Brittle economy risk for Erdogan ahead of poll

ANKARA: At rallies ahead of Sunday's referendum on expanding his powers, Turkish President Recep Tayyip Erdogan is fond of reciting the economic achievements of his one-and-a-half decades in power. High growth rates of up to nine percent, a stream of foreign investment, ambitious infrastructure projects and precious stability that followed the near financial meltdown of its 2000-01 crisis. "We did this," the president says proudly.

But the country's referendum on whether to agree a presidential system is taking place against the background of the first sustained signs of weakness in the Turkish economy. What has so far proved a pillar of strength for Erdogan and the ruling Justice and Development Party (AKP) could prove to be an Achilles heel, economists say. Atilla Yesilada, Turkey specialist at Global Source Partners, said the weakness had added to uncertainty among some of the AKP's traditional electorate. "AKP's base is Islamist and conservative, but they are also small business owners" and current economic policy is "not good for business", the analyst told AFP.

A Turkish economist who spoke to AFP on condition of anonymity said the weak economy was "already hurting" Erdogan and the 'Yes' campaign. The economist said "winning this referendum should have been very easy" for the AKP given that in November 2015 parliamentary polls it and its allies in the Nationalist Movement Party (MHP) won a combined 62 percent of the vote. "That the polls are still extremely tight shows - at least to some extent - the impact the weak economy has," the economist added.

Tourism under strain

Last month inflation hit 11.3 percent - a level unmatched since Oct 2008 - while unemployment was 10.9 percent in 2016. Youth unemployment was even worse at 19.6 percent. The Turkish lira has lost nearly four percent of its value against the US dollar since the start of the year, the worst performing emerging markets currency so far. Yet the Turkish economy is still showing signs of the resilience that became its trademark over past years.

The Istanbul stock market has rallied this year, climbing 15.3 percent since January and reached two-month highs on Tuesday. In 2016, a year marked by the failed July 15 coup, the Turkish economy grew by a robust 2.9 percent, beating analysts' expectations. The presence of almost three million Syrian refugees and aggressive measures by the government to raise consumption have also helped provide a boost.

However growth is already much lower than the rates seen before 2011 and clouded by uncertainty over a complex restatement of the GDP statistics that has bewildered some observers. The government has blamed the weak economy on investors' 'wait-and-see' attitude ahead of the vote and reassured citizens that growth will improve. The tourism industry, with revenues that account for almost five percent of Turkey's GDP, has come under heavy strain with many visitors staying away.

After bitter tensions with the European Union in the referendum campaign and doubts over the future of Turkey's EU bid, there is also concern over the future of European investment. Yesilada warned that "all our indicators show that EU companies are becoming extremely cold towards Turkey".

'Reform appetite on the wane'

A victory for the 'Yes' vote would give a brief boost to the markets, with investors reassured by at least an appearance of stability. "If there is a 'Yes' outcome I think there would be a brief rally. In case of a 'No' there will be a sharp sell-off in particular on the stock exchange," said Yesilada. But a 'Yes' vote would do nothing to dismiss concerns over the government's willingness to embrace economic reforms to tackle a litany of looming problems.

These include Turkey's gaping current account deficit, chronically low savings rates, widespread informal work and, in the long term, the education system. The Turkish economist said a "Yes' vote would "exacerbate" the problems that Turkey faces over the medium and long term. Only one proven economic reformer - Deputy Prime Minister Mehmet Simsek - is still in the government and his position has long been in question. — AFP

News in brief

Dubai Al-Habtoor Group to build 350-m tower in Albania

TIRANA: Albania's parliament has given its approval for negotiations with a Dubai company to build a 350-m-tall tower in the capital, Tirana. The parliament's vote Thursday didn't make it clear when the government would start negotiations with Al-Habtoor Investment LLC, on the $250-million Tirana Iconic Tower project. As currently envisioned, the 25,000-sq-m tower would occupy an extension of the capital's main boulevard and house businesses and possibly Tirana City Hall. The builders would be exempt from tax payments for 15 years as an incentive. Al-Habtoor Investment is a subsidiary of a subsidiary of the Al-Habtoor Group, a conglomerate with interests in the hospitality, automotive, real estate, education and publishing sectors.

McDonald's CEO received compensation worth $15.4m

NEW YORK: McDonald's CEO Steve Easterbrook received compensation of $15.4 million last year as he worked to refresh the company's image and cut costs amid growing competition and changing tastes. Easterbrook's pay package included a salary of $1.3 million, stock and options worth $9 million, and incentive pay of $4.6 million. He also got perks such as contributions to a retirement plan and a car allowance. Easterbrook became chief executive in March 2015. For that year, his pay package was $7.9 million. McDonald's Corp has announced a series of changes under Easterbrook, including the rollout of an all-day breakfast menu in the US and plans to use fresh beef patties in Quarter Pounders. Customer visits to established US locations fell last year, though people on average spent more per visit.

Hands-off police approach for overbooked flights

NEWARK: Police at airports in the New York City metropolitan area are taking a hands-off approach when it comes to removing passengers from overbooked flights. Port Authority of New York and New Jersey Police Superintendent Michael Fedorko on Thursday issued a new policy after a passenger was dragged from an oversold United Airlines flight Sunday evening at Chicago's O'Hare International Airport. The policy says officers will not assist in the physical removal of passengers to accommodate the airline's request. Officers are to examine each instance on a case-by-case basis. The police department oversees Kennedy, LaGuardia and Newark airports.

Japan's frugal households no respite for BOJ, retailers

Top retailers cut prices to attract shoppers

TOKYO: Naruhito Nogami, a 37-year-old systems engineer in Tokyo, drives to discount stores on weekends to bulk buy cheap groceries, even though he earns enough to make ends meet and the prospects for Japan's economic recovery are brighter. "I do have money, but I'm frugal anyway. Everyone is like that. That's just the way it is," he says.

Kazuko Sato, a 50-year-old animation artist, also frequents discount chain Daiso, where most items ranging from groceries and bath towels to kitchenware sell for just 100 yen ($0.91). "I look for things here first, and if they aren't here then I go to the supermarket," she says, cradling a basket in the stationery aisle. "My job and salary are unstable so I need to be careful about my spending."

People like them have prompted some companies to embark on sweeping price cuts, showing how tough it will be to eradicate Japan's deflationary malaise despite the improving economy. It also highlights a new paradox facing the Bank of Japan: A disparity between solid growth and stubbornly weak inflation. Top retailer Aeon Co is cutting prices for over 250 grocery items this month to lure cost-savvy shoppers, and Seiyu, operated by Wal-Mart Stores, cut prices on more than 200 products from February.

"It's unthinkable for us to raise prices at this stage," Fast Retailing Co CEO Tadashi Yanai said after the owner of clothing brand Uniqlo reported flat revenue on Thursday. To be sure, many retailers say they are protecting their bottom line by offering not just discounts but high-end products. "It's not just prices consumers are looking at. They are just being selective," said Takaharu Iwasaki, president of supermarket chain operator Life Corp.

But central bank policymakers are struggling to explain why inflation and wages remain so low even as Japan's economy enjoys its third-longest recovery since World War Two. "It's a new conundrum for us," one official said. "It just shows how sticky Japan's deflationary mindset is."

TOKYO: People stand in front of an electronic stock board of a securities firm showing Tokyo's Nikkei 225 that fell 65.24 points to 18,361.60 yesterday. — AP

Demographics Drag

Japan's economy has sustained a modest recovery cycle that kicked off when Prime Minister Shinzo Abe took power in late 2012 and launched his "Abenomics" package of aggressive monetary, fiscal stimulus measures and structural reforms. A recent rebound in overseas demand has helped boost exports and output, pushing up business confidence to its highest in a year and a half, with companies upbeat on their spending plans.

Encouraged by recent positive data, the BOJ is expected to offer a more upbeat view of the economy at this month's rate review than it did last month, people familiar with the matter said. The benefits of the recovery have yet to reach households, though, despite four years of heavy money printing by the central bank and fiscal spending packages. Real wages have been largely flat despite job losses hitting a 22-year low, as firms remain wary of raising wages.

Core consumer inflation remained stuck at 0.2 percent in February, well below the BOJ's ambitious 2 percent target, as companies hold back on price rises for fear of scaring away cost-sensitive households. Japan's demographics are a key factor working against consumption. Nearly 30 percent of the population will be aged 65 or above in 2020, according to a government estimate. Living off pensions, elderly households are unaffected by any wage hikes and tend to withhold spending, analysts say. —Reuters