Russia’s Santa rally will get a corona boost this year and maybe more

Relief rally in 2021?

Will Biden impose new sanctions on Russia?

Central and Southeast Europe stock markets jump in anticipation of COVID-free future

Southeast Europe’s EU members to get biggest boost from next budget and recovery funds

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  - Bookrunner
  - June 2020

**Romania**
- **EUR 1,400,000,000**
  - 3.375% Senior Unsecured Green Bonds due 2027
  - Bookrunner
  - June 2020

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  - 0.25% Covered Bonds due 2021
  - Bookrunner
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  - January 2019

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Eastern Europe

Russia’s Supreme Court has ordered most of the restrictions on US fund manager Michael Calvey and his colleagues from Baring Vostok be lifted. Calvey and several of his colleagues were arrested on embezzlement charges in February 2019.

The Russian government changed the Criminal Code, to ban cartels and market collusion including six year prison sentences for deals worth RUB500mn ($6.48mn) of revenues or more.

The Russian government underwent a mini-reshuffle that resulted in new leaders for five of its 21 ministries. The last of the Medvedev appointees were swept away in the government of PM Mikhail Mishustin. The new appointees are largely technocratic.

Half of all foreign investors into Ukraine think that the country has become less attractive for investment under Ukrainian president Volodymyr Zelenskiy, according to a poll conducted by the European Business Association in Kyiv.

Ukraine’s ruling Servant of the People (SOTP) would come in third if parliamentary elections were held this Sunday but Ukrainian President Volodymyr Zelenskiy would still win a presidential election, according to a study by Kyiv International Institute of Sociology (KIIS).

Central Europe

Polish women told the government to “f*** off” in mass protests against a new law that effectively bans abortions. Thousands of Polish women and men marched across Warsaw, and other cities for more than a week to protest against the new law.

Hungary’s Prime Minister Viktor Orban proposed constitutional amendments that would ban adoption by same-sex couples. Orban is using emergency powers to push through more anti-gay laws.

Belarus’ new nuclear power plant was turned off in its first week of operation after the explosions of several voltage transformers. Neighbours in the Baltics have been pushing for the plant to be closed over safety concerns.

Eurasia

Several thousand protesters defied martial law to gather in central Yerevan and demand the resignation of Armenian Prime Minister Nikol Pashainian for “traitorous actions” after he conceded defeat in the six week war with Azerbaijan over the Nagorno-Karabakh enclave.

A court in Almaty on November 16 sentenced former Kazakh banker Zhomart Ertayev to 11 years in prison after he was convicted of stealing $334mn from RBK Bank. Ertayev was an RBK co-chairman and also previously served in senior positions at multiple Kazakh banks throughout the 2000s.

Authorities in Kazakhstan’s Almaty have granted an unregistered party permission to hold a protest rally on November 14 ahead of the upcoming parliamentary elections. Kazakhstan is usually very intolerant of protests.

Southeast Europe

Turkey’s Competition Board has fined Google Turkish lira (TRY) 200mn ($26mn) for “abusing its market dominance”. Google was previously in February hit with a fine of around TRY100mn by the regulator. The fines are part of Turkish president Recep Tayyip Erdogan’s crackdown on social media.

The six Western Balkan states committed to the green agenda and to set up a regional market in two declarations signed during a summit in Sofia on November 10, which is part of the Berlin Process initiative.

Turkey’s Finance Minister Berat Albayrak unexpectedly handed in his resignation one day after the early morning firing by Turkish President Recep Tayyip Erdogan of central bank governor Murat Uysal. The crisis-stricken Turkish lira (TRY) quickly soared in value as a result.

Iran has announced it will tap €200mn from its National Development Fund to compensate the families of victims of the January tragedy in which a Ukraine International Airlines aircraft was shot down in error just outside Tehran.

The Belarusian protests reached their 100th day on November 15, but the traditional Sunday mass rally, dubbed the March of Brave People, was again small in comparison to the previous demonstrations. As the crowds get smaller the police have ramped up their brutality, bludgeoning one protester to death in broad daylight in November.

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Economics

Eastern Europe

Russia’s GDP decline in 3Q20 was an unexpectedly mild contraction by only 3.6% y/y following a 8% y/y fall in GDP seen in 2Q20. Russia’s economy has weathered the coronacrisis much better than expected.

Ukraine’s consumer inflation remains very mild, up to 2.6 % year on year in October from 2.3% y/y in September, but way below the double-digit gains of recent years.

Central Europe

Polish core inflation index fell 0.1pp to 4.2% y/y in October, the National Bank of Poland (NBP) said on November 16. Core inflation in Poland has been at above the 4% mark since May its highest level since 2001. Prices are being driven up by wage growth of 6.6% y/y to an average of €1,150 in 3Q20 among other things.

The Czech decline in 3Q20 slowed to a 5.8% y/y contraction. In quarter-on-quarter terms, GDP grew by 6.2% in 3Q20. Czech inflation slowed to 2.9% in October, down from 3.2% in September, according to the Czech Statistics Office. Czech retail trade sales stagnated year-on-year in September, falling by 0.4% y/y, while unemployment fell to 3.7% in October, down from 3.8% in the previous three months.

The Czech manufacturing sector Purchasing Managers’ Index (PMI) recorded the highest level since October 2018, as output and new orders continued to go up, signalling a modest improvement in operating conditions to 51.9, up from 50.7 posted in September.

Hungary’s GDP surged 11.3% q/q in 3Q20, the fastest pace on record after a historic collapse in the previous quarter, according to the statistics office KSH. GDP fell 4.6% y/y in 2Q20. Industrial output in Hungary grew 2.2% y/y in September, rising for the first time since February. Consumer prices in Hungary continued to edge downward in October falling to 3% y/y from 3.4% in the previous month. Hungary’s September retail sales fell by 1.6% y/y in September. On a monthly basis sales grew by 1.1%.

The volume of Estonia’s industrial production in September 2020 dropped 2.4% y/y, a smaller decrease than the European Union average of a 5.8% y/y decline. Unemployment has doubled y/y and is set to increase further this winter.

Latvia recorded the smallest decrease in exports y/y among the European Union (EU) countries in January-September 2020. Latvia’s 3Q20 unemployment rate was 8.4%, but dropped q/q by 0.2%. In 3Q20, the unemployment rate in Latvia was lower than in Lithuania (9.3%), but higher than in Estonia (7.7%).

Slovakia’s economy in the next two years is expected to grow slightly faster than the average of Eurozone members and the EU-27, according to the European Commission. The EC forecast Slovakia’s GDP to go down by 7.7% in 2020, while the eurozone’s GDP is expected to drop by 7.8%. In 2021.

Southeast Europe

The European Commission is projecting a 7.1% GDP contraction for Slovenia in 2020, just 0.1 pp up from the previous forecast in May. The economy is expected to recover in 2021 with growth of 5.1%.

Average wages in Romania rose to RON3,321 (€682) in September, up 7.8% y/y. In real terms, the annual advance was 5.2% y/y in September. Romania’s trade deficit increased by 30% y/y to €1.54bn in September, despite the robust performance of exports that marked a thin annual decrease of only 0.5%. Exports fell for the seventh month in a row to by 0.5% y/y to €6.07bn, imports strengthened by 4.4% y/y – the strongest performance since December 2019 – to €7.61bn.

Bulgaria could face a worse than previously expected recession with the economy contracting by more than 4% this year, according to the IMF.

Bulgaria reported a foreign trade deficit of BGN3.04bn (€1.55bn) in the first nine months of 2020, down 41.5% year on year with both imports and exports declining. Bulgaria posted a trade deficit of BGN39.7mn with EU member states and a deficit of BGN3bn with non-EU countries.

Eurasia

The Kazakh central bank’s gold and foreign exchange reserves declined to $33.6bn in October, down by $200mn from the previous month, due to government debt payments and interventions on the currency exchange market. However, the reserves are still a whopping 20% of GDP.

Kazakhstan’s GDP contracted 2.9% y/y in the first nine months, due to a drop in the services sector, which was hit by the lockdowns.

The international reserves of Uzbekistan as of November 1 amounted to $33.3bn, according to data disclosed by the central bank on November 10. A month ago, the reserves stood at $33.6bn. The reserves are still considered as poorly diversified. Almost everything is kept in the form of gold ($19bn) and FX ($13.9bn).
Business

Eastern Europe

Russia’s Federal Antimonopoly Service (FAS) has accused sugar market participants of organising a cartel, naming RusAgro, Prodimex and Dominant as participants. The news comes as the government introduces new anti-trust legislation and changes the head of FAS, signalling a significant policy shift.

Russia’s largest food retailer X5 Group maintained its lead as Russia’s biggest e-grocery firm in 9M20 with EUR12.7bn ($165mn) in sales, followed by Utkonos and Sbermarket (EUR11.6bn and EUR11.5bn respectively). Russia’s e-commerce segment is booming.

Russian oil giant Rosneft reported a net loss in 3Q20, its first loss since 2012, on the back of ruble devaluation and low prices. The company had to make heavy impairments in the first quarter, but rebounded to profit in Q2. The company suffered another loss of RUB64bn ($800mn) in Q3 owing to a weaker ruble. This compared with RUB225bn a year earlier.

Calgary-based TIU Canada, a green energy investor in Ukrainian assets, is alleging three Ukrainian oligarchs, Ihor Kolomoisky, Hennadiy Boholyubov and Victor Pinchuk, which it claims are the top shareholders of the Nikopol Ferroalloy Plant, are behind disconnecting the company from the electricity grid located on the plant’s premises.

Central Europe

ConocoPhillips and its Polish partner PGNiG have made a “substantial” gas discovery in the Norwegian Sea, with an estimated size of between 8mn and 30mn cubic metres (50-189mn barrels) of recoverable oil equivalent.

Sales of electric cars on the Czech market tripled year-on-year in 10M20 to 1,888 cars, while the number of hybrids sold grew by 43% y/y to 9,474 cars and the number of plug-in hybrid cars increased from 324 to 1,337.

KKCG Group and Czech betting company Sazka Group announced that global investment fund Apollo Global Management will invest EUR500mn into a newly established wholly-owned subsidiary of KKCG, Sazka Entertainment AG. Sazka Group is owned by Czech billionaire Karel Komarek. The transaction implies an equity valuation of EUR4.2bn for Sazka Entertainment and the money will be used to grow the lottery business in Europe and North America.

The Czech mortgage market recorded a decline of 20% in the spring months, but the market began to pick up rapidly before the summer. From May to October there was a year-on-year increase of 20% to 30%. The Czech mortgage market should reach a record result of around CZK230bn ($8.6bn) in 2020.

Hungarian oil giant MOL’s earnings rebounded in Q3 despite the pandemic with an Ebitda of HUF184bn ($1.2bn) in Q3, down by 12% y/y, but up from HUF114bn in Q2 and well above analysts’ forecasts.

OMV Petrom, the biggest energy company in Romania, plans to build a bioethanol plant and will apply for EU funds to finance the project. The company reportedly submitted a project worth RON1.2bn (€245mn) to the Economy and Energy Ministry to get 35% of the investment subsidised under the Modernisation Fund which is eligible for EU funding.

Migros, one of Turkey’s largest supermarket chains, reported a 95% y/y decline in its net income to TRY9mn ($0.9mn) in the third quarter. Revenues rose 19% y/y to TRY7.7bn in the quarter despite underperforming seasonal stores in the country’s southern provinces that are home to major holiday destinations for international tourists.

Eurasia

The world’s largest uranium producer, Kazatomprom, has resumed activities at all of its mining operations in Kazakhstan, progressing according to its plans after a four-month coronavirus shutdown. The company announced in early April that its facilities in Kazakhstan would gradually phase to overall reduced capacity, leading to production cuts by about 17.5% in 2020.

Watermelon exports from Uzbekistan in the nine months to September soared by 8.5 times y/y, according to the state statistics committee. In the period, the country exported 48,900 tonnes of watermelons worth $11.7mn to 13 countries. Kazakhstan became the main importer of Uzbek watermelons having purchased 32,600 tonnes. Russia placed second with 12,000 tonnes, and Kyrgyzstan third with 3,600 tonnes.

52% of Slovenian citizens aged 16-74 years made purchases online in the first quarter of 2020, according to the statistics office. The largest share of e-buyers was among the 25-34 age bracket (75%) and the smallest among 65-74-year-olds (16%).

Romanian state-owned gas producer Romgaz and OMV Petrom, the biggest local energy company, could partner to develop a hydrogen production facility near a wind farm in Dobrogea. Romania has no offshore wind farms, but a bill aimed at providing facilities for investors in this segment is being debated by lawmakers.

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Finance

Eastern Europe

Ukraine will not receive its second scheduled IMF tranche of $700mn before the end of this year, analysts concluded after Governor of the National Bank of Ukraine Kyrylo Shevchenko returned from a week of meetings with the multilateral lender in Washington at the start of November.

Russian fixed-price retailer Fix Price is preparing for an IPO in London or Moscow with a total valuation of up to $6bn, according to Bloomberg. Reportedly, the offering could take place in 1H21. The founder of the retailer, Sergey Lomakin, confirmed to Bloomberg that IPO was one of the strategic development options. He also said that a 10% minority stake earlier this year was sold to Goldman Sachs.

Central Europe

Czech billionaire Kretinsky and his Slovak partner Tkač increased their shares in German’s Metro to more than 37% from the current 29.99%. Both investors announced their intention to place an offer to increase their shares in Metro in September.

Czech billionaire Petr Kellner’s PPF Group bought 50% of Turkey’s main producer of buses and light trucks Temsa. PPF also owns the Pilsen-based engineering group Skoda Transportation that also makes buses.

The Hungarian government is to buy a 7% stake in the country’s leading digital bank after injecting HUF3bn (€8.3mn) capital into Granit Bank, Finance Minister Mihaly Varga said.

Leading Hungarian lender OTP’s 3Q20 earnings massively beat estimates. The bank reported a 14% y/y drop in consolidated after-tax profit to HUF114bn (€316mn). The bank would not issue detailed 2020 guidance due to the high degree of uncertainty. The results were 20% above analysts’ expectations.

Southeast Europe

Polish financial group Getin has hired investment bank Rothschild for the potential sale of its Romanian subsidiary, Idea Bank Romania. Getin Holding took over Idea Bank, formerly Romanian International Bank (RIB), in 2014 from its founder, US businessman Daniel Roberts.

Romania’s government has approved the 2021-2022 restructuring plan for the state airline Tarom and state aid, which will be granted after approval from the EC. The restructuring plan’s cost is €380mn, half of which should come from the state.

Eurasia

KAZ Minerals’ fifth biggest investor RWC Partners voted against a £3bn all-cash buyout offer to take the Kazakh copper miner private. RWC sees the buyout offer, organised by the company’s chairman Oleg Novachuk and KAZ Minerals director Vladimir Kim, as an under-valuation. RWC owns just under 3.3% of KAZ Minerals.

Uzbekistan placed dual-tranche sovereign international bonds denominated both in dollars and local currency in the amount of $750mn on the London Stock Exchange (LSE) on November 19, the country’s finance ministry announced. The 3-year benchmark eurobond yield in Uzbekistani som (UZS) was around 15.250%, while for the 10-year dollar-denominated security the yield was around 4.250%, Reuters said.

The Asian Development Bank (ADB) on November 17 issued the first two green bonds on the Kazakhstan Stock Exchange. The ADB raised Kazakhstani tenge (KZT) 13.96bn (€27.4mn) via two 24-month bonds. The proceeds from the issuance will be used to finance climate change adaptation and mitigation projects in the Central Asian nation.

Romania’s government launched new bond issues in local currency and euros for individual investors under the Fidelis 2020-2021 programme. The new bonds can be purchased until November 27 and will later be listed on the Bucharest Stock Exchange (BVB), where individual investors will be able to trade them.

Uzbekistan’s Almalyk mining and metallurgical complex (AMMC) has plans to IPO on the international capital market in 2023. An independent external audit run by Ernst & Young and KPMG assessed the silver, gold and copper miner’s readiness for a flotation.
Russian stocks surge following Pfizer vaccine announcement

Ben Aris in Berlin

Russian stocks and the ruble jumped in value on November 9 following the conclusion of the US election and an announcement by US pharmaceutical firm Pfizer that it has a working vaccine against coronavirus (COVID-19).

The dollar-denominated Russia Trading System (RTS) gained 4.3% on the day and broke back above the 1,200 mark after languishing at around 1,000 for the last few weeks as investors left emerging markets (EM) on the back of fears of a persistent and damaging second wave of the pandemic sweeping the planet.

The Russian market was doubly hit as the same fears depressed oil prices that slid from earlier highs of around $45 to around $37 as oil producers predicted that demand next year would be reduced by the pandemic.

Oil prices also recovered on November 9 to $42, helping to lift Russian stocks.

The ruble-denominated MOEX Russia Index also made gains, rising 2.3% on the day.

The ruble also made gains on the good news, and was up 2% on the day to end at RUB76.34 against the dollar and RUB90.19 against the euro. The currency reached an intra-day high of RUB75.9 against the dollar, amongst its highest value in recent weeks. The ruble has now gained almost 6% from where it stood on the eve of the US presidential election.

The ruble has taken a beating this year and is seen to be heavily undervalued at the moment due to the weight of multiple problems, including the threat of new sanctions on Russia imposed by the incoming Biden administration in the US, following the presidential elections there.

Pfizer and its German partner BioNTech said their vaccine, currently in Phase 3 medical trials, was 90% effective in preventing COVID-19 infections. It is the most detailed and promising public update yet published on vaccine effectiveness.

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from one of the handful of vaccines which have undergone widespread testing among volunteers.

Russian authorities also announced that its Sputnik V vaccine was also 90% effective. It was one of the first vaccines to appear, but the public remain very sceptical about its effectiveness.

Russia’s biggest winners were stocks which have suffered heavily this year amid unprecedented shutdowns of the global economy – airlines and oil companies.

The metals and mining stocks were doing well before the crises struck in February and are returning a positive 7% YTD, gaining 2ppt during November 9 trading. The consumer goods sector also gained about the same and is now returning a positive 6% YTD.

The rest of the sectors are still underwater from where they stood at the end of February, but most of them gained 2-3ppt on the day. Most noticeably the oil & gas sector was lifted 8ppt from a -42% lost YTD to end the day down at -36%. However, that is still down from the roughly 33% loss the sector was showing a month ago, and investors remain very sceptical of the sector.

The best performer of the day was Aeroflot, which added almost 8% on the day as of 4pm Moscow-time, while energy companies Lukoil, Tatneft and Novatek claimed the next three spots on the leader board.

Still, Russian gains lagged the market increases across Europe, where the London benchmark FTSE 100 was up by more than 5% and the Eurostoxx 50, which tracks the 50 largest companies based in the Eurozone, added more than 6%, reports the Moscow Times.

Markets have also been lifted by Joe Biden’s victory in the US elections. While Biden is anticipated to be tough on Russia and introduce more sanctions, those fears are offset by the return to more predictable “normal” politics that will allow better forecasting. Also a key change will be that Biden is expected to abandon US President Donald Trump’s policy of starting trade wars, which is very damaging not only for the balance of payments, but has also proved a big disincentive to foreign investors, who increasingly invested in the US as a hedge against getting caught up in a trade war. That is expected to change now, with US capital going overseas again under Biden in the hunt for better returns, according to Charlie Robinson, chief economist at Renaissance Capital.
Russian diamond major Alrosa back in black in 3Q20

Russian diamond major Alrosa returned to profitability in 3Q20 under IFRS, with adjusted net income under IFRS up by 29% year on year to RUB16bn ($0.2bn), beating expectations.

As reported by bne IntelliNews, the company has surprised on the upside with strong sales since August, after previously struggling on the weak market and cancelling dividends for 1H20.

The diamond miner also has recently improved its outlook on 4Q20, and further recovery in sales was seen in September and October.

In 3Q20 revenues were up by 9% y/y to RUB50bn, notably soaring 5-fold quarter on quarter, due to demand recovery following a significant drop in diamond supply in 2Q20 amid the coronavirus (COVID-19) pandemic, BCS Global Markets commented on November 13, while maintaining a Hold recommendation on the name.

Ebitda rose by 22% y/y to RUB25.7bn and up from only RUB117mn in 2Q20 on the back of a sales rebound and cost control initiatives by the company.

Alrosa’s free cash flow (FCF) grew to RUB22.6bn compared with a negative RUB30bn in 2Q20 and up from RUB20.1bn y/y.

Notably, deputy CEO Alexey Filipovsky during a conference call for the 3Q20 IFRS results said that the company could pay 75-100% in FCF for 2020 in December. A 100% payout could increase the dividend yield to 7%, BCS GM estimates, seeing the news as positive and expecting a recovery of sales to 2019 level in 2021 to be positive for financials.

The CEO of the company, Sergey Ivanov, also previously noted that the potential purchases for the state reserves Gokhran will support the company in the adverse conditions on the diamond market.

VW boss confirms Turkey factory plans scrapped in favour of heavy investment in Slovakia

VW Group boss Herbert Diess has said the automaker is to invest heavily in its plant in Bratislava, Slovakia, as opposed to opening a brand new factory in Turkey, Carscoops reported on November 10, citing remarks made to Automobilwoche in an interview.

VW has had to reassess its capacity requirements because of the coronavirus pandemic, and ultimately decided that it doesn’t need an additional plant. However, following Turkey’s incursion into northeast Syria late last year, VW was anyway under pressure from unions and human rights groups not to choose Turkey as the location for the proposed factory.

The German carmaking giant appears set to build a new assembly line, as well as a new body shop as part of its expansion in Slovakia, where it builds most of its premium SUVs.

The VW Touareg, Audi Q7, Audi Q8 and Porsche Cayenne are all built in Bratislava, alongside the VW Up, Skoda Citigo and SEAT Mii minicars, as well as bodies for the Bentley Bentayga.

Initially, VW wanted to open a plant in Turkey near Izmir to build the next-generation VW Passat and Skoda Superb from 2022. But both models will now be built in Slovakia.

“It remains a disadvantage that we cannot better develop the market [adding to Turkish sales] there via a plant in Turkey,” Diess said during the interview.
Kazakhstan’s Air Astana may never return to some pre-pandemic destinations CEO says

bne IntelliNews

Kazakh carrier Air Astana may never again fly to several destinations in Russia, Southeast Asia and Europe due to lasting impacts of the coronavirus (COVID-19) pandemic, the airline’s CEO Peter Foster has told Business Traveller Asia-Pacific in an interview.

Before the coronavirus crisis, Air Astana operated a network of 60 international and domestic routes from hubs in largest Kazakh city Almaty and Kazakh capital Nur-Sultan. The company suspended most of its flights in March when the first pandemic lockdown was introduced in Kazakhstan. The carrier’s total capacity in the first nine months of 2020 was 48% lower year on year. The airline also retired eight of its aircraft, including four B757s and four Embraer 190s, in a bid to restructure and adapt to the pandemic crisis. It replaced the B757s with Airbus A321LRs.

Air Astana began resuming its international flights in June amid an easing of travel restrictions. It currently flies to several countries on a limited schedule. These include Kyrgyzstan, Uzbekistan, South Korea, Germany, Russia, Turkey and Dubai.

The airline is presently considering new destinations in order to appeal to leisure travellers seeking transit-free, point-to-point travel, which has become more popular amid the pandemic, according to Foster. The destinations under consideration include the Maldives, locations in Sri Lanka, Da Nang and Nha Trang in Vietnam and possibly even Phuket in Thailand. The new flights would start when travel restrictions ease.

Foster mentioned the current popularity of Air Astana’s Turkey and Dubai routes among tourists with load factors averaging around 75%. In contrast, the airline’s five-times weekly Frankfurt route has been experiencing low load factors due to restrictions on travel to the European Union.

“At least half a dozen places we flew to before the pandemic, we may never fly there ever again,” Foster said. “But on the opposite side, there are some places we may fly to that we’ve never flown to in the past.”

“What seems to be becoming very apparent is that people, particularly those travelling on holiday for leisure reasons, do not want to go through hub airports anymore. They don’t want to hang out in large airports or large cities with their families. They want to go to point A to point B, and point B being their final destination,” Foster noted in the interview.

Two of Air Astana’s largest markets are Russia and China. The airline recently resumed flights between Nur-Sultan and Moscow. Before the pandemic, Air Astana operated 54 frequencies a week to various destinations in Russia.

Foster also pointed out that the airline is looking into re-launching its routes to China.

The chief executive also elaborated on the company’s financial situation, noting that it continues to be in “good shape” as 2019 was an exceptionally good year. As such, the airline currently has no plans to seek a government bailout amid the pandemic.

Air Astana expects a return to profitability in early 2021 depending on the trajectory of the ongoing crisis. ●
Fridman rides an ‘Istanbull’ with Turkcell sale, wise locals hold on to their gold

Akin Nazli in Belgrade

Russian tycoon Mikhail Fridman on November 9 grabbed the opportunity presented by a short-lived spike in the Turkish lira (TRY) and the latest ‘vaccine rally’ on global markets to benefit from the sale of a 5% stake in Turkey’s largest mobile operator Turkcell (TCELL), Bloomberg reported on November 10.

“Mkts, of course, are not interested in the nuance of an announcement [on a potential coronavirus vaccine] like yesterday’s and immediately front-loaded all the good news because the system is still flooded with all that central bank liquidity sloshing round. It’s not just boats that are holed below the waterline which floated yesterday but even those languishing on the seabed like Turkey. [The Borsa Istanbul] and the [USD/TRY rate] both rallied about 5% yesterday on what I can only describe as faith of Islamic dimensions that all would be well after the cabinet reshuffle enforced on Weirdogan [Turkish President Recep Tayyip Erdogan] by the resignation of his son-in-law [Turkish finance minister Berat Albayrak],” Julian Rimmer of Investec wrote on November 10 in a note to investors.

Fridman raised around $205mn in an accelerated share-sale led by Credit Suisse and Goldman Sachs as book-runners.

The identity of the buyers was of course shrouded due to the financial industry’s love of confidentiality, but it seems they were foreign investors.

“This was a well-timed transaction,” Nick Koemtzopoulos of Credit Suisse told Bloomberg.

The deal was the largest non-banking-related share sale seen in Turkey since the initial public offering (IPO) of retailer Sok in mid-2018, he added.

The sale by Fridman’s Imtis created a likely scenario of “overhang” in Turkcell’s shares, given that more stock could be sold, Ivan Kim of Xtellus Capital told the news agency.

“[Fridman’s] remaining [19.8%] stake is for sale as well,” he said, although it presently remains subject to a 12-month lock-up period.

Meanwhile, Turkcell’s main shareholder, essentially the president, Erdogan, on November 10 was again talking up the beleaguered Turkish economy, while Turkish assets were being handed out to muscular bulls amid the country’s “perfect storm”.

Sundry narratives on Turkey bulls

Market participants were naturally attempting to distinguish who the buyers were in November 9’s Turkish rally.

“Retail punters were swept up in the frenzy this afternoon but I doubt intls would be participating,” Rimmer wrote in his note.

It is almost certain by now that these “retail accounts” are not actually so retail as they are single-handedly coordinated. So, if Rimmer has it right, we can assume that the government has once again ridden a Borsa Istanbul rally.

Meanwhile, Is Invest’s daily share bulletin looking at foreign investor-held stocks showed that foreign-holdings on the Borsa Istanbul rose to 49.03% at market close on November 9 from 48.98% the previous day, suggesting foreign player portfolio inflows of around $100mn.

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We have before seen hedge funds raising the Istanbul stock market out of the depths within a few hours with around $100-150mn. But they are able to run as fast as they hit.

Rallies in Turkey’s credit default swaps (CDS) and eurobonds may also be a sign of foreign interest in a Turkish rally.

However, the government-run banks are still active in the USD/TRY market. With no end to the burning of FX reserves, one should not be convinced by any so-called organic recovery in Turkish markets.

The "He" mentioned here is Erdogan who has "leaked" the idea that he was not aware of the negative state of the central bank’s reserves.
Those who think they can snaffle a bargain amid the enlivened Turkish markets have until November 19 when the central bank has its next scheduled monetary policy committee (MPC) meeting.

“I would think to something around the 15% mark,” Timothy Ash of Bluebay Asset Management wrote on November 10 in a note to investors looking at policy rate prospects.

If Erdogan plans to wait until the scheduled meeting before making the next rates move, Turkey will remain open to some shockwaves as the intraday volatility on its markets is rolling like the ocean waves once again.

Also on November 10, Goldman Sachs analysts reiterated their cautious stance against over-interpreting the installing of a new central bank governor and new finance minister.

“Most importantly,” Goldman ponders whether there will be enough political support to bring about the required tightening.

The US investment bank has stuck with its forecast for a hike in the main policy rate to 17% by end-2020 from 10.25% currently.

And, no joke, the most generous grader of Turkey, Fitch Ratings, said on November 10 that the replacement of the central bank chief brings the possibility of an improvement in the country’s monetary policy credibility.

Douglas Winslow of Fitch told Reuters on November 6 that the lira had not actually caused “severe stresses” in the external financing positions of the banks or corporates; and the trend in Turkey’s FX reserves had “become somewhat less negative”.

BloombergHT, on the other hand, reported on November 9 that foreigners and local individuals bought lira but local institutions bought FX.

The central bank will release its portfolio flow data for this week on November 19 at 14:30 local time.

**Who’s boss?**

“We are in a historic struggle against those who want to force Turkey into modern capitulations through the shackles of interest rates, forex rates and inflation,” Erdogan said on November 10, warming to one of his well-known themes.

Turkey would overcome political obstacles to work on improving economic growth, employment and exports, he added.

Erdogan also once again ruled out the IMF route.

If we want to take what Erdogan says deadly seriously, then there will be no rate hike and no cheap assets for the City of London.

But the markets preferred to focus on the new finance minister Lutvi Elvan’s pledge in a written statement to rein in inflation and focus on a “market friendly” transformation of economy.

On November 10, business daily Dunya reported that Turks continue to hold on to their physical gold and FX.

On the same day, a Reuters newsroom outside Turkey quoted an unnamed forex trader at an unnamed Turkish bank as saying that locals’ demand for hard currencies and in particular gold was evidently persisting in the financial system.

Reuters’ Turkish service, on the other hand, quoted unnamed bankers as saying that the lira strengthening on November 9 following the exits of the central bank governor and finance minister was mainly ridden by foreigners and that lira positions on the London swap market significantly rose for one day.

There was one or a few billions worth of USD inflows, according to one of the unnamed bankers.

Local individuals both bought and sold while FX purchases were more dominant on the part of the institutions, an unnamed banker told Reuters Turkish.

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Only a few hours then went by before fresh political turmoil over the lira and central bank reserves started in Turkey with the firing of the central bank governor, announced by presidential decree during the early morning hours of November 7.

Maxim Rybnikov of Standard and Poor’s told Reuters on November 9 that the ramifications of Turkey’s replacement of its central bank governor and the departure of its finance minister on monetary policy remained uncertain.

The funniest story of the day was perhaps from Bloomberg. It suggested that Russia was pursuing a plan to “quickly” sell eurobonds before “Sleepy Joe” Biden takes over at the White House.

Erdogan wrote a letter to Biden on November 10 to congratulate him on becoming president-elect. Erdogan does love letters. Trump’s October 2019 “Don’t be a tough guy. Don’t be a fool!” letter to Erdogan remains one of a kind in the history of modern diplomacy, though Trump still has the
Companies & Markets

fag-end of his presidency left to outdo himself insulting the president of another country. Turkey's president claimed to have chucked Trump's letter in the bin, but he replied to it with a missive asking him to beg understanding of Turkey from the US Congress.

On a note of interest, Erdogan's weekend saw him fire a central bank governor who is a former director at Halkbank, the lender in hot water with US prosecutors for alleged Iran sanctions-busting. Albayrak, who served as Erdogan's right-hand man in various schemes, is of course also out. Hakan Atilla, the former Halkbank director who did jail time in the US in the sanctions case, remains head of Borsa Istanbul, but he's paid his penalty and has a clean nose at the moment.

Main opposition Republican People's Party (CHP) leader Kemal Kilicdaroglu, who congratulated Biden as early as November 7, wryly remarked on November 9 that Erdogan cannot “save the king by sacrificing the queen”.

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Russia's Ozon e-commerce competes IPO, raises $1bn and market cap over $8bn

IntelliNews Pro

Russian e-commerce major Ozon Holdings has set an IPO price at $30 per American Depository Receipt, and is planning to raise a total of $0.99bn from 33mn ADRs, the company said on November 24.

Together with an option of 4.95mn ADRs available to underwriters, the IPO value could reach $1bn, with the total valuation at $6.2bn.

As reported by bne IntelliNews, Ozon has registered its intention to IPO, with valuations for the company previously ranging from $4bn-12bn.

Notably, in the end Ozon raised the placement price from the initial guidance of $22.5-27.5 on high investor demand.

Trading was due to start on November 24 on NASDAQ, the Moscow Exchange and Saint Petersburg Exchange under the OZON handle. After just a few hours of trading, Ozon's share price rose 40%, lifting the company's capitalisation above $8bn.

The company also confirmed its plans to raise another $135mn from a private placement from main shareholders AFK Sistema multi-industry investment conglomerate and Baring Vostok fund.

The stakes held by Sistema and Baring Vostok funds in Ozon would be 45.2% and 45.1% if taking into account all options, convertible loans and other instruments being exercised. The remaining stakes in Ozon are held by the US-based VC firms Index Ventures and Princeville Global.

The analysts previously saw the IPO news as positive and a key near-term catalyst for AFK Sistema.

E-commerce is booming in Russia, with online sales growth twice as fast as traditional channels. And the four biggest companies – Ozon, Wildberries, Sber and Yandex – in the space are growing even faster at up to 80% a year, Ozon CEO Alexander Shulgin told bne IntelliNews in an exclusive interview in September 2019.

“In the end Ozon raised the placement price from the initial guidance of $22.5-27.5 on high investor demand”
Russia's X5 Group could IPO delivery and e-grocery assets

IntelliNews Pro

Russia's largest food retailer X5 Group could IPO its delivery and e-grocery assets in two-to-three years, Kommersant daily reported on November 26 citing the management of the company.

As reported by bne IntelliNews, X5 had a strong head-start on digital innovation in the Russian retail segment and used its advantage to emerge as the largest e-grocer amid the coronavirus (COVID-19) lockdown.

The digital overhaul of the company is detailed in an exclusive interview with Vladimir Salakhutdinov, the head of strategy at the company.

X5 is now considering an IPO of its express-delivery aggregator Okolo, Perekrestok Vprok platform, 5Post e-grocery logistics service, the management of the company said at an online conference organised by Aton.

Perekrestok Vprok could be the first asset to go public, with its sales expected to exceed RUB100bn ($1.3bn) in 2021. Apart from IPOs, private placement investment is considered.

All-cash £3bn buyout offer announced to take LSE-listed KAZ Minerals private

Kanat Shaku in Almaty

The two largest shareholders in London-listed Kazakh copper miner KAZ Minerals, chairman Oleg Novachuk and director Vladimir Kim, have announced a £3bn all-cash buyout offer that would take the company private after 15 years on the LSE. The offer is for the 61% of shares in the company they do not already own, KAZ Minerals said on October 28.

The offer is set at £6.40 per share, a 12% premium to October 27's closing price of £5.71 per share.

The shares rose by 10% on October 28 to £6.26 per share after the announcement – the share price in KAZ Minerals has risen 15% in the year to date. Copper prices this year have gained 10% to date thanks to a demand recovery in China.

The buyout will take place via the Nova Resources consortium created by the two shareholders for the purpose. Kim and Novachuk aim to cover the deal via a loan from Russian investment bank VTB, Interfax news agency reported.

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New destinations: the company’s $900mn purchase of the undeveloped Baimskaya mine in Russia surprised shareholders.
Companies & Markets

The move to take KAZ Minerals private echoes earlier deals at Vedanta Resources and another Kazakh company, Eurasian Natural Resources Corp, which both listed during the 2000s commodity boom. While they've all left the exchange for different reasons, London investors ultimately no longer valued the companies as highly as their biggest owners did, Bloomberg noted.

“The increasing ESG [environmental, social and governance] scrutiny from investors hasn’t helped developing market resource companies,” said Grant Sporre, a Bloomberg Intelligence analyst. “Many investors now see the risk-reward balance skewed to the downside, and in a sense it reflects the de-globalization sentiment at the moment.”

KAZ Minerals and its subsidiaries engage in mining and processing copper and other metals in Kazakhstan and Kyrgyzstan. The company operates the Aktogay and Bozshakol open pit copper mines in Kazakhstan along with three underground mines. It is also developing the Bozymchak copper-gold mine in Kyrgyzstan. Moreover, the firm is developing the Baimskaya copper deposit in Russia’s Chukotka autonomous region.

‘Rationale for the offer’
Kaz Minerals said an independent committee of the board was recommending shareholders accept the offer. Novachuk explained the rationale for the offer as a result of the company’s “higher risk, capital intensive strategy”, which may be “misaligned with the preference of many investors

in the mining sector.” Nova Resources also said separately that the development of the Baimskaya copper mine in Russia, bought by KAZ Minerals in 2018, “would be best undertaken away from public markets as a private company”.

"In reaching its decision to recommend the terms of the acquisition, the Independent Committee of Kaz Minerals has taken account of both the long-term potential value of Kaz Minerals and the risks inherent in achieving this value,” KAZ Minerals said.

“The Independent Committee believes that the acquisition provides Kaz Minerals shareholders with a fair value for Kaz Minerals' operating assets and development portfolio in Kazakhstan and Kyrgyzstan, and crystallises a value for Baimskaya that reflects the Independent Committee's view of the increasing risks in this project," the company added.

The $900mn purchase of the undeveloped Baimskaya mine surprised shareholders, leading to a sell-off in the stock after the announcement of the purchase. The mine’s development is set to cost $7bn and take seven years to carry out. KAZ Minerals referred to the mine as one of the world’s biggest undeveloped copper assets.

“Mr Kim and I believe that Kaz Minerals has made notable progress as a public company since listing on the London Stock Exchange in 2005,” Novachuk said. “However, driven by the current market uncertainty and the corporate circumstances of sequential development projects, we believe that Kaz Minerals’ long-term interests would be best served as a private company.”

One of the conditions for the acquisition requires a court approval of the Nova Resources proposal by shareholders – representing no less than 75% value of KAZ Minerals shares – in court. The holders of shares owned by Nova Resources (39.4%) will not be permitted to vote in the court proceedings. Despite the necessity of a court approval, Nova Resources reserves the right for an acquisition by way of a takeover offer.

‘Court approval may fail’
BCS Global Markets said in a note on October 29 that it sees a probability that court approval may fail. BCS posited that this could lead to the takeover offer, resulting in a new higher offer price than the current offer – positive for the company share price and minorities.

“We maintain a ‘Hold’ recommendation on KAZ Minerals (12MF TP of GBP 6.8/share), despite the offer at GBP 6.4/ share, which we consider to be fair at current copper and gold prices. The call reflects a reasonable possibility that court approval may fail, resulting in higher offers on the takeover route, BCS said.

Senior analyst at Sova Capital, Yuri Vlasov, said in a note that Sova recommends “KAZ Minerals shareholders accept the buyout offer of GBp 640/share, as it is close to our TP of GBp 670/share”.

“The decision to take the company private is likely linked to the $7bn development of Baimskaya, we consider,” Vlasov added.

“The buyout is subject to antitrust and regulatory approval, and the completion of any deal is not expected until 1H21,” he said.
Orange to pay €268mn for majority stake in DT’s fixed operations in Romania

French group Orange, already a major player on Romania’s telecom market, will take over Deutsche Telekom’s fixed operations in the country for €268mn, according to a press release.

The subject of the transaction is the 54% stake in Telekom Romania Communications and Deutsche Telekom’s fixed-mobile convergent subscriber base in Romania, Orange announced.

The French group will pay €268mn to Deutsche Telekom on a debt-free, cash-free basis and subject to customary adjustments at the closing of the transaction.

Telekom Romania Communications and the convergent customer base were valued just under €500mn.

The Romanian state holds the remaining 46% stake in Telekom Romania Communications, which is the former state telecom company Romtelecom.

Deutsche Telekom will keep ownership of Telekom Romania Mobile Communications through its Greek subsidiary OTE.

The closing of the transaction is subject to customary condition precedents, notably antitrust clearance by the European Commission and other relevant authorities, and is expected to be completed within the second half of 2021. Until this approval and the completion of the transaction is obtained, both companies will continue to operate independently.

“We the French group will pay €268mn to Deutsche Telekom on a debt-free, cash-free basis and subject to customary adjustments”
Turkey fines Twitter, Facebook, YouTube, Instagram, TikTok and Periscope

Akin Nazli in Belgrade

Turkey has fined Facebook, along with its Instagram platform, as well as Twitter, Google’s YouTube and China’s TikTok Turkish lira (TRY) 10mn ($1.18mn) each for not complying with the country’s new social media law, Deputy Transport and Infrastructure Minister Omer Fatih Sayan said on November 4 in a tweet thread.

Only VKontakte, the Russian version of Facebook, had named a representative in Turkey as required by the law by a November 2 deadline, a “senior Turkish official who’s directly familiar with the matter” told Bloomberg.

The law brought in by the Erdogan administration demands that social media companies store the data of their Turkish subscribers in Turkey to enable direct access to the subscriber data and content.

Authorities in Turkey regularly arrest social media users and hit them with charges such as insulting President Recep Tayyip Erdogan or harming the country by criticising his government’s handling of the economy.

Direct action has also been taken against major online platforms; for instance, Wikipedia was banned in Turkey for three years. The ban expired in January.

Access to Twitter has been hampered by officials while YouTube experienced a ban for a short period.

Turkey has for several years been either the biggest, or one of the biggest, jailers of journalists in the world.

“Not free”

Turkey’s internet sphere remains “Not free” according to Freedom House’s internet freedom report for 2020.

The Turkey subsection of the report stated: “Internet freedom declined this year in Turkey after the government temporarily blocked social media platforms [during a military incursion into northeastern Syria], leaving people living in the south of the country without access to essential services and tools.

The new social media law was approved on July 29 and went into effect on October 1.

The Turkish telecommunications regulator served warnings to companies not in compliance with the law before it issued its first punishments under the legislation. The scale of the punishments will gradually grow in size as long as infringements are judged to be continuing.

The scale starts out with $1.3mn fines to be levied in November. It then moves to $3.8mn penalties in December. January could see the imposition of local advertising bans.

Bandwidth throttling

Bandwidth throttling is next on the rising scale. If it proves necessary, it would start in April and May. The throttling
Companies & Markets

Companies, including Google, Facebook and Amazon, came into force in Turkey.

In September, Google informed clients it was set to impose a 5% fee on Turkish advertisers to meet “significant increases in the complexity and cost of complying with regulations”.

In October, the Erdogan-loyalist Daily Sabah newspaper reported that online reservation giant Booking.com was expected to set up an office in Turkey and pay taxes following the introduction of the new internet and social media regulations.

As of March, a 7.5% tax on the “sales revenues” of technology companies would become so severe that any platform facing it would be rendered unusable in Turkey.

Facebook has around 37mn subscribers in Turkey, a country of 83mn. The Facebook personnel that deal with Turkey are based in London. Instagram has 39mn Turkish subscribers.

Twitter has 14mn users in Turkey while Turkey is among TikTok’s largest markets, providing it with around 30mn subscribers.

Smart Estonian bus makes rounds in Greece’s Lamia

Linas Jegelevicius in Vilnius

T he self-driving Estonia-made smart bus Iseauto, which last summer served passengers in Tallinn City, has started operating in the Greek city of Lamia.

As part of a pilot project for autonomous public transport led by Estonians, a self-driving street-approved vehicle will be operating in Greece for the first time in history. Known for its high-tech accomplishments, Estonia is set to gain ground internationally by offering its high-tech smart production.

The self-driving minibus manufactured by Auve Tech in Estonia is reportedly the first self-driving fourth category vehicle in Greece that has been declared street legal. The Greeks are said to have learned from the practice of the Estonian Road Administration when issuing the permit, which is why, in addition to technology, the Estonians have also helped to contribute to the development of public transport service legislation based on self-driving buses.

Estonian ambassador to Greece Priit Pallum welcomed the future-oriented cooperation between Estonia and Greece upon the launch of the Iseauto in Lamia. “Welcome to the future! Estonian companies are testing technology and service here in Lamia today, which will be the normality in 10 years,” Pallum said.

Lamia mayor Thymios Karaiskos said at the opening ceremony that the experience gained from such testing provides an opportunity to become acquainted with new technologies, and it is important that research and development create more accessible services that improve the daily lives of all citizens without exception.

Tallinn University of Technology (TalTech) is responsible for the development and testing of the scientific side of the project and innovative solutions, with whom the first prototype of the Iseauto was completed a few years ago.

Today, the TalTech autonomous vehicle research group, led by Raivo Sell, has become well-known around the world for its unique results, rapid development process and successful cooperation with private companies.

“Welcome to the future! Estonian companies are testing technology and service here in Lamia today, which will be the normality in 10 years”
Banki.ru founders sell their stake to settle conflict with US investor

East West Digital News in Moscow

An investor consortium led by Russian private equity firms Elbrus Capital and Winter Capital has acquired 60% of Banki.ru, a leading bank and insurance marketplace. The investors are buying all the shares of company founders Philipp and Kirill Ilyin-Adaev and Elena Ishcheeva for an undisclosed amount, reports East-West Digital News (EWDN).

Russia Partners, an affiliate of US private equity firm Siguler Guff & Company, is retaining its 40% stake, which it acquired in 2013.

The deal is settling a conflict between Banki.ru founders and Russia Partners. Philipp Ilyin-Adaev accused Russia Partners’ head Alexander Lupachev of illegitimately attempting to take control of the company: “They were ready to kill half of the business just to evict us,” he wrote in a Facebook post last year.

On its side, Russia Partners said Ilyin-Adaev created a conflict of interest through a contract with a content provider in which he had an interest.

Content supply was outsourced due to a Russian law adopted last year that targeted online information resources with foreign ownership exceeding 20%. This was the case of Banki.ru, since 40% of its shares were owned by Russia Partners.

Founded in 2005, Banki.ru stands as the largest independent platform to select and compare banking and insurance products in Russia. The site claims a monthly audience of 10 million unique users, who send some 500,000 requests for banking and insurance products sent through the platform. The company’s revenue reached 1.5 billion rubles in 2019 (around $23 million at the year’s average exchange rate).

MegaFon invests in fast-growing challenger on Russian online video market

East West Digital News in Moscow

MegaFon, a major Russian mobile phone operator, is to acquire 33.8% of Digital Media Holding LLC (DMH), the parent company of the Start video service, reports East-West Digital News (EWDN).

The amount of the deal was not disclosed, but RBC heard from industry analysts that MegaFon’s stake might have been valued between RUB1.5 and 2.7bn ($19mn to $34mn at today’s exchange rate).

Citing company representatives, the business news and research company reported last week that MegaFon is considering investing up to RUB5bn ($62mn) in the service in the next three years.

Touting itself as “the fastest growing player” on the Russian market, Start claims 1mn paid users. The company has issued more than 30 original films or series, some of which have made available on international platforms Amazon Prime (‘Gold Diggers’) and Netflix (‘Better Than Us’).

MegaFon’s capital injections will allow Start to increase the production of original content and develop related business projects.

The Russian online video market is usually valued at around $300mn for 2019. The main players are domestic platforms ivi, Okko, Amediateka alongside foreign players YouTube, iTunes and Google Play. At the beginning, the business model of Russian online video platform relied primarily on advertising revenues. However, user-generated revenues now exceed advertising revenues.
Estonia’s Bolt to invest €100mn in rental services in 2021

Maverick Estonian transport company Bolt announced it will expand its light-duty electric vehicle rental service to 100 European cities and bring 130,000 electric scooters and bicycles to the streets in 2021. The total investment will be over €100mn.

The investment will be directed to expanding the rental business, product development and the production of Bolt’s own scooters, the company said.

This year, Bolt launched scooter rental services in 15 countries and 45 cities. In addition to scooters, electric bicycles were also brought to the streets in France, Spain, Portugal and the Czech Republic.

In May of this year, Bolt introduced an electric scooter model designed and manufactured by the company itself. The new model is 100% recyclable, meets ISO standards and has a lifespan of up to five years.

Last year, Bolt published a long-term green strategy to reduce the company’s ecological footprint. In addition, Bolt announced in September this year that it would make the scooter business climate-friendly by the end of 2020.

Russia sharpens knives against cybercrime

A center for combating cybercrimes, telephone spam and phishing will be created in Russia as part of a government program for the digital economy, the TASS news agency reported earlier this week, citing Minister of Digital Development, Communications and Mass Media Maksut Shadayev, reports East-West Digital News (EWDN).

In an attempt to exclude even the smallest external risks of disruption, the ministry has begun independent testing of all state information systems for security holes.

On its side, the Ministry of Digital Development, Communications and Mass Media is creating an governmental working group to combat telephone fraud. This working group includes representatives of the largest mobile operators, credit institutions, the Ministry of Internal Affairs, the Federal Security Service, Roskomnadzor and the Bank of Russia.

In late October, Dmitry Medvedev, Deputy Chairman of the Security Council of the Russian Federation, announced plans to launch “a cyberpolygon designed for training information security specialists.”

Medvedev sees in this project “a serious model with full-fledged infrastructure.”

More AI, more cybercrime?
The former Prime Minister also noted that the extension of the use of artificial intelligence will lead to an increase in the number of challenges for state security.

“For all states this is a priority topic and, of course, we are talking about creating a reliable system to protect people, business, and the state from various information threats, including cyber fraud, the problems which have become more and more serious during the pandemic,” TASS quoted Medvedev as saying.

According to a new global PwC study cited by Russian business news company RBC, 42% of Russian companies (vs. 51% world average) plan to increase the number of cybersecurity specialists in 2021. The majority of executives (52% in Russia, 55% globally) plan to increase spending on cybersecurity.

The growing demand for cybersecurity specialists in Russia is also confirmed by online job search platform HeadHunter. The number of vacancies for such jobs in Russia is growing at double-digit rates: from January to October 2020 there were almost 30,000 new vacancies up from some 17,000 for the whole 2018.
BRIGHTER DAYS AHEAD

The economic bounce back in 2021

Ben Aris in Berlin
2020 has been one of the worst years in living memory. Worse than 2008, which has earned the moniker “Great Financial Crisis” to follow on from the Great Depression of the 1930s. The year started with a growing panic caused by a looming global climate crisis that was quickly followed in short order by multiple shocks from a collapsing oil price to a global pandemic with a liberal sprinkling of increasingly illiberal democracies, several wars and persistent terrorist attacks. That’s not to mention US president Donald Trump – arguably the worst president in US history.

“This is the worst crisis since the Great Depression, and it will take significant innovation on the policy front, at both the national and international levels to recover from this calamity,” the IMF said in a recent blog post.

But take heart. As 2020 draws to a close 2021 is already looking like it will be a lot better. There are now four competing vaccines to deal with the coronavirus (COVID-19) pandemic that will start to be available in December. Oil prices are recovering to reasonable levels. Economies around the world are already starting to recover and the International Monetary Fund (IMF) predicts global growth for next year. The climate crisis remains a problem, but the reduction in travel has already helped reduce emissions and bought a little extra time. Terror, illiberalism and the wars will also not go away, but some economic prosperity will help to ameliorate those problems, too.

“Our base case assumes the launch of mass vaccination against COVID-19 sometime in 2Q21-3Q21 and a ‘victory’ over the pandemic in late 2021 or early 2022. In the short-term, the epidemiological situation will likely remain rather complicated, but infection rates should slow significantly in Russia, Europe and the US with the approach of spring and summer,” BSC Global Markets chief economist Vladimir Tikhomirov said in a note at the end of November.

“The turning point should come around March-April 2021 when a reversal in the base factor and the approach of spring should bring Russia’s – and the world’s – GDP growth rate back to black. These positive changes should be supported by the mass vaccination of the global population from mid-2021. Russia’s economy should get a double boost from rising levels of domestic activity in the services, trade and investment areas, as well as from positive shifts in external factors (higher global demand will support commodity prices and should trigger more activity from Russian exporters),” Tikhomirov added.

Indeed, some analysts are arguing that 2021 might be the start of a huge multi-year long boom as a new super cycle starts. Equity markets are likely to see a big relief rally – especially in Emerging Markets (EMs). As populations emerge from their artificial hibernation – both official and self-imposed – a year’s worth of pent up demand for shopping, eating out and holidays will be unleashed that will give everybody’s economies a large impetus. The same is true at corporate level where delayed fixed investment plans will be reactivated, hopefully starting a virtuous circle of investment-growth-profits-wage hikes-spending turning.

On top of that there will be the government-lead fiscal stimulus initiatives that will lift growth. The EU has borrowed an unprecedented $150bn that it is using to support member states and those in the Balkans will receive aid equivalent to a third of GDP in some cases. In general borrowing has soared to new all time highs as governments and companies around the world top up on debt to get themselves through the COVID-slowdown.

Indeed there are many signs that the coming recovery is already underway as some investors begin to position themselves for a dramatic change in the mood music.

“The trio that has injected optimism into the risk trade remains alive and well. Indeed, still operative are the prospects for a COVID vaccine much sooner than expected, expectation of central bank stimulus (US Fed stands ready, as per FOMC minutes) and an improving global economic growth
health workers (and journalists). The mass global deployment of the first vaccines is due to start in December-January. Russian officials say that all of Russia’s population over the age of 60 years could be inoculated in the first two months which will rapidly reduce mortality rates there. Globally nursing homes and health workers will be vaccinated in April and March with the general population in April and May. Analysts say that the effect of the vaccine roll out will become fully apparent in the second half of next year when the world could return to normal.

**Overview of the World Economic Outlook Projections at Market Prices (Percent change)**

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>Projections</th>
<th>Difference from June 2020 WEO Update</th>
<th>Difference from April 2020 WEO</th>
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</thead>
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<tr>
<td><strong>World Output</strong></td>
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<td></td>
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<td></td>
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<tr>
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<td>3.8</td>
<td>2.3 -1.0</td>
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<td>-3.0</td>
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<td>0.1 0.1</td>
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<td>0.4 0.4</td>
</tr>
<tr>
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<td>-4.5</td>
<td>3.8</td>
<td>0.7 -0.3</td>
</tr>
<tr>
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<td>3.1</td>
<td>-2.6 0.2</td>
</tr>
<tr>
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<td>-5.7</td>
<td>3.2</td>
<td>0.3 -0.4</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
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<td>-3.5</td>
<td>3.1</td>
<td>0.2 0.3</td>
</tr>
<tr>
<td>Low-income Developing Countries</td>
<td>6.1</td>
<td>-1.4</td>
<td>4.7</td>
<td>-1.6 -0.7</td>
</tr>
</tbody>
</table>

Source: IMF staff estimates. Note: The aggregate growth rates are calculated as a weighted average, where a moving average of nominal GDP in US dollars for the preceding three years is used as the weight. WEO = World Economic Outlook.

*Difference based on netted figures.

Vaccine bump

But be warned: in the short-term things could get worse before they get better as the second wave gathers momentum and infection rates soar around the world ahead of the holiday season.

*The preliminary trial results for the vaccines of Pfizer and Moderna have shown markets a light at the end of the tunnel of the pandemic*

**IMF forecasts**

Analysts were also buoyed by the last IMF World Economic Outlook which was released in October that predicted 27 of the 78 countries it covers will return to growth in 2021, albeit at reduced rates.

“In 2021 global growth is projected at 5.4%. Overall, this would leave 2021 GDP some 6.5 percentage points lower than in the pre-COVID-19 projections from January 2020,” the fund said in its outlook. It went on to say that the pandemic has caused the global economy to contract by 3% – much worse than in the 2008-09 financial crisis.

Economists immediately upgraded their 2021 economic outlooks or added a back-to-work scenario where the pandemic fades away.

“The preliminary trial results for the vaccines of Pfizer and Moderna have shown markets a light at the end of the tunnel of the pandemic... With the preliminary trial results showing effectiveness above 90% for two vaccines having sparked enthusiasm, the S&P 500 has hit record highs and Brent has advanced to $44/bbl,” analysts Sberbank CIB said in a note in the middle of November. “Within stock markets, pandemic underperformers have massively outperformed the so-called stay-at-home stocks.”

It’s still early days as not all investors are convinced the nadir has been passed and Sberbank CIB was predicting more swings as fund managers see-saw between “enthusiasm” and “despair,” the bank said.

The release of trial results by the rivals has been marked by rallies, one-upmanship and Schadenfreude but the bottom line remains none of the leading drugs has shown any major problems to date, and actually all seem to work much better than could have been expected. Russia was the first register a vaccine and has already started inoculating the frontier markets of Uzbekistan and Tajikistan are expected to put in positive growth this year, according to the World Bank. But almost the entire region is expected to be back in the black next year.

Stepping back a little and the Developed Markets (DMs) have suffered more from 2020 than the EMs. The IMF calculates that DMs will see a -5.8% contraction in 2020 and 3.8% growth in 2021. That compares to a -3.0 contraction in EMs in 2020 and a 6.2% bounce back in 2021. Among the EMs Asia does best with a very mild 0.7% contraction this year and a whopping 8% bounce back next year. For Emerging Europe the numbers are -4.5% and 3.8% on aggregate respectively.

End of trade wars, resumption of FDI

Back-to-work scenarios will lift growth, but the general investment climate has also improved that will act as a tailwind, says Charlie Robertson, the
chief economist at Renaissance Capital, thanks to the change of administration in the White House.

One of the remarkable features of the Trump presidency is that FDI reversed and the net flow was into the US, whereas previously American investors were a net investor into foreign markets.

Speaking at the bank’s 25th anniversary conference, Robertson explains it simply as companies couldn’t predict which market Trump would pick a trade fight with next, and so bring down punitive retaliation, so they chose to build new factories at home, despite the higher wage bill. At the same time Trump introduced tax breaks for US companies investing at home. Combined this reduced outbound FDI by $200bn in 2018 and kept outbound FDI to under $100bn in 2019 and 2020.

The last time EMs were booming, US FDI to other countries (not just EM) rose to a 2007 peak of $400bn annually, well in excess of the peak value in the period of a little over $200bn. The difference was an FX outflow worth nearly $1bn per working day and dollar weakness is usually good for EM markets. Under Trump the US attracting a net $1bn of inflowing FDI a day, which lead to strengthening of the dollar.

As the trade wars are due to end, those FDI flows are expected to reverse again with EMs being one of the biggest beneficiaries. Robertson is predicting a medium term consistent weakening of the dollar as a result of the FDI outflows that will lift EM markets.

“Unsurprisingly, when MSCI EM is about 40% China, the trade wars have not been helpful to the EM investment case. With President Joe Biden, we expect the US to build stronger links with America’s allies, rather than to escalate attacks on them,” says Robertson.

Robertson thinks it will take a little time for this FDI reversal to kick in but by 2022 the flows will return to their 2007 levels that will bolster inflows into EM markets and at the same time lead to a sustained weakening of the dollar.

A $1bn a day flowing out of the US into EM markets is a lot of money.

Another expected dynamic is the falling inflation rates that will lead to a fall in bond yields as central banks across the EM world continue to cut rates. Ukraine's inflation performance has been outstanding in the last two years with the NBU aggressively bring inflation down from double digits to only 2.6 as of October – its lowest level in modern history. The story in Russia is the same with inflation down to 4% as of October and overnight rates repeated slashed to the current 4.25%.

There was a boom in local bonds investment in 2019 after several markets in Central and Eastern Europe (CEE) got hooked up to the Clearstream international settlements and payment system, but as the yields fall investors have already begun switching into equities – a trend that is expected to continue and gather momentum in the coming two years.

“So for the first time in years, probably since the taper tantrum in 2013 and the commodity crash of 2014, we think there are good reasons for a sustained bull run in EM,” concludes Robertson.
Russia’s Santa rally will get a corona boost this year and maybe more

Ben Aris in Berlin

The Russian equity market usually enjoys a rally between September and the end of the year that often returns about 20% to investors, known as the “Santa rally.” But this year as investors anticipate the end of the global coronavirus (COVID-19) pandemic the traditional rally will get a boost and is expected to run a lot longer than normal as the epidemic starts to fade away in the first half of next year.

Equity markets have already jumped in November following the announcement by US pharmaceutical giant Pfizer that it has a working vaccine with over 90% efficacy. Coupled with Joe Biden’s win in the US presidential election investors rushed into the markets all at once to adjust their portfolios to the new realities.

“We have just seen the biggest rotation in the history of the Russian market,” says Smolyaninov. “Investors realised that after the US elections they need to change tack and they were closing out the popular short positions and reinvesting into things that have been ignored like oil and gas… it’s a complete flip trade.”

The size of the rotation is a result of the severity of the crisis. Since the markets crashed at the end of February investors have almost universally taken up defensive positions in, what Sberbank CIB dubbed, the stay-at-home stocks – things like media, tech, pharmaceuticals – and shorted the back-to-work stocks – transport, banks and oil and gas.

That trade reversed after Pfizer as investors went back to a more normal “balanced portfolio” buying up the traditional bluechips. In Russia some 70% of the market capitalization is made up by companies in the extractive industries, which have all been badly wounded in this year’s crisis.

Leading traditional bluechip stocks on markets across the globe gained as much as 20% in a week as everyone made the same decision to rebalance their portfolio at the same time.

However, the frenetic buying and selling was not very visible in the indices as there was almost as much selling of stay-at-home stocks as buying of back-to-work stocks leaving the index more or less unchanged. The RTS index rose from around 1,100 to around 1,250 over the first two weeks of November as a result, a nice, but not remarkable, increase.

After being almost flat following the sell-off in March, there is now a very clear recovery kick at the end of the RTS index chart.

Game of two halves

There are now four viable vaccine contenders including Russia’s Sputnik V that will start to be distributed in December. The main body of inoculating the general population is expected to start in about April and by the second half of next year the pandemic should fade away.

Investors were shorting stocks that were likely to be adversely affected by the pandemic, while they had taken long positions in things like the leading IT firms like Yandex and Mail.ru as well and the best retail companies like X5 Retail Group and Magnit.

Commodities in particular were hard hit and the oil & gas sector is still some 30% down year to date. However, consumer stocks and metallurgy went back in the black in July, lifted by the booming e-commerce trade and strong sales amongst Russia’s leading supermarkets that have come through the pandemic largely unscathed. Indeed as bne IntelliNews has reported e-commerce is booming and the leading players in the retail sector have actually seen sales grow.

Russian assets saw strong $320mn inflows from combined equity and bond fund flows in the second week of November compared to $255mn in the previous week, largest two-week inflows since January. For much of the preceding months the Russian markets have seen outflows or at best anaemic inflows on the order of a few tens of millions of dollars at best.
BCS GM said the inflows were so strong it was worried that the market might even be overheating a bit. The inflows in the first week of November were the biggest this year – including the boom months in January and February before any of this year’s crises were even visible.

“The Russia-dedicated funds reported large intakes received by both traditional funds ($50mn) and ETFs ($77mn). However, there were two funds, one in every category that made the final number as impressive as strong as second best since July 2018 – the VanEck Vectors Russia ETF (RSX) reported a whopping $97mn of weekly inflow among the ETF category, while the Pictet – Russian Equities fund showed a $52mn weekly intake, BCS GM said in a note.

The massive rotation was visible in the US markets where as the same time the Nasdaq, which is home to corona-preferred stocks like tech, was falling, but at the same time the Dow Jones, which holds the more traditional industrial and financial stocks, was rising in the middle of November.

“The global stock allocation ship was skewed too much in one direction and that ship was starting to take on water. Now people are closing the popular short/long positions as the ship returns to its more usual course,” says Smolyaninov.

Actually this process has been going on since the summer even before the mass rotation began in November. Following the big sell-off in March investors slowly started buying back into their favourite stocks focusing mainly on the stay-at-home names with Russia’s internet giant Yandex being the clear favourite as it simply became “too cheap to ignore.” Yandex’s shares went back into the black in terms of loss/gain YTD on June 18 and have returned a whopping 49% to investors YTD as of November 25. Leading supermarket chain Magnit followed the same path and has returned 20% over the same period, including a recovery from being down 48.7% from its January 1 level on March 12. In the depths of the panic selling in March Yandex has also come

Relief rally in 2021?

Tamas Szilagyi in Budapest

Will there be a relief rally in 2021? There should be. In the year after Russia’s previous crashes there has been a big bounce back as investors got back into a market that was “too cheap to ignore.” Russia’s equity market remains extremely volatile but all said and done it has some very large and very valuable companies.

In August 1998 the market crashed, the ruble lost three quarters of its value, the state defaulted on $40bn worth of treasury and Eurobonds and the entire top tier of the banking sector collapsed. The RTS fell from a high of almost 400 to a low of just 38 in the middle of 1999. But the market bounced back returning investors 197% that year.

In September 2008 the market crashed again as a result of the sub prime global financial crisis. Again the RTS fell from an all time high set on May 19 2008 of 2,487.92 to fall to a low of 1,058 that September. In 2009 the market enjoyed a relief rally that took the index back to 1,445 earning investors a return of 129%.

The next crisis came in 2014 when the oil price collapsed sending the ruble from around RUB35 to the dollar to a low of RUB80. The RTS lost 45% of its value that year, but it took a lot longer for the economy to recover from a deep recession and the relief rally didn’t come until 2016 when stock prices soared by 52% in that year.

This time may be a little different. The market gained 45% in 2019, but that was not a post-crash relief rally per se, but a reaction to Russia’s spending on the 12 national projects and its gradual emergence from the stagnation of the last decade.

This year stocks had lost 40%-45% in the worst of the crisis in March but already bounced back as the pandemic restrictions were lifted over the summer. However, at the time of writing the market remains underwater to the tune of 25% since January. If the equity market stays true to form there should be a strong relief rally in 2021 – albeit less spectacular than following previous crises. Analysts at BCS Global Markets are predicting that the market will rally by at least 30% in 2021.

Russia RTS results

<table>
<thead>
<tr>
<th>Year</th>
<th>RTS index (eop)</th>
<th>% change y/y</th>
<th>Year</th>
<th>RTS index (eop)</th>
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<td>2291</td>
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Source: bne IntelliNews, MOEX
back from -30% loss. Following these spectacular recoveries the argument is that in 2021 the rest of the market will make similar comebacks.

So is this time to mortgage your house and get into the market? It’s still a bit early argues Smolyaninov. Despite the good vaccine news the world is currently in the throes of a second wave and countries are reporting record high infection rates – in many cases the infection rates are twice as high as during the peak of the first wave. It’s going to get worse over Christmas before it gets better.

“Global equity markets continue to be driven by conflicting narratives, one of which focuses on vaccines and the economy reopening while the other focuses on the rising number of COVID-19 cases,” Mitch Jennings, Senior analyst at Sova Capital said in a note to clients on November 20. “The latter is becoming hard to ignore, with Russia’s new confirmed infections hitting a record high today.” As a result Sova Capital took Sberbank ordinary and pref shares off its Buy list – both the lead back-to-work stocks – but at the same time took profits in children’s store Detsky Mir, agricultural producer RusAgro and supermarket chain Magnit – the leading stay-at-home names.

It looks like by the end of November the market was pausing for breath before attempting to scale the next ridge.

Start of a new super cycle
Much of the recent buying and selling has simply been a reaction to the imminent end to a particularly nasty crisis. But underlying the recent gains are bigger forces that should continue to push the market up even after these short-term effects wear off.

“Our key conclusion for investors is to buy anything and everything EM and FM – and while that may sound like the sort of thing we always say, in fact, it’s not,” said Charlie Robertson, chief economist at Renaissance Capital, who argues that a Biden presidency will reverse the flow of FDI into America and could begin sending out $1bn a day, much of it headed to emerging markets. (see related “Brighter days” article) Before the world went off the rails in March Russia’s equity market was enjoying its strongest rally in five years. Since the last oil shock in 2014 the RTS had been stuck in a trading band of 900-1,300 but in February it topped 1,600 and was on course to continue climbing.

Driving the gains is the ongoing economic development and effective reforms the Russian government has been making, ironically finally goaded into action by that same crisis in 2014.

Secondly, the Russian equity market is very seasonal with a Santa rally usually pushing stocks up at this time of year, as bne IntelliNews detailed in “Russian rallies.” There are several periods to look at that usually produce good results: a spring rally between January and April (average return in the last decade 7.2%); a Santa rally between September and December (3.2%); and a winter rally between September and April (6.0%). What clearly works least well is a buy-and-hold strategy or investing over the summer.

Thirdly, after almost every big crisis there is a relief rally where the market can return over 100% in a single year. The relief rallies in the 90s and noughties are very clear with the market returning 197% in 1999 the year after Russia’s financial sector collapsed and it defaulted on its debt. There was a similarly large 129% in 2009 after the sub prime global financial crisis the year before.

In the last decade the picture has been less clear as the Russian economy began to stagnate in 2011 before growth actually fell below zero in 2013. However, there was another relief rally in 2016 when the oil price collapse crisis of 2014 finally wore off. The rally in 2019 when the market returned 44% was not so much a relief rally as the market starting to respond to the Kremlin’s spending on the 12 national projects that are supposed to “transform” the national economy. It’s this last driver that is expected to return and drive the markets from this point onwards.

Smolyaninov goes further than predicting just a relief rally in 2021. BCS EM position is there is now at least a 33% upside to the fundamental value of the market. That is different to just predicting the best stocks will do well. He is talking about an across-the-board re-rating of the Russian market.

Russian stocks have always been priced more cheaply than their EM peers as in addition to the regular discount EM stocks receive there is a special “Russia risk” discount on the price of stocks.

“It is very rare when we see such a big fundamental upside, but the big question is how and when it will materialise,” says Smolyaninov.

What’s changed is the government has committed to forcing all the state-owned enterprises (SOEs) to pay out an extremely generous 50% of profits as dividends. And after resisting for several years in 2021 the SOEs are all expected to pay. The government has made a basic choice to tap the wealth of its best companies using dividends, not taxes. And as a result minority investors will get to participate in the bonanza.
There are two camps. The “repair the damage” camp believes that sanctions will be maintained but not greatly expanded as Biden focuses on rebuilding damaged relations with Europe. Countries like Germany have large business interests in Russia and are seeking a pragmatic relationship with the Kremlin that is mindful of the investments already made.

The more aggressive “containment” camp wants to see much more decisive action on Russia. Biden has a reputation for upholding human rights and was Barack Obama’s point man on Ukraine. He is expected to hold Russia to account with more targeted sanctions.

However, some banks are taking the view that even if Biden is more aggressive, the simple return to normalcy after four years of craziness will in itself lead to a boom in business. Just the end of the Trumpian trade wars for example, will do a lot to remove uncertainties.

For its part, the Kremlin is not taking any chances. One of the reasons it has spent so little on stimulus is to keep its reserves dry in case there are new painful sanctions.

As bne IntelliNews reported in October the Kremlin launched what appears to be a charm offensive in October aimed at deescalating tensions with the US even before the US elections were held. Amongst many comments, Putin suggested that he was willing to find a peace deal with Ukraine, in a first for him.

The stock market participants seem to belong to the repaid-the-damage camp and have been buying up stocks in anticipation of a return to normalcy. A rerating was well underway in November as the leading dollar denominated Russia Trading System (RTS) index started to recover its losses from earlier in the year (see story).

“Russian assets struggled to perform from August until US elections, but have since come back as markets begin to think that a Biden presidency will not see an immediate roll out of additional US sanctions on Russia,” Tim Ash, Senior Sovereign Strategist at BlueBay Asset Management said in a note in November.

There are several sanctions bills in the queue. Countering America’s Adversaries Through Sanctions Act (CAATSA) has already been passed but there are three more draft bills waiting for votes: Defending Elections from Threats by Establishing Redlines Act (DETER); Defending American Security from Kremlin Aggression Act (DASKA); and most recently Making America Safe and Secure Act (SECURE).

“The latter is particularly strict on Russia, including provision for sanctions on Russian sovereign debt, extending beyond the current sanction on new primary issuance of Russian dollar debt,” says Ash. “The fact that these bills did not make it to a vote on the floor of Congress perhaps reflected more the timing of the US election, but also that the GOP leadership wanted to close off scope for further Russia embarrassments for Trump before the election.”

These bills are still “live” says Ash, and the GOP leadership will now be under no particular pressure to go soft on Russia after Trump leaves.

The situation is made more confused as since 2014 Russian sanctions have increasingly become a tool for domestic politics that have nothing to do with Russia’s actions. Ash speculates that the GOP might use the Russian sanctions bills to attack Biden and try and make him look soft on Russia and wound him politically.

As bne IntelliNews has reported there are main issues on which the US and Russia can cooperate ranging from negotiating a new START nuclear missile treaty to bring peace to Libya.

Relations may improve as the Kremlin seems to have recently adopted a much milder approach to its foreign policy where it focuses on its own interests but has reduced its meddling in domestic policies dramatically, as leading political analyst Dmitry Trenin recently pointed out in a penetrating opinion piece “Moscow’s New Rules.”

Will Biden impose new sanctions on Russia?

Ben Aris in Berlin

Russia has had a good crisis. The economy only contracted by 3.4% in the third quarter of this year, after crumpling by -8% in the second quarter. And that is after the Kremlin has only spent about 3% of GDP on stimulus and support – one of the lowest levels in the world. Next year the economy is supposed to bounce back with 2.8% growth. Maybe.

A huge black cloud is hanging over Russia’s outlook for 2021: will the new Biden administration aggressively slap new sanctions on Russia? If it does then that could make a huge difference to Russia’s performance in 2021. The Trump administration has been exceptionally soft on Russia, but there are at least three bills in Congress carrying some very damaging ideas indeed.

A great deal of column inches have already been expended on the debate.
Central and Southeast Europe stock markets jump in anticipation of COVID-free future

Clare Nuttall in Glasgow (see end for additional reporting)

The main stock markets of Central and Southeast Europe jumped in mid-November on a series of positive news reports of vaccine trial successes that gave hope that an end to the disruption caused by the coronavirus (COVID-19) could arrive within months.

The performance of the main indexes of exchanges in Warsaw, Prague, Budapest, Bucharest and elsewhere reflected the global pattern, as the main international indices also rose to highs not seen for several months. Among them, the Dow Jones soared to pre-pandemic levels, while the FTSE-100 reached its highest level since June.

The first boost came in the second week of November, when early results from US pharma giant Pfizer’s phase three trials of its vaccine showed it was over 90% effective against the virus. This news broke shortly after Democratic candidate Joe Biden was declared the winner of the US presidential election; stocks had already started surging during the count as it became increasingly clear that the US was heading for a Biden presidency.

It was followed swiftly by news from Moderna on its COVID-19 drug, which trials showed to be 94.5% effective, causing markets to shoot up again, with aviation stocks in particular rallying.

From COVID companies to hospitality and retail in Warsaw

The main indices for the larger and more liquid stock exchanges in the Central and Southeast European region reflected the global trend.

The wave of optimism sparked by the vaccine news led to an improvement of the mood on the region’s largest bourse, the Warsaw Stock Exchange. The main index, WIG, has risen 12.41% in the past four weeks, despite the rapid spread of the virus in Poland recently that led the government to tighten restrictions and urge Poles to skip Christmas travel.

Analysts also noted that the vaccine news led to investors buying the stocks of companies that had suffered because of lockdown and subsequent varying forms of COVID-19 restrictions, such as restaurant operator AmRest, shoe retailer CCC, clothes retailer LPP or travel agent Rainbow.

On the other hand, investors started selling stocks of companies that did well in the pandemic circumstances, such as the online retailer Allegro, gaming giant CD Projekt and maker of medical protective gloves and masks Mercator, one of the so-called COVID companies that rallied during the pandemic.
Prague’s PX strengthens

The Prague Stock Exchange’s PX index strengthened on November 10, closing above 900 points for the first time in two months, up by 1.23% to 904.38 points.

This was mainly driven by banking stocks; Komerci Banka and Erste Bank rose by more than 4% and 3% respectively. As in Poland, companies that had previously received a pandemic boost did less well, among them the non-woven textile producer PFNonwovens, which primarily serves the personal hygiene products market. As the pandemic spread across Europe, PFNonwovens launched new production of face mask material in response to soaring demand for personal protective equipment (PPE).

According to Fio Bank analyst Josef Dudek, developments on the Prague Stock Exchange were affected by the previous day’s report on successful tests of Pfizer’s coronavirus vaccine. “This means that the financial sector in particular has moved further to higher levels, while technology has failed,” he said, quoted by the Czech News Agency.

Meanwhile, the technology company Avast broke out of its daily losses in the final auction and eventually added a slight 0.36% to CZK137.70. Richest Czech Petr Kellner’s O2 operator increased less than half a percent to CZK227. Since then the rise has continued. On November 18 the index achieved its highest growth since mid-July. The highest increase was posted by Moneta Money Bank, up by 2.7% to CZK64.70, followed by Erste Group by 2.29% to CZK625.2 and Komercni Banka by 1.39% to CZK584.

Hungary’s Richter buoyed by vaccine news

The Budapest Stock Exchange’s main BUX index finished the week ending November 20 up 2.33% at 38,205 points. The markets remained on an upward trend since the US elections as the benchmark index rose from 32,000 points.

One company to watch is CEE’s leading pharma group Richter, whose shares moved up 5.8% to HUF6,975 to end the week. The company kicked off the week on a strong note despite receiving bad news from the European Medicines Agency (EMA), which has recommended the restricted use of its flagship original drug Esyma. Analysts said news about Moderna’s vaccine lifted the share price on November 16. Richter extended gains in the middle of the week after Pfizer revised the efficacy of its own vaccine.
The Hungarian pharma company is reported to have supplied enough doses to Hungarian hospitals to treat 5,000 patients with the COVID-19 drug Remdesivir, after the government had already ordered some 3,000 doses in the spring. Earlier in the month, Richter reported record revenue in the first nine months on the back of surging sales to the US. The share price has moved in a wide range from HUF6,300 and HUF7,000 in the 20 days.

Bucharest benefits from emerging market upgrade

Southeast Europe’s largest exchange, the Bucharest Stock Exchange (BVB), marked a milestone in September when it held its first session as an emerging market following a long-awaited upgrade decision by FTSE Russell. The September 21 session, the BVB’s first as an emerging market, also marked the inclusion of the first two Romanian companies, Nuclearelectrica and Banca Transilvania, in the FTSE Global Equity Index Series (GEIS).

A statement from the BVB on October 12 said there had been an immediate impact from the upgrade, as the average daily liquidity increased by 3.5 times in September compared to August 2020, and €25mn. A month later, on November 16, the BVB reported that even amid the downturn in sentiment caused by the autumn second wave of the pandemic, the total value of transactions in the first 10 months of 2020 exceeded the figure achieved for the whole of 2019.

Starting from December 1, MSCI will move Kuwait to the emerging markets league, which will increase the share of companies from the BVB in the MSCI Frontier Markets 100 index. Their weight in the MSCI index will rise from 8% to 10.26% in five stages over a year, according to the agency’s simulations. Thus exchange traded funds (ETFs) that follow the index are acquiring Romanian shares to reflect the new structure of the stock basket.

Under these conditions and amid a positive international environment for the stock markets, the BVB indices made gains, and the blue chip index BET marked a 13.4% advance in the first 24 days of November. Compared to the pre-crisis peak of January-February, the index still lags by 8.6%, which is roughly in line with the dynamics of Euro Stoxx 50 that put in an 18.6% rally in November but still lagged 9.3% behind the pre-crisis peak.

The month was marked at BVB, besides the rise in MSCI weight, by the positive mood prompted by the US elections and successful vaccine news; this meant the return to the best performances seen in the period since the plunge in February-March, though not yet to pre-crisis levels. The quarterly financial reporting season has, however, poured some cold water on the sentiment, as some companies failed to meet expectations.

Zagreb’s Crobex10 at highest level since March crash

Among the smaller Southeast European exchanges, the two main indices of the Zagreb Stock Exchange, Crobex and Crobex10, rallied on November 16, with the Crobex10 reaching
its highest level since before the pandemic-induced crash in March.

Data from the ZSE show that the Crobex was up by 1.96% to 1,673 points on November 16 to reach its highest level since mid-June. The Crobex10 rose by 1.88% to 1,048, a level not seen since early March.

The rise in prices followed the vaccine news from Moderna, as the launch of large-scale vaccination programmes

Trading activity and prices up in the Baltics

The Nasdaq Baltic stock exchanges saw an increase in trading activity and a decrease in market prices as a result of the pandemic.

When the vaccine news broke in mid-November, there was a small increase in both turnover and number of trades executed on the market, as well as jumps in some of the Nasdaq Baltic indices – for example, Baltic Benchmark index (OMXBBGI), Baltic 10 index (OMXB10) and Nasdaq Tallinn index (OMXT) all saw a jump of around 3% on November 9.

However, according to information from Nasdaq Baltic emailed to bne IntelliNews, it is difficult to say how much of that was due to the vaccine. Moreover, the Nasdaq Riga market index (OMXR) does not seem to be affected by the news.

In addition, companies that are reliant on tourist flows such as Tallink and Novaturas saw prices rise. Tallink’s share price climbed by 11.6% between November 9 and 11. Novaturas’ share price was up 8.29% in the same period.

Regional fashion retailer Baltika saw a price and trading activity increase. The first spike in trading activity and price was due to an announcement about financial results, while the second increase in price and trading activity was around the time when the news about the vaccines was published.

“"The launch of large-scale vaccination programmes by next spring would mean a rebound for Croatia’s large tourism sector next summer”"
Southeast Europe’s EU members to get biggest boost from next budget and recovery funds

Clare Nuttall in Glasgow

Member states from Southeast Europe are set to be the greatest beneficiaries from the substantial EU funding planned through the next seven-year budget and the NextGenerationEU initiative, supporting their recovery from the coronacrises and enabling investments into areas such as physical and digital infrastructure that are crucial for attracting further investment.

Due to the veto currently being exercised by two EU members, Hungary and Poland, the package has not yet been passed. It is planned to comprise the EU long-term budget for 2021-27 amounting to €1.1 trillion together with the €750bn NextGenerationEU initiative; the two combined will make up the largest stimulus package ever financed through the EU budget, totalling €1.85 trillion. According to EU officials, the package is aimed at helping to rebuild the bloc post-COVID-19 as a “greener, more digital and more resilient Europe”.

As the poorer EU members (with some exceptions), the newer members from Central and especially Southeast Europe are expected to benefit the most compared to the size of their economies. Over the next two years alone, countries EU support is forecast to reach 11% of GDP in Croatia – one of the worst hit countries in the bloc by the coronacrisis thanks to its large tourism sector – and 10% in Bulgaria. Greece and Portugal, both tourism-dependent “old EU” countries, plus Latvia, Romania and Slovakia will also be among the top beneficiaries in 2021-22, according to analysis by the Vienna Institute for International Economic Studies (wiiw). This will help them through the remaining months of the pandemic – likely to be under heavy restrictions and partial lockdowns for much of the time – and into recovery once large-scale vaccination is underway.

“...the EU member states [of emerging Europe], available of fiscal space will not be an issue, as they have few problems borrowing money in the markets due to their good credit ratings,” said wiiw economist Valery Astrov in a webinar on November 12. “The EU member states will also receive strong support under the NextGenerationEU programme. A key ingredient is the EU Recovery and Resilience Facility. According to the already planned allocations to individual countries, the funds most of the East European countries are expected to receive from the EU are rather high in relation to their GDP.”

On the other hand, adds Astrov, for their neighbours outside the EU, in some of the Western Balkan countries as well as Ukraine and Moldova, “fiscal policy space may be a problem, [as] some of these countries already have high public debt to GDP ratios.”

In the longer term, Bulgaria and Croatia are also set to be the top beneficiaries of EU funding over the seven-year budget period.

Tim Umberger, deputy head of Eastern Europe investments at East Capital, notes that Southeast Europe will be the key beneficiary of the EU Recovery Fund and the EU 2021-2027 budget thanks to the size of the funds, the timing and the strong multiplier effects. “In terms of size … the combined EU Recovery Fund and previously communicated EU Cohesion Funds for 2021-2027 are massive,” wrote Umberger in a comment for bne IntelliNews.

“Bulgaria and Croatia will receive funding equivalent to 35% of their 2019 GDP, while Greece, Romania and Slovenia will get support amounting to...
27%, 26% and 17% of their 2019 GDP respectively. This means an additional 2.5% to 5% of GDP annually, a number that will be extremely supportive for the mid-term economic outlook.”

He also noted that governments are eager to put the funds to work: “Our conversations with policymakers in Slovenia and Greece suggest governments will not waste any time in preparing the projects to be able to draw the majority of funding available.”

“As the funding will be targeting multiple broad infrastructure projects and will be focusing on green transformation and improvements in structural efficiency, we expect sizeable multiplier effects in economic growth for Southeastern Europe,” Umberger added.

Croatia is also set to receive a substantial chunk of EU funds – €683.7mn – to support the rebuild and recovery of the capital Zagreb after the earthquake that struck in March, damaging homes and other buildings and causing an estimated HRK86bn (€11.2bn) worth of damage.

This will be a boon for the country, whose economy is forecast by most international financial institutions to shrink by 9% or more this year, the deepest contraction among the new EU members of Central and Southeast Europe, and one of the worst across the 27-member bloc as well as in the broader emerging Europe region.

The contraction is in large part due to the slump in tourist numbers visiting during the pandemic, and looking forward, “uncertainty and lingering travel restrictions weigh on exports, including tourism,” stated the European Commission’s Autumn Forecast. Domestic demand is expected to be the main engine of the recovery, while exports will be slower to recover. “While goods exports should rise in line with the recovery in Croatia’s main trading partners, service sector exports, dominated by tourism, are expected to remain under the pressure of travel restrictions, disruptions in air travel, and changes in consumer preferences in favour of domestic travel,” the European Commission report says.

Croatia’s Prime Minister Andrej Plenkovic commented back in May, when the details of the EU support were thrashed out, that they showed the benefits of EU membership. “I want to send a message to the Croatian public that in a time of crisis we see the significance of membership [of] the EU and the significance of how much European funds help us to return to the path of economic recovery as soon as possible,” Plenkovic said, according to a government statement.

Bulgaria, the EU’s poorest country and the biggest recipient of EU funds during the next seven years as a share of GDP along with Croatia, hasn’t been as badly hit by the coronacrisis as Croatia and is expected to see a more modest contraction this year.

The country is currently in the throes of the second wave of infections, with a second lockdown anticipated to be imposed imminently. It is ranked first in terms of the share of people who have died from coronavirus in Europe in per capita terms. This is set to lead to a new fall in consumer confidence, further limiting private consumption. Bulgaria has also been shaken by a series of high-level corruption scandals that eventually sparked several months of daily mass protests this summer, dampening investor interest in the country.

While these and other states from the eastern part of the union are set to benefit disproportionately from the package currently being discussed by EU leaders, its future is still in question, as Poland and Hungary united to block the adoption of the budget and the recovery fund on November 16 over a provision linking the disbursement of the funds to respecting the rule of law. They must be adopted unanimously by all member states before being ratified by each parliament. While talks are underway in an attempt to find a solution to the deadlock, there is a chance the EU could enter 2021 with a bare bones provisional budget.

The risk of losing billions of euros in much-needed funding has united many of their neighbours against the two illiberal democracies. The Czech and Slovak foreign ministers called at a joint press conference on November 18 for action to ensure the release of the funds.

Several days later, Romanian Prime Minister Ludovic Orban spoke out on the issue to Politico, calling on the two governments to reconsider. “The governments of the countries that oppose this conditionality must understand that it is necessary to build public trust around this programme, which is extremely important for relaunching the economy of the whole of Europe, for the benefit of citizens in Poland and Hungary,” said Orban.

The new member states that joined the EU from 2004 onwards have already received substantial amounts of funding from previous budgets, that have supported investments into infrastructure and other areas, helping their – as yet not completed – convergence with the older, Western members. The next budget and recovery funding is a chance to accelerate the catch-up process.

“Bulgaria and Croatia will receive funding equivalent to 35% of their 2019 GDP, while Greece, Romania and Slovenia will get support amounting to 27%, 26% and 17% of their 2019 GDP respectively”
Poland and Hungary block EU budget over rule of law link

Wojciech Kosc in Warsaw

Poland and Hungary blocked the adoption of the European Union’s budget for 2021-2027 and the coronavirus (COVID-19) recovery fund on November 16 over a provision linking the disbursement of the funds to respecting the rule of law.

Warsaw and Budapest have long been at odds with the EU and some of the bloc’s governments over policies undermining the independence of the judiciary and attacking media, minorities and NGOs.

They also are subject to official EU investigations over some of those policies. Both countries deny any wrongdoing and say that the EU’s attempt to link payouts from the budget and the recovery fund to rule of law is an unfounded intervention in their internal affairs.

The €1.8 trillion EU budget and the €750mn recovery fund must be adopted unanimously by all member states in a complicated process involving a positive vote in the European Parliament and unanimous backing in the European Council, a gathering of member states’ leaders.

The recovery fund – specifically the so-called Own Resources Decision, which lays legal framework for the EU to borrow money that will feed the fund – also must go through the Council in another unanimous decision. Member states’ parliaments will then have to ratify it.

The unanimity required during the process gives Poland and Hungary some leverage in negotiations but is also risky in case Brussels finds a way of circumventing the defiant duo – which, some experts claim, is technically possible although problematic from a political point of view.

The EU could also enter next year with only a provisional budget that would be severely diminished in comparison to the proposal just blocked by Warsaw and Budapest.

“Warsaw and Budapest could face losing billions of euros in EU funding over the next seven years”

In either case, Warsaw and Budapest could face losing billions of euros in EU funding over the next seven years, weakening growth, stalling infrastructural developments or – especially in Poland case – hindering the transition to a low-carbon economy.

That could, in turn, weaken the populist governments in both countries, where
most people are strongly in favour of EU membership.

For the Polish government, the battle over money also means opening a new political front in addition to the widely criticised response to the second wave of the coronavirus pandemic and infuriating Polish women over the near-total ban on abortion, dictated by the country’s Catholic circles.

Spokesman for the Hungarian Prime Minister Viktor Orban said that the PM had repeatedly warned against tying the EU’s budget and the recovery package to conditions where “the nature of the alleged law violation is not precisely defined, leading to politically motivated financial sanctions by employing double standards”.

Such measures would threaten the trust between member states as well as Hungary’s interests, Orban wrote in the letter addressed to EU leaders.

Orban’s Polish peer Mateusz Morawiecki expressed a similar sentiment.

"Poland cannot accept the mechanism [of linking EU funding to the rule of law] which would lead to the primacy of political and arbitrary criteria over a substantive assessment," Morawiecki wrote on Facebook about his objections, which, like Orban, he also detailed in a letter sent to top EU decision-makers and institutions.

Both countries’ justice ministers went even further than their PMs. Hungarian Justice Minister Judit Varga said linking the budget and the recovery fund to rule of law was "political blackmailing".

A country of 10mn people, Hungary’s total funding during the next EU budget cycle could come to around €61bn, which is 43% of the country’s annual GDP over the next seven years.

Poland, where 38mn people live, stands to be the biggest beneficiary of the EU funds, expecting over €170bn in 2021-2027 or around a third of the GDP in that period.

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**Hungarian government submits controversial constitutional amendments after parliament approves state of emergency rules**

**Tamas Szilagyi in Budapest**

Hungary’s opposition parties have called on Prime Minister Viktor Orban to withdraw a set of proposals to amend the constitution and election rules submitted to the parliament on November 10, just after lawmakers overwhelmingly supported extending the state of emergency and new curfew restrictions. There will be no obstacles to passing legislation as the ruling conservative-nationalist Fidesz party holds a supermajority.

One of the constitutional amendments would ban adoption by same-sex couples. The proposed amendment would specify that "the mother is a woman, the father is a man" and permit only married couples to adopt children.

Same-sex marriage is illegal in Hungary, but adoption has been possible if one partner applies on their own. Under the latest proposed amendment, single people could only adopt with special permission from the minister in charge of family affairs.

The proposal seeks to strengthen protections of families and children, ensuring that all children are brought up according to Christian values appropriate to their gender of birth, Justice Minister Judit Varga said.

LGBTQ groups say the legislation severely limits legal rights and goes against basic international and European human rights. It was deliberately drafted at a time when mass protests are not allowed, they added.

At the end of March the parliament approved legislation that gave state of emergency powers to Orban without a time limit. One of the first decisions of the government then was to issue a decree that made it impossible for transgender people to legally change their gender.

Amending election rules 17 months before elections

Another controversial proposed amendment involves election related-bills that opposition parties say will be unfavourable for them.

"A party may set up a party list only if it has nominated candidates in at least fifty single-member constituencies located in at least nine counties and the capital," according to the draft, submitted by deputy Prime Minister Zsolt Semjen. This would almost double the minimum number from the original 27.

The government said it wanted to crack down on bogus parties, which pop up just before elections to cash in on lucrative campaign subsidies. Surprisingly many of them manage to field candidates in lots of constituencies or even field a national list.

Analysts point out that they are not just formed to siphon campaign money, but they actively help Hungary’s illiberal strongman as fake parties tend to soak up many discontented voters and take votes away from legitimate opposition parties.
Political leaders from much of the Central and Southeast Europe region rushed to congratulate the new US president-elect Joe Biden on November 7.

After days of anxious waiting – in the US and worldwide – while the vote count continued in several critical swing states, the result was finally called for Biden on November 7 when he secured victory in the state of Pennsylvania.

Many of the formal statements and social media posts by politicians from the region highlighted the importance they place on maintaining good trade and security relations with the world’s largest economy and an important geo-strategic player in the countries on Russia’s western flank.

“Congratulations to president-elect @JoeBiden on his victory. I look forward to further consolidating our solid&dynamic #StrategicPartnership in all its dimensions. Romania will continue to work to strengthen the security, prosperity & resilience of our transatlantic community,” tweeted Klaus Iohannis, president of Romania, a staunch ally of the US in the Southeast Europe region.

“I heartily congratulate Joe Biden on being elected as the next president of the United States of America. Looking forward to all-round and friendly cooperation. It is important for the Czech Republic that the new president actively approaches allied commitments to Nato and seeks to conclude a trade agreement with the EU,” wrote Czech Prime Minister Andrej Babis on his Facebook page.

“Congratulations to president-elect @JoeBiden and vice president-elect @KamalaHarris! Croatian government @VladaRH looks forward to working with you and your administration on strengthening bilateral ties and enhancing transatlantic partnership!” tweeted Croatian Prime Minister Andrej Plenkovic.

Less predictably, Poland’s President Andrzej Duda was one of the first to congratulate Biden from the region, writing on Twitter:

“Congratulations to @JoeBiden for a successful presidential campaign. As we await the nomination by the Electoral College, Poland is determined to upkeep high-level and high-quality PL-US strategic partnership for an even stronger alliance.”

The congratulatory message for Biden came despite his rival, the US incumbent President Donald Trump, having helped Duda to re-election in June when he hosted the Polish president just days before the presidential vote in Poland.

Duda and the Law and Justice (PiS)-led government in Warsaw, along with the right-wing government led by Hungarian Prime Minister Viktor Orban in Budapest, would have been expected to gain confidence from a Trump victory. Conversely, Trump’s defeat is likely to force Budapest and Warsaw to take a softer stance in their often acrimonious relations with Brussels.

Orban in particular is an outspoken critic of efforts by western politicians and the EU to foist liberal values onto Hungary. Ahead of the election he was an open supporter of Trump’s re-election and slammed the “moral imperialism” of previous Democratic administrations.

Another staunch supporter of the outgoing US president is Slovenian Prime Minister Janez Jansa, who maintained...
this stance even after it became clear that Biden had won the vote.

“Interesting. Complaints have been filed in all US states with a close outcome. The courts have not even begun to decide. Nevertheless, the #MSM [mainstream media] (and not some official body) announces the winner. Congratulations from all sides. The rule of law is [grinning face]” Jansa tweeted in the evening of November 7.

In the Western Balkans, the outcome of the US election is inextricably linked to regional politics. Trump has strong supporters in the region, particularly in Serbia and Bosnia & Herzegovina’s Serb entity Republika Srpska. As of the evening of November 7, their leaders had not yet spoken out on the result.

Conversely, Kosovan PM Avdullah Hoti was quick to write on Twitter: “On behalf of the gov. of #Kosovo I extend my congrats to president elect @JoeBiden & @KamalaHarris on winning the #USAElections. I look forward to strengthening our permanent friendship with USA & continuing our work on behalf of our people & in service of our shared values.”

And Montenegrin President Milo Đukanović – who has just seen his Democratic Party of Socialists ousted by a coalition including pro-Serbian and pro-Russian parties – sent an effusive series of tweets to Biden and his running mate Kamala Harris.

“Great victory for the American people and confirmation of how strong American democracy is! Great victory for the democratic world! Heartiest of congratulations to the president-elect @JoeBiden!” he wrote.

“Beginning of the new stage of our fruitful cooperation and continuity of our several decades long friendship and trust. To the benefit of relations and trans-Atlantic alliance. Congratulations to #USA for organising and conducting the elections during the pandemic.”

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Nationalists clash with police, vandalise Warsaw on Poland’s Independence Day

Wojciech Kosc in Warsaw

The annual Independence March by Poland’s far-right descended into chaos on November 11, exposing the authorities’ inability to deal with the politically charged event that drew thousands, defying restrictions to contain the coronavirus (COVID-19) pandemic.

The annual Independence March has gained notoriety in recent years in Poland after having become the flagship event of the Polish far-right groups, sidling other attempts at joyous and peaceful celebrations of Poland’s rebirth as a state after World War One in 1918.

Every recent Independence March featured far-right and fascist imagery as well as controversial sloganeering such as “Europe will be white or uninhabited” or “White Europe of Brotherly Nations”.

The main slogan of this year’s march was “Our civilisation – our rules”. The participants also bore banners reading “Normal family – strong Poland”, a reference to the nationalists’ opposition to Poland’s rising LGBT rights movement, also targeted by the government.

The march’s organisers – an association made up of a number of far-right political organisations, including the National Movement party – initially said that the event would be a motorised parade after Warsaw’s liberal mayor banned the march as breaching anti-coronavirus regulations.

The march would be an occasion to show that “we are a state or a society ... which relates to these traditional, conservative, Christian, Catholic values,” Robert Bakiwicz, one of the organisers, told government-run broadcaster TVP Info.

While the car parade did take place, the focus was on thousands that showed up in defiance of the restrictions, with some groups attacking police. Rioters also vandalised a book store along the march’s route and threw flares at a building that had an LGBT flag and a banner for Women’s Strike, a women’s rights organisation, on display. A flat caught a short-lived fire as a result.

Police detained hundreds of people during and after the march, private radio RMF FM reported.

Poland’s right-wing government, which has occasionally pandered to the far-right, was initially reluctant to condemn the events.

“We don’t know the facts at the moment. We should look into who provoked the scuffles,” Deputy Prime Minister Piotr Glinski told private broadcaster Polsat.
Turkey’s finance minister resigns day after central bank governor is fired by Erdogan

bne IntelliNews

All eyes were on rising turmoil in Turkey’s Erdogan administration late on November 8 after Turkish Finance Minister Berat Albayrak unexpectedly handed in his resignation one day after the early morning hours firing by Turkish President Recep Tayyip Erdogan of central bank governor Murat Uysal.

The crisis-stricken Turkish lira (TRY) prior to the weekend slid to its latest all-time low of 8.59 to the dollar taking its losses to around 50% in two years as officials struggled to convince the markets that they in any shape or form have a realistic plan to stop Turkey falling into an outright balance of payments crisis and the election of Joe Biden to the US presidency – unlike incumbent Donald Trump, Biden is not expected to turn a blind eye to some of Erdogan's more aggressive policies and could advance sanctions, having described him as an “autocrat” – added to the pressure on Ankara.

Turkey’s finance ministry confirmed to news agencies that a post on the official Instagram account of Albayrak, a 42-year-old son-in-law of Erdogan, announcing his resignation for health reasons was genuine.

“I decided not to continue my duty as a minister after five years in office due to health reasons,” Albayrak, who was minister of energy before taking the top economy post in mid-2018, said in his statement. “I’ll spend my time with my mother, father, wife and kids, whom I have neglected for many years out of necessity.”

Middle East Eye reported sources as saying that Albayrak, who has deleted his Twitter account, might have resigned after Erdogan replaced the central bank governor without his knowledge.

The lira gained more than 1% in response to the Albayrak news, but it is not at all clear yet as to what Erdogan, who would need to approve
the resignation, has in mind in terms of reshaped economic management.

Uysal – like his predecessor Murat Cetinkaya who was fired by Erdogan in July 2019, with the president expressing his displeasure at the lack of rate cuts to boost the economy – was sacked abruptly by a decree published in the Official Gazette. No explanation was provided. Naci Agbal, 52, who served as finance minister between 2015 and 2018, was appointed as the new central bank governor.

**Famously averse**

The most recent phase of Turkey’s economic management has largely seen the central bank attempting to introduce backdoor monetary tightening in an attempt at strengthening the lira without formally raising interest rates – New central bank boss Agbal “might do a better job in getting approval for a rate hike” given his former experience with the government and ruling party, Selva Demiralp, director of the Koc University-TUSIAD Economic Research Forum, told Reuters, adding: “Absent a rate hike, I am afraid the financial crisis will only get worse with the depreciation in the lira that increases the external debt, triggering bankruptcies.”

Turkey has more than $100bn of foreign debt that needs repaying in the near future.

At the last meeting of its monetary policy committee on October 22, the central bank bucked expectations for a substantial interest rate hike and held its policy rate steady at 10.25%, triggering sharp losses in the lira. The bank also surprised markets a month earlier when it hiked rates.

Turkey’s official annual inflation rate stands just under 12% but many sceptical analysts believe that in reality inflation is three to four times higher. Steve Hanke, an economist at Johns Hopkins University, tweeted on November 6 that his latest measure was 48.49%.

Mehmet Mus, the deputy parliamentary group chairman for the ruling AKP party, said Albayrak had taken important steps to strengthen the economy and that he hoped Erdogan would not accept the resignation. “We personally witnessed his diligent work. If our president sees fit, I hope he continues at his post,” Mus said on Twitter. ●

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**Moldova’s foreign policy reset**

Clare Nuttall in Glasgow

M oldova has been quite literally divided between east and west since the earliest days of independence, with the territory to the east of the Dniester river under the control of Russian-backed separatists. This long-frozen conflict meant it was viewed as one of the battlegrounds in the struggle for influence between Russia and the West, a situation played upon by numerous politicians over the years. As successive changes of government caused it to ricochet in one direction or the other, and then back again, rampant corruption and state capture were overshadowed by geopolitics.

The latest presidential election ended with a landslide for Maia Sandu, leader of the Party of Action and Solidarity (PAS), whose primary foreign policy aim is European integration. “We are 100% committed to European integration. This is the core of our foreign policy message, part of our political DNA,” vice-president of the PAS, MP and deputy parliament speaker Mihai Popsoi says in a phone interview with bne IntelliNews after the vote.

However, unlike some of her predecessors at the top of Moldovan politics, who deliberately stoked rivalry between Russia and the West for their own ends, Sandu has talked since her poll victory of “balance” in Moldovan foreign policy, and her desire for a good relationship with Russia.

The day after the runoff vote against incumbent President Igor Dodon, who received verbal (if not much financial) support from Russian politicians ahead of the election, Sandu said Chisinau will “establish a pragmatic dialogue with all countries, including Ukraine, Romania, European nations, Russia and the US.”

On November 18, PAS announced on its Facebook page that Sandu had met with the ambassadors of Moldova’s four most important foreign partners: the EU, the US, Russia and Romania. According to the posts, warm words were exchanged with all. At the meetings, Sandu spoke of bringing Moldova out of isolation and pursuing a foreign policy in the interests of Moldovan citizens. While perhaps her warmest words were for the EU, she told the Russian ambassador that she wanted a “positive, pragmatic and predictable” relationship with Russia.
Maia Sandu won a convincing victory in Moldova’s presidential election.

No longer Russia’s backyard

It is now almost three decades since the breakup of the Soviet Union, of which Moldova was a small part, and Russia’s attitude towards the former Soviet states is evolving. In a comment for bne IntelliNews, “Moscow’s New Rules”, Dimitri Trenin of the Carnegie Moscow Center argues that the change — often overlooked by commentators who see an aggressive Kremlin looking to create “new Crimes” — is demonstrated by Russia’s response to the crises in Belarus, Kyrgyzstan and Nagorno-Karabakh that all erupted in the second half of this year.

“Russia is learning to mind its limitations; to repel residual nostalgia; and to think straight, putting issues before personalities, and staying focused on its own interests, leaving the empire farther and farther behind,” writes Trenin.

This has certainly not always been the case in Moldova, where Natalia Otel Belan, regional director for Europe and Eurasia at the Center for International Private Enterprise, points to “Russia’s constant meddling” over the last three decades. “Since the beginning, Russia had influenced the country in many ways, primarily by creating ‘crises’ that it would then step in to ‘solve’,” she tells bne IntelliNews. “The most significant example is the long-standing Transnistria conflict. Russia used the conflict to constantly put Moldova’s sovereignty under question and extend its influence on Moldova’s state institutions, legislation and economy, resulting in a generally weak state.

“Over the years, Russia used its influence over Moldova as leverage to advance its own interests in the wider region, including in negotiations with the West on other issues, not always related to Moldova,” Belan adds.

She does, however, point out that “there have been signals of a so-called potential geo-political consensus regarding Moldova among Moscow, Brussels and Washington”, that first appeared with the change of regime in June 2019, when Sandu and Dodon briefly joined forces to oust politician and businessman Vlad Plahotniuc, who had managed to capture most of Moldova’s key institutions.

After the latest election, Russia was surprisingly quick to accept the defeat of its preferred candidate. President Vladimir Putin, who had not yet congratulated US president-elect Joe Biden on his victory earlier in November, sent a cordial though not effusive telegram to Sandu. “I hope that your activity as the head of state will contribute to the constructive development of relations between our countries. This would undoubtedly meet the fundamental interests of the peoples of Russia and Moldova,” the message read.

Multi-vector foreign policies

After almost 30 years of independence, most of the ex-Soviet states have already gone in their own directions, leaving only a core of five formal allies and partners, not including Moldova but comprising Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan, writes Trenin. “Moreover, since gaining independence from Moscow, all of Russia’s nominal allies have been pursuing what they proudly call multi-vector foreign policies,” he says.

Perhaps the best example of a state that has actively and successfully pursued a multi-vector foreign policy is Kazakhstan, which has maintained its independence from its two big neighbours Russia and China while establishing thriving diplomatic trade and investment relations with both.

As a geographically large, sparsely populated country full of desirable natural resources, this was initially a matter of survival. But as time went on, Kazakhstan also reached out to further flung countries including the US, Canada, the UK, France, Germany, India, Turkey, the UAE and others, allowing it to build new trading relations and punch above its weight diplomatically.

“While multivectorism was a strategy of necessity in its early years, it has evolved to empower Kazakhstan to effectively protect its independence and negotiate its relationship with the great powers on its borders and further afield,” says a paper on the issue, “Between the bear and the dragon: multivectorism in Kazakhstan as a model strategy for secondary powers”, published earlier this year.

Its authors say Kazakhstan has gone beyond “trying to ‘hedge its bets and avoid choosing alliances. Instead, Kazakhstan has a strategic preference for ‘enmeshing’ Great Powers in complex exchanges and positive-sum relations with the region through building regional institutions and pursuing multilateral approaches. Moreover, these ties with the Great Powers are not clientelistic in nature.”

Like Kazakhstan’s recently retired president Nursultan Nazarbayev, who
ruled the country for 30 years, Serbian President Aleksandar Vucic is another master of balancing with Belgrade’s ‘four pillars of foreign policy’. As bne IntelliNews’ Serbian correspondent noted, “Serbia’s long-lasting goal [is] to be an EU family member, the US’ friend, China’s brother and Russia’s kid all at the same time”.

This has been helpful at home too, allowing Vucic’s Serbian Progressive Party (SNS) to keep on board those on the right and far right who see Russia as Serbia’s most important ally and defender following the loss of Kosovo. At the same time, the SNS’ pursuit of EU accession gives it an advantage among another large swathe of voters, thereby allowing the party to dominate the parliament and domestic politics.

However, the balancing act is by no means easy, and it is set to get steadily more difficult as Serbia slowly but inexorably moves towards EU accession, stated by the government as its number one goal. Serbia already faces a backlash whenever it shifts the balance and moves closer to one or another of its partners, as shown by the responses to the deal brokered by the US at a summit with Belgrade and Pristina in Washington in September.

There was a crude response from Moscow, where foreign ministry spokesperson Maria Zakharova posted a picture of Vucic in the Oval Office alongside a shot from the 1992 erotic thriller Basic Instinct showing the actor Sharon Stone crossing her legs while being questioned – the famous scene that had teenage boys freeze-framing their VCRs to see if the actor was wearing underwear or not. (This was followed by a rare apology from the Kremlin.) The agreement also managed to irk the EU by committing the two countries to open embassies in Jerusalem and China with its position on Huawei.

**Accommodating Russia**

Then there are the countries that remain much more closely within the Russian sphere of influence; of the core of five identified by Trenin, arguably the closest are Armenia and Belarus. This means that even when political leaders emerge that have a penchant for liberal democracy and all things Western, they have no choice but to stay on the right side of Russia as well.

As the Velvet Revolution protests raged in Yerevan in May 2018, bne IntelliNews columnist Emil Avdaliani pointed to the country’s dependence on Russia: “Yerevan is strongly aligned with Moscow, with the Russians controlling much of Armenia’s strategic infrastructure … Distancing itself from Russia is difficult for Armenia to do because the country is sandwiched between the two enemies: Turkey and Azerbaijan.”

“Serbia’s long-lasting goal [is] to be an EU family member, the US’ friend, China’s brother and Russia’s kid all at the same time”

As it became apparent that Armenia’s then president Serzh Sargsyan would not be able to quell the Velvet Revolution without violently crushing the protests (which he was not prepared to do), Russian officials reached out to journalist-turned-protest leader Nikol Pashinian, even though he was exactly the type of example that the Kremlin didn’t want in its near neighbourhood. In turn, Pashinian was very quick to assure Moscow that the revolt did not have any geopolitical agenda and that under his rule there would be no fundamental shift in foreign policy.

More recently, mass protests have erupted in Belarus over the rigged August 9 presidential election. Hundreds of thousands of Belarusians have been on the streets week after week pushing for Alexander Lukashenko to acknowledge defeat and stand down.

Just like Pashinian, Svetlana Tikhanovskaya, Lukashenko’s rival who is believed to have taken the largest share of votes in the Belarusian election, has sought to reassure Moscow that the ongoing protests are not in any way directed against Russia and do not have a geopolitical agenda.

“That was not the fight against Russia at any stage, and I am certain it will not be such,” Tikhanovskaya said in a message entitled “To Russia” on her Telegram channel in September, as reported by Tass. She added that the people of Russia and Belarus “have always been good neighbours and close friends” and that Belarusians want friendly relations with all their neighbours, while maintaining the sovereignty of their country. Despite this message, Tikhanovskaya and other high-profile Belarusian opposition leaders and activists were put on the police wanted list in Russia the following month.

Moldova is in a similar situation to Armenia or Belarus, as it has to have a relationship with Russia, not just as one of the regional great powers but as a country with a military presence on the ground in the eastern half of the country.

“Maia Sandu promised to the electorate that she will conduct a ‘balanced foreign policy’,” Denis Cenușa, associated expert at Chisinau-based think-tank Expert-Grup, tells bne IntelliNews, noting this is not identical to a ‘multi-vector’ orientation. “Her position in this matter is that Moldova should continue European integration and have a constructive relationship with Moscow. That might be insufficient to have a welcoming Russia, which enjoyed a whole-hearted geopolitical loyalty from Igor Dodon.”

**Don’t poke the bear**

Popsoi elaborates on Sandu’s plans post-election, saying that alongside an overhaul of the justice system to root out endemic corruption, her presidency will be committed to the full implementation of Moldova’s EU Association Agreement followed by more advanced integration with the EU. Achieving this will,
however, depend on Sandu’s ability to force snap elections and get a new government she can work with.

Moldovan voters want a balanced foreign policy, according to the PAS MP. “Voters overwhelmingly want to join the EU – recent polls show support is in the high 60s at the moment – but at the same time, they don’t want a worsening of relations with Russia,” he says.

Specifically, Moldovans don’t want the kind of artificial conflicts with Russia provoked by previous leaders to prove their pro-EU credentials and encourage Western leaders to overlook corruption and state capture, and continue sending financial aid to Moldova. Prime examples of this were the self-declared pro-Western governments controlled by Plahotniuc, whose officials stirred controversy with Russia and cultivated a public rivalry with Dodon (the two are believed to have been collaborating privately to keep out genuine opposition parties such as Sandu’s PAS).

Commenting on Moldova’s relationship with Russia, Popsoi says: “We certainly have major differences with Russia, but also interests we have to defend: Moldovan workers in Russia, Moldovan citizens in Transnistria, we are dependent on Russia for energy. So we need a balanced approach. We are committed to EU integration but we are eager to maintain good economic and political relations with Russia, because at the end of the day this is in the interests of the Moldova people.”

Beyond geopolitics
With the war in Transnistria now a generation ago, Moldovans are less concerned about their country’s geopolitical position than about all the other problems besetting it: poverty, low living standards, lack of economic opportunities at home that have promoted mass emigration, and more recently the coronavirus (COVID-19) pandemic that spread rampanty with over 88,000 confirmed infections to date among a population of just over 4mn.

Results from the election show that in the second round Sandu gained an overwhelming majority among diaspora voters, with long queues outside polling stations in embassies in Western countries. Dodon did better among Moldovans in the country, but she still appears to have eaten into Dodon’s base of ageing, socially conservative and Russian-oriented voters.

Many Moldovans are simply tired of geopolitics and, in Popsoi’s words, decided to “vote with their pocketbooks” instead. “Geopolitics is still important, but voters are tired of the geopolitical fight, the oversimplification of the reality on the ground and the obfuscation of the economic reality,” he says. “Regardless of other considerations … if the economy is doing well and salaries are growing, people are unlikely to protest and vote politicians out. [However] the economy has declined as a result of COVID-19, and even without that it was in a bad situation, and most important was the element of corruption.” The stance of Sandu and her party as staunch fighters against corruption and promoters of integrity in public life are what Popsoi believes secured her victory on November 15.

Analysts agree on the importance of corruption as a political issue, several years on from the revelation of the “$1bn bank frauds” in which huge amounts of money were siphoned off from three local banks in a scam that will eventually be paid for by Moldovan taxpayers.

“We are committed to EU integration but we are eager to maintain good economic and political relations with Russia”

“People’s interest is less about geopolitics unless this refers to European integration, which underpins the country’s western orientation,” says Cenusa. “To compare what is most important to the public – fighting corruption or good relations with Russia – then at present, the choice will fall on the former as it feels urgent and overwhelming.”

There are more tangible problems facing everyday Moldovans on top of corruption. “Moldova’s external orientation towards the West or Russia is the main reason for serious polarisation in the society. However, Maia Sandu built her campaign on solving common issues faced by these two groups such as poverty, split families due to mass emigration, corruption and lack of trust in the judicial system and all state institutions,” comments Belan.

“Solving such challenges to the benefit of the regular people is only possible through, among others, a balanced foreign policy that advances Moldovan exports, reduces country risks for foreign investors, and attracts international financial assistance for infrastructure and social programmes. This particular unifying message from Sandu’s campaign resonated strongly with the voters. Maia Sandu has the potential to bring Moldova out of many years of isolation and can normalise relations with Kyiv, Bucharest, the EU and [international financial institutions].”

Sandu therefore has a mammoth task ahead of her, one that she can only begin properly if Moldova is to hold fresh elections that will deliver a new parliament with a majority that favours reforms over protecting the interests of its members. From then on there will no doubt be political actors in Moldova who will seek to re-stir the geopolitical pot to try to thwart reforms, especially those in the justice system, that threaten their interests. At the same time, the new administration in Chisinau will have to delicately manage the country’s external relations to ensure these too do not derail the planned reforms.
Bulgaria’s “Poisonous Trio” calls for halt to protests to stop spread of COVID-19

The organisers of Bulgaria’s nightly anti-government protests, the self-styled “Poisonous Trio”, have called a halt to the protests as the number of coronavirus (COVID-19) cases rises steadily in the country.

Bulgaria has been wracked by nightly protests since July, with hundreds of thousands of people demanding the resignations of Prime Minister Boyko Borissov’s government and chief prosecutor Ivan Geshev.

The message from the Poisonous Trio, posted on Facebook on the 116th day of protests, also the Day of the Enlighteners holiday in Bulgaria, says the protests have “achieved the unthinkable, beyond our wildest dreams”.

From now on, however, the trio – comprising PR expert Arman Babikyan, human rights lawyer Nikolai Hadzhigenov and sculptor Velislav Minekov – call for the protests to be halted and replaced with “other forms of resistance” amid the mounting second wave of the pandemic.

“We must preserve the ability of Bulgarian physicians and nurses to deal with the wave of sick. We take this move out of respect for our rescuers in white aprons … We think it’s hypocritical to criticise the ruined healthcare system and at the same time create a risk of infection,” the statement said on November 1.

“The battle will be with other methods of resistance and we will pressure the system of the goons to the end. Our demands remain the same – resignation of Boyko Borissov, resignation of Ivan Geshev and early parliamentary elections!” it concluded.

The protests were triggered by two incidents back in July that highlighted the corruption in the country’s political system. First, the confrontation between opposition politician and former justice minister Hristo Ivanov and state security guards protecting the summer villa of Ahmed Dogan, the chairman of honour of the opposition Movement of Rights and Freedoms (DPS). For many Bulgarians, Dogan and the DPS are synonymous with corruption. Shortly afterwards, Geshev ordered a raid on the presidency after President Rumen Radev called for an investigation into why state security had been deployed to protect Dogan’s villa.

The two incidents led to a much broader outpouring of frustration about official corruption in Bulgaria, ranked the lowest of the EU members on Transparency International’s Corruption Perceptions Index.

Despite some official efforts to persuade the protesters to stop – for example by ministerial resignations and promises of a new constitution – the situation between government and demonstrators has reached a stalemate.

Still, the Poisonous Trio’s statement claimed progress in awakening people to the situation in Bulgaria and abroad.

“Today, on the Day of the People’s Educators, we can read that we have awakened 67% of Bulgaria’s citizens, that we have awakened the world’s media to corruption in the country … We have awakened the European Parliament. Millions of Bulgarians understood that the emperor was naked!” said the statement.

“Bulgaria will never be the same ugly hole in which people’s dreams, justice, labour and money sink. The only ones we could not wake up are Borissov, Geshev and the close clique around them.”

Bulgaria, like other countries in Central and Southeast Europe, is experiencing a resurgence of the virus. 1,225 new cases were reported on November 2, bringing the total to date to 54,069. Nearly two-thirds of Bulgaria is now in the coronavirus (COVID-19) “red zone” due to the high number of new cases, and there is no area where the spread of the disease has remained low.
Below average 2020 wine production destined for volatile and uncertain global market

Clare Nuttall in Glasgow

Wine production is set to remain low for the second consecutive year in 2020 due to a combination of climate factors and the global coronavirus (COVID-19) pandemic, first estimates from the International Organisation of Vine and Wine (OIV) show.

The picture from the Central and Eastern Europe region was a mixed one, with drought hitting the grape crops in countries such as Romania and Moldova, while others like Hungary and Russia managed to boost production.

In the 30 countries that accounted for 84% of world wine production in 2019, production is estimated at between 253.9mn and 262.2mn hectolitres (mhl), with a mid-range estimate of 258 mhl, the OIV said. This is up 1% compared to 2019, which also saw below average production following the exceptionally high output in 2018.

The first estimate for production in the EU is 159.0 mhl, a 5% year-on-year increase. According to the OIV, there were weather conditions for a “potentially large harvest”, but the spring lockdown affected the vine cultivation period, typically April-July. On top of that, in parts of France, Italy and Spain wine makers decided to fix vinified volumes at below the 2019 level because of the drop in demand on the global wine market.

Among the main wine producers in the eastern part of the EU, production fell by 7% each to 3.6 mhl in Romania and 0.9 mhl in Bulgaria, parts of which were also affected by drought. There was also a 7% drop in production in Croatia to 0.7 mhl and 16% in Slovenia to 0.6 mhl.

On the other hand, there was a sharp increase of 22% in Hungary to 2.9 mhl and by 15% to 0.6 mhl in Czechia. Production also inched up by 1% to 0.3 mhl in Slovakia.

Outside the EU, production rose by 2% y/y to 4.7 mhl in Russia and by 1% to 1.0 mhl in Ukraine. Drought-hit Georgia and Moldova saw production dip by 3% to 1.7 mhl and 18% to 1.2 mhl respectively.

In the other major global wine producers, first harvest forecasts in the US indicate volumes in line with 2019, but uncertainty caused by wildfires might lead to further revisions, the OIV said. There has been a fall in wine production in South America, especially Argentina and Chile, caused by unfavourable weather conditions, and Australia’s crop was hit by bushfires. On the other hand, New Zealand is heading for a record harvest, and South Africa bounced back after several dry years.

Speaking at a televised press conference on October 29, OIV director-general Pau Roca stressed the mounting danger to global wine production posed by climate change.

“Droughts and wildfires are devastating vineyards in both hemispheres … without action the whole industry will be under threat,” Roca said.

Commenting on the relatively low level of production this year, Roca noted that it is “not necessarily bad news for the sector given that wine stocks are high and geopolitical tensions, climate change and the COVID-19 epidemic are generating a high degree of volatility and uncertainty on global wine markets”.

“The 2020 wine production will enter a market still strongly characterised by uncertainty provoked by the pandemic and its consequences. Lockdown measures in most wine producing and consuming countries had an impact on the wine sector,” Roca added.

The spring lockdown, closures and restricted openings of bars and restaurants, and the deep economic contraction in the second quarter all took their toll on demand for wine. Demand for sparkling wine in particular dropped, as there was little to celebrate and events such as weddings were either put off or small, low-key affairs.

This impact varied from country to country depending on factors such as the length of lockdown measures, halts of production, elasticity of substitution between wine and other beverages and the relevance of the retail channel in distribution as the horeca channel was temporarily shut down.

The lockdown generated recessions that also have both direct and indirect effects on the sector.

There were also disruptions to global supply chains caused by the pandemic, and together with geopolitical tensions – notably the trade war between the US and China – have resulted in a drop in international trade in wine of 6.7% in volume and 12.4% in value after many years of steady growth.
KEEP YOUR EYES ON THE BALL

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Russians have been bingeing on health food in an effort to build up their immune systems in the hope of protecting themselves from the coronavirus (COVID-19).

That’s how Elena Shifrina, former model, MIT alumnus and now CEO of Russia’s premier health food company BioFoodLabs explains the surge in sales this year.

"We were so busy that we had no time to eat, so we used to fill up on snack bars, but we didn’t want those filled with sugar. We were looking for something that was quick and easy to eat, but at the same time nutritious."

Russia's BioFoodLabs health food is flourishing in the times of the pandemic

Ben Aris in Berlin

Today BioFoodLabs sells over 100 different products through most of the country’s leading supermarkets and is turning over RUB1.5bn ($19.4mn) a year, with revenues still growing before they shot up around 40% this year due to the pandemic. The company has set up an R&D arm and is constantly looking for new product lines, recently getting into “alternative” meat and milk, which have been very successful. And partly thanks to the high quality of its product and helped by the devaluation of the ruble, some 10% of its production now is exported to nearby countries in the EU.

Shifrina says that BioFoodLabs has many years of strong growth left in it, but eventually her goal is to IPO the company. It is another example of the emergence of a light manufacturing industry in Russia that is being driven by the enormous size of the Russian consumer market and the fall in the value of the ruble in recent years that has made local production ever more competitive against the imports from both east and west.

Food sales in the time of corona
BioFoodLabs began by producing healthy snack bars. The idea came to her in the dining room at MIT, where she did a short stint as an exchange student in 2011.

"We were so busy that we had no time to eat, so we used to fill up on snack bars, but we didn’t want those filled with sugar. We were looking for something that was quick and easy to eat, but at the
same time good for you,” Shifrina told bne IntelliNews in a video interview from her home in Moscow.

The business has grown strongly from the start, as contrary to the Russian stereotype, Russians are very concerned with the quality of their food, putting a premium on “natural” that comes from generations of kitchen gardens at the ubiquitous dacha, where every family took pride in the quality of the tomatoes, potatoes and fruit they grew on their allotment.

The coronacrisis crisis has been a boom for BioFoodLabs, which pushed sales volumes up by 40%-45% month on month over the summer, according to Shifrina.

“People want food that supports the immune system and we can legally put on our packaging that our products are “healthy”, as they contain no sugar or preservatives, but they do contain a lot of vitamins,” says Shifrina.

BioFoodLabs has moved on from just making healthy snack bars and now has 113 stock keeping units (SKUs), as products are called in the fast moving consumer good (FMCG) world. That gives the company some real clout with the supermarket chains.

“If we only had five SKUs then the supermarket would not deal with us directly and would tell us to go via a distributor. But that eats up 15%-30% of your margin,” says Shifrina. “We have from the beginning wanted to work directly with the retailers as a strategic decision.”

And as bne IntelliNews has reported, Russian retail is going through its own parallel revolution, driven by digitisation that has also been catalysed by the coronavirus (COVID-19) pandemic. Sales in the food sector in general have been booming at the biggest companies, not falling, even if the overall retail sector turnover has been contracting.

Normally the supermarket agrees with a company such as BioFoodLabs to offer a proportion of the company’s products at a discount in order to build up the sales volume, as the supermarket is as interested in boosting sales of the products on its shelves as the producer.

“The supermarkets cancelled all the discounts. The products were selling so well that there was no need to discount it to get people to try it. The demand for healthy food was so high that customers were buying them on the strength of that promise alone,” says Shifrina.

Distribution and Logistics
BioFoodLabs’ business has of course been hurt by the lockdown that started in May. Just under a third of its products were sold through cafes and kiosks, most of which were closed for months in the middle of this year, but Shifrina says that the boost in supermarket sales and growing online orders more than offset the sales fall in cafes. Moreover, BioFoodLabs has been tapping the new retail distribution channel, the appearance and rapid growth of hard discounters.

BioFoodLabs is already in talks with Fix Price, one of the fastest growing of these hard discounters, that bne IntelliNews recently profiled. As these stores only sell goods that cost less than RUB199 ($2.30) and include staples such as pasta and flour, the Bite snack bars are a perfect addition to the discounter’s “impulse buy” model of boosting sales.

But working with the big Russian retail chains is the real “not meat” and potatoes of BioFoodLabs’ business.

“Just Pyaterochka [the discount supermarket chain arms of the X5 retail Group] has 8,000 stores across the whole country and Magnit has another 9,000,” says Shifrina. “Half our product is sold in the two biggest markets of Moscow and St Petersburg and the rest is sold everywhere else, with the 11 millionki, the cities with over one million population, being the most important.”

The supermarkets make distribution easy. BioFoodLabs’ production facility is based just outside Moscow in the Moscow Oblast and has more than tripled in size from its original 1,000 square metres to 3,000 sqm now, with another 2,000 sqm of storage space. All the company has to do is deliver its finished products to one of the many distribution centres run by the
supermarkets and they transport the goods throughout their nationwide chains. As Russian retail sales are increasingly going online, all the leading companies – both traditional and e-commerce – have been investing heavily into their distribution and logistics systems, which have already become very sophisticated.

**Alternative meat and milk**

Shifrina has been funding all this growth out of retained earnings and apart from a 14% stake she sold in 2017 to create some working capital as a buffer to the inevitable shocks an emerging market like Russia suffers from, she has taken on no bank loans or other outside investment.

“The company’s turnover has grown to RUB1.5bn ($19.4mn) with a 25% profit margin,” says Shifrina. “But actually we experiment a lot on developing new products, so the actual profit margin is more like 15%-20%.”

Shifrina set up an R&D centre and hired technicians to develop new products in keeping with the company’s philosophy of producing extremely healthy food. The newest addition has been a line of “alternative milks” that confusingly don’t contain any milk at all. The company has also started to get into yoghurts and snack bars that contain prebiotics that induce the growth or activity of beneficial micro-organisms and need to be kept on the cold shelves in the supermarket – in other words, the bars are fresh food rather than the dried food that the original snack bars were. The company’s next big thing will be “alternative meats,” which of course don’t contain any meat either.

“Access to the cold shelves is a game-changer, as the foot traffic there is ten-times higher than elsewhere in the store,” says Shifrina. “If you think about it, what do you buy when you go to the store? You usually go there to get fresh foods, as you can buy dried foods much less often as you can keep them at home for longer.”

The alternative milk has been especially successful and BioFoodLabs offers a range of goods that include almond milk, walnut milk and coconut milk, which it has developed itself.

Some of inputs of these new products can be sourced in Russia, but much of it has to be imported from BioFoodLabs’ partners in Spain and Germany. Russia has walnuts, but not almonds or coconuts. The “milk” part is based on a pea protein that is Russian – Shifrina eschews soya protein as it has a poor image in Russia – and seaweed extract that is an emulsifier and stops all the ingredients from separating in the carton. If all that doesn’t sound very appealing, a key part of the recipe is to make it taste really good using only these natural, if unfamiliar, ingredients.

“Another reason I don’t like soya proteins is the pea proteins are much more tasty,” says Shifrina. “If you are making alternative meat then you add some meat aroma from our German partners – they make the best aromas in the world. We let my mother try and she loved it! She says she can’t tell the difference.”

Selling health foods to Russians, who are not famous for their good diets, is actually easier than it may first appear. Despite the dacha tradition, Shifrina says that as the middle class grows people are busier and spend less time growing their own food. During the 1990s half of all potatoes grown in Russia were grown in gardens at the dacha. Now consumers are prepared to buy what they used to grow.

At the same time, Shifrina says market research shows there is a global trend towards vegetarianism, which is also happening in Russia.

“The new young generation don’t want to eat meat. They worry about the environment and it is trendy. It’s the biggest trend in the world,” says Shifrina. “A study found that by 2035 half the world’s population will be vegetarian and the same thing is going on here in Russia.”

The taste is important, as people are not abandoning meat and dairy products, but adding alternative foods to their shopping baskets in addition to more traditional products simply because they like them, which come with the added advantage of being better for you. Tetrapak did a survey, which found that 60% of those customers that bought alternative milks also bought traditional milk as well.

“People buy the alternative products because they like them. They want to grow the range of food they buy,” says Shifrina.
The coronavirus (COVID-19) story in most of Russia’s regions is bleak. At the start of November, the regions saw a 40% increase in cases and are all experiencing a shortage of doctors, according to the Kremlin. Kaliningrad’s number of infections is now higher than it was in spring. Many hospitals in Novosibirsk are refusing to admit patients with other illnesses or perform non-urgent medical procedures. St Petersburg has around 600 hospital admissions per day, and one town in the Arkhangelsk region has patients staying on benches. A healthcare worker in Kemerovskaya Oblast died of COVID-19 after being vaccinated, and at least three more medics in Siberia have contracted the virus since receiving the vaccination as well.

Russia’s regions are coming under increasing pressure that is made being worse as they are also running out of money. Most regions were already running fiscal deficits and now face a debt increase of 125%. Khakassia and Mordovia have already been taken under the Financial Ministry’s manual control, while Ingushetia in the south-east is already on the verge of bankruptcy.

“When we launched we conceived of the Bite bars as a premium product, but we have found that they sell just as well in the regions and not just in the richer, urban markets of Moscow and St Petersburg. You can find Bite bars all over the country now,” says Shifrina.

BioFoodLabs has ticked a lot of boxes that match the changing Russian eating habits and the newfound interest in living a healthy lifestyle that has been emerging for many years already; gym club membership seems to be de rigueur amongst most young urbanites in Russia these days and vodka gave way to beer and wine several years ago as the most popular alcoholic drinks.

The success and fast growth of BioFoodLabs has already piqued the interest of the multinational food producing giants. Shifrina had calls from and took meetings with the likes of Mars and Nestle, but says she doesn’t have much interest in selling out to a strategic company in the short term.

“We have a lot of growing left to do. We are nowhere near finished,” says Shifrina. “But eventually I would like to IPO. That is my dream.”

Rural Russians are moving to cities to escape the impoverished regions

James C Pearce in Moscow

The coronavirus (COVID-19) story in most of Russia’s regions is bleak. At the start of November, the regions saw a 40% increase in cases and are all experiencing a shortage of doctors, according to the Kremlin.

Kaliningrad’s number of infections is now higher than it was in spring. Many hospitals in Novosibirsk are refusing to admit patients with other illnesses or perform non-urgent medical procedures. St Petersburg has around 600 hospital admissions per day, and one town in the Arkhangelsk region has patients staying on benches. A healthcare worker in...
of Vladimir is even less than that, yet food prices there are comparable to those in Moscow.

For millions across Russia, particularly the young, moving to cities with no, or poorly paid, work and unaffordable accommodation is still more attractive than staying put. According to Rosstat, 4mn Russians moved to bigger cities in 2016 (a trend that has largely continued).

A VTsIOM survey from last year showed around one quarter of the population wanted to relocate, with 61% of that figure preferring the bigger cities. The two most important factors noted were unemployment, or a higher standard of living in another settlement. Another poll by Gallup showed 44% of young people want to emigrate: most were urban based, had some transnational experience and indicated unfulfilled economic expectations.

The fact is, Russians have become increasingly worried about basic quality of life issues in the last ten years. Last year, the talk of the towns was cuts to healthcare spending – a topic that has aged well. The young now view social mobility as beyond their reach, unless their families have appropriate political or business connections, so they are opting for physical mobility instead.

But the nation’s capital cannot continue to expand at its current rate to accommodate millions more pouring in from the regions in search of work that, frankly speaking, is not there. Russia’s unemployment level has doubled and affected urban centres far greater. Rural unemployment actually decreased in September.

City-based jobs are slowly being wiped out and many larger companies started encouraging their employees to work from home last month. Even the Moscow city government is holding off on additional spending without a return to a full lockdown, setting aside RUB700bn of borrowed money to be spent over a period of three years.

The long-term polarisation and regional disparities in Russia are unsustainable going forward.

Historically, and particularly following the USSR’s collapse, the focus has been on those resource-rich peripheries or heavily populated regions. That story is well documented: post 2014, Russia did not wean itself off its heavy reliance on commodities. As statistics from the World Bank show, reliance increased. As oil prices climbed in the mid-2000s, so too did the demand for better accommodation, consumption of new products and entertainment. These demands remain in Russia’s regions, but the economy’s and currency’s position does not.

The result has been uneven development and underperforming, expensive public services. Most regions now face an employment misbalance, lack of resources and institutional capacity to govern. Movement and migration to the cities is adding to the existing development pressures at all levels of government. And this was before the pandemic struck.

Towns with populations less than half a million have been the biggest losers. Russia’s urban population has risen steadily from 2007, but it is more concentrated in the larger cities than ever before. And part of the government’s answer was encouraging people to have more children.

Some attempt was made by Dmitry Medvedev in 2010-11 to develop the regional economy by encouraging innovation in sixteen cities with smaller urban settlements, but these were largely unsuccessful. And to be fair, there were many reasons for this; some were culturally and regionally specific; federal budgetary constraints had an important impact; in some cases, a system of mutual trust between municipal and regional governments, necessary to enact the reforms, never emerged.

Redevelopment funds (around $1.5bn annually) were also helping forty smaller Russian cities with a combined population of 23mn, stretching from Europe to the Far East, including historic towns in Russia’s west. Rail, streets and squares were all being transformed in an effort to boost domestic tourism and increase local living standards. Billions more had been promised but may be put on hold.

Russia’s strongly centralised political system means the national government must fully support an economic rescue package for it to be successful. In the past, it has been rather lukewarm (the two notable exceptions being Sochi for the 2014 Winter Olympics, and the 2018 Football World Cup cities).

Properly addressing this structural imbalance of Russia’s regions is well overdue, but little in the way of solutions or policy is coming out of the Kremlin on this issue. There is still RUB100bn to be transferred to the regions by the end of the year, but it likely is not enough.

The default option, at least for now, seems to be austerity. To put it bluntly, that is the last thing Russia’s regional residents need.
An outpouring of grief, anger and frustration in Minsk as police beat another protester to death

Ben Aris in Berlin

There was an outpouring of grief, frustration and anger in Belarus on November 12 after police beat to death another protester who was trying to stop the authorities from removing red and white ribbons from a fence in the "Square of Change."

The 31-year-old Raman Bandarenka was brutally beaten by police after he tried to stop them cutting off red and white ribbons that residents around the Peremen square where he lived had tied to a fence as a sign of protest against Belarus’ self-appointed President Alexander Lukashenko, who massively falsified the August 9 presidential election to give himself a landslide win.

Bandarenka was bundled into a police van and taken to hospital after an hour and half with head injuries, from which he died later the same day.

Bandarenka was well-liked and as an artist, he taught local children how to draw. Several of his pupils made him “Get Well Soon” cards, unaware that he had already died.

“I am 9 years old today. Roma, I wish you to come back and teach us to draw,” Masha, one of his students, said on a painting she made for Bandarenka and hung on the fence after he had been arrested.

The killing immediately sparked protests as residents of Minsk gathered to mourn Bandarenka, and they called for a national day of mourning.

"People are gathering all over Minsk. It is one of the most shocking deaths in the recent months. Raman was killed for simply daring to gather in his own neighbourhood. It is another red line that has been crossed," tweeted Hanna Liubakova, a local journalist.

A large crowd gathered on the square, where Bandarenka lived, bearing candles and lighted phones as night fell. The local residents quickly replenished the ribbons on the fence that caused Bandarenka’s death in an act of defiance to the authorities. Although the active protests have lost thier momentum, the people remain unswayed in their opposition to Lukashenko.

The square has become an icon in the resistance to Lukashenko’s rule. It has been renamed by local residents as the “Square of Change” and become famous, as it is also home to a mural of the two DJs that defied the government by playing famous Soviet rock singer Viktor Tsoi’s popular song “Changes” at a government-sponsored concert shortly before the elections that has become an anthem for the protest movement. The iconic mural of the two DJs has been painted over by the authorities on multiple occasions only to be repainted by residents during the night.

The authorities sent buses full of police officers to break up the impromptu demonstration, but residents gathered in front of the buses and blocked them from entering the square.

“We will stop this fascism!” neighbours of the murdered Bandarenka chanted at the police as they tried to exit their bus.

Tikhonovskaya made a statement from her base in Lithuania where she was forced into exile by the government.

“My heart is broken. I want to address the mother of Raman Bandarenka, who was killed today by Lukashenka’s bandits: your son has become an innocent victim of a terrible system. But for us he will forever be the hero. We will continue fighting for your son and freedom in Belarus,” Tikhonovskaya said in a tweet. “I ask the nations of the free world to support #Belarus. The sanctions list must be expanded. An intern. investigation must be initiated. Political prisoners, activists, journalists, striking workers, artists need your solidarity. Our goal remains the same – free & fair elections.”

Bandarenka’s sister also made a short tearful statement in a video posted on social media: “I know for sure from witnesses that everything that happened to Raman, happened after he was detained. I’m recording this video for the world to know how helpless [the] Belarus people are against lawlessness and we’re looking for justice.”

The protest movement has lost its momentum after opposition leader Svetlana Tikhanovskaya threw down a “People’s Ultimatum” and called for a general strike to begin on October 26, which has largely failed.

Police can more easily control the smaller crowds and at the same time have ratcheted up the violence, the protesters are not giving up yet.
**The region of Ingushetia is about to become the first Russian region ever to go bust**

Russia’s southern region of Ingushetia is about to become the first ever region in the country to go bankrupt, *Novaya Gazeta* reported on November 11, after its debt service obligations soared to 125% of its income thanks to spiralling costs incurred by tackling the coronavirus (COVID-19) epidemic.

Russia’s regions are running out of money and the country is facing another regional debt crisis, as *bne IntelliNews* recently reported. While the federal government makes plenty of money from duties on the exports of raw materials and oil, the regions have to rely solely on personal income and corporate profit taxes for their revenues, as well as subsidies from the centre.

"Formally, there is a [procedure for declaring insolvency] which can be applied, in accordance with our Budget Code, if the region has overdue debt in the amount of more than 30% of its own tax and non-tax revenues. It is quite probable that such a state of affairs in the Republic of Ingushetia has come," said Vladimir Klimov, director of the RANEPA Regional Policy Centre, as cited by the liberal paper *Novaya Gazeta*.

Ingushetia may be the first to fall, but “Spoiler: there will be plenty in the coming months," *Novaya Gazeta* said in its report.

The tiny autonomous republic in Southern Russia has now been added to the “red” regions in the Ministry’s traffic light graduation system, which means its debt management is now under “manual control.” Regions in the green category can manage their own debt. Those in the yellow category have to have their borrowing plans approved by the Ministry. And the Ministry simply takes direct control of the debt management of regions in the red category.

Ingushetia’s public debt ballooned by around 64% in 2020 and now stands at almost 125% of planned annual budget revenue, *Novaya Gazeta* reports.

The terrible state of Ingushetia’s finances is despite the fact that it was already one of the most subsidised regions in Russia, where federal funds account for 80% of its budget revenues. Unless something changes it will go bust very soon.

**Not the first time**

Russia’s regions had a near-miss debt crisis in around 2016 when they started to run big bills thanks to Russian President Vladimir Putin’s so-called May Decrees that dramatically lifted the cost of things like teachers and doctors’ wages, while at the same time the Ministry of Finance sharply cut subsidies to the regions as it was itself struggling to fill a RUB2 trillion ($25.8bn) hole in the budget.

A similar thing is going on this year, as all of Russia’s regions have been hit by sharply inflated healthcare costs as they scramble to beef up public services in the face of the coronavirus epidemic, but at the same time are seeing revenues tumble as unemployment has doubled and the economy contracts sharply due to the lockdowns earlier this year.

The pandemic is expected to create RUB830bn ($10bn) hole in Russian regional budgets in 2020, according to Gazprombank. And to make things worse, despite the growing second wave of infections which is worse than the first, the Kremlin actually plans to decrease federal budget transfers six-fold next year, according to the new 2021-2023 budget plans.

As a result, almost all regions will start running deficit budgets and be forced to turn to the most expensive loans.

"The Kremlin has chosen austerity over prosperity, as it sees these reserves as a strategic weapon in an economic war it is fighting with America"
from Russia’s commercial banks in the New Year. Russia’s economy is supposed to return to growth next year after contracting by 4.1% this year according to the recently improved World Bank forecast, so the regions can grow their way out of debt, but that assumes life returns to normal next year.

“The federal government has transferred RUB2.13 trillion ($27.97bn) in the first eight months of the year to the regions, which is RUB697bn ($9.13bn) more than in the same period a year earlier. And there is another RUB100bn ($1.31bn) still to be transferred by the end of the year and RUB100bn next year,” Andras Toth-Czifra said in a recent paper published by the Institute of Modern Russia.

In addition, the Ministry of Finance just relaxed rules precluding the regions from taking more expensive commercial bank loans, but this borrowing is capped. Overall, the total commercial borrowing available to all Russian regions is an additional RUB74bn ($970mn) – a very small amount when set against the federal subsidies – but a little bit more than the estimate of the total regional deficits. The Ministry of Finance is not leaving much wiggle room in its calculations for screw ups.

And it appears the Kremlin is serious about making the regions stick to their budget forecasts, as the authorities may soon implement bankruptcy mechanisms in other regions that are already in trouble. Some of the worst off are Khakassia, Mordovia, Pskov, Oryol, Smolensk and Kurgan, according to Novaya Gazeta. Transfers from the federal budget will not be enough to fill all the gaps in these regions’ budgets, according to Novaya Gazeta.

The situation in Khakassia and Mordovia is so bad that the Ministry has already taken both of these regions under manual control as well.

Austerity
The problem is not the lack of money. The problem is the Kremlin is refusing to spend it. Over the last four years the government has built up a huge cash pile of almost $600bn in reserves, of which $172bn is in the National Welfare Fund (NWF), or about 9% of GDP.

Former Finance Minister and Audit Chamber head Alexei Kudrin recently criticised the Kremlin for not releasing more of this money to help the country weather the corona storm.

“The fund was set up to accumulate proceeds from high oil prices so that it could be used in difficult times,” Kudrin, who was finance minister until 2011 and now heads a government audit agency, told Bloomberg. “A pandemic is exactly that kind of situation.”

Putin brushed off Kudrin’s criticism again when asked about it during the annual VTB Bank investor conference on October 29, saying any increases in spending would be done “very carefully” in order not to run down the country’s foreign exchange reserves. Unlike other major economies, “we can’t just hold out our hand for more money,” he said.

The Kremlin claims it has earmarked an extra 9% of GDP to stimulate the economy this year, but economists say that much of that spending was already committed and has just been reassigned to things like the social sphere. The actual amount of new cash the Kremlin has earmarked for stimulus is closer to 3%, which is one of the lowest levels in the world. Other countries are spending in the double digits to keep their economies afloat.

The Kremlin is very reluctant to release more money to help bolster the economy, as Putin is keen to maintain a “fiscal fortress” of reserves that has been built up since 2016. The Kremlin has chosen austerity over prosperity as a result, as it sees these reserves as a strategic weapon in an economic war it is fighting with America.

Indeed, that war could be about to escalate. The new US President, Joe Biden, is widely seen as a hawk on Russia and the US government is already talking about imposing new sanctions on Nord Stream 2 gas pipeline, which only adds to the Kremlin’s reluctance to dig into its rainy day fund.
"Very nice!" Kazakhstan adopts Borat's catchphrase in tourism advertising

Kazakhstan has, for the first time ever, embraced the character of Borat. In the wake of the release of the Borat 2 film ("Borat Subsequent Moviefilm", the sequel to "Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan"), it has started using one of the most popular Borat catchphrases, "Very nice!" in official tourism advertising, AV Club reported.

Kazakhstan’s officials have until now not been the biggest fans of Sacha Baron Cohen's Borat character, who is depicted in an extremely satirical and deliberately provocative way, depicting his fictional homeland as misogynistic, homophobic and anti-Semitic.

"In COVID times, when tourism spending is on hold, it was good to see the country mentioned in the media," Kazakhstan Tourism board deputy chairman, Kairat Sadvakassov, told the New York Times. "Not in the nicest way, but it’s good to be out there."

Sadvakassov added in a statement to the Huffington Post that adopting Borat’s catchphrase in the campaign offers the perfect description of Kazakhstan’s vast tourism potential in a short, memorable way. "Kazakhstan’s nature is very nice; its food is very nice; and its people, despite Borat’s jokes to the contrary, are some very nice!"
of the nicest in the world. We would like everyone to come experience Kazakhstan for themselves by visiting our country in 2021 and beyond, so that they can see that Borat's homeland is nicer than they may have heard," he said.

The idea for the campaign came from American Dennis Keen, who travelled to the country on a high school exchange, then studied with a Kazakh professor at Stanford University. He now lives in Almaty, where he gives walking tours, according to the New York Times. Keen reportedly pitched the idea to the Kazakh tourism board and “immediately” got the go-ahead to make some ads.

After the approval of the slogan was secured, four short ads highlighting the country’s culture and destinations were launched, each using the “Very nice!” catchphrase. The ads show tourists hiking with a selfie stick, (“Very nice!”), drinking fermented horse milk (“Mmm, that’s actually very nice!”), marvelling at the architecture (“Wow, very nice!”) and posing for a photograph with Kazakhs in traditional dress (“That’s very nice!”).

Some Kazakh citizens have expressed outrage at Borat 2, prompting Kazakhstan's Ministry of Foreign Affairs to respond to the anger. The ministry said the movie was a commercial project that intentionally provokes protest from Kazakh citizens for the purpose of self-promotion. Some Kazakhs demanded a ban on the movie.

“The people of Kazakhstan and its state symbols are mocked for provocation purposes. The noted protest is meaningless as it has no recipient”

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“The people of Kazakhstan and its state symbols are mocked for provocation purposes. The noted protest is meaningless as it has no recipient. The more outrage it gets, the more profit the film creators get. Gaining superprofits pushes the authors to continue the movie. In fact, the film has a clear form of racism and xenophobia. Our citizens are outraged by explicit racist remarks for a reason,” the ministry’s statement added.

The first Borat film’s version of the Kazakhstan national anthem begins with the words: “Kazakhstan greatest country in the world, all other countries run by little girls.” (The true anthem begins: “Sky of golden sun, steppe of golden seed.”)

After the release of the first Borat film in 2006, the Kazakh government placed ads in US newspapers taking issue with some of the film’s claims. The ads also represented the country as modern, stable and outward-looking. The advertisements coincided with a visit to the US from then Kazakh president Nursultan Nazarbayev.

Later in 2006, Nazarbayev chuckled when asked about the film while on a visit to the UK. “The very fact that you have put that question – you will want to learn more and come to Kazakhstan to see for yourself,” he said.

Kyrgyzstan's China debt:
Between crowdfunding and austerity

Chris Rickleton for Eurasianet

Whoever is in power after Kyrgyzstan’s presidential elections in January may have to look beyond the budget to service swelling state debt – a big chunk of which is owed to China.

The Export-Import Bank of China, which holds around $1.8bn of the $4.8bn total, is not among the creditors that have granted Bishkek fresh grace periods.

On November 16, Kyrgyz Foreign Minister Ruslan Kazakbayev held a phone conversation his Chinese counterpart, Wang Yi, in which he “drew attention to the importance of providing assistance in alleviating the burden of external debt on the country's budget.”

Kazakbayev also pledged that Kyrgyzstan would protect Chinese businesses, a vow that has assumed particular salience since several Chinese companies came under threat during the recent political unrest.

He might have saved his breath.

Prior to being ousted as president last month, Sooronbaj Jeenbekov and other top officials tried several times to persuade the Chinese to defer Kyrgyzstan’s repayments.

Former deputy prime minister Erkin Asrandiyev claimed in April that Bishkek’s request had “found understanding” in Beijing.

But China has said nothing publicly to lend credence to this impression.
Sadyr Japarov, who on November 14 resigned from his positions as head of government and acting head of state so that he could run for president, is a clear favourite for the January 10 election.

Prior to this year, Kyrgyzstan had done a good job of servicing its foreign debt. But the year of the coronavirus pandemic has proven particularly terrible for a landlocked nation whose economy is strongly reliant on shuttle trade with China.

Forecasters are variously predicting an economic contraction of between 8% and 10%. That has obvious implications for the bottom line.

Even Japarov, ever the populist, has resisted committing to increasing paltry salaries, which have lost purchasing power this year as the national currency, the som, has faltered against the dollar.

“Hold on for one more year,” he told police officers in the northern Naryn region at a recent ceremony to hand over keys to new accommodation.

Japarov made a similar plea to regional officials during a tour of the south.

Kyrgyzstan in June secured a Paris Club agreement to suspend servicing of $11mn worth of debt until the end of the year.

The creditor countries involved in that agreement were Denmark, France, Germany, Japan and South Korea, to whom Bishkek collectively owes over $300mn in total.

China’s policy on debt forgiveness is less flexible, as debtor states across the world can attest.

Dastan Bekeshev, a lawmaker, this month posted a helpful video rundown of how Kyrgyzstan’s debt to Beijing was accrued and on what terms.

At 2%, Exim Bank’s loans to Bishkek have grace periods ranging from five to 10 years. But most of the credits date back to agreements for transport and energy infrastructure which were struck six or more years ago.

And the rub is that any disputes over repayments are adjudicated by Chinese courts of arbitration, rather than international ones, Bekeshev noted.

Bekeshev, one of few Kyrgyz parliamentarians not boasting considerable personal wealth, noted bitterly that authorities were already saving some money by not paying parliamentary salaries.

Talant Mamytov, parliament’s speaker and new acting president, said that the funds are instead going toward the repair of the White House, which acts as a parliament and presidential office and was damaged during turbulence in October.

Embracing this spirit of austerity, another lawmaker, Omurbek Bakirov, this week proposed reducing the number of judges serving at the Constitutional Court from nine to seven.

This will save the country 2.5mn som, or $30,000 per year, he noted.

Both calls have been greeted coolly by a public jaded by decades of rampant corruption.

He is also the latest politician to call for financial contributions from citizens to pay off the state debt, noting the debt to China in particular.

In his first and last press conference as interim leader earlier this month, Japarov said the idea was “a people’s initiative,” but he stressed that nobody would be forced to contribute.

A lawmaker known to be a Jeenbekov loyalist issued a similar call in mid-October.

Ainuruu Altybayeva said that the initiative of her Council of Women civic group would be coordinated with the Finance Ministry and that donations would be listed online to ensure transparency.

Both calls have been greeted coolly by a public jaded by decades of rampant corruption.

Landlocked Kyrgyzstan is strongly reliant on shuttle trade with China. (Pictured is Kyrgyz Highway A363 running from Bishkek towards the Chinese border (Xinjiang))
In Karabakh deal, as many questions as answers

Joshua Kucera for Eurasianet

The peace deal between Armenia and Azerbaijan has stopped the bloodshed and averted a looming humanitarian catastrophe. Its wide-ranging provisions on shifts in territorial control, a Russian peacekeeping presence and new transportation routes promise to fundamentally reshape the political order of the South Caucasus.

But many questions remain about the Russia-brokered deal, and there are several potential pitfalls that could complicate its implementation and spoil the prospect for real peace between the two sides. Here are some that have emerged since the deal was announced on November 10.

**Status**

Azerbaijani social media is now full of memes exulting that “Zero percent of my country is occupied by Armenia.” It’s a play on previous, plaintive memes complaining that 20% of Azerbaijan was occupied by Armenia. (The real figure was closer to 14%, but leave that aside.)

It’s not quite true, though: At least in the short term, Armenians retain control of the parts of Nagorno-Karabakh that had not been militarily retaken by Azerbaijani forces before the agreement was signed, including the regional capital of Stepanakert. The agreement doesn’t even mention the issue of the status of those areas and how that will be decided. Will they stay under Armenian control? Will their status be determined by a referendum? Will they, too, pass to Azerbaijani control? It’s not even hinted at in the agreement.

Azerbaijan President Ilham Aliyev, however, gloated after the agreement was announced: “What happened to the status? The status has gone to hell. No status. And there won’t be any status. It won’t happen as long as I am president.”

This suggests that not only would he not accept allowing them to remain long-term under Armenian control, but that he doesn’t envisage even autonomy under Azerbaijani control.

But Nina Caspersen, a scholar of the conflict, said that it appeared the agreement would allow for some kind of autonomous status within Azerbaijan. “However autonomy comes in many different forms,” she said shortly after the deal was signed that “Turkish military will work” in a peacekeeping centre that the agreement did mention. The Russian news agency Interfax reported, citing unnamed diplomatic sources, that the Russian and Turkish defence ministries signed an agreement creating a “joint ceasefire monitoring center” in Karabakh.

Putin spokesman Dmitry Peskov later told Interfax that the centre would be “in the territory of Azerbaijan, it will not be in Karabakh, and it’s about a monitoring center” not peacekeepers. But Turkish President Recep Tayyip Erdogan muddied the waters, announcing on November 11 that “Turkey will join the peacekeeping forces in the [Karabakh] region to monitor the implementation of the deal with Russia.” Erdogan said the centre in question would be in “Azerbaijani territories that were liberated from Armenia’s occupation.”

**Displaced people**

The agreement stipulates that “Internally displaced persons and refugees shall return to the territory of Nagorno-Karabakh and surrounding areas under the supervision of the Office of the United Nations High Commissioner for Refugees.” But does this mean just Azerbaijani returning to Azerbaijani-controlled territory and Armenians returning to Armenian-controlled territory? Or do the two sides envisage working on allowing displaced civilians from the other community back into their respective territories?
Iran only cautiously wonders if Biden spring is in the air after Trump bitter winter

bne IntelliNews

Donald Trump has put the Iranian economy through a long, cold and bitter winter so the temptation to rejoice that spring is in the air given his loss of the US presidency to challenger Joe Biden is immense in Iran.

But as you might expect from a country that has been seriously wounded by its decision in late 2015 to trust Washington to hold to the nuclear deal struck by Tehran and six major powers, the Iranians are treading a good deal more cautiously than that.

Iranian President Hassan Rouhani, the centrist, pragmatic politician who infuriated hardliners by showing that trust in the US while Barack Obama was in the White House, only for his successor Trump to throw it in his face, said on November 8 that the next US administration should use the opportunity to compensate for Trump’s mistakes, Iranian state TV reported.

“Trump’s damaging policy has been opposed ... by the American people. The next US administration should use the opportunity to make up for past mistakes,” Rouhani was quoted as saying. “Iran favours constructive interaction with the world.”

Biden has said that under his presidency the US will rejoin the nuclear accord, a deal that was agreed by Washington when he was vice president, if Tehran also returns to compliance.

“We are ready to walk the path of diplomacy if Iran takes steps to show it is ready too,” Biden wrote on CNN’s website in September.

Iran has demanded compensation for the “damages” it has suffered under the Trup US sanctions. It has implicitly argued that Washington should repay it for lost oil revenues, but that is something any US leader would find difficult if not impossible to accede to.

Unlike Iranian broadcast media’s mostly neutral coverage of Biden’s triumph, the press ran celebratory headlines, publishing front-page photos of his smiling face, Reuters reported.

“New chapter in the US,” said a headline in pro-reform Aftab-e Yazd over a picture of Biden and his running mate Kamala Harris. Another reformist outlet, Sharq, ran with: “Populism was rejected.”

“Africa changed its face,” conservative Khorasan declared. “Trump left, Iran remains,” said a headline in business daily Eskenas.

Iran’s Supreme Leader Ayatollah Ali Khamenei, however, said the US election was “a spectacle”, adding: “This is an example of the ugly face of liberal democracy in the US. Regardless of the outcome, one thing is absolutely clear, the definite political, civil, & moral decline of the US regime.”

Axios, meanwhile, on November 8 reported that the Trump administration, in coordination with Israel and several Gulf states, plans a “flood” of sanctions on Iran by January 20, the day Biden is due to take over from Trump.
Among the complications, notes the International Crisis Group: “[T]here may well be competing property claims between [Armenians] and returning Azerbaijanis and given the high levels of antipathy between the populations, now reinforced by the brutality of recent weeks.” ICG also noted that the UNHCR, despite having been cited in the agreement text, had not been consulted.

**Boundaries**

This is an issue if the territory that Armenia now controls remains under their control. The current de facto boundary between the two sides runs between Shusha and Stepanakert. These are only about 10 kilometres apart and Armenian-controlled Stepanakert is straight downhill from Azerbaijani-controlled Shusha. Stepanakert will always be militarily vulnerable in this situation and its Armenian population will never feel entirely secure with Azerbaijani troops looming overhead.

None of this should be a significant security issue as long as the Russian peacekeepers are there to separate the two sides. But neither side is excited about the long-term presence of Russian troops, who have a region-wide reputation for overstaying their welcome and operating under their own agenda. For now, their presence is vital (and, it has to be emphasised, no one else appears to be interested in doing it). But either they stay for ever, or the Armenians and Azerbaijanis have to work this out.

**The Nakhchivan Corridor**

This one is presumably further down the road, but it would seem to be fraught with potential complications. The agreement stipulates that “Armenia guarantees the security of transport links … [for] unimpeded movement of citizens, vehicles, and cargo in both directions” between mainland Azerbaijan and the exclave of Nakhchivan, which are separated by a swath of southern Armenian territory.

It continues: “Transport control is exercised by the Border Service of the Federal Security Service of Russia. By agreement of the parties, the construction of new transport communications connecting the Nakhchivan Autonomous Republic and Azerbaijan’s western regions will be provided.”

So how will this be implemented? Will there be a special road only for Azerbaijani? Will it still be Armenian territory, or Azerbaijan, or under some sort of international administrative regime? How will Armenians and Iranians be able to cross it into one another’s countries? Even once those issues are worked out, it’s not too difficult to imagine simple things like potholes on the road leading to international incidents in the atmosphere of mistrust that is sure to persist for a long time.

All of this is going to have to be managed between the two sides which have virtually no trust in the other and an international community which has – with the exception of Russia – basically stepped aside, distracted with other problems. It’s going to be a difficult process.

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Joshua Kucera is the Turkey/Caucasus editor at Eurasianet, and author of The Bug Pit.
Opinion

Macy, balancing sanctions that are “judiciously targeted and used in conjunction with other elements of national power, especially diplomacy” with an understanding that “while maintaining our defence, we should also engage Russia in a serious and sustained strategic dialogue that addresses the deeper sources of mistrust and hostility and at the same time focuses on the large and urgent security challenges facing both countries.”

The response characterised this as a call for another re-set – evoking Barack Obama’s ill-starred and ill-thought-through initiative during the Medvedev presidency – and instead argued that “the actions and behaviour of Vladimir Putin’s regime pose a threat to American interests and values, requiring strong pushback.” Instead, it calls for tougher sanctions, direct support for Russian civil society and in

STOLYPIN: Hawks in DC risk empowering their counterparts in Moscow

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

It is a truth universally acknowledged, that a candidate in possession of the presidency, must be in want of a new Russia policy. (And people to advise on and apply it). Joseph Biden’s asymptotic election – always getting closer to being recognised and locked in, never quite there – has generated the inevitable array of advocacy pieces and with it a rhetorical arms race, as commentators compete to be more trenchant, more insightful and, it seems, more hawkish.

Before the elections, the debate seemed to be encapsulated by two open letters published in Politico, each bearing the signatures of serried luminaries of the US scholar-practitioner field. The first, endorsed by such figures as Fiona Hill, 14 former ambassadors (including 4 to Russia) and George Schultz, argued that America “must deal with Russia as it is, not as we wish it to be, fully utilising our strengths but open to diplomacy,” balancing sanctions that are “judiciously targeted and used in conjunction with other elements of national power, especially diplomacy” with an understanding that “while maintaining our defence, we should also engage Russia in a serious and sustained strategic dialogue that addresses the deeper sources of mistrust and hostility and at the same time focuses on the large and urgent security challenges facing both countries.”

A rash of commentaries ahead of a Biden presidency are calling for a hardening on Russia, but Russia’s leading analysts see an opportunity for a less confrontational foreign policy.
general, that “America should signal our readiness to work with a Russian government only when it is clear that Moscow doesn’t view the United States as the enemy.”

This was a fairly predictable division between what one could call “realists” and “hawks.” Neither side consider Putin’s Russia to be anything other than a kleptocracy, a threat and a problem, but they had an honest disagreement as to how best to respond.

**Hawking their wares**
Since the election, though, there has been a distinct hardening of the tone from much of the individual op-eds and policy pieces. Whether this is simply because that is the side of the debate that feels most confident, or conversely whether it is because it seems the “realists” are in the ascendant and they must shout their case all the more loudly, remains to be seen. Nonetheless, this is an alarming escalation, even though there are also of course many more positive interventions, on topics such as arms control and “stopping the new Cold War.”

Just to pick a few examples, in Foreign Policy, David Kramer – a prime mover behind the second Politico letter – asserted flatly that “Russia under Putin poses an existential threat to the United States and other countries of the West, Russia’s neighbours and his own people.” Let’s just pause there for a moment: *existential threat*? A threat to the very existence of not, say, American democracy (which itself would be quite an admission of fundamental doubt in the system), but America and the West? This implies something not just about Russian capability but also intent, and it is hard to see any evidence that Putin is trying to destroy – not weaken, or challenge, or chasten, but destroy – the United States.

In the *Washington Examiner*, Janusz Bugajski warned against the “mistaken assumption repeated by incoming administrations is that Washington can work constructively with Putin’s Kremlin in confronting global challenges.” In other words, it is a fallacy even to try to work with Russia on even the most egregious areas of common interest.

Meanwhile, to give a final example, Thomas Kent, the former president of Radio Free Europe/Radio Liberty, delivered a call for America to reach out to the Russian people not with scholarships and visa relaxations but with a propaganda campaign that could – and in fairness, he says could, not should – even be used for “inflaming popular discontent in Russia, already on the rise, with the goal of sparking a “colour revolution” that would bring down Putin’s regime.” He goes on to admit that “any hope that Western messaging to the general Russian population can chase Putin from office is probably fanciful” but simply to raise the notion plays into every Kremlin concern about Western *gibridnaya voina*.

The fundamental assumptions of these interventions are:

1. Putin and Russia are essentially to blame for the worsening in relations, and to delve too deeply into why the Russians act and believe as they do is somehow a step towards accepting the undeniably aggressive and sometimes vicious Kremlin behaviour. Yet to ignore why they themselves feel aggrieved and under threat is to risk worsening the situation.

2. Putin’s legitimacy rests on his aggressive foreign policy. This is only half true; unable at present to offer Russians an improved quality of life in return for loyalty, he tried initially to win it with empire – Crimea – but as it became clear that was a one-off case, now instead he seeks to demand it as the price for defending the Motherland from a hostile outside world. The tougher the Western rhetoric, the better for him, in that respect.

3. Under Trump, US policy was soft on Russia, and so the answer is to toughen up. Whatever The Donald’s peculiarly fanboyish utterances about Vladimir, at no point did he exert political capital to hinder sanctions or otherwise cosy up with Moscow. US-Russian relations are more confrontational than at any point since 1991, and so the notion that the problem has been simply a lack of toughness seems hard to sustain.

It is not that there are no virtues in all the specific policy prescriptions embodied in all these articles. Attacking Russian dirty money, something both Kramer and Bugajski discuss, is not going to have any meaningful impact on Kremlin policy, but it is worth doing on its own merits. (And hopefully attacking Chinese, Saudi and even American dirty money soon will follow.) Likewise, there is value in demonstrating a certain information warfare capability, and certainly striking back directly at troll farms and other purveyors of toxic misinformation, as Kent suggests.

However, the leitmotif is too often both that Putin’s regime ought to be brought down and also that this is part of asserting that America is back as the world’s best and only superpower. In Kramer’s words, to “send a strong signal that there is a new sheriff in town.”

Russia policy ought not to be national psychotherapy after four years of Trumpian dysfunction. It also needs to be careful
that it does not prove wholly counter-productive – there ought to be a strong Hippocratic commitment to “first, do no harm.” Obama’s re-set was predicated on the possibility of building up the supposed liberal Medvedev but actually contributed to ensuring that Putin felt there was no alternative to his return to the presidency.

**Meanwhile in Moscow...**

Likewise, the risk is that if such policy proposals and overall stance look likely to be adopted by the Biden administration – even if, like most grand strategies, they end up diluted, delayed and diverted by bureaucratic inertia and the pace of events – they will condition Moscow’s response.

At present, there seems to be an interesting attempt to signal the need for a less confrontational foreign policy in Moscow. Those three ubiquitous bellwethers of the Russian foreign policy elite, Dmitri Trenin, Fedor Lukyanov and Andrei Kortunov, have all made their own contributions.

Trenin recently commented that “Russia is learning to mind its limitations; to repel residual nostalgia; and to think straight, putting issues before personalities, and staying focused on its own interests, leaving the empire farther and farther behind.”

To Lukyanov, “Russian foreign policy at the new stage should become much more selfish and much less emotional” such that “the main issue for the next period is risk minimisation.”

As for Kortunov, he warned that, rather than committing itself to “war to the bitter end”, the Kremlin ought to contemplate a “a new Brest-Litovsk Peace.” Evoking the controversial treaty that got Bolshevik Russia out of the First World War but at terrible territorial cost, brought Kortunov under the guns of the ultra-nationalist Orthodox Katehon think-tank as “speaking on behalf of the liberal sixth column.” Nonetheless, this is not likely to have been an analogy he used thoughtlessly or lightly.

It is not that these figures, all “hybrid scholars” with both independence and close official connections, are signalling the onset of a kinder, gentler Russian foreign policy. Rather, it seems likely that they see a potential window of opportunity, a moment in which they can advocate for a less confrontational and ideological one in the wake of Biden’s victory.

In an ironic mirror-imaging, these are the Russian counterparts – in their own very different ways – to the “realists” behind the first Politico letter, and if America’s hawks gain the ascendant in the new presidency, or even just seem likely to, then their Russian counterparts will reassert their control of Kremlin thinking. This is, after all, a crossroads moment in Moscow, as well as Washington.

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**CEE BANKING SECTORS:**

**In crisis and recovery mode at the same time**

**Gunter Deuber of Raiffeisen Research in Vienna**

There is positive news for all Central and Eastern Europe (CEE) commercial bankers, market observers and investment bankers. The fresh 2020 CEE Banking Report by Raiffeisen Research, an important source of opinion and information, has arrived and will be published today. And much more important is, of course, that the business prospects in the short term are not as bad as expected.

This crisis is unique. But that means the medium-term consequences of this crisis are probably unique as well.

**A strong starting position helps**

CEE banking markets enter the coronavirus (COVID-19) crisis on a solid footing, having reached record profitability in nominal terms in 2019, with an average Return on Equity in CEE at 15%. We estimate the 2019 CEE banking profit pool at €47bn, thereof €13.6bn in Central European (CE) and Southeastern European (SEE) banking markets and €34bn accumulated in Eastern European markets (Russia, Ukraine, Belarus).

Non-performing loan (NPL) ratios reach multi-year lows in CE/SEE year-end 2019. The NPL ratio in CE reached a value of just under 5% at the end of 2019, in the CE-3 markets (Hungary, Slovakia, Czech Republic) even a remarkable 2.5%. In the SEE region, the NPL ratio was 5.9% at the end of 2019. This means that this ratio reached values close to the levels seen prior to the 2008/2009 Global Financial Crisis.
Crisis, crisis, but credit volume is rising much more strongly than in previous crises
Credit growth in CEE markets in the first half of 2020 was much stronger than in a “classic” macroeconomic and/or macro-financial crisis. This development reflects a strong turnaround after the first lockdown phase and above all in new retail business, which came to a virtual standstill during the lockdown.

Lending in some CE/SEE countries has been much more robust than expected. As in Western Europe, this is particularly true for residential real estate lending (e.g. in the Czech Republic, Slovakia or Romania, Croatia and Russia). Lending was supported by ongoing support and subsidy programmes and the rapid reduction of systemic capital buffers, additional capital buffers and/or the removal of micro- or macro-prudential regulations/tightening measures in many countries (e.g. Poland, Czech Republic, Slovakia, Bulgaria).

The reduction of bank taxation in Romania at the beginning of the year 2020 also had a positive effect. Not to forget that the special bank taxation schemes in Hungary introduced in 2020 has been rather bank-friendly from a mid- to long-term perspective.

Currently, credit growth in CE/SEE is in the range of 5-7% year on year on average. In some markets, such as Hungary, Serbia or perhaps Albania, even double-digit (!) credit growth rates (in local currency) are possible this year. The same may apply to the Russian market.

By comparison, previous crisis years in CEE were characterised by negative values or credit growth rates of 2-4% maximum.

It goes without saying that courageous support measures of a fiscal, monetary and regulatory nature have made the COVID-19 hit very manageable so far. After all, in this crisis we expect a fiscal impulse of 5-10% of GDP in CE/SEE, whereas in the Global Financial Crisis it has averaged around 3% of GDP – often followed by a rapid pro-cyclical cut.

Unemployment rates should therefore also rise less than in the aftermath of the Global Financial Crisis of 2008. On top of fiscal support liquidity support, regulatory forbearance and capital relief measures had been implemented in a swift and pragmatic way. This is positive news, as it was often feared that additional capital buffers won’t be cut in a bold and timely manner in crisis times.

Short-term crisis impacts manageable, substantial medium-term challenges
The short-term crisis impact is manageable due to a substantial degree of accumulated resilience. Foreign currency lending is less widespread in the region (excepting Belarus). The share of FCY loans in the CEE region declined once again significantly in 2019, bringing it close to 10-20% of the total loan portfolio in many of the CE countries and also in Russia.

In the SEE region and Ukraine plus Belarus, the figure is still 30-40%. However, with the exception of Belarus, the share of FCY loans is some 20 percentage points lower in all CE/SEE countries and Ukraine than at the beginning of Global Financial Crisis. Moreover, overall lending strategies had been prudent, and risk disciplined. Sectorial overheating tendencies were counteracted with foresight (e.g. in the Czech Republic, Slovakia, Romania and Russia).

Asset quality deterioration remained modest so far, with NPL increases by 10-50 basis points up to now. Nevertheless, we expect NPL ratios in the CE/SEE region to rise to a maximum of between 4-8% in the CE region and 7-10% in the SEE region. This would mean that the increases in the SEE region in particular would be much less dramatic than ten years ago.

In CE, the increase in the aggregate could be as strong as ten years ago, but much flatter this time than in the exceptional case of Hungary (where the NPL ratio from 2011-2015 was in the double-digit range). Overall, the imminent asset quality deterioration, especially in CE/SEE, should be less dramatic for a number of reasons (no excessive lending in the past, experience and appetite of distressed debt investors in the region, improved NPL handling frameworks), and above all flatter over time. We see the bulk of the expected NPL rise starting in 2021 until the end of the year and possibly still in H1 2022. Much will also depend on how quickly moratoria finally expire, how tax reliefs are treated going forward and at the same time when and if the fiscal impulses also take effect. The second wave of COVID-19 currently unfolding is inducing additional risks to retail and SME portfolios.

“Courageous support measures of a fiscal, monetary and regulatory nature have made the COVID-19 hit very manageable so far”

Elevated profitability and earnings pressure in Central and Southeast Europe, Russia and Ukraine as hedges for some Western CEE banks
The biggest mid-term challenges we are foreseeing are on the interest rate front. We arrived at rock-bottom interest rates in CEE in 2020, while this situation may at least stay with us in going into 2022.

In CE/SEE the interest rate landscape is nowadays much more challenging than in Russia or Ukraine and closer to the situation we are having in Western Europe. It goes without
saying that clients in CE/SEE are nowadays clearly shifting from long-term deposits to demand deposits. Moratoria and credit holidays will also contribute to a decline in interest income. On some markets like Croatia and Bulgaria euro area entry (prospects) will eat into profitability as well. Mid-term we see some 10-15% of the current local banking sector profit pool at risk in both countries. On those two markets in particular and more general in the region the only way out of this situation is scale and consolidation.

Overall, we expect a profitability drop by 30-50% in 2020 and 2021 compared to a non-COVID scenario. The profitability drops in the CE/SEE markets could be at the higher end of this range.

For 2020 and 2021, we continue to expect return on equity to be in the single-digit range of 4-9% in most CE/SEE markets, with possibly more downside risks in 2021 than in 2020. Overall, a low double-digit RoE in CEE banking would be still possibly feasible in 2020 and 2021, but only when and if the EE markets and Russia continue to perform.

The profitability situation in the EE region was and is extremely pleasing with a RoE of 18% – the highest value since 2016 – in 2019 driven mainly by the banking market in Russia and Ukraine (RoE of 19.6% and 34% in 2019 respectively).

In the first half of 2020, return on equity was still around 15% or moderately below the previous year’s figures (−14% in Russia, −26% in Ukraine). In this respect, we believe that a double-digit RoE is possible here in 2020 and that the positive earnings differential between the EE and CE/SEE region could remain at around 9-10 percentage points. In this respect, the EE region could once again become a major revenue driver for some leading Western CEE banks in 2020, as it was in 2011-2013, when the banking sectors of the CE/SEE region suffered from the double-dip recession in the context of the euro area crisis, with a single-digit RoE, while the RoE in the EE region remained double-digit.

During the Global Financial Crisis or the Russia/Ukraine crisis, earnings ratios naturally turned in favour of the CE/SEE banking sectors. Overall, the sketched earnings patterns show, that diversification across the whole CEE region remains a viable business strategy. Moreover, one has to stress that unconventional monetary policy measures in CE/SEE have not yet achieved such market-distorting effects or dimensions like in Western Europe and are not expected to achieve them, which is why the yield curves are still steeper here.

Belarus risks manageable

Macroeconomic and banking sector challenges are definitely on the rise in Belarus – a market that was also profitable in times when other markets were in red territory in the past. However, we do not think that the challenging political and economic situation in Belarus could have a material impact on the profitability of both large Western European CEE banks (overall and in the EE region) and large Russian banks, in terms of negative earnings ratios. For Western banks, Belarus is of about the same importance as Albania, while exposures to countries such as Bosnia, Slovenia or Ukraine are twice or three times as high. And also, for Russian banks (with a market share of about 30% in Belarus), the exposures are not material or are below 1% of the domestic market exposure.

A lot of balancing acts for politicians, regulators and banks ahead

At the policy and regulatory level, it will be crucial in the coming 12-18 months to find meaningful co-ordinated solutions to important issues such as moratoria, the expiry of moratoria, tax deferrals and home/host-country regulatory issues.

The same applies at political level to national fiscal and/or supranational support programmes (e.g. with regards to the potential extension of support programmes supported by the EU’s SURE initiative).

Curtailing the regulatory reliefs comprises another important question, which calls for precise timing and proper co-ordination with other (fiscal) policy measures. Indeed, delaying the recognition of banks’ credit losses for too long inhibits the accurate supervisory assessment of systemic risks, while lifting the forbearance early might threaten a credit crunch. It will require deft action by authorities to navigate these confines.

Another key question will be is how the authorities manage to accommodate the inevitable step-up in government borrowings, so they do not crowd out the much-needed credit supply to the real economy. Against this backdrop, one can reasonably assume an increase in banks’ exposure to sovereign risk.

Moreover, banks will have to continue to invest. Customers are currently re-evaluating their approach to banking services and are much more open to digital offers. This implies a further reorientation of the branch networks plus investments. In this context of digitalisation, we would like to point out once again the particularly competitive situation on the Russian market. Competition from neo-banks in the EU banking markets in CE/SEE will certainly increase massively in the coming years in view of the previously outlined increased digital affinity of many customers. Here, it will be important for the leading CEE banks to offer similar services in terms of customer experience and at the same time achieve economies of scale. We also see the potential for established CEE banks to win back customers and market shares from FinTechs and challenger banks, as the lending business is regaining importance alongside payment transactions. In addition, some banks may take the opportunity to acquire customers and technology from FinTechs now operating under more difficult market conditions.
The problem with sanctions on Russia is there are too many of them and they don’t work very well.

But their effectiveness is questionable. History is littered with examples of sanctions bolstering the targeted government, or even inadvertently harming a population while those in power evade the consequences. These risks have abated as sanctions have become smarter and more targeted, but their record of making a difference where it matters most remains unremarkable. Even where they appear to have been successful, it’s not always easy to disentangle the sanctions from other pressures.

As for Western sanctions on Russia, they have expanded in scope over the years to respond to not just events in Ukraine but a host of ‘malign activity’; from cyber attacks and democratic subversion to money laundering. Sanctions target individuals, companies and whole sections of the Russian economy. There is no doubt they have had an economic impact. The business environment has deteriorated and become more unpredictable. Targeted individuals shut out from the West have faced financial frustration. Russia’s energy, defence and finance sectors, which had relied heavily on Western capital and technology before being cut off, have been hit particularly hard. The long term consequences for something like advanced oil exploration could be significant.

Yet the political impact has been minimal. The initial introduction of sanctions back in 2014 did little to loosen Moscow’s grip on Crimea or hamper its desire to stir conflict in eastern Ukraine. Six years on and the war continues to simmer just enough to avoid becoming frozen. Some analysts credit sanctions with deterring further military escalation into Ukraine, but this ignores that Moscow’s priority has been political leverage not physical land.

In the meantime Moscow has felt comfortable enough to play spoiler, flexing its military power and continuing a political war against the West. Its actions, like the use of a military grade nerve agent in Salisbury UK, have often offered little in the way of plausible deniability. That Moscow seems to have been behind targeting Navalny with a similar toxin in Tomsk is especially brazen.

Lindsay Mackenzie in Glasgow

On October 23 the United States imposed sanctions on a Russian government research institute for its links to malware used to target critical infrastructure.

“The Russian Government continues to engage in dangerous cyber-activities aimed at the United States and our allies”, Treasury Secretary Steven Mnuchin said in a statement.

The announcement came only days after the State Department revealed plans to extend sanctions against the Russia-led Nord Stream 2 gas pipeline. The US has said it is prepared to use a range of sanctions to halt the project which has around 150km left to go in Danish and German waters.

Calls for broader sanctions on Nord Stream 2 have grown louder since Russian opposition figure and anti-corruption campaigner Alexei Navalny was poisoned in August with a nerve agent from the Novichok family. In September German Chancellor Angela Merkel signalled the project was a potential target for retaliation. So far, the European Union has sanctioned six Russian government officials with asset freezes and travel bans instead. Announced on October 15, the EU said the attack on Navalny would only have been possible with the consent and involvement of the Russian Presidential Executive Office and Federal Security Service.

This flurry of sanctions is not surprising. They have become one of the most commonly used instruments in the foreign policy and diplomatic toolkit and an inevitable part of responding to a host of international crises. They’ve also become the cornerstone of the West’s Russia strategy, and have been used to counter Kremlin belligerence since Moscow’s 2014 annexation of Crimea and invasion of eastern Ukraine. The problem however, is that they don’t work very well.

Theory and practice

The theory behind sanctions is relatively simple; apply enough economic pressure and the target will change its political behaviour. It’s essentially about carrots and sticks, using a combination of coercion, deterrence, selective punishment and condemnation. They can be introduced by governments or through institutions, and can target countries as well as complicit companies and individuals. Before 1990 they were rarely used. Now the EU alone has over forty different sanction regimes in place.

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Learning lessons

There are several lessons here. The first is that sanctions don’t happen in a vacuum and targeted countries can adapt their behaviour to mitigate them. For Russia, this has meant diversifying its economy away from Western markets towards Asia, rolling out a programme of import substitutions to drive self-sufficiency, and triggering huge amounts of state intervention to support areas like banking. Add to that a well-managed central bank, currency devaluation, and attempts to financially shelter members of the Russian elite. The results have been mixed.

Another, perhaps more fundamental, lesson is that some countries, particularly more autocratic ones, are simply willing to endure the fallout and stigma of sanctions. They see little benefit in restraining their behaviour and essentially factor their cost into decision-making. So while there may be economic consequences, political ones don’t necessarily follow – especially in the short- to medium-term.

Why then, are sanctions so popular? While they can certainly help pile on a degree of economic pressure, much of it comes from their ability to communicate a sense of united action and solidarity. There is real value here. Sanctions can reaffirm norms and standards. They can create a platform to stigmatise and rally international pressure. There’s an element of performance too, especially for those who wish to be seen doing something. Of course, doing something is sometimes all there is. When those wishing to take a stand against an aggressor feel they have few realistic options sanctions can be a powerful signal of moral outrage. For the West, they have provided a surprisingly consistent and public rallying point against Moscow despite other bubbling disagreements.

But sanctions are not a throwaway policy shortcut. They are a reactive tactic rather than strategic, and inflating their utility breeds unrealistic expectations of what they can achieve. The problem is not so much sanctions themselves. For the West, they can, and should be, part of a creative, wide-ranging approach towards Moscow. The problem is that they now dominate the West’s response.

Indeed, sanctions have become so sweeping and predictable that they risk undermining messaging in three ways. First is that by using them to deal with a shopping list of very different behaviours they muddy Western policy goals and reduce sanctions to a blunt, catch-all punishment rather than anything selectively coercive.

Second is that instead of providing a platform for unity, they also amplify alliance tensions and cause distraction – Berlin’s public dismay at Washington’s continued targeting of Nord Stream 2 being an example.

And third, despite claims that sanctions are a long term policy tool, the more they are used in the short-term without tangible political impact the more they weaken Western attempts to display authority and credibility. One individual targeted in the recent Navalny sanctioning, FSB director Alexander Bortnikov, has already been under EU sanctions for six years.

Sanctions have a role in responding to Russia but they cannot replace the hard work of diplomacy or strategy. The West will eventually run out of things, and people, to target. What will it do then?

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COMMENT:

Moscow's new rules

Dmitri Trenin director of the Carnegie Moscow Center

Simultaneous crises in Belarus, Nagorno-Karabakh and Kyrgyzstan have demonstrated Russia’s maturing approach to its neighbourhood. Russia is learning to mind its limitations, to repel residual nostalgia and to think straight, putting issues before personalities, and staying focused on its own interests, leaving the empire farther and farther behind.

Russia’s recent behaviour in the former Soviet space has surprised people in Europe and America as appearing too timid and passive. The template that a lot of Western observers have been operating from since 2014 is that of an aggressive Kremlin dependent for regime stability on a constant supply of new “Crimes”: Donbas, Syria, Libya and so on. Now the picture has abruptly changed, and the Kremlin that looked threatening only a few months ago appears weak, challenged and indecisive. Contrasting views of Russia’s foreign policy are nothing new, of course, and have historically led to wrong conclusions about what the country might or might not do. The actual situation is more nuanced, just as the developments around the second Nagorno-Karabakh war suggest.

Reconquista cancelled

Take the idea of an aggressive Kremlin bent on reconquering the lands lost in the downfall of the Soviet Union. In fact, Moscow’s policies in Ukraine in 2014 were essentially a reaction to the surprise ouster of President Viktor Yanukovych in the Maidan protests. There was no plan for reconquest. Crimea was seized for strategic reasons as the main base of the Black Sea Fleet and incorporated into Russia as an opportunity not to be missed. The mirage of Novorossiya

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Russia’s loss of dominance is yesterday’s news

Second, the news of Russia’s loss of influence in the post-Soviet space is very dated. The Baltic states have been in NATO for sixteen years; Ukraine has been pro-Western and anti-Russian since the Maidan revolution; so has Georgia, only for a decade longer; Moldova is torn in both directions, but leaning more toward the West; Azerbaijan is closely allied with Turkey; Uzbekistan is vociferously independent; and Turkmenistan is reclusive, shunning foreign connections. That leaves only Armenia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan – five out of fourteen ex-republics – as Moscow’s formal allies and partners. In many of those countries, however, particularly in Central Asia, China has long been a major outside player.

Moreover, since gaining independence from Moscow, all of Russia’s nominal allies have been pursuing what they proudly call multi-vector foreign policies. The Collective Security Treaty Organization that Moscow leads is an alliance in name only. There is no defence integration and only very light co-ordination. The allies do not always support Moscow in UN voting, and – very tellingly – none of them have recognised Crimea as part of Russia. They have no wish to get involved in the US-Russia confrontation, so as not to be slapped with US/EU sanctions. As for the Eurasian Economic Union (EAEU), it is little more than a customs arrangement, and many of its member states do as much or more business with China than with Russia. In cultural terms, in the last three decades Russian has been losing out there to the local languages and English.

All by itself

Does this all mean that Russia is being diminished in its neighbourhood, even as it seeks to project its influence farther abroad? Is it also a sign that it is getting weaker as an international player? The answer is that Russia is painfully adapting to the rapidly changing environment. Eight years ago, in my book Post-Imperium, I argued that Russia was leaving its historical empire behind. At a time when Putin had announced his vision of a full-fledged Moscow-led Eurasian Union that would include Ukraine, and Dmitry Medvedev was...
talking about a sphere of Russia’s privileged interests in the former USSR, this seemed counter-intuitive. Hillary Clinton, then US Secretary of State, was sternly warning against attempts to restore the Soviet Union under a different name.

However, the historic trend was not reversed. At the turn of the 2010s, the empire was still very much at the back of many people’s minds, but certainly even then it was more of a memory of the past than a realistic vision of the future. A decade on, with the experience of Ukraine and also Belarus under its belt, Russia, I would argue, has turned post-post-imperial: one step farther removed from the historical pattern. It is getting used to being just Russia. Moreover, Russia is embracing its loneliness as a chance to start looking after its own interests and needs, something it neglected in the past in the name of an ideological mission, geopolitical concerns, or one-sided commitments built on kinship or religious links. This is a new model of behaviour.

Alliances Ltd.
Russia has discovered that it doesn’t have allies who would stand by it in its hour of need, but it has also found out that it doesn’t really need allies to defend itself against adversaries. In Eastern Europe, of course, Belarusian territory separates the heart of Russia from Ukraine and also Belarus under its belt, Russia, I would argue, has turned post-post-imperial: one step farther removed from the historical pattern. It is getting used to being just Russia. Moreover, Russia is embracing its loneliness as a chance to start looking after its own interests and needs, something it neglected in the past in the name of an ideological mission, geopolitical concerns, or one-sided commitments built on kinship or religious links. This is a new model of behaviour.

With US influence in a commanding position in Tbilisi, and Turkish influence and prestige standing very high in Baku, Russia faces an uncertain political future in Armenia, its defeated nominal ally. Moscow is learning to see the region, which used to be part of the Soviet state, and before that of the Russian empire, not from a position of regional dominance, now gone, but through the prism of its vital interest of maintaining stability in its own Northern Caucasus borderland. Vis-à-vis Georgia, the border is protected by Russian military outposts in Abkhazia and South Ossetia. Vis-à-vis Azerbaijan, a degree of co-operation with Baku is required.

This doesn’t mean that all alliances are useless; in Central Asia, Russia keeps air and army bases in Kyrgyzstan and Tajikistan which provide for a forward presence with an eye to Afghanistan. With the impending final withdrawal of US forces, Russia needs to be ready for an upsurge of radicalism and extremism in Afghanistan, which might again become a haven for transnational jihadists. With the enormous territory of Kazakhstan separating – and shielding – Russia from the areas of turbulence down south, Moscow needs both outposts of its own and logistical support from its allies. The stability of Kazakhstan itself, which is going through a political transition, is of the utmost importance to Russia, but Nur-Sultan, while generally friendly and co-operative toward Moscow, pursues an independent course in domestic and foreign affairs.

Moscow also came to realise long ago that in Central Asia, it would have to accommodate the growing Chinese presence and influence and learn to collaborate with Beijing on keeping things stable, security-wise. Beijing has already selected Tajikistan as its point of entry for a security presence, but has been advancing incrementally. Moscow doesn’t feel threatened. The clash between Russia and China that so many Western scholars have been expecting and predicting for decades is not in the cards for the foreseeable future.

Economic partnerships without integration
The Eurasian Union was first designed by Putin as a Moscow-led, 200mn people-strong geopolitical, economic and military power bloc in Eurasia. Today, it is essentially an economic arrangement which plays a generally useful but limited role facilitating relations among several former Soviet republics. Crucially, Russia has proved unwilling to become the donor of the union, and its partners equally unwilling to cede parts of their sovereignty to supranational bodies that would be dominated by Russia. This dual refusal has put an end to the outsize ambitions of some, and unrealistic expectations of others.

With Belarus, Russia set out to build a union state back in 1999. Since the start, that union has been little more than a cover for special deals that Belarusian President Alexander Lukashenko was able to get from Moscow in exchange mostly for pledges of unity, solidarity, and loyalty – while carefully but clearly distancing the country from Russia. When, in 2019, the Kremlin indicated that it would stop subsidising Belarus unless it agreed to real economic integration, Lukashenko’s bluff...
was called. The political crisis that engulfed Belarus following the August 2020 presidential election has allowed Moscow to try its hand at helping Minsk to carry out constitutional reform, political transition and economic liberalisation while integrating it closer with Russia. It is not clear how successful Moscow will be. As for the union state as such, it will probably remain an empty shell.

**Vanishing space**

The dynamic of separation within the former Soviet/imperial space runs very deep. With changing generations, Ukraine is increasingly seen as a big, if presently troubled, neighbour full of virulently anti-Russian elements. In the Russian public mind, particularly among younger people, it is fast becoming a foreign country. For those who care about traditional symbols, the birthplace of the Russian state has been conveniently transferred in the official history narrative from “Kiev, the mother of Russian cities,” to Novgorod in Russia, the Vikings’ first stronghold and operations base. Even the “official” place of Russia’s baptism has been moved from Kyiv (as it is now transcribed), where Prince Vladimir ordered the townsfolk to be baptised in the River Dnieper, to Khersones on the outskirts of Sevastopol in Crimea, where Prince Vladimir himself was baptised in the Black Sea.

Georgia may still attract Russian tourists and its wines are back on the Russian market after being banned for several years, but in both categories, it is far behind its competitors. Russians today get most of their knowledge of the other former Soviet republics, from Armenia and Azerbaijan to Uzbekistan and Tajikistan, from those who come to seek work in Russia. There is virtually no desire to go back themselves and try to reassemble the empire. The reason is simple: the Russian empire, and particularly the Soviet Union, used to buy the loyalty of the borderland regions using the resources of the ethnically Russian core. Today, Russia’s per capita GDP is 2.5 times that in Ukraine and 50 percent higher than in Belarus. Thus the idea of the former Soviet Union is following in the footsteps of the Soviet Union itself is disappearing.

**Lessons learned**

The three crises that have almost simultaneously broken out in Belarus, the Nagorno-Karabakh region disputed by Armenia and Azerbaijan, and Kyrgyzstan, where popular protests recently toppled the ruling regime, have demonstrated Russia’s maturing approach to its neighbourhood. Some of Moscow’s new rules include:

Russia first: Russia’s principal interest in the world is Russia itself. As Putin mentioned in connection with a different subject: we are not interested in a world without Russia. Faced with the war in Nagorno-Karabakh, Russia preferred to maintain stability at home, given the existence of large Armenian and Azeri diasporas in Russia (2mn strong each); to keep an important relationship with Azerbaijan intact; and to avoid a collision with regional power Turkey. By involving itself in the war on the side of its nominal ally Armenia, it would have lost all of the above. Russia did send forces to Karabakh, but as peacekeepers between the two sides.

The former Soviet Union doesn’t exist: As far as Moscow is concerned, all the countries that emerged from the ex-Soviet republics are on their own. To Russia, thirty years after the break-up of the USSR, they are all foreign states; emotions are kept apart from politics: there are no special attachments, and no free discounts. Each bilateral relationship will be judged on its own merits.

Bilateral relations with allies are becoming less dependent on personalities: In the context of recent elections in allied nations, Moscow has indicated that it is not tied to any particular leader, be it Belarus’ Lukashenko or Kyrgyzstan’s toppled Sooronbay Jeenbekov. This was already evident from the two previous Kyrgyz revolutions (2005 and 2010) and the 2018 street protests in Yerevan that overthrew the leadership in Armenia, and had long been the attitude regarding tumultuous local practices in Abkhazia and South Ossetia. Russia primarily cares about its own interests in the countries concerned and focuses on protecting those.

Commitments are not open-ended and are always reciprocal: As Moscow has demonstrated in the crisis in Nagorno-Karabakh, Russia will do what it is formally obligated to do, but no more. Russia sent similar messages during the acute phase of the Belarus crisis. It will also insist on its allies being more loyal in order to deserve Moscow’s support. If an ally engages in a “multi-vector” foreign policy, they should expect a similar attitude from Russia.

Third powers cannot be excluded from the neighbourhood; they must be dealt with. Russia has no way of barring third players from what used to be the territory of the Soviet Union. Rather, it must deal with them to minimise threats to core Russian interests. With regard to the West, Russia has used unresolved conflicts in Donbas, Abkhazia and South Ossetia to stop Ukraine and Georgia from securing NATO membership; with regard to China, it has managed to divide up economic/security responsibilities in Central Asia; with regard to Turkey, it is competing in a hard-nosed way for a favourable balance of interests in the Caucasus and the Middle East. Conditional support for Lukashenko is being used to shut out Poland and Lithuania from interfering directly in Belarus, while the self-proclaimed Transnistrian republic supported by a small Russian garrison and economic subsidies should prevent at least that region of Moldova from folding into Romania.

These new rules have not just suddenly appeared in Moscow; they are the product of at least a decades-long process that has seen many Kremlin ambitions severely curtailed and many plans nixed. The Russian Federation is learning to mind its limitations and to match its ends to means; to repel and repress residual nostalgia; and to think straight, putting issues before personalities and staying focused on its own interests. This doesn’t suggest that Russia is withdrawing into itself or is ready to make concessions to others. It simply means that its modus operandi in the neighbourhood is changing, and its posture across Eurasia is being reconfigured, leaving the empire farther and farther behind.
Poland GDP growth, seasonally adjusted y/y change in %

Polish economy rebounds in Q3 but recovery unlikely to hold firm

Polish GDP fell a seasonally adjusted 2% y/y in the third quarter after retreating 7.9% y/y in April-June, a flash estimate released by the Central Statistical Office (GUS) on November 13 showed.

The reading shows Poland’s economy recovering after the shock of the lockdown, in place throughout a considerable part of the second quarter to contain the coronavirus (COVID-19) pandemic.

Source: GUS, IMF

Russia GDP y/y %

Russia’s GDP decline moderates to 3.6% in 3Q20

Russia’s GDP declined by 3.6% year on year in 3Q20, marking a notable improvement after an 8% y/y fall in GDP seen in 2Q20.

As reported by bne IntelliNews, previously the risks associated with the second wave of coronavirus (COVID-19) have called the official economic outlook of the Ministry of Economic Development into question. Better GDP dynamics in 3Q20 are thus welcome.

The data came in line with the consensus forecast but was better than the official expectations (-3.8%), BCS Global Markets commented on November 13, estimating that in 9M20 GDP fell by 3.5% y/y after -3.4% in 2H20.

Source: Rosstat, Ministry of Economy

Romania: Retail Sales Index [2015=100]

Romania’s retail sales up 3.8% y/y in Q3

Romania’s retail sales index increased by 4.6% y/y in September, driven by non-food sales that keep rising by double-digit rates.

The higher real wages, still moderate unemployment and affordable interest rates pushed up the retail sales by 3.8% y/y in the third quarter of the year after a 7.3% y/y contraction in Q2.

As of September, the seasonally and workday adjusted retail sales index was still 1.9% below the pre-crisis level reached in February. However, non-food sales boasted double-digit growth in September (+11.6% y/y) and are already 4.3% above the pre-crisis level of February (in adjusted terms).

Source: IHS Markit, Istanbul Chamber of Industry

Ukraine corporate profit UAH mn (quarterly)

Ukrainian companies booked $3bn of losses in the first half of 2020

Corporate profits in Ukraine were doing well in 2019 and the large and medium-sized enterprises reported an exceptionally good fourth quarter, taking in UAH274bn ($9.6bn) in the last quarter to bring the total corporate profits for 2019 to UAH529bn ($18.5bn).

However, the economic shocks of 2020 killed off activity in the first quarter and sent corporates collectively into a loss of UAH118bn. There was a mild recovery in the second quarter, where companies earned UAH28bn (about $1bn), but that was almost a third of what they earned in the same period a year earlier.

Source: Ukrstat
Coronacrisis to get worse before it gets better forecasts wiiw

Clare Nuttall in Glasgow

The coronacrisis in Central, Southeast and Eastern Europe is set to get worse before it gets better as most countries in the region are heading for another contraction in Q4, says a new report from the Vienna Institute for International Economic Studies (wiiw).

"One thing is pretty clear: Q4 2020 will be bad," said Vasily Astrov, economist at wiiw and lead author of the report "No Quick Recovery in Sight, with Coronavirus Risks Looming Large" during a webinar on November 12.

As of mid-November, coronavirus (COVID-19) cases are rising sharply across most of the region, reaching exponential growth in some countries in Central Europe and the Western Balkans.

"This has economic implications because high number of cases and hospitalisations are testing the capacity of the healthcare systems to cope, which has prompted governments to re-impose lockdowns. Already in several countries in Central Europe are now under full or partial second lockdowns," said Astrov.

"These lockdowns are not as strict as those imposed in the spring but they are still enough to push economies into recession, so we forecast double-dip recessions in almost all Eastern European countries this year." The new wave of the pandemic comes after, broadly speaking, the CEE region did better than Western Europe during the first wave in the spring. Most countries in the region have reported fewer deaths in proportion to their population than West European countries so far, and the economic impact of the spring lockdowns was also not so deep.

wiiw economists attributed this to the relatively smaller size of the services sector in CEE economies. "The services sector is not as important on average as it is in Western Europe ... the services sector was hit the most by the pandemic, so the fact that East European countries are less dependent on services on average played to their advantage," said Astrov.

There are, however, some exceptions. First there are Croatia and Montenegro, which are strongly dependent on tourism, which are strongly dependent on tourism and as a result suffered the steepest contractions in the region as arrivals slumped – by around 60% in Croatia and nearly 80% in Montenegro during the first seven months of the year.

The second group are the smaller Visegrad countries – the Czech Republic, Hungary and Slovakia – plus Slovenia, all small open economies that are highly dependent on foreign trade and highly integrated with regional value chains. All four have substantial automotive industries and, as Astrov pointed out, "the car industry didn’t have a good time in Q2, there was a demand shock because demand for cars collapsed, and also supply interruptions within the framework of international value chains. As a result, these countries suffered over-proportionately in Q2."

The region as a whole is forecast to expand by 3.1% next year – a recovery smaller than the 4.5% expected contraction in 2020 – and accelerate to 3.3% growth in 2022.

Bulgaria and Ukraine in particular can expect a “subdued” recovery, the report says, while for the major oil producing states, “in Russia and Kazakhstan, growth will barely exceed 2.5%, as the oil prices are unlikely to recover substantially from their current levels and oil production will still be constrained by the Opec+ quotas”.

This is under wiiw’s benign baseline scenario that assumes that next year there will be an effective vaccine against COVID-19 that will succeed in containing the pandemic.

Only three economies have a chance of bouncing back to 2019 levels of economic activity next year – Lithuania, Serbia and Turkey – while the rest of the region will only recover fully in 2022.

The exception to the gradual recovery forecast for most of the region is Belarus, which is forecast to be the only economy in the region that will not grow in 2021, due to the ongoing political turmoil in the country following the rigged August presidential election.
Someone bombed Saudi Arabia’s biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to $100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

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