

Turkey runs nearly \$7 bln budget deficit in first half of 2017: minister

Hurriyet Daily News, 20.07.2017



Turkey ran a budget deficit of 25.2 billion Turkish Liras (about \$6.9 billion) this January to June with fiscal measures to stimulate the economy costing nearly 12 billion liras (\$3.3 billion), Finance Minister Naci Ağbal said on July 17.

The budget deficit in June stood at 13.7 billion liras (approximately \$3.9 billion), compared to a surplus of 6.4 billion liras (around \$1.8 billion) in May. "The budget deficit for the first six months of this year stands at 53.9 percent of the government's end-year targets," Ağbal said.

The government is aiming for a budget deficit of 46.9 billion liras (nearly \$12.9 billion) at the end of the year, according to the Finance Ministry. Turkey's government ran a 29.3 billion lira (some \$9.7 billion) budget deficit last year.

Ağbal said government revenues in the first six months reached 299.2 billion liras (approximately \$82.2 billion), while budget expenditures were 324.4 billion liras (around \$89.1 billion), marking an almost \$7 billion deficit. "Fiscal measures to stimulate the economy, like expenditure programs and tax incentives, cost 11.9 billion liras [some \$3.3 billion] in the 2017 budget," he said.

Between January and June, government tax revenues came in at 246.1 billion liras (around \$67.6 billion), while interest expenditures reached 27 billion liras (nearly \$7.4 billion) over the same period. Ağbal stated that there would be no tax increases or adjustments for the purpose of extra revenue until the end of this year. "The Turkish economy showed a strong recovery in all respects," he said.

"Last year's coup attempt, terrorist incidents, geopolitical developments, weak foreign demand, and the referendum process... All of them tested the strength of our economy," he said, in which he referred to a public vote this April on a series of sweeping changes to Turkey's constitution. According to the Turkish Statistical Institute, Turkey's economy grew 5 percent in the first quarter this year, compared to the period of January-March 2016.

Over the last three years, the Turkish economy expanded 5.2 percent in 2014, 6.1 percent in 2015, and 2.9 percent in 2016. The Turkish economy's growth target for the end of 2017 is 4.4 percent, according to the government's medium-term program.

IMF hails Turkey's progress in fiscal transparency

Hurriyet Daily News, 19.07.2017



The International Monetary Fund (IMF) has praised Turkey's progress in fiscal transparency practices in a new report. In its fiscal transparency evaluation report for Turkey, which was released on July 18, the IMF said Turkey made considerable strides in enhancing its practices over the past decade and a half.

Since first volunteering for a fiscal transparency evaluation in 2000, Turkey has substantially improved the comprehensiveness, timeliness and reliability of publicly available fiscal information, according to the IMF. Fiscal reports have become more comprehensive, detailed and reliable, it said.

"In 2000, fiscal reports covered only budgetary central government, included only cash revenues and expenditures, recognized only stocks of cash and debt, lacked a unified accounting system and were compiled and disseminated by a range of public institutions. Today, fiscal data covers general government accrued revenues and expenditures, includes a full balance sheet, follows a GFSM/ESA-based economic and functional classification and is collated by a single body [the Ministry of Finance] via an integrated accounting system," it added.

Fiscal forecasts and budgets have also become more unified, performance-oriented and forward-looking, read the report.

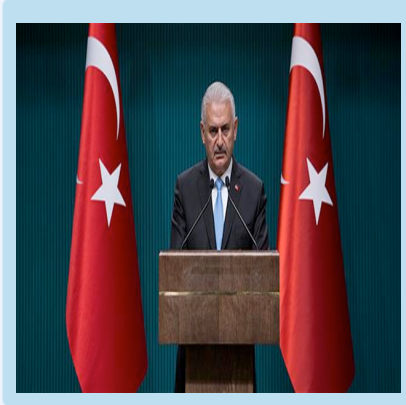
"In 2000, the budget covered around three-quarters of central government primary expenditure and excluded 13 extra-budgetary funds [EBFs] accounting for 3 percent of GDP, included limited information on macroeconomic developments, focused solely on the budget year and provided no clear statement of the government's fiscal or sectorial objectives. Today, the budget is formulated within a comprehensive legal framework, covers almost 90 percent of central government primary expenditure with EBFs reduced in number to 5 and size to 1.4 percent of GDP in 2013, provides detailed three-year economic and fiscal projections and includes medium-term financial and nonfinancial targets for each ministry and the government as a whole," it added.

Fiscal risk management has improved dramatically, it also added. "As a result of the above reforms, Turkey has made significant progress against the 36 principles of the IMF's new Fiscal Transparency Code," the IMF said.

Based on the evaluation set out in the report, of the 36 principles in the code, Turkey now meets 10 principles at the basic level, 13 principles at the good level and six principles at the advanced level. Fiscal transparency practices are strongest in the area of fiscal reporting while the most progress has been made in the area of fiscal risk disclosure over the past 15 years, the report read.

Turkey reshuffles gov't, keeps foreign team, changes PM's aides

Hürriyet Daily News, 20.07.2017



Turkey's Prime Minister Binali Yıldırım announced the much-anticipated cabinet reshuffle on July 19, changing four of his five deputy premiers while keeping the foreign team in place and introducing six new names.

The new cabinet was announced by Yıldırım after his unannounced meeting with President Recep Tayyip Erdoğan whose influence on governmental actions have been much more obvious after he was elected head of the ruling Justice and Development Party (AKP) in late May. "All our friends who have been appointed to the cabinet and those who are leaving have outstanding qualifications."

One of the most important aspects of the change is the fact that Prime Minister Yıldırım renewed four of his five deputy prime ministers, including the government spokesman. Deputy Prime Minister Tuğrul Türkeş, who joined the AKP after his resignation from the Nationalist Movement Party (MHP) and Deputy Prime Minister Veysi Kaynak, who was responsible for Syria related issues as well as refugees, have been left out of the government.

Two other Deputy Prime Ministers Nurettin Canikli and Numan Kurtulmuş, who is also the government spokesman, have been appointed as defense and culture-tourism ministers respectively while the latter will have to abandon his role as spokesperson. Only Deputy Prime Minister Mehmet Şimşek who is responsible for coordinating the economy could secure his position as the deputy premier in the new cabinet. Yıldırım appoints four new aides

As a result of these changes, Yıldırım promoted Justice Minister Bekir Bozdağ and Health Minister Recep Akdağ as new deputy prime ministers while appointing Bursa Deputy Hakan Çavuşoğlu as one of the deputy premiers. Çavuşoğlu is among six new names in the cabinet. These changes indicate that Yıldırım wanted to work with figures he can better cooperate in the new process.

Despite expectations, no major changes have taken place in the foreign team. EU Minister Ömer Çelik and Foreign Minister Mevlüt Çavuşoğlu preserved their places although speculations were high that President Erdoğan's chief foreign policy advisor İbrahim Kalın could resume a role in a foreign-policy related position at the cabinet.

On economy, Mehmet Şimşek and Economy Minister Nihat Zeybekçi have remained in their roles in coordinating economy. Canikli's role in coordinating investments and banking will be transferred to one of the new deputy prime ministers. Energy Minister Berat Albayrak, son-in-law of President Erdoğan, will continue his service to the government as the energy minister. Development Minister Lütfi Elvan and Finance Minister Naci Ağbal also secured their positions.

Six new names

Along with Deputy Prime Minister Hakan Çavuşoğlu, Justice Minister Abdülhamit Gül, Labor Minister Jülide Sarıeroğlu, Youth and Sports Minister Osman Aşkın Bak, Food and Agriculture Minister Eşref Fakıbaba and Health Minister Ahmet Demircan are new names in the government. Former Labor Minister Mehmet Müezzinoğlu, Youth and Sports Minister Akif Çağatay Kılıç, Food and Agriculture Minister Faruk Çelik, Culture and Tourism Minister Nabi Avcı have left their positions to their successors through the reshuffle.

Two female ministers

With the appointment of Jülide Sarıoğlu, a lawmaker from Adana, as the labor minister, the number of female ministers in the Turkish cabinet increased to two. Family Minister Fatma Betül Sayan Kaya, who was deported by the Dutch government from the Netherlands in a bid to avoid her meeting with the Turkish community in Rotterdam ahead of the April 16 referendum, could keep her position in the government. Sarıeroğlu is an expert on trade unions and had served at the Confederation of Righteous Trade Unions (HAK-İŞ).

Key minister in place

Interior Minister Süleyman Soylu has become one of the figures who could protect his position in the government due to his relentless struggle against the Fethullahist Terror Organization (FETÖ) and the outlawed Kurdistan Workers' Party (PKK).

Turkish banking sector remains structurally stable: S&P

Hurriyet Daily News, 18.07.2017



Turkish banking sector is regulated and monitored more favorable than emerging economies, but it is still reliant on short-term external debt, according to global rating agency Standard and Poor's.

“Our assessment of [banking] industry risk in Turkey, at [group] six, largely reflects relatively low domestic savings, which partly explains why Turkish banks are more reliant on short-term external debt than their peers in other countries,” S&P said on July 17.

According to the rating agency's report, Turkey's banking sector has been classified in group six with Brazil, Italy, Thailand, Slovenia, Brunei, Colombia, Guatemala, Trinidad and Tobago, and Uruguay. S&P highlighted moderate household and corporate indebtedness in Turkey along with bank regulation, supervision and governance, comparing it favorably with that of many emerging economies. "Positively, the [banking] system remains structurally stable and continues to adequately price risks, as demonstrated by healthy profitability metrics," the agency said.

Noting the factor of weaknesses, the S &P underlined moderate per capita income and high inflation in Turkey. "Although banks have granular and well-diversified loan books, their credit risk is accentuated by rapid credit growth in years of fast economic growth and high share of lending in foreign currency," the agency added.

S&P holds Turkey's foreign currency credit rating at BB and its local currency credit rating at BB+ in the long term. The rating agency released latest update for the country in January by lowering Turkish economy's outlook to "negative" from "stable."

Turkey welcomes removal of Turkish base from list of demands imposed on Qatar

Hurriyet Daily News, 20.07.2017



Turkey has welcomed the removal of a demand to shut down the Turkish base in Qatar from a list of demands imposed by Saudi Arabia and four other countries on the gas-rich country, calling it a positive move.

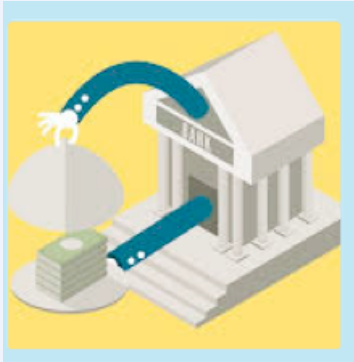
"Turkey has always made constructive calls to parties. These have already yielded consequences. Reducing the number of demands from 13 to six and the removal of a demand to shut the Turkish base are positive developments," Presidential Spokesperson İbrahim Kalin told reporters at a press conference on July 20.

Kalin recalled that President Recep Tayyip Erdoğan will embark on a tour to three Gulf countries - Saudi Arabia, Kuwait and Qatar - between July 23 and 24. The purpose of the visit is to further contribute efforts to find an immediate solution to the problem between Qatar and the four Arab nations.

Saudi Arabia, Bahrain, the United Arab Emirates and Egypt imposed a set of sanctions on Qatar on June 5 on grounds that the gas-rich country was supporting and financing terrorist organizations. A 13-article list was given to Qatar early July but was renewed after mediation efforts

European bank to loan over \$30M to Turkish firm

Anadolu Agency, 20.07.2017



The European Bank for Reconstruction and Development (EBRD) will loan 27.5 million euros (around \$31.6 million) to a Turkish sea transportation firm for the acquisition of a new cargo ship, according to the bank on Thursday. The European bank said the loan provided to Alternative Transport would help the firm realize its international potential. "Alternative Transport is investing in a new 55.5 million euros (around \$63.8 million) vessel with a capacity of 283 trailers to carry wheeled cargo such as cars, trucks, trailers or railroad cars that are driven on and off the vessel," the bank said in a statement.

"In addition, a 4.5-million euro (some \$5.2 million) junior loan will be provided under the EBRD's green logistics program, which is funded by the global environment facility. Turkey's largest lender Isbank is extending a parallel loan of 16 million euros (around \$18.4 million)."

The new cargo ship will facilitate the firm's expansion on the route connecting the Istanbul port of Haydarpasa and the northeastern Italian port city of Trieste, increasing profitability and operating efficiency, according to the bank. The bank reminded that shipping via sea is the leading mode of transport for Turkish international trade, both by value and volume. "Over 60 percent of imports and 55 percent of exports, by value, are seaborne. Backed by Turkey's strong trade relationship with Europe, the sector is continuing to grow rapidly," it added.

Alternative Transport was established in 2013 as an integrated logistics company that provides international freight, warehousing, domestic distribution, foreign trade, customs and supply chain management services in 15 countries.

Turkey's Borsa Istanbul up at opening

Anadolu Agency, 20.07.2017



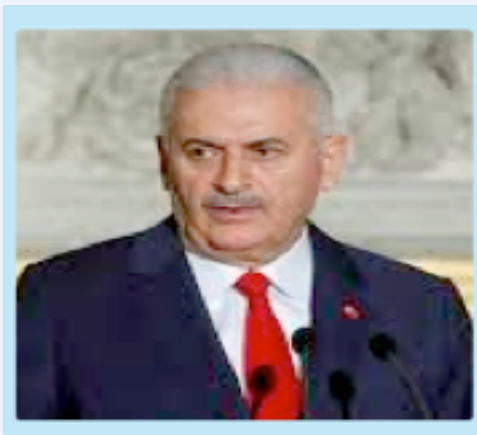
Istanbul's BIST 100 hit new historic high of 107,608.63 points with a 191.11-point or 0.18-percent rise on Thursday morning. Stocks in the banking and holding sectors rose by 0.21 and 0.16 percent, respectively.

Among all sectors, the mining index was the best performer with a 0.66 percent rise, while the wholesale and retail trade sector index started the day with the biggest decline, falling by 0.29 percent. On Wednesday's close, the BIST 100 hit the highest close by rising 1.61 percent to reach 107,417.52 points. The day saw a total trading volume of 5.8 billion Turkish liras (\$1.65 billion).

The U.S. dollar/Turkish lira exchange rate rose to 3.5280 at 9.30 a.m. local time (0630GMT) on Thursday, compared with 3.5180 at Wednesday's close.

Turkey renews solid support for Turkish Cypriots

Anadolu Agency, 19.07.2017



Turkish Prime Minister Binali Yildirim on Thursday said the Turkish Republic of Northern Cyprus (TRNC) could depend on Ankara for support and said Turkey would "continue protecting the rights of Turkish Cypriots in the Eastern Mediterranean". Yildirim was speaking in the TRNC where he attended ceremonies marking the 43rd anniversary of Turkey's 1974 intervention into the Cyprus conflict as a guarantor power.

Recent UN-backed reunification talks between Greek and Turkish Cypriots, plus Ankara, London and Athens, recently broke down in Switzerland amid recriminations.

Addressing a commemoration, Yildirim said: "It is a serious contradiction and injustice that Turkish Cypriots have paid for the uncompromising approach of the Greek side for years."

"The rights and prosperity of Turkish Cypriots are a national matter for us." Yildirim also said "unfair steps" taken by the Greek Cypriot side had encouraged deadlock in the talks. "It was clearly understood that the Greek Cypriots were not ready for a solution," he added.

'Turning point'

TRNC President Mustafa Akinci, Prime Minister Huseyin Ozgurgun, and Parliament Speaker Sibel Siber, as well as Turkish Foreign Minister Mevlut Cavusoglu also attended the ceremony at the Ataturk Memorial in Lefkosa. President Akinci, writing in an official memorial book, also said Turkish Cypriots "had no responsibility" for the failure of the Switzerland talks.

The eastern Mediterranean island has been divided since 1974 when Turkish soldiers interceded under Ankara's guarantor status to protect the Turkish community from unrest. Violence broke out amid a Greek Cypriot attempt to forcibly unite Cyprus with Greece then ruled by a right-wing military junta. Turkey sent 40,000 troops -- Operation Atilla -- to the island's north.

As a result of Greek Cypriot attacks, at least 30,000 Turkish Cypriots were displaced from their villages and the Turkish Cypriot population was forced to seek refuge. Yildirim said the 1974 operation was "a turning point in the island's history," and that Turkey showed the world it would not allow 'enosis' -- a Greek takeover of Cyprus. He also recalled how negotiations over Cyprus resumed after a failed 2004 deal put forward by former U.N. Secretary General Kofi Annan to reunify the Turkish Cypriot and Greek Cypriot communities. The plan was rejected in a referendum by the Greek portion of the island whereas Turkish Cypriots voted in favor of the Annan plan. Yildirim said Turkish Cypriots had "passed the exam" by voting Yes in the referendum. The Greek Cypriot side's No approach to living together "continues today," he added.

Turkey Growth Beats Estimates on Government Spending Boost

Bloomberg , 14.07.2017



Turkey's economy grew faster than expected in the first quarter as the government boosted expenditures and households kept on spending.

The lira gained after the report. Gross domestic product expanded 5 percent in the January-through-March period from a year earlier, higher than all estimates in a Bloomberg survey. Seasonally adjusted output rose 1.4 percent from the previous three months, Turkey's state statistics institute said in a statement on its website Monday. The government boosted spending on everything from wages to investments to spur the economy after a failed military coup hurt growth last year.

The report showed that expansive fiscal policies also boosted household consumption, which makes up about two-thirds of the economy and has traditionally driven Turkey's growth. The recovery in Europe, Turkey's largest trade partner, boosted exports and industrial output, according to Ziraat Bank economist Bora Tamer Yilmaz, who had forecast 4.5 percent growth in the quarter.

The broad-based growth “is favorable for the economy’s expansion during the rest of the year,” Yilmaz said by phone from Istanbul after the report. “Government support will gradually decline, and will be replaced by the growing contribution to growth from foreign trade -- as long as the European economy continues its recovery. We are planning to revise our 2017 growth forecast higher, from around 4.5 percent now.” The lira strengthened 0.4 percent to 3.5243 per dollar at 11:35 a.m. in Istanbul.

More Spending

Public consumption, which makes up roughly a sixth of the economy, rose 9.4 percent from a year ago, Turkstat said. Household spending rose 5.1 percent, compared with 5.7 percent the previous quarter. Finance Minister Naci Agbal said household consumption will continue to support the economy due to temporary tax breaks. The strong growth data shows the economy’s resilience, Deputy Prime Minister Nurettin Canikli said on Twitter.

“The resilience of the financial structure was tested by shocks,” he said. “The central bank is pursuing independent policies that also take into account economic growth.” Exports of goods and services rose 10.6 percent in the first three months of the year, the most on an annual basis since the same period in 2014, according to official data. Imports grew 0.8 percent during the first quarter.

Kuwait to shut down Iran's cultural and military mission, decrease number of diplomats

Anadolu Agency, 20.07.2017



Kuwait will shut down Iran's cultural, military and trade offices at the embassy and decrease the number of Iranian diplomats in the country after the emirate's top court convicted an alleged terror cell of links to the Islamic republic, the foreign ministry said. According to Kuwaiti diplomatic sources speaking to Anadolu Agency, who asked to remain anonymous, the number of Iranian diplomats in Kuwait will be decreased from 14 to nine, and the diplomats will be granted 45 days to leave the country. A senior government official, speaking on condition of anonymity, told AFP around 15 diplomats were ordered to leave. It was not immediately known if the Iranian ambassador is among the diplomats ordered to leave.

The Kuwaiti reaction is linked to a spying and terrorism case launched back in 2015, involving suspects - one Iranian and the rest Kuwaiti - with alleged ties to Iran's Revolutionary Guard and Iran-backed Hezbollah militant group. The suspects were convicted by a lower court and last month Kuwait's supreme court sentenced the mastermind of the cell to life in jail and condemned 20 others to various prison terms. The suspects in Abdali case were released pending trial, and they are claimed to have escaped to Iran.

"The government of the state of Kuwait decided to take actions in accordance with diplomatic norms and in abidance with the Vienna conventions with regards to its relationship with the Islamic Republic of Iran," following the court ruling, acting Information Minister Sheikh Mohammad al-Mubarak al-Sabah said.

The row comes at a time when Kuwait is trying to mediate an end to the Gulf's worst diplomatic crisis in years, after Saudi Arabia and its allies cut ties with Qatar over accusations it is too close to Iran and funds extremists.

The Kuwaiti newspaper Al-Seyassah reported on Monday that 14 of the cell's 26 members had fled to Iran by sea. They were convicted by a lower court early last year but acquitted on appeals several months later and set free. The supreme court, whose rulings are final, overturned their acquittal on June 18 and sentenced them to between five and 15 years in prison.

Kuwait's interior ministry confirmed on Tuesday that the 14 men were on the run but it said that they had not left the country through official exit points. The cell was busted in August 2015 and large quantities of arms, ammunition and explosives were seized from them, according to the Kuwaiti authorities. Kuwaiti courts convicted them of working for Iran's Revolutionary Guards and Hezbollah. They were also convicted of smuggling explosives from Iran. The only Iranian member of the cell was sentenced to death in absentia by the lower court early last year.

Unlike fellow Sunni-ruled Gulf partners Saudi Arabia, United Arab Emirates and Bahrain, Kuwait maintained good relations with its Shiite neighbor Iran. In February, Iranian President Hassan Rouhani visited Kuwait City a month after the emirate launched a dialogue with Iran in a bid to normalize Gulf-Iran relations. In March 2011, a Kuwaiti court condemned four people of forming a spy cell for Iran. That led to the expulsion of ambassadors by the two countries but they returned a few months later. Around a third of Kuwait's native population of 1.35 million is Shiite.

Russia says Syria de-escalation zones agreement 'envisages' military presence

Daily Sabah, 17.07.2017



Russia could deploy its military to the de-escalation zones in Syria that are currently being discussed with Turkey and Iran, Russian negotiator Alexander Lavrentyev said Tuesday. Moscow hopes to sign the final documents with Ankara and Tehran on Wednesday, he told reporters after a series of meetings in the Kazakh capital, Astana.

Russia and Iran, which back Assad regime, and Turkey, which supports some of opposition groups, agreed in principle to create four "de-escalation zones" in Syria in a previous round of talks in May, but put off a planned June meeting where they were supposed to work out the details.

Lavrentyev told reporters that Moscow and its partners were still discussing detailed maps and other conditions related to the Idlib and southern zones, while the borders of two other zones, in Homs province and near Damascus, had been agreed.

According to Lavrentyev, the agreement envisaged the presence of Russian military police in the buffer zones, adding, however, that "this matter has not been agreed yet."

"Depending on when the documents on safe zones are signed, I think one should expect concrete measures on the deployment of forces within 2-3 weeks," Russian negotiator said. During a meeting in Astana on May 4, Turkey, Iran and Russia signed a memorandum to establish de-escalation zones in Syria.

Turkey, Iran and Russia previously agreed on the decision of the establishment of de-escalation zones in Idlib, parts of Aleppo, Latakia and Homs, Damascus/Eastern Ghouta and parts of Daraa and Quneitra. Turkey, Russia and Iran are working on a mechanism of de-escalation zones in Syria involving the U.S. and respective zones assigned to each country, presidential spokesman Ibrahim Kalin said last month, adding that the Astana and Geneva processes will continue in order to establish permanent peace in Syria.

Turkey and Russia have played a key role in establishing a nationwide cease-fire in the war-torn country and later agreed on the evacuation of Aleppo in late December 2016. After that, along with Iran, three countries took the initiative to bring together the Syrian regime and opposition in Astana to sustain a cease-fire agreement and to negotiate a political transition in the country.

Syria has been locked in a vicious civil war since early 2011 when Bashar Assad's regime cracked down on pro-democracy protests, which erupted as part of the Arab Spring uprisings. Since then, more than 400,000 people have been killed and more than 11 million have been displaced, 6.3 million internally and 5.1 million externally, across the war-battered country, according to the U.N.

EU to Britain: Please get your act together

CNN Money, 20.07.2017



The second round of Brexit talks concluded Thursday with a demand from the European Union that Britain clarify its position on key issues.

Chief EU negotiator Michel Barnier said more details were needed on how Britain hoped to settle its financial obligations to the bloc and deal with the border between Northern Ireland (part of the U.K.) and the Republic of Ireland, an EU member state. Barnier also warned of a "fundamental divergence" on the question of how to secure the rights of millions of citizens who have settled in Britain or Europe.

The EU has made clear that significant progress must be made on all three issues before talks begin on Britain's top concern: The future of its trading relationship with its biggest export market. The forthright assessment from Barnier is likely to fuel worries that the British government is still deeply divided over how to approach the divorce talks.

David Davis, who is leading negotiations for Britain, struck a much more optimistic tone, saying that he was encouraged by the progress made. But his Conservative Party is still licking its wounds following a devastating election in June. Prime Minister Theresa May lost her parliamentary majority, throwing her hardline EU exit strategy into doubt.

May has promised to take Britain completely out of the bloc's common trading area and customs union, and slash the number of people coming from the EU. She even threatened to walk away from Europe without paying a hefty divorce bill or striking a new trade deal. The stunning election result has weakened her position. Many lawmakers and businesses want to retain closer ties with Europe, and they are heaping pressure on the prime minister. In a sign of how much has changed since the vote, May was scheduled to meet with top CEOs on Thursday. Britain will leave the EU in March 2019. But business groups have been pressing for a gradual transition that would allow them to adjust to life outside the bloc.

Economic data is beginning to lend weight to the argument for a different approach. Consumers, hammered by rising prices and stagnant wages, have snapped their wallets shut in recent months. Political turmoil has caused businesses to put investments on hold. The U.K. was Europe's slowest growing economy in the first quarter of 2017. Making progress on the three issues highlighted by Barnier remains the first task, however.

The EU hasn't put an official figure on the exit bill, but some estimates run as high as €100 billion (\$112 billion). Member of May's cabinet have scoffed at that figure. The rights of citizens is even more complicated. Roughly 3 million people from other EU countries live in the U.K., while around 1.2 million Brits reside elsewhere in the EU. Both sides said they want to avoid a "hard border" between the Republic of Ireland and Northern Ireland. Free movement across the border was a key part of the Good Friday Agreement, the 1998 accord that brought peace to Northern Ireland after decades of sectarian conflict.

China and India in war of words over Bhutan border dispute

CNN, 17.07.2017



A Chinese road building project in the Himalayas has become the center of an escalating border dispute between India and China, with both sides accusing the other of territorial intrusions.

Described by the Indian government as a "significant change of status quo with serious security implications for India," the controversial road runs through the disputed Doklam Plateau, on the unmarked border between China and Bhutan.

Though not a part of Indian territory, the plateau holds immense strategic importance for Delhi and is vital to its geopolitical interests.

"The area in contention is extremely close to a very vulnerable stretch of Indian territory that effectively connects the bulk of India to its northeastern states," Shashank Joshi, senior research fellow at the Royal United Services Institute (RUSI) in London told CNN.

"Additional construction could skew the local balance of power in China's favor, essentially leaving India more vulnerable to invasion in case of a military confrontation with Beijing."

Tri-region issue

Objections were first raised by the Bhutanese government, which issued a demarche, or formal statement, accusing China of constructing a road "inside Bhutanese territory" in "direct violation" of its territorial treaty obligations, earlier last week. India and Bhutan have maintained historically strong relations. Bhutan co-operates closely with India in determining its foreign policy, and the Indian Army is involved in the training of its armed forces.

China, which does not have formal diplomatic ties with Bhutan, has denied that it has violated any treaties. "Doklam has been a part of China since ancient times. It does not belong to Bhutan, still less India," said Chinese Foreign Ministry spokesperson Lu Kang on Wednesday.

"China's construction of road in Doklam is an act of sovereignty on its own territory. It is completely justified and lawful, and others have no right to interfere. "Lu added that it was "utterly unjustifiable" for the Indian side to interfere in issues between the two countries.

Bhutan quick facts

Bhutan, also known as the Land of the Thunder Dragon, is a small landlocked country in the Eastern Himalayas. It lies on the border between India and China. With a population of less than a million people, it is the second least populated country in Asia. The country is officially a Buddhist kingdom, with the King of Bhutan Jigme Khesar Namgyel Wangchuck as its head of state in a constitutional monarchy.

Ongoing dispute

The Doklam dispute is the latest in a long-running series of territorial flare-ups between India and China. In 1962, the two countries engaged in a bloody border war, and skirmishes have continued to break out sporadically in the decades since.

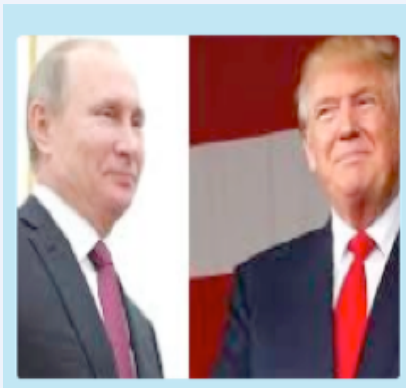
On June 26, China accused Indian border guards in the state of Sikkim of crossing into its territory in southwestern Tibet, in an attempt to obstruct the construction of a new mountain road. India has not denied its troops were present in the area. According to a statement released by the Indian Ministry of Foreign Affairs, Indian personnel "approached the Chinese construction party and urged them to desist from changing the status quo."

In response, China blocked religious pilgrims from India from visiting the Manasarovar shrine, accessible only via the Himalayan Nathu La that runs alongside the border between the two nations, "out of security concerns." The moves come at a time of steadily deteriorating ties between the two countries, say analysts, who point to Chinese investment in Pakistan-administered Kashmir, and Chinese frustration with India's unwillingness to join its One Belt One Road development initiative as points of contention.

Council on Foreign Relations senior fellow Ely Ratner told CNN the current dispute was an indication of the challenges China faces as a global leader."It goes to show how hard it's going to be for China to lead the region when core elements of its foreign policies are so ideological, uncompromising, and irreconcilable with its neighbors and other major powers."

Trump blasts AG Sessions for recusing himself from the Russia probe

The Washington Post, 19.07.2017



President Trump harshly criticized his attorney general and one of his most loyal supporters, Jeff Sessions, for recusing himself from the ongoing investigation into Russian interference in the 2016 election, indicating that he regretted the choice. In an interview with the New York Times on Wednesday, Trump vented about the probe and said that he would not have appointed Sessions — a top campaign supporter — if he had known Sessions would step aside. “Sessions should have never recused himself, and if he was going to recuse himself, he should have told me before he took the job and I would have picked somebody else,” said.

The comments are a dramatic public scolding of one of Trump's closest supporters in Congress during his presidential campaign, and the man currently holding a top Cabinet position. They also suggest that Trump had hoped Sessions could play a role in managing a probe that he has long called a “witch hunt” and suggested is a threat to the legitimacy of his presidency. Trump called Sessions's decision to recuse himself “unfair.”

“Jeff Sessions takes the job, gets into the job, recuses himself, which frankly I think is very unfair to the president,” he added. “How do you take a job and then recuse yourself? If he would have recused himself before the job, I would have said, ‘Thanks, Jeff, but I’m not going to take you.’ It’s extremely unfair — and that’s a mild word — to the president.”

Sessions recused himself from the investigation, which will look into possible collusion between Trump campaign associates and Russians, shortly after being confirmed to the post, citing his work on the Trump campaign. The decision placed responsibility for the probe squarely in the hands of Deputy Attorney General Rod J. Rosenstein, whom Trump named to that position in January.

The investigation has dogged Trump's six-month-old presidency and has been the source of months of public and private venting. The investigation has only expanded, recently drawing Trump's children under the microscope after the New York Times reported that Trump's son Donald Jr. accepted a meeting with people purporting to be representing the Russian government about receiving derogatory information about Hillary Clinton during the 2016 campaign.

The president's remarks evoked strong comments from some former Justice Department officials. Former U.S. attorney in New York, Preet Bharara, who was fired by Trump, tweeted: “The President today effectively asked Sessions for his resignation. Will he resign or insist on being fired?” Robert Raben, a former assistant attorney general for the Office of Legislative Affairs during the Bill Clinton administration, said: “The president plays with fire when he attacks his military, law enforcement and Justice people. They are the bulwark of our safety. Demeaning them harms all of us.”



Matthew Miller, a former Justice Department spokesman in the Obama administration, said the country appeared “headed for a massive crisis” and called it “an attack on the very independence of the Justice Department.” “I think what the president is making clear here is he doesn’t believe the Justice Department ought to be able to make its own decisions about whether and how to investigate him,” Miller said. In the Times interview, Trump attacked several other figures connected to the probe, including Rosenstein, special counsel Robert S. Mueller III, and former FBI director James B. Comey.

Spokespeople for the Department of Justice and the special counsel declined to comment. Trump also suggested that the special counsel investigation was now rife with conflicts, though he did not specifically name them. Mueller, a former FBI director, was appointed to lead the investigation after Trump fired Comey. Trump had also considered Mueller as a candidate to replace Comey.

“He was up here, and he wanted the job,” Mr. Trump said. After he was named special counsel, “I said, ‘What the hell is this all about?’ Talk about conflicts. But he was interviewing for the job. There were many other conflicts that I haven’t said, but I will at some point.” The president has criticized the special counsel investigation in the past. He questioned the political independence of attorneys being hired to work on the probe and indicated that Mueller’s friendship with Comey was problematic.

“Well, he’s very, very good friends with Comey, which is very bothersome,” Trump said in an interview with Fox News in June. “I can say that the people that have been hired are all Hillary Clinton supporters, some of them worked for Hillary Clinton. “I mean, the whole thing is ridiculous, if you want to know the truth,” he added.

But his comments on Wednesday are his strongest to date. Trump criticized Mueller personally and warned that if the investigation veered into the personal finances of the Trump family, it will cross a line. He did not, however, say he would fire Mueller, though he was pressed repeatedly on the subject. “I think that’s a violation,” Trump said. “Look, this is about Russia.”

Trump also expressed reservations about Rosenstein, who appointed the special counsel. According to the New York Times, the president expressed annoyance when he learned that Rosenstein was from Baltimore, where he had served as a federal prosecutor. “There are very few Republicans in Baltimore, if any,” Trump said. Trump’s criticisms left virtually no one in contact with the investigation untouched, providing a glimpse of the visceral anger that the probe often evokes in him. The president also levied new accusations against Comey, whom he has repeatedly accused of lying in his sworn testimony to Congress about his interactions with Trump.

Speaking about a meeting before Trump’s inauguration in which Comey informed Trump about an unsubstantiated dossier of derogatory information about him, Trump said that he believes Comey intended to use the document as leverage against him. “In my opinion, he shared it so that I would think he had it out there,” Mr. Trump said. Asked by the Times whether he believes Comey intended it to be leverage, Trump replied. “Yeah, I think so. ... In retrospect.”

Comey testified that he briefed Trump on the dossier based on the belief in the intelligence community that the incoming president should be informed about the “salacious and unverified” material before it was reported in the press. He was also chosen to provide the briefing alone to prevent further embarrassment to Trump. “When he brought it to me, I said this is really, made-up junk,” Trump told the Times. “I didn’t think about any of it. I just thought about, man, this is such a phony deal.”

China’s credit squeeze sends warning on global growth

Financial Times, 18.07.2017



China has sent a deflationary chill through global markets this year by engineering a major slowdown in the growth of bank credit in the country. In fact, we would argue that the unravelling of many of the so-called “Trump trades” in global markets this year reflects the deflationary chill that China’s credit squeeze is creating, rather than simply registering scepticism about Trump administration policies. As the world’s second-largest economy, with a nominal gross domestic product of nearly \$12tn, China is sneezing and the world is set to catch a cold — creating further downward pressure on commodity prices and US interest rates.

Over the course of little more than a year, China went from exporting deflation to helping create the “global reflation” theme that was evident in global equity markets in the second half of 2016. Emerging markets guest forum beyond-brics is a forum on emerging markets for contributors from the worlds of business, finance, politics, academia and the third sector.

All views expressed are those of the author(s) and should not be taken as reflecting the views of the Financial Times. In the first three months of this year, China’s nominal GDP grew by 11.8 per cent, almost double the rate recorded in the year to December 2015, when investors were concerned about a Chinese hard landing. The country’s import growth reached 20 per cent, giving a major boost to economies that depend on trade with China.

In a highly leveraged economy such as China’s, however, growth is a lagged consequence of changes in the supply of credit. And China’s credit policy has turned sharply restrictive, upending the conventional wisdom that nothing would be done to rock the boat ahead of the 19th National Party Congress that will take place in the autumn. All the signs are that the boat is rocking.

The most important global policymaker nobody has ever heard of is Guo Shuqing, the recently appointed chief of the China Banking Regulatory Commission (CBRC). With the implicit support of President Xi Jinping, Mr Guo has issued a flurry of new regulations aimed at tackling corruption and speculation, including a requirement that banks account for previously lightly regulated “wealth management products” in line with capital adequacy regulations.

The result is that the credit impulse, best understood as “the rate of change of the rate of change” of credit relative to GDP, has declined by a whopping 17.5 per cent of GDP in the first quarter of 2017. Business and consumers used to borrowing considerable sums will be under pressure to curb their net spending just as there will be fewer new loans available for any borrowers under duress to refinance their existing loans. By our measure, the magnitude of this negative credit impulse has only been matched or exceeded a few times: in 1994, 2004-05 and 2010. But in those previous periods the negative credit impulse came against the backdrop of very robust growth in nominal GDP: 37 per cent in 1994 and 18 per cent in both 2004 and 2010.

Signs of potential weaker growth in China are already showing up in the partial inversion of the yield curve for China’s sovereign debt and in the sharp divergence this year between the performance of globally traded Chinese stocks in the MSCI China index (up 25 per cent) and the lacklustre performance of the Shanghai and Shenzhen Stock Exchange Composite indices of domestically traded Chinese stocks (up 1.2 per cent and down 6.7 per cent respectively).

The “stop-go” nature of China’s credit policy has been seen before. When growth accelerates, it leads to a negative credit impulse a few quarters later and vice versa when growth decelerates. Since 1995 the average duration of negative credit impulses has been about four-and-a-half quarters. Since this episode began in the fourth quarter of 2016, it might be early next year before the authorities once again push forward the credit throttle — and only in response to clear evidence that China’s economic growth has slowed.

In the meantime, expect weaker commodity prices and less upward pressure on US interest rates. China’s impact on the world economy is significant. Over the past five years its nominal GDP has expanded by \$3.7tn, an amount that exceeds the GDP of Germany. In contrast, the entire global economy has expanded its nominal GDP by only \$2.2tn.

As well as accounting for nearly 170 per cent of the growth in the world’s nominal GDP in this period, it seems that China may have made US corporate earnings great again. Per Commerce Department figures, rest-of-world profits for US corporations were up by 25 per cent in the first quarter of 2017, while domestically generated profits were down slightly and well below their peak of 2014. The key concern for global investors is that even though China’s credit policy may be almost as important to the global economy as shifts in Federal Reserve or European Central Bank monetary policy, China’s economic policymaking remains far less transparent than in many other key nations. Monitoring China’s credit impulse, therefore, is perhaps the best means open to investors to “watch what they do, not what they say”.

US and China step up steel talks to avert trade war

AFP, 04.07.2017



China and the US ramped up talks on steel amid threats from President Donald Trump to impose new curbs on imports of the metal in the name of US national security. The intensified deliberations are part of the “Comprehensive Economic Dialogue” between Mr Trump’s team and their Chinese counterparts in Washington, which began this week. The first round of those broader discussions was expected to yield little in terms of concrete announcements. But there were signs that the Trump administration’s threat to invoke a Cold War-era law.

A meeting on Tuesday between US Commerce Secretary Wilbur Ross, Treasury Secretary Steven Mnuchin and China’s vice-premier, Wang Yang, on steel yielded what people close to the situation said were productive discussions. The talks ran long, with aides shooed away when they sought to keep the ministers on schedule and told that these were the most important negotiations of the week, according to people briefed on the discussions.

The Trump administration has threatened to use the broad powers it has under the little used “Section 232” of a 1962 trade act to impose restrictions on imports that threaten US national security. The potential invocation of “national security” is seen as a nuclear option by trade experts. Business groups have been lobbying friendly voices in the administration such as Gary Cohn, Mr Trump’s top economic adviser, to try to limit the potential damage.

The fear is that any such move would open the door to retaliation from US trading partners such as China, the EU, Japan, and South Korea and set off a trade war. There are concerns it could lead other countries including China to also invoke a national security exception in global trading rules and thus open a protectionist Pandora’s Box that would undermine the current system built around the World Trade Organisation.

A deal between the US and China to avoid any such move by the Trump administration or at least delay it would therefore be welcomed by business and America’s trading partners, many of whom fear they would suffer from US punitive action.

Chad Bown of the Peterson Institute for International Economics, a think-tank, said that any discussions about steel were a good sign as Washington’s threat to invoke national security risked turning it into the trade aggressor in the eyes of the rest of the world.

“The concern about tariffs or quotas under the national security law is it takes the world’s policy focus off China and its over-capacity problem and turns it on to the Trump problem — which is tariffs and protectionism,” Mr Bown said.

Mr Trump has adopted a much tougher tone on China since arriving in the White House, heralding what could be a fundamental change in the world's most important bilateral economic relationship. Mr Ross warned that the Trump administration was seeking a fundamental rebalancing of the relationship. "China now accounts for nearly 50 per cent of the US goods trade deficit. If this was just a natural product of free market forces we could understand. But it's not and so it is time to rebalance our trade and investment relationship in a more fair, equitable and reciprocal manner," he told the meeting.

Mr Wang conceded that discussions with the US had become more difficult, calling the latest talks "an even more daunting task" and warning of the dangers of confrontation. "We can think like a champion but we don't need to defeat each other in [tackling] our differences. Pursuing co-operation is the best way forward," he said.

US-China relations have frayed in recent months as frustration mounts in Washington over Beijing's inability or refusal to put pressure on North Korea to abandon its missile and nuclear programmes. Mr Trump put a lot of faith in Chinese president Xi Jinping when the leaders met at Mar-a-Lago in early April, describing his counterpart as a "great guy" who would help him tackle the growing nuclear threat from Pyongyang.

China has taken several steps — including restricting coal imports from North Korea — that US officials have welcomed. But they have also called those efforts "uneven". Tensions have also grown on the military front as the US has stepped up maritime and aerial activities aimed at contesting Chinese claims to disputed waters in the South China Sea.

Announcements & Reports

► *Precautionary recapitalisation: time for a review?*

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

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

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

► *Actualising East: India in a Multipolar Asia*

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

Upcoming Events

► *13th Asia Europe Economic Forum (AEEF)*

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

► *Emerging Markets and Europe: Time for Different Relationships?*

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

► *What future for Europe's Social Models?*

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

► *Challenges for Growth in Europe*

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

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

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

► *The Future of the Welfare State*

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

► *Vision Europe Summit 2016*

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