

# Vietnam

## Vietnam at a glance: 2009-10

### OVERVIEW

The ruling Communist Party of Vietnam will maintain its tight grip on power in 2009-10, rejecting calls (especially from groups of overseas Vietnamese) for political pluralism. The government's fiscal stimulus package includes spending on infrastructure, tax breaks and a delay in the implementation of the new personal income tax regime. As inflation is continuing to ease, the State Bank of Vietnam (the central bank) is likely to keep policy interest rates low in 2009-10. The Economist Intelligence Unit forecasts that the economy will grow by 2.1% this year, before picking up in 2010, to 4.9%. However, concerns exist that official data will not reflect fully the extent to which the economy is suffering. We forecast that the value of the dong against the US dollar will fall by around 8% in nominal terms in 2009. The current-account deficit will narrow sharply in 2009-10 as a result of a major reduction in the merchandise trade deficit.

### Key changes from last month

#### Political outlook

- A recent court case against a large state-owned enterprise (SOE) suggests that the government is intent on curbing business practices that contravene the 2006 Competition Law. It also may reflect a growing degree of public disenchantment with SOEs and the extent to which they are perceived to take advantage of their privileged position.

#### Economic policy outlook

- From June 1st foreign investors will be allowed to acquire up to 49% of total equity in unlisted companies, up from 30% at present. The move brings the foreign-ownership cap into line with that for listed companies. The momentum in economic reform and business liberalisation efforts suggests the government is serious about reform.

#### Economic forecast

- Foreign direct investment inflows have fallen significantly. The government approved US\$6.4bn in new projects the first four months of the year, down by over 72% year on year. This will have a negative impact on fixed investment, which is expected to fall by 3.4% in 2009.

## June 2009

Economist Intelligence Unit  
26 Red Lion Square  
London WC1R 4HQ  
United Kingdom

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# Vietnam

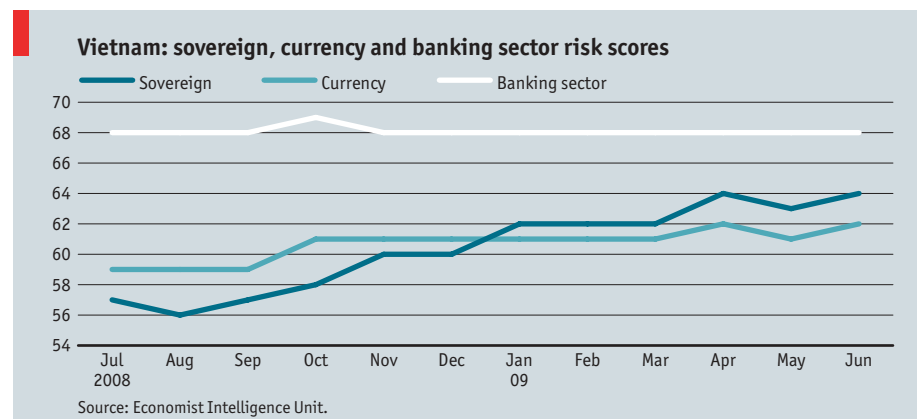
## Vietnam: risk assessment

	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk
June 2009	CCC	B	CCC	B	CCC	CCC

**Sovereign risk** **Stable:** The ratio of public debt to GDP is forecast to rise, and, as GDP growth slows and the fiscal position deteriorates, there is a low risk that the government could become unable to service its debt.

**Currency risk** **Stable:** The relatively low level of foreign-exchange reserves could inhibit the government's ability to intervene in the event of a run on the dong, increasing the risk of a currency crisis.

**Banking sector risk** **Stable:** The slowdown in the domestic economy could result in individuals and firms becoming unable to service their debt (as profits fall and unemployment rises), which would damage banks' balance sheets.



**Political risk** The ruling Communist Party of Vietnam will maintain its tight grip on power. However, political stability could be adversely affected if the government is not seen to be responding adequately to the slowdown in the economy.

**Economic structure risk** The economy is vulnerable to external shocks arising from the global financial crisis, and this increases the risk that market-oriented reforms will give way to more protectionist policies aimed at safeguarding the domestic economy.

Hilary Ewing (analyst); Gerard Walsh (consulting editor)

June 4th 2009

## Rating definitions

### Sovereign risk

This risk category measures the risk of a build-up in arrears of principal and/or interest on foreign- and/or local-currency debt that is the direct obligation of the sovereign or guaranteed by the sovereign. The *sovereign risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

### Currency risk

This risk category measures the risk of a devaluation against the reference currency (usually the US dollar, occasionally the euro) of 25% or more in nominal terms over the next 12-month period. The *currency risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

### Banking sector risk

This risk category gauges the risk of a systemic crisis whereby bank(s) holding 10% or more of total bank assets become insolvent and unable to discharge their obligations to depositors and/or creditors. A banking crisis is deemed to occur even if governments restore solvency through large bail-outs and/or nationalisation. A run on banks facing a temporary lack of liquidity rather than underlying solvency problems is not deemed to constitute a crisis, provided that public confidence in the banking system is quickly restored. Banking crises are typically associated with payment difficulties in the corporate or household sectors; bursting of asset price bubbles; currency and/or maturity mismatches. The rating can therefore serve as a proxy for the risk of a systemic crisis in the private sector. The *banking sector risk* rating is informed by scores for a combination of political, policy, cyclical and structural variables.

### Political risk

This risk category evaluates a range of political factors relating to political stability and effectiveness that could affect a country's ability and/or commitment to service its debt obligations and/or cause turbulence in the foreign-exchange market. The *political risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

### Economic structure risk

This risk category is derived from a series of macroeconomic variables of a structural rather than a cyclical nature. Consequently, the rating for *economic structure risk* will tend to be relatively stable, evolving in line with structural changes in the economy. The *economic structure risk* rating informs the ratings for *sovereign risk*, *currency risk* and *banking sector risk*.

### Overall country risk

This risk rating is derived by taking a simple average of the scores for *sovereign risk*, *currency risk* and *banking sector risk*.

## Central scenario for 2009-10

### Political outlook

**Domestic politics** The political landscape is unlikely to change dramatically in 2009-10, with the ruling Communist Party of Vietnam almost guaranteed to maintain its firm grip on power. The party will reject calls (especially from groups of overseas Vietnamese) for political pluralism. There will continue to be small pockets of domestic dissent, but the population has yet to show an appetite for major political change. Nonetheless, political stability is not assured. The government faces a severe test of its ability to manage the economy, and there is a risk that demonstrations (albeit only small ones) could occur as economic growth slows sharply and unemployment rises. The party is acutely aware that social stability is vital if it wants to maintain full control of the country, and it is therefore likely to push ahead with plans for greater spending on social welfare. Policies to improve assistance for unemployed workers came into effect in January (although those laid off will not be able to secure financial help until January 2010, as to do so they have to have been in employment and making social security payments for at least 12 consecutive months following the introduction of the new system). The government has also implemented a programme to support firms facing the prospect of mass lay-offs.

Although there is little risk that the party will face a serious challenge to its authority in 2009-10, it will struggle in its attempts to continue to present itself as the sole defender of the nation's interests if its policy response to the economic downturn is deemed to be insufficient or ineffective. Moreover, if there are further revelations of corruption or of party officials enriching themselves at the state's expense, particularly in the current period of relative economic distress, the party's moral authority will be undermined further. Ongoing crackdowns on corrupt officials and managers of state-owned enterprises are an indication that the government is taking the issue of graft seriously. Moreover, the government's expected ratification of the UN's Convention Against Corruption, which would outlaw the bribing of officials abroad and the taking of money from foreign entities at home, may demonstrate to the international donor community that it is committed to tackling corruption. Nonetheless, enforcement of anti-corruption legislation will remain a major stumbling block to progress in this area.

**International relations** Relations between China and Vietnam have been improving recently, as demonstrated by the completion of an agreement on the demarcation of their land border and the setting up of a "hotline" between the two governments. The trend in improving Sino-Vietnamese ties is unlikely to damage Vietnam's relations with the US—the Economist Intelligence Unit expects the Vietnamese government to continue to succeed in balancing its position and avoiding too close an alignment with one country at the expense of the other. Despite the potential for an increase in protectionism amid the global economic crisis, the government appears eager to push ahead with free-trade agreements (FTAs). In December 2008 it signed an FTA with Japan, in a move that helped to undo

some of the damage that was caused to bilateral ties by a corruption scandal involving Japanese aid.

## Economic policy outlook

**Policy trends** The global financial crisis and economic downturn has generated new challenges for the Vietnamese government, forcing policymakers to shift their focus from containing inflation to supporting economic growth. The government's fiscal stimulus is estimated to be worth under US\$4bn by the IMF (estimates vary dramatically; the government's fiscal accounting lacks credibility) and will go towards a raft of infrastructure projects as well as other measures that will help to boost growth. The government has also introduced tax breaks and delayed the implementation of a new personal income tax regime. However, such measures will not be sufficient to enable the government to achieve its GDP growth target for 2009 of 6.5%. There is also the risk that any major effort on the part of the government to spend its way out of the economic downturn will result in severe external imbalances, given the open (and to an extent import-dependent) nature of Vietnam's economy. In addition to fiscal loosening, the State Bank of Vietnam (SBV, the central bank) will maintain an accommodative monetary policy stance in order to support the economy.

**Fiscal policy** The budget deficit (excluding on-lending) will widen in 2009, to reach the equivalent of 8.8% of GDP. This will partly reflect a significant rise in expenditure as the government pushes ahead with stimulus measures and remains committed to programmes to improve social welfare provision. However, the widening deficit will also be a result of relatively slow revenue growth in an environment of subdued economic activity and falling crude oil prices (revenue from crude oil represents around 30% of government income). The widening deficit raises serious concerns about fiscal sustainability, with the government having to borrow heavily in the domestic market. However, in late 2008 the government received US\$5bn in pledges of official development assistance (mainly in the form of loans) from foreign donors for disbursement in 2009. Thus, despite the global credit crunch, the government can be reasonably confident that financial support from foreign donors will continue to be made available.

**Monetary policy** The SBV has loosened monetary policy in recent months, in part to boost domestic economic activity. In February the main policy interest rate, the prime rate, was cut from 8.5% to 7%. (It was as high as 14% in mid-2008.) The SBV has since kept the prime rate unchanged, suggesting that the recent bout of loosening may have come to an end. (The bank may be reluctant to cut the prime rate further out of concern that it will hurt commercial banks by squeezing their interest rate margins, given that the ceiling on lending interest rates is set at 1.5 times the prime rate.) Nevertheless, given that inflation is continuing to ease, the SBV is likely to keep the rate low this year and next.

The SBV will also allow Vietnam's currency, the dong, to continue to depreciate in value against the US dollar. Although the bank has kept the official exchange

rate largely unchanged in recent months, in late March it widened the daily trading band within which the dong is allowed to fluctuate around its official rate against the US dollar to 5%, from 3% previously. This step was taken in the face of growing downward pressure on the dong and also in the hope that a weaker dong will make Vietnamese exporters more competitive. It remains unlikely that the SBV will engineer a sharp or sudden depreciation of the dong in 2009-10, as such a move would be out of character for the country's policymakers.

## Economic forecast

### International assumptions

Recent data suggest that the worst of the recent global economic freefall may be ending. Notwithstanding the recent rally in global stockmarkets, we maintain our cautious view of economic prospects in the forecast period, with global GDP at purchasing power parity (PPP) exchange rates forecast to shrink by 1.8% in 2009 and to rise by a modest 2.1% in 2010. Factors that will limit global growth in the medium term include continued impaired financial intermediation in many large economies, and higher savings and reduced consumption by US households as they adjust to lower house prices and reduced expectations of future wealth.

### Economic growth

Official preliminary estimates for real GDP growth show that Vietnam has yet to be as badly affected by the global economic downturn as many other countries in Asia. Nevertheless, the performance of the economy in the first quarter of 2009, when it grew by 3.1% year on year, marked a dramatic slowdown, and there is little sign that the economy will experience a major recovery in the next few quarters. We forecast that the economy will grow by 2.1% this year, before the rate of growth increases in 2010, to 4.9%. However, there are downside risks to our forecast, and concerns also exist that official data releases will not reflect fully the extent to which the economy is suffering.

We expect a sharp contraction in exports of goods and services in 2009, owing to deteriorating demand from Vietnam's major trading partners. The US, the EU and Japan, which together consume around 60% of Vietnam's exports, are all forecast to experience recession this year. Although the direct impact of the fall in exports (on a national-accounts basis) will be offset by an even sharper contraction in imports (such that net exports will make a positive contribution to GDP growth in 2009), the drop in exports will feed through into rising unemployment (as export-oriented manufacturing output contracts) and weak investment. Firms have already begun to lay off staff in large numbers amid falling export orders. Moreover, the recent contraction in imports is a reflection of severe weakness in consumer and investor demand, and future growth prospects will be undermined by the decline in imports of raw materials and capital goods. Despite the fact that foreign investors remain confident about Vietnam's long-term prospects, foreign direct investment commitments have dropped sharply in recent months and actual disbursements will be severely curtailed in the forecast period by a lack of available financing. Although public investment will increase as the government spends heavily on infrastructure

development, this will be insufficient to offset the drop in total private-sector investment spending this year.

On the supply side, growth in the industrial sector, which accounts for around 40% of GDP, will slow in 2009 before picking up in 2010. Manufacturing output growth will wilt in 2009, in line with the weakness of external demand. The services sector, which was the main driver of growth in the first quarter of 2009, will also suffer during the year as a whole. Weak consumer confidence (stemming from rising unemployment and the erosion of real incomes) and falling private remittances will hit the retail sector, while tourism will be negatively affected by the recessionary conditions prevailing in many developed countries—there has already been a sharp drop in international arrivals. Growth in agricultural output will also remain weak, as the slump in global commodity prices will hurt profitability and thus limit plans for expansion.

**Inflation** Consumer price inflation has continued to slow, after peaking on a year-on-year basis in August 2008. Inflation slowed to 5.6% year on year in May, down from 9.2% in April. Although fuel prices have plummeted (as reflected by the fall in the transport and communications cost index), in month-on-month terms there has been a worrying rise in prices in recent months. In May transport and communications costs rose by 1.9% month on month, the strongest gain since August 2008. Moreover, prices for food and foodstuffs have remained stubbornly high. Despite the drop in global food prices in 2009, domestic food prices will remain elevated this year, propping up the headline inflation rate. However, as domestic demand growth weakens, we expect price rises to abate and inflation to slow to an average of 6% in 2009. It will stay relatively low in 2010 as external supply-side pressures remain weak.

**Exchange rates** The dong has come under downward pressure in recent months, prompting the authorities to widen the currency's trading band in late March—in effect allowing the dong to trade at a lower level against the US dollar. In early June the mid-point of commercial banks' transaction rates stood at D17,788:US\$1, representing only a marginal depreciation from around D17,755:US\$1 in early March. The government has continued to crack down on illegal foreign-exchange trading, fearing that continued use of US dollars in the domestic market could put severe downward pressure on the dong. The offshore non-deliverable spot forward rate is around D18,065:US\$1, reflecting the expectation that economic uncertainty, the trade deficit and the relatively slow depreciation of the dong against the US dollar will result in further depreciation. Owing to continued downward pressure on the dong and policymakers' efforts to support exporters, the dong is forecast to continue on a weakening trend in 2009-10. We forecast that the value of the dong against the US dollar will fall by around 8% in nominal terms in 2009, and that it will decline further, although at a slower pace, in 2010.

**External sector** The current-account deficit will narrow in 2009-10 as a result of a reduction in the merchandise trade deficit. The value of goods exports will fall in 2009, owing to weak demand from Vietnam's leading export markets and falling international prices for the country's major goods exports. Trends in global crude oil prices suggest that the value of Vietnam's oil exports (the country's largest goods export category) will fall in 2009, before recovering marginally in 2010. The recent substantial widening of the current-account deficit has been driven primarily by soaring imports, much of which has been in the form of capital goods bought by foreign-invested enterprises (FIEs). However, given the uncertainty affecting the global economy and the fact that foreign investors will face difficulties obtaining financing in the forecast period, capital goods imports will fall from the high levels that they have reached in recent years. The slowdown in consumption growth will also curtail growth in imports of consumer goods in 2009-10.

In addition to the deficit on the merchandise trade account, the services and income accounts will also remain in the red. Tourism receipts will decline, but so will imports of trade-related services. The upward trend in the repatriation of foreign investors' income and profits will reverse temporarily, in line with a slowdown in the operations of FIEs. Inflows on the current-transfers account will be affected by recessionary conditions in the US and the EU, which are home to large numbers of Vietnamese, and, as a result, we forecast that inflows will fall from the high levels that they reached 2008. However, the current-transfers surplus will still be sufficient to offset the combined deficit on the services and income accounts in 2009-10.

**Key risk indicators**

(% unless otherwise indicated)	Vietnam	Median of CCC-rated	Median of ASEAN	Median of emerging markets
Largest single goods export (2-digit SITC code)/total goods exports	19.7	35.7	22.9	33.9
Gross public debt/GDP	48.8	41.5	45.4	31.0
Gross external debt/GDP	24.3	38.9	26.4	28.0
Interest & principal arrears (if any)/gross external debt	6.2	2.6	0.0	0.0
Net external debt/exports	-1.4	51.6	33.6	33.6
Primary fiscal balance/GDP required to stabilise public debt/GDP ratio	-1.8	1.4	1.5	1.3
Foreign-exchange reserves/gross external financing requirement	167.3	85.5	167.3	67.7
Foreign-exchange reserves/external short-term debt	1,550.1	310.7	567.6	341.5
Foreign-exchange reserves (change over last 6 months)	-9.7	-14.1	-1.5	-5.1
Banks' net foreign asset position/total foreign assets	7.1	18.5	6.7	15.1
Bank credit to private sector/GDP (change over last 36 months; percentage points)	16.7	3.6	1.8	3.5
<b>Over last 12 months</b>				
Average real money-market interest rates	-4.7	-1.0	-2.0	-0.3
Fiscal balance/GDP	-6.9	-3.4	-4.0	-2.8
US\$ export receipt growth	1.0	-0.2	-8.5	-6.4
Current-account balance/GDP	-11.4	-8.9	2.6	-3.2
Debt-service due/exports	1.4	5.2	4.5	7.2
Interest due/exports	0.6	1.5	0.8	2.0
Average import cover (months)	3.6	3.5	6.6	4.5
Banks' loan-deposit spread (percentage points)	2.8	7.4	5.0	5.2
Change in bank credit to private sector	39.5	26.1	18.3	21.8
<b>Over last 48 months</b>				
Average current-account balance/GDP	-7.1	-7.0	2.0	-1.8
Average GDP growth	7.1	5.4	4.7	4.8
Average inflation rate	11.9	10.7	7.7	6.8
Change in real trade-weighted exchange rate	17.7	14.3	14.3	10.6

**Ratings summary**

	Dec 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009
Sovereign risk score <sup>a</sup>	60	62	62	62	64	63	64
Sovereign risk rating	B	B	B	B	CCC	CCC	CCC
Currency risk score	61	61	61	61	62	61	62
Currency risk rating	B	B	B	B	B	B	B
Banking sector risk score	68	68	68	68	68	68	68
Banking sector risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Political risk score	62	62	62	62	62	62	62
Political risk rating	B	B	B	B	B	B	B
Economic structure risk score	65	63	63	63	63	63	63
Economic structure risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC
Country risk score	63	64	64	64	65	64	65
Country risk rating	CCC	CCC	CCC	CCC	CCC	CCC	CCC

Note. Ratings are derived from scores as follows: 100-89 = D; 92-79 = C; 82-69 = CC; 72-59 = CCC; 62-49 = B; 52-39 = BB; 42-29 = BBB; 32-19 = A; 22-9 = AA; 12-0 = AAA. In boundary areas, the higher or lower rating is assigned at the discretion of the analyst.

<sup>a</sup> For the backtesting period (1997-2005) the probability of sovereign default associated with the different score ranges is as follows: 0-10, 0%; >10-20, 0%; >20-30, 0%; >30-40, 0%; >40-50, 1.4%; >50-60, 14.1%; >60-70, 57.9%; >70-80, 90.4%; >80-90, 100%; >90-100, not available.

**Quarterly indicators**

	2007			2008			
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
<b>Exchange rate (D:US\$)</b>							
Average	16,064	16,169	16,060	15,947	16,252	16,666	16,898
End-period	16,113	16,092	16,010	16,105	16,842	16,575	17,433
<b>Domestic indicators (% change)</b>							
Consumer prices (av)	7.4	9.1	12.4	18.3	26.4	29.1	23.6
Money supply M1	40.4	49.2	48.9	24.8	2.3	-8.8	-
<b>External sector (US\$ m)</b>							
Total exports fob	11,901	12,319	13,528	13,160	15,750	17,839	14,163
Total imports cif	14,783	15,537	18,100	21,510	22,650	19,087	15,757
Trade balance	-2,882	-3,218	-4,572	-8,350	-6,900	-1,248	-1,594
Foreign direct investment inflows	2,144	1,273	1,943	-	-	-	-
<b>International liquidity (US\$ m)</b>							
Total reserves	21,002	22,813	23,748	26,744	21,259	24,136	-
Foreign-exchange reserves	20,793	22,575	23,479	26,436	20,979	23,848	-
Gold, national valuation	209	238	268	308	280	288	-
Assets with BIS-reporting banks	7,407	7,573	9,052	12,832	12,702	12,624	11,814
Liabilities to BIS-reporting banks	6,565	7,445	6,325	5,603	6,044	5,975	3,686
Commercial banks' foreign assets	5,203	4,926	4,981	4,098	6,147	6,235	-
Commercial banks' foreign liabilities	2,703	3,257	3,469	5,917	6,111	5,792	-
Commercial banks' net foreign assets	2,499	1,669	1,512	-1,819	36	442	-
IMF credits & loans outstanding	169	174	164	163	149	135	121
Net flow of IMF credits & loans	-13	0	-13	-7	-14	-6	-13
<b>Banking indicators (D bn)</b>							
Commercial banks' claims on:							
Public sector	91,311	92,753	109,270	98,736	99,954	106,760	-
Central government	91,311	92,753	109,270	98,736	99,954	106,760	-
Private sector	817,742	908,288	1,067,730	1,204,990	1,262,540	1,266,680	-
Non-financial private sector	817,742	908,288	1,067,730	1,204,990	1,262,540	1,266,680	-
Lending interest rate (%; av)	11.2	11.2	11.2	12.3	16.6	20.1	-
Deposit interest rate (%; av)	7.6	7.4	7.3	9.1	13.8	17.0	-
Money market interest rate (%; av)	6.5	6.5	6.5	7.5	15.0	15.0	-

**Symbols**0, 0.0 *nil or negligible*- *not applicable or not available*

**International assumptions summary**

(% unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
<b>Real GDP growth</b>							
World	4.8	4.4	5.0	5.0	3.0	-1.8	2.1
China	10.1	10.4	11.6	13.0	9.0	6.5	7.3
EU27	2.4	2.0	3.2	2.9	0.9	-4.4	-0.5
<b>Exchange rates</b>							
¥:US\$	108.13	110.08	116.22	117.78	103.36	96.25	94.75
US\$:€	1.24	1.25	1.26	1.37	1.47	1.33	1.39
<b>Financial indicators</b>							
¥ 3-month money market rate	0.1	0.0	0.3	0.7	0.9	0.5	0.3
US\$ 3-month commercial paper rate	1.5	3.4	5.0	5.1	2.2	0.3	0.3
<b>Commodity prices</b>							
Oil (Brent; US\$/b)	38.3	54.4	65.4	72.7	97.7	47.5	53.3
Food, feedstuffs & beverages (% change in US\$ terms)	8.5	-0.5	16.1	30.9	29.5	-22.4	3.1
Industrial raw materials (% change in US\$ terms)	21.0	10.2	49.6	11.2	-5.1	-40.0	14.3

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

**Economic structure**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>GDP at market prices</b>							
Nominal GDP (US\$ bn)	45.4	52.9	61.0	71.2	91.3 <sup>a</sup>	93.4	98.6
Nominal GDP (D bn)	715,307	839,211	974,266	1,144,020	1,501,548 <sup>a</sup>	1,670,808	1,817,150
Real GDP (D bn at 1994 prices)	362,435	392,989	425,373	461,443	490,181 <sup>a</sup>	500,408	525,019
<b>Expenditure on GDP (% real change)</b>							
GDP	7.8	8.4	8.2	8.5	6.2 <sup>a</sup>	2.1	4.9
Private consumption	7.1	7.3	8.3	9.6	4.9	-0.5	2.3
Government consumption	7.8	7.9	8.8	8.9	8.0	8.2	8.0
Gross fixed investment	10.4	9.8	9.9	23.0	14.0	-2.5	2.0
Exports of goods & services	25.7	20.5	17.1 <sup>b</sup>	15.2 <sup>b</sup>	14.9	-5.4	4.4
Imports of goods & services	21.9	15.9	18.4 <sup>b</sup>	25.6 <sup>b</sup>	14.4	-8.1	1.1
<b>Origin of GDP (% real change)</b>							
Agriculture	4.4	4.0	3.4	3.7	3.8 <sup>a</sup>	2.1	3.0
Industry	10.3	10.7	10.4	10.6	6.3 <sup>a</sup>	5.0	6.5
Services	7.3	8.5	8.3	8.7	7.2 <sup>a</sup>	-0.9	4.0
<b>Ratios, GDP at market prices (%)</b>							
Gross fixed investment/GDP	33.3	32.9	33.4	37.1	41.9	34.9	34.4
Exports of goods & services/GDP	65.7	69.4	73.6	76.8	79.5	62.3	63.4
Imports of goods & services/GDP	73.3	73.5	78.6	90.2	93.1	64.8	64.4
Gross national savings/investment	94.1	97.0	99.3	76.4	70.6	72.3	77.9
<b>Ratios, GDP at factor cost (%)</b>							
Agriculture/GDP	21.8	21.0	20.4	20.3	22.0 <sup>a</sup>	22.0	21.6
Industry/GDP	40.0	41.0	41.5	41.6	39.9 <sup>a</sup>	41.0	41.7
Services/GDP	38.0	38.0	38.1	38.1	38.1 <sup>a</sup>	37.0	36.7
<b>Population and income</b>							
Population (m)	82.7	83.5	84.4 <sup>b</sup>	85.3 <sup>b</sup>	86.1	87.0	87.8
Labour force (m)	42.5	43.6	45.5	46.4 <sup>b</sup>	47.4	48.4	49.2
GDP per head (US\$ at PPP)	1,932 <sup>b</sup>	2,132 <sup>b</sup>	2,357 <sup>b</sup>	2,599 <sup>b</sup>	2,793	2,840	2,956

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**Public finances**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>b</sup>	2010 <sup>b</sup>
<b>Fiscal indicators (D bn)</b>							
Budget revenue	190,928	228,287	279,472	287,900	399,000	395,270	426,082
Budget expenditure	214,176	262,697	308,058	368,340	474,280	542,712	571,359
Budget balance	-23,248	-34,410	-28,586	-80,440	-75,280	-147,442	-145,277
Public debt	305,663	368,992	447,578 <sup>c</sup>	568,018 <sup>c</sup>	683,298 <sup>c</sup>	870,740	1,056,016
<b>Fiscal indicators (% of GDP)</b>							
Budget revenue	26.7	27.2	28.7	25.2	26.6	23.7	23.4
Budget expenditure	29.9	31.3	31.6	32.2	31.6	32.5	31.4
Budget balance	-3.3	-4.1	-2.9	-7.0	-5.0	-8.8	-8.0
Public debt	42.7	44.0	45.9 <sup>c</sup>	49.7 <sup>c</sup>	45.5 <sup>c</sup>	52.1	58.1

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

**Exchange rates, interest rates and prices**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>b</sup>	2010 <sup>b</sup>
<b>Exchange rates</b>							
Exchange rate D:US\$ (av)	15,740	15,859	15,981	16,078	16,440	17,880	18,435
Exchange rate D:US\$ (end-period)	15,777	15,916	16,055	16,010	17,433	18,142	18,403
Exchange rate D:¥100 (av)	14,557	14,407	13,750	13,651	15,905	18,577	19,456
Exchange rate D:¥100 (end period)	15,365	13,495	13,489	14,332	19,201	18,898	19,577
Exchange rate D:€ (av)	19,570	19,756	20,066	22,005	24,167	23,736	25,532
Exchange rate D:€ (end-period)	21,359	18,775	21,188	23,379	24,234	24,674	25,764
Black market exchange rate D:US\$ (av)	16,527 <sup>c</sup>	16,652 <sup>c</sup>	16,780 <sup>c</sup>	16,882 <sup>c</sup>	17,591 <sup>c</sup>	18,774	19,357
Real effective exchange rate (consumer prices)	86.3	90.3	93.2	94.4	106.1	109.9	109.2
Real effective exchange rate (producer prices)	86.6 <sup>c</sup>	88.4 <sup>c</sup>	89.7 <sup>c</sup>	90.3 <sup>c</sup>	98.8 <sup>c</sup>	114.7	116.1
Real effective exchange rate (unit labour costs)	75.1 <sup>c</sup>	76.6 <sup>c</sup>	78.8 <sup>c</sup>	78.2 <sup>c</sup>	87.5 <sup>c</sup>	84.6	82.4
<b>Interest rates</b>							
Lending interest rate (%; av)	9.7	11.0	11.2	11.2	15.6 <sup>c</sup>	9.9	9.6
Deposit interest rate (%; av)	6.1	7.1	7.6	7.5	12.7 <sup>c</sup>	7.2	7.1
Money market interest rate (%; av)	5.0	5.0	6.5	6.5	11.8 <sup>c</sup>	6.8	6.3
Money market spread over US T-bills (basis points)	361	179	165	203	1,036 <sup>c</sup>	665	617
Real money market rate (%; av)	-2.6	-3.1	-0.8	-2.2	-11.3	0.7	0.4
<b>Prices</b>							
Consumer prices (% change; av)	7.8	8.3	7.4	8.9	24.4	6.0	5.8
Consumer prices (% change; end-period)	9.7	8.6	6.6	14.4	21.5	3.4	7.6

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

**Financial sector**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>Banking sector (US\$ bn)</b>							
Bank loans	18.3	23.7 <sup>b</sup>	28.7 <sup>b</sup>	43.5 <sup>b</sup>	55.3	58.8	71.9
Bank deposits	19.0	25.2 <sup>b</sup>	32.9 <sup>b</sup>	50.0 <sup>b</sup>	49.8	47.6	48.7
Banking assets	28.3	35.6 <sup>b</sup>	42.8 <sup>b</sup>	64.1 <sup>b</sup>	79.0	82.6	95.2
Loans/assets (%)	64.8	66.5 <sup>b</sup>	67.0 <sup>b</sup>	67.9 <sup>b</sup>	70.0	71.3	75.6
<b>Financial sector (US\$ bn)</b>							
Total lending by banking & non-banking financial sector	30.7	40.2	49.8	74.3	81.9	86.0	99.1
Total lending to the private sector	26.6	34.7	43.2	66.7	72.8	72.7	85.0
Total lending per head (US\$)	372	482	590 <sup>b</sup>	872 <sup>b</sup>	952	989	1,128
Total lending/GDP (%)	67.8	76.3	82.0 <sup>b</sup>	104.0 <sup>b</sup>	95.1	93.4	100.3
<b>Money and credit (D bn)</b>							
Stock of domestic credit	442,978	597,715	734,391	1,100,080	1,381,745	1,656,535	2,012,705
Domestic credit growth (%)	39.4	34.9	22.9	49.8	25.6	19.9	21.5
Stock of money M1	197,989	242,002	292,215	435,168	341,166	339,624	370,371
Stock of quasi-money	297,459	406,572	548,796	818,830	1,114,215	1,384,126	1,713,594
Stock of money M2	495,448	648,574	841,011	1,253,998	1,455,382	1,723,749	2,083,965
M1 (% change)	26.1	22.2	20.7	48.9	-21.6	-0.5	9.1
M2 (% change)	31.1	30.9	29.7	49.1	16.1	18.4	20.9

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**Current account**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>Current-account balance (US\$ m)</b>							
Goods: exports fob	26,485	32,447	39,826	48,561	61,600	49,856	58,499
Goods: imports fob	-28,772	-34,887	-42,602	-58,921	-77,606	-62,801	-68,764
<b>Trade balance</b>	<b>-2,287</b>	<b>-2,439</b>	<b>-2,776</b>	<b>-10,360</b>	<b>-16,006</b>	<b>-12,944</b>	<b>-10,265</b>
Services: credit	3,867	4,176	5,100	6,030	7,156	6,076	6,318
Services: debit	-4,739	-4,472	-5,108	-6,924	-8,271	-7,489	-8,226
<b>Services balance</b>	<b>-872</b>	<b>-296</b>	<b>-8</b>	<b>-894</b>	<b>-1,115</b>	<b>-1,413</b>	<b>-1,908</b>
Income: credit	188	364	668	1,093	1,032	784	910
Income: debit	-1,079	-1,569	-2,097	-3,261	-3,484	-2,516	-3,206
<b>Income balance</b>	<b>-891</b>	<b>-1,205</b>	<b>-1,429</b>	<b>-2,168</b>	<b>-2,453</b>	<b>-1,732</b>	<b>-2,295</b>
<b>Current transfers balance</b>	<b>3,093</b>	<b>3,380</b>	<b>4,049</b>	<b>6,430</b>	<b>7,862</b>	<b>6,549</b>	<b>6,563</b>

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**International liquidity**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>Total reserves (US\$ m)</b>							
Foreign-exchange reserves	7,042	9,051	13,384	23,479	22,932	23,319	25,115
Total reserves (net of IMF credits & loans outstanding)	6,909	9,013	13,410	23,583	23,064	23,352	25,174
Commercial banks' foreign assets	3,679	4,469	6,188	4,981	5,261	4,039	4,174
Commercial banks' foreign liabilities	1,198	1,458	2,045	3,469	5,164	2,643	2,782
<b>Commercial banks' net foreign assets</b>	<b>2,481</b>	<b>3,011</b>	<b>4,143</b>	<b>1,512</b>	<b>97</b>	<b>1,396</b>	<b>1,392</b>
Months of import cover	2.6	2.8	3.4	4.3	3.2	4.0	3.9

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**Foreign payment and liquidity indicators**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>Foreign payment indicators (% of GDP)</b>							
Current-account balance	-2.1	-1.1	-0.3	-9.8	-12.8	-10.2	-8.0
Trade balance	-5.0	-4.6	-4.6	-14.6	-17.5	-13.9	-10.4
Services balance	-1.9	-0.6	0.0	-1.3	-1.2	-1.5	-1.9
Income balance	-2.0	-2.3	-2.3	-3.0	-2.7	-1.9	-2.3
Current transfers balance	6.8	6.4	6.6	9.0	8.6	7.0	6.7
<b>Liquidity indicators (ratios)</b>							
Foreign-exchange reserves/short-term debt	3.3	3.5	5.3	7.8 <sup>b</sup>	9.5	42.2	26.6
Foreign-exchange reserves/gross external financing requirement <sup>d</sup>	2.6	2.8	4.2	2.3 <sup>b</sup>	1.5	1.8	2.8

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts. <sup>d</sup> A minus sign indicates a financing surplus.

**External trade**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>b</sup>	2010 <sup>b</sup>
<b>Main destinations of exports (% share)</b>							
US	19.3	18.7	19.8	20.9	20.6	-	-
Japan	13.6	13.7	13.2	12.6	13.5	-	-
Australia	7.3	8.6	9.5	7.4	8.1	-	-
China	11.2	10.2	8.2	6.9	6.8	-	-
<b>Main origins of imports (% share)</b>							
China	14.6	16.2	16.6	20.6	22.7	-	-
Singapore	11.5	12.3	14.1	12.5	13.0	-	-
Japan	11.3	11.2	10.6	10.2	11.1	-	-
South Korea	10.7	9.9	8.8	8.8	7.9	-	-
<b>Principal exports (% share)</b>							
Crude oil	21.8	22.4	20.4	16.8	16.8	16.5	18.0
Textiles & garments	16.9	15.3	14.7	16.5	15.2	15.5	15.0
Footwear	10.4	9.5	8.9	8.4	7.7	7.0	8.0
Fisheries products	9.2	8.6	8.2	7.9	7.4	6.0	9.3
<b>Principal imports (% share)</b>							
Machinery, equipment & parts	17.5	14.4	14.8	15.7	17.5	15.0	15.0
Refined petroleum	11.5	13.6	13.9	11.2	13.0	11.2	13.0
Steel	8.3	8.1	6.8	7.7	8.3	7.1	6.5
Materials for textile industry	7.3	6.2	4.6	3.7	3.0	2.5	3.0
<b>Volume and prices (% change)</b>							
Export volume of goods	25.7 <sup>c</sup>	20.5 <sup>c</sup>	18.9 <sup>c</sup>	16.1 <sup>c</sup>	18.9 <sup>c</sup>	-4.9	5.3
Import volume of goods	21.9 <sup>c</sup>	15.9 <sup>c</sup>	20.2 <sup>c</sup>	28.5 <sup>c</sup>	15.0 <sup>c</sup>	-9.0	0.5
Export prices	1.4 <sup>c</sup>	2.0 <sup>c</sup>	17.5 <sup>c</sup>	1.3 <sup>c</sup>	13.8 <sup>c</sup>	-18.1	2.9
Import prices	2.1 <sup>c</sup>	0.8 <sup>c</sup>	5.6 <sup>c</sup>	5.3 <sup>c</sup>	14.8 <sup>c</sup>	-26.4	4.0
Terms of trade (1990=100)	99.5 <sup>c</sup>	100.6 <sup>c</sup>	112.0 <sup>c</sup>	107.7 <sup>c</sup>	106.7 <sup>c</sup>	118.9	117.6

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

**External financing requirement**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>b</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>Gross financing requirement (US\$ m)</b>	<b>-2,676</b>	<b>-3,220</b>	<b>-3,206</b>	<b>-10,030</b>	<b>-15,286</b>	<b>-12,630</b>	<b>-9,132</b>
Current-account balance	-957	-560	-164	-6,993 <sup>a</sup>	-11,711	-9,541	-7,905
Medium- & long-term repayments due (incl IMF debits)	-430	-519	-468	-533	-570	-667	-675
Short-term debt due	-1,289	-2,141	-2,575	-2,504 <sup>a</sup>	-3,005	-2,421 <sup>b</sup>	-553
Financed by:							
Medium- & long-term debt inflows	1,670	2,047	1,228	1,325	1,350	1,280	1,205
Commercial bank loans	0	0	0	0	0	0	0
Officially guaranteed loans	1,670	1,297	1,228	1,325	1,350	1,280	1,205
International bond issues	0	750	0	0	0	0	0
IMF credits & loans	0	0	0	0 <sup>a</sup>	0	0	0
Short-term borrowing	2,141	2,575	2,504	3,005	2,421	553	943
Net portfolio investment (net of external bonds)	13	-609	1,339	6,271 <sup>a</sup>	826	302	406
Inward portfolio investment (net of external bonds)	13	-609	1,339	6,271 <sup>a</sup>	826	302	406
Outward portfolio investment	0	0	0	0 <sup>a</sup>	0	0	0
Net direct investment flows	1,610	1,889	2,315	6,550 <sup>a</sup>	7,495	2,825	3,920
Inward direct investment	1,610	1,954	2,400	6,700 <sup>a</sup>	7,600	2,900	4,000
Outward direct investment	-	-65	-85	-150 <sup>a</sup>	-105	-75	-80
Increase in interest arrears (if any)	0	21	3	0	0	0	0
Increase in principal arrears (if any)	0	0	3	0	0	0	0
Other capital flows (net)	-1,931	-671	188	3,036	2,628	7,937	4,454
Change in international reserves	-827	-2,030	-4,375	-10,157 <sup>a</sup>	566	-268	-1,795

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**External debt stock**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>b</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>External debt stock (US\$ m)</b>							
<b>Total</b>	<b>18,049</b>	<b>19,212</b>	<b>20,202</b>	<b>21,852</b>	<b>23,093</b>	<b>21,755</b>	<b>22,989</b>
Public medium- & long-term	15,631	16,434	17,518	18,683	20,553	21,105	21,975
Private medium- & long-term	0	0	0	0	0	0	0
IMF	277	203	181	165 <sup>a</sup>	118	97	71
Short-term	2,141	2,575	2,504	3,005	2,421	553	943
Interest arrears	54	75	77	77	77	77	77
Official creditors	51	72	75	75	75	75	75
Private creditors	3	3	3	3	3	3	3
<b>Ratios (%)</b>							
Total debt/exports of goods & services	53.5	46.9	40.1	34.5	29.2	33.7	31.3
Total debt/GDP	39.7	36.3	33.1	30.7	25.3	23.3	23.3
International reserves/total debt	39.8	48.0	67.3	108.7	100.4	107.8	109.8
Debt per head (US\$)	218	230	239 <sup>b</sup>	256	268	250	262
<b>Net debt</b>							
Total (US\$ m)	10,863	9,995	6,611	-1,895	-89	-1,695	-2,256
Net debt/exports of goods & services (%)	32.2	24.4	13.1	-3.0	-0.1	-2.6	-3.1
Net debt/GDP (%)	23.9	18.9	10.8	-2.7	-0.1	-1.8	-2.3
<b>Medium- and long-term debt by lender (US\$ m)</b>							
<b>Total</b>	<b>15,631</b>	<b>16,434</b>	<b>17,518</b>	<b>18,683</b>	<b>20,553</b>	<b>21,105</b>	<b>21,975</b>
Official creditors	14,167	14,389	15,531	16,669	18,436	19,107	20,029
Bilateral	9,230	9,263	9,696	10,165	10,998	11,113	11,433
Multilateral	4,937	5,127	5,835	6,504	7,438	7,994	8,596
Private creditors	1,464	2,044	1,987	2,014	2,117	1,998	1,947
<b>Memorandum items (US\$ m)</b>							
Export credits	70	56	68	95	125	101	110
Principal arrears	1,362	1,360	1,364	1,364	1,364	1,364	1,364
Official creditors	1,355	1,354	1,356	1,356	1,356	1,356	1,356
Private creditors	7	7	7	7	7	7	7
<b>Debt owed to BIS banks (US\$ m)</b>							
<b>Total</b>	<b>4,639</b>	<b>5,625</b>	<b>8,109</b>	<b>15,293<sup>a</sup></b>	-	-	-
0-1 year	1,845	2,118	2,711	4,902 <sup>a</sup>	-	-	-
1-2 years	211	152	272	507 <sup>a</sup>	-	-	-
Over 2 years	2,583	3,355	5,126	9,884 <sup>a</sup>	-	-	-
<b>Memorandum item (US\$ m)</b>							
BIS banks' undisbursed credit commitments	31	-	-	-	-	-	-

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**External debt service**

	2004 <sup>a</sup>	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>b</sup>	2008 <sup>b</sup>	2009 <sup>c</sup>	2010 <sup>c</sup>
<b>External debt service (US\$ m)</b>							
Total paid	787	957	918	944	1,029	1,022	1,046
Medium- & long-term debt service	663	788	761	861	919	956	1,006
Paid to official creditors	466	567	523	682	740	782	844
Paid to private creditors	198	221	238	179	179	174	162
IMF debits & charges	75	55	34	29 <sup>a</sup>	43	24	29
Short-term debt (interest only)	49	115	123	54	67	41	10
Total due	787	978	924	944	1,029	1,022	1,046
<b>Debt-service ratios (%)</b>							
Debt-service ratio, paid	2.3	2.3	1.8	1.5	1.3	1.6	1.4
Debt-service ratio, due	2.3	2.4	1.8	1.5	1.3	1.6	1.4
Debt service paid/GDP	1.7	1.8	1.5	1.3	1.1	1.1	1.1
<b>Principal repayments (US\$ m)</b>							
Total paid	430	519	464	533	570	667	675
Medium- & long-term debt	357	466	432	507	530	645	647
Paid to official creditors	216	306	288	370	395	505	521
Paid to private creditors	141	160	144	137	135	140	126
IMF debits	73	54	33	25 <sup>a</sup>	39	23	28
Total due	430	519	468	533	570	667	675
<b>Interest payments (US\$ m)</b>							
Total paid	357	438	454	411	459	354	371
Medium- & long-term debt	307	322	330	354	389	312	359
Paid to official creditors	250	261	236	312	345	277	324
Paid to private creditors	56	61	94	42	44	34	36
IMF charges	2	1	1	4 <sup>a</sup>	3	2	2
Short-term debt (interest only)	49	115	123	54	67	41	10
Total due	358	459	457	411	459	354	371
<b>Interest payments ratios (%)</b>							
Interest paid/debt service paid	45.4	45.7	49.4	43.6	44.6	34.7	35.5
Interest paid/exports of goods & services	1.1	1.1	0.9	0.6	0.6	0.5	0.5
Interest due/exports of goods & services	1.1	1.1	0.9	0.6	0.6	0.5	0.5
Interest paid/GDP	0.8	0.8	0.7	0.6	0.5	0.4	0.4
<b>Effective maturity and interest rates</b>							
Effective interest rate (%)	2.1	2.1	2.0	2.0	2.1	1.5	1.7
Effective maturity (years)	40.3	33.6	38.1	34.5	35.2	31.9	32.6

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.

**Data sources**

Current account: IMF, *International Financial Statistics*

Economic structure: General Statistical Office, *Statistical Yearbook*; IMF, *International Financial Statistics*

External debt service: World Bank, *Global Development Finance*

External debt stock: World Bank, *Global Development Finance*

External financing requirement: IMF, *International Financial Statistics*; World Bank, *Global Development Finance*

External trade: General Statistical Office, *Statistical Yearbook*; IMF, *International Financial Statistics*

Financial sector: IMF, *International Financial Statistics*

Foreign payment and liquidity indicators: IMF, *International Financial Statistics*; World Bank, *Global Development Finance*

International liquidity: IMF, *International Financial Statistics*

Public finances: IMF, *Statistical Appendix*

Quarterly indicators: IMF, *International Financial Statistics*

Exchange rates, interest rates and prices: IMF, *International Financial Statistics*

ISSN 1354-5655

Managing Editor/Director  
John Bowler

Published monthly for  
subscribers only

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Economist Intelligence Unit  
London  
26 Red Lion Square  
London WC1R 4HQ, UK  
Tel: (44.20) 7576 8000  
Fax: (44.20) 7576 8500  
E-mail: london@eiu.com

Economist Intelligence Unit  
New York  
The Economist Building  
111 West 57th Street  
New York, NY 10019, US  
Tel: (1.212) 554 0600  
Fax: (1.212) 586 0248  
E-mail: newyork@eiu.com

Economist Intelligence Unit  
Hong Kong  
60/F, Central Plaza  
18 Harbour Road  
Wanchai, Hong Kong  
Tel: (852) 2585 3888  
Fax: (852) 2802 7638  
E-mail: hongkong@eiu.com

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or  
Tel: (44.20) 7576 8000  
Fax: (44.20) 7576 8500

Website  
[www.eiu.com](http://www.eiu.com)

**All queries:** Tel: (44.20) 7576 8000 E-mail: [london@eiu.com](mailto:london@eiu.com)

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