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Where To From Here?

Standard & Poor's View On Credit Trends In Asia, May 2008

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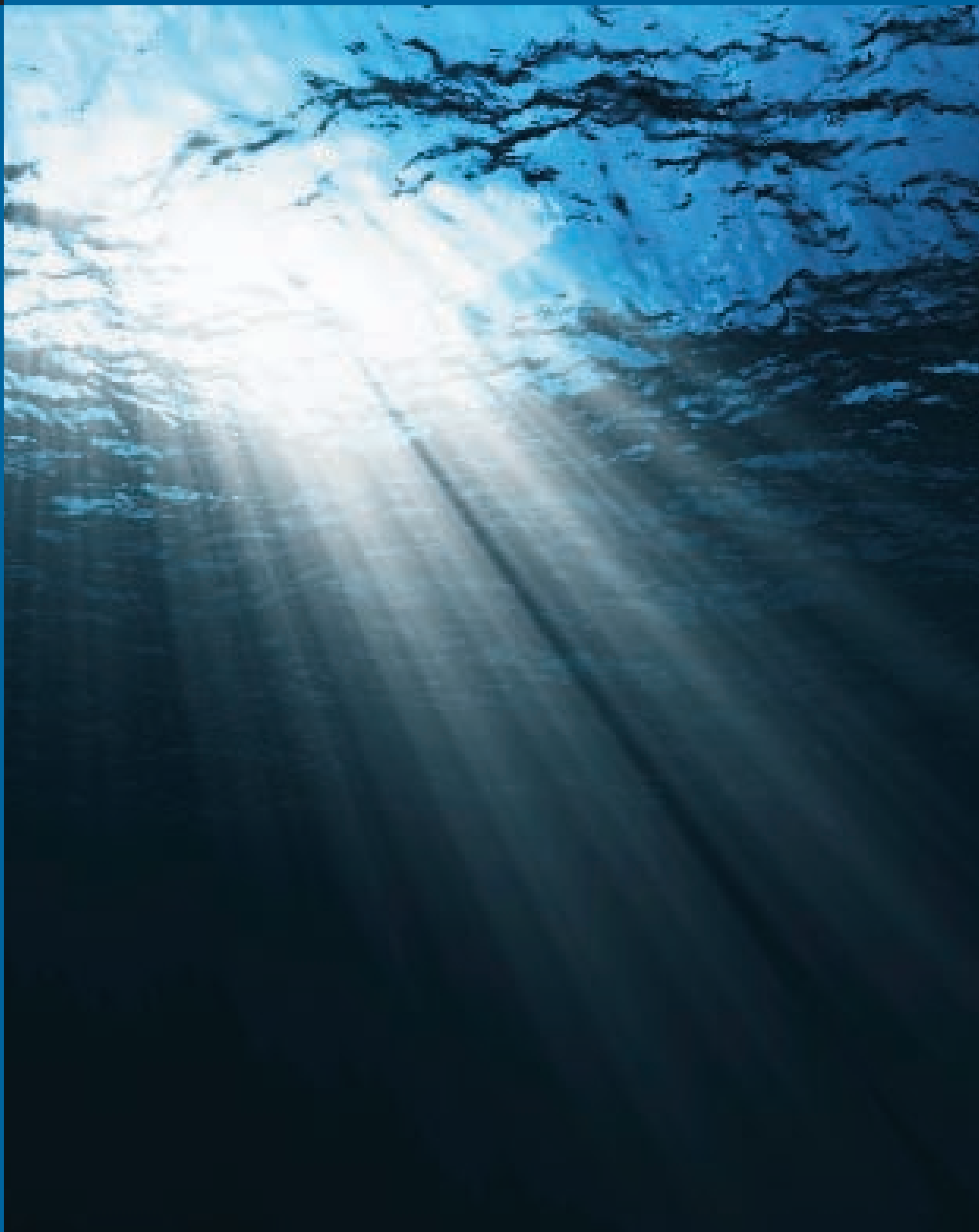

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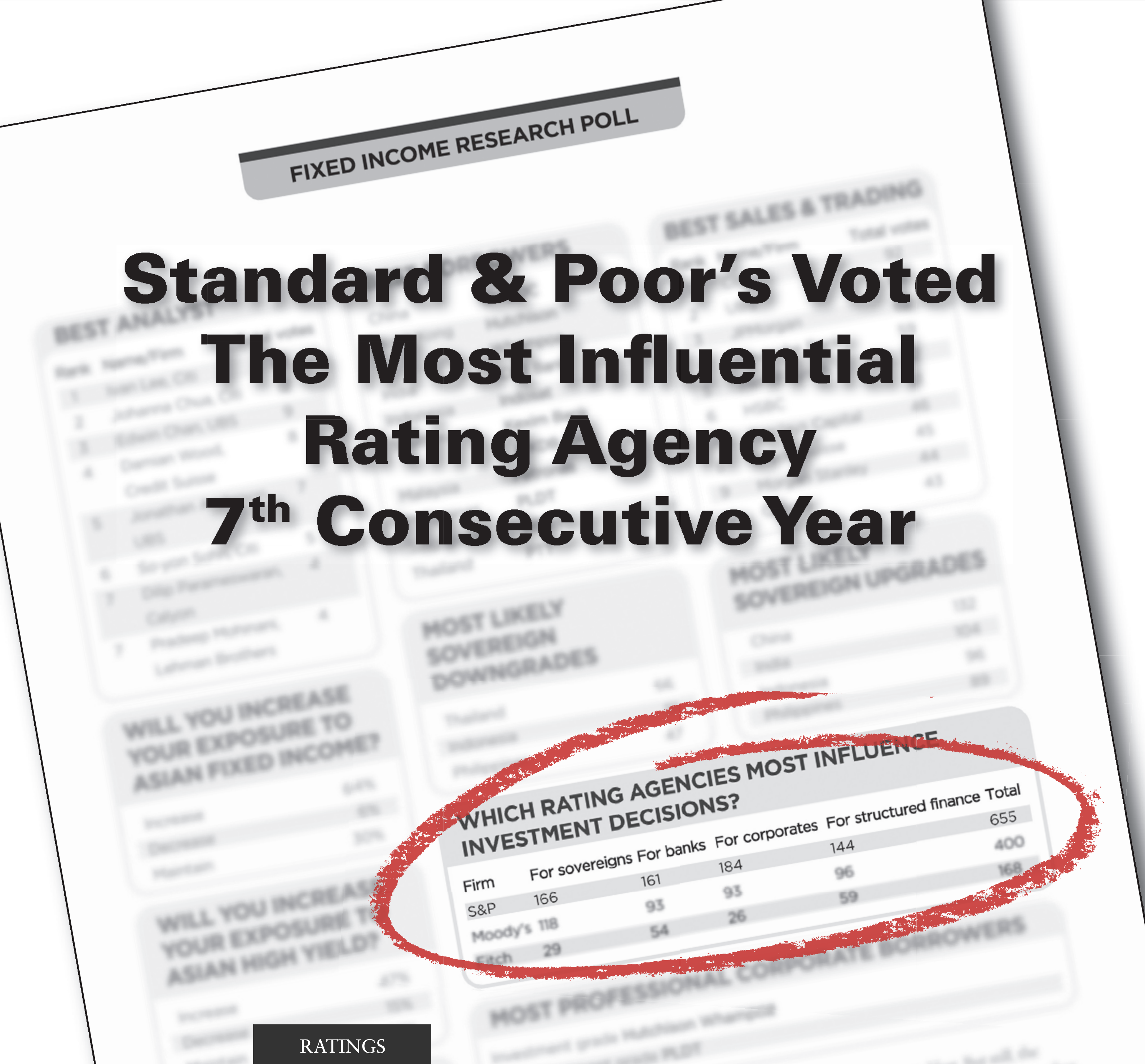
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Firm	For sovereigns	For banks	For corporates	For structured finance	Total
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Moody's	118	93	93	96	400
Fitch	29	54	26	59	168

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Introduction

Standard & Poor's Ratings Services is pleased to present "Where To From Here?", a collection of articles on Asian credit trends prepared especially for the 2008 Asian Development Bank conference in Madrid.

The credit crunch and general erosion of confidence—beginning with the subprime mortgage crisis in the U.S. in mid-2007 and continuing well into 2008—have sent tremors through the global markets. Financial turbulence has spilled over into a recession in the U.S. and is expected to cause an economic slowdown in most of Europe and Asia. While sovereigns, corporates, and financial institutions in Asia seem to have weathered the financial turmoil and U.S. slowdown quite well until now, the challenges are far from over. Risks have increased, and many entities are becoming vulnerable to possible further deterioration or continuing instability in liquidity, credit terms, and business conditions.

With so much uncertainty ahead of us—including persistent market volatility—fundamental analysis can provide some clarity as to the magnitude of risks and the relative impacts on various credits. Standard & Poor's rates more than 1,000 sovereigns, companies, and financial institutions in Asia-Pacific. Through our fundamental analysis and sector- and region-specific research we aim to provide unique credit insights to investors.

Standard & Poor's is also implementing a comprehensive range of actions to strengthen our ratings operations and address some of the issues currently facing the global credit markets. These measures, announced in February 2008, are designed to enhance independence, strengthen the ratings process, and increase transparency. We have already completed many of these actions, including the formation of a Risk Oversight Committee and adding requirements for additional loan level data from issuers of new RMBS deals. As the article "Ratings Are Part Of The Solution" explains, we are committed to continuing our collaboration with market participants, regulators, and experts to help restore confidence in, and stability to, the credit markets.

Our first topical piece, "Asian Resilience Amid Global Turbulence", discusses Standard & Poor's economic outlook for Asia. A U.S. recession will lead to somewhat slower growth in Asia in 2008–2009 compared with previous years, although the negative impact will be offset to a degree by domestic growth drivers. This is based on our current assumption of a short and mild U.S. recession. China and India are expected to continue growing above 9.0% and 7.5%, respectively, over the next two years, providing momentum to the region and helping (together with increasing intraregional trade) other regional economies insulate themselves against a U.S. recession. Risks to sustained growth and macroeconomic stability have increased, however. Rapidly rising food prices are becoming a top concern for many governments: Further erosion of the affordability of staple foods, particularly in low-per-capita-income economies, could lead to social tension and political instability.

As our article, "Politics And Policy Environment: Credit Constraint For Many, Support For A Select Few In Asia-Pacific" explains, sovereign ratings in 2008 will be affected, to a large degree, by political development and policy response to major issues that arose in 2007 and early 2008. Many Asia-Pacific sovereigns have elected, or will be electing, new governments—just in time to face a more challenging environment.

The issue of inflation and the potential implications of different policy responses are explored in our focus article, "Inflation Poses Challenges And Opportunities For Central Banks In Developing Asia." The ability of Asia's central banks to successfully solve the policy dilemma of supporting economic growth versus fighting inflation can have direct and long-term implications for macroeconomic stability, domestic capital markets, and sovereign credit ratings.

Due to challenging economic conditions, credit risks in the corporate sector have increased and are leading to higher rating volatility, an expected increase in defaults, and a greater divergence in credit quality in Asian markets generally. That said, corporate Asia's default rates should remain low, supported by still-good liquidity in local banking systems and more balanced debt-maturity profiles for some corporates. Issues faced by the corporate sector are discussed in our article, "Asia's Corporate Sectors Will Roll With The Punches In 2008."

Asian banks are affected by a combination of subprime write-downs, tightening markets, and the slowing U.S. economy. The article, "Asian Banks Bracing For Triple Whammy Of Write-Downs, Tightening Markets, And Economic Slowdown," explains that the majority of rated banks in Asia are well placed to weather the storm, albeit with likely declining profitability, deterioration in asset quality, and potentially increased liquidity pressure. Banking systems in Pakistan, Korea, Philippines, and Thailand are relatively more vulnerable considering their respective structural weaknesses and dependence on their economies.

As risk aversion persists and liquidity in capital markets becomes scarce and expensive, Islamic finance can offer a viable alternative. The global market for sukuk more than doubled in 2007 to exceed $60 billion and is on track to top the symbolic $100 billion mark in the next few years. The overall potential during the next 10 years is counted in trillions. Standard & Poor's reviews the Islamic debt market in the article, "The Sukuk Market Continues To Soar And Diversify, Held Aloft By Huge Financing Needs."

We hope the assessments and views expressed in this collection of articles are of value to you, and we would be happy to answer any further questions you might have on credit trends or individual credit issues.

Thomas J. Schiller

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