

OECD cuts Turkey's growth outlook by 0.1 percent

Reuters, 03.06.2015



The Organisation for Economic Co-operation and Development (OECD) cut Turkey's growth forecast for 2015 to 3.1 percent from 3.2 percent, the organization said.

"Growth weakened in Turkey in early 2015, after a short-lived upturn in late 2014. The uncertainties associated with the forthcoming legislative elections and ongoing geopolitical tensions in the region are holding back investment and consumption spending," the report said. "GDP growth is projected to pick up gradually over 2015 and 2016, after the 'wait and see' attitudes of businesses and households dissipate, but to remain below potential," it added.

The OECD also lowered its 2016 growth forecast for Turkey from 4 percent to 3.9 percent. The Paris-based think tank, funded by its membership of primarily wealthy countries, cut its 2015 global growth forecast much more sharply, to 3.1 percent from the 3.7 percent it was forecasting last November. It also said it expected a rise in the pace of global GDP growth of 3.8 percent in 2016. The OECD has said it expects lower oil prices to ensure a gradual recovery, even if weak investment remains a worry. Growth is also being buoyed by ultra-supportive central bank policies in the large developed economies and in many places outside the United States by a stronger dollar, which makes the exports of other currency zones relatively cheaper, it added.

U.S. growth, which dipped notably in early 2015, is now seen at 2.0 percent for the year, marginally lower than last year's 2.2 percent, before picking up to 2.8 percent in 2016. Aided by the triple-boost of cheaper oil, European Central Bank asset-buying and the rise in the dollar exchange rate, the eurozone countries are expected to post GDP growth of 1.4 percent this year and 2.1 percent next year, the OECD said. Ultra-supportive central bank policies have been aiding both the U.S. and European economies, and also Japan, where GDP this year is expected to be 0.7 percent, before 1.4 percent in 2016. While commending the monetary policy responses and saying it saw oil prices adding a quarter of a percentage point to growth rates in both 2015 and 2016, the OECD voiced concern. "The main reason for the weakness in investment is the weak recovery itself and doubts over the prospects for stronger growth," the OECD said. "There are also specific reasons for individual countries: Still tight lending conditions in parts of Europe, lower oil prices in North America, past investment excesses in China and continued adjustment in housing in much of the OECD," the report said. The International Monetary Fund (IMF) last January trimmed its global growth forecasts by 0.3 points for both 2015 and 2016 to 3.5 and 3.7 percent respectively - not far off the OECD's numbers.

Turkey's exports decline by 19 percent in May year-on-year

Hurriyet Daily News, 01.06.2015



Exports in May were down 19 percent from the same month in 2014, the Turkish Exporters' Assembly (TİM) said, amid fallout from an autoworkers' strike in May and the decrease in euro-dollar parity.

Exports in May were announced at \$10.8 billion. In the first five months of the year, exports decreased to \$61.3 billion. For the last 12 months, exports declined 2.7 percent year-on-year to \$151.7 billion. Announcing the May export figures, Turkish Exporters' Assembly head Mehmet Büyükekşi said the negative effect of the parity was around \$1.1 billion in May and \$5.7 billion in the first five months of the year.

Büyükekşi added the labor disputes in the automotive sector caused more than \$500 million in loss across the economy. During the labor protests across the automotive sector, which started on May 15 in the northwestern province of Bursa, production activities halted in several car giants, including Oyak Renault, Tofaş and Ford Otosan. The activities then resumed in the first two companies as well as in most auto part factories. While automotive exports decreased to \$1.48 billion, a 27.4 percent decline, in May from the same period of the previous year, the sector remained the top exporter, according to the TİM data. The automotive sector was followed by the chemical products sector with \$1.38 billion, a 13 percent decrease, and the confection sector with \$13.5 billion, a 16.4 percent decrease, in May from the same months of the previous year.

In the first five months of the year, automotive exports decreased by 11.9 percent from the same period of 2014 to \$8.52 billion. The most exports were made to Germany, Britain, Iraq, Italy and the U.S. in May, Büyükekşi said. The exports to Germany, however, decreased by 26 percent from the same month of last year, to Britain by 16 percent, to Iraq by 38 percent, to Italy by 22 percent and to the U.S. by 15 percent. The highest increase in exports was seen in the exports to Singapore among the top 30 importers of Turkey by a 544 percent increase in May from the same month of the previous year. As the TİM's figures do not include gold exports, more dramatic decreases are seen in its figures than those from the Turkish Statistical Institute (TÜİK). Turkey's foreign trade deficit narrowed in January to \$4.31 billion, a 37.5 percent decrease from the same month of the previous year, due to the decrease in oil prices and the rise in gold exports, mainly to Switzerland, as the TÜİK announced.

Turkey annual inflation surges to highest level in 2015

Doğan News Agency, 03.06.2015



Turkish annual inflation edged above 8 percent for the first time this May, data from the TÜİK showed.

The annual rate of inflation rose to 8.1 percent in May from 7.9 percent the previous month, while annual inflation on a twelve month moving average basis rose to 8.45 percent over the same period, according to TÜİK data. The highest monthly increase was in clothing and footwear at 10.06 percent, followed by transportation with 1.76 percent, hotels, cafes and restaurants with 1.2 percent, recreation and culture with 1.1 percent and furnishings and household equipment with 0.8 percent.

On the other hand, the highest monthly decrease was in food and non-alcoholic beverages prices at 2.68 percent followed by communications at 0.16 percent. Finance Minister Mehmet Şimşek said the trend in core inflation was good and there would be improvement in the coming months at a televised interview after the data were revealed. He also said he expected food prices to show improvement. Turkey's Central Bank governor, Erdem Başçı, on April 30 raised his year-end inflation forecast to 6.8 percent from 5.5 percent, citing a weak lira and higher-than-expected oil prices.

Former Borsa Istanbul head eyes seat in post-election economy

Anadolu Agency, 02.06.2015



Turkey's economic institutions must be reconstructed while comprehensive growth-oriented economic policies need to be realized after the elections, said İbrahim Turhan.

“Although I have no early expectations, after the election, I am ready to take on any responsibility that the government may offer me,” said Turhan, who is also a former board member of Turkey's Central Bank. “Turkey should relook at all of its economic institutions, and review their general philosophy and even consider a new fiscal policy to catch up with the rest of the world,” Turhan told Anadolu Agency on June 1.

“Many countries have changed the structure of their financial institutions since the crisis. The Bank of England has merged with the Financial Services Authority. The European Central Bank has taken on a wider responsibility for banking regulation and supervision. Before the crisis, one could hardly imagine that the ECB would lend to the banking industry based on instruments with a five-years maturity, at an almost-zero interest rate, buying private sector mortgage-based securities with almost no liquidity. The same thing happened in the U.S. with the Troubled Asset Relief Program,” Turhan said. The U.S. TARP was a program allowing the Federal Reserve to purchase such instruments as part of a stimulus program. The European Central Bank is engaged in a similar stimulus program, injecting liquidity into the financial system. “[Still] the new government will continue the free-market policies that have made Turkey successful. Institutions matter, not people, and the important institutions will continue: The AK Party program has made this very clear; the free-market economy will continue, the open economy will continue, the free float of the exchange rate for the Turkish Lira will continue, and the Turkish Central Bank will remain independent,” Turhan said.

There is concern among international investors about how Turkey’s economy will evolve if the Federal Reserve raises interest rates, he said. “This concern is misplaced,” Turhan said. “First of all, I argued last September that there would be no rate hike before the end of this year. Everyone, at the time, expected one before the summer, but I am pleased to see now that I was right.” Federal Reserve Gov. Janet Yellen said there would be an interest rate increase this year, but only when conditions permitted it. “The earliest expectation is September now, and it probably will be after that,” Turhan said, adding that the U.S. economic recovery was weak and that the strong dollar was a challenge to U.S. policy makers. “Further, although unemployment is down, the rate of labor participation is declining, so there are actually a large number of people out of the workforce.” When the Fed decides to raise the rates, the rise will be gradual, so its effect on Turkey will be small, Turhan said.

Gold sales to Switzerland cut Turkey’s trade gap

Hurriyet Daily News, 01.06.2015



Gold sales to Switzerland have once again helped Turkey narrow its trade gap, this time dramatically to \$4.96 billion in April from \$7.3 billion for the same month the previous year.

The institute valued April exports at \$13.4 billion, a 0.2 percent increase year-on-year, while imports were down to \$18.4 billion with an 11.1 percent decline. The country’s exports to the EU, Turkey’s main trading partner, declined by 10.4 percent in April to \$5.3 billion. Switzerland was the main export destination for Turkey in April as the European country bought \$1.25 billion worth of goods from the country, some \$1.24 billion of which was in gold.

Some 80 percent of the \$1.43 billion gold exports from Turkey was directed to Switzerland. The United Arab Emirates followed by buying almost all of the remaining amount. Gold sales jumped 27-fold in April from the same month in 2014, according to a Bloomberg calculation. Turkey's foreign trade deficit narrowed in January to \$4.31 billion, a 37.5 percent decrease from the same month of the previous year, due to the decrease in oil prices and the rise in gold exports, mainly to Switzerland. The top country for Turkey's imports was China at \$1.9 billion. "The figure is above estimates. But it was close and we are on the verge of elections which markets tend to avoid sharp moves. That's why market reaction is limited," said Adnan Çekcen, a financial analyst at Destek Securities in Istanbul, while commenting on the trade balance figures.

"After March, in which we saw a 14.4 percent decrease, there was a 0.2 percent increase in exports. This is important because at least it showed that decline in exports halted. Besides, imports showed a decline at 11.2 percent while it was down near 6 percent in March," Çekcen said. "Many authorities expected a slide in value of Turkish Lira would support our exports but we see it did not come out as expected. This indicates that weak foreign demand, as it was repeatedly pointed by the Turkey's Central Bank, adversely affected exports." Çekcen noted that Turkey's exports performance was prone to be affected by geopolitical tensions, especially in its neighbors and trade partners much more than the competitive level of the lira against other currencies.

Car sales in Turkey up 40 percent in May

Anadolu Agency, 03.06.2015



The number of vehicles sold in Turkey jumped over 40 percent in May year-on-year.

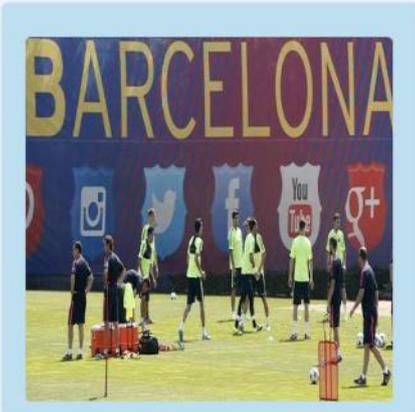
In May, combined sales of automobile and light commercial vehicles were up 40.3 percent to 81,542 compared with 58,121 in May of last year according to a report from the association. Automobile sales alone rose 35.5 percent year-on-year to 62,878, while light commercial vehicle sales saw a 59 percent increase during the same period. The number of cars sold in the country rose by 45.7 percent to 260,080 and of light commercial vehicles by 79.1 percent to 86,312 in the first five months of the year, compared to the same period of 2014.

General Coordinator of Turkey's Automotive Distributors Association Hayri Erce said in the report the strong growth performance of the market was mainly related to the low base level in the previous year. The association did not make any change in its total market target at around 900,000-950,000 for the whole year.



Turkish tire firm signs deal with FC Barcelona

Anadolu Agency, 03.06.2015



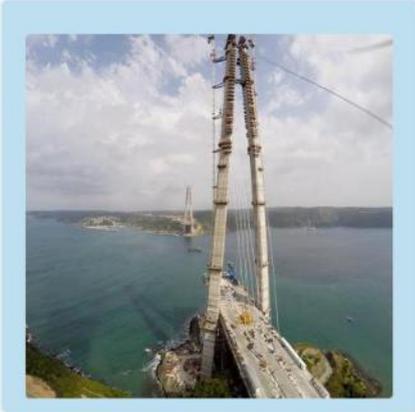
Turkey's leading tire manufacturer, Lassa, June 3 announced a 21.6 million euro sponsorship deal with FC Barcelona.

The four-year global partnership agreement between Lassa Tyres and Spain's top football club will see the club's basketball, handball, roller hockey and five-a-side football teams officially rebranded FC Barcelona Lassa - the first time the club's indoor sports teams have shared a commercial partner. "With this partnership deal, Lassa Tires made history as the first Turkish brand to undertake the global title partnership of all indoor sports teams of a club," Brisa, the company that owns the Lassa brand, said in a statement.

"Lassa Tyres also became the second global brand that supports more than one FC Barcelona team." Brisa Chief Executive Hakan Bayman said, "FC Barcelona is among the world's most appreciated clubs. It is an example-setting club in traditional values, social vision and a strong academy culture. "We believe that Brisa's respect for people and environment, and our focus on sustainable development are in line with FC Barcelona's deep-rooted values." Barcelona Vice President Javier Faus welcomed the "historic agreement" and added, "We couldn't wish to have a better partner. Lassa Tyres forms part of a leading industrial group in Turkey, where Barça is a big name and where we already have very important partners. Brisa is Europe's seventh largest tire manufacturer and sells in more than 60 countries. There are more than 1,200 shops in Turkey and 122 stores abroad selling Lassa Tyres.

Firms building Istanbul's third bridge demand postponement of bankruptcy

Hurriyet Daily News, 01.06.2015



Three subcontracted firms undertaking the road, tunnel and excavation works for Istanbul's third bridge have demanded a postponement of the declaration of their bankruptcy due to cost increases, amid uncertainty over dollar rates.

Courts had ruled to take an injunction decision after ESA İnşaat, İSDEM Yapı and Saryapı İnşaat were unable to pay their debts. The courts also assigned trustees to the firms, according to court documents. The demand to postpone the bankruptcy declaration was subsequently prompted by a distortion in the financial structures of the firms and an increase in dollar rates.

ESA İnşaat has been carrying out excavation works on the bridge's Asian pier, but the firm's financial structure has been distorted due to the increase in the dollar exchange rate. İSDEM Yapı İnşaat, which is carrying out the highway works leading to the bridge, has demanded a suspension of its bankruptcy declaration after it ran into debts. Saryapı İnşaat, which is carrying out a 10-kilometer-long road construction linked to the bridge has also made the same request. The construction of the third Bosphorus Bridge, named after the 16th century Ottoman Sultan "Yavuz" Selim, began in 2013.

EIB loan to help Turkey's SMEs

Anadolu Agency, 03.06.2015



The European Investment Bank (EIB) has agreed to offer loans worth 200 million euros (\$222 million) to Turkey's state-owned bank, Ziraat Bank, to finance small and medium-sized enterprises (SMEs) as well as medium-sized corporates, the Turkish Treasury announced in a statement.

The loan will be guaranteed by the Treasury. In a separate statement, Ziraat Bank said another 100 million euros (\$111.5 million) could be made available to the bank until the end of the year, to be paid back over eight years after a three-year grace period. The bank has taken loans for total of 600 million from the European Investment Bank since 2012.

Ziraat Bank has 1,701 branches across Turkey and 84 branches in sixteen foreign countries including Germany, Bosnia and Herzegovina, Kazakhstan, Russia, the U.K., the U.S., Georgia, Bulgaria and Greece.

Israeli planes strike Gaza after rocket attacks

AFP, 04.06.2015



Israeli warplanes struck multiple militant targets in the Gaza Strip in response to earlier Palestinian rocket fire, but nobody was injured according to Palestinian security sources.

They said that the raids hit three training bases of the Izzadine al-Qassam brigades, the military wing of Hamas, in Gaza City and a fourth in the southern city of Khan Yunis. An Israeli military statement spoke only of three hits in total and did not give their location or identify the targets. “Two rockets were launched at southern Israel from the Gaza Strip,” it said adding that they fell on open ground. “No injuries were reported.”

“In response to this attack, the Israel Defence Forces struck three terror infrastructures in the Gaza Strip,” it said. Police reported that three rockets were fired but that patrols were searching to find where they had fallen. There was no immediate claim of responsibility, but Israel has a general policy of holding Hamas responsible for every rocket attack from the territory under its control, no matter which group actually launched it. Israeli public radio said the latest volley could be related to internal Gaza infighting between the strip’s Hamas rulers and its extremist opponents.

Hamas security forces shot dead a Salafist leader in Gaza City during a confrontation. The incident came as Hamas stepped up measures against militants belonging to Islamic extremist groups, some of whom are known as Salafists. Salafists are Sunni Muslims who promote a strict lifestyle based on that of early “pious ancestors”. In Gaza they have made no secret of their disdain for Hamas over its observance of a tacit ceasefire with Israel and its failure to implement Islamic law. Since last summer, when Israel and Hamas fought a deadly 50-day war in and around Gaza, there have been growing signs of internal unrest between Hamas security forces and extremist splinter groups.

Saudi-led alliance launches air strikes on Yemen capital

Reuters, 03.06.2015



Air strikes by a Saudi-led Arab alliance shook Sanaa, mainly targeting military bases aligned with the dominant Houthi group, residents said.

Houthi officials said there were casualties but gave no further details. Locals saw ambulances racing to the scene. "The ... blasts made me jump out of bed," one man who identified himself as Assem told. Residents said the war planes launched at least ten strikes north of Sanaa, causing massive explosions. The Saudi-led coalition began air strikes in Yemen in March in a campaign to restore Yemeni President Abd-Rabbu Mansour Hadi to power.

Hadi fled to Aden in March, after the Houthi fighters began advancing on the southern port city amid a political standoff. The Houthis seized the capital Sanaa in September after what they said was a frustrating campaign to persuade Hadi's administration to bring them into the political system. They also said they were seeking to stop corruption by senior officials in Hadi's administration. Air strikes hit the home a Houthi leader in the central province of Ibb, and targeted areas in the northern province of Saada and the southern province of Lahj, residents said.

Paris says 110 jihadists from France killed in Iraq and Syria

AFP, 03.06.2015



French Prime Minister Manuel Valls said that 110 jihadists who left French territory to fight with the Islamic State of Iraq and the Levant (ISIL) had died in Iraq and Syria.

"More than 860 individuals have spent time in these countries, 471 of which are still there and 110 of which are dead," Valls told the Senate as it studies an intelligence bill approved by lawmakers in May. Nine of those died in suicide bombings, said Valls. France, along with Belgium, has seen the largest numbers of citizens or residents leaving to join the ISIL jihadist group, which has seized large parts of Syria and Iraq.

The phenomenon has raised fears that radicalised citizens may return to carry out attacks on home soil. A new intelligence bill giving the state sweeping powers to spy on its citizens has been in the works for some time but gained impetus after a jihadist killing spree in January in Paris left 17 dead. It is now before the upper house Senate, dominated by the right-wing opposition UMP which has just been renamed The Republicans. Valls defended the bill which has been criticised for being overly intrusive, and said intelligence gathering “would target people who present a real threat to our security.”

Kiev to allow foreign armed forces in Ukraine, incl. ‘potential carriers of nukes’

Reuters, 29.05.2015



The Ukrainian parliament has adopted amendments to state law allowing “admission of the armed forces of other states on the territory of Ukraine.” The possible hosting of foreign weapons of mass destruction is also mentioned in the documents.

Amendments to Ukrainian law were adopted on Thursday by the Verkhovna Rada, receiving a majority of 240 votes (the required minimum being 226). The bill was submitted to the parliament in May by PM Arseny Yatsenyuk. It focuses on the provision of “international peacekeeping and security” assistance to Ukraine at its request.

Peacekeeping missions are to be deployed “on the basis of decision of the UN and/or the EU,” the bill published on the parliament’s official website says. Previously, the presence of any international military forces on the territory of Ukraine not specifically sanctioned by state law was only possible by adopting a special law initiated by the president. Implementation of the new amendments “will create necessary conditions for deployment on the territory of Ukraine international peacekeeping and security” missions without the need for additional legal authorization, the explanatory note to the draft bill said. The presence of such armed forces in Ukraine “should ensure an early normalization of situation” in Donbass, the note added, saying that they would help “restore law and order and life, constitutional rights and freedoms of citizens” in the Donetsk and Lugansk regions.

In a comparative table, published among the accompanying documents to the bill, “potential carriers of nuclear and other types of weapons of mass destruction are permitted under international agreement with Ukraine for short-term accommodation,” with Kiev providing proper control during the period that such forces were stationed there. Implementation of the law “will not require additional expenditures from the State Budget of Ukraine,” its documents say. The previous law also required that the length of time temporary peacekeeping forces were to be deployed in Ukraine be stipulated, while the new amendments allow an indefinite period, long enough “to achieve the goal of the stay.”

A separate amendment banned the presence of “armed forces of states that unleash military aggression against Ukraine.” This appears to be a clear reference to the Rada’s January statement calling Russia an “aggressor” – although the body has been reluctant to approve a legally binding law saying exactly that. Moscow denies being part of the conflict, stressing that Kiev is fighting a civil war with eastern Ukrainians, not Russian forces. The Kremlin has consistently and adamantly denied any presence of Russian troops or hardware in eastern Ukraine, pointing out that there is no evidence proving otherwise. With violence in south-eastern Ukraine on the rise again, it is “very important to avoid any actions or steps that provoke escalation of tension,” Kremlin spokesman Dmitry Peskov said on Thursday, as quoted by RIA Novosti. Saying that there is “no shortage” of provocative actions from Kiev’s side, Peskov said the main point is “to concentrate on implementation of [Minsk] agreements.” “This is what Moscow expects the most,” he added. The new bill on international peacekeeping missions in Ukraine contradicts the Minsk agreements, Russian State Duma MP Leonid Slutsky said. “Minsk-2 did not provide for peacekeepers in resolution of the national conflict,” Slutsky said, as quoted by TASS.

The new legal act is “doomed for inaction,” a member of the Russian Duma’s defense committee, Franz Klintsevich, said, adding that the bill is “pure PR and propaganda.” “I cannot simulate a situation in which the United Nations will vote to deploy international military to Ukraine,” Klintsevich told journalists, as cited by RIA Novosti. The Lugansk People’s Republic’s envoy to the so-called Contact Group on Ukraine in Minsk, Vladislav Dainego, commented that the law was adopted to “justify the presence” of foreign military that are “already operating in Ukraine.” “There are some 20,000 [troops], primarily from Hungary and Poland,” Dainego claimed when speaking to Interfax, adding that the status of those forces was unclear. Kiev came up with the initiative to employ peacekeeping missions in Donbass earlier this year.

World Bank raises 2015, 2016 growth forecasts for Russia

Reuters, 29.05.2015



The World Bank said it expects Russia’s economy to contract less sharply than previously thought in 2015, citing a recovery in oil prices in recent months, a stronger ruble and slowing inflation.

The bank, which also raised its forecast for 2016, said it now sees gross domestic product falling by 2.7 percent this year as opposed to by 3.8 percent. Birgit Hansl said the changed conditions would allow the central bank to ease monetary policy at a faster rate this year, supporting the economy. The World Bank’s new estimate is broadly in line with the Economy Ministry’s forecast for a 2.8 percent contraction.

The bank said the outlook for the Russian economy remained uncertain. “Significant downside risks to our projection remain, as the global oil market continues to search for its new equilibrium and the commitment to structural reforms needs to be supported by a concrete set of strong policy actions,” Hansl said in a statement on the World Bank’s website. Economic indicators suggest the downturn is gathering pace, with the Economy Ministry saying GDP fell by 4.2 year on year in April, worse than analysts had forecast and than March’s 2.7 percent slide. Economists are slightly more optimistic about Russia’s prospects towards the end of the year and for 2016. The World Bank sees GDP rising by 0.7 percent in 2016 and by 2.5 percent in 2017. Its latest 2016 forecast is also better than its previous projection for a decline of 0.3 percent. Hansl said: “We are optimistic that significant structural reforms will be part of the 2016-2017 budget proposal, which would allow for a steady recovery.”

Greek crisis talks end without breakthrough

AFP, 04.06.2015



Greece and its creditors failed to reach a breakthrough at crunch talks in Brussels despite saying they had made progress towards a deal that could save Athens from a possible euro exit.

Anti-austerity Prime Minister Alexis Tsipras met European Commission chief Jean-Claude Juncker in a bid to hammer out a reform plan that could unlock the final 7.2-billion-euro tranche of Greece’s bailout. They said they would meet again soon but left the four-hour meeting without any agreement, leaving Greece on its own to face a critical payment to the International Monetary Fund and avoid a possible default.

“The talks will continue in the coming days,” said Tsipras -- whose radical Syriza party was elected in January on the back of promises to end five years of painful austerity measures that plunged Greece into recession. The Greek premier said that there were “points that no one would consider as a base for discussion” during the talks and that Greece’s reform plan “remains the only realistic plan on the table”. International creditors had presented a rival plan that they hammered out without Greece at a meeting in Berlin attended by the leaders of Germany and France. He added however that after months of often bad-tempered talks between Athens and its creditors, “there was proof from the Commission that it is at least disposed towards reaching a realistic agreement very quickly.” But Eurogroup chief Jeroen Dijsselbloem, who also attended the four-hour talks over dinner in Brussels, told reporters it was a “very good meeting”.

The European Commission -- the executive arm of the 28-member European Union and one of Greece's three bailout monitors along with the IMF and European Central Bank -- said in a statement that there had been "progress" during the talks. "It was a good, constructive meeting. Progress was made in understanding each other's positions on the basis of various proposals. It was agreed that they will meet again," it said. Senior eurozone officials are due to hold a teleconference later June 4, officials told AFP. Many EU leaders will also be in Brussels for a Latin American summit next Wednesday and Thursday. On the way into the working dinner Juncker and Tsipras shook hands for the cameras but there was none of the horsing around at earlier meetings when Juncker mocked the radical Greek leader's refusal to wear a tie. Greece's eurozone partners and its creditors had wanted a deal by June 5, when Athens must repay the IMF 300 million euros.

Fears of a messy Greek exit from the euro are growing, with its current 240-billion-euro bailout programme is due to run out at the end of June, and a total of 1.6 billion euros in payments due to the IMF in total this month, which Athens does not have. In the hours before the Tsipras-Juncker meeting there were frantic efforts to bridge the gap between the demands of the creditors and the hard-left Syriza government's determination to end austerity measures. German Chancellor Angela Merkel and French President Francois Hollande acknowledged "the necessity" to lower primary surplus targets a key sticking point with Athens during phone talks with Tsipras, Greek sources said. Athens has insisted on lower targets that would allow it to honour promises to voters to increase public spending, having already made compromises on pension reform and sales tax. Any deal that does eventually emerge faces a major hurdle as the reforms would have to be approved by the Greek parliament. This could be tough given that Tsipras is under intense pressure from Syriza's influential radical wing to reject any plan that piles more austerity on the recession-hit country. Some Syriza officials have said they would rather hold snap elections than accept more austerity.

France, Germany raise concerns over EU migrant redistribution plan

Reuters, 01.06.2015



France and Germany raised concerns over a European Commission plan to redistribute migrants reaching Italy and Greece, saying it must take better account of efforts they have already taken to help asylum-seekers.

The Commission proposed to ease pressure on Italy and Greece, which are struggling to deal with thousands of immigrants crossing the Mediterranean in flimsy boats from Libya, through an emergency scheme to redistribute 40,000 Syrian and Eritrean asylum-seekers throughout the European Union. Under the plan, Germany and France would together take nearly 40 percent of the 40,000 migrants.

The interior ministers of France and Germany said they were ready to study the Commission's proposal, based on a fair proposal for sharing out the migrants. "This distribution (mechanism) must above all take better account of the efforts already made by member states on international protection," they said, presenting a joint Franco-German position. The statement, together with concerns expressed by Spain and eastern European states, suggest the EU faces a tough fight agreeing how to share out the 40,000 migrants. The statement highlighted the efforts France and Germany are already making, pointing out that nearly three-quarters of asylum applications in the EU are made in five member states - Germany, France, Sweden, Italy and Hungary. Ministers Bernard Cazeneuve and Thomas de Maiziere said the EU's emergency mechanism "must be founded on two equally important principles: responsibility and solidarity. We believe that the balance between these two principles has not yet been reached in the proposal presented by the Commission."

More than 5,000 migrants trying to reach Europe have been saved from boats in distress in the Mediterranean since May 29, EU authorities say. Thousands of people, mostly from war-torn African and Middle Eastern countries, have died trying to cross the Mediterranean this year. Southern European states are clamouring for more EU help to deal with migrants, but with anti-immigration parties on the rise amid economic problems and austerity, many states resist taking large numbers of asylum-seekers. The European Commission suggested sharing out the 40,000 asylum-seekers among EU member states based on each EU country's population, economy, unemployment and the number of asylum applications received in the past five years. Interior ministers are due to discuss the plan on June 15 and 16. Britain, Denmark and Ireland have exemptions on EU matters on immigration and Britain has said it will not participate in the relocation scheme or a separate EU plan to resettle 20,000 refugees from outside the bloc.

Italy's Renzi stumbles in local elections

Reuters, 01.06.2015



Italian Prime Minister Matteo Renzi suffered a setback in local elections, with a weaker-than-expected showing by his centre-left bloc and a marked rise in support for the right-wing Northern League and the anti-establishment 5-Star Movement.

With 22 million Italians eligible to vote in the biggest test for Renzi since last year's European elections, projections showed centre-left candidates well ahead in the central regions of Tuscany and Marche and the southern region of Puglia. The centre-left also led more narrowly in the Campania region around Naples and in Umbria.

However, in a blow for the 40-year-old premier, who had been accustomed to steamrolling his political rivals since seizing power after a party coup last year, the northwestern region of Liguria looked set to fall to centre-right after a leftist anti-Renzi candidate split the centre-left vote.

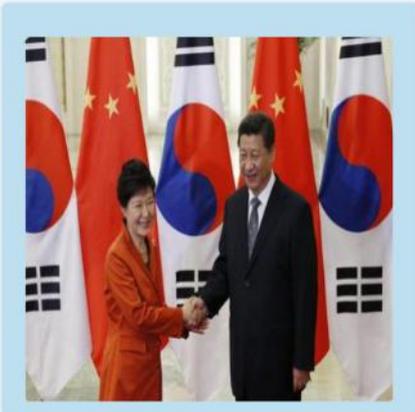
In Veneto, the eurosceptic Northern League was on course for a crushing win to hold on to power in one of its northeastern heartlands and its bluntly spoken leader Matteo Salvini also sharply increased its support outside its home base. Projections of the combined result showed Renzi's centre-left Democratic Party (PD) with 22.6 percent of the overall vote in the seven regions, ahead of the 5-Star Movement on 19.6 percent, the Northern League on 12.9 percent and Forza Italia on 10.3 percent. Full results are expected. Although direct comparisons are of only limited relevance because the electorate was different, the PD's performance was far down from last year's European elections, when it scored a record 41 percent of the vote.

Opinion polls, which have a poor track record in Italy, had suggested the PD would remain the biggest party by a far higher margin. The local ballots have no direct bearing on national politics but the result was a sobering warning for Renzi ahead of potentially bruising reform battles in parliament in the coming months. The 5-Star Movement of former comic Beppe Grillo looked set to take the largest share of the vote of any single party in Liguria, Campania and Puglia, even if it came behind other blocs in which several parties joined forces. "This is a resounding result," Luigi Di Maio, deputy speaker of parliament and one of the 5-Star Movement's most prominent younger leaders, told RAI state television. The Northern League also consolidated its status as the biggest centre-right party, eclipsing former Prime Minister Silvio Berlusconi's Forza Italia and underlining the strength of anti-system parties in the eurozone's third largest economy. "Renzi and his government were supposed to defeat the anti-politics of Grillo and they're not doing it," said Renato Brunetta, Forza Italia's parliamentary floor leader.

Renzi's government needed a convincing result to maintain momentum for labour, education and constitutional reforms which have met fierce resistance from trade unions, the political opposition and the left wing of the PD. However, internal PD tensions erupted on Friday when parliament's anti-mafia committee released the names of 16 local election candidates suspected of corruption or organised crime links. By far the most high-profile of the "impresentabili" or "unpresentable" candidates was Vincenzo De Luca, Renzi's candidate for president of Campania, a crime-ridden southern region around the city of Naples. Results suggest De Luca may win anyway, but the furore over his candidacy may possibly have weakened the PD nationwide. The strong showing of the 5-Star Movement echoed the success of Spain's anti-austerity Podemos party in local elections last weekend, while the Northern League probably gained from the reaction to the unprecedented numbers of African and Middle-Eastern migrants that have arrived on Italy's shores this year.

S. Korea, China formally sign free trade pact

Reuters, 01.06.2015



China and South Korea formally signed a free trade agreement (FTA) that would remove most tariffs between Asia's largest and fourth-largest economies, whose trade is already worth more than \$200 billion.

The pact aims to gradually remove tariffs on more than 90 percent of traded goods within 20 years. China is the South's top trading partner as well as the biggest export market, and two-way trade stood at around \$235.3 billion in 2014, according to state data in Seoul. South Korea is also one of the biggest foreign investors in China, pumping in some \$1.6 billion in the first quarter of this year.

South Korean President Park Geun-Hye, in a letter to Chinese leader Xi Jinping, called the accord a "historic milestone" that would further cement relations. "The Korea-China FTA will ... take the bilateral ties that had been built over the years to a whole new level," Park said in the letter delivered to the visiting Chinese trade minister Gao Hucheng. Pending mandatory parliamentary approval, the FTA will allow small and medium-sized South Korean firms greater access to China's vast consumer market and help create more than 50,000 jobs in the South, Seoul's trade ministry said. "In particular, exports of consumer goods in fashion, cosmetics, home appliances and high-end food products will increase greatly," it said in a statement.

The agreement will remove tariffs on 71 percent of South Korean exports to China in 10 years and 91 percent in 20 years. Seoul will in return remove tariffs on 79 percent of Chinese imports in 10 years and 92 percent in 20 years. Negotiations for the agreement, which began in May 2012, have often been marred by angry protests by South Korean farmers who feared an influx of cheap Chinese imports. The final pact excluded many of South Korea's major farming and fisheries goods like rice, beef, pork, pepper and squid. By the same token, China excluded or delayed the opening of its relatively less-developed manufacturing segments such as the auto sector and display panel production. Kim Hyung-Joo, an analyst at the LG Economic Research Institute, said the arrangement may eventually bring more harm than gain to the South. "I don't think South Korea's well-protected agriculture sector will be able to improve competitiveness in 10 or 20 years," Kim said. "But the sectors China managed to protect like LCD (liquid crystal display) panels or carmaking will surely improve their productivity and competitiveness," he added.

OECD calls US dip a blip, but chops world growth forecast

AFP, 03.06.2015



The OECD sharply lowered its global growth forecasts for 2015 and 2016, dragged down partly by a “transitory” shortfall in US performance.

“Global growth is projected to strengthen in the course of 2015 and 2016, but will remain modest relative to the pre-crisis period,” the OECD said. It predicted the world economy would grow at a rate of 3.1 percent this year. The growth forecast for next year has been revised downward half a percentage point, from 4.3 to 3.8 percent, with an expectation that the world economy “will strengthen gradually to approach its past average pace by late 2016.”

The OECD, a policy analysis body grouping 34 advanced economies, slashed its outlook for the United States from 3.1 and 3.0 percent to 2.0 and 2.8 percent for this year and next. The Paris-based think-tank said the stronger dollar and a brutal North American winter -- which it said caused “transitory disruptions” -- put a brake on growth in the first quarter of 2015, while predicting: “Activity should regain steam, with aggregate demand propelled by continued employment gains, wealth effects from rising asset prices, and the boost to purchasing power from lower oil prices.” China, too, will grow more slowly than the OECD predicted in March, by two-tenths of a percentage point lower in both years, at 6.8 percent and 6.7 percent in 2015 and 2016. “Consumption will remain robust” in China, where growth will also be spurred by stepped-up infrastructure investment, it said.

The OECD said that overall, “the economic recovery from the global financial and economic crisis that broke out in 2008 has been unusually weak.” The knock-on effects have included continuing job insecurity, sluggish development in emerging economies and “rising inequality nearly everywhere”, the report said. However, the OECD said it expected growth “to be shared more evenly across regions of the world” in the coming period. Its outlook for the eurozone was unchanged for this year and slightly rosier for 2016, at 2.1 percent from 2.0 percent thanks to lower oil prices, the weak euro, better financial conditions and fresh stimulus spending. But unemployment in the eurozone will remain stubborn, declining to a still painful 10.25 percent by the end of next year, the OECD said. The report chided businesses and governments for what it called “tepid” investment. “By and large, firms have been unwilling to spend on plant, equipment, technology and services as vigorously as they have done in previous cyclical recoveries,” it said. “Moreover, many governments postponed infrastructure investments as part of fiscal consolidation,” it said, with negative effects on employment and wages and therefore consumption. “On the supply side, sluggish investment has undermined the rate of growth of potential output - the capacity of economies to increase living standards, make good on future obligations to citizens, and repay debt,” the report said.



Among global risk factors it cited were new drops in oil prices; failure to reach a “satisfactory” deal between Greece and its creditors; a “hard landing” in China; and a “disorderly exit” from Washington’s zero interest rate policy. It said it expected oil prices to “stabilise above current levels” but well below the \$110 per barrel average of the three years preceding last year’s precipitous drop. If sanctions are lifted against Iran, the OECD said the key oil producer could return to full output quickly, prompting others to “lift their supply as well in an attempt to preserve market share.” This, in turn, would loosen the market and cause prices to rebalance at even lower levels, it said. Greece faces a June 5 deadline to repay more than 300 million euros (\$328 million) to the IMF. Overall it needs to repay the global lender some 1.6 billion euros this month, funds it currently lacks. The OECD urged a further easing of monetary policy in China “to stabilise growth and contain deflationary pressures.” The US Federal Reserve funds rate has remained locked at zero since the end of 2008 as the Fed has sought to help pull the economy back from the Great Recession. Fed boss Janet Ellen last week said to expect a rate hike “at some point this year” as the economy continues to mend.



Announcements & Reports

► *The Russian Challenge*

Source : Chatham House

Weblink : http://www.chathamhouse.org/sites/files/chathamhouse/field/field_document/20150605RussianChallengeGilesHansonLyneNixeySherrWood.pdf

► *America in the Arctic*

Source : CSIS

Weblink : <http://csis.org/publication/america-arctic>

► *Australia Has a Larger Role to Play in the South China Sea*

Source : CSIS

Weblink : <http://csis.org/publication/australia-has-larger-role-play-south-china-sea>

► *Europe's Radical Banking Union*

Source : Bruegel

Weblink : <http://www.bruegel.org/publications/publication-detail/publication/880-europes-radical-banking-union/>

Upcoming Events

► *Turkey and The EU After The Election*

Date : 10 June 2015

Place : Brussels - Belgium

Website : <http://www.bruegel.org/nc/events/event-detail/event/528-turkey-and-the-eu-after-the-election/>

► *What Digital Union?*

Date : 10 June 2015

Place : Warsaw - Poland

Website : <http://www.bruegel.org/nc/events/event-detail/event/518-what-digital-union/>

► *How to Complete Monetary Union*

Date : 18 June 2015

Place : Paris - France

Website : <http://www.bruegel.org/nc/events/event-detail/event/520-how-to-complete-monetary-union/>



► *Chinese Foreign Direct Investment: The European Policy Agenda*

Date : 29 June 2015
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/535-chinese-foreign-direct-investment-the-european-policy-agenda/>

► *National Perspectives on The Euro Area*

Date : 07 July 2015
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/536-national-perspectives-on-the-euro-area/>

► *Competitive Gains in the Economic and Monetary Union*

Date : 21 July 2015
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/534-competitive-gains-in-the-economic-and-monetary-union/>