



Asia-Pacific Sovereign Mid-Year Outlook

Agenda

1. **Main Regional Sovereign Credit Trends**
2. **Characteristics of the Recovery**
3. **Key Risks**
4. **Recent Rating Trends & Conclusion**

1

Main Regional Sovereign Credit Trends

Our summary view of the region's main credit trends

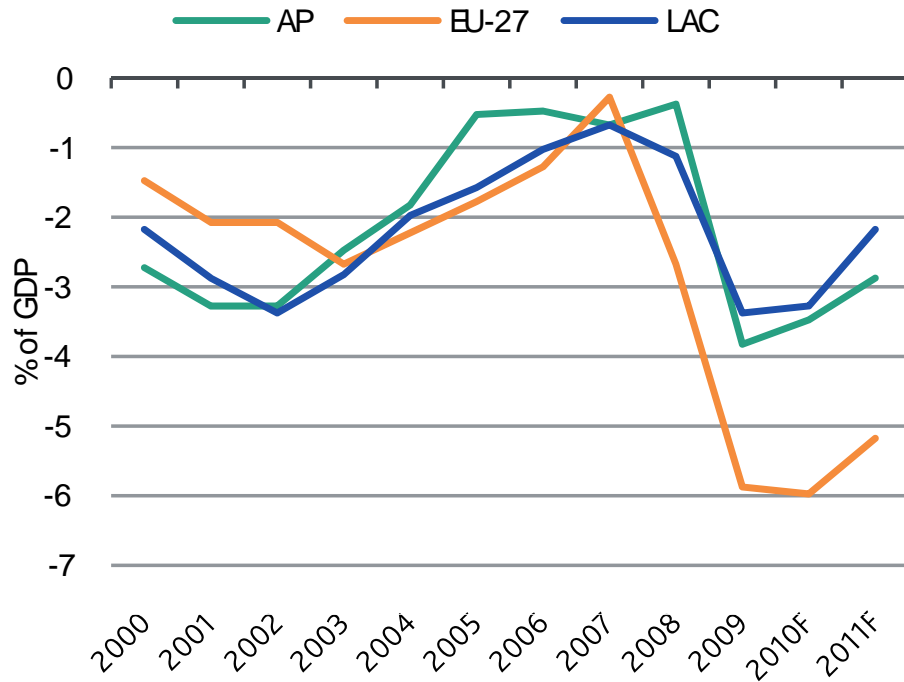
- » The overall Asia-Pacific sovereign ratings trend remains in a stable to positive direction
- » China's robust growth has helped produce a V-shaped regional recovery
- » Recurring global financial market strains are having a muted effect in the region
- » Regional economic growth will slow in tandem with China and the advanced economies
- » Neither domestic political nor geopolitical concerns have impaired credit fundamentals
- » Risks to the economic and ratings outlooks are manageable

2

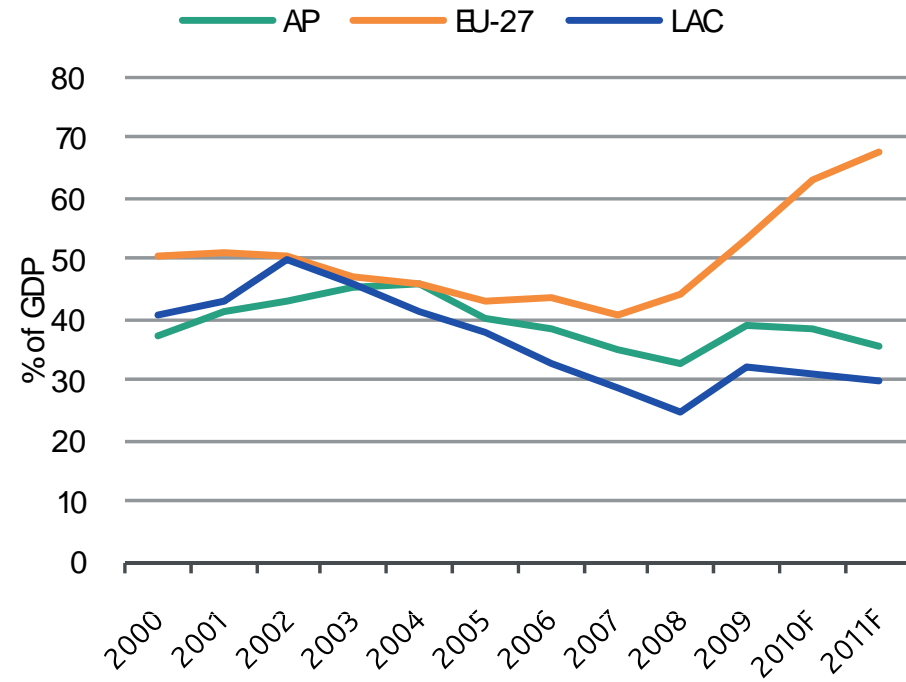
Characteristics of the Recovery

Governments in Asia-Pacific entered the crisis from a position of strength

Median Govt Fin Balance/GDP



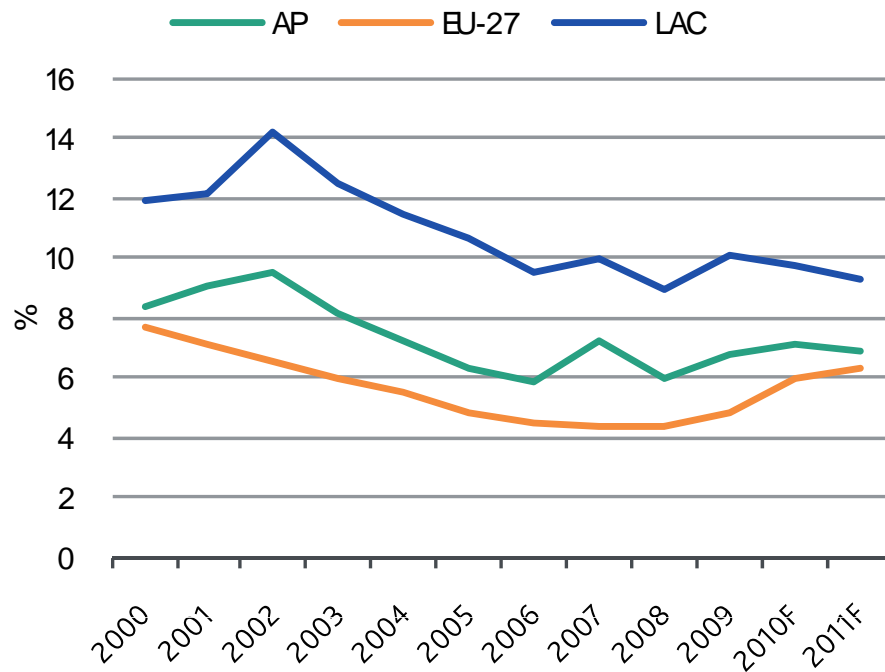
Median Govt Debt/GDP



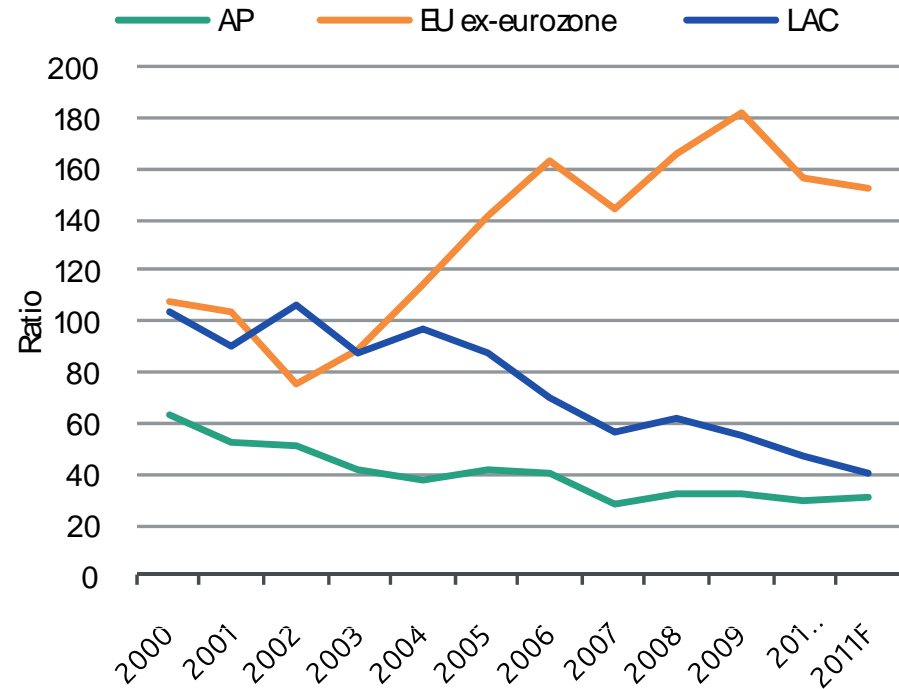
Source: Moody's

Governments in Asia-Pacific entered the crisis from a position of strength

Median Govt Int Payments/Revenue



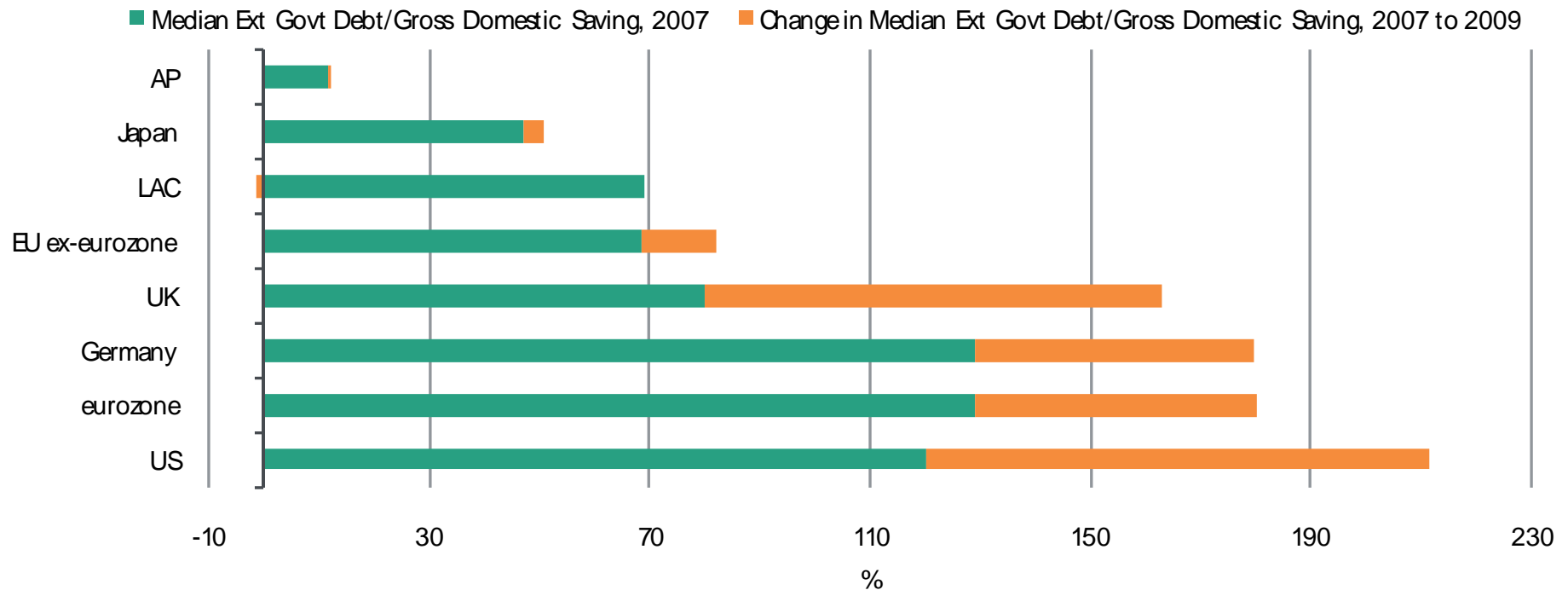
Median External Vulnerability Indicator



Source: Moody's

Governments in Asia-Pacific have mostly lived within their means

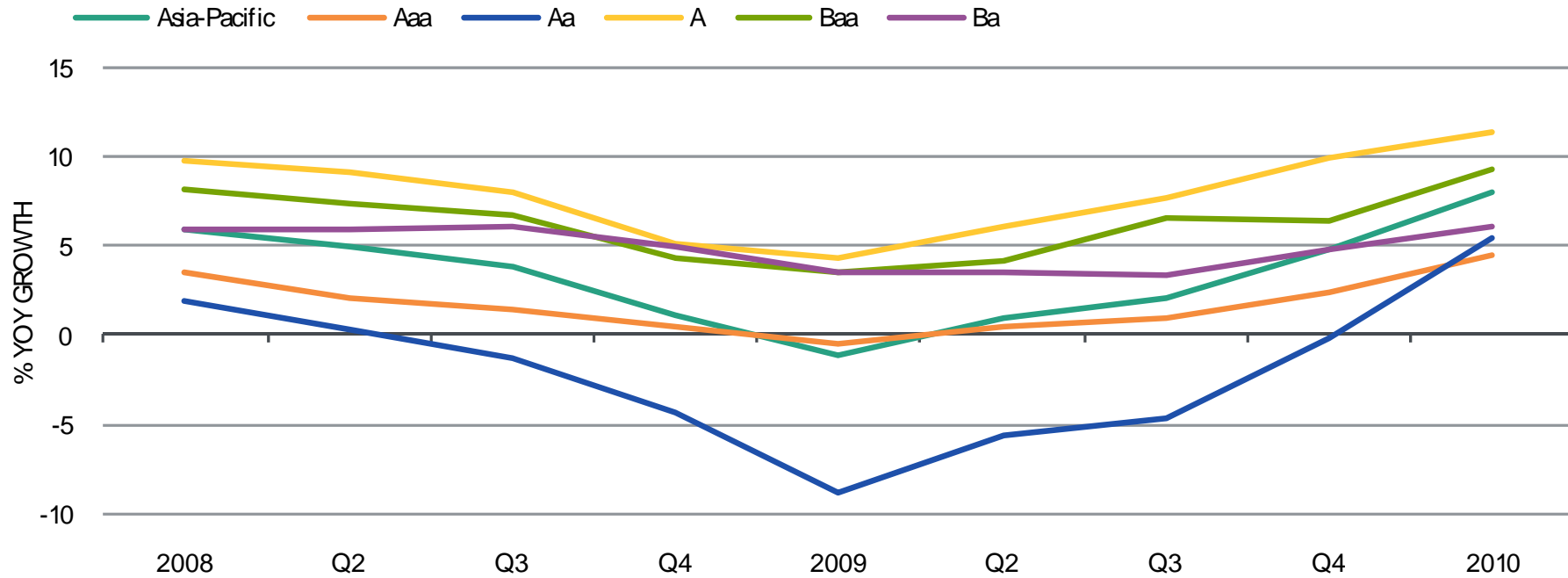
Governments in Asia-Pacific and Latin America are not reliant on external financing



Source: BIS-IMF-OECD-World Bank Joint External Debt Hub and Moody's.

Weighted average y/y GDP growth of 8% in 1Q'10

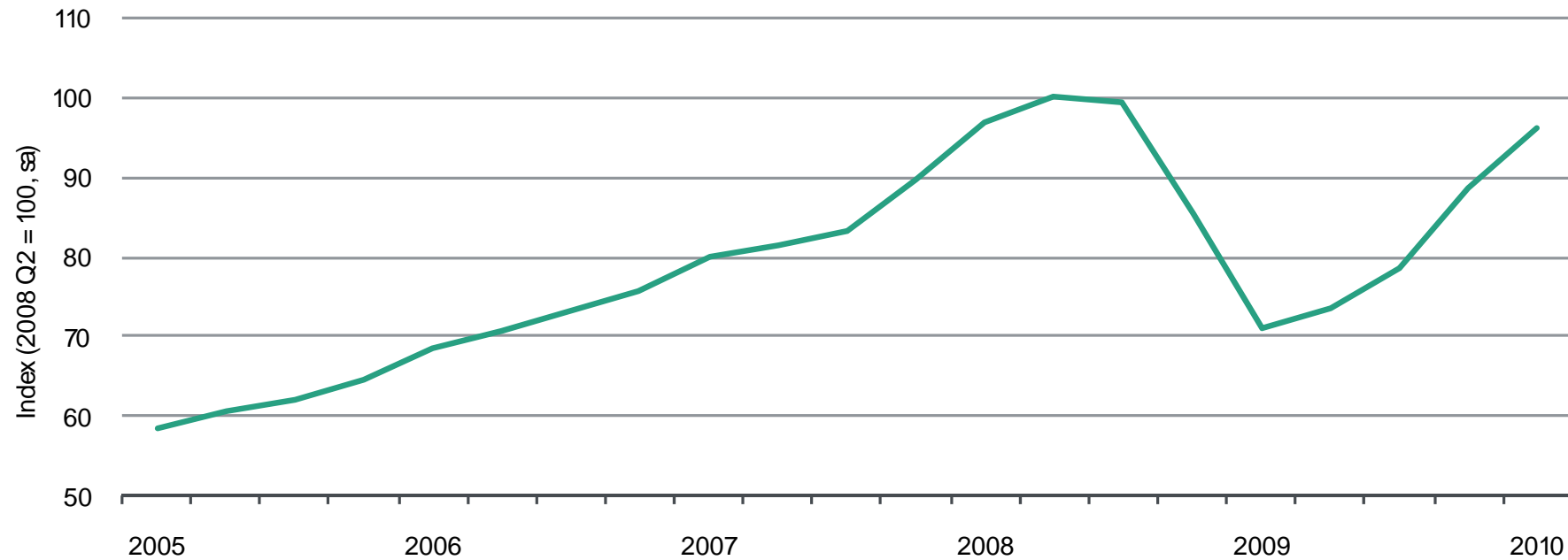
The recovery has been synchronized across the region



Source: National statistical agencies and Moody's.

With a rebound of shipments and industrial production

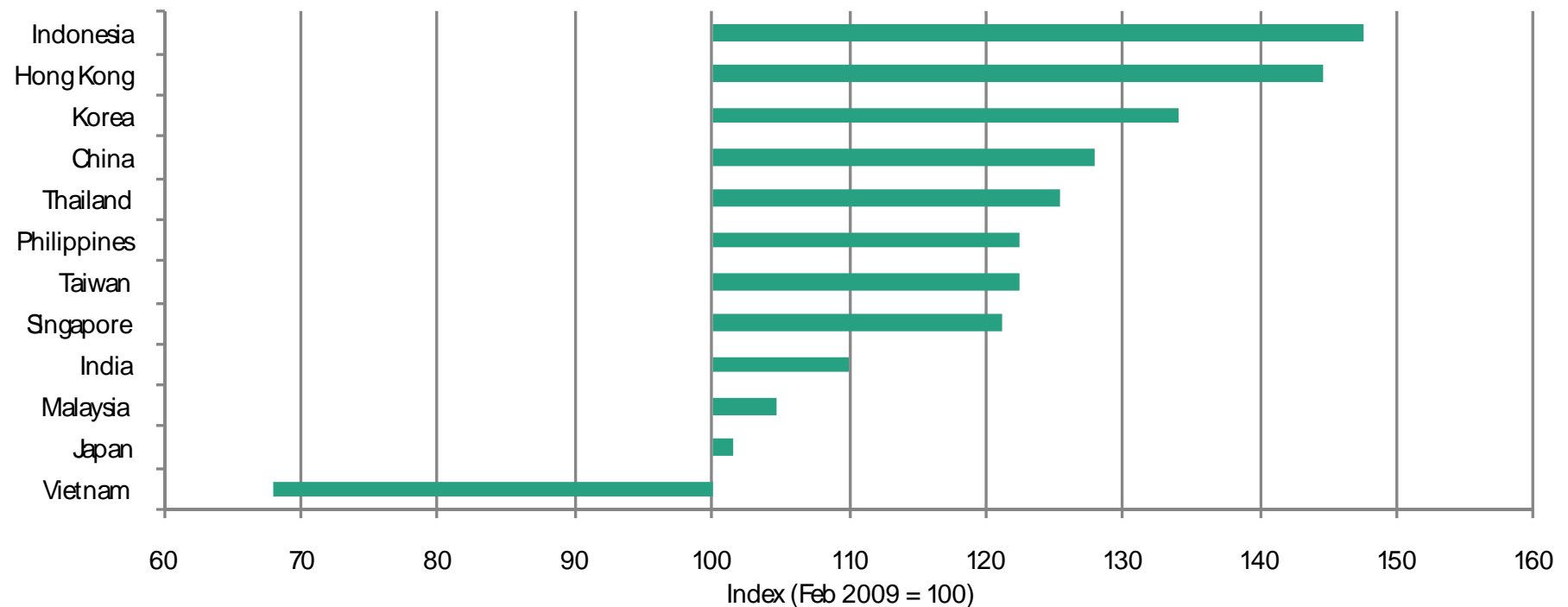
Asia-Pacific export shipments are closing in on their pre-crisis peaks



Source: Bloomberg and Moody's.

Robust exports and capital inflows have strengthened external positions

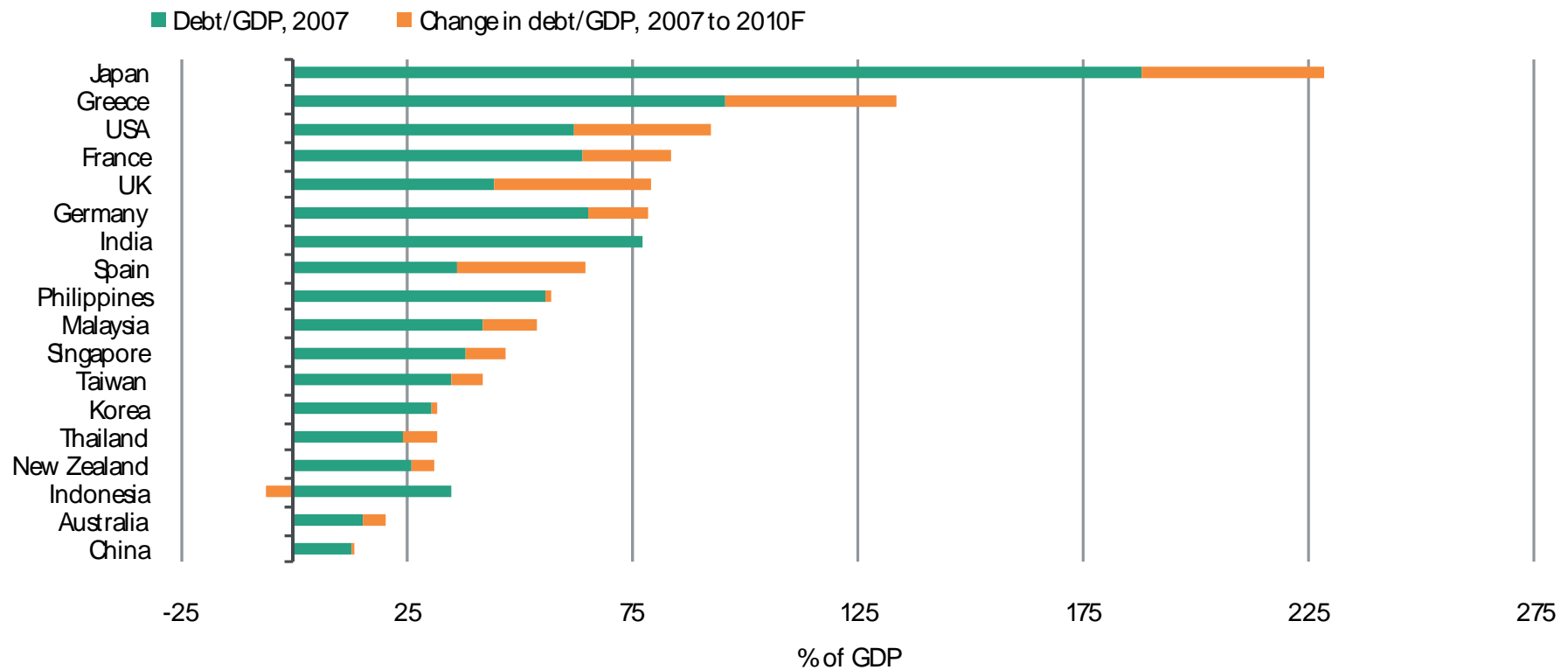
Official foreign exchange reserves have been boosted by current account surpluses and capital inflows



Source: Bloomberg and Moody's.

Government debt ratios have held up

Robust growth has minimized debt accumulation in Asia-Pacific, ex-Japan



Source: Bloomberg and Moody's.

Continued economic expansion is crucial for containing government debt, given pro-cyclicality of revenue generation

In view of this, things to monitor...

- » Growth impetus is shifting away from inventory swings & policy stimulus
- » China's administrative measures for cooling property markets will gain traction
- » Foot-loose capital flows have prompted growing prudential wariness about monetary management

Nonetheless...

- » Regional employment conditions compare favorably with past downturns and relative to advanced economies
- » Regional bank and corporate sector balance sheets are in good shape
- » Avoidance of advanced country fiscal woes is prompting gradual fiscal consolidation in some countries, while prompting a push for structural reforms in others

3

Key Tail Risks

Key tail risks to the regional sovereign credit outlook

- » A much greater, or prolonged, slowdown in China than is currently expected
- » Or more severe collapse in growth in the U.S. or E.U.
- » Trade protectionism in the U.S. Congress directed at China

Of less concern...

- » Property bubbles in Hong Kong, Taiwan, Singapore, China
- » Contagion from Japan's relapse into deflation
- » Destabilizing capital flows fueling inflationary pressures

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Recent Rating Changes & Conclusion

Year-To-Date Regional Sovereign Ratings Changes

- » Korea – Rating upgrade to A1 from A2 with a stable outlook, in April 2010
- » Indonesia – Ba2 rating outlook was changed to positive from stable, in June 2010
- » India – Local currency sovereign rating was upgraded to Ba1 from Ba2 (bringing it closer to Baa3 FC rating). Outlook on LC rating remains positive

Snapshot of Regional Positive & Negative Sovereign Outlooks

Positive Outlooks:

- » China – A1/Positive
- » Hong Kong – Aa2/Positive
- » Indonesia – Ba2/Positive
- » India – Baa3FCStable/Ba1LCPositive

Negative Outlooks:

- » Thailand – Baa1/Negative
- » Vietnam – Ba3/Negative
- » Fiji – B1/Negative

Concluding Thoughts

- » Asia's growth prospects and policy prudence is relatively stronger than most regions
- » Long-term sovereign rating prospects are stable-positive
- » Regional economic integration, greater multilateral frameworks of cooperation will help
- » In-country policy and structural reforms, political management will drive pace of shifts in sovereign credit-worthiness

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