UZBEKISTAN’S IT SECTOR ON FIRE AND TARGETING THE VAST US MARKET
COMPANIES & MARKETS

4 Polish banks go from resilience to vulnerability
6 Poland’s post-Gazprom strategy hinges on Baltic Pipe
7 Nordic banks hit by new money laundering scandal in the Baltic states
8 Romania receives gas from first new offshore development in 30 years
8 Albania trails neighbours in auto-parts production but economists see a chance to catch up
9 Gas crisis: Can Europe store enough gas this summer to get through the winter?
12 Russian retailers launch “parallel import” electronic sales
13 Calls growing for a price cap on Russian oil exports
15 Artel becomes largest private company to place bond on Tashkent Stock Exchange
16 Kyrgyzstan: Pit wall cracks raise questions over future of giant Kumtor gold mine
17 Uzbekistan, Russia’s Rosatom discuss ‘cost optimisation’ for nuclear plant
18 New CEO of PPF calls off takeover of Moneta Money Bank
19 Georgia to take management control of struggling mineral water company Borjomi
20 IKEA to sell off Russian inventory and plants
22 War and soaring prices take toll on Southeast Europe’s listed companies
24 Croatia’s Rimac Group raises €500mn in series D investment round
25 Bulgaria’s ruling coalition divided over euro adoption plans
26 Croatia set to become the eurozone’s 20th member in January 2023
27 European Commission says Romania meets none of the euro adoption criteria
28 Czechia to appeal €625mn international arbitration award over cancelled blood plasma contract
29 Estonia expected to have more than 100,000 e-residents in 2022
29 EU keeps market guessing with designation of Arkady Volozh
32 Albania to create Vjosa national park, blocking hydropower development
33 Energy efficiency: a central pillar of meeting green targets
34 EU to use €2.4bn of carbon credit cash to fund green projects in CEE

35 UN stresses green issues are key to reducing poverty and boosting sustainability

COVER FEATURE

36 Uzbekistan’s IT sector on fire and targeting the vast US market

SPECIAL REPORT

42 Global red warning lights are flashing as stagflation looms

44 World hit by interest rate and inflation shock says IIF

46 Turkey’s despair rating score is worse than war torn Ukraine’s

49 ‘Sugar rush’ in Uzbekistan as prices skyrocket

50 Ukraine set to dominate Czech EU presidency

51 Brussels to release recovery fund cash for Poland despite doubts over rule of law reform

52 Estonia’s PM kicks Centre party out of governing coalition

SOUTHEAST EUROPE

56 Bulgaria’s reformist government loses no-confidence vote

57 Turkey on verge of total bankruptcy says Erdogan’s former economy czar

59 High-ranking politicians from Serbia and Bosnia attend ‘Russia’s Davos’ shunned by West

EASTERN EUROPE

60 Ukraine and Moldova granted EU candidate status in face of Russian aggression

63 Ukraine’s budget is underfunded and in need of Western help

65 FBK accuses Putin and Miller of using Gazprom as “bottomless purse” in latest scandal report

66 Ukraine calls for a total ban on all Russians travelling overseas

68 Claims Ukrainian grain shipped from Crimea to Turkey could test Ankara-Kyiv relations

69 Belarus will make its Eurobond payments in Belarusian rubles

EURASIA

70 Face to face with Putin, Kazakhstan’s president refuses to recognise Ukraine breakaway republics

72 Georgian government braces for blocking of EU candidacy

73 China hectors Central Asia to steer clear of big power politics

74 Kazakhs vote to confirm removal of Nazarbayev’s grip on power

75 After 675 years researchers conclude Kyrgyzstan was the home of the Black Death

OPINION

76 Ukraine should not have to pay for this war

78 The world continues to hurtle towards recession and potentially financial crisis

79 How to keep the EU accession dream alive

82 Estonia’s President Alar Karis

NEW EUROPE IN NUMBERS

85 Ukrainians expect conflict to intensify – RIWI
Polish bankers are so distressed these days that they can look back to the days of the 2008 global financial crisis and long for the resilience they displayed then.

Today, the banking market faces unprecedented uncertainties. At first, the main risk just concerned Swiss franc mortgages, where the government and the courts have long held that banks should compensate clients for losses caused by the rapid appreciation of the franc.

Now there are many more worries: rampant inflation and the central bank's attempts to contain it by aggressive monetary tightening; the risk of an economic recession and rising unemployment; and the prospect that the government will make the banking sector finance ideas such as a credit vacation for everyone before next year's general election.

The banking sector is an easy target as, on the surface, banks are enjoying a boom.

In January-April, Polish banks netted PLN9.19bn, marking a jump of 111% y/y, according to the most recent available data compiled by the National Bank of Poland (NBP).

The NBP's aggressive rate hike campaign aimed at curbing inflation drove up the result, because it increased banks' net interest margins, pushing net interest income up 83% y/y. After the NBP increased rates in May and June, taking them to a 14-year high of 6%, the second quarter is poised to be exceptionally good for the sector.

Yet, the sector has been lamenting a steady fall in the return on equity (ROE) ratio, which the bankers hoped would finally recover in 2022 after falling steadily since 2011.

These hopes were thwarted by the government, which, looking to soften the effects of the NBP's tightening of monetary policy, has devised a plan for a universal credit vacation for mortgage payers. The vacation gives borrowers an option of making no
repayments for four months this year and four in 2023.

That, the banks say, will hit the sector for an estimated PLN20bn (€4.28bn), slashing net profit and flattening ROE.

The plan comes in reaction to growing discontent among borrowers, who are forced to pay ever-higher mortgage repayments as banks hike their margins in line with the way the NBP is raising the cost of money to fight inflation.

Polish media are full of “it’s the death of the middle class” stories, citing borrowers whose repayments doubled only since October – when the NBP’s tightening cycle began – with the outlook for more increases in the coming months.

The government also plans to bulk up the banking sector’s fund to help borrowers in distress from the current PLN600mn (€128mn) to PLN1.4bn this year and PLN2bn in 2023.

“Polish media are full of “it’s the death of the middle class” stories, citing borrowers whose repayments doubled only since October – when the NBP’s tightening cycle began – with the outlook for more increases in the coming months”

Finally, there come risks linked to the government’s ideas for dealing with high mortgage repayments. Banks are worried about the planned replacement of the three-month Warsaw Interbank Offered Rate (WIBOR) with a new indicator as a new basis on which banks should calculate loan margins.

The government’s plans, on top of the macroeconomic outlook getting cloudy, have Polish bankers worried about their role in financing economic growth, Przemyslaw Gdanski, CEO of BNP Paribas Polska, said recently at an industry conference.

“In difficult times, the banking system should be as healthy as possible … it should be able to finance the economy,” Gdanski said, Business Insider reported earlier this month.

“We have a hard embargo [on trade with Russia], inflation, recession, and a deterioration in the quality of loan portfolios. The scenario from the turn of the 1970s and 1980s may repeat when Poland struggled with the effects of the crisis for several years,” Cezary Stypulkowski, who heads mBank, the Polish business of Germany’s Commerzbank, told the European Financial Congress held in Sopot.

According to Stypulkowski, the concoction of negative trends imported from abroad in the wake of Russia’s aggression on Ukraine and the government’s “inconsequential” response to the war and the lingering problems after the coronavirus pandemic, make Poland’s banking sector “ever more exotic and out of sync with international standards”.

The banking stock market sectorial index WIG-Banki has retreated over 36% in 2022 to date and is still nearly 30% down versus the time before the pandemic struck.

The biggest Polish lenders, state-controlled PKO BP and Pekao, have seen their stock tank 30% this year to date in what still are mild falls compared to losses nearing 50% in the same period in the case of mBank or Bank Millennium.

Taming inflation and halting the cycle of interest rate hikes are what Polish bankers expect to be the first harbinger of an improvement, it seems.

“It’s a myth that high interest rates are to our favour,” Michal Gajewski, CEO of Santander Bank Polska, told the European Financial Congress.

“[Our] customers are in trouble, so we need to create reserves. We want then to pay back their loans,” Gajewski said.

But that may well be wishful thinking if the NBP’s tightening continues – as it is expected to because of the pro-inflation moves by the government before the next general election in the autumn of 2023.

Poland’s interest rates are generally expected to keep rising to 7% or even 8% but there are analysts who predict that the NBP will only stop at 10%, given that inflation is still far from its peak.

That could result in a bigger than expected slowdown in GDP growth and an increase in unemployment, which would eat into the quality of banks’ credit portfolios. So far, predictions are for GDP expansion to ease to a still robust 3.5% in 2023 and 3.6% in 2024 from around 5% this year.
Poland’s post-Gazprom strategy hinges on Baltic Pipe

Wojciech Kosc in Warsaw

When Russia’s state-owned gas company Gazprom cut Poland off from its annual 10bn cubic metres (bcm) of gas supply in late April, Warsaw just shrugged.

For years, Poland had said that it was going to end the contract with Gazprom on its expiry at the end of 2022 – the same time a new pipeline, called the Baltic Pipe, becomes operational.

Gazprom ending supplies early made little difference – except that Poland is now making noises about suing the Russian company for a breach of contract. But supply-wise Warsaw says the Baltic Pipe will step in exactly where Gazprom left.

What is the Baltic Pipe anyway?

Touted as the “independence pipe”, the Baltic Pipe is about to link the gas-rich fields of the Norwegian Continental Shelf to Poland via Denmark.

Technically the roughly €1.5bn pipeline will not tap directly into the Norwegian gas deposits but will be an offshoot of the existing Europipe II gas line connecting Stavanger in Norway to Dornum in Germany on the North Sea bed.

The Baltic Pipe offshoot will run east of Europipe II on the bottom of the North Sea until making a landfall near the western Danish town of Varde. Then it will run through Denmark until going back underwater – in the Baltic Sea this time – off Faxe on the island of Zealand before turning south for another landfall in Pogorzelsce in Poland.

The capacity of the pipeline is about 10bn a year, roughly the equivalent of Gazprom’s supplies.

Perhaps unusually for big infrastructure projects, the Baltic Pipe has suffered only minor cost overruns and its construction is running precisely on schedule.

Pump up the (gas) volume

Building a new pipeline is not the same as having it pump gas.

So far, says Gaz-System, Poland’s state-owned operator of the gas grid, Baltic Pipe’s capacity has been booked up to 80% and there is enough time to push that up to 100% before demand begins climbing back up in the cold season.

That was the message delivered by Gaz-System’s CEO Artur Stepien last week, apparently in response to alarmist media reports that put the figure at 50% instead.

Most of the booked capacity is by PGNiG, Poland’s state-controlled oil and gas company, which operates several concessions on the Norwegian Continental Shelf from which the company extracted 770 mn cubic metres (mcm) of natural gas in the first quarter, growing the volume by 250% y/y.

PGNiG says that the real growth in gas production volume is still ahead. The company wants to eventually pump up to 4 bcm of gas as part of the 8 bcm of the Baltic Pipe’s capacity it has booked.

“Why are we not filling it all? If we used each interconnector in this way, we could double the amount of gas imported to Poland in relation to the needs. Diversification is also the ability to choose, not to use an option to the maximum, but to leave some space to take advantage of [future opportunities] while securing the demand,” PGNiG’s deputy CEO Robert Perkowski told Biznes Alert on May 19.

Piece of the puzzle

The Baltic Pipe is just one – even if a key – element of the gas supply puzzle that Poland has been putting together for some time now.

On top of gas flowing through the Baltic Pipe, Warsaw expects to meet its annual demand of roughly 20 bcm with LNG imports via the terminal in the north-western port of Swinoujscie, which will soon be capable of handling 7.5bcm of gas annually.

Poland also has some domestic production, amounting to roughly 3 bcm a year. The country has also a number of gas interconnectors – links between national gas grids of its neighbours – with Germany, Lithuania, Slovakia, and the Czech Republic, allowing it receive, or send, gas under the EU’s common gas market regulations.

On top of domestic production and imports, Poland still has plans to build more gas infrastructure to try to become CEE’s gas hub. To that end, a floating LNG terminal is planned in

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the Gdansk Bay and, possibly, another one in the context of expected rise in gas demand from Czechia and Slovakia.

The plans are causing friction with the pro-climate movement, which says that betting too much on gas – regardless of its origin – unnecessarily locks Poland into fossil fuels. The government’s response has been that ensuring security of supply must be the key objective before relying on renewables and nuclear becomes a reality.

Poland has also strived to maintain a very high level of gas storage. At nearly 96% today, Polish gas storage tanks are the most-filled in the EU.

“With the current level of supplies to the European market, Poland will be able to import gas from outside Russia not only through the LNG terminals in Swinoujscie and Klaipeda and the Baltic Pipe gas pipeline, but also from Germany via the reverse of the Yamal gas pipeline and [also via] gas pipelines from the Czech Republic and Slovakia,” Biznes Alert wrote in an analysis.

Russian supplies could be cut off entirely as a result of the EU’s plans to end dependency on Russia, making delivers from outside of Russia crucial. That is when the Baltic Pipe’s strategic importance could play out in full.

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**Nordic banks hit by new money laundering scandal in the Baltic states**

**Linas Jegelevicius in Vilnius**

Billions of euros from suspicious sources have been moved through the Baltic branches of Nordic bank Nordea and Norway's DNB banks, The Finnish Broadcasting Company (Yle) has reported.

According to Yle’s information, at least part of the money moved is tied to money laundering, i.e. the attempt to legalise criminally obtained money. At least €3.9bn from suspect sources has been moved via the two Nordic banks, ERR.ee, an Estonian news website, reported on June 13.

The banks’ internal investigation reports have been leaked, according to which suspect money transfers were connected to Nordea branches in Estonia, Latvia and Lithuania, as well as to the Tallinn-headquartered Luminor Bank, the Baltic states’ third largest bank, which was established by Nordea and DNB in 2017 and then sold to private equity group Blackstone. Luminor's internal investigation report also raised suspicions that in two instances, a bank employee had been involved in money laundering.

Luminor’s internal documents were handed over to global investigative journalist consortium Organised Crime and Corruption Reporting Project (OCCRP), of which Yle investigative journalism unit MOT and three Baltic publications are members.

Nordea turned down Yle’s request for an interview, but then emailed the Finnish broadcaster a statement in which it confirmed that two audits involving external participation have been conducted regarding the bank’s activity in the Baltic countries, neither of which turned up shortcomings in the bank’s prior activities in the region.

The Helsinki-headquartered bank also declined to comment regarding Luminor, confirming that it had sold its majority stake in the bank, due to which anything going on at Luminor was no longer relevant to Nordea. Bank representatives did stress that Nordea does not condone either current or previous use of the bank for money laundering purposes. Private equity group Blackstone took control of Luminor in 2018.

According to Luminor, suspicious bank transfers have been reported to the authorities. The bank has not provided Yle with any further information, however, as the law allegedly does not permit them to do so. DNB has likewise not commented regarding the content of its report.

In October 2018, a month before Luminor’s internal investigation began, Caspar von Koskull, then CEO of Nordea Bank, reported that the bank did not have any problems with money laundering in the Baltics.
Romania receives gas from first new offshore development in 30 years

Romania received the first quantities of natural gas extracted from Midia Gas Development (MGD), run by Black Sea Oil & Gas (BSOG), the company announced on June 15.

This is the first new offshore gas development in Romania in more than three decades.

 Owned by private equity firm Carlyle Group, BSOG aims to extract 10bn cubic metres (bcm) of gas from Midia over the project’s life. But it has repeatedly delayed the field’s launch, urging the government to amend regulations that developers have said are stifling offshore gas development. Midia had previously been due to come onstream in November last year.

The project is expected to deliver approximately 500mn cubic metres of gas this year. The peak production expected to be around 1 bcm per year. Midia is expected to cover around 10% of Romania’s gas consumption.

“It has been a long and challenging journey to finally reach this significant milestone for the country. A number of firsts were achieved in Romania, all during a global pandemic and, more recently, conflict in Ukraine that threatened to impact Black Sea operations,” said Mark Beacom, BSOG’s CEO.

“The result of all these efforts is that MGD project provides not only 10% of Romania’s gas demand, but the path, and possibly even the infrastructure, for other developers in the Black Sea, as well as to launch a number of green energy development initiatives, making MGD an integrated energy transition infrastructure.”

Romania had aspirations to become a net exporter of gas following the discovery of large offshore resources. But amid these continued delays, the country continues to rely on Russian gas imports to supplement domestic supply. Like many other EU states, Romania is scrambling for ways to phase out Russian gas use in the wake of Moscow’s invasion of Ukraine, while also seeking to ensure energy bills do not grow too steeply.

Albania trails neighbours in auto-parts production but economists see a chance to catch up

Albania has a chance to take advantage of changes to the automotive industry’s supply model following the coronavirus (COVID-19) pandemic to help its auto-parts industry grow and integrate with the European automotive value chain, a World Bank Group report said.

Currently, Albania’s auto-parts industry is part of the European regional value chain, along with other countries in Central and Southeast Europe and the Middle East and North Africa. However, the Albania Country Private Sector Diagnostic Report (CPSD) from the IFC and the World Bank describes Albania’s auto-parts sector as “nascent” and says that other Western Balkan countries, including Bosnia & Herzegovina, Montenegro, North Macedonia and Serbia, have “established a substantial presence in the auto industry, and their automotive sectors are significantly larger than Albania’s”.

“Albania’s automotive sector is smaller than those of its regional peers, and auto parts account for less than 1% of its total merchandise exports,” it adds.

Foreign direct investors started setting up auto-parts factories in Albania over the last 10 years, drawn in by

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“relatively cost-competitive labour costs, improvements in economic stabilisation and the investment climate, and fiscal incentives”, said the report.

There are currently six foreign companies present, specialising in niche components such as exhaust systems, rubber parts and wiring. They include PSZ Albania GmbH, part of German Group PSZ Electronic GmbH, French automotive supplier Delmon Group and Sumitomo Electric Group’s SEWS CABIND.

Since the pandemic disrupted global supply chains, with a highly negative effect on the automotive industry, some companies have been looking for suppliers closer to their home markets.

“Albania may take advantage of the changes in the vehicle production, processes and resharoring of value chain related to COVID-19,” the report says.

“An important realignment is underway not only for automotive products, but also for production processes and players throughout the value chain. In the aftermath of the pandemic, heightened concerns about the vulnerability of global supply chains may prompt manufacturers to move a larger share of auto production back into the European region, which could also benefit Albania.”

There are also changes with the increasing electrification of conventional and hybrid vehicles, and the growth of the electric vehicle (EV) subsector. Again, says the report, this may create opportunities for Albania to increase its participation in the European value chain.

The report says that developing the sector “could catalyse job creation by fostering the development of a dynamic, globally competitive manufacturing sector”.

“In this turbulent time, fostering a robust and sustainable recovery will require a more productive and resilient private sector,” said Emanuel Salinas, World Bank country manager for Albania.

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Gas crisis: Can Europe store enough gas this summer to get through the winter?

Ben Aris in Berlin

Winter is coming, and the night is full of terrors.” Game of Thrones’ most famous quote would serve well as a morning greeting for gas traders as they come into work.

Russia has drastically cut gas supplies to European customers in the last weeks, raising the spectre of another and even worse gas crisis this winter. As the war in Ukraine got underway in March, the EU ordered that underground storage tanks be filled to 80% by October 1. It’s now not clear if that target will be hit.

Russia’s Gazprom announced on June 14 that it is slashing gas flow via the Nord Stream 1 pipeline by 60%, blaming Siemens’ failure to return compressor units on time that had been sent off for repair, as well as other technical difficulties at the Portovaya compressor station.

Dutch front-month gas futures, the European benchmark, rose as much as 7.7% to a one-week high of €137 ($144) per MWh in Amsterdam. The contracts have gained more than 50% since Gazprom cut flows, Bloomberg reports.

Earlier Gazprom has already cut off Bulgaria, Denmark, Finland, the Netherlands and Poland after they refused to pay for natural gas in rubles, as demanded by the Russian government.

Germany alarmed
Germany is becoming very alarmed and called the reduction in gas flows an “attack.”

“The reduction of gas deliveries via the Nord Stream 1 pipeline is an attack on us, an economic attack on us,” Economy Minister Robert Habeck said in a speech on June 21 and accused Gazprom of cutting supplies for political reasons.

He went on to say that if Russia cuts off energy to Europe completely then that threatens a “Lehman Brothers moment”
that could see the global energy markets collapse completely.

“If [energy company losses] gets so big that they can’t carry it anymore, the whole market is in danger of collapsing at some point,” Habeck said at a news conference in Berlin. “So, a Lehman effect in the energy system.”

The country has already managed to reduce the share of its natural gas supplied by Russia from 55% before the invasion to around 35%, but there are not many easy cuts left to make.

German Vice-Chancellor Robert Habeck has put the country on the second highest energy alert on June 10 and ordered coal-fired stations that were due to be shuttered back on standby, along with Austria and the Netherlands. Another 10 EU countries have issued “early warning” notices of an impending energy crisis, Frans Timmermans, the European Union’s climate chief, said in a speech to the European Parliament.

Germany’s gas emergency plan is based on the 2017 EU regulations with three escalation levels: warning, alert and emergency levels.

The early warning is triggered if there are “concrete, serious and reliable indications that an event may occur which is likely to lead to a significant deterioration of the gas supply situation and is likely to trigger the alarm or emergency stage.”

The alert stage kicks in when these dangers lead a government to actively prepare for a crisis and allows them to enact legislation that will pass soaring costs on to the consumer.

In the emergency stage, the government intervenes in the market to divvy up limited supplies through rationing.

Habeck said he was holding off on price adjustments for now to see how the market reacts. “It will be a rocky road that we have to travel as a country,” he said. “Even if we don’t feel it yet, we are in a gas crisis.”

To buy more wiggle room Germany has also launched the “80mn together for energy change” plan (a reference to the size of Germany’s population) to encourage citizens to make energy savings to reduce demand. Industry is bracing for the possible introduction of energy rationing.

Habeck called for the “diversification” of suppliers of raw materials and energy to achieve “a bit of independence from the malign intentions of the world’s dictators.”

Germany has by far the largest storage tanks in the EU and doubles up as a gas hub for other member states. Currently its tanks are 58% full, but that is only enough to cover 2-3 cold months and not enough to get through the winter, according to the Federal Network Agency. Gazprom has cut supplies of gas to 40% of the average and at that rate Germany will be short of gas at the start of the heating season. The record for the lowest level of gas in storage as of October 1 was set last year when European tanks were 77.3% full and that fuelled a major gas crisis that sent prices up 20-fold at their peak.
Cup half full

Europe is actually ahead of the game this year. The EU-wide storage tanks were 55% full as of June 20, as the chart shows, and the injection rate remains well above both of the last two years as well as the average for the last five years, according to bne IntelliNews calculations.

Europe has been rushing to fill its tanks at record rates since the very start of this year, when record amounts of gas were added in the first few days of January of over 3,000 GWh per day. Since then injection rates have fallen back, but have remained well above the average rates for recent years, as the chart shows.

The rapid refilling of the tanks has been due to record high LNG deliveries, especially by the US that has been supporting its ally in its effort to prepare for exactly the sort of crisis that is starting to unfold. LNG has a technical maximum limit of 140 TWh/month, or 10-15% of total demand, due to the limits on terminal capacity in Europe, and cannot by itself cover all the current shortfall, as Europe needs a total average of 400 TWh/month.

And this is a very expensive solution. Injecting around 700 TWh into EU storages ahead of next winter (about two months' worth of gas deliveries) at current prices would cost at least €70bn, estimates consultants Bruegel compared to €12bn in previous years.

Injection rates into Europe's gas tanks have been rising slowly in recent years from around 1,000 GWh/day to over 2,500 GWh/day, but fell more recently in 2000 to below 2,000 GWh/day when Europe was suffering from a gas glut. That gave way to gas shortages in the next year, but this year has seen unprecedented increases in the injection rate.

Injection rates into the tanks clearly started to fall after reaching a record peak of over 5,000 GWh/day in May, but are currently on a par with the five-year average rate of just under 4,000GWh/day, which is typical for this time of year.

What is different is that usually gas injections remain steady at around 4,000GWh/day throughout June, July and August, after which the cold weather kicks in and gas starts flowing out of the tanks.

In addition to the “technical problems” with Nord Stream 1, Gazprom announced that TurkStream that supplies Southeast Europe will be closed for repairs for a week this month, and Nord Stream 1 is due to be shut down again for a week at the end of July for its annual repairs.

It remains unclear now that gas flows through Nord Stream 1 have been reduced they will be increased again once the maintenance work is over.

Scenarios

This year the injection rates are already plunging deeply and are expected to fall further fast. The injection rate halved on June 22 to its lowest level since early June, according to figures from Germany's network regulator, Bundesnetzagentur (BNetzA).

But even at that rate, Europe will probably avoid a full-blown crisis. It will take more than 100 days to reach the 80% target, or September 30 – just as the traditional heating season starts on October 1.

If the injection rates recover to the pre-June 14 levels then the 80% target will be hit by about August 21, well ahead of schedule, allowing for the scheduled 10 days of annual maintenance work.

But if Gazprom cuts off supplies completely then Europe will miss the 80% target and be forced to hunt for alternatives like LNG and coal as well as introduce rationing of industry's gas. That will, in turn, lead to an economic slowdown and could spark a global recession or even an energy market collapse.

“Even record-high non-Russian imports would not be enough to sufficiently refill storage ahead of next winter. Europe would need to reduce demand by at minimum 400 TWh (or 10%-15% of annual demand). This is possible. A portfolio of exceptional options could abate at least 800 TWh,” energy consultants Bruegel said in a note.

Some, none, normal – those are the scenarios that have currently captured most of the discussion on the looming
Russian retailers launch “parallel import” electronic sales

Ben Aris in Berlin

Russia’s retailers have start importing electronics using “parallel imports” that source the products from intermediaries and allow them to ignore the wishes of the owners of the intellectual property.

Russia’s phone retail chain Svyaznoy is the first major retailer to confirm the start of electronics imports through parallel imports.

The chain will add some 100 products to its offering that are on the parallel imports list. Last year Russia imported 30mn smartphones, but following the imposition of self-sanctions (as phones have been specifically excluded from the sanctions lists), most of the major brands have withdrawn from Russia. Shifting to parallel imports means Russia’s retailers cannot deal with the manufacturers directly and will necessarily have to import products in smaller batches, thus driving up prices.

Svyaznoy reported that devices will be 10%-20% more expensive than similar devices imported before the start of the war in Ukraine. Another major change is that phones cannot be sold under warranty.

Other major retailers are set to follow Svyaznoy into the parallel imports business soon, taking Russia’s trade regime for high-end consumer goods back to where it was in the 1990s.

Major Russian e-commerce marketplaces are planning to streamline their supplies of the so-called “parallel imports” for goods that are no longer officially distributed in Russia as brands pull out of the country amid the military invasion of Ukraine, Kommersant daily reported.

In the meantime, the previously booming e-commerce sector has been hit by the fallout of the invasion as leading local marketplaces have reportedly requested state support from the government.

Other leading e-commerce sites will follow suit but have yet to comment explicitly on their plans. YandexMarket is planning to set up a new supplies department that will be responsible for building parallel import supply channels for household appliances, power tools, electronics and health products, Kommersant claims, citing unnamed sources and new vacancies published by the e-commerce marketplace of Russian internet major Yandex. The first batch of foreign branded electronics and home appliances has already arrived at YandexMarket warehouses, Kommersant sources claim.

Russia’s largest e-commerce platform Wildberries and e-fashion major Lamoda have not made any statements yet.

The Duma signed off on the parallel imports law on June 21 making the practice legal, which was previously banned as Russia struggled for years to stamp out privacy and improve intellectual property rights. The introduction of the parallel imports legislation was proposed almost immediately after

“Just imagine what would happen if by the summer, EU gas companies managed to amass close to 1,000 TWh and Gazprom suddenly decides it is time to release the volumes it withheld last year,” the analysts speculate. “Prices would drop dramatically, leaving all those who stored gas – helping Europe prepare for winter – with huge losses. This is a catch-22 scenario.”

Cut off from dealing with the manufacturers of famous international electronics brands, some Russian retailers have launched parallel import sales. / wiki
Calls growing for a price cap on Russian oil exports

Ben Aris in Berlin

Europe has been wrestling to get its members to sign up to a full ban on Russian oil products as many countries remain extremely dependent on the supply of Russian crude.

An oil embargo was supposed to be the flagship penalty in the recently approved sixth package of sanctions, but the measures finally adopted were watered down and Hungary, Bulgaria and Slovakia obtained exemptions.

Moreover, even if the EU bans Russian imports of oil completely, there is significant leakage with oil being set to other markets in Africa and Asia that are not participating in the sanction’s regime. Currently China and India are receiving half of Russia’s exports in unprecedented volumes, even if Russia’s overall volume of exports is down significantly.

The other problem is that restricting Russia’s exports will drive up demand for non-sanctioned oil and inflate prices to the point where Russia could actually make more money on its reduced volumes than it did before the war at “normal” prices. Russia is currently earning its largest currency account surpluses ever despite sanctions, self-sanctions and a 30% discount on its Urals blend of oil. The implementation of a really strict European oil embargo would almost certainly send oil prices even higher.

To get round these problems, there are calls for a new strategy that does not have the unrealistic goal of completely blocking Russia’s exports, but instead would attempt to lower the price of oil to hurt the Russian budget and also siphon off some of the profits Russia would earn into a fund, that will therefore encourage the Kremlin to end the war and agree to pay reparations.

CEO of Ukraine’s national gas company Naftogaz Yuriy Vitrenko called on June 14 for a price cap on Russia’s exports that would normalise the market. “Further to the ongoing debate on the risks and benefits of different options for the energy sanctions against Russia, I would suggest considering...
complement its oil embargo with additional, immediate measures,” says Guriev.

Guriev suggests two strands. The first would be to introduce a high tariff on oil imports into the EU, which can be implemented quickly. Part of the amount paid by buyers of Russian hydrocarbons should be transferred to Ukraine as reparations or stored in special escrow accounts until reparations are formally awarded, Guriev suggests, but admits that with the cost of living already soaring in Europe there is little political appetite for a new oil tax.

Guriev’s second strand is the same as Vitrenko’s – a price cap.

“A price cap could be implemented immediately – say, at $70 per barrel – and lowered by about $10 each month the war continues.”

Guriev dismisses the objection that a price cap would distort the market by pointing out that the oil business is run by the OPEC+ cartel and was never a competitive market in the first place.

Moreover, if a falling price cap to lower the price paid in Europe were accepted and paid by Europe then China and India would have no incentive to pay higher prices. The price cap could have the effect of pulling down the prices on the whole market. That would also have the beneficial result of reducing the red hot inflation rates.

Guriev dismisses the objection that a price cap would distort the market by pointing out that the oil business is run by the OPEC+ cartel and was never a competitive market in the first place.

The problem that a price cap might spur a black market is more serious and there are already examples of sanction dodging by creating “crude cocktails” where Russian oil is mixed with others to create a blend with less than 50% of Russian crude that is not sanctioned. But Guriev argues that these problems can be dealt with using secondary sanctions and some good detective work.

“Europe must immediately impose a price cap on Russian oil and gas,” concludes Guriev.
Artel becomes largest private company to place bond on Tashkent Stock Exchange

Artel Electronics, Central Asia’s leading electronics and home appliances manufacturer, became the largest privately-owned company to successfully place a corporate bond on the Tashkent Stock Exchange (TSE) on June 10.

The company placed a debut three-tranche bond offering of UZS30bn ($2.71mn), with maturities of 12-18 months, a coupon interest rate of 21-22.5% and quarterly payments.

“The bond issuance is Artel’s first capital markets activity, either domestically or internationally. A broad range of investors participated in the raise, which was oversubscribed,” the company said in a statement emailed to bne IntelliNews.

“In its first interaction with the investor community, Artel showcased its leading domestic market share, rapid increase in export sales, and strong projections for future growth. The raise will be used to replenish the company’s working capital.” Sarvar Akhmedov, head of Uzbekistan’s Capital Markets Development Department, said: “Artel’s issuance on the TSE is the latest encouraging sign in the development of Uzbekistan’s capital markets.

Artel is one of the up-and-coming stars of the post-Karimov Uzbekistan, which is flourishing thanks to six years of reforms that has opened up the country to the rest of the world. A profile of the company was included by bne IntelliNews in a report Uzbekistan Rising on the progress the country has made in the last two years as the reforms start to bear fruit.

The formerly closed country is transforming from a centrally planned command economy to an open market-based system. That has seen economic growth run at an average of over 6% a year and as incomes rise demand for consumer goods, and especially consumer durables, have soared.

Artel is one of the unsung success stories of Central Asia’s modernisation and is considering plans to enter the international capital markets with a long-term eye on a public offering. Bektemir Murodov, Artel’s CFO, told bne IntelliNews in the company’s first ever interview with the international press.

For its part, the government is also keen to develop the domestic capital markets as it begins an extensive privatisation programme where it intends to list many of the state-owned assets on the TSE. Some of the largest will be dual-listed on international exchanges. The listing of Artel’s corporate bond on the TSE this week is part of the development programme and a milestone in the development of the domestic bond market.

The finance ministry said: “The Ministry of Finance is committed to increasing confidence in the domestic markets and creating the conditions for an increasingly healthy and liquid TSE. We expect that other large players will soon consider the TSE as an attractive forum to raise capital, which will further develop both their businesses and our country.”

Artel began life as a trading operation in the 1990s, importing aluminium and plastic products such as door and window frames that were in high demand at the time. By the mid-2000s, business was flourishing and so the company went into production, producing white goods like cookers, hoovers and later TVs and fridges amongst other things. Artel signed a licensing agreement with Samsung to manufacture items like hoovers but the company has since developed its own brands.

Artel has been paying for its development out of retained earnings, but as it expands its export business to the rest of Central Asia, Eastern Europe and even as far afield as Africa, it has been preparing to raise capital to accelerate its growth. The company has been through a corporate restructuring to improve transparency, has introduced international IFRS accounts and is getting ready to raise money on the capital markets.

“We are very proud to have issued our first bond on the domestic market. The TSE, with a pool of regionally focused investors, is the natural forum for our first bond issuance. It provides us the opportunity to demonstrate Artel’s robust fundamentals and strong growth prospects. Interacting successfully with the investor community is an affirmation of our hard work in consolidating our businesses and aligning with international best practice in ESG and financial reporting,” said Shokhruh Ruzikulov, CEO at Artel Electronics.
Kyrgyzstan: Pit wall cracks raise questions over future of giant Kumtor gold mine

Aigerim Turgunbaeva in Bishkek

A crack in the pit wall of Kyrgyzstan’s giant Kumtor gold mine is giving authorities a headache, especially since they can no longer blame problems at the national cash cow on a foreign investor.

Or so one would have thought.

Last month, the government created a commission after the Kumtor Gold Company, or KGC, detected fractional movement at one of the pit walls and ordered one-fifth of people working on the mine’s central pit to go on leave. The company also summoned international consultants to offer their input.

KGC has been fully government-owned since a settlement reached with Canada-headquartered Centerra Gold in early April brought a years-long dispute to a close. President Sadyr Japarov’s administration had one year earlier placed the mine under its own management, in effect wresting it away from the Canadian investors, citing what it said was the urgent need to reverse environmental and safety violations.

In a May 30 interview with state news agency Kabar, however, Japarov appeared both resigned to accidents happening at Kumtor and unwilling to take responsibility for them. A lack of “real specialists” working at the mine from the outset of the project had laid the foundations for repeated worker accidents, he said.

“Disasters will continue to happen. Neither I nor Tengiz Bolturuk are to blame for this,” Japarov told Kabar, referencing his ally, a Canadian-Kyrgyz dual citizen who runs KGC. “When and what will happen, only God knows, do not forget that.”

The last fatal accident at the mine was in 2019, when a waste rock landslide buried two workers. The bodies of the employees were never recovered. Politicians were quick to criticise the foreign company at the time.

Since the millimetre-sized movements of the pit wall were first picked up in the middle of last month, some 40 workers have been taken off the job. KGC’s position is that the problem is neither unprecedented nor critical.

Kalysbek Ryspayev, head of the company’s trade union, suggested in an interview with Eurasianet that the issue had only been identified thanks to devices introduced last year to monitor soil movement around the clock.

“Previously, this was not the case. Experts manually measured the movement with equipment during the day,” Ryspayev said. “Kumtor is in a very complicated geological structure. I would not say something out of the ordinary is happening.”

KGC said in a statement that it had received preliminary assurances from one foreign consultant that the vertical tear in section 20 of the mine, which will deepen and expand in the event of pressure from soil movement, will not reach section 21. Mine boss Bolturuk, meanwhile, has acknowledged that the situation in the affected area of the pit may cause a correction to a previous 17.5-tonne gold output target for this year.

Independent industry specialist Duishonbek Kamchybekov has taken a less reassuring line. He told RFE/RL’s Kyrgyz service that any widening in existing cracks could put the whole central pit out of action.

“Perhaps a good result for this year would then be 10 tonnes of gold extracted instead of 17,” Kamchybekov said. He said the company could in the most negative scenario still focus on sections beyond the central pit, but that those would yield only three tonnes of gold at best.

Such a major production shortfall would be a huge blow for Kyrgyzstan. Kumtor has accounted for more than one-tenth of the entire economy in recent years.

But it would be better than the kind of massive accident that former Centerra vice president Daniel Desjardins warned of in 2021, just as Centerra was embroiled in a post-seizure grapple with the Kyrgyz authorities.

Referring to photographs and videos shot at the mine, Desjardins said that abnormally large amounts of water had entered the central pit, something he said in an interview with Bloomberg news agency could increase “the threat of a wall failure.”

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Uzbekistan, Russia's Rosatom discuss 'cost optimisation' for nuclear plant

Muzaffar Ismailov in Tashkent

Uzbekistan and Russian corporation Rosatom are discussing how to optimise the cost of building the country's first nuclear power plant, Uzbek Deputy Energy Minister Sherzod Khodjaev told journalists.

"As for the construction of nuclear power plants. Again, we come back to the question of how economically feasible it is. On the one hand, the project is very interesting because it reduces dependence on fossil fuels. Unlike solar and wind generation, it provides fairly high guarantees for stable [electricity] generation. On the other hand, it should be noted that, purely economically, this project is very much losing out to other types of generation," he said.

Uzbekistan side is discussing the possibility of reducing the cost of the plant construction, Khodjaev said.

"In simple terms, how much will the energy produced at this nuclear power plant cost us? Will it be competitive compared to other sources? If not, then the conclusion is obvious. If yes, then this is what we should implement," the official added.

Khodjaev noted that from the very beginning, Rosatom was chosen as the prospective strategic partner for Uzbekistan for this project. A potential site has been identified, but "there are certain nuances", he said.

"They are related to the fact that research shows the necessary amount of investment. That is, what kind of station should be on this site, how it should work, in what mode. Based on this, it is possible to calculate the capital costs for the construction of the station. If we want to reduce the cost of the final electricity generated at this plant, then we must reduce the cost of construction. This is plain," he said.

Uzbekistan continues to work with Rosatom on the issue of cost optimisation, which means that "the cooperation has not stopped", the deputy minister remarked.

Khodjaev noted that there were many parties with the intention to build a nuclear power plant, but, when choosing a partner, they took into account not only the factor of the construction of the plant, but also its operational life of 50-60 years, as well as its decommissioning.

"Uzbekistan, being a country with quite serious problems in logistics – that is, we have certain restrictions on logistics – is obliged to take this factor [of the operational life and decommissioning] into account. There are a lot of people who want to build this kind of plant. But if we look at the 50-60-year perspective, we need to think about how to supply fuel for the plant and how to dispose of the waste," he said.

According to the concept of the development of nuclear energy in Uzbekistan for 2019-2029, the construction start for a nuclear plant is scheduled for 2022. The plant would be built at the expense of the Uzbek state budget as well as with a state credit from Russia.

The project provides for the construction of a nuclear power plant with water-water reactors of the VVER-1200 type with a capacity of 1.2 GWh in the Jizzakh region.

General director of Uzatom, Jurabek Mirzaakhmadov, noted that the first power unit of the plant should be commissioned in December 2028, and the second in June 2030.

In October 2019, Rosatom CEO Alexey Likhachev said that the corporation was planning to sign the main contract for the construction of a nuclear power plant in Uzbekistan by the end of 2019. However, there have been no reports of any such signing so far.

During the one-day visit of President Shavkat Mirziyoyev to Russia in November last year, 18 bilateral documents were signed, including agreements between governments on cooperation in the field of nuclear and biological safety.

At the beginning of November last year, Abdulaziz Kamilov, the former foreign minister of Uzbekistan, said that the issue of building a nuclear power plant in Uzbekistan was being considered. "We will study the attitude of the public to this issue not only in Uzbekistan, but also in neighbouring countries," he said.

Rosatom has an order book to build nuclear power stations around the world worth at least tens of billions of dollars. / Wiki
Companies & Markets

New CEO of PPF calls off takeover of Moneta Money Bank

Czech investment company PPF Group announced that it has terminated a deal with Moneta Money Bank (MMB) on the acquisition of PPF's Air Bank Group, including Air Bank, Czech and Slovak Home Credit and Benxy (Zonky), citing macroeconomic changes that had “radically altered the parameters of the originally planned merger.”

The decision, reportedly by PPF’s incoming CEO Jiri Smejc, ends the Czech financial group’s pursuit of Moneta, which has lasted almost four years. It is the second key decision by the new CEO – who officially takes over on June 15 – after the sale of consumer credit arm Home Credit’s Russian operations, announced last month.

The takeover would have created a group with a total of around 2.5 million customers in a country of 10.7 million people, putting it in third place in terms of customers, and ranking it second in consumer finance.

Hospodarske Noviny reported that, according to an unnamed source from financial circles, PPF Financial Group director Jiri Smejc who will take over CEO post as of June 15 – after the sale of consumer credit arm Home Credit’s Russian operations, announced last month.

According to the deal approved by Moneta’s shareholders in December 2021, Moneta, ranked sixth in banking assets, had agreed to buy Air Bank Group for CZK25.9bn (€1bn) with newly issued shares, which would have given PPF a majority in the enlarged Moneta share capital.

The planned capital increase had been designed to raise approximately CZK21bn through a public offer of 255.5mn of new shares to existing shareholders, during a two-round share subscription process. The planned capital increase is now cancelled.

According to PPF, the new circumstances which altered the economic parameters agreed are: the negative development of capital markets (an increase of the CNB-mandated countercyclical capital buffer from the current 0.5% to 2.5%); the accounting regulations (known as purchase price allocation), which would have a limited impact on the transaction’s execution; as well as the worsening macroeconomic and geopolitical situation, including the effects of the war in Ukraine, which increases the risks connected with asset performance.

"This rise in the countercyclical capital buffer will drastically diminish the dividend capacity planned for the merged bank and further negatively impact the attractiveness of the planned acquisition for all MMB shareholders," PPF noted.

"The current economic situation and difficulties concerning the prediction and visibility of future developments are also reducing the growth potential of the merged bank," it added.

With a 29.94% stake, PPF Group remains MMB’s largest shareholder and will reimburse expenses of over CZK100mn incurred by Moneta.

"The cancellation of the transaction could be slightly negative for Moneta’s shares in the short term since the chance of a mandatory tender offer at CZK90 was a certain anchor for investors. At the same time, at current levels, we consider the shares undervalued and the cancellation of the transaction could turn attention back to the solid fundamentals of the bank," said Milan Vanicek, Head of Research at J&T bank.

"All in all, the statements from the PPF make sense to me. Indeed, the countercyclical capital buffer rate is set to increase strongly, which in itself reduces the potential for dividend payments and thus makes an investment in Moneta shares less attractive," said Radim Dohnal, an analyst at Capitalinked.com, as quoted by the Czech News Agency.

According to him, this is good news for the Czech economy because the stock market will not lose another decent issue. "I also think a less concentrated banking market is more of an advantage for the domestic economy," he added.

In a response to the cancelled merger, Moneta's shares lost about 5% on the Prague Stock Exchange in the following morning and ended 2.28% in the red around midday.
The Georgian government has reached a deal to take control of the famous but struggling Borjomi mineral water company from its sanctioned Russian owners, Mikhail Fridman’s Alfa Group.

Prime Minister Irakli Garibashvili announced that negotiations with IDS Borjomi International’s shareholders had been successfully completed and the state would become a co-owner of the company, “our national treasure and pride”.

Borjomi – a volcanic spa water long popular in the former Soviet Union as a cure-all for everything from morning sickness to a hangover – suspended production on April 29, blaming the difficult situation in the main markets for its products – Russia and Ukraine – because of their ongoing war, as well as sanctions, which meant it had limited access to its bank accounts, which “closed the company's ability to receive foreign exchange earnings and pay off creditors”.

Alfa Group, which controls Russia’s largest private bank Alfa Bank, has owned Borjomi since 2013. Its purchase was at that time perceived as a strategic move by the new Georgian Dream government of billionaire Bidzina Ivanishvili to smooth the mineral water’s return to the Russian market. Moscow had banned the mineral water in 2006 as relations between the two countries nosedived under former president Mikheil Saakashvili, who the Georgian Dream government has jailed on charges that include abuse of power.

However, Borjomi’s problems have continued and appear to have worsened since Alfa and its chairman, Mikhail Fridman, were sanctioned. Alfa is sanctioned by the UK and the US, and Fridman by the UK and EU, over alleged close links with Russian President Vladimir Putin.

Fridman – who is challenging the EU sanctions – has called the invasion of Ukraine a “tragedy” which “should be stopped as soon as possible”. In a letter to Alfa staff shortly after the Russian invasion began, he said that he wanted the “bloodshed to end”, according to Newsweek. Being from Ukraine himself, his $420mn worth of assets were nevertheless seized by a Ukrainian court.

Garibashvili said that the state will receive a part of the company’s shares [7.7%] free of charge and “all the problems that Borjomi and its employees have in operating, managing, functioning will be removed”.

Levan Davitashvili, Georgian Minister of Economy, said that under the agreement with Borjomi’s owners, the state will have full management control over the company. Georgia will have one member on the board of directors who will also be the chairman.

Alfa’s Erasmoni Ltd, which will be left with 49.99% of the shares after the share transfer, will have two directors on the five-man board. The remaining two directors are from Black Waters Limited (38.48%), representing the family of deceased Georgian billionaire Badri Patarkatsishvili, the former full owner of the company.

“I think we will be able to contribute to the success of one of the most important national brands for Georgia and respond
S\n
to the interests of the local population, which, unfortunately, suffered greatly after the imposition of sanctions,” Davitashvili said.

Borjomi’s workers are currently on strike over the management’s reorganisation plans, which have included asking workers to work at half pay under temporary contracts.

Garibashvili said that the government would attempt to settle the dispute with the company’s workers. A new mediation process is underway between Borjomi’s 400 striking workers and the management of the company’s two local factories.

“People should not have the feeling that someone is being unfairly oppressed, and all their fair demands should be satisfied,” Garibashvili said. “After the state becomes a co-owner of [Borjomi]… we will solve all the problems,” he added.

Employees of Borjomi demand the reinstatement of 49 employees laid off as a result of the reorganisation plan, payment of overdue wages, as well as the conclusion of open-ended contracts, the conclusion of a collective agreement, and the eradication of blackmail, threats and coercion. The workers went on strike on May 31, after an initial 21-day mediation process ended without success.

IKEA to sell off Russian inventory and plants

IKEA had been trying to open stores in Russia since the 1970s and in 2000 it finally got the first one off the ground in a landmark event that ushered in the post-Yeltsin boom. Wiki

IKEA had not definitively pulled out as the company hinted that it may restart if relations with the West improve, but the announcement on June 15 is a huge blow to Russia’s prestige and bodes ill for the recovery of the Russian economy.

As bne IntelliNews reported, IKEA has been building an empire across Emerging Europe with a total of 49 stores, but the Russian business has always been the jewel in the crown.

The pull out of the Swedish furniture icon is probably even more significant and shocking than McDonalds departure, as both companies have been wanting to do business since Soviet times and the launch of both are etched in the Russian consciousness as landmark events. The new Russian owners of McDonalds, that have rebranded the stores Tasty. Period., launched last weekend in what has been taken as an end of an era event.

The opening of IKEA’s flagship store in Khimki in north Moscow in 2000, in the same month as Russian President Vladimir Putin was first elected president, is widely seen as a seminal event that marked the end of Yeltsin’s chaos of the 1990s and the start of a decade long boom that brought a western standard of living to Russia.

The queues to get into the Khimki branch snaked around the car park and within months every apartment in Moscow looked identical as they were all furnished with IKEA furniture. The store carried a restricted product line, due to the lower incomes in Russia at the time, but it quickly became the highest grossing IKEA branch in the world on a sales per square metre basis.

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Culturally it was transformative too. The first IKEA advertising campaign in Russia had a tagline, “Every tenth European is made on our bed” and became an instant classic in the Russian advertising world, reaching close to 100% awareness amongst Russian consumers. The “real Swedish café” that comes with each store was also a cultural phenomenon, reports The Bell.

From all the western retail outlets that moved into Russia during the boom years, none were more committed to Russia than IKEA.

IKEA’s founder Ingvar Kamprad saw Russia as a golden opportunity since Soviet days. With its vast forests, large population and almost total lack of creature comforts, Kamprad began lobbying the Soviet government in the 1970s for permission to start operations. He met with Nikolai Ryzhkov, Chairman of the Council of Ministers of the USSR in 1988 to sell him on the idea of opening an IKEA in every city with a population of over a million residents and even began production of furniture at the Tallinn furniture factory Standard before the collapse of the USSR but got no further than that.

Everything changed following the fall of the Soviet Union in 1991, but it took another decade until the first store opened. Ironically, the plans to launch the Khimki store only really started to gather momentum in 1998 in the midst of the default and devaluation in Russia’s financial crisis of that year.

“It was a strange experience,” IKEA CEO Lennart Dahlgren, who was behind setting up the first store, told bne IntelliNews in an interview several years later. “I arrived in Moscow only a few days after the [1998] crisis happened and while I was getting off the plane, it seemed that every other foreign CEO in town was getting on it to leave.” But despite the chaos, IKEA stuck to its guns only to be met with phenomenal success. The second Moscow store was opened in Teply Stan a year later and the company began rolling out those stores in the so-called millionki that Kamprad had been lobbying for two decades earlier.

In parallel IKEA invested in production facilities, providing local partners with soft loans and guaranteed take-off contracts to build up a furniture light manufacturing base to support its sales. The first Russian furniture factory was opened in Tikhvin, in the Leningrad Region, in 2002. By 2022, IKEA had 17 stores and 14 Mega shopping centres in Russia, as well as four factories, and is amongst the best known and most loved brands in Russia. Today IKEA has about two dozen manufacturing partners producing furniture that will now all have to find new clients, which experts say won’t be easy.

IKEA pioneered best business practices and good corporate governance, but it has had its share of bureaucratic problems. It got caught up in a three-year long corruption scandal in Samara over the issue of permits and it has also been accused of illegally felling birch trees for its furniture plants in Ukraine.

But the company continued to flourish despite these problems. Today it employs 15,000 people, considered the Russian market the most promising after the Chinese one, which accounts for about 5% of its global sales, The Bell reported. IKEA doesn’t release financials for its Russian operations, but analysts estimate it invested €4bn in its Russian operations in 2021.

As a result of the war in Ukraine and extreme sanctions that have been imposed on Russia, IKEA suspended sales in Russia at the beginning of March and now will reduce its presence by selling off its factories. Competing furniture chain Hoff and Russian multi-industry conglomerate AFK Sistema have both expressed an interest in buying the factories. IKEA’s staff have been kept on the payroll until August and will continue to receive insurance until the end of this year.

“IKEA suspended sales in Russia at the beginning of March and now will reduce its presence by selling off its factories”

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“IKEA in Russia will reduce the number of employees at its own production facilities and will begin the process of finding new owners for all four factories in the Leningrad, Kirov and Novgorod regions,” a company press release says.

The stores are currently closed but goods remaining in stock will be sold online. It is possible that IKEA will move its production to China where it also has factories and form new supply chains for Russia, according to Vedomosti, but the company has not officially announced such plans nor made clear what will happen to its existing stores. Restarting its business sometime in the future when relations with Russia stabilise remains a possibility. ●
War and soaring prices take toll on Southeast Europe's listed companies

Clare Nuttall in Glasgow

The war in Ukraine, rising prices and supply chain disruptions are taking their toll on listed companies from Croatia, North Macedonia and Slovenia, company executives and stock market officials from the three countries told a two-day investor conference at the end of May.

Companies from sectors including food, pharmaceuticals, automotive components production, tourism and IT are affected by the crisis, as outlined at the CEE Investment Opportunities conference organised by the Zagreb and Ljubljana stock exchanges on May 26 and 27. While only some have direct exposure to the combatants – such as Croatian IT company Span’s Ukrainian subsidiary or auto components producer AD Plastik’s business in Russia – all are affected by the hikes in food and energy prices.

The Zagreb Stock Exchange’s (ZSE’s) main index Crobex is now trading around pre-coronavirus (COVID-19) levels, and is “performing nicely” compared to Western Europe and the US, according to Danijel Delac, board member of InterCapital Securities. However, as the impact of the war makes itself felt, Delac warned at the conference that “profit margins [of listed companies will] be affected by commodity price explosion and it remains to be seen what the effect will be on dividend payouts”.

Delac listed the headwinds facing companies. “Energy prices exploded, all kinds of inputs are exploding. It’s hard to project trends in next years, at the moment that is really a challenge,” he said.

Filip Petrushevski, CEO of Investbroker AD, the co-founder of the Macedonian Stock Exchange, has seen a similar recovery on the exchange in North Macedonia, which started last year when it achieved the biggest turnover in more than 10 years. The exchange’s main index, the MSE-MBI10, was up by 30% in 2021.

However, Petrushevski said that while the recovery had begun last year, there was not a full recovery when the war started. He also noted that the impact of international events tends to hit the Macedonian Stock Exchange later than the Slovenian and Croatian exchanges, meaning more pain most likely lies ahead.

“2021 was the year of recovery, [with] GDP growth in Q2 [the] highest in recent history but also coming after highest decline in Q2 2020. With the coming of vaccines things stated reopening and GDP growth ended the year at 4.1%, but reopening had its own issues – the deterioration of supply chains and upward pressure on energy prices made the process of getting back to normal more challenging,” Petrushevski told the conference.

“While there were favourable expectations about 2022, escalated geopolitical tensions, disruptions of supply chains and growth of prices of primary commodities on the intentional market make the assessment for the economy pretty much unfavourable.” He warned that the situation could still worsen if there is a further escalation of the war, more sanctions, further tightening of monetary policy in developed countries, as well as citing risks related to the pandemic, such as the emergence of new variants of coronavirus.

Span’s Ukrainian business

One of the companies from the region that has been directly affected by the war in Ukraine is Croatian IT company Span. Span held a successful IPO in 2021, using some of the proceeds to fund its international expansion. Today it has more than 1,200 clients on six continents, including major international companies Starbucks, McDonald’s and Tate & Lyle. While relatively small, its Ukrainian subsidiary had been growing strongly.

“Our activities in the war-ravaged areas have not stopped, so we are still providing support to our users in Ukraine,” its presentation said.

“About 60% of businesses are still working, especially in western Ukraine,” said Petra Keca Vidovic, Span’s investor relations manager. Span moved the female members of its Ukrainian team to Zagreb after war broke out, but only a few of the men left Ukraine. Among Span’s biggest customers in Ukraine are metals company Azovstal, whose steel plant was almost completely destroyed in a months-long siege, and Metinvest.

Keca Vidovic says Span was growing in Ukraine until the end of February. “We will stay there to help them as much as possible and be one of the significant partners in the reconstruction of Ukraine on the software side if possible,” she added.
Auto-making halted in Russia
Experiencing the war on the other side is AD Plastik, a Croatian supplier to the automotive industry that pre-war generated just over a quarter of its revenues (27%) in Russia. “In Q1 22, unfortunately we are impacted like most companies by the Russia-Ukrainian crisis. On top of that, still we are facing this issue of lack of semi-conductors,” said Josip Boban, president of the board of AD Plastik.

Commenting on the challenges the company is facing this year, Boban listed the war, shortages of semi-conductors and increasing prices of materials and energy. The company’s responses include working on cost adjustment and efficiency improvement, as it focuses on financial stability and profitability.

The future of its business in Russia is highly uncertain. Automakers have halted production as a result of international sanctions and falling demand. French car maker Renault agreed in April to transfer its 68% stake in Russia’s largest carmaker AvtoVaz to the state for a symbolic price one ruble and a five-year option to get the asset back. Another of AD Plastik’s customers, Volkswagen, has also halted production and a five-year option to get the asset back. Another of AD Plastik’s customers, Volkswagen, has also halted production but has not yet announced what its plans are.

Mixed picture for pharma
Several companies from the region are suppliers of pharmaceuticals to Russia and Ukraine, and for this sector the picture is mixed.

Slovenia’s Krka said in its presentation that the situation in Russia and Ukraine – its first and third largest markets respectively – did not significantly affect its Q1 sales. In fact, during the quarter the company made the highest first-quarter net profit in its history, as sales increased in all sales regions and all products and service groups.

However, the company said that while it was among the first companies to reinstate logistics throughout the entire distribution chain in Ukraine, it faces a challenging environment in Russia and Ukraine, where the “duration and long-term consequences [are] hard to predict. We are performing all efforts to ensure business continuity in [the] region and fulfill social responsibility of uninterrupted supply,” the company's presentation added.

Croatian food and pharma group Podravka, meanwhile, said that its overall sales in Eastern Europe dropped by 30.4% in Q1, mainly driven by a 45.3% fall in pharmaceuticals sales. The group attributed this to “lower sales of prescription drugs and non-prescription programme due to the discontinued deliveries of drugs to the market of Russia”. In “pharma we recorded lower sales of our own bands due to the situation between Russia and Ukraine because we cancelled all shipments to Russia since the war started ... you are all aware of the importance of the Russian market for our pharma segment,” said Irena Ivankovic, head of investor relations at Podravka.

Soaring prices
Podravka is active in a wide range of food segments as well as pharmaceuticals. The group reported positive results for 2021 with 2.8% higher sales across the group, including 2.1% higher sales for food and 5.5% for pharma.

However, as well as the disruption of sales to Russia, the company’s presentation said that “Negative trends in prices of raw materials and supplies were recorded in 2021 compared to 2020”, weighing on profitability.

Ivankovic pointed out that Podravka had already increased the prices of its products by between 7% and 10% at the beginning of 2022 – without a negative effect on the volume of food sales – and forecast that the trend of rising prices will continue throughout the year.

Another major Croatian food and beverage company, Atlantic Group, reported a significant increase in revenue and normalised Ebitda in Q1, despite the “challenging and unprecedented environment” and the fall in sales in Russia and the CIS during the quarter.

The group’s presentation also noted a “significant increase in the prices of a large portion of our raw materials and packaging materials, logistics and other services and energy”. Among them is an anticipated increase of more than 60% in average prices of raw coffee on the global commodity markets.

Beyond FMCG
The rising prices of food and other fast moving consumer goods (FMCGs) are having a knock-on effect on companies from the hospitality sector.

Devansh Bakshi, CFO of Arena Hospitality Group, said the group is expecting strong orders this year, "coming pretty close to 2019", in Croatia as well as other markets such as Germany. On the other hand, Bakshi warned about inflation and supply chain issues, with inflation in the range of 6-8% for most products, but as high as 20% for some.

Regarding the supply chain, he said: “we are working very closely with all our suppliers, talking on a weekly basis, especially for food, beverages, cleaning supplies, soap shampoo, etc, all the consumables and supplies. So far no suppliers told us there would be disruption except engineering suppliers.”

Commenting on the long-term response, Bakshi said: “All businesses need to look at sustainability – other ways of producing and reducing. We have a plan, we are working with specialists, we think sustainability is a very strategic topic that has shifted to a priority given the events of the last five months.”

Labour market
Labour remains an issue for many countries in Central and Southeast Europe. Croatian companies have long struggled to find seasonal tourism and construction workers. Delac
highlighted the workforce as another challenge especially for tourism, IT and construction companies in the country.

Bakshi also singled out the labour market, saying it had shrunk further in recent years in terms of skilled workforce. The company responded with a successful recruitment drive within Croatia, as well as seeking foreign workers, predominantly from the Philippines, Ukraine, North Macedonia, Serbia, Bosnia & Herzegovina and Indonesia. However, Bakshi added, international recruitment adds to the labour costs, for example through commissions, travel, housing and food.

Another major tourism company Valamar Rivera, said in its presentation that retention of existing employees and attracting new ones are among its main needs. It warned of an increase of around 14% in the salaries for occupations such as chefs, waiters and receptionists.

Span’s Keca Vidovic said securing talent is the main obstacle to the company’s growth. “To grow more we have to employ more. We are importing people from Asia, employing as many as we can. Our growth would be much bigger if more resources were available,” Keca Vidovic said.

Croatian electric supercar producer Rimac Group said on June 1 it has raised €500mn in a series D investment round, putting the company’s value at over €2bn.

The fundraising was led by SoftBank Vision Fund 2 and the private equity business within Goldman Sachs Asset Management, with participation from existing Rimac shareholders, including Porsche and InvestIndustrial, the company said in the statement.

Mate Rimac, CEO and founder of Rimac Group, remains the largest shareholder of the company.

“This latest Series D investment reflects Rimac’s success both in developing and delivering high-performance electrified vehicle components and in-house-developed hypercars. The funds will be primarily used to further develop Rimac Technology as it commences large-volume series production for global OEMs,” the company noted.

Rimac has been rapidly expanding and has become a significant global player. In November 2021, it launched a joint company with Bugatti Automobiles, Bugatti Rimac. The Rimac Group is the majority shareholder in the new company, with a 55% stake.

Meanwhile, the company started building a campus near Zagreb to accommodate all its operations. The Rimac Campus will also become the HQ of Bugatti Rimac which is responsible for the future development of both the Bugatti Automobiles and Rimac Automobili hypercar brands.

“Rimac has ambitious growth plans in the next few years, and we are humbled by the support of significant new investors like SoftBank Vision Fund 2 and Goldman Sachs Asset Management believing in our vision. Our gratitude also goes to Porsche and InvestIndustrial who have played an important part in our success so far and reinforced their support with new investment,” Mate Rimac commented in the statement.

As the company intends to rapidly scale up its operations, it intends to hire 700 people in 2022, open new offices in several locations across Europe and expand its new production facilities at the campus.

“The intends to hire 700 people in 2022, open new offices in several locations across Europe and expand its new production facilities at the campus”
“We’re witnessing a rapid demand for electrification in an industry facing significant challenges adapting to this technological shift. Rimac has quickly established itself as a leading EV technology partner to global OEMs supporting their transition to an electric future. We are pleased to support Mate and his team in building on this success and taking Rimac to the next level,” Jimi Macdonald of SoftBank Investment Advisers commented in the statement.

Bulgaria’s ruling coalition divided over euro adoption plans

Bulgaria’s There Are Such People (ITN), a member of the four-party ruling coalition, will seek a delay in implementation of the plan for euro adoption approved by the government, saying that an analysis of the effects of euro adoption should be prepared first.

Bulgaria’s government has set January 1, 2024 as the date for switching to the euro. The country has already met all nominal criteria for euro adoption.

However, ITN and the pro-Russian Bulgarian Socialist Party (BSP), which is also a member of the ruling coalition are attempting to delay the process. They claim they do not oppose euro adoption but say it is unclear what the economic effects of such a move would be, Dnevnik news outlet reported on May 27.

On May 30, three ITN MPs filed a motion of resolution that the plan, adopted by the government on May 27, should not be adopted before the approval of such an analysis by the parliament.

The analysis should cover the Eurozone’s main policies, Bulgaria’s economic and financial policy, the state of Bulgarian economy, the expected consequences from the euro adoption, benefits, costs, risks and challenges. It should also probe the effect of the euro adoption on other countries.

BSP has also objected to the adoption of the plan, also seeking an analysis of the effects of euro adoption on the local economy.

Finance Minister Assen Vassilev has said that the country has de facto already adopted the euro as its currency, the Bulgarian lev, is pegged to the European currency.

Bulgaria was accepted in the eurozone’s, waiting room, the ERM II mechanism, in July 2020 along with Croatia, but political instability has delayed Sofia’s plan to implement the euro with Zagreb in January 2023.

Earlier in May, the Croatian parliament adopted a law on switching to the euro on January 1, 2023.

As of September 5 this year through 2023, prices will be displayed both in Croatian kuna and in euro. Through 2023, there will be no cost for exchanging kuna cash for euros.

The exchange of local currency bills to euro will be carried out in banks, post offices and the state Financial Agency. In the central bank, kuna can be exchanged for euro after 2023 as well.
Croatia has met all conditions to join the eurozone and adopt the euro, the European Commission (EC) and the European Central Bank (ECB) said in two separate reports on June 1, giving the green light for the country to become the 20th member of the eurozone.

Croatia joined the eurozone's waiting room, the ERM II, in July 2020 along with Bulgaria. However, it has since moved ahead of the other Southeast European country; Bulgaria is yet to meet the requirements for euro adoption though it has set January 1, 2024 as date for switching to the euro.

“In light of the Commission’s assessment, and taking into account the additional factors relevant for economic integration and convergence, including balance of payments developments and integration of product, labour and financial markets, the Commission considers that Croatia fulfils the conditions for the adoption of the euro. It has therefore also adopted proposals for a Council Decision and a Council Regulation on euro introduction in Croatia,” the EC said in a statement on June 1.

The EC will make the final decisions on Croatia's euro adoption in the first half of July, after discussions in the Eurogroup and in the European Council, and after the European Parliament and the ECB have given their opinions, it added.

Meeting the convergence criteria
According to the ECB report, Croatia is within the reference values of convergence criteria.

In April, the 12-month average rate of HICP inflation in Croatia was 4.7%, which is below the reference value of 4.9%. The ECB expects that this rate will increase gradually over the coming months, driven mainly by the higher commodity prices, broadening price pressures and further aggravation of supply bottlenecks as a result of the Russia-Ukraine war.

“Looking ahead, there are concerns about whether inflation convergence is sustainable over the longer term in Croatia. In order to prevent the build-up of excessive price pressures and macroeconomic imbalances, the convergence process must be supported by appropriate policies,” the ECB noted.

It also commented that although Croatia’s debt was above the 60% of GDP reference value in 2021, it has declined from the previous year.

“The debt ratio was 79.8% of GDP in 2021, a decline from the peak of 87.3% of GDP in 2020. This strong decline in the debt ratio ensured fulfillment of the debt criterion,” the ECB noted.

Croatia's budget deficit remained below the 3% of GDP requirement, at 2.9% of GDP in 2021, which fulfils the deficit criterion.

The Croatian kuna also meets the criteria as it has shown a low degree of volatility since Croatia’s accession to ERM II.

The ECB noted that Croatia would benefit from stability-oriented economic policies and wide-ranging structural reforms.

“Structural reforms would help Croatia improve its institutional and business environment, boost competition and make its public administration and its judicial system more efficient,” the ECB noted.

The switch from kuna to euro
Government ministers in Zagreb welcomed the news.

"Croatia will soon become a member of the eurozone, thus achieving one of the strategic goals of the Croatian government," Prime Minister Andrej Plenkovic wrote on Twitter.

"With this step, we will further integrate economically and socially with the EU member states, and thus strengthen our economic and social relations with the most developed circle of countries in the world”

"With this step, we will further integrate economically and socially with the EU member states, and thus strengthen our economic and social relations with the most developed circle of countries in the world," said Finance Minister Zdravko Maric, according to a ministry statement.

While Zagreb waited for the reports from the two European institutions, preparations for the switch from the kuna to the euro were underway.

The Croatian parliament on May 13 adopted a law on switching to the euro on January 1, 2023. 117 MPs supported the law, while 13 voted against it and one did not vote.
All member states that are legally committed to adopting the euro fulfil the criterion on public finances, except Romania which is the only member state subject to an excessive deficit procedure (EDP), said the Convergence Report published by the European Commission (EC) on June 1.

Romania’s general government balance is seen as sinking back to -7.5% in 2022 after the improvement last year, to later improve to 6.3% of GDP in 2023, under the Spring Forecast quoted by the EC in the Convergence Report.

Romania doesn’t plan to join the single currency area sooner than 2029.

Commenting on Romania’s fiscal consolidation outlook under the EDP, the Commission estimates a negative 1.1pp contribution to the fiscal stance in 2023 coming from the nationally financed primary current expenditure, as the energy-related subsidies are discontinued.

However, there are negative risks related to the Social Democrats taking over the prime minister position in 2023. Furthermore, estimating whether Romania can meet the 3%-of-GDP deficit target in 2024 remains even riskier, particularly in the context of the electoral calendar: Romania would need to operate the deepest fiscal consolidation exactly during a super-electoral year.

The next report on Romania’s euro adoption will set 2029 as the target date, said first deputy governor of the National Bank of Romania (BNR) Florin Georgescu last December – before the surge in inflation and the war in Ukraine.

Miro Bulj of Most party said that the law should be withdrawn as there was no estimation how the introduction of the euro would affect the living standard of people and called for a referendum to the adoption of the euro prior to that.

Marijan Pavliceck of the Sovereignists said the party was concerned about how citizens would survive the month upon entering the eurozone. Pavliceck claimed the timing for euro adoption was not right due to the Europe-wide energy crisis and the significant economic uncertainty, as well as the highest inflation since 20 years.

The Sovereignists also were seeking a referendum on the euro adoption, but failed to get enough signatures.

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**European Commission says Romania meets none of the euro adoption criteria**

Iulian Ernst in Bucharest

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The Sovereignists also were seeking a referendum on the euro adoption, but failed to get enough signatures.
Czechia to appeal €625mn international arbitration award over cancelled blood plasma contract

Czechia has lost an international arbitration under an investment protection treaty over alleged misconduct by the Ministry of Health in a 30-year-old tender for the procurement of blood plasma processors, according to the Czech finance ministry. Czechia has to pay CZK15.5bn (€625mn) to Diag Human, a company controlled by Czech-Swiss businessman Josef Stava.

After more than four and a half years of hearings, the tribunal awarded compensation of CZK8.3bn – decided in 2008 in a previous commercial arbitration – and interest of CZK7.2bn. Czechia will also pay the costs of the court proceedings in the amount of $5mn.

"This is a defeat for the Czech Republic not because of the amount of compensation, but because of the condemnation of the practices in terms of the rule of law and of international law," said Diag Human's lawyer Jan Kalvoda, who represents the company before the court.

The compensation could have been far worse: the arbitration tribunal rejected all other claims by Stava's company for a further CZK36.5bn, according to the ministry report.

The government will appeal the decision and apply to have it annulled.

"The ministry has carefully analysed the report of over 330 pages and, with the unanimous consent of the government, is today submitting the proposal to cancel the finding in the High Court in London," it said.

"At this moment the Czech Republic will not pay anything," said Finance Minister Zbynek Stanjura.

According to international arbitration expert Radek Snabl, Czechia’s chances of overturning the award are, however, slim. Five years ago, Snabl warned that this dispute might not end well for the Czech Republic.

"This is a dispute in which a domestic arbitration has already partially vindicated Diag Human. ... It means a higher risk for the Czech Republic than if the country were starting with a clean slate," Snabl was quoted by iDnes.cz as saying.

The dispute dates back to 1991, when the Ministry of Health announced a tender for the processing of blood plasma, which was won by the little known Diag Human company. It was later excluded from the contract.

At the end of 2002, arbitrators awarded Stava's company CZK327mn in partial compensation, while the rest of the compensation was still being decided. In 2008 an arbitral tribunal awarded Diag Human approximately CZK8bn in damages.

Later in 2014, a review arbitration tribunal ruled that the 2008 award lacked legal effect. Therefore, it agreed that the final verdict was already the one from 2002 and the state should not pay anything further.

In 2017, Diag Human initiated arbitration against the Czech Republic on the basis of the Czech-Swiss investment protection treaty.

In the current decision, the tribunal has recognised that the Czech Republic violated the investment protection agreement with a 1992 letter from the then Minister of Health which was to interfere unlawfully in the business relationship of Conneco (the predecessor of Diag Human SE) with the Danish company Novo Nordisk.

"The tribunal found that the Czech Republic acted in good faith and in the interest of public health in this respect. It acknowledged that the Ministry of Health had important and legitimate concerns about the cooperation with Conneco with regard to its business model and its reputation, and that Conneco was never guaranteed a monopoly by the Czech Republic to cooperate with Czech hospitals in the field of blood plasma processing," the ministry said in its statement.

The country used the services of the American law firm Arnold & Porter.

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As reported by Czech Radio, Czechia has been currently facing five international arbitrations, including one with Diag Human. The total amount of all claims exceeds CZK58bn, of which CZK52bn was claimed by Diag Human. ●
The number of e-residents in Estonia is expected to pass the 100,000 mark this year, according to Liina Suvi Ristoja, a spokeswoman for the e-residency team, ERR.ee, an Estonian news website, reported on May 27.

Estonia was the first country to launch an e-residency programme, at the end of 2014. In the seven-and-a-half years since, Estonia has attracted more than 92,000 e-residents.

"This year, this number is expected to grow to six digits – it can be said that the community of e-residents will soon be the second largest city in Estonia," said Ristoja.

E-residency allows foreigners, regardless of their citizenship, place of residence and nationality to apply for a digital ID and to access Estonian public and private e-services but there may be needed more from its potential applicants, ERR.ee reported.

Estonian social scientists interviewed e-residents around the world and showed that, although Estonian e-residency is primarily a service platform, being an e-resident also implies for many a sense of a transnational and values-based belonging to the Estonian state.

"How an e-resident thinks about his or her relationship with the Estonian state, or how this relationship might transform in the future, is individual," says Piia Tammpuu, who participated in a research project led by Tallinn University of Technology (TalTech). While some e-residents perceive the e-state digital platform like any other market-driven platform, where what matters most is the ease of access to services, there are others who think more broadly about this relationship and are also interested in the values and principles that ground e-residency.

As e-residents communicate with the Estonian state through a special digital service platform, the researchers based their work on the concept of platformisation. "Simply put, platformisation can be understood as an increase in the impact (power) of digital platforms," said Piia Tammpuu. In other words, the infrastructure of digital platforms, their data-driven business models, governance frameworks and operating logistics are increasingly affecting different sectors of the economy and spheres of life.

Tammpuu said, e-residency is a digital platform designed by the Estonian state that connects service providers with e-residents as users of these services. "Therefore, we were interested in how the concept of platformisation might be perceived and thought about, i.e., how e-residents understand this digital service 'platform' and by that their connection with the Estonian state as the creator and owner of this platform," she said.

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The EU keeps market guessing with designation of Arkady Volozh

Theo Normanton

Alongside the long-awaited oil embargo and the decision to de-SWIFT Sberbank, the EU’s sixth package of sanctions also included some surprises, including the decision to sanction prominent tech entrepreneur Arkady Volozh.

The announcement left many in the business community in Russia and abroad perplexed. Until now, most of the individuals sanctioned have been people whom the West views as “oligarchs”, Kremlin cronies or people who have in some
way supported the Kremlin’s invasion of Ukraine – Volozh hardly matches any of these descriptions.

Before Russia invaded Ukraine, Yandex was the most valuable internet company in Russia. It started off as a search engine but has evolved into a tech giant with a range of verticals supported by artificial intelligence – from ride-hailing to delivery robots and self-driving cars.

“Before Russia invaded Ukraine, Yandex was the most valuable internet company in Russia. It started off as a search engine but has evolved into a tech giant”

Volozh, who has been based in Tel Aviv with his family since 2014, has now resigned from all his positions in Yandex and its board. His trust has a 45.3% voting interest in Yandex, but a statement published by the company says that Volozh will not instruct the trustee how to vote in future and that it will vote in line with the Board.

While Volozh’s designation came as a surprise to the market, the damage may have initially been done when the Trump Administration published its famous “Oligarch list” (which in fact turned out to be a hastily produced cut-and-paste job from the Forbes rich list).

Volozh was on this list. Leader of the Russian opposition Alexey Navalny has questioned why some Russian business people like Volozh with no discernible ties to the Kremlin featured on the list. The former US Ambassador to Russia, Michael McFaul, also expressed publicly his surprise that Volozh was designated as an “oligarch”.

**Misguided and counterproductive**
Volozh described the decision to sanction him as “misguided and ultimately counterproductive”. And he was not alone in questioning the decision.

The Yandex Board followed on with its own statement of support: “We believe this decision to be wholly unjust and based on an inaccurate understanding of Arkady. Rather than being sanctioned, Arkady should be lauded for building, from the ground up, one of the most independent, modern and progressive companies in Russia and one of the most innovative companies in Europe; a true pioneer in search, ride-hailing, maps and navigation, and autonomous vehicles to name but a few of the areas where Yandex excels.”

Volozh was born in what is now Kazakhstan and went to university in Moscow. He set out to obtain a PhD in computer science, but before completing it he had a change of course as the country started to open up for business. He launched his first business, Comp’Tek, in 1989 alongside his English teacher Robert Stubblebine. Comp’Tek dealt mostly in network and telecommunications equipment, and went on to become the largest distributor of Cisco Systems in Russia and the CIS.

But Volozh’s real breakthrough came in the 1990s, when he asked a school friend from Kazakhstan, Ilya Segalovich, to work with him on an algorithm which later became the basis of the first version of Yandex. The name came from the words “yet another index”.

However, Yandex quickly grew into something much bigger than just another index. Along the way, the co-founders are understood to have turned down multiple takeover offers, including from Google founders Sergey Brin and Larry Page. According to a source familiar with the matter, the Google founders offered to buy the company for $130mn.

Instead, Yandex went public on NASDAQ in 2011, in what became the biggest IPO of any internet company since Google in 2004. The $1.3bn float was bought almost entirely by US, UK and European funds, with foreign investors owning around 80% of the company today.

With the capital raised in the IPO, Yandex set about turning itself into Europe’s largest technology company and expanding into international markets. It acquired a movie search engine, invested in an ultrafast e-grocery service (which came to Paris, London and Tel Aviv), launched a taxi-hailing service, the largest Cloud in the country, as well as one of the world’s leading autonomous car businesses.

Although most of its business was still in Russia, Yandex could rival any of its global peers in terms of its technology and innovation.

Viewed as more of a “foreign” company back in its home market, with its majority international ownership and foreign-led board of directors, Yandex has had some high-profile showdowns with the authorities in Russia. In 2019, it reportedly refused to hand over the encryption keys to its email service when a request was made by the FSB.

The Kremlin’s draft law in 2019 proposing to limit foreign ownership of “significant tech companies” to 20% was widely viewed as a threat to Yandex. In response, the company set up a Public Interest Foundation (“PIF”), made up mostly of representatives of Russian higher education institutions, NGOs and members of Yandex’s management, to which it gave two seats out of twelve on the board of directors.

In return for maintaining control over its operations and management, Yandex gave the PIF a veto on issues which were considered to be of public interest, including a change of control in the business, the transfer of Russian users’ data to third parties, and the sale of intellectual property.

International shareholders hailed the move as a victory for Yandex. 99% of voting shareholders supported the changes.
Although most of its business was still in Russia, Yandex could rival any of its global peers in terms of its technology and innovation.

The top headlines from Russian media at any given time. The problem with this service is that as a news aggregator, it is legally required to source headlines from media outlets officially listed on the Russian media watchdog’s register. Moreover, new legislation introduced after Russia’s invasion of Ukraine placed further restrictions on local media, for example requiring them to refer to the war as a “special operation”, further skewing the results of the service towards the Russian government line on Ukraine.

According to one industry insider, “the news service has been somewhat problematic for a while as, over time, it has been required to show an increasingly narrow view of the world. But until the war started it was still relatively harmless. And maybe there was even some value to users in showing what the Russian media was writing about. After 24 February, everything changed, and the service became toxic.”

In the days following the start of the war, Yandex announced that it was exploring options to dispose of the news service.

What happens next
After the tragic death of his friend and co-founder Segalovich, Volozh told Meduza, he felt the need to keep improving the endeavour that they had started. “You have to keep building the company, so that you can leave a living system for whomever comes next, who will also keep building this system,” he said. Yandex will rumble on without the direction of Volozh, too, although it may be a different company in his absence.

Arkady Volozh is understood to be preparing to appeal against his designation.
Albanian Prime Minister Edi Rama announced on June 13 that a national park will be created around the Vjosa river.

The Vjosa is considered one of the last wild rivers in Europe – meaning there is not yet any significant hydropower development – and environmental groups have been campaigning to have it made a national park to prevent future hydropower schemes amid a wave of hydropower construction across the Western Balkans.

“Let us be clear when we talk about a national park: we assume the categorical prohibition of any business of economic activity,” Rama said when announcing the decision on June 13.

In his speech, Rama said that the vision for the future is “to build a space for a development that protects the environment and at the same time nourishes the generations that will leave Vjosa a legacy one after another in a new way and until unexplored in Europe today.”

He pledged that the Vjosa “will not enter the tame animal circus of Europe’s power system”, where other rivers “have become like circus dogs and cats”.

Environmental campaigners welcomed the decision and Rama’s promise that any economic activity that affects the river would be prohibited, though it is not yet clear what will happen to projects already underway.

“The Wild River National Park will protect the entire network of the Vjosa from the Greek border to the Adriatic Sea, including the free-flowing tributaries. This is something that has never been done before in Europe,” said a press release from several environmental groups that have been campaigning for years to protect the Vjosa.

The Albanian government said on June 13 that it has signed an agreement with US-based outdoor apparel company environmental activism organisation Patagonia to develop the park. In 2021, Patagonia created a six-minute film appealing to people to show their support for a Vjosa wild river national park.

The government previously declared the river and some of its surroundings a ‘natural park’ but environmentalists said this did not offer sufficient protection. Hydropower plants (HPPs) have already been built on some of the Vjosa’s tributaries.

Besjana Guri, communications manager at EcoAlbania, said: “While there is much work to do before we can guarantee the future of the Vjosa, this is a major milestone for Albania and for river defenders everywhere. The ambition of creating Europe’s first Wild River National Park is one step closer to becoming a reality.”

“The message that comes from Tirana today has the potential to extend far beyond the Vjosa – the concept of a Wild River National Park which protects not only the main waterway, but also its tributaries, is unique,” said Ulrich Eichelmann, CEO of Riverwatch. “At the Vjosa, we are witnessing a new model of protection for other rivers in Europe, which are threatened by dam projects and other forms of pressure. We need to think bigger to protect our nature.”

The Vjosa and its tributaries flow from the mountains in Greece, where the river is called Aoos, to Albania’s Adriatic coast. According to environmentalists, the river and its tributaries form an ecosystem with biodiversity of national and global significance. This is host to more than 1,100 species of animals, including 13 globally threatened animal and two plant species. ●
Energy efficiency: a central pillar of meeting green targets

Richard Lockhart in Edinburgh

Energy efficiency must play a central role in meeting the world’s emissions reduction and renewable energy targets.

Doubling the current global rate of energy intensity improvement to 4% per year could reduce energy use by an amount equivalent to China’s current annual energy consumption, or 95 exajoules (EJ) per year, the International Energy Agency (IEA) said.

This would also reduce global CO2 emissions by an additional 5bn tonnes per year (tpy) by 2030. This is about a third of the total emissions reduction efforts needed this decade to move the world onto a pathway to net zero emissions by mid-century, as laid out in the IEA’s Net Zero Roadmap.

The IEA Net Zero Emissions by 2050 Scenario (NZE) sees the average annual rate of global energy intensity improvement – a key measure of the economy’s energy efficiency – doubling from around 2% achieved between 2010-2020 to just over 4% from 2020-2030. Energy intensity is defined as energy use per unit of GDP.

With accelerated action, the global economy by 2030 could be around one third more energy efficient than in 2020.

IEA Executive Director Fatih Birol said: “Energy efficiency is a critical solution to so many of the world’s most urgent challenges – it can simultaneously make our energy supplies more affordable, more secure and more sustainable. But inexplicably, government and business leaders are failing to sufficiently act on this.”

The IEA described energy efficiency as the cleanest, cheapest, most reliable source of energy, as it involves avoiding energy consumption while still providing full energy services. That is why the IEA refers to energy efficiency as the “first fuel.” Without early action on efficiency the energy transition to net zero emissions will be more expensive and much more difficult to achieve.

The IEA also said that improving efficiency efforts would cut global spending on energy. For example, households alone could save as much as $650bn per year on energy bills by the end of the decade, against current efficiency levels.

A 4% intensity figure could also reduce oil consumption by 30mn barrels per day (bpd) by 2020, triple Russia’s average production in 2021.

“A third of the reduction needed in CO2 emissions this decade, according to the IEA net-zero scenario, must come from improvements in energy efficiency. The good news is that the solutions are there to improve energy efficiency in all sectors. We don’t need to wait. We need action because the greenest energy is the energy we don’t use,” said Danfoss president and CEO Kim Fausing.

These figures were presented at the IEA’s 7th Annual Global Conference on Energy Efficiency on June 8, as the IEA looks for way to reduce energy use quickly, with the aim of easing cost pressures on consumers, cutting reliance on fuel imports and driving progress towards climate goals – while supporting job creation and economic growth.
EU to use €2.4bn of carbon credit cash to fund green projects in CEE

The EU's Modernisation Fund is to provide €2.4bn raised from the proceeds of the EU Emissions Trading System (ETS) to seven Central and East European countries to help them meet their 2030 climate and energy targets by funding the modernisation of their energy systems and the reduction of greenhouse gas (GHG) emissions from industry, energy and transport.

The money will also speed up the EU's energy transition in response to Russia's invasion of Ukraine, which has prompted Brussels to place more focus on renewable energy and energy security.

Romania is the largest recipient with €1.39bn, followed by Czechia with €520mn, Poland (€244.2mn), Lithuania (€85mn), Hungary (€74.3mn), Slovakia (€49.5mn) and Croatia (€40mn).

The money will be used to support a total of 45 projects ranging from renewables generation to modernisation of energy networks and improved energy efficiency in the energy sector, transport, industry and in buildings. It will also fund projects that replace coal with lower carbon intensity fuels.

In Romania, the largest beneficiary, the funds will support the construction of eight photovoltaic (PV) parks and two combined cycle gas turbine plants, thereby replacing lignite with renewables and gas for power generation. The country will invest in the modernisation of its electricity networks.

In Czechia, the money will be used to modernise public lighting systems within municipalities, convert coal to biomass and gas in district heating and emissions trading system (ETS) installations, as well as increasing energy efficiency.

In Croatia, a number of renewable generation projects will receive funding, while in Lithuania the cash will be spent on renovating public buildings in a bid to increase energy efficiency.

Hungary is to spend the money on building energy storage infrastructure to support grid security.

European Commission Executive Vice-President Frans Timmermans said: “The Modernisation Fund is European solidarity in action. With revenues from the emissions trading system it delivers concrete results on the ground, helping beneficiary countries reduce greenhouse gas emissions in key sectors and become climate neutral. Moreover, this major financial injection is available to launch projects that will help speed up our energy transition in response to Russia’s invasion of Ukraine.”

European Investment Bank (EIB) Vice-President Ambroise Fayolle said: “By supporting EU countries mostly affected by the energy transition, the Modernisation Fund helps to deliver climate finance where it’s most needed. In this latest disbursement cycle, the Fund made available €2.4bn to support 45 investment proposals helping beneficiary Member State countries to modernise their energy systems and improve energy efficiency. The EIB, as the EU’s climate bank, is delighted to work in partnership with the European Commission and Member States to implement the Modernisation Fund as a key tool to accelerate the EU’s clean energy transition and to support the implementation of the recently released REPowerEU strategy.”

It aims to finance use the proceeds of the EU ETS to make investments consistent with the EU’s 2030 climate and energy objectives, as well as the Paris Agreement.

The majority of the resources of the Modernisation Fund (at least 70%) must be invested in renewables projects specified as priority areas by the EU’s ETS Directive.

The Modernisation Fund cannot finance investments which involve solid fossil fuels, although this is allowed in Bulgaria and Romania if they relate to efficient and sustainable district heating.

The Fund has already made available €898.43mn to eight beneficiary countries to help modernise their energy systems.

The Modernisation Fund is one of a number of European funding instruments, such as the Cohesion Policy and the Just Transition Fund. The Fund mobilises significant resources, which can help beneficiary Member States support investments in line with the REPowerEU Plan and Fit For 55 package. ●
UN stresses green issues are key to reducing poverty and boosting sustainability

Richard Lockhart in Edinburgh

Maintaining a healthy planet and ensuring prosperity for all require a renewed emphasis on reducing environmental impact, sustainability and changing the way the current economic system works.

The UN has set out the broad framework for future efforts to deal with environmental problems, stressing the climate change, pollution, energy, security and global equity are all interconnected.

At stake are the UN’s Sustainable Development Goals, which call for global economic development to go hand in hand with protecting the environment and fighting climate change.

At the Stockholm +50 conference, convened earlier in June by the UN Environment Programme, the UN called for global government and corporations to accelerate the implementation of the environmental dimension of sustainable development in order to achieve a sustainable and inclusive recovery from the pandemic.

“This is the decade when things have to shift: we must bend the curves of emission, of loss of biodiversity and of all unsustainable loading of all materials caused by overproduction and consumption,” Johan Rockstrom, professor in environmental science at the Stockholm Resilience Centre, told the conference.

Stockholm +50 called for placing human well-being at the centre of a healthy planet and prosperity for all, and recognising the right to a clean, healthy and sustainable environment.

The demands come as climate change, the current energy crisis, high temperatures and pressures on food supplies are threatening to create an environmental and food crisis that could cause bread riots, mass migration and agricultural disaster.

Swedish Minister for Climate and the Environment Annika Strandhäll told the conference of the need to rethink and redefine how to measure economic growth and success, align MEAs, scale up finance, work towards a political recognition of the right to a clean and healthy environment, and rebuild trust in the multilateral system.

She added that work must continue at home because national implementation is key, and expressed optimism for a decision on a global biodiversity framework, a convention on plastics pollution and advancement on climate commitments.

The conference was convened by the UNEP 50 years after the original UN Conference on the Human Environment in Stockholm in 1972.

The conference put forward 10 key recommendations to global governments and policymakers.

The first was recognised that a healthy planet is a prerequisite for peace, cohesion and prosperous societies.

In other words, climate change now has an impact on all areas of global politics and economics, meaning that governments and companies cannot ignore climate change and must factor green issues into their decision making.

The conference calls for a strengthening of national implementation of existing commitments for a healthy planet, while also aligning public and private financial flows with environmental climate and sustainable development commitments.

Delegates also called for an acceleration of the system-wide transformations of high impact sectors, such as food, energy, water, buildings and construction, manufacturing and mobility. In other words, these are the key areas that need to become greener and more sustainable in order to combat climate change.

To achieve this, the world should reinforce and reinvigorate the multilateral system, rebuilding relationships of trust for strengthened co-operation and solidarity.

Lastly, the world must recognise intergenerational responsibility as a cornerstone of sound policymaking, suggesting that combating climate change is a decades-long task, and will be dealt with by generations that have yet to be born.

The conference also stressed that future global efforts would concentrate on the wellbeing of the economy and all that that entails for a polycentric approach to future delivery, rather than the previous focus on institutions and treaties.
UZBEKISTAN’S IT SECTOR ON FIRE AND TARGETING THE VAST US MARKET

Ben Aris in Berlin
One country’s brain drain is another country’s gain. In the competitive business of IT outsourcing, Uzbekistan wants to wind up on the right side of that equation.

Russia’s invasion of Ukraine sent shockwaves through the world of outsourced IT services, as sanctions and the exit of Western companies prompted highly trained technology professionals to flee Russia and Belarus in droves. Uzbekistan, just a few years into its own tech revolution, launched an aggressive drive to attract as many as possible to the capital, Tashkent. More than 5,000 have arrived since the start of the conflict, according to the government, and 2,000 alone came from the Belarusian capital Minsk after the Uzbek government sent several charter flights to rescue those that wanted to leave shortly after the Ukraine war started. Belarus’ participation in Russia’s war in Ukraine killed what was left of its domestic IT sector.

Mission: USA
Flush with new IT talent, Uzbekistan’s Minister for the Development of Information Technologies and Communications (ICT), Sherzod Shermatov, is leading a delegation of business leaders on a US trade tour to promote his country’s credentials as a new low-cost destination for outsourcing IT and services from software development to business processes. With stops in New York, Washington DC, San Jose and Irvine in California, the group will meet with executives from companies including Apple, Google, Meta, PayPal and Coursera, as well as US and international officials.

Their case? Labour in Uzbekistan is half the cost and Shermatov told bne IntelliNews in an exclusive interview: “The quality is every bit as good as in India and the Philippines, two countries that have dominated the IT outsourcing market for decades.” Add to that a friendly tax and regulation regime, new infrastructure and a young and growing population taking crash courses in coding and English.

“Currently Uzbekistan has the best proposition for IT companies in terms of tax benefits,” Shermatov said in an interview from Tashkent. “If you become a resident of our IT Park, you are completely free from taxes.” Wages for business process outsourcing jobs such as logistics are about a quarter of those in the US and significantly lower than those in India and the Philippines, he said.

Unprecedented transformation
Uzbekistan is aware that it has come late to the outsourcing party. Besides Russia and Belarus, countries including Romania, the Baltic states and even Jamaica have been pursuing aggressive growth in the market for years, while existing powerhouses continue to benefit from long-established connections. Uzbekistan’s technology and English-language initiatives only began in 2017, a year after Shavkat Mirziyoyev took over as president.

Mirziyoyev has thrown the one-time pariah state open and his comprehensive reform programme that was detailed in the bne IntelliNews report Uzbekistan Rising is “adding value.” The government has taken existing sectors like cotton production and forced local firms to make textiles instead. IT is same and hopes to capitalise on Uzbekistan’s young and growing population; the Central Asian republic is one of the very few Former Soviet Union countries to have seen its population grow in the last decade.

“IT is one of the few industries which is a pure net positive to the balance payments,” says Shermatov. “If you set up a car plant you have to import machines, but with IT you import nothing and everything can go for export. Our competitive advantage is the lower cost of labour, but for the president has put a high premium on not only adding value to industry, but also the country’s human capital, one of its most valuable resources.

“I was actually minister of public education when we started pursuing projects with the idea that most of...
our graduates would be able to speak English.” Shermatov said. “Then there’s IT Nation, where we have a comprehensive approach on changing the curriculum from the idea that school graduates would be able to not just be users of ICT, but also the developers who can earn money in IT… We even encourage our workers to speak with an American accent, as that is already our biggest export market.”

High stakes
The stakes are high for the double-landlocked Central Asian republic of 35mn, whose main exports are gold, copper, textiles and agricultural goods. Uzbekistan is dependent on nearby Russia’s demand for its exports, and it relies on the Russian railway network for access to markets further afield. That’s a matter of growing concern for the country’s leadership and business community, analysts say, after seeing the Russian military cut off Ukraine’s access to the sea and close its most vital export routes.

IT exports offer a unique solution to the country’s geographic challenges. All you need is English-speaking, digital natives and a good and inexpensive internet connection. The cost of a quality connection in Uzbekistan has plummeted over the last couple years thanks to tens of millions of dollars in government investment, according to Nodir Ruzmatov, the CEO of New York-based business process outsourcing company RevoTech and Uzbekistan’s largest entrepreneur in Business Process Outsourcing (BPO) and IT outsourcing.

“When we started the park in 2017, it was almost nothing. It was only the tax benefits,” said Farhod Ibragimov, CEO of IT Park Uzbekistan. “There have been huge changes over the last three or four years in Uzbekistan’s IT sphere. 58 universities now have IT specialised courses, 20 of them are wholly focused on IT. We already have over 20,000 high qualified specialists right now, and that is going to increase by at least 10,000 annually.”

The conflict in Ukraine has provided an unexpected windfall for Uzbekistan in more ways than one. Besides prompting an influx of IT talent, it has also severely restricted the outsourcing businesses of Russia and Belarus, two of the biggest competitors in the region. Ukraine is another big player in the IT outsourcing business and has also suffered extreme disruptions.

Open arms
Uzbekistan continues to woo IT specialists, introducing special three-year multiple entry IT visas, simplifying the process of obtaining residency permits, taking IT specialists looking at moving to Uzbekistan on tours to the ancient city of Samarkand, the heart of the ancient Silk Road, and plying them with plov, the country’s signature dish of rice pilaf.

Uzbekistan IT park’s website provides testimonials from IT professionals who have made the swap, and has just commissioned a mini-documentary introducing would-be IT immigrants to Uzbekistan. And this may just be the beginning. The Russian Association of Electronic Communications, a lobby group, said in March that 50,000 to 70,000 specialists had left Russia and as many as 100,000 more might follow them in the coming month.

Cue operation “Tash Rush.” On February 25, the day after Russia’s invasion of Ukraine, Uzbekistan’s IT Park launched its relocation programme backed by local businesses. Within weeks, Uzbekistan had sent 12 chartered flights to the Belarusian capital, Minsk, to ferry some of the world’s
most talented software developers to Tashkent. When Belarus held one of the planes on the tarmac and refused to let it leave, Uzbekistan’s President Mirziyoyev jumped on the phone to intervene. The flight took off.

The relocation programme provides perks to tech immigrants including credit cards and sim cards, housing assistance, help finding jobs for spouses and registration of children at schools and a “One Stop Shop” to deal with red tape, recruit personnel and find offices. Working with contacts developed during Uzbekistan’s study of the IT industry in Belarus, they got the word out that Uzbekistan was ready to provide a warm welcome.

“The first days of this event were, you know, a big rush,” Ibragimov said in a joint interview with the minister. “Everybody was worried. And even the plane tickets were extremely expensive at the time. We tried to organise and help in everything. Now those companies are happy with us since we were friendly with them when they were in need.”

Growth ambitions
Uzbekistan’s goal is to grow the volume of the country’s IT exports to $1bn by 2028, a 25-fold increase from last year. The target for 2022 is $100mn, more than double the total from 2021 and 50-times what IT exports earned in the first year in 2017. At $1bn, Uzbekistan’s IT exports would surpass the value of agricultural goods and textiles. In short, Uzbekistan is aiming to turn knowledge-based IT exports into the biggest economic driver in the country after gold.

A shift from $6.2mn in IT exports in 2019 to the targeted $1bn in less than a decade would be nothing short of a revolution – reducing the country’s dependence on physical trade routes and lifting more of the population in this low-income country out of poverty. The trip to California throws the opportunity of technology into sharp focus. California, roughly the same physical size as Uzbekistan, has a GDP of more than $3 trillion. In 2020, Uzbekistan’s was $57.7bn, according to World Bank Data. California’s GDP per capita is $85,546 (2021), compared with $1,900 in Uzbekistan.

In California, the trade delegation has fixed meetings with executives from several companies including Apple, Google, Meta, PayPal and Coursera in Silicon Valley, according to the minister. The initial meetings in New York and Washington will deal with more general political questions as Uzbekistan’s geopolitical importance has been boosted by Russia’s war in Ukraine and the Taliban take over in Afghanistan.

While the growth targets may seem ambitious from Uzbekistan’s point of view, reaching the goal of $1bn would require securing only a tiny fraction of the US market. The US accounts for the lion’s share of the global IT outsourcing market, expected to be worth as much as $682.3bn by 2027 – up from just over $526bn last year, according to Mordor Intelligence. About 80% of Uzbekistan’s IT exports currently go to the US.

“One billion within a few years? Yeah, it’s pretty doable and we are very confident about it,” Ruzmatov, who has landed dozens of clients in the US in just the last few years, said in the interview. “And if business is confident and the government is supportive, I think we have everything, everything on hand to do it and to make it happen.”

The US appears to like what it’s seeing in Uzbekistan. Daniel Rosenblum, the US ambassador to the country, visited Tashkent’s IT Park this month.
In the ‘Doing Business 2020’ study by the World Bank, Uzbekistan was ranked among the world’s most improved economies for ease of doing business – rising from 141st in 2015 to 69th. The macroeconomic backdrop is also improving. In 2021, the economy grew at a record 7.4%, despite COVID-19 and global economic turbulence. Even during the height of the pandemic in 2020, Uzbekistan’s economy grew 1.6%, one of the few countries to show any increase.

Uzbekistan’s economic reforms, including price and currency liberalisation, are also helping the country make friends. The European Bank for Reconstruction and Development recently resumed lending there after a decade-long hiatus. And it’s not just the EBRD. The World Bank, the IMF and the Asian Development Bank (ADB) are all providing financing to support Uzbekistan’s reforms.

Economically speaking, it’s hard to overstate the importance of IT for the country. The average monthly wage in Uzbekistan is still less than $200 a month. To achieve the country’s aim of halving poverty and reaching upper-middle-income status by 2030, Uzbekistan needs more and better jobs, according to the World Bank.

Are a few short years of reforms and rebuilding enough to convince US executives to make deals with a country that few of them can pick out on a map? “We have qualified specialists, we have experience and we are ready with the infrastructure as well,” said Minister Shermatov. “Before, it was always through the other countries, Poland, Belarus, Russia, others; now it is time to go and work directly with US companies because we are ready.”

And Uzbekistan has an in to the US market via the Nasdaq listed EPAM software company. Originally founded in Belarus, EPAM was instrumental in setting up the Minsk High Tech Park that catalysed a boom in that country’s IT outsourcing business. EPAM has long since moved its head office to New York, but the largest part of its engineers were still based in Minsk. However, since the mass protests against President Alexander Lukashenko broke out last year, now followed by war, EPAM has increased the number of its employees working in Tashkent from 300 to 3,000.

Raising the profile
Shermatov, a Yale graduate, says his job is to raise awareness – noting that when he got his Master’s Degree in 2000, he was always taken aback at how few people had even heard of his country. Awareness of the new

“In the ‘Doing Business 2020’ study by the World Bank, Uzbekistan was ranked among the world’s most improved economies for ease of doing business”

Uzbekistan is still a hurdle 22 years on. Despite being named “Country of the Year” by The Economist in 2019, with an aggressive reform agenda, Central Asia’s most populous nation needs to do more to raise its profile.

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Global red warning lights are flashing as stagflation looms

Ben Aris in Berlin

The conflict in Ukraine and high inflation are threatening the global economy with stagflation similar to that experienced in the 1970s, according to a new World Bank forecast.

The World Bank slashed its global growth outlook for the third time this year to 2.9% from 4.1% at the start of the year, pointing to a perfect storm of the ongoing coronavirus (COVID-19) pandemic and more recently the war in Ukraine that have combined to send inflation rates soaring.

“The war in Ukraine, lockdowns in China, supply-chain disruptions and the risk of stagflation are hammering growth. For many countries, recession will be hard to avoid,” World Bank President David Malpass said on his Facebook page after the bank issued a new update. “The risk of stagflation is very high.”

Global growth is expected to slump from 5.7% in 2021 to 2.9% in 2022 – significantly lower than 4.1% that was anticipated in January. It is expected to hover around that pace over 2023-24, as the war in Ukraine disrupts activity, investment and trade in the near term, pent-up demand fades, and fiscal and monetary policy accommodation is withdrawn. As a result of the damage from the pandemic and the war, the level of per capita income in developing economies this year will be nearly 5% below its pre-pandemic trend, the World Bank said.

The peak of inflation, as analysts expect, will be in the middle of this year, while high prices for fuel and food will persist further. Under these conditions, central banks will have to tighten their monetary policies, which, in turn, may lead to a slowdown in economic growth, warns the World Bank. The upshot is a destructive cycle of high inflation but low growth that is hard to break out of once it starts.

“The current juncture resembles the 1970s in three key aspects: persistent supply-side disturbances fuelling inflation, preceded by a protracted period of highly accommodative monetary policy in major advanced economies, prospects for weakening growth, and vulnerabilities that emerging market and developing economies face with respect to the monetary policy tightening that will be needed to rein in inflation,” the World Bank said.

Inflation targeting
The current stagflation differs from the 1970s in many ways too, the World Bank said: the dollar is strong, in sharp contrast to its severe weakness in the 1970s; the percentage increases in commodity prices are smaller; and the balance sheets of major financial institutions are generally strong.

“More importantly, unlike the 1970s, central banks in advanced economies and many developing economies now have clear mandates for price stability, while the speed of adjustment in the current period is faster.”

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and, over the past three decades, they have established a credible track record of achieving their inflation targets,” the World Bank said in its report.

Most of the central banks of the world have followed New Zealand’s lead and adopted inflation targeting policies that are designed to give the population confidence that the regulator will manage inflation. Once it loses that grip then “unanchored” high inflation expectations are themselves inflationary.

The three heat map charts show respectively: consumer price inflation, monetary policy rates and real interest rates for countries under bne IntelliNews coverage between January 2020 and April 2022. Before drilling into the details of the data several things are immediately apparent from the charts.

Inflation was generally low across the entire region at the start of 2020 before the pandemic struck, but started to take off between the spring and summer of 2021. However, it has only really become a very noticeable problem since the start of this year and increasingly so from March onwards. As of April all of the countries in bne IntelliNews’ patch of 30 countries have inflation rates in double digits, bar five.

The picture with central bank monetary policy rates is more mixed. In general each country that joined the EU has low rates thanks to the stabilising effect of union membership, while those outside have much higher rates. The trend here was several countries were cutting rates between the second half of 2020 and into the summer of 2021, but nearly all of them started hiking again in the autumn of that year as inflation took off around the world, largely driven by rising commodity and food prices.

Combining the consumer price inflation and central bank prime rates to get a heat map of real interest rates and the picture is clear. While most countries had positive real interest rates for most of 2020, from the spring of 2021 those rates were starting to turn negative and the gap has continued to grow in the first months of this year.

Central banks across the region have been aggressively hiking rates, but the heat map suggests that they mostly remain behind the curve and need to hike further, which is why the World Bank is warning that stagflation looms. Negative real interest rates are a precursor of stagflation.

The growth in negative real interest rates is not out of control yet. About half of the countries in the bne IntelliNews patch still have negative rates in single digits so the central banks there can redress the problem fairly easily. But in the other half with negative real rates in double digits the size of the hikes needed to fight inflation has already reached very painful levels.

A few countries are ahead of the curve and seem to have got the problem under control, with the Central Asian states and Hungary ahead of the game. Hungary is one of the few new EU countries that has already solved the problem and has positive real interest rates.

Rising inflation has been worrying central bankers for well over a year now. Central Bank of Russia (CBR) Governor Elvia Nabiullina was afraid inflation was becoming unanchored before the war in Ukraine started and ended seven years of easing to put through a series of aggressive rate hikes at the end of 2021 and early 2022. She more than doubled the rate to 20% days after the invasion of Ukraine started and successfully headed off more inflation; the inflation expectations of the population rapidly fell six percentage points in May after the hike.

Likewise, the National Bank of Ukraine (NBU) similarly just put through a massive 15% rate hike to 25% on June 2 to head off inflation and stabilise the exchange rate. Hungary has very successfully kept control of inflation after the central bank put through an aggressive 100bp hike on March 22 to hike rates to 4.4%. Hungary’s central bank acted after inflation growth went into double digits in May. the Czech central bank similarly hiked rates by 50bp on April 1 to bring the rate to 5% for the same reasons, but will clearly have to hike further.

Most countries will have to continue to hike rates during the summer. Many are currently suffering from historically high levels of inflation that are stubbornly remaining high, as bne IntelliNews regularly reports in its data section. Poland has seen an uninterrupted rise in inflation since the end of 2020. Slovakia’s inflation rate is currently at its highest level in two decades and Czechia’s at its highest level since 1993.

The danger of not hiking rates is social unrest. In some of the poorer countries, the soaring cost of living has already led to riots, such as Albania has suffered from in March. The fear is that, as

“Central banks across the region have been aggressively hiking rates, but the heat map suggests that they mostly remain behind the curve and need to hike further”
Still, Russia’s problems are specific and largely caused by sanctions, not economics. But the size of the economy – the biggest ever to be hit with such extreme sanctions – is large enough to hurt the global economy. The World Bank estimates that a two-year recession is possible, which means the Western sanctions will boomerang back and hurt everyone to some extent. Stagflation will be one of the main vectors for this pain.

“Inflation has risen sharply from mid-2020 lows, while global growth, by contrast, is moving in the opposite direction and will be lower than in the 2010s for the rest of the decade,” the bank said in its forecast.

In April 2022, global price growth amounted to 7.8% – for the world as a whole, this is the highest level since 2008, and for developed countries – since 1982, according to the World Bank.

1970s vs 2022
All this is reminiscent of the stagflation of the 1970s, which was triggered by high oil prices, inflation, significant federal spending and loose monetary policy, the World Bank notes.

The war and persistent supply chain problems also mean production in 2023-2024 will grow at a reduced pace throughout the world. In addition, the World Bank raised its oil price forecast by a quarter – in the base scenario, the average price of a barrel of Brent in 2022 will be $100, and in the negative, with extended sanctions against Russia (this scenario is now being implemented) it will rise even higher to $140 and so further mitigate the pain of sanctions on Russia, The Bell reports.

In the 1970s inflation in developed countries went into double digits against the backdrop of falling GDP and rising unemployment. The crisis peaked in the mid-1970s, when inflation in the United States exceeded 12%, unemployment 9%, and economic growth was negative, and in the early 1980s, when inflation went beyond 14%, according to The Bell.

One of the main factors of stagflation in the 1970s was a sharp rise in prices for raw materials and especially oil after the Arab countries imposed an embargo on exports to the United States in 1973 and the Iranian revolution in 1978-9 also sent prices upward. The world’s biggest EMs registering outflows similar in scale to the RMB devaluation scare in 2015 and 2016,” Brookes et al said.

Inflation has soared around the world and especially in developing markets. Even in the relatively mature and well-run Central European markets, inflation is starting to run out of control as sharp interest rate hikes

World hit by interest rate and inflation shock says IIF

Ben Aris in Berlin

The world’s economy is being hit by an inflation and interest rate shock that shows no sign of abating, Institute of International Finance (IIF) said in a recent paper.

“We are in a global interest rate and high inflation shock. Longer-dated government bond yields have risen sharply across advanced economies, tightening financial conditions, weighing on growth and pushing up risk aversion,” Robin Brooks, managing director and chief economist at the Institute of International Finance (IIF) said in a note together with economists Jonathan Fortun and Jack Pingle.

“This is also weighing on flows to emerging markets, with our high-frequency flow tracking across the world’s biggest EMs registering outflows similar in scale to the RMB devaluation scare in 2015 and 2016,” Brookes et al said.

Inflation has soared around the world and especially in developing markets. Even in the relatively mature and well-run Central European markets, inflation is starting to run out of control as sharp interest rate hikes
in those countries have failed to curb inflation’s explosive growth.

Czechia, in particular, has seen inflation soar into double digits to levels not seen since the early 1990s, despite aggressive hikes by the central bank. Moldova’s inflation climbed to 29% in May. Slovakia’s inflation hit a 22-year high and Romania, Poland and Bulgaria, to name a few more, are all suffering from double-digit rates of inflation.

The spike in inflation has been blamed on supply chain disruptions caused by the coronavirus (COVID-19) pandemic and then exacerbated by the food shock associated with the war in Ukraine. The World Bank downgraded its global economic outlook in May to 2.9% for this year, but warned that the world is facing a real danger of stagflation.

But we are not there yet, says IIF. Central banks in the emerging and developing markets have been pushing through rate hikes and as bne IntelliNews reported in a survey of negative real interest rates – the precursor to stagflation – about half of the countries in Emerging Europe have negative rates in single digits, which means central bank still have the ability to bring inflation under control with some more aggressive rate hikes.

“All that said, we are not that bearish on EM. Most of the big emerging markets started hiking well ahead of advanced economies, which now leaves real longer-term interest rates across many EMs well above their G10 counterparts,” Brookes et al said. “That provides some protection from this global interest rate shock.”

However, as the bne IntelliNews survey showed, the other half the countries in Emerging Europe have negative interest rates in double digits, which means the size and frequency of rate hikes ahead will be very painful for these countries, which will almost certainly face recession in the next few years as they battle to bring inflation down.

“There are obviously pockets of weakness in EM – where real interest rates are deeply negative – and risks for these countries are rapidly mounting. We see these instances as idiosyncratic, however, and not emblematic of a broader emerging markets problem,” Brookes said.

As both the World Bank and IIF report, the current inflation shock is the most serious since the 1970s, but at the same time the shock is not as big as the previous episode and central banks are much better equipped to deal with it, especially after the pioneering work of the New Zealand central bank in the 1970 that was the first to adopt inflation rate targeting.

“The world is experiencing one of the biggest interest rate shocks in recent memory. That’s not quite so obvious looking at longer-dated nominal interest rates, but is very clear looking at real yields, which have risen substantially,” Brookes said. “The real 10-year Treasury yield in the US is up from -1.1% at the end of last year to +0.7% now, a bigger rise than during
Turkey’s despair rating score is worse than war-torn Ukraine’s

bne IntelliNews

Turkey is in a full-blown crisis and has an extremely high despair index of 93.8, even worse than that of sanction-embattled Russia’s 42.5 in May. But that is only if you believe the official statistics. Independent economists estimate that the real rate of inflation is closer to 150%, which would send Turkey’s despair index to 170.3. That is even worse than war-torn Ukraine’s 115.3, as the chart shows.

bne IntelliNews invented the despair index several years ago as an indicator of the pain the bottom third of society feels during a crisis. It is based on the “misery index”, which is simply the addition of inflation and unemployment: in a crashing economy both these indicators go shooting up, but disproportionately affect the poor, so the index is a convenient shorthand way of quantifying the amount of pain the man in the street is suffering from.

To the misery index bne IntelliNews added poverty to better capture the pain in developing markets; few developing markets have a functioning social safety net and so poverty adds another dimension to the suffering of the underprivileged in times of crisis.

An ideal despair index should score below a value of ten if residual indicators are taken into account: inflation (2%) + residual unemployment (4%) + poverty (0%). Unfortunately, while 2% inflation and 4% unemployment are regularly reported, no countries have ever managed to eradicate poverty, which runs at least 12% in the developed world and averages in the mid-teens or above in most developing countries.
Of course, where you set the bar for poverty makes a big difference and each country has a different level, making direct comparisons between countries problematic, but the despair index remains a useful indicator of how much a country is suffering from economic problems.

Russia and Ukraine are both suffering from high despair rates at the moment, thanks to the effects of the coronavirus (COVID-19) pandemic in 2020 and now exacerbated by the war that began in February. But as bne IntelliNews reported, Russia’s despair index has probably already fallen back to an almost normal, albeit high, rate of 30 thanks to the successful emergency actions taken by the Central Bank of Russia (CBR). Ukraine’s rate could decline from here too if the war stops soon and the impulse of the reconstruction work gives the economy a boost.

In Turkey the outlook is bad, and things are likely to only get worse.

Following the increase in GDP per capita of 158% during 2000-2015, the poverty incidence decreased from 44% to 18% between 2002 and 2014, according to a World Bank study. In the same period, the incidence of extreme poverty declined from 13% to 3% of the population. Poverty continued to fall to about 9% and remained there for the next few years before starting to climb again as the currency crisis gather pace. Poverty rose to 10.2% in 2019 and to 12.2% in 2020, according to the World Bank.

The coronavirus pandemic, which hit Turkey particularly hard in 2020, drove poverty up, but even as the economy started to recover towards the end of that year, the more vulnerable segments of society didn’t feel the benefits. "While the recovery in late 2020 has helped labour markets recover somewhat, many have been left behind, especially women, youth and lower-skilled workers," the World Bank said in its Turkey Economic Monitor report.

"This, in conjunction with high inflation, is likely to have hurt the poor more. Poverty is estimated to have risen to 12.2% in 2020 from 10.2% in 2019. Bringing the poverty rate back to pre-pandemic levels presents a challenge," it said.

The World Bank said the impact of the pandemic would be a "struggle to shake off" globally but that Turkey’s economy is expected to grow 5% this year due a recovery in exports.

Of course, where you set the bar for poverty makes a big difference and each country has a different level, making direct comparisons between countries problematic, but the despair index remains a useful indicator of how much a country is suffering from economic problems.

Poverty, unemployment and inflation
Turkey achieved significant poverty reduction between 2004 and 2016 with growth in earnings and employment being the major drivers, according to the World Bank.

However, in a sign of how much work there is left to do, the poverty line, like in Ukraine, is measured as the number of people that have an income of less than $5 per day ($150 per month), whereas in more developed economies like Russia the line is set at some low average salary. Today a bit more than one in ten people live in poverty in Turkey.

In 2021 poverty jumped again as the combination of the global impact of the coronavirus and Turkey’s own currency crisis took its toll, sending the poverty rate to 21.9%, according to the Turkish Statistical Institute’s annual survey.

Russia, Ukraine, Turkey despair index

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Source: bne IntelliNews, World Bank, national statistic agencies
Retail, accommodation and food, transport and construction sectors, where low-income households comprise a significant share of the workforce, were hit hardest. Loss of employment and income have been the main transmission mechanisms of the crisis for low-income households.

Unemployment has been consistently high in recent years, running between 12.6% and 14.1% for most of 2020 and 2021. But unemployment dropped dramatically to 10.4% in June 2021, but has remained at the still uncomfortably high level of between 11.1% and 11.3% since then. Youth unemployment is even higher, averaging at about 20% in the same period.

The government introduced wage support for formal employees and increased targeted social assistance to existing beneficiaries to minimise the negative consequences of the crisis in the short run. However, these measures will not reach the 5.6mn people presently not covered by the current social protection system, and also exclude the 4mn refugees currently residing in the country who rely on the informal sector.

And finally, Turkey has lost control of inflation, which has climbed steadily from 12.9% in the fourth quarter of 2020 to the current rate of 73.5% in May.

**Despair index**

Russia has been reporting a despair index on a par with many of the EU countries in recent years. Unemployment fell to a post-Soviet record low of 3.6% in October 2018 as the economy started to recover from a four-year long recession. Inflation also fell to a post-Soviet record low 2.2% in January 2018. With a poverty rate averaging about 12.8% that gave Russia a despair index of 18.6 – one of the best in Europe and on a par with Czechia, Europe’s least desperate country pre-crisises. (Czechia is currently suffering from its highest level of inflation for almost three decades).

Given the soaring inflation and the looming threat of stagflation across the entire region everyone’s despair index has risen to around 30 now or worse.

Ukraine has done less well, as in the last three decades it has failed to implement any meaningful reforms and has been one of the poorest countries in Europe, despite its vast human, agricultural and industrial potential. In bne IntelliNews’ last pan-regional despair survey in May 2020 Ukraine had a despair index score of 42.3, the same level as sanctioned Russia suffered from in May this year, when its despair rating peaked.

But things were going well for Ukraine in the months before the war as it started to feel the benefits from a post-COVID bounce-back. Unemployment had fallen back to a post-Soviet low of 7.3% in the third quarter of 2019, inflation had reached a post-Soviet nadir of 2.3% in September 2020 but poverty remained stubbornly high at 27%, when measured on a scale comparable to Russia. Combined that gave Ukraine a despair index of 36.6, still uncomfortably high, due to the high levels of poverty in the country.

In the current survey Ukraine’s poverty is measured by the World Bank rating, which sets the bar very low at $5 a day, not a minimum salary, a change that reflects the fact that Ukraine remains a truly poor nation by the World Bank’s standards, while Russia’s much higher poverty line is a reflection of the fact that Russia is the only emerging market that has been reclassified “high income” by the United Nations Development Programme (UNDP) in the last decade.

Under the World Bank’s definition of poverty Ukraine’s rate falls to only 2%, which is understated if comparing Ukraine and Russia directly. However, for the calculation of the final despair index result in the first quarter, we used the latest estimate by the World Bank that warned the poverty rate could jump to 90% as a result of war. As there is a war going on all of the indicators at the moment are largely guesses.

Getting a clear grip on the situation in Turkey is also difficult, as the government is deliberately obfuscating the data to bury the bad news. Turkey has a relatively modest poverty rate of 9%, but actually, as the line is also set at $5 a day, this is in fact a very high level and far worse than Ukraine. Unemployment rates in Ukraine and Turkey are on a par and stuck at a little more than 10%. So it is inflation that makes the difference.

The official inflation rate is currently 73.5%, which gives a despair index of 93.8, but the real rate of inflation is probably closer to 150%, giving a despair rating of 170.3.

The government’s inability to control inflation is causing the population real economic pain and the Turks, by this measure, are suffering more than Ukrainians are.

With elections looming the high despair score is a danger for Turkish President Recep Tayyip Erdogan, but he has such a complete hold on the political process and the media he has successfully managed to transfer blame elsewhere.
have two factories in the republic that produce sugar. They are included in the state register of natural monopolies.”

The committee also clarified that the initial sugar price did not rise sharply year on year. Last year, the initial price was UZS 7,800 ($0.71), while this year it was UZS 8,200 ($0.74).

"Due to the geopolitical situation in the world, there are problems with logistics. Prices have risen sharply in this service sector. We bring raw materials from Brazil [the world’s largest producer of sugar cane]. Prices for transportation by ship and rail have increased. On average, prices have risen by 8-10%. In summer, the demand for sugar increases. That’s why prices are rising," the committee said.

Domestically, sugar is produced at the Angren and Khorezm sugar refineries. The average sugar price at the bazaars stands at around $1.09 per kg. Those who do not have the time or patience to get through a long queue have the option of buying sugar for $1.90 per kg.

In the supermarkets, the sugar runs out by the middle of the day. Sellers of some small retail outlets said that deliveries of new sugar consignments were carried out during night hours and many consumers were aware of this.

"Endless queues for sugar are causing anger and frustration in the bazaars and supermarkets of Uzbekistan. Eyewitnesses talk of some of those in line even threatening violence to get their way.

Sugar in the Central Asian country has soared in price with logistics difficulties hindering the transit and delivery of sugar cane from Brazil to Uzbek sugar refineries. Some unscrupulous buyers are attempting to exploit the situation by buying sugar in huge quantities for resale.

Traditionally, at the beginning of June, people in Uzbekistan buy substantial amounts of sugar for use in the preparation of compote for winter or to make jam. It is during the early summer season that the fruits required for jam are ripest.

Responding to the tense situation with queues, authorities said that available sugar reserves were enough to cover the demand and that only certain people in the queues were causing a fuss.

Daryo news agency published a report about one man who allegedly bought 158 kilograms of sugar at Chorsu bazaar in Tashkent. He also reportedly encouraged his relatives and friends to come along to boost the amount of sugar that could be purchased and taken away.

On average, more than 10 tonnes of sugar are sold at Chorsu bazaar per weekday, and twice that on weekend days. Adam Harangozó

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Muzaffar Ismailov in Tashkent

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On average, more than 10 tonnes of sugar are sold at Chorsu bazaar per weekday, and twice that on weekend days, according to the bazaar management.

Daryo, meanwhile, quoted the Antimonopoly Committee as saying: "Every day, 2,000 tonnes of sugar are put on the stock exchange. During June 1-9, 14,000 tonnes were put under the hammer, everything was sold. The initial price was UZS 8,900 ($0.81), then the price rose to UZS 13,000($1.18). We

"Sugar rush' in Uzbekistan as prices skyrocket

More than 10 tonnes of sugar are sold at Tashkent’s Chorsu bazaar per weekday, and twice that on weekend days. Adam Harangozó
The Czech government has presented the five key priorities for its rotating presidency of the EU, which begins on July 1: the resolution of the refugee crisis and the post-war reconstruction of Ukraine; energy security; the strengthening of the EU’s defence capacities, both in the military and cyber security area; the strategic resilience of the European economy; and the resilience of democratic institutions.

"The Russian invasion of Ukraine has shaken many of our certainties, weakened and exposed the weaknesses of the security architecture in Europe, to which we will have to take a new approach and, above all, develop actively, not just as observers relying on others," said Czech Prime Minister Petr Fiala.

Fiala said he considers the motto apt and said Czechia is committed to the European task. "A common Europe, its building, its creation, its good shape that serves the development of individual national societies, is our common task," he said. In his view, the Russian aggression in Ukraine in particular has shown that security, freedom and democracy are fragile values that must be defended against aggressors. "Democracy is a daily task, the fight for freedom is a daily task," he stressed.

In the context of EU enlargement and the conflict in Ukraine, Minister for European Affairs Mikulas Bek, who will be responsible for the presidency, said Czechia will focus on discussion about changing unanimous approval to qualified majority voting in some areas of EU foreign policy. Without this change, progress on enlargement or anti-Russian sanctions cannot be effectively made due to the opposition of some countries, such as Hungary. However, "nobody wants to abandon unanimity altogether," the minister stressed.

"We must make every effort to focus on Ukraine's post-war reconstruction and help Ukraine on its path to the European Union," said Fiala. "But Russia's aggression has also undermined the fundamental pillars of our economy – energy security, supply chains – at a time when we have literally started to breathe again after COVID-19."
– energy security, supply chains – at a time when we have literally started to breathe again after COVID-19. It is therefore our fundamental duty to ensure Europe’s strategic resilience in all these areas. Food security for citizens, for example, should remain a certainty. The availability of strategic materials and products, such as medicines and other things, should be a priority,” he explained.

He also noted that the EU member states are likely to discuss a solidarity fund for Ukraine’s post-war reconstruction, which is an idea promoted by German Chancellor Olaf Scholz.

In the energy area, Czechia will focus on the Repower EU package, which opens the way to joint gas purchases and the completion of the energy system. In terms of strengthening European defence capabilities, the key issues for a discussion within the EU are to be cyber security and the security of supply chains in the field of ICT.

As for the strategic resilience of the European economy, Czechia plans to shift the discussion from strategic autonomy carried out by the current French presidency towards a certain degree of openness to countries with similar values, the minister said. The Czech presidency, and the Swedish presidency which is to follow, are expected to help unfreeze negotiations on trade treaties with, for example, New Zealand, Australia, Mexico and Latin America. “The loss of opportunities in Russia must be balanced by opening up new opportunities in other parts of the world,” Bek said.

Czechia will also deal with the European Commission’s proposal on media pluralism and will moderate a debate on the rule of law. “We will also be raising other topics in the area of the rule of law, such as the prosecution of war crimes,” the minister explained.

According to the PM, all the areas include the long-term strategic interests and priorities of the Czech Republic and the values that the Czech Republic has long held and is proud of. "Together with our European partners, during our six months at the helm of the European Union, we will strive to be stronger together and to use our strength to the benefit of those who need it,” he noted.

"Our unique historical experience with the Russian occupation has taught us that we can face difficult moments, help each other and stand up for what is right. After three years of preparation, we will take on this task with confidence and with the knowledge that we are responsible for the outcome,” Fiala added.

Brussels to release recovery fund cash for Poland despite doubts over rule of law reform

Wojciech Kosc in Warsaw

The European Commission officially approved Poland’s plans to use the bloc’s recovery fund on June 1, and will release a total of €36bn to help the economy rebuild after the pandemic once Poland fulfills certain milestones the EU executive has set out.

The decision, which had taken more than a year, could end a political row over the rule of law in Poland, which Brussels said had been endangered by the government’s reforms of the judiciary. The European Commission President Ursula von der Leyen will formally announce the decision during her visit to Warsaw on June 2. Member states still have to vote on the decision.

Poland recently passed changes to address Brussels’ grievances, which centred on the disciplinary regime for judges. According to the Commission, new rules for disciplining judges violated the basic principles of the rule of law.

Armed with rulings of the Court of Justice of the European Union (CJEU), which said that the disciplinary regime compromised judges’ independence and impartiality, the Commission tied payouts from the recovery fund to Poland fixing the flaws. Poland was also fined a hefty €1mn a day for failing to end or overhaul the disciplinary regime.

As inflation hit the Polish economy, followed by the fallout of the war in Ukraine, Warsaw became more willing to compromise, as billions from the recovery fund offered a way of easing the expected economic slowdown in 2023, the election year.

After weeks of political haggling inside Poland’s ruling coalition of the Law and Justice (PiS) party and United Poland, the parliament passed tweaks to the disciplinary regime, as proposed by President Andrzej Duda.

By voting through the proposal by Duda, the Polish parliament dismantled the Disciplinary Chamber of the Supreme Court, one of the milestones that Brussels demanded Poland met to unlock the funds.

The Commission argued that judicial appointments to the controversial body did not meet the criteria of impartiality and independence from the government. The chamber could in effect target judges critical of the authorities and some judges were in fact suspended. Reinstating them is another of the milestones set by the Commission. Duda’s proposal establishes a new body, the Chamber of Professional Accountability.
However, critics have argued that the changes were only a smokescreen designed to dupe the Commission. Critics say that the new chamber is just a superficial reform, as the risk remains that appointments to it will come from the National Council of the Judiciary (KRS), another compromised body in the Polish judiciary.

Von der Leyen is already facing questions on the deal with Poland. The Commission was not unanimous in approval of the release of the funds, with Vice Presidents Margrethe Vestager and Frans Timmermans reportedly voting against.

"Our group urgently demands a detailed explanation from European Commission President Ursula Von der Leyen," Renew Europe, a centrist group in the European Parliament, said in a statement on June 1.

"We should not accept merely small, inadequate cosmetic changes to Poland’s seriously politicised legal system in exchange for the EU funds. We won’t be able to stand up to autocrats abroad by placating those who unravel democracy at home," Renew Europe said.

The Commission insists that Poland would not receive any money without meeting the required milestones.

Poland had leveraged its veto power to soften the Commission’s stance, as it kept blocking a political agreement over global corporate tax reform. Poland was also able to use the good reputation it has won in harbouring Ukrainian refugees and acting as a supply base for Western aid to Ukraine.

Poland would apply for the first payout from the recovery fund as soon as July, the government pledged.

Poland is looking to receive €2.8bn in grants and €1.3bn in loans this year. The funds would help finance the development of renewable energy sources, build more kindergartens, improve internet access, and upgrade railway infrastructure.

Estonia’s PM kicks Centre party out of governing coalition

Linas Jegelevicius in Vilnius

Estonian Prime Minister Kaja Kallas has pulled the plug on her liberal Reform Party’s fractious coalition with the populist centre-left Centre Party, claiming that she needs to form a new government to handle the challenge of Russia’s invasion of Ukraine.

"At the present moment, more than ever, Estonia needs a functioning government based on common values. The security situation in Europe does not give me any opportunity as prime minister to continue cooperation with the Centre Party, which, against the backdrop of its internal division, is unable to put Estonia’s interests above the interests of the party and its various wings," Kallas said.

Kallas, leader of the Reform Party, announced on the afternoon of June 3 that she had asked the president to dismiss the Centre Party ministers, and has made a proposal to opposition parties Isamaa and the Social Democrats to start coalition talks, according to BNS, a Baltic news wire service. The president has signed the request.

The 16-month Reform-Centre party coalition has been hampered by worse and worse squabbling over recent months, ahead of a general election scheduled for next March. The Centre party had repeatedly proposed measures, such as increased child support, to help Estonians cope with
the country’s cost of living crisis, which the free market Reform party saw as populist ploys to revive the Centre party’s flagging support.

There is also speculation that Kallas made a pre-emptive move amid rumours that the Centre party had been in talks with the radical rightwing Estonian Conservative People’s Party (EKRE) to rebuild their own coalition, which broke up in January 2021.

Reform party’s support has also grown during the Ukraine crisis, boosted by Kallas’ strong stance against Russia, while Centre’s support has fallen amid the backlash against Russia because of the party’s onetime close links with Russian President Vladimir Putin’s United Russia party. A recent poll put Reform at 34%, double Centre’s 17% support. Currently in the 101-seat parliament, Reform has 34 seats, Centre 26, EKRE 19, Ismaa 12 and the Social Democrats 10.

Kallas said that for her the last straw was when the bill on preschool education in the Estonian language, approved by the government by consensus, was rejected in parliament by the votes of the Centre Party and EKRE on June 1.

"I believed that February 24 [the invasion of Ukraine] and the genocide being perpetrated by Russia in Ukraine had opened the eyes of all the political parties in the Estonian parliament, the Riigikogu, to the importance for Estonia’s independence of our common understanding of the dangers that we face as a country neighbouring Russia. Unfortunately, it turned out the day before yesterday that there are two parties in the Riigikogu that, even in the current situation, are unable to pull themselves together and stand up for the protection of our independence and constitutional values," she said.

Kallas said that the Estonian language was vital to securing the future of the Estonian people.

"We will secure this future not only by increasing military spending, but first and foremost by the unity of our people.

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**EU agrees to delist Russian orthodox leader from sanctions list after Hungarian pressure**

**bne IntelliNews**

The EU’s sixth sanction package against Russia can finally come into force, a month after it was first proposed, after Russian Orthodox Church leader Patriarch Kirill was removed from the EU’s sanctions list on the demand of Hungary.

EU ambassadors agreed to drop the Russian religious leader from the list of people penalized after a threat of a veto by Budapest a day earlier. This would have meant the end to the whole sanctions package after an compromise on oil sanctions was reached earlier this week at the EU summit following weeks of haggling. The vote required unanimity from all 27 member states.

Patriarch Kirill, a long-time ally of Vladimir Putin, has been a key figure in rallying public support for the ongoing invasion of Ukraine, depicting it as a holy war. The sanctions would have led to freezing his assets abroad and a travel ban to EU countries.

Hungary’s position on possible European Union sanctions against the head of the Russian Orthodox Church has long been well known, and nobody took issue with that stand at an EU summit earlier in the week, Prime Minister Viktor Orban’s cabinet said in a statement on Thursday.

“For us, this was a matter of principle, because – similar to national interests – we insist on freedom of religion," argued Minister of Foreign Affairs and Trade Peter Szijjarto.

Hungary’s insistence on blocking the deal has met sharp criticism from top EU politicians. “Solidarity is not a one-way street,” EC Vice-President Frans Timmermans said at a forum.

“Hungarian Prime Minister Viktor Orban apparently believes he can deal with the EU and the member states as he pleases. He got a feeling that he can do whatever he wants, and they’ll accept everything,” he added.
Isamaa party – which is likely to hold the
premier added. “Estonia needs a stable
Democrat and centre-right Isamaa
colalition with the opposition Social
Kallas said.

"It is quite possible that with this move
the Reform Party is trying to distract
attention from the problems that plague
Estonian society," he said. "If Kaja
Kallas finds raising family allowances,
lowering fuel excise duties and offering
residents of Estonia relief from record
high inflation not to her liking, she
should say so publicly or even resign," Ratas said. "That would have been
a fair and statesmanlike step, given
the fact that the prime minister has
herself repeatedly indicated that she
would resign."

Appearing on the ETV politics discussion
show Esimene studio, Ratas did not rule out rebuilding the coalition with the
Reform party but insisted that "a new
collation must be formed. Estonia needs
a functioning government, that much
is clear."

Lauri Laanemets, chairman of the
opposition Estonian Social Democratic
Party (SDE), said he understood Kallas'
decision as the coalition has been unable
to work together for several weeks
already, while in the midst of the biggest
security crisis since Estonia regained
its independence and in the face of
a looming cost of living crisis.

"For the Social Democrats, it is important that
in the current security situation we have an
Estonia-centred
situation we have an Estonia-centred
and pro-European government. I am
of the opinion that Estonia must quickly
get a functioning government that
is not a government of doubters or
a government of hesitators," he said.

If Reform is not able to form a
government with the two smaller
opposition parties, it is likely that Centre
could try to rebuild its coalition with
EKRE and Isamaa, with which it was

According to Laanemets, preparations
for this new coalition have been made
actively over the past week. He said
such restoration of such a coalition,
especially in the current security
situation, is a "real security threat to the
Estonian state, its allied relations and
also the economy". Martin Helme, EKRE
leader, has accused the government
of whipping up "hysteria" over the war.

"Today this coalition conclusively came
to an end. We must now act quickly and
must not lose time. Estonia urgently
needs a capable coalition and a capable
government able to make decisions and
lead the country," he said.

"Times are turbulent both at home
and abroad. Here in Europe, we are
in the midst of the most acute security

and the unwavering will to defend our
independence. The prerequisite and
mainstay of this is command of the
Estonian language. In a situation where
the Centre Party is actively working in
the government against the fundamental
values that are most important to
Estonia, we cannot continue to
 cooperate with them anymore," she said.

As well as the pre-school language issue,
Kallas pointed to the fact that most of
the ministers of the Centre party, which
has traditionally had strong ethnic
Russian support, do not have security
clearance.

"If we add to this the fact that no
minister of the Centre Party other than
Kristjan Jaani and Eva-Maria Liimets
has permission to access Nato secrets,
then it is not possible to rule the
country with such a composition of the
ministerial corps in time of war. That
is why I formalised the state of affairs
that has actually been in place for a
long time and took proposals for the
dismissal of the Centre Party ministers
to Kadriorg [the presidential seat]," Kallas said.

Kallas will now try to form a new
collation with the opposition Social
Democrat and centre-right Isamaa
parties. "Estonia needs a stable
government that can address the major
challenges facing the country," the
premier added.

Helir-Valdor Seeder, chairman of the
Isamaa party – which is likely to hold the
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Bulgaria’s reformist government loses no-confidence vote

Denitsa Koseva in Sofia

Bulgaria’s reformist government led by Prime Minister Kiril Petkov lost a no-confidence motion filed by former ruling party Gerb and backed by three more parties.

The vote puts an end to the Petkov government’s efforts to tackle corruption in Bulgaria – ranked by Transparency International as the most corrupt state in the EU – and plunges the country back into political instability.

123 out of 240 MPs voted against Petkov’s government on June 22, including those from Gerb, the ethnic-Turk Movement for Rights and Freedoms (DPS), There Are Such People (ITN) – that until June 8 was a member of the ruling coalition – and far-right, pro-Russian Vazrazhdane.

The government was backed by all members of the ruling coalition and six former members of ITN who left the party after its decision to quit the coalition.

“It was my honour to lead a government taken down by Borissov, Peevski, Trifonov and Mitrofanova,” Petkov said after the vote.

He was referring to Gerb’s leader and former prime minister Boyko Borissov, US-blacklisted DPS member Delyan Peevski, the leader of ITN Slavi Trifonov and the Russian ambassador to Bulgaria Eleonora Mitrofanova.

“This vote is a small step on the long road. They did not understand that they cannot win the Bulgarian people this way,” Petkov said.

Demonstrations outside parliament

The vote took place in a tense atmosphere with a thousands-strong demonstration in support of the cabinet and rival, but significantly smaller, protests against it.

Outside parliament, supporters of Petkov’s coalition were chanting “Mafia out” during and after the vote. The voting was live broadcasted by BNT and protesters were aware of what was happening in the parliament.

At the back of parliament, several hundred people, suspected to have been organised by the DPS and Vazrazhdane, cheered the fall of Petkov.

“When outside parliament Peevski protests against this government, when Gerb clearly expresses its desire that it will
not support it, when Vazrazhdane under agreement with Mitrofanova stands against us, while at the same time the square is full of young people who say ‘I support you’, you understand that the no-confidence vote is not of big significance,” Petkov said prior to the vote in an interview with bTv.

**Bulgaria’s next government?**

President Rumen Radev is now required give a mandate to Petkov’s Change Continues to try to form a new government. To succeed, Petkov and the party’s co-leader, Finance Minister Assen Vassilev, must persuade at least six or seven more MPs to back them. Even in that case, the ruling coalition would have a fragile majority and, according to analysts, may not survive more than a few months.

If Change Continues fails, Radev is obliged to give the second mandate to Gerb, which is the second-largest party in parliament. The party theoretically could get a majority, but would have to enter in coalition with anti-EU and anti-Nato Vazrazhdane, the rather nationalistic and eurosceptic ITN and with the DPS. The latter unofficially supported Gerb during Borissov’s last government. However, a formal coalition with the party could cost Gerb support as the DPS has become a synonym of corruption and murky deals between politicians and controversial businessmen.

“Looking at potential alternatives to Petkov’s government, one option could be the same three-party coalition government with a reshuffled lineup of ministers, particularly in the position of prime minister,” Teneo commented.

If the second mandate fails to produce a government, Radev can pick any of the remaining parties in parliament for the third and final mandate. If, as expected, it also fails, Bulgaria would be heading towards a general election this autumn – after the three general elections in 2021. Polls show that most Bulgarians do not want an early election and would prefer a functioning government that could adopt measures supporting households and business during the economic crisis caused by Russia’s war in Ukraine.

Political instability could also slow the adoption of more than 20 bills needed to unlock additional funding from the EU’s Recovery and Resilience Facility (RRF). Also, it could interrupt efforts to secure natural gas supplies for the winter period.

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**Turkey on verge of total bankruptcy says Erdogan’s former economy czar**

**bne IntelliNews**

Turkey is on the verge of total bankruptcy, according to President Recep Tayyip Erdogan’s former economy czar Ali Babacan.

Babacan, now the leader of small opposition party Democracy and Progress (DEVA), attacked the Erdogan administration for its stewardship of an economy that was by now “crumbling before our eyes” when he spoke at a party meeting in Ankara, the T24 news website reported on June 15.

“Today, I want to say that we are on the verge of bankruptcy as a country and call on the government to do its duties immediately,” he was quoted as saying.

“I am worried because the default risk of our country, namely the risk of bankruptcy, has reached an unprecedented level. The future of our children is at stake. We are faced with a matter of economic and financial survival. Turkey’s credit rating has dropped to the worst level in history,” Babacan added.

Prior to June 15, when the US Fed brought in its biggest rate hike since 1994, thereby sparking fears for emerging markets exposed to foreign
Around BGN1bn (€511.3mn) of the funds provided by the former government of Boyko Borissov for road construction were spent on the construction of private luxury properties, Bulgaria’s Interior Minister Boyko Rashkov said on June 9.

The announcement came a day after There Are Such People (ITN) leader Slavi Trifonov said he is pulling out his ministers from the government and withdrawing from the four-party ruling coalition, throwing the country in a deeper political crisis than that in 2021 when three general elections were held.

Trifonov clashed with Prime Minister Kiril Petkov when the latter accused ITN of demanding to get control of BGN3.6bn additional funds for the regional development ministry, headed by ITN’s Grozdan Karadzhov. Petkov said that the party wanted to give the money to companies that stole millions from road construction projects during Borissov’s time in power.

At a press conference, live broadcasted by the Dnevnik news outlet, Rashkov said that the BGN1bn was transferred to bank accounts of companies and individuals who had then withdrawn the money and spent it on the construction of luxury homes, villas, residential complexes and other buildings in Sofia and near the capital.

Rashkov refused to name the companies and individuals, saying this was still under investigation.

The Road Infrastructure Agency (API) paid BGN400mn to state-owned company Avtomagistrali for lots 7, 8 and 9 of the Hemus motorway without a detailed development plan. Of that sum, BGN84.5mn was transferred in advance to another company for Lot 8. That company used BGN27mn to buy a property in the centre of Sofia where construction works are in progress, Rashkov said.

Avtomagistrali transferred around BGN15mn to another company. These funds, according to the interior minister, were used for the construction of buildings, with BGN1mn of the sum being transferred directly to bank accounts of the owners of the unnamed company as a dividend. Part of that money was subsequently transferred to accounts in the UAE.

BGN6mn were transferred to bank accounts of other daughter companies, while BGN12mn for Lot 8 were paid to a company, which subsequently transferred BGN8.5mn to the personal account of an unnamed individual who had a contract with that company. The contract was terminated several months later, Rashkov said.

The interior minister showed reporters photos of properties acquired with money for road construction but declined to provide details.

API also transferred BGN670mn to Avtomagistrali for Lot 5 of the Hemus motorway, paying more than BGN100mn in advance without construction contracts. These funds were subsequently transferred to five other companies. Several bank transfers for BGN10mn-15mn each were made to each of these five companies and subsequently withdrawn in cash. One of these companies has subsequently built a luxury residential complex.
High-ranking politicians from Serbia and Bosnia attend ‘Russia’s Davos’ shunned by West

bne IntelliNews

The Serb member of Bosnia & Herzegovina’s tripartite presidency, Milorad Dodik, attended the St. Petersburg International Economic Forum (SPIEF 2022) on June 16, as did a senior government official from Serbia, Minister without portfolio in charge of innovation and technological development Nenad Popovic.

Most years, political and business leaders from around the world attend the forum, dubbed ‘Russia’s Davos’. This year, however, amid sanctions on Russia following its invasion of Ukraine, Western leaders are steering clear, as reported by bne IntelliNews.

Serbia has resisted pressure from the West to join EU sanctions against Russia following the invasion of Ukraine, despite being an aspiring member of the bloc. It is now one of the few European countries not to have imposed sanctions, despite top officials condemning the invasion.

In Bosnia, Dodik, who has cultivated relations with Moscow and speaks in glowing terms of Russian President Vladimir Putin, has sought to block the country from joining the sanctions.

In St Petersburg, Dodik met Russia’s Foreign Minister Sergei Lavrov. The pro-Russian Serb leader said that he would not allow Bosnia to join the sanctions against Russia. Moreover, he took the Russian side in the war that Moscow started in Ukraine.

“The conflict in Ukraine is being waged to the last soldier, all in order to weaken Russia and take control of its resources [by the West],” Dodik said as quoted by N1.

He added that the world today has only three true leaders, the presidents of Russia, China and Turkey – Vladimir Putin, Xi Jinping and Recep Tayyip Erdogan. Dodik was set to meet Putin on June 17.

Serbian minister talks trade

Meanwhile, ministers from Russia and Serbia said on June 16 that their governments will make “maximum efforts” to ensure trade between the two countries continues, unhindered by international sanctions, a statement from the Serbian government said.

Popovic held a bilateral meeting with Russia’s Deputy Prime Minister Yuri Borisov, the other co-head of the Intergovernmental Committee for Cooperation between Serbia and Russia. The governments of the two countries agreed to make “maximum efforts to enable uninterrupted bilateral trade in the current political crisis in Europe”, the government in Belgrade said.

Since the sanctions were imposed, exporters of fruits, vegetables and food products in particular have experienced problems transporting their goods.

According to the Serbian government, trade between the two countries amounted to approximately $2.8bn, up 13.1% compared to 2020.

Serbia’s exports to Russia amounted to nearly $1bn, and the value of imports from Russia to Serbia was $1.8bn. This has resulted in Russia becoming Serbia’s fourth foreign trade partner.

Recently, while other European governments are seeking to reduce their countries’ dependence on Russian gas, Putin and Serbian President Aleksandar Vucic agreed a new gas supply deal under very favourable conditions.

Western leaders shun SPIEF

SPIEF, set up as Russia’s answer to the World Economic Forum (WEF) in Davos, has been held annually for the last 25 years.

It was launched with the intention of attracting investment and business to Russia following the collapse of the Soviet Union. In 2004, Vladimir Putin gave the opening speech at the Forum, and it has been traditional for the president to attend ever since.

In past years, guests have included Chinese premier Xi Jinping, French president Emmanuel Macron and UN Secretary-General Antonio Guterres. However, few such high profile guests were present in 2022, and the number of attendees expected this year is less than a quarter of last year’s 13,500. Only 90 countries are attending, down from 140 last year.
Ukraine and Moldova granted EU candidate status in face of Russian aggression

Dominic Culverwell in Berlin

Ukraine and Moldova have been granted official candidate status to the European Union, with the same promise to Georgia once it has addressed its "outstanding priorities".

The announcement – after the first day of the European Council's two-day summit in Brussels on June 23 – did not come as a surprise, as none of the EU’s 27 member states opposed the decision at a meeting earlier in the week. Even the leaders of Germany and France, who previously received criticism for their perceived lack of support, backed Ukraine's candidate status during a trip to Kyiv on June 16.

“This decision strengthens us all”, President of the European Commission Ursula von der Leyen said. "It strengthens Ukraine, Moldova and Georgia, in the face of Russian imperialism. And it strengthens the EU. Because it shows once again to the world that we are united and strong in the face of external threats.”

“Now is the time to acknowledge that the future of Ukraine, Moldova and Georgia lies within the EU,” European Council President Charles Michel wrote in a letter inviting the leaders to the summit.

The decision is a massive boost to Ukraine and Moldova, though

“Now is the time to acknowledge that the future of Ukraine, Moldova and Georgia lies within the EU,” European Council President Charles Michel wrote in a letter inviting the leaders to the summit.
a disappointment for Georgia, which dropped out of the “Trio” because of the ruling Georgian Dream Party’s erosion of democratic norms.

In Kyiv, President Volodymyr Zelenskiy responded to the decision by tweeting: “It’s a unique and historical moment in [Ukraine-EU] relations. Grateful to Charles Michel and Ursula von der Leyen and EU leaders’ support. Ukraine’s future is within the EU.”

Ukrainian Minister of Foreign Affairs Dmytro Kuleba said: “Ukraine will prevail. Europe will prevail. Today marks the beginning of a long journey we will walk together.”

However, the reaction from ordinary Ukrainians has been mixed, with many wondering what impact the decision will make in the midst of a war in which Ukraine is struggling to get enough armaments.

“I used to really want to see Ukraine as part of the European Union. But looking at how slowly Europe is helping arm Ukraine in such a difficult war, where many innocent people are dying, it becomes very sad,” Nick, a photographer from Bucha, told bne IntelliNews. “But still, if security requires an alliance, it is clear it should be with Europe.”

“I think it’s an awkward attempt of the EU to make things right,” said Valeria, a tech worker from Kyiv. “We’ve been fed with way too many promises that can’t be fulfilled and us having candidate status feels just like more diplomatic talk. It’s more of a promise than an actual plan for action.”

Others feel that EU candidate status is Ukraine’s right and even the goal of many Ukrainians in this war.

“Candidate status is neither a gift nor a debt. We paid the price for it. As a result, we’ll become the first and only country whose citizens have given their lives for EU membership,” Tania, a PR consultant from Chernivtsi, told bne IntelliNews. “The status will also deepen our faith that Ukraine will become a member of the EU, a member of the Eurofamily,” she added.

For some, EU membership is a no-brainer and the obvious path for Ukraine. “We should join for more political stability. I think everyone in Ukraine will answer the same now,” said Aleksandr, a student from Kyiv.

Moscow has previously condemned Ukraine’s relationship with the EU, saying it sees Ukraine’s entry in the Bloc as equivalent to joining Nato. Russian Foreign Minister Sergey Lavrov claims the union has turned from being a “constructive economic platform” into “an aggressive, militant player that is already declaring its ambitions far beyond the European continent.”

However, although now a step closer to achieving its goal, several EU states, predominantly France and Germany, remain sceptical about Ukraine’s membership, with Paris warning that it may take decades. French President Emmanuel Macron had earlier suggested that a second-class membership category be created for Ukraine that acknowledges its European aspirations, but stops short of admitting it to the club and granting it the freedoms of movement of labour, capital and goods, as well as access to the billions of euros in funds that comes with membership.

German Chancellor Olaf Scholz also said recently that the bloc must change its voting rules in key areas such as foreign policy before accepting any new members.

However, Kyiv has found ardent supporters in Central and Eastern Europe, especially Poland, which has vocally backed Ukraine’s membership.

“Today, Ukraine needs our signal: the opening of European doors for Ukraine as a state, for Ukrainian society, that wants to be part of the European community, not Russia’s sphere of influence,” Polish President Andrzej Duda said last month. “Countries striving for the European Union should receive a clear signal that the doors to the EU are open.”

**Long road ahead**

The accession process takes years. Since 1992, no country has managed to pass
it faster than in 8 years, and most often it took 9-10 years to complete it.

Now there are five countries in the status of candidates - Turkey (a candidate since 1999), North Macedonia (since 2005), Montenegro (since 2010), Serbia (since 2012) and Albania (since 2014). Croatia became the last new member of the EU in 2013, waiting for approval of the application for 10.5 years.

And the reason for the Balkans’ pique is the EU has clearly rushed through Ukraine’s application. The country applied for EU membership only days after the war started, submitting its form on February 28 and now has been granted candidate status in June less than four months later. Usually, the first stage alone takes years.

Kyiv has not been idle in its ambitions to join the European trade club and has already made a start on some of the reforms. The head of the European Commission, Ursula von der Leyen, said that by now Kyiv has brought its legislation and law enforcement practices in line with EU standards by about 70%. “Important work that still needs to be done” concerns the rule of law, oligarchs, the fight against corruption and basic civil rights.

"Kyiv has brought its legislation and law enforcement practices in line with EU standards by about 70% but more needs to be done"

Corruption remains the main bugbear. In the latest Transparency International Corruption Perceptions Index, Ukraine ranked 122nd (Russia – 136th). That makes the judicial reforms a top priority as Ukraine’s courts are venally corrupt. Among the specific measures that Kyiv will need to take are a new procedure for electing a constitutional court and bringing anti-money laundering legislation in line with FATF standards, writes Bloomberg. Obviously, the necessary reforms are unlikely to begin before the end of the war.

Kyiv will need to follow several steps before beginning full accession negotiations. These include:

• Implementing legislation on a selection procedure for judges of the constitutional court;
• Finalising integrity vetting of candidates for various judicial councils;
• Strengthening the fight against corruption, including via the appointment of a new head of the Specialised Anti-Corruption Prosecutor’s Office;
• Ensuring that anti-money laundering legislation is in compliance with the standards of the Financial Action Task Force;
• Implementing anti-oligarch legislation;

“North Macedonia is a candidate since 17 years, Albania since eight, so welcome to Ukraine, it’s a good thing to give candidate status but I hope the Ukrainian people will not [have] many illusions”, Rama told Kyiv after the West Balkan Summit before the European Council meeting on June 23.

Despite the general perception the Kremlin opposes Ukraine’s membership, the opposite is true. Russian diplomats consistently say that Russia is opposed because the EU is no longer an economic union, but ”an aggressive player that is merging with NATO.”

Russia’s objection has always been that it is happy for Ukraine to expand its trade regime, but as Russia also shares a border with Ukraine Russia’s trade interest should also be taken into account and so any talks on Ukraine joining the EU should be done in conjunction with Russia. Brussels pointedly refused this proposal and signed off on the Association Agreement and Deep and Comprehensive Free Trade Areas (DCFTA) with Ukraine at a time when Russia had an open border with Ukraine, which has been a major source of conflict. Because of Brussels’ lack of willingness to include Moscow in the trade talks the border was closed and trade between Ukraine and Russia – formerly its biggest trade partner – has collapsed.
Ukraine’s budget is underfunded and in need of Western help

Ben Aris in Berlin

ew research from the University of the Potomac shows that the food favoured in different countries does not necessarily correspond with what is produced locally. A taste for foreign crops was enabled by thirty years of globalisation and increasingly advanced agricultural and transportation technology. Now, this interdependency risks exacerbating food shortages around the world as the war in Ukraine imperils food security.

Wheat is one of the most striking examples. Wheat originated in Central and West Asia and the Mediterranean. Now it is consumed worldwide, and ranks as the most produced agricultural commodity for 14 countries. Wheat is a particularly significant crop right now, because the war in Ukraine is disrupting outflows of wheat from two of the world’s biggest exporters – Ukraine and Russia.

The root of the problem

Russia is the world’s third-biggest wheat producer. Russia and Ukraine together comprise one of the world’s crucial breadbasket regions, accounting for around 30% of the global wheat trade.

A Russian blockade of the Black Sea is preventing some Ukrainian wheat from reaching the market, and satellite photos appear to show Russian ships stealing Ukrainian grain. The effects are already being felt. Wheat prices jumped by 20% in March alone, and are now up 53% since the start of the year.

Wheat is an essential raw material for the processed food industry, so the increase in wheat prices is likely to have a knock-on effect on the prices of other foods, too.

Africa is particularly dependent on Ukraine and Russia for its wheat supplies. About 42% of the continent’s wheat imports came from Ukraine and Russia between 2018-20, according to The Conversation. Wheat prices in Africa are already up 60% since the start of the war. The poorest areas will be hardest hit by the rising prices.

The scale of the looming crisis is enormous. Around 25m tonnes of corn and wheat is currently in storage in Ukraine. That’s the equivalent of the annual consumption of all of the world’s least developed economies.

The crisis isn’t limited to wheat either. A programme of modernisation of Russian agriculture over the past two decades has made it a significant producer – feeding 2bn people worldwide. Russia is the world’s biggest producer of barley and sugar beet, producing almost 15% of the global supply of both crops.

Ukraine’s fertile fields have turned it into a big agricultural supplier too. Two-thirds of its arable land is used for agriculture.

The UN’s Food and Agriculture Organization (FAO) lists Ukraine as one of the world’s largest producers of wheat, corn, sunflower seeds, barley, sugar beet, potatoes and soybeans in 2020. The total value of these crops in Ukraine in 2020 was $21.4bn. It’s also the world’s third-largest producer of potatoes and pumpkins.

Ukraine is also the biggest producer of sunflower seeds, providing over a third of global supply. As a consequence, sunflower oil has risen in price by over 25% since the war started. Sunflower seeds and sunflower oil are an essential ingredient in many food production processes, and are among the most exported agricultural commodities.
Russia and Ukraine are also responsible for 29% of globally traded barley and 15% of maize.

The globalisation of agriculture
The most exported agricultural products nowadays include wheat, rice, corn, barley, rapeseed, soybeans, sunflower seeds, palm oil and bananas. Some of those crops are particularly suited to specific climates. Whereas wheat is a versatile crop grown across Europe, Asia and North America, bananas are better suited to tropical regions.

Globalisation has led to some climate-specific crops being domesticated in foreign markets. Technological advances in agriculture mean that some plants can be cultivated in non-native soils, while transportation allows other crops to be taken to far-flung markets. A study in 2016 found that more than two-thirds of agricultural products in the world’s national diets originated from a far-away region.

Cereals are particularly versatile crops, and can be cultivated in a range of climates. Corn is the most produced agricultural commodity globally (1.1bn tonnes of the crop were produced in 2020), followed by wheat with 760.9mn tonnes and rice (756.7mn tonnes).

Agricultural superpowers
Agriculture accounts for 4.3% of global GDP. But with the effects of climate change (such as unseasonably heavy rains during planting season in China and a heatwave in India), geopolitical crises (such as the war in Ukraine) and an apparent trend for deglobalisation and protectionism, this figure is in jeopardy. And with supply of domesticated crops set to drop, price rises risk creating mass malnutrition or starvation.

Russia is one of the world’s five biggest food producers. In addition to encouraging Russia to lift its blockade of the Black Sea and finding alternative ways to export Ukrainian crops, the remaining agricultural superpowers must lift barriers to trade in the interests of global food security.

In 2020, half of global agricultural production came from Asia. China and India are both crucial players in agriculture. Both are top ten countries for agricultural exports too. China is the world’s biggest wheat producer, producing 134.2mn tonnes of wheat in 2020 alone, worth $53.4bn. Much of that wheat is reserved for China’s domestic market, however. India, meanwhile, is the second-largest producer, harvesting over 107.5mn tonnes of the cereal in 2020. They will therefore be the most important players in plugging any Russia-sized gap which could develop in the global wheat market.

In 2020, China was the top producer of more than 30 crops, including tomatoes, rice and potatoes. Rice is China’s most produced crop overall – totalling 353.1mn tonnes in 2020. In 2020, China’s agricultural production was valued at $1.1trillion, a record high. Because it produces 25% of the world’s grain, China is a key player in global food security.

The US, meanwhile, is the world’s largest agricultural exporter, with exports valued at $147.9bn in 2020. In particular, it is a big exporter of corn, rice, wheat, sorghum and apples.

Notably, the US is the world’s biggest grower of corn, producing around $52bn worth of the crop per year, according to the University of the Potomac. In combination, the US, China and Brazil grow about two-thirds of the world’s corn.

There are other crucial players for specific crops too: Germany is the world’s biggest producer of milk, while Latin American countries lead the world in sugarcane harvests.

The temptation for these agricultural powerhouses will be to place restrictions on food exports as the prospects for food security continue to worsen. Indeed, over 20 countries have already imposed export bans on certain agricultural commodities, including Turkey and Argentina. To overcome the danger of millions going hungry, they must do the opposite, and relax restrictions on trade. Indonesia recently lifted a ban on exporting palm oil, a promising precedent. Officials around the world will hope that this is the beginning of a détente, not the exception which proves the rule.”
FBK accuses Putin and Miller of using Gazprom as “bottomless purse” in latest scandal report

bne IntelliNews

Alexey Navalny’s Anti-Corruption Foundation (known as FBK in Russian) has teamed up with investigative outlet Proekt to compile another report claiming to uncover systematic corruption at the highest level of the Russian state.

The report focuses on Alexey Miller, the CEO of gas giant Gazprom, the world’s largest public energy supplier. It accuses Miller of “embezzling billions” from Gazprom to enrich himself as well as the “friends and relatives of Putin”.

“Gazprom is not about business and efficiency. Gazprom doesn’t aim to be profitable and to earn money, and it never has. Gazprom exists in order to dish out money and to enrich Putin’s friends and contractors,” the report says.

“For more than 15 years, a group of Russian intelligence officers has been carrying out secret business tasks: from the division of Yukos property to the acquisition of shares in the most promising assets of Gazprom. A significant part of the luxurious property received by this group of “golden colonels” is in the use of the head of Gazprom, Alexey Miller,” it claims.

The report mentions some big names, including oligarchs Arakdy Rotenberg and Gennady Timchenko, who it accuses of buying assets from Gazprom at knock-down prices and selling them back for huge profits.

Russian Prime Minister Dmitry Medvedev and former Chelsea FC owner Roman Abramovich also featured in the report, as did Putin’s relative Mikhail Putin, who sits on Gazprom’s management board.

“Roman Abramovich pulled off what was probably the most flagrantly corrupt deal in the entire history of the company. In 1995 he bought Sibneft in the “loans for shares” scheme for $100mn, then in 2005 he sold it back to Gazprom for $13bn. This deal alone allowed him to become one of the richest men in the world and buy football clubs, castles and yachts,” the report says.

As well as accusing members of Putin’s inner circle of carving up public assets
and abusing state contracts for their own enrichment, the article claims that these individuals have tied their money up in a network of offshores and properties. Most strikingly, Miller is accused of owning a palace known as “Millerhoff” outside Moscow.

“Millerhoff” reportedly boasts almost three thousand square metres, with its own parks and fifteen hectares of land.

Another, even bigger palace outside Moscow is also linked to Miller by the report. It has an enormous glass dome, servants’ quarters, a guest house and a floor plan of over 8,500 square metres. Flight data from planes and helicopters linked to Miller are used to reinforce the allegations, as well as public ownership records.

The luxurious pictures of properties allegedly owned by Miller evoke associations with FBK’s report into a palace on the Black Sea allegedly owned by Vladimir Putin. The FBK’s video report into Putin’s palace went viral on YouTube, and has so far garnered over 124mn views.

Miller has not yet publicly responded to the allegations. He appeared at the St Petersburg International Economic Forum (SPIEF) on June 16, where he blamed rising gas prices on EU countries.

INTERVIEW:

Ukraine calls for a total ban on all Russians travelling overseas

Oleksii Makeiev, Ukraine’s Ambassador and Special Envoy for Sanctions, has called for a total ban on all Russian passport holders from travelling overseas in a potential major escalation of punitive measures imposed since the invasion three months ago.

In an interview with bne IntelliNews from Brussels, Makeiev said that his government in Kyiv has already discussed the possibility with western partner counties.

He said: “These large-scale decisions are difficult to negotiate and to push through, but this would hit the nerve of those who thought there might only be some minor inconveniences after sanctions, and they can travel to wherever – to the UK, Dublin, Nice or Paris via Turkey or Serbia.”

“It is important that real Russians feel it and not just oligarchs and the inner circle,” added Makeiev. “So those who have their permits to work in Innsbruck are hit directly. They must speak up and influence their government because they must bear responsibility too.”

Makeiev’s role is to work closely with Ukraine’s Western democratic allies and the international community to develop punitive sanctions against the Russian government, individuals and entities. Reporting to Ukraine’s Foreign Minister Dmytro Kuleba, Makeiev has been a career diplomat for 26 years and was previously political director at the Ministry of Foreign Affairs.

Many Russians living in Europe are now facing additional scrutiny into their financial affairs since the invasion on February 24. European Union regulators have told some banks to scrutinise transactions by all Russian and Belarusian clients, including EU residents. Prominent opposition figures, such as Russian entrepreneur Yevgeny Chichvarkin, and independent journalists have also been caught in the dragnet and have had their bank accounts frozen.

Russians living in the EU are already wary of taking foreign trips for fear of being stopped at customs as Western government cast a wide blanket of suspicion on all Russian passport holders.

Makeiev is clearly frustrated by how slow the EU operates in coming to a decision on whether or not to ban imports of Russian energy and commodities.

EU leaders have agreed in principle to cut 90% of Russian oil imports by the end of 2022, resolving the weeks-long stalemate over the sixth sanction package for Russia’s military invasion of Ukraine. The new package also includes cutting off Russia’s biggest lender state-controlled bank Sberbank from the SWIFT payment system.

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“Of course, we would love to have those decisions taken and expedited but we see that the understanding of the importance of this gas, oil and coal embargo is growing,” he said. “We are grateful for the six packages of the European Union and many more from the US, the UK and Australia, but sometimes I think we are one step too late in terms of sanctions and not enough is being done.”

The US has already banned imports of Russian crude, but the US is a net exporter of oil and cutting off Russian supplies will have little consequence for the US or Russia.

The latest EU oil ban proposal allows a temporary exemption for pipeline supplies, the key demand of Hungary, which was blocking the adoption of the sanction package.

According to European Council President Charles Michel, there was an agreement to immediately cut seaborne oil imports from Russia, which account for two thirds of Russian oil supplies to the EU. The remaining third comes through the Druzhba pipeline, but Poland and Germany are reportedly committed to phasing out Druzhba supplies by the end of the year. This would put EU oil cut at 90%, with the remaining 10% reserved for the exemptions given to Hungary, Slovakia and the Czech Republic.

Makeiev diplomatically rejects the argument that Germany has been one of the main stumbling blocks in agreeing a ban on Russian energy imports, even though Chancellor Olaf Scholz warned the Bundestag last month that such a measure would trigger an economic recession in Germany and across Europe.

He said: “Germany has recently been very active in changing their own approach from what we are hearing from the Vice-Chancellor and the Minister for the Economy. They calculated and that provided enough data for other countries to prove that an oil and gas embargo is possible.”

“In terms of sanctions, we need real leadership from the governments and not to be afraid to take these steps. I always ask our colleagues how many Buchas do we need to see for you to make the next important and powerful sanctions decisions.”

Makeiev is also calling on a blanket ban of all Russian lenders from the SWIFT payment system.

As part of its six wave of sanctions, the EU has just taken Sberbank, Russia’s largest lender, off from SWIFT. The EU had already disconnected sanctioned VTB Bank, Russia’s second-largest state-controlled bank, Otkritie (restructured by the central bank and primed for IPO prior to invasion), restructured state-controlled “military bank” Promsvyazbank, military-affiliated Novikombank, Bank Rossiya with links to Kremlin, the state development bank VEB.RF, and private Sovcombank.

“Russia must be decoupled from the global financial systems and SWIFT,” added Makeiev. “They have over 300 banks in Russia and those sanctions against Sberbank and VTB are powerful, but they are using other non-sanctioned banks to transfer money, allowing Russia to circumvent those sanctions.”

One of Makeiev’s key responsibilities is to monitor the ways in which Russia, Russian entities and individuals try to circumvent sanctions by using third counties, such as Kazakhstan.

“One of the main issues is that we have to identify the loopholes,” he said. “This is a day-to-day job for sanctions officers and sanctions structures in different countries. With every sanctions package, some of the loopholes are being closed.”

Dubai has been pinpointed by Makeiev and his colleagues as the weakest link in the sanctions crusade against Russian capital. Russian billionaires and entrepreneurs have been arriving in the United Arab Emirates (UAE) in unprecedented numbers. Property purchases in Dubai by Russians have also surged by 67% in the first three months of 2022.

“The Emirates did not join the international sanctions coalition and Russia tries to circumvent sanctions using Dubai as well as the countries of Eurasian Economic Union, such as Kazakhstan, said Makeiev. “This is the reason why governments and politicians talk to each other and we would love that UAE is not used as a big loophole to circumvent sanctions and to relocate their businesses.”

Makeiev has no sympathy for Russian businessmen like Oleg Tinkov, the founder of Tinkoff Bank, who has spoken up against the invasion and lost a fortune. Tinkov has hired bodyguards and claims he has been forced to sell his 35% stake in the lender for a fraction of its true value after being targeted in Russia for his criticism of the invasion of Ukraine.

“I don’t feel sorry for any Russian business people and I have seen a very limited number of Russian intellectuals who oppose Russia’s war against Ukraine and have gone public,” he said.

“I think there is no excuse for any Russians who have been supportive or kept silent to enable Putin to conduct his war against Ukraine since 2014. This crime of aggression and these war crimes Russian soldiers are committing is something that all Russians are responsible for. I think it will take decades for Russians to understand and realise that their silence or their support for Putin contributed to those crimes.”

“We monitor and identify the ways Russia tries to circumvent sanctions and we look at ways to close those loopholes”
Claims Ukrainian grain shipped from Crimea to Turkey could test Ankara-Kyiv relations

A ngora risks incurring the ire of Kyiv if claims that Russia has started sending grain from occupied areas of Ukraine to Turkey and the Middle East via Crimea prove correct.

Yevgeny Balitsky, who heads the Moscow-installed military-civilian administration in the occupied areas of Zaporizhzhia in southeastern Ukraine, told Russia’s Rossiya 24 news channel: “We are sending grain through Russia, and primary contracts are signed with Turkey. The first trains have departed through Crimea for the Middle East.”

Balitsky was vague on which Middle Eastern countries were allegedly being supplied with the wheat, only stating: “It was a traditional market for Ukraine.”

Turkey is in something of a unique position in the Ukraine conflict in that it is a Black Sea neighbour of Ukraine and Russia that is on amicable terms with both Kyiv and Moscow. The two foes tolerate this fact, as it makes Nato member Turkey a third country that can serve as an acceptable mediator in the pursuit of peace.

Tens of millions of people around the world who face possible famine if Ukraine – the world’s fourth-largest exporter of wheat – cannot get most of its wheat harvest to the international market are now also counting on Turkey to arrange a deal whereby Ukraine, despite the Russian military blockade of its ports, will be able to ship its grain consignments.

However, Turkey’s approach to the issue could start to grate with the Ukrainians if it is seen to be sewing up a deal with Russia without fully consulting with Kyiv. Prior to the arrival of Russian Foreign Minister Sergey Lavrov in Turkey for June 8 talks on arranging a deal for the shipping of Ukraine’s wheat – talks that Ukraine was not invited to – there was a wave of indignation on social media after speculation mounted that Turkey was asking Ukraine for a discount on wheat supplies. Ankara has also had to bat away claims that Turkish companies have received Ukrainian grain stolen as spoils of war.

To get most of its wheat to global markets, Ukraine most particularly needs Russia to lift its blockade on the port of Odesa – but that still leaves the problem of mines. Moscow says Ukraine, perhaps with the assistance of Turkish minesweepers, needs to de-mine Black Sea shipping lanes to allow cargo ships carrying grain safe passage. But Ukraine, so far, is having none of it. “The moment we clear access to the port of Odesa, the Russian fleet will be there,” Serhiy Bratchuk, a spokesman for the Odesa regional government, was quoted as saying by DW on June 8.

Ukraine’s expected 50mn-tonne grain harvest this year is now in danger as storage capacity runs low.

Lavrov said after his talks in Turkey that Moscow was prepared to provide guarantees “in some way or other” that it would “not take advantage of the situation” if Ukraine cleared a path to its ports.

Kyiv is looking at sourcing more western surface-to-ship missiles to protect its coastline and the possibility of export routes being patrolled by a third-party navy, perhaps Turkey’s.

“We need enough weapons to protect Odesa and this part of the Black Sea coast,” Ukrainian Foreign Minister Dmytro Kuleba said in a briefing on June 8. “And we need a clear mission from countries we can trust to patrol this channel through which grain shipments will occur. In this respect, we can trust Turkey’s naval forces.”

While a deal remains undone, the suspicion will remain that Russia will not budge on allowing Ukrainian wheat shipments until the West provides it with some sanctions relief.

Dmitry Peskov, Russian President Vladimir Putin’s spokesman, told the Financial Times on June 8 that it was “totally untrue that Russia is against exporting grain from Ukrainian ports”. He also referred to how Russia wanted the lifting of sanctions against shipping insurance for its own exports, access to EU ports for the exports and transactions that enable buyers to pay for the shipments. “We’re not going to supply it for free,” he said.

Russia and Ukraine produce close to a third of the world’s traded wheat and barley, a fifth of its maize and over half of its sunflower oil.

In a normal year, Ukraine is the world’s fourth-largest exporter of wheat.
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Belarus’ Council of Ministers along with the National Bank of the Republic of Belarus (NBRB) have adopted a decree on settling Belarus’ Eurobond payments in Belarusian rubles (BYN), State Belarusian News Service BelTA reported on June 29.

An official statement from the Belarusian government’s press service read “Debt obligations under sovereign securities floated on international financial markets will be honored in Belarusian rubles at the rate of the country’s National Bank as of the date of payment.”

According to Belarus’ Finance Minister Yuri Seliverstov, the decision comes as Belarus has had a hard time paying its debts through international clearing and depository systems.

The problems first arose when Belarus was to make its last interest payment in February, for which the entire payment was made in US dollars to Citibank.

However, after receiving numerous complaints about not having received the payments. Citibank confirmed that all the payments had been made but referred the Belarusian finance ministry to international clearing and depository systems.

The depository and international clearing systems refused to discuss the matter with the Belarusian finance ministry, citing sanctions against Belarusian banks or the Russian banks that serviced them as the reason.

Seliverstov concluded that there was therefore no reason for Belarus to make payments in US dollars, as they will be stopped at some point and won’t even reach “friendly” investors such as Russian ones.

Since the West excluded all Belarusian and Russian banks from SWIFT, there has been much speculation about possible difficulties for Belarus to settle its debt with foreign investors.

Already in April, Belarus announced that it would pay foreign debts in Belarusian rubles. With Seliverstov’s recent statement it’s clear that this announcement came as complaints from foreign debtors kept rolling in, and that the decree and its various necessary administrative changes must have been under development for some time.

Belarus has found a way to pay its foreign debts, the next question is if it will have the money to do so considering the harsh sanctions on its export sector.

The new way of servicing its foreign debt in Belarusian rubles will be made through transfers from Belarus’ finance ministry to accounts in sanctioned Belarusbank, and Citibank has been granted the paying agent that’s able to access this money.

In his statement on the matter, Seliverstov was notably irritated with the international clearing systems “freeing themselves from any liability and responsibility citing the sanctions as the reason.”

Now, Belarus’ finance ministry is putting the ball in the Western banks’ court by making Citibank access the payments through the sanctioned Belarusbank.

One way or another, Citibank will probably manage to get a hold of the payments and send them to the debtors. What Belarus finance ministry is probably worried about, although it hasn’t said this, is that this headache is going to make many investors withdraw from Belarus in the future.
Face to face with Putin, Kazakhstan’s president refuses to recognise Ukraine breakaway republics

Peter Baunov in Nur-Sultan

Face to face with Vladimir Putin, Kazakh President Kassym-Jomart Tokayev on June 17 caused some surprise when he stated that Kazakhstan did not recognise the Luhansk People’s Republic (LPR) and Donetsk People’s Republic (DPR) breakaway territories of Ukraine as independent republics. He described them as “quasi-state formations”.

His remarks, made during an appearance with the Russian president at the St Petersburg International Economic Forum (SPIEF), amounted to a reaffirmation of Kazakhstan’s stance on Russia’s invasion of Ukraine, but some in the audience will have taken it as rather a bold reaffirmation given who Tokayev was sharing the stage with.

The Kazakh president, meanwhile, also apparently refused to accept an order of merit of the Russian Federation named in honour of a saint of the Russian Orthodox Church, Alexander Nevsky. Accepting the order would have been a symbolic acceptance of a token of allegiance with Russia, though Tokayev has previously refused similar accolades from other countries.

Tokayev’s perceived boldness was met with speculation from observers that the Kremlin was not going to like his “disobedience”, especially given how the Russia-led Collective Security Treaty Organisation (CSTO) in January showed support for Tokayev’s continued rule over Kazakhstan by deploying troops that helped quell the nationwide unrest that broke out in the Central Asian nation.

Indeed, one of the first developments in relation to Russia and Kazakhstan that occurred on June 17, shortly after Tokayev’s words, was an announcement that the Caspian Pipeline Consortium (CPC) would be periodically halting oil shipments in order to allow the

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Another eyebrow-raiser of the SPIEF event was the Kazak president’s choice to criticise Russian Duma deputies over past comments questioning the independence of Kazakhstan.

**Economic necessities**

It is likely that the Kremlin top brass understands that Kazakhstan is attempting to evade the Western sanctions’ line of fire by not cozying up too close to its economic and political ally. Kazakhstan staying out of sanctions is useful for Russian firms. Some have already started using Kazakhstan’s territory as a buffer zone to bypass effects of sanctions back home. Moscow, overall, should be able to see that a non-sanctioned Kazakhstan is more beneficial for Russia’s economy than a sanctioned one.

In line with this theme, Tokayev called for a new trade strategy for the Moscow-led Eurasian Economic Union (EEU). "Instead of countersanctions, which are unlikely to be productive, it would be advisable to exercise a more active and flexible trade policy targeting a wide range of markets in Asia and the Middle East."

He said the goal of reinforcing the EEU remained a priority for the country.

"Kazakhstan could play a useful role as a buffer market," he said. "In general, the ultimate success of Eurasian integration depends a lot, if not to a significant extent, on the efficacy of our shared trade strategy."

“I suppose that the CIS may be the best-suited base for a mega project such as Greater Eurasia or the Greater Eurasian Partnership,” Tokayev also noted, adding that the Shanghai Cooperation Organization (SCO), Asean, and EEU could be integral parts of the Greater Eurasia space.

“In the 10 years to come, the traditionally friendly countries such as China, India, countries of the Middle East, South and Southeast Asia could be major investors in the economies of our region. China has already become the main economic and foreign trade partner of Kazakhstan, with over $22bn of investment in the past 15 years,” added Tokayev.

Tokayev, who is also being watched closely by Kazakh citizens, most of whom support Ukraine in its conflict with Russia, also restated a number of ongoing efforts to create tighter cooperation with Russia, including agreements to bring branches of Russian universities to Kazakhstan.

At home, such moves only convince the already politically beleaguered Kazakh population that Tokayev still remains loyal to Russia.

The Russian invasion of Ukraine has significantly raised risks of navigation in the Black Sea, as it is believed that both sides have laid sea mines. The Russian Emergency Situations Ministry to defuse around 50 WWII era mines it had found on the Black Sea seabed.

Russian authorities did not clarify how long the process would take, but the move chimes with how Russia slowed down oil transit at the CPC pipeline back in March, claiming it needed to conduct repairs due to storm damage. Kazakhstan has already diversified its oil shipping routes since then and, as such, Kazakh authorities responded to the news by saying that this month’s disruption would not significantly affect Kazakhstan’s oil shipping speed.

It is also worth noting that the CPC warned earlier in a statement of reduced shipping speeds at its gas export terminal near the Russian Black Sea port of Novorossiysk between June 15 and 25, while representatives of the Russian Emergency Situations Ministry conducted seabed surveys. A statement from the company noted that “in the past, coastal sea areas [where the export terminal operates] have repeatedly been a war zone”. The statement appeared to be mostly a reference to WWII. According to earlier preliminary surveys, “hydroacoustic and magnetic targets have been identified that require additional examination and disposal”, CPC added in its statement. Russia’s regulations required the elimination of “residual mine danger” prior to the start of operations that touch the seabed, CPC added.

The Caspian Pipeline Consortium (CPC) halted oil shipments in order to allow the Russian Emergency Situations Ministry to defuse around 50 WWII era mines it had found on the Black Sea seabed."
Georgian government braces for blocking of EU candidacy

Cavid Aga in Baku

Georgia’s ruling Georgian Dream party has signalled it will make a tough response if the European Commission refuses to grant Georgia candidate status at its summit.

Georgian Prime Minister Irakli Garibashvili said that if the decision to grant the country the status of an EU candidate is “unfair”, he will “uncover everything”, he told journalists during a visit to the construction of a new Sports Palace in Tbilisi on 11 June. “The status is of course important, but we will wait until June 23-24 to understand how our European, real friends really treat our people and our country,” he said.

International media reported at the weekend that Georgia would not be given candidate status to start negotiations on EU accession at the June 23-24 summit, while Ukraine and Moldova would be allowed to go forward, joining North Macedonia, Albania, Montenegro, Serbia and Turkey. The ruling Georgian Dream party has been criticised for eroding democracy since it took power in 2012.

The European Parliament recently passed a resolution calling for sanctions on Bidzina Ivanishvili, Georgian Dream’s founder and its former prime minister, for his alleged links with Russian President Vladimir Putin’s regime. Ivanishvili made his fortune in Russia before Putin’s rise to power. Georgia has refused to join sanctions on Russia.

Garibashvili called the resolution “biased” and criticised the MEPs, who, according to him, showed irresponsibility and insulted the Georgian people, “80% of whom are in favor of uniting our country with Europe”. Garibashvili added: “Over the past nine years, we, the team led by the same Bidzina Ivanishvili, and his party [Georgian Dream], have drawn up all the important steps of the strategic document, which actually brought us closer to Europe,” he said.

Georgia submitted the second part of the EU questionnaire on 10 May, amid the Russian invasion of Ukraine. The Georgian government handed over the first part of the questionnaire to the European Union on 2 May. Georgia and Moldova applied for EU membership on March 3 alongside Ukraine. Prior to this, the Georgian government intended to formally apply for membership in 2024.

The ruling party has generated bad publicity in recent months over the treatment of jailed former president and United National Movement (UNM) founder Mikheil Saakashvili, its refusal to join sanctions against Russia, Mtavari Arkhi TV’s director Nika Gvaramia’s arrest, and the European Parliament’s call to sanction ex-PM Bidzina Ivanishvili.

Irakli Kobakhidze, Georgian Dream head, commented on the candidacy on 9 June. “We hope that when Georgia, Ukraine, and Moldova become members of the European Union, we will have a different European Parliament … [one] immune from the influence of ‘fake [news]’, a defender of true European values,” he said according to Civil.ge.

Commenting on rumors about EU not granting candidacy status, he said that the opposition’s calculation was “to first denigrate Georgia in Europe and now to take advantage of the public outcry if Georgia fails to secure the EU candidacy” and to engineer a “palace coup by the United National Movement”. He openly blamed Saakashvili and his supporters. “The end of all this is Georgia’s engagement in war,” he said reportedly.

Dmitri Khundadze, a Georgian Dream MP, said: “If Georgia receives the status of an EU candidate with unjust commitments like the unjust allegations reflected in the resolution, then the country should give a fair refusal in response” on 10 June. According to him, “dignity is above EU candidacy”.

This statement brought immediate reactions from Public Defender Nino Lomjaria and First Vice Speaker of the Parliament Gia Volski (who is also from Georgian Dream). While Lomjaria replied to Khundadze that “Georgian people have already decided on a European future,” Volski commented that Khundadze’s statement “is not the official position of the party or the political team”.

UNM party chairman Nika Melia accused Georgian Dream of “preparing the ground” for refusal, “which the Georgian Dream desperately needs”. “Now they are rubbing their hands and doing everything they can to make Europe say no,” he said.

President Zurabishvili also criticized Georgian Dream’s reaction to the EP resolution during her recent visit to Brussels. “Unfortunately, such a resolution was adopted, and even more unfortunately, this resolution was followed by comments from the government team, which does not really allow me to effectively defend our candidacy today,” she said. Several NGOs, including Open Society Foundation, Atlantic Council, Democracy Index, Human Rights Center also released a joint statement criticising Georgian Dream for its reaction.

Georgian Prime Minister Irakli Garibashvili: “We will wait until June 23-24 to understand how our European, real friends really treat our people and our country.”
China hectors Central Asia to steer clear of big power politics

Joanna Lillis for Eurasianet

Central Asian countries should stay out of geopolitical conflicts, China’s Foreign Minister Wang Yi has warned his counterparts from the region during a visit to Kazakhstan.

Wang clearly had an audience beyond Central Asia in mind when he exhorted that “the region should be on guard against attempts by forces outside the region to draw regional countries into major power conflicts and force them to take sides.”

But Central Asian governments might be forgiven for interpreting this browbeating as a patronising attempt by their mighty neighbour to dictate how they should run their foreign policies.

China’s Foreign Ministry laid out Beijing’s position in a readout following Wang’s meeting with Kazakhstani President Kassym-Jomart Tokayev in Nur-Sultan on June 7.

Both “expressed deep concerns about the serious spillover impacts of the Ukraine crisis,” the ministry said, using a euphemism since it refuses to call Russia’s aggression a “war.”

“China hopes that Central Asian countries will stand firm, eliminate interference, strengthen coordination, cooperate in good faith and safeguard regional peace and stability,” it added. “China has never sought geopolitical interests in Central Asia, and never allows non-regional forces to stir up trouble in the region.”

That is a reference to China’s arch enemy, the United States, which

“China has not condemned Russia’s aggression. But it has condemned what it deems “illegal” international sanctions against its partner Russia as “financial terrorism” and “economic weaponization.”

Kazakhstan, and other Central Asian states, have broadly sought to distance themselves from Russia over the war, without issuing any outright condemnation of their ally.

The readout of the meeting from Tokayev’s office studiously avoided mention of Wang’s lecture.

It focused instead on Wang conveying Chinese President Xi Jinping’s support for Tokayev’s domestic political agenda. Xi’s intention to visit Kazakhstan in the autumn also featured.

Wang was in Nur-Sultan for a meeting with regional foreign ministers on June 8, the third in a relatively new format called Central Asia-China.

The meeting ended with boilerplate statements about boosting cooperation as an “important factor for sustainable socioeconomic development and the preservation of peace, stability and security in the region.”

Central Asian governments used the talks to push for improved transport links with China.

One project under consideration is a railroad linking China with Uzbekistan via Kyrgyzstan, which was first mooted

China has not condemned Russia’s war in Ukraine and introduced sanctions, along with the rest of the Western world.

China has not condemned Russia’s aggression. But it has condemned what it deems “illegal” international sanctions against its partner Russia as more than two decades ago and is again on regional officials’ lips.

Kyrgyz Prime Minister Akylbek Japarov said last month that the governments were preparing to sign an agreement in September to start building the CKU line — although first a route must be agreed and a feasibility study completed.
Kazakhs vote to confirm removal of Nazarbayev’s grip on power

Nizom Khodjayev in Nur-Sultan

Kazakhstan’s Central Election Commission said on June 6 that Kazakh citizens during the weekend referendum overwhelmingly voted in favour of constitutional amendments promoted by Kazakh President Kassym-Zhomart Tokayev as ending the “super-presidential” rule in the country.

Although Tokayev’s predecessor Nursultan Nazarbayev essentially lost his grip on his remaining power back in January and his family and allies have become more and more sidelined from influential positions since then, Nazarbayev retained the title of Elbasy, or Leader of the Nation, until June 5. The constitutional referendum officially removed the title along with the sweeping powers and the immunity it granted the former president of three decades and his family.

Tokayev, who also called for higher taxes on the extractive industries and on high-income individuals, proposed the reforms after ending the January unrest and putting down the associated coup attempt and removing former patron Nazarbayev and his entourage from important public sector positions.

But many remain dissatisfied with the referendum – government opponents had called on Tokayev to postpone the vote, saying that people had not received enough time to study the proposals.

Some even called for voting to be cancelled altogether. Police in Almaty detained on June 5 Kazakh activist Darkhan Sharipov. Sharipov said the referendum would achieve “partial reforms, not political ones."

RFE/RL reported that in some cities and districts in Karagandy Region many people at polling stations and in the streets did not understand what exactly they were voting for and what specifically would change in the constitution.

The drive to oppose the referendum was not entirely unfounded. Despite re-establishing the constitutional court and granting some more powers to parliament, the amendments still leave the main levers of power in the hands of the president.

The referendum may, nevertheless, bode well for future political activity in the country and help the public bring further pressure to bear on Tokayev as it sets out to ease the process of registering political parties in the country. Capitalising on Tokayev’s stated intention to remove the dominance of the ruling Kazakh party, Amanat, in parliament, many politically active Kazakh citizens may attempt to seize this opportunity to empower further democratisation. Several organisations and individuals who opposed Tokayev’s predecessor while he held sway have said they will form new political parties post-referendum.

That scenario includes a return to politics by Bolat Abilov, a prominent businessman and former opposition figure in Kazakhstan. There is also a declared intent to form a political party by a group in Kazakhstan involved in defending the rights of ethnic Kazakhs in China’s severely repressed northwestern region of Xinjiang – the group has accused the Kazakh authorities of doing nothing to assist ethnic Kazakhs in Xinjiang who want to move to Kazakhstan. Kazakhs remain suspicious of just how closely interlinked Tokayev’s fortunes are with those of Vladimir Putin. They may soon get some idea of to what extent Tokayev is prepared to test the patience of Beijing.
After 675 years researchers conclude Kyrgyzstan was the home of the Black Death

Joanna Lillis for Eurasianet

People who died in a 14th-century disease outbreak in the region, Tian Shan, were killed by strains of the plague-causing bacterium *Yersinia pestis* that gave rise to the pathogens responsible several years later for the Black Death, according to a study of ancient genomes conducted by the Max Planck Institute for Evolutionary Anthropology in Leipzig, Germany.

“People are often looking for places where the Black Death started,” Johannes Krause, a palaeogeneticist at the institute in Leipzig, Germany, told *Nature*. Krause co-led the study, published on June 15 by the journal.

Between 1346 and 1353, the Black Death, otherwise known as the bubonic plague, the “Great Mortality” and the “Pestilence”, laid waste to western Eurasia, killing up to 60% of the populace in some places. The Caucasus and other locales in Central Asia have previously been put forward as potential epicentres of the plague.

The Black Death is thought to have travelled from Asia to Europe on flea-infested rats living on trade ships, with the first recorded case in England traced back to June 1348. Across Europe, it wiped out around 45% of the population.

It is possible that the Black Death originated in marmots, the bushy-tailed, stocky rodents that are one of the most prevalent bubonic plague carriers in the Tian Shan region, before spreading to humans. Tian Shan is on the ancient Silk Road trade route, a route along which the plague could have hitched west. The researchers noted that Nestorian Christian communities living near Kyrgyzstan’s Lake Issyk Kul in the Tian Shan mountain range, at the heart of the old Silk Road, were involved in international trade.

*Nature* related how several years ago, Philip Slavin, an economic and environmental historian at the University of Stirling, UK, and a co-lead author of the Max Planck study, came across records from a pair of 14th-century cemeteries in Kyrgyzstan that, he thought, might hold clues to the origins of the Black Death. The cemeteries, known as Kara-Djigach and Burana, held an unusually high number of tombstones dated to 1338 and 1339, and 20 of those made explicit reference to a pestilence.

“When you have one or two years with excess mortality, it means something funny is going on there,” Slavin said at a press briefing.

To determine whether the burials held any relevance to the later Black Death, Slavin worked with Krause to track down the remains from the Kyrgyz cemetery. They had been excavated in the 1880s and 1890s and moved to St Petersburg, Russia. The team, led by archaeogeneticist Maria Spyrou at the University of Tubingen, Germany, sequenced ancient DNA from seven people whose remains were recovered, discovering *Y. pestis* DNA in three burials from Kara-Djigach.

A pair of full *Y. pestis* genomes gleaned from the data demonstrated that the bacteria were direct ancestors of strains linked to the Black Death. Those strains included a *Y. pestis* sample from a person who died in London that Krause’s team sequenced in 2011. The Kara-Djigach strain, *Nature* reported, was also an ancestor of the vast majority of *Y. pestis* lineages around today – a sign, Krause said, of an explosion in *Y. pestis* diversity shortly before the Black Death. “It was like a big bang of plague,” he said at the press briefing.

China hosts some of the world’s greatest genetic diversity of modern *Y. pestis* strains. That hinted at an East Asian origin for the Black Death. “There were all kinds of hypotheses in the literature. And it was really known where it exactly came from,” Krause told the journal.

“Between 1346 and 1353, the Black Death, otherwise known as the bubonic plague, the ‘Great Mortality’ and the ‘Pestilence’, laid waste to western Eurasia, killing up to 60% of the populace in some places. The Caucasus and other locales in Central Asia have previously been put forward as potential epicentres of the plague.”
Ukraine should not have to pay for this war

Timothy Ash, Senior Sovereign Strategist at BlueBay Asset Management in London

Ukrainians are defying overwhelming odds and standing up to Russian aggression. They are showing remarkable bravery in defending their own country – and unfortunately many thousands have likely sacrificed their lives in this war. But let us not forget that they are fighting not just for their own country but for Western values against a brutal dictator, Vladimir Putin, who has declared war on the West. This week he admitted that this is a war of expansion and colonial ambition. Ukrainians are hence on the front line, defending Nato and the West, against Russian attack.

The cost in Ukrainian blood is huge, but also in money. Ukraine is thought to be running a budget deficit of $5bn per month – multiples larger than its pre-war condition.

The West is providing some financing, but still not enough, and unfortunately too much of this is in the form of loans and not grants.

To its credit, the new $40bn US support package for Ukraine includes $7-8bn in grant aid for the Ukrainian budget. The EU has pledged close to $9bn but in credit.

Let’s get this right, Ukraine is fighting this war on our behalf and is in effect being charged for it.

The consequences of this are that unless loans are turned into grants, on current trends Ukraine could face an unsustainable debt burden by year end, approaching 100% of GDP on not unrealistic macro assumptions. This would mark a doubling of this ratio from its starting point on February 23.

Ukraine has made clear that it wants to maintain its creditworthiness and pay debt service, despite the war. It is continuing to service its debt obligations – remarkable really given the priority draw on government resources from the military.

In paying it is clearly thinking of post-war recovery, and the importance of market access to ensure Ukraine rebuilds and recovers quickly.

A default would set back that recovery, stall market access and keep its borrowing costs elevated for an extended time just when it will need access to plentiful cheap financing from both...
the public and private sectors. Its financing needs are likely to run into hundreds of billions of dollars and only a joint public and private partnership can hope to ensure its financing needs are fulfilled.

It makes sense at this stage to focus on ensuring Ukraine avoids default – any such outcome would be a huge PR win for Putin. Indeed, going back to comments made by Putin back in 2000, only truly sovereign states pay their way; the irony therein is that Russia is currently on the brink of default.

So how can a Ukrainian sovereign default be avoided?

First, and as noted above, the West needs to think about the funding mix. The balance needs to be skewed towards grants and away from debt.

Secondly, while it seems fair that Ukraine should not have to pay the financial cost of this war, it can equally be questioned why Western taxpayers should pay when the country clearly, and without any doubt, responsible for those losses is being allowed to get away without reparation? Iraq had to pay reparations for losses it imposed on Kuwait in the first Gulf war, so why not Russia now? And usefully the West has access to $300-400bn in Russian assets now frozen because of this war. Surely there is no moral argument why these funds should not be utilised for the costs of the war to Ukraine.

Now I know this is seen as shaky legal ground because of concerns about precedents this might set for attachment and use of private property. There are fears that this will inhibit the likes of China or Gulf states keeping assets in the West. Well, they should have no concerns if they have no intention of invading sovereign territory, partaking in genocide and war crimes and declaring war, in effect, on the West.

Laws can be changed with political will. And surely there has to be the political will to act. If not, where is the political appetite in the West to allow taxpayers to bear the hundreds of billions in costs for Ukraine’s rebuild? If frozen assets are not used, then it is unlikely that sufficient funds will be raised for Ukraine’s recovery. And if Ukraine is not helped to fully recover then Putin will have won. Invasion will have proved to pay for Russia.

On the practicalities, laws take time to change. But as an interim measure Western countries could pledge to make this happen and pledge a share of frozen assets to be used as collateral to set against Ukraine’s rising debts. Think of it as a new Brady bond style plan. But if investors know that a weight of Ukraine’s debt stock – say anything above the starting point pre-war of 50% of GDP – is covered by hard pledges on frozen Russian assets, this will assure private investors of the sustainability of Ukraine’s debt burden, helping keep borrowing costs low and ensuring continued markets access.

Thirdly, the temptation might be to approach private sector involvement in the normal manner through debt relief. This is not cost free, though. It involves the stigma of default, elevated short-term borrowing costs and limited market access for a period.

But once the war ends Ukraine’s rebuild financing needs will be huge and immediate – hospitals, schools, critical infrastructure. Ukraine needs to get off the ground running. Official financing is hardly likely to be enough – and legal issues around utilising frozen Russian assets might take some time to resolve.

Rather than seeing the private sector involvement coming through debt relief, what about focusing on new money? This will be more likely if the spectre of default can be avoided.

But the private sector should have ample business and moral reason to put money on the table for Ukraine reconstruction.

Business?

Well the damage to Ukrainian infrastructure is so huge the rebuild spend will be enormous – think GDR rehabilitation upon the unification of Germany. Business opportunities for Western business and banks will be enormous, and those pledging to contribute to a new Marshall plan for Ukraine should be primed to participate in rebuild projects.

Moral?

ESG is the new watch word for Western business. Doing the right thing, or showing you are doing the right thing is a marketing tool that business now flaunts. What bigger/better ESG story than helping Ukraine’s recovery from genocide and helping Western liberal market democracy succeed with economic development in Ukraine? Important herein to recognise that Putin has already, through his attack on Ukraine and various other malign actions against the West, shown he wants to attack and undermine our very system of government, and the rule of law upon which Western business has prospered.

I would hence propose that as a starting point the top 50 Western financial institutions commit €1bn each to Ukraine’s longer-term recovery programme. This could be matched by official sector contributions and a further drawdown of Russian frozen assets, even collateralised by these same assets.

A billion bucks each sounds a lot, but what price the success of our very system of government? And have the thousands of Ukrainians who have given their lives for us not earned a suitable memorial which would be the successful reconstruction of Ukraine? ●
The world continues to hurtle towards recession and potentially financial crisis

Les Nemethy

Over the past month, I have travelled within North America and Western Europe, met quite a few people, including senior bankers, and have been generally surprised by the feeling of ‘business as usual’. There is very little sense of impending doom or recession. Reasons given include:

- Strength in the US job market;
- High aggregate savings and bank deposit levels of US consumers.
- US Federal deficit has decreased to $1.1 trillion in May 2022, down from a peak of $4.3 trillion in March 2021 (measured on a 12-month trailing basis).

Why do I believe this confidence is misplaced?

- The Michigan consumer confidence index is at its lowest since 1980.
- The distribution of those savings is skewed. 60% of Americans have little or no savings.
- Jobs reporting is with a lag, and the number of unemployed is already starting to notch upwards.
- Q1 nominal growth in the US was already -1.5%.
- The S&P is down 18.2% in the first 111 trading days of 2022, the fourth worst performance since 1932 – diminishing consumer and investor confidence.
- Inflation continues to increase in most countries in the world, raising the likelihood of further rate increases and the spectre of further economic slowdown and decline in stock market indices.
- Bond yields are generally increasing rapidly worldwide (e.g. in Germany from negative a year ago to over 1.5% on June 10), with yields on the EU periphery rising even faster (e.g. a year ago 10-year Italian bonds yields were about a percent higher than German bonds, today they are over two percent higher). 10-year Italian bond yields have risen from 1% at the beginning of 2022 to 3.86% on June 1, despite massive bond buying from the ECB. While most believe the ECB will do “whatever it takes to save the euro” (as Mario Draghi famously said in 2012, turning the tide on the then euro crisis), the magnitude and speed of movement in Italian bond rates is cause for worry.

While the US Fed increases interest rates, the negative real interest rates of -7% means that monetary policy is still loose. The European Central Bank is not even making noises about QT, it has limited scope to raise interest rates due to the effects this would produce on the periphery, and monetary policy is even looser:

Eurozone Inflation vs Short-term Interest Rates

After stating that inflation was not a threat, then calling it “transitory”, Secretary Yellen admitted that she was wrong in her assessment of inflation (a welcome step), but went on to state: “I do not expect inflation to remain high, although I very much HOPE that it will be coming down now”. Since when is hope a strategy?

As explained in a previous article, I expect the Fed to tighten until something breaks (e.g. major market crash or credit
Manufacturing closer to home, holding more inventory, etc, requires massive investment, and contributes to considerable price increases.

Central Banks have no control on the above factors. Nor do they have control of coronavirus (COVID-19) and the Ukrainian war, which play further havoc with supply chains and price pressures. Whereas higher interests may dampen demand, so long as interest rates are negative in real terms, dampening of demand will be insufficient to quell inflation, especially as the aforementioned pressures on supply chains remain with us or even intensify.

Of course globally high debt levels (Government, corporate, individuals – for a grand total of over $350 trillion) add to global economic fragility, and less ability to tolerate higher interest rates.

This article is for educational purposes only and must not be construed as investment advice. Investors should obtain their own investment advice.

Les Nemethy is the CEO and founder of Euro-Phoenix Financial Advisors Ltd and a former official at the World Bank.

COMMENT

How to keep the EU accession dream alive

Clare Nuttall in Glasgow

Russia’s invasion of Ukraine has confirmed what many feared already: Russia is aggressively seeing to expand its presence in what it sees as its spheres of influence, and that includes the Western Balkans. Expanding the EU to this region, made vulnerable by its poverty relative to other parts of Europe and its long-standing unresolved conflicts, is a way of exporting stability and prosperity. Yet even before the war, political disputes had stymied the progress of the six Western Balkan countries. With no more clarity than before on how to resolve these, the question arises: can the region receive some of the benefits of EU membership while these political divisions are being resolved?

The idea of extending some sort of quasi-membership or some of the benefits of membership to those states that are waiting to accede has been around for a while. This is a politically sensitive topic, as there is resistance among the aspiring EU members as long as it’s seen as potentially an alternative to membership (rather than a step on the road towards full membership). But the concept was raised again after first Ukraine, then Georgia and Moldova filed membership applications, joining the queue along with the six Western Balkans countries that are at various stages of the process – and have been for many years.
A number of variations on this concept have been floated but what they have in common is that the candidates get to share in some of the benefits of EU membership such as access to EU markets and more development funds, while progress towards full accession (and continued access to these benefits) remains contingent on reforms.

As the June 23 EU Council meeting approaches, at which critical decisions will be made not just for candidate states Albania and North Macedonia, but also for the three Eastern Partnership states, French President Emmanuel Macron put forward the idea of a ‘political European community’. This would create a “new space of political co-operation, of security, of co-operation in terms of energy, of transport and to invest in infrastructure” for the Western Balkan and Eastern Partnership countries to be part of a ‘political Europe’ while waiting for accession.

The potential for extending economic benefits to the aspirant states and various forms of staged accession were discussed on a webinar organised by the Vienna Institute for International Economic Studies (wiiw) on June 8. A new study from wiwiw and Bertelsmann Stiftung, “The long way round: Lessons from EU-CEE for improving integration and development in the Western Balkans”, looks at the lessons from the EU accession process of the Central and Southeast European Union member states for the Western Balkan economies. It finds that EU accession has improved regional economic integration in the CEE member states. Trade in goods and services rose by 50%, while intraregional FDI inflows grew too, but more modestly.

“The main channel through which EU accession has enhanced regional economic integration has been the income channel. Higher GDP per capita in the region has increased demand for and the supply of products from the region, which in turn has increased intraregional trade and investment, and EU transfers appear to be one of the main determinants of the increase in income. In fact, doubling the annual EU transfers that a country receives results in an overall increase in its GDP of 14%,” said the report.

“These findings imply that the best way to foster regional economic integration and development in the Western Balkans would be through policies aimed at raising incomes, and that one way in which this can be achieved is by increasing EU transfers.”

The report recommends “the greatest possible integration of the Western Balkans into the EU, including through full access to the EU budget with the necessary conditionality attached. Even if full accession is still some way off, increasing regional economic integration and development would make the Western Balkan countries better able to meet the EU’s entry criteria. Moreover, it could also contribute to mitigating the region’s territorial and constitutional disputes, which also represent some of the main barriers to EU accession.”

Slow convergence

wiwiw economist Branimir Jovanovic argued on the panel that the “current engagement strategy for the Western Balkans has not been very successful, to put it mildly”, pointing to how long countries form the region have been waiting to join. North Macedonia applied back in 2004, 18 years ago, and other candidates applied 12-13 years ago and have no immediate prospects of joining. By contrast, all the CEE countries that joined the EU took less than 12 years from start to finish, and just eight years for Czechia and Slovakia.

Similarly, the convergence of incomes in the Western Balkans to EU levels has been very slow, said Jovanovic. While some CEE already incomes are around 90% of the EU average, those in the Western Balkans are only at 30-40%.

On the political side, according to Jovanovic, while the accession process is conditional on the states sorting out bilateral disputes – most notably the normalisation of relations between Serbia and Kosovo – they are largely left to sort these out for themselves. This has not been very successful either with Serbia and Kosovo or with North Macedonia’s disputes with first Greece and later Bulgaria.

While there have been many initiatives aimed at speeding up enlargement to the Western Balkans, these have failed, argued Jovanovic, because they have “conditioned EU accession on improving regional co-operation …

“EU accession has improved the Balkan economic integration in the CEE member states. Trade in goods and services rose by 50%, while intraregional FDI inflows grew too, but more modestly”

and assumed that regional co-operation improves with regional economic integration.” However, he added, “the prerequisites for this have never been present in the Western Balkans”, listing institutional factors such as the rule of law and controlling corruption, as well as structural, political and economic factors.

Jovanovic argues in favour of increasing EU budget transfers to the region, which will have the effect of boosting regional trade and co-operation. The report indicates that doubling annual transfers from 1% to 2% of GDP leads to an overall increase in GDP of 14%. However, Jovanovic added, “Greater transfers should be accompanied by strict conditions for institutional reforms”, and he also stressed that the proposal is not a substitute for EU accession.

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Accession isn’t working

Dusan Reljic, head of the Brussels office at the German Institute for International and Security Affairs (SWP), went further in his criticism of western policy towards the aspiring EU members.

“The policy of the EU and US is evidently not functioning. My firm belief is that the structure of the political and economic relationship between the EU and the region is producing divergence, not convergence,” said Reljic.

“My impression is that in socio economic terms, we are witnessing the creation of a new Berlin Wall around the non-EU states in Southeast Europe.”

Reljic argued that taking together structural, cohesion and post-COVID recovery funds, the EU member states in the region are set to receive 11 times more grant and loan funding than the Western Balkans counties. “We see the revolution in EU fiscal policy in response to the pandemic as a huge missed opportunity for the Western Balkans,” he said.

Moreover, the lack of economic convergence – on top of the waning hopes for a future within the EU – is contributing to the massive emigration from the Western Balkans.

“In the last quarter century about one quarter of the population migrated to the EU,” said Reljic. “When the population in the region are thinking of the future, and coming to the conclusion there is no promise that the future will be better than the past, they are doing the only obvious thing: migrating outward … the chief problem of the region is the loss of human capital.”

New approaches needed

Hannes Swoboda, president of wiw and the International Institute for Peace and a former MEP, argued that more money has to be spent on the region, saying the neglect of the aspiring EU members is “not justified”.

“If we don’t come to a new concept of engagement and see visible, clear steps forward, I see more chaos, more disappointment, more turning away of citizens from the EU,” he said. “The EU must give the region a framework where they can slowly integrate into the EU. Otherwise more money may be spent, but will not have the effect we want, integration of the region into the EU.”

Ranka Miljenovic, executive director of the European Policy Center (CEP) in Belgrade, took a slightly more optimistic tone, saying she sees some form of staged accession as a way to unblock the enlargement process. She discussed the option of a four-stage accession process, an idea outlined by CEP in collaboration with the Center for European Policy Studies (CEPS).

An essential part of this would be that “access to the EU budget should be conditioned with the reforms – intuitional reforms and in the rule of law area”.

Changed geopolitical context

The war in Ukraine has deepened concerns about potential destabilisation in the Western Balkans, while it has led Ukraine, Georgia and Moldova to formally apply for EU accession. There have long been warnings that if the EU fails in the Western Balkans, it will create room for rival powers – such as Russia – in the region.

“If the EU does not show stronger support for the Western Balkans, that opens space that could be taken by other countries,” said Jovanovic. “The war in Ukraine is reinforcing our arguments: if you want to prevent Russia from interfering, the EU must show stronger support.”

The discussion took place just days after Russian Foreign Minister Sergei Lavrov was supposed to visit Belgrade – a visit that had to be cancelled after Serbia’s neighbours closed their airspace.

Meanwhile, as disillusionment grows in the Western Balkans about the prospects for EU accession, three states – Albania, North Macedonia and Serbia – took matters into their own hands with the launch of the Open Balkan initiative. Open Balkan had its latest summit in Ohrid on June 7 and 8. The initiative – so far joined by only three of the six countries – is intended to facilitate free movement of goods and labour within the region with the aim of stimulating the regional economy.

The third significant development of the week was German Chancellor Olaf Scholz’ tour of the region, as the June 23 EU Council meeting approaches. Scholz sought to encourage Bulgaria to lift its veto on North Macedonia’s EU accession talks, while also stressing the importance of normalising relations between Serbia and Kosovo. However, so far the indications are not promising that there will be any kind of breakthrough this month.

The EU Council members are also due to decide on whether to give candidate status to Ukraine, Georgia and Moldova – and further down the line, there will be different political problems to be resolved with the three Eastern Partnership states as parts of all their territories are occupied by Russia or Russia-backed separatists.

That being the case, under current procedures it’s hard to see what the EU can offer either to the Western Balkan states that have been long in the waiting room or to the new applicants that will have an immediate and concrete positive impact. Accordingly, alternatives that will still bring the non-members from Southeast Europe, Eastern Europe and the Caucasus closer to the EU fold are now being considered.
saying goes: ‘You need two to tango’. I’ve just come from Narva [an Estonian region with a large Russian community], where I visited schools among other things. I do believe that the people there could discover the other parts of Estonia as well, and vice versa. With regards to the ethnic minorities, there are always a number of issues to be discussed, including the use of the language.

How do you assess the work of the Reform-Centre government? And it’s handling of the COVID pandemic? (this interview took place before the collapse of the coalition last week)

(pause) It always could be better. I’d rather not answer the second part, as it requires deep analyses, comparisons, et cetera. But in general, we managed it ok. I got vaccinated three times, yet I contracted the disease. A mild form of it, luckily.

As we are talking following the EMYA reward ceremony in Tartu, the home of the Estonian National Museum, which you headed for three and a half years before becoming Estonia’s new president, what would you say to those who maintain that you do not have the necessary political experience for the job? And that you do not have an efficient team in the president’s office?

Any experience is valuable. You always take all your experiences – or part of them – along with you – to any position and post in your life. I could not mention any specific experience I’ve had in my professional life, or beyond it, as being the most important. Let me note that, before coming to the museum, I’d been rector of two Estonian universities for quite some time. Also, I’ve been auditor general of the country, so I’ve seen a lot in my life.

With regards to your second question, I’ve been monitoring politics very closely. Being the country’s auditor general obligated me to take part in government sittings – nearly every week. I was not only listening to what the government members had to say, but I’d also weigh in on issues relevant to my position.

What goals have you set for yourself as the president? Where do you want to bring Estonia next?

I’ve been repeating from the beginning that, to me, it is very important that our nation – all the people – be very well educated and innovative. I’m placing the biggest importance on that.
The other thing that I find very important – especially these days – is the mental health of our people. It seems to me it is very important to be focusing on it now [following the COVID pandemic] as it affects our families, communities and, certainly, the state.

Are there any other things besides the two mentioned that raise your concerns?

As a citizen and as a new president, everything matters to me. But to remind you, the president has symbolic powers in Estonia. So I often think that all the Estonian president can do is talk to the people.

I see it as a very important mission – our communities are very tight-knit, diverse. As you know, we have a sizeable Russian community, also there are people whose living standards are lower than those of the others and so on. I see myself talking to very different people and communities in order to bring our government’s attention to their needs.

Like in most Europe, Estonia’s birth rate is unimpressive, to say it mildly. Will Estonia, a tiny country, be around in a couple of hundred years from now? How can Estonian women bear more babies?

Of course, we do have a future! Likewise the Lithuanians and the Latvians. If you look at the European Union, relatively small countries comprise one third of it.

But you are right, the demographics is a problem now. Here in Estonia and elsewhere – even in China. Naturally, every country wants to have a large population and more educated people, et cetera.

As a small country, we have to collaborate with the others. With the technological advancement we’re enjoying, there will perhaps be more jobs that do not require humans at all.

There’s no single solution to the low birth rate, though.

There is an ongoing discussion in Estonia to allow the voters to pick their president. Do you support the idea?

It is exclusively up to our people. It does not matter if I support it or not. The discussion you mentioned has been around for the last hundred years perhaps.

There are different ways of electing the president. I am open to any discussion and this too – I’ve started talking about that to our politicians and the political fractions in our parliament, the Riigikogu. If they come up with any consensus on the topic, I am ready to have a joint meeting with them to take it further. If there is no consensus and support, it makes no point to go to the parliament to change our constitution. I think we should get an answer [on the proposal] soon.

Estonia has nine unicorns. What is the secret for that?

Most of them are in the IT field. The main reason why we have relatively many of them is that we started working in the direction – promoting startups and entrepreneurship – quite early. We’ve made a clear emphasis on education too, which is significantly behind the achievement. Innovation has always been important for Estonians.

Are you aware of any other case when a museum director has become head of state?

Frankly, I’ve not done that kind of survey. But since we have quite many countries in the world, there might be a museum director who became a country’s president. I am not aware of such a case; however, I cannot rule out I am an exception.

Some still poke fun at Estonians as being slow. How would response to that?

[Grins] Here in Estonia we say that Finns are slow. It depends on who says it and how. But at the end of they, actions speak louder than words, don’t they say? [grins]

This interview has been lightly edited for readability.
Slovak inflation rate hits 22-year high in May

Slovak inflation hit a 22-year high, with year-on-year growth of consumer prices reaching 12.6% in May, up for the sixteenth consecutive month, the Slovak Statistics Office reported. The monthly growth of consumer prices was 1.6% in May.

Food prices went up by 16.6% y/y in May, followed by a growth in housing and energy prices by 15.6% y/y in May. The consumer prices index recorded annual growth of 12.5% in May for employee households, 13.5% for pensioner households and 12.7% for low-income households. In 4M22, the inflation rate increased to 10.4% compared to the first four months in 2021.

Czech inflation rate in May posts another record

Czech annual inflation in May rose to the highest level since December 1993, when consumer prices increased by 16% y/y from 14.2% posted in April. Prices of housing, food and fuel continued to rise, according to data published by the Czech Statistics Office (CSO).

“Consumer prices significantly accelerated their y/y growth again, this time to 16%. They increased by 1.8% month-on-month, mainly due to an increase in food prices,” noted Jiri Mrazek, director of the Price Statistics Department of CSO.

Russia’s car sales drop 84% in post-invasion May 2022

Sales of new passenger cars and light commercial vehicles (LCVs) in Russia in May 2022 plummeted by 84% year on year to 24,268 vehicles, according to the latest data from the Association of European Businesses (AEB) that oversees the industry. This follows a 79% drop seen in April.

In January-May 2022 overall car sales were down by 52% y/y to 0.3mn units. As followed by bne IntelliNews, due to shortages of imported components, most Russian car manufacturing has effectively stalled and the car market is anticipated to contract by at least 50% this year.

CEE Economic Sentiment Indicators fall on polycrisis woes

The European Commission’s Economic Sentiment Indicators (ESI) for Central and Eastern Europe (CEE) fell in May as the polycrisis hitting the world took its toll on economies across the entire region.

“The EC’s Economic Sentiment Indicators for Central and Eastern Europe showed broad-based declines in sentiment across the region and across sectors in June to levels not seen in a year,” Liam Peach, an emerging market economist with Capital Economics, said in a note. “Economic activity has generally held up well since the war in Ukraine started a few months ago, but the second half of this year is likely to be more challenging and we think economic recoveries will slow sharply.”
Ukrainians expect conflict to intensify – RIWI

Theo Normanton

Ukrainian internet users polled by global data collection and trend-tracking company RIWI expect military tensions with Russia to intensify in the coming weeks. Anticipations of increased fighting spiked in late May and early June, correctly predicting the resumption of Russian airstrikes on Kyiv on June 5.

Widespread assumptions of a short-lived war and Ukrainian collapse were checked when Ukrainian forces repelled an attack on Kyiv after Russian soldiers were ordered into Ukraine in late February. Expectations of increased conflict stabilised again in the first half of May, when the last defenders of Mariupol surrendered and Ukraine launched its counter-offensive in Kharkiv.

But anticipation of heavier fighting surged again in late May, and has stayed high throughout June.

The leaders of Germany, France, Italy, and Romania visited Kyiv on June 16 to reiterate their support for Ukraine’s “sovereignty and territorial integrity”. All four premiers agreed to support Ukraine’s bid to become a candidate for EU membership, and pledged to continue to support Ukraine “from a financial point of view.”

This was followed by a trip to Kyiv by UK Prime Minister Boris Johnson on June 17. He vowed that Ukraine’s “unbreakable resolve will long outlive the vain ambitions of President Putin”. Johnson also revealed that he had offered Ukrainian President Volodymyr Zelensky a "major new military training programme" backed by the UK.

The data, which are taken from RIWI’s Military Conflict Risk Index also show that Russians anticipate an intensification in the fighting, although Russian internet users anticipate the escalation to be less intense than their Ukrainian counterparts.

RIWI’s Military Conflict Risk Index, developed in collaboration with macroeconomist David Woo, draws on a unique technology which minimises biases associated with typical survey methods. Random Domain Intercept Technology (RDIT) intercepts web users who land on a dormant domain temporarily being managed by RIWI and presents them with a survey. The fact that any web user has a random chance of exposure to these questions means that the survey reaches those who are not ordinarily included in opinion polls. Unlike typical opinion polls, the RIWI survey does not collect identifiable information like email addresses and names, encouraging individuals to respond honestly.

Ukrainians expect conflict to intensify in the coming weeks

![Graph showing conflict risk trends](image)

**Note:** Military Conflict Risk Index (Compass by RIWI x David Woo). Ukraine vs. Russia, starting Feb. 15, 2022 and ongoing. 7-day moving average displayed. Respondents were asked over the next few weeks, do you think that military tensions between Ukraine and Russia will be: with a 5-point response scale ranging from less intense (-2) to the same (0) to more intense (2).
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