Bahrain August 2000

Though not a major producer of crude oil, as a significant refiner Bahrain remains dependent on the price of oil. In addition to modest production of crude -- equal to just 2 percent of neighboring Saudi Arabia's output -- Bahrain imports substantial amounts of crude to keep its single large refinery operating. Virtually all of Bahrain's oil exports are in the form of refined products, and represent about 60 percent of the value of exports, a similar percentage of government revenues, and about a third of GDP. Although an aluminum smelter also provides a significant part of the nation's exports, it is in the area of financial services that the country is counting on for its future. Beginning years ago, offshore banking units set up offices in Bahrain, resulting in Bahrain becoming the Middle East's premier financial center. Bahrain is also grouped by the BIS's as one of the world's key offshore financial centers. Bahrain's modest foreign debt levels reflect the net position of its assets and liabilities it holds as a world offshore financial center.

Bahrain's real GDP growth should accelerate slightly during the forecast period due to the effect of higher oil prices. Domestic demand and the government's finances will benefit in particular, and consumer spending will be a significant part of the growth in domestic spending. The economy had been in a slump just prior to the jump in oil prices in mid-1999. High population growth rates of over 3 percent keep in check any significant growth in per capita GDP, which has languished at or below $10,000 for several years.

As with a number of other Middle Eastern economies, Bahrain maintains a peg vis-a-vis the U.S. dollar. At $2.65/dinar, the peg will remain in place through the forecast period and will affect import prices depending on the value of the dollar against Bahrain's trading partners. In any case, domestic inflation should remain low, though slightly accelerating through 2001 to around 2 percent.

Significantly, Bahrain is not a member of OPEC and in fact has long had one of the best relationships with the United States in the Arab world. The U.S. Navy's Fifth Fleet is based in Bahrain and has used its ports in support of operations against Iraq. Bahrain nevertheless has had domestic violence between the Sunni and Shia sects of Islam and against American and western targets. The new government of Hamad bin Isa al-Khalifa, who assumed the position of Emir following his father's death in March 2000, is a graduate of Sandhurst and a strong proponent of law and order to keep in check the violence generated at least in part by high unemployment among the poorer Shia groups in Bahrain.

	1998	**1999**	**2000f**	**2001f**
Real GDP Growth (% chng)	4.8	2.5	3.0	3.5
Per capita GDP (US$)	9,818	9,902	9,992	10,097
Inflation (% annual chng)	-0.4	1.2	1.5	2.0
Foreign Debt (US$ bns)	0.5	0.6	0.8	0.8

Mexico **June 2000**

Although the rate of economic growth in 1999 fell to its slowest pace in the period since the deep recession in 1995, it should accelerate in 2000. Real GDP is expected to rise by 5 percent during the year, led by a doubling in the rate of increase in domestic demand. Along with the benefits of high oil prices that have led to a sharp increase in export earnings, strong U.S. growth will also continue to help boost the Mexican economy.

Mexico's exports jumped in 1999 by around 16 percent and should rise again by a similar amount in 2000. Oil exports, which totaled nearly $10 billion in 1999 -- about 40 percent higher than in 1998 -- will rise by nearly 60 percent in 2000 to around $16 billion, assuming average oil prices of $25 to $30 per barrel through the year. Imports will rise even faster in 2000, reflecting the expanding economy and the expected doubling in the rate of growth of private consumption to nearly 9 percent. This will push the current account deficit to just under 4 percent of GDP.

Although the expected strong peso will hurt exports somewhat, it will also have a salutary effect on inflation. Unlike many of the other emerging markets, whose inflation rates spiked during their financial crises but fell quickly thereafter, Mexico's inflation rate has remained in double digits since the peso crisis of 1994/95. In part because of the peso's strength and because of the continued structural reforms and monetary restraint, Mexico's year-over-year rate of inflation should drop by the end of the year to under 10 percent, with an average of around 11 percent for the year.

Reflecting the inflation of recent years, interest rates have remained quite high in Mexico. Despite a sharp drop in the 28-day Cetes rate in March in response to the decision by Moody's to upgrade Mexico's foreign debt to investment grade (Baa3) for the first time, Mexico's interest rate outlook remains dominated by inflation prospects and developments in the United States. After dipping to a low of 12.65% in late March, the Cetes rate rose steadily over the ensuing months and recently pushed back above 15%. The upgrade by Moody's--S&P also upgraded Mexico in March to just one notch below investment grade pending the outcome of the national elections in July--reflects the improvements in the country's ability to finance its still sizable foreign debt. Inflows of foreign capital, particularly in direct investment which has averaged about $10 billion annually since the mid-1990s, has enabled Mexico to maintain relatively comfortable levels of foreign exchange reserves. Inflows of indirect investments, especially in the portfolio sector, has been much more uneven and reflects in part the ups and downs of the Bolsa, Mexico's leading stock index. The bolsa index reached a high of over 8300 in early March but fell all spring along with U.S. markets to around 6000 in May.

	1997	**1998**	**1999e**	**2000f**
Real GDP Growth (% chng)	6.7	4.8	3.7	5.0
Per capita GDP (US$)	4,169	4,143	4,641	5,099
Inflation (% annual chng)	20.6	15.9	16.6	11.0
Foreign Debt (US$ bns)	159.7	164.6	166.0	175.0

Turkey

September 2000

In the latest in a series of programs with the IMF, Turkey agreed in December 1999 to a number of economic reforms that will focus on the nation's chronically high fiscal deficits and structural imbalances in the economy. The three-year Stand-By credit will provide Turkey with up to $4 billion to support the government's 2000-2002 economic program. By mid-2000, Turkey had already drawn down over $900 million from the credit arrangement. The structural reforms include strengthening a privatization program that has worked only sporadically over the years, a reflection in large part of the political turmoil that has been an inherent part of Turkey's inability to lay a solid foundation for growth. Achieving political stabilization -- along with the economic reforms -- is a key part of Turkey's ambition to become a full member of the European Union, an objective helped over the past year by the EU's decision to formally name Turkey as a candidate country for eventual membership, perhaps by the end of the current decade.

In addition to providing for a resumption of balanced economic growth, the Stand-By is intended to tackle the high double digit rate of inflation that has plagued Turkey for the last several decades and which is the highest among all OECD countries. Through fiscal tightening and modifications to the exchange rate, Turkey should begin to reduce inflation from the 80.1 percent annual average during the second half of the 1990s to 60 percent in 2000 and to 30 percent at most in 2001. Month over month inflation has already begun to slow in 2000, though year over year averages will not begin to show clear improvement until 2001. According to the IMF program, the exchange rate will be allowed to depreciate at a rate in line with the program's expected inflation rate of 20 percent by year-end. Because the inflation rate forecast seems overly-optimistic, the policy will likely result in an overvalued lira that will hurt exports and draw in more imports. This will result in a significant jump in the trade and current account deficits. While the primary balance of the central government should remains in slight surplus, the overall government budget balance, including state-owned enterprises, public debt repayments, and local governments will remain in deficit equal to nearly 12 percent of GDP in 1999-2000 before beginning to fall in 2001.

Overall, the program has allowed the economy to resume growth in 2000 following the sharp recession of 1999. The economic downturn was exacerbated by the major earthquake on the Sea of Marmara in September 1999 and financial market pressures on the lira. Real GDP, which dropped 5 percent in 1999, will rise 2.5 percent in 2000 and accelerate to 5 percent in 2001. The steady drop in interest rates from the high double digits to the 30 to 40 percent range will help boost investment and overall growth.

Country Classification: PNC Group IV (unchanged).

	1998	**1999e**	**2000f**	**2001f**
Real GDP Growth (% chng)	2.8	-5.0	2.5	5.0
Per capita GDP (US$)	3,123	3,158	3,398	3,631
Inflation (% annual chng)	84.6	64.9	60.0	30.0
Foreign Debt (US$ bns)	96.9	101.8	110.0	120.0