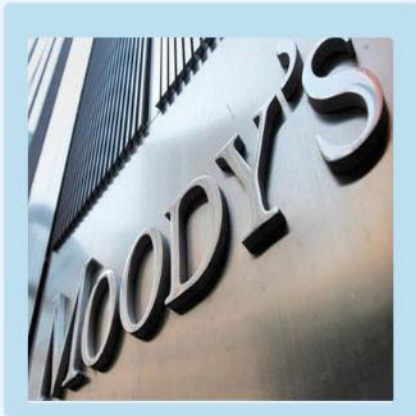


Moody's: Election result raises political uncertainty and will further delay economic policy

Hurriyet Daily News, 10.06.2015



Credit rating agency Moody's has said the result of the Turkish general election is credit negative for Turkey, as it raises political uncertainty in the short term and will further delay the implementation of economic policies. The agency has addressed the urgent need for the incoming government to retain investor confidence and implement key reforms.

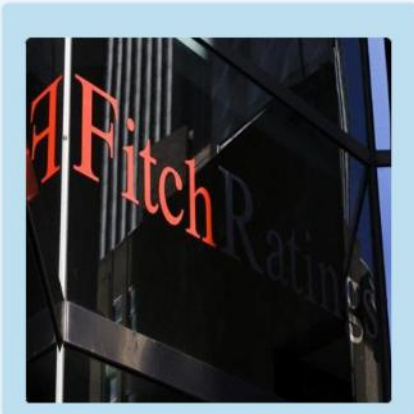
"The election result is credit negative for Turkey because in the short term it will likely result in greater political uncertainty arising from the probable creation of a minority or coalition government, that we would expect to be unstable and prone to early elections.

Additionally, the outcome will likely further delay the implementation of economic policies to reduce external vulnerabilities, improve the investment climate and reactivate economic growth," Moody's said in a written statement. According to Moody's, by allowing the clear diversity within the electorate an effective voice in Turkey's parliament, the outcome supports the country's institutional strength and, other things being equal, will support investor confidence in Turkish institutions. "In the more immediate future, the election result suggests that one-party majority rule, that has been the norm in Turkey for the past 13 years, will be replaced with a more uncertain minority government or a multi-party coalition, which will be inherently less stable," it added.

Moody's addressed the urgent need for the implementation of structural reforms in the country. "Important economic policy decisions such as structural reform measures aimed at increasing domestic savings, improving labor market flexibility and reducing energy dependence will likely stall because of the political instability resulting from the election results. In particular, political uncertainty will likely affect investor confidence, a critical factor for Turkey's economy, which depends on external capital to fund its external imbalances," it said. "The capacity of the incoming government to retain investor confidence and avoid damaging outflows of international capital, and to continue to implement reforms which enhance growth and reduce Turkey's external vulnerability, will be an important influence on the future trajectory of the rating," Moody's said.

Fitch: Turkey election heightens political, policy uncertainty

Hurriyet Daily News, 09.06.2015



The inconclusive result of Turkey's parliamentary election increases near-term political uncertainty and may aggravate tensions regarding economic policy, Fitch Ratings has said in a statement.

"This could increase risk to the sovereign credit profile, depending on how policymaking is affected," it added. Fitch affirmed Turkey's rate at BBB-/Stable rating on March 20. The Justice and Development Party (AKP) lost its parliamentary majority after 13 years in June 7 elections, falling around 18 seats short of the 276 needed to form a majority in parliament.

The Peoples' Democratic Party (HDP) won 13 percent and 80 seats, securing parliamentary representation for the first time. The Republican People's Party (CHP) won 25 percent and 132 seats, while the Nationalist Movement Party (MHP) won 16 percent and 80 seats, according to unofficial results until the country's election board announces the final results. "The HDP and MHP have said they will not join an AKP-led government, although this could change after negotiations; the AKP could try to govern as a minority with the support of either the HDP or the MHP," Fitch said.

"A CHP-MHP-HDP coalition appears unlikely due to antipathies between the MHP and HDP. Fresh elections can be called if a government is not formed within 45 days, meaning that political uncertainty could drag on," it added. "The election heightens uncertainty about economic policy and personnel that had emerged before Sunday's vote," Fitch said, as slowing GDP growth had increased tensions regarding efforts to rebalance the economy, cut reliance on net capital inflows and lower inflation. But Standard & Poor's made more positive comments, saying the outcome of Turkey's general election had no immediate impact on its BB+ sovereign credit ratings on the country. It said in a statement on June 8 its current negative outlook on Turkey's ratings reflected its view of the fiscal risks emanating from uncertain growth prospects. It said it could revise the outlook to "stable" if growth continued to rebalance and depended less heavily on external borrowing.

Turkish growth beats forecast, political turmoil clouds outlook

Reuters, 10.06.2015



Turkey's economy grew a larger-than-expected 2.3 percent year-on-year in the first quarter, data showed on June 10, but analysts saw an uncertain outlook after a weekend election that left the country facing the prospect of a coalition government.

The growth rate clearly exceeded a Reuters poll forecast of 1.6 percent, triggering moderate gains in shares and the lira, which has fallen 15 percent against the dollar this year. Annual growth was still down from 2.6 percent in the fourth quarter, well below the government's targets, and analysts played down the positive significance of the data.

"This stronger outturn was caused by a sharp pick-up in consumer spending, which came at the cost of a lower domestic savings rate and a wider current account deficit," said Capital Economics senior emerging markets economist William Jackson. "None of this looks sustainable and we think growth will be weak over the coming quarters," he said in a note. But Finance Minister Mehmet Şimşek said the growth was positive given stagnation in Europe, geopolitical tensions, financial volatility and political uncertainty. "Leading indicators show growth has accelerated in the second quarter. The Turkish economy's fundamentals are sound. Political uncertainty should not last long," he wrote on Twitter.

Deputy Prime Minister Ali Babacan said he expected external demand to contribute to growth. The ruling Justice and Development Party (AKP) lost its parliamentary majority in Sunday's vote, ending more than a decade of single-party rule and plunging Turkey into uncertainty not seen since the 1990s. The prospect of a coalition fuelled uncertainty about the make-up of the next economic team. Output grew 1.3 percent from the previous quarter on a seasonal and calendar-adjusted basis, the Turkish Statistics Institute (TÜİK) said. Gross domestic product (GDP) expanded 2.9 percent last year.

The growth was still well below the levels sought by the ruling AKP, which has had a solid record on the economy since first coming to power in 2002. According to the Reuters poll, the economy is forecast to grow 3.05 percent this year as a whole, below a target of 4 percent in the government's medium-term program. The lira was at 2.7370 to the dollar, firming from 2.757 late on June 9. The benchmark 10-year bond yield fell to 9.54 from 9.72 percent on Tuesday. Household consumption rose 4.5 percent year-on-year in the first quarter, offsetting a slight decline in exports, reflecting factors including the recession in Russia and bad weather, Jackson said, forecasting full-year growth of 2.5 percent. Recent data has painted a mixed picture on the economy. Industrial production grew a better-than-expected 3.8 percent in April but trade ministry data on June 9 showed exports tumbling 18 percent and imports dropping 14 percent in May.

Luxury housing construction increasing, low-income housing decreasing in Istanbul

Hurriyet Daily News, 11.06.2015



There has been a dramatic rise in luxury housing production and stock in Istanbul, but the opposite is the case for lower-income housing due to skyrocketing land prices in the city.

A majority of construction companies focus on building houses that go on sale for over 5,000 Turkish Liras (\$1,830) per square meter, but construction activities have slowed for more economical houses on sale for less than 2,000 liras (\$730) per square meter, according to research by EYG Gayrimenkul. It will be almost impossible for construction companies to build houses for lower-income groups as long as the land prices in Istanbul remain so high.

Companies currently pay at least 50 percent of their income for each house they build to land-owners in the city so they focus on building more expensive houses in order to maximize profits, according to the report. This makes it more difficult for low-income residents to buy a new house in the city. Over 212,000 new homes built within the last 12 months or set to be built over the next 12 months were examined in the research. More than 76,000 of these homes were put on sale for over 5,000 liras per square meter, while only 3,000 went on the market for less than 2,000 liras per square meter.

World Bank: Turkey ranks second in infrastructure investments after Brazil

Hurriyet Daily News, 10.06.2015



Turkey ranked second after Brazil in making the highest commitments for total infrastructure investments among 139 emerging countries in 2014, according to data from the World Bank. Peru, Colombia and India followed in third, fourth and fifth, respectively.

Total infrastructure investments in 139 emerging economies for projects with private participation in the energy, transport and water sectors rose to \$107.5 billion in 2014, driven largely by increasing activity in Brazil, said the World Bank in a written statement on its update of the "Private Participation in Infrastructure" (PPI) database.

“Our update data reveals that the top five countries with the highest investment commitments in 2014 are Brazil, Turkey, Peru, Colombia and India,” said Clive Harris, Practice Manager, Public-Private Partnerships, World Bank Group. “These five countries together attracted \$78 billion, representing 73 percent of the investment commitments in the developing world in 2014,” he added. With 17 new projects, Turkey was able to secure the second highest investment volume, according to the report. “Significant government reform in 2008 continued to influence energy investment in Turkey, as three large-scale privatizations took place: The \$4.3 billion Kemerköy and Yeniköy Thermal Power Plants; the \$1.1 billion Yatağan Thermal Power Plant; and the \$350 million Çatalağzı Thermal Power Plant. In addition, a pair of transport projects, the \$1.1 billion Salıpazarı Cruise Port and the \$2.9 billion Third Bosphorus Bridge and Northern Marmara Highway Project further boosted Turkish investment,” added the report.

The data, covering the period from 1990 to 2014, reviewed more than 6,000 projects across 139 low- and middle-income economies across the globe, providing a rich source of data on private infrastructure investment in emerging markets. “The increase in the global investment commitments total is mainly due to increasing activity in the Latin America and the Caribbean (LAC) region, which captured \$69.1 billion, much of which is attributable to investment commitments in Brazil, Colombia and Peru, which together accounted for 55 percent of the global total,” added the statement. Regionally, the LAC region led the other regions, followed by Europe and Central Asia (ECA), East Asia and the Pacific (EAP), South Asia (SAR), and the Middle East and North Africa (MNA). Sub-Saharan Africa (AFR) experienced the lowest amount of investment. The MNA region, which had a much smaller commitments total of \$3.3 billion, also saw increases compared to the previous year, according to the report. The energy sector had the largest number of new projects, but the sector with the greatest total of investment commitments was the transport sector, receiving \$55.3 billion, or 51 percent of total global investment commitments.

Association: Turkish food prices 20 pct higher than global average

Reuters, 11.06.2015



Food prices are 20 percent higher than the global average in Turkey due to speculative price-hiking, said Şemsi Kopuz, the head of the Food and Beverages Associations Federation of Turkey (TGDF), adding the country should use imports if it wants to reach its year-end food inflation target of 9 percent.

“Turkish authorities should use the gun of imports to thwart the rise in food prices... If the road to imports opens in specific food products, speculative prices decrease to normal levels and Turkey will most likely reach its food inflation targets,” said Kopuz, as quoted by Reuters. He addressed the dramatic rise in food prices in the country.

“Due to harsh weather conditions, we saw significant yield losses in many agricultural products, mainly in cereals and fruits, and this pushed prices up in many products. One week ahead of the holy month Ramadan, the prices are still very high, and this is not normal,” he added. According to Kopuz, the prices were still high due to speculative moves. “There are many people whose main business is not food production, but they stock food products,” he said. Food and beverage prices rose 12.81 percent in May, according to official data, while global food prices fell to their lowest since September 2009 with declines in cereals, dairy and meat products outweighing slight increases in oils and sugar, the United Nations’ food agency, FAO, said.

Senior economist: Uncertainty weighs on Turkish economy, but new gov’t may resolve policy issues

Anadolu Agency, 12.06.2015



The Turkish economy is currently weighed down with political uncertainty, but a new government could resolve policy issues and move the country forward, World Bank Chief Economist Franziska Ohnsorge told.

The bank has forecast 3 percent growth for Turkey in 2015. But uncertainties after the elections could hurt growth if there is a prolonged period of political instability, Ohnsorge said. Ohnsorge explained the bank’s growth forecast was based on a number of potentially improving factors. “We expect a much more benign external environment, as the euro area is clearly picking up.

Financing costs [for external debt] are still low,” she said, noting there were potential downside risks, including a possible rate hike by the Federal Reserve or rising capital outflow from emerging markets, but they may not materialize next year. “On top of that, the uncertainty ahead of the elections has now been relieved, so confidence will pick up strongly in the rest of this year and next year,” she said. “In the run up to the elections, we have seen already that these political uncertainties weighed on investment. Going forward we hope that the election will resolve some of these uncertainties and that strong policies will support improvement in growth to 3 percent this year and 3.9 percent in 2016,” she said. Ohnsorge evoked the danger of an increase in interest rates in the U.S. She pointed out that her institution had also asked the Federal Reserve to postpone an interest rate hike, as Managing Director of the International Monetary Fund (IMF) Christine Lagarde did recently. She warned that a rate hike may adversely affect the U.S. economy and be especially negative for emerging economies.

Economists confident in Turkish economy after elections

Anadolu Agency, 08.06.2015



Economists and other experts have told Anadolu Agency that investor confidence in Turkey will not flag despite potential political instability after June 7's general election.

The election saw four parties earn enough votes to enter the Turkish parliament, sparking speculation about a return to coalition government or a second, snap election. "Business will not lose confidence in the Turkish economy despite the election results," said Raphael Israeli, a political scientist at the Hebrew University in Jerusalem. "The election results are clear evidence of the vitality of Turkish democracy and will support investor confidence," said Christopher Dembik.

"We see it as an affirmation of the strength of Turkish democracy," said Christian Schulz, a senior economist with Berenberg Bank in Hamburg. "But much will depend on what the new government devises in terms of economic policy. There are opportunities, but they should not be missed." Israeli said international relations with Europe and the West would not be greatly changed after the election. "There will be concerns about instability, and about the new government's ability to manage the economy. But Turkey will remain a close ally of the United States, where President Barack Obama continues to see the country as a cornerstone. "Relations with Europe will be more problematic, but should not see a radical change," he said. "What is critical is the evolution of the Turkish economy itself – can it return to growth? Investors will be watching these issues," Israeli said.

Dembik warned that an outflow of funds from the country is possible should a period of political instability ensue. "However, we expect a stable government to emerge. Despite the results, it is too soon to say that it is the end of the AK Party's golden age because there is no credible alternative among the opposition. The charismatic co-leader of the HDP [pro-Kurdish Peoples' Democratic Party], Selahattin Demirtaş, was the big surprise of the parliamentary campaign, but he has a long way to go before people and other political parties see him as potential prime minister," Dembik said. "After 13 years in power, it is logical that the Justice and Development Party is losing ground but the opposition is not strong enough to represent a serious threat to President [Recep Tayyip] Erdoğan. Clearly, there is not much room for political evolution in the short term," Dembik said. "Our macroeconomic outlook is still positive for Turkey because of the combination of low oil prices, decelerating inflation and a weakened Turkish lira which supports exports. Inflation remains over the target of the Central Bank in April at 7.9 percent year-on-year, but it should move lower in the second part of the year," the Saxo Bank economist said. "This economic situation should support export and domestic demand in 2015."

The Turkish economy should remain strong, in the long term, Schulz said. “The government must take advantage of its chance to actively manage the economy, regardless of its political composition.”

Turkey’s industrial production rises by 3.8 pct year-on-year

Anadolu Agency, 08.06.2015

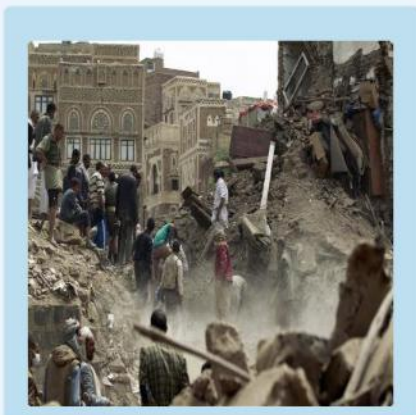


Turkey’s industrial production rose by 3.8 percent in April 2015 from the same month the previous year, according to data revealed by the Turkish Statistics Agency (TÜİK).

The index remained the same in April compared with March, with a reading of 124.8. Durable consumer goods saw the largest increase from the previous month, up 1.9 percent in April. The mining and quarrying index decreased by 4.5 percent, the manufacturing index remained the same, and the electricity, gas, steam and air conditioning supply index increased by 2.1 percent in April compared with the previous month, according to TÜİK data.

Saudi-led warplanes hit UNESCO-listed old Sanaa

AFP, 12.06.2015



An air strike by the Saudi-led coalition on the old quarter of the Yemeni capital killed five people on June 12 and destroyed three houses in the UNESCO-listed heritage site.

UNESCO condemned the air strike on the historical area it described as “one of the world’s oldest jewels” of Islamic culture, urging warring parties to respect Yemen’s heritage. Residents said the pre-dawn strike was the first direct hit on old Sanaa since the launch of the bombing campaign against Huthi rebels in late March. The missile hit the Qassimi neighbourhood, which boasts thousands of houses built before the 11th century, an AFP journalist reported.

It did not explode but it still destroyed three three-storey houses and killed five residents, including a woman and a child, medics and witnesses said. The target of the raid was not immediately clear amid conflicting statements from residents about whether rebels had occupied one of the houses hit. "I am profoundly distressed by the loss of human lives as well as by the damage inflicted on one of the world's oldest jewels of Islamic urban landscape," said UNESCO director general Irina Bokova. "This destruction will only exacerbate the humanitarian situation and I reiterate my call to all parties to respect and protect cultural heritage in Yemen," she said. Bokova said she was "shocked by the images of these magnificent many-storeyed tower-houses and serene gardens reduced to rubble". "The historic value and memories enshrined in these sites have been irreparably damaged or destroyed."

The old city has already suffered some damage from air strikes on nearby targets, including the defence ministry, prompting a protest from UNESCO in May. Sanaa's old city, situated in a mountain valley, has been inhabited for more than 2,500 years and was a major centre for the propagation of Islam, boasting over 100 mosques, 14 public baths and more than 6,000 houses built before the 11th century. It was inscribed on UNESCO's World Heritage List in 1986. The multi-storey houses rising above stone ground floors were built of rammed earth and burnt brick. Each building is decorated with geometric patterns of fired bricks and white gypsum, inspired by traditional Islamic art. Earlier this month, UNESCO condemned May 31 air strikes that hit the ancient Great Dam of Marib, which was first built in the 8th century BC, in the city that was once the capital of the kingdom of Saba. The UN body said the attack on the dam came a week after the national museum in Dhamar, in central Yemen, was "completely destroyed".

Israel denies spying on Iran talks hotels

AFP, 12.06.2015



Swiss and Austrian investigators have launched probes into alleged spying in hotels hosting delicate Iranian nuclear talks, with Israel denying its secret services were involved.

"The revelation comes in run-up to a June world powers on curtailing Tehran's nuclear programme in return for relief from punishing sanctions, and a day after a Russian-based security firm said a computer worm widely linked to Israel was used to spy on the negotiations. Israel is vehemently opposed to a nuclear deal with Iran, with Benjamin Netanyahu warning that the accord would not "block Iran's path to the bomb".

But it has denied spying on the talks with deputy foreign minister Tzipi Hotovely telling Israeli army radio on June 11: "There is no basis to the all the international reports on Israel's involvement in the affair. "What is much more important is that we prevent a bad agreement, otherwise at the end of the day we'll find ourselves with an Iranian nuclear umbrella."

The Swiss attorney general's office confirmed it had got government clearance to launch a probe into alleged spying on May 6 and conducted a raid six days later, seizing computer equipment, due to "suspicion of illegal intelligence services operating in Switzerland." It did not specify if hotels were targeted. "The aim of this raid was on one hand to gather evidence and to on the other verify if information systems had been infected by malware," the attorney general's office said in an email. Austria -- which has also hosted numerous rounds of the nuclear talks said it was also investigating possible spying at meeting venues there. "Investigations are ongoing" regarding the Palais Coburg hotel, the location of many rounds of the talks including discussions this week, interior ministry spokesman Karl-Heinz Grundboeck told AFP.

Last month's talks in Geneva held at the luxury Intercontinental Hotel failed to bridge differences between Washington and Tehran, especially over the crucial issue of inspections of military sites. The talks between Iran and the world powers have been held in several Swiss hotels. The US State Department said it was confident there had been no security breach in the talks. "We've taken steps throughout the negotiations to ensure that confidential details and discussions remain behind closed doors," spokesman Jeff Rathke told reporters in Washington. A member of the Iranian negotiating team said its side had always been cautious about the risk of spying and had taken care to "preserve secrecy" during the talks. "The Iranian negotiators have always taken account of the possibility and the significant risk of listening and spying and have always acted with caution" during the talks, said the unnamed official, quoted by the official IRNA news agency. June 11 announcements came after a Russian-based security firm Kaspersky Lab said a malware dubbed Duqu, which is a sophisticated spy tool that was believed to have been eradicated in 2012, appeared to have been used to spy on the nuclear negotiations with Iran.

Duqu is similar to the Stuxnet virus, which is believed to have been developed by the United States or Israel in order to contain threats from Iran, and dates back at least to 2007, according to researchers. "The Duqu threat actor went dark in 2012 and was believed to have stopped working on this project -- until now," Kaspersky Lab said in a blog post. "Our technical analysis indicates the new round of attacks include an updated version of the infamous 2011 Duqu malware, sometimes referred to as the stepbrother of Stuxnet." The researchers first found the malware on their own systems and then discovered it was being used against targets in Western countries, the Middle East and Asia. "Most notably, some of the new 2014-2015 infections are linked to the P5+1 events and venues related to the negotiations with Iran about a nuclear deal," the company said in a statement, referring to the permanent Security Council members -- Britain, China, France, Russia and the United States -- plus Germany, who are engaged in the talks. The Wall Street Journal, which reported the findings on June 10, said Kaspersky's research backed its earlier reports that Israel was spying on the nuclear talks.

Obama approves 450 more troops for Iraq training mission

AFP, 11.06.2015



US President Barack Obama on June 10 approved the deployment of 450 more US military trainers to Iraq, a cautious bid to reverse gains by the Islamic State of Iraq and the Levant (ISIL) group.

The White House said the forces will join an already 3,100-strong mission to “train, advise and assist” the Iraqi army as well as Sunni tribal fighters. The new contingent will focus on efforts to wrest back control of provincial capital Ramadi. ISIL seized the predominately Sunni city near Baghdad in May, punching a giant hole in Obama’s strategy to “defeat and degrade” the jihadist group.

Obama has ruled out putting combat troops on the ground, fearing it may re-entangle US forces in a war he fought hard to end. Instead his administration has offered air support, arms and training to an amalgam of disparate Iraqi forces. In addition to extra trainers, the White House announced there will also be “expedited delivery of essential equipment and material” for those tribal and Kurdish Peshmerga fighters -- in coordination with the central government in Baghdad. While senior Obama military and civilian aides indicate he “hasn’t ruled out any additional steps,” such as providing field advisers or personnel to call in airstrikes, they say the current strategy will remain in place. “The president has made it clear that he will look at a range of different options,” said Deputy National Security Advisor Ben Rhodes. “Our overriding focus here is making sure that there is Iraqi capacity on the ground.”

The new US training contingent will be based at Taqaddum Air Base, perched between jihadist-held Ramadi and Fallujah. That puts US non-combat troops within striking distance of ISIL fighters, but officials say it also makes recruitment of Sunni tribal fighters easier. “There is always a risk whenever we’re in Iraq that we could be hit with indirect fire, as we have in the past, that we could be attacked,” said senior Pentagon official Elissa Slotkin. “We felt like we could sufficiently mitigate the risk to make it worthwhile to go out there to perform this important mission.” Iraq’s Sunni Muslim community -- likely to be key to victory in Anbar -- has yet to join the fight against ISIL in large numbers. After years of sectarian tensions, there remains a simmering distrust of the Shiite-led government in Baghdad. There may also be lingering suspicion of the United States, which in previous campaigns recruited Sunni fighters before leaving them to the mercy of Shiite sectarian rulers.

The Pentagon said a large portion of the new US troops will focus on protecting trainers and other officials, while a small group will help Iraqi forces plan helping the Iraqis plan an eventual counter-attack on Ramadi. The deployment of 450 US troops into the middle of a contested area may also have an impact on ISIL’s actions, said Slotkin.

Obama's Republican political adversaries seized on his announcement. "It's a step in the right direction, but as the president admitted the other day, he has no strategy to win. And this is another tactical move," said House of Representatives Speaker John Boehner. "I support the tactical move the president is taking, but where's the overarching strategy?"

Private bondholders should accept a haircut in debt talks with Kiev

Financial Times, 11.06.2015



Ukraine is fighting for its survival as an independent state. The most immediate of its numerous challenges is to reduce billions of dollars in debt obligations to private sector bondholders. Resolving this issue is essential to enable the Kiev government to confront Russian aggression in the east of the country. Unfortunately, Ukraine's creditors are resisting a debt write down, a stance that is unacceptable.

Sixteen months after the Ukraine crisis erupted, the country remains plagued by instability. Despite February's ceasefire signed in Minsk, the Kiev government remains in a quasi-war with Russian-backed rebels.

The economy is in a state of collapse, having contracted by nearly 18 per cent, year on year, in the first quarter of 2015. The international community has rightly recognised the case for giving political and economic support to Ukraine as it grapples with Vladimir Putin's belligerence. The country has its most reform-minded government since independence, one which is combating corruption and implementing big cuts to state subsidies. But western financial support remains inadequate. The International Monetary Fund's \$17.5bn assistance programme has been supplemented by a meagre \$7.5bn in bilateral aid. This is a tiny fraction of the handouts to Greece. Staving off Greek collapse is vital to the eurozone's stability, but its strategic importance is dwarfed by that of Ukraine.

The international support package to Kiev also assumes a debt restructuring that will cut debt servicing costs by \$15.3bn over four years and keep it manageable as a proportion of its economic output. As it fights a costly proxy war with Russia, Kiev cannot afford to spend roughly 5 per cent of gross domestic product on interest payments. Kiev is seeking a 40 per cent cut in the value of the bonds. Creditors, led by investment company Franklin Templeton, are resisting a haircut. The bondholders must give way. They have a moral obligation to agree to a restructuring that reduces Ukraine's debt to sustainable levels. Bondholders lent \$40bn to the corrupt regime of President Viktor Yanukovich when this was a patently risky undertaking. Global taxpayers cannot be asked to put their money at risk in public loans to Ukraine while private sector investors remain protected.

Bondholders must also accept that, unlike Argentina's default in 2002, Ukraine's very survival as a state is at stake. If the country ceases to exist in its current form, private creditors will receive nothing. It makes far more sense for them to address Ukraine's debt problem now at its root, creating the headroom for a viable nation to emerge once again. An agreed restructuring, involving a haircut, would be the best for all parties. A meaningful use of GDP-linked instruments in exchange for debt forgiveness should be considered. A haircut might complicate the return of the Kiev government and Ukrainian companies to capital markets. But history shows that, even after default, private investors quickly return when the economy starts growing again. If an agreement cannot be reached, Ukraine is right to raise the possibility of declaring a moratorium on debt servicing. The IMF said this week it is prepared to disburse the next tranche of its bailout to Kiev even if debt discussions are not completed. Creditors should then simply accept the reality. Ukraine's survival is a strategic imperative for the west. The country's debt must now be cut to a level that helps makes that possible. On an issue of such geopolitical magnitude, private financial interests cannot be allowed to dictate public policy.

EU lawmakers slam Russia, demand to continue sanctions

The Moscow Times, 12.06.2015



The European Parliament passed a resolution calling on EU governments to maintain sanctions on Russia over its action in Ukraine, the second such critical vote in the EU legislature in as many days.

Though the votes, on resolutions proposed by individual lawmakers, are not binding, they underline anger at Moscow among the European mainstream but also division in the West, with far-right and far-left groups opposing both motions. "The European Parliament ... calls on EU member states to remain firm and united in their commitment to the agreed sanctions against Russia," the eight-page text read.

Highlighting concerns for security in the Black Sea region raised by a Romanian member, it called for relations with Moscow to be "cooperative rather than confrontational in the long run" but said trust could not be restored until Russia reversed last year's annexation of Ukraine's Crimea peninsula and fulfilled this year's Minsk peace accords concerning eastern Ukraine. EU leaders are expected to renew trade and personal sanctions linked to the conflict by the end of this month. The motion was carried by 356 votes to 183, with far-left legislators joining right-wing Eurosceptics including the UK Independence Party and France's National Front in opposition. A similar divide was apparent in a vote on Wednesday when a resolution proposed by a Lithuanian member was passed.

Calling for the EU to tackle Russian propaganda aimed at the West, that motion also took a dig at Russian bank loans to Marine Le Pen's National Front and other alleged or confirmed support from Moscow for nationalists elsewhere in Europe. James Carver of UKIP spoke against the motion, saying Russia shared blame with the EU for new insecurity in Europe and criticizing Brussels for engaging in "EU neo-imperialism" at the expense of a diplomatic approach to engaging with Moscow.

Greece gets wake-up call: Coming week could seal its fate

AFP, 12.06.2015



Creditors sent Alexis Tsipras home from a summit with a clear message: swiftly tone down your demands in the bailout talks over the next week or face financial ruin.

The IMF took the toughest stance, saying it was bringing its negotiators back to Washington as there had been no sign of compromise. "There has been no progress in narrowing these differences," IMF spokesman Gerry Rice said June 11. "There are major differences between us in most key areas." The creditors - the IMF and Greece's fellow eurozone states - want the country to commit to new economic reforms before they pay out another 7.2 billion euros (\$8.2 billion).

Athens needs the money to repay debts worth 1.6 billion euros at the end of the month and later this summer. European Union President Donald Tusk earlier warned "there is no more time for gambling" and that next week's meeting of the 19 eurozone finance ministers in Luxembourg should be the make-or-break session in sealing Athens' fate. Cutting through days of dense diplomatic talk about the state of negotiations, Tusk said it was time for Tsipras to stop biding for time with unworkable demands. "The Greek government has to be, I think, a little bit more realistic," Tusk said. The comments dented optimism created earlier in the day. Stock markets across Europe that had earlier rallied lost much of their gains. The Greek market closed up by a hefty 8.1 percent before the IMF's tough statement. Despite the bluster, the financial and economic stakes are such that no one is thinking about cutting Greece loose from the eurozone or the global financial network. Failing a deal, there are fears that Greece could drop out of the euro, a move that would create huge uncertainty for Europe and global markets. "We remain engaged," Rice said. "The IMF doesn't leave the table."

For months, Greece has wrangled with its creditors over the release of the bailout loans. The eurozone's finance ministers, commonly known as the eurogroup, meet in Luxembourg June 18-19, in a meeting that Tusk says "should be decisive." EU Commission President Juncker said a two-hour meeting with Tsipras on June 11 had been "important, interesting and friendly" but he reported no breakthrough.

The creditors have made clear that Greece must improve its offer of reforms. Sticking points appear to center on pensions and changes to labor market rules. The IMF's Rice noted that pensions and wages account for 80 percent of Greece's primary spending. "It's not possible for Greece to achieve targets without reforms" especially in pensions, he said. Greece spends an amount equal to 10 percent of its economic output on pensions, compared to an average 2.5 percent across the eurozone. Greece also needs to overhaul its tax system. "The policy of increasing already-high rates on a low tax base again is not sustainable. It is critical to significantly broaden the tax base," Rice said. He noted Greece has Europe's biggest gap in value-added taxes owed and VAT collected, largely because the system is so complex. Simplifying the VAT tax could increase tax collections by 1 percent of gross domestic product. Over the past few weeks there has been increasing gloom surrounding the talks.

The head of Germany's central bank, Jens Weidmann, said time is running out for a deal and the risk of insolvency is increasing by the day. "The contagion effects of such a scenario are certainly better contained than they were in the past, though they should not be underestimated," he said in a speech in London. "But the main losers in that scenario would be Greece and the Greek people." Amid the uncertainty, Greece's economy has slipped back into recession, while figures released June 11 showed that unemployment increased in the first quarter, reaching 26.6 percent - compared to 26.1 percent at the end of last year. And deputy health minister, Andreas Xanthos, warned that Greece's under-staffed, under-funded public health system faces "very serious problems" at the end of the year unless a bailout deal can be struck soon.

Romanian parliament blocks investigation into PM Ponta

Reuters, 09.06.2015



Romania's parliament blocked a criminal investigation against Prime Minister Victor Ponta, prompting renewed criticism of the European Union member state's commitment to fighting high-level corruption.

Ponta has rejected calls by Romanian President Klaus Iohannis to resign after prosecutors named him on June 5 in an inquiry into forgery, money-laundering, tax evasion and conflict of interest. Romania is seen as one of the EU's most corrupt states and its justice system is under special monitoring, though its prosecutors have won praise from the EU executive.

"I regret to see that parliament has turned into a shield for Victor Ponta suspected of penal deeds ... His resignation is the only way to end the current situation," Iohannis said. Ponta said earlier on June 9 that his leftist government would survive a vote of no-confidence called by the centrist opposition for June 12 and this would end a week-long political crisis and prepare the country for talks with the International Monetary Fund.

“Any allegations of wrongdoing by government officials should be fully investigated without interference, and the law should be applied equally to everyone,” the US Embassy said in a statement. Ponta has denied wrongdoing and his office said the accusations had previously been put forward by political enemies and “meticulously dismantled” through clear proof and documents. “I will present all evidence, because I haven’t had any possibility up to now to do it, and I am absolutely sure that I am innocent,” Ponta said. Ponta said talks with the IMF and the European Commission to review Romania’s 4-billion-euro precautionary aid deal would go ahead on schedule late this month or in early July. His government’s planned tax cuts will be at the centre of the talks. Ponta said the tax cut plan was expected to clear parliament by the end of June. Negotiations have become increasingly strained, and both the IMF and European Commission have warned that Romania’s tax plans could endanger its fiscal targets.

Cameron told to expect resignations after EU vote warning

AFP, 08.06.2015



Prime Minister David Cameron was warned June 8 that some of his ministers would likely resign after he demanded his cabinet back any deal he struck on EU reform and vote to stay in the bloc in a forthcoming referendum.

Cameron made the comments after a group of more than 50 lawmakers from his Conservative party said they would lead calls for Britain to leave the European Union unless he secures major concessions from Brussels. “If you want to be part of the government you have to take the view that we are engaged in an exercise of renegotiation to have a referendum and that will lead to a successful outcome,” Cameron said.

“Everyone in government has signed up to the programme set out in the Conservative manifesto,” he added, in comments reported by the British media. Cameron has pledged to campaign for Britain to remain in the EU after renegotiating the country’s ties with the bloc ahead of the vote, planned by 2017. “The government isn’t neutral in this. We have a clear view: renegotiate, get a deal that’s in Britain’s interest and then recommend Britain stays in it,” he said June 7. But Cameron is vulnerable to resistance from the eurosceptic wing of his Conservative party, which has only a slim majority in parliament. A newly formed group, Conservatives for Britain, which looks set to lead calls to leave the EU, is said to have the support of at least 50 Tory lawmakers so far.

Its chairman in parliament, lawmaker Steve Baker, said he expected some ministers would resign rather than campaign in favour of staying the European Union. “If we don’t get a sovereign parliament, I would be quite surprised if one or two don’t resign. But that really is a matter for them,” he told BBC radio.

Another Tory MP, former Europe minister David Davis, also predicted resignations, saying Cameron's position was "rather unwise". "It's pretty plain -- there's not much room to interpret -- that anybody who is going to vote against and campaign against continued membership of the European Union would have to leave government," he told the broadcaster. Davis said this was "something of a change from what was presumed right up to the election (last month) and, in my view, a rather unwise change". Since his re-election last month Cameron has pressed ahead on securing reforms, undertaking a whirlwind tour of European capitals to seek support for changes such as making it harder for EU migrants to claim benefits in Britain.

South Korea cuts rates as MERS clouds outlook; 14 new cases

Reuters, 11.06.2015



An outbreak of MERS forced South Korea to cut interest rates in the hope of softening the blow to an economy already burdened by slack demand.

Worry in South Korea about the disease has been reflected across the region with dozens of suspected cases being tested in Hong Kong, though none confirmed, and many thousands of people cancelling trips to South Korea. South Korea's outbreak, with 122 cases and nine deaths, is the largest outside Saudi Arabia and began last month when a 68-year-old South Korean businessman brought the disease back from a trip to the Middle East.

He was diagnosed with MERS on May 20 and all subsequent infections have been traced to him, and happened in health facilities. President Park Geun-hye has put off a trip to the United States to deal with the disease as the total number of cases rises daily. The central bank of Asia's fourth biggest economy said it had to act and cut its policy rate by 25 basis points to a record-low 1.50 percent. "We decided to cut rates today in a pre-emptive move to contain the economic fallout from MERS," Bank of Korea Governor Lee Ju-yeol told a media briefing. Economic policymakers were already under pressure to stimulate the economy as weak global demand and a strong won have dented exports and discouraged spending by consumers and companies. One positive sign was a fall in the number of South Korea's schools and universities that have closed. The total dipped to 2,431 on Thursday from about 2,700 the previous day after a joint team of experts from the World Health Organization (WHO) and South Korea recommended that schools be reopened as they were unlikely to spread the disease. "We all need to put behind us excessive fear and psychological withdrawal over MERS and try to go back to normal daily lives next week so we can minimise the impact on the economy," Kim Moo-sung, who heads the ruling Saenuri party, said at a party meeting.

MERS was first identified in humans in 2012. Most of the global cases, which number 1,271 according to WHO data, and at least 448 related deaths, have been in the Middle East. But memories are fresh in Asia of Severe Acute Respiratory Syndrome (SARS), which emerged in 2002-2003 and killed about 800 people worldwide. MERS is caused by a coronavirus from the same family as the one that caused SARS. It is more deadly than SARS but does not spread as easily, at least for now. Its symptoms include fever and a cough. In Hong Kong, a clinic said it was testing two people who had both recently travelled to South Korea. Thirty-one people in Hong Kong who suspected they might have caught the disease have tested negative. Hong Kong issued a “red alert” advisory on Tuesday against non-essential travel to South Korea while Singapore Airlines said it would waive fees for customers who want to cancel or rebook flights to South Korea. Despite the fears, only one case has been reported outside South Korea in the current outbreak, that of a South Korean man who travelled to China via Hong Kong after defying a suggestion from health authorities in South Korea that he stay in voluntary quarantine.

China’s Center for Disease Control and Prevention said the country was fully capable of containing any outbreak. “There is no need to panic,” the Xinhua news agency quoted the centre’s deputy head, Feng Zijian, as saying. Among the new South Korean cases was a pregnant woman who contracted the virus in an emergency ward that has been linked to other confirmed cases, the health ministry said. The woman’s pregnancy would limit the scope of treatment available, but she was in stable condition, the ministry said. The woman’s parents had previously tested positive for MERS. Another new patient was a police officer in the city of Pyeongtaek, where dozens of infections occurred, all linked to the first patient.

Obama says Israel risks losing credibility over Palestinian state stance

AFP, 08.06.2015



U.S. President Barack Obama said in an interview broadcast on June 2 that Israel risks losing “credibility” over Prime Minister Benjamin Netanyahu’s stance on the creation of a Palestinian state.

Obama made the comments to an Israeli television station in response to a question about Netanyahu’s comments regarding the establishment of a Palestinian state before and after March elections. Netanyahu sparked international concern when he ruled out the establishment of a Palestinian state while campaigning for the March 17 general election but later backtracked on the comments.

“... The danger here is that Israel as a whole loses credibility,” Obama said in the interview with Israel’s channel 2. “Already, the international community does not believe that Israel is serious about a two-state solution.” Netanyahu said he was committed to the establishment of a Palestinian state, calling on the Palestinian leadership to return to negotiations unconditionally. Obama however said Netanyahu’s statements on the subject after the election have had “so many caveats, so many conditions, that it is not realistic to think that those conditions would be met any time in the near future.” “And I think that it is difficult to simply accept at face value the statement made after an election that would appear to look as if this is simply an effort to return to the previous status quo in which we talk about peace in the abstract, but it’s always tomorrow, it’s always later,” Obama said.

Asked about a continued U.S. veto at the United Nations on resolutions condemning Israel, Obama said that a lack of progress in peace efforts would make such a policy more “difficult.” “Up until this point, we have pushed away against European efforts, for example, or other efforts because we’ve said, the only way this gets resolved is if the two parties work together,” said Obama. “...If, in fact, there’s no prospect of an actual peace process, if nobody believes there’s a peace process, then it becomes more difficult to argue with those who are concerned about settlement construction, those who are concerned about the current situation...” Prospects for a renewal of peace talks, which fell apart in April 2014, look bleak with the lack of trust between the sides exacerbated by the formation of Netanyahu’s new hardline coalition after the recent elections.

Announcements & Reports

► *Tackling Southeast Asia's Migrant Crisis*

Source : CSIS
Weblink : <http://csis.org/publication/tackling-southeast-asias-migrant-crisis>

► *War Funding, Sequestration, and the Budget Impasse*

Source : CSIS
Weblink : <http://csis.org/publication/war-funding-sequestration-and-budget-impasse>

► *The harsh Reality of Ukraine's Fiscal Arithmetic*

Source : Bruegel
Weblink : <http://www.bruegel.org/publications/publication-detail/publication/881-the-harsh-reality-of-ukraines-fiscal-arithmetic/>

Upcoming Events

► *Turkey and The EU After The Election*

Date : 14 June 2015
Place : Brussels - Belgium
Website : <http://www.bruegel.org/nc/events/event-detail/event/528-turkey-and-the-eu-after-the-election/>

► *What Digital Union?*

Date : 15 June 2015
Place : Warsaw - Poland
Website : <http://www.bruegel.org/nc/events/event-detail/event/518-what-digital-union/>

► *How to Complete Monetary Union*

Date : 18 June 2015
Place : Paris - France
Website : <http://www.bruegel.org/nc/events/event-detail/event/520-how-to-complete-monetary-union/>

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

Date : 29 June 2015

Place : Brussels - Belgium

Website : <http://www.bruegel.org/nc/events/event-detail/event/535-chinese-foreign-direct-investment-the-european-policy-agenda/>

► *National Perspectives on The Euro Area*

Date : 07 July 2015

Place : Brussels - Belgium

Website : <http://www.bruegel.org/nc/events/event-detail/event/536-national-perspectives-on-the-euro-area/>

► *Competitive Gains in the Economic and Monetary Union*

Date : 21 July 2015

Place : Brussels - Belgium

Website : <http://www.bruegel.org/nc/events/event-detail/event/534-competitive-gains-in-the-economic-and-monetary-union/>