

## Report says Turkish manufacturing fell in June

Anadolu Agency, 01.07.2015



The purchasing manager index of Turkey, seen as a gauge for the economic health of the manufacturing sector, declined below a critical level in June, data from Markit Economics.

The PMI index slipped below 50 points, showing a contraction in the manufacturing sector. The PMI fell to 49 in June from 50.2 in May, signaling an overall deterioration in business conditions for Turkish manufacturers at the end of the second quarter, the report said. “Having shown signs of stabilizing in May, the Turkish manufacturing sector stumbled in June as output and new orders fell at sharper rates,” said Trevor Balchin, senior economist at Markit.

The report showed that, despite a weaker Turkish Lira, which is expected to boost exports under normal circumstances, new export orders declined in June. Any figure greater than 50 indicates overall improvement in the sector while below that level suggests contraction, according to the report.

## World Bank cuts Turkey’s 2016, 2017 growth forecasts over political outlook

Hurriyet Daily News, 01.07.2015



The World Bank has said it would stick to its 3 percent growth forecast for Turkey this year, but cut its 2016 and 2017 growth forecasts to 3.5 percent, citing the uncertain political outlook after the June 7 parliamentary elections, in a brief note.

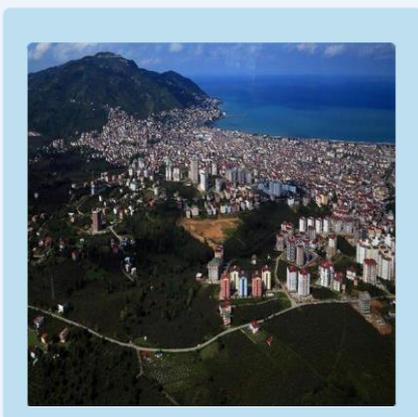
The brief confirmed that 2015’s growth forecast will remain at 3 percent, with the current account deficit falling to 4.6 percent of the GDP. Under the assumption that further pressure on the exchange rate can be contained, 12-month inflation is likely to decline to 7 percent by December 2015, the note added.

“The forecast for 2016 and 2017 is downgraded to 3.5 percent for both years, from 3.9 and 3.7 percent respectively, against the backdrop of an uncertain domestic political outlook and a gradually tightening global financial environment,” the bank said. “Restoring investor confidence is the key to growth over the short to medium term. There is an urgent need for a stable, inclusive government,” the bank noted, adding that a reimplementation of the previous structural reform agenda was needed to restore investor confidence. According to the brief, short-term financial inflows significantly slowed due to election uncertainty, while long-term inflows remained strong. Particularly, as the risk premium increased, nonresidents sold portfolio assets. However, net errors and omissions showed an inflow of \$7.8 billion. This, together with a drawdown of foreign exchange reserves by \$5.7 billion, financed most of the current account deficit, according to the bank.

As the expected Fed lift-off will lower the carry trade returns and likely pressure emerging market currencies, the Central Bank will have limited room for an accommodative monetary policy whilst maintaining financial stability, said the bank. The brief noted that growth remained resilient in the first quarter, thanks to public spending and lower imports. Likewise, job creation recovered in the first quarter, driven by services and industry. The stronger-than-expected growth in the first quarter was balanced by the country’s current uncertain political environment, according to the bank. “Turkey’s current account deficit has narrowed since January, thanks to gold exports. However, the gold adjusted deficit, a more accurate measure of external demand, deteriorated due to persistent weakness in Turkey’s trading partners,” the bank said.

## Arabs acquire properties worth \$50 million in northern Turkish province

Anadolu Agency, 01.07.2015



People from Arab countries have bought properties worth a total of \$50 million in Turkey’s Black Sea province of Ordu so far this year, Ordu Governor İrfan Balkanlıoğlu has stated.

Balkanlıoğlu said more than 30,000 Arabs visited the city in the first six months of the year, a dramatic rise compared to last year’s figures. “We have seen a rapid rise in the number of Arab investors and tourists to Ordu this year, especially after the opening of Europe’s first airport on a man-made island off Ordu in May,” he noted, saying the city administration had engaged in intensive promotional activities abroad that have already started to yield results.

A number of media representatives visited the city from Saudi Arabia, Qatar, Kuwait, Oman, Lebanon, Egypt and Morocco last month, upon the city administration’s invitation, Balkanlıoğlu said. “With the additional promotional activities, the number of Arab tourists visiting Ordu increased to 30,000 this year, although only 15,000 Arabs visited our city in 2014 as a whole. Arabs also acquired properties worth \$50 million in Ordu and we expect to see a further rise in sales in the coming months,” he added.

Property sales to foreigners hit record high levels in May with the sale of 1,982 units, marking a 21.3 percent increase from the same month in 2014, according to Turkish Statistics Agency (TÜİK) data. Construction of the artificial island off Ordu and Giresun, which cost around 360 million Turkish Liras (\$132.6 million), began in July 2011 and the airport was officially opened on May 22, 2015.

## TİM: Turkey's exports decrease by 8 pct in first half of 2015

Reuters, 01.07.2015



Turkey's exports decreased 8.1 percent in the first half of the year to \$73.26 billion from the same period of 2014, due to the negative effects of parities on exports and geopolitical risks in neighboring countries, the TİM announced.

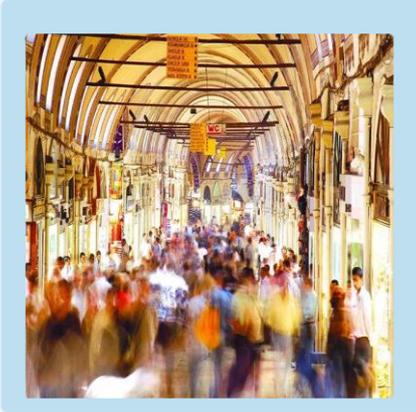
The country's exports decreased by 6.4 percent to \$11.7 billion in June. The year-on-year exports stood at \$150.8 billion. "A decrease of some 18 percent in euro-U.S. dollar parity in June from the same month of 2014 led to around a \$1.2 billion loss in Turkey's monthly exports. The loss upon the forex changes reached \$6.8 billion in the first half of the year," said TİM President Mehmet Büyükekşi.

He said the country's exports decreased by 6.4 percent in June on the dollar basis, but increased by 5.4 percent on the amount basis compared to the same month of the previous year. He also noted Turkey's exports to the European Union regressed by 5.5 percent on the dollar basis, but increased by 14.7 percent on the euro basis. Büyükekşi said exporters expected better results in the second half of the year. "The Greek crisis' effect on our exports will be limited. If the crisis, however, spills over into some other European countries with high debt levels, such as Italy, Portugal or Spain, the situation will be worsening," he said. The highest level of exports was made to Germany, Britain, Iraq, Italy and France in June, but the exports to these countries regressed by 8 percent on average, according to the TİM data.

The automotive sector made the highest exports in June, with around \$2 billion worth of exports, but the export volume of the sector decreased by 2.7 percent compared to the same month of 2014. Other champion export sectors were the ready-made textiles sector and the chemical products sector. In the first half of the year, the highest exports were also made by the automotive sector, which made \$10.5 billion worth of exports.

# Turkey's economic confidence index decreases by 5.4 percent

Dogan News Agency, 29.06.2015



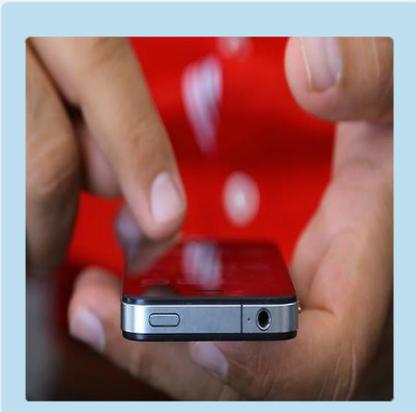
Economic confidence index fell by 5.4 percent to 78.66 in June, down from 83.12 in May, with confidence dropping in both the manufacturing and services sectors, according to Economic Confidence Index data released by the Turkish Statistics Institute (TÜİK).

The index indicates an optimistic outlook about the general economic situation if it is above 100, while a figure below 100 indicates a pessimistic outlook. The real sector confidence index decreased by 2.3 percent to 101.50 in June, down from 103.90 in May, while the services confidence index fell by 1.4 percent to 99.04.

However, the consumer confidence index rose by 3.4 percent to 66.45 in June, from 64.29 in May, while the retail trade confidence index rose by 0.6 percent to 104.12. The construction confidence index rose by 1.6 percent to 84.73 over the same period. The Economic Confidence Index is a composite index that includes evaluations from consumers and producers about their expectations for the general economic situation. In the calculation of the index, sectoral weights are not directly applied to the five confidence indicators themselves but to their normalized individual sub-indices. The point of normalization is to make variables comparable to each other. Consumer confidence index as one of the composing indicators of economic confidence index is calculated from Consumer Tendency Survey results, which are conducted with the cooperation of TÜİK and the Central Bank of Turkey. The real sector confidence index is calculated by the Central Bank of Turkey while the services, retail trade and construction confidence indices are calculated by TÜİK.

## Minister: Turkey to put additional import tax on electronic goods

Anadolu Agency, 02.07.2015



Nihat Zeybekci has said the country will put additional import taxes on electronic goods in the upcoming days.

“We’ll take special measures in additional customs duties in the next month. New additional import taxes will be put on electric and electronic goods, including mobile phones and tablet computers,” he said. “In addition to these goods, we are also working on chemical goods,” he added. He noted that the economy grew by 2.3 percent in the first quarter mainly upon consumer spending, with the economy administration expecting higher growth rates in the second quarter.

“The growth will be based on domestic demand this year. Turkey will be making no headway if it grows at a rate lower than 5 percent,” he said, adding that an aggressive rate hike policy is not expected from the U.S. Federal Reserve (Fed) this year.

## ING ‘emerges as top bidder for HSBC’s Turkish unit’

Reuters, 02.07.2015



ING Group has emerged as the leading bidder for HSBC’s Turkish business, a person familiar with the matter said.

Three people familiar with the matter said HSBC had narrowed down the field to one suitor, and one of the sources said that it was ING. ING was one of three banks to submit a non-binding bid in May, sources had previously told Reuters. The other two banks were Bahrain’s Arab Banking Corp and France’s BNP Paribas. HSBC said earlier that it would sell its businesses in Brazil and Turkey, where it is the sixth and the 12th biggest bank respectively, as part of a huge overhaul involving cutting almost 50,000 jobs.

# Post-election turmoil delaying defense programs

Hurriyet Daily News, 03.07.2015



A majority of Turkey's ambitious multibillion dollar weapons system programs have quietly sunk into a period of uncertainty following the June 7 parliamentary elections, according to official and defense industry sources.

"There are too many unknowns," said one senior defense procurement official. "For us the list of very important questions goes in order of priority as follows: Will a coalition government be formed, or will there be re-elections? In the event of a coalition government, who will the ruling AKP partner be? Will the AKP keep the Defense Ministry in his cabinet portfolio or will the coalition partner take over?"

If the coalition partner takes over, will it reshuffle priority programs? In either case, what kind of bureaucratic reshuffle is in the offing, including in the top management of state-controlled defense companies?" He continued: "All of these various political/bureaucratic scenarios will cause delays in ongoing programs." A senior Western industry agrees that days of uncertainty are coming. "Any foreign or local player in the Turkish market should be prepared for potentially new terrain. The biggest question is: Who in procurement programs will be the decision-makers?" he said. Before the election, President Recep Tayyip Erdoğan and his "presidential cabinet" were widely believed to have primary influence on major defense programs, some of which are seen as Erdoğan's "pet projects." But now, a Turkish defense company executive said, "we do not even know whether Erdoğan will remain as influential as he used to be, or be forced into a less or less influential position." "Every [political] scenario would likely strengthen the military's role in assessing weapons programs," said one military observer in Ankara. "I would expect a greater involvement of the generals in the future of top defense contracts."

As İsmet Yılmaz quit as defense minister to become parliamentary speaker at a session on July 1, every scenario will mean there is a new defense minister, whether from the AKP or from its coalition partner. In another critical bureaucratic move, the government appointed June 22 Celal Sami Tüfekçi as new deputy undersecretary for the defense procurement agency, the Undersecretariat for Defense Industries (SSM). Before the appointment, Tüfekçi was responsible for aerospace programs. But a government official said he expected "minimum" post-election impact on ongoing programs. "The AKP will insist on keeping the Defense Ministry in its portfolio in any coalition talk. In recent years it has launched several high-profile programs - from drones to indigenous fighter and regional jets, from naval platforms to a national battle tank. It is unlikely that [Prime Minister Ahmet] Davutoğlu would give up on all of these national efforts," he said. "I also don't expect a major change even if the AKP's future coalition partner takes over the Defense Ministry. These are all projects of national pride and I do not see any partner should rewrite or scrap any of them after years of remarkable progress," the official added. That official admitted that there may be some delays or restructuring, but all major programs would eventually go ahead.

## One-sixth of fuel stations go up for sale in Turkey

Hurriyet Daily News, 02.07.2015



Some 2,000 of 13,000 fuel stations in Turkey have been put up for sale as the renewal date for usufruct right contracts approaches in the sector amid complaints about low profits following a recent regulation limiting the expiry dates of usufruct contracts to five years from 15-20 years.

The owner of the property grants a usufruct right to the fuel distributor, and the dealer possessing the leasehold right signs a dealership agreement with the distribution company to run the station for five years. Because these contracts will be renewed, distribution companies have tried to find more dealers, who are also negotiating with new companies.

“Thousands of fuel stations are for sale right now because they are making losses. The profit margin in the sector is around just 42 Kuruş ... I believe at least 30 percent of the fuel dealers will change hands in September,” said the head of the Petroleum Products Employers’ Union (PÜİS), İmran Okumuş. Around 12-13 percent of all fuel stations changed their distribution companies in 2010. Fuel distributors do not want to pay high transfer prices to stations, but offer dividends from sales, according to sector representatives. There are 85 fuel distribution companies active in Turkey.

## Yemen rebels kill 31 as UN declares highest-level emergency

AFP, 02.07.2015



Rebel fire on a residential district of Yemen’s second city Aden killed more than 30 civilians, as the UN declared its highest level humanitarian emergency in the war-torn country. Meanwhile in the central city of Taz, pro-government forces launched a manhunt for 1,200 escaped prisoners, including Al-Qaeda members, allegedly freed by retreating rebel forces.

Both Aden and Taz have seen heavy fighting as loyalists of exiled President Abedrabbo Mansour Hadi battle to repel Shiite Huthi rebels with the support of a Saudi-led air war launched in March.



Aden was Hadi's last refuge before he fled into exile in neighbouring Saudi Arabia in March and his supporters have been battling to defend it against the rebels and renegade troops. The Huthis and their allies pounded the government-held Al-Mansura district of Aden with 15 Katyusha rockets, loyalist forces spokesman Ali al-Ahmadi said. The rocket fire began before dawn on July 1 when the streets were busy ahead of the daytime fast observed by Muslims during the holy month of Ramadan. A fresh salvo of rockets later in the morning hit mourners burying some of the dead from the earlier fire, the spokesman and witnesses said. The city's health chief Al-Khader Laswar said at least 31 people were killed, including three women and two children, while more than 100 others were wounded. Civilians were seen carrying bloodied bodies and calling for help as they piled them into vehicles and drove them to hospitals. Overnight, rebel positions in the nearby neighbourhoods of Dar Saad and Khor Maksar were hit by a series of Saudi-led air strikes, said residents. A coalition strike in neighbouring Lahj province killed 13 rebels, an official said.

On June 30, Human Rights Watch said strikes on the rebel stronghold of Saada in Yemen's northern mountains had destroyed houses, markets and a school, in what could amount to war crimes. Across the border in Saudi Arabia, Yemen's exiled Prime Minister Khaled Bahah accused the rebels of committing a "war crime" in Aden by attacking residential areas, laying siege on the city and forcing aid vessels to turn back. More than 21.1 million people -- over 80 percent of Yemen's population -- are in need of aid, with 13 million facing food shortages. The United Nations on July 1 declared Yemen a level-three emergency, the highest on its scale, as aid chief Stephen O'Brien held talks to discuss the crisis in the impoverished Arabian peninsula country. Under the emergency plan, the UN will try to reach 11.7 million people most in need. "All agencies agreed to declare the level three for a period of six months," said UN spokesman Farhan Haq. "The health system is facing imminent collapse with the closure of at least 160 health facilities due to insecurity, lack of fuel and supplies."

In Taz, Yemen's third-biggest city, loyalist forces were searching for 1,200 inmates who made a mass breakout as the prison was captured from rebels. A loyalist source accused the rebels of deliberately throwing open the gates in an apparent attempt to cover their withdrawal. "Between five and eight Al-Qaeda members were among the prisoners," a military source added. There have been repeated jailbreaks in Yemen since the Huthis launched an offensive last summer, overrunning the capital and then much of the country. Al-Qaeda's Yemen arm -- regarded by the US as the network's most dangerous branch -- took advantage of the rebellion to seize the southeastern port city of Mukalla in April where it freed more than 300 inmates, including one of its leaders. Islamic State of Iraq and the Levant (ISIL) based in Iraq and Syria has also exploited the conflict, carrying out a string of deadly attacks against Shiite targets.

United Nations Secretary General Ban Ki-moon appealed for an immediate two-week humanitarian ceasefire before the Muslim holy month of Ramadan began on July 18. UN envoy Ismail Ould Cheikh Ahmed said July 1 during the second day of talks with Yemen's government in exile in Riyadh that he was still hoped a truce can be agreed. "We are still optimistic that we'll obtain it," he told AFP, adding however that there was no immediate plan to resume peace talks that collapsed last month in Geneva. "We prefer to go shuttling between the two parties until we can reach an agreement," he said. But Yemenis who had been forced to flee the fighting expressed their anger at the UN's lack of action to end the crisis. "The world is just watching," while the people of Aden are being killed, Mohamed Qubaty, former political adviser to the country's prime minister, told AFP.

## ISIL attacks kill dozens in Egypt's Sinai

AFP, 02.07.2015



Dozens of people were killed in a wave of unprecedented attacks by the Islamic State of Iraq and the Levant (ISIL) group on Egyptian soldiers in the Sinai Peninsula, in a major challenge to President Abdel Fattah al-Sisi.

F-16 warplanes bombarded the militants as they fought security forces on the streets of the North Sinai town of Sheikh Zuweid after striking military checkpoints in a surprise attack after dawn. Medical and security officials said at least 70 people, mostly soldiers, were killed in the attacks and hours of clashes, along with dozens of jihadists. The military said 17 soldiers and 100 militants had been killed.

It was not immediately possible to explain the discrepancy. The militants withdrew from Sheikh Zuweid after almost eight hours of fighting, the officials said. The violence came two days after state prosecutor Hisham Barakat was assassinated in a Cairo car bombing, the most senior government official killed in the jihadist insurgency. Egypt's government adopted a controversial anti-terror law put forward after his killing that imposes harsher punishments on convicted terrorists and aims to target their sources of financing. In the capital, police killed senior Muslim Brotherhood member Nasser al-Houfi and eight others during a raid on an apartment, security officials and a member of the Islamist movement said. The Sinai attacks were the most brazen in their scope since jihadists launched an insurgency in 2013 following the army's overthrow of Islamist president Mohamed Morsi.

Militants took over rooftops and fired rocket-propelled grenades at a police station in Sheikh Zuweid after mining its exits to block reinforcements, a police colonel said. "This is war," a senior military officer told AFP. "It's unprecedented, in the number of terrorists involved and the type of weapons they are using." One car bomb attack against a checkpoint south of Sheikh Zuweid killed 15 soldiers. F-16 jets responded by striking the militants in several locations, said officials and a witness, who added: "There are gunmen on the streets. They have planted mines everywhere." Explosions were heard and plumes of smoke seen over Sheikh Zuweid from the neighbouring Gaza Strip, witnesses there said. The ISIL group said its jihadists surrounded the police station after launching attacks on 15 checkpoints and security installations using suicide car bombers and rockets. Troops regularly come under attack in the Sinai, where jihadists have killed hundreds of policemen and soldiers since Morsi's overthrow. ISIL said the assault had involved three suicide bombers. "In a blessed raid enabled by God, the lions of the caliphate have simultaneously attacked more than 15 checkpoints belonging to the apostate army," it said in a statement.

Warplanes resumed strikes against ISIL positions into the early hours, security officials said. In Rafah, on the border with the Gaza Strip, a 19-year-old was killed when a stray rocket hit his home during clashes between the military and jihadists. Egypt responded to its growing insurgency on July 1 by passing controversial anti-terror law and requesting the appeals process be shortened, in measures it said would “achieve swift justice and revenge for our martyrs”. Sisi, the former army chief who toppled Morsi before winning elections last year pledging to wipe out militants, pledged to toughen laws and suggested fast-track executions following the state prosecutor’s assassination. The government designated Morsi’s Muslim Brotherhood a “terrorist group” in December 2013 as part of a crackdown on the opposition that has left hundreds of his supporters dead and thousands in jail.

Courts have sentenced hundreds to death, including Morsi, who was convicted of involvement in attacks on police stations. His sentence is being appealed. The government often blames the Brotherhood for attacks, but the deadliest have been claimed by the ISIL affiliate in Sinai. Wednesday’s attack was similar to a series of ambushes on April 2 in which dozens of militants attacked checkpoints, killing 15 soldiers. In January, a rocket and car bomb attack on a military base, police headquarters and residential complex for troops and police killed at least 24 people, most of them soldiers. The attacks have come despite stringent security measures in the Sinai, including a night-time curfew and the creation of a buffer zone along the Gaza border. The dominant jihadist group in the Sinai, previously known as Ansar Beit al-Maqdis, or Partisans of Jerusalem, pledged allegiance to ISIL in November. The militants have mostly focused their attacks on soldiers and police, killing hundreds since Morsi’s overthrow. They previously said they avoided targeting civilians but claimed responsibility for a suicide bombing on a tourist coach in February 2014 that killed three South Koreans and their driver.

## Israel detains ship seeking to break its Gaza blockade

AFP, 29.06.2015



Israel’s navy boarded and took over an activist vessel seeking to break its Gaza blockade and was escorting it to port in an operation that did not use force, the military said. A flotilla of four boats carrying pro-Palestinian activists had been seeking to reach Gaza to highlight the Israeli blockade of the territory.

Three of the boats were said to have turned back while a fourth, the Marianne of Gothenburg, was boarded by the Israeli navy and was being escorted to an Israeli port. Netanyahu lauded the operation insisting his government was right to take action against Hamas.

“In accordance with international law, the Israeli navy advised the vessel several times to change course,” the military said in a statement. “Following their refusal the navy visited and searched the vessel in international waters in order to prevent their intended breach of the maritime blockade of the Gaza Strip. “The forces have reported that use of force was unnecessary, and that the process was uneventful,” it added. “The vessel is currently being escorted to Ashdod port and is expected to arrive within 12-24 hours.” A military spokeswoman confirmed to AFP that the vessel was the Swedish-flagged Marianne of Gothenburg, part of the so-called Freedom Flotilla III. Among the passengers on the four vessels were Arab-Israeli lawmaker Basel Ghattas, Tunisia’s former president Moncef Marzouki and at least one European lawmaker. The other three ships had changed their course and were “heading back to their ports of origin,” according to a statement by “Canadian Boat to Gaza,” issued by the activists before the Israeli navy commandeered the Marianne. “We once again call on the government of Israel to finally lift the blockade on Gaza,” the statement read. “Our destination remains the conscience of humanity.”

Netanyahu dismissed the organiser’s goals. “This flotilla is nothing but a demonstration of hypocrisy and lies that is only assisting the Hamas terrorist organisation and ignores all of the horrors in our region,” he said in a statement. “Preventing entry by sea was done in accordance with international law and even received backing from a committee of the UN secretary general.” Defence Minister Moshe Yaalon said the flotilla “wasn’t humanitarian and didn’t seek to help anyone,” adding that “the participants were seeking to continue the campaign to delegitimise Israel.” Israel imposed its blockade on Gaza in 2006 after Hamas captured an Israeli soldier, and tightened it a year later when the Islamist movement consolidated control of the territory. A number of flotillas had reached Gaza prior to May 2010, when 10 Turkish activists aboard the Mavi Marmara were killed in an Israeli raid on the six-ship flotilla. Since then, several ships manned by pro-Palestinian activists have tried to reach the shores of Gaza, but they have all been repelled by the Israeli navy.

## Ukraine NATO Membership: Nationwide referendum could be limited by proposed law

International Business Times, *02.07.2015*



A proposed law in Ukraine’s parliament could limit the country’s ability to hold any future nationwide referendum on possible entry into NATO or the European Union, an official said Thursday. Days earlier, Ukraine President Petro Poroshenko established a rough timeline for the country’s entrance into the alliance and identified a referendum as a necessary step in the process.

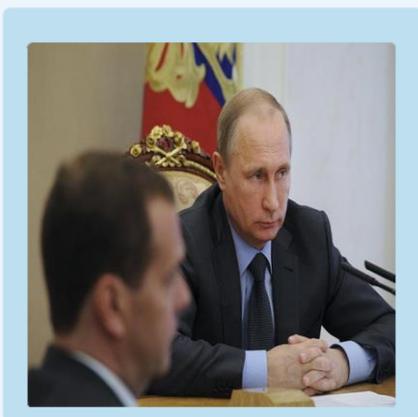
Representatives from the four parties that compose Ukraine’s parliament jointly submitted the draft law, which was a new version of legislation enacted in 2012, Russian news agency Tass reported.

The proposal “considerably narrowed” the circumstances under which Ukraine could hold a nationwide referendum, said Volodymyr Pilipenko, Ukraine’s representative at the Council of Europe’s Venice Commission, which advises European nations on issues of constitutional law. “The new edition of the draft law envisages [nationwide referenda for] amendments to the Constitution, changes of the country’s territory and cancellation of certain laws,” Pilipenko wrote on his Facebook account, according to Tass. Conversely, the law would not allow for nationwide referenda on “ratification of treaties on joining NATO or the EU,” he said. Ukraine was at the forefront of Eastern European nations interested in strengthened ties or full membership within NATO, as a check against Russia’s military expansion in the region. Russia annexed the formerly Ukrainian territory of Crimea in March 2014 and has been accused of providing military support and weaponry to separatist rebels active in eastern Ukraine.

NATO requires potential members to meet a checklist of requirements before they can gain entry into the alliance. Applicants must meet a threshold of democratic government, enact civilian oversight over armed forces and demonstrate a commitment to peaceful diplomacy, according to a 1997 U.S. State Department memo. Ukraine will need “at least six, seven years” to meet NATO’s requirements, Poroshenko told an Italian newspaper earlier this week. He reiterated that the country would hold a nationwide referendum to determine if the civilian population supported entry into NATO.

## **Moscow: US accusations that Russia is not respecting its neighbours’ sovereignty are ‘confrontational’**

The Independent, 02.07.2015



Russia has accused the US of adopting “confrontational” tactics, after the Pentagon updated its military strategy on Moscow amid the on-going crisis in Ukraine.

Tensions between Russia and western powers have reached their lowest point since the end of the Cold War, partly because of the pro-Russian rebellion in eastern Ukraine. Moscow has said Washington risks setting back efforts to improve already deteriorating relations after the Pentagon updated the US National Military Strategy on Russia to consider its role in the bloody conflict which has killed over 6,400 people, according to the UN.

The document published credited Russia for contributing to maintaining global security by fighting the narcotics trade and terrorism. However, Moscow also “repeatedly demonstrated that it does not respect the sovereignty of its neighbours and it is willing to use force to achieve its goals”, according to the US body. The document went on: “Russia’s military actions are undermining regional security directly and through proxy forces.” Nevertheless, the military strategy maintained that Washington wanted to engage with Russia in areas of common interest. Kremlin spokesman Dmitry Peskov responded to the strategy change in a conference call with reporters. “The use of such language in this document points, shall we say, to what is probably a confrontational attitude devoid of any objectivity towards our country,” he said. Mirroring calls for the US and Russia to co-operate on global matters, he added: “Of course this will hardly contribute to attempts to steer bilateral relations in the direction of normalisation.” In the wake of Russia’s seizure of the Crimean peninsula from Ukraine last year, the US and the European Union have imposed sanctions on Russia. World leaders have also accused Russia of supplying pro-Russian separatists in east Ukraine with weapons and soldiers – charges Moscow denies.

## Defiant Greek PM vows referendum will go ahead

AFP, 02.07.2015



**Greek Prime Minister Alexis Tsipras vowed to press ahead with a controversial bailout referendum as European leaders ruled out any fresh debt offer before July 5 vote.**

Hours after Greece became the first advanced economy to default on an International Monetary Fund (IMF) repayment, the leftist leader used a live TV address to urge Greeks to vote ‘No’ on Sunday to creditors’ current demands. Tsipras, at loggerheads with Greece’s creditors since his election in January, insisted a ‘No’ vote would “not signify a rupture with Europe” despite efforts by EU leaders to cast it as a referendum on Greece’s place in the bloc.

“Come Monday, the Greek government will be at the negotiating table after the referendum, with better terms for the Greek people,” he added, standing between Greek and EU flags. His comments came after Greece on June 30 made a last-minute proposal for a third bailout worth nearly 30 billion euros (\$33 billion) to follow the two rescue programmes worth 240 billion euros cash-strapped Athens has received since 2010. Frustrated eurozone finance ministers agreed Wednesday to wait until after the referendum before holding any more talks, saying there were “no grounds” for further discussions. EU officials consider a ‘No’ vote as a risky step towards a possible exit of Greece from the eurozone and the beginning of an unprecedented crisis for the bloc.



On Greece's streets, chaotic scenes ensued when nearly 1,000 banks reopened to allow elderly people limited access to their pensions after several days of capital controls limiting withdrawals. "I worked for 50 years on the sea and now I am a beggar for 120 euros," one pensioner in Athens said. "I have no money for medication for my wife, who had an operation and is ill." Ahead of the referendum, an opinion poll on July 1 showed the 'No' camp in the lead with 46 percent, against 37 percent for 'Yes' and 17 percent undecided. The 'No' vote share was down compared to before capital controls were introduced Sunday. The Council of Europe, a pan-European human rights body, has criticised the vote, saying it was being organised too quickly and that the question was not clear. Greece entered uncharted waters with its default on the 1.5-billion euro IMF loan and expiry of its current European bailout on June 30. It is now without external financial assistance for the first time in five years.

The developments prompted Moody's to cut its credit rating for Greece to a deep-junk "Caa3" the last of the three major ratings agencies to do so warning it was now less likely that official creditors will support the country, whatever happens in July 5 referendum. Greece has requested more time to pay its debt, but the IMF said July 1 that allowing a borrower to delay repayment was generally ineffective in helping a country overcome crisis. Voicing frustration with the ongoing debt saga, IMF chief Christine Lagarde told CNN that talks between Greece and its creditors would benefit from "a bit more adulthood". Stock markets, however, rebounded Wednesday amid hopes that a deal could still be struck to keep Greece in the eurozone. Asian markets pushed higher in early trade July 2, tracking a surge in European and US equities the previous day. Ahead of the finance ministers' call, German Chancellor Angela Merkel had effectively ruled out all negotiations until after Sunday's referendum. "The world is watching us. But the future of Europe is not at stake," Merkel told Germany's Bundestag, or lower house of parliament.

Signalling a possible rift in Europe's united front, France's President Francois Hollande called for an "immediate agreement" after six months of stalemate. But Eurogroup chief Jeroen Dijsselbloem made clear there were "no grounds for further talks at this point" because of the Greek government's refusal to call off the referendum. Ministers also agreed to "take note" of a letter from Tsipras that emerged Wednesday telling creditors he was ready to accept terms they offered at the weekend, as long as they included a VAT discount for Greek islands and postponing pension reform, he said. The European Central Bank again decided to keep the amount of emergency funding Greek banks can access frozen at around 89 billion euros on July 1. It was the ECB's decision on Sunday to refuse to increase emergency funding for Greek banks that pushed Athens to close lenders for a week and impose the capital controls. The ECB stands "ready to intervene if and when it is necessary," said a Greek banking source.

In an interview on Greek television, Finance Minister Yanis Varoufakis said the restrictions could be lifted "immediately" once a new debt deal was agreed and insisted "Greece is, and will remain, in the euro". Meanwhile, Argentinian President Cristina Kirchner compared the crisis in Greece to her own country's debt default in 2001, in the latest expression of solidarity from the Latin American nation. In an interview on public television, she said "what the Greeks are living through corresponds exactly to what we, the Argentinians, went through in 2001: the consequences of terrible neoliberal policies... which led to misery, hunger and unemployment".

## French court annuls Jean-Marie Le Pen's suspension from far-right FN

Reuters, 24.06.2015



A French court cancelled Jean-Marie Le Pen's suspension from the far-right National Front party in a ruling that could re-launch a public feud with his daughter.

By pushing her maverick father out of the party he founded four decades ago, Marine Le Pen was seeking to prevent him ruining her bid for power. But her 86-year old father went to the courts to be re-instated in the party. "Mr Le Pen can from tomorrow morning ... start using his office again and all the means that were at his disposal and sit in all the bodies in which he was taking part as honorary president," lawyer Frederic Joachim told.

The crisis at the National Front erupted in April when Le Pen senior reiterated past comments that the Nazi gas chambers were a mere detail of history, and defended Philippe Petain, the war-time leader who cooperated with Nazi Germany. However FN deputy leader Florian Philippot played down any consequences from the ruling, saying party members were in any case being consulted on cancelling the honorary president title in an on-line vote that closes on July 10. "No one thinks that he speaks in the name of the FN anymore anyway," he told BFM TV. Asked if he still had support within the party, Philippot laughed and said there was unanimity behind Marine Le Pen.

## France says 40 imams deported for 'preaching hatred' since 2012

AFP, 29.06.2015



France has deported 40 foreign imams for "preaching hatred" in the past three years, a quarter of them in the last six months, Interior Minister Bernard Cazeneuve said. The minister vowed to clamp down on mosques and preachers inciting hatred after a suspected Islamist beheaded his boss during an attack on a gas factory last week.

The attack, which had the hallmarks of a jihadist act but is also believed to have personal motivations, was the second in six months in France which is battling to curb radicalisation that has seen hundreds of citizens leave to wage jihad in Iraq and Syria.

Any “foreign preacher of hate will be deported,” said Cazeneuve, adding that several mosques were being investigated for inciting terrorism and if found to be doing so, “will be shut down”. “We have deported 40 preachers of hatred since 2012. Since the beginning of the year we have examined 22 cases, and around 10 imams and preachers of hatred have been expelled,” said Cazeneuve. Yassin Salhi, 35, confessed during interrogation to killing his boss and pinning his head to a fence of the Air Products factory near the eastern city of Lyon. The severed head was discovered flanked by two Islamic flags and it later emerged he had sent a selfie of himself with the head to a number believed to belong to a French jihadist currently in Syria. While Salhi was known to security services for links to radical Islamists in France, and his crime bore the hallmarks of a jihadist act, sources close to the investigation have suggested a personal dimension after a dispute with his employer two days earlier. “There is no doubt of the personal motivations but there is a symbolism taken from the most atrocious, abject images of terrorism,” said Cazeneuve.

## S. Korea selects Airbus for \$1.33 bn military contract

AFP, 30.06.2015



Airbus won a \$1.33 billion deal to supply air refuelling tankers to South Korea, beating US rival Boeing.

Under the 1.488 trillion won deal, Airbus Defence and Space will supply four A330 MRTT aircraft by 2019 to South Korea’s air force. The A330 MRTT, a military derivative of the A330-200 airliner, was selected over Boeing’s KC-46A, the state agency said. It is South Korea’s first introduction of the mid-air refuelling aircraft which would allow jet fighters to take off with more loads of weapons. The Airbus model received good marks in its price and performance as well as the amount of personnel and cargo it can carry.

Australia, Britain, the UAE, Saudi Arabia and Singapore have adopted the Airbus tanker designed as a dual-role air-to-air refuelling and transport aircraft. South Korea’s military procurement needs, especially where the air force is concerned, have overwhelmingly been met by US suppliers in the past -- a reflection of their close military alliance. But European companies led by Airbus have also secured a series of military contracts. In 2005, Airbus Helicopters won a contract for transport choppers called “Surion” in partnership with Korea Aerospace Industries (KAI). South Korea unveiled the first Surion helicopter in 2009. In March this year, Airbus Helicopters inked a deal worth 1.5 billion euros (\$1.6 billion) to build more than 300 civil and military helicopters for South Korea also in partnership with KAI. The March deal is part of a South Korean military project to replace its ageing fleet of McDonnell Douglas’ 500MD light helicopters, which have been in service for decades.

# Puerto Rico, crushed by debt, seeks moratorium

AFP, 30.06.2015



Crushed by liabilities it now cannot repay, Puerto Rico is seeking to reschedule its \$73 billion debt.

Governor Alejandro Garcia Padilla earlier made the admission in a New York Times interview, rattling stock markets and quickly knocking 10 percent off prices of Puerto Rican bonds. "The goal is going to be a moratorium that is negotiated with bondholders to delay debt payments for a number of years, so money is available to be invested here in Puerto Rico, to create jobs," the governor said in a televised address. "By sharing the sacrifice with our creditors, we will be able to move forward."

But "Puerto Rico is unable to keep making payments under current terms," he added, speaking in Spanish. The governor of the US territory of 3.5 million people -- a former Spanish colony where citizens have a US passport but their own Olympic team -- said he would urge the US government to change its bankruptcy regulations so that Puerto Rico can declare bankruptcy legally. He said he was creating a task force to work on overhauling the island's finances. And the governor promised some cutbacks, though not in education or job creation. "I am going to fight for jobs as a central goal of this process," he said. And "we are not going to let the crushing weight of debt passed down by others put us on our knees," Garcia Padilla pledged. "We are not going to be forced to make a choice between paying the police, or paying teachers and nurses, and paying the debt."

"There is another way." He warned that "it's not in anybody's best interest for this strategy to fail." The government released a study by ex-officials of the International Monetary Fund and the World Bank that says Puerto Rico's debt load is unsustainable and needs to be rescheduled. The country's "true fiscal deficit is much larger than assumed," it said. "Even a major fiscal effort leaves residual financing gaps in coming years, which can be bridged by debt restructuring," which, it proposed, would mean creditors exchanging existing bonds for new ones with a longer and lower debt service profile. "The debt cannot be made sustainable without growth, nor can growth occur in the face of structural obstacles and doubts about debt sustainability." The White House, which has had a special task force working on the island's finances for months, said it was not contemplating any bailout of Puerto Rico. "But we do remain committed to working with Puerto Rico and their leaders as they address the serious challenges," said spokesman Josh Earnest.

Garcia Padilla and senior staff members told the Times the island would likely seek concessions from its creditors, possibly deferring some debt payments for up to five years. The economy of Puerto Rico has posted negative growth for eight years. Ratings agencies like Moody's classify Puerto Rican debt as junk bonds. The financial problems of the Caribbean island have shaken the large market for US municipal bonds, especially after Detroit declared bankruptcy in 2013.



Puerto Rico has been able to sell huge amounts of debt due to its tax-free status in the US municipal bonds market, making its debt more valuable than other city bonds. But unlike Detroit, which declared itself broke to force creditors to write off some debt, as a commonwealth, the island cannot file for bankruptcy. That means any default on its debt could take years to resolve. Meanwhile, island natives and residents of working age increasingly have packed up and moved to the US mainland in droves to work. Florida and the New York City area remain key draws for them. The Puerto Rican announcement came a day before Greece, likewise struggling with economic contraction and unsustainable debt, is expected to default on its official bailout loans from the International Monetary Fund. The report on the Puerto Rican economy, released by the Government Development Bank, the main issuer of the island's debt, said the economy is caught in a vicious cycle: weak public finances fuel investor wariness and low growth, and that in turn increases the budget deficit and debt. It recommended structural reforms like cutting civil servants' salaries and the costs of providing public services like electricity and transport. The local electric company alone is saddled with debt to the tune of \$9 billion. All along it has strongly pushed the idea of a debt restructuring, which will not be easily achieved with creditors.

# Announcements & Reports

## ► *The Kurds: a Channel of Russian Influence in the Middle East?*

**Source** : IFRI

**Weblink** : <http://www.ifri.org/en/publications/enotes/notes-franco-turques/kurds-channel-russian-influence-middle-east>

## ► *Has the Petrodollar Had Its Day?*

**Source** : RCEM

**Weblink** : <http://www.rcem.eu/research/rcemworkingpapers/petrodollar.aspx>

## ► *21st Century Conflict: From “Revolution in Military Affairs” (RMA) to “Revolution in Civil-Military Affairs” (RCMA)*

**Source** : CSIS

**Weblink** : <http://csis.org/publication/21st-century-conflict-revolution-military-affairs-rma-revolution-civil-military-affairs->

## ► *More Builders and Fewer Traders: A Growth Strategy for the American Economy*

**Source** : Brookings

**Weblink** : <http://www.brookings.edu/research/papers/2015/06/30-american-economy-growth-strategy-galston-kamarck>

# Upcoming Events

## ► *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/>

## ► *Capital Requirements and Loss Absorbing Capacity for Large Banks*

**Date** : 07 July 2015

**Place** : Brussels - Belgium

**Website** : <http://www.bruegel.org/nc/events/event-detail/event/538-capital-requirements-and-loss-absorbing-capacity-for-large-banks/>

## ► *The Meaning of Russia's Nuclear Threats*

**Date** : 08 July 2015

**Place** : Washington DC – The USA

**Website** : <http://www.brookings.edu/events/2015/07/08-russia-nuclear-threat>



► *Financing The Post-2015 Sustainable Development Agenda: What Are The Issues and What Is The Role of The IMF?*

**Date** : 08 July 2015  
**Place** : Washington DC – The USA  
**Website** : <http://www.brookings.edu/events/2015/07/08-financing-post-2015-sustainable-development-lagarde>

► *The Productivity Gap: Why is Innovation Not Increasing Growth?*

**Date** : 09 July 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/544-the-productivity-gap-why-is-innovation-not-increasing-growth/>

► *The Kuwait Crisis 25 Years Later*

**Date** : 15 July 2015  
**Place** : Washington – The USA  
**Website** : <http://www.brookings.edu/events/2015/07/15-kuwait-crisis-25-years-later>

► *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/>

► *The Future of Capitalist Democracy: UK-Japan Perspectives*

**Date** : 21 July 2015  
**Place** : London - UK  
**Website** : <http://www.chathamhouse.org/event/future-capitalist-democracy-uk-japan-perspectives>

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

**Date** : 07 September 2015  
**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** : 08 September 2015  
**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** : 28 September 2015  
**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** : 01 October 2015

**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** : 17 November 2015

**Place** : Berlin - Germany

**Website** : <http://www.bruegel.org/nc/events/event-detail/event/541-the-future-of-the-welfare-state/>