underpinned solid gains in financial markets in the later part of 2005. Real GDP growth for 2005 was 5.1%, lifted by a robust fourth quarter outcome of 6.1%YOY. 2006 is expected to see a slightly slower, albeit healthy, pace of economic expansion, supported by investment and strong remittance inflows, which will help underpin private consumption.
- The fiscal deficit for 2005 was down 22% from 2004 and was 18.6% lower than the target, bringing it to 2.9% of GDP. A further narrowing is expected for 2006 to around 2.1% of GDP. President Arroyo aims to bring the budget to balance by 2008, two years ahead of plan. Although improving, the government's debt position remains high. A higher interest rate environment, both domestically and externally, will add pressure on the fiscal account with interest payments accounting for around a third of expenditure.
- Inflation is expected to edge up, reflecting in part the impact of the expansion of the VAT to incorporate a wider range of products and services and an increase in the VAT rate to 12% from 10% from 1 February. High oil prices will also continue to add upward price pressures. Inflation is forecast to average 8% in 2006 from 7.7% in 2005 – well above of the target of 4-5%. The central bank is likely to continue to maintain a tightening bias with another quarter-point rate hike expected in the first half of this year.
- On the political front, President Arroyo has, for now, been successful in fighting off calls for her to step down before her term ends in 2010. She faces an uphill battle in pursuing constitutional reform, with the aim of shifting from a presidential arrangement to a parliamentary system.

Jasmine Robinson

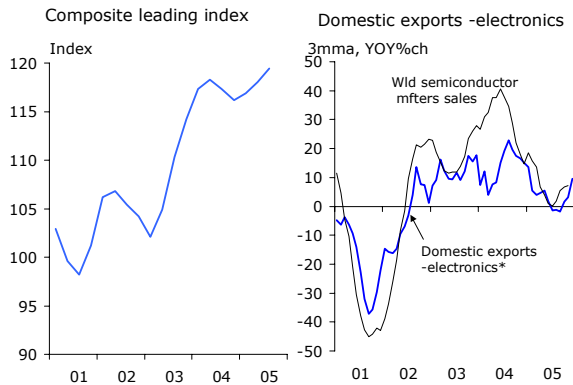
Economic data - Philippines

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Manufacturing Production, %YOY	3.1	-2.9	0.3	5.2	-4.5	4.6	n/a	n/a
Motor Vehicle sales, % YOY	15.7	25.2	0.7	12.6	10.2	12.8	-4.0	11.2
Consumer Price Index, % YOY	8.5	7.6	7.1	7.2	7.0	7.0	7.1	6.6
Exports, % YOY	1.1	1.2	11.4	0.8	1.0	-3.2	-1.6	n/a
Imports, % YOY	9.4	6.0	-3.1	10.1	17.7	-3.1	1.4	n/a
Trade Balance, US\$ mn	-289.0	-647.0	-182.0	-602.0	-440.0	-248.0	-83.0	n/a
Foreign Exchange Reserves, US\$ bn	14.7	15.0	14.9	15.3	15.9	15.5	n/a	n/a
Quarterly data	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05	Dec 05
Real GDP, % YOY	6.1	6.3	6.3	5.4	4.5	5.2	4.5	6.2
- Private consumption	5.7	6.3	5.5	5.7	5.0	4.8	4.8	5.2
- Government consumption	4.1	-1.2	-7.2	5.6	0.6	15.7	-2.0	-4.2
- Gross fixed capital expenditure	5.0	4.0	3.6	4.3	-4.4	-3.9	-2.1	-1.4
Nominal GDP, US\$ bn	20.5	21.2	21.9	22.5	23.2	24.2	24.2	26.1
Current Account, US\$ bn	-0.1	0.3	0.5	1.7	0.7	0.4	0.2	n/a
Capital Account, US\$ mn	-0.5	0.8	-0.7	-1.2	1.1	0.5	0.5	n/a

Sources: Datastream, Bloomberg

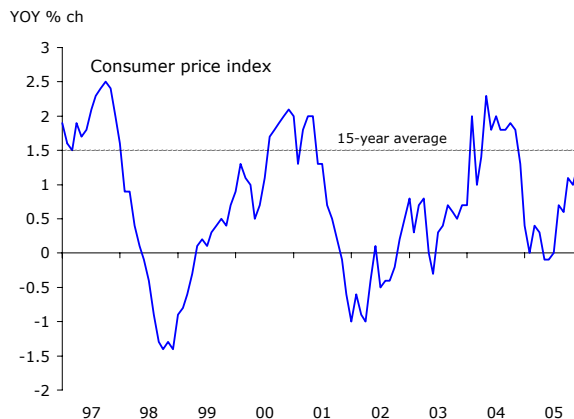
Country Update: Singapore

Economy on a solid growth track



*: Electronics exports : disk drives, integrated circuits, PCs, parts of PCs & telecom. eqpt
Source: Datastream

Inflation moves closer to trend



Source: Datastream

- Real GDP is estimated to have expanded by 6% in 2005, a robust outcome following revised growth of 8.8% for 2004. Strong external demand for electronics and pharmaceuticals has boosted growth in the manufacturing sector. The construction sector posted its first increase in Q4 2005 after two successive quarters of decline, signalling a recovery in sentiment. The economy is likely to maintain a solid growth track in 2006. Our forecast is for real GDP to expand by around 5½%, coming off a high base. Global semiconductor demand is expected to continue to contribute to growth in electronics output, while demand for pharmaceuticals is expected to continue to stay firm but production cycles will mean wide fluctuations in output over the course of the year. A strong events calendar is also expected to support further growth in the services sector.
- Inflation has edged up significantly in the last quarter to average 1.1%YOY against 0.3%YOY for the nine months to September. Housing (e.g. utilities), recreation and education costs have posted relatively strong rises while transport and communications costs have declined thanks largely to lower car prices. High oil prices as well as stronger demand are expected to generate further upward pressure on prices over 2006 with average annual inflation forecast to climb to 1.5% in 2006 from 0.5% in 2005. Inflation, however, remains benign and represents a move closer to the 15-year average rate of 1.5%. The Monetary Authority of Singapore is likely to maintain its gradual tightening bias for the Singapore dollar particularly as a stronger inflation profile is expected for the year. The Singapore dollar has appreciated by some 2½% against the US dollar since the start of the year.
- The budget, to be announced on 17 February, is expected to be framed with elections in mind, which are likely to be held this year.

Jasmine Robinson

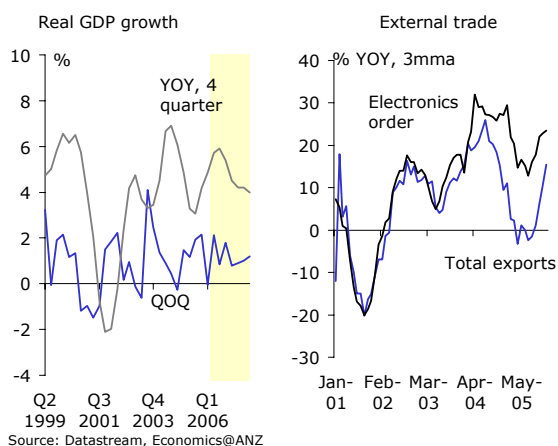
Economic data - Singapore

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	2.0	11.3	5.7	11.4	21.7	17.9	21.5	5.1
Retail Sales, % YOY	6.8	9.7	10.5	7.5	9.0	10.6	2.8	n/a
Consumer Price Index, % YOY	-0.1	-0.2	0.1	0.7	0.6	1.1	1.0	1.3
Exports, % YOY	15.9	11.3	10.8	22.0	11.0	16.9	18.1	20.2
Imports, % YOY	11.1	15.3	6.9	20.6	15.6	20.3	13.1	19.0
Trade Balance, US\$ bn	2.6	1.9	2.2	2.8	2.8	2.2	3.2	3.8
Foreign Exchange Reserves, US\$ bn	115.9	115.7	115.8	116.4	115.6	115.7	n/a	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	5.5	7.9	12.3	7.3	6.5	2.7	5.4	7.0
- Private consumption	3.3	8.0	12.3	7.7	6.6	2.9	2.2	1.8
- Government consumption	4.0	4.1	-7.1	-5.4	-1.0	12.3	-1.8	4.2
- Gross fixed capital expenditure	-0.3	12.5	11.0	8.6	0.3	-4.9	-3.5	-3.0
Nominal GDP, US\$ bn	24.2	26.2	26.1	26.0	28.6	28.1	28.9	29.1
Current Account, US\$ bn	6.7	5.8	6.3	7.9	7.9	7.0	8.4	10.4
Capital & Financial Account, US\$ bn	-6.8	-0.1	-3.7	-7.5	-1.8	-5.8	-1.0	-10.5

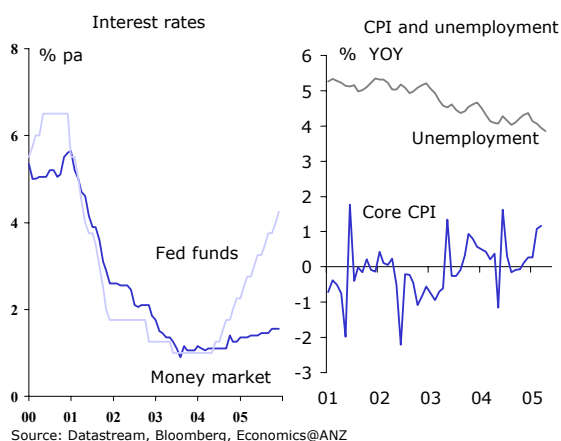
Sources: Bloomberg, Datastream, Economic Survey of Singapore

Country Update: Taiwan

GDP growth accelerating in 2005, solid in 2006 on export demand



Market rates should rise further



- Taiwan's economy accelerated in the fourth quarter on the back of rising global electronics demand. Exports rose 15% YOY in the fourth quarter, up from only 1.1% YOY in Q3 and driving industrial production volume growth to 9.2% YOY in Q4. The government raised its fourth quarter GDP forecast to 5.3% from 4.6%; we estimate that real GDP rose 4.2% last year.
- The same scenario can be expected in early 2006, as Taiwan's leading economic indicator rose to 109 in November, the highest reading in 2005. Similarly, electronics orders representing a 3-month advance rose 24.2% in December after a 25% YOY rise in November. Our GDP growth forecast for Taiwan has duly been raised to 5.4%, up from 3.4% previously.
- Although Taiwan is an energy importer, to the extent that high oil prices reflect strong global demand, surging exports are likely to prevent high oil prices from becoming a massive drag on growth.
- Expanding economic activity and high oil prices are pushing up inflation, but headline inflation of 2.2% YOY (December) and core inflation of 1.2% (November) remain moderate. The central bank will continue to raise interest rates in line with the Fed, implying two more rate hikes according to our Fed funds forecast.
- A new cabinet took office in late January amid President Chen Shu-bian's efforts to take a harder line against the One China policy. The reshuffle followed poor local election results for the ruling Democratic Progressive Party amid negative sentiment around the President's hard-line stance. Chen's recent speeches have advocated a new constitution for Taiwan, but the local election loss may mean he is unable to pursue more aggressive policies in this area.

Amy Auster

Economic data – Taiwan

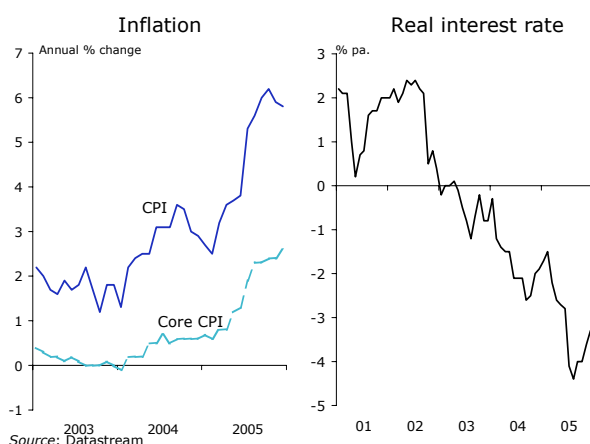
Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production, %YOY	-1.3	2.0	-1.7	6.5	6.9	8.6	9.5	9.5
Retail Sales, % YOY	4.6	4.8	7.4	5.6	7.6	3.5	n/a	n/a
Consumer Price Index, % YOY	2.3	2.4	2.4	3.6	3.2	2.7	2.5	2.2
Exports, % YOY	4.0	2.7	5.0	6.5	6.9	15.6	9.5	15.7
Imports, % YOY	11.3	2.1	9.0	10.0	7.5	8.1	4.3	-10.7
Trade Balance, US\$ bn	0.1	-0.2	0.3	0.4	0.7	1.5	1.4	2.9
Foreign Exchange Reserves, US\$ bn	253.2	253.6	253.6	254.1	253.8	252.0	251.8	253.3

Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	6.1	7.8	8.9	5.3	2.5	2.4	2.9	4.4
- Private consumption	2.5	5.1	5.9	1.6	3.1	2.5	2.8	3.8
- Government consumption	0.6	1.4	-0.2	-1.4	-2.0	-0.6	0.8	1.0
- Gross fixed capital expenditure	8.1	15.2	23.9	15.6	15.7	8.8	7.1	0.1
Nominal GDP, US\$ bn	78.5	79.3	81.0	79.9	82.0	86.2	87.2	86.7
Current Account, US\$ bn	8.0	5.9	5.5	5.3	1.8	4.4	1.8	0.9
Capital Account, US\$ bn	-6.4	-5.7	-5.0	-4.8	-4.4	-4.6	-3.4	-3.0

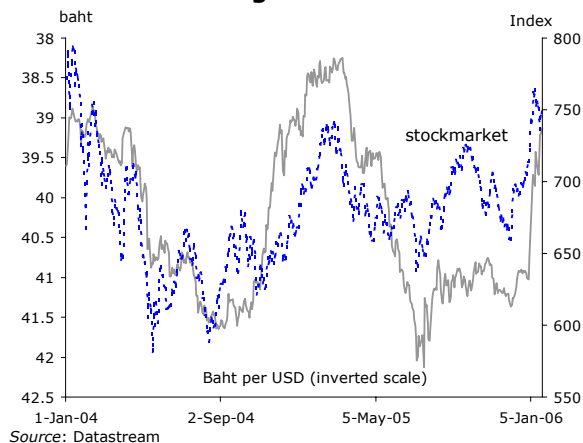
Sources: Bloomberg, Datastream, National Statistics

Country Update: Thailand

Inflation concerns prompt rate rise



Thai baht gains momentum



- The Bank of Thailand (BOT) raised its key 14-day repurchase rate by a quarter point to 4.25% at its January meeting – the tenth hike since it began its tightening cycle in August 2004. Although annual inflation eased slightly to 5.8% in December, core inflation continued to edge up and was 2.6%YOY compared with 0.7%YOY in January 2005. While core inflation remains within the target band of 0-3.5%, the upside risks generated by the pass-through impact of the removal of fuel subsidies and high oil prices, suggest another rate hike to 4.5% is on the cards in the first half of this year.
- The real interest rate, as measured by the difference between the 12-month deposit rate and the consumer price, has been in negative territory for more than a year but a further improvement in real rates in the months ahead is expected as inflation recedes and with one more rate increase.
- The Thai baht has remained strong, appreciating by some 5% since the start of the year. While the US\$1.9 billion acquisition of a part-stake in Shin Corporation by Singapore's Temasek group generated strong demand for the baht, the general appreciation of Asian currencies against the US dollar and favourable economic fundamentals lend support for further baht strengthening over the year, albeit at a more gradual pace.
- The better-than-expected third quarter outcome has lifted our growth estimate for 2005 and prospects for 2006. Growth is forecast to edge up to around 5% in 2006 from 4½% in 2005 with net exports underpinning growth at least for the first half of 2006. Private consumption and investment are also expected to pick up as the period proceeds.

Jasmine Robinson

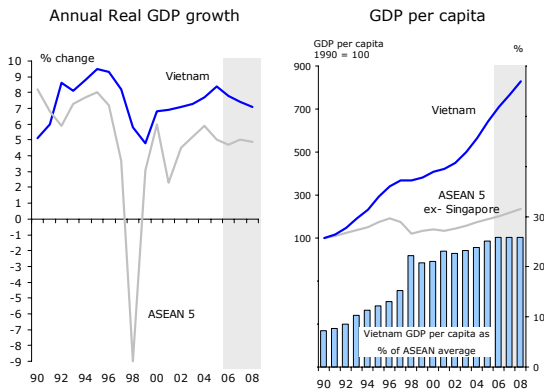
Economic data - Thailand

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Manufacturing Production, %YOY	8.3	9.6	4.8	10.5	5.8	5.5	5.1	n/a
Car Sales, % YOY	21.9	25.6	12.3	21.0	7.9	3.7	8.3	n/a
Consumer Price Index, % YOY	3.7	3.8	5.3	5.6	6.0	6.2	5.9	5.8
Exports, % YOY	14.5	11.7	18.1	24.9	23.2	8.4	14.5	11.6
Imports, % YOY	37.1	36.1	20.3	21.7	20.6	18.8	14.8	27.9
Trade Balance, US\$ bn	-1.7	-1.8	-0.1	0.0	0.8	-0.2	0.1	-0.1
Foreign Exchange Reserves, US\$ bn	47.1	47.2	47.3	48.2	48.5	48.5	49.4	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	7.9	6.7	6.4	6.1	5.5	3.3	4.5	5.3
- Private consumption	7.0	6.3	6.2	5.9	5.2	4.4	4.8	4.4
- Government consumption	7.4	8.1	5.9	1.6	3.7	17.0	9.5	17.0
- Gross fixed capital expenditure	19.8	15.6	13.1	10.5	15.9	14.8	14.4	7.9
Nominal GDP, US\$ bn	38.2	39.9	40.0	39.9	41.9	43.9	43.1	44.1
Current Account, US\$ bn	2.5	2.2	0.6	1.2	3.1	-1.5	-4.7	1.2
Capital & Financial Account, US\$ bn	-2.0	-1.6	0.3	0.2	0.5	0.1	4.3	1.4

Sources: Bloomberg, Datastream, ANZ Bank

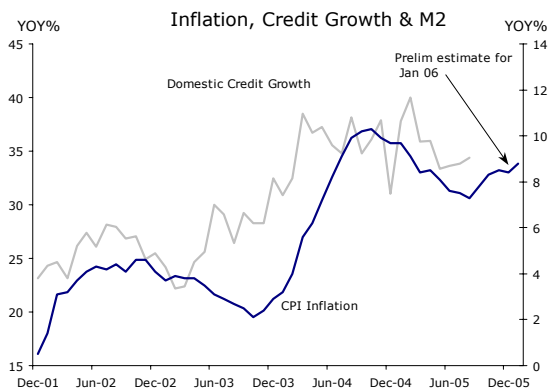
Country Update: Vietnam

GDP growth driving higher living standards



* shaded areas represent forecasts
Source: [Economics@ANZ](#), IMF and EIU

Inflation on the rise



Source: General Statistics Office of Vietnam

- Vietnam's economy grew by 8.4% in 2005, a rate not seen since 1996, making it the second fastest growing economy in Asia (behind China). Consistently strong growth has driven a significant improvement in living standards over the decade, dramatically reducing poverty. The government now plans for the country to emerge from the ranks of the world's low-income nations by 2010. However currently, GDP per capita remains at around only a quarter of the levels experienced in neighbouring economies.
- The government has set an ambitious target of 7.5% GDP growth for the first quarter of 2006 exceeding the 7% average for the same period in the preceding 3 years. ANZ forecasts between 7-8% GDP growth for 2006 again driven by a strong and increasingly diversified industrial sector with manufacturing and construction two key growth areas. The services sector is also an increasingly important engine for growth with the significant increases in tourist numbers experienced in 2005 set to continue in 2006.
- Trade should benefit from Vietnam's entry into the WTO expected in mid-2006. This will effectively remove quotas imposed on textiles and garments exports to the US, further encouraging the country's second largest export earner.
- However, inflation remains a real concern running at an average of 8.2% in 2005, well above the targeted 6.5%. Although higher petrol prices drove much of the growth in prices in 2005, rapid credit growth has also been a significant contributing factor. In efforts to slow credit growth, the State Bank of Vietnam (SBV) has increased the refinance rate in 2005 from 6% to 6.5%, the discount rate from 4% to 4.5% and the savings rate from 7.8% to 8.25% in addition to imposing restrictions on bank lending activity. Despite these efforts, including strikes in January that forced the government to significantly increase the minimum wage, combined with higher food prices (due to a reduced supply of poultry), have seen preliminary estimates of inflation rise to 8.8% YOY for January.

Alex Joiner

Economic data - Vietnam

Monthly data	May 05	Jun 05	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05
Industrial Production ⁺ , %YOY	14.4	15.1	15.4	15.6	16.0	18.1	16.5	16.7
Retail Sales ⁺ , % YOY	18.5	18.7	18.8	18.9	19.0	19.1	19.7	20.0
Consumer Price Index, % YOY	8.4	8.5	8.1	7.6	7.5	7.3	7.8	8.3
Exports ⁺ , % YOY	16.2	23.2	20.4	17.4	18.1	18.7	21.1	21.9
Imports ⁺ , % YOY	18.5	22.4	21.2	22.0	20.5	20.0	19.2	18.3
Trade Balance [*] , US\$ bn	-1.1	-1.8	-2.6	-3.6	-3.5	-3.8	-3.9	-4.1
Tourist Arrivals ⁺ , %YOY	22.8	20.1	19.4	23.7	23.8	22.7	20.6	20.3
China, number of visitors [*]	211,930	246,066	302,439	408,817	478,195	527,138	559,790	621,786
US, number of visitors [*]	94,787	115,161	134,243	166,875	204,051	230,937	230,937	275,596

Quarterly data	Growth Q1-Q4 2005	Contributions to Growth (ppts)
Real GDP ⁺ , % YOY	8.4	
Agriculture, forestry, fishery, % YOY	4.1	0.8
Industry & construction, % YOY	10.6	4.2
Services, % YOY	8.5	3.4

+ : January-to date vs same period in previous year * : January to date ^ : US\$ bn

Source: General Statistics Office of Vietnam

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