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INTELLINEWS

October 2020

Moody's hits Turkey with downgrade to all-time lowest rating in unscheduled move

Poland pledges bold move away from coal

Serbia and Kosovo sign "historic" economic deal in Washington

Navalny's smart voting scores rare successes in Russia's regional elections



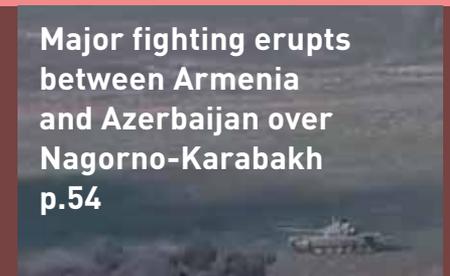
A HISTORY OF RUSSIAN CRISES



The Belarusian Banshees p.46



Saakashvili returning to fray in Georgian general election defying critics who see move as own goal p.52



Major fighting erupts between Armenia and Azerbaijan over Nagorno-Karabakh p.54

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Romania

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July 2020 Romania



Romania

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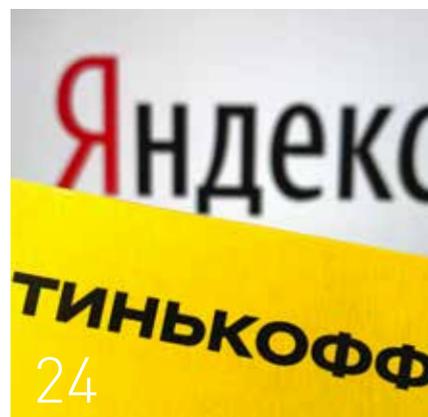
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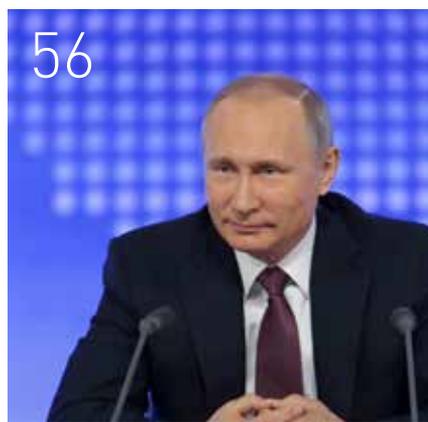
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Politics

Eastern Europe

The Russian Government has increased taxes for Russian companies registered in Cyprus and amended a double taxation treaty, as a way to force more Russian companies to move their domicile home. Aluminium producer Rusal has already re-registered in a Russian “on-shore” tax haven.

Two out of five (42%) Russians say that a merger between Russia and Belarus is a bad idea, according to the state owned pollster, the Russian Public Opinion Research Centre (VTsIOM). More than 40% of Russia’s residents do not want to unite with Belarus and prefer to keep the relations as good neighbours.

German Finance Minister Olaf Scholz offered to spend €1bn (\$1.2bn) on the construction of two LNG import terminals, in exchange for Washington dropping plans to impose extra sanctions on Russia’s Nord Stream 2 project, German newspaper *Die Zeit* reported on September 15.

Half of polled Ukrainians distrust President Zelenskiy, while just 44% still trust him, according to a survey by non-governmental think tank the Razumkov Center. Trust in Zelenskiy is sinking but he would still easily win a presidential election if held tomorrow.

Central Europe

Students of Budapest’s University of Theatre and Film Arts (SZFE) and their sympathisers protested against a decision to put their university under a body controlled by the state. Several thousands of people formed a human chain for several kilometres from the university’s building to Parliament.

Polish oil refiner PKN Orlen has pledged to become emissions-neutral by 2050, mirroring similar commitments made by other European oil and gas companies over the last year.

The state-owned company will invest PLN25bn (\$6.6bn) in clean energy projects over the next three decades.

Poland’s ruling Law and Justice (PiS) party has proposed banning fur farming causing protests by industry workers. The proposal is seen as a PiS move to become more attractive to younger voters but the party has struggled to win the support of its coalition partners.

Slovakia’s Specialised Criminal Court acquitted businessman Marian Kocner, accused of the murder of journalist Jan Kuciak and his fiancée Martina Kusnirova. The death caused nationwide protests and the government to fall.

Southeast Europe

Thousands of Bulgarian protesters bought toys from stores owned by local businessman Marian Kolev on September 3 investigated by economic police, tax authorities and market supervision authorities in what is seen as a politically motivated attack. Bulgaria is currently experiencing two months of the biggest anti-government protests for years.

Romania’s Liberal government led by Prime Minister Ludovic Orban survived a no-confidence motion submitted by the opposition Social Democratic Party (PSD), which had promised to raise pensions by 40%, double child allowances and initiate other major public spending.

Following a historic deal between Serbia and Kosovo signed in the White House, **Serbia said it will not open an embassy in Jerusalem if Israel recognises Kosovo’s independence.** US president Donald Trump sneaked a clause into the Serbian deal committing it to move its embassy to Jerusalem from Tel Aviv.

Croatian MEP Ivan Vilibor Sincic dumped dozens of watermelons outside Government House in Zagreb

as part of a protest to raise awareness of local farmers who are failing to compete with cheap imports from the EU.

Moldova’s President Igor Dodon said he will run for another term on September 9, “on behalf of the people” and he pledged to dissolve parliament if he wins.

Bulgaria will block North Macedonia’s EU accession bid if no agreement is reached on controversial historical issues between the two countries. Relations between the two neighboring countries have been strained for years.

Eurasia

Iran executed a young wrestler accused of murder despite calls from international human rights organisations for him to be spared the death penalty. Navid Afkari, 27, killed a security guard during the anti-government protests that broke out in 2018 after a sudden increase in fuel prices was introduced.

Ex-president Mikheil Saakashvili is returning to the fray in Georgia’s general election defying critics who see move as own goal. He will run for office for Georgia’s main opposition party United National Movement (UNM) in the October 31 parliamentary election.

Fears are reportedly growing in China that the bubonic plague could spread into the country from Mongolia, which has reported its third fatality this year. The infection and death rates from the plague in Mongolia are at their highest in a decade.

Joe Biden has said that he is “ready to walk the path of diplomacy” with Tehran to lift US sanctions if he wins the November US election if Iran returns to strict compliance with the nuclear deal. Iran’s stockpile of enriched uranium now stands at more than 10 times the limit set down in the 2015 nuclear deal.

Economics

Eastern Europe

The Central Bank of Russia (CBR) reported a current account surplus of \$23.3bn in 8M20, down from \$24.6bn seen in 7M20, making a deficit of \$1.3bn in August 2020 alone. Sberbank CIB on September 10 attributed the current account deficit in August to expatriation of dividends received in July and August, which caused a serious income payment deficit.

The Russian Finance Ministry reported a RUB1.69 trillion (\$617bn) budget deficit for 8M20 and RUB0.3 trillion deficit for August alone, with the deficit continuing to narrow since June.

Central Europe

The Czech Ministry of Finance expects the Czech economy to decline by 6.6% this year and to return to growth in 2021 at 3.9%. The Czech economy will not return to pre-coronavirus pandemic figures until 2023 says the ministry. The government is expecting a deficit at 6.4% of GDP and government debt will increase to 39.4% of GDP. Last year, public finances were in surplus.

An increase in the average annual temperature will have a positive impact on the Czech economy, a recent study of the economics of climate change by Deloitte showed. In the warmest scenario, Czech GDP is projected to see an increase of 0.44% by 2050. Agriculture would be the only negatively impacted sector.



Slovak inflation is at the lowest level since July 2017 at 1.4% in August. Core inflation was to 1.5% and net inflation 1.3%, according to the Slovak Statistics Office.

One third of Czech industrial companies plan to lay off employees, while others are taking a wait-and-see approach. More than 279,000 people were out of work in Czechia at the end of August, which was the highest figure since 2017. The unemployment rate remained unchanged at 3.8%.

The Czech state budget deficit increased to CZK230.3bn (€8.7bn) at the end of August, up by CZK25.2bn from July's CZK205.1bn, which already was the highest debt recorded in the country's history, according to the Czech Ministry of Finance. The budget figures at the end of August show that the deficit for 2020 should be lower than planned at CZK400bn-450bn.

Hungary's general government deficit, excluding local councils, was HUF96bn (€273mn) in August, a major improvement from the HUF330bn shortfall in July and the HUF780bn deficit in June, according to the finance ministry. Despite the improving data, the deficit at the end of August reached HUF2.26 trillion, which is six times higher than the government's initial target of HUF367bn and four-fold the HUF511bn shortfall in the base period.

Southeast Europe

Bulgaria's seasonally adjusted GDP decreased by 8.5% year on year in the second quarter of 2020 after expanding by 2.4% y/y in the previous quarter, according to the statistics office. Compared to the previous quarter, the economy contracted by 10%.

Retail sales in Romania were the strongest in Europe, up by 4.8% y/y in July when they nearly reached pre-crisis levels, according to the statistics office INS. The 3.9% annual growth rate

adjusted for workdays and seasonality were better than the EU average of 0.8% average annual decline.

Serbia posted a consolidated state budget deficit of RSD330.35bn (€2.81bn) in the first seven months of 2020, reversing a RSD39.15bn surplus posted a year earlier, according to finance ministry. The government has set a modest deficit target of RSD20.2bn, equal to 0.3% of the projected GDP for 2020, but this will have to be adjusted due to the coronacrisis.

The Turkish lira fell to a fresh all-time low of under 7.5 to the dollar in mid-September. Turkey's finance minister Berat Albayrak told Bloomberg that Turkey can capitalise on the legacy of this year's global health crisis by putting a competitive lira at the heart of a new strategy to move toward a more export-focused economy. The lira is down over 20% against the dollar this year.

Eurasia

The gross inflow of foreign direct investment (FDI) into Kazakhstan's economy was \$3.6bn in 1Q20, analytical agency Finprom said. The first quarter accounts only for FDI received prior to the introduction of major lockdown measures against the ongoing pandemic and the resulting economic decline in the country.

Iran's GDP contracted 3.5% y/y during 1Q20/21 of the Persian calendar year (March 20 to June 20), according to the Statistical Centre of Iran (SCI). A double whammy of inflationary pressure, US sanctions and coronacrisis.

Georgia's GDP contracted by 5.5% y/y in July, marking the country's smallest annual contraction in a month recorded since the start of the coronacrisis. The economy contracted by 5.8% year-on-year according to Geostat.

Business

Eastern Europe

Russian environmental watchdog Rosprirodnadzor fined metals major Norilsk Nickel RUB148bn (\$2.1bn) for environmental damage in the Arctic caused by a massive oil spill accident, which cut its profit to zero this year.

China's Skyrizon company has notified Ukraine that it will launch international arbitration after it blocked a deal to take over the Motor Sich aircraft engine factory. The Chinese firm bought 56% of Motor Sich shares in 2016. Skyrizon is demanding \$3.5bn in damages for being unable to enter the factory complex for the last four years.

The world's cheapest e-car Zetta was cut off from Russian state financing. Zetta's (Zero Emission Terra Transport Asset) production has been postponed after the state Fund of Industrial Development (FRP) cut off funding.

Yandex announced that it plans to reintegrate its Beru marketplace into Yandex.Market, which will cater for the entire purchase process from warehousing to communicating with customers. The e-commerce marketplace now has more than 7,000 suppliers, while the Yandex.Market price comparison platform services about 25,000 clients.

Creative Russian industries account for 4.4% of GDP, or RUB4.8 trillion (\$64bn) according to the Agency of Strategic Initiatives, and at 6.3% of GDP in Moscow alone. That is much higher than the global average 2.5% of GDP. Moscow employs about 0.3mn people in creative industries.

Central Europe

Estonian company Eleon and Chinese industrial group Chinese State Shipbuilding Corporation (CSSC) have signed a second agreement on the manufacture of wind turbines.

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Manufacturing operations are to start in the final quarter of next year.

Czech billionaire Daniel Kretinsky and his Slovak business partner Patrik Tkac's EP Global Commerce Group (EPGC) has made a new offer to increase its share in the German retailer Metro. Kretinsky and Tkac became the largest shareholder in Metro in 2019, owning 29.99% of the company, but the board is resisting their hostile take over bid.

All three domestic mobile operators in Czechia have officially challenged the terms of the frequency auction for fast 5G networks, the Czech News Agency reported. They say the conditions are discriminatory and are also concerned about the low maximum frequency allocation which is the lowest in Europe and does not allow gigabit speeds.

Southeast Europe

Swedish furniture giant Ikea is looking for more than 300 staff for its first store in the Slovenian capital Ljubljana, due to be opened later this year. Ikea laid the foundation stone of its first store in Slovenia on October 17 last year.

Romania-based carmakers Dacia and Ford produced almost 59,500 cars in July-August, up 10% compared to the same period last year, according to the Romanian Automobile Manufacturers Association. The growth was driven by Ford's factory in Craiova, which is working at full capacity again.

The value added generated by Romania's IT&C sector increased by 10.4% y/y in 2Q20, defying a 10.5% GDP contraction. Romania has a strong IT&C sector with major international companies entering the country, attracted by the skilled workforce and relatively low costs.

Croatia's tourism sector outperformed several rival destinations in the Mediterranean region in July, with foreign tourist arrivals reaching 50% of

last year's level. For the first seven months of the year arrivals were at just 32% of last year's level, however, Croatia was quick to open up to international tourists once travel restrictions were eased.

Turkey's airlines need \$750mn to survive 2020 and \$2bn next year, Mehmet Nane, CEO of the country's leading low-cost carrier Pegasus Airlines (PGSUS), told Bloomberg. The airlines have reported derivative losses on jet fuel hedges due to tumbling oil prices.



Eurasia

Turkish company Dalsan has launched a wet wipes production plant in the Ontustik special economic zone in Kazakhstan's Shymkent city, Kazakh Invest national investment promotion agency said. The new factory targets the domestic market countries of the Eurasian Economic Union (EEU).

Uzbek garment-textile exports rose by 112% to \$1bn in the first half of 2020 as new markets opened up and new products were developed, Fibre2Fashion.com news website reported. Exports went to 57 countries, including Russia (39% of exports), China (18%), Kyrgyzstan (13%) and Turkey (12%).

Afghanistan and Uzbekistan signed a 10-year agreement on exporting Uzbek electricity following construction of a 500-kilovolt power transmission line with the Asian Development Bank's (ADB's) financial support. The new transmission line will allow the export of 4.25 GW of power per hour to Afghanistan rising to 6 GW later.

Finance

Eastern Europe

Russia's Rosstat revised its 2Q20 GDP estimate up from an 8.5% contraction to 8%. Rosstat said the change was due to new reporting from certain enterprises and the Bank of Russia. The financial sector was less affected by the coronacrisis and in fact grew 6.1% y/y in the quarter and typically submits reports later than other sectors.

Russia's finance minister Anton Siluanov says the government increased its borrowing to finance anti-crisis measures as promised. Russia's public debt will near 20% of GDP by the end of 2021, up from 12.2% of GDP at the end of 2019. The all time low was 6.5% set in 2008.

Belarus' Finance Ministry may place RUB10bn (\$133mn) worth of government bonds on the Russian financial market before the end of this year, Deputy Finance Minister Andrei Belkovets told Cbonds in an interview.

Central Europe

Czechia will receive €305mn from the EU to support self-employed people who have been affected by the coronavirus (COVID-19) pandemic, the European Commission reported on September 9.

Hungary issued €500mn of Samurai bonds in four tranches, the first foreign sovereign issuer of the Japanese bonds, according to Finance Minister Mihaly Varga. A third of the bonds were Green Samurai bonds. Japanese investors subscribed 80% of the issue.

The European Investment Bank (EIB) has granted Poland an anti-coronavirus loan of €650mn. The loan is to "strengthen Poland's emergency response system and pandemic preparedness, with a focus on health and civil protection," the EIB said.

Trading volumes on the Warsaw Stock Exchange's main equities market were up 6.9% y/y to PLN17.5bn (€3.94bn) in August. The bourse's main WIG index stood at 51,629.45 points, down 9% y/y in August and down 16.69% YTD.

Southeast Europe

Bulgaria's government on September 9 gave the go-ahead to use funds from the EU's temporary wage support mechanism SURE to mitigate the negative social-economic repercussions of the coronacrisis. The government said in August that it would borrow up to BGN1bn (€511mn) from the SURE mechanism to protect 250,000 jobs.

The European Commission (EC) approved an investment worth €875.5mn from the Cohesion Fund to building the first stage of the Sibiu-Pitesti motorway in Romania, the first motorway crossing the Carpathian Mountains. Romania will add to the EC's contribution with €485mn to finance the first stage of the project, estimated to cost €1.33bn.

The European Central Bank (ECB) has extended its euro liquidity lines for the Croatian National Bank (HNB) to the end of June 2021. The HNB can borrow up to €2bn from the ECB in exchange for Croatian kuna through a swap line agreement.

Moody's Investors Service downgraded Turkey by one notch to B2 with negative outlook, taking it to five notches below investment grade in an unscheduled rating action on September 11.

The EBRD is maintaining its focus on expanding access to finance for Turkish businesses, with a new \$54mn loan to Isbank, the largest private lender in Turkey. The funds are for Turkish businesses suffering from the coronacrisis. The EBRD has already invested more than €1bn in Turkey this year.

Eurasia

Kazakhstan's central bank sold \$681mn from the Central Asian nation's rainy-day National Fund on the domestic market in August to help prop up the Kazakh currency, the tenge.

The EBRD will provide \$20mn to Uzbekistan's biggest commercial bank Bank Ipak Yuli to support SMEs and domestic companies active in international trade, according to the bank.

Investors have reacted negatively to Rio Tinto and Turquoise Hill's plan to borrow up to \$500mn to develop their giant Oyu Tolgoi copper mine in Mongolia. Turquoise Hills shares fell 23% in New York on the news, slashing the market value of the company to \$1.75bn.

The Iranian rial (IRR) has again been trading at a series of fresh all-time lows against the dollar on the free market. The IRR versus the USD fell to a nadir of 269,000 on September 13, but recovered to 262,700 by the end of trading on September 14. The rial has lost almost exactly half of its value against the dollar to date in 2020.



Uzbekistan's state hydropower company Uzbekhydroenergo has taken a 25-year loan worth \$60mn from the Asian Development Bank for construction of three new hydropower plants on the Aksu River. Uzbekistan's energy strategy aims to generate a quarter of its power from renewable sources by 2030, including 3.8 GW of hydro energy.



Belarus top supermarket Eurotorg saw revenues for 1H20 down by 2.4% to just over \$1bn, but those in local currency up by 7.5%

Belarus top supermarket Eurotorg brushes off the coronacrisis with revenues down only 2% in dollar terms in 1H20

Ben Aris in Berlin

Belarus' largest food retailer Eurotorg (aka Euroopt) Holding managed to brush off the coronacrisis and put in a decent set of results for the first half of this year that showed only a small decline in revenues in dollar terms, but an increase in local currency terms.

Eurotorg's revenues fell by 2.4% year on year to \$1.1bn in equivalent dollar terms in January-June 2020, the company said, citing audited operating results on September 8.

Eurotorg has built up a 19% share of the Belarusian food retail market as of the end of 2019. The company's business was launched in 1993 in Minsk and by the end of June this year, Eurotorg operated 879 stores of various formats (hypermarkets, supermarkets and convenience stores) in the food segment in 325 settlements.

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However, the company's revenue in national currency terms increased by 7.5% up to BYN2.6bn. The loss in hard currency terms was due to the depreciation of the BYN, which is down by 20% on the dollar year to date as of September 8. Although the value of the ruble is down, net retail sales in Belarusian ruble terms were up by 6% to BYN2.4bn.

Eurotorg runs a nationwide chain of supermarkets that cater to the general population and has been growing rapidly for years. As it provides two out of ten Belarusians with staple products, its business has been more robust than most and able to weather the worst ravages of the coronavirus (COVID-19) epidemic that has raged in Belarus unchecked.

Like its Russian and Western peers, Belarus' shoppers have increasingly gone online to buy food and drink, where sales

got an extra boost. The total revenue of the company's online services increased by 30.8% to BYN141mn (\$60.4mn), which is 6% of net retail revenue.

EBITDA increased by 24.1% to BYN195.6mn (\$83.8mn). EBITDA margin increased by 1 percentage point to 7.6% due to a reduction in administrative and selling expenses.

The press release notes that the gross margin for the first half of the year decreased by 0.2 pp for a decline of 25%. The company attributed the decline in margins to the expansion of wholesale operations and the effect of the closure of its drug stores. Net profit fell to 3% largely due to the FX effects. At the same time, the adjusted net profit margin was 2.8%, an increase of 1.6 pp.

Debt ticks up, but remains a golden investment opportunity

As one of Belarus' most attractive privately owned companies in October 2017 it launched Belarus' first ever corporate eurobond issue, raising \$340mn with a bond that matures in 2022 and pays a coupon of 8.75%.

The company then followed up a year later in October 2018 and attempted to launch a \$300mn IPO on the London Stock Exchange (LSE), the country's first ever public listing. While there was some interest, the offer was withdrawn a month later due to insufficient interest from investors.

While its appeal to London-based investors has been capped, the company is a lot more familiar to Russian investors, and it issued a RUB5bn five-year bond on the Russian securities market in June last year and then followed up with a RUB3.5bn (\$52.7mn) syndicated loan facility agreement with a consortium of Russian banks in August.

Eurotorg's bonds make it the only privately owned tradable security in the country and analysts say the current crisis has created a golden investment opportunity.

As of June 30, 2020 the company's total debt had reached \$589.8mn, an increase of 1.8% since the end of 2019. In the

national currency equivalent, the debt increased by 16.1% to BYN1.42bn. The company's net debt amounted to \$489.2mn as of June 30 (an increase of 11.3% over the half-year).

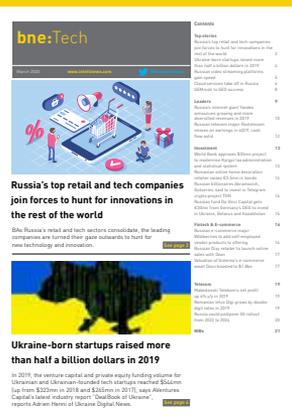
"Due to the company's focus on constant optimisation of the loan portfolio," the share of short-term debt remains at a low level of 6.7% of total debt as of June 30, the company said in its press release. "At the same time, the company notes a high liquidity reserve. So as of the reporting date, the volume of undrawn credit lines amounted to about \$300mn in equivalent," Eurotorg added.

"The company showed strong results for the first half of 2020, despite serious challenges in the form of the coronavirus pandemic. Even in these conditions, we were able to continue expanding the store network in accordance with the strategy of low-cost growth, strengthened our leadership in the retail market in Belarus," the company's general director, Andrey Zubkov, said in the press release.

"Eurotorg's bonds make it the only privately owned tradable security in the country and analysts say the current crisis has created a golden investment opportunity"

The general director also commented on the impact of the internal political crisis in Belarus on Eurotorg. "As you know, the situation in Belarus in recent weeks has not been easy, but it does not affect the operation of the chain's stores, and our activities continue as usual," said the general director, noting that the company intends to "continue to work as usual".

The official exchange rate for September 8 is BYN2.6665 to the dollar. ●



Russia's top retail and tech companies join forces to hunt for innovations in the rest of the world

Ukraine-born startups raised more than half a billion dollars in 2019

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We have launched a new publication bneTech

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Questions raised over veracity of Russia's Sputnik V coronavirus vaccine test data

Ben Aris in Berlin

A group of international doctors has written to the British medical magazine *The Lancet* raising questions about the veracity of the data presented in a recent paper that showed the Russian Sputnik V vaccine was “100% effective” in Phase II trials.

Russia has rushed through the registration of the vaccine and intends to give it to those in high-risk jobs, such as health workers, in October. A general roll-out of the vaccine is planned for early in the New Year after Phase III trials are completed.

On August 11, Russia became the first country worldwide to register a vaccine against the coronavirus (COVID-19). It was named Sputnik V and prepared by the Gamaleya National Research Center. It passed Russian clinical trials in June-July. It is based on a known platform previously used to fight Ebola. On August 15, the Healthcare Ministry announced the production launch of the preparation. On September 8, the first batch of the vaccine was released for civilian circulation.

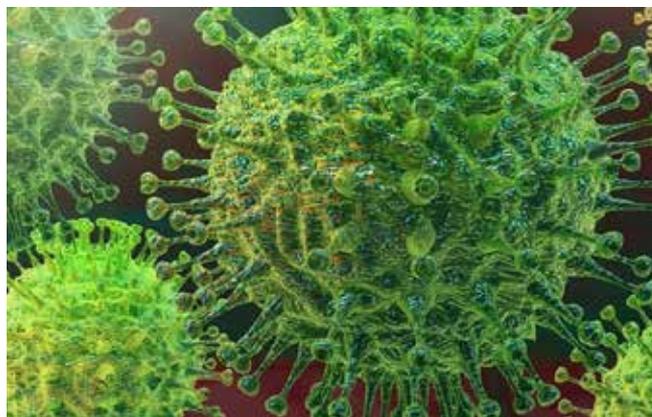
Russia has drawn heavy criticism for rushing the test and the fast-track registration of the vaccine that has as yet not been fully tested. However, now there is some evidence to suggest the data from the Phase II trials may have been falsified.

The researchers flagged concerns over seemingly identical levels of antibodies in some of the small number of study participants who were inoculated with the experimental vaccine. They also identified other problems with the statistical distribution patterns of the results in the study. The numbers in a study like this should be random but mathematical technics can be used to test the randomness of the distribution of the numbers and identify patterns that usually mean the results have been tampered with.

The scientists wrote an open letter headed up by Temple University Professor Enrico Bucci. It was signed by more than a dozen other scientists.

The Lancet published results of the early-stage trial in the

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Phase II trials of Russia's Sputnik V coronavirus vaccine were “100% effective” but now some doctors have highlighted peculiarities in the accompanying data.

first week of December, offering a first look at the Russian study to be vetted by outside experts.

“We have shared the letter directly with the authors and encouraged them to engage in the scientific discussion,” *The Lancet* said in a statement as cited by Bloomberg.

The Gamaleya Research Institute of Epidemiology and Microbiology and the Russian Direct Investment Fund, which are developing the vaccine, said the data was not manipulated.

The vaccine development is being funded by the Russian Direct Investment Fund (RDIF), which hopes to capture up to a third of the estimated \$75bn market for a working vaccine.

“If mass vaccination goes to plan, Russia will see an end to COVID-19 by next summer”

RDIF intends to sell 32mn doses of Sputnik V to Mexico, with deliveries starting in November, the sovereign wealth fund said in a statement on September 8. It has also promised doses to Belarus, Uzbekistan and Kazakhstan. Turkey, meanwhile, is considering a request to conduct Phase III trials.

More than 20 countries have requested over 1bn doses of Russia's vaccine despite safety concerns raised by health experts.

The important large-scale Phase 3 testing that will study 40,000 volunteers over 180 days began on September 8, the Health Ministry said in a statement. A total of 10,000 of the trialists will take placebos. The first results from the Phase III study may be published in October or November, according to the RDIF.

Sputnik V is one of three vaccines that have made it through Phase II testing, while US competitor AstraZeneca has

announced it has halted trials of its vaccine after one of the test subjects became ill.

“Sputnik is a human vaccine, while AstroZeneca’s is a monkey vaccine,” Kremlin spokesman Dmitry Peskov said on September 8 on a conference call. “Our scientists believe that the human vaccine is much more reliable in this regard.”

Even though the Phase III trials have only begun, the RDIF has already started manufacturing the vaccine in bulk, with the first deliveries due to be dispatched in November and December, the Russian Healthcare Minister Mikhail Murashko said on September 7 during a working visit to Arkhangelsk.

The minister noted that now it is also important to begin inoculation against the flu and that the Arkhangelsk Region has already received batches of this vaccine.

The ministry's announcement follows a flurry of reports saying that several high-level Russian government officials have received the Sputnik V vaccine and have made public appearances in good health.

The state-run Gamaleya epidemiology and microbiology research centre that developed Sputnik V has estimated that it would need to produce 80mn doses to achieve mass immunity in Russia.

Russia has officially reported more than 1mn coronavirus infections and almost 18,000 deaths since recording its first case in March.

If mass vaccination goes to plan, Russia will see an end to COVID-19 by next summer, Alexander Gintsburg, the director of Moscow's Gamaleya Centre, said on September 8.

Gintsburg believes the world will only be able to defeat the pandemic after mass vaccination, which he thinks can happen within a year. Until then, he predicts that society will be engaged in "constant battles" with the virus.

"We'll only be able to say that the pandemic has receded when we've produced the required amount of vaccine and vaccinated the entire population of our country and part of the globe," he said as cited by RT. ●

Poland plans to curb electricity sales via power exchange to help coal industry

bne IntelliNews

Poland wants to reduce power companies' obligation to sell electricity via the power exchange TGE in order to curb energy imports that are hurting the domestic coal industry, the government has hinted.

Poland's coal is the main source of electricity in Poland, dominating the country's energy mix with a share of nearly 75%. At the same time, Poland's huge mining sector – employing close to 100,000 people – is inefficient and loss-making while EU climate regulations and the rise of renewable power are limiting demand for coal year by year.

State-controlled Polish power companies have long turned to cheaper imported coal as they are themselves squeezed by the rising price of carbon dioxide (CO2) emissions, which the EU has a plan to all but eliminate by 2050.

Polish mining companies – which are mostly state-run as well – have also long demanded the state does something to curb



coal imports so as to improve demand for domestic coal.

The mining unions are negotiating with the government a reform of the mining industry that would save jobs and at least slow down the decline of coal as Poland's staple fuel.

The idea to limit power sales through TGE came up last Friday after another round of talks. “The withdrawal from obligatory energy sales through the power exchange ... will limit imports and increase its production in domestic power plants,” the state assets ministry said in a statement.

Experts are saying, however, that limiting power trading on the TGE can do little to limit energy imports to Poland as long as the Polish market is more expensive than neighbouring ones. Wholesale power prices were at PLN250 (€57) per megawatt-hour (MWh) in late 2019, compared to just PLN160 per MWh in Germany for example. ●

Iran earmarks 1% of SWF to stabilise stock market

bne IntelliNews

Iran has earmarked 1% of its sovereign wealth fund (SWF) to stabilise the country's stock market, the main index of which has lost over a fifth of its value in a month, triggering anxieties that further falls are ahead, the semi-official Mehr News Agency on September 8 reported government spokesman Ali Rabiei as saying in a press conference.

The capital injection would be made on September 12, he added. The report didn't give details of how the mechanism would work.

The Tehran Stock Exchange's main index, the TEDPIX, closed September 8 down 2.31% at 1,570,001. Shares rose to a record high of 2,065,114 on August 9.

Iran's SWF, the National Development Fund, was established in 2011 and draws most of its capital from oil income. It hasn't published data on its size since the US reimposed heavy



Some sovereign help is on the way for the Tehran Stock Exchange.

sanctions on Iran in 2018. In May 2016, Mehr said it stood at \$80bn, according to Bloomberg.

Despite the hammering the Iranian economy has taken in the past two years from US sanctions and more lately from the coronavirus (COVID-19) crisis, many Iranians have sought refuge in the country's stock market – high inflation and a collapsing local currency cause those who hold cash to lose money at a rapid pace, thus wagering on the TSE is seen as offering a hedge against this risk with assets that remain liquid, partly thanks to the government's commitment to back the bourse via its privatisation programme. Nevertheless, there are those who say the exchange's benchmark index, the TEDPIX, is a bubble that has gone much too far and threatens to explode over the heads of somewhat desperate investors with a juddering correction.

The TSE rally was partly driven by a government decision to sell state assets worth around \$2bn to raise funds to assist in the fight against the coronavirus. ●

Uzbekistan wins deals to produce Nike, Adidas footwear

bne IntelliNews

Uzbekistan is set to launch production of Nike and Adidas sports footwear in Andijan Region. The country's Uzcharmsanoat Federation has signed multiple deals with the brands, its head Fahriddin Boboyev told the local *Economic Review* (Ekonomicheskoye Obozreniye) magazine.

The agreements are in line with Uzbekistan's overall goal to develop its textile industry, shifting focus away from plain and simple exports of raw materials used in the textile sector, such as cotton. Uzbek garment-textile exports rose by 112% to \$1bn in the first half of 2020 as new markets opened up and new products were developed, Fibre2Fashion.com reported earlier this month.

Uzbekistan has a significant volume of quality leather alongside a relatively cheap workforce which will allow the country to produce clothes for more international brands in future, Boboyev said. He noted that Uzbekistan was seeking to become a clothing and footwear production hub in Central Asia.

"The agreement was reached with Nike and Adidas on entry into our market. Production of sports shoes will be established in the Andijan region," Boboyev said.

"The plant of the Sino International joint venture plans to produce 3mn pairs of shoes of these brands," he added.

Processing harvested cotton

The Uzbek government is aiming to domestically process all of its cotton harvested in the country by 2025, Boboyev added. This would allow Uzbekistan to raise its textile products exports to \$7bn per annum, officials believe. Tashkent has previously announced plans to spend \$918mn on 77 projects in the textile industry by the end of 2019. Uzbekistan's annual cotton harvest currently stands at just below 3mn tonnes.

Uzbekistan has increased the proportion of value-added finished products such as knitwear and readymade garments to 51% of its textile exports, local media reported. The country has also begun exporting new products such as protective masks and clothing.

In 2018, the government announced a decision to create a free economic zone focused on producing sportswear and sports equipment in Tashkent Region. It hoped such a zone could attract a number of international brands, including Adidas, Reebok, Nike, Li Ning, Eleiko, Janssen-Fritsen and Gymnova, among others.

French company Atkorschultz in 2019 launched a \$8.5mn

footwear production plant in Uzbekistan's Ferghana Region with the intention of producing high-quality men's, women's and children's shoes made of "genuine leather". The plant's capacity stands at 1mn pairs of footwear.

Cotton Campaign's RSA

Last month, Cotton Campaign, which over many years has led the international boycott against Uzbek cotton and textiles in an effort to end all forced and child labour in the cotton fields, presented a new responsible sourcing agreement (RSA) framework. The agreement would facilitate responsible sourcing of cotton and cotton products by global brands and their suppliers and simultaneously provide monitoring of the cotton production process; capacity building for cotton and textile clusters, farmers, and workers; an enforceable grievance mechanism; and supply chain transparency. This could benefit both Uzbekistan's cotton exports and textile sector exports for goods that rely on Uzbek cotton.

Uzbekistan says it has made huge progress in stamping out forced and child labour in the cotton fields in the past three years and is hopeful that all boycotts against its cotton and textiles products will be lifted in the not-too-distant future. ●

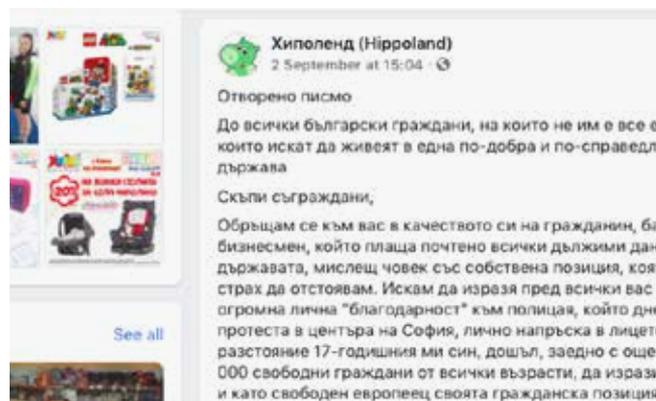
Bulgarian protesters go toy shopping to support local businessmen targeted by authorities

Denitsa Koseva in Sofia

Thousands of Bulgarian protesters bought toys from stores owned by local businessman Marian Koley on September 3 after reports that he became the subject of probes by the economic police, tax authorities and market supervision authorities under the direct supervision of the prosecution the day after he wrote a critical post on Facebook related to police violence at protests.

Bulgaria is going through the biggest political crisis for years as for two months hundreds of thousands of people have been flooding onto the streets of Sofia and several other towns, demanding the resignations of the government and of chief prosecutor Ivan Geshev who have been accused of corruption and involvement with controversial politicians and businessmen.

On September 2, the protests turned violent when the police used pepper spray and tear gas, while alleged provocateurs



among protesters were throwing smoke bombs, fireworks and other missiles at the police.

Koley, the owner of Hippoland, a Bulgarian chain of toy stores, wrote a post on Facebook, "thanking" the police for spraying his 17-year-old son who had not provoked them in any way.

"Thank you, Mr. Policeman, for nearly blinding a 17-year-old boy who was not threatening you in any way, spraying him not with ordinary tear gas that has short-term effect, but with a chemical weapon that could cause permanent damage. And it is not an accident that so many people were injured, taken away by ambulances or are still lying on the streets," Koley wrote in an open letter published on Hippoland's Facebook page.

He used the same irony against the interior minister for ordering the police to tear gas innocent people.

The next day, Kolev's offices were raided by state authorities, which provoked outrage among protesters. Later on the same day, the probes were ended, but thousands of people decided to buy toys from Hippoland to stand beside the businessman and show they do not tolerate the pressure put on him apparently due to his critical position.

Meanwhile, Kolev said in an interview with Radio Free Europe on September 5 that a businessman allegedly related to the controversial businessman and MP Delayn Peevski has proposed to acquire 50% of Hippoland and threatened Kolev that, should he refuse to sell the stake, his business will be ended in minutes.

Peevski, along with ethnic-Turk Movement for Rights and Freedoms (DPS) whose member he is, and the party's chairman of honour Ahmed Dogan have become synonym of corruption and murky deals with those in power.

"I do not know [the businessman related to Peevski Aleksandar] Staliyski and Peevski. I had a proposal for acquisition of my business by an associate of Staliyski and subsequently one of those related to Stalyksi has allowed himself to warn that, if I protest, my business will go bankrupt in five minutes," Kolev said in the interview.

On September 5, Kolev said that Interior Minister Hristo Terziyski called him and said he was not aware of the probes.

Pressure on those critical of the government of Prime Minister Boyko Borissov and of Geshev is not new. The wave of protests was sparked by a similar initiative, but against President Rumen Radev, at the beginning of July. This was seen as attempt by Geshev to put pressure on Radev, who is a loud critic of Borissov's government. ●

Moody's hits Turkey with downgrade to all-time lowest rating in unscheduled move

Akin Nazli in Belgrade

Moody's Investors Service has downgraded its rating on Turkey by one notch to B2, taking it to five notches below investment grade, while maintaining the Negative outlook, the rating agency said on September 11 in an unscheduled rating action.

The action was prompted by the recent deterioration in Turkey's external fundamentals. It made a balance of payments crisis more likely and therefore put pressure on the previous B1 rating, Moody's noted.

In June, Moody's passed a scheduled rating review for Turkey with no action.

In August, it warned Turkey over its erosion of reserves.

On September 8, Moody's rating committee was assembled to discuss Turkey's rating, the rating agency said on September 11.

The main points raised during the rating committee discussion, as noted in the Moody's September 11 statement, were:

- The issuer's economic fundamentals, including its economic strength, have materially decreased.
- The issuer's institutions and governance strength have materially decreased.
- The issuer has become increasingly susceptible to event risks.
- Other views raised included: The issuer's fiscal or financial strength, including its debt profile, has not materially changed.

Moody's cited three key drivers for the downgrade:

1. Turkey's external vulnerabilities are increasingly likely to crystallise in a balance of payments crisis.
2. As the risks to Turkey's credit profile increase, the country's institutions appear to be unwilling or unable to effectively address these challenges.
3. Turkey's fiscal buffers are eroding.

The maintenance of the negative outlook reflects Moody's view that fiscal metrics could deteriorate at a faster pace in the coming years.



"Who'da hell are you yaa?" [by @mcllkk]. Turkish President Recep Tayyip Erdogan's critics didn't take long to respond to the latest sour economic news.

It also reflects the downside risks associated with the authorities' inadequate reaction function, which makes Turkey more likely to suffer a full-blown balance of payments crisis in the coming years.

Finally, it reflects elevated levels of geopolitical risk on several fronts.

Moody's also lowered Turkey's foreign currency deposit ceiling by one notch to Caa1, two notches above default and seven notches below investment grade, from B3.

The short-term foreign currency bond ceiling and short-term foreign currency deposit ceiling both remain unchanged at Not Prime (NP).

Ceilings generally act as the maximum ratings that can be assigned to a domestic issuer in Turkey, including for structured finance securities backed by Turkish receivables, Moody's noted.

The alignment of the foreign currency bond ceiling and the government bond ratings reflects Moody's view that exposure to a single, common threat – loss of external confidence and capital – means that the fortunes of public and private sector entities in Turkey are, from a credit perspective, increasingly intertwined.

In the below, *bne IntelliNews* relays some of what Moody's is saying.

Likelihood of BoP crisis

Turkey's foreign currency reserves have been drifting downward for years on both a gross and a net basis but are now at a multi-decade low as a percentage of GDP because of the central bank's unsuccessful attempts to defend the lira since the beginning of 2020.

Gross foreign exchange reserves (excluding gold, in line with Moody's methodology) were at \$44.9bn (as of September 4), marking a decline of more than 40% since the beginning of the year.

Turkey has tried a number of measures to increase gross reserves – including a tripling of the country's swap line with Qatar to \$15bn and increasing banks' reserve requirements – but by any measure there is an exceptionally low buffer when measured against upcoming external debt payments.

Moody's forecasts that the country's external vulnerability indicator (EVI), an indicator of the adequacy of foreign currency reserves to cover external debt repayments and non-resident deposits, will rise from 263% in 2019 to 409% in 2021, which represents heightened exposure to changes in international investor sentiment.

In a crisis, the authorities could use the commercial banks' reserves of \$44bn deposited at the central bank to repay

maturing external debt, which is why Moody's uses gross reserves in its EVI calculation.

However, such a situation would increase the risk of the government imposing restrictions to safeguard its scarce FX assets.

In fact, if banks' required reserves for Turkish lira and FX liabilities are netted out, net foreign-exchange reserves are now close to zero.

Moreover, the reliance on swaps has grown at a very rapid pace in 2020. As of the end of July, the Turkish central bank had a \$53bn net short position in the swap market, up from \$30bn in March.

In other words, all the commercial banks' reserves at the central bank would be insufficient to cover this short position if these swaps were not rolled over.

“All the commercial banks' reserves at the central bank would be insufficient to cover this short position if these swaps were not rolled over”

Turkey does hold substantial gold reserves, and due to both increases in the gold price and an increase in gold volumes held, gold holdings are now broadly equal to FX reserves (\$42.7bn at the beginning of September).

The lower the gross and net reserves go, the more likely it is that Turkey experiences a severe balance of payments crisis, causing acute disruptions to economic activity and further deterioration in the government's balance sheet.

In the past, when the economy came under pressure, Turkey's flexible exchange rate acted as a shock absorber that insulated the real economy from macroeconomic shocks and allowed the country to muddle through without addressing its structural imbalances. More recently, the authorities have been unwilling to allow the lira to float freely because of the economic consequences of a weaker currency.

Turkey's weaker exchange rate does not have as much of an impact on growth and export competitiveness of goods as it does in many other countries because of the high import content of exports in some exporting industries.

That said, the tourism industry is highly responsive to a more competitive exchange rate, and periods of exchange rate weakness often coincide with tourist arrivals hitting

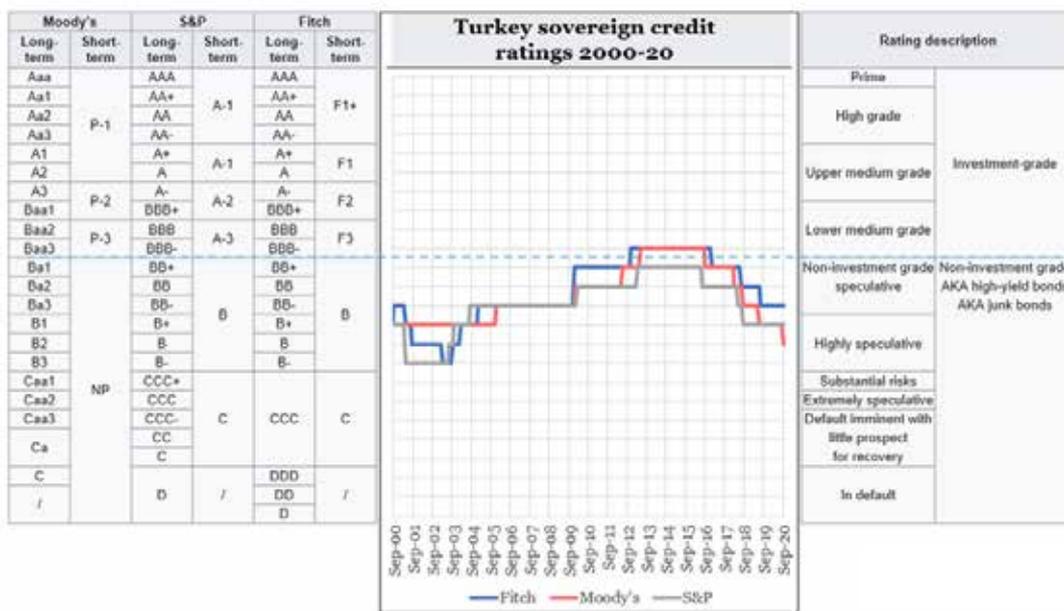


Chart by @akcakmak.

record levels. This was certainly the case in 2019 when import compression and a very strong tourism season helped to shift Turkey's current account deficit into surplus.

However, in light of the pandemic's impact on the tourism industry, Turkey will not reap this benefit next year, and Moody's base case is that globally the industry will only make a partial recovery to pre-pandemic levels in 2021.

Dollarisation is a significant issue for Turkey that heightens the risk of a balance of payments crisis; the Turkish economy has the second-highest dollarisation vulnerability indicator in the single B-rated universe. The country de-dollarised in the early 2000s because of growing confidence in the domestic economy. However, in recent years Moody's has observed progressively higher levels of dollarisation, and since 2018 the share of deposits that are denominated in hard currencies such as USD or EUR have accounted for over 50% of the total deposits in the banking system.

Institutions

The second factor informing the rating action is Moody's view that Turkey's policy credibility and effectiveness, elements that the rating agency considers a governance factor under its ESG framework, have weakened.

At the moment, political pressures and limited central bank independence, a slow reaction function of the monetary authorities, and a lack of predictability in their reaction function increases the probability of a disorderly exchange rate and economic adjustment.

The policy rate is now negative in real terms, inflation remains well above target, and inflation expectations are rising. However, the central bank has taken only modest action to tighten monetary policy. The longer this goes on, the more likely it is that there will be continued downward pressure on the lira.

Moreover, Turkey's longstanding commitment to a floating exchange rate since 2001 was an important institutional source of insulation from a balance of payments crisis because the exchange rate could act as a shock absorber. Given the scale and number of interventions and regulatory actions in the FX market this year, it is difficult to see the lira as being governed by a floating currency regime.

Turkey's structural economic challenges are clear, and Moody's believes that the Turkish authorities understand that the economy's chronic shortfall in domestic savings generates significant imbalances and an over-dependence on foreign sources of capital.

Turkey also suffers from labour market rigidities that inhibit job creation. Productivity is also weak, which in some sectors underpins structurally high inflation.

International observers such as the EU, IMF, and OECD point to weak educational outcomes as a key driver of weak productivity and employment outcomes.

Policy initiatives in recent years have fallen short in terms of addressing the structural underpinnings of Turkey's macroeconomic problems, pointing to a lack of willingness or capacity to tackle these economic vulnerabilities.

Moreover, growth-supporting measures have gone in the opposite direction and have relied on credit growth (and fiscal or quasi-fiscal stimulus).

Starting in the second half of 2019, state-owned banks were encouraged to expand credit creation to counter the economic downturn. They adopted special programmes to assume and restructure credit card and other consumer debt at extended maturities and below market rates. Credit growth has remained high in 2020 due to measures taken by the banking regulator to support domestic demand during the pandemic.

Some of those measures are being withdrawn now, but credit growth will remain high through the end of the year.

The budget

Earlier this summer, Moody's reduced Turkey's fiscal strength factor score by two notches to "ba1" as debt affordability weakened markedly due to rising government debt levels, while there is a weaker debt structure that renders the government's finances more vulnerable to high inflation and currency depreciation than was the case only a few years ago.

The fact that Turkey has had to contend with two crises since 2018 has taken a toll on the public finances even though the government's fiscal response to the pandemic has been relatively modest.

The weak growth performance and fiscal measures to manage the economic effects of the coronavirus will have a meaningful impact on the deficit in 2020, and Moody's forecasts that it will rise to 7.5% of GDP (using the IMF definition, which excludes one-off revenue sources).

In addition to the widening primary balance, the depreciation of the lira and high inflation will contribute to an increase in the debt burden and higher interest payments on account of an increased reliance on domestic and floating-rate borrowing which comes at the expense of higher yields.

As a result, Moody's forecasts the government debt burden to increase from 32.5% in 2019 to 42.9% in 2020 and the debt affordability ratio (the ratio of general government interest payments to general government revenues) will deteriorate to 8.8% in 2020, up from 7.3% in 2019 and 5.8% in 2018.

Under Moody's baseline scenario, the return to growth after the economic shock of 2020 will not suffice to offset the impact on the upward debt trajectory of primary deficits of around 2% and an increasing interest burden. Therefore, Moody's expects Turkey's debt burden to increase to above 46% of GDP in the coming years.

While Turkey's debt metrics are still more favourable – sometimes by a significant margin – than those of similarly rated peers, in Moody's view the deterioration in debt metrics outlined above means that Turkey's fiscal strength no longer offsets the country's other credit challenges to the same degree that it has in the past.

This situation could be exacerbated if, for example, the government's desire to revive growth were to lead to even larger budget deficits than expected and if it needed to cover obligations on public-private partnerships (PPPs) or guaranteed debts.

E(nvironmental) S(ocial) G(overnance)

Turkey experiences some environmental pressures because of rapid population growth, which has translated into industrialisation and rapid urbanisation. While this results

in increased pollution and some degree of environmental degradation, these considerations are not material to Turkey's credit profile.

Turkey is faced with labour market rigidities and low female participation rate in the labour market. Moody's regards the coronavirus outbreak as a social risk.

Moody's assessment of Turkey's weak and deteriorating governance has been an important credit feature, which has underpinned its decision-making in downgrading Turkey's rating by multiple notches since the introduction of the executive presidential system in mid-2018.

Since then it has become frequent practice in Turkey that official decrees, which order sometimes significant changes in laws and practice, no longer need go through parliament to gain approval. These interventions by decree have become more frequent since the 2018 market pressures. Moreover, the executive continues to undermine the independence of key institutions, meaningfully undermining those institutions' credibility and effectiveness.

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

Given the negative outlook, a positive outlook or an upgrade is highly unlikely. However, the rating outlook could stabilise if fiscal and monetary policies become more coherent in preventing further exposure to a balance of payment crisis near term. External financial support could also be credit supportive, as would diminished tensions with the US and the EU. A determined set of economic reforms that address the economy's structural imbalances while capitalising on the country's inherent strengths could lead to upward rating pressure over the medium term.

Turkey's rating would likely be downgraded if there was an increasing likelihood that the current balance of payments pressures were going to deteriorate into a full-blown crisis. In such an event, the government could try to conserve scarce FX assets by imposing restrictions on foreign-currency outflows that affect sovereign creditors as well. ●

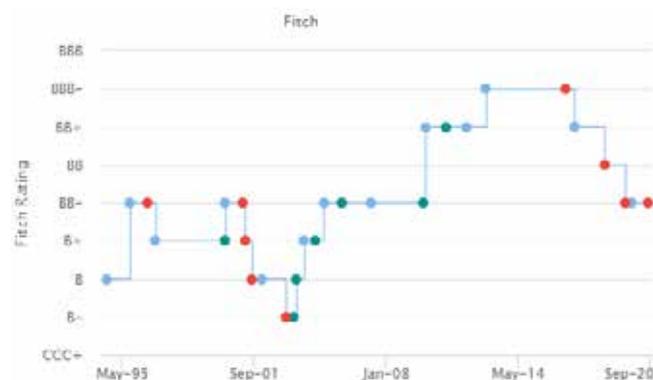


Chart by @Ge507.



250 companies 'in queue for Tehran IPO'

bne IntelliNews

More than 250 companies have registered an interest in listing on the Tehran Stock Exchange (TSE), a market that has tripled in size over three years, IBENA reported on September 7.

Despite the hammering the Iranian economy has taken in the past two years from heavy US sanctions and more lately from the coronavirus (COVID-19) crisis, many Iranians have sought refuge in the country's stock market – high inflation and a collapsing local currency cause those who hold cash to lose money at a rapid pace, thus wagering on the TSE is seen as offering a hedge against this risk with assets that remain liquid, partly thanks to the government's commitment to back the bourse via its privatisation programme. Nevertheless, there are those who say the exchange's benchmark index, the TEDPIX, is a bubble that has gone much too far and threatens to explode over the heads of somewhat desperate investors with a juddering correction.

The TEDPIX for the first time climbed above two million points on August 2 – widely seen as an astonishing milestone to hit given that it had only broken through the 1.5mn points barrier on June 30 and the one million threshold in early May, soaring from around 500,000 in March – but by the end of August 18



A succession of cheap IPOs could send the TSE on another bull run say some analysts.

showed 1.825mn points. By the end of September 9, it stood at 1.607mn points, having lost 40,586 points or 2.46% on the day.

'W-shape' rebound?

However, despite the substantial retreat, some investors believe the TSE might ascend once more on the last part of a 'W-shape' rebound in the next few months as more cheap shares enter the market.

Iranian Deputy Industry Minister Saeed Zarandi informed media of the 250 companies in the queue for a potential initial public offering (IPO).

The banking system, he said, had announced that IRR3.25qn (\$77.4bn at the free market rate) would be available in financing for companies during the current Persian year (ends March 20, 2021) but the corporate sector would probably need towards double that, meaning raising money on the bourse was an appealing option for many companies, he noted.

In early June, Zarandi said that 100 industrial firms were expected to list on the TSE by the end of the calendar year, but more are now apparently looking to get a piece of the action. ●

Capital Economics and IIF report capital flows have reversed and returning to EMs

Ben Aris in Berlin

Capital Economics' capital flows tracker suggests that EMs experienced net capital inflows in July for the first time since the coronavirus (COVID-19) crisis began, the consultancy reported in a paper on August 26.

"Daily data suggest that net capital inflows were generally sustained in August, with Turkey a key exception. But even

if Turkey's crisis becomes more acute in the coming months, contagion to other EMs is likely to be more limited than in 2018," Edward Glossop, senior emerging markets analyst at Capital Economics, said in a paper released last week.

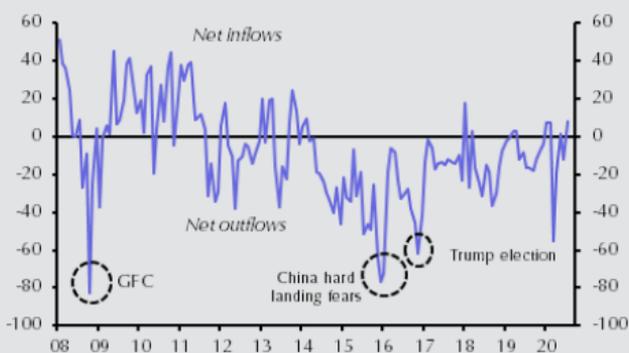
The data was backed up by the Institute of International Finance (IIF), which also tracks capital flows and also report-

ed that investment is returning to Emerging Markets (EMs) after a very large sell-off caused by the impact of multiple crises at the start of this year.

“We estimate that EM securities attracted around \$2.1bn in August, lower than the \$15.2bn in July,” reports IIF. “Gyrations in the US-China trade narrative, a fresh bout of market turmoil in some EMs and lingering questions on the post COVID-19 recovery path marked the dynamics of non-resident flows during August.”

Debt flows posted their first outflow reading since the March shock at -\$2.3bn, reports IIF. On the equity side, IIF says there were inflows to EM equities, excluding China, amounting to \$3.8bn, while flows to China posted marginal gains of \$0.6bn. Regionally, EM Asia was the most benefited region, registering inflows of \$4.7bn, followed by Latin America (\$0.7bn), with all the remaining regions posting outflows.

CE Total Capital Flows Tracker (Monthly, US\$bn)



The Capital Economics Capital Flows Tracker is constructed using monthly trade and FX reserve data to give an early read on capital flows ahead of the release of official balance of payments data.

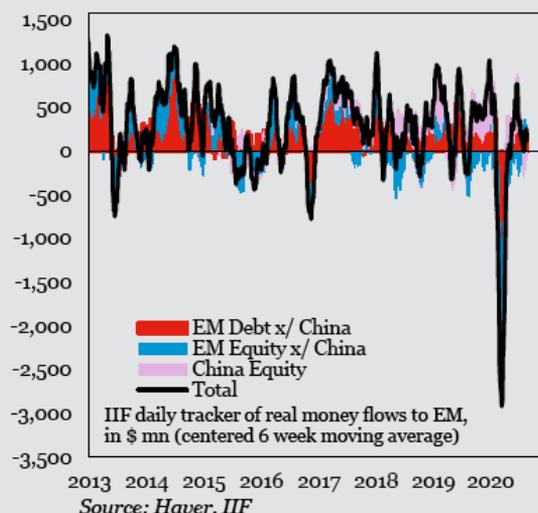
The latest issue of the tracker shows that EMs experienced net capital inflows for the first time since the crisis spread across the globe in July.

“Our Tracker points to net inflows of around \$5bn, broadly similar to January and February. And the big picture is that capital flows have weathered the crisis remarkably well. One reason is that our Tracker incorporates FDI and “other” (usually banking sector) flows, as well as portfolio flows,” said Glossop.

EMs were hard hit by the perfect storm that hit markets at the end of February that led to a large sell-off. Then the Russians walked out of the OPEC+ production cut deal on March 6, causing the price of oil to collapse. That was followed by the coronavirus (COVID-19) outbreak in China being upgraded to global pandemic and causing countries around the world to go into lockdown by May.

“The violence of the EM “sudden stop” in March is unparalleled. Non-resident portfolio outflows surpassed anything seen previously, including during the global financial crisis in 2008/9” Robin Brooks, managing director & chief economist at IIF, together with economist Jonathan Fortun said in a note. “However, unprecedented Fed easing, which first lifted US stock and credit markets, also made its way into emerging markets. EM currencies recovered some of their losses earlier in the year, net issuance of bonds abroad has been strong and – most important – our high frequency tracking of non-resident flows shifted positive in the second and third quarters of 2020.”

Flows to EM have recovered



But as August started many of these shocks were beginning to subside. The ruble has slid from an average of RUB63 to the dollar to an average of RUB73.3 in the two months of July and August, maintaining its value remarkably well, recent weakness notwithstanding, given the severity of the economic shocks.

Likewise, average oil prices fell from \$63.65 for the month of January to \$21.23 in April, but have since recovered to an average of \$42.07 for the month of July. And Brent was trading at \$45.61 at the time writing on September 2.

“Nevertheless, our data shows that the rebound in flows to EM is small compared to outflows earlier in the year. One

“The violence of the EM “sudden stop” in March is unparalleled. Non-resident portfolio outflows surpassed anything seen previously, including during the global financial crisis in 2008/9”

reason may be growing differentiation in flows to EM, with some markets seeing outflows that continue to build. This picture of increased differentiation is in line with our work on currency valuations, which points to persistent overvaluations for some countries," IIF said.

Russia weathers the storm

The steady, but modest, inflows have lifted the Russian stock market, which lost half of its value during the worst of the sell-off as *bne IntelliNews* reported on the occasion of the dollar-denominated Russia Trading System's (RTS) 25th birthday yesterday. While the Russian market remains down some c.18% YTD, two sectors – metals & mining and consumers – have clawed back all their losses and are currently ahead of their starting point at the beginning of the year (7% and 6% respectively).

“In a little reported story, Russia has actually been attracting FDI in 2019, and not just money reinvested by foreign companies that are already operating in Russia”

Capital Economics reports that the “other” category of fund flows collapsed at the height of the crisis, but FDI and banking sector flows appear to have held up better.

In a little reported story, Russia has actually been attracting FDI in 2019, and not just money reinvested by foreign companies that are already operating in Russia, which is the major source of FDI. The net inflow of FDI into Russia in 2019 jumped to \$32bn according to Bank of Finland Institute for Economies in Transition (BOFIT), and similar inflows are expected this year.

Glossop argues that FDI is less elastic than other forms of capital and therefore less easily withdrawn during bouts of market turmoil. “And the large-scale monetary easing across the world has helped to prevent a global financial crisis and sudden stop in cross-border banking sector flows,” he adds.

IIF concurs. Its daily tracking of non-resident portfolio flows to EM found that the outflows in March exceeded anything on record, especially when looking at EM excluding China.

“However, the immensity of Fed easing, which first lifted US equity and credit markets, is now also filtering into emerging markets, where our daily tracking of non-resident flows is back in positive territory in the second and third quarters of 2020,” Brooks and Fortun said, adding that Turkey remains the exception, as it is still seeing outflows.

While the net inflow in the July data is encouraging, analysts are less sure about what will happen going forward. To add to the confusion in Russia's case, in the meantime Belarus has been plunged into its biggest political crisis since Belarus' self-appointed President Alexander Lukashenko came to power 26 years ago and Russian interference in that story has again unnerved investors as more sanctions against Russia may be in the works.

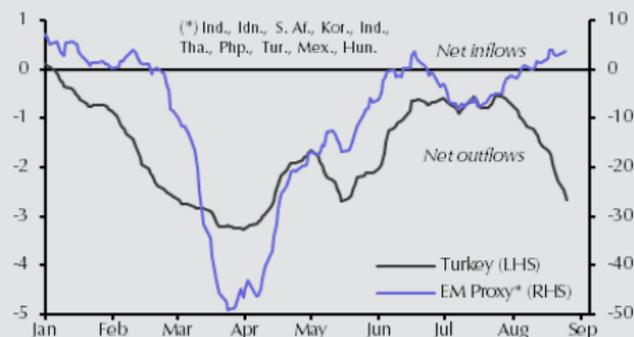
Turkish outflows

Turkey is in the same boat, but for difference reasons. The government in Ankara has been battling to stave off yet another currency crisis, but now it has burned through an estimated \$100bn of reserves and also tapped the banking sector for dollars it is starting to run out of ammo. Unlike the other EMs, investors into Turkey have been net sellers. As *bne IntelliNews* reported, Turkish equities saw the biggest outflow for more than 15 months in the middle of August, as a new crisis looms.

“Significant net sales of Turkish assets by non-residents over the past month reflect the growing threat of a currency crisis there. Selling pressure has been most acute in Turkish equities, although non-residents have also been net sellers of government bonds,” says Glossop.

Foreigners' Net Purchases of Bonds & Equities

(US\$bn, 1m Sum, based on daily data)



Sources: Refinitiv, Capital Economics

IIF's tracker sheds a bit more light on the issue, saying that when factoring in all the variables the outflow from the Turkish market exceeds what would be expected from a crisis induced by the coronavirus epidemic alone, and that according to IIF's models, the lira (TRY) remains overvalued, despite its recent deep devaluation.

Turkish nerves have eased a little in the last week after Turkish President Recep Tayyip Erdogan announced a large gas deposit find, but while the new source of energy will be a big boon for the country in the long term, it makes no difference in the short term. With dwindling reserves and Erdogan's unorthodox fixation on low interest rates Glossop speculates that the central bank will impose capital controls before it will hike rates, which will only lead to more capital outflows. ●

Polish e-commerce platform Allegro officially announces IPO

Wojciech Kosciuszko in Warsaw

Poland's top online retailer and auction portal Allegro announced officially on September 14 that it will carry out an initial public offering (IPO) on the Warsaw Stock Exchange.

The announcement has been expected since July, when the first speculation appeared in the news about the upcoming IPO, currently expected to take place in October.

Allegro said in a statement that it hoped to raise PLN1bn (€224.9mn) from the IPO. Apart from the new shares, the offering will also comprise a "secondary component", in which existing shareholders, including the group's private equity owners, as well as some of the company's executives, will sell some stock. The final value of the offering is expected to become clear later in the process.

If all goes as planned for Allegro, the company's stock exchange valuation could be as much as €10bn-€12bn, The Financial Times reported, citing people "close to the deal". That would make Allegro Poland's biggest listed company and one of the biggest on the Warsaw bourse overall, alongside gaming giant CD Projekt and foreign-owned Czech utility CEZ and banks Unicredit and Santander.

"[Allegro] intends to use the expected net proceeds of the issue of new shares, together with borrowings under a new credit facility to repay its outstanding debt in order to



improve its net leverage," the company said in a statement.

The credit facility is a new PLN5.5bn five-year senior secured term loan and a PLN500mn equivalent multi-currency revolving credit facility that will be used to refinance all of the group's indebtedness, the company said.

The IPO will consist of a public offering in Poland including a retail offering and an institutional offering as well as an offering in the US to "certain qualified institutional buyers," Allegro also said. There will also be an offering to "certain other institutional investors outside of the United States and Poland".

The retail offering will be up to 5% of the final shares on offer in the IPO.

The company also said its employees would receive a one-off share award worth PLN10,000 (€2,250).

Allegro is owned by the private equity funds Cinven, Permira, and Mid Europa Partners, which acquired Allegro for \$3.25bn in 2016 from South African owner Naspers.

An estimated 79% of Polish consumers use Allegro for online shopping. Allegro's revenues came in at PLN2.39bn in 2019, an expansion of 33% versus 2018. The net result grew nearly 73.9% to PLN400mn last year. ●

Russia to IPO state-controlled Sovkomflot

IntelliNews Pro

Russian state-controlled maritime shipping major Sovkomflot plans to hold an IPO in October 2020, sources told Reuters on September 15.

Should the deal take place, this would make it the first initial public offering of a Russian state-owned enterprise (SOE) since 2016, when the state sold 19.5% in Rosneft oil major and 10.9% in Alrosa diamond major.

As reported by *bne IntelliNews*, previously the *Finance*

Ministry said it could attempt to launch privatisation deals in autumn 2020, despite the coronavirus (COVID-19) crisis. Sovkomflot has been on the government's privatisation list since 2011.

Sovkomflot is ready to complete the deal in October, Finance Minister Anton Siluanov told Reuters. The company plans to raise at least \$500mn from the IPO on Moscow Exchange, while keeping the state the majority shareholder at 75% plus one share.

The Ministry of Economic Development previously spoke in favour of cutting stakes in Sovkomflot maritime shipping (100% state stake), RusHydro hydropower holding (61.2%), Transneft oil pipeline operator (78.55%), Rosseti grid operator (88.04%), Rostelecom integrated telecom major (45.04%) and United Grain Company grain exporter (50% plus one share).

The announced IPO of at least \$500mn via an additional share issuance should further improve the company's credit profile, BCS Global Markets commented on September 16, seeing the potential deal as positive for credit metrics and carrying no risks for the discontinuation of government support.

"The management said it will spend the proceeds on corporate purposes such as capex and debt reduction," BCS GM notes.

BCS GM reminds that the company has consistently strengthened its credit profile in recent years, with Ebitda margin jumping to 60.0% in 1H20 versus 50% in 2019 and 39% in 2019. In addition, net debt decreased by 10% half on half to

\$2.7bn and leverage declined to 2.7x as of 1H20 versus 3.7x in 2019 (5.4x in 2018). "On the other hand, the management announced plans to increase dividend payments to \$225mn for 2020 versus \$97mn for 2019, which might somewhat slow down further deleveraging," BCS GM adds.

Sovkomflot reported a record-high profit of \$225mn under IFRS in 2019, swinging from a loss of \$45mn in 2018 and \$113mn in 2017. The company's revenues were up by 10% to \$1.66bn, and Ebitda jumped by 42% to \$823mn.

Record-high financials for 2019 are attributed to higher income from conventional tanker transportation. The company's strategy until 2025 is still focused on large-scale industrial projects and transportation in difficult Arctic conditions.

In 2019 Sovkomflot added four tankers to its fleet. The company also struck a major deal on gas-powered tankers to service the Arctic liquefied natural gas (LNG) projects of Novatek gas major, as well as two tanker deals for the Sakhalin-1 project. ●



Shares of Russian Yandex soar on Tinkoff Bank mega-merger

IntelliNews Pro

Shares of Russian internet major Yandex jumped by 14% on the Moscow Exchange on September 23, on top of 11% gain on September 22, to record-high RUB5,300 (\$69) per share on the announcement of a \$5.5bn acquisition of Russia's only pure online bank Tinkoff from the banking TCS Group.

As reported by *bne IntelliNews*, after a divorce from state-controlled Sberbank, Yandex has ventured on to the financial services terrain and has negotiated to acquire online bank Tinkoff for \$5.5bn.

The deal is the biggest merger since white good retail chains M.Video joined forces with Eldorado in March 2018 to create one of the largest retailers of consumer electronics in Europe.

Sberbank under its CEO, German Gref, has set out to manage an all-encompassing digital ecosystem under the Sber brand. By 2022 Sberbank plans to move about 80% of its services onto the new platform.

The reaction to the merger of Yandex and Tinkoff is positive, with strong synergies seen between two major players in their respective markets, posing serious competitive threat to Sberbank and the emerging Sber ecosystem.

Previously the founder of TCS Group, Oleg Tinkov, and the founder of Yandex, Arcady Volozh, flirted with the merger idea, arguing that capitalisation of the merged company could exceed \$20bn and unite prime human resources in both segments, making a strong competitor for Sberbank.

Forbes estimated that the fortunes of Volozh and of Tinkov gained \$227mn and \$32mn since the announcement. In a separate report, Tinkov said that his bank will maintain the Tinkoff brand after the merger with Yandex, with no major changes for the existing clients of the bank. Tinkov personally holds 40.4% in TCS Group and 88.6% of votes, with another 6.5% held by the management and the rest freefloated.



BCS Global Markets on September 23 wrote that Yandex, as one of the leading IT players in Russia, is seen as "a very strong shareholder to support TCS' future developments with best-in-class technology and strong customer base."

"The deal would create a player covering almost all the customers' digital needs, would allow for a cross-sell into existing customer bases and would help offer more relevant products (based on combined customer knowledge," BCS Global Markets commented.

Analysts at BCS GM believe the current management of TCS should see Yandex as a new shareholder as a positive. "Such a player, with its 80-90mn audience and advanced technologies, may indeed change the state of things in the financial sector," they wrote.

BCS GM estimated that the deal price of \$27.64 per GDR of TCS makes a 8% premium to the closing price of September 21, 10.4% to one-month weighted-average and 16.9% to three-month weighted-average.

The share price of TSC has been on a rollercoaster ride in recent years. The company floated on the LSE at a price of \$17.50 in October 2013 but the share price crashed to \$1 the following year after Russia annexed the Crimea leading to international sanctions. Since then the shares have made a steady recovery. Yandex has a similar story. It floated on Nasdaq in May 2011 raising \$1.3bn from its IPO. Both companies are amongst the handful of Russian companies that have regained and exceeded their pre-Crimea share price valuations.

As for effects on Yandex, at the set price tag, the deal may be value-accretive, as TCS is a strong banking player, the deal is carried out at a moderate premium, with possibility for synergies, BCS GM notes.

On the flipside the analysts see credit risks, likely net debt and shareholder dilution through a share issue to finance the deal, as well as a risk of a higher price tag for Yandex. ●

Equity funds acquire Hungary's leading meat processor

IntelliNews Pro

Hungary's leading turkey processor Gallicoop has been acquired by three private equity fund managers, one of which is linked to Hungary's most powerful oligarch, it was announced on September 11. The financial details of the transaction were not revealed.

The buyers were Hungary's leading private equity funds, one of which is connected to Hungarian billionaire Lorinc Meszaros. Status Food Private Equity Fund has made several investments in Hungary's food sector over the years.

Takarek private equity fund is a subsidiary of MTB Magyar Takarekszövetkezeti Bank, the central bank of the country's savings' cooperatives, while Beta is controlled by MKB, in which Meszaros has a minority stake. MKB and MTB are in talks of a merger with state-owned Budapest Bank to create the country's second-largest lender by 2021.

Gallicoop was founded in 1989 by Hungarian entrepreneurs. Over the years it has become a leading meat processor in Hungary with a market capitalisation of HUF1.8 trillion (€5bn). The company generated HUF36.5bn in revenue in 2019, up from HUF35bn a year earlier. Some 40% of the revenue



came from exports. After-tax profit grew from HUF1.13bn to HUF2bn in 2019.

Gallicoop operates the country's largest closed production integration system, as it controls the whole processing-chain from turkey rearing to finished product.

Last year the company processed 39,000 tons of turkeys and rolled out 8,000 tonnes of finished products.

The company has recently received a HUF282mn grant for the installation of solar panels at its base in Szarvas, southwest Hungary.

Gallicoop's board has appointed Andras Muzsek, the former head of sector peer Saga Food, the new CEO, who envisaged further expansion in foreign markets.

"With the right amount of capital, Gallicoop could become a force to be reckoned with on the Central and Eastern European food market," Muzsek said, adding that the integration of its more than 100 suppliers would be strengthened in the interest of expanding in the region while preserving its position on the domestic market. ●

Furore over Bucharest land plot gift for €2.9bn Romexpo development



The CCIR and Iulius Group are planning a gigantic complex that will include 14 new buildings.

Iulian Ernst in Bucharest

Romania's Chamber of Deputies has passed a law under which Romania's Chamber of Commerce and Industry (CCIR) will receive the 46-hectare plot hosting the Romexpo exhibition complex for free.

CCIR plans to develop a €2.9bn real estate project on the land in partnership with local developer Iulius, a company controlled by Romanian businessman Iulian Dascalu, who is best known for shopping malls developed in Iasi and Timisoara.

The bill provides for the land transfer from the state to Romexpo, which is 91% controlled by CCIR, G4Media reported. The land, currently leased to CCIR, is valued at nearly €500mn.

The law, drafted by the party of former president and Bucharest mayor Traian Basescu, the Popular Movement Party (PMP), was unexpectedly supported in parliament by both the opposition Social Democrats (PSD) and the ruling National Liberal Party (PNL).

The MPs from Save Romania Union (USR) and the Democratic Union of Hungarians in Romania (UDMR) voted against the bill.

Catalin Drula, the USR deputies' leader, claimed it was "a cross-party real estate theft in the amount of hundreds of millions of euros." He said the USR is seeking support among lawmakers to refer the draft law to the Constitutional Court.

The vote also became another reason for the smaller parties to accuse the two major parties of collusion with the aim of preventing the development of a real political alternative.

Ambitious plans

The CCIR and Iulius Group are planning a gigantic complex that will include 14 new buildings with various purposes: offices, residential, hotels, commercial spaces and museums, plus 12,000 parking spaces.

In a press release outlining their plans issued in June, the CCIR talked of the project as a "financial catalyst that renders major benefits for the community" and an "anchor for the urban life of the capital".

"The proposed project represents the materialisation of a new development vision for the entire country, one that will represent us beyond borders, and bring us closer to Europe. It is an action that exceeds anything we have built so far in terms of urban revival, and we are certain that it will become an international landmark. This development is about community, Romanian symbols and local potential," said Dascalu, as quoted in the press release.

The CCIR, which is organised as an NGO, explained that it would derive income from the €2.9bn real estate project developed with Iulius and promised to use it for the benefit of all Romanian companies.

The real estate project was submitted to the Bucharest City Hall for the Zonal Urban Plan (PUZ). Mayor Gabriela Firea of the PSD objected to the land being transferred free of charge to CCIR. Meanwhile, Liberal MP Sorin Ion Bumb argued that the Chamber of Commerce needs the land to develop itself like its peers in any other country. ●

"The CCIR and Iulius Group are planning a gigantic complex that will include 14 new buildings with various purposes: offices, residential, hotels, commercial spaces and museums"

Uzbekistan's Bukhara refinery buys in Honeywell technology to help meet government's oil and fuel ambitions

Kanat Shaku in Almaty

Uzbekistan's Bukhara refinery is to boost its crude oil conversion and produce cleaner-burning Euro 5 standard petrol and diesel fuels with the use of technology from Honeywell UOP.

The refinery comes under the Uzbek government's multi-year plan to reach national energy independence and raise the country's export potential. The initiative was started in 2017 when Uzbek President Shavkat Mirziyoyev launched the ongoing efforts to liberalise the country's economy. Under the Islam Karimov regime that ended in late 2016 with the death of the dictator, the country frequently faced shortages of fuel.

"The Bukhara refinery is revitalising its operations for improved quality and increased production of fuels to meet growing domestic demand for motor fuels," said Bryan Glover, vice president and general manager, UOP Process Technologies. "The company selected UOP due to its experience in working in the region and its technologies to assist in meeting sustainability goals."

Limits on sulphur

The Euro V standard limits sulphur content to less than 10 parts per million in transportation fuels. It also restricts carbon monoxide, nitrous oxides, hydrocarbons and particulate matter from diesel and petrol vehicles.

Honeywell UOP will provide licensing and basic engineering design services to Bukhara refinery – a unit of state-run oil and gas company Uzbekneftegaz – for new Naphtha Hydrotreating, Par-Isom, Resid Fluid Catalytic Cracking (RFCC), Select-Fining and Merox process units.

The Par-Isom process upgrades light naphtha into high-value isomerate for petrol blending, while the Merox process meets product specifications by treating naphtha feedstock.

Heavy feedstocks are converted into cleaner-burning petrol



Bukhara's getting some handy new technology.

and diesel products via the RFCC process – the resulting products meet new global emissions regulations. The SelectFining process relies on selective naphtha hydrodesulfurisation in order to meet low-sulphur petrol specifications and minimise octane loss.

Also under the contract with Honeywell UOP, the refinery's diesel hydrotreater (DHT) and amine regeneration unit (ARU) will be revamped to meet new requirements.

The government will in 2023 introduce stricter specifications for fuel products on the market in Uzbekistan, Central Asia's most populous nation with 34mn people.

Bridging the gap

To address fuel shortages, Uzbekistan began relying on imports in 2017 to bridge the gap; however this has always been seen as a temporary measure that will no longer be necessary upon completion of modernisation works at the country's three oil refineries. The Central Asian nation is also aiming to boost oil output to help raise fuel production.

Uzbekistan currently produces around 3mn tonnes of oil, all of it covering domestic consumption via conversion into fuels. Last year, the country negotiated enhanced oil recovery projects at some of its oil fields with foreign companies. Uzbek energy authorities are eyeing a threefold increase in oil output per field thanks to these projects, which rely on importing newer more efficient technologies from abroad.

Another ongoing project under the government's plan is the modernisation of Ferghana Oil Refinery. Last year, the government issued a resolution approving the sale of its 100% stake in the refinery to Indonesia's PT Trans Asia Resources. The buyer is responsible for attracting funds that will be used "for optimal capacity utilisation" and for modernising the plant's petrol and diesel production to meet Euro 4 and Euro 5 standard requirements." ●



Lukashenko's crackdown leads to exodus of IT professionals

Ben Aris in Berlin

The restart of Belarus' self-appointed President Alexander Lukashenko's brutal crackdown on protesters has led to a growing exodus of IT professionals that will destroy one of the country's most successful sectors.

As *bne IntelliNews* reported, more than 300 top CEOs of IT companies warned they would decamp to neighbouring countries in the first days following the pogrom on protesters unleashed by Lukashenko immediately after the massively falsified August 9 presidential election.

By the middle of the first week the authorities realised the crackdown was not working and backed off, restoring calm. However, after Russian President Vladimir Putin's statement that he was willing to send a special military unit to quell the protests "if necessary" on August 27, tensions have risen again. Lukashenko has relaunched the crackdown, with OMON riot police once again randomly snatching people from the street and attempting, largely unsuccessfully, to prevent and break up the many spontaneous demonstrations as well as the organised mass rallies at the weekend.

In this climate Belarus' IT professionals are choosing to leave. The number of requests from Belarusian IT developers to find

a job in Russia has grown five-fold in the last weeks due to political instability in the country, recruitment companies say, as cited by *Kommersant*.

In recent years, the direction of migration has been in the other direction as successful Belarusian IT companies headhunted talent in Russia and enticed software engineers to Minsk on attractive employment packages. In February *bne IntelliNews* reported on Belarus' success as it emerged as Europe's leading high tech hub.

Belarus' IT sector had been flourishing, earning \$2bn from exports in 2019 and still growing by over 30% a year, industry participants told *bne IntelliNews* in a recent podcast. The sector is now worth 6.5% of GDP, according to Minister of Economy Dmitry Krutoy as cited by BelTA.

"Belarus' IT sector had been flourishing, earning \$2bn from exports in 2019 and still growing by over 30% a year"



“This is a very large share, taking into account the outstripping rates that our IT companies demonstrate. The IT sector in its influence on the economy of our country has caught up with many traditional industries such as agriculture, transport and construction materials production,” the minister said.

IT is only just smaller in dollar terms than the agricultural sector, which accounts for 7.2% of GDP. IT jobs have become a haven for ambitious young Belarusians as one of the few modern careers available to them. Krutoy says that IT has become the engine of economic growth and the only fast growing sector. The rest of the economy is dominated by Soviet-era machinery and raw material state-owned enterprises (SOEs), which largely employ blue collar workers. And with average incomes at less than \$500 per month the retail and banking sectors remain underdeveloped due to the small size of the emerging middle class.

Now the IT sector is under threat and experts say that once Belarus’ professionals leave they are unlikely to come back – especially if Lukashenko remains in office.

Russian employment agencies say that up to a quarter of the requests for IT jobs are now coming from Belarusians, whereas before the political crisis broke out their share was no more than 5%, the recruiting company Benchmark Executive told *Kommersant*.

Some companies have already closed their offices in Minsk. The Japanese-owned Viber was the first to report it was withdrawing, soon followed by Russia’s internet giant Yandex.

Both pulled out, saying it was impossible to work in such a repressive atmosphere.

However, according to reports, many more companies are quietly relocating staff to neighbouring countries such as Poland, Russia, Ukraine and Romania, but have not made announcements, fearing retribution from the state and ordering employees not to talk about their moves. And many more employees are thinking of leaving irrespective of what their employers decide to do; one of *Kommersant*’s interlocutors believes that, in general, about 70% of Belarusian developers are now thinking about looking for work abroad.

Some of the surrounding countries are actively encouraging the engineers to move, hoping to scoop up a lot of talent to bolster their own local IT industries. The mayor of the Ukrainian city of Kharkiv has offered any Belarusian IT professional willing to move an attractive relocation package, and Lithuania also said it was offering accelerated access to work visas for professionals going there and specifically mentioned it hoped the inflow of experienced professionals would help bolster its own IT industry.

While the Russian engineers that moved to Minsk are going back to Russia to find work, the Belarusians looking to emigrate are not expected to follow suit. Despite the size and wealth of the Russian market, the investment climate is too similar to that in Belarus, where the Kremlin interferes and there are no clear rules of the game. Most of the Belarusians that leave are expected to end up in EU countries, with Poland and the three Baltic states taking the lion’s share. ●

Contactless payments grow in popularity in Slovakia

bne IntelliNews

Contactless payments via banking cards and mobile phones are seeing ever-increasing use in Slovakia, according to the latest statistics published by the Slovak Banking Association.

By the end of June this year, the number of payment cards issued increased by 99,247 to about 5.33mn. More than 142mn transactions were carried out, worth a total of €6.57bn.

In 6M20, 7.2mn payments worth a total of €164.2mn were carried out via mobile phones, up from 1.3mn payments worth €26.8mn a year earlier.



“The growth in the number of mobile phone payments, which increased y/y more than fivefold, is driven mostly by the fact that it’s a relatively new service, offered by more banks now than in the past. The growth potential has partially benefited also from the coronavirus crisis,” said Slovak Banking Association analyst Marcel Laznia, quoted by the Slovak News Agency.

According to Laznia, there is still growth potential for mobile phone payments. “For comparison, the number of transactions carried out with contactless payment cards is fourteen times higher than those made by mobile phones,” he added. ●

Kazakhstan headhunts Belarusian IT developers, in vain so far

Almaz Kumenov for Eurasianet

A state-backed IT development hub in Kazakhstan is hoping to capitalise on the climate of uncertainty in Belarus to poach some fresh talent, but their fishing expeditions have so far yielded nothing.

That Kazakhstan was trying to lure away disgruntled Belarusian specialists at companies coming under pressure from the government to disavow their sympathies for anti-government protestors came to light in an interview this week with Yury Plyashkov, head of Minsk-based company IdeaSoft.

“We got a phone call from Astana Hub. That’s an IT and startup incubator hub. They’re offering free workspaces, no taxes, English law, visas and a community. They suggested we relocate to Kazakhstan,” he said.

Plyashkov was not taken with the suggestion, however.

“I turned them down. I say that the Kazakhstan market does not appeal to us, we are working the States, Europe and Australia.”

Astana Hub cannot be blamed for trying. Although often decried – or praised – as an economy still mired in Soviet-style practices, Belarus is actually home to an internationally celebrated centre for high-tech development. That success story is being threatened by the political unrest, however. RFE/RL reported last month that large numbers of tech leaders in Belarus have warned they may pull out of the country unless President Alexander Lukashenko agrees to hold new elections.

One problem for Belarusian IT specialists is just technical. Euro-radio has reported that with protesters using online resources to mobilise, the authorities have responded with periodic interruptions to internet provision. (As it happens Kazakhstan routinely suffers the same problem, likewise for political reasons). The unreliability of the internet has proven a headache for software specialists, adding another incentive to leave.

But Astana Hub has had to concede that its headhunting is not going well so far. News website Vlast on September 4 cited a representative for Hub as saying they have landed no pledges from Belarusian companies.

“There are no specific agreements [on the relocation of Belarusian companies] yet, but we are continuing negotiations,” the press service was quoted as saying.

A key deterrent may be that, as Plyashkov indicated, that Kazakhstan’s IT market is mainly inward-focused. As Askar Aytuov, head of Almaty-based seed accelerator DAR Lab, noted in an interview with the Kazakhstan edition of Forbes, local startups, unlike their Western counterparts, tend to focus on how to optimise business, logistical, technical and financial operations at the domestic level. ●

Almaz Kumenov is an Almaty-based journalist. This article originally appeared on Eurasianet.

Poland tables draft bill that could chase Huawei off the market

bne IntelliNews

Poland’s United Right government has proposed a bill that could put an end to the Chinese IT giant Huawei’s activity on the Polish market.

The draft bill, which amends the incumbent law on the “national system of cybersecurity”, says that providers of hardware and software need to be vetted for potential influence from non-EU or non-Nato countries. The vetting would include aspects like human rights or the use of personal data.

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Such requirements would clearly work against China’s Huawei. The European Union is increasingly wary of China’s growing power and influence, with Brussels navigating the dilemma of keeping economic ties with China while confronting Beijing’s well-documented abuse of human rights at the same time.

A provider found to be of “high risk” to Poland’s cybersecurity would face a ban on the use of its products as well as seeing its products already in use withdrawn from the market, the draft bill stipulates.

Huawei is one of the global leaders in the development of 5G mobile telecommunications networks that are set to revolutionise services and which the EU countries are gradually rolling out.

Letting the Chinese company play an important part in the 5G build-up could pose a security risk, Poland has long said.

Warsaw and Huawei were at loggerheads in 2019 after an employee of the company and a former Polish security official were arrested on espionage charges.

Warsaw said in reaction it could bar Huawei from taking part in getting the 5G network communication standard up and running in Poland.

Poland is also wary of the Chinese company's products and services following the US' warning they could be a security

risk. The US Secretary of State Mike Pompeo reiterated those concerns during his tour of Czechia, Slovenia, Austria, and Poland last month.

Poland, along with other Central, Eastern and Southeast Europe countries, has been targeted by Chinese investors as Beijing rolls ahead with its multi-continental Belt and Road Initiative (BRI).

This has brought billions of euros into the region especially in areas such as energy and transport infrastructure, often where countries have struggled to get financing from other sources. For several years now, major investments have been announced with much fanfare at the annual 16+1 forum bringing together China and states from across the region.

The draft bill predictably does not name any names and its provisions could well be used to ban other technology and software providers, Politico Europe pointed out. ●

Russia's national program for digital economy stumbles

Vladimir Kozlov in Moscow

Russia's ambitious programme for digitalization of the economy is running behind schedule, and progress in several crucial areas has been slow.

Only one target out of 10 stipulated by the programme for the second quarter of this year was implemented.

Meanwhile, several major areas where the digitalisation scheme was expected to make a substantial impact are apparently struggling.

In particular there is little clarity when it comes to development of fifth-generation mobile networks (5G) in the country, one of the flagship projects under the auspices of the digitalisation programme.

Russian Mobile TeleSystems (MTS) received the first 5G licence in Russia for the 24.25-24.65 GHz band, *Vedomosti* daily reported on July 28, but previously 5G development came to a standstill when operators and the government failed to reach consensus on frequencies that should be allocated for new networks. While operators are demanding the 3.4GHz to 3.8GHz band for 5G networks, law enforcement agencies, which currently use it, have been vehemently opposed to the idea of relinquishing that frequency band.



Russia's ambitious programme for digitalization of the economy is running behind schedule

Government officials admit that there is an impasse on 5G prospects. "A road map for stimulating investment [in 5G] cannot be agreed upon because operators want more support than what we can offer them at the moment," Oleg Ivanov, deputy communications minister, was quoted as saying by *Kommersant*, adding that the law enforcement agencies' stand on the issue makes the project uncertain.

Meanwhile, a source in a top Russian mobile phone operator was quoted by *Kommersant* as saying that there is no "acceptable dialogue" between operators and government agencies. In addition to the frequency band issue, the source mentioned issues with operators' access to the wholesale electricity market and sites for building telco structures alongside major highway and railways "due to bureaucratic reasons."

Experts predict that an acceptable solution that would allow a broad-based roll-out for 5G development in Russia is unlikely to be found before 2021. Subsequently, running frequency band contests and signing deals will take more time, and, as a result, operators will be able to plan investments in 5G no earlier than in 2022. This means that consumers won't get satisfactory 5G coverage earlier than in 2023.

Nothing goes according to plan

Meanwhile, a project for combining all services provided by state agencies in one cloud platform is running behind schedule. Similarly, a project for establishing mobile connections on a federal-level highway has stumbled.

“A source in a top Russian mobile phone operator said that there is no “acceptable dialogue” between operators and government agencies”

Another target on the government checklist that has not been met is a public platform for managing intellectual rights. In another embarrassing revelation, no progress has been achieved on the creation of a nationwide land registry, a project that has been advertised for quite a while.

Similarly, the government has failed to work out a list of measures to support local manufacturers of telco and cable

equipment, and sources for funding a versatile satellite information system have not yet been found.

The only planned item for the April – June period that has been implemented is a concept for covering the country's transport infrastructure with networks suitable for data transfer, involving the locally developed space-based satellite navigation system GLONASS.

Funding issues

The Russian digitalisation programme is expected to be implemented through 2024, with a total value of the scheme set at RUB768bn (\$10.5bn), of which the federal budget is expected to provide RUB423bn (\$5.8bn), and the remaining RUB345bn (\$4.7bn) should come from private investors.

The government has not yet said how much of RUB48bn earmarked for 2020 it will actually provide this year, but it's already clear that state of the economy, hit by the coronavirus (COVID-19) pandemic, won't allow authorities to come up with the full amount.

Despite the Russian government's eagerness to pursue the digitalisation programme, the scheme is quite likely to fall prey to the overall economic meltdown. ●

Skolkovo suspends key grant programmes until next year due to crisis cuts

EWDN in Moscow

The Skolkovo Foundation, Russia's main tech hub with more than 2,400 resident start-ups, announced in the middle of July the temporary suspension of key grant programmes until December 31, 2020, reports East-West Digital News (EWDN).

The move is due to the government's decision to freeze its subsidies to the foundation this year. Skolkovo will continue distributing grants from other sources.

The suspended grant programmes include:

- prototyping;
- laboratory equipment rental, software licence purchase, purchase of prototype components;
- testing, experimental implementation of developed products;
- patenting and other intellectual property protection activities;

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The Skolkovo Foundation, Russia's main tech hub, has suspended a number of grants to start-ups until next year due to crisis cost-cutting.

- participation in acceleration programmes;
- participation in exhibitions and conferences.

These grants were distributed rather generously. Many Russian start-ups used them for their international development, covering costs related to events, acceleration, IP management and marketing costs.

Just days before the announcement, former Prime Minister Dmitry Medvedev had praised Skolkovo as “the leading and most powerful innovation centre in Russia.”

“Our task is to help Skolkovo's work be of the utmost quality and convenience, and to help [the tech hub] promote [its] products on the domestic and international markets,” he stated during a visit to Skolkovo. ●



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A HISTORY OF RUSSIAN CRISES

Ben Aris in Berlin

Russia has crises regularly. They happen for a variety of reasons: poor regulations, the lack of institutional checks and balances, rank corruption, heavy debt, no money in reserve, shallow capital markets, weak banking sectors and external shocks. And they cause havoc when they happen.

There have been four really big crises: in 1991 when the Soviet Union collapsed; in 1998 when the ruble collapsed and Russia defaulted on its debt; in 2008 when the collapse of the US housing market caused a global financial crisis;

in 2014 following Russia’s annexation of the Crimea; and most recently in 2020 with a double whammy of the collapse in oil prices and the start of the global coronavirus (COVID-19) pandemic.

However, after three decades each successive crisis does less damage. Russia remains an emerging market and so it still has not brought its economy up to the level of the more developed nations, but in the last 30 years it has made constant progress making it better able to weather the storm each time they happen.

1991 crash
 In 1991 the entire economy collapsed. The centrally planned five-year plans were shown up for the fakes they were and with the borders thrown open to imports no one wanted to buy the shoddy consumer goods the state-owned dinosaurs were putting out. Almost everything went bust.

The ruble also completely collapsed. With hyperinflation soaring to 1400% the value of a lifetime’s worth of savings were reduced to pennies in a matter of months. People looked for alternative value stores and a favourite tactic was to buy a washing machine as they were easy to turn back into cash by selling them again second hand. Unemployment doubled over the next ten years.

1998 crash
 In 1998 the entire top tier of the banking sector went bust, with the household names like Uneximbank, SBS Agro, and Most Bank disappearing overnight, taking people’s savings with them. The ruble devalued by 75%. Unemployment had been falling as new companies came into being, but it soared again rising from 5.1% in 1991 to its all time post-Soviet peak of 13.3% in 1998.

The crash in 1998 was actually caused by a currency crisis in Asia in 1997 that took almost a year to reach Russia. The Asian crisis fed through into pulling down commodity prices and that began to hurt Russia’s economy. The state had been issuing the now notorious

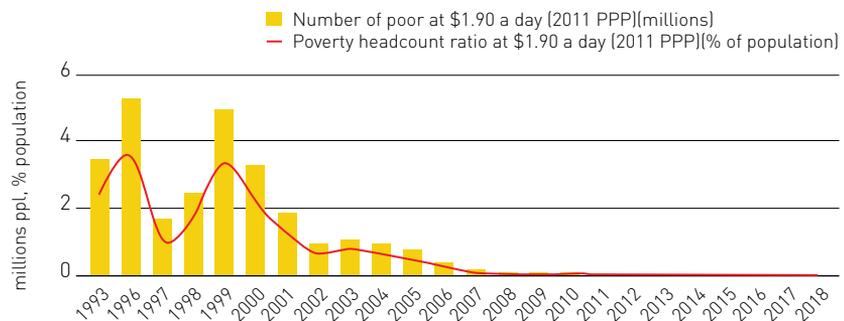
GKO’s (the precursor to the new Russian Ministry of Finance ruble-denominated OFZ treasury bills used now) to cover the budget deficits and the maturities of these bills had been getting longer while the interest rates they paid had been getting lower. However, from about May that year investors began to panic and on August 19, 1998 then Prime Minister Sergei Kiriyenko admitted defeat and defaulted on some \$40bn worth of GKO’s sending the economy into a tail spin.

The devaluation in 1998 turned out to be a blessing in disguise. It made the ruble so cheap it suddenly became competitive. The “virtual economy” based on barter as no one had any cash, gave way to a cash-based economy and oil prices, which had fallen to circa \$14 a barrel, began their inexorable rise from about 2001

onwards. But the recovery had started well before oil revenues started to pour in: in 1999 the economy grew 10%, a record that has never been beaten.

The oil sector was the biggest beneficiary and invested more into production in 1999 than it had invested in all of the proceeding seven years. Labour costs were still priced in rubles, which had been cut by three quarters, but their revenue was in dollars making them money-making machines. Profits from the oil sector primed the pump and started off an almost decade long boom as a virtuous cycle of profits-investment-wage rises-spending kicked in. At the same time the state, awash in petrodollars, started increasing state wages by around 10% a year to close the gap between the private and public

Russia poverty, mn ppl vs % population
 poverty line: \$1.90 a day (2011 PPP)



Source: Poverty and Equity

Russian unemployment % rate vs annual change



sectors and kept that up for almost a decade. Consumption became the driving force of the economy, which doubled in size.

It looked like Russia had turned the corner. With GDP growth running at 6%-8% a year in 2006 and 2007 capital flight reversed as Russian businessmen brought about \$130bn of capital home and started investing in domestic businesses. Everyone was making money hand over fist.

2008 crash
Then the world collapsed again in September 2008. This time it was not Russia's fault. The US financial regulator's failure to head off the sub-prime mortgage disaster saw the entire US housing market collapse which sent shock waves around the world. Russian capital turned tail and fled as all that \$130bn left the country again. The Russian economy went from a 7% growth rate to a 7% contraction in about six months.

But this time the crisis did a lot less damage. In 1991 pretty much every Russian company went bankrupt. In 1998 the entire top tier of the banking sector went bust. In 2008 only one bank, Finance Invest Bank, went bust. And that was bailed out and taken over by Russian Railways (RZD) by lunchtime the same day it announced it was pulling the plug.

The ruble devalued yet again but this time by only about 30% – still very painful, but people didn't see their entire savings wiped out, just cut by a third. Unemployment jumped too, but only XXX as most companies could stay open, even if they did cut wages and tighten belts.

With oil still at \$100 a barrel in 2009 Russia's economy bounced back relatively quickly, but the boom years were over.

Between 2008 and 2013 Russia faced a new problem. Oil prices were still high, but the economy began to slow anyway. But 2013 GDP growth had fallen to zero despite the \$100 oil. The problem was the Kremlin had ignored the deep structural reforms needed to modernise the economy and the petro-driven model

had simply run out of steam, knocking up against increasingly hard structural limitations.

The 2008 crisis has a lot to answer for as if that Russian capital had had a few more years then a whole new class of businesses could have been created that would have made the economy more robust. 2008 was also the high point of the Kremlin's flirtation with the "Washington Consensus" free market economic model.

After inflation fell into single digits for the first time in two decades, the Kremlin announced a massive \$1 trillion infrastructure investment programme to modernise the economy – twice the size of the current 12 national projects programme that is supposed to do more or less the same thing.

In the summer of 2008 the newly elected president Dmitry Medvedev announced a far reaching and radical privatisation programme at the St Petersburg International Economic Forum (SPIEF) that was packed with foreign investors. The programme had been written by Sergei Guriev, a famous professor of economics at the Higher Economic School, and adopted wholesale by the Kremlin. But by the end of that year the government was in crisis mode yet again and all the grand plans for changed were unceremoniously dumped as everyone simply tried to keep their head above water.

2014 crash
Already weakened by the onset of stagnation due to the lack of reform, 2014 brought yet another collapse in oil prices as Kingdom of Saudi Arabia tried to kill the burgeoning US shale oil business by flooding the market with crude.

The ruble crashed again, but this time falling by more than the 35% in 1998, it dropped by more than half. The ruble went from about RUB35 to the dollar to RUB80 during the worst of the crisis because as part of the Central Bank of Russia (CBR) emergency actions it freed the exchange rate and the ruble became a freely floating currency, which allows the exchange rate to partly cushion the

shock. The exchange rate eventually recovered to about RUB65 but that still meant a 50% devaluation.

But this time round the battle hardened CBR and government rolled out a rescue plan and pumped money into the economy. The CBR introduced a 17% emergency rate hike that stopped the devaluation rot. Some \$200bn of Russia's reserves were spent on supporting industry and no one significant went bust. Retail sales and SMEs suffered and unemployment ticked up but it was still only 5.5% by the start of 2015 – a post Soviet low. Growth slumped but the economy quickly stabilised.

The problem that Russia faced after the 2014 crash was not the aftermath of the crash itself, but the stagnations caused by the exhausted petro-model of growth. Real income growth has flat lined since 2014 and consumption play almost no role in growth. Oil prices have been stuck around \$40 so that didn't help either. And to add to Russia's woes it annexed the Crimea that year so the sanctions regime imposed killed off any inbound investment. By 2016 Russia had another near-miss crisis when the Ministry of Finance found itself with a RUB2 trillion (\$30bn) hole in the budget that it couldn't fill. In the end that crisis was averted by the "privatisation" of a 19% stake in state-owned oil company Rosneft that later turned out to be a loan from the UAE.

Like in 1998, the crisis had some beneficial effects. The Ministry of Finance was so shaken by the almost-crisis in 2016 that it launched a massive reform campaign to clean up Russia's tax system. The service was entirely revamped by Mikhail Mishustin, and was so successful that he was made up to Prime Minister at the start of this year. The tax-take increased by 20% although the tax burden only went up by 2pp in the same period. As an even better indicator of how radical and far reaching these reforms have been in 2008 the federal budget needed oil prices to be \$115 to break even; by this year oil prices only need to be \$42 for the budget to breakeven. Russia Inc is now a much more profitable business.

2020 crash

That brings us to the current crisis that began in March when Russia walked out of the OPEC+ production cut deal on March 6 and the oil prices crashed yet again, falling from an average of \$63.5 in December 2019 to a low of \$21.2 in April this year – the nadir of the oil price crisis. Since then they have recovered to between \$40 and \$45 – the breakeven price for the Russian budget.

And then the coronacrisis came on top of an oil price crash in March. With oil prices already back in Russia's comfort zone by June it is the total lockdown of the economy that started in May that will do the real damage this year; and not just to Russia.

Russia's federal budget will still go into deficit in 2020 from a 1.8% GDP surplus last year as a result of the extra stimulus spending and reduced industrial production and consumption. The deficit was already at circa 2% in the first half of this year and expected to end 2020 at -4.4%.

Growth will also hurt. Russia will go from 1.3% growth in 2019 – that stagnation problem hasn't gone away – to an estimated 8.5% contraction for 2020 before returning to growth in 2021. But this is actually a good result. It is less the full year contractions in all the previous major crises' contractions and it is also better than those in many of the developed markets.

Inflation too has not been affected. Consumer price inflation was a mere 3.6% in August, still below the CBR target rate of 4% so instead of the massive 17% interest rate hike the CBR was forced to make in 2014 the CBR actually cut rates this year in order to stimulate more growth. Cutting rates in the midst of a nasty economic crisis is something that developed markets do, not emerging markets.

Unemployment has also escaped largely unhurt. The jobless rate was running at record lows of around 4.3% before the two shocks hit in March (also a developed market level) but has

ticked up to 6.4% as of August – again the mildest increase in any of the previous crises.

And finally the ruble has also escaped with very little pain. As *bne IntelliNews* reported in "Russia's amazing levitating ruble" the currency lost about 17% in the first half of this year when oil prices were halved over the same period. Inflows into Russia's OFZ by foreign investors have offset the fall in oil taxes and held the value of the currency up. If you remember, in 1998 foreign investors fled the GKO market causing it, and the Russian economy, to collapse.

Perhaps most remarkably of all Russia has managed to continue to accumulate hard currency reserves throughout this year, with gross international reserves topping the \$600bn mark this summer – the fifth largest reserves of any country on the planet. It is this huge war chest that gives the bond investors confidence and the Kremlin a lot of options.

The Russian economy is coping better with the Covid-19 pandemic than it did after the global financial crisis, the head of Russia's Accounts Chamber and ex-finance minister, Alexei Kudrin, said on September 28.

"The current economic situation is certainly better than predicted at the beginning of the pandemic," Kudrin told RT. "For a number of reasons, Russia now looks much better than in 2009, when the economy fell by eight%." What is the silver lining this time round? Russia gained benefits from the previous crises. The collapse in 1998 killed off the virtual economy and remonetarised the country. The crisis of 2014 forced a radical fiscal reform on the Ministry of Finance. So what will happen this time? The answer has to be the adaptation of a new economic model. The Russian economy has been stagnating since about 2011 and little has been done to fix it. The Kremlin has been well aware of the problem and Russian President Vladimir Putin has attempted to deal with the issue with his so-called May Decrees that were last updated in 2018 and have since grown into the

12 national projects. However, the programme got off a poor start in 2019 and has now been delayed after the crises of 2020 broke. This crisis made be the goad that the government needs to finally see these changes through.

But the geopolitics will hamper the kind of spending Russia needs to do to modernise its economy. With its huge fiscal reserves and extremely low debt – Russia could pay off its entire external and public debt tomorrow and still have \$100bn left over, which would still be sufficient to ensure the stability of the ruble – the Kremlin could massively ramp up spending just by using the money in the National Welfare Fund (NWF). In addition it could borrow heavily and still not be under pressure. Russia currently has public debts of about 15% of GDP and the Ministry of Finance intends to increase that to 20% under the new 2021-2023 budget, but Maastricht recommended maximum borrowing level is 60% of GDP and almost all the EU countries are already well beyond that level.

The Kremlin won't go down this road. With geopolitical tensions rising again thanks to the Belarus revolution and poisoning of anti-corruption blogger and opposition activist Alexei Navalny there is new talk of sanctions. On top of that with Joe Biden looking increasingly likely to win the US November presidential elections relations with the America will probably get worse over the next four years.

For the Kremlin all that money and the low debt is a strategic weapon in its fight with the US and gives it impunity from sanctions. Its not an economic resource that can be actually used to promote growth. In effect the Ministry of Finance has been running austerity budgets to preserve these reserves, when it doesn't really need to. The Kremlin is clearly hoping to continue this policy and generate the extra money it needs from recovering oil prices and even more efficiency gains. And given how prone Russia is to crises maybe that is not a bad plan? ●



Poland pledges bold move away from coal

Wojciech Kosciuszko in Warsaw

Poland wants to reduce coal's share in the country's energy mix to 37-56% in 2030 from the current figure of over 70%, the climate ministry said in the updated energy policy plan on September 8.

Poland's economy is among the most emissions-intensive in Europe. That has long put Warsaw at loggerheads with the ever-bolder climate policies of the European Union, which envisages that the 27-nation bloc will become carbon-neutral by 2050.

While Poland officially opposes the carbon neutrality deadline, the growing costs of carbon dioxide emissions are now pushing Warsaw to consider reducing coal's dominance in the energy mix.

Coal's share in electricity production will diminish further to 11-28% in

2040, depending on the cost trajectory of carbon dioxide emission permits, the ministry's plan assumes.

Coal will be replaced by renewable energy and – from the early 2030s – nuclear power, Climate Minister Michal Kurtyka said, presenting the plan. The strategy assumes development of 8-11 gigawatts (GW) of offshore wind power by 2040 as well as 6-9 GW of nuclear power.

Transitioning away from coal will be a political minefield. Poland's mining sector employs some 80,000 people while its unions are politically strong and have derailed or delayed changes before.

Poland hopes to ease the transformation by throwing PLN60bn (€13.47bn) at the mining regions for the so-called "just

transition" or a shift from dependency on coal to a cleaner economy that will not collapse coal regions' labour markets. The bulk of the money will come from the EU coffers.

Developing renewables and nuclear power could create 300,000 new jobs in Poland, the ministry said in the plan.

Environmental and climate organisations criticised the plan for not making clear when Poland would wean itself off coal altogether. There also are doubts regarding the plan's alignment with the expected hiking of the EU's emission reduction ambitions, to be announced next week.

The European Commission is expected to moot raising the carbon dioxide emissions reduction target for 2030 from the current 40% to at least 55%. ●

A new growth area in a clean new world

Clare Nuttall in Glasgow

Hungary-based producer of anti-bacterial coatings Resysten was expanding steadily before the coronavirus (COVID-19) pandemic caused demand for its product to explode.

The pandemic this year brought an immediate hike in demand for Resysten's product – along with demand for personal protective equipment (PPE), facemasks, hand sanitisers and anything people could use to protect themselves and others against infection. This saw factories being converted to roll out hygiene products, while companies already in the sector scrambled to up production to meet soaring demand.

CEO Shajjad Rizvi tells *bne IntelliNews* that even once a vaccine for COVID-19 is found, given the raised awareness about the threat of infection Resysten still expects hospitals, public transport operators and businesses to use the product to guard themselves against future viral outbreaks.

Resysten's photocatalytic coating system is based on titanium dioxide, whose anti-bacterial and microbial benefits were discovered by a Japanese professor back in the 1970s. More recently, a collective study by multiple universities discovered that it could be used to protect surfaces; the process was based on a photocatalytic reaction that produced free radicals, killing anything on a surface.

Resysten was founded to commercialise this discovery, and further work was carried out to develop a product that lasts longer – the company guarantees its coatings for a year – and in very low lighting conditions. It works on all surfaces, including glass, ceramics, metals and textiles, and tests have shown its kill rate is as good as any standardised disinfectant, says Rizvi in an interview over Zoom.

The company's initial clients were in public transportation – it coated 27km of escalator rails in the Budapest metro, for

example – as operators wanted to protect travellers from a flu epidemic. From there, Resysten moved into working with food processing companies to protect against infections, in particular e-coli.

At the same time, Resysten was going through the lengthy process to have its product approved for use in hospitals in Hungary. Just three years after the company was founded, surfaces in every regional major hospital in Hungary had been coated.

According to Rizvi, this “had a dramatic effect on hospital-acquired infections”. He quotes a representative of one hospital who said that once the product had been applied he could see a “complete reversing of upward trend of deaths from hospital-acquired infections”. Such infections kill many more people yearly than COVID-19.

The area coated by Resysten rose steadily year by year from 5,000 square metres initially to around 30,000 sqm pre-pandemic, with the company typically coating areas touched by multiple people such as door handles, stair and escalator rails and counters. In the commercial sector it has coated 6,500 shopping trolleys for Metro Cash & Carry and the counters in mobile phone

operator Telekom's shops, as well as working with car manufacturer Audi.

“When COVID happened, we already had a reputation in Hungary and started getting calls from gyms, offices, retailers...” says Rizvi. This year, the company expects to coat around 130,000 sqm of surfaces in Hungary alone.

Resysten is also exploring international expansion, a long process that involves securing regulatory approvals in each country and finding local partners. In addition to its headquarters in Torokbalint, Hungary, the company is setting up a second office in London to work with countries outside the EU.

Since the onset of the pandemic, Resysten has been “getting calls from all over the world,” says Rizvi. He points out that with the COVID-inspired demand and its references, including from the Hungarian operations of international blue chips, Resysten expects to have a slew of international clients as soon as it gets approval from regulators.

“If you consider the size of Hungary and the other countries where we have deals and partners in place, we're looking at coating well over 1m sqm once the other countries come online,” he said.



Political rift causes Europe's top acoustic piano producer to lose Chinese contract

bne IntelliNews

The traditional Czech family business that is the largest producer of acoustic grand and upright pianos in Europe, Petrof, has apparently lost a contract to supply instruments worth €200,000 to China, due to the visit of Czech senate chair Milos Vystrcil to Taiwan, the Czech News Agency reported on September 4.

"A business partner for Beijing and its surroundings has written to us that there are rumours in China that the Chinese government plans to impose sanctions on the Czech Republic and its goods and that the company does not have the ability to pay fines. Thus they asked us to suspend our supplies," the president of Petrof Zuzana Ceralova Petrofova told the news agency.

Christian Democratic MEP Tomas Zdechovsky, in a reaction to the news, decided to help Petrof. Zdechovsky, who comes from the same town as the company, contacted ambassadors of democratic countries, including Taiwan, to see if they would be interested in the canceled contract.

"Our companies cannot be dependent on the Chinese market, and be terrified of whether or not we will make the Chinese angry," said Zdechovsky, adding that "Czech business will not collapse as a result of one visit to Taiwan. After all, China is cheerfully trading with Taiwan." According to him, it is possible that Taiwan will take over the shipment.

For Petrof, China has been the biggest market out of the 65 countries that it exports to. In August, the company marked the 80th anniversary since it delivered its first instrument to China. Recently the company also opened its second showroom and a cafe called Petrof Gallery in the city of Xi'an, the only one outside the Czech town of Hradec Kralove.

At the occasion of the 80th anniversary, Petrofova stated that the company's "achievements in the Chinese market are based on our acceptance and respect for the cultural differences and the ability to adapt to Chinese rules. This market is not only a key trait of our business but also a pleasant place to look forward to."

As reported by the news agency, the family foundation of Czech billionaire Karel Komarek, owner of KKCG group, announced on September 8 it decided to buy pianos and grand pianos from Petrof as agreed in the Chinese contract and donate them to Czech schools.

"We decided to buy the pianos as soon as we found out about the issue. My wife and I agreed that our foundation would immediately donate them to Czech schools. We would like the 11 instruments to become a symbol of Czech pride and cohesion," said Komarek, quoted by the news agency.

"Because of COVID everything's gone bonkers, we've seen a sixfold increase in demand. We all pray there's going to be a vaccine, but we really do have a future post-vaccine in ensuring germs don't have the opportunity to spread so freely ... COVID-19 accelerated interest and demand, but we had a very good life before COVID, and post-COVID surface protection will be part of the future for the fight against the next virus or bacteria outbreak."

Antibacterial coatings are not new, and Reysten has a number of rivals. What sets the company's product apart, says Rizvi, is the length of time it's effective for and the fact that it guarantees this. "There's a lot of snake oil out there, but there are also some serious players," he comments.

To ensure the coating is effective, the application is as important as the fluid. Applying too little or too much causes it to lose effect. Resysten has its own team applying the coating for its customers and will work with trained partners as it expands to other countries.

COVID "swamped us", says Rizvi, but the company is still looking at new applications for its products. Pre-pandemic, it was already looking at putting the coating on plastic gloves and face masks, and had been approached by one of world's largest appliance manufacturers.

An opportunity pursued by most companies in the field is how to use the product to "empower housewives or the average Joe". But, points out Rizvi, reiterating that the company's coatings need to be applied by trained specialists, "We don't want to fall into the trap other companies have fallen into of just putting out a spray bottle for the mass market because it simply doesn't work."

And while Resysten develops its product, Rizvi says there is a lot still to discover about titanium dioxide: "We are really at the beginning of this element. It's exciting to be there." ●



Hungary's culture war escalates as students defy government-appointed leadership at Budapest's SZFE university

Tamas Szilagyi in Budapest

Students of Budapest's University of Theatre and Film Arts (SZFE) cordoned off the entrance of the building in central Budapest to protest the transfer of the university to a foundation led by appointees of the government, local media wrote on September 2. The moves came after members of the Senate stepped down on Monday as the board of trustees stripped them off all powers.

The Innovation and Technology Ministry, which oversees higher education, announced in June that the SZFE's operations will be taken over by a foundation from September 1.

In the summer Attila Vidnyanszky, director of the Budapest National Theatre, was appointed to the post of chairman of the five-member board of trustees.

This was a clear signal that the right-wing government of Viktor Orban would aggressively carry out radical changes at the university and appoint its own people by all political means.

The government has been privatising universities through the model of placing them under the control of foundations, led by people close to the cabinet. The model was applied to the country's leading economics university, Corvinus.

To finance its operations the state transferred 10% of MOL and 10% of Richter shares to foundation worth HUF138bn (€386mn) and HUF132bn respectively at current market prices.

So far no details emerged on the future financing of SZFE from the foundation. The government has hinted at the establishment of a new campus.

Lack of conservative-Christian values
Vidnyanszky, a staunch supporter of Orban, has for long called for a more pronounced presence of Christian-conservative values in the world of film and theatre. The overwhelming view of conservatives close to Orban is that Hungary's arts scene is dominated by leftist-liberal intellectuals, who are insensitive to the country's national heritage.

After transforming Hungary's economic and media landscape the government is making concerted efforts to make a change in this field.

Ethnic Hungarians like Vidnyanszky are playing an important role in this culture war, independent media wrote.

They were appointed to important posts by the Orban government, which granted dual citizenship to Hungarians living outside the border. Their vote played an instrumental role in the supermajority victory of Fidesz in the 2014 and 2018 elections.

Vidnyanszky, born in the Western Ukrainian town of Berehove, has a major say on who receives financing for various projects. He is also a professor of dramatic arts at the University of Kaposvar in southwest Hungary, the second-largest school for theatre art in Hungary.

Critics on the other side of the political spectrum acknowledge his talent, but say that he has gained a dominant position in the theatre scene and after years of being in the background he is taking revenge.

Attacks under the pretext of the "Me-too" movement

After the expulsion of CEU, a private university of Hungarian born billionaire

Geroge Soros, and attacks on NGOs critical to the government, the nationalist Fidesz government took an aim at left-leaning cultural institutions.

In December, it adopted a controversial law for theatres and thus increased its powers in the selection and appointment of directors.

A slur campaign by pro-government media against teachers and students of SZFE began in the fall after a sexual harassment case against a prominent director. Although Peter Gothar was immediately fired, the disinformation campaign continued.

University leaders spoke of foggy promises by the government and coordinated efforts aimed at breaking their resistance to the ongoing transformation.

The ministry intentionally blocked the appointment of elected leaders of SZFE, which also served as a pretext for change.

The conflict escalated when members of the Senate resigned after the new board of trustees stripped them off all essential powers. The Senate will no longer have a say in the budget or in appointing heads of departments.

Outgoing officials said "any appearance of the leadership's independence can only be maintained by making unacceptable compromises". They vowed not to take up any position at the helm of the university "until its autonomy is restored".

Students blocking the entrance of the university vowed to continue the resistance until the new board steps down. Local media is speculating about a long-lasting stand-off.

In either case the new conservative leadership will face an uphill battle in winning the hearts and minds of students. An online poll of students showed that an overwhelming majority rejected the government-appointed delegates and Vidnyanszky himself. ●



Serbia and Kosovo sign “historic” economic deal in Washington

Valentina Dimitrievska in Skopje

Serbia and Kosovo reached a “historic” agreement on normalisation of their economic relations on September 4 in Washington, White House officials announced.

The deal is of great importance as it is seen as another step towards full normalisation of the relations between the two sides. Belgrade and Pristina, which are engaged in an EU-mediated normalisation dialogue, were invited by the White House for a meeting that was mainly focused on economic issues. Their delegations were led by Serbian President Aleksandar Vucic and Kosovan Prime Minister Avdullah Hoti.

The economic deal was signed in the presence of US President Donald Trump.

“President Donald Trump has announced that Serbia and Kosovo have agreed to economic normalisation. Another historic agreement reached by the president,

to make the world more peaceful and prosperous place,” President Trump’s aide Judd Deere said in a tweet.

Following the ceremony, Vucic said that Serbia signed a bilateral deal with the US on economic cooperation with Pristina.

“We have signed a bilateral agreement with the US for economic cooperation with Pristina, not a trilateral one, in which Pristina is not mentioned as a subject of international law,” Vucic was cited by local media.

Serbian Finance Minister Sinisa Mali, who was part of the delegation to Washington, said that the agreement on the normalisation of economic relations with Pristina is “a huge success in the negotiations” and will contribute to faster integration and economic development of the entire region.

“This is extraordinary news for the state of Kosovo. This support from the White House is essential to our journey towards the EU, the UN and other international organisations”

“We got the maximum we could, especially on issues that are important for the standard of living in the entire region of the Western Balkans,” Mali said, according to the government statement.

Among important projects that were agreed, Mali singled out the completion of the motorway from Nis to Pristina worth €1.1bn and the reconstruction of the Nis-Pristina railway line estimated at €1bn that will be financed by the US government.

Mali underlined that it is especially important that the US International Development Finance Corporation (DFC), with an annual budget of more than \$60bn, agreed to open an office in Belgrade.

“This is of great importance because it will bring an even larger number of investors, give credibility to the entire process of economic development of our country and help improve our credit rating,” the minister said.

He added that one of the most important parts of the agreement is that Kosovo agreed to be part of the so-called “mini-Schengen”, which is an economic area so far agreed between Serbia, Albania and North Macedonia.

Meanwhile, Kosovan PM Hoti announced that the US president pledged that the projects agreed in Washington will be implemented within a year, *Gazeta Express* reported.

Hoti also announced important news for his country: Israel will recognise Kosovo and soon both countries will establish diplomatic relations.

“This is extraordinary news for the state of Kosovo. This support from the White House is essential to our journey towards the EU, the UN and other international organisations,” Hoti said.

The Kosovan prime minister said he is convinced that the economic deal represents a big step towards reaching a final agreement with Belgrade.

“We see this agreement as a big step towards reaching a final agreement and mutual recognition with Serbia,” Hoti said.

The delegations from Serbia and Kosovo started the meetings in Washington on September 3 mediated by White House

EU’s relationship with Turkey has reached “watershed moment” says foreign policy chief Borrell

bne IntelliNews

The European Union’s relationship with Turkey is at a turning point, the bloc’s top diplomat said on September 15. Speaking in the European Parliament, Josep Borrell urged Ankara to back down from conflict in the eastern Mediterranean and uphold the basic human rights of its citizens.

“[Our ties] are at a watershed moment in history, which will go to one side or the other, depending on what happens in the next days,” Borrell said.

EU leaders are set to meet at a September 24-25 summit to discuss Turkey and further consider whether a strategy driven by sanctions should be adopted. Ankara’s gunboat-backed showdown with bloc members Greece and Cyprus over gas and oil exploration entitlements in various parts of the eastern Mediterranean is top of the agenda, while the Turkish interventions in the Libyan and Syrian civil wars, and Turkey’s bellicose posturing on the side of Azerbaijan following its border skirmishes with Armenia in July, are also causing consternation, with eurocrats concerned that Turkey is increasingly asserting itself as a regional bully. Turkish President Recep Tayyip Erdogan’s stark lurch into authoritarianism since the failed coup against his administration in July 2016 had already rid Brussels of any notion that Turkey could progress its decades-long ambition of becoming an EU member in the foreseeable future.

Call for “tangible solidarity”

Greek Prime Minister Kyriakos Mitsotakis called on September 15 for “tangible solidarity” from the EU in tackling both the migrant crisis and east Mediterranean tensions with Turkey.

Mitsotakis was reported by Reuters as saying that Greece was ready to enter exploratory talks with Turkey “immediately” on the maritime zones if Ankara ended its “provocations” in the region.

Turkey’s Foreign Minister Mevlut Cavusoglu said his country has been proposing to restart exploratory talks with Greece. “Exploratory talks actually cover all disputed issues between Turkey and Greece... The previous government [in Greece]... didn’t want to actually restart. And this government also has not been willing to restart the exploratory talks, so we have to make an agreement,” he said.

Recent weeks brought a war of words between French President Emmanuel Macron, Greece’s most outspoken ally in the eastern Mediterranean dispute, and Erdogan. Macron drew the wrath of his Turkish counterpart by stating that his problem is not with the Turkish people, for whom he has great respect, but with the Erdogan government. Erdogan responded with characteristic angry rhetoric on September 12, telling Macron “not to mess” with Turkey.

national security advisor Robert O'Brien and the US president's envoy for the Serbia/Kosovo dialogue, Richard Grenell.

Originally, Vucic and Kosovo's President Hashim Thaci were scheduled to meet on June 27 in Washington, but the meeting was canceled after the announcement that Thaci had been indicted by The Hague-based Specialist Prosecutor's Office for war crimes committed during Kosovo's independence war with Serbia. Then the

meeting was scheduled for September 2 but was postponed by two days due to "scheduling reasons".

Kosovo unilaterally declared independence from Serbia in 2008, but it is still not recognised by Belgrade as a separate country. The proclamation of independence came one decade after the Kosovo war in 1998-1999 which ended with Nato attacks in Serbia. The independence war claimed more than 10,000 victims, making the two sides fervent enemies.

Serbia and Kosovo will continue high level meetings with the mediation of the EU on September 7 when Vucic and Hoti are scheduled to meet again in Brussels. EU officials expect the final deal between the two sides to be reached within months.

Kosovo wants the final agreement to include the recognition of Kosovo by Belgrade, but Serbian officials say that recognition is not an option. ●

Croatian officials slam MEP's watermelon protest as "security threat"

bne IntelliNews

Croatian MEP Ivan Vilibor Sincic dumped dozens of watermelons outside Government House in Zagreb as part of a protest to raise awareness about the situation of local farmers.

Farmers in Croatia complain that since the country joined the European Union local food producers have been undermined by cheap imported food.

Sincic and other protesters outside the government building on September 10 said the watermelons they threw down were meant to symbolise the watermelons and other fruit and vegetables farmers would have to plough under or destroy because they were unable to sell them.

Sincic delivered an address to the small crowd through a loudhailer from on top of the van, and fellow demonstrators accosted members of the government as they entered the building.

"Every year, thousands of tonnes of domestic products fail in Croatian fields. Our struggle must be for our country, for our children, for our people," Sincic wrote on his Facebook page.

"We import food, we import over 90% of salt [though we are] near the Adriatic

Sea. They [politicians] do not hear the voice of farmers, they do not hear the voice of craftsmen. They only hear when they are shouted at."

Croatian government officials were quick to criticise Sincic. Agriculture Minister Marija Vuckovic dismissed the protest as "theatre". Deputy Prime Minister and Minister of the Interior Davor Bozinovic said that "no one expected that something resembling a security threat would come from a politician".

"Certainly this is not a good picture, especially for those who are politicians and MPs and who express their political position in this way. We are

a democratic state, but in a democracy there must be rules," Bozinovic added.

Prime Minister Andrej Plenkovic has already said that a security plan will be drawn up for the area outside the government building.

Sincic, who is just 30 years old, was one of the founders of the Zivi Did (Human Shield) anti-eviction movement, whose members occupied properties to prevent foreclosures. A party of the same name was founded in 2011, and Sincic is its chairman. He ran in the 2014 presidential election, coming third after the candidates for the two main parties, and went on to successfully run first for the Croatian parliament and later to become an MEP. ●



MEP Ivan Vilibor Sincic (right) and a fellow protester empty a van of watermelons outside the Croatian government building.



For the 64th day running hundreds of thousands of Bulgarians protested on September 10.

EU under pressure to intervene as Bulgarian protests enter third month

Denitsa Koseva in Sofia

Bulgaria enters the third month of protests demanding the resignations of government and chief prosecutor Ivan Geshev.

For the 64th day running hundreds of thousands of Bulgarians protested on September 10, disgusted by the evidence of top-level corruption and the alleged involvement of the government and Geshev with controversial politicians and businessmen.

“If the [European] Commission thinks the progress in Bulgaria has been good over the 13 years – well, my conclusion can only be that you’re either grossly incompetent or that you are completely subservient to the interests of Borissov because of his connections with certain influential groupings in this parliament,” Daly said, addressing the European Commission Vice-President Vera Jourova.

Jourova talked to a session of the Euro-

pean Parliament’s Committee on Civil Liberties, Justice and Home Affairs (LIBE) on September 10, pointing out that Bulgaria has made some progress in the past years but that the protests show the importance of good leadership to the people in Bulgaria.

Daly accused Borissov of turning Bulgaria into the most corrupt EU member state as well as the poorest.

“We have irrefutable evidence of his [Borissov’s] connection and interaction with the prosecutor Geshev, giving orders about who should be prosecuted, covering up for his own allegations of money laundering in Spain and so on, harassment of judges. Now the people are off their knees, we have mass arrests, people being beaten, pepper sprayed, a riot police without proper identification, reputable members of the society being imprisoned, on hunger strike and we talk about monitoring and progress,” Daly said.

“People on the streets of Sofia today want to know are you going to argue for that to be imposed. That the CVM [Cooperation and Verification Mechanism] will be strictly monitored. They also want to know are we going to stop funding these thugs, because European money is emboldening and enabling these people to engage in all-scale corruption which is penalising the Bulgarian citizens. I have to say I think this is absolute disgrace,” Daly also said. Her statement was widely applauded by Bulgarians who have become angry with the complete failure of the European Commission to intervene since the start of the protests.

Meanwhile, Jourova said that the EC will prepare the first report on Bulgaria under the rule of law mechanism on September 23. Jourova also urged the authorities in Sofia to seek advice from the Council of Europe’s Venice Commission on legislative revisions regarding the accountability of the prosecutor general, including safeguarding judicial independence in line with the Venice Commission’s recommendations.

“Are you blind, EU?” has become a popular poster during the protests and several times protesters have stopped by the delegation of the EU to demand a reaction from European institutions.

At the same time, the authorities in Sofia are accusing protesters of being criminals or paid by criminals. On September 9, Borissov said that the mafia is demanding his resignation, therefore he will not resign. His statement provoked outrage and people started posting photos of young people with their children among protesters, ironically calling them “the mafia”.

On the 64th day of protests, announced as the “second supreme national uprising” by its organisers, the Poisonous Trio, tens of thousands of people yelled that the authorities have got wrong the address of the mafia, referring to Borissov’s statement. ●



Some 10,000 women marched on September 12 and had to face the increased violence of the OMON but countered it with shrieks and ripping their masks off

The Belarusian Banshees

Ben Aris in Berlin

"You shall not pass!" chanted the shrieking women as the OMON riot police tried to push at least 20 women out of the way of a van full of detainees.

The women were shrieking, an otherworldly sound that is not screaming. They showed no fear as the OMON loomed over them. But the shrieking that has become part of the standard armoury in the weekly female-only protests every Saturday clearly unnerves the OMON, who don't know how to deal with the women.

Again the OMON tried to shove the women out of the way of the van that was trying to leave with its cargo of protestors. The women had bound themselves into a block with tightly linked arms and hugging each other to prevent the OMON from breaking up the body of women blocking the road.

As the OMON pushed against the women hands immediately shot out, grasping at their masks, trying to rip them from the faces of the balaclava-wearing officers.

This is another tactic that has appeared in the last week: unmask the OMON and then post their identity and their crimes online: it has proved to be extremely effective, and once the mask is off the officers tend to turn tail and flee. The OMON backed off, defeated. The women were not going to be moved. "You will not pass!" they began to chant in unison.

A pro-government rally organised the same day to counter the women's march drew a few hundred people at best and only highlights the illegitimacy of the elections where Lukashenko claims to have won over 80% of the vote.

Violence slowly escalating

Violence escalated at the "Loudest March of the Women" demonstration on September 12 in Minsk. An estimated 10,000 turned out in the capital, with smaller rallies held in solidarity in various regional towns.

With Belarus' self-appointed President Alexander Lukashenko due to meet with Russian President Vladimir Putin on September 14 to discuss the deeper integration between the two countries, the Belarusian incumbent wants to show he is in control of the situation, so the OMON were out in force.

The level of violence is ticking up steadily each week and the OMON crossed a new line when they broke the previous taboo and began arresting women earlier this week. Previously they had not dared touch them and the women used their immunity to form



phalanxes around men the OMON were trying to detain to protect them.

But as the Loudest March got underway the OMON quickly appeared and began detaining protesters hoping to deter the would-be participants. More than 100 were herded into the waiting paddy wagons. One woman was brutally bodily thrown into the van as the officers tried to deal with a horde of shrieking women trying to rescue their co-protesters.

The arrests are rising again, with over 600 in the last week and at least another 100 women arrested on September 12, bringing the total that have been taken into custody since the protests began just over a month ago to more than 10,000, according to NGO estimates.

As the numbers of demonstrators swelled the OMON were quickly overwhelmed. Clashes became more frequent but less effective. In another incident three officers walked into the crowd intent on snatching demonstrators only to find themselves surrounded by clawing hands, trying to

rip off their balaclavas, before they were forced to beat a humiliating retreat.

The women have lost all fear of the authorities. The OMON have been defanged by their obvious discomfort with the shrieking women clawing at their faces. And they clearly worry about being doxxed by the crowd. In an incident early this week one officer was caught on film violently trying to pull a protester out of the crowd and taking swings at the people hanging on to the man until

someone ripped his mask off. Within hours the officer's profile was posted online, complete with pictures, including his wedding picture with his wife, and listing his address and telephone number.

And the "face and shame" campaign that has rapidly built up momentum in the

last few days could go to a whole new level in the next weeks. The Telegram channel Nexta announced that a hacker group had managed to get into the Ministry of the Interior's system and the channel has been given a database listing the ministry's entire staff, including all the police and OMON's personal details, that it is threatening to publish if Lukashenko doesn't resign.

Belarus is a small country with just under 10mn people. There are only

"As the numbers of demonstrators swelled the OMON were quickly overwhelmed. Clashes became more frequent but less effective"

a few degrees of separation between the officers and the rest of the population and the state's forces are clearly already worried about being outed.

In another incident a plainclothes officer was ostentatiously filming the faces of a crowd of women, a tactic long

used by the authorities to intimidate demonstrators, when instead of backing off the crowd of women began to advance on the officer.

One middle-aged woman stepped out of the crowd and walked up to the officer holding her hand in front of his lens, forcing him to back away. Then another grabbed him from behind and ripped his mask off. When a secret service colleague tried to step in to help him they were quickly mobbed by the women and beat a retreat as the triumphant women chanted: "Get out of here!"

The badass Belarusian babushka

The now iconic "badass Belarusian babushka" Nina Bahinskaya, a 73-year-old pensioner, who has been protesting against the Lukashenko regime for years, was in the vanguard at half a dozen

clashes with OMON throughout the day.

The police have clearly been given orders not to arrest her, as she would be too potent a symbol of the state oppression. Her diminutive size and her totally ineffectual efforts to roughhouse the OMON, who effortlessly bat her assaults away like an annoying fly, would make her arrest look ridiculous.

But at the same time she has become a hero of the revolt as she fearlessly marches into the OMON and tries to tear off their masks, shouting and scolding them all the while. As she is so small, if she can't reach their faces she contents herself with kicking them in the ankles. The crowds of women at her back chant "Nina!" and other women dive in to rescue her if the OMON officers are too aggressive.

Like the rugby scrum of women that blocked a paddy wagon from leaving with its detainees, Nina blocked another by herself, standing in the road in front of it, in an image of the "tank man" from the Tiananmen Square protests in China in 1989, until the OMON drivers were forced to get out of the truck and physically move her to one side.

A German journalist caught up with Nina just before midnight and asked her if she was tired. "Pah! She replied.

"I'm not afraid," she said of the OMON. "These are young men, they sell their souls to the devil. Their wives and children will never forgive them... What should I be afraid of? Death? I know that I will go from this earth," she told Alice Bota in Minsk, adding that she was there to "help the young people." ●



Navalny's smart voting scores rare successes in Russia's regional elections

Ben Aris in Berlin

The "smart voting" tactics promoted by anti-corruption blogger and opposition activist Alexei Navalny delivered a few successes in Russia's regional elections held on September 13.

Opposition leader Sergei Boyko, who is part of the Navalny organisation, won the seat in the Siberian region of Novosibirsk, despite an energetic campaign by the ruling United Russia Party.

"This is the first victory of a Navalny office head," Ivan Zhdanov, director of the opposition politician's Anti-Corruption Foundation, said on Twitter. "It was in Tomsk where Navalny was poisoned."

In several dozen of the country's 85 regions, Russians voted for regional governors and lawmakers in regional and city legislatures as well as in several by-elections for national MPs.

The Kremlin was in trouble going into the elections as its proxy in the Duma, the United Russia party, had seen its popularity sink to a record low of 31% as polls opened. The Kremlin has already been struggling to contain popular protests in the Far Eastern region of Khabarovsk that are about to go into their third month, after the popular regional governor was removed on murder charges.

The local elections have been a test for Navalny's protest voting technique, where they promote the candidate most likely to oust the United Russia Party, irrespective of their political allegiances. That means the opposition supported candidates from the ultra-nationalistic Liberal Democratic Party of Russia

(LDPR) and the Communist Party of the Russian Federation (KPRF).

The votes followed Navalny's poisoning with Novichok following his visit to Tomsk on August 20, where he went to help organise voting in the elections.

Official early results showed pro-Kremlin politicians backed by Putin coasting to landslide wins to serve as the governors of the regions of Komi, Tatarstan, Kamchatka and more than a dozen others.

But Navalny's supporters scored rare victories in city council votes in Novosibirsk, Russia's third city by population, and the student town of Tomsk where United Russia, which dominates regional power, appeared to have lost its council majority.

"People are sick of the authorities. You can't sit on the throne for 20 years, grab, steal endlessly, do all of this and go unpunished," said Ksenia Fadeyeva, who won a council seat in Tomsk, as cited by Reuters.

Navalny supporter Andrei Fateev, 32, also won a seat in Tomsk, while Boyko looked set to win council seats in Novosibirsk.

"This completely destroys the whole myth about the 2% of liberals and that their 'support is only among hipsters inside the Garden Ring road [in Moscow]'," said Leonid Volkov, a close ally of Navalny, as cited by Reuters.

More than a thousand politicians, who were believed to be well placed to beat ruling party candidates, were included in the smart voting campaign, and the opposition mounted campaigns on their behalf.

In Tomsk, Fateev said United Russia appeared to have won only 12 out of 37 seats on the council after many candidates backed by the smart voting strategy had gone on to win.

Tatiana Doroshenko, a local election official, said she could not remember United Russia ever performing so badly

early voting was used, allowing voters to vote online for two days before physical voting on September. The change in the rules is considered to offer an easy way to rig votes. An early voting system was also introduced in the massively falsified presidential election in Belarus, where incumbent Alexander Lukashenko claimed to have won by a landslide, sparking nationwide protests.

"As I suspected – and this was only logical, really – the authorities seem to have used whatever tricks they could to prevent second rounds in any of the 18 gubernatorial elect," tweeted

"People are sick of the authorities. You can't sit on the throne for 20 years, grab, steal endlessly, do all of this and go unpunished"

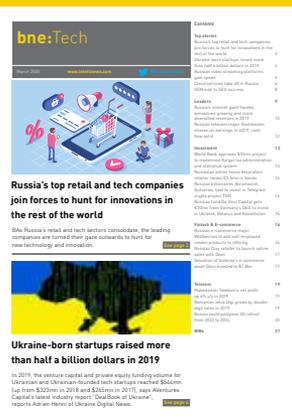
in her 15 years as chairwoman of a district election commission in Tomsk.

"This is an awesome case example ... you can actually engage in politics and it's not futile as it had seemed just so recently," said Fateev, Reuters reported.

Andrey Turchak, United Russia's general secretary, said the party had scored a "confident victory" in votes seen as a dry run for the even more important 2021 parliamentary elections.

The regional election was the first time

political analyst Andras Toth-Czifra. "This has been a consistent policy since the surprise electoral upsets in 2018 and even more so now with the pro-[Khabarovsk governor] Furgal protests. There was a lot of administrative meddling, disqualification, bribes, etc. Still there were rumours about possible 2nd rounds... These elections will further erode the "electoral legitimacy" that the Russian governing system has been based on. But this the Kremlin can still take if it doesn't lead to protests & those have been triggered by specific issues." ●



Russia's top retail and tech companies join forces to hunt for innovations in the rest of the world

Ukraine-born startups raised more than half a billion dollars in 2019

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Ukrainian President Volodymyr Zelenskiy's appointee as General Prosecutor, Iryna Venedyktova, seems more interested in pursuing a political agenda than cleaning up Ukraine's venal judicial system.

Ukraine's partners worried about deteriorating commitment of Zelenskiy administration to judicial reform

Ben Aris in Berlin

Ukraine's partners are worried about the deteriorating commitment of the Zelenskiy administration to the rule of law and judicial reform and the increasingly politically motivated actions of the president's recently appointed General Prosecutor, Iryna Venedyktova.

"In most countries, judges take on the mafia," writes Roman Olearchyk, *The Financial Times'* veteran correspondent in Ukraine. "In Kyiv's district administrative court, some of the justices are the mafia, say anti-corruption investigators."

Venedyktova was a controversial hire and replaced the widely respected Ruslan Riaboshapka, who was dubbed "Ukraine's first ever honest general prosecutor." Venedyktova

is widely seen as loyal to Zelenskiy and among her first moves was the launching of an abuse of office investigation into former president Petro Poroshenko that is widely seen as politically motivated.

"Zelenskiy's handpicked Prosecutor General Iryna Venedyktova discredits herself completely. She has now opened

"In most countries, judges take on the mafia. In Kyiv's district administrative court, some of the justices are the mafia"

39 cases against Poroshenko because Zelenskiy hates him, rather than going after Ukraine's real criminals.

Ukraine needs the rule of law!" tweeted Anders Aslund, a Swedish economist and a Senior Fellow at the Atlantic Council.

Poroshenko had to defend himself in court on July 1 against abuse of office charges that nearly saw him jailed. The ex-president failed to show up at the State Bureau of Investigations and walked out of court after the charges were dropped.

In the most recent scandal more than 20 Western-sponsored civil society organisations signed a September 11 statement calling on Venedyktova to dismiss her recently appointed deputy, Maksym Yakubovskiy, as announced by the ZMINA centre for Human Rights.

"Yakubovskiy needs to be dismissed in order to ensure the independence of the departments in the Prosecutor General's Office that he has been appointed to lead," the statement said. "These are the departments to conduct EuroMaidan-related investigations, to combat the use of torture and to prosecute military crimes." The statement also called for Venedyktova to voice public support for criminal cases involving the EuroMaidan crimes.

Venedyktova appointed Yakubovskiy as her deputy on September 10, the Prosecutor General's Office announced that day. In 2011-2013, Yakubovskiy served as an expert of criminal law for the Constitutional State Independent Ukrainian centre for Legal Initiatives and Examinations, which is sponsored by Viktor Medvedchuk, widely recognised as Putin's right-hand man in Ukraine. "The centre's director is Vasyl Nimchenko, who is an MP with

the pro-Russian Opposition Platform For Life Party, which was co-founded by Medvedchuk (also an MP). Among the

centre's key activities was discrediting the Ukraine-EU Association Agreement," the statement said.

Yakubovskiy's appointment "eliminates the independence of the prosecutors of the Prosecutor General's Office as procedural directors in the EuroMaidan

of Justice, some of whom have been charged with corruption. Corrupt judges have been kept on and little effort has been made to oust them.

"Until reforms take place, this Council operates as a law unto itself and has unchecked authority to review laws

"Until reforms take place, this Council operates as a law unto itself and has unchecked authority to review laws as well as to discipline, replace and select judges in all courts"

cases, as well as the possibility for an effective conclusion to investigating these cases and an appropriate presentation of accusations in court," said the statement, whose signatures include the Anti-Corruption Action Centre and Transparency International Ukraine.

"Yakubovskiy's appointment has made it apparent that Ukraine's pro-Russian forces are laying the groundwork for Zelenskiy's departure, which we view as having solid chances of occurring (better than 50/50) before his five-year term as president concludes. Gradually, they have been placing loyal officials in key positions through which they will be able to retake control of affairs in the event of his departure," Zenon Zawada of Concorde Capital said in a note.

Likewise, a battle for control of the National Anti-Corruption Bureau of Ukraine (NABU) has recently broken out, with the Constitutional Court declaring illegal a 2015 presidential decree appointing Artem Sytnyk as the first director of NABU, a body set up to investigate corruption and entirely autonomous of the government. The legal assault on NABU was enough to prompt the IMF to issue a statement that implicitly warned Kyiv to back off or see further IMF money halted.

A judicial reform initiative launched last year that was backed by both the president and Parliament was blocked by the 20 members of the High Council

as well as to discipline, replace and select judges in all courts. The blow was a setback to judicial reform while illustrating the need for sweeping changes," said Diane Francis, a senior fellow at the Atlantic Council's Eurasia Center, in a recent article.

During this summer, judges have escalated their attack on NABU as well as on the National Bank of Ukraine (NBU) as part of a campaign by oligarch Ihor Kolomoisky to regain control over PrivatBank, which was nationalised in 2016 after he looted \$5.5bn from it.

The courts have also tried to liquidate the High Anti-Corruption Court, which is another leg of the triumvirate that includes the Special Anti-Corruption Prosecutor's Office (SAPO), which carries out the prosecutions in parallel to the General Prosecutor's Office, but is also entirely independent from the government's control. The cases that NABU and SAPO produce are heard in the Anti-Corruption Court, which is also entirely independent of both the government and the rest of the legal system.

This whole independent graft-fighting system is under constant attack and Zelenskiy appears to have no interest in protecting it. As *bne IntelliNews* has written elsewhere, corruption is the system and Zelenskiy, like his predecessor Poroshenko, has shown little interest in attacking the issue.

There was more bad news for reformers in early September when the Kyiv Administrative District Court ordered PrivatBank to pay \$350mn to two associates of Kolomoisky. PrivatBank lawyers said the bank would appeal against the decision.

The seriousness of this PrivatBank ruling cannot be overstated. In a social media post, Ukrainian Justice Minister Denis Maluska branded it "one of the biggest judicial transgressions in Ukrainian history," said Francis.

Meanwhile, former Finance Minister Alexander Danilyuk called the decision "the beginning of the collapse of the results of the nationalisation of PrivatBank" and warned that if lawsuits are not stopped, they could cost Ukraine's government billions of dollars.

"These setbacks highlight the need for dramatic personnel changes within the court system. However, efforts to purge the Ukrainian legal system have repeatedly been undermined as jurists close ranks. In 2019 and 2020, NABU charged a number of judges with corruption and obstruction of justice, but have been unable to get a court to hear the case. Likewise, the Prosecutor General's Office has tried but failed," said Francis. "President Zelenskiy must take on the country's legal cabal. Judicial reform legislation must be re-introduced and the support of the IMF, the West, donors and the public must be elicited. The courts cannot continue to veto reforms." ●





In a video statement, Saakashvili said he wanted to be PM for two years, which would “be enough to pull the country out of the swamp”.

Saakashvili returning to fray in Georgian general election defying critics who see move as own goal

Julian Ernst in Bucharest

The prevailing wisdom right now is that Georgia’s main opposition party United National Movement (UNM) and its coalition of smaller parties Strength is in Unity – United Opposition has scored a terrible own goal in naming the polarising former president and self-exiled Mikheil Saakashvili as their candidate for prime minister ahead of the October 31 parliamentary election.

The UNM took the decision in an effort to strengthen its position as the main challenger to ruling party Georgian Dream (GD). It apparently wants to galvanise voters that might be considering backing a more moderate opposition party but it would appear to mean abandoning any plan for

a broader pre-electoral coalition in favour of an “all or nothing” strategy perhaps better suited to a presidential knockout contest.

Following the Rose Revolution, the UNM ruled Georgia from 2004 to 2012. But GD came to power very much because of the deep unpopularity that Saakashvili had generated by the end of his time in power and the former president’s fierce rival – GD’s chairman, the billionaire oligarch and ex-PM Bidzina Ivanishvili

– might very well be thrilled to see UNM put forward such a divisive candidate.

“Bad sign”

“Saakashvili’s nomination is a bad sign for the opposition,” Kornely Kakachia, head of Tbilisi think tank Georgian Institute of Politics, told Eurasianet on September 8. “Georgia needs a consensus leader to challenge GD, not someone divisive like him.”

“The more Saakashvili gets involved in Georgian affairs, “the more Bidzina

“Saakashvili’s nomination is a bad sign for the opposition. Georgia needs a consensus leader to challenge GD, not someone divisive like him”

Ivanishvili benefits,” wrote analyst Dmitry Moniava in a commentary on RFE/RL. “Everyone says this: Saakashvili’s friends, his enemies, and neutral commentators. But he is like a boxer who has been defeated many times who still wants to show that he is on top, racing back to the

Rather slim

The chance of Saakashvili getting a chance to correct his errors are broadly seen as rather slim, however. “The prospect of Mikheil Saakashvili’s prime ministership looks more uncertain than the prospects of other candidates,”

“I will be the prime minister not for a full term, but for a maximum of 2 years,” Saakashvili said”

past and dreaming of a rematch in the same ring, with the same fans.”

Grigol Vashadze, who was personally appointed by Saakashvili as his successor as UNM chairman and as the party’s presidential candidate in 2018, announced the plan to put the former president on the ballot at a press conference in Tbilisi on September 7.

In the 2018 presidential poll, Vashadze came close to defeating the candidate backed by GD, Salome Zourabichvili. However, Vashadze is a less controversial politician than Saakashvili – a wanted man in Georgia but who in May was appointed head of Ukraine’s National Reforms Council having served for a time as governor of Odessa – and given that the runoff vote in the contest for president is a head to head affair, voters opposed to Zourabichvili and GD were left with no choice but to support him.

“I will be the prime minister not for a full term, but for a maximum of 2 years,” Saakashvili said in a video statement.

“These two years will be enough to pull the country out of the swamp and move forward very quickly. I am sure of that,” Saakashvili said.

Saakashvili apologised once more for the mistakes made in the past and asked for a chance to correct them.

“I want to sincerely apologise to everyone for the mistakes, but it is more important to correct the mistakes. I want to have the chance to correct the mistakes,” Saakashvili said.

OC Media wrote in a comment on the former president’s intentions.

Saakashvili serves as the honorary president of UNM, but remains a fugitive from Georgian justice. GD officials are making jokes about the situation, basically welcoming Saakashvili into jail. But things would change in the event of UNM causing a major upset in the general election. Given that GD is riding a timely new wave of population thanks to the government’s well received management of Georgia’s coronavirus (COVID-19) crisis, however, that is difficult to imagine as things stand.

Saakashvili’s announced return generates uncertain political benefits for the opposition as a whole: the move may generate momentum among UNM’s supporters and may strengthen UNM’s position as the driving opposition force, but it also increases the radical profile of the

Shaky pact

The move is likely to put an end to the development of the fragile and shaky opposition coalition pact sketched out in August, which agreed to appoint joint majoritarian candidates in Tbilisi. The coalition has appointed some candidates that are vocally against Saakashvili, such as Irakli Okruashvili. But the future of the coalition already looked doomed and it remaining in limbo would not be a major loss for the opposition.

The UNM might see itself abandoned after the election by more moderate opposition parties if it performs poorly in the election. It would not be able to lead negotiations for the formation of a new ruling coalition given the political diversity of the opposition parties.

The latest polls show that the UNM and its coalition of small parties, Strength is in Unity – United Opposition, will not be able to achieve a parliamentary majority. It seems that they would need the support of the other opposition parties, among which European Georgia is the biggest and the most natural ally of UNM.

UNM ranked second with potential voters, with 16%, in an International Republican Institute poll conducted between June 4 and July 2. Georgian Dream led the survey with 33%.

On 14 August, David Bakradze, one of the leaders of European Georgia, said it would be unacceptable for their

“These two years will be enough to pull the country out of the swamp and move forward very quickly”

party. A recent poll showed UNM with the highest negative rating (29%) among the political parties, followed by GD (25%).

The UNM is thus seemingly aiming at forming, or forcing, a post-electoral coalition where it would play a dominant role since the prospect of a pre-electoral agreement with other opposition parties has just been undermined by its nomination of Saakashvili as its candidate for PM.

party to enter any coalition government with Saakashvili or former ministers Ivane (Vano) Merabishvili and Zurab Adeishvili.

Strength is in Unity – United Opposition was conceived as a united front of the opposition, but it has suffered internal disagreements. The New Georgia and Law and Justice parties recently made for the exit. ●



Screenshot of footage released by Armenian defence ministry of claimed attack that destroyed Azerbaijani tanks.

The Organisation for Security and Co-operation in Europe (OSCE) has long been trying to mediate a settlement of the conflict, with diplomats from France, Russia and the US – making up the OSCE Minsk Group – trying to build on a ceasefire, but this mission has largely failed.

Latvia's foreign minister Linas Linkevičius tweeted: "Monitoring worrying developments between #Armenia and #Azerbaijan very closely. I strongly call for deescalation. Peaceful solution is the only possible solution." Russia's foreign ministry also called for an immediate ceasefire and talks to stabilise the situation.

Azerbaijani President Ilham Aliyev said in a TV address that Armenia's policy was "a new war for new territories", adding: "Armenia has been consciously provoking Azerbaijan, and they will see the bitter results of this. Armenia is an occupying country, and an end must be put to this occupation and an end will be put to it."

Aliyev also said that "there are losses among the Azerbaijani forces and the civilian population as a result of the Armenian bombardment".

Major fighting erupts between Armenia and Azerbaijan over Nagorno-Karabakh

bne IntelliNews

Fighting erupted between Armenia and Azerbaijan early on September 27 around the ethnic Armenian enclave of Nagorno-Karabakh within Azerbaijan. The Armenian defence ministry said two Azerbaijani helicopters were shot down and that Armenian forces hit three Azerbaijani tanks and at least three drones. Azerbaijan denied the claim.

Azerbaijan's army said it had taken control of six villages in Nagorno-Karabakh as of the afternoon of September 27, a claim that Armenia rejected. "Fierce battles" were taking place all along the frontline, said Azerbaijani officials.

Spokeswoman for the Armenian defence ministry, Shushan Stepanyan, said the fighting began with an Azerbaijani attack. But Azerbaijan claimed it was the Armenian side that attacked and that Azerbaijan launched a counteroffensive. It said it was responding to shelling along the whole front.

Observers will now anxiously watch

the responses of strategic partner to Armenia, Russia, and Turkey, a close ally of Azerbaijan – Ankara was bellicose in verbal attacks on Armenia and

"Armenia has been consciously provoking Azerbaijan, and they will see the bitter results of this. Armenia is an occupying country, and an end must be put to this," Azerbaijani President Ilham Aliyev said in a TV address"

beefed up its contribution to annual military exercises held with Azerbaijani in the wake of July border skirmishes between the two foes that were the worst seen for four years.

Turkish president Recep Tayyip Erdogan said in a statement posted on Twitter that Armenia had "once again showed that it is the biggest threat to peace and tranquility in the region". He added that Turkey stood by Azerbaijan "with all its means, as always".

The assistant to the president of Azerbaijan and of foreign policy Hikmet Hajiyev, released a statement laying the blame for the attacks at the feet of Armenia. "We strongly condemn Armenia's new act of aggression against Azerbaijan," he said.

Armenian Prime Minister Nikol Pashinian said Azerbaijan had launched an air and artillery attack on civilian settlements in Nagorno-Karabakh. The breakaway region is populated mostly by

ethnic Armenians. "Get ready to defend our sacred homeland," Pashinian added in a statement.

"Our response will be proportionate, and the military-political leadership of Azerbaijan bears full responsibility for the situation," the Armenian Defence Ministry said in a statement. There were reports of claims that Azerbaijani attacks included an assault on Nagorno-Karabakh capital Stepanakert, which would be a particularly worrying development if confirmed.

Armenia has declared martial law and total military mobilisation.

The extent of casualties in the fighting was unclear but both sides have reported civilian casualties. Human right activists in Armenia said two civilians – a woman and a child – had been killed by Azerbaijani shelling. Officials in Baku stated that an unspecified number of their civilians had been killed and six wounded. Nagorno-Karabakh announced 10 of its military staff had been killed. None of the reports could not be independently confirmed.

Turkey's ruling AKP party spokesman Omer Celik added to Ankara's reaction, tweeting: "We vehemently condemn Armenia's attack on Azerbaijan. Armenia has once again committed a provocation, ignoring law." He pledged that Turkey would stand by Azerbaijan and said: "Armenia is playing with fire and endangering regional peace."

Analysis of ongoing and unverified social media reports and posts on the clashes points to Azerbaijani and Armenian armed forces massing along the Line of Contact between the two countries in Nagorno-Karabakh near the towns of Fizuli and Terter near the Iranian border. The July fighting was some way from Nagorno-Karabakh nearer Georgia. It saw several soldiers and citizens on either side killed or injured. Again, both sides accused each other of starting the fighting and analysts were unable to conclusively determine which side triggered it. ●

Kazakhstan slaps foreign bank account ban on officials

Nizom Khodjaye in Bishkek

Kazakhstan's government has announced that officials and members of their families are to be prohibited from holding bank accounts abroad.

The announcement made by finance minister Erulan Zhamaubayev linked the move to the finance ministry's programme to combat the shadow economy and enhance the development of financial regulation.

There is growing public frustration in Kazakhstan over corruption. Several overseas scandals have brought into focus the Kazakh elite's unexplained offshore wealth. The ban on foreign bank accounts is, however, unlikely to prevent top Kazakh cliques from holding their funds offshore, since much of it is not held in their own names.

Zhamaubayev said that all bank accounts in Kazakhstan would be monitored in line with an Organisation for Economic Cooperation and Development (OECD) programme under which member states share information with each other. The OECD is a 37-member group of countries with market economies. It cooperates with over 70 non-member economies as part of a drive to promote sustainable development and economic growth.

Zhamaubayev made no mention of when exactly the ban would be implemented. He also did not clarify what the consequences would be if the authorities discovered offshore accounts belonging to officials or their family members.

Tokayev's address

The announcement followed Kazakh President Kassym-Zhomart Tokayev's second state of the nation address. In the address, among other things, Tokayev mentioned that to prevent corruption it would be necessary to bar government officials, lawmakers and judges from having bank accounts abroad as of 2021.

Tokayev – under growing pressure amid his country's challenging coronavirus (COVID-19) outbreak given the widely held view in Kazakh society that the government has failed to carry out sufficient economic and democratic reforms – called on September 1 for a "reset" of Kazakhstan's state structures.

The president announced that a new state body called the Agency for Strategic Planning and Reforms would soon be boosting "necessary reforms," while another state agency would be launched to support economic competition. Both agencies are to report directly to Tokayev.

One change will be direct local elections for governors in villages from 2021. Opposition groups have long demanded such elections be put in place across the country.

The government is also to separate the Agency for Emergency Situations from the Interior Ministry in order to allow it to have looser hands in responding to the coronavirus pandemic. Citizens are continuing to demand more compensation for losses caused to them by the outbreak.

The proposed changes come with the economy suffering a huge blow from the double whammy of low oil prices and the pandemic as well as measures taken to prevent the spread of COVID-19. The economy is expected to shrink by at least 0.9% in 2020. ●



Tokayev is yet to convince Kazakhstan that his reforms amount to anything much.



STOLYPIN:

Whatever is happening to Putin?

Mark Galeotti director of the consultancy *Mayak Intelligence*,
an honorary professor at UCL School of Slavonic & East European Studies

When the full details of his constitutional reforms were unveiled, many rushed to judgement, saying that this proved Vladimir Putin planned to rule until 2036.

Honestly, the thought that in 2020, Putin had already planned his next sixteen years – until he was 83 – seemed something of a stretch. Rather, this has all the hallmarks of a classic Putin move, giving himself options which, closer to the event, he could choose between.

In any case, judging by his actions (and inactions) this year, if anything Putin is getting less concerned about the long-term, less cautious and consensual in his methods, less strategic in pretty much every way. Physically active and carefully-cossetted, there is no reason why the man would not live until 2036; it's harder to see his system lasting as long.

System vs man

To some, what is currently underway is a comprehensive transformation of the political system, but it is questionable whether that is really what we are seeing. Talk of a “more powerful presidency” fail to recognise the extent to which in practice the boss can already get whatever he wants adopted as policy. The very real problems associated with actually turning policy into practice, whether in his National Projects

or digitisation of the economy, are not about a lack of legal power but practical authority, expertise, and resources.

Furthermore, there are clear contradictions tearing at the apparent new system even before it is in place, especially over regional power. New powers allowing the Kremlin and its regional proxies increased control over local officials and similar moves that appear to be steps towards further centralisation sit uncomfortably with the implicit message of Prime Minister Mishustin's recent outreach to the Russian Far East, as well as the way the COVID-19 response was quickly kicked into the hands of local officials.

Yes, there have been some striking changes in tone and detail this year, from the decision either to attempt to kill Alexei Navalny, or at least to cover-up and implicitly approve the attack, through to the clumsy handling of the constitutional reforms. To a large extent, as I discuss in my latest podcast, these should be seen not so much as reflecting a change in system, so much as a change in the instructions being given to this system.

In other words, it's about people, not process – and one person in particular.

Whatever happened to Vladimir Putin?

Back at the beginning of 2014, when the Sochi Winter Olympics were about to open, and there was no inkling that the “polite people” were about to be unleashed on Crimea, I was speaking with a European ambassador in Moscow who ruled out any major response to the Maidan revolution in Ukraine: “He is too cautious to get involved. He understands the long term costs too well.” I confess I agreed, and we were both wrong. We had been caught out by what could be called, a tad pretentiously, a paradigm shift in how Putin saw the world. In hindsight, it is clear that he saw the Maidan not as a Ukrainian rising but a Western act of *gibridnaya voyna*, “hybrid war,” part of a plan to marginalise and maybe even emasculate Russia. We had not appreciated that Putin was now at (political) war, and so had a wholly different calculus.

Nonetheless, Putin remained cautious, aware that by almost all measures, Russia was weaker than the Western alliance and that his people were, for all the drum-beating propaganda to which they were exposed, not interested in a geopolitical crusade (the enthusiasm for the Crimean annexation was a

“Alexei Navalny has been arrested, assaulted, sued, splashed with zelenka dye (and almost lost sight in one eye) and poisoned, but not in any case with an apparent intent to kill”

one-off). He was also cautious and even quite consensual at home, seeking to create a coalition in support of his policies, and avoid over-taxing the patience of his people.

He remained frugal with his financial resources (the defence budget essentially stayed flat or even shrank after 2015), and also with his political ones. While never willing to deal with the rot of corruption at the very top of his system, he did permit a more serious campaign against graft further down the hierarchy, and he was genuinely committed to the social and infrastructure developments embodied within his National Projects. There also remained room for civil society (so long as it concentrated on local and specific issues and did not challenge the state directly), independent journalism, and even Alexei Navalny’s overt political opposition.

In 2020, all that seemed to change.

Putin 2020. Not such a good vintage

The obvious example is the poisoning of Alexei Navalny. He has been arrested, assaulted, sued, splashed with zelenka dye (and almost lost sight in one eye) and poisoned, but not in any case with an apparent intent to kill. The use of a novichok-type agent

in the recent attack essentially precludes this from being simply a threat (it is too difficult to guarantee a dose would hurt but not kill), and the recent claim by the German authorities that it was a hitherto-unknown, slower-acting but more dangerous variety makes it almost impossible that this was not done without direct access to one of the Russian security agencies’ poison laboratories. And that, in turn, makes it less likely that this might have been done by one of the big beasts of the system rather than at the Kremlin’s direct behest.

Again, my initial assumption was that this was less likely to be directly ordered by the Kremlin (not least given the confused response), but it may well turn out to be that instead it marked another shift in Putin’s paradigm. Whether because of the whispers in his ears by cronies and advisers even more paranoid and ruthless than he, whether because of concerns about the general dissatisfaction within the country (according to the Levada Centre’s polls, only 31% of voters would back United Russia), the autocrat who once made such a memorable distinction between enemies and traitors – one you fight and hope to reach terms with; the other can only be eliminated – seems to have gone feral.

And the same approach, of just ignoring alternative opinions and dynamiting all obstacles in his path, whatever else may be hit in the blast, seems to be more general. He looks like a man in a hurry rather than one playing the long game.

Burning bridges while still on them

By supporting Lukashenko, he may well have given the old dictator a year or two more in power, but regardless of how any eventual succession is organised, he has ensured that a population which once saw the Russians as their cousins and natural partners will instead regard them as occupiers-by-proxy. The current popular revolt is not Belarus’s Maidan – but Putin has pretty much guaranteed that the country will now have a similar reorientation towards the West, and conceivably by 2024, let alone 2036.

At home, the needlessly-rushed and blatantly-rigged vote on constitutional reforms delegitimated a poll which the Kremlin could have quite legitimately won, even if not with the kind of super-majority Putin obviously wanted. Yet it means that if the present local elections are also fiddled, as seems highly likely, then the damage to the system’s legitimacy and credibility will be all the greater.

And with it, the sense in the country that their interests are not being taken seriously. In Khabarovsk and in Bashkortostan, this has led to major protests, but the conditions which led to them are hardly unusual. Across the country, Moscow is seen as a hostile power, and the *varyagi*, the “Varangians”, loyal officials “parachuted” into key positions are increasingly resented.

None of these are new problems. None of them are especially hard to understand. Yet none of these issues are being adequately addressed. Even if Navalny never returns to active politics, his movement will probably not go away and, more to the point, the reasons for its existence are ever-more salient.

Even if the National Projects do bear fruit – and their deadline has already been pushed back by six years – then this will not magically relegitimize the regime at the eleventh hour.

Of course, we don't know for sure what is happening inside the Kremlin black box. Conceivably, Putin has decided that pandemic-shadowed 2020 is "taking out the trash" year, a chance to get all the bad stuff he might want to do out of the way in one go, and then concentrate on regaining his authority. This is unlikely, though, and if it is the case, also likely a foolish gamble, especially with genuinely-important State Duma elections coming up next year.

It is more likely that Putin is succumbing to the same problem as most authoritarians over time, becoming a caricature of himself. Older, less flexible, more dependent on a shrinking

circle of yes-men, more detached from his own country, the temptation is to rely more on force and fiat, while his cronies take fullest advantage of his indulgence to enrich themselves and prosecute their private feuds.

Empires can coast a long time like this, relying on the loyal technocrats and administrators who do their best to keep the system working, regardless. But it also means they become increasingly brittle, vulnerable to the unexpected shock or challenge. In 1914, did anyone really think tsarism only had three more years? Meanwhile, serious longer-term threats, from the melting of the northern permafrost to the potential challenge from frenemy China, are largely going unaddressed.

Either way, this does not look like a leadership planning seriously for sixteen more years. ●

MITTELEUROPEAN INSIGHTS:

Belarus – out of the frying pan and into the “Rublezone”

Gunter Deuber, Head of Research at Raiffeisen Bank International and Marcus How, Head of Research & Analysis at ViennEast Consulting in Vienna

The fallout from the presidential elections in Belarus demonstrates how quickly a wholly domestic issue can become international and geopolitical – and the extent to which the Kremlin's response to unrest on its doorstep is once again improvised as opposed to premeditated.

Belarus has always been unique in the post-communist region, a characteristic that is unlikely to change soon. It does not resemble Ukraine because its cohesive sense of national identity leaves few internal fault lines that may be exploited; nor does it resemble Armenia, given its strategic economic and political value to Russia. Its larger market is more sophisticated, while its territory provides a buffer between NATO members and Russia's geographically exposed western border.

Thus, while a hybrid military intervention by Moscow is unlikely, so too is an amicable settlement with the opposition. Moscow does not want to control Belarus, but it is seeking to control events in order to safeguard its strategic interests. It has decided that siding with President Alexander Lukashenko is the least bad option – for now and possibly some time to come.

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Moscow is pushing for a Union State deal between Russia and Belarus that will create a "Rublezone"

As such, the risk outlook in Belarus is clearer in the short to medium term than it appears. Without substantive political and economic support from Russia, Lukashenko would be very unlikely to be able to stay in office. However, through guaranteeing his position, Moscow is exploiting his weakness to consolidate its own interests ahead of a managed political transition in the coming years.

An offer that Luka can't refuse?

The way in which Moscow is likely to accomplish this is through seizing the moment on the economic and political integration agenda between the two countries, which could include pulling Belarus into a much closer economic union, if not a currency union. Setting aside Lukashenko's own political agenda, there is an economic argument for doing so.

Lukashenko signed off on a Union State deal with Russia in 1999 that would extend and deepen the current Eurasia Economic Union (EEU) partnership by creating a "Rublezone" that mirrors the Eurozone: open borders with totally free movement of labour, capital and goods as well as a common currency "from Brest to Vladivostok", as Lukashenko said last week.

The Belarusian economy is currently in decline due to structural deficiencies, which are being exacerbated by the coronavirus (COVID-19) pandemic, the civil unrest, and reputational decline in international credit markets. State-owned enterprises, especially in the industrial sector, face long-standing productivity issues arising from economic policies that prioritise full employment and wage increases, which have been sustained through preferential lending by state-owned banks – with the central bank subsidising the interest rate differential. Distorted markets, restructuring disincentives, and subpar asset quality, combined with the corresponding currency instability and high levels of foreign debt, have been the result.

The integration of Belarus into a Rublezone would provide a more robust currency; outsource and improve macroeconomic management; temporarily eliminate dysfunctions within the banking sector; and enable the financial transfers implicit in a currency union.

A banking union would also be likely, not least because Russian banks occupy around a 30% share in the Belarusian market.

Joint liability, secured by the strongest anchor of the monetary union, is also an important part of such a set-up. In the euro area, it has taken decades of slow progress. With regard to the potential Rublezone, Russia already holds about 50% of Belarus' national debt.

And it doesn't have to stop there. There are other slower moving steps towards integration that could be achieved over the next six-month, nine-month and two-year periods.

The Belarusian ruble (BYN) has so far devalued by just under 20%, compared with 30-60% in previous crises. Time is on Russia's side, as the longer it waits with its union the more pressure Lukashenko will be under. Hard currency reserves have fallen by \$1.4bn in just the last month from \$8.8bn to \$7.4bn as of September 1, according to the National Bank of the Republic of Belarus (NBRB). And monetary integration certainly needs preparation.

But rapid monetary integration would quickly contribute to economic stabilisation. And it remains unclear how the West should respond to a deepening economic integration between Belarus and Russia. Will it impose sanctions? Can it impose sanctions? After all, there is a legal basis to further integration between the two countries that goes back over two decades.

From an investor's point of view countries whose financial markets are characterised by higher risk premiums tend to benefit from participation in currency unions; Belarus will be no different. Yet, as the convergence in trades in government bonds between southern European states and Germany (the anchor of the euro area) in the 1990s and 2000s showed, monetary integration and positive headline data can produce a "convergence fantasy" into which investors are drawn. Such trading strategies may include some elements of moral hazard, but participation in a Rublezone would push the Belarus

country risk premiums much closer to the much lower Russian levels and make borrowing a lot cheaper for Minsk.

In this scenario Belarus could avoid the classic shock therapy thanks to its increased borrowing power. That would allow for a more cautious approach to economic reform in which ownership changes and partial liberalisation are phased and better controlled. That should prevent the sudden emergence of a domestic oligarchy, which has so distorted the other two economies in the neighbourhood of Russia and Ukraine. In exchange, Moscow would gain oversight and control of these transfers, thereby deepening its geostrategic footprint. With Belarus internationally isolated thanks to Lukashenko's presence, it would also stall, and maybe reverse, the tentative diversification of foreign, trade and investment relations that has taken place over the past 5-10 years. New economic opportunities will present themselves in due course, however, not least through partial privatisation, which would effectively amount to an open call for Russian capital.

The limits of band-aids and steroids

But even if a well-thought-out Rublezone was set up, even in the short to medium term the economy is going to suffer a lot of pain. High quality foreign direct investment from the EU is very likely to dry up. EU sanctions targeting politically exposed individuals in state-owned companies will likely precipitate legal reshuffling by investors. Investors engaged in joint ventures with state-owned enterprises may face contract revisions, especially if

“Participation in a Rublezone would push the Belarus country risk premiums much closer to the much lower Russian levels and make borrowing a lot cheaper for Minsk so Belarus could avoid the classic shock therapy”

Russian corporates or state-owned enterprises take ownership of privatised shares. The industrial sector faces elevated risks in this regard. Another layer of complexity will be added for Western investors if Russian buyers are on US/EU sanctions lists.

Elsewhere, the jewel in the cumbersome crown of the Belarusian economy – the IT sector – is being chipped out by the king himself. Amid Lukashenko's crackdown on the opposition, some 300 CEOs of IT companies have threatened to shift their operations elsewhere. This is not an empty threat: twelve companies are already in the process of packing their bags; 59 have already moved staff; and another 112 are actively examining options.

Beyond the immediate impact, Belarus would lose its attractiveness as a gateway to the Russian market and/or the

EEU that is not fully exposed to political risks within Russia itself. This is an inevitable consequence of trading off institutional sovereignty for closer economic and monetary union, which will also require some level of political integration.

Moreover, there are considerable economic risks, as the Russian economy itself is beleaguered by chronic and structural weaknesses. In recent years, Russia has failed to overcome its weak growth trajectory, reducing the long-term attractiveness of economic and monetary integration. By way of comparison, the Eurozone might not have survived the 2010s had Germany not successfully healed its “sick man” status in the 2000s.

Nonetheless, the Rublezone scenario is likely to enable Belarus to muddle through economically over the coming years, even if it enters with weaker structures. Yet while there is clear logic for such an arrangement in the short to medium term, its economic sustainability is questionable in the long term absent deeper political integration.

The Euro area crises proved that integration within a currency union is not necessarily irreversible, as did the breakup of Yugoslavia. Yet in order to do this successfully, strategic preparation with other important economic partners is necessary, as Slovenia and Croatia demonstrated. The improvisational approach of Greece in 2015 showed how easy it is to get it wrong.

Reaching the highwater mark

As it floats listlessly on the periphery of a Rublezone that is unlikely to be underpinned by a fully fledged political union, Belarus may find itself drifting away from Russia in the longer term. The tides will be economic, but also political. By keeping Lukashenko in power, Moscow will be threatening the goodwill of much of the strongly pro-Russian public, planting the seeds for instability further down the line.

The opposition is unlikely to simply vanish, even if Lukashenko has its leaders arrested or Moscow plays divide-and-rule with the factions that are likely to emerge. The protests have permanently

undermined Lukashenko’s authority, eroding it to a final line of defence that is provided by the security forces and Moscow. Whether the opposition are forced underground, or a tentative consensus is reached, Belarus is likely to shift away from its system of centralised governance to a stakeholder model.

This is not necessarily incompatible with Russian objectives, but Moscow must first stabilise the situation with a view to preparing the ground for the post-Lukashenko era. Moscow was comfortable with the institutional autonomy that Belarus enjoyed under Lukashenko; although the president is erratic, he is a known quantity who knows which side his bread is buttered. If

“The protests have permanently undermined Lukashenko’s authority, eroding it to a final line of defence that is provided by the security forces and Moscow”

a new consensus is to emerge which is more pluralistic, Moscow must first reduce the scope that Belarus has to wander off-piste. Co-opting stakeholders, capturing institutions, shaping public discourse and increasing interdependence are key strategies to this end, but they take time and require that the pace of events be slowed. Creating a Rublezone, or at least a roadmap towards such a setup, would be a logical step in this regard.

Yet the strategy is a high-risk one given that the Belarusian public, who so clearly want change, are likely to associate Moscow with the violent intransigence of Lukashenko. The risks of political instability and civil unrest are unlikely to dissipate even if they are dampened, which creates the possibility of a more radical break between Belarus and Moscow and abandoning the Rublezone altogether. ●



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The Tajik election – Stick not twist for Moscow

Nizom Khodjayev in Bishkek

Just over a month from now, Tajikistan will hold its presidential election. That's right, it's time to keep a straight face – Central Asia's poorest nation likes to keep up the pretence that it is a democracy and “Founder of Peace and National Unity, Leader of the Nation” Emomali Rahmon, who has been president or equivalent since 1992 and will turn 68 one week before the October 11 polling day, will inevitably ‘win’ – but the build-up to the poll will at least offer observers a chance to catch up on some of the big issues not yet resolved for the now coronavirus (COVID-19) pandemic-crippled country.

Some initial intrigue took hold amid anticipation that Rahmon might push for his son to pick up the presidential mantle and start a “dynasty”. Strongman Rahmon has since a May 2016 referendum introduced some new powers and rules. One change has given him the right to seek as many terms in office as he wishes, another has lowered the age threshold for a presidential candidate's eligibility to 30 years – the president's son, Rustam Emomali, turned 32 in December. But whatever the truth about him being groomed to succeed his father, the Federation of Independent Trade Unions of Tajikistan on August 26 formally announced Rahmon's nomination for the election.

Interestingly, there is even a question as to whether the son will ever gain the chance to inherit the presidency. Analysts see the interests of the Tajik elite trumping any secret hopes of family power that Rahmon might have.

“The son is too young, and given the local mentality, this may cause too much irritation among the local elite. Therefore, for now, Rahmon will run the country himself,” Russian Central Asia and Middle East expert Alexander Knyazev told Russian newspaper NG early in August. Knyazev sees Rahmon's continuous rule as a “calming factor for the local elite.”

“Rahmon himself is a guarantor for most of the elite, if not for the entire party involved in power,” Knyazev added. “[The elite] have gotten used to it, they have adapted, all the



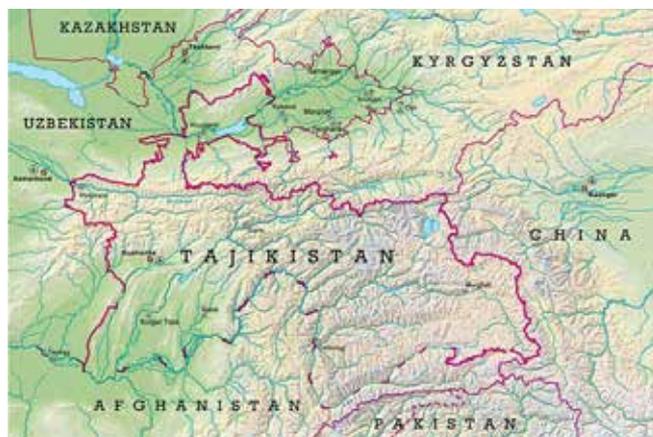
Vladimir Putin with Emomali Rahmon after awarding him the Order of Alexander Nevsky three years ago.

redistributions that take place within the elites – financial flows and positions – follow an established tradition. [Wishes to] change the rules and get more preferences under a new president, if desired by anyone, would only apply to a tiny fraction of the elite.”

Even if he did turn out to have the backing of the rich and influential, Rahmon's standing in the country might be at odds with the standpoint of Tajikistan's former colonial master, Russia. Moscow's voice has always carried considerable weight in Central Asian politics, as the Kremlin strives to continue wielding its political and military power and influence over former members of the USSR. Russia is seen as having the capacity to help replace leaders if it proves absolutely necessary.

Russia's priorities and Rahmon's failures

“In Moscow... they see growing discontent with [Rahmon] and his numerous relatives who are in power in Tajikistan. And they probably understand that very soon Rahmon will be unable to prevent a social explosion,” an anonymous Tajik expert told Russia's REGNUM news agency in 2019.



Tajikistan's proximity to conflict-torn Afghanistan might make it a regional security threat should political and social instability set in (Image: Hausibek).

In the event of political instability and a collapse caused by social unrest, Tajikistan could become a major security threat to the region given that the militant conflicts in war-torn Afghanistan could spill over into the neighbouring country. Russia's standing military presence in Tajikistan would not likely be sufficient to swiftly prevent ensuing chaos. Hence the Kremlin's desire for a competent ruler in the nation of 9.5mn.

Rahmon is under fire from international human rights groups for a perceived growing disregard for civil society, religious freedoms and political pluralism. Tajikistan lags behind other former Soviet countries in both social and economic development. Since Rahmon emerged victorious from the bloody civil war in the 1990s that claimed the lives of hundreds of thousands of Tajiks, the country has struggled

“Rahmon is under fire from international human rights groups for a perceived growing disregard for civil society, religious freedoms and political pluralism”

to achieve any significant economic development. Today, most Tajiks still make a living of less than €1,000 (\$1,180) a year within Tajikistan's \$30.5bn economy (132nd in the IMF GDP rankings). Meanwhile, corruption, poor governance and repression remain characteristic traits of Rahmon's regime. And all of the above adds up to a tense relationship between the government and its people. One that could end badly if mismanaged.

The aforementioned anonymous Tajik analyst argued that “the only legitimising factor [for Rahmon's rule in the eyes of the Kremlin] may be the presence of a threat from radicals”. As such, Rahmon has continued to crack down on what remains of the Tajik opposition under the guise of clamping down on radicalism, the analyst observed. This mainly applies to former members of the Islamic Renaissance Party (IRP), seen once as the only formidable opposition force in the country. The party was banned and declared a terrorist organisation in 2015.

“The regime of the current president of Tajikistan has exhausted its external legitimacy, especially in front of Moscow,” the analyst said. By pointing to an internal threat of a radical insurgency, Rahmon “shows Russia” that “[if you] take me away [you'll] get bearded men”.

“The current government in Tajikistan has created an atmosphere in which the only alternative to it comes in the form of radical Islamists,” he concluded. This, in a sense, lets

Rahmon hold his power hostage. If he stays, things could go badly in one way; if he leaves, things will go badly in a different way that will be harder to stomach for the Kremlin.

Yet radicalism is possibly not the only source of concern for Russia. Tajiks are unlikely to have infinite patience with the Rahmon regime, especially given the new economic stress brought about by the pandemic. Opposition groups, including the exiled Group 24, have attempted to rally people against Rahmon, albeit unsuccessfully. But there is some speculation that the decision to bring the election forward to October – traditionally Tajikistan holds its presidential contest in November – may have been taken due to some anxiety over emerging challenges to stability.

“[The polls] will be held for the first time not in November, but in October. Parliament, at the suggestion of the president, set the date a month earlier than usual,” the leader of the banned IRP, Muhiddin Kabiri, told DW in August. “The economic crisis is affecting the situation. There are already regions where limits on electricity use are in effect [following poor rains], and cold weather begins in November. Emomali Rahmon wants to hold elections while there is still electricity in the country and the people are more or less loyal. Without electricity, the mood of the population would deteriorate sharply.”

The pandemic-driven and climate change-induced troubles likely tie in to greater fears of instability around the country. One primary risk is the ex-Soviet state's reliance on deteriorating hydro-energy infrastructure. The regime's inability to address the compounding impacts of the critical issues thus joins the list of factors signifying Rahmon's incompetence from the perspective of Moscow.

Ageing energy infrastructure

In 2016, Tajikistan jump-started construction of the controversial 3,600 MW Rogun hydropower dam. It's a mega



Rahmon at the Rogun dam construction site in 2016 [Image: VoA].

infrastructure project – billed as aiming for the world’s tallest dam structure – seen as important to both the country’s energy security and Rahmon’s popularity. The first two turbines of the Rogun hydropower plant, each adding 600 MW to the country’s total capacity, which stood at 5,190 MW at the start of the project, have gone into action. But ageing surrounding infrastructure leaves Tajikistan unable to use Rogun’s full capacity, which means the country still suffers chronic winter electricity shortages.

The situation has deteriorated this year. Tajik state-run energy company Barqi Tojik is set to impose restrictions on electricity supply due to a dramatic drop in water levels at the Nurek reservoir used to generate hydroelectric power. The water level in the reservoir stands 17 metres lower compared to last year, due to 50% less water in the Vakhsh and Panj rivers that feed into it.

The importance of the dam lies in its ability to “regulate the flow of water into Nurek’s reservoir, preventing it from filling up with ores and minerals”, Farkhod Aminjonov, deputy director of the Almaty-based Central Asia Institute for Strategic Studies, told *bne IntelliNews* in 2016. “The water entering the reservoir flows along with various minerals and river clays which clog up the bottom of the reservoir, leading the bottom of the reservoir to grow taller year by year.” In several decades’ time, the reservoir could prove incapable of holding water to sustain the plant’s electricity production. This, coupled with low water levels, makes overall electricity infrastructure upgrades an urgent matter for Tajikistan, but the regime has been unable to address the issue in a timely and adequate manner. Rogun is thus seen as ‘do or die’ for Rahmon’s continued rule.

But the fate of the project is already unclear. Sources of funding are a major hindrance to the dam construction. It is not sure that Tajikistan will be able to continue borrowing internationally to fund the project further. The \$500mn inaugural Tajik eurobond, issued in late 2017, helped bring the first two units of the Rogun plant online, but with total project costs estimated between \$3bn and \$6bn, a second attempt to tap into the international bond market is unlikely to bear fruit.

Reliability in paying off debt is certainly not what comes to the minds of international lenders when describing Tajikistan: the International Monetary Fund’s (IMF’s) experience is a telling example. Back in 2008, the IMF had to ask Dushanbe to repay more than \$47mn in IMF loans as a penalty for false data the Tajik authorities had provided to it. Blinded by hopes of securing priority loans, the impoverished country had listed its international reserves at \$450mn when in truth they stood at \$115mn, if not less.

Volatility in the Pamir Mountains

Another elephant in the Tajik room is the ethnic Pamiri population who reside in the Gorno-Badakhshan Autonomous Oblast (GBAO).

GBAO is a volatile region located amid the Pamir Mountains. It fought against government forces during the Tajik civil war that lasted from 1992 to 1997. Prevention of destabilisation in the region is a priority for Russia.

The government cracked down on GBAO in 2018, according to unofficial reports. Fitch Solutions was prompted to say in October of that year that “reports of a government crackdown in the Gorno-Badakhshan Autonomous Region of eastern

“Reliability in paying off debt is certainly not what comes to the minds of international lenders when describing Tajikistan”

Tajikistan highlights the lingering threat of civil unrest to the country’s political stability”.

The Fitch report followed a similar analysis conducted by American geopolitical intelligence platform Stratfor the previous month referring to how the government had reportedly deployed troops to the eastern city of Khorugh, the capital of GBAO, for a “special operation”. While both Fitch and Stratfor saw the possibility of a new regional conflict, Fitch maintained that the heavy presence of Russian troops and Chinese military support made such a prospect unlikely.

Some elements of disquiet in the region were revived in May this year when hundreds of residents in the mountain town of Rushan gathered in front of the local security service headquarters. The incident appears to have been triggered by officers of the State Committee for National Security executing an operation to detain a Rushan resident, Sharof Qobilov, suspected of trafficking drugs from across the Afghan border and leading an organised criminal group. The tense situation was relatively minor compared to previous reported showdowns and crackdowns, but as the coronavirus outbreak takes a toll on people’s lives, the Pamiri population could be prone towards bolder collective action against the centrally directed authorities.

Tajikistan under Rahmon may find itself creaking upon feet of clay as Tajiks realise the election will only produce more of the same.

Elections in the mountainous republic have of course never been considered free or fair by foreign observers. Rahmon officially won the last contest with 84% of the vote. A similar victory in October is a foregone conclusion. What’s not clear is whether Rahmon may run out of luck further down the line.” ●

Turkmenistan: They call me Mr. Boombastic

Akhal-Teke, Eurasianet

The reliable flow of news about the leader of Turkmenistan's zany antics often blinds distracted observers to the arbitrary severity of the repression over which he presides.

Consider the ways that the government is enforcing its coronavirus prevention measures.

RFE/RL's Turkmen service, Radio Azatlyk, reported on September 1 that people in the Mary province unable to pay 60 manat (\$17) fines for failing to wear masks are being sent by police to pick cotton. Each violator is required to gather 20 kilograms of cotton daily.

Amendments have been made to the criminal code envisioning prison terms of between two and five years for people deemed to be evading treatment for "dangerous infectious diseases." The changes came into effect upon publication in state media on September 7.

Strict rules have been drafted worldwide to stem the spread of the coronavirus, but there is an important distinction to be considered in Turkmenistan. And that is that conditions at quarantine and treatment facilities for coronavirus – whose presence in the country the authorities still does not acknowledge – are known to be abysmal.

In a September 7 account on life in a quarantine centre in the Lebap province, Amsterdam-based Turkmen.news described how people confined to shared tents are not provided with soap, toilet paper or even water with which to wash themselves. The food provided by the camp is inedible, so internees have to rely on relatives to deliver relief parcels. Phones are not allowed, lest anybody think to document the conditions. It is hardly surprising that many would want to flee such places, not least since they are more likely to spread disease than contain it. Doing so, however, will now potentially trigger those aforementioned punishments.

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President Gurbanguly Berdimuhamedov appearing September 2 on the evening news.

While dissidence inside the country is not tolerated in any shape or form, the past few months have seen the emergence of a lively community of anti-government activism outside the country. This has mainly manifested in pickets outside Turkmen embassies in places like the United States, Turkey and Cyprus – all home to sizeable diasporas.

Representatives from a group calling itself the Democratic Choice of Turkmenistan assembled at the Turkmen Embassy in Washington on September 1 to hold a protest against proposed changes to the Constitution. Vienna-based Chronicles of Turkmenistan reported that the ambassador, Meret Orazov, did not come out to meet the protesters, preferring instead to summon the police and report the picketers for incitement to terrorist activities.

Filing a false police report – a misdemeanor, incidentally – is all Turkmenistan's man in Washington can do. State thugs back home can resort to far more forceful measures.

“People in the Mary province unable to pay 60 manat (\$17) fines for failing to wear masks are being sent by police to pick cotton”

Moscow-based rights group Memorial issued a statement on how 48-year-old lawyer Pygamberdy Allaberdiyev was detained on September 5 in the western town of Balkanabat on suspicion of ties to activists in the foreign-based protest movement. As is customary, the interrogation of Allaberdiyev by officers with the National Security Ministry, which is the renamed KGB, took place without a legal representative present. Attempts by relatives to deliver food and drink were rebuffed, Memorial said. Allaberdiyev is now facing terrorism charges.

Religious dissidence is treated no less harshly. The Jehovah's Witnesses this week said that they had received confirmation that an 18-year follower of their faith, Myrat Orazgeldiyev, was sentenced to a term in prison on September 3 for declining to pursue military service duties. A spokesman for the community said that there are currently 11 Jehovah's

“Turkmenistan is still clearly struggling with a COVID-19 problem. the closure of mosques and the Awaza tourism zone was extended to October 1 and swimming in the Caspian has been banned since May”

Witnesses in prison in Turkmenistan for conscientious objection. “Young Christians like Myrat would be happy to perform alternative service. Instead, they are thrown into prison, where they are stripped of the opportunity to support the families and community they love,” Jarrod Lopes, spokesman for Jehovah's Witnesses, said in a statement.

Disdaining military service should, in any case, be a matter of basic common sense as much as principle. Turkmen.news has reported that at least 14 conscripts died as a result of a September 3 accident near the town of Serhetabat. A truck overloaded with around 40 men was travelling on an uneven road back from a pistachio field, where the conscripts had been used as free harvesting labour, when it flipped over.

Life in the army is not seen in this light in the nether dreamworld inhabited by President Gurbanguly Berdimuhamedov. The evening news on September 2 used the excuse of a military preparedness drill to trot out another segment on the president's martial fantasies, which this time included him firing with unerring precision at target practice cutouts. The nadir of the day's larks was Berdimuhamedov blasting a pile of oil barrels with a machine gun mounted on a GMC Yukon Denali.

The editing and arrangement of these reports are so absurd as to raise the improbable suspicion that the halls of Turkmen state broadcasters are in fact teeming with subversives. If anything, though, Berdimuhamedov seems to think they don't go far enough. At a Cabinet meeting on September 4, he instructed the deputy prime minister with the portfolio for culture and media, Myahrijemal Mammedova, who started her job in July, to ensure that state broadcasters use more “powerful material,” whatever that means.

In another piece of personnel management at the Cabinet

meeting, Deputy Education Minister Merdan Govshudov, who had been given a reprimand on August, was fired for failing to properly acquit his duties. There are evident signs of tumult in the educational sector. Turkmen.news reported on September 5 that the principals of two elite schools in Ashgabat have been detained, likely on corruption charges as admission is often secured by means of bribes. Last month, there were reports that parents at another school had mounted a spontaneous protest after learning that the Russian-language department was to be closed. Schools providing instruction in Russian are deemed particularly desirable and are, therefore, more prone to extortionist practices.

For all the bombastic propaganda, there is no papering over the fact that Turkmenistan is still clearly struggling with a COVID-19 problem. The latest is that the closure of mosques is being extended to October 1, as is access to the Awaza tourism zone. Restrictions on activities such as swimming in the Caspian have been in place since mid-May.

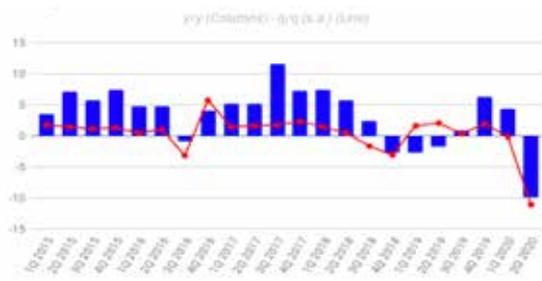
Police are now enforcing a ban on setting up tents to celebrate events like weddings, birthdays or charity dinners, apparently to prevent the assembly of large groups, *Chronicles* has reported. What is unclear, though, is whether this is a COVID-19 measure or one of the many reported heightened security precautions being adopted ahead of a convening of the Khalk Maslahaty, or People's Council, on September 25 to change the constitution.

Another ostensibly important win was claimed last week for the vision of turning the Turkmenistan-Afghanistan-Pakistan-India, or TAPI, gas pipeline from distant fantasy to hard reality. The memorandum of understanding signed on August 31 by Turkmen and Afghan officials envisions the acquisition of the necessary land in Afghanistan. The Afghan Mines and Petroleum Minister Mohammad Haroon Chakhansuri is projecting work to start in Afghanistan by early 2021, once the land acquisition process is completed.

Turkmen Foreign Minister Rashid Meredov on September 2 discussed progress on the project with the chairman of the Afghan Central Bank, Ajmal Ahmadi, but a Foreign Ministry readout of that exchange provided few useful details. Seeing as Ahmadi has been a reliable presence at TAPI fund-raising excursions to places like the United Arab Emirates, however, it is probably safe to assume money was high on the agenda. ●

Akhal-Teke is a weekly Eurasianet column compiling news and analysis from Turkmenistan. This article originally appeared on Eurasianet.

Turkey GDP growth



Turkey takes GDP hit of 9.9% in Q2

Turkey's GDP took an official hit of 9.9% y/y in the coronavirus-scarred second quarter beating the expectations of most analysts who anticipated that it would fare a percentage point or two worse.

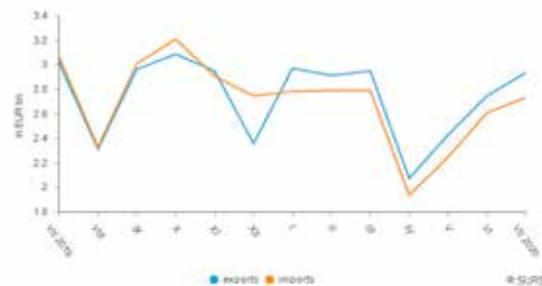
The contraction in GDP followed a gain of 4.5% in the first quarter, a robust figure that partly derived from the Erdogan administration's decision to go for another wave of cheap credit, despite the fact that it was such policies that caused the August 2018 currency crisis that brought on last year's Turkish recession.



Hungary's budget on track for record shortfall

Hungary's general government deficit, excluding local councils, was HUF96bn (€273mn) in August, a major improvement from the HUF330bn shortfall in July and the HUF780bn deficit in June, according to figures from the finance ministry on September 9.

Despite the improving data, the deficit at the end of August reached HUF2.26 trillion, which is six times higher than the government's initial target of HUF367bn and four-fold the HUF511bn shortfall in the base period. The deficit target was revised from 1% to 2.7% of GDP in April and later to 3.8% as economic outlook deteriorated, but even those outlooks seemed overly optimistic.



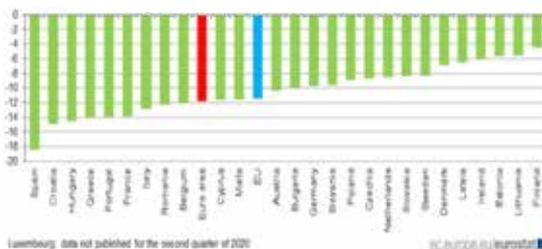
Slovenia posts second highest monthly trade surplus in 10 years

Slovenia posted a trade surplus of €200.5mn in July, which is the second highest monthly surplus in the last 10 years, after that in September 2017, the statistics office said on September 9.

Slovenia's exports amounted to over €2.9bn in July, down 2.9% year on year while imports declined 10.9% y/y to €2.7bn, data showed. Compared with the average monthly values in 2019, the exports in July were 5.1% higher, while imports were 3.6% lower.

GDP growth rates in the second quarter of 2020

% change over the previous quarter, based on seasonally adjusted data



Croatia had second-deepest GDP contraction across the EU in 2Q20

Croatia experienced the second-deepest quarter-on-quarter contraction in GDP across the European Union in the second quarter of the year as the coronavirus (COVID-19) pandemic and lockdown took its toll on the economy.

The single deepest q/q contraction was in Spain at -18.5%, which was a 22.1% y/y contraction, followed by Croatia with a contraction of 14.9% q/q and 15.1% y/y. Both countries have large tourism sectors, which has been hit hard by the pandemic. GDP contractions were recorded across the board in the 27-member EU, dropping by 11.4% q/q, and 11.8% q/q in the eurozone.

Lawmakers' promises, one year later

FPRI BMB Ukraine

During last summer's parliamentary elections VoxUkraine's analysts collected the promises made by party leaders. One year later, they're back to see which political parties have actually delivered.

"It's clear the parties had different abilities to keep their promises. While Servant of the People, thanks to its mono-majority in Parliament, could introduce the most legislative initiatives and vote without external help, other parties could only join important votes or publicly boycott initiatives that contradicted their promises," note analysts Oleksandra Panasytska and Anastasia Ivantsova.

As such, compared to the other parties in the Verkhovna Rada, the president's Servant of the People Party managed to fulfil the largest share of the promises it made during last year's campaign. That said, "deputies from the Zelenskiy faction realised an average of 10-15% of what was promised." As Panasytska and Ivantsova underscore, the party stayed in "turbo mode" for the first six months, but not a single campaign promise has been fulfilled since the start of this year.

Looking at the 29 deputies from former president Petro Poroshenko's European Solidarity Party offers a stark comparison – as it turns out, it's "the

only parliamentary faction that has yet to fulfil any of its campaign promises. The fact is that most of [its] promises concerned continuing reforms and decentralisation, which is more the task of the government than the parliament. And the party has no representatives in the Cabinet," Panasytska and Ivantsova explain.

At the same time, European Solidarity has worked hard to counter pro-Russian initiatives, which takes us to the 44 lawmakers from the Opposition Platform – For Life, who have only fulfilled one promise: supporting the law on changes to the parliament's composition and the electoral system.

Yulia Tymoshenko's Batkivshchyna party (with 24 lawmakers in Parliament) has only fulfilled one promise as well; keeping Ukraine's gas transportation system under state ownership, which means the 19 lawmakers from the Holos Party have fulfilled the second highest number of campaign promises, by throwing their support behind six key parliamentary initiatives including the confiscation of corrupt assets from civil servants and the return of criminal liability for illegal enrichment, among others. ●

This article originally appeared in FPRI's BMB Ukraine newsletter.



Ukraine's Servant of the People Party kept the most campaign promises but only fulfilled about 15%. Almost all the other parties fulfilled one promise at most.

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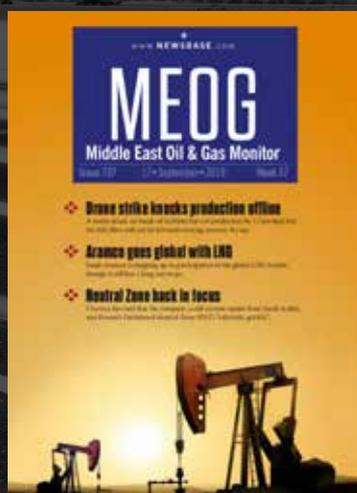
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