Politics & Economics Bulletin
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Turkey's strong growth is based on exports: Econ. Min.

Anadolu Agency, *21.09.2017*

Turkey's strong economic growth is based on its exports and production, Economy Minister Nihat Zeybekci told Anadolu Agency.

"Despite the adverse effects of Syria, Iraq and Russia last year, the coup attempt and all versions of terror, we had a growth rate of 3.2 percent in 2016," Zeybekci said. "Through economic measures, investment incentives and export subsidies, we had an economic growth rate of above 5 percent in the first half of this year.

Turkey can be number one in growth rate in the world, and can achieve growth of over 6 percent at the end of the year," he said. The Turkish economy grew 5.2 percent and 5.1 percent in the first and second quarters of 2017, respectively, according to the Turkish Statistical Institute (TurkStat). These figures were above major economies such as the U.S., U.K. and Germany, which grew 2.2 percent, 1.7 percent and 2.1 percent, respectively, in the second quarter of 2017 year-over-year, according to data from the Organization for Economic Cooperation and Development (OECD).

"This is exactly the growth type we want, based on exports and production. This will bring employment. Our economic growth is sustained by the support of domestic resources, and through the financial tools achieved by the transfer of domestic assets abroad. This makes our expectations for 2018 very positive," Zeybekci explained.

Turkey's net exports grew 10.5 percent in the second quarter of 2017, compared to the same period last year, according to TurkStat. Zeybekci stated that Turkey will increase its export volume by more than 10 percent this year, to surpass the record-high level of $157 billion that was achieved in 2014.

Although the tourism sector was hit hard last year after the failed coup attempt, Zeybekci emphasized that he believes losses in that industry could be recovered this year. The economy minister also noted that Turkey's export volume to the U.S. increased by 30 percent in the first eight months of 2017, compared to the same period last year.

"We want to be inside every free trade agreement that the U.S. is a part of. One of the most important steps for this is the Transatlantic Trade and Investment Partnership (TTIP). We are doing everything we can to be a part of it, and are working with the European Union at the moment," he said. The possible exclusion of Turkey from the TTIP could negatively affect Turkey's customs union agreement with the European Union that was signed in 1996. The TTIP, on the other hand, also faces the risk of being scrapped by U.S. President Donald Trump, who withdrew his country from Trans-Pacific Partnership (TPP) shortly after taking office in late January.

Top fifth of Turkish population gets 47.2 percent of national income: Survey

Hurriyet Daily News, *18.09.2017*

The richest top 20 percent of society in Turkey received 47.2 percent of total income in 2016, marking a slight increase from the previous year, according to Turkish Statistical Institute (TÜİK) figures.

The latest "Income and Living Conditions Survey," published on Sept. 18, showed that the ratio of the annual income of the 20 percent at the bottom of the pyramid also increased but by a smaller proportion. The share of the top quintile by the equalized household disposable income was 47.2 percent, recording an increase of 0.7 points,

While the share of the bottom quintile was 6.2 percent, with an increase of 0.1 points in comparison with the previous year. The income quintile share ratio, calculated as the ratio of total income received by the richest 20 percent of the population to that received by the poorest 20 percent of the population, thus increased from 7.6 to 7.7 percent.

Income inequality increased by 0.007 points compared to the previous year, according to these figures. Equalized household disposable income is calculated from the disposable income of each household divided by equalized household size, which takes into account the adult-child composition of households by means of household equivalence scale.

Mean annual equalized household disposable income was calculated at 19,139 Turkish Liras, which is roughly $5,520 when calculated over a Sept. 18 exchange rate. This figure was up from 16,515 liras in 2015. The rate of wage and salaries remained unchanged from the previous year, getting the highest rate with 49.7 percent of total equalized household disposable income. This was followed by entrepreneurial incomes with an increase of 1 point from 2015 (19.8 percent), and social transfers with a drop of 0.4 points (19.6 percent).

Pensions and survivor' benefits composed 91.8 percent of social transfers, whereas non-agricultural income composed 74.7 percent of entrepreneurial incomes. In addition, the persistent at-risk-of-poverty-rate was 14.6 percent in 2016, down from 15.8 percent in 2015.

The at-risk-of-poverty-rate, based on the poverty threshold set at 50 percent of median household disposable income, was 14.3 percent, with a decrease of 0.4 points. The at-risk-of-poverty-rate based on the poverty threshold set at 60 percent of median income was 21.2 percent, with a decrease of 0.7 points from the previous year.

The survey also showed that 26.2 percent of illiterate people and 1.7 percent of higher education graduates can be classified as “poor.” The figures for non-high school graduates and high school graduates were 12.5 percent and 6.2 percent respectively.

In 2016, while 42.2 percent experienced heating problems in their homes, 38.1 percent of the population had problems such as leaking roofs, damp walls, floors or foundations, rot in window frames/floors, and 24.5 percent had problems related to pollution, dirt, traffic, industry or other environmental issues. Some 68 percent of the population is unable to afford replacing worn-out furniture, 65.4 percent had installments or loans (other than mortgages and housing costs), and 17.4 percent regard housing costs as a “heavy financial burden.”

Turkey’s current account deficit widens in July

Hurriyet Daily News, *15.09.2017*

Turkey’s current account deficit reached $5.1 billion in July 2017, up almost $2.7 billion year-on-year, official data showed on Sept. 15.

The current account deficit recorded $5.1 billion, marking an increase of $2.7 billion compared to July of the previous year, bringing the 12-month rolling deficit to $37.1 billion, the Central Bank stated. The Bank said this increase in the current account was mainly due to the rise in the deficit in goods items by nearly $3.8 billion to $7.3 billion in the month.

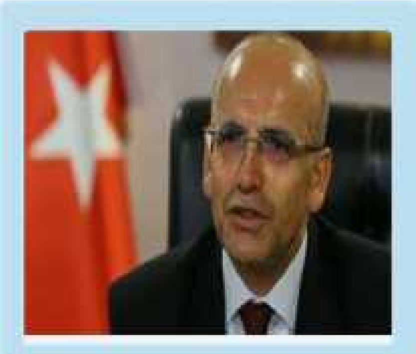
Travel items, which constitute a major part of the services account, recorded a net inflow of $2.3 billion in July, increasing by $652 million compared to the same month of 2016, the Bank added.

Investment income under the primary income item indicated a net outflow of $541 million, decreasing by $11 million in comparison to July 2016, according to Central Bank data. Secondary income recorded a net inflow of $226 million, increasing by $175 million compared to the same month of the previous year, the data also showed.

Meanwhile, Turkey’s current account deficit for the first seven months of 2017 stood at $25.96 billion, up from some $4.47 billion compared to the January-July 2016 period.

Turkish economy to grow 5-6 pct in 2017: Deputy PM

Anadolu Agency, *18.09.2017*



Turkish Deputy Prime Minister Mehmet Simsek said on Monday that the country's economic growth rate for this year will be between 5 to 6 percent. In a live interview broadcast jointly by private television channels BloombergHT and Haberturk, Simsek said Turkey's economy had shown a steady growth despite domestic and international shocks.

"The Turkish economy grew by 5.7 percent on average between 2002-2016 despite a number of massive shocks such as, the global crisis, the fall in domestic demand due to debt crisis in Europe.

He said that Turkey's growth rate slowed down in recent years but it recovered rapidly, owing to the right decisions taken by the government. "Investments started to recover and foreign demand is strong," Simsek said, adding that employment generated doubled compared to the average in the past years.

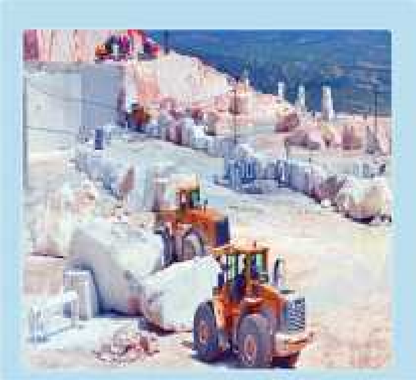
He said for the short term, Turkey had to apply a tight monetary policy in order to drop the inflation rate and limit loss in the Turkish lira. He added that structural reforms were the only way to overcome issues, such as reducing the current account deficit, and financing growth and investment with domestic sources in medium term.

"Our purpose is to reduce the foreign dependency rate," Simsek said. He said that once the reforms become successful external fragility would reduce, and economic growth will become inclusive and sustainable.

Simsek added that two important developing countries -- Russia and Brazil -- were unable to grow although they had not encountered even one-third of the problems Turkey had. "They [Russia and Brazil] do not have Turkey's dynamism. There is a great spirit of entrepreneurship and financial space in Turkey. We will enhance it with reforms."

Turkish natural stone sales enjoy boom amid exports to China

Hurriyet Daily News, *19.09.2017*



The volume of Turkey's natural stone sales to China reached 625 million dollars in the first eight months of the year with a 38 percent jump since the same period in 2016, standing at more than one third of the overall exports to Asia's giant economy.

"Natural stone is going back to its good old days in the Chinese market," Aegean Mining Exporters Association chairman Mevlüt Kaya told state-run Anadolu Agency in a recent interview in the Aegean province of İzmir, welcoming an end to Beijing's trade restrictions on the commodity.

The association expects to double the $625 million of sales in the upcoming days. The mining sector topped the $1.87 billion worth exports to China in the first eight months with nearly $1.4 billion, according to data provided by the association.

China was the top exports market for Turkish mining companies as second-spot Belgium followed it with a mere $148 million. Chinese natural stone reserves are diminishing as Turkish reserves are still overflowing, Kaya said. Turkey will be attending the Xiamen Natural Stone Trade Show in March next year with the highest number of firms. Turkish marbles are expected to be seen all around the 2023 FIFA World Cup facilities in Qatar, Kaya added.

Leading Turkish construction in Russia sees major inspection

Anadolu Agency, *19.09.2017*

The Russian authorities have carried out a search at the St. Petersburg headquarters of Renaissance Construction, a large-scale Turkish contractor, seizing computers and other accounting documents.

Russian news agency Interfax said the raid was linked to corruption claims, a report that was denied by Renaissance executives in a statement to Hürriyet on Sept. 18. "The St. Petersburg office of the company was reached as part of general research in Russia and officials said there were no charges against Renaissance," said the statement by the company.

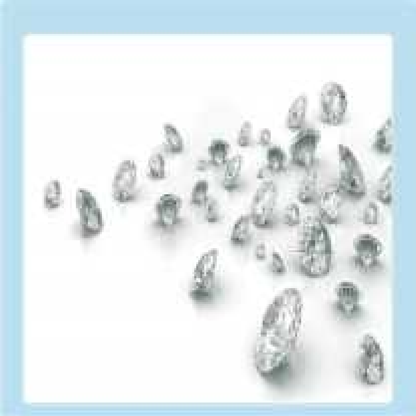
However, Russian Federal Security Agency (FSB) released a brief statement backing the information provided by Interfax, saying an operation was held against the Renaissance in St. Petersburg as it broke the Russian currency rules.

FSB says the company broke a foreign currency law, transferring 100 billion rubles, roughly $1.7 billion, abroad. The research was for collecting evidence to an upcoming lawsuit, said the FSB. Sources close to the company, meanwhile, told Hürriyet that a rival firm's complaint might be behind the operation on Renaissance. Founded by Turkish businessman Erman Ilıcak, Renaissance operates in 24 countries as a contractor and investor.

It became one of the most vulnerable firms following the now-resolved jet-downing crisis between Russia and Turkey due to sanctions imposed by Moscow on Turkish businesses. Renaissance ranked number 38 in the Engineering News Records' (ENR) foreign margin list in 2016. Based on information provided by the ENR, of the company's total profits worth $3.9 billion, $3.25 billion came from projects in foreign countries.

Turkish, Israeli companies engage in big diamond trade

Hurriyet Daily News, *18.09.2017*



Trade ties between Turkey and Israel increased even during times of diplomatic tension, and a developing diamond business is contributing hundreds of millions of U.S. dollars to this trade, according to Shai Cohen, Israel's outgoing consul general to Istanbul.

"The trade in precious stones, which is not calculated in the classical trade volume, is having very high growth," Cohen told the Hürriyet Daily News. He said a delegation of 20 people representing Israel's top diamond and other precious stones businesses visited Turkey in May 2015 and a Turkish delegation repaid the visit a few months later.

"They started cutting deals and transactions began," Cohen said.

"When you speak about diamonds, it is hundreds of millions of dollars in trade," he said, adding that giving a concrete figure was not easy in the precious stone market. Ties between Turkey and Israel suffered badly after the Mavi Marmara incident in May 2010, when Israeli commandos killed 10 people on board a flotilla bound for Gaza from Turkey.

"When the Mavi Marmara incident occurred we were at an approximately $2.8 billion in trade volume," Cohen said. "Then everybody expected that the situation would deteriorate and trade would be frozen because of the political situation, but the opposite happened and by 2014 we had risen two fold to $5.6 billion. In spite of the Mavi Marmara incident, in spite of the of Gaza war in 2014, trade kept on growing," he added.

"Without the Mavi Marmara incident, we could have reached perhaps $8 billion or $10 billion in trade," he said. Another field with strong bilateral trade and business cooperation between the two countries is cyber security, according to Cohen, who highlighted two specific sectors as developing areas: The security of financial institutions and health sectors.

"Hospitals are strategic assets for a country. It's a matter of life and death," he said, adding that the two countries are also developing cyber security relations in public transport. For the past two years, the Israeli Consulate General in Istanbul has been sending young entrepreneurs from Turkey to Israel to exchange knowhow.

Some 60 to 70 people, mainly students aged between 22 and 25 from industrial or economic studies departments of universities, attend the program. "They go to Israel for four days and they are exposed to Israeli innovation, research and development and high tech and they come back to Turkey with these examples in their minds," Cohen said.

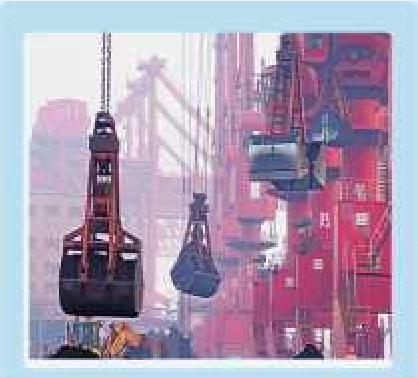
“In Israel we have a relatively new authority for innovation, under which all sectors and subsectors are encompassed. Israel has a lot of knowhow in this field, we are a start-up nation,” he said, noting that there are 7,000 to 8,000 start-ups in the country at any given moment,

“Statistics show that some 10 percent of them succeed,” he added. Cohen called on the two countries to boost investments in innovative areas, especially in third countries. The consul general, who has family roots in Turkey, said “the most precious thing that I am taking back with me to Israel after this mission is the true friendship of the people here.”

“The human approach was very surprising from my first day here. As the days passed on my mission, I found that it is a true feeling and true hearts between the two people. This was not only because I am the consul general of Israel and it is not a few friends but hundreds of people who I have contacted here. You don’t want to lose this kind of friendship,” he said.

EU firms want ‘concrete action’ from China on access

Hurriyet Daily News, *19.09.2017*



China’s European companies suffer from “promise fatigue” over China’s failure to follow through on pledges to open its market, the EU Chamber of Commerce in China said on Sept. 19.

The chamber issued an annual 400-page report detailing the regulatory barriers that continue to hinder investment in the world’s second-largest economy. European businesses are “suffering from accumulated ‘promise fatigue’, having witnessed a litany of assurances over recent years that never quite materialized,” the position paper said.

The chamber urged the ruling Communist Party to “supplant words with concrete actions and provide reciprocal access to its market.” The restrictions imposed on foreign investments force companies from abroad to partner with local firms and often share vital technology - if they are not barred altogether from accessing a certain market, the chamber said.

Chinese firms face no such restrictions in EU markets, Chamber president Mats Harborn told reporters prior to the report’s release. “We are now calling for the abolition of foreign investment laws,” he said, stating that they made China’s investment climate too complex, unpredictable and opaque to attract foreign capital.

“The numbers speak for themselves: Chinese investments in Europe rose 77 percent last year, while EU investments in China fell by a quarter,” Harborn said. EU investment fell a further 23 percent in the first quarter of 2017. A May survey published by the Chamber showed 54 percent of EU companies operating in China felt they were treated worse than local counterparts.

A study in January by the American Chamber of Commerce in China found more than four in five U.S. companies feel the country is less welcoming to foreign businesses than in the past. The lack of access belies the rhetoric of Chinese leaders. In January, President Xi Jinping hailed globalisation at the World Economic Forum in Davos and insisted that China was committed to “opening up.” Later that month a government circular pledged to “create an environment of fair competition” and “strengthen efforts to attract foreign investment.”

Eurozone inflation slump to hit in early 2018: ECB

Hurriyet Daily News, *18.09.2017*

Inflation in the eurozone will slump in early 2018, the European Central Bank forecast on Sept. 18, but return to an upward path towards its target later in the year.

Price growth could fall as low as 0.9 percent in the first quarter, the ECB said in its regular economic bulletin, far short of governors’ target of just below 2.0 percent. Prices in the 19-nation single currency area rose rapidly in early 2017, driven by sharp changes in the cost of food and oil, it said. That means inflation in early 2018 will be much lower, as forecasts suggest prices will have grown more slowly.

The ECB analysts said that inflation should be back on course towards its target by the second half of 2018, barring unexpected price developments. In quarterly forecasts released earlier in September, the central bank said it expected inflation to average 1.5 percent in 2017 and 1.2 percent in 2018 - a slight downgrade for next year compared with earlier predictions.

Observers are keenly awaiting bank governors’ announcement that they will wind down mass bond-buying. Such “quantitative easing” is designed to infuse cash into the economy and drive inflation in the eurozone towards the 2.0-percent target, believed to be most favorable to growth.

ECB President Mario Draghi has said policymakers will likely make a move in October. But interest rates, the central bank’s other lever for managing inflation, are expected to remain low long after its 60-billion-euro ($71.6 billion) per month purchases of government and corporate debt have ended.

South Africa sees no hurry for new coal and gas projects

Bloomberg, *20.09.2017*

South African programs to add coal and gas power generation from independent providers should wait until policies are updated and the nation's future needs are clearer, said Energy Minister Mmamaloko Kubayi.

The government is also seeking a "middle ground" with developers in a program to add renewable-energy projects, she said in a phone interview Tuesday. Kubayi announced earlier this month that the long-delayed contracts must be signed by the end of October, but not before pricing was renegotiated.

South Africa expanded the so-called independent-power producer programs to diversify its energy mix and ease the burden on Eskom, which was forced to implement rolling blackouts in 2015 after seven years of power shortages hindered economic growth. However, the country now has surplus capacity after growth in demand for power stalled and more units from Eskom's new coal plants came online.

"Let's look at how much capacity do we need, and when," Kubayi said. The calculations should include economic growth estimates and determinations of how much generation is required from each technology, she said.

The gas-to-power program included plans for about 3,000 megawatts of capacity from proposed plants on South Africa's coast, the department said in October last year. Its coal baseload program was designed to add 2,500 megawatts of capacity.

South Africa needs to conclude the revision of its Integrated Energy Plan and Integrated Resource Plan, which set long-term policy, before moving ahead with additional programs to procure electricity from gas and coal, Kubayi said. "For those, we can't proceed right now," she said. While the country's program to add renewable energy from private developers has drawn more than 200 billion rand ($15 billion) of investment, the most recent bidding rounds have stalled as Eskom refused to sign new power-purchase contracts.

While developers welcomed Kubayi's announcement on Sept. 1 that the deals would be signed by the end of October, industry lobby groups have questioned her comments that pricing must be renegotiated. South Africa's cabinet and Eskom recommended a maximum price of 0.77 rand per kilowatt-hour. Bidders will need to consider the legal, financial, and credit risk implications on their projects if deals are renegotiated, according to the South Africa Photovoltaic Industry Association. Setting a price ceiling on the renewable projects "actually removes all of the legitimacy of that program," said Niveshen Govender, program manager for SAPVIA. "It's become actually difficult to understand where we're moving towards."

It's also unclear how the recommended price cap was settled on, said the South African Wind Energy Association. "Undertaking negotiation after a duly concluded procurement process goes against South Africa's procurement rules," association Chief Executive Officer Brenda Martin said in an emailed statement. "We would hate to think that the extended delay and related job losses are set to continue for much longer, on the basis of an unachievable target."

About 20 of the projects that the government plans to renegotiate can be completed for below the 0.77 rand level, Kubayi said. She said she isn't biased for or against any particular type of generation. "I'm saying let's find a middle ground," Kubayi said. "I can't sit here as minister and continue to put more pressure on Eskom.

China provides $10 billion credit line to Iran

Hurriyet Daily News, *17.09.2017*

A Chinese state-owned investment firm has provided a $10 billion credit line for Iranian banks, Iran's central bank president said on Sept. 16.

The contract was signed in Beijing between China's CITIC investment group and a delegation of Iranian banks led by central bank president Valiollah Seif. The Iran Daily said the funds would finance water, energy and transport projects. Iran is vital to China's trade ambitions as it develops its trillion-dollar "One Belt, One Road" strategy aimed at dramatically boosting its ties to Europe and Africa.

In addition to the credit line, the Export-Import Bank of China committed to a further $10 billion in loans, while the China Development Bank signed preliminary deals with Iran for $15 billion in infrastructure and production projects, Seif announced.

The contracts reflect "a strong will for continuation of cooperation between the two countries," Seif said. In total, China has agreed to allocate $35 billion in financing and loans for Iran's economy, state news agency IRNA quoted Seif as saying.

The credit line will use euros and yuan to help bypass US sanctions that have continued despite the nuclear deal between Iran and world powers in 2015. China was a signatory to the deal that lifted sanctions in exchange for curbs to Iran's nuclear program. President Xi Jinping visited Iran a week after it came into effect, vowing to boost bilateral trade to $600 billion within a decade.

Although trade was just $31 billion in 2016, it jumped more than 30 percent in the first six months of 2017. China is already Iran's biggest oil customer and accounts for a third of its overall trade.

Since the lifting of sanctions, Beijing has opened two credit lines worth $4.2 billion to build high-speed railway lines linking Tehran with Mashhad and Isfahan, the Iran Daily reported.

The latest move follows an eight-billion-euro credit deal signed with South Korea's Exim bank last month. European banks remain wary of penalties from Washington for working with Iran, but talks are said to be at an advanced stage for $22 billion in credit deals with banks from Austria, Denmark and Germany. China's new $10 billion credit line will go to Iran's Refah Kargaran, San'at va Ma'dan, Parsian, Pasargad and Tose'e Saderat banks.

As China's wages rise, Bangladesh is newest stop for japanese firms

CNBC, *20.09.2017*

As wage hikes in China push away manufacturers, Japanese companies are on the hunt for cheaper production bases elsewhere in Asia. One country where they're landing is Bangladesh, which offers them the lowest labor costs in the Asia-Pacific region.

The number of Japanese companies with operations in Bangladesh has more than tripled since 2008, reaching 253 as of May 2017, according to the Japan External Trade Organization. That's still far fewer than the number in China or Thailand, but their presence in Bangladesh is increasing.

"Bangladesh has been traditionally known as Asia's poorest country," said Mari Tanaka, an official at Japan External Trade Organization's Overseas Research Department. "Labor costs there are lower compared to Japan and other East Asian countries, while it's possible to hire a large number of young laborers."

Among workers in 19 countries in Asia Pacific, those in Bangladesh received the lowest average monthly wage from Japanese companies, below their counterparts in Sri Lanka, Laos and Myanmar, according to a Jetro survey.

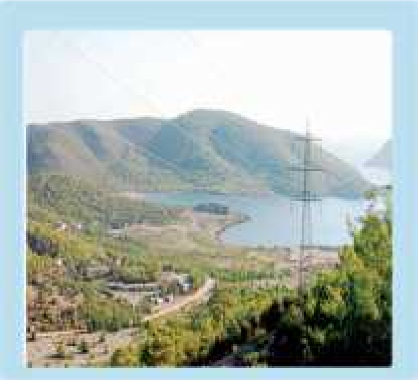
Some firms are establishing a presence in Bangladesh with an eye on its promising domestic market, Jetro says. Major companies such as Honda Motor Co., Rohto Pharmaceutical Co. and Ajinomoto Co. are betting on growth there. With a population of 158 million and a median age of 26.3 years, the country's gross domestic product has more than doubled over the past five years.

"Larger companies are expanding with the expectation that the domestic market will grow," Tanaka said. Uniqlo operator Fast Retailing Co. played a role in Japanese companies starting to move to Bangladesh a decade ago, Tanaka said. Their decision to outsource production there in 2008 triggered a jump in Japanese arrivals, while rising labor costs in China and worsening relations between China and Japan in 2010 and 2012 drove another burst, she said.

Among the 253 companies operating in Bangladesh, about 30 are in the clothing or leather industries, 15 or so are in clothing parts and inspection, 10 in logistics and about 15 in the IT services industry.

Rosatom aims to start building Turkish nuclear plant in early 2018

Reuters, *15.09.2017*



Russia's Rosatom expects to sell a 49 percent stake in its Turkish nuclear project to a consortium of Turkish companies by the end of the year, and aims to start construction of the Akkuyu plant by the end of March, a company executive said.

Kirill Komarov, Rosatom's first deputy chief executive for corporate development and international business, said Rosatom was on course to sell the stake in Akkuyu to Turkey's Cengiz-Kolin-Kalyon consortium after signing a preliminary deal in June.

"We hope to get a Turkish nuclear operating license at the beginning of next year and start with the first concrete by the end of Q1," Komarov told Reuters at the World Nuclear Association conference in London. He added the project continued to get strong support from the Turkish government, which is keen to get it launched as soon as possible.

State-owned Rosatom has been expanding its order book rapidly in recent years, and the $20 billion Akkuyu project in energy-hungry Turkey is one of its largest contracts. The launch of Akkuyu was complicated by a diplomatic spat between Russia and Turkey over the downing of a Russian military plane near the border with Syria, but earlier this year Rosatom received approval from Turkey's energy watchdog.

Komarov said under the agreed Build-Own-Operate (BOO) model Turkey would pay Rosatom an average electricity price of 12.35 U.S. cents per kilowatt-hour, not adjusted for inflation, for 15 years. He said Rosatom would also pay Turkey 20 percent of its profits from the plant once it had recouped its investment.

Komarov said that while the BOO model - under which countries pay Rosatom for electricity rather than buying a plant - is Rosatom's standard business model for developing countries, it has a range of models on offer. In South Africa, where Rosatom is one of several nuclear vendors hoping to win a future tender to expand the country's nuclear capacity, Komarov said Rosatom was willing to consider all business models, including an outright sale.

"It doesn't matter what type of model is chosen (by the South African government), we are definitely able to participate," Komarov said. Rosatom's growing confidence on the international stage comes at a challenging time for the nuclear industry.

Toshiba-owned U.S. rival Westinghouse filed for Chapter 11 bankruptcy protection earlier this year, while the reactor unit of French competitor Areva is being sold to utility EDF as part of a government-led financial rescue package.

Unlike its two big competitors, Rosatom has announced a string of nuclear deals in recent years, although many of these are preliminary memoranda of understanding (MOU), not firm contracts. Komarov said these MOUs were not included in Rosatom's $130 billion foreign order book, which includes only firm contracts with financing already agreed.

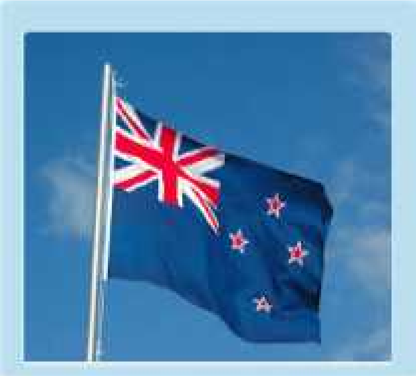
"It's not a story of intention but of execution," Komarov said, adding he expected Rosatom to sign another firm nuclear contract this year. Last year, Rosatom earned net profit of $1.4 billion on revenue of $10.4 billion from its civilian nuclear activities. Komarov denied Russia provided direct financing to Rosatom for its overseas projects, only export credits, which is standard industry practice.

Toshiba-owned nuclear reactor maker Westinghouse expects to make progress soon in its plans to build a nuclear plant in Turkey, it said on Sept. 14. Westinghouse in 2014 signed an agreement with China's State Nuclear Power Technology Corporation (SNPTC) and Electricity Generation Company (EÜAŞ), the largest electric power company in Turkey, to build a four-unit nuclear power plant site in Turkey based on Westinghouse's AP1000 reactor technology.

"In Turkey we are working with SNPTC. Hopefully we will have some news very soon," Westinghouse CEO José Emeterio Gutiérrez told reporters at the World Nuclear Association conference. Energy-hungry Turkey, which has no nuclear plants at the moment, has three major nuclear plant projects. One is with Russia's Rosatom, the other with a Japanese-French consortium that includes French utility Engie.

New Zealand economy expands at faster pace as election looms

Bloomberg, *21.09.2017*



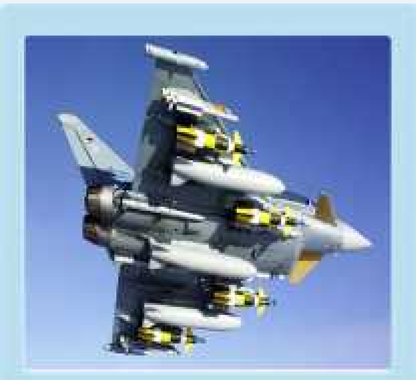
New Zealand's economy grew at a faster pace in the second quarter, buoyed by increased consumption and manufacturing, a report showed two days before a general election.

Gross domestic product gained 0.8% in the three months through June, matching economists' median forecast, the economy expanded 2.5% from a year earlier, also matching estimate, the kiwi dollar edged lower, buying 73.31 U.S. cents at 12:12 p.m. in Wellington from 73.60 cents immediately before the report.

Growth is recovering slowly after two sluggish quarters, putting New Zealand on course for a ninth straight year of expansion just two days before voters go to the polls in the Sept. 23 election. While demand is being stoked by record-low interest rates and surging immigration, there are few signs that inflation pressures are building sufficiently for the Reserve Bank to change its forecast that borrowing costs will stay unchanged until 2019.

Qatar agrees to buy 24 jet fighters from the UK

Hurriyet Daily News, *18.09.2017*



Qatar has signed an agreement to buy 24 Typhoon fighter jets from Britain, a second major defense deal signed by Doha during its lengthening diplomatic dispute with its neighbors.

Qatari defense secretary Khalid bin Mohammed al-Attiyah and his British counterpart Michael Fallon signed a "statement of intent" for the U.K. to sell the planes, according to statements released by London and on social media. "This will be the first major defense contract with Qatar, one of the U.K.'s strategic partners," Fallon said.

“This is an important moment in our defense relationship and the basis for even closer defense co-operation between our two countries,” he said. The British ambassador to Doha, Ajay Sharma, took to Twitter to announce the deal, which he called a “major step” in defense relations between the countries.

There was no immediate comment from Qatar. The agreement to supply the planes brings to a close a lengthy negotiating period. Fallon said a deal was “on the table” back in March 2016. It follows a separate major purchase from Washington. In June this year it was announced that Qatar had agreed to buy F-15 jets from the U.S. in a $12 billion (10 billion euros) deal.

In 2016, Qatar agreed to buy 24 Dassault Rafale fighter jets from France in a deal worth a reported 6.7 billion euros. But the timing of the U.K. and U.S. deals was particularly crucial for Doha. On June 5 - ten days before the U.S. contract was announced - regional kingpin Saudi Arabia, Bahrain, the United Arab Emirates and Egypt cut ties with Qatar, accusing it of backing extremism and fostering ties with their Shiite rival Iran.

Qatar denies the charges, claiming the dispute is an attack on its sovereignty. The deal also comes as Britain seeks to explore further trade deals outside Europe after voting to leave the European Union.

Key Senators reach tentative budget deal on taxes, Corker says

CNBC, *19.09.2017*

Senators Bob Corker and Pat Toomey, two Republican members of the Senate Budget Committee, said they have agreed to a tentative deal to craft a budget that would allow “headroom” for a significant tax cut, though they didn’t specify the size of the reduction.

Corker and Toomey had disagreed over allowing a budget that would add to the deficit. On Tuesday, they hammered out a potential path forward with Senate Majority Leader Mitch McConnell: a budget resolution that will allow for a tax cut, according to a joint statement from Toomey and Corker.

Corker, a self-described deficit hawk, said he’ll still insist that any tax bill pay for its cuts through economic growth, as determined by valid economic modeling. While he was silent on the size of the cuts, another Republican member of the budget panel, Senator Ron Johnson, said the group is considering a budget allowing for tax reductions amounting to $1.5 trillion.

If the panel accepts a budget plan that would add to the long-term deficit, at least some of the cuts in any tax-overhaul bill that follows the budget may have to be only temporary. That's because Senate leaders want to use a procedure that would protect the tax legislation from a Democratic filibuster -- and that procedure requires that the legislation can't add to the long-term deficit.

The agreement represents a pronounced departure from McConnell's position earlier this year. McConnell said during a Bloomberg interview in May that a tax overhaul would need to be revenue-neutral -- balancing cuts with provisions that broaden the tax base -- and can't add to the nation's "alarming" debt.

"While each member of the caucus will have to make their own decision, I believe our agreement gives the tax writing committees enough headroom to achieve real tax reform that eliminates loopholes and lowers tax rates for hardworking Americans," Corker, of Tennessee, said in a joint statement with Toomey released Tuesday evening.

Toomey, of Pennsylvania, said in the statement that the plan they've agreed to will give the committee the leeway "to write a pro-growth tax plan that reforms the code, causes the economy to surge, and ultimately results in reduced federal budget deficits." Corker had said earlier Tuesday that he wouldn't specify a number for the tax cuts until he had spoken to more committee members.

Senator John Thune, the chamber's No. 3 Republican, said word of Tuesday's agreement signaled progress on a budget resolution. "Corker and Toomey probably represent the far ends of the spectrum when it comes to what they want to see that look like," Thune, of South Dakota, said. "The fact they are coming together leads me to believe we are getting close to a budget that will come out of committee and we can bring to the floor."

Johnson of Wisconsin said $1.5 trillion is the minimum amount he'd like to see, and he'd consider doing as much as $3 trillion. That would make it easier for the GOP to create a tax bill with cuts that aren't completely offset by revenue raisers or the elimination of deductions. Johnson said the panel's numbers don't take into account the economic growth that would result from tax changes -- and he believes the cuts would stimulate enough growth to pay for themselves.

Johnson and others advocate the use of "dynamic scoring" -- a method that considers the effects that any tax changes would have on the larger economy -- as opposed to "static scoring," which examines only the changes themselves. Economists disagree on the best way to shape dynamic scoring models.

"There's a spectrum of opinion inside our conference," Johnson told reporters Tuesday. "Why do tax reform if you are not getting a lot of economic growth?" A Senate Republican aide said that the budget is expected "sooner rather than later," and discussions are ongoing among the committee and the wider conference.

Johnson said that part of the $1.5 trillion in static revenue cuts, as compared to the Congressional Budget Office baseline, would be due to the committee assuming that $450 billion in expiring tax breaks are extended. CBO's baseline assumes the tax breaks actually do expire, even though Congress regularly extends them. Johnson said assuming the tax breaks are extended better represents "reality."

The arguments being made to allow for $1.5 trillion of tax cuts -- dynamic scoring and current policy adjustments -- are “disingenuous” and can “at best” only account for a small fraction of the cut, according to Maya MacGuineas, president of the Committee for a Responsible Federal Budget.

“The President and members of Congress have spent years warning of our large and growing national debt and have said their goal was to pursue tax reform that doesn’t make that debt worse,” MacGuineas said in a statement. “With our debt at record levels and set to rise for the foreseeable future, adding another $1.5 trillion tax cut to the debt would be remarkably irresponsible.”

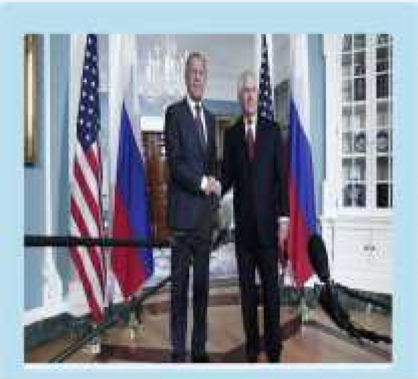
Republicans have to agree on a 2018 budget resolution -- a necessary step to unlock the procedural maneuver they intend to use to pass the tax plan with 50 votes in the Senate. The party controls only 52 of the chamber’s 100 votes. White House advisers and congressional leaders have promised a tax framework outlining more details the week of Sept. 25, which may help to assuage members of the conservative House Freedom Caucus, who have said they won’t vote to pass a budget out of the House until they get more details on tax changes.

Senator Mike Crapo of Idaho, a member of the tax-writing Finance Committee, said Monday he wants a tax cut that’s “as big as we can get” within the budget window, though he declined to put a number on it. He said it “depends on what kind of dynamic impact a tax relief package can have, but I want it to be as big and bold as we can get.”

Another committee member, Senator Bernie Sanders, a Vermont independent who caucuses with the Democrats, said senators should discuss who’d get the benefits of a tax cut before discussing its size. “My strong guess is that Republicans want to give a tax cut to billionaires which is exactly what we don’t need,” Sanders said in an interview.

US, Russian top diplomats discuss Syria in New York

Anadolu Agency, *18.09.2017*



U.S. Secretary of State Rex Tillerson and his Russian counterpart Sergey Lavrov met on Sunday on the sidelines of the United Nations General Assembly and discussed civil war-torn Syria.

State Department spokeswoman Heather Nauert said in a statement that Tillerson and Lavrov “recommitted to deconflicting military operations in Syria, reducing the violence and creating the conditions for the Geneva process to move forward (…)”.

Syria has been locked in a vicious civil war since early 2011, when the Bashar al-Assad regime cracked down on pro-democracy protests. Since then, more than 250,000 people have been killed and in excess of 10 million displaced, according to the UN.

Earlier this week, Turkish and Russian diplomatic officials said that the parties at the Syrian peace talks in Kazakhstan agreed on the boundaries of the final de-escalation zone in northern Idlib province. U.S. President Donald Trump is expected to meet Turkey's President Recep Tayyip Erdogan on the sidelines of the United National General Assembly on Thursday.

Consumer sentiment declines in September as hurricane fears weigh down key economic index

Bloomberg, *16.09.2017*

Consumer confidence declined in September, after hitting a seven-month high in August.

The consumer sentiment index, a survey of consumers by The University of Michigan, hit 95.3 in September, better than economists polled by Reuters expected. In August the index nearly returned to peak levels recorded earlier in 2017, hitting 97.6. "Consumer confidence edged downward in early September due to concerns over the outlook for the national economy," Richard Curtin, chief economist for the Surveys of Consumers, said in a statement.

Curtin noted that hurricanes Harvey and Irma greatly impacted expected economic conditions in September. Nine percent of consumers "spontaneously mentioned concerns that Harvey, Irma, or both, would have a negative impact on the overall economy," Curtin said.

"Renewed gains in incomes as well as rising home and equity values have acted to counterbalance the negative impacts from the hurricanes," Curtin added. The index measures 500 consumers' attitudes on future economic prospects, in areas such as personal finances, inflation, unemployment, government policies and interest rates.

Business inventories rise modestly as retail stocks fall

CNBC, *15.09.2017*

U.S. business inventories increased modestly in July as stocks at retailers declined amid a rebound in sales. The Commerce Department said on Friday that business inventories rose 0.2 percent after an unrevised 0.5 percent increase in June. Inventories are a key component of gross domestic product.

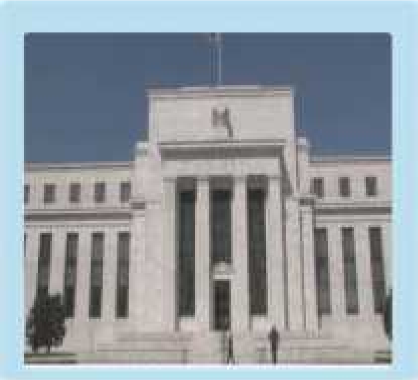
Retail inventories slipped 0.1 percent in July instead of the 0.2 percent decline estimated last month. Retail inventories rose 0.6 percent in June. Motor vehicle inventories were unchanged instead of the previously reported 0.1 percent dip.

Retail inventories excluding autos, which go into the calculation of GDP, fell 0.2 percent as reported last month. They rose 0.5 percent in June. Inventory investment had a neutral impact on the second quarter's 3.0 percent annualized growth pace after chopping off 1.46 percentage points in the first three months of the year.

Business sales increased 0.2 percent in July after a similar gain in June. At July's sales pace, it would take 1.38 months for businesses to clear shelves, unchanged from June. Sales at retailers increased 0.3 percent in July after falling 0.1 percent in the prior month. The inventories-to-sales ratio for motor vehicles was 2.26 months in July, unchanged from June.

The Fed is about to take a historic step, but here's what the markets care about more

CNBC, *16.09.2017*



There's a lot of hurricane damage to come between the Fed and its next interest rate hike.

Hurricane Harvey has already heated up inflation, hit industrial production, and dampened retail sales, and that was just the late August data — before Hurricane Irma rampaged across Florida this month. Economists expect the storms to shave a half percent or more off third quarter GDP and temporarily boost inflation, including higher gasoline prices and building materials costs.

That makes whatever the Fed says about the impact of the two monster hurricanes in the coming week potentially more interesting than its expected announcement on how it will begin unwinding its massive $4.5 trillion balance sheet.

The Fed’s meeting Tuesday and Wednesday is the highlight of the week ahead. There are also a few economic reports, including housing starts Tuesday and existing home sales Wednesday. Jobless claims Thursday should again be elevated, with the impact now of Hurricane Irma which caused the evacuation of Florida’s coasts and other parts of the Southeast.

Economists expect the economic impact of the hurricanes to be temporary before a rebound as the damaged areas begin to rebuild. For Fed watchers, the hurricanes have changed the dynamic in a number of ways. One is that the Fed could be more concerned about a weaker economy, particularly if there are further storms.

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Another is that the Fed could now see inflation move higher, even if temporarily, and that has been the missing ingredient for further rate hikes. The Fed has targeted 2 percent inflation and the personal consumption expenditure deflator, which it watches closely, was at 1.4 percent in July. August CPI inflation year on year rose to 1.9 percent, from 1.7 percent in July.

Besides its comments on storms and inflation, the market will be watching to see what the Fed does with its forecasts for interest rates. The Fed presents its forecast in a “dot plot,” or chart with each Fed member’s forecast appearing as an anonymous dot. The Fed interest rate forecast currently shows one more interest rate hike this year and three next year, while market expectations are barely for one.

After August's surprising jump in consumer prices, the market's view of whether the Fed could raise rates this year changed with now near 50 percent odds being given for a December interest rate hike. A week ago, that number was closer to 20 percent.

"The Fed has been saying the decline in inflation is completely transitory. I think they're going to want to see two more data points, and they'll see it in October and they'll see it in November," said Jim Caron, fixed income portfolio strategist at Morgan Stanley Investment Management. Caron expects the Fed to raise rates in December, as do many economists.

Goldman Sachs economists see a 60 percent chance of another hike this year, even after the estimated $100 billion in damage from the hurricanes. They note that the Fed kept its growth forecasts unchanged following Hurricane Katrina and continued on a rate hiking cycle.

"While a hurricane-related slowdown could cloud the data and raise doubts about the underlying pace of growth, strong recent momentum provides a bit of a buffer and Fed officials should be able to isolate hurricane effects in the data to some degree," wrote the Goldman economists in a note. At the end of its meeting, the Fed is expected to announce that it will slow down the monthly purchases it makes to replace the maturing securities on its balance sheet. This is a move into uncharted territory as the Fed takes steps to begin reversing the asset purchases it made as part of the extraordinary quantitative easing program it created to save the economy during and after the financial crisis.

The first reduction is expected to be $10 billion a month, and the Fed will taper that back further after three months. Many strategists expect little to no market impact in the early stages of the program, which has been well broadcast by the Fed.

"The markets don't necessarily care in the near term because the discussions are that it's like watching paint dry. It's going to start in a slow manner when it starts. It's going to take a year to ramp up," Caron said.

The Fed meets as the Dow comes off its best week since December. It closed at a record high of 22,268, up 2.2 percent for the week. The S&P 500 closed at a record 2,500, up 1.6 percent for its best week since early January. The Nasdaq rose 1.4 percent for the week, closing at 6,448, about 12 points below its record close.

Ed Keon, portfolio manager with Quantitative Management Associates, said he has become more bullish on stocks and upped his holdings of U.S. stocks to neutral weight. He said there are several positives: the fact that the debt ceiling issue has been resolved for now, that there seems to be progress on tax breaks and that the president was able to compromise with Democrats. He also said earnings should continue to be strong in the third quarter.

"I think the recent cooperation between the president and the Democrats gives us a chance of having some fiscal policies that would be really pro-growth. If the president tries to pass it only with Republican votes, you may get some changes but they're unlikely to provide much of a fiscal boost to the economy," he said.

Washington will be a major focus in the week ahead, as the Trump administration and congressional leaders head toward unveiling a tax plan in the week of Sept. 25. North Korea will remain a focus, as Trump speaks before the United Nations on Tuesday.

Announcements & Reports

► Precautionary recapitalisation: time for a review?

Source : Bruegel
Weblink : http://bruegel.org/2017/07/precautionary-recapitalisation-time-for-a-review/

► Trends in Extremist Violence and Terrorism in Europe through End-2016

Source : CSIS
Weblink : https://www.csis.org/analysis/trends-extremist-violence-and-terrorism-europe-through-end-2016

► Actualising East: India in a Multipolar Asia

Source : Brookings
Weblink : https://www.brookings.edu/research/actualising-east-india-in-a-multipolar-asia/

Upcoming Events

► 13th Asia Europe Economic Forum (AEEF)

Date : 26 September 2017
Place : Beijing - China
Website : http://bruegel.org/events/13th-asia-europe-economic-forum/

► Emerging Markets and Europe: Time for Different Relationships?

Date : 27 September 2017
Place : Brussels - Belgium
Website : http://www.bruegel.org/nc/events/event-detail/event/524-emerging-markets-and-europe-time-for-different-relationships/

► What future for Europe's Social Models?

Date : 27 September 2017
Place : Brussels - Belgium
Website : http://www.bruegel.org/nc/events/event-detail/event/526-what-future-for-europes-social-models/

► Challenges for Growth in Europe

Date : 27 September 2017
Place : Brussels - Belgium
Website : http://www.bruegel.org/nc/events/event-detail/event/521-challenges-for-growth-in-europe/

► *Global Governance of Public Goods: Asian and European Perspectives*

Date : 28 September 2017
Place : Paris - France
Website : http://www.bruegel.org/nc/events/event-detail/event/529-global-governance-of-public-goods-asian-and-european-perspectives/

► *The Future of the Welfare State*

Date : 28 September 2017
Place : Berlin - Germany
Website : http://www.bruegel.org/nc/events/event-detail/event/541-the-future-of-the-welfare-state/

► *Vision Europe Summit 2016*

Date : 28 September 2017
Place : Lisbon - Portugal
Website : http://bruegel.org/events/vision-europe-summit-2016/