

## Turkish Central Bank holds interest rate at 8.25 percent

World Bulletin, 24.12.2014



TCB has left its benchmark interest rate at 8.25 percent for the fifth month in a row. The Central Bank's decision was observed closely by markets -- the Istanbul stock market was up 0.4 percent after the announcement.

The Monetary Policy Committee also reiterated the bank's commitment to a tight monetary policy until there is a significant reduction in the outlook for inflation. Inflation is currently at about 9 percent, and is expected to go higher in the coming weeks. Policymakers kept the overnight lending rate at 11.25 percent and maintained the overnight borrowing rate at 7.50 percent.

## Turkey, Macedonia aim to double trade volume

Anadolu Agency, 23.12.2014



The prime ministers of Turkey and Macedonia announced their joint aim to increase their bilateral trade volume to \$1 billion, from a current level of around \$400 million, by widening the scope of their Free Trade Agreement.

"We have come to an agreement-in-principle to expand the scope of the Free Trade Agreement that was initialed in 2000," Ahmet Davutoglu told. He made the remarks following private talks with Gruevski and an interdelegational meeting as part of his two-day formal visit to the Balkan country, where he came to discuss bilateral political, economic and commercial relations.

Davutoglu maintained that the figure already exceeded \$375 million in the first 10 months of 2014 and may reach \$450 million by the end of the year. "It means a rise of around 15 percent in our mutual trade. We must reach a trade volume level of \$1 billion within three to four years' time," he said.

The premier stated that economy ministers of the two countries will hold a meeting in January to discuss the details of broadening the Free Trade Agreement. "Turkey is ready to sign the Free Trade Agreement with Macedonia which will be the broadest one we have inked with other countries so far. It will include the agriculture and services sectors. In this way, we believe we can contribute to the Macedonian economy and enable an increase in Macedonia's exports to Turkey," he added.

Davutoglu said the formation of a free trade zone between the two countries could also help boost exports to Turkey through investments. "The more Macedonia opens to investments and eases investments, the shorter it will take us to have Macedonia among our first five trade partners and then as one of the top two countries thanks to the opportunities to be brought by the Free Trade Agreement," he said.

The Turkish premier reiterated Ankara's support for Macedonia's membership of NATO, stressing the key role of Skopje in the political and economic stability of the wider Balkans region. For his part, Macedonian Premier Gruevski voiced his belief that they could realize their goal of having \$1 billion in trade volume in a very short time. "Our duty is to provide the necessary conditions and enable a positive environment," he said. He called upon Turkish businessmen to increase their investments in Macedonia especially in the tourism and agriculture sectors, adding that they could also conduct business in partnership with Macedonian businessmen in third country markets. Gruevski also thanked Turkey for its support to his country in their integration process into Euro-Atlantic institutions, especially NATO.

The Macedonian prime minister also touched upon his ministry's efforts to provide education in Ottoman Turkish and grant related scholarships to students who want to study the Ottoman archives. Davutoglu welcomed his Macedonian counterpart's idea of easing the education of students and academics in Ottoman-era studies and opening the archives to Macedonian academics. "We are ready to provide all kinds of support whenever needed. It is our mutual cultural heritage," he said.

The Turkish premier also met representatives of the Turkish community in Macedonia and was received by Macedonian President Gjorge Ivanov. He is scheduled to attend an event on the sidelines of Turkish Education Day on Dec. 21. The official festival of Macedonia's Turkish community has been celebrated since 2007. Turkish Foreign Minister Mevlut Cavusoglu, who joined Davutoglu's two-day visit to Skopje, held a meeting with his Macedonian counterpart Nikola Poposki. He underlined that Turkish students who are studying in Macedonia are very important in terms of establishing a strong bridge between the two states. The Macedonian minister Poposki announced he would make an official visit to Turkey in 2015 and extended his thanks to Turkish entrepreneurs for inviting his country. The two officials also exchanged their views on regional issues and political developments in neighboring countries during the meeting.

## World Bank cuts Turkey's growth forecast for 2014

Anadolu Agency, 23.12.2014



The World Bank has cut Turkey's 2014 growth forecast while keeping 2015 estimates unchanged according to new data from the bank.

"World Bank lowers 2014 growth estimate to 3.1 percent but keeps 2015 forecast unchanged at 3.5 percent against the backdrop of improving external balances and persistent market volatility," the bank said to AA. The organization expects Turkey to significantly benefit from the sharp decline in oil prices as the outlooks for inflation and the current account have improved substantially due to this development.

However, the World Bank cautioned Turkey to changes in investor sentiment in which the country has limited room to maneuver regarding monetary policy. "While private consumption is expected to return to being the main driver of growth, political uncertainty and the volatility in global markets will continue to weigh on investor sentiment," the World Bank said. Country Director Martin Raiser said that Turkey's growth performance would be largely based on recovery of private investment and a resumption of productivity growth, stressing that the implementation of new reforms would play a crucial role. "For this, a signal of the government's commitment to a level playing field for all investors is needed," Raiser said. "The new 25 Transformation Programs provide such an opportunity, but moving beyond announcements to implementation will be critical."

## Turkey to invest in coal in south

World Bulletin, 21.12.2014



Turkey will make one of its largest coal investments in the southern province of Kahramanmaras, Energy Minister Taner Yildiz has said. Kahramanmaras produces more than it consumes and its place in Turkey's energy structure is important, Yildiz said.

"We invested 3 billion Turkish Liras in Kahramanmaras. Afsin-Elbistan Thermal Plant, which is one of Turkey's largest coal deposits in the south eastern part of the country, was constructed 30-35 years ago and it is time to upgrade it by building new units," the minister said. He said that the Turkish government would invest \$3.6 billion in the province.

"We will make one of the biggest coal investments of Turkey in Kahramanmaras, and Japan, South Korea and China are also interested in investing there. Besides these countries, I have spoken on the Afsin-Elbistan issue with Tamim bin Hamad Al Thani, Emir of Qatar. The Qatar Investment Authority is following the project," he added.

## Turkey, Iraq seek new measures against ISIL

Hurriyet Daily News, 25.12.2014



Turkey and Iraq have begun a new round of talks to seek additional measures for the elimination of the threat posed to the region by extremist Islamists as Baghdad requested more military and intelligence assistance from Turkey, including the delivery of weapons.

Joint potential moves against the ISIL were discussed during a High-Level Strategic Cooperation Council meeting that took place in Ankara on Dec. 25 under the leadership of the two prime ministers, Ahmet Davutoğlu and Haider al-Abadi, and with the participation of key ministers in a show of the beginning of a new era in bilateral ties.

We are currently providing military training to Peshmergas in northern Iraq in their fight against Daesh [the Arabic acronym of the ISIL]. But we are open to any kind of ideas. We are ready to provide any kind of support we can give to Iraq," Davutoğlu told reporters at a joint press conference with al-Abadi after lengthy talks. "Our defense ministers and security institutions have held detailed talks today and will continue to work over this issue."

Al-Abadi thanked Turkey for its cooperation in Iraq's fight against ISIL, which controls some parts of the country, but underlined that they were in need of military training and intelligence assistance. He said he submitted a list of demands from Turkey during the talks in Ankara. "ISIL is not a threat only to Iraq and to Turkey but to the entire region and to the world. Therefore, the fight against ISIL requires international cooperation. We are in expectation of cooperation from all neighboring countries," he said. Al-Abadi said Iraqi security forces accompanied with Kurdish Peshmerga had begun to push back ISIL forces in various parts of the country.

Upon a question about foreign fighters flocking into Iraq to join ISIL, Davutoğlu recalled Turkey's principle of not allowing any foreign fighters to maintain a presence in the region either with ISIL or the government of Bashar al-Assad. "Foreign fighters should not be in Iraq and Syria. Syria should be closed to foreign fighters. Syria belongs to the Syrian people as Iraq belongs to the Iraqi people. No foreign powers should be in either countries," Davutoğlu said. Al-Abadi drew the attention to the sectarian polarization in the Middle East and called on Turkey to joint take measures against it.



## Iraq: Turkmen, Ezidis killed by ISIL exceed 6,000

Anadolu Agency, 21.12.2014



Around 6,000 Turkmen and Ezidis have been killed in the attacks by ISIL, since June, according to a Iraqi government. Around 5,000 Ezidis, and 1,000 Turkmen have been killed in ISIL attacks, said the Iraqi Ministry of Human Rights in a statement, citing a report issued by the Ministry of Displacement and Migration.

The report puts the number of displaced people at one million, including 400,000 Ezidis, and 600,000 Turkmen who have fled to safer regions. Around 350,000 Ezidis fled from the town of Sinjar west of Mosul, whereas Turkmen fled from the provinces of Saladin, Kirkuk the statement said.

## Budget pressure unlikely to deflect Iran from nuclear goals

Reuters, 22.12.2014



A big oil price slide will hurt Iran's attempts to rescue battered living standards, but economic pain is unlikely to soften its stance in nuclear talks or end aid to allies such as Syria, matters seen by its ruling clerics as strategic priorities.

Economic misery due to sanctions and mismanagement has been a reality for years, and while social strains in the 76 million population are deep, the clerics will seek to contain them, say experts examining Iran's budget plans for 2015. The largest drop in oil prices since the 2008 financial crisis means more budget pressure for the OPEC member, already bereft of tens of billions of dollars in oil revenue.

And tougher economic times may spur Tehran's determination to end a nuclear dispute and lift sanctions that isolate it from the global banking system and deter most foreign investors. But significant changes in Iran's regional strategy including its approach to any nuclear deal are unlikely. That is partly because funds for security affairs come from Supreme Leader Ayatollah Ali Khamenei, not the government. He also decides nuclear policy. "Our support to our brother Assad will never change," said a senior Iranian official, referring to Syrian President Bashar al-Assad. "Because of (declining) oil prices we face economic hardship ... but we will manage to continue our support to

Syria, militarily and financially. Ali Vaez, of the International Crisis Group think-tank, said the oil price fall would hurt, but was unlikely to make Iran accept a nuclear deal “that it views as lopsided”. “Iran’s support for its allies in Iraq and Syria is not a questions of means, it’s a strategic necessity. This is why neither the fall of the rial in 2012 or economic malaise in 2013 affected Iran’s support for its Syrian and Iraqi allies.”

Iran and world powers are negotiating to end a standoff over Tehran’s nuclear goals. Tehran denies Western charges it is seeking nuclear weapons. President Hassan Rouhani presented a “cautious, tight” budget on Dec. 7 in response to falling oil prices, now almost \$10 a barrel below the \$70 his budget was based on. Spending was six percent above this year, a real terms cut due to inflation of 20 percent. But with revenues pressured, plans to hike defense spending 33 percent prompted speculation that Rouhani wants to placate security hardliners, hoping they will indulge his bid to win a nuclear deal and end sanctions.

Powerful anti-Western hawks in the Islamic Revolutionary Guards Corps (IRGC), who report to Khamenei, have been wary of the negotiations. They have tolerated the talks, diplomats speculate, largely because his big 2013 election win revealed the depth of anger over economic mismanagement and support for his aim of ending Iran’s international isolation. Mehrdad Emadi of Betamatrix International Consultancy suggested Rouhani had to consider the IRGC in setting economic policy because it could spoil any nuclear deal. Greater defense spending was aimed at “giving them a big piece of the public pie so they can stop kicking up a fuss when it comes to negotiations, especially those with the Americans.” “The IRGC are extremely sensitive to any reduction of ‘military aid’ to what they see as strategic allies.” The IRGC could ruin any rapprochement with the West it felt might hurt its interests. Last year, Iran granted Syria a \$3.6 billion credit facility to buy oil products, with another \$1 billion for non-oil products.

One is gradual depreciation of the official exchange rate at which it converts oil revenues from dollars into rials. This allows a progressively smaller amount of dollars to supply the same rial revenues. The central bank’s official exchange has dropped to 27,043 from 25,651 at the end of June and 24,774 at the end of last year. Next year’s budget is based on a rate of 28,500, showing the government plans to continue this strategy. Meanwhile, the free-market price of the rial has stabilized at about 35,000, far from lows near 40,000 two years ago. That suggests most Iranians think that while cheaper oil will pressure the rial, they do not yet expect an economic collapse or a run on the currency. Emadi said Rouhani would try to shield the poorest from spending cuts to avoid any repeat of the unrest that followed 2009’s disputed presidential election. A 30 percent rise in bread prices on Dec. 1 rattled Iranians, but there was no major unrest. Emadi said the government later took steps to compensate poorer households. There could be further subsidy cuts but open protest was unlikely since “the regime’s machinery of repression still makes this very risky”, said Scott Lucas of EA WorldView, a specialist website on Iran and Syria.

# Abbas says to cut ties with Israel if UN move fails

AFP, 23.12.2014



Palestinian president Mahmud Abbas warned on Dec. 23 that his administration would “no longer deal” with Israel if a United Nations Security Council resolution calling for a final peace deal fails. “If the Arab-Palestinian initiative submitted to the Security Council to put an end to (Israeli) occupation doesn’t pass, we will be forced to take the necessary political and legal decisions,” Abbas was quoted as saying by the Algerian APS news agency.

“If it fails, we will no longer deal with the Israeli government, which will then be forced to assume its responsibilities as an occupier,” he added.

The Palestinian draft resolution sets a 12-month deadline for wrapping up negotiations on a final peace settlement and the end of 2017 as the timeframe for completing an Israeli withdrawal from Palestinian territories. A final peace deal would pave the way to the creation of a Palestinian state with Jerusalem as a shared capital, according to the text. Speculation has been mounting since the death in December of a Palestinian official who was struck by an Israeli soldier that the Palestinian Authority could suspend security coordination with Israel in the West Bank if the resolution fails to pass. “We are determined to regain the rights of our people, including the right of return (for refugees) and the freedom of all Palestinian prisoners held in Israeli jails,” Abbas said.

# Qatar and Egypt officials discuss reconciliation

Reuters, 24.12.2014



Egyptian and Qatari intelligence officials met in Cairo to discuss a possible reconciliation as part of Saudi efforts to broker an end to the 18-month standoff over Doha’s support of the Muslim Brotherhood, security sources said.

They said Qatar’s intelligence chief, Ahmed Nasser Bin Jassim al-Thani, discussed plans for a meeting between the Egyptian and Qatari heads of state in Riyadh next month. Gulf Arab countries agreed in November to end a long-running dispute with Qatar over its promotion of “Arab Spring” revolts. Saudi Arabia has pushed for a similar rapprochement between Qatar and Egypt.

Qatar was a backer of elected Egyptian President Mohamed Mursi of the Muslim Brotherhood. Ties between the two countries deteriorated after then-army chief Abdel Fattah al-Sisi overthrew Mursi last year and cracked down on the Brotherhood. Egypt, Saudi Arabia and the UAE list the Brotherhood as a terrorist organisation and consider it a threat to their ruling systems. To Egypt's irritation, Qatar has sheltered exiled Brotherhood leaders.

Like Saudi Arabia, the UAE and Bahrain, Egypt withdrew its ambassador to Qatar this year. While the others agreed to normalise ties under the November deal, Cairo has yet to follow. Evidence has mounted in recent days that Saudi mediation could reach fruition.

This was followed by an announcement on Dec. 22 that Qatari-owned Al Jazeera television - which denies Egypt's charges of being a Brotherhood mouthpiece - had suspended broadcast of its Egypt-focused channel. The suspension and diplomatic flurry has raised expectations that Egypt might free three Al Jazeera journalists jailed on charges of spreading lies to support a "terrorist organisation," a reference to the Brotherhood. It was unclear if the journalists' case was discussed in the Qatari intelligence chief's talks with Egyptian officials, which took place on Dec. 22. But Australian Foreign Minister Julie Bishop said on Wednesday the case of Australian Peter Grete was "under consideration" by high levels of the Egyptian government and she was hopeful of his release by the end of the year. Sisi has been reluctant to interfere in judicial cases but suggested last month he might pardon Grete, Canadian-Egyptian Mohamed Fahmy, and Egyptian Baher Mohamed. The sources said Qatar's intelligence chief also met senior Egyptian foreign ministry officials. A ministry spokesman was not immediately available for comment.

## Israeli PM raises minimum wage by 19%

Anadolu Agency, 21.12.2014



Israeli Prime Minister Benjamin Netanyahu agreed to increase the minimum wage for his country's civil servants by 19 percent. The raise is expected to bring Israel's civil servants' salaries up to 5,000 shekels (around \$1,282) from 4,200 shekels (roughly \$1,076).

Netanyahu instructed the Finance Ministry to implement the minimum wage increase "immediately," according to Israel Radio. "This is great news for over 700,000 workers in Israel, which helps fight inequality by incentivizing [the unemployed] to return to the job market," the news site Ynet quoted Netanyahu as saying.

Around 18.6 percent of Israeli families live below the poverty line, according to a recent report by Israel's National Insurance Institute. In March, an annual report of Israel's Central Bureau of Statistics revealed that in 2013 the average real monthly income of an Israeli citizen amounted to 9,204 shekel (nearly \$2,630). Until the end of October 2014, Israel's unemployment rate stood at



6.4 percent, compared to 5.9 percent in the corresponding period in 2013, according to the latest report about unemployment by Israel's Central Bureau of Statistics.

## Russia to build first nuclear power plant in Jordan

Reuters, 25.12.2014



Russian Prime Minister Dmitry Medvedev has signed an agreement to build Jordan's first nuclear power plant. It will be a joint project with Russia's Rosatom nuclear power corporation.

"The construction and operation of nuclear power plants (NPP) will be financed with investments attracted in the markets of Russia, Jordan and third countries", says the agreement. The Cabinet believes the project will have "a positive impact on the development of the Russian nuclear industry and will provide long-term work for the nuclear industry of the country."

The nuclear power plant in Jordan will have two reactors, each with the capacity of 1000 MW. The first is expected to start operating in 2024, and the second in 2026. The area where the plant is to be built is an area with little chance of earthquakes. Jordan announced a tender for the construction of its first nuclear power plant in January 2011. In October 2013 Rosatom was declared a "preferred bidder" for the construction. Rosatom subsidiary Rusatom Overseas and the Atomic Energy Commission of Jordan agreed the project during the 58th General Conference of the IAEA on September 22. The project will be run as a 'build-own-operate' scheme. The two countries will create a joint venture in which a controlling stake of 50.1 percent will be owned by Jordan, and Rosatom will have 49.9 percent. Investments will be made in proportion to each partner's share.

# Russia says NATO turning Ukraine into ‘frontline of confrontation’

Reuters, 24.12.2014



Russia said NATO was turning Ukraine into a “frontline of confrontation” and threatened to sever remaining ties with the Atlantic military alliance if Ukraine’s hopes of joining it were realised. The Kiev parliament’s renunciation of Ukraine’s neutral status in pursuit of NATO membership has outraged Moscow and deepened the worst confrontation between Russia and the West since the end of the Cold War.

“NATO countries pushed Kiev to this counterproductive decision, trying to turn Ukraine into a front line of confrontation with Russia,” Deputy Defense Minister Anatoly Antonov told the Russian news agency Interfax.

If this decision in the future takes on a military character (accession to NATO), then we will respond appropriately. Then there will be a complete severing of ties with NATO, which will be practically impossible to repair,” Antonov said. It is likely to take years for Ukraine to meet the technical criteria for accession to NATO and, even then, there is no certainty that the alliance is ready to take on such a political hot potato. Yet Russia has made clear it would see the NATO membership of such a strategic former Soviet republic with a long common border as a direct military threat.

A NATO official, who asked not to be named, said it was solely up to Kiev to decide on its foreign policy. “Should Ukraine decide to apply for NATO membership, NATO will assess its readiness to join the alliance in the same way as with any candidate. This is an issue between NATO and the individual countries aspiring to membership,” the official said. NATO has already boosted its military presence in Eastern Europe this year, saying it has evidence that Russia orchestrated and armed a pro-Russian rebellion in eastern Ukraine that followed the overthrow of a Kremlin-backed president in Kiev. Moscow denies supporting the rebellion, and is currently trying, along with Kiev and the rebels, to renew efforts to find a political solution to the crisis in eastern Ukraine. A so-called “contact group” is expected to meet in Minsk on Wednesday to try to reinforce a shaky ceasefire and de-escalate the conflict, in which more than 4,700 people have been killed. A truce agreed in September has been regularly flouted by both sides, but violence has lessened significantly in December. The rebellion began shortly after Russia annexed the Black Sea peninsula of Crimea from Ukraine in March.

# Record 17,000 stage anti-Islam rally in Germany

AFP, 23.12.2014



A record 17,000 anti-Islamic protesters rallied for their tenth demonstration in as many weeks in eastern Germany, celebrating the rise of their far-right populist movement by singing Christmas carols.

Germany has for weeks grappled with the emergence of the PEGIDA, whose ranks in the city of Dresden have swelled rapidly from just a few hundred in October. About 4,500 counter-demonstrators marched through the city under the slogan “Dresden Nazi-free,” warning that there was no space for racism and xenophobia in the country that perpetrated the Holocaust.

Most PEGIDA followers insist they are not Nazis but patriots who worry about the “watering down” of their Christian-rooted culture and traditions. They often accuse mainstream political parties of betraying them and the media of lying. Braving cold and wet weather, they gathered outside the historic Semperoper concert hall for their pre-Christmas recital. Police put their numbers at about 17,500, up from the previous high of 15,000 a week earlier.

The management of the opera house signalled its distaste by turning the building’s lights off and flying flags outside that read: “Open your eyes”, “Open your hearts”, “Open doors” and “Human dignity is sacrosanct”, the first line of the national constitution. The Protestant bishop of Saxony state, Jochen Bohl, said the PEGIDA followers, by singing Christmas carols, were seeking “to exploit a Christian symbol and a Christian tradition” for political purposes, German news agency DPA reported.

Former German chancellor Gerhard Schroeder, of the centre-left Social Democrats, called for concerned citizens to launch a “rebellion of the decent” against the anti-foreigner movement, saying “that’s the kind of public reaction we need now.”

PEGIDA, born in a city that was part of communist East Germany until the fall of the Berlin Wall 25 years ago, has spawned copycat groups in western areas which have failed so far to attract similar crowds. Smaller clone groups rallied Dec. 22 in the western cities of Bonn, Kassel and Wuerzburg, but they only drew up to 200 followers each and were all vastly outnumbered by counter-demonstrations that drew 20,000 nationwide. Police reported no major violence but said eight people were temporarily detained after confrontations in Kassel, reported DPA. The biggest anti-PEGIDA march was held in the southern city of Munich, where at least 12,000 rallied under the banner “Make space - Refugees are welcome.”

“We have space for people of different skin colour, ethnic origin and mother tongue,” city mayor Dieter Reiter told the crowd. “We have space for all religions and believers: for those who go to the

mosque on Fridays, who go to the synagogue on Saturdays, or to church on Sundays, but also for those who prefer to just stay home.” Politicians from all major parties have been stunned by the emergence of the right-wing nationalists who vent their anger against what they consider a broken immigration and asylum system. The movement has emerged at a time when Germany, Europe’s biggest economy, has become the continent’s top destination for asylum seekers, and the world’s number two destination for migrants after the United States. The influx of refugees from Syria, Iraq, Afghanistan and several African and Balkan countries has strained local governments, which have scrambled to house the newcomers in old schools, office blocks and army barracks. Chancellor Angela Merkel has cautioned Germans against falling prey to any form of xenophobic “rabble-rousing,” while other lawmakers have deplored the new “pin-striped Nazis.”

## French jobless total at new record high

BBC, 24.12.2014



The jobless total rose by 27,400 in November to 3,488,300 - the highest level yet seen. That means the number looking for a job has risen by 5.8% in the past year.

The jobless figures count the number of people claiming benefits and looking for work with the National Agency for Unemployment. The alternative international measure of unemployment, devised by the International Labour Organisation and based on a regular survey, says that unemployment in France rose to 2.84 million in the third quarter of the year, giving an unemployment rate of 9.9% according to BBC.

President Francois Hollande, elected in 2012, made the creation of more jobs a key feature of his election campaign. He recently stated that if he failed in this aim, he would not stand again in the 2017 presidential elections. The latest attempt to rouse the economy from stagnation and to create more jobs was announced earlier in December. The French Prime Minister, Manuel Valls, and the Economy Minister, Emmanuel Macron, outlined plans that included increasing the number of businesses operating on Sundays, and opening up regulated sectors, such as certain professions, to competition. It is not obvious this strategy would succeed in reviving the economy, even if implemented fully. The deregulation plan produced immediate protests by thousands of people in Paris and faces opposition from within the ruling Socialist Party.



# Out with the litas and in with the euro in Lithuania

Euronews, 23.12.2014



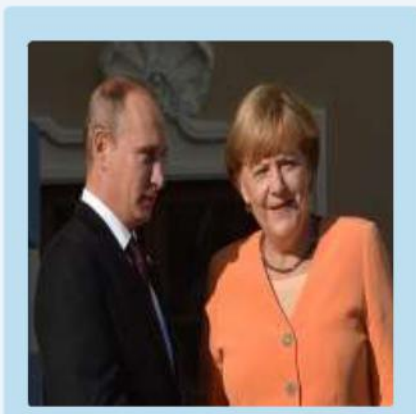
The Real Economy team has been to Lithuania, to analyze the economic consequences for the last Baltic country to join the euro in January 2015.

Euronews spoke to the Lithuanian Prime Minister about opportunities lost in the past and gained now with the euro. The country's central bank governor also answered questions about monetary policy, and we travelled to neighbouring Poland to look at the differences in attitudes towards the monetary union. After some serious economic pain, Lithuania's economy has been growing since 2011 and GDP is forecast to expand even further.

Lithuania's economy has been growing since 2011, according to European Commission statistics, and GDP is forecast to expand even further. Inflation is now under control, employment is improving and public debt is low, according to the European economic forecast autumn 2014. "It will abolish credit risk, it will decrease interest rates. That means we'll have a chance for better development," Algirdas Butkevicius, Lithuanian Prime Minister told Euronews. Over 60 per cent of Lithuania's exports go to European Union nations, and 20 percent to Russia. More than 40 percent of the population is against the euro while 80 percent believe prices will rise. In July 2014 the EU commission adopted a decision allowing Lithuania to adopt the euro as its currency. The decision enlarged the euro area to 19 member states, including all three Baltic states.

# Germany: Sanctions on Russia bite back

Anadolu Agency, 22.12.2014



While most U.S. and most E.U. nations press for additional sanctions on Russia for its role in the Ukraine conflict, a distinctly conciliatory tone is being heard from Germany, where the sanctions are having a significant effect on the economy.

"The shine is off the German economy," warns Carsten Brezski, a senior economist at the banking group ING in Brussels. "And the sanctions against Russia have much to do with it." German Chancellor Angela Merkel, who was a fierce supporter of the sanctions, has backed off slightly in recent remarks.

German Foreign Minister Franz-Walter Steinmeier chimed in: “An economically isolated Russia, one that may face collapse, would not help improve security in Europe or in Ukraine, but would pose a danger to itself and others. One of the problems is that many people aren’t having a dialogue. That’s not true of the Germans.”

To this disharmony with other EU nations was added a choir of top German businessmen, all singing the same tune: “Short-term turbulence should not affect our relationship with the country,” said Siemens CEO Joe Kaeser, on a recent visit to Germany. Siemens has seen a 30 percent plunge in orders in Russia and recently dropped its bid to build trains for the Moscow subway.

Deutsche Post CEO Frank Appel harmonized: “Since we don’t have major sources of raw materials in Europe, we will always be dependent on others. It seems questionable to me whether dependence on the Middle East or Venezuela would be better than that on Russia.” The reason for this conciliatory tune out of Germany is because the sanctions are costing German companies a large volume of business. A good example is a cancelled deal between German chemicals giant BASF and Russia’s Gazprom worth \$14.6 billion. Fallout from the Russian crisis continues to spread with the cancellation of a big gas deal with Germany.

BASF was to take shares in two Siberian gas extraction sites in exchange giving the Russian company full control of its gas storage and trading business. But huge amounts of money are at stake. German mechanical engineers earn about \$10 billion in Russia every year. The German chemicals industry exports about \$5 billion worth of product to the country. And German carmakers sell about 133,000 cars to Russia’s new high-net-worth individuals annually. But, recently, BMW said it would probably stop its deliveries to Moscow.

All of this has hit the German economy. “German exports to Russia are down 17 percent from January to September of this year. So we are skeptical about the value of the sanctions policy,” complains Eckhard Cordes, chief of the German industry association Ost-Ausschuss. But the effect will have much worse consequences if sanctions are continued for a long period. “By 2017, Russia will mainly import products from China, Germany and Ukraine, which together account for 42 percent of total imports of Russia. In volumes, the most important trade flows to Russia currently include industrial machinery from Germany, road vehicles & transport equipment from Germany, and textiles from China. In the coming years, these flows are expected to change with 8 percent, 12 percent and 12 percent per year, respectively,” explains a recent report on the Russian economy from ING bank’s TradeStudy researchers. Clearly the importance of Russia as a market for Germany’s export-based will become critical. And the choir of Russian businessmen and politicians calling for “cooperation” with Russia on the Ukraine conflict is likely to become very loud and strident.

# Northern Ireland parties reach deal

The Wall Street Journal, 23.12.2014



Northern Ireland's fractious political parties agreed on a slate of contentious issues, paving the way for this region of the U.K. to gain the authority to set its own corporate tax rate starting in 2017.

The leaders of the main parties in Northern Ireland's semiautonomous legislature in Belfast and the British and Irish governments said that a preliminary deal had been reached on issues ranging from welfare overhauls to the toxic legacy of decades of political violence. The deal follows weeks of talks between parties representing the generally pro-British majority in Northern Ireland.

The two largest parties, the pro-British Democratic Unionist Party and Sinn Féin, formerly the political wing of the Irish Republican Army, share power in Northern Ireland's legislature, but their differences have increasingly led to gridlock in recent months. The deal represents "a monumental step forward" for Northern Ireland, DUP leader Peter Robinson told the British Broadcasting Corp. Sinn Féin President Gerry Adams said the two sides had made "considerable progress" in resolving their differences.

The agreement touches on divisive issues in Northern Ireland—such as which flags to display on public buildings—and more mundane ones such as the budget. Ministers in London and Dublin—including U.K. Prime Minister David Cameron and Enda Kenny, his Irish counterpart—sought to cajole the two sides into a deal by offering Belfast new financial incentives. The U.K. government said it intends to give Northern Ireland additional borrowing powers as part of a roughly £2 billion (\$3.1 billion) financial package that also includes funding to help address the legacy of thousands of unsolved crimes from its troubled past.

U.K. Treasury Chief George Osborne in November said officials are prepared to hand Belfast the power to set its own corporate tax rate to promote investment and generate jobs. Lawmakers say they hope that would allow Northern Ireland to compete squarely with neighboring Ireland, a European hub for many large multinational corporations.

Tony Travers, an expert on U.K. government at the London School of Economics, said the Northern Irish proposal is "quite radical," as it opens the prospect of different corporate tax rates in different parts of the U.K., where tax rates have tended to be the same nationwide. The government proposes introducing legislation early next year to devolve corporate tax powers to Northern Ireland in 2017, a Treasury spokesman said. The spokesman added that the proposals would be designed to prevent companies artificially routing profits through Northern Ireland in an effort to cut their tax bill. The move is part of a broader push in the U.K. to transfer tax and spending powers to regions and cities and away from London. The shift has received extra impetus in the wake of Scotland's September referendum on independence.

# Several Nigerians killed for refusing to join Boko Haram

Anadolu Agency, 21.12.2014



Belgium's Several people in the Nigeria's restive northeastern Adamawa State have reportedly been killed for refusing to join the ranks of the Boko Haram militant group, a spokesman of a local vigilante group has said.

"We have a report from Madagali local government area that many people are being killed by the militants for rejecting or turning down their call for people to join them," Jubrin Gunda told. "Apparently frustrated by the news of military closing in on them, the militants started killing the people for refusing to join them," he said. "They are desperate for recruitment now because their ranks are being depleted," Gunda suggested.

Madagali, a local government in Boko Haram-wracked northeast, has never completely been free of militants' control since it was first captured early this year. Gunda said militants had suffered "heavy casualties" after being ambushed by army troops who had repulsed the insurgents' attempt to capture Bulabulin, a village in the neighboring Borno state. "More than 90 percent of the militants who advanced on Bulabulin were killed by troops," said the local vigilante. "The few who survived the military ambush had returned to Bama." Bama is located about 60kms from Maiduguri, the provincial capital of Borno. "Bama is now a ghost town inhabited only by the militants who are just few in numbers because of the several attacks on them," Gunda told AA. "This explains why they are so desperate to recruit more people," added the vigilante spokesman.

An emboldened Boko Haram recently stepped up its militant activity, seizing several areas across Adamawa, Borno and Yobe – the three states worst hit by the insurgency – declaring captured territories to be part of a self-styled "Islamic caliphate." Borno State Governor Kashim Shettima recently said that, this year alone, more than 3,000 people had been killed and over two million displaced in Borno due to the insurgency. Outlawed in Nigeria, Turkey and the United States, Boko Haram first emerged in the early 2000s preaching against government misrule and corruption. It became violent after the death of its leader in 2009 while in police custody.



# China, Egypt sign strategic partnership agreement

The Economic Times, 24.12.2014



Egypt and China have established a bilateral comprehensive strategic partnership, signing agreements in a range of fields including defence, technology, economy, counter-terrorism and fighting cybercrimes.

President Abdel Fattah el-Sisi signed the agreements with his Chinese counterpart Xi Jinping yesterday in Beijing, concluding his three-day visit to the South Asian country, Alaa Youssef, the spokesperson for Egypt's president said. "The agreements include cooperation between both countries in different fields like defence, technology, culture and economy," the spokesperson said.

El-Sisi arrived in China on Sunday in his first official visit to the country, to boost bilateral ties and increase Chinese investments in Egypt. During the joint summit, Egypt also invited China to participate in the upcoming economic conference, which will be held in Egypt in March. "China welcomes and support the Egyptian efforts in holding the economic conference," Youssef added. The conference was scheduled to open in February next year but it was postponed until March to ensure the presence of Chinese investors, he said.

# Preliminary results of parliamentary elections in Uzbekistan announced

Trend, 22.12.2014



The preliminary results of the elections to the Legislative Chamber of Uzbekistan's Oliy Majlis held on Dec.21 have been announced. The chairman of the Central Election Commission Abdusalomov said at a briefing on Dec.22 that 113 MPs from four political parties have been elected.

He said 47 MPs were elected from the Liberal Party, 21 - People's Democratic Party, 28 - Democratic Party Milly Tiklanish and 17 MPs from the Social Democratic Party Adolat. A total of 18.4 million Uzbek citizens took part in the elections which accounted for 89% of the total number of voters.

Repeated elections will be held in 22 constituencies where none of the candidates has gathered the required number of votes (33.3 percent) in accordance with the country's law, said Abdusalomov. During the conference of Uzbekistan's Ecological Movement, 15 MPs - one from each province and the Central Council of the movement - were elected with secret ballots. Democratic Party Milly Tiklanish, created in 1995, brings together almost 180,000 members. The party got 31 seats in the lower house of Uzbek parliament during the 2009 elections. The Liberal Democratic Party, founded in 2003, has around 230,000 members. It got 53 out of 135 seats in the lower house of Uzbek parliament in 2009 elections. People's Democratic Party, created in 1991, brings together about 370,000 members. The party got 32 seats in the Legislative Chamber of Oliy Majlis in 2009 elections. The Social Democratic Party Adolat (Justice) currently brings together 102,200 members. During the 2009 elections, the party got 19 seats in the lower house of the country's parliament.

## US equivocal on N. Korea internet outage

Anadolu Agency, 23.12.2014



The United States on Tuesday appeared evasive about whether it was responsible for Internet troubles in North Korea, following a hacking attack on an American movie studio. When asked if the U.S. was behind disruptions to North Korea's Internet connection, State Department spokeswoman Marie Harf, said, "This isn't our Internet," while adding, "I would go ask North Korea."

"The president has spoken to what our potential response is, separate and apart from what we've seen over the last 24 hours might be," she said. "As we implement our responses, some will be seen, some may not be seen."

North Korea experienced progressively worsening Internet disruptions beginning Saturday, with several days of continuous connectivity problems. By Monday the country's Internet went completely dark. Speculation has swirled that it could be retribution for a cyber-attack last month that forced Sony Entertainment Pictures to cancel the Christmas Day release of "The Interview," a comedy movie about the assassination of North Korea's leader Kim Jong-Un.

The decision to cancel the release of the film came after the group, Guardians of Peace, made threats to conduct Sept. 11-type attacks on theaters showing the movie. President Barack Obama said last week that the decision to cancel the film was "a mistake" but that the attack "was an act of cyber vandalism," very costly and that the U.S. would respond "proportionately."

In a reversal of its earlier decision, Sony announced Tuesday that it will allow "The Interview" in limited release beginning Dec. 25. Sony Entertainment CEO Michael Lynton said that the company is working "to secure more platforms and more theaters so that this movie reaches the largest possible audience." Seth Rogan, one of the stars of the movie and director, tweeted his excitement. "The people have spoken! Freedom has prevailed! Sony didn't give up!"

# Despite growth, experts skeptical US recovering from recession

Anadolu Agency, 12.12.2014



Official figures show that the gross domestic product -- the broadest measure of economic output and growth -- grew at its fastest rate since 2003, surging 5 percent in the third quarter. Supported by increased consumer and business spending, the boom helped spur the Dow Jones to soar above 18,000 points for the first time, while the S&P 500 also climbed, adding 3.63 points to 2,082.

Experts, however, warn that the impressive growth is not likely to be repeated and it may lead to unwanted backlashes as long as the U.S. economy is not yet back on a path to a sustainable robust recovery.

"Roughly 0.8 percentage points of the growth came from reductions in the trade deficit and increased military spending. The data released since the end of the quarter indicates that the deficit is likely to grow rather than shrink the fourth quarter. Also, military spending is highly erratic," said Dean Baker, co-director of the Center for Economic and Policy Research. "It is virtually certain we will see a sharp decline in the fourth quarter," he added.

The latest figure is the third estimate issued by the Commerce Department. Earlier forecasts set growth just below 4 percent. The third quarter boom followed a 4.6 percent annual growth rate in the preceding quarter. "There is no reason to think we are on a qualitatively faster growth path. Growth will likely be close to 2 percent in the fourth quarter and a bit higher in 2015," Baker said. He said the figures were still close to 4 percentage points below the nation's potential gross domestic product and making up the ground lost in the recession at a very slow pace.

The U.S. economy has been struggling to recover from the repercussions of a major 2007 subprime mortgage crisis, which created a domino effect that toppled many of the world's major economies and led to a global recession. The recession ended in 2009 after the U.S. responded by bailing out distressed financial institutions and pumping government money into the economy, but growth has struggled to return to its previous levels. The growth rate floated at an average of 2.2 percent since June 2009, compared with 3.3 percent in 2005. Randall Wray, professor of economics at the University of Missouri-Kansas City, also voiced skepticism about how close the U.S. economy is to a healthy status. "I'm concerned that inequality has continued to grow and that all the growth in income has been taken by the very top of the income distribution," he said. He said a question that needs to be asked is whether Americans have enough income to support the growth in spending.

A recent decision by the Federal Reserve Bank of New York to end a five-year run of household debt deleveraging was a "scary thing" although it was widely reported as good news, he said. Deleveraging is a process in which borrowers reduce their debt loads by repaying debts. "Households need to retrench more, redeem more of their debt rather than stirring to increase



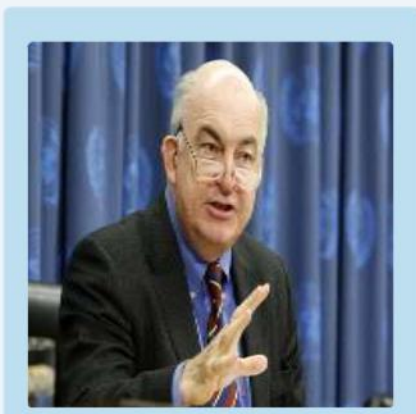
borrowing. I think that is one big area of worry, the income equality and lack of growth of income for the vast majority of Americans,” Wray said.

David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution, said that although the economy notching up its fastest expansion in 11 years is encouraging, the question is whether it will continue. “My answer to that question is ‘it depends’. If the (crude) oil prices continue to be very low and the stock market continues to go up, and if we avoid some scary war in the Middle East or some show down with (Russian President Vladimir) Putin in Europe then I think the pieces are falling into place for 2015 to be a pretty good year,” he said. He said some elements of the economy showed signs of recovery from the recession, including factories that began to produce as much as they did before the crisis. “But when you look at the incomes of the people in the middle class and their wages, they are still pretty lousy. A lot of individuals have not really recovered,” he said.

Josh Bivens, research and policy director at the Economic Policy Institute, said recent “good news” on the economy should not make policy makers lose sight of how far away from a full recovery the U.S. economy remains. “We’re climbing more rapidly out of the hole that the Great Recession left us in, but we’re still really only halfway there,” he said in a commentary posted online. “You can see this measured in terms of how many jobs we need to restore the labor market health that prevailed immediately before the Great Recession began, or in the share of ‘prime-age’ adults (ages 25-54) that have jobs. And in terms of restoring average wage growth we’re not even halfway there. In fact, we’re still essentially nowhere yet,” he said. He said growing relatively fast is what is supposed to happen following recessions. Meanwhile, an improved economic outlook helped to push President Barack Obama’s approval rating to a 20-month high, according to a recent poll conducted by CNN/ORC. At 48 percent, the president’s approval rating is at its highest point in CNN polling since May 2013, the report said. Another survey, produced for ABC News/Washington Post, showed that in early November a record-low number of Americans held a favorable view of Obama and his understanding of their problems. The falling ratings were cited as a major factor in Democrats losing control of both houses of Congress in the November midterm elections.

## The oil price opportunity

Project Syndicate, 21.12.2014



The sharp drop in the price of crude oil since late June has been grabbing headlines worldwide – and producing a lot of contradictory explanations. Some attribute the fall largely to declining global growth expectations.

Others focus on the expansion of America’s oil and gas production. Still others suspect a tacit agreement between Saudi Arabia and the United States aimed at, among other things, weakening political rivals like Russia and Iran. Regardless of the reason for the price drop – probably to be found in some combination of these factors – the consequences are the same.



Though, as International Monetary Fund Managing Director Christine Lagarde has noted, lower oil prices may boost overall global growth, with the oil-importing advanced economies gaining the most, the impact on efforts to combat climate change could be devastating. Indeed, a sustained decline in oil prices would not only make renewable energy sources less competitive now; it would impede their future competitiveness by discouraging research and investment. More generally, it would reduce the incentive for consumers, companies, and governments to pursue more energy-efficient practices.

Even if we remained on our current trajectory, keeping temperatures from rising more than 2° Celsius above pre-industrial levels – the threshold beyond which the most disruptive consequences of climate change would be triggered – would be next to impossible to achieve. As the Intergovernmental Panel on Climate Change's most recent report reinforced, we cannot afford a slowdown in progress. Of course, climate science is not precise; instead, it works in terms of probability ranges. But uncertain estimates do not mean that the risk is any less acute.

World leaders increasingly seem to recognize this in theory, including at the just-concluded climate-change meeting in Lima, Peru. But they continue to depend on non-binding commitments – leaving the world on a dangerous climate trajectory. A sharp decline in oil prices does, however, provide a rare political opportunity to introduce more carbon pricing. After all, one of the major arguments against a “carbon tax” has been that it would make energy more expensive. Even assurances that the revenue from such a tax would be refunded to taxpayers were inadequate to overcome political resistance, particularly in the US.

But, with declining oil prices now exerting downward pressure on oil substitutes, a carbon tax could be introduced without raising the price of energy for consumers. Policymakers must simply be willing to forego some of the short-term stimulus effects of cheaper energy. In fact, with low enough prices, consumers could still benefit from lower energy costs – just not quite as much as they are now. The structure of a carbon-pricing scheme remains up for discussion. One option would be to introduce flexible pricing, tied to the price of oil. For example, for every \$5 decline in the price per barrel, the carbon tax could be raised by a specified amount; for every \$5 increase, the tax could be lowered by, say, two-thirds of that amount.

The carbon price would thus increase over time – the optimal outcome, according to growth models that account for climate constraints. At the same time, it would buffer consumers from oil-price volatility, thereby stabilizing their energy spending. Finally, and perhaps most important, such an approach would be more politically attractive than a fixed carbon tax, especially if it is introduced at a time of sharply declining oil prices.

In short, world leaders must take advantage of falling oil prices to move beyond indirect carbon pricing – achieved through the prices of carbon-emitting substances – to an explicit carbon tax that can help steer the world onto a more sustainable growth path. Crucially, in order to make a real impact, carbon-pricing schemes would have to be introduced in all major economies. Of course, given the multitude of existing taxes, fees, and subsidies on energy products in various countries, the goal of aligning the effective cost of carbon with its most economically efficient level would take time to achieve. But introducing a modest, flexible carbon tax in major economies would be an important first step.

Today's environment of falling oil prices enables the world to take that step. It should be modest, so that it is politically feasible; flexible, so that it helps stabilize user prices; and it should increase over time, to place the global economy on a more sustainable path. Most important, it should be implemented quickly. After all, this window of opportunity will not remain open for very long.

## Announcements & Reports

### ► *Normalizing U.S.-Cuban Relations*

**Source** : Baker Institute  
**Weblink** : <http://bakerinstitute.org/research/normalizing-us-cuban-relations/>

### ► *Corporate Tax Cuts Don't Work*

**Source** : Chatham House  
**Weblink** : <http://www.chathamhouse.org/publication/corporate-tax-cuts-don%E2%80%99t-work>

### ► *International Development in Transition*

**Source** : Chatham House  
**Weblink** : <http://www.chathamhouse.org/publication/international-development-transition>

### ► *Top Economic Stories of 2014*

**Source** : Brookings  
**Weblink** : <http://www.brookings.edu/research/interactives/2014/top-economic-stories-2014>

### ► *The Fed: QE Done, Lift Off to Come?*

**Source** : Brookings  
**Weblink** : <http://www.brookings.edu/research/opinions/2014/12/22-fed-qe-done-kohn>

## Upcoming Events

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

**Date** : 09 February 2015  
**Place** : London – United Kingdom  
**Website** : <http://www.chathamhouse.org/conferences/ageing>

## ► *Security and Defense*

**Date** : 23 February 2015  
**Place** : London – United Kingdom  
**Website** : <http://www.chathamhouse.org/Defence2015>

## ► *Diversifying MENA Economies*

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

## ► *Creating an Effective Financial System*

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

## ► *Innovation Forum 2015*

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