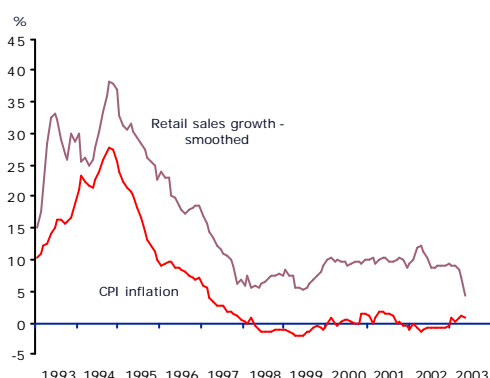


# Country Update: China

## Strong growth to start the year



## SARS impact starts to show



- China started the year with sizzling growth, reporting GDP up by 9.9% over the year to the first quarter.
- In April, the seriousness of the SARS outbreak was belatedly acknowledged, precipitating some profound uncertainties. Business people and tourists cancelled travel to China, and residents tended to stay home. The services sector was the first to feel the impact. In May, retail sales declined by a seasonally adjusted 1.3%. The manufacturing sector, working on an existing pipeline of orders maintained its growth, as evidenced by strong industrial production (up 13.7% over the year to May) and exports (up 37% in the same period).
- It now appears that the worst of the SARS outbreak is over. Retail sales should rebound once people feel safe from infection in public places. However, in manufacturing, overseas buyers have stayed away and Chinese salespeople are not welcome at their overseas customer's offices, so there are reports of new orders drying up, particularly in sectors such as garments. This suggests that there could be a delayed downturn in manufacturing later in the year.
- Longer term – say beyond year-end – it is likely that boom conditions will return, due to the ongoing restructuring of the economy which creates an increasing role for private business. China's undoubted manufacturing cost advantages and the changes associated with WTO entry ensure continued foreign investor interest. FDI in the first four months of 2003 amounted to US\$17.8 bn, up 51% on the corresponding period of 2002.

## Economic data and debt statistics

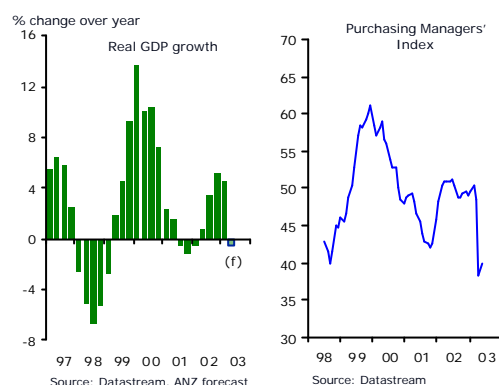
China	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	8.8	7.8	7.1	8.0	7.3	8.0	7.0	7.5
Inflation (yr av, %)	2.8	-0.8	-1.5	0.3	0.7	-0.8	0.5	1.0
Budget Balance (% of GDP)	-0.8	-1.2	-2.1	-2.8	-2.6	-3.0	-3.2	
Current Account (% of GDP)	4.1	3.3	2.1	1.9	1.5	2.9	0.9	
External Debt (US\$ bn)	147	144	152	146	170	181	202	
Ext Debt/GDP Ratio (%)	16.2	15.1	15.2	13.5	14.3	14.7	14.5	
Ext Debt/Exports Ratio (%)	67.4	67.5	66.2	49.8	54.9	48.4	47.0	
Short term debt/Reserves (%)	22.0	11.6	9.6	7.8	20.4	18.0		
Debt Service Ratio (Paid) (%)	8.5	8.6	11.7	9.3	7.8	5.2		
Debt Service Ratio (Due) (%)	8.5	8.6	11.7	9.3	7.8	5.2	4.7	
Foreign Exchange Reserves (US\$ bn)	143	149	158	168	216	291	321*	
Import Cover (months)	10.5	11.0	10.0	8.1	9.7	10.8		

\*: March 2003

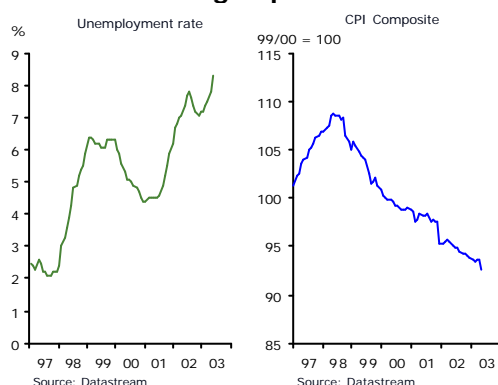
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Hong Kong

## SARS has hit Hong Kong hard



## Unemployment rises sharply and fierce discounting depresses the CPI



- For structural reasons, the Hong Kong economy (of which services comprise 85%) has been more severely affected by SARS than any other. Unlike China, Canada and Taiwan where large proportions of the population live well away from affected areas, all of Hong Kong has been impacted. Moreover, most of the (normally) large number of travellers into and through HK have simply stayed away.
- It is estimated that the economy contracted by 3½% (seasonally adjusted) in the second quarter, bringing over-the-year growth to -½%. There will be some rebound in the second half, but not all of the lost output will be regained. The forecast for the full year has been revised down to 1% compared with 2.7% expected before the SARS outbreak.
- The purchasing managers' index (a diffusion index, which, when above 50, represents an improving outlook for the manufacturing sector) collapsed in May. Recovery will depend on the return of business travellers to Hong Kong.
- The unemployment rate, measured over the three months to May, rose to 8.3%, its highest in 30 years. By mid-June, reports suggest that people forced to take leave were returning to work as personal services and retail sales began to recover.
- The collapse in demand has triggered aggressive discounting and pushed the CPI down in May, after it had appeared to be levelling off in the first four months of the year. Over the twelve months to May, annual inflation was -2.5%.

## Economic data and debt statistics

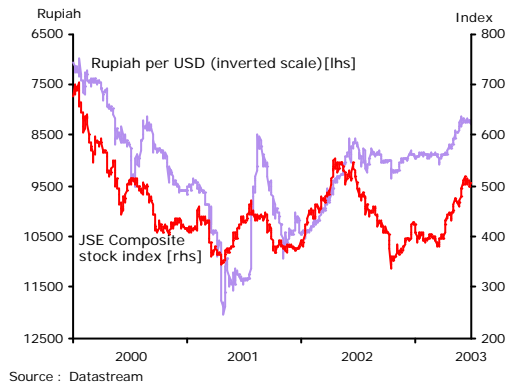
Hong Kong	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	5.1	-5.0	3.4	10.2	0.6	2.3	1.1	3.3
Inflation (yr av, %)	5.8	2.9	-4.0	-3.8	-1.6	-3.0	-2.0	-1.0
Budget Balance (% of GDP)	6.5	-1.8	0.8	-0.6	-5.0	-4.9	-6.8	
Current Account (% of GDP)	-3.0	2.7	7.5	5.5	7.5	10.7	3.6	
External Debt (US\$ bn)	40.4	48.3	38.2	42.4	57.7	59.8	62.5	
Ext Debt/GDP Ratio (%)	23.2	29.2	23.8	25.7	35.2	36.7	39.2	
Ext Debt/Exports Ratio (%)	#N/A	18.8	14.9	14.3	20.5	20.8	21.0	
Short term debt/Reserves (%)	11.1	11.6	14.7	15.8	18.2	18.9		
Debt Service Ratio (Paid) (%)	#N/A	2.5	2.1	2.4	2.5	2.6		
Debt Service Ratio (Due) (%)	#N/A	2.5	2.1	2.4	2.5	2.6	2.5	
Foreign Exchange Reserves (US\$ bn)	92.8	89.7	96.2	108	111	112	114*	
Import Cover (months)	4.8	5.2	5.8	5.5	6.0	5.9		

\*: March 2003

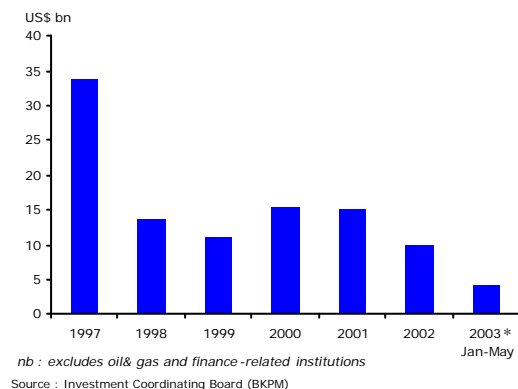
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Indonesia

## Financial markets perform strongly



## Foreign investment approvals pick up but from low levels



- Investors' recognition of the improved political and economic environment in Indonesia has been reflected in the strong gains in the stockmarket and steady rise of the rupiah during the course of the year. The stockmarket has risen by around 20% since the start of the year and the rupiah has staged a strong appreciation of around 9% against the US dollar. Thanks largely to a strong currency, annual inflation has been brought down from 10% in December 2002 to 6.6% in June 2003. Interest rates have also fallen, with the 1-month SBI rate at around 9.3%, a new low since the Asian crisis.
- Economic growth has hovered around 3½% over the past two years, supported by an expansion in private consumption. Real GDP grew by 3.4% over the year to Q1 2003 but signs of a slowing in private consumption, coupled with sluggish external demand, are likely to see the economy expand by around 3% in 2003.
- While a formal decision is not due until end-2003, the government has hinted that it is unlikely to seek further assistance from the IMF when the current US\$5 bn arrangement expires in December. This is expected to leave a financing gap of around 1.5% of GDP as debt rescheduling by the Paris club of official creditors is contingent on an IMF agreement. This gap is likely to be covered by the issue of bonds, stepping-up privatisation and further loans from foreign creditors.
- Foreign investment approvals have improved significantly in 2003 but from low levels. Approvals for January-May 2003 stood at US\$4 bn compared with US\$2.2 bn for the same period in 2002. Conflict in Aceh, uncertainty in the run-up to general elections in April 2004, regulatory and legal reform issues and security risks will continue to hinder the potential for larger long-term capital flows.

## Economic data and debt statistics

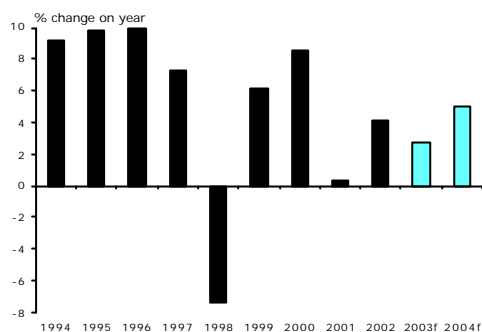
Indonesia	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	4.5	-13.2	0.8	4.9	3.5	3.6	3.0	4.2
Inflation (yr av, %)	6.2	58.4	20.5	3.7	11.5	11.9	7.5	8.0
Public Sector Balance (% of GDP)	-0.7	-2.9	-1.1	-2.8	-3.3	-1.6	-1.9	
Current Account Balance (% of GDP)	-2.3	4.3	4.1	5.2	4.9	4.2	3.8	
External Debt (USD bn)	136.2	151.2	151.0	144.1	135.7	130.4	133.5	
External Debt/GDP Ratio (%)	63.1	158.5	107.3	94.6	96.1	75.4	61.2	
External Debt/Exports Ratio (%)	206.9	262.0	256.4	194.0	205.9	199.5	195.5	
Short-term Debt/Reserves (%)	198.1	88.6	75.7	79.4	80.0	70.8		
Debt Service Ratio (Paid) (%)	30.0	31.7	30.0	22.5	23.6	23.0		
Debt Service Ratio (Due) (%)	30.0	36.4	36.5	24.0	25.1	23.8	17.8	
International Reserves (USD bn)	16.6	22.7	26.4	28.5	27.2	30.9	32.6*	
Import Cover (g & s) (months)	3.2	6.2	7.5	6.4	6.5	7.2		

\*: April 2003

Sources: IMF, Economist Intelligence Unit, ANZ Bank

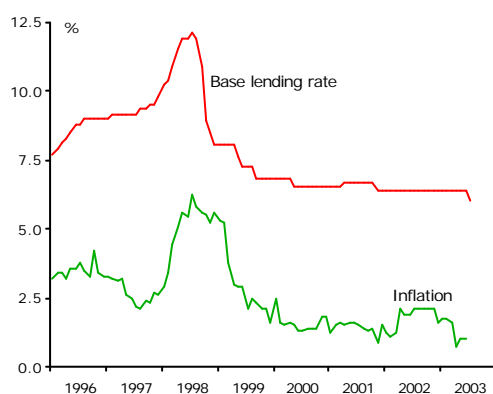
# Country Update: Malaysia

## Real GDP growth is expected to slow in 2003



Source: Datastream, ANZ Bank

## Lower interest rates should help to prevent a bigger decline in GDP growth



Source: National statistics

- The economy contracted slightly in the first quarter, with real GDP growth on a year ago slowing to 4.0%. The disappointing result reflects the adverse impact of growing international uncertainties ahead of the Iraq war. Although Malaysia was not badly affected by the SARS outbreak, there was an adverse impact on tourism and travel and this is likely to produce another small contraction in the second quarter. A rebound is likely in the second half and the government remains confident that its GDP growth forecast of 4.5% in 2003 will be met, but ANZ is more cautious projecting growth slightly below 3%.
- The authorities responded to the more difficult economic environment in May by cutting interest rates and unveiling a new stimulus package. Bank Negara's intervention rate was lowered from 5.0% to 4.5%, the first reduction for 2 years, clearing the way for a cut in commercial bank rates. The stimulus package, with a total nominal value of MYR7.3 bn (US\$1.9 bn), includes tax exemptions, increased government spending, and a series of new loan programmes. Mandatory pension contributions by employees have been cut for one year and government employees will receive a bonus. The measures are specifically targeted at boosting the rural sector and development of small and medium-sized enterprises, as well as assisting businesses hit by SARS. The direct cost to the budget is MYR1.7 bn. Tax revenues have also been adversely affected by the more difficult economic environment so earlier plans to secure a significant reduction in the budget deficit will not be realised this year.
- Malaysia announced in June that it is to allow foreign ownership of up to 100% for new operations in the manufacturing sector, abandoning a requirement introduced in the early 1970s that Malay interests must have a minimum equity stake of 30%. This policy change is a response to disappointing inflows of foreign investment in recent years.

## Economic data and debt statistics

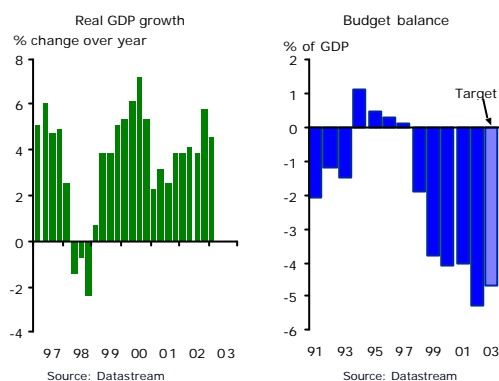
Malaysia	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	7.3	-7.2	6.1	8.6	0.4	4.1	2.7	5.0
Inflation (yr av, %)	2.7	5.3	2.8	1.5	1.4	1.8	1.4	1.8
Budget Balance (% of GDP)	2.4	-1.8	-3.2	-5.8	-5.5	-5.5	-4.5	
Current Account (% of GDP)	-5.9	13.2	15.9	9.4	8.3	6.3	4.6	
External Debt (USD bn)	47.2	42.4	41.9	41.8	43.4	46.5	49.9	
External Debt/GDP Ratio (%)	47.1	58.8	52.9	46.4	49.2	48.2	48.7	
External Debt/Exports Ratio (%)	49.2	49.8	42.6	36.4	41.6	42.4	42.2	
Short-term Debt/Reserves (%)	71.9	33.1	19.7	15.7	16.7	21.8		
Debt Service Ratio (Paid) (%)	7.4	7.1	4.9	5.6	6.0	6.1		
Debt Service Ratio (Due) (%)	7.4	7.1	4.9	5.6	6.0	6.1	5.6	
International Reserves (USD bn)	20.8	25.6	30.6	29.5	30.5	34.2	34.5*	
Import Cover (g & s) (months)	2.7	4.5	4.8	3.8	4.2	4.5		

\* March 2003

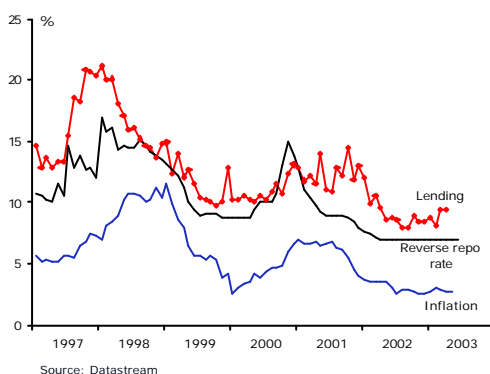
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Philippines

## Growth may disappoint this year, but budget deficit likely to shrink



## Interest rates remain high although inflation is subdued



- There appears to have been progress towards peace talks between the government and the Moro Islamic Liberation Front, expected to take place in Malaysia. The government has nevertheless maintained its hard line in dealings with the MILF and other rebel groups operating in the south.
- The fiscal position has deteriorated every year since 1997, and has been a major factor undermining foreign investor confidence. This year, at last, there are signs of progress in reversing this trend. For the first five months of 2003, the deficit was P75.4 bn, compared with P107.5 bn in the corresponding period of last year. It would appear that the government is well on track to achieving a full-year deficit below its P202 bn target.
- After recovering early in 2002, exports from the Philippines have been sluggish for about a year now. In the first four months of 2003, exports were up by only 3.2% on the corresponding period of 2002. Whether a pickup will be seen later this year will depend on stronger demand in the major export market, the USA.
- The economy grew by a revised 4.6% in 2002, and the official target for 2003 is 4.2-5.2%. However, with current sluggish demand for exports and some impact from SARS, this may turn out to be optimistic. The ADB in June lowered its forecast to 3.2-3.8%.
- Official interest rates have been unchanged for over a year, with the overnight borrowing rate at 7%. Inflation remains benign at 2.7% over the year to May, and with the US having cut interest rates in June, there is scope for a cut in the Philippines.

## Economic data and debt statistics

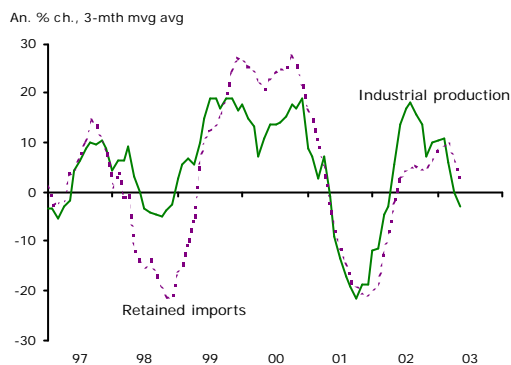
Philippines	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	5.2	-0.6	3.4	6.0	3.0	4.4	3.6	3.4
Inflation (yr av, %)	5.6	9.8	6.7	4.3	6.1	3.1	3.0	3.5
Budget Balance (% of GDP)	0.3	-1.9	-3.8	-4.1	-4.0	-5.3	-4.7	
Current Account (% of GDP)	-5.3	2.4	10.4	11.1	5.8	9.3	6.9	
External Debt (US\$ bn)	45.7	48.3	53.0	50.4	52.4	53.4	56.7	
Ext Debt/GDP Ratio (%)	55.5	74.1	69.6	66.4	72.7	68.5	71.8	
Ext Debt/Exports Ratio (%)	83.3	99.4	98.2	91.2	109.3	101.9	99.4	
Short term debt/Reserves (%)	162.3	77.9	43.4	45.6	45.0	40.0		
Debt Service Ratio (Paid) (%)	8.3	9.7	11.9	12.2	16.2	14.6		
Debt Service Ratio (Due) (%)	8.3	9.7	11.9	12.2	16.2	14.6	13.2	
Foreign Exchange Reserves (US\$ bn)	7.3	9.2	13.2	13.1	13.4	13.1	13.0*	
Import Cover (months)	2.1	3.3	4.9	4.9	5.6	5.6		

\*: March 2003

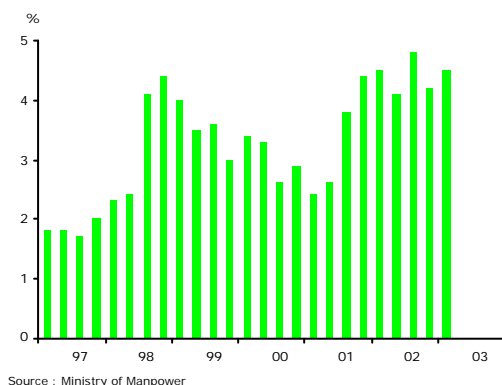
Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Singapore

## Industrial production slides



## Unemployment an increasing concern



- Real GDP rose by 1.6% over the year to Q1 2003, a slower rate than the 3% recorded in Q4 2002. Output in the second quarter is forecast to decline, underscoring the severity of the SARS impact and sluggish external demand affecting manufacturing output. However, a recession is not predicted with the economy expected to pick up in the second half. Overall, real GDP growth has been revised down sharply to 1½% in 2003 from 3½% projected at the start of this year. The official forecast is for growth to range between 0.5% and 2.5%.
- A more upbeat picture has been forecast for 2004. Real GDP is projected to grow by 6% in 2004, reflecting a pick-up in external demand and coming off a weak base.
- Inflation has edged up this year but remains benign. The increase mainly reflected the rise in oil prices earlier in the year, an increase in the Goods & Services Tax of 1 percentage point to 4%, the weaker currency and a brief shortage of fresh vegetables in April due to the temporary closure of a major wholesale market. Annual inflation averaged 0.6% during January-May 2003 after declining by 0.4% in 2002. Wage pressures are expected to be subdued with calls to freeze or cut wages amidst sluggish economic conditions.
- The SARS outbreak and cautious investor sentiment as a result of the Iraq conflict has exacerbated the unemployment problem. Unemployment edged up to 4.5% in March 2003 from 4.2% in December 2002 and a further deterioration is expected. Estimates indicate that the unemployment rate could reach 5½% this year.

## Economic data and debt statistics

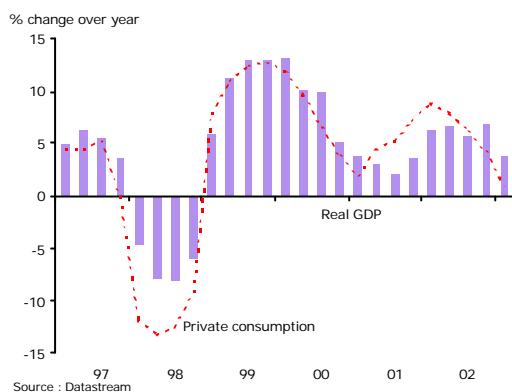
Singapore	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	8.5	-0.9	6.4	9.4	-2.4	2.2	1.5	6.0
Inflation (yr av, %)	2.0	-0.3	0	1.4	1.0	-0.4	0.8	1.0
Public Sector Balance (% of GDP)	3.4	2.5	0.5	2.0	1.6	-1.0	-0.5	
Current Account Balance (% of GDP)	19.2	24.0	20.0	17.2	20.9	25.4	19.5	
External Debt (USD bn)	13.8	14.2	13.8	12.8	9.8	8.2	9.1	
External Debt/GDP Ratio (%)	14.6	17.2	16.7	13.8	11.4	9.4	9.7	
External Debt/Exports Ratio (%)	8.1	10.0	8.9	7.0	6.0	4.9	5.1	
Short-term Debt/Reserves (%)	3.9	3.6	7.4	7.5	6.1	4.7		
Debt Service Ratio (Paid) (%)	1.4	1.3	2.1	2.3	2.4	2.2		
Debt Service Ratio (Due) (%)	1.4	1.3	2.1	2.3	2.4	2.2	2.1	
International Reserves (USD bn)	71.3	74.9	76.8	80.1	75.4	82.0	83.3*	
Import Cover (g & s) (months)	6.0	8.0	7.5	6.4	7.0	7.5		

\*: March 2003

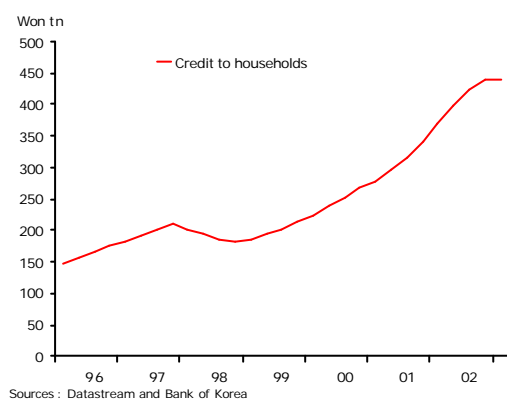
Sources : IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: South Korea

## Economic activity slows



## Consumer credit growth eases



- Three years after the historical peace summit in June 2000 and North-South relations are at a low, undermined by North Korea's nuclear ambitions. President Roh Moo-hyun faces the difficult task of not only tackling foreign policy issues but also domestic concerns encompassing corporate reform, labour issues and putting the economy back on a strong growth track.
- Real GDP rose by 3.7% over the year to Q1 2003, significantly lower than 6.8% recorded in Q4 2002 as private consumption and investment growth slowed. Flagging domestic demand, amidst the rapid accumulation of consumer debt, more stringent credit conditions, uncertainties over the Iraq war and outbreak of SARS in the region, has prompted a more accommodative fiscal and monetary stance. The overnight call rate was cut by ¼% point to 4% in May and a fall in consumer prices in June (down 0.3% from May) has lifted the likelihood of another rate cut. The government has proposed a KRW4.2 tn (US\$3.5 bn) fiscal stimulus package to help lift domestic demand. Real GDP is forecast to expand by around 3¾% in 2003 supported by an anticipated recovery in domestic demand and an improvement in external demand in the second half of the year.
- Concerns over corporate sector reform, particularly governance standards and transparency issues, have been reinforced by the handling of the troubled SK Global, the trading arm of the third largest conglomerate, SK Group. The proposed bail-out of SK Global by the Group despite strong opposition from foreign stakeholders underscores the difficulties faced by foreign investors in dealing with South Korea's family-controlled businesses or chaebols. However, the drawn-out debate over the outcome of SK Global contrasts sharply with what would have been an automatic move prior to the Asian crisis.

## Economic data and debt statistics

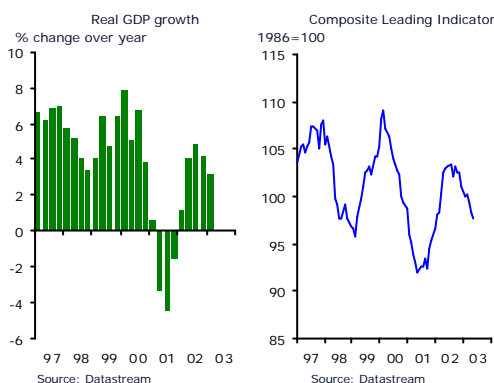
South Korea	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	5.0	-6.6	10.9	9.3	3.2	6.3	3.8	6.3
Inflation (yr av, %)	4.4	7.5	0.8	2.3	4.1	2.8	3.8	3.5
Public Sector Balance (% of GDP)	-1.5	-4.2	-2.7	1.3	1.3	3.8	-0.3	
Current Account Balance (% of GDP)	-1.7	12.7	6.0	2.4	2.0	1.3	-0.2	
External Debt (USD bn)	145.7	149.1	137.3	129.9	114.9	116.7	123.8	
External Debt/GDP Ratio (%)	30.6	47.0	33.8	28.1	26.8	24.5	23.9	
External Debt/Exports Ratio (%)	85.9	92.7	78.2	61.0	60.9	59.1	58.0	
Short-term Debt/Reserves (%)	306.4	73.0	56.2	43.6	38.8	34.2		
Debt Service Ratio (Paid) (%)	8.9	13.2	24.9	11.6	14.1	7.5		
Debt Service Ratio (Due) (%)	8.9	13.2	24.9	11.6	14.1	7.5	6.9	
International Reserves (USD bn)	20.4	52.0	74.0	96.1	102.8	121.3	123.6*	
Import Cover (g & s) (months)	1.4	5.4	6.2	6.0	7.2	7.9		

\*: April 2003

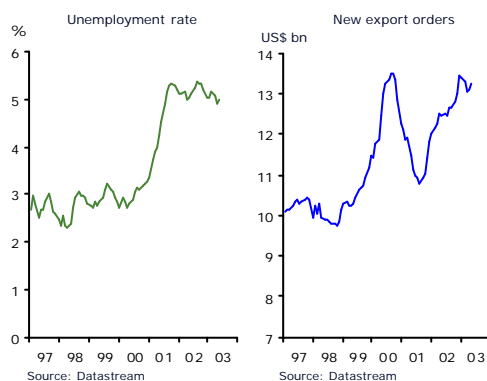
# Country Update: Taiwan

Sources: IMF, Economist Intelligence Unit, ANZ Bank

## Signs of weakness, pre-SARS



## Unemployment remains high, and export orders may have peaked



- Well before SARS, there were signs that the Taiwanese economy was beginning to slow. Although growth over the year to the March quarter was a fairly respectable 3.2%, the seasonally adjusted quarter-on-quarter increase was just 0.2%. Also, the composite index of leading indicators has declined since the September quarter of last year, and export orders have shown signs of peaking in recent months.
- Industrial production fell by a seasonally adjusted 2% in May, and over-the-year growth has turned negative. It is difficult to quantify the impact of SARS in statistics such as this. However, various reports from sources such as department stores, finance companies and suppliers of electronics goods, suggest that a moderate impact was felt in April and May, but that a recovery was under way in June.
- One area of strength has been car sales, thanks to cheap consumer finance. However, the industry is concerned that it may be reaching saturation levels.
- Annual inflation continues to hover around zero. The average for the first five months of 2003 was -0.1%.
- Export growth over the year to May was just 2.1%. While the weaker currency and continued growth in China will help, stronger exports will depend mainly on the strength of recovery in the US economy.
- An impasse in the legislature has delayed a much-needed clean-up of the banking sector. The parliamentary session ended in early June without agreement on a bill to boost the capital of the Financial Reconstruction Fund. Impending elections in March (presidential) and December 2004 (legislative) are likely to increasingly distract legislators from such needed reforms.

## Economic data and debt statistics

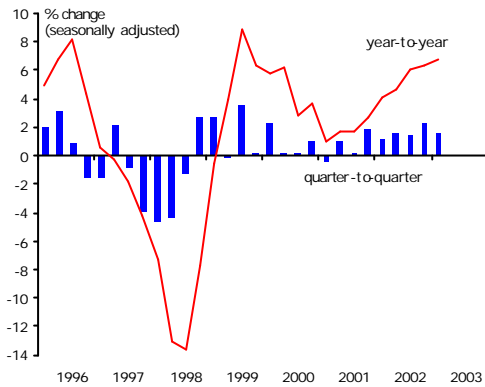
Taiwan	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	6.7	4.6	5.4	5.9	-2.2	3.5	2.5	3.2
Inflation (yr av, %)	0.9	1.7	0.2	1.3	0.0	-0.2	-0.4	0.0
Budget Balance (% of GDP)	-3.8	-3.3	-5.9	-4.5	-6.7	-6.6	-6.4	
Current Account (% of GDP)	2.4	1.3	2.9	2.9	6.4	9.1	7.3	
External Debt (US\$ bn)	33.6	30.0	26.8	23.5	19.1	24.4	27.1	
Ext Debt/GDP Ratio (%)	11.6	11.2	9.3	7.6	6.8	8.7	9.6	
Ext Debt/Exports Ratio (%)	23.0	22.5	18.4	13.3	12.7	15.1	15.7	
Short term debt/Reserves (%)	26.5	21.4	15.3	12.3	8.0	8.8		
Debt Service Ratio (Paid) (%)	2.0	2.4	2.0	2.0	2.7	1.9		
Debt Service Ratio (Due) (%)	2.0	2.4	2.0	2.0	2.7	1.9	2.4	
Foreign Exchange Reserves (US\$ bn)	83.5	90.3	106	107	122	162	171*	
Import Cover (months)	8.0	9.2	10.2	8.3	12.0	15.3		

\*: April 2003

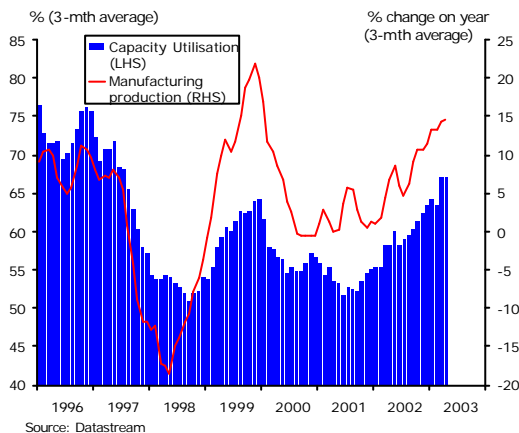
# Country Update: Thailand

Sources: IMF, Economist Intelligence Unit, ANZ Bank

## Thailand is one of the fastest-growing economies in Asia



## Capacity utilisation in manufacturing has recovered to pre financial crisis levels



- Thailand is one of the fastest-growing economies in Asia with real GDP growth rising to 6.8% in the year to Q1 2003, the strongest increase since 1999. The value of exports has grown strongly, despite the subdued international environment, up by 16% in March-May in US\$ terms from a year earlier. Manufacturing production in February-April was up almost 15% on a year-ago with capacity utilisation reaching 67%, up from 55% at end-2001 and the highest since before the financial crisis in 1997. Car sales are surging, with annual increases of around 40% over the past few months.
- Economic growth is being driven by a strong rise in personal spending, which rose by 6.4% in real terms in the year to March. The strong rise reflects the government's efforts to boost rural incomes, an improving labour market, tax concessions, the low level of interest rates, and greater availability of consumer credit. Strong growth is boosting tax revenues which should be reflected in a smaller budget deficit and lower public debt-to-GDP ratio in 2003.
- Thailand was not badly affected by SARS, but there was an adverse impact on tourism and travel and this will be reflected in slower GDP growth in the June quarter. With strong GDP growth likely to resume in the second half, there are good prospects that GDP growth will reach 5% in 2003.
- Although the economy is now less reliant on exports than before the financial crisis, the export sector is facing strong competition from China with Chinese exporters benefiting from the renminbi's peg to the US dollar. As a result, the Thai authorities are keen to prevent any significant appreciation of the baht against the dollar. The Bank of Thailand cut its 14-day repo rate by 50bps to 1.25% in June in an attempt to stem speculative capital inflows and upward pressure on the baht.

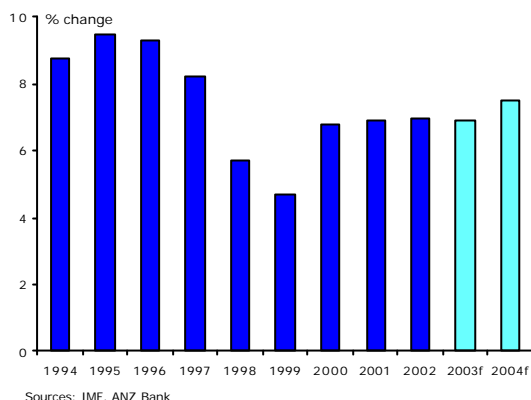
## Economic data and debt statistics

Thailand	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	-1.3	-10.5	4.5	4.7	1.9	5.2	5.2	4.4
Inflation (yr av, %)	5.6	8.1	0.3	1.6	1.7	0.6	1.8	1.4
Budget Balance (% of GDP)	-1.8	-2.7	-2.6	-2.2	-2.6	-1.4	-0.7	
Current Account (% of GDP)	-2.0	12.7	10.1	7.6	5.4	6.0	5.0	
External Debt (USD bn)	109.7	104.9	96.8	79.7	67.4	58.3	51.8	
External Debt/GDP Ratio (%)	72.7	93.8	78.9	65.0	58.4	46.1	40.5	
External Debt/Exports Ratio (%)	141.0	148.5	127.4	90.9	82.9	68.3	55.5	
Short-term Debt/Reserves (%)	144.5	102.9	68.7	46.5	40.9	36.9		
Debt Service Ratio (Paid) (%)	15.2	18.0	21.3	16.0	24.7	17.1		
Debt Service Ratio (Due) (%)	15.2	18.0	21.3	16.0	24.7	17.1	14.9	
International Reserves (USD bn)	26.2	28.8	34.1	32.0	32.4	38.0	37.1*	
Import Cover (g & s) (months)	4.3	7.1	7.3	5.4	5.6	6.2		

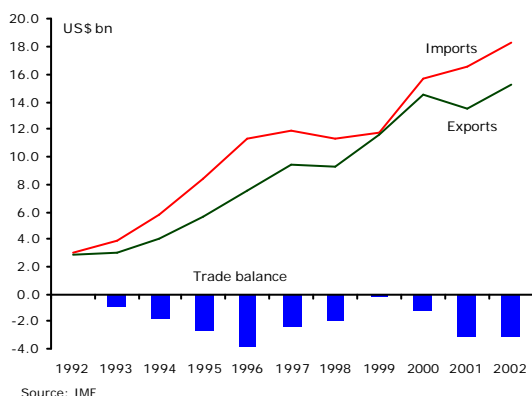
\* April 2003 Sources: IMF, Economist Intelligence Unit, ANZ Bank

# Country Update: Vietnam

## Real GDP growth is steady around 7% according to official figures



## Another large trade deficit in 2002 despite a surge in exports to the US



- An outbreak of SARS in March was quickly contained and Vietnam became the first country affected by the disease to be declared free of it by the World Health Organisation. The WHO praised Vietnam for its vigilance and the good infection control procedures that were implemented. There was a significant adverse impact from SARS on tourism, which accounts for about 4% of GDP, but the government is confident that GDP growth in 2003 will meet the official target of 7.0-7.5%.
- The US dollar value of exports to the US rose by 127% in 2002, accounting for almost 80% of the total rise in exports last year. This surge followed completion of the bilateral trade agreement in late-2001 and comprised mainly clothing and fabric. However, US textile firms, concerned about the prospect of another strong increase in 2003, put pressure on the US government and the result is the US-Vietnam textile agreement, which restricts clothing exports to the US. This new example of US protectionism is particularly disappointing for Vietnamese firms and workers who are likely to lose their jobs, and also for the government keen to see the benefits of recent trade liberalisation. Vietnam could experience major problems regarding its textile exports if it fails to join the WTO by end-2005, a key economic objective. In a separate trade dispute, the US has imposed punitive tariffs on Vietnam's catfish exporters who are accused of dumping fish at prices below cost.
- The current account reverted to deficit in 2002, but the shortfall was broadly covered by direct foreign investment that is estimated to have risen by 20% to US\$650 mn.
- Disbursement of the 3-year IMF Poverty Reduction and Growth facility has been delayed because of a problem concerning the central bank's operations, but there are hopes that this can be resolved soon.

## Economic data and debt statistics

Vietnam	1997	1998	1999	2000	2001	2002	2003f	2004f
Economic growth (%)	8.2	5.7	4.7	6.8	6.9	7.0	7.0	7.5
Inflation (yr av, %)	3.2	7.3	4.2	-1.7	-0.4	3.8	4.2	5.0
Budget Balance (% of GDP)	-3.9	-2.0	-2.6	-4.3	-5.3	-5.6	-5.7	
Current Account (% of GDP)	-5.7	-4.0	4.1	3.5	2.3	-1.7	-3.3	
External Debt (US\$ bn)	10.7	10.5	10.7	12.8	12.6	13.1	14.1	
External Debt/GDP Ratio (%)	39.8	38.8	37.3	40.9	38.2	38.5	39.2	
External Debt/Exports Ratio (%)	89.9	86.9	75.4	73.4	69.0	66.7	63.5	
Short-term Debt to Reserves (%)	61.7	49.6	23.8	27.1	21.3	19.5		
Debt Service Ratio (Paid) (%)	10.9	13.1	10.8	8.8	6.7	8.4		
Debt Service Ratio (Due) (%)	10.9	13.1	10.8	8.8	6.7	8.4	7.9	
International Reserves (US\$ bn)	2.0	2.0	3.3	3.4	3.7	4.1	4.8*	
Import Cover (g & s) (months)	1.8	1.8	2.9	2.4	2.5	2.3		

\* January 2003 Sources: IMF, Institute of International Finance, Economist Intelligence Unit, ANZ Bank

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