

World Bank likely to revise up Turkey's growth forecast

Anadolu Agency, 18.10.2017



Turkey's growth rate will be revised from 3.5 percent to around 5-5.1 percent as the country is expected to maintain its strong growth performance in the third quarter, the World Bank's Country Director for Turkey said.

"When the third quarter data come out, we will revise it and we are quite likely to revise up to roughly the same amount with the IMF, about 5-5.1 percent, given the very strong growth performance that we had already seen in the second quarter which we expect to continue in the third quarter," Johannes Zutt said told Anadolu Agency.

Zutt said Turkey had recovered successfully after last year's defeated coup attempt with the help of enacted fiscal stimuli by the government. "Obviously after that coup, growth declined in the third quarter but the government, which had been managing the economy quite well, had space for a fiscal stimulus and it used that space," Zutt said.

Zutt added that a rise in Europe's economic growth rate also reinforced this fiscal stimulus. "That is what gave us a much more robust recovery than I think many people have anticipated and certainly we at the World Bank anticipated," Zutt said. He noted that they expect the Turkish economy to grow around 3.5 to 4 percent in 2018 as they believe the economy could sustain growth at a slightly lower rate than present. He also said the Turkish government needed to undertake structural reforms necessary to carry the economy to a higher path of sustainable growth. "There are a number of things that the government needs to do to make labor markets more efficient, to deepen the capital markets, to improve public expenditure management, to get more of the education system and to ensure Turkish workers are able to participate in a modern economy at very high levels," Zutt said.

He underlined that improving productivity of Turkish firms was the biggest challenge for the country in the medium term. "What we should be seeing is more high technology embedded in Turkish exports going to Europe," Zutt said. Commenting on Turkey's inflation rate, Zutt said that the tight monetary policy enacted by the country's central bank was appropriate as a response to the inflation rate. "We now have seen a jump to slightly over 10 percent but we anticipate that it will fall, actually, back to 7-8 percent going forward," Zutt said.

Zutt said that Turkey's reliance on capital inflows in order to finance current account deficit was the country's greatest vulnerability adding that its savings were not enough for its investments. Zutt added that Many Turkish companies rolled over their debts worth of \$170 billion annually. Corporations in Turkey had been successful in rolling over their debt easily thanks to their fairly strong balance sheets and strong relationships with their bankers both in Turkey and abroad, Zutt said.

Erdogan calls for boosting Turkey, Poland trade to \$10B

Anadolu Agency, 17.10.2017



Turkish President Recep Tayyip Erdogan called for boosting bilateral trade volume with Poland to \$10 billion within the next five years as both sides signed five agreements in capital Warsaw.

The agreements were signed following a closed-door meeting between Erdogan and his Polish counterpart Andrzej Duda. The Turkish president began his day-long official visit to the country. The visit comes two days ahead of an EU leaders' meeting that is due to focus on migration, defense, digitalization and foreign affairs.

The five bilateral agreements signed in Warsaw covered the defense, science, education and culture sectors. Speaking at a joint news conference following the signing of the agreements, the Turkish president said: "\$6 billion trade volume is very weak for our two strong countries. "We have the capacity to increase the trade volume with Poland to \$10 billion in the next five years."

The Polish president agreed with Erdogan that the trade potential between the two countries could be much greater. "I strongly believe...we can reach \$10 billion in the near future," he said. "We talked about both military cooperation, economic and cultural cooperation," Duda added. Erdogan also said both sides had agreed to increase Turkish Airlines' flights to Poland from the current five flights per week. Duda said the Turkish president's visit to Warsaw was important, both economically and politically. He said Poland supports Turkey's EU accession journey and he hoped the country would eventually get the bloc's full membership.

Later, both leaders attended a Polish-Turkish business forum. At the forum, Erdogan reiterated that Turkey and Poland deserved a higher trade volume. He cited defense, energy, finance, furniture, food and chemical sectors as areas where both sides could prioritize cooperation. Erdogan mentioned that Turkey's national income increased to \$860 billion from \$230 billion in 2002. "In 2023, we aim to see Turkey's national income reach \$2 trillion, exports at \$500 billion. We are working on this. And we are going to make our national income per capita \$25,000," he said. Erdogan also said Ankara will continue with its huge construction projects, including building Istanbul's third airport as part of its 2023 goals.

“We expect the business people of both countries to use their potential and create concrete projects,” he said, adding that Turkey would back the business communities in their endeavors. He said Turkey wants to see more Polish investments and Polish tourists in Turkey. Tourist arrivals in Turkey from Poland rose annually by over 33 percent to 204,834 in the first eight months of this year, according to Culture and Tourism Ministry data. The trade volume has more than doubled over the last 10 years, shooting up from \$2.49 billion in 2006 to nearly \$6 billion in 2016, according to Economy Ministry data. Bilateral trade is in favor of Poland, with Turkey’s exports to Poland standing at \$1.9 billion while its imports from the country at more than \$2.1 billion in January-September 2017, according to official data. Polish exports to Turkey hit a high of \$3.24 billion last year, up from \$1.43 billion in 2006, while Turkish exports stood at \$2.65 billion, up from \$1.06 billion in 2006.

Turkish firm builds anti-drone system for civilian use

Anadolu Agency, 18.10.2017



Turkey’s first electromagnetic anti-drone system -- developed by Turkish technology firm Harp R&D Corporation -- can be used by civilians, the firm’s General Coordinator, Aytekin Guclu, said Wednesday.

The products targeted for civilian use are being developed to provide sustainability in production and research-and-development efforts, Guclu told Anadolu Agency. About why the public would need such a device, he said it could be used to protect an individual’s privacy. “Someone could fly a drone on a land you own but there is no adequate preventive mechanism in this regard.

“We are particularly focusing on anti-drone systems, which can be used by public figures and civilians without restriction.” An anti-drone device is especially useful in border areas because of drone attacks or threats, he said.

The system will start serving at guardhouses in border areas, Guclu said, adding that such orders were being received by the company. “We have received the order; our price proposal has been approved and when the procedures are completed we will send the anti-drone system,” he said. He said drone technology was developing very fast and this technology could be used for assault, harassment or intelligence.

We are constantly working to develop new models because we need to renew and improve technology to prevent threats, Guclu said. He also said the anti-drone system was equipped with night vision equipment. Turkish military and police are currently using anti-drone systems. Harp R&D focuses on meeting the Turkish military’s need for unmanned systems, electronic warfare and robotics.

Turkey to focus on energy during D-8 presidency

Anadolu Agency, 19.10.2017



Bangladesh Turkey wants to enhance energy trade and cooperation in the fight against global challenges among the Developing-8 states, the country's foreign minister said on Thursday.

Speaking at the 17th session of the D-8 Council in Istanbul, where Anadolu Agency is the official photographer, Mevlut Cavusoglu said: "We can develop energy trade among the [D-8] states. We can altogether realize joint energy investments." "In fields, such as hydrocarbon exploration and production activities, we could produce projects together," he said.

Turkey plans to focus on "sustainable development" during its coming D-8 presidency, Cavusoglu said. "Energy is especially at the top of the fields upon which we can cooperate." Turkey will take over from Pakistan on Friday, which will mark the 20th anniversary of the international organization. The international summit, with the theme Expanding Opportunities through Cooperation, will be attended by Nigerian President Muhammadu Buhari and Azerbaijani leader Ilham Aliyev.

Pakistani Prime Minister Shahid Khaqan Abbasi, Iran's first vice president Eshaq Jahangiri and the vice president of Indonesia Jusuf Kalla will also participate. Turning to global challenges, from poverty to racism, from mass migrations to drought across the world, Cavusoglu said: "Many crises, from Syria to Yemen, from Iraq to Afghanistan, from Palestine to Myanmar, are happening near the D-8 countries. "Against all these threats, we, as the D-8 countries, need to cooperate more effectively." "During our D-8 presidency, we will exert efforts to make our organization more effective and productive," Cavusoglu said, calling for support from member countries.

Pakistani Foreign Minister Khawaja Muhammad Asif said his country had held the chair beyond the normal period of two years, since 2012. The minister said Pakistan held a successful chairmanship and had worked to make the organization more visible during its presidency. He said the theme of the summit was very proper: "It reflects the objectives of the economic organization." The minister said the D-8 was entering a new phrase and all member states needed to be much more resolved to reach goals in major areas of cooperation -- industry, agriculture and food security, energy, trade, transportation and tourism. "Pakistan is fully aware of the potential [of the organization], [...] and ready to extend full support and cooperation," Asif said.

The Developing-8, better known as the D-8, was founded by the then Turkish Prime Minister Necmettin Erbakan in 1997 through the Istanbul Declaration of Summit of Heads of State/Government. Formed as an economic alliance, the body consists of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

Turkey: US officials in Ankara to discuss visa row

Anadolu Agency, 18.10.2017



A U.S. delegation on Wednesday met with Turkish officials in the capital Ankara in a bid to resolve a recent row in bilateral relations. According to diplomatic sources, the Turkish group was led by Deputy Foreign Ministry Undersecretary Ahmet Muhtar Gun, and the U.S. delegation was led by Jonathan Cohen, deputy assistant secretary of State.

The meeting between the two sides went “positively,” according to the same diplomatic sources, who asked not to be named due to restrictions on speaking to the media. Speaking at the TRT World Forum in Istanbul, presidential spokesman Ibrahim Kalin sounded a hopeful note,

Saying work to resolve the row “is moving towards a good point.” “Details will become clearer in the next few days. Of course the delegation here will return to Washington after hearing our views and convey them to their superiors. I believe that this issue will be resolved in short order,” he said. He added that there is “no reason” or “complication” making the row unresolvable.

The row was sparked on Oct. 8, when the U.S. Embassy in Ankara announced the suspension of non-immigrant visa services for Turkish nationals, following the arrest of a local employee at the U.S. Consulate in Istanbul, prompting a tit-for-tat response from Ankara. Metin Topuz, a long-standing consulate employee, was arrested last week over alleged ties to the Fetullah Terrorist Organization, the group behind last year’s defeated coup attempt in Turkey. He has allegedly been linked to 121 FETO suspects, including police chiefs, over a prolonged period, a statement by the Istanbul Chief Public Prosecutor’s Office said.

FETO and its U.S.-based leader Fetullah Gulen orchestrated the defeated coup attempt of July 15, 2016, which left 250 people martyred and nearly 2,200 injured. Ankara accuses FETO of being behind a long-running campaign to overthrow the state through the infiltration of Turkish institutions, particularly the military, police, and judiciary.

Russia is prepared for \$40 oil, finance minister says

CNBC, 14.10.2017



Saudi Russia has accounted for oil at \$40 a barrel in its budget, the country's finance minister Anton Siluanov told CNBC in a TV interview on Friday.

Brent crude was trading above \$57 on Friday, but the Russian minister said that the budget has taken into account price fluctuations. "In order to minimize price fluctuations on foreign markets we have prepared a budget which is based on a price of forty dollars a barrel. I think that this is a fairly considered and conservative price, which has been factored in for the next three years," Siluanov told CNBC in a TV interview.

"Incidentally our balance of payments on our current account is balanced on a price of forty dollars a barrel. Therefore, the percentage of the federal budget from oil and gas revenues has gone down from 60 percent to 40 percent."

Spanish government aims for January regional elections in Catalonia

CNBC, 20.10.2017



The Spanish government has agreed with the opposition Socialists (PSOE) to hold regional elections in January in Catalonia as part of the extraordinary package of measures to temporarily impose direct rule on the region, Socialist politician Carmen Calvo said in an interview on national television.

Prime Minister Mariano Rajoy will hold a special cabinet meeting on Saturday to put in motion the process to suspend Catalonia's autonomy after regional leader Carles Puigdemont refused to drop his secession campaign.

Meanwhile, Spain's upper house Senate could vote on measures to impose direct rule on Catalonia, revoking the wealthy region's autonomy in response to a secession bid, as soon as the end of next week, a spokeswoman said on Friday. The Senate must create a committee to debate the measures, which have never been used before. The committee will probably meet on Oct. 23, the spokeswoman said. Catalan leader Carles Puigdemont will then be given an opportunity to reply. The entire upper house, where the ruling People's Party holds a majority, will then vote on the measures as soon as Oct. 27.

Economy to dominate weekend's Czech general election

Anadolu Agency, 17.10.2017



The billionaire leader of the Czech Republic's main Eurosceptic party is the focus of attention ahead of the weekend's general election. Andrej Babis, the 63-year-old leader of the ANO party, is challenging outgoing Prime Minister Bohuslav Sobotka's Social Democrats.

Opinion polls suggest Babis, who only entered politics in 2011, is likely to see ANO become the biggest party in the EU country's 200-seat Chamber of Deputies. However, making a coalition deal may prove tricky as Babis is under criminal investigation over fraud charges linked to EU subsidies.

His time as finance minister came to an abrupt end earlier this year when an under-fire Sobotka replaced him with Ivan Pilny amid allegations of financial irregularities. Babis has rejected the allegations, but other party leaders have already expressed reluctance to engage in political horse-trading with someone facing a police probe. Voters will go to the polls on Friday and Saturday to choose between 31 parties in an open-list proportional representation contest across 14 multi-member constituencies. Turnout in 2013 was just over 59 percent -- about five million voters -- according to the Czech Statistical Office.

Another coalition government is likely to see some combination of Social Democrats, ANO and Christian Democrats. The Communists are likely to remain the largest opposition party, alongside a range of smaller parties who can pass the 5 percent electoral threshold. This year's contest will also be the first to see a spending cap placed on campaigning -- €3.3 million (\$3.8 million). The economy has dominated campaigning, with issues surrounding wages taking center stage. Economically, the country is doing well, with Eurostat data published in September showing the Czech Republic's second quarter 2017 growth -- 2.5 percent -- among the highest in the Eurozone alongside Sweden, Romania and the Netherlands.

It also has some of the lowest unemployment in the EU and although it is compelled by the 2003 Treaty of Accession to take on the single currency, most Czechs remain opposed to the euro. However, its relations with Europe remain shaky. The Czech Republic has been one of several EU members to have fought against moves to take in thousands of asylum seekers, particularly in the aftermath of the 2015 refugee crisis. Along with Hungary, Poland and Slovakia, Czechs have resisted EU-wide burden-sharing and have been particularly opposed to German leader Angela Merkel's open-door policy to asylum seekers.

Last month, reports showed that since an EU plan to relocate asylum seekers across member states was initiated, Hungary and Poland had not taken in a single asylum seeker while the Czech Republic relocated just 12 refugees and Slovakia took 16. In July, the Czech Republic -- plus Hungary and Poland -- was threatened by the European Commission with legal suits should it not implement the EU migrant relocation measures. According to a statement, the Commission sent "reasoned opinions" to the countries "for non-compliance with their legal obligations on relocation".

China's central bank just warned of a sudden collapse in asset prices

Reuters, 19.10.2017



China's central bank just warned of a sudden collapse in asset prices China's central bank just warned of a sudden collapse in asset prices.

China will fend off risks from excessive optimism that could lead to a "Minsky Moment", central bank governor Zhou Xiaochuan said on Thursday, adding that corporate debt levels are relatively high and household debt is rising too quickly. A Minsky Moment is a sudden collapse of asset prices after a long period of growth, sparked by debt or currency pressures.

The theory is named after economist Hyman Minsky. Zhou's warnings of potential risks facing the world's second-largest economy contrast with the rosier views of most Chinese officials. "If there are too many pro-cyclical factors in the economy, cyclical fluctuations are magnified and there is excessive optimism during the period, accumulating contradictions that could lead to the so-called Minsky Moment," Zhou was speaking on the sidelines of China's 19th Communist Party congress. "We should focus on preventing a dramatic adjustment," he said. China will control risks from sudden adjustments to asset bubbles and will seriously deal with disguised debt of local government financing vehicles, Zhou said.

Still, China's overall debt levels could decline as long as authorities keep a tight control on credit, he said. Worries about a rapid build-up in China's debt prompted S&P Global Ratings to cut China's sovereign credit rating last month, following a cut by Moody's in May. China's finance ministry said S&P's downgrade was a "wrong decision".

The International Monetary Fund IMF said in August it expected China's total non-financial sector debt to rise to almost 300 percent of its gross domestic product (GDP) by 2022, up from 242 percent last year. When asked whether he would retire this year or next, Zhou said: "Either way it'll be soon." The 69-year-old Zhou, the country's longest-serving central bank chief, has spearheaded financial reforms and boosted the yuan's global profile. Sources told Reuters earlier that Zhou was likely to retire around the time of the annual session of parliament next March, and China's top banking regulator Guo Shuqing and veteran banker Jiang Chaoliang are front runners to succeed Zhou. Zhou also said that the trading range of the yuan exchange rate was not a key issue at the moment, and that the width of the yuan's current band rarely constrains supply and demand.

"Sometimes a widening of the exchange rate's floating range is a signal that (China's) opening up will move forward. But this is not the key focus currently," he said. The central bank is considering a widening of the yuan's trading band after the 19th Communist Party congress, Reuters reported in August, citing sources. The central bank could widen the yuan trading range to allow it to rise or fall 3 percent against the dollar from the daily mid-point rate set by the central bank, up from the current 2 percent, according to the sources.

The foreign exchange market is currently stable, Pan Gongsheng, chief of the forex regulator, said on the sidelines of the congress, adding that supply and demand in the foreign exchange market was basically balanced. Pan said on Wednesday that he expected yuan exchange rates to have a more stable foundation after the congress, and the central bank had "basically exited" from its regular yuan intervention. Beijing burned through nearly \$320 billion of reserves last year and the yuan still fell about 6.5 percent against the surging dollar, its biggest annual drop since 1994.

Europe's oil capital turns to clean, green hydrogen buses

CNBC, 20.10.2017



The discovery of oil reserves in the North Sea means that, over the years, many have referred to Aberdeen as the "oil capital of Europe." Times are changing, however.

Today, the Scottish city is home to what is claimed to be Europe's largest fleet of hydrogen fuel cell buses. The £19 million (\$24.98 million) project means that hydrogen buses are ferrying residents around Aberdeen as authorities look to reduce city center emissions and boost air quality. "They're a very good fit for us because we have, like many other cities... air quality issues," Barney Crockett said.

The U.S. Department of Energy has said that fuel cell electric vehicles are more efficient than conventional internal combustion engine vehicles and have a driving range of roughly 300 miles. According to those involved with the project in Aberdeen, the buses there hold 40 kilograms of hydrogen and can travel up to 260 miles “on a typical urban cycle.” The buses were proving popular with residents, Crockett added. “They really like the buses because we’ve no harmful emissions, it’s only water vapour... that comes out of the tailpipe.” The vehicles were completely silent and offered a smooth riding experience, he explained. “A lot of people have said to us it’s more like being on a train than being on a bus.”

Aberdeen is the latest in a long line of cities looking to improve air quality and slash emissions. Next week, for example, will see a new £10 ‘T-Charge’ introduced to help discourage the use of older, more polluting vehicles on the streets of central London. The city is also set to be home to what authorities describe as the world’s first Ultra Low Emission Zone, subject to consultation. Back in Aberdeen, Crockett struck an ambitious note with regards to the future. “We think the sky’s the limit — we’re looking at cars, we’re looking at trucks, we’re looking at vans and... we’re looking at storage.”

US preparing for North Korea’s ‘final step’

CNN, 20.10.2017



CIA Director Mike Pompeo said the United States has to act as if North Korea is on the verge of being able to strike it with a missile and act accordingly -- and that President Donald Trump is ready to do so.

“From a US policy perspective, we ought to behave as if we are on the cusp of them achieving that objective,” Pompeo said Thursday at a security forum held by the Foundation for Defense of Democracies. “They are so far along in that, it’s now a matter of thinking about how do you stop the final step.”

“Whether it happens on Tuesday or a month from Tuesday, we’re in a time where the President has concluded that we have a global effort to ensure that [North Korean leader] Kim Jong Un does not obtain that capacity,” Pompeo continued. Pompeo is among a number of former officials who have been signaling the increased possibility of a slide into military confrontation with North Korea over its refusal to back down from its nuclear program.



The CIA chief spoke at the forum shortly before national security adviser H.R. McMaster, who also said the President wasn't prepared to accept a nuclear Pyongyang. The Trump administration comments came a day after former CIA Director John Brennan put the chances of military conflict with North Korea as high as 20% to 25%. The isolated Asian nation conducted its sixth and most powerful nuclear test in September, claiming it had detonated a miniaturized hydrogen bomb that could be mounted on a missile. It's also been steadily working on its missile capabilities, firing 22 missiles during 15 tests from February to mid-September. Even as other countries have urged caution, dialogue and reciprocal confidence-building measures, Trump has belittled the North Korean leader as "rocket man," dismissed Secretary of State Rex Tillerson's efforts to broker a diplomatic solution, and hinted that he is ready to take military action.

Asked at Thursday's event about the threat posed by North Korea, McMaster said that Trump will not accept a nuclear North Korea that threatens the US, putting the administration in a "race" to resolve the increasingly tense standoff before it devolves into a military confrontation. "He's not going to accept this regime threatening the United States with nuclear weapons," McMaster said. "There are those who would say, well, why not accept and deter. Well, accept and deter is unacceptable." "So this puts us in a situation where we are in a race to resolve this short of military action," McMaster said. "Everybody knows it. We all know it. ... Our allies and partners know it. China knows it. Russia knows it." Brennan, speaking Wednesday night at Fordham University School of Law, stressed that, "there really is no good military solution to this issue."

The prospects for military conflict on the Korean Peninsula are greater than they have been in several decades," he said. "I don't think it's likely or probable, but if it's a one in four, one in five chance, that's too high." Asked if that's the rating he'd give for the chances of conflict, he said, "Yeah, I guess I would. Brennan sketched out a scenario in which, "some kind of limited military engagement that would result in some deaths, that could then quickly trigger some retaliatory strikes that could escalate." On top of that "conventional scenario of escalation," he reminded the crowd that North Korea has finely honed cyber capabilities. "So I think we have to be mindful here that there are a number of scenarios here that could lead to an escalation that we really need to be trying to avoid," Brennan said. Trump isn't helping on that score, he said.

"You have two leaders of the two major protagonist countries that are hurling these broadsides back and forth, and they have a lot of personal political face involved in it," he said. "I don't agree that the tack that Mr. Trump has taken is a constructive and productive one," Brennan said, calling the references to "Rocket Man" and other insults "irresponsible." McMaster praised Trump's handling of the crisis, saying that the President's leadership had created the possibility of an "unprecedented level of international cooperation on the issue." He also praised Tillerson's efforts to increase international pressure on North Korea, which has moved some countries to cut diplomatic relations with Pyongyang, expel its ambassadors and in some cases, ban North Korean guest workers. North Korea, meanwhile, has said it won't be willing to talk to the US until it ensures it has missile and nuclear capabilities.

UK inflation hits 5-1/2-year high in September, keeps BoE hike on track

Reuters, 17.10.2017



British inflation rose to its highest level in more than five years in September, according to official data that could make the Bank of England more likely to raise interest rates next month.

Consumer prices last month were 3.0 percent higher than a year ago, the Office for National Statistics said on Tuesday, matching economists' average expectation in a Reuters poll and marking the fastest rise since April 2012. Rising inflation - driven largely by the pound's fall since last year's Brexit vote - has squeezed household incomes this year.

That is causing broader economic growth to slow, as wages have failed to keep pace with the rising cost of living. Nonetheless, last month the BoE said it expected to raise interest rates in the coming months, so long as the economy and price pressures continued to strengthen. A majority of economists polled by Reuters think the BoE will move at its next meeting in November - but most also said it would be a mistake to act now.

"Food prices and a range of transport costs helped to push up inflation in September. These effects were partly offset by clothing prices that rose less strongly than this time last year," said ONS statistician Mike Prestwood. Last month the BoE said it expected inflation to exceed 3 percent in October, higher than it had forecast just a month before, when it predicted it would take more than three years for inflation to return to its 2 percent target.

Although much of the effect of the pound's decline has already been felt by consumers, some retailers are only now starting to pass on price rises. On Monday, furniture retailer IKEA Group said it had increased prices in Britain by 3 percent to compensate for the slump in sterling. The pound has fallen around 12 percent since the referendum against a trade-weighted basket of major currencies such as the U.S. dollar and the euro. Last week BoE Governor Mark Carney said the central bank expected to raise interest rates in the coming months but he declined to be drawn on whether it would be as soon as next month, or if a series of rises is planned.

Core consumer price inflation - which strips out changes in the typically volatile prices of energy, food, alcohol and tobacco - was steady at 2.7 percent, as expected in the Reuters poll. Annual growth in factory gate prices cooled to 3.3 percent, as expected, compared with 3.4 percent in August. But prices paid by factories for materials and energy rose by 8.4 percent year-on-year, the same rate as August's upwardly revised figure and slightly higher than forecast. The ONS also released figures for house prices in August, which showed an 5.0 percent annual rise across the United Kingdom as a whole compared with a 4.5 percent increase in July. Prices in London alone rose 2.6 percent.

Fed's Williams Says Economy Is Stronger Than It Looks

The New York Times, 18.10.2017



As the Federal Reserve considers how quickly to raise its benchmark interest rate, officials are struggling to reconcile the strength of job growth with the weakness of inflation.

John Williams, the president of the Federal Reserve Bank of San Francisco, argues that the American economy is healthier than it looks and that inflation softness is overstated. In an interview on Monday, Mr. Williams said prices of goods and services that tend to rise and fall with the economy are rising at a healthy pace. The weakness is concentrated in the prices of goods and services.

Mr. Williams, who will hold a vote on the Fed's monetary policy committee in 2018, said the Fed should aim to raise rates in December, and three more times next year. The conversation is edited for length and clarity. You've been pretty upbeat about the economic outlook. Can you explain why? You look at the jobs data, the gross domestic product data, all the data on how the economy is doing, and I think those have done as well or even better than we were expecting. Obviously, the employment report showed the drop in jobs in September, but we know that was because of the hurricane. I think unemployment will be below 4 percent by this time next year and it's remarkable -- assuming we get below 4 percent -- we've only seen that a couple of times in the last 50 years.

Yet a lot of prime-age adults have not returned to the work force. Labor force participation is one of those big questions. I won't say it's a mystery, but it's a big question. What we've seen has actually been fascinating. As the labor market has improved and unemployment has come down, the labor force participation for prime-age females, 25-54, looks like it is moving back up quite a bit. But for the men, the same age group, this has been pretty flat. That's something a lot of economists are trying to sort through. To what extent is it structural? To what extent can policies affect that?

We're in a good place to kind of let this economy run a very strong labor market, with inflation low and no signs of inflationary pressures really picking up yet. A couple more years of roughly 4 percent unemployment and we're going to learn a lot more about this labor force participation issue and really test this out to see if there's more people who can come back into this labor market. Your staff has produced some interesting research suggesting that wage growth has been stronger than it seems. Tell us about that.

What my colleagues have highlighted is that a lot of people who are at the end of their careers are retiring, and at the same time we're pulling in a lot of younger and less experienced workers who are being paid less because they're new to the work force. By the way, during the recession this worked the other way. Younger people were laid off and the more experienced workers stayed on, and that helps to explain why we saw wage growth during the recession. To the average person, this is all backward, and that's why it's important to look under the hood.



A longstanding economic theory, known as the Phillips Curve, is that inflation increases as unemployment declines. Given unemployment is low, why haven't we seen stronger inflation? If you look until 2015 or so, the inflation data basically followed our models, emphasizing the role of weakness in the economy. Where this mystery has happened is really in the last year or two. I view both inflation picking up faster than expected in early 2017 and now the pullback as just part of the variability that's going to happen. I don't see any signs that somehow the inflation process is fundamentally changed.

I've been doing this a long time, and the Phillips curve has been declared dead far more times than Mark Twain. People say that foreign factors matter a lot. I feel like I've read this book before. I've read it a few times. It's a plausible hypothesis -- obviously global factors are more important today than they were 25 years ago. But you have to test that on the data, and every time we've tested that, it generally doesn't show a robust relationship with U.S. inflation. So onward and upward? If you look at a dart board view of our objectives, where to the right and the left is unemployment relative to the normal rate, and up and down is inflation relative to 2 percent, we're not right at the bull's-eye but we're about as close to that bull's-eye as we've ever been. This is pretty good.

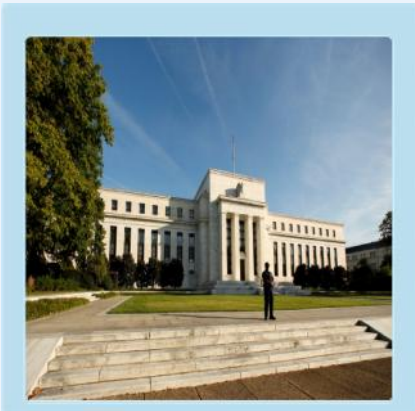
Beginning in December? My own view is we want to continue this gradual pace of increase. One more rate increase in December and three more next year is a pretty good starting point. I am still data dependent, but that is my baseline view. My view is that the normal fed funds rate in the future is 2.5 percent, which is pretty low. That's not a lot of rate increases to get to that normal level, but I do think we want to be moving gradually toward that over the next two years.

Does your outlook include a boost from fiscal policy? My baseline view is that there won't be a change in fiscal policy that has a significant effect on the economic outlook -- not a major tax cut or a major infrastructure package. Would a tax cut benefit the economy? We don't need fiscal stimulus in the short run -- our economy is strong, we're in a good place -- but I do think it would be valuable if we could find a way to improve the supply side of the economy, labor force participation issues, productivity growth. I think that the research on corporate tax changes of the kind we're talking about here is that they have relatively modest positive effects on the supply side. We also know that if major tax changes create much larger deficits and debt, we know that's going to squeeze out the availability of credit for productive investment too.

You spend a lot of time talking to business leaders in the western U.S. What is their view of the state of economic policy? The word uncertainty comes up far more in my conversations with business and community leaders than it does in the economic data. You look at these market-based indicators, and uncertainty measures are near all-time lows. But when you talk to businesspeople, they're just very nervous about all of these things. As time has progressed, they're not seeing the positives and they're not seeing quite the things they were worried about, but they're still just nervous about what's going to happen. How much that's actually affecting hiring and investment, I can't say. We're actually in a strong economy now. It's not like businesses are struggling. But they do mention uncertainty a lot.

US economy hums along, still few signs of pickup in inflation: Fed

Reuters, 18.09.2017



The U.S. economy expanded at a modest to moderate pace in September through early October despite the impact of hurricanes on some regions, the Federal Reserve said in its latest snapshot of the U.S. economy released on Wednesday, but there were still few signs of an acceleration in inflation.

“Despite widespread labor tightness, the majority of districts reported only modest to moderate wage pressures,” the U.S. central bank said in its Beige Book report of the economy, derived from talking to business contacts across the country. Hurricanes Harvey and Irma hit during the survey period and will have a negative effect on third quarter economic growth.

In the report, three of the Fed’s 12 districts - Richmond, Atlanta and Dallas - reported major disruptions from the hurricanes. Most contacts in the Dallas Fed region, which includes hard-hit Houston, said they did not expect significant long-term disruption. Elsewhere, the report once again highlighted the Fed’s major concern - a lack of evidence of rising inflation despite many districts reporting difficulty finding qualified workers. Shortages were particularly acute in construction, transportation, skilled manufacturing, and some healthcare and service positions. “These shortages were also restraining business growth,” the Fed said.

However, this did not feed through into higher wages and there also was little change overall in selling prices despite several districts reporting increased manufacturing input costs. “Price pressures remained modest,” the Fed said. The Fed has grown increasingly accustomed to hearing reports of strong economic growth and hiring but few accompanying broad-based price pressures, and has recently raised the possibility that inflation could be mired at low levels for reasons policymakers do not fully understand.

The Fed’s preferred measure of inflation has retreated further from its 2 percent target rate for much of the year and currently stands at 1.3 percent. However, Fed Chair Janet Yellen has also said she still expects inflation to rebound and the central bank appears on course to raise interest rates again in December.

Fed's rate hikes causing low inflation, Kashkari says

CNBC, 18.10.2017



An overhaul of U.S. tax code to make it simpler and more broad-based should foster business investments and productivity, boosting overall domestic economic growth, New York Federal Reserve President William Dudley said on Wednesday.

The current tax system, which is seen as burdensome and complex, "cannot be productivity enhancing," he said on a panel about regional economic trends with Dallas Fed President Robert Kaplan, sponsored by Hearst and Partnership for New York City.

Global oil demand will pass 100 million barrels per day by 2020, says OPEC's Barkindo

CNBC, 19.10.2017



OPEC General Secretary Mohammad Barkindo said that oil markets are rebalancing at "an accelerating rate" and that he foresaw "no peak" for oil demand for "the considerable future."

Speaking at the Oil & Money conference in London, Barkindo said confident prices would rise and global oil demand would grow as the global economy continued to strengthen. "We expect global oil demand to surpass 100 million barrels per day by 2020," Barkindo told the audience of oil industry leaders.

This figure is far above the oil producing group's forecast for 2017 in which global oil demand is expected to be around 96.8 million barrels per day. This strengthening in global oil demand meant that there was "no peak demand for the considerable future," Barkindo said. As such, continued investment within the oil industry was crucial, he said, as was a continued working partnership with non-OPEC producers. "There is a need for us to continue to strengthen our relationship with non-OPEC countries like Russia. The world will continue to need oil for the foreseeable future," he said.

“Together with non-OPEC producers we must continue to invest to make sure the global community and global economy can rely on us as dependable suppliers of oil.” ‘Unparalleled commitment’ Barkindo’s comments come amid close scrutiny of oil markets to see whether oil production cuts by OPEC and non-OPEC countries, including Russia, are helping to rebalance oil markets. Oil prices took a sharp turn downward from mid-2014 onwards on the back of a glut in global supply and lackluster demand. The rise in output from U.S. shale oil producers exacerbated the problem, although many of those U.S. rigs were hit by the decline in prices.

The collaboration between OPEC and non-OPEC countries, particularly oil producers Saudi Arabia (the de-facto leader of OPEC) and Russia, to curb oil output by a combined 1.8 million barrels per day has helped to shore up markets. On Thursday, Barkindo applauded what he called the “unparalleled” and “historic” commitment between OPEC and non-OPEC oil producers to curb oil output and said it was rapidly stabilizing markets. “There is no doubt that the market is rebalancing at an accelerating rate,” he said. “There is light at the end of the dark tunnel we’ve been traveling down the last three years,” he said, alluding to low oil prices that have plagued oil markets since 2014.

Barkindo said it was “vital that this platform is sustained and built upon.” “We need to ensure that balance is achieved in a full and timely manner,” he said. “We also welcome dialogue with producers outside the agreement,” he added, referencing U.S. shale oil producers who are not partaking in output cuts. There is speculation the deal to curb output will be extended beyond the current deadline of March 2018. Oil prices have struggled to break through the \$60 a barrel mark, however, with benchmark Brent crude futures currently fetching \$57.46 per barrel and West Texas Intermediate (WTI) for November delivery at \$51.36 on Thursday.

Gold slips as dollar firms on speculation over Fed chief

Reuters, 17.10.2017



Gold fell for a third straight session on Wednesday on pressure from the U.S. dollar’s gains for much of the session and amid speculation that the next chair of the Federal Reserve could be a policy hawk.

Spot gold was down 0.34 percent at \$1,280.40 an ounce by 3:12 p.m. ET, having touched its lowest since Oct. 9 at \$1,276.73. U.S. gold futures for December delivery settled down \$3.20 or 0.25 percent, at \$1,283 per ounce. As many as five people are in the running to be the next Fed chair, a source told Reuters on Tuesday.



“Interest rate hikes had not been fully priced in for next year. That has changed massively following speculation that (Fed Governor Jerome) Powell might become the next chairman,” said Commerzbank analyst Carsten Fritsch. Powell is expected to be the next Fed chairman, according to a slim majority of economists in a Reuters poll, though most of them said that incumbent Janet Yellen would be the best option. The dollar rose to a 1-1/2-week high before turning lower as traders digested more details on U.S. President Donald Trump’s tax overhaul.

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Announcements & Reports

Spotting excessive regional house price growth and what to do about it

Source : Bruegel
Weblink : <http://bruegel.org/2017/10/spotting-excessive-regional-house-price-growth-and-what-to-do-about-it/>

The Kremlin Playbook

Source : CSIS
Weblink : <https://www.csis.org/analysis/kremlin-playbook?si3>

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 October 2017
Place : Beijing - China
Website : <http://bruegel.org/events/13th-asia-europe-economic-forum/>

Emerging Markets and Europe: Time for Different Relationships?

Date : 27 October 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 October 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 : 12 December 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 : 15 December 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 : 16 December 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 : 18 December 2017
Place : Lisbon - Portugal
Website : <http://bruegel.org/events/vision-europe-summit-2016/>