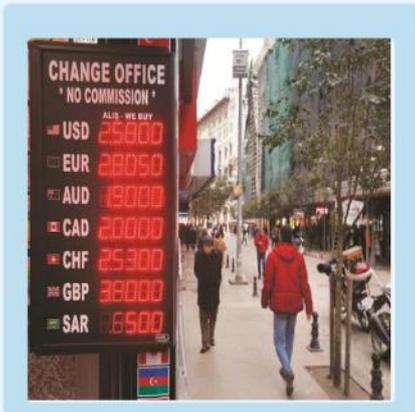


## Turkish markets, lira firmer on Fed meeting

Hurriyet Daily News, 19.03.2015



Turkish markets recovered, with the Turkish Lira at its firmest in two weeks and stocks rallying as investors back into emerging markets after the Fed sounded a cautious tone on the timing of rate hikes.

The lira rebounded to 2.5610 to the dollar earlier in the session, its firmest since the beginning of March. And the Borsa Istanbul's 100 Index increased as much as 3 percent in early trade. Both the lira and Turkish stocks have, however, significantly underperformed against other emerging markets this year. The lira is down around 12 percent this year, according to Reuters data.

Investors have been worried about the Central Bank's independence amid the heated criticism over the bank by several ministers as well as President Recep Tayyip Erdoğan. The controversies over the rates between the political figures and the Central Bank seemed to ease after the face-to-face meeting between Central Bank head Erdem Başçı and President Erdoğan as well as between Başçı and cabinet ministers, headed by Prime Minister Ahmet Davutoğlu last week.

Başçı said the bank would be able to achieve its main target of cutting inflation to less than 7 percent by the end of the year, as Anadolu Agency reported late March 18. Başçı also gave positive signals about other indicators of the economy. The Fed moved a step closer to hiking rates for the first time since 2006, but downgraded its economic growth and inflation projections, signaling it is in no rush to push borrowing costs to more normal levels, as Reuters reported.

The U.S. Central Bank removed a reference to being "patient" on rates from its policy statement, opening the door wider for a hike in the next couple of months while sounding a cautious note on the health of the economic recovery. Fed officials also slashed their median estimate for the federal funds rate – the key overnight lending rate – to 0.625 percent for the end of 2015 from the 1.125 percent estimate in December 2014. "Just because we removed the word 'patient' from the statement doesn't mean we're going to be impatient," Fed Chair Janet Yellen said in a press conference after the statement. The dollar tumbled against other major currencies.

# Turkey's Central Bank leaves rates unchanged amid pressure

Reuters, 17.03.2015



Central Bank left interest rates on hold as the lira's slide to record lows risked stoking inflation, resisting pressure from political circles to cut rates ahead of a June election.

Erdoğan's demands for sharply lower rates to boost growth before the parliamentary election have rattled markets, contributing to the lira's losses and raising concern about the independence of the Central Bank. The Bank left the one-week repo rate at 7.50 percent and the overnight borrowing rate at 7.25 percent. The overnight lending rate remained at 10.75 percent and the primary dealers' overnight borrowing rate at 10.25 percent.

"Future monetary policy decisions will be conditional on the improvements in the inflation outlook," the bank said in a statement after the monetary policy committee meeting. Tensions between Erdoğan and the Bank appeared to ease somewhat last week after Governor Erdem Başçı gave him a briefing. Erdoğan subsequently said the talks had been positive, but his adviser, Cemil Ertem, was quoted as saying the presentation was at odds with Erdoğan's vision for high growth. "We think the Central Bank did the right thing and restored some of its lost credibility with that decision," said BGC Partners chief economist Özgür Altuğ.

He forecast March annual CPI inflation would fall and may pave the way for a 25-50 basis point rate cut. But political reaction to the decision, the outcome of the Fed meeting on March 18, and a Fitch Ratings assessment on March 20 would determine whether a more optimistic market tone continues. The lira firmed to 2.6070 against the dollar after the decision, from 2.6185 beforehand. However, some market watchers said the Central Bank had more to do to restore its credibility. "While Turkey's Central Bank may have acted more prudently today, this is an institution whose authority has been severely undermined over the past several months," said Spiro Sovereign Strategy's managing director Nicholas Spiro. "It will take much more than a decision to keep rates steady to allay concerns about the lack of credibility in Turkish monetary policy," he added. Annual inflation rose in February and inflation expectations have also worsened. Year-end inflation is seen at 6.98 percent, according to the latest central bank survey of business leaders' and economists' expectations, up from 6.77 percent a month ago.

# Minister: Turkey runs deficit in February due to infrastructure, interest spending

Hurriyet Daily News, 16.03.2015



Turkey's budget deficit hit 2.36 billion Turkish Liras in February due to higher seasonal spending on infrastructure and interest expenditures, Finance Minister Mehmet Şimşek said.

Şimşek said budget revenues remained strong despite financial market volatility and lower domestic demand, adding that he expected better budget figures in the coming months due to an anticipated recovery in domestic demand. Turkey's government revenue reached 40.2 billion liras in February 2015, a 16.6 percent increase compared with the same period in 2014.

Budget expenditures for the same period rose to 42.5 billion liras, a 30 percent increase year-on-year. Non-interest expenses increased by 21 percent to 35.6 billion liras, and interest expenses by 107 percent to 6.9 billion liras, according to data in February compared to the same month in 2014. "The Finance Ministry has estimated that budget expenses for the 2015 fiscal year will reach 473 billion liras, while budget income will reach 451 billion liras, resulting in a budget deficit of 21 billion liras.

According to the ministry, Turkey's government budget revenues reached 80.3 billion liras in the first two months of 2015, an 11 percent increase compared with the same period of 2014. Budget expenditures for the same period rose to 78.8 billion liras marking a 14.7 percent increase year-on-year. Interest expenses reached 12 billion liras for the first two months of 2015. "We expect a positive impact of the recovery in the domestic demand in the coming months on the budget performance. In this vein, I expect that we will reach the budget targets by the end of the year," Şimşek said. The Turkish government's budget ran a deficit of 22.7 billion liras in 2014.

# Turkey's top business organization sues government-controlled trade body

Hurriyet Daily News, 16.03.2015



Turkey's top business organization TÜSİAD has sued the DEİK, once an arm of the TOBB but recently put under the control and surveillance of the Economy Ministry, to opt out from membership in the organization and to not pay membership fees.

TÜSİAD filed a lawsuit to resign from DEİK membership, as reported by weekly business and economy magazine Ekonomist in its March 15 issue. "Our aim is not to corrode the legitimacy of the DEİK, but we do not find it right to be a part of a public institution as the members of an NGO," said TÜSİAD sources familiar with the matter to the magazine.

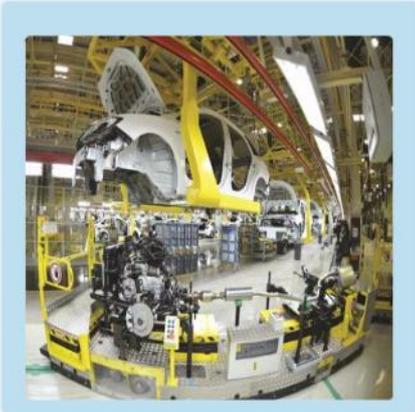
DEİK head Ömer Cihat Vardan confirmed the opening of the lawsuit to the Council of State. "We have learned of the opening of the case. We have no problem with TÜSİAD... The TÜSİAD members told me the lawsuit was opened in line with an ordinary decision made during the term of the former president Haluk Dinçer." Dinçer had also been the head of the DEİK / Turkish-American Business Council before the new regulation came into effect.

DEİK was put under the control and surveillance of the Economy Ministry as part of an omnibus law approved in parliament on Sept. 10, 2014. A regulation that exposes the new working scheme and management structure of the body was published in the Official Gazette on Sept. 20, 2014, drawing reactions from jurists and the business world. According to the regulation, the economy minister was endowed with the extensive authorities to select and remove the DEİK chairman as well as determine the founding institutions.

The Chairman of the TOBB, Rifat Hisarcıkılıoğlu, resigned from the board of DEİK in late September, 2014. The former chairman of the pro-government Independent Industrialists and Businessmen's Association (MÜSİAD), Ömer Cihad Vardan, was then appointed to the executive committee in Hisarcıkılıoğlu's place by the Economy Ministry. In accordance with the new regulation, TÜSİAD needs to transfer some 1 percent of its annual revenue to DEİK with four other main organizations.

# Dollarization and downsizing concerns

Hurriyet Daily News, 16.05.2015



Turkey's economy is facing the dangers of a rapid dollarization, in other words, an escape from the Turkish Lira and a focus on the dollar, and a production fall in the industrial sector, thus causing a negative trend in the growth rate, which will escalate unemployment.

Since the beginning of the year, in the list of the national currencies of the fragile five, which includes Turkey, devaluating against the dollar, Turkey has separated from the group. In the period between the beginning of the year until March 6, the Indian rupee gained 1.5 percent in value against the dollar.

The South African rand lost 4.1 percent and the Indonesian rupee lost 4.5 percent in value; whereas the lira lost 11.4 percent value in the same period. The devaluation of the lira is at a level incomparable to the others. From these five countries, the nearest one to the lira, even though not equal, has become the Brazilian real. If the devaluation of the lira were as much as the devaluation of the countries - other than Brasilia - the Central Bank's interest rates and some intervention in foreign currency could have helped. However, the lira, because of the condition unique to Turkey, has lost value in a sharp way.

Several domestic and international authorities have associated the high level of this blood loss to President Recep Tayyip Erdoğan's pressure on the Central Bank to lower interest rates and the loss of confidence stemming from that. This situation has increased Turkey's risk premium and the increased risks have carried the dollar higher. The increased climb in Turkey's credit default swap (CDS) in recent days has further decreased the appetite of the foreign investor, and together with outflows, the dollar is rapidly climbing against the lira. Turkey's CDS was 185 on Jan. 16 when Erdoğan exerted pressure on the Central Bank and the dollar rate was 2.33 liras. Since then, CDS has increased, just as the exchange rate. At the beginning of the week, the risk premium was 201 and the dollar rate was 2.53 liras; at the end of the week the premium went up to 218 and dollar to 2.65 liras. Above Turkey's 218 risk premium, there is Brazil with 253. However, South Africa follows Turkey with 195 and Bulgaria comes next with 171. Portugal has 129 while Spain has 92.

The January current account deficit was announced as \$2 billion and the capital inflow as \$7.5 billion. However, the month of January does not reflect the following months of February and March. The climate has rapidly changed. The current account deficit may still be low because of the fall in industry in the following months and the fall in the industrial imports but in February and March, it was observed that capital inflow rapidly declined.



The outflows of capital also pushed the dollar up. Because of the expectation of the Fed meeting and the fear of a signal of increasing interest rates in this meeting, while the Dollar Index has gone up to 98.50, in such an environment, it looks difficult for the Central Bank alone to stop the climb of the dollar with the decisions it has made one after the other. For the dollar/lira to normalize and for the Bank's moves to be effective, first of all, there absolutely has to be a break in the dollarization that develops in association with the rapid increase of the Dollar Index experienced globally.

Nonetheless, it is important in terms of "inner peace" that the information flow concerning the Central Bank to normalize fully and an entire harmony between the Bank and the government should be displayed for the markets. In this context, we would not know how effective it will be to use the meeting between President Erdoğan and Deputy Prime Minister Ali Babacan and Central Bank Governor Erdem Başçı to curb the tension; however international winds especially look as if they will highly marginalize this kind of image build-up effort.

It is very difficult for the Central Bank in its next scheduled meeting on March 17 to start a new action and make the interest rate cut that Erdoğan and his aides are hoping for, due to the current situation of the dollar/lira and uncertainties about the Fed meeting. Unless there is a positive improvement in the current domestic and international circumstances, it looks more probable that the Central Bank will have a "wait and see" policy. If the dollar/lira rate stands at the 2.65 step, then the 2.68-2.70 band will stand out on an important psychological level. From there to move on to 2.80 will depend on news coming from the Fed.

The storm of dollarization is keeping many sleepless, especially the ones that have external debts totaling \$400 billion. Two-thirds of this debt stock belongs to the private sector. Moreover, 40 percent of this amount has to be paid in 12 months. Any climb in the dollar means the loss of liras at the exchange rate. It is no secret that this situation turns the balance sheets of debtor firms upside down and negatively affects all investment decisions. Especially in the industry sector, the shrinkage that results from the shrinking of the domestic market and exports has begun to be seen in the figures. The Turkish Statistical Institute's (TÜİK) January data released on March 9 about industry production has shown that we have entered an important decline phase in industry. When seasonally adjusted, the January industry production fell 1.4 percent compared to December 2014.

When the decline in production is listed from the most to the least, in computer, electronic and optical products, electrical equipment, the decline varied between 9 percent and 12 percent. The sharp climb in the dollar exchange rate is considered as influential on this production shrinkage. It was also noteworthy that "mineral products" such as glass, ceramics, bricks and cement that are inputs for construction have declined 6.2 percent in production in one month. In particular, the decline in cement exports to Iraq has caused capacity drops in this sector. The fall in house sales and the stagnation in mortgaged sales because of high interest rates have also brought a decline in house production and the construction material industry. The 6 percent production drop in cigarette production is again noteworthy. The drops in base metals, mostly iron-steel, and medicine, textile and food production are considered to be related to the fall in domestic demand and partially to the drop in exports. The manufacturing industry declined 1.4 percent in general in January.

It is stated that the decline in industry production may continue in the coming months. This will be related to the stagnant course of domestic demand due to the increasing dollar exchange rate and non-declining interest rates. This negativity is accompanied by the devaluation of the euro against the dollar as well as the decline in exports. The decreasing domestic and external demand is shrinking capacities in many workplaces and it is said that starting from this month, workplaces will begin taking precautions on employment. It is being reminded that originating from industry centers such as Kocaeli, Bursa and Tekirdağ, an employment shrinkage beginning with unpaid leave may be in question, just like the 2009 conjuncture. In 2009, the exchange rate had a sharp climb with the effect of the global crisis and as a result of the shrinkage in domestic demand unemployment climbed to 15 percent.

It is also mentioned that especially in places where a union is not present, the crisis would be attempted to be overcome over the employees; also in workplaces where unions are active there could be some measures taken in agreement with the unions. The unemployment risk stemming from the production drop in industry will also be felt in some branches of the service sector. The stagnation in the construction sector will lower employment on construction sites. Declining sales in the retail sector will lower employment in this sector and this may be followed by finance, real estate and other service sectors, thus with falling advertisement spending there could also be downsizing in communication and media sectors, it is estimated.

## Turkish company signs deal to produce local tank's engine

Anadolu Agency, 17.03.2015



Tümosan, has inked a deal to design and develop the Altay tank's power group by national means with the undersecretary of the Defense Industry.

“Turkey wants to meet the needs of the armed forces by local means. We have hastened our works to develop our own local military equipment,” the head of the country's top defense unit, İsmail Demir, said at the signing ceremony. The Defense Industry Executive Committee said last year that it had decided to launch contract negotiations with Tümosan in connection with the engine program for the Altay, Turkey's domestically built tank.

The Altay program has faced hurdles and delays, with the most problematic development feature concerning its engine. Turkey's months-long negotiations with Japan's Mitsubishi Heavy Industries for the joint development and production of an engine for the Altay failed earlier last year. In line with the needs of the Defense Ministry, Tümosan will produce tank motors and transmissions, said Tümosan Chairman Nuri Albayrak. “We plan to produce around 30 tank engines in the first year and increase this number in the following years,” Albayrak said, adding that the project would cost around 190 million euros.

## Minister calls on tech giants to open R&D centers in Turkey

Anadolu Agency, 20.03.2015



Fikri Işık has called on U.S.-based technology giants to establish research and development centers in Turkey and not to see the country only as a customer.

Işık, who started his visit to the U.S., visited Silicon Valley giants HP, Oracle, Intel, Apple, Cisco and Google. After a meeting with Turkish businessmen, entrepreneurs and engineers, he told Anadolu Agency that the example of the Silicon Valley is very important. “A decision has been made to support Turkish entrepreneurs in Silicon Valley, to make technology transfers and to establish a [technology] center in order to gain access to the world market,” Işık said.

In recent years, Turkey has made public plans to establish a “Silicon Valley” technology center in Istanbul, the country’s largest city and economic capital. Işık said the Turkish delegation would hold a series of meetings in the U.S. with regard to establishing the technology center in Istanbul. He also said Ankara would first hire “science attachés” in Berlin, as well as Los Angeles and San Francisco.

## Turkey to set up trade centers abroad

Reuters, 19.03.2015



As part of Turkey’s centennial exports vision, Turkish trade centers will be established in prominent cities around the world in the near future, Deputy Economy Minister Adnan Yıldırım said. Speaking at the Trademark Summit held at the European Turkish Trademarks Association in London, Yıldırım said his ministry has begun to work towards the establishment of trade centers in many of the most prominent cities around the world.

“Turkish trade centers are very important. Maybe we will set up the first such institution in London. The legislation has already been passed,” he said.

“You will see these centers in major cities around the world, starting with cities such as London, Frankfurt, New York and Paris.” Turkish exports volume, including suitcase trade and exports from free trade zones, hit the \$172 billion mark as of 2014, Yıldırım added. The exports, however, decreased to \$10.4 billion in February, a 13 percent drop from the same month of the previous year.

## Russia’s Alfa Telecom bids \$2.8 billion to double stake in Turkcell

Hurriyet Daily News, 17.03.2015



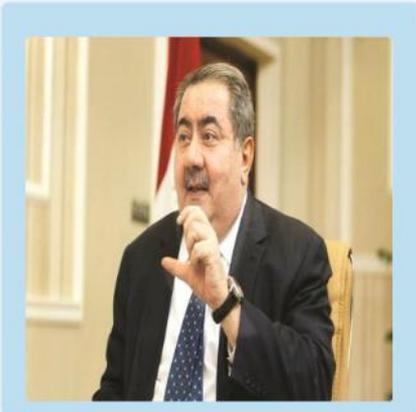
Alfa Telecom offered \$2.8 billion to buy back a 13.76 percent stake of Turkcell, a deal that would double its holding in Turkey’s top mobile operator for control of the company.

Alfa Telecom said in a statement it had offered \$54.9 million per share for 51 of Turkcell’s class-B shares, which are being held with Turkey’s state-run Ziraat Bank as collateral for a loan. Alfa has been locked in a battle with one of Turkcell’s founder’s, Mehmet Emin Karamehmet, for control of the mobile operator. Last year, a holding company controlled by Karamehmet, Çukurova, paid Alfa \$1.6 billion for the stake in Turkcell, financing its offer through a loan from Ziraat.

But now, Alfa has offered to buy that back at a substantial premium. One source with knowledge of the deal told Reuters that either Çukurova or Ziraat Bank could be looking to buy Alfa’s stake and force the Russians out. “Ziraat Bank could act like a private equity investor and opt to take a stake in Turkcell by buying the Alfa shares,” said the person, who declined to be identified. Turkcell is the dominant mobile operator in Turkey, a nation of 75 million seen as having further growth potential for mobile operators, particularly in data. Turkcell has a complicated ownership structure, with 51 percent of its shares held by another holding company, Turkcell Holding. Alfa currently holds a 13.22 percent stake in Turkcell through ownership in that unit. Nordic telecoms group TeliaSonera is the biggest stakeholder with 38.04 percent in the mobile operator, while 27.25 percent of the shares are publicly traded.

# Iraq 'to make budget payment to Kurds soon'

Reuters, 19.03.2015



Iraq's government will make a budget payment to Kurdish authorities "within days," the finance minister said, playing down concerns that an oil export deal that helped thaw bilateral relations could collapse.

Hoshiyar Zebari told Reuters in an interview on March 18 the delay in what is meant to be a monthly transfer of over \$1 billion from Baghdad in exchange for oil from the semi-autonomous region was due to a fiscal crisis rather than political factors. He said both sides were still committed to the deal though he declined to reveal the size of the forthcoming payment.

The minister, a Kurd, cited poor fiscal management, the costly battle against Islamic State militants, and the sharp fall in oil prices as reasons for the federal government's cash shortfall. Iraq's Kurdish region has been battling a financial crisis since Baghdad authorities cut budget payments in January 2014 as punishment for its attempts to export oil independently. The payments resumed in December along with Kurdish oil deliveries. But so far this year, Baghdad has paid only a fraction of the money, arguing that the oil handed over to Iraq's State Oil Marketing Organization does not match the volumes the Kurds committed to.

The oil deal was hailed as a breakthrough that would help Iraq increase exports at a time when revenues are strained by low global crude prices and the cost of financing a war against extremist insurgents holding parts of the country's north and west. Zebari said it also remained a cornerstone of bilateral relations. "It's a comprehensive deal that means a great deal for everybody. Both sides are committed to it and that is encouraging." The minister said he understood the impatience of the Kurdish Regional Government "because they haven't received their payment for some time." While mutual mistrust and unrealistic expectations remained a problem, Baghdad would "transfer another payment to the KRG very soon, within days," he added.

The dispute exemplifies differences between the two sides over who should control the country's oil resources and revenues. Kurdish authorities in Arbil have threatened to sue buyers and ramp up independent oil exports, and say they have already been forced to sell some oil independently because Baghdad has not paid them and the region needs to meet a bloated public sector payroll as well as repaying creditors. Zebari acknowledged that if there is "no serious progress the deal will not hold," but said both sides are committed to avoiding that.

## UN: ISIL likely committing genocide against Yazidi minority in Iraq

AFP, 19.03.2015

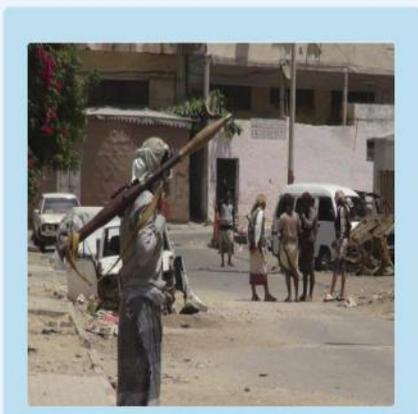


ISIL jihadists may have committed genocide in trying to wipe out the Yazidi minority in Iraq, a UN report said. ISIL “may have committed all three of the most serious international crimes, crimes against humanity and genocide,” the United Nations human rights office said in a statement.

The agency published a horrifying report detailing a litany of crimes and atrocities committed by the extremists, including killings, torture, rape, sexual slavery and the use of child soldiers. All of these crimes, it said, are violations of international human rights and humanitarian law, and some may amount to “crimes against humanity” and “war crimes”.

## Flights suspended to Yemen’s Aden after fighting breaks out

AFP, 19.03.2015



Air traffic to Yemen’s main southern city of Aden was suspended early after fighting broke out between supporters and opponents of President Abedrabbo Mansour Hadi, an airport source told. “Air traffic at Aden airport was suspended and flights cancelled,” the source told AFP after the clashes between special forces led by a rebel officer and supporters of the beleaguered president.

Travellers arriving at the international airport early Thursday were told to turn back because of the fighting, which broke out overnight. “I could not move,” one told AFP, saying that access to the airport was blocked by armed men.

The violence came after special forces commander Abdel Hafez al-Saqqaf deployed units on roads in the city, including near the airport. The Popular Resistance Committees, loyal to Hadi, reacted to their deployment with clashes in various parts of the city, where tensions have been running high. Hadi fled to Aden last month after escaping from Shiite militia controlling Sanaa, and declared the port city to be Yemen’s capital.

# Abbas: Two-state solution impossible with Netanyahu-led govt

AFP, 19.03.2015



A two-state solution to the Middle East conflict will be impossible with an Israeli government headed by Benjamin Netanyahu, Palestinian president Mahmud Abbas said.

“Netanyahu’s statements against a two-state solution and against a Palestinian state... are proof, if correct, that there is no seriousness in the Israeli government about a political solution that will lead to the establishment of two states,” he said a day after the Israeli leader snatched an upset election victory. In a last-ditch appeal to Israel’s far right just hours before polls opened, Netanyahu ruled out the establishment of a Palestinian state.

Abbas said the Palestinians would continue to “demand international legitimacy,” in reference to their attempts to achieve statehood through the United Nations and other international bodies. “It is our right to go to anywhere in the world to achieve international legitimacy,” he said. The Palestinian leader also pointed to the likely inclusion in the new Israeli government of Avigdor Lieberman, head of the ultranationalist Yisrael Beitenu party, who waged a virulent election campaign against both the Palestinians and Israel’s Arab minority. Abbas said Lieberman had made “racist calls to kill Arab Israelis”, a reference to reported comments earlier this month in which he said any Arabs who were disloyal to the Jewish state should be beheaded.

## Strained relations

The Economist, 17.03.2015



Leaders of the European Union will meet to discuss tightening the economic sanctions they imposed on Russia after its annexation of Crimea a year ago. One country that is not avid for new sanctions is Italy, which is uncomfortable with the schism between Russia and the West.

Matteo Renzi, Italy’s prime minister, would still like to bring Vladimir Putin, Russia’s president, back into the fold. His reasons are both geopolitical and domestic, and rooted in history. During the cold war, Italian governments were steadfastly pro-American. But Italy’s Communist Party was strong; its leaders actually resided in the Soviet Union.



Fiat, an Italian industrial giant, built factories there. After 1989 Russian relations with all European countries improved, but links to Italy grew particularly strong, regardless of who was in power in Rome. Mr Putin enjoyed good relations with Romano Prodi, a former centre-left prime minister. And he is notoriously chummy with Silvio Berlusconi, a former centre-right prime minister, who helped negotiate an agreement between NATO and Russia in 2002. On Mr Putin's most recent trip to Italy in November, he stopped by the Berlusconi residence at one o'clock in the morning.

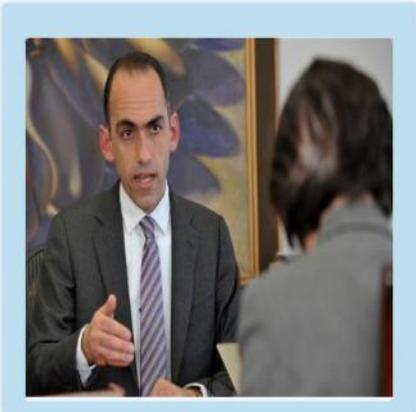
Mr Renzi visited Mr Putin in Moscow, the first official visit by a major European leader since the Ukraine crisis erupted. There were three main items on the agenda. On Ukraine, Mr Renzi repeated the importance of implementing the February agreement signed in Minsk by France, Germany, Russia and Ukraine. He also suggested that Trentino-Alto Adige, an autonomous Italian region which was once part of Austria-Hungary, might be a model for the Ukrainian government to consider. But Mr Renzi's bigger geopolitical worries lie in the Middle East, where civil wars and failing states have sent hundreds of thousands of refugees fleeing to Europe over the past four years, many of them to Italy. Since 2013 Italy has been trying to win Russian co-operation on pacifying Syria. More recently it hoped Russia might help to counter the spreading chaos in Libya, one of Italy's main oil suppliers, where Islamist militias have recently declared their allegiance to Islamic State (IS). From Rome, the threat posed by IS on the other side of the Mediterranean appears more pressing than Mr Putin's expansionism in Ukraine.

Third, but just as important, is the sense that sanctions are damaging Italian business interests. Italy is Russia's second-biggest trading partner in the EU, after Germany, and its fourth-largest globally. In addition to Fiat, over 500 other Italian companies have operations in Russia. Russia supplies roughly 15% of Italy's oil and 30% of its gas. Russians are avid buyers of Italian luxury products, and tourist flows to Italy almost doubled between 2008 and 2013. Sanctions themselves may not have hit Italy harder than some other European countries. But what with the sanctions, the slowdown of Russia's economy, and the weakening of the rouble, Italian exports to Russia fell from €10 billion (\$10.5 billion) in 2013 to €8.8 billion in 2014. Piquadro, an Italian maker of leather goods which has ten shops in Russia, saw its revenues there fall 40% last year. Roberto Cavalli, a Milanese designer, expects its Russian sales to fall by 20% in 2015 compared with the previous year.

That is especially bad news for Mr Renzi, given Italy's fragile economic state. The Northern League, a right-wing, anti-EU party that opposes sanctions against Russia, is gaining traction. Mr Putin has met its leader, Matteo Salvini, several times as part of his policy of supporting eurosceptic parties throughout Europe. Italy holds regional elections in May, including in the entrepreneurial region of Veneto where the League is strong. Such political pressure is another factor pressing Mr Renzi to show that he, too, wants to keep the Italo-Russian partnership alive.

# Minister: Greek Cyprus won't need full EU bailout package

AFP, 14.03.2015



Greek Cyprus will not need all of the 10-billion-euro bailout it received in 2013 as its economy recovers faster than expected, the country's finance minister told.

“[The economy] is much better, but I'm not saying that it is good,” Harris Georgiades said ahead of the second anniversary of the “unprecedented crisis” that shook the eurozone and left the Mediterranean island teetering on the brink of bankruptcy. “The economy is recovering. We are still on a negative growth rate but each quarter is seeing an improvement,” he told. Georgiades predicted a return to “very mild” growth this year.

In March 2013, Greek Cyprus clinched a 10-billion-euro (\$13 billion at the time) loan from the European Union and International Monetary Fund to bail out its troubled economy and oversized banking system. Fearing a run, the government closed all the country's banks for nearly two weeks and imposed draconian capital controls when they reopened. Some restrictions remain. Georgiades said Greek Cyprus had made “significant progress” since the crisis. “Unemployment is starting to come down, public finances are under control... and crucially our banking sector has been stabilised,” he said. “We do not have a deficit, which is an achievement as many other EU member states are still struggling to bring their deficit under control.” Due to the favourable economic climate, the minister said his country would not need the full bailout amount it was initially offered. “We do not expect our banks for instance to need any new capital, through state money,” Georgiades said. “Some of the 10 billion which was, let's say, reserved for this purpose -- buffered for this purpose -- will not be needed.”

Greek Cyprus has to date received “just over six billion” euros, he added. Austerity measures since the crisis led to tax hikes, salary cuts and a slashing of social welfare benefits. Georgiades said he hoped parliament would vote “over the next weeks” for a foreclosure bill to allow repayment of the latest tranche of bailout money. He also promised Greek Cyprus would “continue the same policy” towards long-term recovery by focusing on structural reform, including in areas such as privatisation and reducing bureaucracy. “There is still work which needs to be done before we can safely say that we're back on viable and sustainable growth,” the minister said.

# EU to tell Greece time, patience running out

Reuters, 19.03.2015



**Euro zone leaders will tell Greece that time and patience are running out for its leftist-led government to implement agreed reforms to avert a looming cash crunch that could force it out of the single currency.**

**Greece has been kept from bankruptcy by two international bailouts but now risks running out of money within weeks if it does not receive more funds. Greek banks reported the largest deposit withdrawals in a month, a sign savers are worried about the outlook for the country's finances and institutions. Alexis Tsipras has requested a meeting with the leaders of Germany, France and the main EU institutions.**

"I will repeat to him what I've already told him twice: Greece must undertake the necessary reforms, Greece must ensure that the commitments it made to the Eurogroup in 2012 and more recently are followed up on," European Commission President Jean-Claude Juncker told France's Europe 1 radio. German Chancellor Angela Merkel delivered the same message in a speech to parliament ahead of the late-night Brussels talks and a crucial visit by Tsipras to Berlin next Monday, saying the crisis could only be overcome if Greece stuck to agreements. No one should expect a solution from Thursday's session or her meeting with Tsipras next week, which offered "time to talk to each other in detail and perhaps also to argue", she said.

A political meeting of a small group of leaders could not be used to circumvent the formal agreement Greece concluded with Eurogroup finance ministers, she told the lawmakers. "There remains a very tough way ahead," Merkel said. Greece must understand that international aid brought with it an obligation "to reform its budget and work towards one day no longer needing help". European Council President Donald Tusk, who will chair the summit, said he arranged a side-meeting with Tsipras to take the heat out of exchanges around the main table. It would, however, not be decisive as leaders would go on trying to avoid Greece being inadvertently shut out of the euro -- a "Grexident".

EU chief executive Juncker has been trying to build bridges between Tsipras and Greece's creditors. His tone of exasperation suggested even Athens' friends are angry at his government's mixture of belligerent rhetoric and procrastination. Another sympathiser, the German Social Democrat speaker of the European Parliament Martin Schulz, warned: "We need to keep our cool. The government in Athens must understand that it is pointless to have an ideological debate." Two EU/International Monetary Fund bailouts totalling 240 billion euros have kept Greece from bankruptcy since 2010 but its economy has shrunk by 25 percent, partly due to austerity measures imposed by the lenders. It risks running out of cash without more aid or permission to issue more short-term debt.



EU sources said Greece had refused to provide any update on public finances or reform plans in a conference call of senior euro zone officials on Tuesday and had denied EU, IMF and European Central Bank experts access to government buildings in Athens, insisting all meetings take place in a hotel. The discussions had not gone beyond procedural issues of who would be allowed to talk to whom, the sources said. Asked whether the experts had been kicked out, an EU official said: "The talks in Athens were paused yesterday. This is normal procedure and can be helpful to take stock. There is willingness to talk but the Greeks must deliver."

Deputy Prime Minister Yannis Dragasakis, in a television talk show early on Thursday, accused the creditors' team of exceeding their authority. "The technical teams came to collect facts, but they then requested things which went beyond their jurisdiction. For example, they wanted to review the government as a whole, every ministry's programme and the reforms," he told Alpha TV. Dragasakis acknowledged Greece faced a liquidity problem and needed the cooperation of its European lenders to keep paying salaries, pensions and debt repayments: "We haven't received any (bailout) tranches since August 2014 but we have been meeting all of our obligations," he said. "This has its limits." The ECB agreed to raise the limit on emergency lending to Greek banks by 400 million euros to 69.8 billion, banking sources said. Bankers said savers withdrew about 300 million euros in deposits. "The uncertainty over the lack of progress in negotiations and the negative news flow has affected sentiment," one banker told Reuters. "It's not a huge amount. But the worry is whether this is the start of a trend that could get worse."

European Parliament President Schulz said Greece's financial situation was "dangerous" and it needed 2-3 billion euros in the short term to avoid bankruptcy. "Time is short," he told German radio. "So it would be good if Greece fulfils the obligations that it has agreed to -- then further money will flow." Greece has asked to receive some 1.9 billion euros in ECB profits on Greek bond holdings, which finance ministers have linked to progress in implementing the programme. It also wants ECB permission to issue more short-term treasury bills, which only Greek banks are willing to buy. Tsipras' Syriza party won a general election in January on a platform of scrapping the bailouts, ending austerity and refusing to cooperate with the "troika" of institutions -- EU, ECB and IMF -- supervising its rescue programme.

The prime minister lambasted EU "technocrats" for demanding prior consultations on the cost of a "humanitarian bill" adopted by parliament to provide food stamps and free electricity to the poorest Greeks worst hit by austerity. Athens has made no move in the month since the Brussels agreement to bring forward legislation to meet its commitments under the bailout agreement. The chairman of the Eurogroup of finance ministers, Jeroen Dijsselbloem of the Netherlands, hinted this week that Greece might have to introduce capital controls restricting cash withdrawals, as Cyprus had done, if financial stress got worse. German Finance Minister Wolfgang Schaeuble has warned that the risk of an accidental Greek exit from the euro zone is rising, while insisting that Berlin wants to avoid that.

# Egypt agrees \$36.2 billion in investment deals

AFP, 16.03.2015



Egypt has agreed \$36.2 billion in investment deals, Prime Minister Ibrahim Mahlab said at the close of a three-day conference to kick start the economy. The conference, which started with three Arab states pledging \$12 billion in investments and aid, is seen by the government as a ringing endorsement of President Abdel Fattah al-Sisi and his fight against Islamist militants.

“Direct investment contracts that were signed are worth \$36.2 billion,” Mahlab announced. He added that Egypt also undertook 18.6 billion in financed projects such as for a power plant that the country would repay.

Egypt also won \$5.2 billion in loans from international institutions, he said. “It is for us now to work and sweat,” Mahlab said. The deals include a record investment by British Petroleum and its Russian partner DEA of \$12 billion in Egyptian gas fields on the West Nile Delta. German conglomerate Siemens signed a four-billion-euro power deal with Egypt, a company spokesman said Saturday. Egypt also announced it had signed memorandums of understanding with an United Arab Emirates company for the construction of a new administrative capital.

Sisi addressed a cheering audience at the conference, surrounded by a group of youths he had called up to the stage. “Egypt needs no less than \$200 or \$300 billion for there to truly be hope for 90 million Egyptians,” Sisi said. He added that he wanted to host such a conference every year and invite other countries who are facing economic difficulties. The beaming president also mentioned that German Chancellor Angela Merkel had invited him for a visit. The remark underscored the acceptance he has won since overthrowing his Islamist predecessor Mohamed Morsi in 2013, then winning an election amid a broad crackdown on the opposition.

Morsi’s overthrow by then army chief Sisi unleashed the deadliest crackdown on the opposition in Egypt in decades, and left thousands in prisons. Militants have conducted an insurgency in the Sinai Peninsula that killed scores of policemen and soldiers, and there have been regular small bombings in Cairo. In Egypt, Sisi is popular among many who believe the country needs a tough leader, and he is staunchly backed by Gulf Arab states who despise Morsi’s Muslim Brotherhood movement which has branches across the region. Sisi has called for building a unified Arab force to fight the Islamic State group that has captured territory in Iraq and Syria, and which commands an affiliate in Egypt.

Cairo has already carried out air strikes against the jihadist group inside neighbouring Libya, where IS also appears to have gained a foothold. Sisi, who has positioned himself as a bulwark against jihadists, had said investing in the Arab world's most populous country would help stabilise the entire region. On the first day of the conference, attended by global political and business leaders, Saudi Arabia, Kuwait and the United Arab Emirates pledged \$4 billion each in investment aid to Egypt. Most of the funds will be invested in projects while \$3 billion will be deposited in Egypt's Central Bank.

## At least 21 dead in Tunisia attack on leading museum

AFP, 19.03.2015



At least 21 people were killed when militants attacked Tunisia's Bardo museum, Prime Minister Habib Essid said. The death toll includes 17 foreign tourists from Poland, Italy, Germany and Spain, as well as two gunmen, a Tunisian security officer and a Tunisian cleaning woman.

Essid said two or three of the attackers remained at large. It was the first attack on a tourist site in years in Tunisia, a shaky young democracy that has struggled to keep Islamic extremist violence at bay. It wasn't immediately clear who the attackers were. Security forces filled the area around the National Bardo Museum after the attack.

Tunisia's parliament building, near the museum, was being evacuated, according to a tweet by parliament member Sayida Ounissi. Tunisia recently completed a rocky road to democracy after overthrowing its authoritarian president in 2011. It has been more stable than other countries in the region, but it has struggled with violence by Islamic extremists in recent years, including some linked to the Islamic State of Iraq and the Levant (ISIL) group. It also has extremists linked to al-Qaida's North Africa arm who occasionally target Tunisian security forces. A disproportionately large number of Tunisian recruits - some 3,000, according to government estimates - have joined ISIL fighters in Syria and Iraq.

The violence that Tunisia has seen in recent years has been largely focused on security forces, not foreigners or tourist sites. The attack is a blow to Tunisia's efforts to revive its tourism industry. The National Bardo Museum, built within a 15th-century palace, is the largest museum in Tunisia with collections covering two floors, and it houses one of the world's largest collections of Roman mosaics. The museum is near the North African country's parliament some 4 kilometers (2 = miles) from the city center. A new wing with contemporary architecture was built as part of a 2009 renovation, doubling the surface area. Some 8,000 works are displayed in the museum, according to the website.

The attack comes the day after Tunisian security officials confirmed the death in neighboring Libya of a leading suspect in Tunisian terror attacks and the killings of two opposition figures in Tunisia. Ahmed Rouissi gained the nickname of the “black box of terrorism.” The information on his death was made public by security officials giving testimony in parliament and cited by the official TAP news agency. Libya, which has devolved into chaos, is a source of major concern for Tunisia. Also a major worry is the Mount Chaambi area on the border with Algeria where al-Qaida in the Islamic Maghreb has reportedly been helping a Tunisian group which has killed numerous soldiers.

## Abe set to become first Japanese PM to address joint session of US Congress

AFP, 20.03.2015



**Shinzo Abe is expected to become the first Japanese prime minister in history to address a joint session of the US Congress.**

**Abe hopes to make the speech during a trip to the United States at the end of next month, around Japan’s “Golden Week” holiday, diplomatic and legislative sources told. The invitation has been sent, according to a congressional aide and official announcement is expected soon. Few Japanese politicians have ever addressed Congress and none have done so in a coveted joint meeting or session of the Senate and House of Representatives.**

On December 8, 1941 a joint session led to a declaration of war against Japan following the attack on Pearl Harbor. There had been some opposition to the invitation because of Abe’s stance on World War II “comfort women.” Mainstream historians say up to 200,000 women, mainly from Korea but also from China, Indonesia and other Asian nations, were forced into sexual slavery during World War II. Abe is accused of embracing a “revisionist” account of events. South Korean President Park Geun-Hye in particular has called for him to do more to address the issue. Japan says it has already apologized, offered financial compensation and psychological help to victims.

The speech is expected to echo some of the themes from Abe’s July speech to the Australian parliament. Speaking in English, he expressed humility about the “evils and horrors” of Japan’s history. Abe’s visit is also likely to push forward talks on the Trans-Pacific Partnership -- a trade deal bringing together a dozen nations including Australia, the United States, Japan, Mexico and Vietnam. Negotiators hope that by the time Abe arrives President Barack Obama will have won backing from Congress to close negotiations on the deal.

Obama is seeking so-called fast-track authority that would allow the White House to agree the deal and submit it in its entirety to Congress to ratify, without the power to make amendments. The US government estimates the country ships almost two billion dollars' worth of goods to the Trans-Pacific countries every day. But Obama faces some opposition in Congress, chiefly from within his own Democratic party, and from trade unions who worry about labor standards in the signatory countries and that jobs may be shipped overseas. If Obama gets the authority from Congress, diplomats believe a comprehensive trade deal could be signed quickly after. Abe's visit is also expected to develop closer military ties between the two countries.

Efforts are already underway to update "defense cooperation guidelines" that govern military relations. The revisions may allow Japan to come to the aid of US ships that are attacked in the Western Pacific or the South China Sea. The region is rich in oil and the subject of major territorial disputes between Russia, China, Japan, South Korea, Vietnam and others. It has also seen a considerable military buildup in recent years. The change in the guidelines comes after Japan revised the way it interprets Article Nine of its constitution - which outlaws Japan going to war. The new interpretation would allow for self-defense.

## US begins destroying its largest cache of chemical weapons

AFP, 19.03.2015



The U.S. Army began destroying the nation's largest remaining stockpile of chemical weapons, using explosives to rip open a container of mustard agent inside a sealed chamber and then flooding it with another chemical to neutralize it.

It was the first few pounds of 2,600 tons of mustard agent that will be destroyed at Pueblo Chemical Depot in southern Colorado, most of it contained in about 780,000 shells. "Everybody's really excited, but we're being cautious, making sure all the procedures are followed exactly," said Bruce Huenefeld.

Mustard agent can maim or kill by damaging skin, the eyes and airways. It's being destroyed under a 1997 international treaty banning all chemical weapons. It will take four years to destroy the Pueblo stockpile. Another 523 tons of mustard and deadly nerve agents are stored at Blue Grass Army Depot in Kentucky. Blue Grass isn't expected to start destroying its weapons until 2016 or 2017, finishing in 2023. The destruction process is safe, officials said.



Most of Pueblo's stockpile will be dismantled and neutralized in a highly automated \$4.5 billion plant built at the depot. About 1,400 damaged shells and a dozen metal bottles of mustard agent are considered unsuitable for that plant. They'll be opened with explosives and neutralized in the sealed chamber, which sits inside an airtight structure near the larger automated plant. The metal bottles contain mustard that was extracted from the shells for testing.

A single bottle was the first container to be opened and neutralized Wednesday. Crews were waiting for the neutralization to finish before draining the chamber, rinsing it and then removing the remains of the bottle. Once all the bottles are destroyed, crews will start work on the damaged shells, depot spokesman Thomas Schultz said. The automated plant isn't expected to begin work until December or January. Design and construction have taken years, and final testing and training are underway.

Mustard agent is a thick liquid, not a gas as commonly believed. It has no color and almost no odor, but it got its name because impurities made early versions smell like mustard. The U.S. acquired 30,600 tons of mustard and nerve agents, but it never used them in war. Nearly 90 percent of its original stockpile has already been destroyed, mostly by incineration. The depots in Colorado and Kentucky are using chemical neutralization because residents and officials expressed concerns about the vapor from incineration.



## Announcements & Reports

### ▶ *The Effort to Stabilise The Financial System in Japan: An Outline and The Characteristics of The Programme for Financial Revival*

**Source** : Bruegel

**Weblink** : <http://www.bruegel.org/publications/publication-detail/publication/874-the-effort-to-stabilise-the-financial-system-in-japan-an-outline-and-the-characteristics-of-the-programme-for-financial-revival/>

### ▶ *The long road towards the European single market*

**Source** : Bruegel

**Weblink** : <http://www.bruegel.org/publications/publication-detail/publication/873-the-long-road-towards-the-european-single-market/>

### ▶ *Afghanistan at Transition*

**Source** : CSIS

**Weblink** : <http://csis.org/publication/afghanistan-transition>

## Upcoming Events

### ▶ *Prospects for Democratic Reform in Swaziland*

**Date** : 23 March 2015

**Place** : London – United Kingdom

**Website** : <http://www.chathamhouse.org/event/prospects-democratic-reform-swaziland>

### ▶ *Acquisition Reform: Increasing Competition, Cutting Costs, and Out-Innovating The Enemy*

**Date** : 23 March 2015

**Place** : Washington - USA

**Website** : <http://www.brookings.edu/events/2015/03/23-dod-acquisition-policy>

### ▶ *Divided Societies, Volatile States: The Politics of Identity Post-Arab Spring*

**Date** : 24 march 2015

**Place** : Texas – USA

**Website** : <http://bakerinstitute.org/events/1695/>



► *Data-driven Government: A New Approach to Governing*

**Date** : 24 march 2015  
**Place** : Washington – USA  
**Website** : <http://www.brookings.edu/events/2015/03/11-data-driven-government-omalley>

► *Innovation in Funded Pensions in Europe*

**Date** : 24 March 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/505-innovation-in-funded-pensions-in-europe/>

► *A Fresh Start for T-TIP: Strategies for moving forward*

**Date** : 24 March 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/508-a-fresh-start-for-t-tip-strategies-for-moving-forward/>

► *Competition Policy: the Japanese experience*

**Date** : 24 March 2015  
**Place** : Brussels - Belgium  
**Website** : <http://www.bruegel.org/nc/events/event-detail/event/492-competition-policy-the-japanese-experience/>

► *Innovation Forum 2015*

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