

## | Indonesia: Inflation on the rise

In August consumer prices stood 6.1 % up on a year earlier. This is the highest increase since July 1999. After several months of negative rates at the beginning of the year, inflation has now picked up sharply again in recent months. Additional inflationary pressures loom in October when Indonesia is set to increase significantly both transport fees and gasoline prices. It is planned to raise the latter alone by an average 12 %. These measures are the government's response to criticism by the IMF, which has repeatedly called for a reduction in the numerous state subsidies. The government meanwhile has made a substantial upward correction in its inflation target for this year. Despite rising inflation rates, we do not expect any significant tightening of monetary policy in the coming months, given the nascent recovery in investment.

## | Mexico: Tequila crisis finally over!

On September 1, Mexico repaid prematurely all outstanding IMF loans worth about US\$ 3bn. These had been made available to the country during the so-called Tequila Crisis of 1994/95 as part of a US\$ 42bn stand-by loan, and during the 1999 emerging markets turbulence. The funds were only partially drawn down. This step demonstrates Mexico's current positive economic situation - due not least to the continuing boom in the USA and high oil prices. But Mexico remains heavily dependent on bridge financing. The increased current account deficit (estimated at US\$ 17.5bn for 2000) and amortization payments of US\$ 18bn are only partially offset by much lower capital inflows from direct and portfolio investment (US\$ 13bn and US\$ 3bn, respectively). Given relatively low spreads - on 30-year sovereign bonds just under 350 basis points against U.S. Treasury bills - Mexico should not have any difficulty refinancing itself on the international capital market.

## | Slovenia: Reforms nowhere in sight

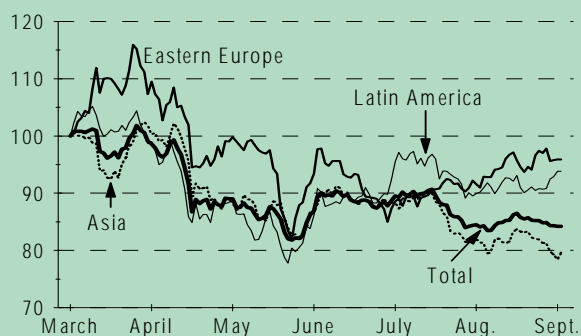
The new center-right government under Prime Minister Andrej Bajuk, in power since the June vote of no confidence against then-head of government Janez Drnovsek, has so far failed to tackle urgently needed reforms head on. Any push to reform is now unlikely ahead of November's elections, as the government does not have a majority in parliament. Overdue structural reforms are at the forefront of economic policy. One of the main reasons for the insufficient restructuring of the corporate sector is the low level of foreign direct investment. Less than US\$ 50m (net) flowed into the country in 1999. Enhanced legal security for foreign investors could foster investment, but this requires more rapid adaptation of national legislation to the EU legal framework.

## | South Africa: No investment, no jobs

In the first half of the year, seasonally adjusted GDP increased by only 0.7 % real on the second half of 1999. The main reason was weak private consumption, with on average heavily-indebted consumers haunted by the prospect of higher interest rates. As a result, we now expect real economic growth of only 2.3 % this year. Over the medium and long-term, however, structural developments are more worrying. The gross domestic investment has sagged again slightly to a new record low of 14.5 % of GDP and there is scant prospect of any marked upturn in the near future. But in the absence of any improvement, targeted growth of over 5 % cannot be realized. And, in turn, without buoyant growth, unemployment of almost 40 % cannot be effectively tackled. On the contrary, 780,000 jobs disappeared in the last decade, more than 100,000 of which last year alone.

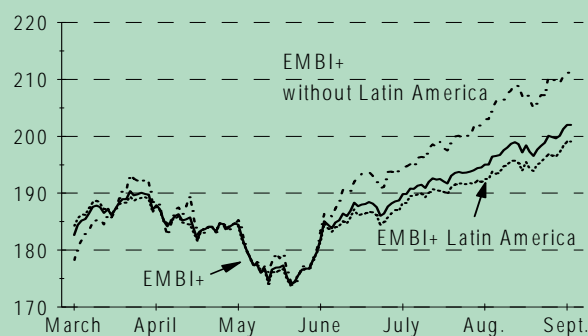
**Soon to be published: Russia Update**

MSCI - Stock Market Index (US\$, 03/01/00 = 100)



Source: Morgan Stanley, own calculations.

Emerging Market Bond Index (EMBI +)



Source: J.P. Morgan, own depiction.