

ECONOMICS AND SOCIAL THOUGHT RESEARCH AND DEVELOPMENT FOUNDATION (ESAGEV)

NEWS BULLETIN

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MACROECONOMIC DEVELOPMENTS

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Evaluation of Global Economic Outlook by IMF

IMF, has published its 2017 January World Economic Outlook Update including revisions of its assessments on global economic outlook and global growth forecast. Prominent data from the report are given below:

- Global growth of around 3% is forecasted for the last 3 quarters of 2016. Growth of 3.4% and 3.6% for 2017 and 2018 are expected respectively. (These forecasts are at the same level as the previous assumptions).
- A larger growth is expected in majority of developed countries, particularly in the US, compare to the one published in October 2016. Although, due to the tight financial terms in developing countries, growth forecast has been reviewed slightly downwards in these countries.
- Expectation of expansionary fiscal policy of new US Administration has been effective in such revision of economic forecasts. Moreover, expected infrastructure investments in the US could increase commodity prices as well. Although no growth forecast for Turkey is articulated in the report, a few references on Turkey are as follows:
- Due to plummeting in the income from tourism, Turkey's growth in 2016 will be much weaker compare to previous forecasts. Some depreciating currencies in the market, particularly Turkish Lira and Mexican Peso have experienced a serious decline for the last few months. These 2 emerging market economies have been the highest monetary policy rate hikers.

Credit Ratings Update of Fitch and Standard and Poor's

Last Friday, Fitch has dropped Turkey's BBB- rating to BB+ as expected by the market. With this downgrade, Turkey has lost its investment grade credit rating it received from the most prominent credit rating agencies.

While expecting Fitch's decision, surprisingly S&P has reduced our stable position into negative by not changing our credit rating (BB) that is two levels lower than an investable level. Although worsening of the rating by S&P means that there is "a possibility of additional downgrade", such a move would mean a divergence for credit rating institutions that already gave the lowest rating from other institutions. While S&P expressed that monetary policy implemented by Central Bank might be insufficient, it has also indicated its growth expectation for 2017 as 2.4%.

By emphasizing the following assessments Fitch has noted that it reduced credit rating due to the negative impact of politics over economy and that such impact would continue further.

- Political developments and security issues have entailed retarded economic performances as well as autonomy of institutions.
- If Presidential referendum passes, a system with a weakened control mechanism would emerge.
- Ongoing extraordinary situation in Turkey and pressure over media damages trust and courage of actors of economy.
- Although loss in value in TL does not impose a pressure over the current deficit, it does pose pressure on private sector.
- 2.3% growth is expected for Turkey for the period of 2016-2018.
- It appears that inflation will reach two digit numbers in 2017.

Since decline in credit rating of Fitch occurred at the time when fiscal markets were closed and the currencies were sold to a great extent, it has prevented a sudden increase in currency rates. Still, it could be said, that such ratings that are important for a great number of investment funds and foreign banks could decelerate financial capital flow to Turkey in the forthcoming

2017 Credit Rating Calendar of Credit Rating
Institutions

	Fitch	S&P	Moody's
1st Rating	January 27 2017 ✓	May 5 2017	Probable rating dates are not announced
2nd Rating	July 21 2017	November 3 2017	
Current Credit Rating and Outlook	BB+ (stable)	BB (negative)	Ba1 (stable)

months. It appears that such negative outlook will make a pressure over TL, in the period of decline of direct foreign investment and the trade surplus under the services item. FED decisions to be taken in the coming months have become more critical in terms of TL.

Outcome of the CBRT's Monetary Policy Committee Meeting

The Monetary Policy Committee (MPC) held a meeting on January 24, 2017 and determined interest rates and one week repo tender interest rates applied in interbank money markets within the Central Bank as well as Repo-Reverse Repo markets of Istanbul Stock Exchange as follows:

- Overnight interest rates: Marginal capital rates have been escalated from 8.5% to 9.25%, Central Bank Borrowing Interest Rate was kept stable at 7.25%.
- One week repo tender rate was kept stable at 8%.
- Late liquidity window interest rates: Within the scope of Late Liquidity Window, overnight lending interest rates in the interbank money markets have been increased from 10% to 11% between 16:00-17:00 pm.

In light of these developments, CBRT Weighted Average Capital Cost, i.e. CB weekly and overnight weighted average of interest, if put differently, actual interest rate applied by the CB to finance the market, continued to escalate. This cost which was 8.3% at the beginning of 2017, has reached 1.31% as of January 30, 2017.

CBRT Interest Rates (%)	Previous	New
Overnight		
Borrowing	7,25	7,25
Lending	8,50	9,25
1 week repo (Policy Rate)	8,00	8,00
Late Liquidity Window		
Borrowing	0,00	0,00
Lending	10,00	11,00

Developments regarding Currency Rates and the Measures taken by the Central Bank

Extreme vibrancy in currency rates observed lately, has triggered high risks of inflation. For the period of last 4 months starting from October 2016, Turkish Lira has lost about 30% against US dollar. Due to the late impact of the developments in currency rates, it is expected that such significant increase in inflation would continue further. Within this frame, the Central Bank decided to strengthen monetary tightening and has allowed escalation of the Central Bank weighted average cost of capital by utilising its current instruments in order to limit deterioration in inflation outlook.

The measures taken by increasing overnight marginal capital interest rate and late liquidity window interest rates through cancelling weekly repo tenders have not been sufficient to break the rising trend in currency rates. The Monetary Committee has stated that in accordance with the fundamental price stability target of the Central Bank, it would continue to use all possible instruments available, and that monetary policy of the upcoming periods would also depend on inflation trend. Pursuant to this statement, there might be implemented additional monetary tightening if such necessity occurs in the result of close observance of inflation expectations, pricing behaviour as well as other developments affecting inflation. Moreover, in case of occurrence of unhealthy price formation in the currency market, not compatible with the economical base, necessary prevention would be taken via liquidity instruments.

The Monetary Policy Committee Meeting Calendar for 2017

The Central Bank Monetary Policy Committee meeting calendar has been changed due to adoption of the law last week. From now on, the MPC, similar to the frequency of meeting in developed countries will gather at least 8 times a year, instead of once a month. In case of necessity MPC may come together by the initiative of the Central Bank President. The remaining of such meetings, the first one of which was held on January 24, will be held on March 16, April 26, June 15, July 27, September 14, October 26 and December 14 accordingly.

Selected Indexes

Economic Confidence Index In January 2017 it dropped from 89.2% to 85.7% by being decreased at 3.9% compare to the previous month. Such Economic Security Reduction was due to the security index reduction in real sector (manufacturing industry), service sector, construction and retail trade sectors. While the index of January 2007 was at the rate of 113.0, as of January 2017 it dropped to 85.7.

About labor force statistics, **employment** is at 46.2%, **labour force participation rate** is 52.4%, **non formal employment rate** is 33.9%. Overall in Turkey, a number of unemployed at the age of 15 and onwards, reached 3 million 647 in the result of newly joined 500 unemployed in October 2016, compare to the same month of the last year. Unemployment rate has reached 11.8% showing 1.3 points increase. At the same period, non-agricultural unemployment rate was assumed to be 14.1% with 1,5 point increase. While unemployment rate among young population (ages 15-24) reached 21.2 % with 1,9 increase, this rate has reached 12% with 1,3 point rise between the ages of 15-64.

DEVELOPMENTS IN FOREIGN POLICY

The Trump Administration has taken the office rapidly

The new President of the United States of America, Donald Trump has taken over the office following the inauguration held on January 20, 2017 and his first actions have been towards implementing his promises given during his election campaign. In order to withdraw from Trans-Pacific Partnership specifying the free trade principles between America and China, and an order to stem illegal immigration targeting Mexican immigrants signed by Trump, who made a perplexing start, have been suspended by one of the US Federal Courts. He also signed Executive Actions approving Dakota Pipeline Project and Keystone XL that have been vetoed by Obama within the scope of the policies on combatting with climate change and support to renewable energy. The whole world is watching the next steps of Trump carefully, whose one week agenda was quite overloaded with attempts to loosen environmental standards for strengthening the US industry and to cancel the "Obamacare" health care system with the purpose of regulating health expenditures.

Trump's Approach to International Trade

The Trump Administration and Trump's statements who signed an order to withdraw from Trans-Pacific Partnership Treaty (TPP) which has been one of the big projects of Obama, emanates signals of the "New Era". While shelving the TPP back to history, the Trump Administration gives the following messages regarding the foreign trade side of the new era: *"I will make bilateral agreements instead of global remarkable treaties of the last 30 years, such as World Trade Organization (WTO), NAFTA and TPP, and I will set the terms."*

Trump's statements with respect to review of NAFTA and to signing an extensive "free trade agreement" with England could serve as an example to this. In short, the world has entered a new current, in which global and regional free trade agreements would be questioned.

The first free trade agreement of modern history (Cobden Chevalier) was signed in 1860 between England and France. Following this Agreement, 57 bilateral agreements have been signed up until 1900s. Although, West Europe who could not compete with quality goods of Germany and the US, and had turned itself towards protective policies in the 2nd half of the 20th century.

In the aftermath of the 2nd World War, the USA being the only great economy had favoured for "global free trade" and by making a statement that it would open its markets to those who are next to it, (via GATT Agreement of 1947) pushed the global free trade. WTO was established in 1994 by 123 countries in the leadership of America. Albeit, WTO was a victim of its own success. Manufacturing hubs with high competitive capabilities, particularly China, has emerged an "unemployment fear" among the middle class of the EU and the USA. This very fear has grown after the global crisis in 2008, as a result, the trend of declining from regional treaties emerged in the USA and the EU. While the first signal of it has been Brexit, Trump became its obvious evidence.

The constituent who voted for Trump, do not want to lose more jobs to China and Mexico. Particularly steel and automobile sectors bear a symbolical importance. An emergence of Steel War with China where capacity surplus occurred in the aftermath of the 2008 crisis, is highly probable in the near future during the tenure of Trump. There is a huge steel supply surplus in China, this topic will be elaborated in the next ESAGEV Bulletin. Similarly, by stating that 35% tax will be imposed on vehicles, Trump made Mexico to worry whose largest export item is automobile.

As a result:

- The reality of world after Cold War was free trade. It appears for free trade to be impossible to survive without the leadership of the US. The USA is waiving its 70 years politics. International trade has taken a new course.
- Now signing a bilateral agreement rather than regional one has become a more realistic target; Turkey may explain a bilateral agreement alternative better rather than TTIP, to its new counterparts.
- While Trump's tax is imposed on Chinese steel, manufacture surplus will be redirected to Turkey and the EU. Due to this, Trump's politics should be watched closely.
- While the US used accusing words towards China regarding the foreign trade, it created a space for China in the region by withdrawing from TPP. The issues of China's joining TPP or signing its own regional agreement has become more vocal.
- Therefore, it is equally important to observe China's policy with respect to regional trade agreements, more closely.

President Erdoğan's Visit to Africa

President Erdoğan paid a visit to Tanzania, Mozambique and Madagascar between January 22-26. The first high level visit from Turkey was paid to the countries living in extreme poverty and dependent on international aid. Tanzania and Mozambique located in the eastern shore of Africa and the world's forth largest island – Madagascar are prominent countries in terms of business and investment opportunities in the fields of mining, transport and logistics. On the other hand, fighting with terror in the aftermath of the nefarious coup attempt, has become an important topic of the agenda during the Africa visits.

Within the scope of Opening to Africa, Turkey-Africa Summit had been organized twice, first in 2008 in Turkey and in 2014 in Equatorial Guinea. By increasing the number of Embassies in Africa to 39, Turkey is implementing significant social activities via 16 representatives of Turkish Cooperation and Coordination Agency (TİKA). President Erdoğan visited Ivory Coast, Ghana, Nigeria, Guinea, Kenya, Uganda, Somalia and Senegal last year within the margin of Opening to Africa.

UK Prime Minister Theresa May's Visit to Turkey

Visit of Theresa May, PM of the UK from the Conservative Party, to Turkey and to the US has been among important events of this week. The criticisms regarding isolation of England from global political and economic developments in case the Brexit referendum result would be towards exiting the EU have occupied the agenda. The statements of Theresa May and the US President Trump indicate a search for new trade partners other than the EU. Similar statements made by the PM of England during her visit to Turkey have bolstered such argument. On the other hand, Turkey's EU accession is being used as a strong argument prior to the exit from the Union, predominantly towards exit, that such accession would turn the local labour market dynamics upside down which is also a concern of the Ruling Conservative Party reflected on English media.

One of the agendas of Theresa May was the suspension of the technological support provided by English Company BAE Systems to developing the design of Turkey's new generation fighter jets due to the cold wind blowing between the two countries in the aftermath of 15th of July coup attempt. It may not be wrong to state that with this visit, the trade, military and political relations between the two countries will become much tighter in the forthcoming period.

A message of ceasefire consolidation and a table talk solution from Astana

Turkey, Russia, Iran, Syrian regime and opposition representatives meeting on Syria was hosted by Kazakhstan in Astana between January 23-24.

In the result of the Summit bearing an importance due to its gathering both the regime and the opposition at the same table, the joint statement signed by Turkey, Russia and Iran emphasized integrity of territory in Syria and ceasefire consolidation declared on December 29.

Moreover, it was decided to establish a trilateral mechanism with the purpose of observing the ceasefire and possible violation. While the regime representatives were pleased with the joint statement, the opposition was not satisfied with the fact that no wording criticising Iran was reflected in the document.

In the following the Summit days, Syrian Constitution distributed by Russia at the meeting has been the topic of the world agenda.

The Constitution draft which delegates part of the President's authorities to the Parliament, allegedly, included a proposal of giving autonomy to Kurds. The Russian Foreign Ministry spokesperson has stated that there was no clause regarding such autonomy in their draft.

On the other hand, upon leakage of the news to the media regarding America's works on establishing security zone in Syria and its confirmation by Trump, Russia made a statement against this and warned America to think well about the outcomes.

POLITICAL DEVELOPMENTS

The referendum process regarding amendments to Constitution.

Decree on amendments to Constitution, each clause of which was voted two times separately upon which was subject to final round of votes at the Grand National Assembly of Turkey (Parliament) and accepted with more than 330 supporting votes, is now at the stage of submission to the President's approval. The exact date of referendum which can be held minimum after 60 days following the President's approval and publication in the Official Gazette, is expected to be announced by the Supreme Election Committee this week. Currently, expectations with regard to supportive votes for the referendum as the result of polls made by various poll companies vary as 62% (ORC), 53,6% (Optimar), 52,4% (A&G), 48,7 (Sonar) and 42% (Gezici).

SOCIAL DEVELOPMENTS

Works on New Curriculum

Ministry of Education has shared new curriculum developed for primary, secondary and high schools with public on January 13, 2017 and revealed it for the review of relevant parties. The curriculum which is a product of two year hard work, has been elaborated based on the political documents bearing importance in terms of education policy, particularly, "Turkey Competency Framework", "National Education Quality Framework", "Knowledge Community Strategy", TUBITAK 2023 Vision Document". According to this, at the end of 12 year education the target for students is to acquire 13 basic skills and competencies. These skills and competencies are as follows: literacy in native language, physical education and sports competency, knowledge literacy, knowledge and communication technology literacy, science literacy, human rights and democracy sensitivity competency, mathematics literacy, learning competency, self awareness, art competency, basic life competency, foreign language literacy and competency, citizenship knowledge and awareness.

Following the most extensive curriculum development works done in 2005, achievements have been dropped to 30%. The new case shows that a significant simplification has been made in curriculum. If evaluate the curriculum objectively, which has been the topic for intense ideological discussions due to exclusion of evolution theory from biology syllabus and reducing the topics of Atatürk and İsmet İnönü in History syllabus, it could be observed that those skills and competencies required for the modern world citizen have been covered to a great extent. Apart from that, we should also not forget that at the end

of the day, curriculum is an instrument and the major actor in this process is a teacher. Therefore, it is extremely important to implement in-house training services to teachers for the curriculum to be internalized by teachers and qualitatively conveyed to students.

The curriculum which is open for the review of relevant parties until February 13, 2017, is expected to be taught to the classes 1, 5 and 9 initially, starting from an academic year of 2017-2018.

OTHER DEVELOPMENTS

Turkey Wins Gas Arbitration Case Against Iran

According to the information stated by Iran and further confirmed by Turkey, Iran will retroactively make payment of 1.9 billion US Dollar as well as provide 13.3% discount for gas sales to Turkey.

Gas purchase agreement with Iran was first made in 1996 for the period of 25 years and import of gas started in 2001. BOTAŞ proceeded an arbitration against the most expensive gas supplier of Turkey - Iran in 2012. In the result of this arbitration that lasted 4,5 years, Turkey was awarded to be paid retroactively for the years 2011-2015 and discount in current gas price. Albeit, no statement was made on how the retroactive payment will be made.

NEWS FROM ESAGEV

- ESAGEV seminars are ongoing in Hamamönü Kabakçı Konağı on every 3rd Friday of each month starting from January. The first one of the current year seminars took place on January 20, 2017 with the participation of Associated Professor M.Serdar Palabıyık (TOBB Uni) under the topic of "Thoughts on Civilization by Ottoman Intellectuals" in Hamamönü Kabakçı Konağı.
- The next Hamamönü ESAGEV Friday Interview will be held on February 17, 2017 with the Prof. Dr. Mustafa Öztürk on the theological background of the FETO.
- ESAGEV website (www.esagev.org) has been updated. Your inputs and views regarding the content will be highly appreciated.
- For receiving the news bulletin and stay tuned to our activities you may contact us through esagev.iletisim@gmail.com or through our twitter account ([@esagev_org](https://twitter.com/esagev_org)).

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