

Turkish finance minister shares policies in London

Anadolu Agency, 04.09.2018



Berat Albayrak meets representatives of 11 financial institutions. Turkey's Treasury and Finance Minister Berat Albayrak met representatives of financial institutions that manage assets worth \$15 trillion in London.

Following meetings with Britain's Finance Minister Philip Hammond and State Minister Alan Duncan, he met directors and representatives of 11 financial institutions. Albayrak narrated Turkey's 15-year success story and future policies that will be implemented in the frame of a stronger strategy.

Albayrak held a teleconference with around 6,100 international investors and said the government aimed at making Turkey an investment center in the region.

Turkey's central bank to support price stability

Anadolu Agency, 03.09.2018



The Central Bank of the Republic of Turkey (CBRT) on Monday announced that the bank will continue to use all available instruments in pursuit of the price stability objective.

"The Central Bank will take the necessary actions to support price stability," the bank said. The announcement came following the release of the inflation report for August by the country's statistical authority TurkStat. According to TurkStat, consumer prices in Turkey rose 17.90 percent on a yearly basis last month while the annual inflation was 15.85 percent in July.

"Recent developments regarding the inflation outlook indicate significant risks to price stability," the CBRT said, adding: "Accordingly, in line with the previous communication, monetary stance will be adjusted at the September Monetary Policy Committee Meeting in view of the latest developments." At the bank's sixth Monetary Policy Committee meeting this year, on July 24, the CBRT kept its one-week repo rate -- also known as the bank's policy rate -- constant at 17.75 percent. According to the bank's schedule, the next three meetings are to be held on Sept. 13, Oct. 25, and Dec. 13.

Turkey's annual inflation at 17.90 pct in August

Hurriyet Daily News, 03.09.2018



Turkey's annual inflation was 17.90 percent in August, the Turkish Statistical Institute (TurkStat) announced Monday.

The annual inflation rate in July was 15.85 percent. On a yearly basis, the biggest price hike was in transportation services in August -- up at 27.13 percent -- and in furnishing and household equipment at 23.76 percent. According to TurkStat, inflation was 23.33 percent in "miscellaneous goods and services", 19.75 percent in food and non-alcoholic beverages, and 16.30 percent in housing prices. On a monthly basis, the consumer prices rose by 2.30 percent in August, as the highest monthly increase was 5.85 percent.

TurkStat said clothing and footwear prices saw a 1.59 percent drop in August. Official data showed that tomato sauce, egg and watermelon were the top three items with the biggest price hikes in August while the price of onion, carrot and tomato saw the biggest drop. "In August 2018 within average prices of 407 items in the index, average prices of 44 items remained unchanged while average prices of 304 items increased and average prices of 59 items decreased," the institute added.

Turkish president proposes non-dollar trade

CNN, 03.09.2018



International trade's dependency on the U.S. dollar should be decreased as it became an obstacle for Turkey, said Turkish President Recep Tayyip Erdogan on Monday.

"We are proposing to trade in our own currencies rather than U.S. dollar," Erdogan told the 6th Summit of the Turkic Council at Rukh Ordo Cultural Center in Kyrgyzstan. The Turkish leader said Turkey and its friendly countries should not delay fighting the FETO and its U.S.-based leader Fetullah Gulen orchestrated the defeated coup of July 15, 2016.

Ankara also 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. Erdogan added that the terrorist organization had shaped an organizational structure by establishing educational institutions worldwide as well as in Turkey. The summit is hosted by Kyrgyzstan's President Sooronbay Jeenbekov at Rukh Ordo Cultural Center. In addition to presidents of Turkey, Azerbaijan, Kazakhstan, and Uzbekistan, Hungarian prime minister also participates in the event as an observer.

Turkey to support \$75M indigenous high-tech production

Anadolu Agency, 04.09.2018



Industrial enterprises, research & development (R&D) centers, SMEs, entrepreneurs, and universities will be supported with 500 million Turkish liras (some \$75 million), Turkey's Technology and Industry Minister said.

Turkey developed the Industrial Innovation Network Mechanism (SAYEM) to raise high-technology production's share in the country's exports, Mustafa Varank told Anadolu Agency. "With the SAYEM, we took the first step to produce high-tech products locally. By making value-added products as a result of R&D and innovation activities" he said.

Varank underlined that he believes in Turkey's human resource and industrial experience. Within the scope of the SAYEM, the ministry and the Scientific and Technological Research Council of Turkey (TUBITAK) will receive projects applications between Nov. 1 to Dec. 30, he noted. "In the second phase, projects will be evaluated and 500-million-lira support will be granted," Varank added.

Turkish defense minister meets US Syrian special envoy

Hurriyet Daily News, 04.09.2018



Turkish National Defense Minister Hulusi Akar on Tuesday received U.S. Special Envoy to Syria, James Jeffrey, in capital Ankara.

In a closed-door meeting, Akar expressed Turkey's discomfort at the terrorist YPG/PKK presence in Syria. He also conveyed Turkey's intention to continue protecting its security and regional interests in accordance with international law, as well as the need to completely rid the region from the terrorist organization.

Later, Turkey's Foreign Minister Mevlut Cavusoglu also met Jeffrey, according to Turkish diplomatic sources. The top diplomats exchanged views on the latest developments in Syria, said the sources, who spoke on condition of anonymity due to restrictions on talking to the media. In its more than 30-year terror campaign against Turkey, the PKK -- listed as a terrorist organization by Turkey, the U.S. and the EU -- has been responsible for the deaths of some 40,000 people.

How do developed economies maintain their low interest rates?

Hurriyet Daily News, 04.09.2018



The Taylor rule is a mathematical formula developed by American economist John Taylor to help central banks set short-term interest rates based on economic conditions and inflation. Its aim is to help central bankers make rational monetary policy decisions.

In this sense, it acts as an objective benchmark by setting the optimal rate that balances inflation and growth targets. An important point concerning this rule-based calculation is that it follows a long-term equilibrium approach. Consequently, it might not be a suitable measure for emergencies.

Neither is basing decisions on a single measure always appropriate since governments ask central banks to achieve diverse (and sometimes conflicting) goals such as fighting inflation, promoting growth, coordinating economic policy with G20 countries, and protecting the financial system. Moreover, the time horizon is another important aspect to take into consideration. For example, managing short-term situations might force central bankers to pursue tactical policies that diverge from long-term objectives. In sum, the task of a Central Banker is not an easy one in the current Bretton Woods world. When we make a brief comparison of interest rates in selected countries including Turkey, we find that there are interesting similarities and differences across economies. The table below presents the different economic aspects such as current account, inflation, unemployment, interest rate according to the Taylor estimate, current interest rates, etc. The last column, "Difference: Current Rate-Taylor Estimate", clearly demonstrates an interesting phenomenon: In all these countries, the interest rates are lower than they should be according to the Taylor estimate. For instance, Taylor estimate recommends an interest rate of 3.10 for Eurozone, whereas the current base rate set by ECB stands at zero.~Since the 2008 crisis, central Banks have used this "low-interest rate policy" to solve deep-rooted problems and there are many reasons for this. In the case of the USA and the Eurozone for example, there is the desire to achieve strong GDP growth rates while keeping crisis-hit banks afloat.

Additionally, Japan and Switzerland have kept their interest rates low to prevent their currencies from over-appreciating. Why is this low-interest strategy working for these countries but not for Turkey? Because the Turkish case is different. Even though Turkey handled the 2008 crisis very well, it did not root out some of the economic imbalances fully. For example, what makes things difficult for the Turkish Central Bank is the uncertainty emanating from the current account deficit. Unlike other countries that enjoy a current account surplus, Turkey has a chronic current account deficit problem. Due to factors such as import/export imbalances, energy dependence, and insufficient domestic savings, Turkey needs short-term foreign funding to finance its economic activities. If Turkey had a current account surplus, the country would be much more resilient against speculators and foreign players. Like other countries, we could also enjoy lower interest rates. The "Current Account" problem has persisted in Turkey since the 1980s: While Central Bank policies might alleviate the problem, the solution lies in transitioning away from consumption-based growth towards export-focused industrialization and growth policies. While a lot of structural transformations remain to be made, Turkey has already taken important steps with long-term projects to do with self-sufficiency in the defense sector and the diversification of energy sources. From a social perspective, we also need to increase our savings rate and cut back some of our discretionary spending. Because though we are going through some challenging times there is a light at the end of the tunnel.

Albayrak: No crisis expected in Turkish banking sector

Hurriyet Daily News, 03.09.2018



Turkish Treasury and Finance Minister Berat Albayrak has said he does not expect any problems in the banking sector, in stark contrast to recent warnings from ratings agencies that the lira sell-off could weaken lenders' assets.

In the event of a problem at banks, Ankara would be willing to step in with support, he told Reuters in an interview late on Sept. 2. "I have no reason to be worried at this stage. But we are aware how important the banking sector is. We are in a close coordination and cooperation with our banks" said.

"We are not expecting any problems in the banking sector, but in case of a problem, we will support them in every way." He also dismissed concerns about debt, including in the private sector. For years, Turkish firms have borrowed in dollars and euros, drawn by lower interest rates. The currency slump at around 42 percent over this year against the greenback has driven up the cost of servicing that debt and investors fear that banks could now be hit by a wave of bad loans. Ratings agencies Moody's and Fitch both sounded alarm about the outlook for banks last week, with Fitch estimating that banks' foreign-currency lending now stood at around 43 percent of all loans. Albayrak also said the current account deficit will be "considerably below" forecasts by year-end and "much stronger" in 2019. The minister was visiting London on Sept. 3 for talks with Britain's finance minister Philip Hammond, part of Turkey's efforts to strengthen relations with Europe's main economic powers as a dispute with Washington shows no sign of easing. He was in Paris last week and will go to Germany next week.

Relations with the United States, a NATO ally and major trading partner, have soured over a series of issues including Turkey's detention of an American Christian pastor on terrorism charges and the U.S. sentencing of an executive from Turkish state bank Halkbank for busting sanctions on Iran. Adding to the friction, the U.S. Treasury is investigating Halkbank for violating Iran sanctions. The bank has said all of its transactions were legal. Turkey hired a U.S. law firm to look into Halkbank's dealings with Iran and found that it did not violate U.S. sanctions, Albayrak said, adding Ankara does not expect the bank to face any fine. "As a result of a months-long independent examination, it has been established that the bank had not violated primary and secondary U.S. sanctions against Iran," he said.

Iranian citizens feel sting of US sanctions

Gulf News, 05.09.2018



A first phase of U.S. sanctions banning the sale of dollars, gold and other precious metals to Iran has tangibly impacted the lives of the Iranian people, most notably through soaring commodity prices.

Although the government is trying to reign in inflation by adopting a raft of policy measures, prices continue to rise daily, especially in the housing, automotive and imported-goods sectors. Acute shortages of diapers and sanitary napkins have caused particular concern among many Iranians. At a recent meeting with President Hassan Rouhani and members of his cabinet.

Supreme Leader Ayatollah Ali Khamenei asserted that Iran's "enemies" had orchestrated the "diapers crisis" with a view to sowing anger among the Iranian people. Earlier, Ahmad Jannati, chairman of Iran's Assembly of Experts, a deliberative body, addressed the crisis during a session of parliament. In an interview with the Iranian Labor News Agency, Seyed Hassan Dokmehchi, head of the Iranian Drugstore Union, said 10 diaper factories had recently closed in Iran due to a lack of raw materials caused by the re-imposition of U.S. sanctions. According to the Tasnim News Agency (affiliated with Iran's Revolutionary Guards, the price of one pack of 34 diapers recently jumped from 500,000 Iranian rials (slightly less than \$5) to a current 850,000 rials (over \$8). In November, a second phase of U.S. sanctions banning the purchase of Iranian oil and gas is expected to come into effect. Observers fear that this will lead to further price hikes for many basic commodities, including foodstuffs and medicine, the brunt of which will be borne by Iranian citizens.

In mid-2015, Iran signed a landmark nuclear deal with the P5+1 group of nations (the five permanent UN Security Council members plus Germany). The agreement placed tight restrictions on Iran's nuclear program in exchange for billions of dollars in sanctions relief. In May of this year, however, U.S. President Donald Trump unilaterally withdrew his country from the agreement in a move heavily criticized by the deal's European signatories. Washington then re-imposed sanctions on Iran, which primarily target the country's banking sector.

U.K. economy needs stronger unions and higher taxes on rich, report says

New York Times 04.09.2018



Britain needs sweeping changes to redress its economic failings, rising inequality and the corrosive legacy of the financial crisis, according to a report from a committee that included the Most Rev. Archbishop of Canterbury, Justin Welby.

The group outlined a 10-year plan for the sort of transformation experienced twice in Britain in the last century: once after the Second World War, when the state expanded its influence, and then in the 1980s, when Margaret Thatcher unleashed the free market to jolt the economy.

Commissioned by the Institute for Public Policy Research, a British public policy institute, the report, “Prosperity & Justice: A Plan for the New Economy,” landed just as Britain is grappling with its looming exit from the European Union, or Brexit, a move that has already slowed investment and dampened economic growth. Instead of focusing on Brexit itself, the document tried to tackle some of the factors that prompted the 2016 referendum and the resulting decision to quit the European Union. That vote, the report said, “was a stark repudiation of the status quo and crystallized profound feelings of economic injustice.” Several of the report’s conclusions are eye-catching, including calls for stronger trade unions and worker representation on company boards, for higher taxes on the wealthy and on large inheritances, and for greater regulation of giant social media companies. “For decades the U.K. economy has not worked as it should, with millions of people and many parts of the country receiving less than their fair share,” said Archbishop Welby in a statement.

“The widening gulf between rich and poor, and fears about the future among young people and their parents, have damaged our nation’s sense of itself,” he said, adding that “achieving prosperity and justice together is not only a moral imperative — it is an economic one.” The committee included academics, business executives and a trade union leader as well as Archbishop Welby. He has spoken publicly on policy issues before, but his comments may rankle those who feel the church should stay away from the political arena. Over all, the report painted a bleak picture of the country’s economic performance, arguing that “it is impossible to escape a palpable feeling that the economy is not working for most people.” The report found that “earnings that have been stagnant for a decade are combined with greater insecurity at work.”

It added: “Young people have been hit particularly hard — many unable to afford a home of their own and on course to be poorer than their parents. Whole communities feel left behind. Many people feel powerless and fatalistic.” Many of the proposals are likely to be welcomed by the opposition Labour Party, led by Jeremy Corbyn, which is calling for an increase in government spending, greater investment in industry and the nationalization of the railways and some other utilities. But Conservative Party politicians have also worried for years about low British productivity. When Prime Minister Theresa May came into power in 2016, she said she wanted to help families who were “just about managing,” and to increase the representation of workers on company boards. Much of that agenda faded, however, after Mrs. May lost her parliamentary majority in last year’s general election, and as she fights a bitter internal battle over her plans for Brexit.

The report also called for a rebalancing of economic power from corporations to trade unions, greater devolution of political power away from London, moves to create more affordable housing and to combat house price inflation, higher taxes on the very wealthy and efforts to incentivize long-term investment over short-term profit. It urged greater use of robotics and automation alongside retraining for those whose jobs are lost. Among more than 70 recommendations are an increase in the minimum wage, higher pay for those on employment contracts that do not guarantee work and the inclusion of workers on boards of companies with 250 or more employees. Tax on corporations should be raised, and work and wealth should be taxed on an equal basis, the document suggested. It also proposed that the inheritance tax should be replaced with a lifetime gift tax, levied on recipients rather than estates.

Trade expert outlines what’s next in the US-China tariff battle

CNBC, 03.09.2018



Egypt With U.S. President Donald Trump not backing down from a trade dispute with China, the world is now awaiting his decision on when and how he’ll implement a proposed \$200 billion in additional tariffs on Chinese goods.

The most likely scenario is that the Trump administration will break up the \$200 billion tariffs into batches, according to a trade expert from libertarian think Cato Institute. “Remember the previous stage when they authorized \$50 billion worth of imports: They started with \$34 billion and later they added another \$16 billion. So here, let’s say they authorize tariffs on \$200 billion of imports.” said Simon Lester.

“They’re slowly ratcheting this up, so I think it’s likely that we will see more tariffs come,” he told CNBC’s “Squawk Box” on Monday. The \$200 billion in U.S. tariffs on Chinese goods, if imposed, would mark a major escalation in trade tensions between the world’s two largest economies after their latest round of talks concluded with few signs of progress. So far, the U.S. has imposed tariffs on \$50 billion of Chinese goods and China has retaliated in kind. Bloomberg, citing “six people familiar with the matter,” reported last week that the U.S. could impose tariffs on \$200 billion worth of Chinese imports as early as this week. China had earlier said it’s prepared to retaliate with its own tariffs on about \$60 billion worth of U.S. goods. And further escalation is likely, Lester said. “My sense is that, until there’s some hiccup in the U.S. economy, the Trump administration believes its strategy is working and they’re going to stick with it,” he said.

“You do not want to give Jeff Bezos a seven-year head start.” Lester added that there has been anecdotal evidence of American companies being caught in the trade war, but there’s been no effect demonstrated in U.S. economic data because “the amount of trade affected so far is actually somewhat small in terms of the overall U.S. economy.” He said third-quarter economic data in the U.S. could show some dent, but it’s difficult to nail down a specific prediction because “we’re all learning as we do what the impact of these tariffs are and what political impact they have as well.”

Global trade tensions are likely to get even worse after the US midterms, expert says

CNBC, 02.09.2018



Washington is going to lose the ability to get anything done if the Democrats seize control of the House during the midterms, and the situation on trade will only get worse, not better, according to businessman and trade expert.

“The midterms aren’t going to change anything. If anything, it’s going to get worse after the midterms, because you have now for example the (North American Free Trade Agreement) negotiations,” Okun, senior advisor at McLarty Associates and board member of the American Chamber of Commerce in Singapore, told CNBC on Monday.

He said if the deal is not concluded in the next 30 days, it will probably carry over to the next Congress. Most projections show that the Democrats have a good chance of taking control of the House on the back of multiple victories in November. That, according to Okun, would mean little progress for President Donald Trump’s agenda. “They are not going to approve anything that the president wants. They are going to be investigating the president over and over and over again, and the entire administration over and over and over again,” he said. Last week, the U.S. and Mexico struck a trade deal that is set to replace NAFTA, the current agreement between the two nations and Canada. On Friday, talks between the U.S. and Canada failed to reach a deal, and they’re set to continue this week. Trump has made clear he plans to strike a new deal within 90 days — with or without Canada.

Okun added that the trade war with China would probably get worse as well. He explained that Washington is “going to have the inability to get anything done,” given that the entire administration will be affected if the Democrats take over. Pointing to when Republicans seized control of both the House and the Senate in the 1994 midterms, Okun said that the administration would have to “drop everything” to comply when it gets investigated on policy, politics and other areas. “So you lose the ability to control quite a bit of your agenda, and that applies across the entire administration,” Okun concluded. “The president still has some authority under trade, he’s going to be able to put on the auto parts tariffs if he wants, he’s going to be able to hit China with \$200 billion and another \$200 billion on top of that. So I see things getting worse for trade, not better, after the midterm elections,” he said. The U.S midterm elections are set to take place on November 6. Simon Lester, associate director at the Center for Trade Policy Studies at think tank the Cato Institute, echoed Okun’s sentiment on trade. He added that it’s difficult to predict what might happen to trade negotiations if the Democrats are voted in.

The NAFTA deal, for instance, would have to be tailored to make it appealing to the U.S. Congress. Currently, the Republicans are in control of both chambers, so the agreement would be made to appeal to them, he said. “But what if those people get voted out of office and, next year, the people who are voted in are Democrats,” he asked. “So the text you come up with appeals to the wrong group. So it’s really difficult for the Trump administration right now to know exactly what should be in this agreement.” With the uncertainty surrounding trade, Okun issued a warning: “Investors and businesses should be extraordinarily nervous going into this season.”

Top US officials hold talks in India

CNBC, 06.09.2018



U.S. Secretary of State Mike Pompeo and Defense Secretary Jim Mattis held talks with top Indian officials to deepen bilateral ties particularly in the fields of security and defense.

Indian External Affairs Minister Sushma Swaraj and Defense Minister Nirmala Sitharaman hosted the U.S. leaders in the first edition of the talks dubbed ‘2+2’. According to news agency Press Trust of India, Swaraj said she was confident that the outcome of the talks will help unleash the untapped potential of the relationship between the two nations and further elevate the level of engagement.

Pompeo, reportedly, said both sides would continue to ensure “freedom of the sea and work toward peaceful resolutions of territorial and maritime disputes”, a reference to China’s claims in the South China Sea which are contested by Brunei, Malaysia, the Philippines, Taiwan and Vietnam. The top diplomats and defense ministers also held separate meetings. Analysts predict India’s proposed purchase of the S-400 defense system from Russia and oil imports from Iran would also be discussed in the meeting. India will seek a waiver from the U.S. on oil imports from Iran after Washington slammed sanctions on Tehran following U.S. President Donald Trump’s withdrawal from the Iran nuclear deal, the report said citing sources. India also plans to buy five Russian S-400 defence systems despite sanctions by the U.S. against Moscow. The two top U.S. officials arrived in New Delhi on Wednesday, following a visit to Pakistan, India’s archrival.

Trump plans to take aim at Iran in U.N. session

New York Times, 05.09.2018



President Trump plans to preside over a session of the United Nations Security Council this month “to address Iran’s violations of international law” and press world leaders to adopt a more assertive approach to the country, the United States envoy to the United Nations, Nikki R. Haley, said Tuesday.

The decision raises the possibility of a face-to-face confrontation between the president and Iranian officials, perhaps even President Hassan Rouhani, who according to United Nations protocol would be invited to participate in the session.

Mr. Trump, whose bellicose statements hinting at possible military action against Iran have rattled even close allies, said in July he would be willing to meet with Mr. Rouhani with “no preconditions,” though Iran’s leaders have so far ruled out such a meeting. Ms. Haley said Mr. Trump was “very adamant” about holding Iran accountable for actions the administration sees as destabilizing. “It’s hard to find a place where there is conflict and Iran isn’t in the middle of it,” Ms. Haley said at a news conference. “We think they’ve been ignored and given a pass for too long, and we think it’s time for Iran to stand up and explain themselves.”

At the Security Council, Mr. Trump could face stiff resistance not only from opponents of the United States, but also from allies like Britain and France, who were strongly opposed to the administration's abrupt withdrawal from the Iran nuclear agreement they helped negotiate with the Obama administration. Though many are highly critical of Iran's involvement in wars in Yemen and Syria, few consider the country to be the global menace the United States portrays it to be. "I understand that there are some members who find that uncomfortable to talk about," Ms. Haley said. "I personally think that when we talk about things that are uncomfortable at the Security Council, good things happen." Mr. Trump will also have to contend with the arcane system of rules and protocols that govern conduct within the typically staid Security Council chamber. Sessions are normally tightly scripted affairs, with ambassadors rarely straying from prepared remarks. Mr. Trump, famously, is no fan of scripts. Ms. Haley, who will serve as president of the Security Council for the month of September, said she did not expect an official council statement or resolution to come out of Mr. Trump's session on Iran. Rather, she said, the point is simply to call Iran out. "We want to make sure that they understand the world is watching," she said. Ms. Haley said she would abide by United Nations protocol and allow Iranian officials to speak at the session if they desired. The session will take place on Sept. 26, during the annual United Nations General Assembly meeting of high-level officials. Though the list of heads of state planning to attend is not yet final, Mr. Rouhani, who has made the trip in the past, is expected to give a speech. In 2013, Mr. Rouhani's presence caused a furor amid speculation that he could meet with President Barack Obama, though the two leaders never even shook hands.

Global finance 'as vulnerable' as in 2008: Former ECB chief

Agence France, 04.09.2018



Too much debt has made the world's financial system as vulnerable as it was 10 years ago, Europe's top central banker during the 2008 global meltdown has warned as he looks back on the crisis.

"There is now agreement that the excessive debt level in advanced economies was a key factor in the triggering of the global financial crisis in 2007 and 2008," Jean-Claude Trichet, who ran the European Central Bank between 2003 and 2011, told AFP in an interview. "The growth in debt, especially private debt, in advanced countries has slowed.



However, this slowdown has been offset by an acceleration of emerging country debt,” said Trichet, a Frenchman who ran his country’s central bank, the Banque de France, before taking the helm at the ECB. “This makes the entire global financial system at least as vulnerable as it was in 2008, if not more so.” Trichet was only the second president at the ECB, which was barely a decade old when U.S. bank Lehman Brothers collapsed in September 2008, a date widely seen as the trigger of the global crisis. But Trichet said the bank had detected big trouble much earlier. “I witnessed the real start of the financial crisis that was about to sweep the world in the morning of August 9, 2007, when we were confronted with a complete interruption of the eurozone money market,” he remembered.

After claiming its first bankruptcies in the U.S. in the summer of 2007, the budding crisis quickly made world stock exchanges wobble too. The contagion reached Europe when German bank IKB issued a profit warning, prompting the German government to extend it a lifeline of more than three billion euros (\$3.5 billion). Then, on August 9, French banking giant BNP Paribas froze three of its US funds specializing in securitized mortgages whose value plunged by 400 million euros within a few days. Panic gripped financial institutions, causing the money market, where banks lend each other short-term liquidity, to suddenly dry up. “This had been unheard of since World War II,” Trichet said. “There was none of the usual business, no transactions between banks, no market interest rates,” said Trichet. Trichet and the ECB responded by bringing on heavy monetary artillery. “I decided with my colleagues to provide all the liquidity that the banks were asking for, without limit,” he said. In the end around 50 eurozone banks came looking for a total of 95 billion euros in liquidity -- a sum exceeded in recent history only by the nearly 110 billion the ECB injected after the 9/11 attacks in the United States in 2001. Trichet was in his French summer house that day, far from the Frankfurt-based ECB, and “in constant electronic contact with the ECB and the council members. After two and a half hours we decided to give the banks the 95 billion”.

The move was a watershed because “it showed that the ECB was able to take extremely bold decisions very quickly.” There were two competing views of what was going on, Trichet remembered. “There were those who thought that the subprime crisis was the harbinger of something big and dangerous to come, and those who thought that this was a simple market correction, quite healthy and without any systemic importance. I subscribed to the former view.” True enough, the financial situation continued to worsen over the subsequent months, until the Lehman Brothers crash sparked the crisis proper. Lehman may have been the smallest investment bank on Wall Street, but “it was the detonator for the worst financial crisis since World War II,” Trichet said. By the time Lehman started to crumble, Trichet said he and his central banker colleagues, including Fed chief Ben Bernanke, “were very much aware that we were looking at a completely systemic major global crisis”. “We said that the Lehman’s bankruptcy would have catastrophic consequences, but I realized that the U.S. government was not going to save Lehman if the private sector failed to find a solution,” he said. “It was my understanding that the American government at the time did not have the political leeway to intervene with public money. So I got ready for the catastrophe,” Trichet said.



Announcements & Reports

Financing and Implementing the Quality Infrastructure Agenda

Source : CSIS
Weblink : <https://www.csis.org/analysis/financing-and-implementing-quality-infrastructure-agenda>

Iran: Military Spending, Modernization, and the Shifting Military Balance in the Gulf

Source : CSIS
Weblink : <https://www.csis.org/analysis/iran-military-spending-modernization-and-shifting-military-balance-gulf>

China's Belt and Road Is Full Of Holes

Source : CSIS
Weblink : <https://www.csis.org/analysis/chinas-belt-and-road-full-holes>

Cybercrime Legislation in the GCC Countries: Fit for Purpose?

Source : Chatham House
Weblink : <https://www.chathamhouse.org/publication/cybercrime-legislation-gcc-countries-fit-purpose>

Upcoming Events

Fighting Financial Crime 2018

Date : 10 September 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/fighting-financial-crime-2018>



Digitalization in the Industrial Sector: Implications for Energy, Technology, and Policy

Date : 18 July 2018
Place : CSIS Headquarter
Website : <https://www.csis.org/events/digitalization-industrial-sector-implications-energy-technology-and-policy>

Illicit Financial Flows 2018

Date : 01 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/illlicit-financial-flows-2018>

Climate Change 2018

Date : 15 October 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/climate-change-2018>

Global Trade 2018

Date : 01 November 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/global-trade-2018>

The Future of London as a Financial Centre

Date : 12 November 2018
Place : London
Website : <https://www.chathamhouse.org/conferences/future-london-financial-centre>