2017 Economic Outlook for Major Emerging Market Economies

December 20, 2016

Mizuho Research Institute

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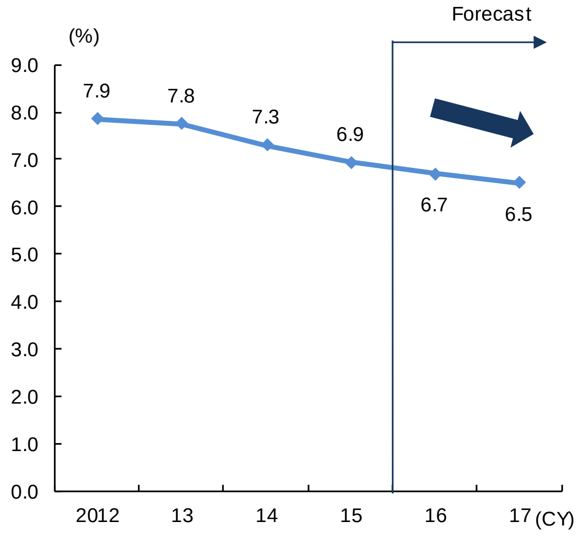
Contents

China: even though the slowdown of growth will be moderate, keep a close eye upon adjustments in the real estate market

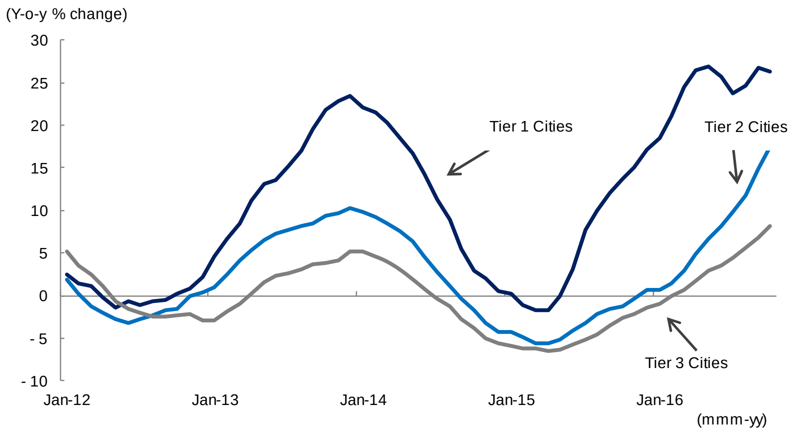
- The pressure on the manufacturing sector to reduce capital stock continues to weigh on the economy. However, the slowdown in growth will likely be moderate.
  - There are strong adjustment pressures such as culling excess production capacity and reducing excess debt, and the self-sustained recovery of the economy remains weak.
  - However, the pace of the slowdown should be moderate due to anticipated support from infrastructure investment and a recovery in exports.
- Close attention needs to be paid to adjustments in the real estate market.
  - Approximately 20 cities have introduced price control measures since the end of September 2016 due to rising real estate prices. Even though the limited targeting of the measures should prevent a price collapse, it will be important to monitor the impact on regional finances, where there is heavy reliance on investment and consumption, real estate related taxes and land transfer revenues.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the National Bureau of Statistics of China

[New home sales prices by city]

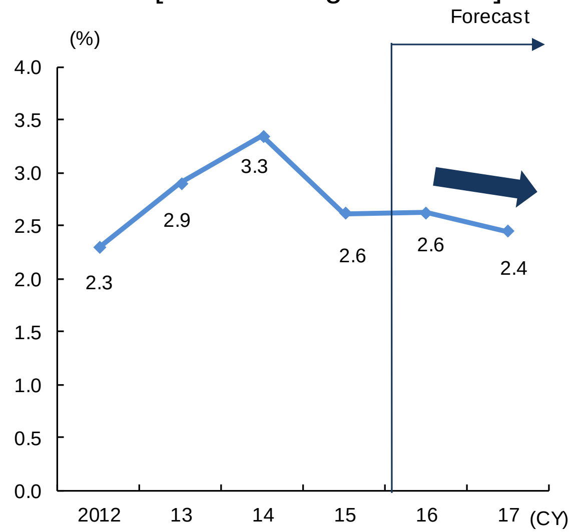


Note: Tier 1 Cities (4 Cities): Beijing, Shanghai, Guangzhou, and Shenzen
Tier 2 Cities (22 Cities): Tianjin, Chongqing, Hangzhou, Nanjing, Wuhan, Shenyang, Chengdu, Xi'an, Dalian, Qingdao, Ningbo, Suzhou, Changsha, Jinan, Xiamen, Changchun, Harbin, Taiyun, Zhengzhou, Hefei, Nanchang, and Fuzhou
Tier 3 Cities (74 other cities)
Source: Made by MHRI based upon Wind

South Korea: despite forecasts of a slight slowdown of economic growth, political turmoil may serve as downside risks

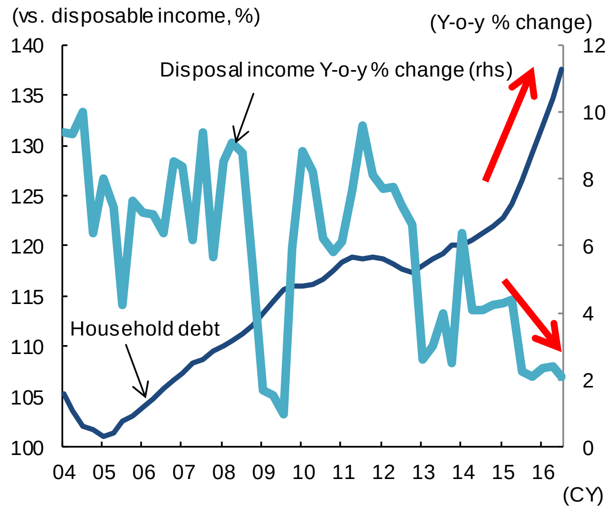
- While a moderate recovery in exports is expected along with the global economic recovery in 2017, domestic demand lacks strength and a slight decline in the growth rate is expected.
  - Apart from the year-on-year (y-o-y) reduction of construction investment due to factors such as stronger regulation on housing purchases, wages remain weak, providing reasons to believe that consumer spending will likely lack strength.
    - ✓ The record high level of household debt will also weigh on consumer spending.
- The political stagnation due to suspicions that a friend of President Park Geun-hye intervened in national politics is becoming increasingly serious. There is growing likelihood that President Park will step down early with the presidential election brought forward.
  - Even though President Park's presidential powers have been suspended following passage of an impeachment motion (December 9th), the opposition parties are set to call for the President to step down before the court ruling.
    - ✓ Given President Park's professed intent to await ruling for dismissal by the Constitutional Court of Korea, the timing of resignation is unclear.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the South Korean Ministry of Strategy and Finance

[Disposable income and household debt]

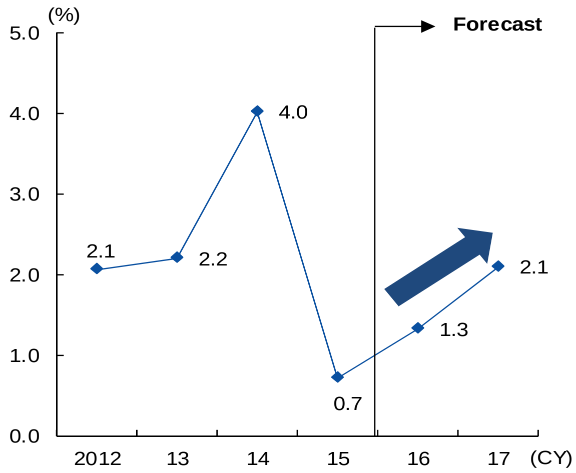


Note: Household debt is 4 quarters backward moving average
Source: Made by MHRI based upon the Bank of Korea and Statistics Korea

Taiwan: a gradual economic recovery due to an upturn of smartphone exports

- Despite a lack of momentum, the economy is on a recovery path, leading to a forecast of +2.1% y-o-y growth in 2017.
  - This is mainly due to the recovery in exports attributed to factors such as the gradual recovery in the global economy and sales of new model smartphones.
  - However, domestic demand is projected to be weak due to factors such as the waning impact of lower taxes on cars and the declining momentum for business fixed investment in the IT sector.
- Given uncertainties regarding the improvement of relations with China, the Tsai administration has embarked on a 'New Southbound Policy' needed to secure momentum for new development.
  - The plan is to focus on the provision of information and the creation of matching opportunities necessary to foster links between Japanese and Taiwanese companies in areas such as Southeast Asia.
    - ✓ There are also hopes for cooperation with Japanese companies in innovative sectors such as green energy, smart devices, IoT, and biopharmaceuticals, etc.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Director-General of Budget, Accounting and Statistics, Taiwan

[Outline of 'New Southbound Policy']

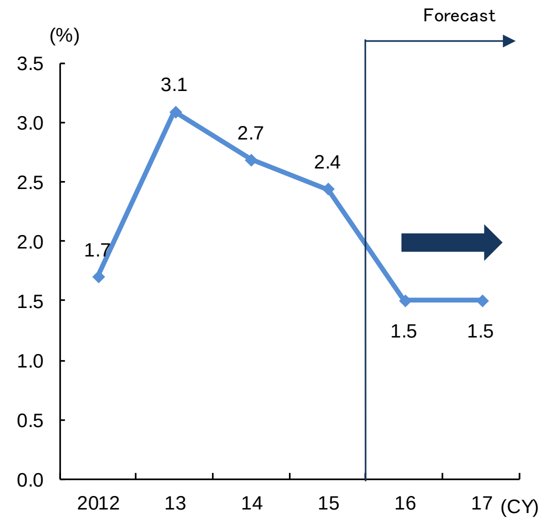
Target Markets	
● 10 ASEAN Countries ● 6 South Asian Countries (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan) ● Australia, New Zealand	
A strategy of four key links	
● Economic cooperation	･**Participate in local infrastructure projects with third countries such as Japan using connections with local Chinese as intermediaries** ･Strengthen the export of consumer goods and services ･Support formation of local clusters of Taiwanese companies
● People-to-people links	･Attract foreigners to Taiwan ･Utilize 'new residents' (Foreigners who marry in Taiwan, immigrants, etc.) ･Expand and deepen exchanges in the education sector, etc.
● Share resources	･Expand exchanges and alliances in sectors such as health, culture, tourism, science and technology, agriculture and small and medium enterprises
● Linking regional markets	･**Strengthen the government and non-government cooperation platform between Japan and Taiwan and launch into above target markets by utilizing the predominance of Japanese technology and infrastructure** ･Continue working to sign investment and taxation agreements ･Build a database of overseas Chinese business, and exchange platform, etc.

Source: Made by MHRI based upon the Executive Yuan, Republic of China, *Promotion of the New Southbound Policy, 5-Sep-16.*

Hong Kong: tepid growth around the 1%-level due to the rise of interest rates accompanying with US rate hike

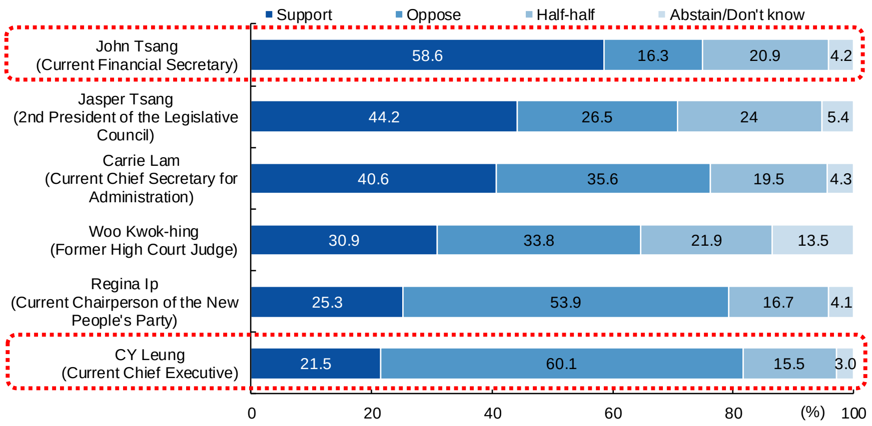
- Given upward pressures on yields and policies to curb real estate prices, the growth rate should remain around +1.5%.
  - The rise of Hong Kong interest rates due to the start of US interest rate hikes and the introduction of policies to curb real estate prices should serve as downward pressure on the Hong Kong economy.
  - Although the gradual recovery in exports and stable employment conditions will provide a certain level of support, the growth rate is expected to remain around +1.5%..
- The focus will be on the outlook for the elections for the Hong Kong Chief Executive, scheduled for the end of March 2017.
  - Reforms aimed at a democratic election system have failed. As in the past, there will be an indirect election with most of the candidates from the pro-establishment camp.
  - The current financial secretary, John Tsang is in the lead. Issues for the new Chief Executive include how to deal with the 'localist groups' who want separation from China.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Census and Statistics Department, Hong Kong

[Support ratings for potential candidates to be the next Chief Executive]

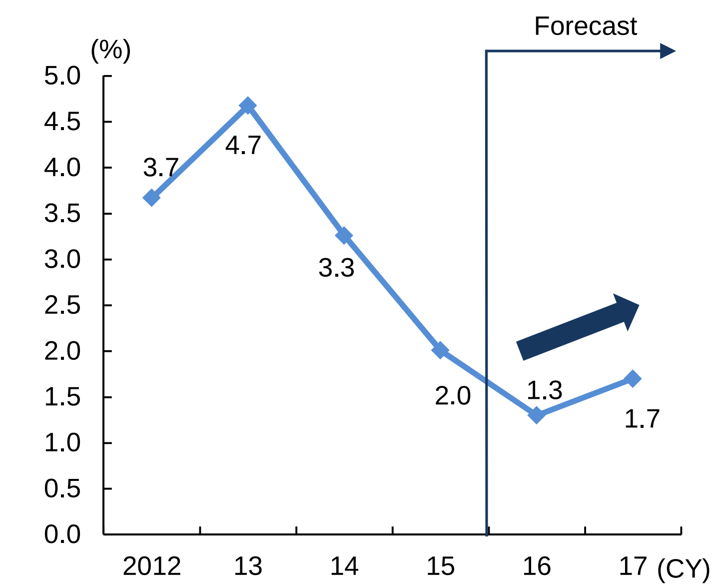


Note: The question asked was 'Assuming the election is held tomorrow and no other candidates are forthcoming do you support or oppose this candidate as Chief Executive'. The poll was conducted during November 7 to 10 of 2016 with a sample size of 1,004. The response rate was 71.2%.
Source: Made by MHRI based upon the Public Opinion Programme, The University of Hong Kong, Public Opinion Poll on 2017 Chief Executive Election (Second poll)

Singapore: growth rate to remain low around the 1%-level, leading to the deterioration of employment conditions

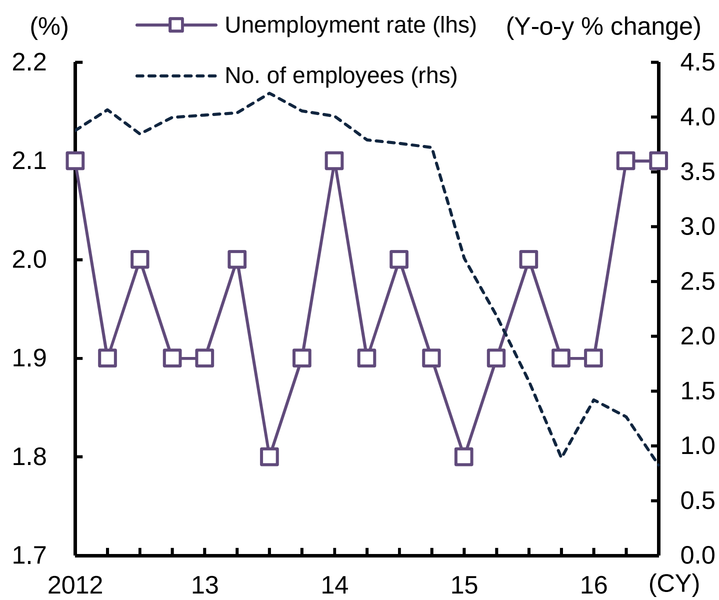
- The rate of real GDP growth should remain at low levels in 2017.
  - Although a recovery in exports is expected due to the gradual recovery of the global economy, the poor employment environment, which is a lagging indicator, will be a drag and consumer spending is likely to remain sluggish.
- Despite an absence of clear signs of deterioration in the unemployment rate, the growth in employees is sluggish and the employment environment is expected to deteriorate under a sluggish economy.
  - There are concerns that the government could become cautious about receiving foreign workers in order to maintain employment levels for citizens in 2017.
    - ✓ The issue of using Singaporean staff is likely to become more important for foreign-owned companies.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Ministry of Trade & Industry, Singapore

[Unemployment rate and no. of employees]

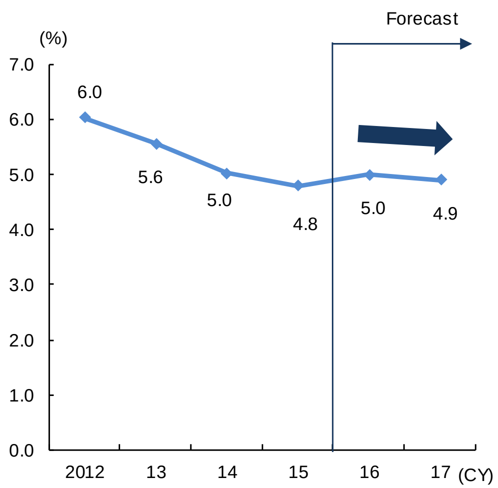


Source: Made by MHRI based upon the Ministry of Manpower, Singapore

Indonesia: amid forecasts of flat growth, the focus of attention is whether a supplementary budget will be passed

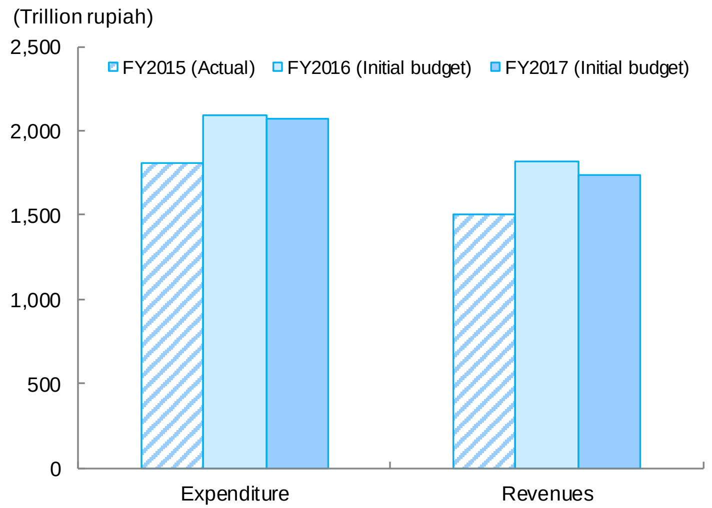
- Indonesia's growth should remain flat at about +5% y-o-y.
  - Inflation should rise due to the depreciation of the Rupiah reflecting factors such as the US interest rate hike and the gradual recovery of the price of oil, which will dampen consumer spending.
  - On the other hand, the economy will be underpinned by an increase in exports due to the gradual recovery in developed economies and increased investment fostered by deregulation under the Joko administration.
- The initial budget for FY2017 was conservative, but government spending on infrastructure and other areas is likely to increase in the formulation of a supplementary budget.
  - The FY2017 (Jan-Dec) budget was passed on November 26. The budget is more conservative than the initial budget for FY2016, with curbs on both expenditures and revenues.
  - If the applications for assets increase under the tax amnesty introduced in July resulting in increased tax revenues, the supplementary budget could include increased expenditures.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon BPS-Statistics Indonesia

[Budget]

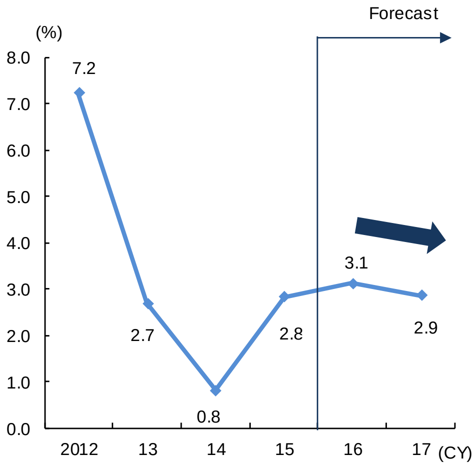


Source: Made by MHRI based upon Department of Finance, Indonesia

Thailand: the economy is recovering as the somber mood after the funeral of the Thai King lifts

- The Thai economy is forecast to recover in 2017. The growth rate has been down y-o-y due to the impact of carryover.
  - Apart from the rising trend in exports due to the recovery in overseas economies, consumer spending should recover once the somber mood after the death of the King subsides.
  - Since the carryovers will be low due to the slower rate of growth in second half of 2016, the rate of growth for 2017 will be below the previous year.
- The proclamation of the new King moves the process of transfer from military rule to democratic government one step further. The military is highly likely to retain a strong influence even after the transfer to democratic government.
  - Crown Prince Maha Vajiralongkorn was proclaimed the new King on December 1. A general election is scheduled for the end of 2017 based on a new constitution issued in the name of the King.
  - Since the new constitution includes a rule that gives the military a certain level of influence over the selection of the prime minister following the general election, the new administration is likely to be favorable towards the military.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the National Economic and Social Development Board, Thailand

[Roadmap to reinstatement of democracy]

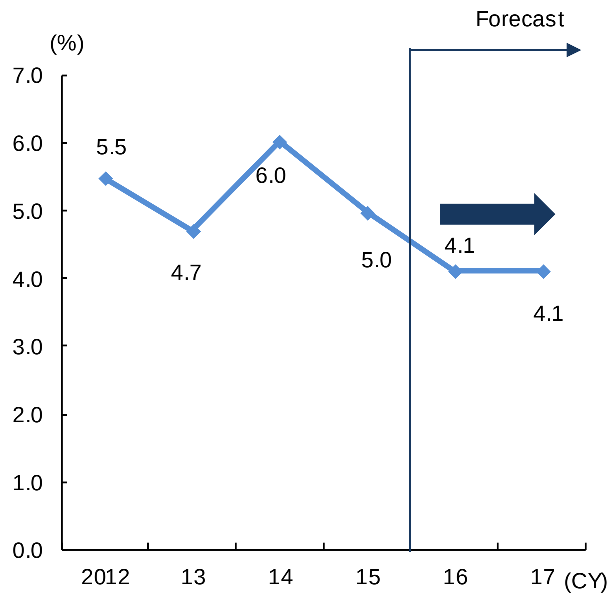
2014	22-May	Military seized power in coup d'état	
2016	29-Mar	Constitution Drafting Committee announces new constitution	
	7-Aug		Referendum on the new constitution (Approved)
	13-Oct	Death of King Bhumipol	
	8-Nov	New constitution submitted for royal endorsement (Signed by the king within 90 days)	
	1-Dec	New king confirmed	New constitution promulgated (Signed by the King)
2017	End of year	General election	
			Reinstatement of democracy

Source: Made by MHRI based upon various media reports

Malaysia: growth rate to remain flat amid cross-currents of the rise of crude oil prices and the setback of TPP

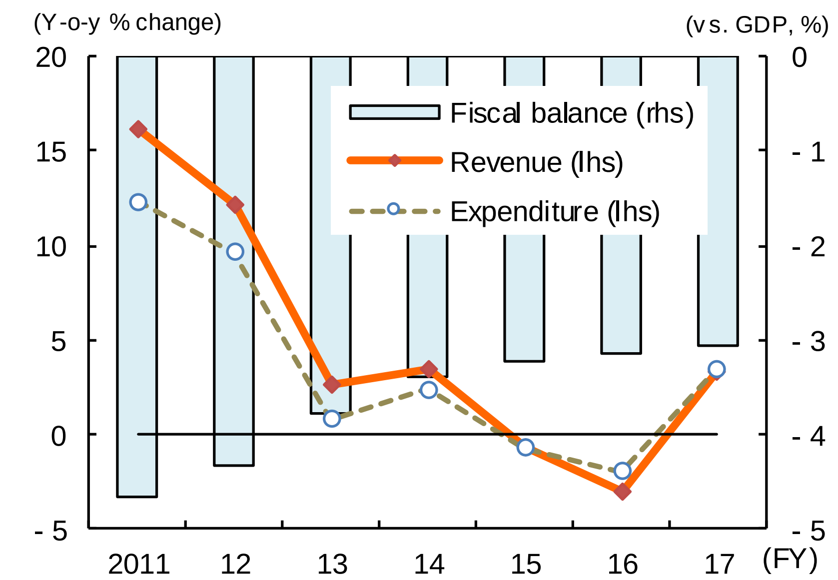
- Malaysia is forecast to grow +4.1% y-o-y in 2017, flattening out from 2016.
  - The sluggish domestic demand due to deterioration in the employment environment is serious. The prospects for TPP appear doomed, and this will put downward pressure on business fixed investment.
  - On the other hand, the prospective rise in the price of crude oil should lead to higher revenues. Conditions for exports to the US should improve.
- Despite ongoing fiscal austerity leading to the fall of the fiscal deficit as a proportion of GDP, expenditures increased for the first time in 3 years.
  - According to the FY2017 (Jan-Dec) budget, expenditure will rise +3.4% y-o-y. This is because revenues are expected to increase due to higher crude oil prices.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Department of Statistics, Malaysia

[Revenue and expenditure, fiscal balance]

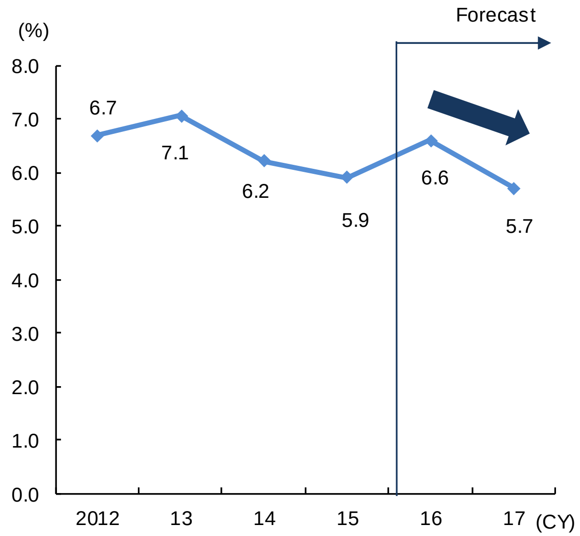


Source: Made by MHRI based upon Ministry of Finance, Malaysia, *Economic Report 2016/2017*, Bank Negara Malaysia, and the Department of Statistics, Malaysia

The Philippines: firm domestic demand under the Duterte administration

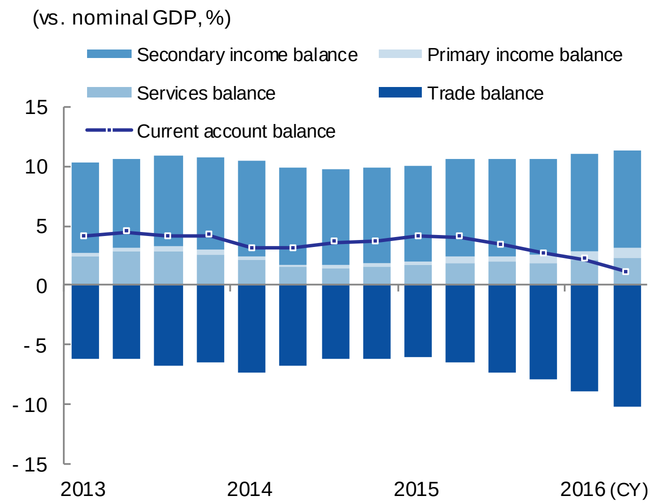
- The economy is gradually expanding. However, the 2017 growth rate is forecast to be below 2016 due to carryovers.
  - Domestic demand is firm due to increased investment attributed to the Duterte administration's proactive stance on infrastructure investment and measures to attract foreign companies.
  - Export growth is gradually rising, reflecting the recovery of developed market economies.
- The contraction of the current account surplus is a source of concern. Keep a close eye upon risks such as a sharp decline in remittances of Overseas Filipino Workers (OFW).
  - The sharp rise of imports triggered by firm domestic demand such as investment is leading to an expansion of the trade deficit and a contraction of the current account surplus.
  - Depending on the policies of the Trump administration (rejection of immigrants, limits on outsourcing), there is also the risk of shift to a current account deficit due to a sharp decline in remittances by OFW, etc.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Philippines Statistics Authority

[Current account balance]

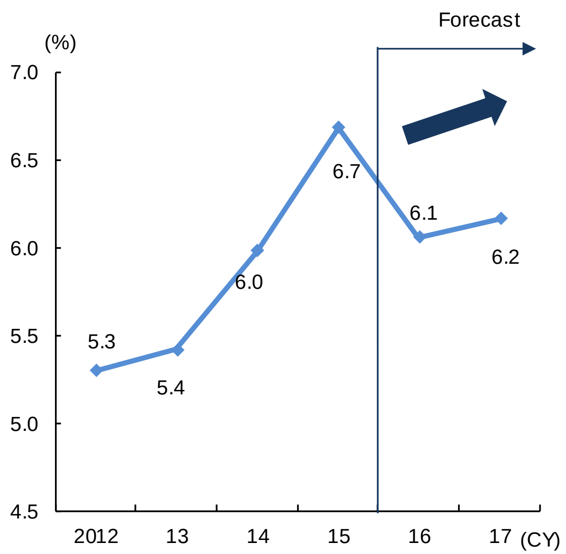


Note: Current account balance and the components are the averages for the past four quarters
Source: Made by MHRI based upon Bangko Sentral ng Philipinas, Philippines Statistics Authority

Vietnam: slight acceleration in growth, but setback of TPP will serve as headwinds for the investment environment

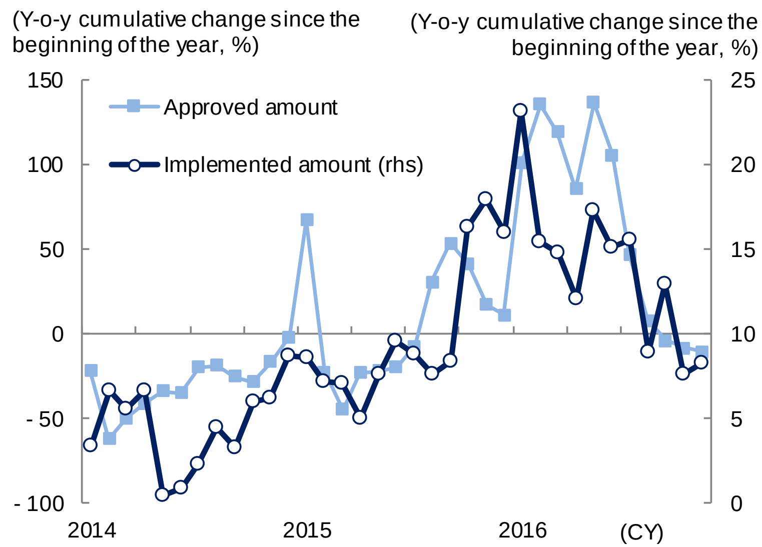
- The upturn of consumer spending and exports should lead to a slight acceleration of the growth rate in 2017.
  - Apart from the alleviation of the drought and salt-air damage that weighed on consumer spending in 2016, exports are likely to rise due to the recovery in overseas economies.
- Foreign-direct investment (FDI), which has underpinned the Vietnamese economy in recent years, is softening and becoming a source of concern over the medium to long-term.
  - The approved amount, which is a leading indicator of FDI, has recently turned negative and FDI will likely lose its luster toward the beginning of 2017.
  - While there has been an increase in FDI in anticipation of the TPP in recent years, it is highly likely that the inauguration of Donald Trump as President of the US will put lead to a setback of the TPP. In addition, even Samsung of South Korea, which accounts for a major portion of FDI, has had a series of malfunctions with new model mobile telephones and the tide of investment into Vietnam is in reverse.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the General Statistics Office of Vietnam

[FDI implemented amount, approved amount]

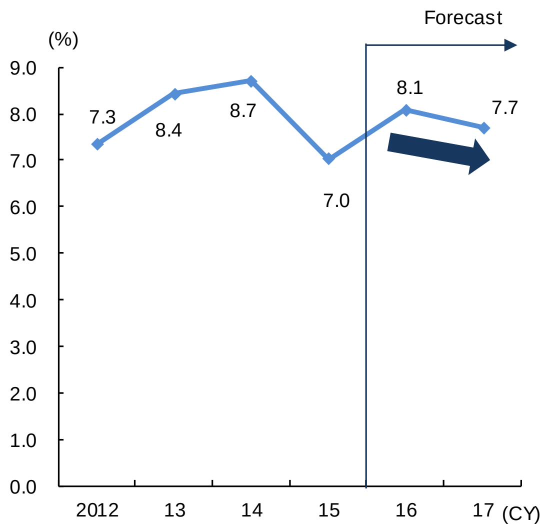


Note: Latest information as of November 2016
Source: Made by MHRI based upon Ministry of Planning & Investment of the Socialist Republic of Vietnam

Myanmar: high growth will continue and investment environment will enter a new phase

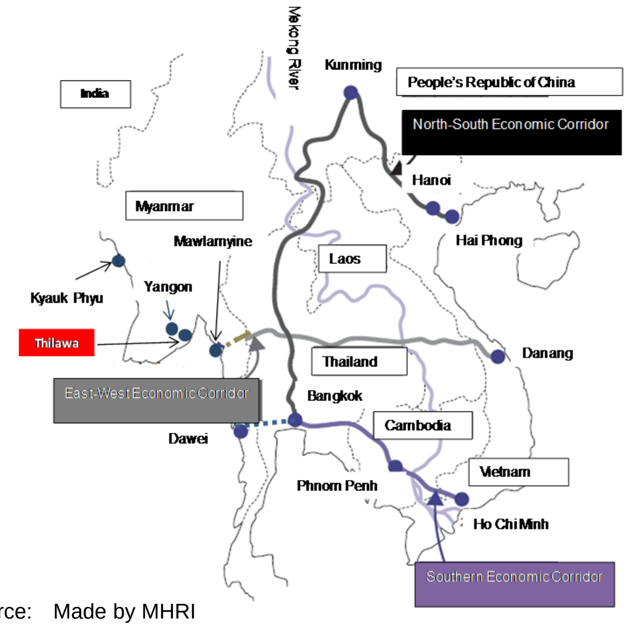
- The economy of Myanmar is forecast to grow at a rate of +7.7% y-o-y in 2017.
  - Even though growth may moderate from the +8.1% recorded in 2016 due to the restoration from flood damage, the growth rate is likely to remain at high levels.
  - Due to the high growth, there is an imbalance with high inflation (2016 forecast: +9.8% y-o-y), and a current account deficit (2016 forecast: 8.3% of nominal GDP).
- The investment environment is entering a new phase with additional development of the Thilawa Special Economic Zone (SEZ), which is the first modern industrial district in Myanmar, and the implementation of a new Investment Law.
  - The first phase of development (approx. 400ha) of the Thilawa SEZ is to be completed at the end of 2016, while manufacturers have already opened and lots have been sold out. The decision has been made for additional development (approx. 100ha) from 2017.
  - From 2017, the investment environment will enter a new phase with measures such as the implementation of the new Investment Law, which incorporates matters such as deregulation of land lease contracts.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon the IMF

[Thilawa SEZ]

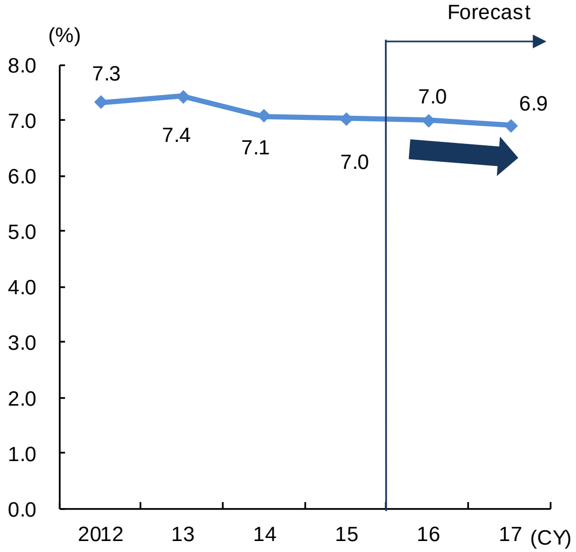


Source: Made by MHRI

Cambodia: high growth to continue, expectations toward the acceleration of FDI in the border region with Thailand

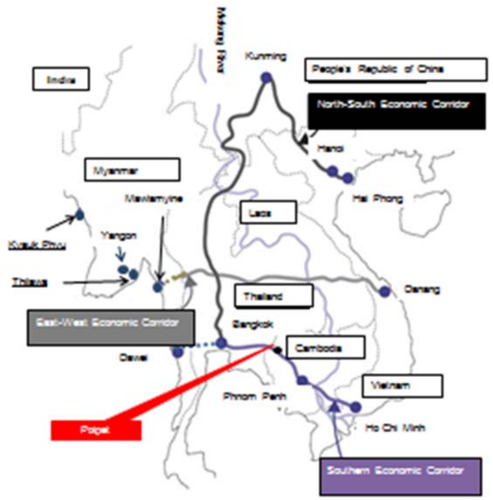
- ❑ The economy of Cambodia is forecast to grow at a rate of +6.9% y-o-y in 2017, maintaining the a high growth trajectory close to +7% of recent years.
  - ▪ On the other hand, although the inflation rate is subdued, there are concerns regarding an overheating of the economy given a large current account deficit (2016 forecast: 10.2% of nominal GDP).
    - ✓ The IMF has pointed to the need for fiscal austerity to curb the current account deficit.
- ❑ Progress is being made with infrastructure on the Thai border at Poipet, and there are hopes for the rise of direct investment.
  - ▪ The investment environment is improving with Japanese companies developing factories for rent (September 2016) and the opening of a railway line to Thailand (end of 2016), etc.
  - ▪ Attention needs to be paid to the rise of wages, with the minimum wage in the influential sewing industry to be hiked to $153/month (+9.3% y-o-y) from 2017.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon the IMF

[Cambodia and nearby countries]

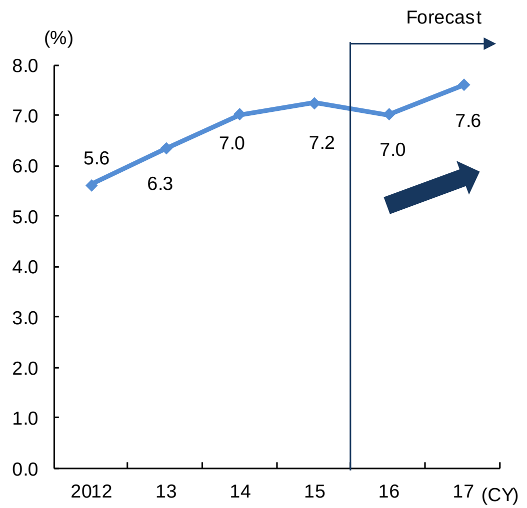


Source: Made by MHRI

India: a rebound in 2017 following a temporary slowdown at the end of 2016 due to the withdrawal of legal tender status for large value bank notes

- The Indian economy is expected to rebound in 2017, reaching +7.6% in 2017, up from +7.0% in 2016.
  - In 2016, the growth rate should slump toward the end of the year due to impact of the withdrawal of legal tender status of large value bank notes in November on household consumption and corporate purchases.
  - In 2017, the turmoil is expected to subside with the switch to new bank notes, leading to a rebound in demand and an upturn of the economy.
- On the night of November 8, there was an announcement that 1000 rupee and 500 rupee notes would cease to be legal tender from November 9, which led to a temporary decline of the economy.
  - The explanation given was to invalidate fraudulent hoarding of money. Old notes can be exchanged or deposited at banks, but the lack of new notes has had a negative impact on payments.
  - While the target to switch to the new notes is the end of the year, a delay may lead to protracted turmoil and serve as downside risks for the rate of growth in 2017.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Ministry of Statistics and Programme Implementation, India

[Withdrawal of legal tender status of large value bank notes]

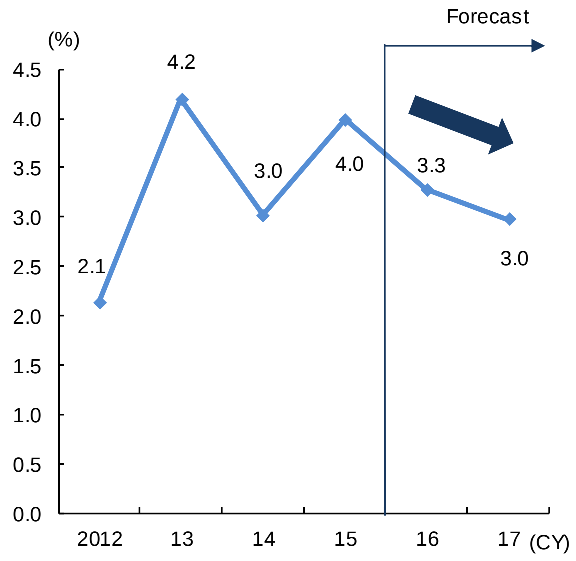
- 500 rupee (approx. 850 yen) and 1000 rupee (approx. 1800 yen) notes became invalid November 9. These are being replaced by the issuance of new 500 and 2000 rupee notes.
- Old bank notes need to be exchanged for new bank notes or deposited in a bank between November 10 and December 30
- The upper limit for exchange is 2,000 rupees per day
  - In addition, when withdrawing the day after making a deposit, the over the counter withdrawal limit is in principle 24,000 rupees per week, or 4,000 rupees per day for cash withdrawals at an ATM
- The deposit cap is 250,000 rupees, and proof of income is required if exceeding that amount. In the case of inadequacies in the customer verification documents the deposit cap is 50,000 rupees.
  - Ordinary deposit accounts with more deposits in excess of 50,000 rupees per day or with deposits in excess of 250,000 rupees during the period, and checking accounts with deposits of more than 1,250,000 rupees, need to report to the Ministry of Finance. Funds not yet reported as income will be taxed at 30% with a fine of 200%.

Source: Made by MHRI based upon various media reports

Turkey: risk of capital outflows due to widening economic imbalance and geopolitical risks

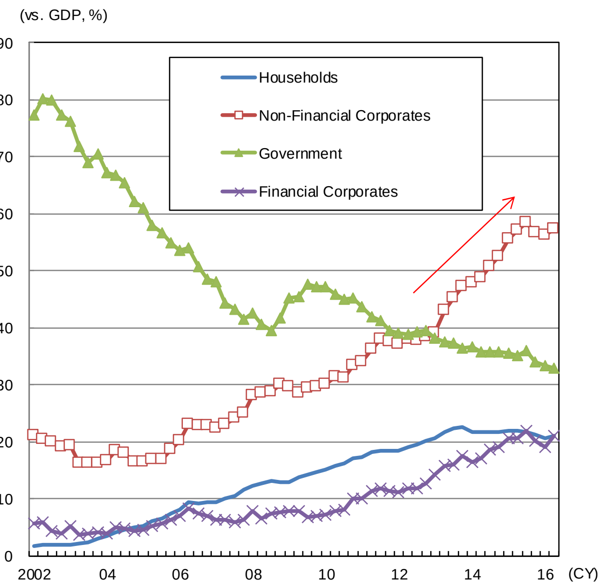
- Even though the IMF forecasts that the Turkish economy will continue to grow about 3% in 2017, there are substantial downside risks.
  - Although slower than 2016, the IMF forecast growth will be driven by consumer spending.
  - However, there are substantial downside risks given high inflation caused by currency depreciation, frequent terrorist attacks and the impact of public servant dismissals following the failed coup d'état.
- The widening economic imbalance and growing geopolitical risk raise concerns regarding capital outflows.
  - Corporate debt has increased sharply during the past three years. There is a widening economic imbalance with a substantial current account deficit and reliance on short-term debt.
  - The growing geopolitical risk and the worsening relationship with the EU can also bring about capital outflows (currency depreciation) especially when the US hikes interest rates.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon the IMF

[Debt by sector (vs. GDP)]

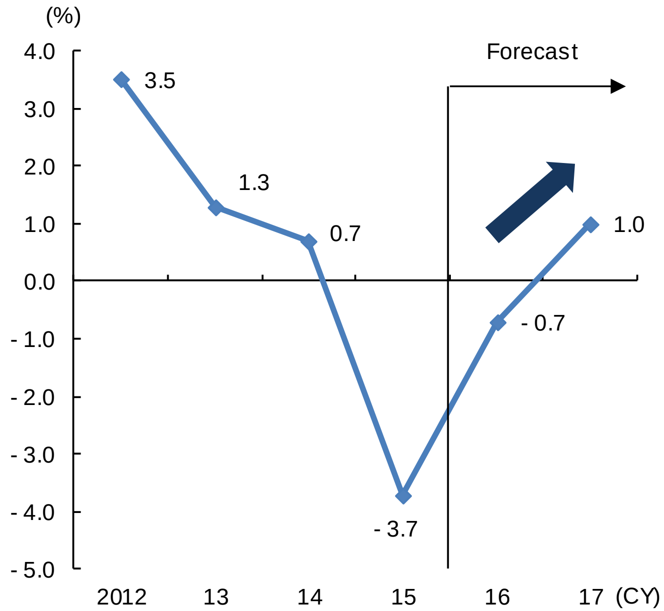


Source: Made by MHRI based upon the Institute of International Finance

Russia: positive growth for the first time in three years, but high growth levels unlikely

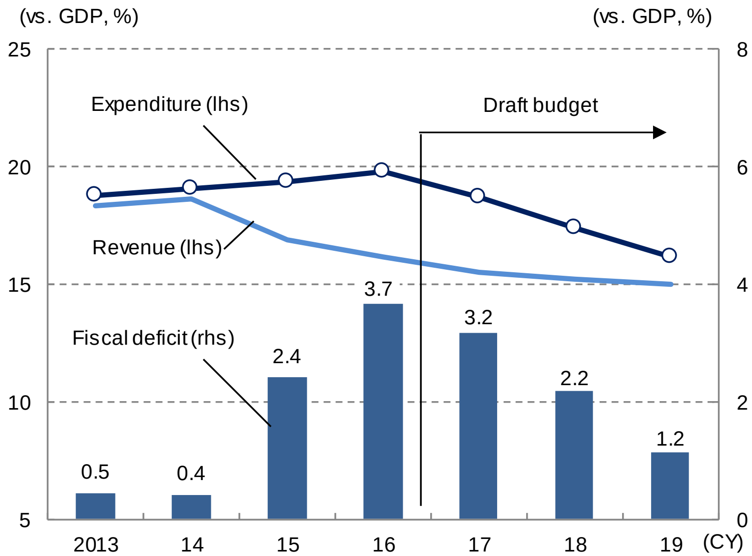
- The Russian economy is forecast to achieve positive growth for the first time in 3 years, supported by a moderate recovery in the price of crude oil.
  - Consumer spending will drive the economic recovery, reflecting the rise of real wages due to the stability of the ruble and decline of the inflation rate.
  - On the other hand, the recovery in investment will likely lag due to heightened uncertainty about the future caused by ongoing sanctions from western countries.
- Fiscal austerity measures are scheduled to be implemented from 2017. This could serve as downward pressures on the economy.
  - The Federal budget for 2017 to 2019 (already submitted to the parliament) cuts spending to reduce the fiscal deficit from 3.7% of GDP (2016) to 1.2% of GDP (2019).

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Federal State Statistics Service, Russia

[Russia's federal budget]

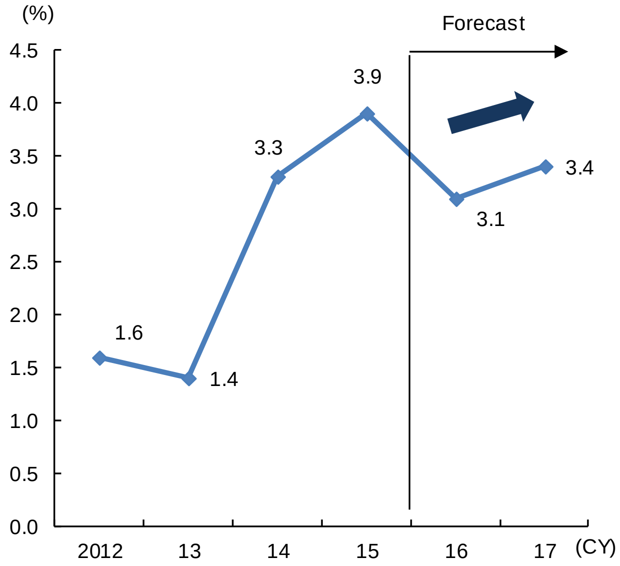


Note: Actual results for 2013-2015, amended draft budget for 2016, draft budget for 2017-2019
Source: Made by MHRI based upon Ministry of Finance, Russia

Poland: while growth should accelerate due to increased fiscal spending, note the side-effect of the expansion of the fiscal deficit

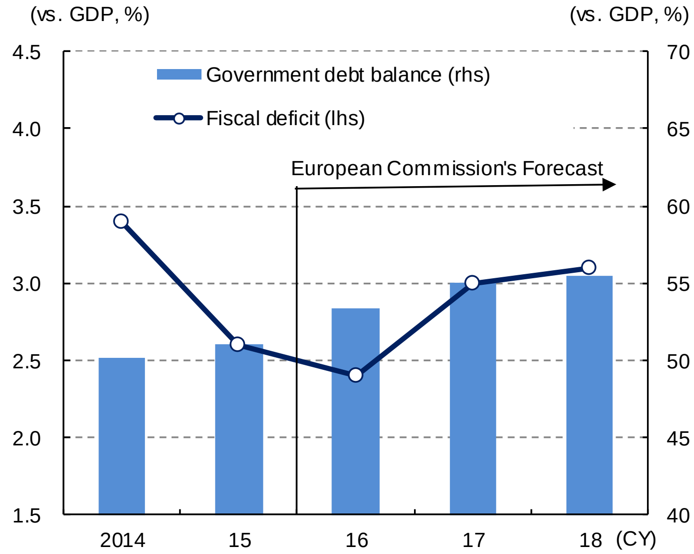
- The Polish economy is forecast to accelerate reflecting the expansion of fiscal spending. The European Commission forecasts a growth rate for 2017 of +3.4%.
  - The commencement of a child benefit program (500 zloty per month per child for the second or further child, commencing April 2016) has given a boost to consumer spending.
    - ✓ Investment should also recover with public works investment financed through the EU structural funds (for transport infrastructure, etc.).
- The fiscal deficit is expected to expand and the government debt balance to increase due to the expansion of fiscal spending.
  - In addition to the child benefit, a decision has been made to lower the retirement age from October 2017. Both measures are forecast to increase fiscal spending.
    - ✓ The European Commission forecasts that Poland’s government debt will reach 55.5% of GDP in 2018.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by the European Commission
Source: Made by MHRI based upon the Central Statistical Office of Poland, European Commission

[Fiscal deficit and government debt balance]

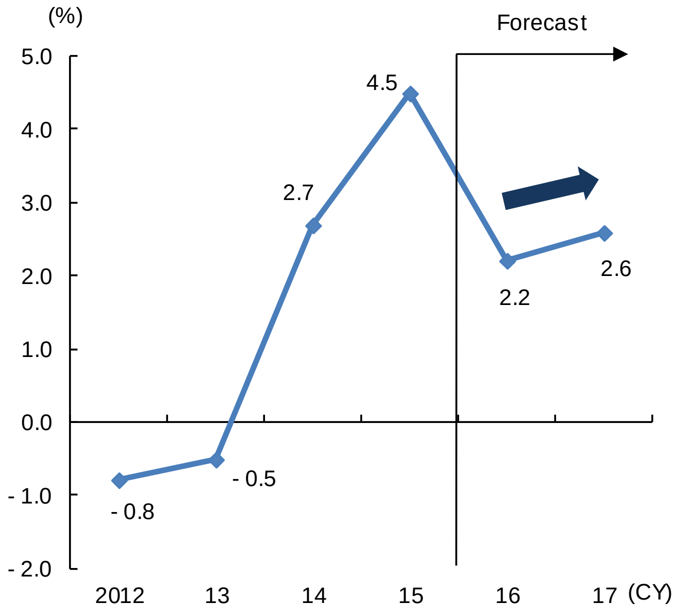


Note: The fiscal deficit refers to the general government.
Source: Made by MHRI based upon the European Commission

Czech Republic: firm economic expansion should continue mainly based on domestic demand

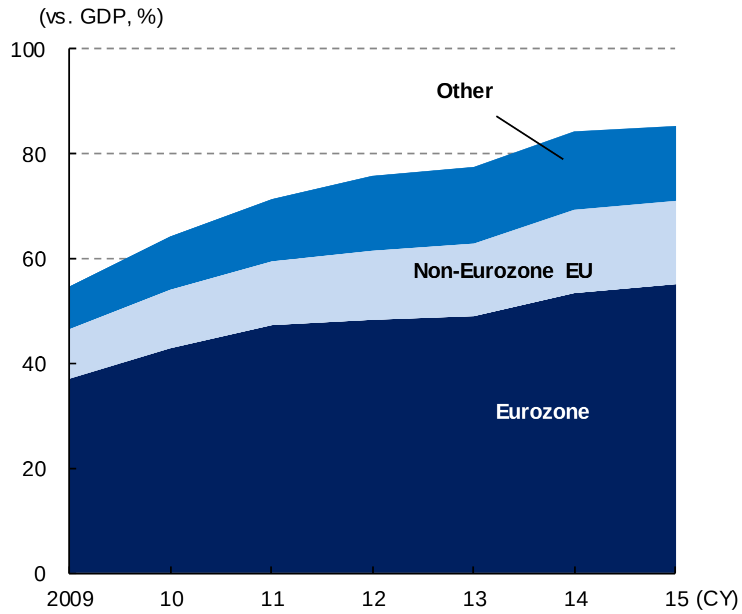
- The Czech Republic's economy should continue to grow firmly, based on domestic demand. The European Commission forecasts growth of +2.6% in 2017.
  - Consumer spending is firm, backed by favorable employment conditions.
  - Furthermore, look forward to an increase in investment with public works investment financed through the EU structural funds (for transport infrastructure, etc.).
- In the event of a slowdown of the Eurozone economy, it would serve as downside risks to the economy via exports.
  - The Czech Republic's economic structure is heavily reliant on exports, and particularly exports to the Eurozone.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by the European Commission
Source: Made by MHRI based upon the Czech Statistical Office, European Commission

[Trends in exports by destination]

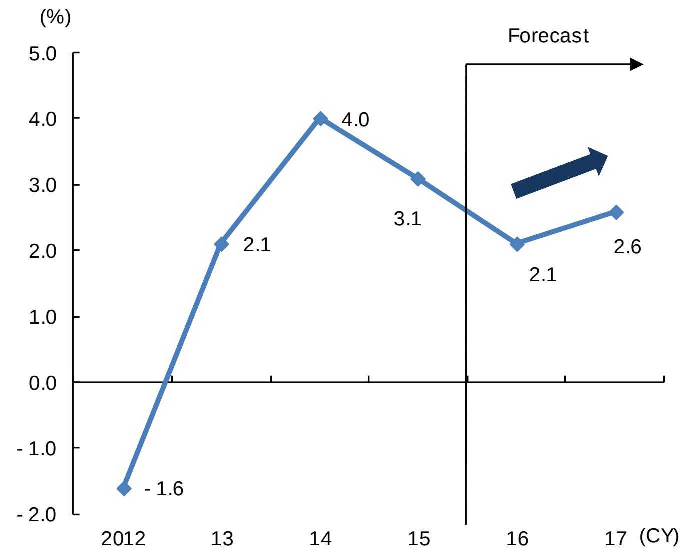


Note: Exports only refer to exports of goods
Source: Made by MHRI based upon Eurostat, IMF

Hungary: economic expansion should accelerate, mainly with respect to consumer spending

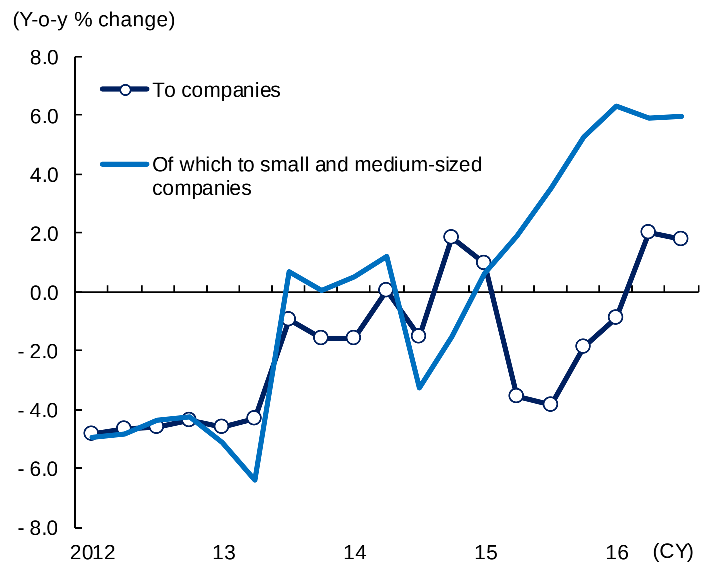
- The pace of Hungary's economic expansion will likely accelerate, particularly for consumer spending. The European Commission forecasts growth of +2.6% in 2017.
  - Consumer spending should follow firm footing, backed by improved employment conditions and increased household incomes.
  - Furthermore, look forward to an increase in investment with public works investment financed through the EU structural funds (for transport infrastructure, etc.).
- There are signs of a full-fledged recovery in corporate lending from banks.
  - The balance of corporate loans from banks had continued to fall y-o-y since 2009, but there are signs of full-fledged recovery particularly in terms of loans to small and medium-sized companies.
    - ✓ This is attributed to the reduction in the tax rate on banks (asset tax) in January 2016.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by the European Commission
Source: Made by MHRI based upon the Hungarian Central Statistical Office, European Commission

[The banking sector's corporate loan balances]

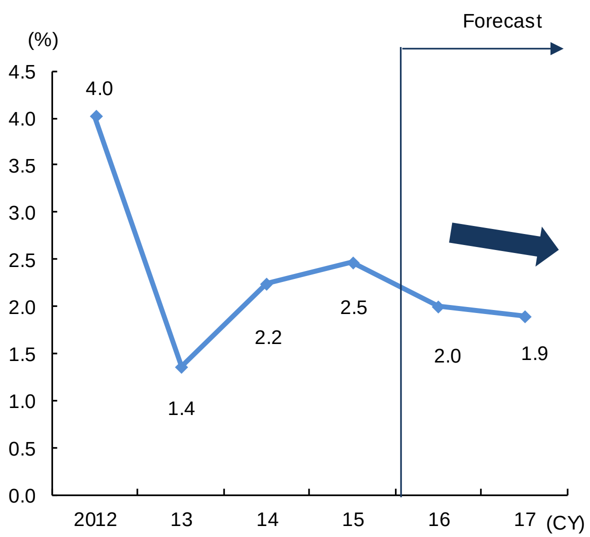


Source: Made by MHRI based upon Hungarian National Bank

Mexico: the growth rate is forecast to slow, and is subject to downside risks depending on the Trump administration's trade and immigration policies

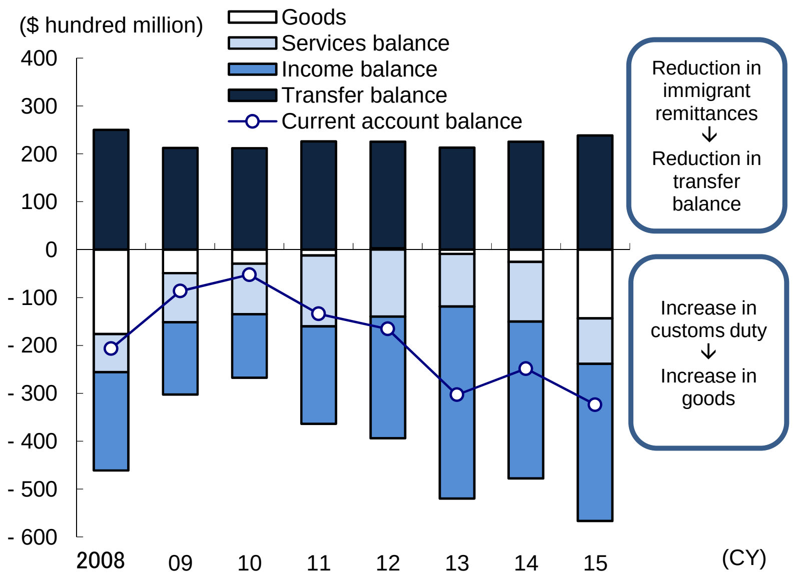
- The growth rate is forecast to slow to the 1%-level due to tight monetary and fiscal policies.
  - Policy interest rates have been hiked (a cumulative 2.25% since December 2015) due to the depreciation of the peso, and expenditure such as investment by the state-owned oil company has been cut.
    - ✓ Sluggish growth in exports of oil and to US manufacturers has meant the weak peso has had limited impact in fostering exports.
- If the coming Trump administration implements unyielding trade and immigration policies the risk of a lower growth rate will increase.
  - A revision of the North America Free Trade Agreement (NAFTA) and illegal immigrant measures would lead to an increase in the current account deficit and instability of capital inflows.
    - ✓ There are concerns that the implementation of unyielding policies would exacerbate the weak peso, and austerity measures to protect the currency would create a vicious cycle of pushing down the economy.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by Consensus Forecast
Source: Made by MHRI based upon the National Institute of Statistics and Geography (INEGI), Mexico

[Mexico's current account balance]

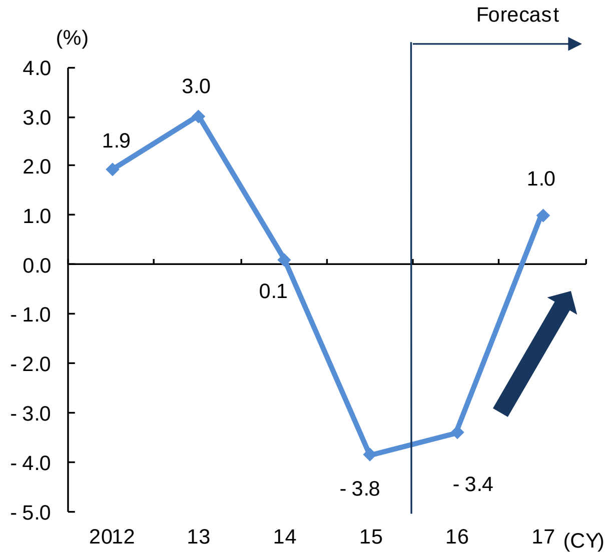


Source: Made by MHRI based upon the Bank of Mexico

Brazil: positive growth for the first time in three years, boosted by monetary easing

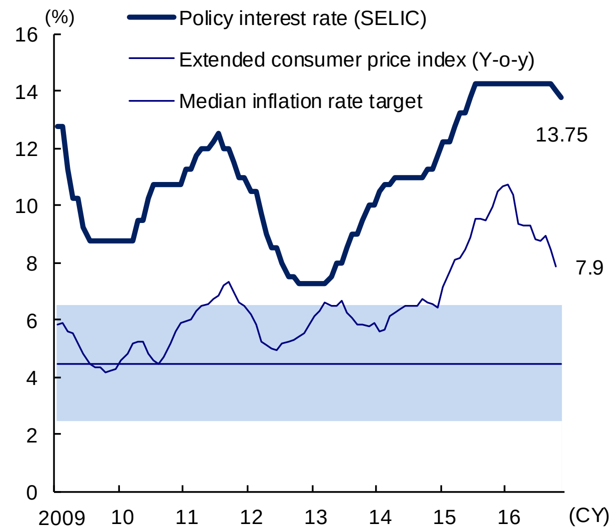
- ❑ Positive growth is expected in 2017 subsequent to two consecutive years of negative growth recorded for the first time since the Great Depression.
  - ▪ Business and consumer sentiment to improve on the back of expectations for policy changes under the Temer administration.
    - ✓ Gross fixed capital formation (investment) is driving the recovery, given the easing of downward pressures stemming from the fall of commodity prices and improvements in the environment for raising funds.
- ❑ Monetary easing provided a boost to the economic recovery and the downward pressure on the Real due to the progress in fiscal consolidation and increased prospect of higher US interest rates will influence the pace of interest rate cuts.
  - ▪ Monetary policy shifted to an accommodative stance for the first time in four years as inflation peaked out, and interest rates will likely be cut in steps during 2017.
    - ✓ The delay in fiscal consolidation and increased inflationary pressures due to the weak Real will reduce the scope for interest rate cuts.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Brazilian Institute of Geography and Statistics (IBGE)

[Inflation rate and policy interest rates]

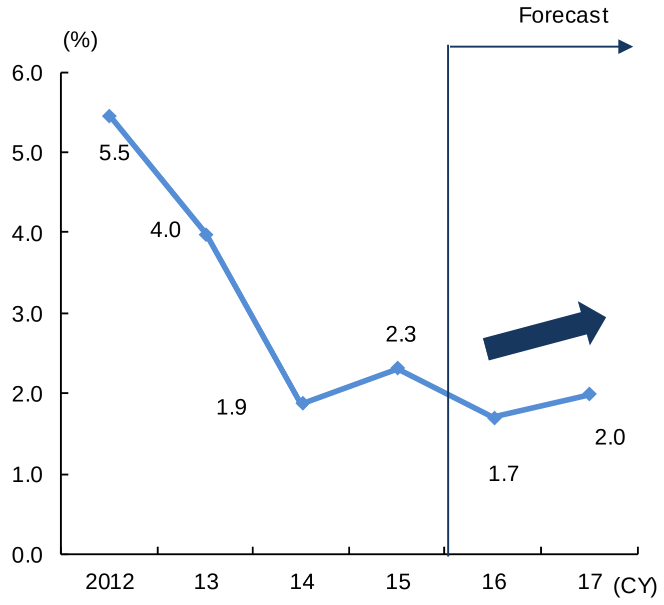


Note: The shaded area shows the upper and lower limits for target inflation. (Up until 2016 this was 4.5%±2%, from 2017 this will be ±1.5%
Source: Made by MHRI based upon Central Bank of Brazil

Chile: the economic slowdown caused by the sluggish price of copper is coming to an end

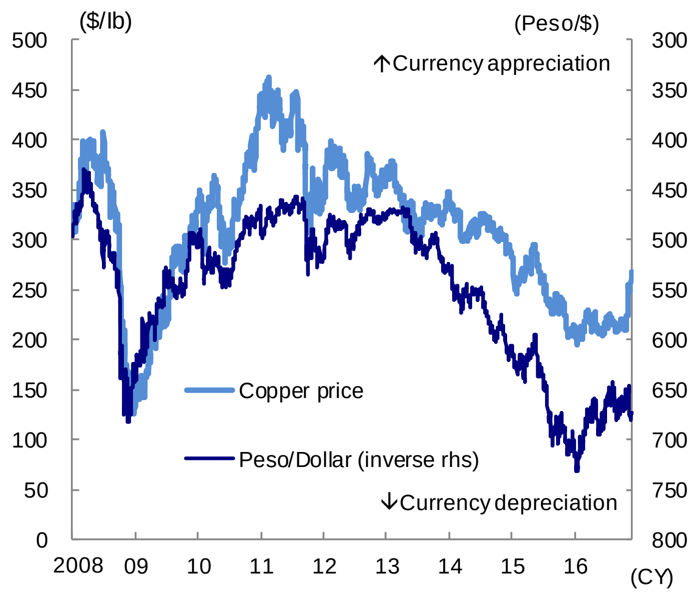
- The economic slowdown is coming to an end as the price of copper, which accounts for about 50% of exports, bottoms out.
  - Growth is expected to slow down to the 1%-level in 2016 due to sluggish investment attributed to the end of the mining boom and hike in the corporate tax rate.
  - Chile's economic growth rate should gradually improve in 2017 due to the bottoming out of the copper price.
    - ✓ A shift to a more business friendly administration in the November presidential election could boost improving sentiment.
- The price of copper could rebound due to the coming Trump administration's plans to expand infrastructure investment, which would push up the Chilean economy.
  - The peso could depreciate due to the capital outflows from emerging markets caused by expectations of higher US interest rates. A moderate depreciation of the peso would be positive for exports.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon the Central Bank of Chile and the IMF

[Copper price and Peso/Dollar rate]

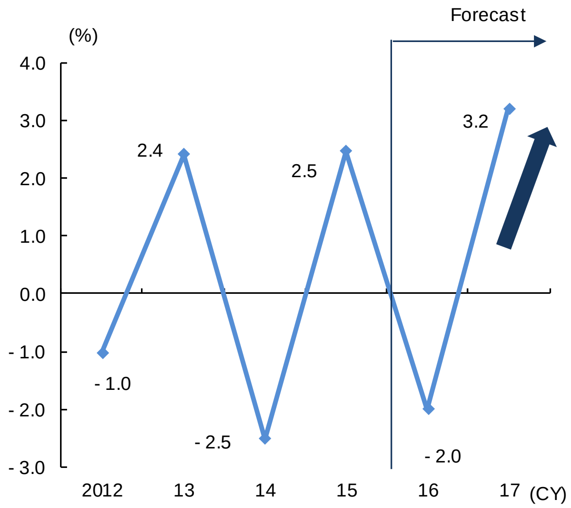


Source: Made by MHRI based upon Bloomberg

Argentina: the side effects of structural reforms are abating and growth is turning positive

- Negative growth that was a side-effect of the structural reforms promoted by the Macri administration have passed, and a shift to positive growth is expected in 2017.
  - There was negative growth in 2016 due to devaluation of the currency and increased inflation caused by hikes in public utility charges.
    - ✓ A shift to positive growth is forecast in 2017 due to the improvement in the funding environment with lower inflation and a return to the international capital markets.
- The focus will be on mid-term elections in October 2017 and the subsequent progress made towards fiscal consolidation.
  - The ruling coalition is in minority, so there are concerns that measures to cut spending will be postponed and fiscal consolidation will be delayed under the structural reforms.
    - ✓ If the ruling coalition increases the number of seats it holds in the mid-term elections, initiatives for fiscal consolidation are likely to be implemented and there will be increased confidence in the policy management.

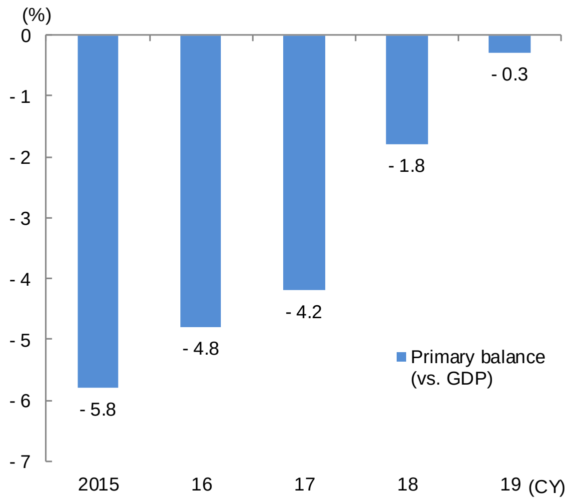
[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast (median value) by Central Bank of Argentina

Source: Made by MHRI based upon the National Institute of Statistics and Census of Argentina (INDEC), Central Bank of Argentina

[Argentina's fiscal balance]



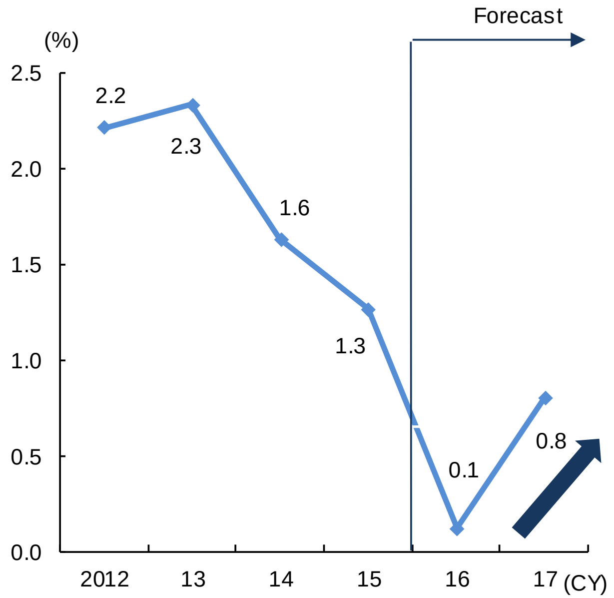
Note: Actual for 2015, 2017 budget for 2016 and 2017, figures announced in January 2016 for 2018 and 2019

Source: Made by MHRI based upon Ministry of Treasury and Public Finances, Argentina

South Africa: given the persistence of low growth, the economic structure is fragile with a large current account deficit

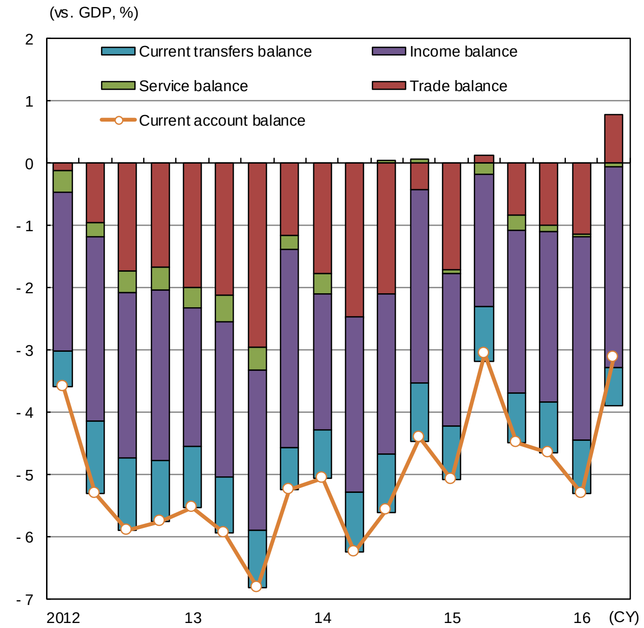
- Even though the pace of GDP growth is expected to pick up from 2016, which is anticipated to be virtually zero, growth is forecast to remain low in 2017.
  - Given the South African economy's heavy reliance on natural resources, the growth rate will remain low reflecting stagnant global demand.
  - As the unemployment rate is pinned at a high 20%-level, concerns regarding corruption have caused President Zuma's approval rating to fall. Political conditions are turning slightly instable.
- Capital outflows must be monitored closely especially in the event of US interest rate hikes or commodity price falls.
  - South Africa's economic structure remains fragile with an enormous current account deficit, heavy reliance on natural resources, chronic electricity shortages, and frequent strikes, etc. There are risks of capital outflows when the US hikes interest rates or commodity prices fall.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon the IMF

[Current account balance (vs. GDP)]

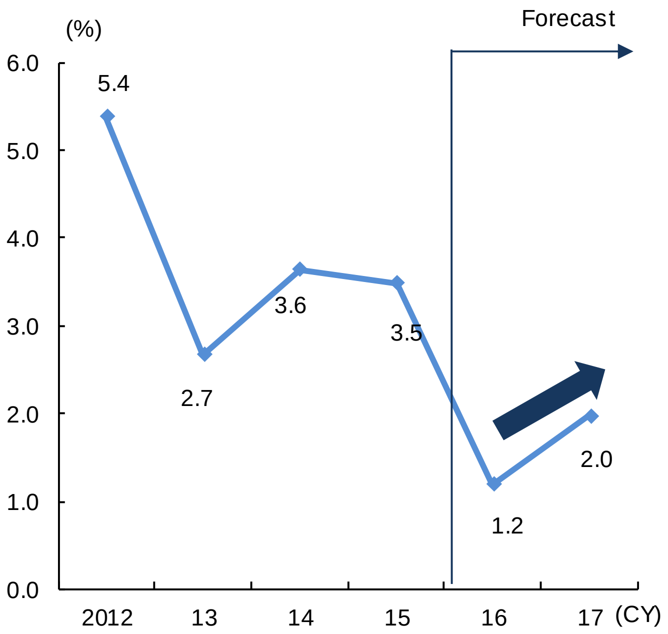


Source: Made by MHRI based upon the South African Reserve Bank, Statistics South Africa

Saudi Arabia: acceleration of growth in 2017 due to a recovery in the price of oil

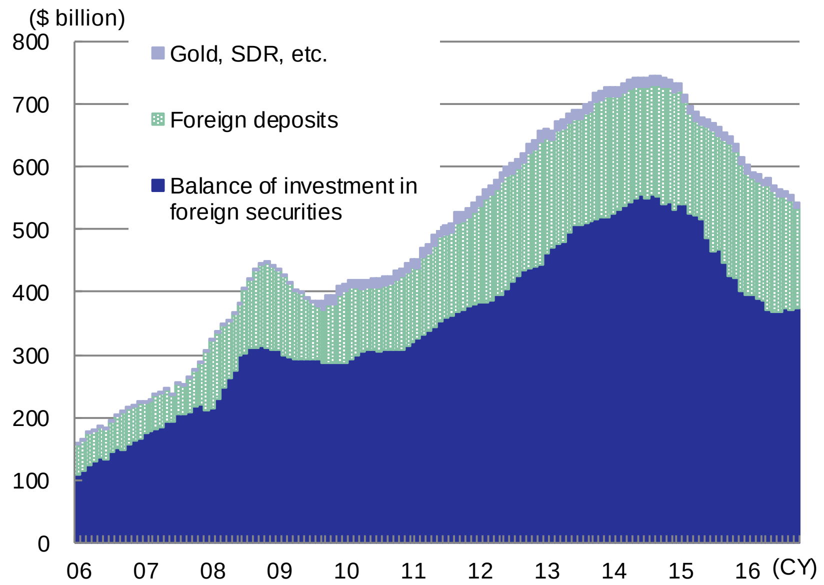
- ❑ The rate of Saudi Arabia's real GDP growth is expected to fall to 1.2% in 2016.
  - This is mainly due to the drop in the price of crude oil and the implementation of fiscal austerity measures.
    - ✓ It is highly likely that the 2016 fiscal deficit will contract y-o-y, but the IMF forecast remains high at 13% of GDP.
- ❑ Given the expected gradual recovery of crude oil prices, the growth rate will accelerate to near 2% in 2017.
  - A further contraction in foreign currency reserves, which declined through 2016, should be avoided.
    - ✓ Trends such as the IPO for the state-owned Saudi Arabian Oil Company Aramco will be closely monitored.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon SAMA, IMF

[Saudi Arabian Monetary Agency (SAMA) Foreign Currency Reserves]

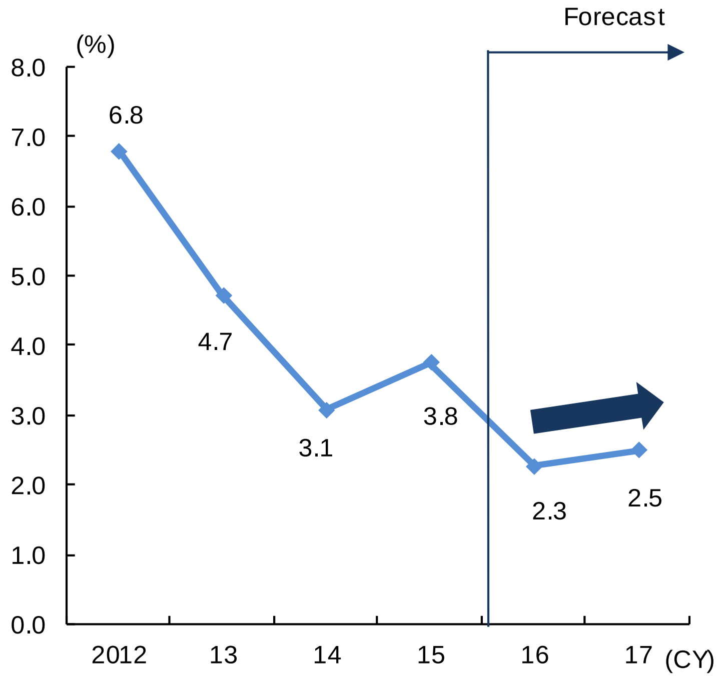


Source: Made by MHRI based upon SAMA

United Arab Emirates (UAE): the economy should remain firm. Focus upon the World Expo 2020 in the Emirate of Dubai

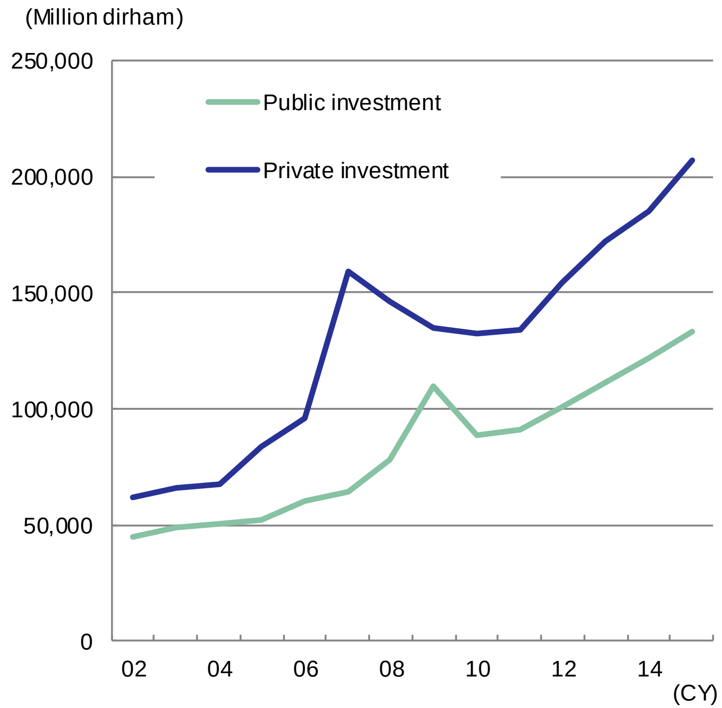
- ❑ The rate of UAE's real GDP for 2016 appears to have reached 2.3%
  - ▪ The economy is underpinned by factors such as construction demand and tourism in the Emirate of Dubai.
    - ✓ The UAE, which includes the Emirate of Dubai, has a comparatively low level of dependence on oil amongst Gulf oil-producing countries.
- ❑ It is highly likely that the growth rate for real GDP will rise to around 2.5% in 2017.
  - ▪ In addition to the recovery in oil prices, the focus is on private sector construction demand in Dubai ahead of the World Expo 2020.

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by IMF
Source: Made by MHRI based upon the Central Statistics Department, United Arab Emirates, IMF

[UAE real investment and expenditure]

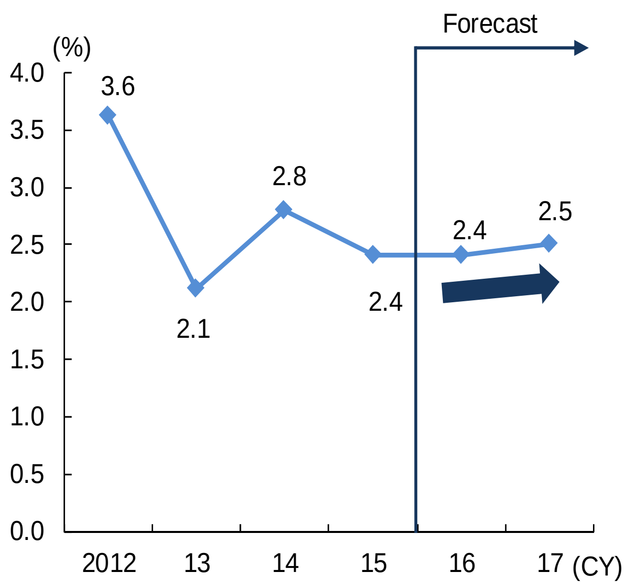


Source: Made by MHRI based upon CEIC

Australia: the economy is expected to remain flat, and the possibility of further interest rate cuts linger

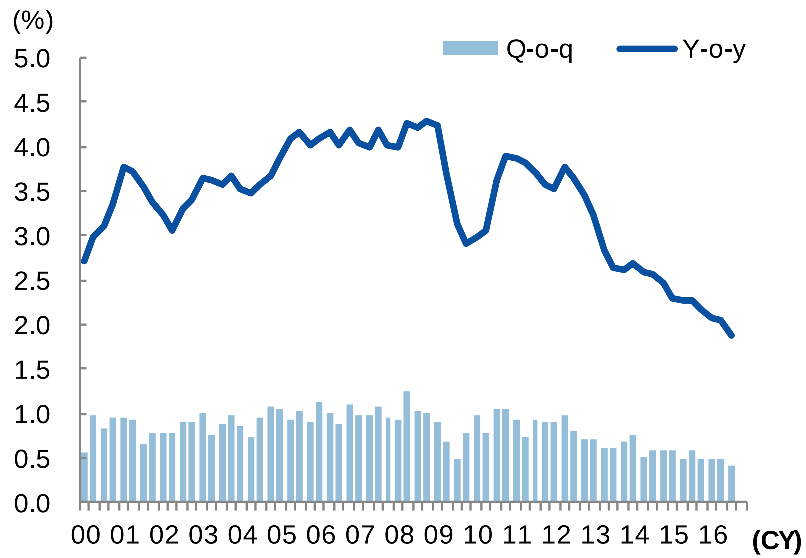
- Australia's exports should remain firm throughout 2017, but domestic demand lacks momentum and the overall economy is likely to remain flat.
  - An increase in commodity exports is expected, following the completion of major natural resource projects and its shift to a production phase.
  - Despite the growth of employment, consumer spending lacks momentum due to sluggish wage growth. Business fixed investment is forecast to decline along with the completion of major projects.
- Disinflation should persist due to sluggish wage growth, and further interest rate cuts remain a possibility.
  - The pace of wage growth is moderate with the labor demand and supply still soft.
  - Amid a backdrop of wage constraints, further interest rate cuts are possible in the event the underlying inflation rate stays below target (+2 to 3% y-o-y).

[Real GDP growth rate]



Note: The rates for 2016-2017 are forecast by MHRI
Source: Made by MHRI based upon the Australian Bureau of Statistics

[Wage index]



Source: Made by MHRI based upon the Australian Bureau of Statistics