

Turkish Central Bank: Recovery will be gradual

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A gradual economic recovery may be expected after the fourth quarter of 2015, accompanied by a decrease in inflation, the Turkish Central Bank has said in a statement. The Bank expects that, in this gradual recovery, private demand will “contribute to growth at moderate levels,” a summary of the Bank’s Dec. 24 Monetary Policy Committee meeting has revealed.

Inflation will decrease, driven by the fall in energy prices, the bank said in the statement released on Dec. 31. It expects that inflation will decline in line with the forecast presented in the bank’s inflation report throughout 2015.

But oil and gas are not the only commodities with falling prices. “The fall in commodity prices, due to weak global demand, is expected to improve the current account balance by restricting the aggregate spending on imports,” the bank said. A slight slowdown in exports is supporting this trend. “Europe’s slowing economy and geopolitical tensions have caused exports to lose some pace. However, favorable developments in terms of trade and the moderate course of consumer loans are expected to contribute to the improvement in the current account balance,” it said.

One further concern is that capital flows to emerging markets may continue to be volatile in 2015. “The ongoing uncertainty about the normalization of global monetary policies causes the global risk appetite and capital flows to be data-sensitive,” said the bank. The Turkish Central Bank has a rich set of policy tools to use against an earlier-than-expected policy rate hike by the Fed. Such a rate hike has caused capital flight from Turkey to the U.S. in the past.

The bank’s statement was an indication of the course of discussion at the last Monetary Policy Committee meeting on Dec. 24, the meeting at which the decision to leave interest rates on hold was made. The bank said in a statement after its latest monetary policy meeting that the one-week repurchase rate would remain at 8.25 percent, the marginal funding rate at 11.25 percent and the overnight borrowing rate at 7.50 percent. Its meeting came after the Turkish Lira hit all-time lows in value against the U.S. dollar on Dec. 15 and 16, amid concerns about political instability in Turkey and the risk of spillover from the collapse of the Russian ruble.

Turkey to slide back to world's 19th biggest economy by year's end

Hurriyet Daily News, 30.12.2014



Turkey will drop from 17th to 19th place on the list of the world's biggest economies by the end of 2014, according to the World Economic League Table by the Center for Economics and Business Research (CEBR).

Turkey's GDP will decrease to \$767 billion by the end of the year, from around \$827 billion in 2013 due to a loss in the Turkish Lira's value, according to the report. The CEBR expects the country will rise to 16th place on the list by 2024. According to the report, Turkey will be able to regain its status in 17th by 2019, with an expected GDP of \$1.52 trillion. Turkey will be able to reach 14th place by 2030.

Russia's economic woes, a likely weak ruble and a low price of oil indicate that it will drop from eighth position in 2013 to 10th in 2014 and stay around that position until 2030, said the report. "Countries that have faced serious problems with their neighbors and whose leaders have more nationalistic tendencies, like Russia and Argentina, have been downgraded on the list. Asian countries have also become stronger than European countries," said CEBR chief economist Douglas McWilliams.

The report also forecasts China to overtake the U.S. in 2025 compared to 2028 in last year's forecasts. The U.K. appears to have overtaken France this year in becoming the world's fifth largest economy, but as the 2014 GDP figures are \$2,828 billion for the U.K. and \$2,827 billion for France, the gap is well within the margin of error.

The rise of India looks unstoppable, according to the report. India, which is expected to be the ninth largest by the end of 2014, will overtake the U.K. in 2018 to become the largest economy in the Commonwealth. By 2024 India will be the world's third largest economy.

Germany is forecast to drop, held back by a declining population and the likely weakness of the euro, according to the report. In 2030, Germany, which for many years was the world's third largest economy, will be overtaken by the U.K. for the first time for since 1954 to drop to seventh place in the league.

South Korea is becoming an economic powerhouse as its growth continues. Its league table position will move from 15th in 2013 to a solid eighth, just behind Germany, by 2030, the report suggested.

No privatizations ahead in major dams, says Turkish energy minister

Anadolu Agency, 31.12.2014



Turkey will not include the largest hydropower plants in the privatization plan, even though investors have offered up to \$20 billion to buy one of them, said Energy Minister Taner Yıldız.

“We are not privatizing the country’s major dams, including the Atatürk, Keban and Karakaya dams in eastern Anatolia. We will not privatize a number of other dams on the rivers of the Euphrates, Tigris and Kızılırmak” he said. Turkey will not privatize these huge dams even though some investors offered to pay \$20 billion for the Atatürk dam and \$10 billion for the Keban dam, he said.

“Almost all gas-powered plants will be privatized in the coming two years,” he added. Yıldız also said Turkey might talk on what stakes the country will take for the facilities that are planned to be constructed in Thrace for the Turkish Stream project. “This issue matters a lot to us. Around a 250 km-long pipeline and the complementary facilities will be built there. After the pipeline enters into the Turkish border, we will talk about the nature of Turkey’s partnership in the pipeline,” he said.

Russian President Vladimir Putin said on Dec. 1 that the South Stream pipeline project is closed, and he gave the signal for another pipeline through Turkey to Europe, which has since been called the “Turkish Stream” in several media outlets. Yıldız said Turkey’s natural gas consumption in 2014 increased to 48 billion cubic meters (bcm), adding that in 2015 this figure is expected to reach 51 bcm.

He noted Turkey continued to pay the highest to Iranian gas in 2014. “Everybody knows this from all market players, to European countries and arbitrators. It is quite normal to ask to lower this price to more reasonable levels. ... We are now waiting for the announcement of the independent arbitration board’s decision on the behalf of Turkey,” he said.

Turkey is trying to increase power production from coal instead of natural gas – no incentives will be available for new natural gas thermal plants, he said. “Turkey has to increase its power generation from coal like Germany and other industrialized countries have done; therefore, we will shift incentives available for the gas plants to new coal plants,” he said.

Turkey will start drilling in the Black Sea with oil corporation Shell in the first months of the new year, he said. Turkey will also drill for hydrocarbons in different parts of Turkey using unconventional drilling methods in cooperation with the American multinational corporation Halliburton, he added. The minister said a total of \$1.1 billion was being invested in oil-and-gas exploration in Turkey. “The Turkish Mining Directorate’s three dimensional seismic ship will be

launched within the first days of the new year and it will be in operation in the second half of 2015," he said. He added that the seismic ship was produced domestically.

About Iraq, the minister said Turkey desired stability in Iraq and added that the dispute between the Kurdistan Regional Government (KRG) and Baghdad administration was resolved. The export of KRG oil through the Turkish port of Ceyhan without the consent of the federal Iraqi government had strained ties between Arbil and Baghdad, triggering a legal wrestle in international courts that included the U.S. and Paris-based arbitration courts. He said 32.2 million barrels of oil were loaded from the Ceyhan port and around \$2.5 billion income was generated. He also added that 3.2 million barrels of oil from the Oil Marketing Company of Iraq was sold via Ceyhan port, of which 520,000 barrels was bought by Tüpraş.

Turkish Lira under dollar pressure

Hurriyet Daily News, 29.12.2014



The year 2014 has been one in which the Turkish Lira plummeted under heavy pressure from the U.S. dollar. The lira last saw such pressure in 2009, the year when the global crisis took hold of Turkey. After overcoming that crisis, it again experienced the stress created by the climbing dollar in 2014. The lira is entering the New Year with a lot of accumulated stress.

With only two work days left before 2015 arrives, if there are no shocking climbs in the lira value of the dollar, then the greenback will close December at an average of 2.28 liras and 2014 at an average of 2.19 liras.

"Thus, the lira will end the year 2014 with a value loss of 15.3 percent against the dollar. The dollar/lira parity closed 2013 with a loss of around 6 percent and an average of 1.90 liras. In 2014, it has experienced the sharpest devaluation since 2009.

In 2009 when foreign investors withdrew immediately due to the harsh effect of the global crisis, the lira lost 19.7 percent of its value against the dollar, while the dollar exchange rate, which was 1.30 liras in 2008, leapt to 1.55 liras in 2009. However, as of 2010, with a fast inflow of foreign investors, the dollar fell again and closed the year 2010 at 1.50 liras. The dollar rose again in the second half of 2011, closing that with an 11 percent loss. The annual average of the dollar was 1.67 liras in 2011. In 2012, the devaluation of the lira against the dollar remained at around 7 percent, and its average was 1.80 liras.

It started becoming obvious in May 2013 that the lira was going to devalue rapidly in 2014. Following the decision by the FED to end their loose money policies, abandon their bond purchases and increase their interest rates, the loss in value of the lira sped up. Simultaneously, local currencies of several emerging countries such as Russia, Brazil, Mexico, South Africa and India rapidly lost value against the dollar; among them, the Russian ruble experienced an extraordinary



devaluation, especially due to the economic sanctions of the United States and its allies and the fall in oil prices. The loss of value in the lira from May 2013 to the end of 2014 reached 28 percent. During this period, while the dollar closed May 2013 with the monthly average of 1.82 dollars, its monthly average in December 2014 became 2.28 liras.

The fall of the lira against the dollar is two points below the 30 percent loss the Brazilian real has experienced. However, it is the Russian ruble that is experiencing the strongest earthquake, actually the disaster, among all the emerging country currencies. The ruble's loss against the dollar as of May 2013 has exceeded 80 percent. The heaviest blow was experienced in the past two months. In order to slow the erosion of the ruble, Russian monetary authorities are trying all means, including the extraordinary increase of interest rates, but the problem seems to lie in finding a political compromise with the U.S. The South African rand also, among emerging country currencies, has devaluated more than 22 percent. It is also significant that the Mexican peso lost nearly 19 percent, while the Indian rupee went down nearly 15 percent.

Including the lira, the devaluation of local currencies of emerging countries against the dollar has not come to an end. With the interest rate increasing operations of the U.S. likely to start in the first quarter of 2015, the interest of foreign investors will be lost for countries such as Turkey. This would mean both a lower growth for an economy that grows with external resources and also a much greater loss in value of the local currencies against the dollar.

In terms of Turkey, the dollar, which will be closing 2014 with an average close to 2.20 liras, is unlikely to start falling in 2015. The lira was troubled when the foreign capital inflow, which was \$72 billion in 2013, dropped to approximately \$37 billion in 2014. Officials attempted to restrict the dollar's climb by applying interest rate increases. The dollar/lira parity, which saw 2.40 liras at the beginning of January, prompted the Central Bank to shockingly increase overnight repo interest rates by 5.5 points, up to 10 percent. The climbing of the dollar was stopped with this measure, while its fever went down with the decreasing of the political risk at March 30 local elections. But, again, as 2014 comes to an end, the lira's annual devaluation is over 15 percent.

In 2015, any increase in the inflow of foreign capital to Turkey is not expected because of the increase in U.S. interest rates and because of economic, political and geopolitical fragilities. Domestic indicators are far from being heartwarming for the foreign investor. Increases in inflation, especially in food products, are showing resistance. Unemployment in September was 10.7 percent when seasonally adjusted; also, it looks as if it will climb further in the coming months. Many experts share the view that the economy, which grew far below expectation in the third quarter, will barely close 2014 with 2.8 percent growth. As a matter of fact, 4 percent was the growth target. This target was revised to 3.3 percent. At the end of the day, growth will be 2.8 percent and this means failure in growth targets.

The unpleasant outlook in economic indicators is also true for political risks. The tension is rising due to 2015 being the year of general elections, the climb in the tension between the ruling Justice and Development Party (AKP) and the Fethullah Gülen community and the fact that the AKP government is in a continuous state of intolerance toward opposition. The ongoing debates on corruption and a lack of laws have even strained relations with the European Union.

All of these are factors that have the potential to discourage foreign investors. When you add the geopolitical risk brought by Iraq and Syria, then there are adequate reasons for foreign interest to drop even further. As a result, it is expected that the dollar exchange rate, which has had a monthly average of 2.28 lira in December, will continuously climb in the following months of 2015.

The nearly 15 percent increase in the dollar exchange rate experienced in 2014 first troubled those institutions that had loans in dollars. Two-thirds of the foreign debts that were announced to be \$402 billion in 2014 belong to the private sector and nearly 40 percent of it is due in less than 12 months. This means, for dollar debtors, that in each rise in the dollar, the debts are increasing with no other factor required.

The debtors in the public sector are subject to this burden at a rate of one-third; the real burden will be on debtor banks and private sector firms. It looks inevitable that the 2014 balance sheets of these corporations will contain significant losses from exchange rates. It has been suggested that this may cause serious falls in share prices and that certain banks and companies may demand rescue operations. As well as making importation more expensive, deterring investments, thus slowing down growth and rising unemployment and causing cost inflation, the hike in the dollar exchange rate will cause other damage at an increasing rate in the coming months, according to expectations.

Terrorism costs Turkey \$1 trillion

Hurriyet Daily News, 27.12.2014



Turkey has lost some \$350 billion directly and \$1 trillion indirectly over the last 30-40 years due to terrorism and its spillover effects, said Finance Minister Mehmet Şimşek.

“It is not easy to calculate how much terrorism costs Turkey. Turkey has lost around \$350 billion over the last 30-40 years due to terrorism, according to several experts. We can say terrorism has cost Turkey around \$1 trillion overall,” he said at the Symposium of Detection and Analysis of Financial, Economic and Social Impacts of Organized Crime. The eastern and southeastern regions of the country couldn’t attract direct investment due to terrorism, he said.

“Terrorism and other unlawful actions, such as drug trafficking, fuel each other. Organized money laundering is the greatest problem here. The fight against these actions must be multilateral,” he said. “Unless we drain crime organizations of their financial resources, we cannot win this fight,” he added.

He noted that Turkish inspectors have faced several financial institutions, cargo freight companies and online betting companies in money laundering activities, so control over them will continue in the future. Thanks to the steps taken to fight against dirty money, Turkey was removed in November

from the “grey list” of countries drawn up by the 36-member Financial Action Task Force (FATF), a money-laundering watchdog, Şimşek said.

The Financial Crime Investigation Board (MASAK) signed cooperation deals with 43 countries in the fight against money laundering and is also a member of the EGMONT Group, which helps facilitate the exchange of information. Turkey had warned three banks and urged them to cooperate more effectively with the government to share transaction data “in the fight against terrorism,” Şimşek had said on Dec. 7. He noted that all three have since taken the required steps.

Palestinian resolution fails at UN Security Council

AFP, 01.01.2015



A Palestinian bid to secure a U.N. resolution setting an end date for the occupation failed to pass a Security Council vote in a move Israel hailed as a victory.

China, France and Russia were among the eight countries that voted in favour of the text, but the resolution fell short of winning the nine “yes” votes necessary for adoption within the 15-member council. Australia and the United States voted against, and five other countries abstained, including Britain. The failure to win nine votes also spared Washington from having to wield its veto in a move which would have caused it major embarrassment with its Arab allies.

The Palestinian-drafted resolution, which was backed by Arab states, would have paved the way for an independent Palestinian state with east Jerusalem as its capital. It set a 12-month deadline for Israel to reach a final peace deal with the Palestinians and called for a full withdrawal of Israeli troops from the Palestinian territories by the end of 2017.

The council’s rejection of the resolution was hailed by Israel, which said the Palestinians would achieve their dream of statehood only through bilateral negotiations, rather than through “unilateral” moves at the United Nations. “The failure of the Palestinian vote at the Security Council should teach the Palestinians that provocations and attempts to force Israel into unilateral processes will not achieve them anything - quite the opposite,” Foreign Minister Avigdor Lieberman said in a statement. “This deals a blow to efforts by (Palestinian president) Mahmud Abbas to embarrass and isolate us,” said Lieberman’s deputy Tzahi HaNegbi, who is known to be a close associate of Prime Minister Benjamin Netanyahu.

But Russia, one of the three permanent members of the Security Council which voted in favour, said the failure to pass the resolution was “a strategic error.” “Russia regrets that the U.N. Security Council did not manage to adopt the draft resolution,” said Russia’s U.N. envoy Vitaly Churkin after



the vote, accusing Washington of “monopolising” decades of Israeli-Palestinian peace talks and leading them “to a dead end.”

Security Council member Jordan had requested the vote on Dec. 29 despite opposition from Washington, which said the resolution did not address Israel’s security concerns and set arbitrary deadlines. “This resolution sets the stage for more division, not for compromise,” U.S. Ambassador Samantha Power told the council, saying it only addressed the concerns “of just one side.” “Peace will come from hard choices and compromises that must be made at the negotiating table,” she said.

Ahead of the vote, Secretary of State John Kerry had spoken to 13 foreign ministers to explain the U.S. position. In the event, the resolution failed to garner nine “yes” votes, meaning Washington was not compelled to use its veto power which could have angered key Arab allies, including partners in the U.S.-led coalition fighting the Islamic State group in Syria and Iraq.

Argentina, Chad, Chile, Jordan and Luxembourg joined China, France and Russia in supporting the resolution. Lithuania, Nigeria, Rwanda and South Korea abstained, along with Britain. Diplomatic sources said Nigeria had been expected to support the resolution and changed its stance at the last minute.

The vote capped a three-month campaign by the Palestinians at the United Nations to win support for the resolution that would have set a timeframe for ending the Israeli occupation. After the vote, Palestinian envoy Riyad Mansour accused the council of failing to shoulder its responsibilities and vowed to seek other venues to gain recognition. “The Palestinian people and the world can no longer wait. That message, despite the regrettable outcome today, is especially clear,” he said.

Abbas was to meet with top Palestinian officials at his West Bank headquarters at 1630 GMT on Dec. to discuss the next steps in their campaign for statehood. The Palestinians had repeatedly warned that if the resolution failed, they would seek to join international organisations, including the International Criminal Court, where they could sue Israeli officials for war crimes in the occupied territories. France’s envoy said he backed the resolution because of an “urgent need to act” and vowed to continue pressing for a UN role in reviving peace talks. “Our efforts must not stop here. It is our responsibility to try again, before it’s too late,” said François Delattre.

Jordan denies ISIL jihadists shot down its warplane

AFP, 27.12.2014



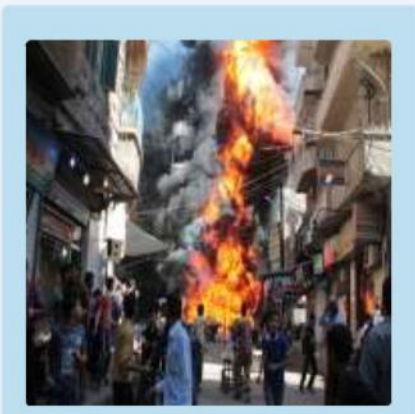
Jordan's military Dec. 26 denied claims by the Islamic State of Iraq and the Levant (ISIL) to have shot down one of its warplanes which crashed in Syria, after the pilot was captured by the jihadists.

“First indications show that the crash of the Jordanian military plane in the area of the Syrian city of Raqa was not caused by Daesh fire,” a military official said using another name for ISIL. “But since the wreckage of the plane cannot be reached and since its pilot is not present, we cannot at this moment determine the exact cause of the crash,” the official said in remarks published on the army's website.

Maaz al-Kassasbeh, a 26-year-old first lieutenant in the Jordanian air force, was captured by ISIL after his F-16 jet crashed while on a mission against the jihadists over northern Syria. The US military has also dismissed the jihadists' claim to have hit the jet with an anti-aircraft missile, saying “evidence clearly suggests that ISIL did not down the aircraft”. The crash was the first warplane from the US-led coalition lost since air strikes on ISIL began in Syria in September, and marks a major propaganda victory for the Sunni extremist group. Jordan is among a number of countries that have joined the air raids against ISIL. Coalition warplanes have carried out regular strikes around Raqa, which ISIL has used as its de facto capital since declaring a “caliphate” in June straddling large parts of Iraq and Syria.

76,000 killed in Syria's deadliest year yet

Reuters, 01.01.2015



More than 76,000 people were killed in Syria's brutal conflict in 2014, making it the bloodiest year yet in the country's nearly four-year war, a monitor said.

The conflict that began in March 2011 shows no sign of abating, with President Bashar al-Assad making a rare public appearance on a front line overnight to bolster soldiers and pro-government fighters. The war has become a multi-front conflict and contributed to the rise of jihadist groups such as the Islamic State. It controls a swathe of territory in both Syria and neighbouring Iraq, where government figures showed at least 15,000 people were killed in 2014.



In Syria, the Syrian Observatory for Human Rights, a monitoring group, recorded 76,021 deaths last year. The Britain-based group documented the deaths of nearly 18,000 civilians throughout 2014, among them 3,501 children. The majority of the deaths were combatants, including nearly 17,000 jihadists, 15,747 rebel forces and 22,627 regime troops and militiamen.

Overnight, Assad visited troops and pro-regime forces in the east Damascus district of Jobar in a rare public appearance. The president's official Facebook and Twitter accounts carried photographs of him in civilian clothes talking with two soldiers by a tank and shaking hands with a third. "As the New Year begins, President Assad is in Jobar with the soldiers of the Syrian Arab Army," the caption said. "If there is still a bit of joy in Syria, it is thanks to the victories you are winning against terrorism," Assad was quoted as telling them.

State television aired footage showing Assad sharing a meal with troops and being saluted by soldiers. Jobar is a former rebel stronghold, but government forces have advanced steadily into it in recent months. It is strategic because of its proximity to Abbasid Square in Damascus, which is key to controlling the centre of the city. It also provides access to the rebels' main rear base on the outskirts of the capital, Eastern Ghouta. Syria's conflict has killed more than 200,000 people, displaced nearly half the country's population and spilled over into its neighbours. The Islamic State group that emerged from Al-Qaeda's one-time Iraqi affiliate now controls a self-proclaimed Islamic "caliphate" in parts of Iraq and Syria. Its expansion, and bloody battles with Iraqi and Kurdish forces, contributed to making 2014 Iraq's bloodiest year since 2007.

Figures compiled by the health, interior and defence ministries put the death toll at 15,538, compared with 17,956 killed in 2007, during the height of Sunni-Shiite sectarian killings. The spiralling toll included clashes involving IS, but also bomb and shooting attacks. The fight against IS has drawn the United States back to Iraq, where it is training Iraqi forces and leading an international coalition to carry out air strikes against the group.

The Pentagon said coalition forces had carried out 17 strikes overnight in Syria, and 12 raids in Iraq. Elsewhere, a video purporting to show two Italian aid workers kidnapped in northern Syria in August was posted online. The footage showed two women dressed in black robes and headscarves identifying themselves as Vanessa Marzullo and Greta Ramelli. The two, both in their twenties, were abducted at gunpoint by an unknown group in Aleppo province last year. In the video, one of the women holds a piece of paper identifying the date as December 17, a Wednesday, and the other urges the Italian government to win their release. The video title on YouTube identifies them as hostages of Al-Qaeda's Syrian affiliate Al-Nusra Front, but the footage included none of the group's hallmarks and was not distributed on any of its official accounts.

Russian economy suffers first major shrinkage since 2009

Reuters, 29.12.2014



Russia's economy shrank sharply in November and the ruble resumed its slide as Western sanctions and a slump in oil prices combined to inflict the first contraction in GDP since the global financial crisis.

The Economy Ministry said gross domestic product shrank 0.5 percent last month, the first drop since October 2009. With oil exports forming the backbone of the economy, analysts said the contraction is likely to worsen. The slide on the oil market accelerated this month after the exporters' group OPEC refused to cut output, and prices are down almost 50 percent from a peak in June.

On top of this, the sanctions imposed over Moscow's role in the Ukraine crisis have deterred foreign investment and led to over \$100 billion flooding out of the Russian economy this year. "With the current oil price we expect things to get worse. There is no cause for optimism," said Dmitry Polevoy, chief economist for Russia and CIS at ING Bank in Moscow. "This is linked to sanctions first of all, oil and the panic we saw on the market in December. The damage to the banking system and consumer sentiment will take a long time to repair."

The sanctions have severely reduced the ability of Russian companies to borrow abroad, triggering the worst currency crisis since Russia defaulted on its debt in 1998. The ruble, which had strengthened on Friday, slumped over 6 percent against the dollar in early trade on Monday in thin trade, although it later regained some of the losses. Overall the ruble's weakness will inevitably lead to higher inflation next year by pushing up the cost of imports, threatening President Vladimir Putin's reputation for ensuring Russia's prosperity. Government ministries forecast the slump in oil prices will lead to a 4 percent contraction of the economy next year and that inflation could exceed 10 percent. The ruble had lost more than half of its value at one stage in December, although it has recovered since then after the government introduced informal capital controls and raised interest rates steeply. The government issued orders to large state-controlled oil and gas exporters Gazprom and Rosneft to sell some of their dollar revenues to shore up the ruble.

Russians have kept a wary eye on the exchange rate since the collapse of the Soviet Union. Hyperinflation wiped out their savings over several years in the early 1990s and the ruble collapsed again in 1998. The falling ruble has prompted huge buying of foreign currency in Russia and heavy withdrawals of bank deposits, heaping pressure on a vulnerable banking sector whose access to Western capital markets is restricted by the sanctions. Russian authorities also significantly scaled up rescue funds for Trust Bank, saying they would provide up to \$2.4 billion in loans to bail out the mid-sized lender, the first bank to fall victim to the crisis.

IMF suspends aid to Greece ahead of new elections

AFP, 29.12.2014



The International Monetary Fund said Dec. 29 it was suspending financial aid to Greece under its huge rescue program until a new government is formed after elections slated for late January.

“Discussions with the Greek authorities on the completion of the sixth review of the program... will resume once a new government is in place, in consultation with the European Commission and the European Central Bank,” IMF spokesman Gerry Rice said. Rice however assured that the holdup in the program would not impact the country’s finances in the short term.

The sixth review of the IMF’s four-year, \$35 billion loan program for Greece, part of a much larger joint IMF-EC-ECB financial rescue, aims at ensuring the government is meeting particular budget and reform targets before releasing a new tranche of the loan. Greek lawmakers failed in a third attempt to elect a new president and Prime Minister Antonio Samaras proposed to hold a parliamentary election on January 25. That sparked concerns that the far-left Syriza party could capture a dominant position in the legislature and roll back tough austerity measures required under the IMF program.

Lithuania’s euro expectations

Euronews, 01.01.2015



Lithuania is seven years behind schedule bringing in the euro this January 1st. It has been lined up to replace its litas currency since 2002 but its struggle amid the global financial crisis kept putting this off.

The experience has been positive for them. Vilnius hopes that by becoming the 19th member of the euro bloc, Lithuania’s trade will get a boost and its borrowing costs will fall. In the 28-member European Union, 337 million people now share a common currency, with three million Lithuanians. They have gone through a years-long stretch of tough budget cuts which led 150,000 of them to leave the country.

Now the government forecasts a long-term rise in GDP of 1.3 percent linked to the adoption of the euro. It is anticipating GDP growth of 2.9 percent for 2014, helping (if confirmed) the country to recover from a 15 percent contraction in 2009 at the height of the global financial crisis. At least one agency (Fitch) expects the economy to grow by 3.5 percent this year, three times as fast as the euro zone as a whole. Lithuania's credit rating is now well into investment grade, despite rising political tensions. IG market analyst Alastair McCaig underscored: "There is certainly a long-standing history of insecurity being felt by many of these Baltic nations very much lying in the middle between Russia and the West, and I think any further allegiance they can have with the western business environment would further strengthen their sense of security." Some 60 percent of Lithuania's exports go to EU partners today, 20 percent to Russia. In a determined drive for energy independence from its former Soviet supplier, Lithuania acquired a giant liquefied natural gas vessel in October, which makes importing from Norway a competitive option.

Sweden can't avoid immigration debate

AFP, 28.12.2014



Sweden may have narrowly avoided snap elections that would have been dominated by a debate on immigration, but with asylum seekers arriving in record numbers the issue is unlikely to stay off the agenda for long, analysts say.

The Sweden Democrats, a far-right party holding the balance of power in parliament, had said they wanted the polls to serve as a "referendum on immigration" and they almost succeeded. "If we had ended up with snap elections, we would have talked a lot about immigration and it would have been on the Sweden Democrats' terms," said Camilla Sandstroem, a political scientist at Umeaa University.

The Sweden Democrats, who came third in September parliamentary polls, this month pushed Prime Minister Stefan Loefven to call early elections after they refused to back his budget to signal discontent with his generous immigration policies. Loefven, a Social Democrat, announced a surprise deal with the centre-right opposition that enables him to stay in the job without seeking a new mandate from voters. He unveiled a wide-ranging agreement that aims to ensure political stability until 2022 by allowing the traditional parties to govern without asking for support from the Sweden Democrats. "It's a bit surprising that the immigration issue is not part of the deal," said Sandstroem. "We urgently need to discuss it."

Sweden, with a population of 9.6 million people, has one of Europe's most liberal immigration policies and is expected to receive up to 105,000 asylum seekers next year, according to official estimates. This record number is partly due to a sweeping gesture announced last year to grant permanent residency to all Syrian refugees who make it to Sweden.

Most Swedes are proud of the openness and tolerance associated with their country. However, many also insist on the need to discuss the consequences of their immigration laws. "We have to

talk more about immigration and integration. No one talks about it and that gives the protest parties more room because they are willing to address the issue,” said Jakob, a 35-year-old IT consultant, who declined to give his last name.

Critics argue politicians like former Prime Minister Fredrik Reinfeldt, who says Sweden can handle many more immigrants, are out of tune with the reality on the ground. They say integration has generally been much less successful than claimed by the political establishment and a lack of open debate has made the situation worse. A series of riots last year by stone-throwing and car-burning youths in several immigrant-heavy neighborhoods, mainly in the Stockholm area, has added to the controversy. Elin Wihlborg, a social scientist at Linköping University near Stockholm, said a conversation on immigration is bound to happen before the next election, slated for late 2018.

“Most people in Sweden agree that we are an open nation and we want to welcome asylum seekers for a period of time, but the big problem at the moment is how we actually treat people who have arrived here,” she said. She added that Swedish municipalities, who often complain about housing shortages, could end up triggering a public debate on immigration. “It’s very much the responsibility of the local governments to manage asylum seekers, and I think the national government has to take that issue more seriously because the local politicians in the municipalities can’t really cope,” said Wihlborg.

Anders Widfeldt, an expert on Swedish politics at the University of Aberdeen in Scotland, said Swedes were having the debate already. “There is talk about unemployment. There is talk about integration. There is talk about crime,” he said. “What on Earth is it that is not being debated? It’s just that it’s being debated on different terms.” What Swedes really want to avoid is a debate that opens up “negative, stereotyping, stigmatizing feelings about people that come from other countries and have fled for their lives,” he said.

France says more than 1000 citizens joined terror groups

Anadolu Agency, 30.12.2014



At least 1,000 French nationals are linked to terror organizations around the globe, especially in Iraq and Syria, French Interior Minister Bernard Cazeneuve said.

He said there are at least 380 French nationals who are fighting for the Islamic State in Iraq and the Levant (ISIL). About 60 of the fighters have died and another 180 are believed to be a route to Iraq and Syria to join militant groups such as ISIL and al-Qaeda, Cazeneuve said. French authorities estimate that there are about 200 French nationals who have returned to France after participating in terrorist activities around the world.

In November two French nationals appeared in an ISIL video that showed the beheadings of an American hostage and 18 Syrian soldiers. Meanwhile German authorities said some 3,000 citizens of Western European countries, including 400 Germans, have joined ISIL with 1,132 of them being French nationals. Cazeneuve has submitted a bill to the French parliament which stipulates that those suspected of traveling to conflict zones abroad to join terror organizations will lose their French identity cards. The bill is still being debated in the French parliament. He also expressed the need to close Islamic militant websites since 90 percent of them were recruited through the internet.

Nigeria's no-vote on Palestinian statehood 'betrayal': Apex Muslim body

Anadolu Agency, 02.01.2015



Nigeria's Supreme Council for Islamic Affairs (NSCIA) has accused the government of betraying the Nigerian people after abstaining from voting in favor of a motion seeking recognition for an independent Palestinian state at the UN Security Council.

"By this development, we felt that Nigeria government had betrayed the people of Nigeria and created serious problems for the nation's foreign policies," NSCIA Secretary-General Ishaq Oloyeda said in a statement. "It was indeed a slap on the faces of all the freedom fighters," he added. Nigeria unexpectedly abstained from voting.

Israeli Prime Minister Benjamin Netanyahu later said he had called Nigerian President Goodluck Jonathan and Rwanda's Paul Kagame to help frustrate the Palestinian bid. The motion needed at least nine votes to succeed but only eight nations voted in its favor.

The Nigerian decision to abstain from voting has drawn considerable criticism, largely locally, because the abstention meant foreign policy somersaults for a nation with a history of pro-Palestinian decisions. "The policy has betrayed the heroes of Nigeria. Therefore those at the helms of affairs of our foreign affairs should explain the reasons for their action on the Palestinian issues. It was indeed a step against freedom," Oloyeda said.

He said that the Nigerian move had unacceptable religious coloration and should be condemned. "Our foreign policy had never had anything to do with religion. That is why we want the people of this great country to hold this government responsible for this diplomatic issue involving the Palestinians," the NSCIA chief said.

Many Nigerian analysts and Muslim groups see Nigeria's "no-vote" as a volte face in the country's history. Nigeria, upholding its oft-stated pro-justice and fairness principles in foreign relations, had repeatedly voted in favor of Palestinians at the UN. Last year, Abuja backed the admission of Palestine as an observer state at the world body. "Not only does Nigeria's abstaining from this

historic opportunity to promote peace and justice at the UN fail to represent the sentiments of Nigerians, it is reprehensible that our government has forced us to be silent in the face of injustice,” Disu Kamor, executive chairman of the Muslim Public Affairs Center, said in a statement.

Elections set pace for South Asian politics in 2014

Anadolu Agency, 31.12.2014



South Asia’s political landscape has changed significantly in the last year, with historic and controversial elections having a strong impact on its political trends and the course of regional relations.

When Afghan President Ashraf Ghani Ahmadzai took office in September, it marked the completion of his country’s first democratic transition of power, after a long, contentious presidential election, which began in April. Negotiations brokered by U.S. Secretary of State John Kerry settled a dispute over vote fraud between Ghani and his rival in the second round run-off, Abdullah Abdullah.

A final recount confirmed Ghani the winner and the former World Bank economist has since put the revival of Afghanistan’s economy high on his agenda, at a time when U.S. and NATO-led foreign forces are withdrawing from the country after more than a decade.

The new Afghan President has looked to strike deals for trade and investment with others in the region, including Pakistan and India. At a summit of South Asian leaders in November, he said he wants Afghanistan to become “the Asian roundabout, where goods, ideas and people will flow in all directions.”

Bigger and flashier was the Indian election. The six-week long extravaganza ended in May with Narendra Modi entering the prime minister’s office after winning the election on a platform of economic recovery.

Modi portrayed himself as the pro-business candidate to stimulate a sluggish Indian economy but concerns were raised about his Hindu nationalist Bharatiya Janata Party’s approach to minority rights. Modi himself still faces allegations of responsibility for inter-communal riots that killed 2,000 people, most of them Muslim, in the state of Gujarat in 2002, while he was the state’s chief minister.

Modi soon set to work revitalizing India’s foreign relations by meeting with the leaders of the U.S., China, Russia and Japan over the coming months. He initially seemed to be willing to improve relations with neighbor and rival Pakistan, by inviting Pakistani Prime Minister Nawaz Sharif to his inauguration ceremony.



Sharif himself was elected in May 2013, but the whole matter was re-opened by his rival, cricketer-turned-politician Imran Khan. In August, Khan and his supporters staged a long march from the northeastern city of Lahore to the capital, Islamabad, where they staged an unsuccessful four-month sit-in demanding Sharif's resignation and an investigation into electoral fraud.

Bangladesh's general election in January saw the ruling Awami League maintain its position, but the process was tense and at times violent amid a boycott by the main opposition Bangladesh Nationalist Party over disputes over how the procedure should have been handled.

A presidential election was announced for Jan. 8 in Sri Lanka and current President Mahinda Rajapaksa will face his own former minister Maithripala Sirisena, who caused mass defections from Rajapaksa's cabinet when he announced his candidacy in November. The election will be only the second since Sri Lanka's decades-long civil war ended in 2009.

Nepal's election came just before the year began, in November 2013, but it was 2014 that saw the Constituent Assembly try to draft the country's constitution as part of its recovery from the 10-year civil war that ended in 2006. Disputes, including objections from the opposition Maoist parties, mean that most observers believe it is unlikely the constitution will be delivered by its January deadline.

The first half of the year was spent with Pakistan's government engaging the Taliban in peace talks but they broke down in June, leading to renewed violence and a large-scale military operation against militants in the northwest. The most shocking violence came in December, when the Taliban attacked an army-run school in the northwestern city of Peshawar, killing 134 children in a nine-hour siege.

The attack shocked Pakistan and opened the way for a more aggressive political and military approach to the Taliban. Several convicted Taliban members were hanged, ending a moratorium on executions that had stood since 2008, there were mass arrests of alleged Taliban affiliates, and army courts were given jurisdiction over high-profile terror cases.

As foreign troops withdrew from Afghanistan, the country witnessed its most violent year since their arrival in 2001. The UN reported in December that more 3,000 civilians had been killed in 2014, saying that the Taliban caused three-quarters of the deaths. The Taliban had escalated its activities surrounding the presidential election and withdrawal of foreign forces, attacking police and army bases regularly but also targeting civilians. In November, an attack on a volleyball match killed 40 civilians.

India became the first country to successfully put a satellite into orbit around Mars on its first attempt, in September. "History has been created today, we have dared to reach out into the unknown and have achieved the near impossible," said Indian Prime Minister Narendra Modi. Modi held the mission up as an example of the potential of domestic scientific research and also praised the mission's low cost, which was \$600 million less than NASA's Mars Maven project.

Building inter-communal tensions were highlighted when three people killed and thousands displaced by riots in a Muslim-majority town in southern Sri Lanka in June. The attacks followed a rally by the hardline Sinhalese Buddhist nationalist group Bodu Bala Sena, who have been accused of inciting hate against Sri Lanka's Muslim population and other minority groups.

A sudden snowstorm in Nepal's mountains in October caused the country's worst hiking disaster, killing at least 43 people. The snowstorm came at the peak of Nepal's tourist season, which attracts trekkers to the Himalayan Mountains, and was reportedly caused by Cyclone Hudhud, which had passed through Bangladesh and India. The disaster sparked government pledges for a reform of adventure tourism and improved weather warning systems.

An oil tanker sank in Bangladesh's Sunderbans nature reserve, the world's largest mangrove forest, spilling 350,000 liters of oil in December. A slow government response allowed the oil to spread quickly, threatening the area's wildlife including endangered Bengal tigers and dolphins that swim through its waterways.

North Korea's Kim says open to 'highest-level' talks with South

Hurriyet Daily News, 01.01.2015



North Korean leader Kim Jong-Un proposed the "highest-level" talks with South Korea opening the way to a historic summit as his communist country battles to fend off international prosecution over its dismal human rights record.

The sudden move, made during his traditional New Year message, would clear the path for the first top-level inter-Korean meeting since a 2007 summit in Pyongyang. "Depending on the mood and circumstances to be created, we have no reason not to hold the highest-level talks," Kim said.

South Korean media said he was referring to a summit with President Park Geun-Hye. Kim also urged Washington to take a "bold shift" in its policy towards Pyongyang and denounced the US for leading an international campaign over the North's human rights record. "The US and its followers are holding on to a nasty 'human rights' racket as their schemes to destroy our self-defensive nuclear deterrent and stifle our republic by force become unrealisable," he said.

He described nuclear weapons, meanwhile, as the guardian of his country and vowed to sternly retaliate against "any provocations" threatening its dignity. Pyongyang faces growing pressure to improve its dismal human rights record, with the UN stepping up a campaign to refer the North's leaders to the International Criminal Court for crimes against humanity.

The isolated nation, meanwhile, suffered a mysterious Internet outage last month after Washington vowed retaliation over a crippling cyber-attack blamed on North Korea against Sony, the studio behind a controversial film about a fictional plot to assassinate Kim.



The South's unification ministry in charge of inter-Korean affairs welcomed Kim's overture and urged the North to quickly accept its proposal for high-level talks this month. "Our government wants North Korea to respond quickly to our proposal for dialogue if it is truly willing to improve relations through dialogue," it said in a statement.

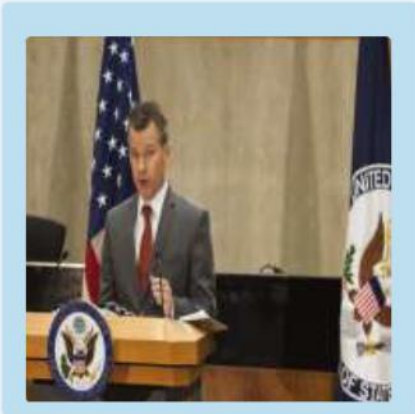
A US State Department official, meanwhile, said: "We support improved inter-Korean relations." Kim said in his message that Pyongyang "will make every effort to advance dialogue and negotiations", adding that the "tragic" division of the Korean peninsula should not be tolerated. The leader's tone was generally conciliatory, but he made it clear that South Korea should end its joint military exercises with the United States. "Needless to say, faithful dialogue is not possible in such a brutal atmosphere that war exercises targeting the other side are going on," Kim said.

The last round of top-level negotiations was held in February and resulted in the North hosting a rare union of relatives separated by the 1950-53 Korean War. The two Koreas agreed to restart dialogue when a top-ranking North Korean delegation made a surprise visit to the Asian Games held in the South in October. The trip raised hopes of a thaw in relations between the neighbours, but was followed by minor military clashes along the border that renewed tensions and talks never materialised. Park has repeatedly said the door to dialogue with Pyongyang is open, but insists the North must first take tangible steps towards abandoning its nuclear weapons programme.

Analysts said Kim was extending an olive branch after realising that Pyongyang could not end its isolation without improving ties with Seoul. "North Korea opted for a practical line after facing up to reality, because it is now difficult to improve ties with the United States and other countries," Yoo Ho-Yeol, a Korea University professor, said. Kim's New Year message, which sets the direction of policy for the coming year, also focused on improving living standards in North Korea, which suffers chronic food shortages. When his father and late leader, Kim Jong-Il, died in December 2011, he left a country in dire economic straits, the result of a "military first" policy that fed ambitious missile and nuclear programmes at the expense of a malnourished population. Kim, however, also urged North Koreans to work harder in strengthening the country's military capabilities through the development of "powerful advanced" weapons. Under his leadership, North Korea has placed a satellite in orbit and conducted its third -- and most powerful -- nuclear test.

US says Navalny sentences ‘disturbing’ sign of crackdown

AFP, 30.12.2014



The sentencing of a Russian political dissident and his brother is another troubling sign that Russia is increasingly suppressing political opposition, the U.S. said.

“The decision is a disturbing development in our view, and it appears to be designed to further punish and deter political activism,” State Department spokesman Jeff Rathke told reporters. “This appears to be another example of the Russian government’s growing crackdown on independent voices.” A Moscow court ordered Russian opposition blogger Alexei Navalny to serve a three-and-a-half year probation and pay \$8,972 in fines following his conviction on fraud charges.

The charges, against Alexei and his brother Oleg, are largely seen as politically motivated. Oleg was sentenced to three-and-a-half years in prison and is required to pay the same half million-ruble fine. The brothers intend to appeal the verdict. Alexei Navalny achieved notoriety for his anti-corruption blogging, but his association with Russian grass-roots opposition in 2011 and 2012 drew the ire of the Kremlin. In 2013, a court convicted Navalny of embezzlement in connection with a state-owned timber company. That case was widely seen as being politically-motivated. The verdict and sentencing were originally scheduled for Jan. 15. The timeframe was sped up Monday evening, however, when it was announced that the sentencing would take place on the morning of Dec. 30. It is widely suspected that this move was calculated to avoid protests, which had been planned for Jan. 15 in Moscow’s Manezh Square. But nearly 1,500 were drawn to neighboring Red Square on Tuesday night to protest against the sentences before being dispersed by police. Minor scuffles with police were reported.

Announcements & Reports

► *Foresight Africa: Top Priorities for the Continent in 2015*

Source : Brookings

Weblink : <http://www.brookings.edu/research/reports/2015/01/foresight-africa-top-priorities>

► *Top Brookings Infographics of 2014*

Source : Brookings

Weblink : <http://www.brookings.edu/blogs/brookings-now/posts/2014/12/top-brookings-infographics-of-2014>

► *A Greek Crisis, but not a Euro Crisis*

Source : Brookings

Weblink : <http://www.brookings.edu/blogs/up-front/posts/2014/12/29-greek-crisis-not-euro-crisis-elliott>

► *Europe's democracy trilemma*

Source : Chatham House

Weblink : <http://www.chathamhouse.org/publication/europe%E2%80%99s-democracy-trilemma>

► *Challenges at the Intersection of Cyber Security and Space Security*

Source : Chatham House

Weblink : <http://www.chathamhouse.org/publication/challenges-intersection-cyber-security-and-space-security-country-and-international>

Upcoming Events

► *Ageing and Health: Policy-making in an Era of Longevity*

Date : 09 February 2015

Place : London – United Kingdom

Website : <http://www.chathamhouse.org/conferences/ageing>

► *Security and Defense*

Date : 23 February 2015

Place : London – United Kingdom

Website : <http://www.chathamhouse.org/Defence2015>



► *Diversifying MENA Economies*

Date : 02 - 03 March 2015
Place : London – United Kingdom
Website : <http://www.chathamhouse.org/conferences/MENA-Economies>

► *Creating an Effective Financial System*

Date : 09 March 2015
Place : London – United Kingdom
Website : <http://www.chathamhouse.org/conferences/financialsystem>

► *Innovation Forum 2015*

Date : 26 March 2015
Place : Chicago – USA
Website : <http://www.economist.com/events-conferences/americas/innovation-2015>