



A Perspective

20th Apr 2009

Lead Analyst

Rubina Malvankar
Rubina.malvankar@injazmena.com
Tel no : 009712 6728400 - 419

Capital Markets Division

Uppiliappan Varadarajan
Portfolio Manager
uppiliappan.v@injazmena.com

Rubina Malvankar
Financial Analyst
rubina.malvankar@injazmena.com

Mohammed Sheikh
Financial Analyst
mo.sheikh@injazmena.com

Injaz Mena Investment Co. PSC

Ali & Sons Building, 4th Floor
Zayed 2nd Street, P.O.Box 107394
Abu Dhabi, U.A.E.
Tel : +9712 672 8400
Fax: +9712 6720011
www.injazmena.com

Regulated by the Central Bank of the
United Arab Emirates

- FY2007 / 2008 has been a year of financial turmoil for the global economy. The sub prime mortgage crisis reached a critical stage during the first week. of September 2008, characterized by severely contracted liquidity in the global credit markets and solvency threats to investment banks and other institutions and causing the GDP's all over the world take a downward turn.
- A collapse of the US sub-prime mortgage market and the reversal of the housing boom in other industrialized economies have had a ripple effect around the world. Furthermore, other weaknesses in the global financial system had surfaced. Some financial products and instruments had become so complex and twisted, that as things start to unravel, trust in the whole system started to fail.
- Many Asian countries had seen their stock markets suffer and currency values going on a downward trend. Asian products and services are also global, and a slowdown in wealthy countries means increased chances of a slowdown in Asia and the risk of job losses and associated problems such as social unrest. Asian leaders had called for effective and comprehensive reform of the international monetary and financial systems.
- We have initiated coverage in Asian economic outlook 2009 keeping the above issues in the background. We have analyzed the policy responses from Asian economic leaders to address the crisis. We have also analyzed the individual constraints faced by the economies towards the growth path in 2009.

Stock markets fall in 2008

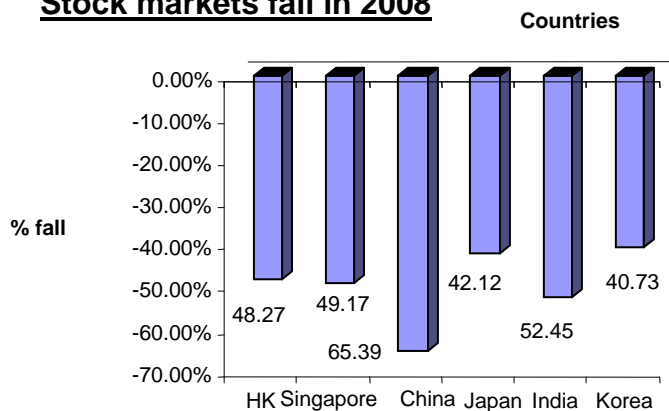




Table of Contents

Section A - Overview

Impact of financial crisis on Asian economy	3
Monetary Measures	3
Fiscal Measures	4
Descriptive Statistic on Recession and Threat of deflation	5
1997 and 2008 Crisis	6

Section B - Country Insights

Hong Kong	7
Singapore	8
India	9
China	10
Japan	11
South Korea	12
Disclaimer	13



Section A - Overview

Impact of financial Crisis on Asian economies

The overall impact of the subprime crisis on Asia's financial stability has been relatively limited to date. This is because Asia's commercial banks, which continue to play a dominant role in Asian financial systems despite the rapid development of capital markets, had limited direct exposure to subprime mortgages and structured credit products. The improvement in the financial health of Asian banks since the Asian crisis is evident in the current ratio of nonperforming loans, capital-adequacy ratios, rates of return, and other key indicators. In short, the limited magnitude of the shock and a stronger capacity to withstand adverse shocks has enabled Asian banks to weather the financial turbulence emanating from the subprime crisis.

Two areas where the subprime crisis had major impact are Equity markets and Offshore Bond Markets. Share prices tumbled heavily on concerns of impact of the financial turbulence on the Asian markets and loosing investor confidence. Risk premium on Dollar denominated Bonds of asian issuers has sharply risen. Moreover, the widening of credit spread has curtailed the issue of new bonds from the region. Thankfully, this tightening of bond market did not have a major impact on the local currency bond market.

Imports in the G3 countries (US, UK and Japan) slowed down drastically, for which Asian countries are the dominant suppliers.

Monetary Measures

Regional monetary authorities have begun to address rising inflation in recent months. Initially, responses seemed too little and too late. In most countries, real interest rates have turned negative. As a result, the impact of tightening measures on consumption has been limited, and such moves have been ineffective in curbing rapid price increases. Recently, central banks have become more aggressive in tackling inflation pressures, and indeed policy rate increases in, for example, India, Indonesia, Philippines, and Viet Nam, have exceeded market expectations.

In addition to tackling the inflation, the need to address economic slowdown has also caught the attention of policy makers in this region. The central banks faced a real dilemma since on the one hand they had to address the inflationary impact due to rise in the prices of oil and other metals (atleast till July 2008), and on the other hand were also faced with the problem of economic stagnation due to reduction in demand.

Though the inflationary pressures eased out after July, from where the crude oil started coming down from a historic high of \$146.69, still the price levels are high in many countries by common living standards. Hence the objective of controlling

inflation had to be balanced with expansionary monetary policy to restore the confidence into the whole system.

Between April to October 2008, various central banks and governments had provided implicitly or explicitly \$8 trillion of funding for their wholesale markets to prevent total seizure. Asian authorities have responded by taking measures to maintain confidence in the banking system.

- Nearly all economies in the region have injected liquidity, including through new facilities, extending the range of collateral or easing access to central banks' discount windows.
- A number of economies have extended guarantees to bank deposits (Hong Kong SAR, Malaysia, Taiwan Province of China, Singapore and Australia) and bank debt (Australia, Korea).
- Some economies announced plans for bank recapitalization contingency funds (Japan, India, Hong Kong SAR).

While the fundamentals in Asia are strong, Asia and the international community need to stand ready to provide financial support if the crisis intensifies and any country experiences serious external financing difficulties.

The IMF has just established a new facility to provide large and rapid disbursements to countries with sound fundamentals but pressing liquidity needs.

Most Aggressive Interest rate cuts in Asia		
Country	Benchmark	Rate cut
Malaysia	Overnight Policy rate	150bps
Indonesia	Policy rate	175bps
Thailand	One Day Repo Rate	225bps
Philippines	Overnight Reverse Repo	125bps
Hong Kong	Base rate	575bps
South Korea	Base rate	325bps
China	One Year Working Capital	215bps
Taiwan	Official Discount Rate	237.5bps

* Source :Asian Development Bank



Fiscal Measures

On the fiscal front, the governments in Asia have announced stimulus packages ranging from 1.3% to 12% of their respective GDP to prevent the economies from stalling. Looking at the depth of the recession, the governments in Malaysia and South Korea have moved ahead with a second stimulus package recently. In Taiwan and Thailand, the governments are targeting to boost domestic demand through direct vouchers and cash handouts but the bulk of the government money is still being spent on infrastructure projects in most of Asia. This will also position Asia for the eventual economic recovery.

In Asia, private consumption-to-GDP ratio has fallen to 52.7% in 2007 from 56.2% in 2000 and the higher savings rate in Asia also reduces the multiplier effects of the government spending. In Singapore and China, the PCE-to-GDP ratio is less than 40% and the import leakages also reduce the effectiveness of some of the measures in countries like Singapore.

Hong Kong's budget deficit is expected to surge to as much as 5.4% of GDP for the fiscal year beginning April 2009 although the government has a more conservative projection of 2.4% .

Singapore's response to the downturn was the Jobs Credit Scheme and its Risk-Sharing Initiative in which the government takes up 80% of the risk of bank lending to the corporates. Singapore's S\$20.5bn (8% of GDP) Resilience Package was focused mainly on protecting jobs in the downturn. The Jobs Credit scheme will pay employers 12% cash on the first S\$2,500 of each employee's wages every month. We also note that the government has room to bring forward more infrastructure projects to counter weakness in the construction sector. Singapore has not ruled out plans for using more of its reserves. For Singapore, the estimated net investment income contribution of S\$7.7bn in FY2009 will help to tone down the overall fiscal deficits to around 3.5% of GDP.

South Korea has announced a stimulus package of UD\$ 30bn in November last year. The key areas include infrastructure projects and programmes for the agricultural sector and SMEs. Since then, the government has also put forth the KRW50 trn 4-yr 'Green New Deal' to invest in infrastructure, energy and water resources. The project is expected to create more than 956,000 jobs in the country. All these fiscal spending came on top of liquidity injections into banks and the government's guarantee of banks' US\$100 bn of foreign currency debt. The country has also created three funds including the Financial Stabilization Fund to boost the capital of the financial firms in the country. South Korea has a strong fiscal position after running budget surpluses since 2000. The country is expected to record a budget deficit of 2.4% of GDP this year but it could rise as high as 5.4% if the social security funds are excluded. South Korea will issue bonds for the first time since 2006 to finance some of the spending. In particular,

around 58% of South Korea's supplementary budget will be financed through domestic bond issuance starting April..

Fiscal stimulus in Asia until March 09	
Country	USD bn
China	586
South Korea	30
Malaysia	18.4
Taiwan	14.3
Singapore	13.2
Philippines	6.8
Indonesia	6.1
India	4
Thailand	3.2

* Source :Asian Development Bank

So far, one of the largest stimulus plans came from China which announced a 2-yr RMB4 trn (US\$586bn) stimulus package in November last year, equivalent to 12% of GDP. About 70% of the spending will be on infrastructure. However, only about a quarter of the package is new spending. While the Chinese government has denied new stimulus plans in the offing, there is still some expectation of further spending plan and tax cuts this year. China's fiscal deficit is expected to be financed through domestic bond issuance, as the national debt-to-GDP ratio is relatively low at around 10%. The RMB4trn fiscal stimulus package is likely to increase the ratio towards 15%. However, there are some concerns over the financing at the provincial level as only a fraction of the announced stimulus package will come from the central government budget although the lifting of banks' lending quota is expected to help.

Despite their current limited pass-through to domestic prices, high global oil and food prices are prompting dissatisfaction among the region's population. To a certain extent, this has limited authorities policy options for addressing rising inflation. With negative real interest rates, monetary tightening measures in the region are generally seen to be behind the curve, and the authorities do not regard the removal of fuel and food subsidies as a priority. This limited policy response and the failure to remove subsidies stem partly from their unpopularity among both the authorities and the general population. With forthcoming elections in countries such as India and Indonesia in 2009, governments view such moves as detrimental to their election effort..



Descriptive statistics on Recession and the threat of Deflation

Descriptive statistics on recession				
Country	Proportion of times in recession (%)	Duration (years)	Amplitude (%)	Cumulative loss (%)
China	10.64	1.5	5.7	8.55
Hong Kong	2.13	1	6.03	6.03
India	8.51	1.33	2.74	3.55
Korea	4.26	1	4.17	4.17
Singapore	8.51	1	1.31	1.31
Indonesia	4.26	1	7.69	7.69
Malaysia	4.26	1	4.24	4.24
Average	13.33	1.59	6.73	12.44

*The average calculations includes few other asian countries not included in this table

In the Given table the first column shows the proportion of time in recession that is defined as the number of recessionary years divided by the total number of years for which GDP data are available. The second column shows the average length (measured in number of years) of a recession episode. The third and the fourth columns indicate the severity of recessions. As shown in the table, Asian countries on average were in recession about 13% of the time, and each recession lasted about 1.6 years. The accumulated decrease in GDP during a recession (cumulative loss) was about 12%.

At the moment there seems to be little danger that Asia, with the exception of Japan, will fall into a sustained deflationary spiral of falling production and prices. Entrenched deflation across Asia would seriously aggravate the economic crisis. If consumers became used to the idea of falling prices, they might delay major purchases in the expectation that prices would fall further. This would further depress consumer demand at exactly the time when many governments need consumers to start spending more. Deflation

would also make it impossible for central banks to set negative real interest rates, which are sometimes desirable for boosting economic growth when the outlook is very bleak. The fed had been aggressive dropping its target rate to 1%. And the governments various bailout plans have also pumped huge funds into the economy. With scope of monetary policy already exhausted, policy interest rates have been reduced to a very low levels. Policy makers seems to have pinned their hopes on stimulus package.

Deflation, across the economy, might hurt Asian commodity producers and banks in 2009, while the risk of insolvency at technology companies will increase. Some companies that survive the downturn will gain a "significant" edge in market share and competitive strength. Asian manufacturers might get a hit amid deflation. In 2009. Companies struggling with financing problems will fire-sale finished goods. Banks might refrain from lending as asset values fall, while the downturn and job losses in manufacturing-dependent countries, many of which are in North Asia, could be extreme.



1997 and 2008 Crisis

The 1997 crisis started in Thailand with the financial collapse of the Thai baht caused by the decision of the Thai government to float the baht, cutting its peg to the USD, after exhaustive efforts to support it in the face of a severe financial overextension that was in part real estate driven. Due to the huge burden of foreign debts, the country eventually went into bankruptcy even before their currencies collapsed. The crisis spread in the other parts and caused currency slumps, devalued stock markets and falling other asset prices and a tremendous rise in Debt. Foreign debt-to-GDP ratios rose from 100% to 167% in the four large ASEAN economies in 1993-96, then shot up beyond 180% during the worst of the crisis. The crisis had severely hit currencies of Thailand, Indonesia, Philippines, Malaysia and South Korea.

The governments had sound fiscal policies and IMF also stepped in to provide an aid by pumping \$40 million program to stabilize the currencies of the countries who got the hardest hit in the economy. Consequently, IMF created a series of bailouts ("rescue packages") for the most affected economies to enable affected nations to avoid default, tying the packages to reforms that were intended to make the restored Asian currency, banking, and financial systems as much like those of the United States and Europe as possible. To overcome the currency crisis, countries had to make their domestic currencies more attractive by rising interest rates temporarily, even if it hurts weak banks and financial institutions. The countries rose their interest rates as high as 60% - 65%, which was quite unusual. The high interest rates were a matter of record in the crisis hit Asian countries. The effects of the crisis kept the economies in a slow pace till 1998. By 1998, However analysts saw signs of recovery in Asia.

The crisis had affected dozens of countries and had a direct impact on livelihood of millions of people. After the crisis, investors were reluctant to lend to developing countries leading to economic slowdown in many parts of the world. The shock sharply reduced the prices of oil and the crude oil hit as low as \$8 towards the end of 1998, causing a financial pinch in OPEC nations and other oil exporters. This reduction in revenues contributed to the 1998 Russian Financial Crisis, which in turn caused the Long-Term Capital Management in the United States to collapse after loosing \$ 4.6bn in 4 months.

There is a Qualitative difference between the 1997 and 2008 crisis. The following differences are evident.

- 1997 crisis basically started from Asian countries. The developed countries i.e. Europe U.S. were relatively insulated to the crisis. Whereas 2008 crisis first started in developed countries and then spread to developing countries.
- The 1997 crisis originated from Forex markets and slowly spread to other markets. Whereas 2008 crisis started with the housing mortgage markets and expanded to equity and debt markets.
- 2008 Crisis is more catastrophic in nature compared to 1997 one. 1997 crisis was more of a localized one where as 2008 crisis is more similar to great depression of 1930's

Country	Exchange rates per US\$		Change
	1997	1998	
Thai Bhat	24.5	41.1	-40.20%
Indonesian Rupiah	2380	14150	-83.20%
Philippino Peso	26.3	42	-37.40%
Malaysian Rinngit	2.5	4.1	-39%
South Korean Won	850	1290	-34.10%



Section B – Country Insights

Hong Kong

Nominal GDP (2007) :US\$ 207.2 billion
GDP Per Capita (2007) :US\$29,914

The global financial crisis caused a sharp slowdown in the second half of 2008, pushing the territory into recession. Hong Kong has a free market economy highly dependent on international trade and finance, which has left it heavily exposed to the global economic slowdown that began in 2008. Hong Kong's natural resources are limited, and food and raw materials must be imported. GDP is estimated to decrease by 2% to 3% in 2009.

Hong Kong's inflation rate had been markedly varying, up and down in a roller coaster ride between the 1960s and 1990's. In the early 21st Century., Hong Kong became one of the few developed economies to have experienced deflation in the post-World War II period.

Hong Kong's consumer price inflation eased to an annualized 0.8% in February 2009, a two-year low, cooling from a 3.1% rise in January 2009, as softer food prices and government waivers on some public services helped cushion the overall price index. Analyst expects Hong Kong's CPI to rise 1% in 2009, compared with the government's forecast of 1.6%. CPI rose to 3.9% in 2008. Medium term annual growth forecast over the period 2009 to 2012 is estimated to be 4.5% in real terms.

The Hong Kong Special Administrative Region (HKSAR) government recorded a surplus of 49.8 billion HK dollars (6.4 billion U.S. dollars) for the 10 months ending Jan. 31, bringing its fiscal reserves to 542.7 billion HK dollars (69.6 billion U.S. dollars). The revised estimate for the financial year ending March 31, is a deficit of 4.9 bn HK dollars (628.2 million U.S. dollars).

Hong Kong's equilibrium current account surplus is estimated to be about 8.7% of GDP in 2009. Its current account surplus is projected to average 4.4% of GDP over the next decade, smaller than the historical average surplus of 5.8% of GDP.

The currency used in Hong Kong is the Hong Kong dollar. Since 1983, it has been pegged at a fixed exchange rate to the United States dollar due to the event of Black Saturday. The currency is allowed to trade within a range between 7.75 and 7.85 Hong Kong dollars to one United States dollar. As of now the currency is trading in its lower band of 7.75 HKD. Hong Kong will likely rethink its currency peg to Dollar when Chinese Yuan becomes fully convertible, though it still seems to be a long way.

GDP

Years	2005	2006	2007	2008E
Real GDP %	7.1	7	6.4	3.7
Real GDP by economic activity % of GDP				
Agriculture	0.1	0.1	0.1	
Manufacturing	3.4	3.2	2.5	
Electricity, Gas and Water	3	2.8	2.6	
Construction	2.9	2.7	2.6	
Services	90.6	91.2	92.3	

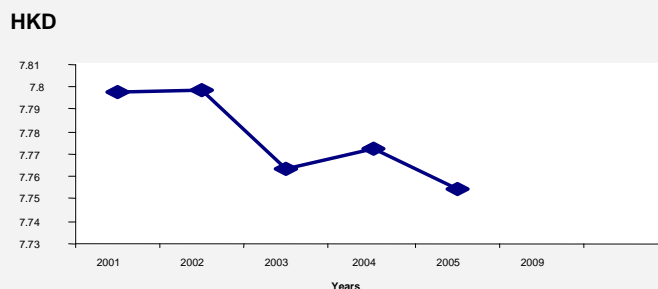
Other Key Indicators

Other Key Indicators (Percentage change)	2005	2006	2007	2008E
Inflation - Consumer Prices	1.00	2.00	2.00	3.9
Unemployment	5.6	4.8	4	3.6
Money and Credit				
Narrow Money (M1)	-10.3	13.1	25.4	
Broad Money (M3)	5.2	15.5	20.6	
% of GDP				
Consolidated Budget Balance	1.00	4.00	7.70	
Current account	11.4	12.1	13.5	12.5
Foreign Exchange reserves billion US\$	124.3	133.2	152.7	158.6

Others

Others	2005	2006	2007
Three Months HIBOR	4.2	3.8	3.3
Hang Seng Stock Index (period average, 1964 = 100)	14344	16880	23172
Market Rate (HK\$ / US\$1, period average)	7.777	7.768	7.801

Currency Movement





Singapore

Nominal GDP (2007) : US\$161.3 billion

GDP Per Capita (2007) :US\$35163

Singapore's GDP contracted by 0.6 per cent in year-on-year terms in the third quarter of 2008. On an annualised quarter-on-quarter basis, growth declined by 6.8 per cent, compared to a fall of 5.3 per cent in the second quarter. The largest contraction came from the manufacturing sector, with the decline led by the electronics and biomedical sciences (BMS) segments. Falling external demand and the relocation of some electronics production to other countries contributed to the poor performance of electronics, while the BMS segment continues to be dampened by the production of pharmaceutical ingredients with lower values compared to a year ago. Growth in the services sector has started to moderate. Services-producing industries grew by 5.3 per cent in the third quarter, compared to 7.1 per cent in the previous quarter. The plunge in stock markets worldwide since mid September and disruptions in the global credit markets have started to affect many of the services and trade-related sectors, especially financial services, wholesale trade, and transport and storage.

Singapore's economy is expected to face a broad-based slowdown in 2009. The financial services sector is expected to remain weak in 2009. Financial institutions are operating in an environment of heightened risk aversion and weaker demand. The slowdown in international and regional trade will significantly impact the wholesale trade and the transport and storage sectors. Electronics will continue to be affected by weak global semiconductor demand, but the BMS and chemicals clusters will be boosted by the addition of some new capacity and plants coming on-stream in late 2008 and 2009.

The economic downturn is expected to last for several quarters, well into 2009. In its latest World Economic Outlook, the International Monetary Fund (IMF) noted that economic outlook is "exceptionally uncertain". It also forecasted that advanced economies as a whole would register negative growth in 2009.

GDP

Years	2005	2006	2007	2008E
(Percentage change)				
Real GDP	7.3	8.2	7.7	4.5
CPI	0.5	1	2.1	6.7
Unemployment	3.1	2.7	2.1	2.1

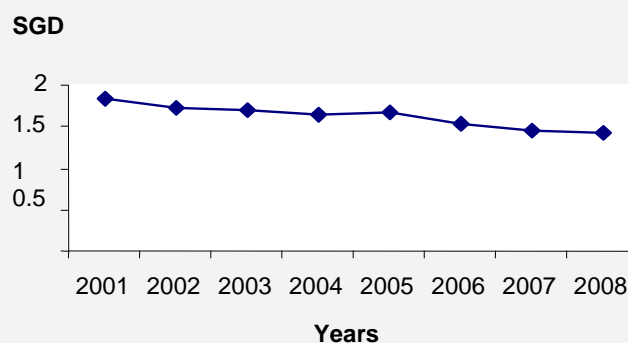
Other Key Indicators

Years	2005	2006	2007	2008E
(% of GDP)				
Savings	38.5	41.8	46.8	43.8
Capital Formation	19.9	20	22.6	25.6
Budget Balance	8.2	7.2	9.5	5.7
Current a/c balance	22.3	29.8	39.2	34.5

Others

Years	2005	2006	2007	2008E
Gross reserves US\$ bn	116.2	136.3	163	180.7
Exchange rate S\$ / US\$	1.664	1.534	1.441	1.366
Population in Million	4.3	4.4	4.6	4.8

Currency Movement





India

Nominal GDP (2007) :US\$ 912 billion

GDP Per Capita (2007) :US\$809

Impacted by the global economic meltdown, the Indian economy has clocked slowest quarterly growth in over five years, at 5.3 per cent, in October-December of 2008 as agriculture and manufacturing contracted, despite a stimulus package.

Against the whopping 8.9 per cent growth in 2007, economists said it is now the Reserve Bank's turn to provide stimulus to the economy by cutting rates, as Inflation is already down.

While the fall in manufacturing, by 0.2 per cent, in the third quarter was expected, as was evident in negative industrial production numbers for October and December, contraction in farm output by 2.2 per cent was a bit surprising.

Agriculture figures came as a surprise. There was a turnaround but one can be optimistic that the figures will improve.

For the nine months of 2008, the economy grew by 6.9 per cent against nine per cent a year ago, which may make it difficult to attain the 7.1 per cent growth in 2009, as was estimated officially.

If such a prognosis turns out to be correct, the full-year growth figure could end up being closer to 6.4% than 7.1%. Either way, 2008 - 09, it is now clear, will register the lowest growth rate of GDP for any year since 2002-03.

Market sentiment is still unstable in India. So far in 2009 there has been a net outflow from the Indian stock market as the global turmoil drags on. Foreign direct investment has been reportedly strong in Q1 2009, rebounding from a massive 25 percent year-on-year decline in the third quarter. Long term investors would continue to see India as a potential destination, while speculators would flee the country if the situation worsened further.

Considering the magnitude of the adverse economic developments in 2008, the projected drop from 8.7 per cent last year to 6.4 per cent this year is in fact modest. The farm sector income is expected to expand by 2.0 per cent, industrial GDP growth by 7.5 per cent and services sector growth by 9.6 per cent. Overall, non-farm sector GDP is projected to increase by 8.9 per cent in 2008/09, compared to 10.0 per cent last year and 11.0 per cent in 2006/07.

GDP

Years	2005	2006	2007	2008E
(Percent growth)				
Real GDP	7.5	9	9.4	8.7
CPI	4.25	6.29	6.38	8.32
Broad Money	12.3	21.2	21.3	

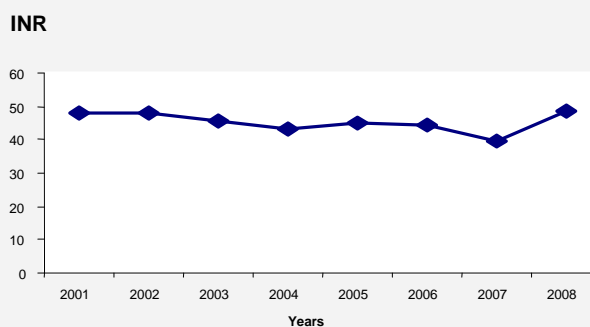
Other Key Indicators

Years	2005	2006	2007	2008E
(% of GDP)				
Savings	31.2	32.6	34.2	35.6
Investments	31.5	33.8	35.3	37
Current a/c Balance	-0.4	-1.1	-1.1	-1.5
Budget Balance	4.62	3.65	3.02	
External Debt	17.8	15.8	17.1	17.9

Others

Years	2005	2006	2007	2008E
International reserves (US\$ in millions)				
	136,026	176,105	273,859	256,419
Stock market YOY	16.1	73.7	15.9	
Exchange rate (rupee/US\$, end period)	43.7	44.6	43.5	
Population in millions	1,094	1,112	1,130	1,148

Currency Movement





China

Nominal GDP :US\$3460 billion

China faced a severe deceleration of growth in H2 2008 based on a number of indicators: GDP which was close to zero on a quarter on quarter basis, industrial production, production of electricity, PMI, weakness of auto sales, fall in residential home sales, manufacturing data, falling imports and exports. In fact, calculated on a quarter on quarter basis like most other countries, Chinese growth (which is reported only on a year on year basis) was practically zero and even negative by some private sector estimates.

Chinese growth is expected to be below the government target of 8% and even below the 6.5% level that the IMF and World Bank are predicting. A figure of 5-6% seems more likely. The more optimistic outlook for Chinese growth would require a recovery in the global economy, especially the U.S. in the second half of 2009, a development that seems more likely to come in 2010. It seems too soon to point to an economic recovery, particularly in the absence of a rebound in demand from the G3 economies (U.S., EU and Japan) which absorb most of Chinese exports.

There are other risks to this scenario. First, the Chinese policy stimulus could turn out to be insufficient and further stimulus could be delayed. Second if a drugged recovery - via easy money, loose fiscal policy and easy credit - leads to further over-capacity (of which there is some evidence), it could result in rising non-performing loans, falling profits or rising losses.

Although government-linked investment rose sharply beginning in February 2009, private sector capital expenditure (mostly financed via retained earnings) is likely to stay weak in 2009 given sharp profit declines. Furthermore, although indicators of private consumption like retail sales have remained relatively robust, they are growing at a slower pace compared to H2 2008. The extent of job losses and falling incomes as well as negative consumer confidence may slow consumption further going forward, particularly in urban areas, despite government incentives.

But the gap between a very weak U.S. and global economy and the Chinese growth target of 8% for 2009 is wide and given the sluggish outlook for the U.S. and global economy, China may continue to grow below potential in 2010. There is also another important caveat: even once the U.S. economy recovers, it will rely less on consumption and imports and more on an improvement in net exports.

GDP

Years	2005	2006	2007	2008E
(Percentage Change)				
Real GDP	10.4	11.6	13	9
CPI	1.82	1.47	4.77	5.9
Unemployment	4.2	4.1	4	

Other Key Indicators

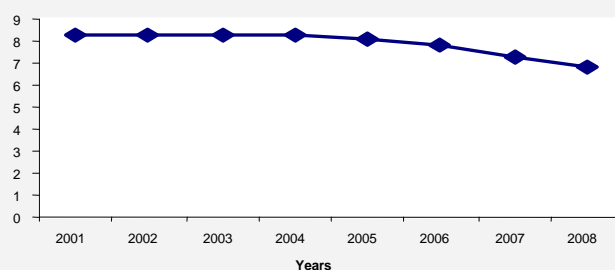
Years	2005	2006	2007	2008E
(% of GDP)				
Savings	31.1	32.4	34.7	35.7
Investment	31.5	33.8	35.1	36.3
Current a/c balance	7.06	9.31		
Fiscal Balance	-1.24	-1.03		

Others

Years	2005	2006	2007	2008E
External Debt (US\$ bn)	281.6	322.8	350.1	384.2
Trade Balance (US\$ bn)	134.2	217.7	315.4	360.6
Foreign Reserves (US\$ bn)	825.6	1072.6	1534.4	1954.6
Exchange rate RMB / US\$ (end period)	8.07	7.81	7.31	6.84
3 month Interest rate	1.64	1.95	3.25	0.92
Population in million	1308	1314	1321	1328

Currency Movement

CNY





Japan

Nominal GDP (2007) :US\$ 4378 billion

GDP Per Capita (2007) :US\$34272

The central bank of Japan forecasts that the economy would remain under stress in the new fiscal year 2009 and substantial liquidity is required to ensure stability in financial markets.

It will increase its outright purchases of Japanese government bonds by 4.8 trillion yen to 21.6 trillion yen (\$219 billion) per year, effective from this month. The bond purchases are for maturities ranging up to 30 years.

The BOJ appears to be ready to move in line with fiscal policy in terms of the amount of the liquidity injection

By moving in lock-step, the central bank is trying to keep the liquidity from leaking into commodity and financial markets.

The JGB (Japan Government Bond) purchase increases were expected. Redemptions of JGBs are accelerating from here and the BOJ has to buy more if they do not want to reduce the amount of JGBs held. Also, as tax revenues are collapsing and stimulus packages need to be financed, the government has to increase its JGB issuance.

The recession has caused a rise in government borrowing - lower tax rates and higher government spending. In addition the government has pursued expansionary fiscal policy - lower VAT, higher spending. The impact on government finances has been dramatic. The level of government borrowing next year is forecast to top £180bn (very roughly 13% of GDP - a post war record)

Despite huge fiscal stimulus, output continues to fall and unemployment continues to rise. This is because of the following factors slowing the economy down:

- Falling house prices
- Decline in output/ jobs in the finance sector
- Time lags.

The current scenario of stagflation is sure to pinch consumers across the global economy, but the speed and rate of pessimism and drop in real activity is quite severe in Japan. In terms of overall demand dynamics, it tells an important story about the ability of Japan to shield itself from what comes next in terms of a slowdown in exports and industrial production. One thing is sure in this regard. Even if Japanese employers increasingly are beginning to convert part time workers into full time workers, the increase in wages cannot, keep up with the pace of headline economic pressures.

GDP

Years	2005	2006	2007	2008E
(percentage change)				
Real GDP	1.9	2.4	2.1	1.5
CPI	-0.3	0.3	0	1.1
Unemployment rate	4.4	4.1	3.9	3.9

Other Key Indicators

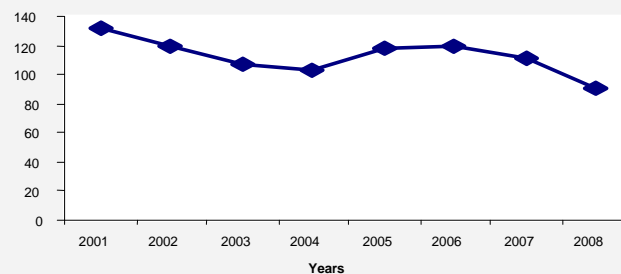
Years	2005	2006	2007	2008E
(% of GDP)				
Budget balance	-4.5	-3.3	-2.9	-3.3
Current a/c balance	3.6	3.9	4.8	3.9
Trade Balance	2.1	1.9	2.4	1.4

Others

Years	2005	2006	2007	2008E
Total Reserves US\$ bn	834.3	879.7	952.8	982.4
Exchange rate Yen / US\$	110.2	116.3	117.8	106.4
Population in million	127.4	127.4	127.4	127.2
3 months Interest rates	0.07	0.57	0.9	0.1

Currency Movement

JPY





South Korea

Nominal GDP (2007) :US\$ 969..7 billion

GDP Per Capita (2007) :US\$ 20,011

The domestic economic slowdown persists. The pace of export growth has declined owing to the weakening in global economic growth and domestic demand such as private consumption remain sluggish. The downside risk to economic growth is considered to have been augmented by the Knock on effects of the financial markets unrest. Bank of Korea cut their Benchmark interest rate by 25 basis points to 5% on October 9th, by 75 basis points on October 27th to 4.25 and another 25 basis points on 7th November to 4%. They cut interest rates thrice in less than a month time. Anytime a bank cuts rates that frequently, it could only mean that there are financial challenges in the economy.

The economy grew by 3.9% in the third quarter of 2008 compared to 4.8% in the previous quarter and 5% in the first quarter. Exports in November fell by 18% YOY.

The Korean won has depreciated sharply in the past few months. Between August 1st and November 26th, it fell by 45.7 percent. The stock market is down 44 percent year-to-date. Industrial production growth has been quite anemic; it grew by 6.8 percent in September though it was up from the previous month when it grew by 1.8 percent. Korean manufacturer sentiment is at a ten-year low. Retail sales increased 4.6 percent in September compared to 10.4 percent in the previous month. Foreign reserves are down sharply – it was \$212.2 billion at the end of October compared to 258.2 billion in May. The slide in reserves is partly because the BOK has used it to defend the fall in the won and partly because there has been significant capital flight. The BOK, as a result of capital flight, has been forced to conclude swap arrangements with several central banks. Inflation (CPI) has been falling the past months, it was 4.81 in October compared to 5.10 in September but it was 3.89 in January. The composite business survey index has fallen sharply; it was 63.7 in November compared to 103 in January and 84.9 in October. The OECD estimates that it will grow at 2.7 percent in 2009 while some investment banks expect the economy to grow anywhere between 2.5 - 3 percent. The government has announced a 14 trillion won (\$10.8 billion) fiscal stimulus package in the form of infrastructure spending and tax benefits but it is likely that this stimulus may not be enough to counter the global economic slowdown.

GDP

Years	2005	2006	2007	2008E
(Percentage change)				
Real GDP	4.2	5.1	5	4.1
CPI	2.6	2.1	3.6	5.6
Unemployment	3.7	3.5	3.3	3.2

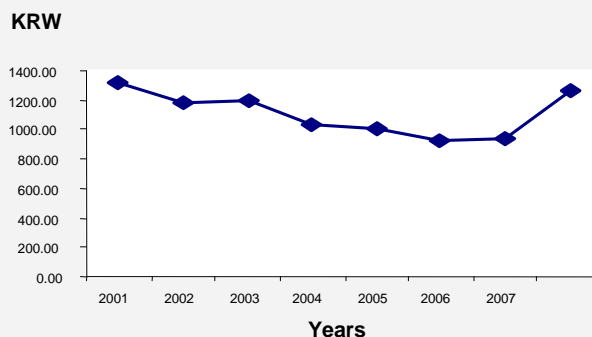
Other Key Indicators

Years	2005	2006	2007	2008E
(% of GDP)				
Savings	32	30.5	30	2.5
Investment	30.1	29.8	29.4	29.9
Current a/c balance	1.9	0.6	0.6	-1.3
Budget Balance	1.9	1.8	3.8	1.6
External Debts	23.7	29.3	39.4	48.1

Others

Years	2005	2006	2007	2008E
International reserves US\$ bn	210.3	238.9	262.1	201.22
Exchange Rate	1010	930	935	1260
Population in million	48.3	48.7	49	49.2
3 months Interest rate	5.1	5.48	6.01	5.73

Currency Movement





Disclaimer

This document is for information and illustrative purposes only; it is in no way an offer or solicitation to buy or sell any investment products. Views expressed in this report are the views of the analysts in the capital market division of Injaz Mena and Injaz Mena, as a company, will not be held liable for any information provided or views expressed in this document. This report is intended for the general information of clients of Injaz Mena only and it neither constitutes a personal recommendation nor takes into account the particular investment objectives, financial situations, or needs of individual clients. Any prospective investors should not treat the contents of the material as investment, tax or legal advice and any such prospective investors must make their own investigation and evaluation of an opportunity to invest and should consult their own advisors concerning the suitability of the investment considering its own financial and tax circumstances and risk preferences before deciding to make any investment acting upon the information contained in this material. The information contained herein has been obtained from sources that Injaz Mena believes to be reliable, but Injaz Mena does not guarantee its accuracy, adequacy, completeness, reliability or timeliness, and will not be held liable for any investment decisions made based on this information. Moreover, Injaz Mena is not responsible for any errors or omissions or for the results obtained from the use of such information.

Sources : IMF, Bloomberg, Index Mundi,