

**Mizuho Economic Outlook & Analysis**

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# **2019 Economic Outlook for Major Emerging Market (EM) Countries**

December 13, 2018

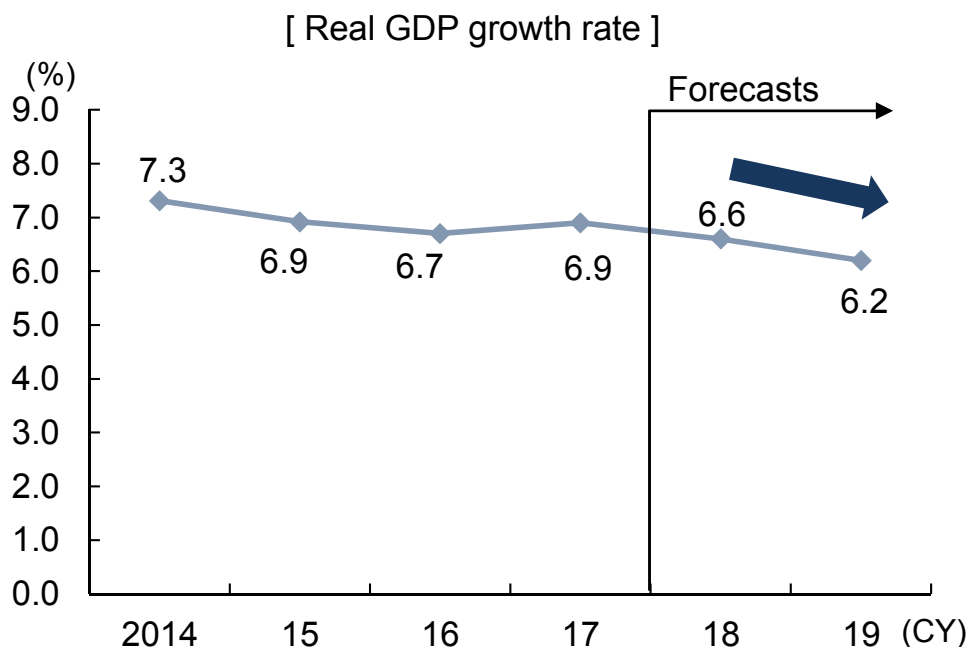
Mizuho Research Institute

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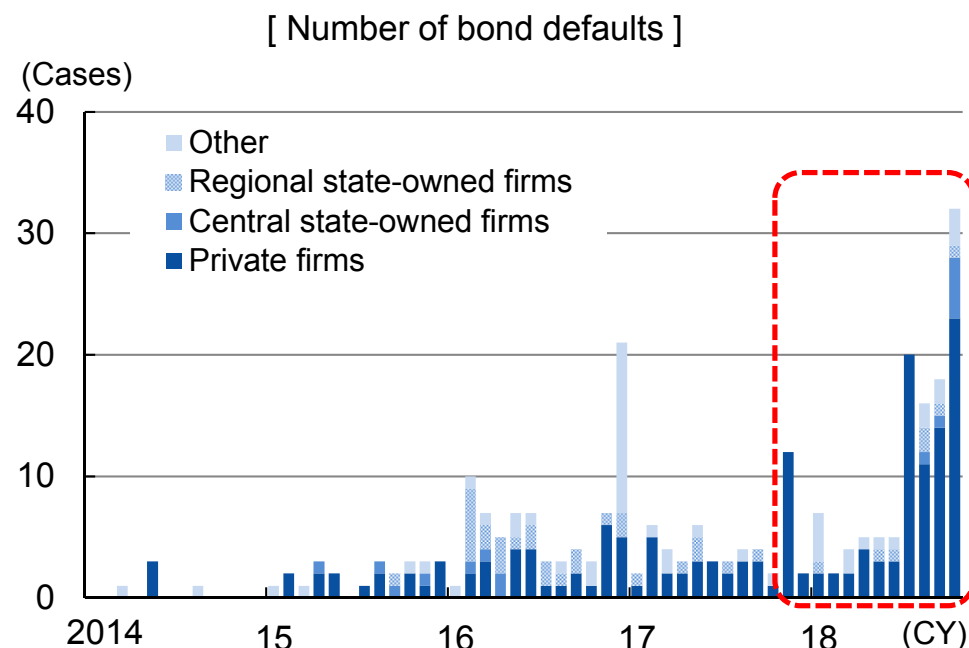
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## China: slowdown expected to continue due to trade tensions

- In 2019, China's real GDP growth rate should slow down due to the emerging impact of US-China trade tensions.
  - In view of the goal of doubling GDP relative to 2010 by 2020, the government is expected to strengthen measures as appropriate to provide the economy with monetary and fiscal support.
- Keep a close eye upon the Chinese government's management of the economy, which is faced with the task of maintaining the stability of the economy and financial system as well as implementing structural reforms such as deleveraging.
  - Due to financial risk measures, corporate financing difficulties will surface and corporate bond defaults should rise mainly among private enterprises.
  - In order to mitigate the impact of trade tensions, the government announced a series of measures to support financing for private enterprises since October 2018. Along with whether it is possible for the support measures to prop up the economy, the possibility of side effects such as the deterioration of the financial system and preservation of inefficient enterprises also needs to be monitored closely.



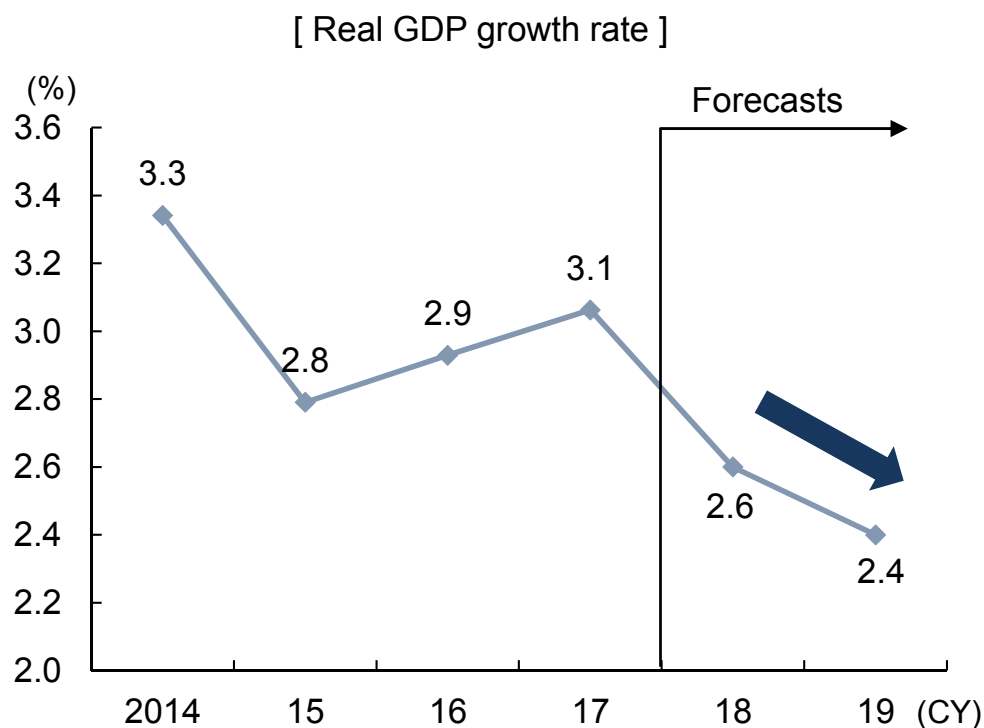
Note: GDP growth rates for 2018 and 2019 are forecasts by MHRI.  
 Source: Made by MHRI based on the National Bureau of Statistics of China



Note: Others includes foreign companies, group-owned companies, etc.  
 Source: Made by MHRI based on Wind

## South Korea: deceleration expected amid slowdown in China's economy and peak-out of IT-related demand

- In 2019, South Korea's real GDP growth rate will continue to decelerate from the previous year.
  - Export growth will gradually slow down amid the peak-out of the Chinese economy and worldwide IT-related demand. construction investment will also soften due to the reinforcement of curbs on the real estate market such as housing loan regulations.
  - However, the Moon Jae-in administration's employment measures set forth below should serve to underpin the economy to some degree..
- Given the Moon administration's concerns regarding the worsening of the employment and income environment, it announced new employment and economic stimulus measures in the 2019 budget.
  - Measures such as vocational training, support for small companies, and expansion of unemployment benefits are scheduled.



### [ Key employment and economic stimulus measures in the FY2019 budget ]

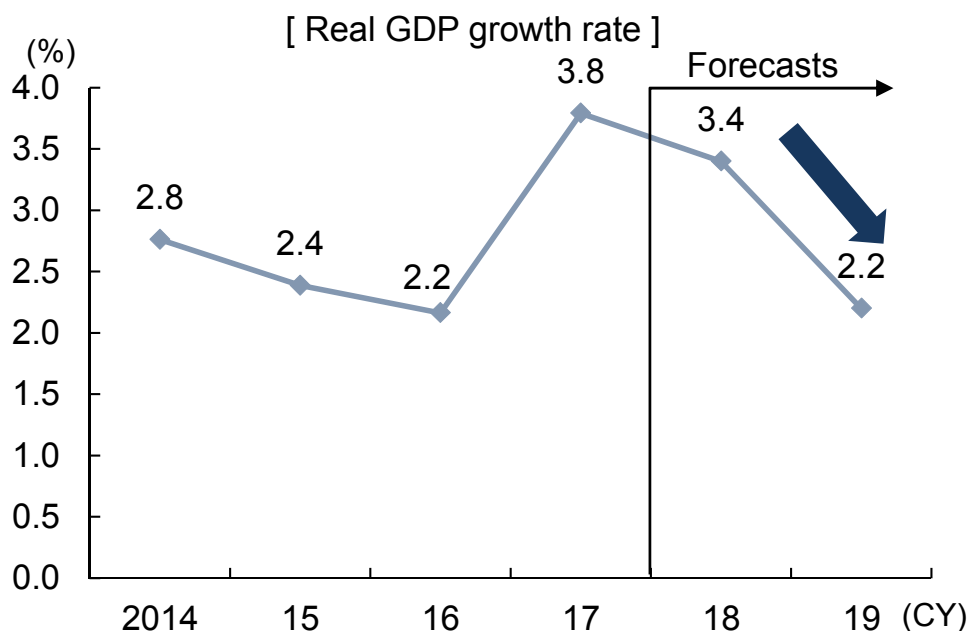
- 22% increase of budget for expansion of employment
  - Promote public/private sector employment & vocational training
- Budget allocations as follows to achieve growth through innovation:
  - More than 20tr won in R&D spending
  - 1.5tr won for development of platform economy
  - 1.5tr won for 8 pilot projects, such as futuristic automobiles and drones
- Strengthening of the social safety net
  - Increase social security spending by 12.1% (support for small businesses and reinforcement of unemployment benefits)

Note: GDP growth rates for 2018 and 2019 are forecasts by MHRI.  
 Source: Made by MHRI based on the Bank of Korea

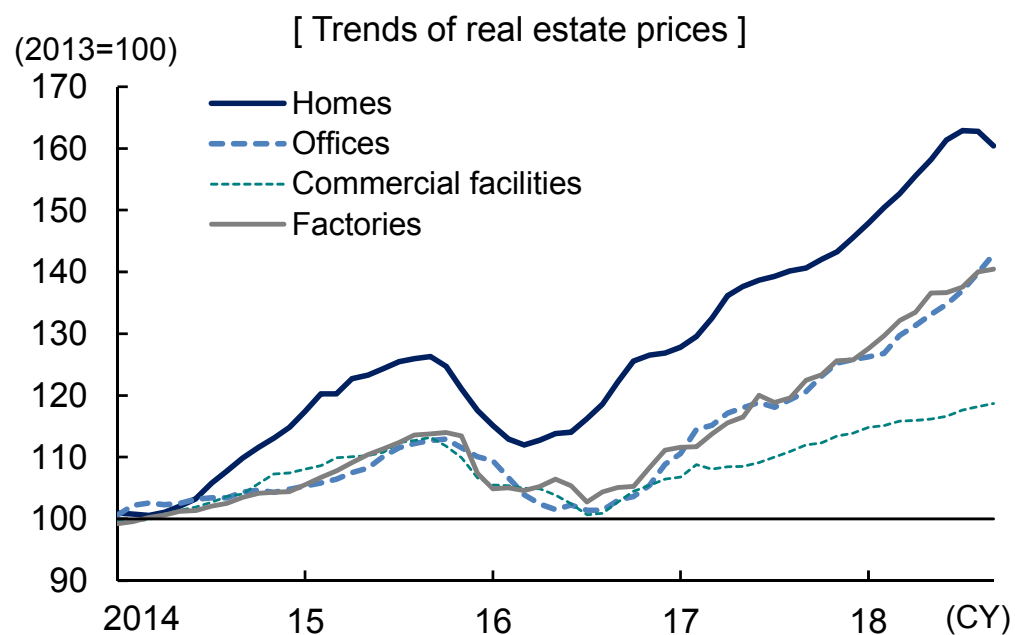
Source: Made by MHRI based on South Korea Ministry of Economy and Finance

## Hong Kong: growth rate expected to decline under downward pressure of rising interest rates and China's economic slowdown

- In 2019, Hong Kong's real GDP growth rate is expected to decline amid rising interest rates and China's economic slowdown.
  - Investment and personal consumption will slow down, given the fall of the stock market and real estate prices reflecting the rise of interest rates in Hong Kong which move in lockstep with US interest rates.
  - The slowdown of exports will also drag down the economy due to factors such as China's economic slowdown amid US-China trade tensions etc.
- The adjustment of real estate prices should progress along with the introduction of new housing policy measures and rise of HIBOR.
  - The Hong Kong government announced new housing policy measures in June 2018. A vacancy tax on developers was introduced with the aim of promoting the supply of new private housing.
  - The housing price index fell in August 2018, recording a decline for the first time in 29 months (since March 2016). Looking forward, price adjustments should gradually progress.



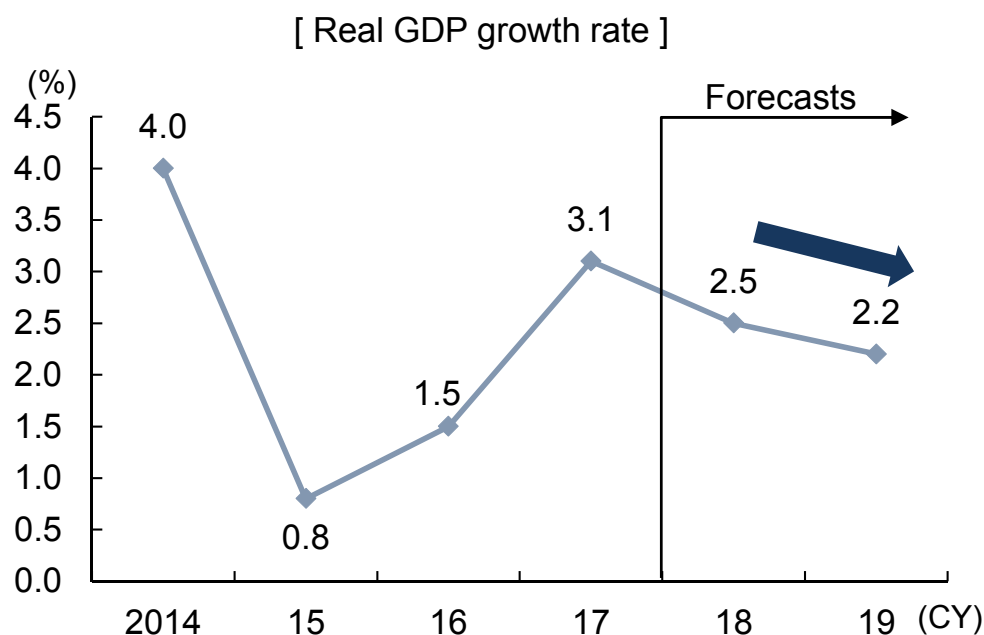
Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.  
 Source: Made by MHRI based on Hong Kong Census and Statistics Department.



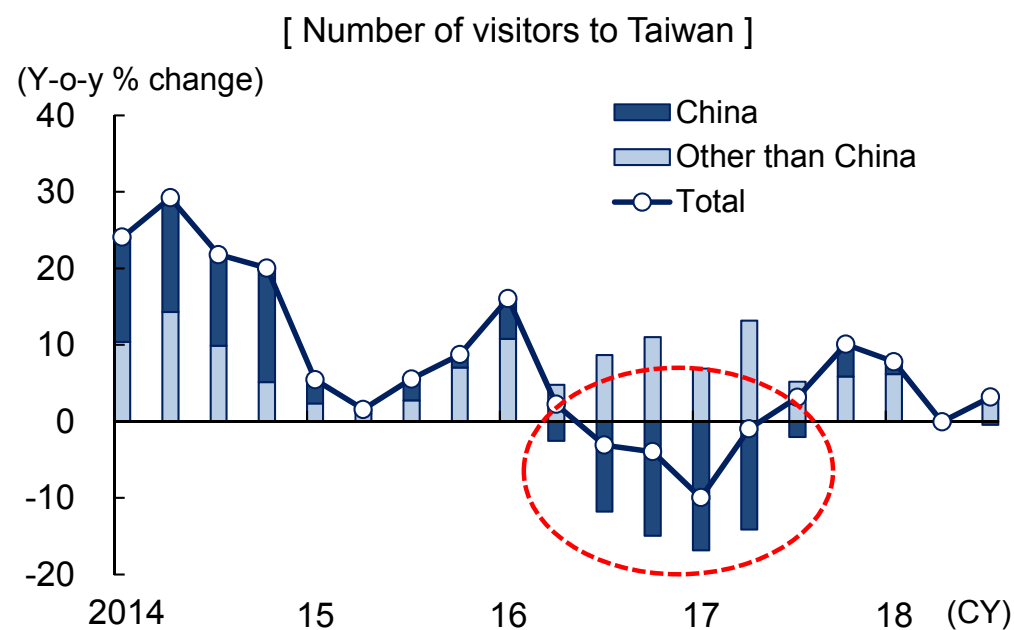
Note: Most recent values are from September 2018  
 Source: Made by MHRI based on Rating and Valuation Department, Hong Kong

## Taiwan: gradual economic slowdown amid peaking out of IT demand and China's declining growth rate

- In 2019, Taiwan's real GDP growth rate is expected to moderate.
  - Growth in exports will gradually decline due to the peak-out of IT-related demand and the decline of China's growth rate in the face of intensifying US-China trade tensions.
  - Capital investment will support the economy to some degree, mainly through private capital investment such as in next-generation semiconductor manufacturing equipment.
- Focus attention on policy developments and relations with China following the ruling party's major defeat in local elections.
  - On November 24, 2018, the ruling Democratic Progressive Party suffered major losses in the unified local elections. The Kuomintang, which favor dialogue with China, were victorious.
  - While there are concerns that policy progress will be delayed given the ruling party's major defeat, there expectations toward the recovery of visitors from China as a result of the Kuomintang's victory.



Note: GDP growth rates for 2018 and 2019 are forecasts by MHRI.  
 Source: Made by MHRI based on Taiwan Government Statistics

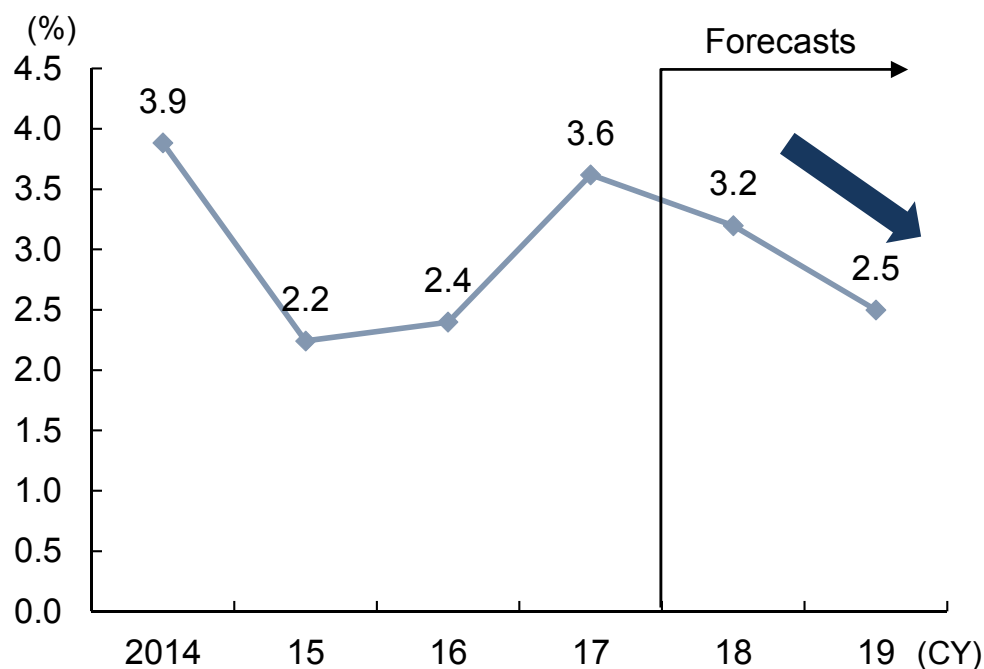


Source: Made by MHRI based on Taiwan Ministry of Transportation and Communications

## Singapore: 2019 growth rate to slow

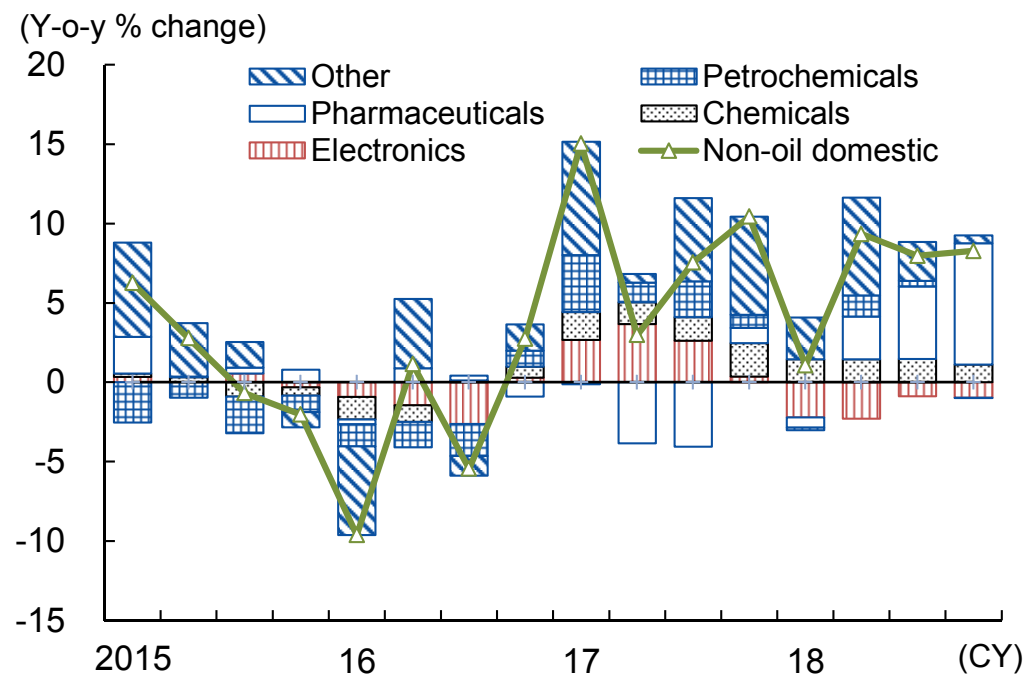
- ❑ In 2019, Singapore's real GDP growth rate is expected to decline.
  - The main reason is that the rate of export growth rate is forecast to decline along with the global economic slowdown.
- ❑ Looking forward, the focus is on how much exports will slow down.
  - Exports of electronic products, which had increase in 2017, declined in 2018. Currently, chemicals and pharmaceuticals are the drivers.
  - Given the volatility of pharmaceuticals, a backlash to the rise in 2018 may drag down total exports in 2019.

[ Real GDP growth rate ]



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.  
 Source: Made by MHRI based on the Singapore Department of Statistics

[ Non-oil domestic exports ]

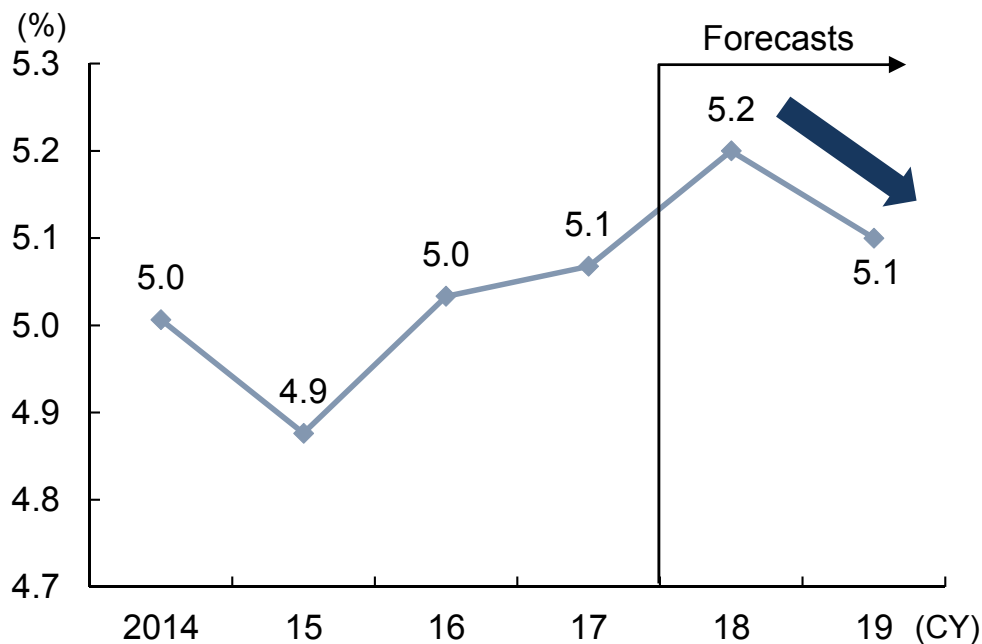


Note: Data for October for the Oct-Dec quarter of 2018.  
 Source: Made by MHRI based on the Singapore Department of Statistics

## Indonesia: economy to slow in 2019 due to currency defense measures

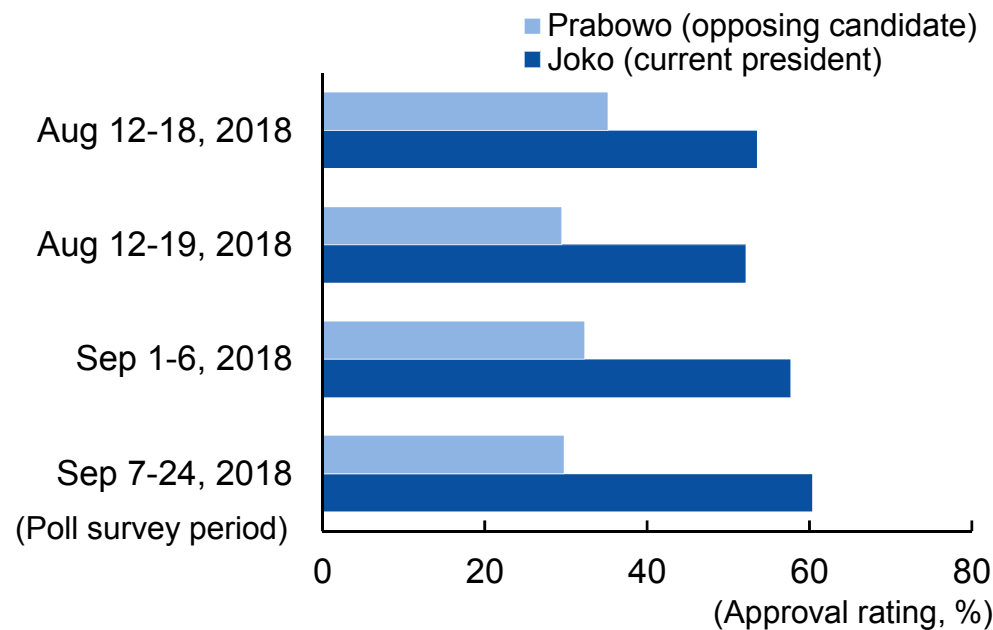
- ❑ In 2019, Indonesia's real GDP growth rate is forecast to moderate.
  - Against a backdrop of currency depreciation, Indonesia implemented a total interest rate hike of 1.75% pt from May to November 2018. Furthermore, in a bid to restrain the current account deficit, which is a factor in the depreciation of the currency, taxes on imports were raised, leading to the rise of import prices. These measures, most likely, served to dampen domestic demand.
  - In the run-up to the presidential and parliamentary elections scheduled in April 2019, the expansion of government expenditures will support the economy.
- ❑ In the April 2019 elections, the odds are high that the incumbents will be re-elected. Investment environment improvements under the incumbents are expected to progress further.

[ Real GDP growth rate ]



Note: GDP growth rates for 2018 and 2019 are forecasts by MHRI.  
Source: Made by MHRI based on Statistics Indonesia (BPS)

[ Presidential candidate approval ratings ]

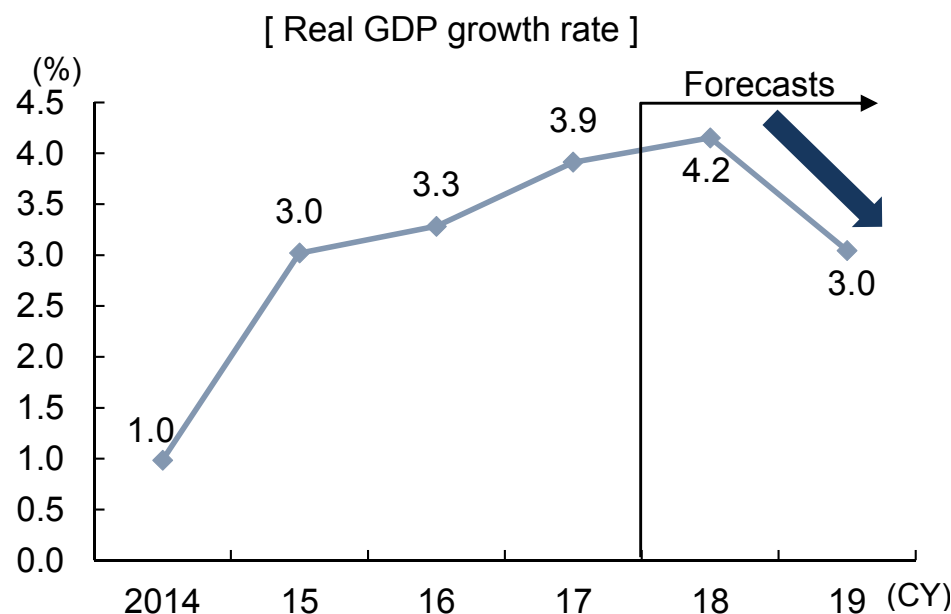


Note: Since the graph represents combined results of the survey of multiple polling agencies, specific question items vary  
Source: Made by MHRI based on local media reports.



## Thailand: slowdown mainly in external demand expected, political turmoil a risk factor

- Thailand's economic growth rate is expected to slow to 3% due to sluggish exports.
  - Personal consumption is recovering as the acceleration of demand accompanying past government stimulus measures (the first car scheme) has run its course.
  - Meanwhile, exports have already begun to slacken due to the global economic slowdown and the impact of US-China trade tensions, serving as downward pressure on the future course of the economy.
- Depending on the results of the general elections, there is the risk of a reversal into political turmoil.
  - General elections for the transition to civilian rule are scheduled during the period from February to May in 2019. According to current approval ratings, the Thaksin faction, the anti-Thaksin faction, the pro-military party and a new party of young businessmen are the four competing political forces. Depending on the election results, note that there is the risk of large-scale demonstrations stemming from dissatisfaction with the outcome.



Note: GDP growth rates for 2018 and 2019 are forecasts by MHRI.  
 Source: Made by MHRI based on the National Economic and Social Development Board (NESDB) of Thailand

### [ Election-related public opinion survey ]

Political party approval ratings (%)

Political party	Faction	Mar survey	May survey	Jul survey	Sep survey	Nov survey
Pheu Thai Party	Thaksin faction	–	32.2	31.2	28.8	31.8
Palang Pracharat Party	pro-military party faction	–	25.1	21.9	20.6	19.9
Democrat Party	Anti-Thaksin faction	–	19.2	16.5	19.6	17.0
Future Forward Party	–	–	11.6	9.6	15.5	15.6
Other	–	–	11.92	20.8	15.5	15.7

### Approval ratings for prime minister candidates

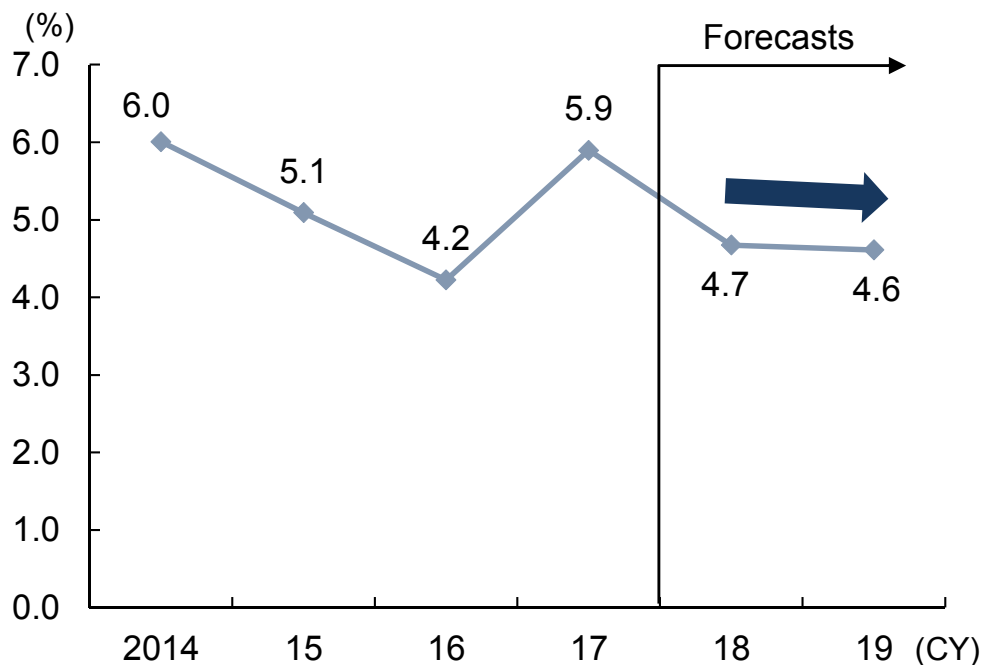
Name	Notes	Mar survey	May survey	Jul survey	Sep survey	Nov survey
Khunying Sudarat Keyuraphan	Former health minister Pheu Thai Party	13.0	17.4	15.0	17.5	25.2
Prayut Chan-o-cha	Interim prime minister –	38.6	32.2	31.3	29.7	24.1
Thanathorn Juangroongruangkit	Member of family that founded Thai Summit Group auto parts manufacturing Future Forward Party	6.9	10.1	7.5	13.8	14.5
Abhisit Vejjajiva	Former prime minister Democrat Party	12.2	14.2	10.5	10.7	11.7
Viroj Pao-in	Former deputy prime minister Pheu Thai Party (leader)	5.1	7.9	6.3	5.3	5.3
Other	–	24.1	18.1	29.5	23.0	19.3

Source: Made by MHRI based on Thailand National Institute of Development Administration

## Malaysia: mostly flat rate of growth in 2019

- ❑ Malaysia's real GDP growth rate in 2019 is expected to be nearly flat
  - While the growth of exports of goods and services will decline due to the global economic slowdown, inventory adjustment pressures, which have pushed down the growth rate in 2018, are expected to decline.
- ❑ Noteworthy is whether the handover of government power will progress smoothly
  - Prime Minister Mahathir Mohamad is 93 years old. He has announced he will resign in 1 or 2 years and turn the prime minister's office over to Deputy Prime Minister Datuk Seri Anwar Ibrahim.
  - However, Mahathir and Anwar have clashed against each other in the past. It will be noteworthy whether the political transition will progress smoothly.

[ Real GDP growth rate ]



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.  
Source: Made by MHRI based on Department of Statistics Malaysia

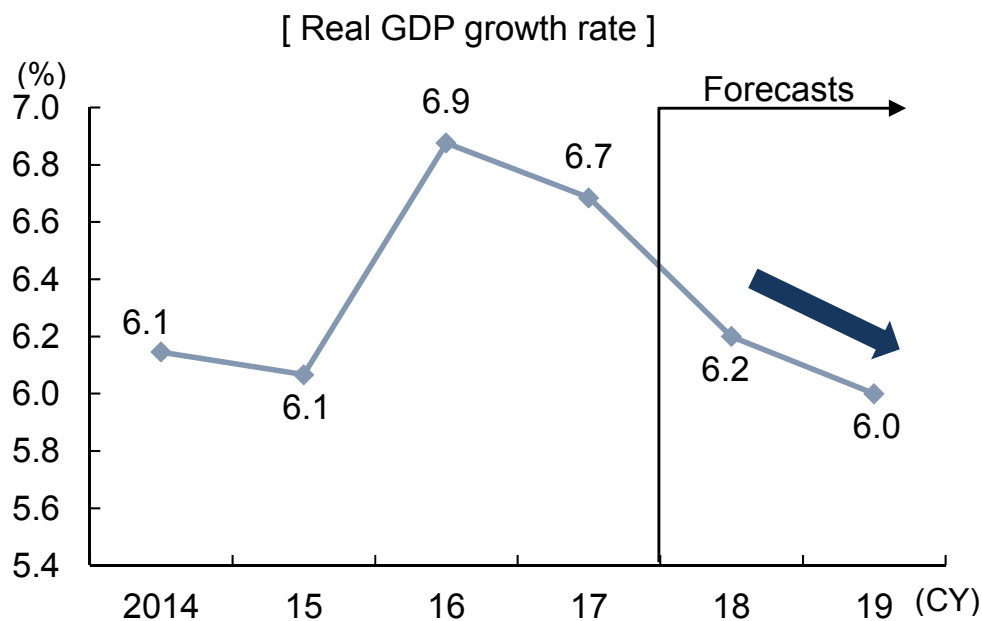
[ Anwar's career ]

Dec 1993	Appointed Deputy Prime Minister under the Mahathir Administration
Sep 1998	Dismissed and arrested by Prime Minister Mahathir
Sep 2004	Among criminal charges, found innocent by Supreme Court of "homosexual acts" but guilty of abuse of power offense
May 2013	Led the coalition of opposition parties into the general election
Feb 2015	Found guilty of homosexual acts committed in 2008, imprisoned
July 2017	Nominated as future candidate for prime minister by union of opposition parties
May 2018	Released after receiving a royal pardon
Oct 2018	Wins lower house election in Port Dickson on the 13th and returns to parliament

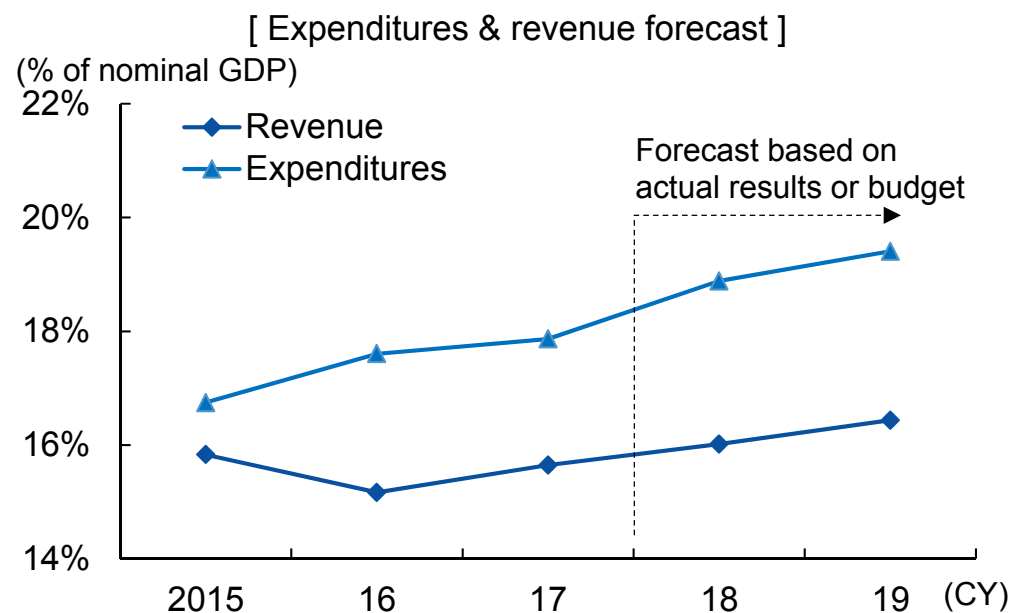
Source: Made by MHRI based on various reports

## The Philippines: economic slowdown in 2019 due to interest rate hikes and declining IT export growth

- The real GDP growth rate is expected to decline in 2019.
  - From May 2018, as the inflation rate accelerated beyond target, the Philippines central bank imposed a 1.75%pt rate hike over the May-Nov period.
  - In addition to downward pressure on domestic demand as a result of interest rate hikes, a deceleration in exports is likely due to the fall of worldwide demand for electronics products.
- In May 2019, mid-term congressional elections are scheduled. If the party of President Rodrigo Duterte can strengthen its base in Congress, the implementation of policy measures will gain momentum.
  - Thus far, expenditures for infrastructure development have increased, and tax revenues have also grown due to the push for tax reform. Furthermore, a system that encourages budget execution has been introduced. As a result, the rate of budget consumption should rise going forward, which is likely to support the economy.



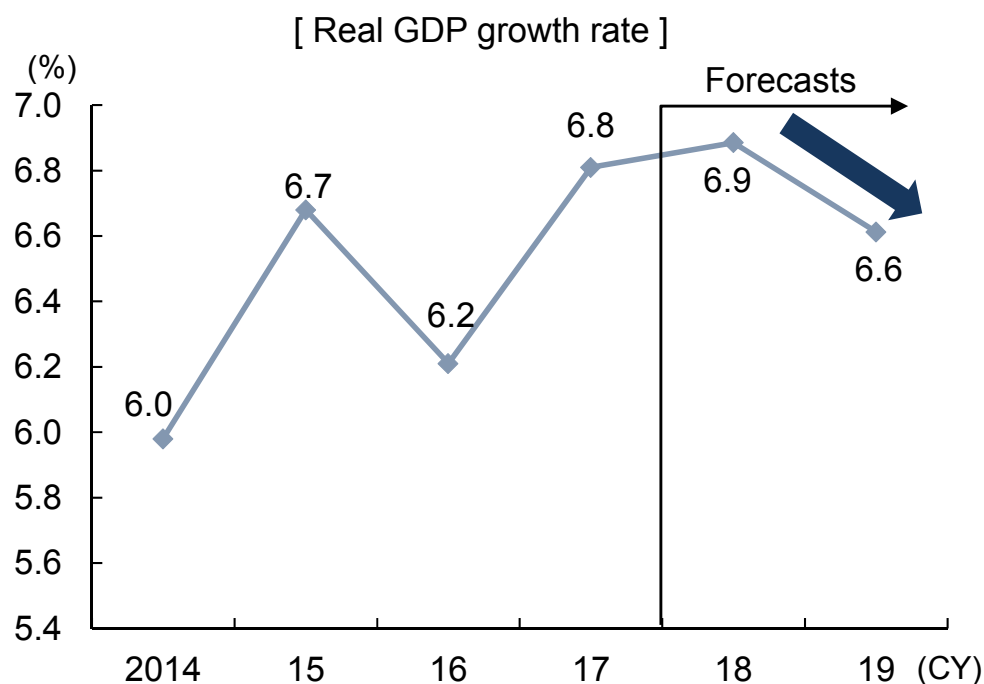
Note: GDP growth rates for 2018 and 2019 are forecasts by MHRI.  
Source: Made by MHRI based on Philippine Statistics Authority



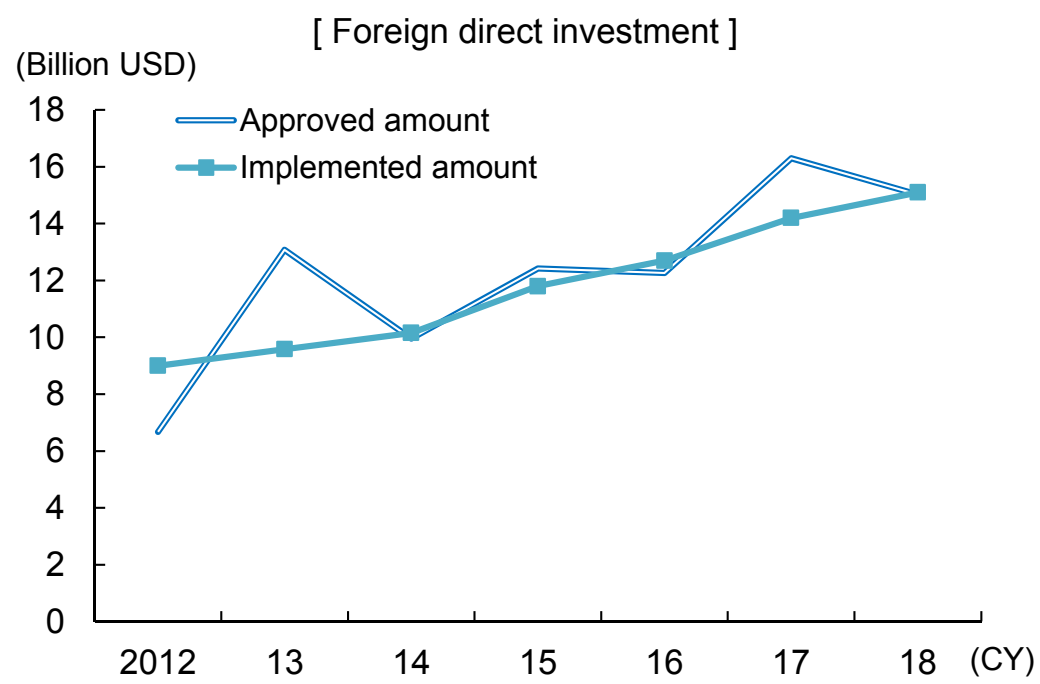
Note: 1. Figures for 2018 and 2019 have been calculated based on the actual values up to September 2018 and the budget plan, respectively.  
2. For the nominal GDP, actual values and forecasts by IMF are used.  
Source: Made by MHRI based on IMF and Philippines Department of Finance

## Vietnam: high growth rate expected to continue, supported by favorable domestic demand

- ❑ Even though the rate of Vietnam's economic growth will moderate due to the slowdown of external demand, the economy will maintain high growth reflecting its solid domestic demand.
  - Exports to slow along with the global stagnation of IT-related trade. On the other hand, the trends for foreign direct investment show that the entry of foreign capital continues to be strong, as the entry of market-oriented companies such as retailers has increased amid the favorable income and investment environments.
- ❑ Focus on moves to transfer production to Vietnam due to US-China trade tensions.
  - There is the possibility that companies with export bases in China, which export to the US, will move to transfer production to Vietnam to avoid high US tariffs. In such case, it could lead to investment inflows and production in the fields of machinery, electrical equipment, textiles, etc..



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.  
Source: Made by MHRI based on General Statistics Office of Vietnam

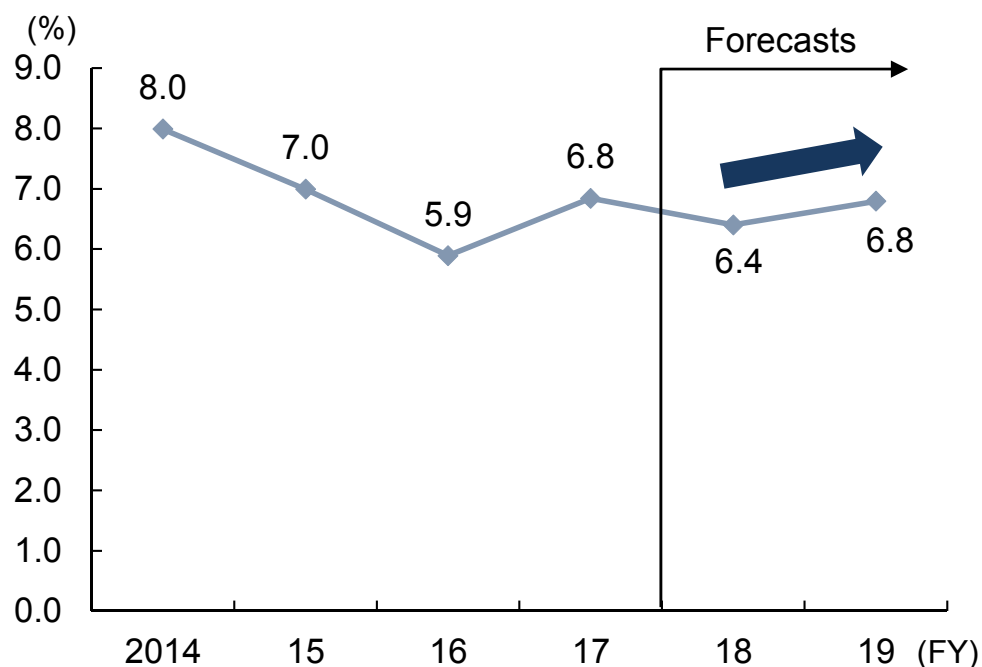


Note: Values as of October each year  
Source: Made by MHRI based on General Statistic Office of Vietnam and the Ministry of Planning & Investment

## Myanmar: real GDP growth rate to rise slightly

- ❑ The IMF forecasts that Myanmar's real GDP growth will accelerate slightly in FY 2019.
  - A reversal is expected from the flood damage in FY2018.
- ❑ For the time being, attention will focus upon the ongoing Rohingya problem
  - Since August 2017, 700,000 refugees have flowed into Bangladesh in the course of a military crackdown against the Arakan Rohingya Salvation Army.
  - Although a repatriation plan was started on November 15, 2018, few have reportedly requested repatriation due to fears of persecution.
  - The EU is considering the suspension of preferential tariffs granted to Myanmar.

[ Real GDP growth rate ]



Note: Up to FY2017, it is from April of the year to March of the following year, FY2018 refers to April-Sep, and FY2019 refers to Oct 2018 to Sep 2019

Source: Made by MHRI based on IMF

[ History of the Rohingya problem ]

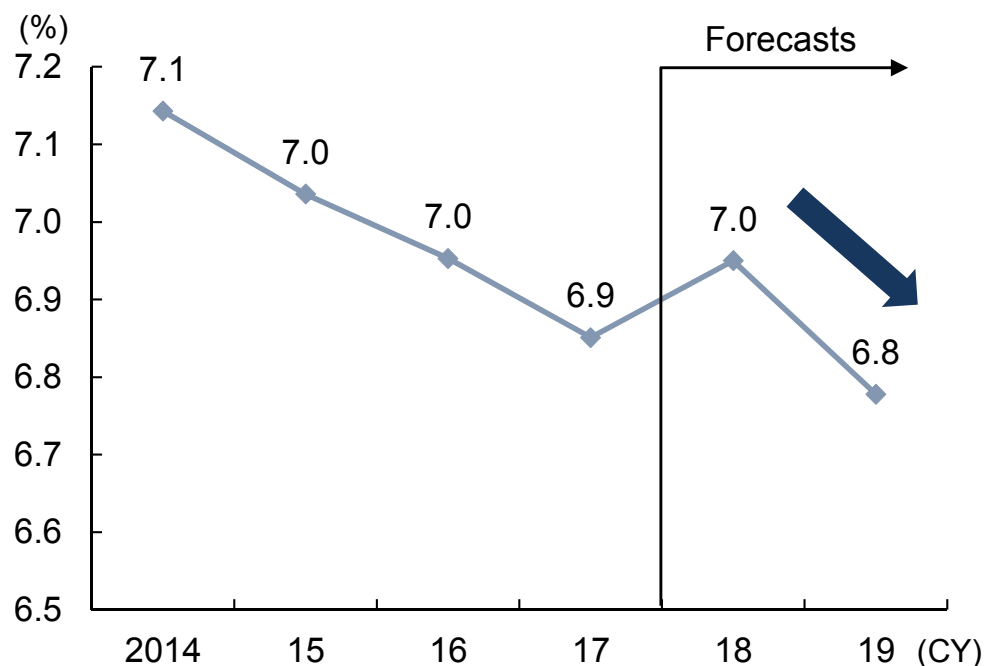
2016	Oct 9	Arakan Rohingya Salvation Army (ARSA) attacks police station, killing 9 police officers and stealing weapons and ammunition. National military responds, 5 soldiers of the military and 33 members of ARSA killed.
2017	Aug 3	Armed group kills 7 Buddhists. National military responds in force.
	Aug 25	ARSA again raids police facilities etc. In a battle with the National military, a total of over 400 people from both sides killed. The military begins a sweep and large mass of refugees floods into Bangladesh.
	Dec 5	UN Human Rights Council approves resolution condemning the persecution of the Rohingya
2018	Dec 21	The US government sanctions Myanmar military officials, prohibiting transactions with US financial institutions, freezing assets in the US etc.
	May 22	Amnesty International announced that ARSA had slaughtered 99 Hindus.
	Aug 17	The US government sanctions 4 security officials and 2 military units denying them access to global financial and commercial networks and freezing overseas assets.
	Oct 5	EU announces it is considering the suspension of preferential tariffs toward Myanmar.

Source: Made by MHRI based on various reports

## Cambodia: growth rate decreases slightly due to export slowdown

- According to the IMF's outlook, Cambodia's real GDP will decelerate slightly in 2019.
  - Exports are expected to ebb reflecting the global economic slowdown.
- Looking forward, the focus is whether Europe and the US, which are criticizing that democracy is in retreat, will impose all-out economic sanctions.
  - In July 2018, prior to the general elections, the largest opposition party, the National Rescue Party, was ordered to dissolve. As a result, the ruling People's Party won all seats in the election.
  - In light of these developments, Europe and the US have become more critical. The EU has started to discuss the suspension of preferential tariffs.

[ Real GDP growth rate ]



Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.

Source: Made by MHRI based on National Institute of Statistics, Cambodia, and IMF

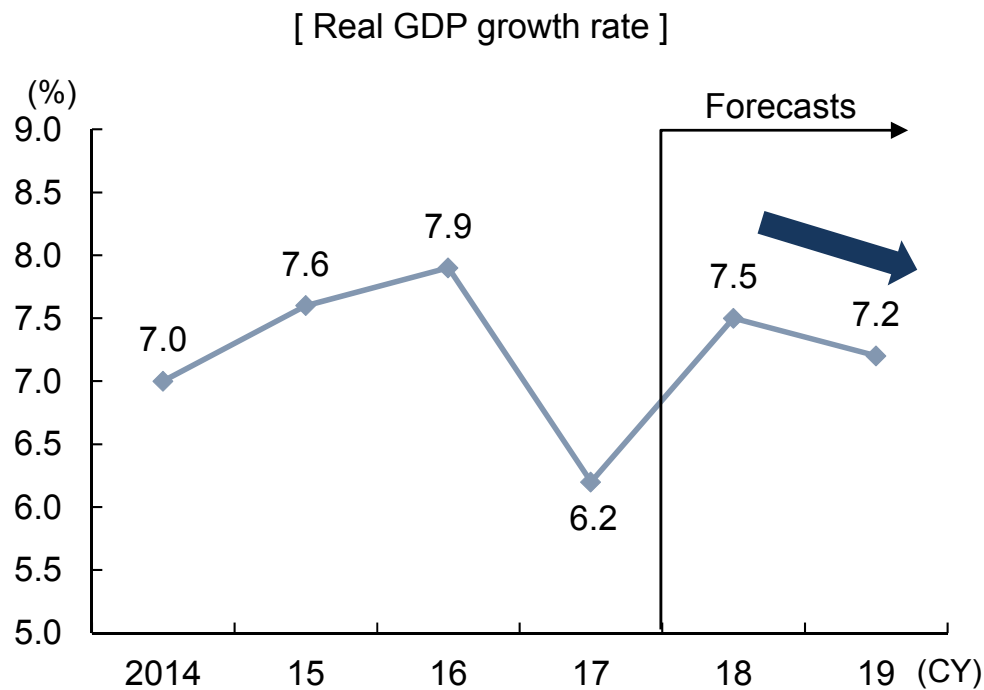
[ History of intensifying pressure on the opposition ]

2015	Nov	Arrest warrant issued for Sam Rainsy, leader of the National Rescue Party on an overseas trip, on the grounds of defamation in 2008. Rainsy forced into exile.
2017	March	Revised political party law enforced allowing political parties to be disbanded if party executives are convicted of a crime. Sam Rainsy resigns as chairman of the National Rescue Party.
	June	Opposition National Resuce Party performs well in local elections.
	July	Political party law again amended to prohibit political activities of people convicted.
	Sep	Arrested Rep. Kem Sokha party leader in treason. Sokha allegedly posted a video on Facebook in which he states: "Since 1993 we have received advice from the United States in order to effect regime change and we have implemented the plan in stages," which was considered as problematic.
2017	Sep	Anti-government news site The Cambodia Daily accused of tax evasion, forced to stop publishing.
	Nov	Supreme Court orders National Rescue Party to dissolve.
	2018	Feb
2018	July	The People's Party wins all seats in the general election on the 29th.

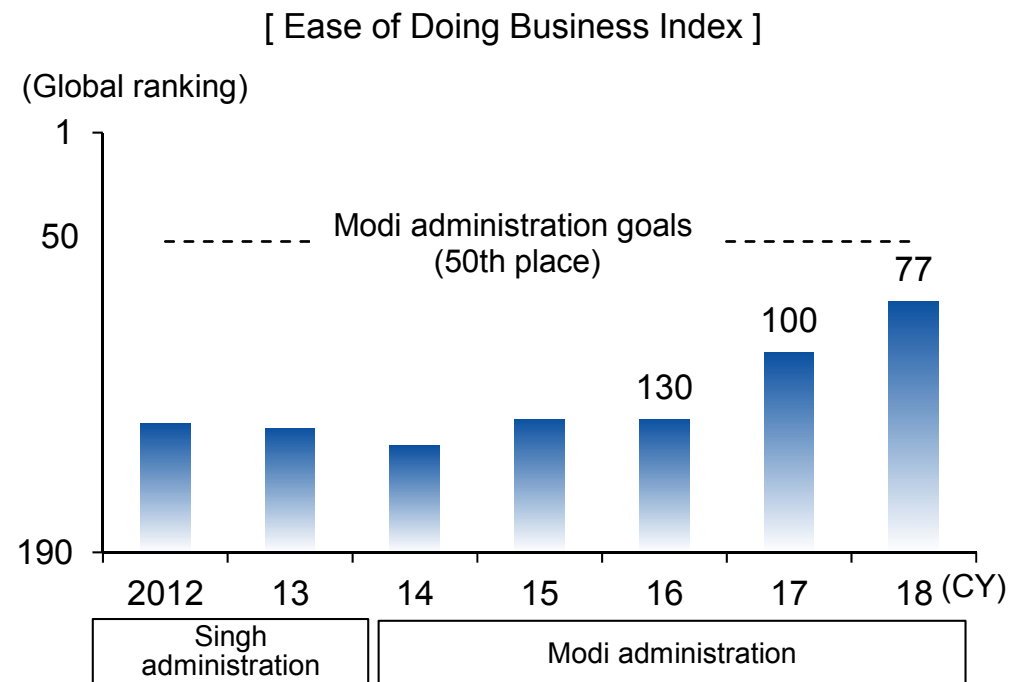
Source: Made by MHRI based on various media reports

## India: growth rate in 2019 to slowly decline due to interest rate hikes

- ❑ In 2019, India's economic growth rate will moderate.
  - The impact of a succession of interest rate hikes implemented during the period from June to August of 2018 should appear over time, leading to a slowdown of domestic demand which is the main driver of the economy.
- ❑ In the World Bank's Ease of Doing Business Index, India moved up 30 places in 2017 and again by 23 places in 2018.
  - In the 2018 Index, digitalization of onstruction permits and online trade procedures were evaluated highly. Such reforms of the business environment is a positive factor for medium- to long-term growth
  - By May 2019 the general election will be held, and it requires close attention as to whether the administration of Prime Minister Narendra Modi secures a majority in the election and reform momentum continues.



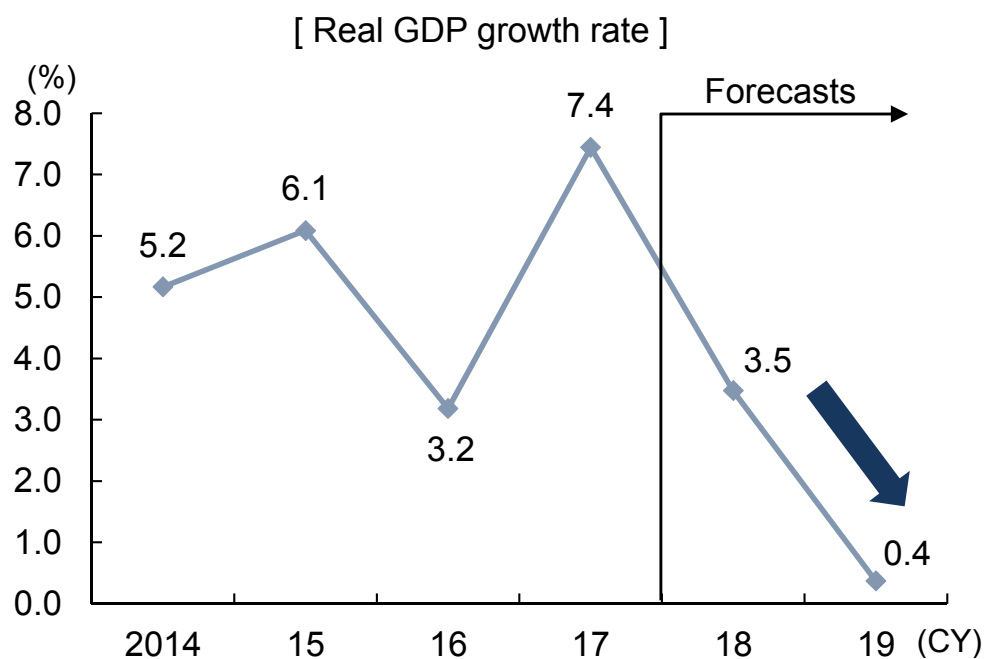
Note: Growth rates for 2018 to 2019 are forecasts by MHRI  
 Source: Made by MHRI based on Indian Ministry of Statistics and Programme Implementation



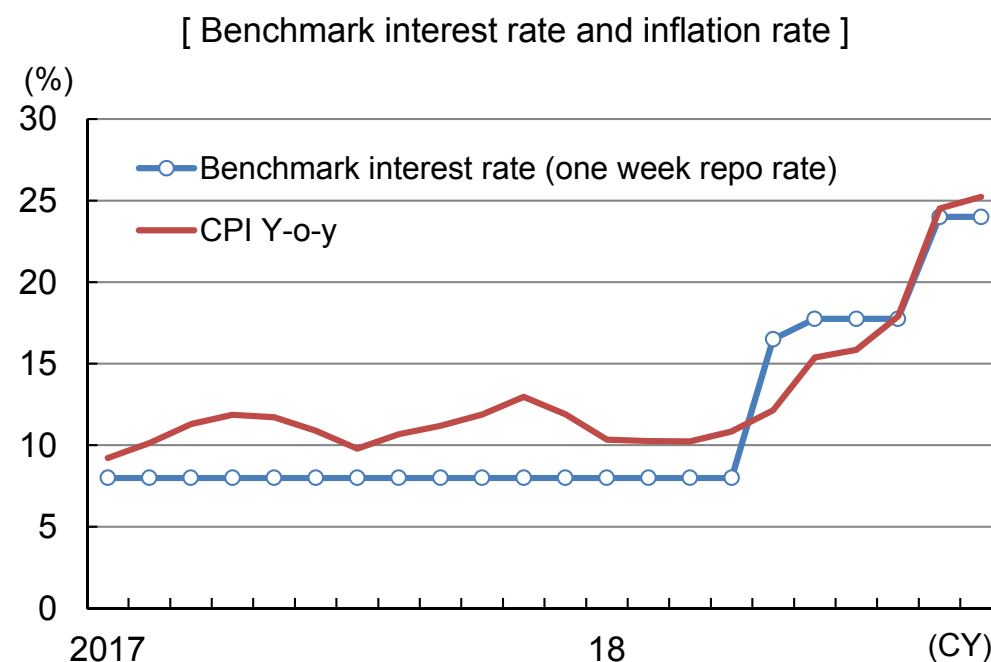
Source: Made by MHRI based on World Bank

## Turkey: an economic slowdown is inevitable due to currency depreciation

- Turkey's economic growth rate is expected to decline sharply in 2019 reflecting the Turkish lira's plunge in summer 2018.
  - The rise of inflation will squeeze real incomes, causing personal consumption to stall.
  - Given the decision to freeze new infrastructure investment in the medium-term plan, in addition to the impact of the rise of interest rates, an investment slump appears inevitable.
- Fundamentals are weak and there are lingering capital outflow risks. The key is whether Turkey can continue to tighten fiscal and monetary policy.
  - Amid the acceleration of inflation above 20% subsequent to the fall of the currency, the administration of President Recep Tayyip Erdoğan has tolerated a significant interest rate hike (17.75 ⇒ 24%) by the Turkish central bank.
  - While the Turkish lira has returned to the exchange rate as of autumn 2018, it will be necessary to keep a close eye upon capital outflow risks under a large current account deficit and shortage of foreign currency reserves.



Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.  
Source: Made by MHRI based on IMF



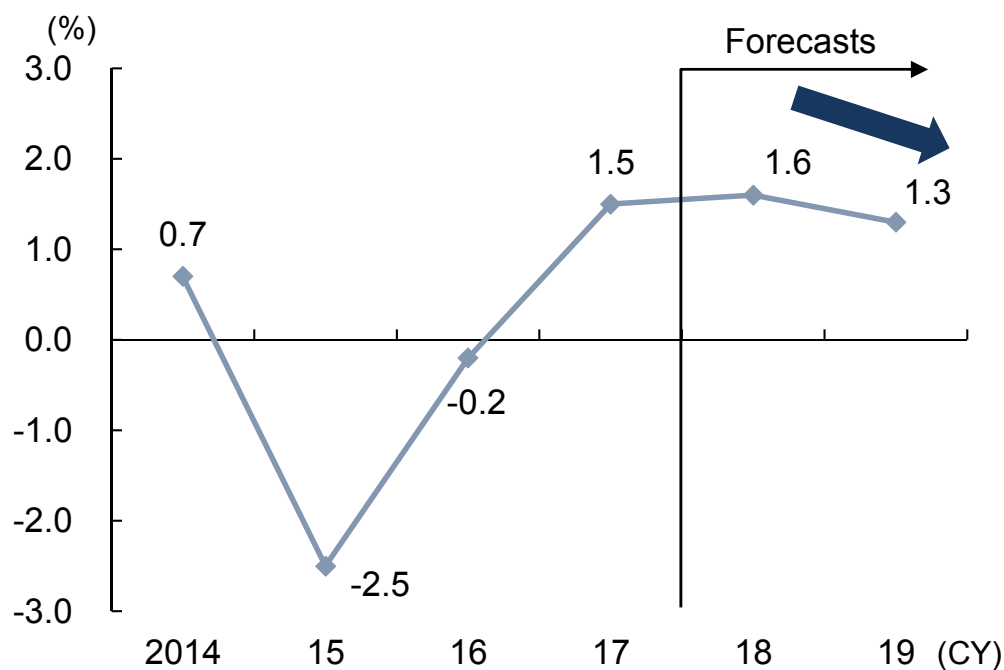
Source: Made by MHRI based on Turkish Statistical Institute



## Russia: the economy will slow down due to tax hikes and prolongation of sanctions

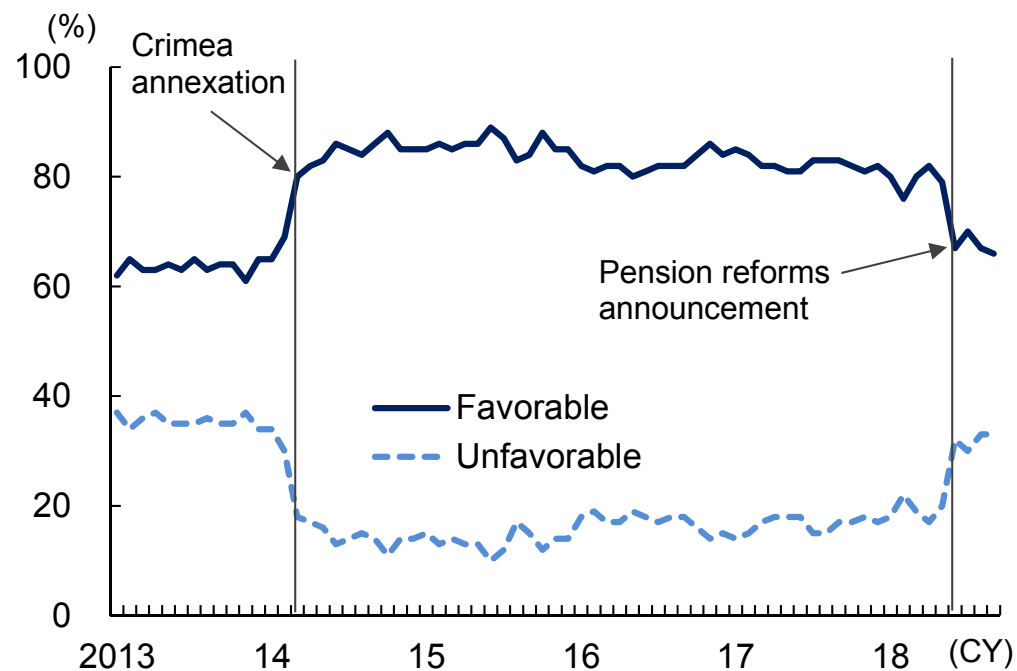
- ❑ The pace of Russia's economic recovery is expected to slow amid tax hikes and prolongation of economic sanctions by the US and Europe.
  - Personal consumption is expected to slow down, given a VAT rate hike from early 2019 (18% → 20%).
  - As a result of stronger US sanctions (April and August 2018), the possibility of interest rate cuts by Russia's central bank has receded considerable.
- ❑ President Vladimir Putin's political popularity is fading.
  - President Putin's approval rating has plunged following the announcement of the bill to raise the age at which pensions are awarded (June 2018).

[ Real GDP growth rate ]



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.  
Source: Made by MHRI based on Federal State Statistics Service of Russia

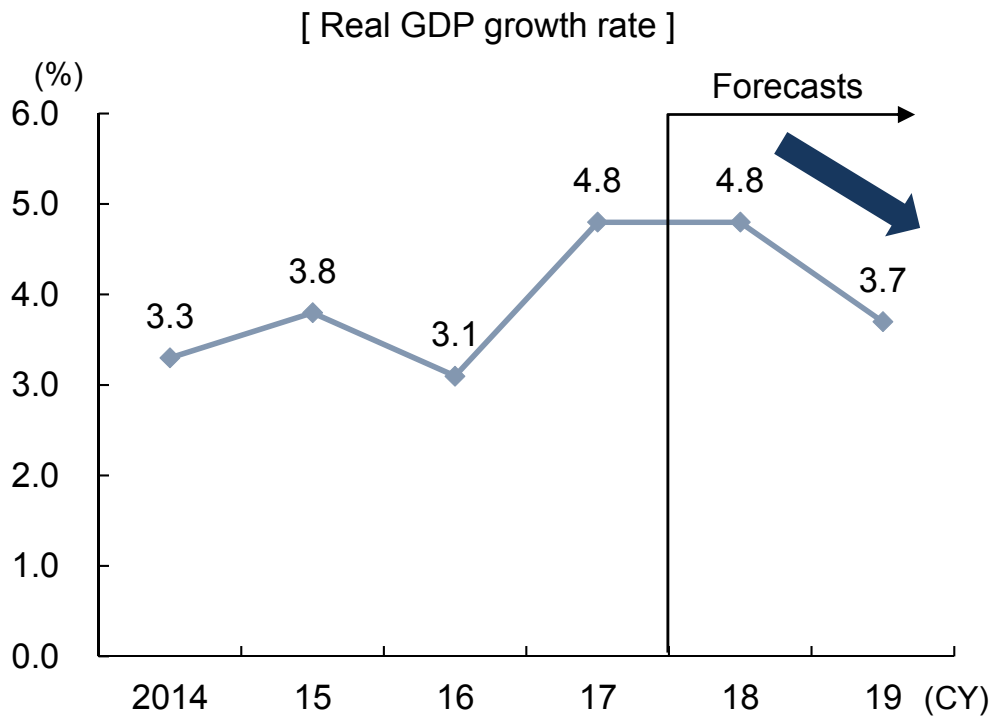
[ Public approval ratings of President Vladimir Putin ]



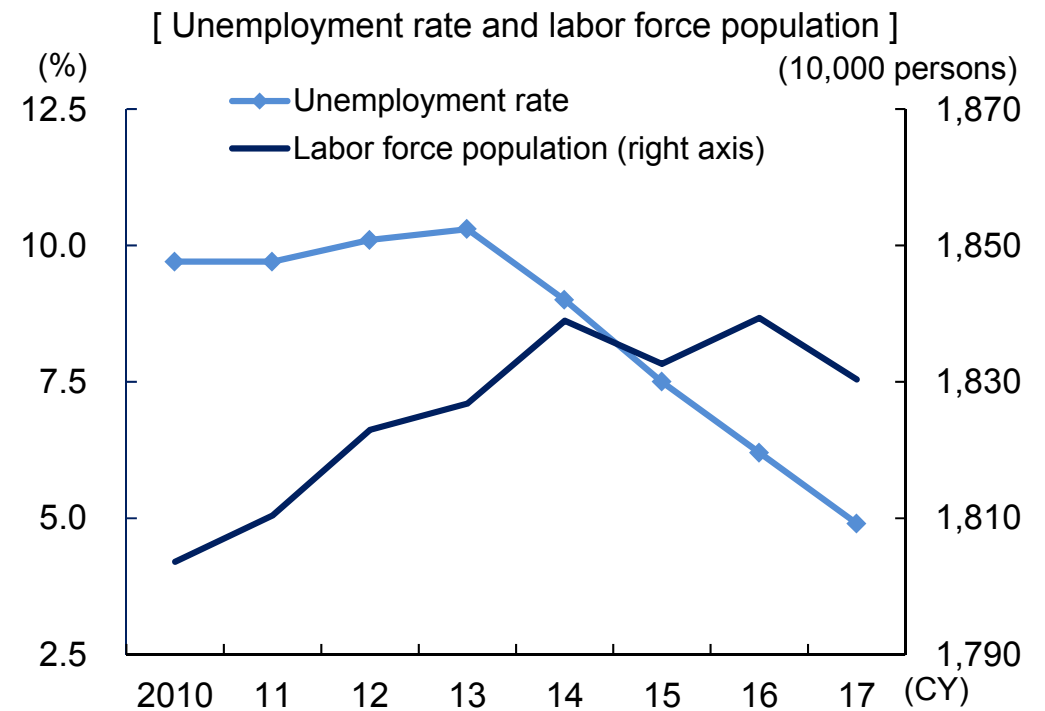
Source: Made by MHRI based on Levada Center

## Poland: despite a slight slowdown, the economy should follow firm footing

- ❑ Despite a slight slowdown, the Polish economy should follow firm footing. The European Commission forecasts that the rate of Poland's real GDP growth will be +3.7%.
  - Personal consumption will likely decelerate amid the slowdown in growth of real income due to the rise of inflation.
  - Investment is expected to remain favorable, mainly for public investment (transportation infrastructure development, etc.) financed by EU funding.
- ❑ Given the recent labor shortage in Poland, the rise of wages tends to lead to the rise of prices.
  - In October 2017, the retirement age was lowered (men: 67 → 65 years old; women: 67 → 60 years old), which has spurred a trend toward slower growth in the labor force population.



Note: Growth rates for 2018 to 2019 are forecasts by the European Commission  
 Source: Made by MHRI based on Central Statistics Office of Poland and the European Commission

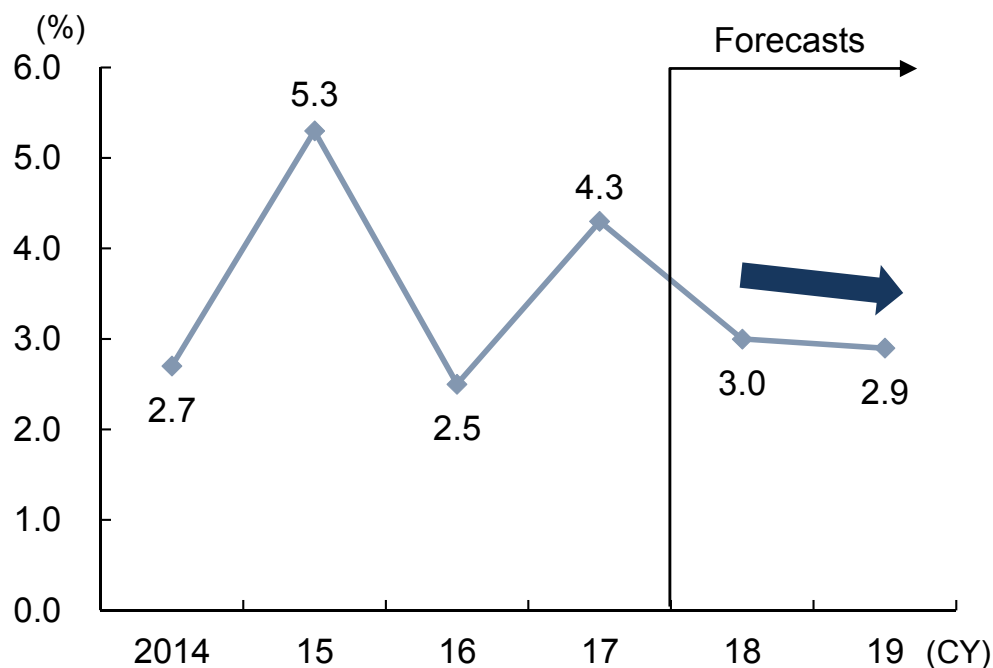


Source: Made by MHRI based on Eurostat and World Bank (WDI)

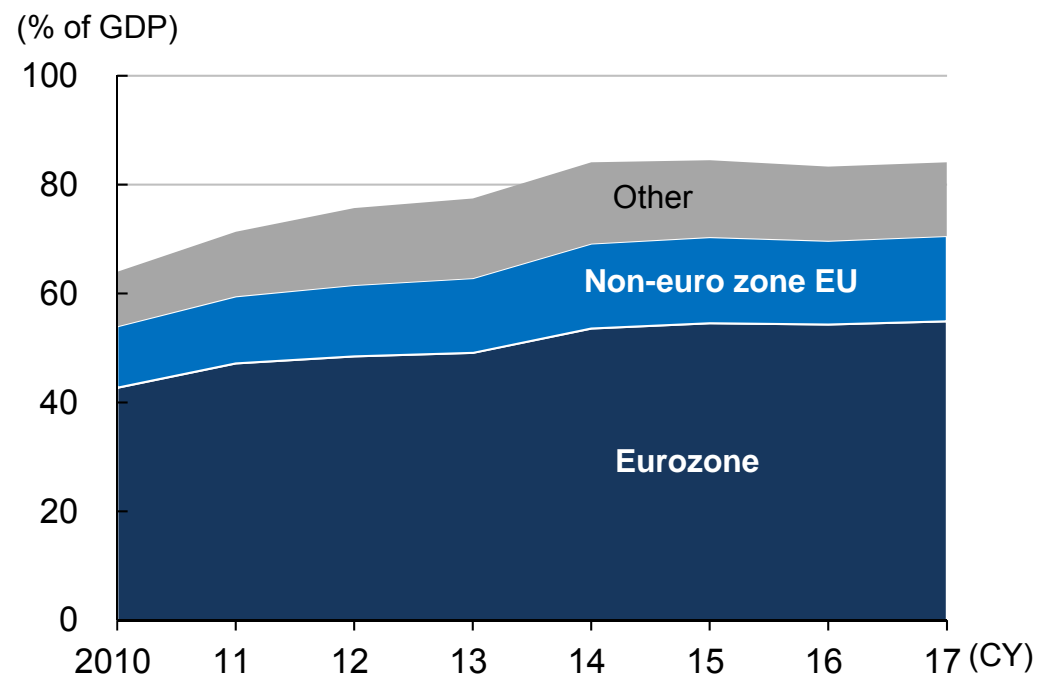
## Czech Republic: economic expansion remains firm

- ❑ The economic expansion is expected to continue mainly as a result of domestic demand. The European Commission forecasts that the rate of Czech real GDP growth will be +2.9% in 2019.
  - Personal consumption is expected to remain steady amid favorable wages and employment conditions.
  - Meanwhile, investment growth is expected to slow down due to a pause in public investment financed by EU funding which rose sharply in 2018.
- ❑ In the event the eurozone economy slows down, downside risks to Czech economic growth will rise via exports.
  - The Czech economy has an extremely high structural dependence on exports, especially exports to the eurozone.

[ Real GDP growth rate ]



[ Composition of exports by export destinations ]



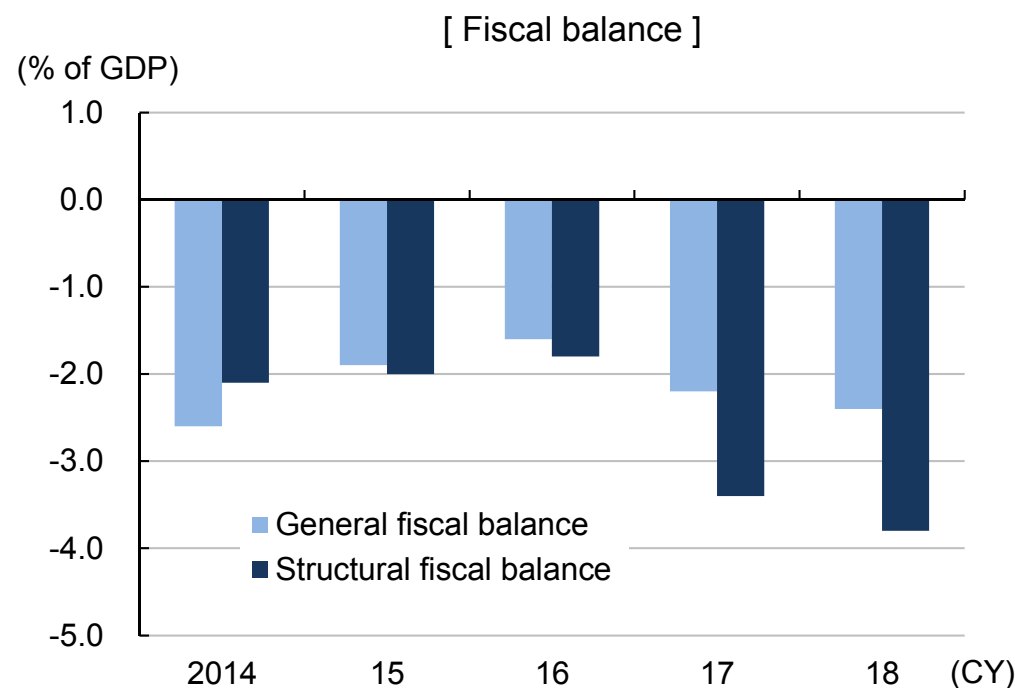
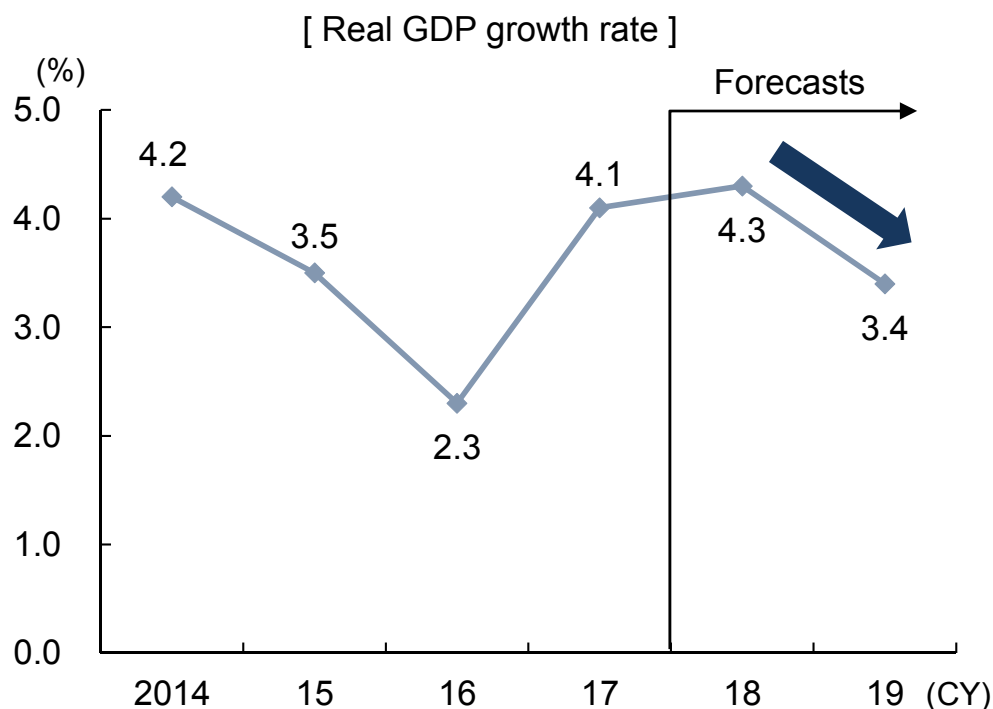
Note: Growth rates for 2018 to 2019 are forecasts by the European Commission.

Source: Made by MHRI based on Czech Statistical Office and the European Commission

Source: Made by MHRI based on Eurostat

## Hungary: economic growth expected to moderate, mainly in domestic demand

- ❑ Hungary's economic growth rate is forecast to moderate, mainly in domestic demand. The European Commission forecasts that the rate of Hungary's real GDP growth will be +3.4% in 2019.
  - Growth of individual consumption is expected to slow as the rate of increase in the minimum wage and public employee wages shrinks.
  - Investment is also expected to slow down due to a pause in public investment financed by EU funding which rose sharply in 2018.
- ❑ The European Commission stepped up its requirements for fiscal health.
  - The European Commission twice recommended in 2018 that Hungary's structural fiscal balance be corrected as it sees serious deviation from its medium-term budgetary objectives (MTO).

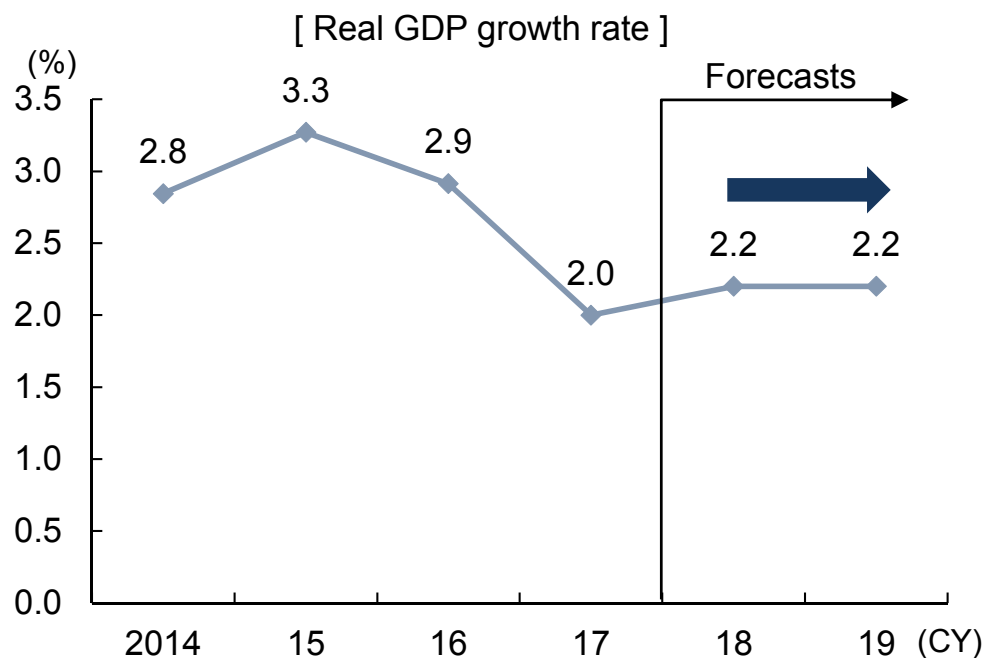


Note: Growth rates for 2018 to 2019 are forecasts by the European Commission.  
 Source: Made by MHRI based on Hungarian Central Statistical Office and the European Commission

Note: The structural fiscal balance is the general fiscal balance excluding the component that is related to cyclical economic factors.  
 The figure for 2018 is the European Commission's forecast.  
 Source: Made by MHRI based on European Commission

## Mexico: 2019 growth should remain on par with 2018, while concerns regarding the new administration's populist policy agenda will serve as downside risks

- Even though Mexico's real GDP should continue to follow a consumption-led growth track in 2019, the pace of growth is forecast to remain on par with the previous year at around the lower half of the 2%-level .
  - Despite the conclusion of the North American Free Trade Agreement (NAFTA) renegotiations, concerns regarding the new administration will serve as downside risks upon the economy in the form of restraints on investment and currency depreciation.
- There are deep-rooted concerns regarding the populist policy agenda of the new leftist administration (launched in December 2018) of Andrés Manuel López Obrador.
  - The market is closely watching policy changes, such as the cancellation of construction of a new international airport, which is already about 1/3 completed, review of oil field tenders, and suspension of crude oil exports.
  - There are concerns regarding a decline in the predictability of policy, given the advocacy of “participatory democracy” and policy decisions based on informal opinion polling etc.



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.

Source: Made by MHRI based on Instituto Nacional de Estadística y Geografía (INEGI)

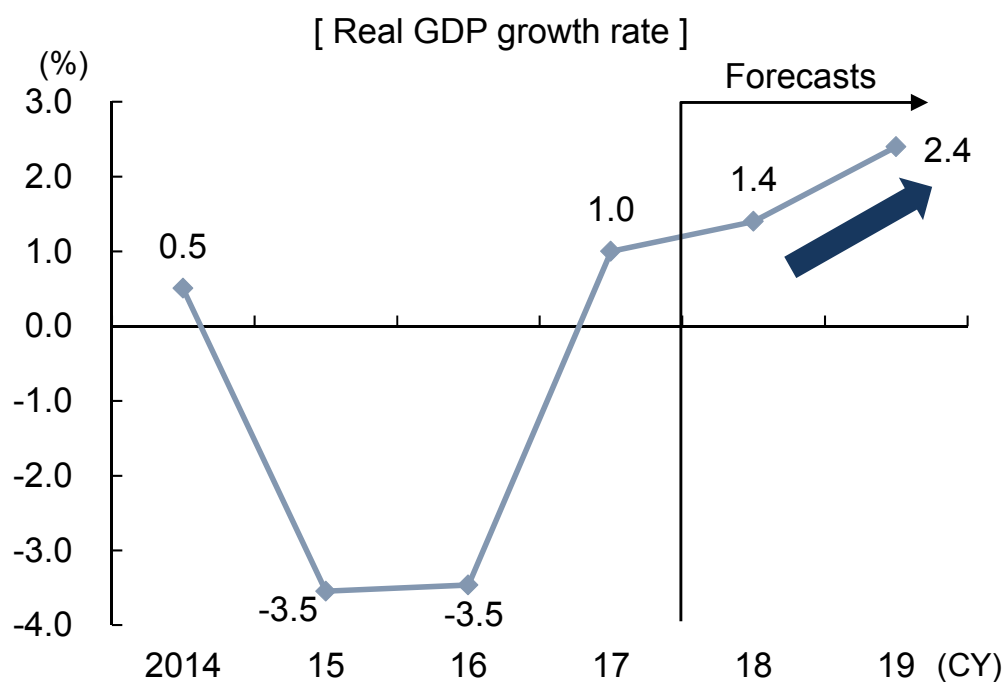
### [ Policies of the new López Obrador administration ]

Area	Item	Contents	
Fiscal policy	Basic policy	Focus on fiscal discipline, restrain increase in government debt	
	Revenue	Refrain from tax hike. Tax cuts in northern border areas	
	Expenditures	Projects in 25 priority fields	Energy investment (oil & gas development, oil refinery construction & refurbishment etc.) Social policy (youth employment support & increase in pension payments to the elderly etc.) Infrastructure investment
			Reduce current expenditures through administrative efficiency etc. (500 billion pesos)
Infrastructure investment		Cancel construction of New International Airport for Mexico City (substitution by expansion of the existing airport)	
		Development of the Tehuantepec isthmus, construction and maintenance of railways and regional roads	
Energy		Recovery of petroleum production by strengthening exploration and excavation (30% increase)	
		Focus roles by state-owned petroleum company PEMEX & state-owned electric utility CFE	
		Verify of private capital tenders for petroleum mining areas, temporary suspension of new auctions	
		Suspend exports of crude oil, suspend gasoline imports through expansion of domestic refinery capacity	
Foreign policy		Strengthen cooperation with US for developing Mexico and Central America for immigration control	
		Reduce trade deficit with China	

Source: Made by MHRI based on various media report

## Brazil: the pace of real GDP growth should accelerate as expectations toward the new administration drive the recovery

- The pace of Brazil’s economic growth should accelerate in 2019, as expectations toward the economic policies of the new administration of Jair Bolsonaro (to assume office in January 2019) drive the recovery of consumption and investment.
  - Given a favorable market reaction to the economic policies of the new administration, concerns regarding inflation will ebb along with the stabilization of the real exchange rate, making it possible to keep the key interest rate low.
- The new administration places emphasis upon market functions and fiscal discipline, promotes taxation simplification and privatization of state enterprises and is motivated to liberalize trade.
  - The realization of the new administration’s policies depend upon consensus-building at parliament mainly with the centrist political parties.
    - As Bolsonaro is an ex-military ultra-rightist politician and is referred to as “Brazil’s Donald Trump”, there are lingering concerns about heavy-handed policy actions.



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.

Source: Made by MHRI based on Instituto Brasileiro de Geografia e Estatística (IBGE)

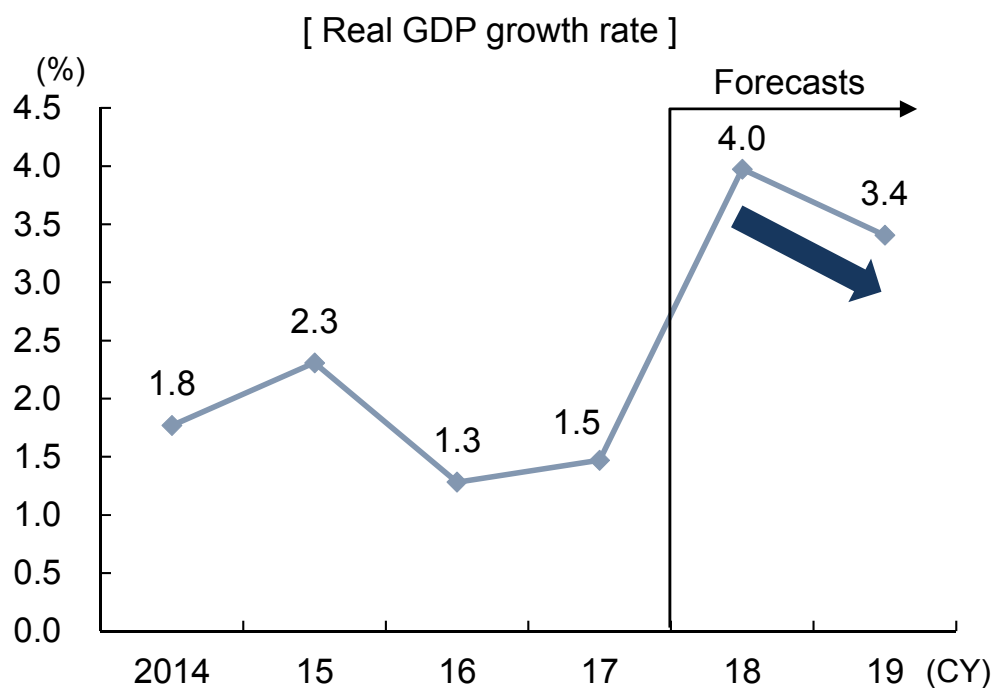
### [ Policies of the new Bolsonaro administration ]

Area	Item	Contents
Fiscal policy	Pension reform	Restrain benefits, establish installment system for new subscribers (combined with a pay-as-you-go system) etc.
	Fiscal balance	Elimination of basic fiscal balance deficit (2019), realize fiscal surplus (2020)
	Government debt	Reduce debt by privatizing state enterprises
	Expenditures	Reduce expenditures by reorganizing ministries and agencies etc.
Tax system		Simplify taxation, introduction of a single tax rate for income (flat tax)
Financial policy		Stipulate independence of central bank, maintain single mandate for prices
Privatization of state enterprises		Promote privatization in fields other than strategic fields (oil exploration, excavation, power generation etc.)
Foreign policy		Promote free trade, emphasize bilateral negotiations, strengthen relations with the US Be prudent about inward investment from China (especially in natural resource fields)
Labor		Maintain labor laws revised under the Temer administration and promote deregulation
Environment		Promote agricultural land development by deregulation
Security measures		Deregulation of gun possession restrictions and use of force by police, revise juvenile law

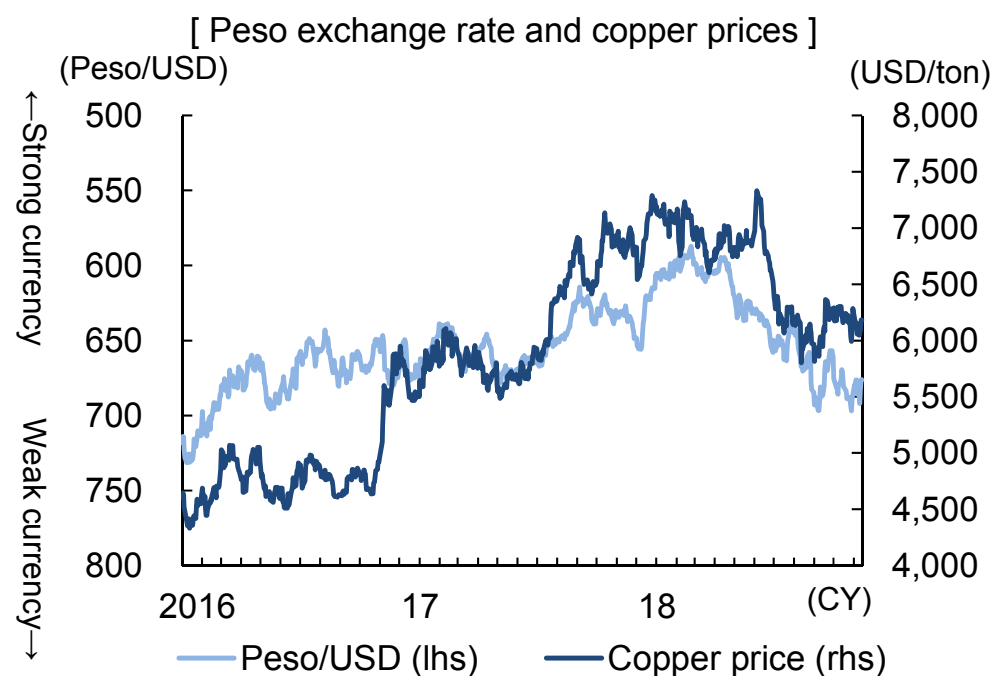
Source: Made by MHRI based on various media report)

## Chile: despite the continuation of steady economic expansion, the fall of copper prices due to US-China trade tensions pose risks to growth

- Despite continuing strong economic expansion, the pace of growth will slow down from around 4% in 2018 to the 3%-level in 2019.
  - The infrastructure investment and measures to promote inward investment by the center right administration of President Sebastian Pinera (assumed office in March 2018) will underpin the economy.
  - Meanwhile, the slowing growth in copper production and exports, adjustment of monetary easing, etc. are expected to serve as downward pressures upon the growth rate.
- Prices of copper, Chile's leading export item, have entered an adjustment phase. There are downside risks to production and exports of copper due to the slowdown of the Chinese economy along with US-China trade tensions.
  - If the peso, which moves in lockstep with copper prices, continues to decline and serves as upward pressures upon inflation, a further tightening of monetary policy may be necessary.



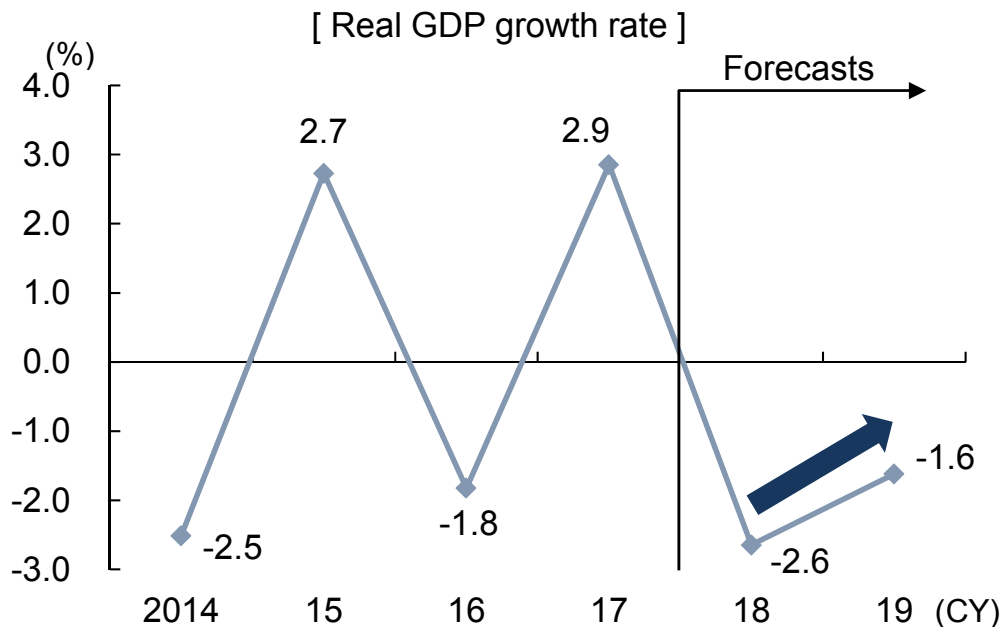
Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.  
Source: Made by MHRI based on the Central Bank of Chile and IMF



Note: Copper prices are the 3-month forward prices on the LME  
Source: Made by MHRI based on Bloomberg

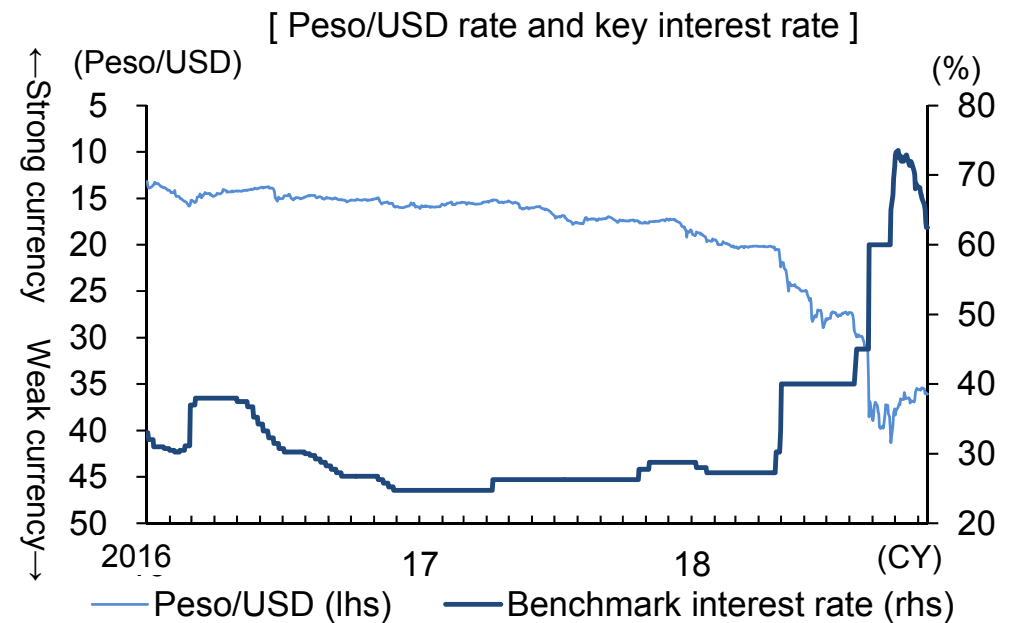
## Argentina: negative growth for the second year in a row the key is whether the peso will stop falling

- Argentina's economy will continue to recede and its pace of economic growth will remain in negative territory for the second year in a row due to the implementation of fiscal and monetary tightening measures to address the crisis.
    - Domestic demand is sluggish amid double-digit inflation, high level of the key interest rate, and restraints upon expenditures to achieve the primary balance target.
  - There are signs that the sharp fall of the peso is subsiding as a result of the expansion of the IMF financial support framework (\$50 billion→\$56.3 billion), and a review of policy management.
    - The peso exchange rate has rebounded subsequent to its sharpest drop this year of 55% as of the end of September. Henceforth, it has moved within the nonintervention range, and foreign exchange reserves have also stopped falling.
- If the peso exchange rate stabilizes and the economy bottoms out, it will serve as tailwinds for President Mauricio Macri (presidential elections in October 2019).



Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.

Source: Made by MHRI based on National Institute of Statistics and Censuses (INDEC), and IMF



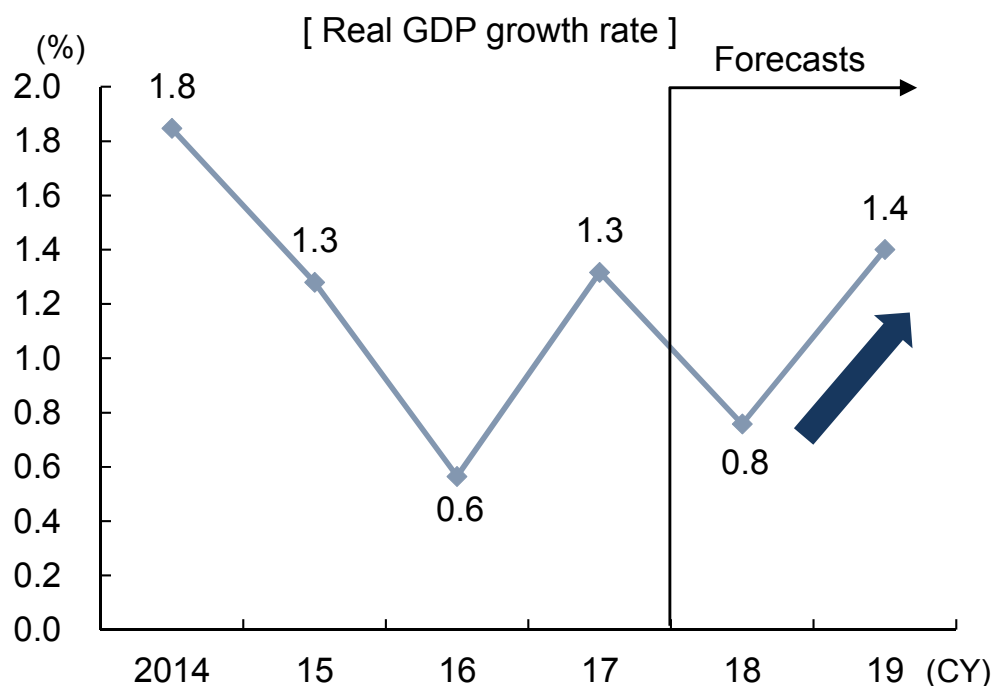
Note: The key interest rate is based on the average interest rate for 7-day liquidity bond (known as LELIQ) operations after Sep. 28, 2018

Source: Made by MHRI based on Bloomberg



## South Africa: 2019 is expected to see continued low growth; if the ruling party wins in the spring general elections, acceleration of reforms expected

- ❑ South Africa's real GDP growth is expected to remain low around the 1%-level in 2019. Given weak fundamentals, the risk of capital outflow persists.
  - Structural problems such as widespread corruption, insufficient infrastructure, inefficient public enterprises, etc. are holding down growth.
  - The risk of capital outflows persists as the weakness of fundamentals (current account deficit, fiscal deficit, inadequate foreign exchange reserves) remains unchanged.
- ❑ The focus of attention is whether the new president, Cyril Ramaphosa, can consolidate his power base in the general election (around April-May).
  - President Ramaphosa, who assumed office in February 2018, aims at structural reforms to attract inward investment.
  - There are expectations that the reforms will speed up if the ruling African National Congress (ANC) captures more seats in the general election in spring 2019.



Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.  
Source: Made by MHRI based on IMF

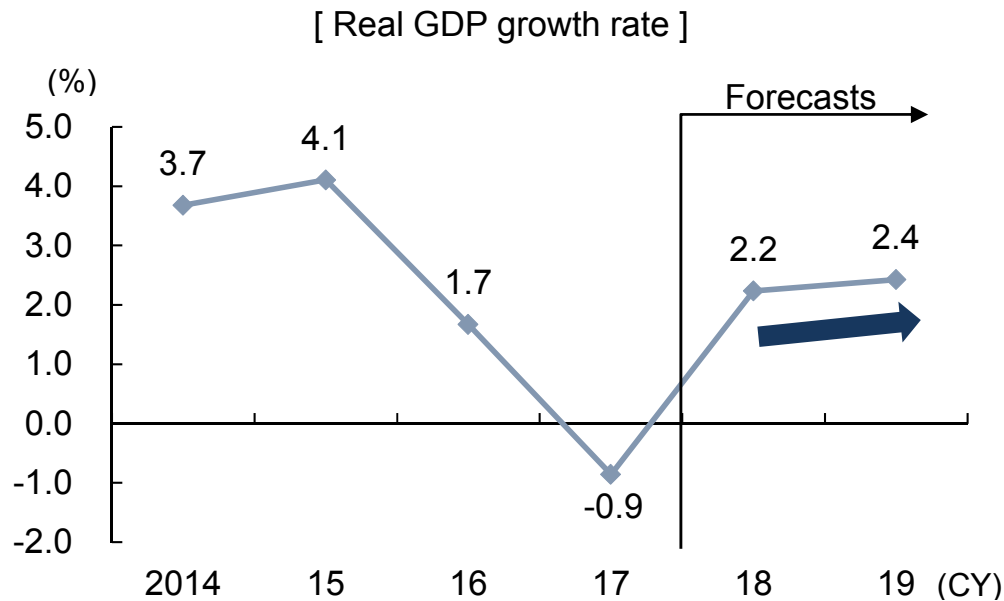
[ Breakdown of the South Africa National Assembly (lower house) ]

Political party name	Abbreviation	No. of seats
African National Congress (ruling party)	ANC	249
Democratic Alliance	DA	89
Economic Freedom Fighters	EFF	25
Inkatha Freedom Party	IFP	10
National Freedom Party	NFP	6
Other		21
Total		400

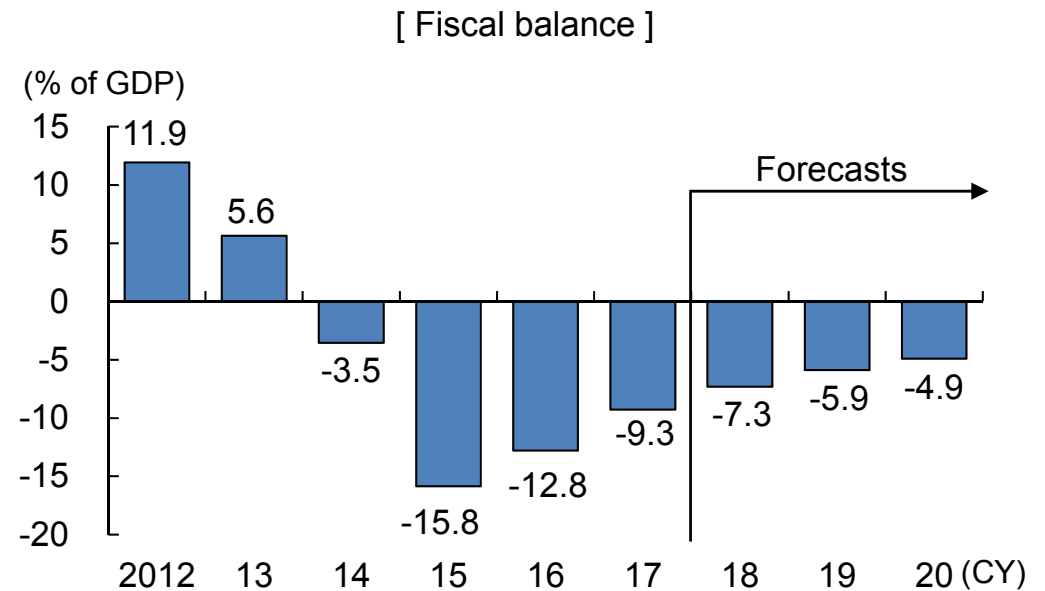
Source: Made by MHRI based on the Parliament of the Republic of South Africa website

## Saudi Arabia: the economy will pick up in 2019 to promote Vision 2030, the government will continue to take an expansionary fiscal policy stance

- ❑ The Saudi Arabian economy picked up, reflecting the recovery of the crude oil market. In 2019, the economy is forecast to keep growing at a pace around the 2% level.
  - Saudi Arabia's external balance of payments improved due to the rise in price of crude oil. Crude oil production also increased around the end of 2018 given the relaxation of coordinated production cuts.
  - The economy should continue to follow a mild recovery, reflecting the fading impact of the introduction of the value-added tax (5%), which was a factor in curtailing consumption in 2018.
- ❑ To promote Vision 2030, the government will continue to take an expansionary fiscal policy stance.
  - There is a risk that Vision 2030 could be delayed due to postponement of Saudi Aramco's IPO and the murder of Saudi journalist Jamal Khashoggi.
  - The Saudi government will continue to expand spending to promote Vision 2030. The budget deficit up to 2020 is forecast to trend around 5% of GDP.



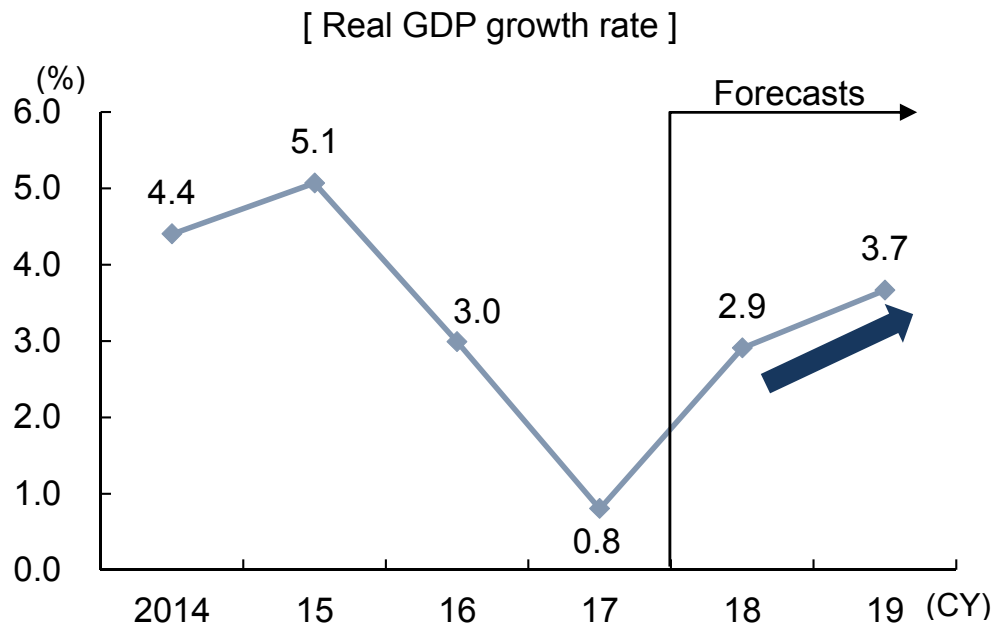
Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.  
Source: Made by MHRI based on IMF



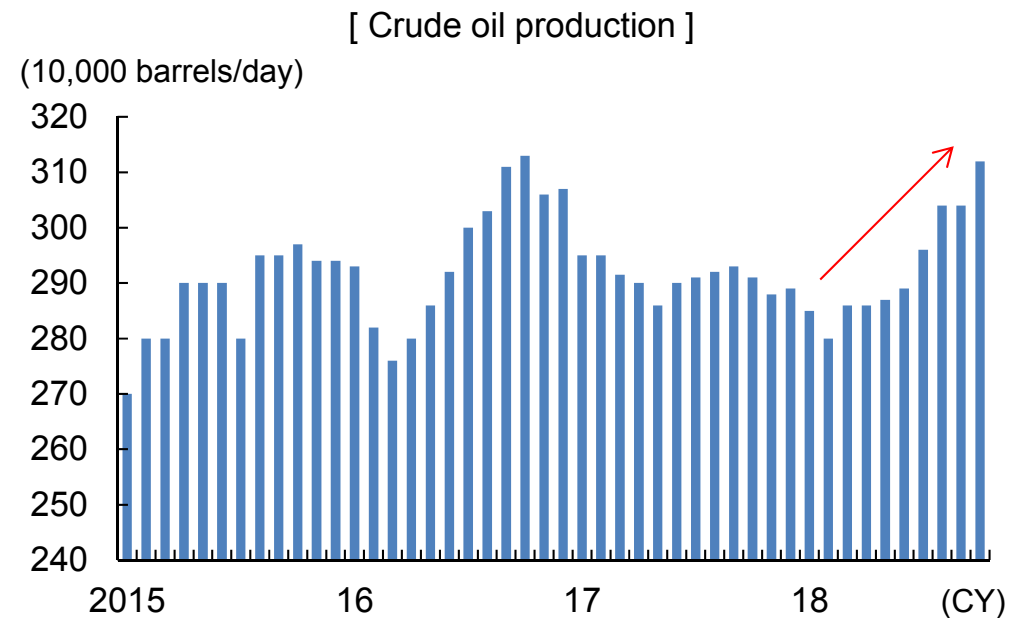
Note: The 2018-2020 forecast is based on the Saudi government's 2018 budget  
Source: Made by MHRI based on Ministry of Finance of Saudi Arabia

## United Arab Emirates (UAE): the recovery of the crude oil market and production will push up the rate of economic growth

- ❑ The economy will pick up from the tepid growth in 2017. Due in part to the effect related to 2020 Expo Dubai, the rate of growth in 2019 is expected to exceed 3%.
  - In addition to the recovery of the crude oil market, crude oil production increased in the second half of 2018 due to the relaxation of coordinated production cuts.
  - With 2020 Expo Dubai-related investment moving into high gear, the rate of 2019 growth is expected to exceed 3%.
- ❑ Economic diversification is gradually progressing, but the dependence on crude oil is still large. Concerns about an oversupply of real estate.
  - Economic diversification has gradually progressed under Vision 2021 formulated in 2010. However, the economy remains structurally susceptible to the crude oil market.
  - The real estate market fell due to excessive supply. In the event of a property market crash, there is the risk of uncertainties rippling through to the financial markets.



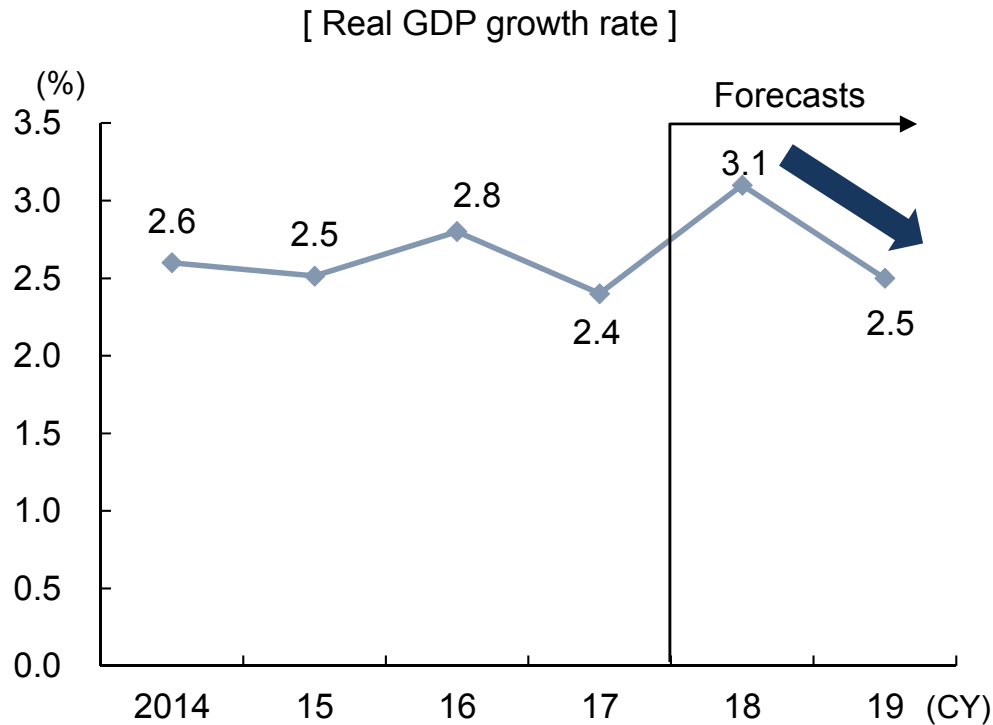
Note: GDP growth rates for 2018 to 2019 are forecasts by IMF.  
Source: Made by MHRI based on IMF



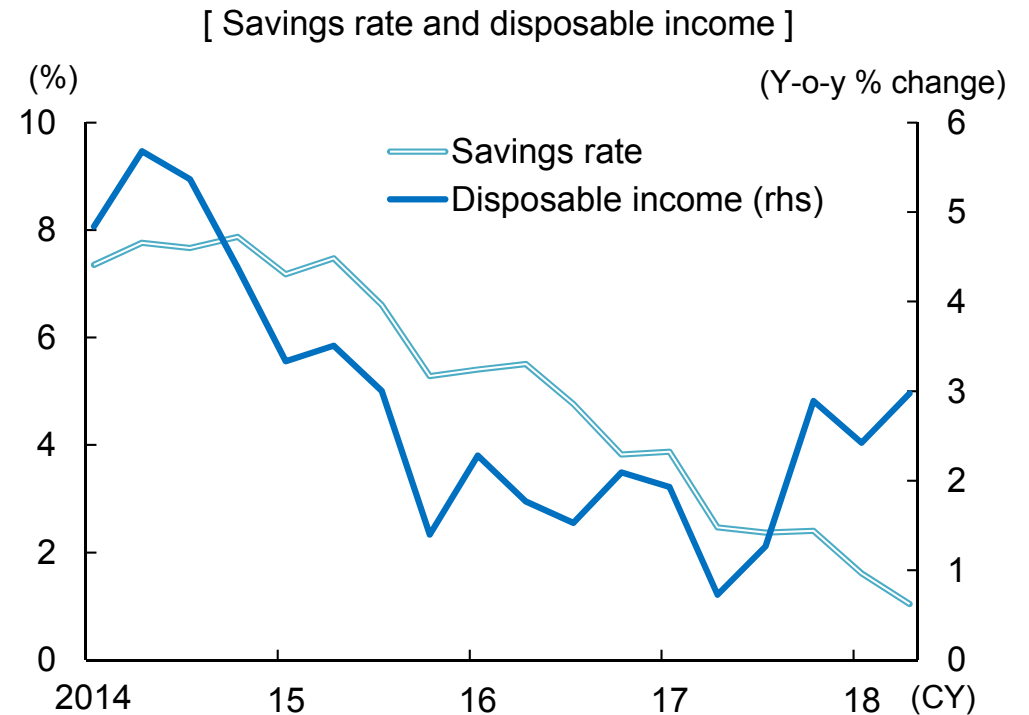
Source: Made by MHRI based on Bloomberg

## Australia: despite the current strength of the economy, the pace of economic growth will slow as personal consumption shifts down

- ❑ The pace of Australia's economic growth is forecast to decline to the mid-2% range due to the slowdown of personal consumption.
  - The current economy is strong. However, as the savings rate has fallen to near 0%, it would be difficult to keep spending by suppressing savings as in the past. Personal consumption and housing investment are expected to turn lackluster.
- ❑ Australia's federal election is expected in 2019. Support for the opposition party exceeds the ruling party's approval rating.
  - In September 2018, Malcolm Turnbull resigned as prime minister and was succeeded by former finance minister Scott Morrison. Considering that the recent support rating for the opposition Labor Party runs higher than the approval rating for the ruling conservative coalition, the ruling party is likely to face a tough battle in the next federal elections (scheduled to occur by May 2019).



Note: GDP growth rates for 2018 to 2019 are forecasts by MHRI.  
Source: Made by MHRI based on Australian Bureau of Statistics



Source: Made by MHRI based on Australian Bureau of Statistics

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