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Czechia’s biggest carmaker Skoda Auto posted a drop in non-consolidated net profit by 52% year-on-year to CZK15.2bn (€580mn) in 2020, according to its annual report.

Its non-consolidated sales decreased by 7.6% to CZK424.3bn, mainly due to a negative impact of the coronavirus pandemic on car production and sales, as well as the development of exchange rates.

“Our share of the European market increased by 0.5 percentage points to 5.4%. In other words, Skoda has further strengthened its position as one of the leading brands in the volume segment,” said Skoda Auto CEO Thomas Schäfer.

The company delivered 1,004,800 vehicles to customers worldwide, exceeding one million deliveries for the seventh consecutive year. Germany remains its second strongest single market, delivering 161,800 vehicles. The Octavia remained its best-selling model with 257,400 deliveries.

“In Central Europe, Skoda’s deliveries decreased by 15.7% to 181,900 vehicles. In our home market, Czech Republic, we lost 11.6% but could increase our market share up to 41%, which is 3.3%-points above 2019,” said Member of the Board of Management for Sales and Marketing Martin Jahn.

“Incidentally, we are the only brand worldwide whose market share in a single country has been more than 30% for decades. Overall, we were able to increase our performance in all further Central European markets as well,” Jahn added.

Investments excluding development costs fell from CZK32.1bn to CZK17.8bn in 2020, mainly to product investments in connection with the launch of new models, units and batteries.

For more than a year, the company has produced high-voltage batteries at its Mlada Boleslav plant for use in the Super iV, Octavia iv and Octavia RS iv as well as other plug-in hybrid models from the Volkswagen, Audi and Seat brands.

According to the company, the development of green electricity and a nationwide charging infrastructure will be crucial for electromobility to take off in Czechia.

Last year, Skoda spent CZK18.5bn on research and development of new products, down by CZK7.7bn y/y.
Home Credit plunges to €584mn loss in 2020

Home Credit Group, the consumer lender owned by the late Czech billionaire Petr Kellner, blamed a €584mn loss for 2020 on the coronavirus (COVID-19) pandemic but said it was profitable in 2H and expected to be profitable again this year. Home Credit recorded a net profit of €35mn for 2H20 compared with a €619mn net loss in the first half.

Home Credit has expanded from the Czech Republic and Slovakia into Russia, China and the Far East, using points of sale in shops, banks, kiosks and post offices, as well as the internet and social media to sell loans to consumers. It cancelled a planned IPO in Hong Kong 2019.

The group has adapted its operations in 2020 to the pandemic, reducing total assets by 30% to €18.5bn through a 37% year-on-year reduction in the loan book to €12.7bn.

"Home Credit remains resilient with an operating model that can be adapted quickly to handle changing circumstance as we did in 2020. We have recalibrated our business for the post-COVID environment and are confident that as global markets get back on track, we too will continue to rebound," said Jean-Pascal Duvieusart, CEO of Home Credit Group BV.

Home Credit said new volumes in 2020 had decreased 49% compared to 2019 on a constant currency basis due to the impact of lockdowns, reduced consumption, stricter underwriting criteria and a strategy to promote smaller loans. The group’s net interest margin declined from 15.5% in 2019 to 13.9% in 2020 as it focused on providing loans to better borrowers.

It said loan demand increased in the second half of the year, with credit applications up 23% to 13.8mn in 4Q compared to 2Q. In the final three months of 2020 it disbursed an average of 47,900 loans per day in 4Q20 – one every two seconds – versus 39,600 in 2Q20.

"We made fewer, smaller and shorter-term loans, mindful of the financial strain many were under. Quite rightly, our loan book is now significantly smaller and reflects the increased risk profile of our markets, although there was growth in new loans in all our regions by the end of the year," said Duvieusart.

In 2H20 average loan contract tenors were reduced to nine months from 20 months in 2019, while the amount of the average loan reduced from €910 to €450.

Cost of risk climbed from 8.6% in 2019 to 12.9% during 2020, with NPLs (loans with past interest payments due over 90 days) increasing by 6.4% in 2020 from 5.6% in 2019. Again, there was a distinct improvement in the second half, with impairment losses in 1H20 at €1.8bn, but only €0.6bn during the second of half of the year, reducing the annualised cost of risk from 17.8% in 1H20 to 6.8% in 2H20.

The loan coverage ratio increased significantly in 1H20 from 7.3% to 12.2% and then, during 2H20, it rose only slightly to 12.6%. The NPL coverage ratio strengthened to 197.3% in 2020 from 130.6% in 2019.

Partly through pushing digitilisation, Home Credit reduced operating expenses by 13.2% y/y to €1.6bn, and by 25% on a run rate basis. By the end of 2020, the group had 91mn registered users of its proprietary app, up 30% with 52% of new volumes originating digitally.

In a number of locations, customers may now apply for revolving loans themselves by scanning QR codes. More than 150,000 retail shops in China were converted to this self-service model during 2020 and there were 1.66mn new users in 2020. In China 96% of new customers are acquired digitally.

In Russia, Home Credit started piloting loans within VK Pay, a payment platform operated by the country’s leading social media network.

Home Credit’s capital position remains solid, with equity to net loans increasing to 15.3% at year-end 2020 from 14.2% a year earlier.

PPF, Kellner’s vehicle that owns 91% of Home Credit, has announced its intention to combine PPF Group’s retail banking and consumer finance units in the Czech Republic and Slovakia with Moneta Money Bank. This includes its stakes in Air Bank, peer-to-peer lender Benxy and the Czech and Slovak operations of Home Credit.
Erste Bank net profit halves to €783mn in 2020

Ben Aris in Berlin

Erste Bank, the biggest multinational lender across the CEE region, reported net profit down 46.7% in 2020 at €783.1m on February 26, slightly above Reuters estimates, as it made provisions for losses from the coronavirus (COVID-19) pandemic.

The Austrian lender announced a dividend for 2020 of €0.5 per share and reserved an additional €1 per share for a potential later payment if permitted by the ECB.

Erste said its CEE markets held up better than expected in 2020, while Austria underperformed. It expects net profit to increase this year on the back of net fees rising in the low single digits and better trading income, while net interest income should remain flat despite negative interest rates in the euro zone. It also forecasts a non-performing loan ratio of 3-4% this year, up from 2.7% in 2020, with no significant increase in hard defaults after the expiration of debt moratoria in the region.

In 2020 net interest income increased – mainly in Austria, but also in Romania and Hungary – by 0.6% to €4,775bn, with customer deposits rising 9.9%. Growth in loans and advances to customers slowed to 3.6% to total €166.1bn, and the bank expects low to middle single-digit growth this year.

Consumer loans fell on the uncertainty during the pandemic but housing loans soared by 36%. The loan-to-deposit ratio stood at 86.9% (92.2%) and net interest margins slipped to 2.08% from 2.18%. It expects loan growth in the low to mid-single-digit range in 2021.

Net fee and commission income fell by 1.2% to €1,977bn, though with higher demand for security products continuing. The net trading result declined significantly to €138mn.

General administrative expenses declined 1.5% to €4,221bn, giving an unchanged cost/income ratio of 59.0%. The rollout of its online banking system George in Hungary and Croatia should be completed in 2021, enabling customers to access George in its six largest core markets, including Austria, Czechia, Slovakia and Romania. The number of customers using George rose 14% to 6.2mn.

Impairments rose sharply from €39mn (or 7 basis points of gross customer loans) to €1.295bn (78 basis points). Erste believes that in 2021 risk costs will not exceed 65 basis points of average gross customer loans.

The non-performing loan ratio climbed slightly to 2.7% (2.5%), but the NPL coverage ratio rose to 88.6% (77.1%). Some €1.9bn of net loans are supported by state guarantees during the pandemic (1.1% of the total), while €1.3bn are benefiting from a payment moratorium (2.7%).

Total assets rose to €277.4bn (€245.7bn) and the common equity tier 1 ratio (CET 1) increased to 14.2% (13.7%). Return on equity halved to 4.7% from 10%.

Volkswagen in negotiation with Czech government on building e-car battery plant

bne IntelliNews

The Czech government is negotiating with the German carmaker Volkswagen on construction of one of its electric car battery plants in Czechia, said Minister of Industry and Trade Karel Havlicek to Hospodarske Noviny (HN).

According to Havlicek, the negotiations on the Volkswagen plant are tied to the previously announced project of the semi-state energy group CEZ to build a battery factory in northern Bohemia. Together with investors from the automotive industry, CEZ wants to utilize lithium from the Cinovec area in the Ore Mountains for the production of batteries.

Volkswagen, a parent company of the biggest Czech carmaker Skoda Auto, presented earlier this week its technology roadmap for batteries and charging up to 2030, and it plans to build six battery factories in Europe, one of them probably in Czechia.

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Recently there have been reports that the airline is in financial difficulties. In February, the High Court in Ireland ordered an Air Moldova Airbus A319 passenger jet not to leave Dublin airport, because of an award of €4.2mn in favour of Romanian company Just-US Air, the Irish Times reported. 20 passengers, plus the aircraft’s crew, were stranded in Dublin as a result of the order.

Civil Aviation Group, made up of Blue Air (49%) and Moldovan citizens Andrei Yanovich and Sergey Melnik (25.5% each), bought Air Moldova for MDL1.2bn in October 2018. However, out of the total value of the deal, only MDL50mn was paid for the shares and the rest of the money is the debt owed by Air Moldova to third parties. The payment was reportedly made in cash as opposed to by bank transfer. Blue Air later pulled out, saying it was not financially involved in the deal.

As Slusari noted, from 2013 to 2017, the expenses of Air Moldova increased artificially and the company’s losses amounted to RON1.28bn. In this regard, the National Centre for Combating Corruption opened a criminal case in August 2019.

Havlíček also told HN that the Czechia can provide direct support and tax benefits for the Volkswagen factory.

"A partnership with a local manufacturer such as Skoda would be natural, but we cannot comment on such negotiations now,” said CEZ’s Vice Chairman of the Board of Directors Pavel Cyraní, quoted by the Czech News Agency.

According to a partner at the consulting company EY Petr Knap, when considering these investments, in addition to tax incentives, labour costs and workforce skills, the investor will also look at the state’s support for electromobility. "And here in our country [the investor] will face a very below-average to negligible scale [of state support] in the EU," he stressed.

Carmaker Skoda Auto posted a drop in its operating profit by 54.4% to €765mn in 2020, mainly due to lower sales resulting from the COVID-19 pandemic, exchange rate developments and extraordinary emissions-related expenses. Its revenues fell by 13.8% to €17.1bn. It delivered 1,004,800 cars to its customers worldwide, down by 19.1% year-on-year.

E-mobility has become a core business for us. We are now systematically integrating additional stages in the value chain. We secure a long-term pole position in the race for the best battery and best customer experience in the age of zero emission mobility”, said Chairman of the Board of Management of the Volkswagen Group Herbert Diess.

Cooperation has been agreed in Europe with the energy companies BP (Great Britain), Iberdrola (Spain) and Enel (Italy).

“We are discussing it intensively, it is related to the CEZ gigafactory project, which I consider to be one of the priorities and a key investment in the coming years,” Havlíček said.

“We must not miss this opportunity, we are also following the connection to lithium mining, although it is not a condition, but it would be an excellent chain. We want to make a decision this year, we are regularly informed by CEZ, and either I or my colleagues from the Ministry of Industry are in negotiations with potential key investors in the emerging consortium,” he explained.

Details of frauds related to murky Air Moldova privatisation revealed

Iulian Ernst in Bucharest

The money paid for the privatisation of flag carrier Air Moldova was extended by the Moldasig insurance company through intermediaries of the former leader of the Democratic Party, Vladimir Plahotniuc, deputy parliament speaker Alexandru Slusari said, quoting from the report of the parliamentary commission investigating the privatisation and concession of state property.

Slusari is a founder and deputy president of the Dignity and Truth Party, set up to overthrow the regime of Plahotniuc, once the most powerful man in the country, and the commission’s investigations into the privatisation deals during the Democrat-led government have a certain political dimension.

Slusari said that on the one hand Air Moldova's management siphoned money out of the company during 2013-2017 (MDL1.28bn or roughly €100mn) and on another hand half of the money paid to the state for Air Moldova was extended by Moldasig (allegedly a “wallet” for the money siphoned out) and “laundered” through intermediaries including quasi-anonymous individuals, according to the conclusions of the parliamentary commission.
India's Sandhar to open car parts plant in Romania

Iulian Ernst in Bucharest

 Indian car parts manufacturer Sandhar Technologies will open a factory in Romania, where it will produce die-cast aluminium components for windscreen wipers and seat belt retractor spindles.

Indian investors in Romania include multinational corporation Wipro that recently took over IT units from the German retailer Metro, IT services company Infosys, professional services firm Genpact and pharma companies SunPharma and Dr. Reddy's Labs, while British-Indian billionaire Sanjeev Gupta bought the Sidex plant in Galati, along with other European facilities formerly owned by ArcelorMittal, in 2019. Gupta was also the sole bidder for the Romanian Credit and Investment Bank (BRCI) in November.

Sandhar's strategy is developing production facilities close to the customers and the growth of the local automobile industry explains the investment.

The Indian group has set up a branch in Bucharest, through its Spanish subsidiary, to prepare the launch of its local operations. Newly registered Sandhar Technologies RO has a share capital of RON1mn (€0.2mn) and is wholly owned by Sandhar Technologies Barcelona, a company owned by Sandhar Technologies.

On the LinkedIn page of Sandhar Technologies Barcelona, the group says it already operates finishing centres in Poland and Romania, and a manufacturing plant in Mexico. But while
the group's activity in Czestochowa, Poland has been public, its operations in Romania have been revealed so far only by deliveries and other services for some of its customers in the country.

Founded in 1987, Sandhar is an Indian manufacturer of automotive components, serving OEMs around the world. Products include automotive locking and security systems, automotive vision systems, stampings, operators cabins and structural parts, zinc die casting, aluminium die casting, magnesium die casting, automotive optoelectronics, polymers, painting, plating and coating, commercial tooling, helmets, assemblies, fuel pumps, filters and wiper blades.

The company is listed on the Mumbai BSE Stock Exchange.

Founded in 1921 in Barcelona and moved to its current location 50km away from the city in 1995, Tecfisa (currently Sandhar Barcelona) was taken over in 2007 by Sandhar. Sandhar Barcelona has casting machines and produces over 200,000 components per day. Major customers are TRW, Autoliv, Bosch, Trelleborg and Saint Gobain.

Sandhar is a prime vendor to many OEs in India, including Honda Cars India. It recently expanded its product portfolio, by venturing into wiper blades, electric fuel pumps, mechanical fuel pumps and starter motors. To fulfill this range diversification, it recently struck a joint venture agreement with Korea’s Daewha Fuel Pump and also included ACG and oil filters into its offering.

Back in 2017, the Indian group began producing two elements of the wiper system assembly of the all-new fully electric Tesla Model 3. According to Sandhar Barcelona, “This is an emblematic project for us because we are supplying two parts from Mexico, used for the wiper system. We are very proud to contribute with our job in this next generation of cars.”

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Moscow to issue first regional green bonds

As reported by bne IntelliNews, Russian state energy policy is focusing more and more on ESG as the country belatedly prepares to tackle the EU carbon tax introduction and other “green” challenges.

Recent reports suggest several initiatives are being developed at the same time, such as green certificates, a greenhouse gas (GHG) emission reduction strategy, and an energy efficiency policy. Major state-controlled (Rosneft) and private (Lukoil) oil and gas majors are pledging to deliver green strategies.

“The share of green bonds could reach 60% of the total Moscow government’s issuance”
At the same time, the rise in oil prices was also helped by global economic recovery and the development and rollout of vaccines. As more people are vaccinated, the threat of coronavirus (COVID-19) is reduced and there is a gradual return to normality. International organisations such as the International Monetary Fund (IMF) have become more optimistic about the future, revising their GDP estimates for 2021 and 2022 upward to 5.5% and 4.2% respectively.

Russia’s recommendation to boost production is important given the state of inventories, which are not currently full. Prices for product tankers have fallen from over $100,000 per day in May 2020 to around $10,000 now.

Increasing supply and filling storage would provide important security against future shocks and threats – many of them unanticipated. Examples of such risks would include the drone attack against the Abqaiq oil installation in Saudi Arabia in 2019, which knocked out 5% of global oil production, or the recent Texas snowstorm, which halted production of around 2mn bpd.

As the group continues to disagree over what direction to take, it is becoming increasingly clear that acceptance of the Russian position and rejection of Saudi Arabia’s may not only aid oil producers, but the global economy more generally too. First, a return to greater production would help producers to sustain their recovery from the economic slowdown associated with COVID-19 by boosting their revenues. Rich and poor OPEC countries such as Nigeria, Angola, Kuwait, Oman and

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Companies & Markets

Russian cartoon Masha and the Bear becomes a top global entertainment brand

Ben Aris in Berlin

The runaway success Russian cartoon Masha and the Bear has been ranked in the top three most popular children’s entertainment brands in Europe, Africa and the Middle East, according to the Kidz Global international research agency.

"Masha and the Bear entered the Top 3 most favourite entertainment brands for children in Europe, the Middle East and Africa among children 0-6 years old," the Tass press service said, referring to the results of an online interview conducted in November 2020 at the Animaccord Animation Studio during the Open Russian Animated Film Festival in Suzdal.

The show that features the antics of the little girl Masha who lives with her friend the bear has been a smash hit around the world, and the fact that it used to be exclusively in Russian didn’t stymie the growth of the show’s viewers around the world, mostly via YouTube. As the dialogue is minimal and the comedy largely slapstick the lack of other language versions has made it a big hit, especially among young children.

Masha and the Bear is a Russian animated television series. The first episode was released in 2009. Since then the series has been translated into 42 languages and is the only Russian animation project that is included in the top 5 most sought-after children’s shows in the world (Parrot Analytics, 2021). To date, the Russian cartoon has been awarded five YouTube Diamond Play Buttons.

The show’s Russian origin has caused it some problems. As bne IntelliNews reported in “Masha and the spy”, The Times ran a piece in November 2018 entitled “Children’s show is propaganda for Putin, say critics” that accused Masha of being a nationalist and a vehicle for Russia’s soft power ambitions.

“Rubbish,” retorted Dmitry Loveyko, the CEO of the Animaccord Animation Studio, the maker of Masha and the Bear, in an exclusive interview with bne IntelliNews at the time. “What do you mean by propaganda? Is Mr Bean propaganda pushing the British lifestyle overseas? There is a better argument to say that the Beatles were Western propaganda used to fight the Soviet Union during the cold war with their jeans and the hippies.”
Iran ‘quietly’ resumes oil trade with China, India

bne IntelliNews

Iran has reportedly “quietly” moved record volumes of crude oil to top client China, while India’s state refineries have added Iranian oil to their annual import plans on the assumption that US sanctions on Tehran will soon ease.

Reuters on March 8 cited six industry sources and Refinitiv data in describing the apparent turn of events.

Under sanctions brought in by former US president Donald Trump when he scrapped participation in the 2015 nuclear deal (formally the Joint Comprehensive Plan of Action, or JCPOA) between Iran and six major powers, the US is still officially committed to driving Iran’s oil exports to zero. Yet with hopes rising that Trump’s successor, Joe Biden, and Tehran can find a way to resolve differences that would enable a resumption of full commitment to the JCPOA — and also perhaps a growing feeling that Biden officials may have eased back on US efforts in enforcing the sanctions still in effect — Iran’s oil export officials appear to be already active in preparing the ground for a full-on revival of the country’s oil trade with China and India, formerly the second largest client in purchasing Iranian crude.

Reaching out

The National Iranian Oil Company (NIOC) began reaching out to customers across Asia as soon as Biden took office on January 20 to assess potential demand for its oil, Reuters sources were quoted as saying.

“They [the Iranians] spoke to us. They said, ‘We hope to resume oil supplies very soon.’ We said, ‘Inshallah,’” one source at an Indian refinery was reported to have said.

India, which as a major oil importer has suffered amid a recent robust rebound in global crude prices, expected Iranian supplies to return to the market in three to four months, a government official said.

Grey market

Unlike India, China never completely stopped importing oil from Iran in the wake of the Trump attempt to scupper all Iranian crude sales abroad. Various grey market manoeuvres have been used to keep up some consignments.

According to Refinitiv Oil Research, Iran has delivered about 17.8mn tonnes (306,000 b/d) of oil to China in the past 14 months, with volumes reaching record levels in January and February.

Of these, about 75% were “indirect” imports, identified as oil from Oman, the United Arab Emirates (UAE) or Malaysia, which entered China mainly through ports in the eastern province of Shandong, where most of China’s private refineries are located, or through the port Yingkou in northeastern Liaoning province.

Geneva-based tanker tracker Petro-Logistics said Iranian oil loadings in January exceeded 600,000 b/d for the first time since May 2019, a sign that the end of Trump’s term may be changing buyer behaviour.

Iranian oil tanker Huge, operated by the National Iranian Tanker Company. The vessel is a VLCC (very large crude carrier).

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Western Kazakhstan’s oil-rich Mangystau region announced on February 25 the discovery of the largest reservoir of hydrocarbons in over 30 years of the country’s post-independence history.

The field, where the exploration well showed substantial gushes of oil, is under development by a local company called Meridian Petroleum, the Mangystau provincial government said. The oil at the field appears to be low in sulphureous content, which could potentially make it easier to process and transport the oil compared to hydrocarbons produced in other parts of Kazakhstan. Nevertheless, further investigations will be required to determine the field’s potential reserves.

Mangystau governor Serikbai Trumov said the field would “give a powerful impetus” for Mangystau region’s social and economic development and lead to the creation of new jobs.

Mangystau province accounts for 25% of all oil and condensate production in Kazakhstan or 18mn tonnes of oil and 3bn cubic metres of natural gas per annum.

The idea of a new and large oil field coming online in Kazakhstan may be a mixed blessing. Kazakhstan’s oil output fell by 5.4% y/y to 85.7mn tonnes in 2020 driven by Kazakhstan’s participation in the global OPEC+ pact to cut oil output, as prices of oil plummeted last year amid a pandemic-driven decline in demand for energy. Global oil prices have been picking up recently.

While the commodity is valuable, the government has struggled to wean the economy off reliance upon it. Taxes levied from the oil and gas industry make up nearly half of Kazakhstan’s state budget.

The new discovery may thus not bode well when it comes to Kazakhstan’s continued over-reliance on oil exports to support its economy. At the same time, the discovery may not even attract much interest after the cost overrun at the Kashagan project – Kazakhstan’s last mega discovery, in the northern part of the Caspian sea in 2000 – which became unnecessarily costly. For instance, Italy’s Eni said on February 24 that it sees no scope for new large upstream investments such as Kashagan. Eni’s upstream director Guido Brusco noted that Eni’s revised aspirations pave way for a “new model” for relations between firms such as Eni and national companies. Resource-rich countries would need to work harder to prove their investment attractiveness, he elaborated.

"The large projects which were driving us in the past, Kashagan – the $50bn – those projects are no longer in the strategy of our corporation," Brusco told the online IP Week conference. "We are looking more at incremental projects which will develop discovered resources. But we are not thinking of multi-billion projects any more."
Fix Price raises $2bn with London IPO

Fix Price, one of the leading variety value retailers globally and the largest in Russia, has successfully priced its IPO on the Main Market of the London Stock Exchange at $9.75 per GDR, the top end of the previously announced price range.

The IPO was upsized following strong investor demand to $2bn, giving Fix Price a market capitalisation of $8.3bn.

This means that the Fix Price IPO becomes (source: Dealogic):

- The largest Russian IPO on the London Stock Exchange since 2007;
- The biggest IPO in history by a Russian retailer on any stock exchange;
- The second biggest IPO ever by any retailer on the London Stock Exchange, and the biggest IPO of a retailer on the LSE since 2006;
- The largest international IPO on the LSE since 2017.

We are delighted with the extremely strong interest from the global investor community, which resulted in a strong and diversified order book including a number of blue-chip names and enabled us to upsise the offer beyond our original expectations. I would like to extend a warm welcome to all our new shareholders as they join the Fix Price family, and look forward to the next chapter in the exciting Fix Price story,” Dmitry Kirsanov, CEO of Fix Price said in a press release.

A press release before the IPO took place:

Confirmation of Offer details:

- The Offer Price has been set at USD 9.75 per GDR.
- Based on the Offer Price, Fix Price’s total market capitalisation on Admission will be approximately USD 8.3 billion.
- The Offer consists of an offering of 178,372,354 GDRs, each representing one ordinary share of the Company, equating to a total base offer size of approximately USD 1.7 billion and representing approximately 21.0% of Fix Price’s total issued share capital on Admission.
- In addition, a further 26,755,852 GDRs are being made available by certain selling shareholders, pursuant to the over-allotment option. If allocated in full, the number of publicly traded GDRs would increase to 205,128,206, representing approximately 24.1% of Fix Price’s total issued share capital.
- As previously announced on 1 March 2021, QIA,1 funds and accounts managed by BlackRock, GIC and APG2 have each entered into cornerstone agreements with Fix Price containing commitments, subject to certain conditions, of USD 150 million, USD 150 million, USD 100 million and USD 75 million, respectively, in total amounting to USD 475 million, to acquire GDRs in the Offer at the Offer Price.
Full details of the Offer will be included in the Prospectus, which, when published, will be available on the Company’s website at https://ir.fix-price.com/ and on the National Storage Mechanism at https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

Conditional dealings in the GDRs are expected to commence on the London Stock Exchange at 8:00 a.m. (London time) on 5 March 2021 under the ticker “FIXP”. Investors should note that only those who applied for and were allocated GDRs in the Offer will be able to deal in the GDRs on a conditional basis.

Admission to the standard listing segment of the Official List of the FCA and to trading on the Main Market for listed securities of the London Stock Exchange and Moscow Exchange, and the commencement of unconditional dealings is expected to take place at 8:00 a.m. (London time) on 10 March 2021. On 20 February 2021, Moscow Exchange approved the inclusion of the GDRs in the Level 1 segment of its quotation list.

In connection with the Offer, each of the Company, the selling shareholders, senior management of the Group and certain other shareholders of the Company have agreed to lock-up arrangements restricting the disposal of the Company’s securities for a period of 180 days (in the case of the Company, the selling shareholders and certain other shareholders of the Company) and 365 days (in the case of the senior management of the Group) from the date of Admission.

BoFA Securities, Citigroup, J.P. Morgan, Morgan Stanley and VTB Capital (each as defined below) have been engaged by the Company to act as Joint Global Coordinators and Joint Bookrunners.

About Fix Price

• Fix Price is one of the leading variety value retailers globally and the largest in Russia, with more than 4,200 stores. Fix Price has grown rapidly in recent years, with revenue of RUB 190.1 billion, RUB 142.9 billion and RUB 108.7 billion for 2020, 2019 and 2018, respectively. Adjusted EBITDA for the same years was RUB 36.8 billion, RUB 27.2 billion and RUB 14.2 billion, respectively. Net income for the same years was RUB 17.6 billion, RUB 13.2 billion and RUB 9.1 billion, respectively.

• Fix Price occupies a separate niche to traditional discounters. Fix Price’s stores provide an affordable shopping destination, offering customers a broad range of essential and unique products at multiple fixed price points, all under RUB 250 (ca. US$3.40).

• Fix Price’s pricing policy capitalises on a structural shift towards value among consumers worldwide, which Fix Price believes allows it to benefit in almost any economic environment, most recently during the COVID-19 pandemic. In 2020, Fix Price reported double-digit quarterly like-for-like sales growth every quarter and FY like-for-like sales growth of 15.8%.

• The variety value retail market is one of the fastest-growing segments in Russian retail and is expected to triple in size by 2027 with a CAGR of 16.9% for 2019-2027, according to an independent industry consultant report. The market has more than doubled its size over the past five years, albeit still at a low base compared to other countries, suggesting further significant potential for growth.

• In the Russian variety value retail market, Fix Price is the leader both by number of stores and revenue. According to an independent industry consultant report, Fix Price was estimated to account for 93% of the Russian variety value retail market by revenue in 2019, and had by far the largest number of stores among Russian variety value retailers.

• Today there are more than 4,200 Fix Price stores primarily in Russia, as well as in neighbouring countries (Belarus, Kazakhstan, Uzbekistan, Kyrgyzstan, Latvia and Georgia), all of them stocking approximately 1,800 SKUs across around 20 product categories. In addition to its own private brands, Fix Price sells products from leading global names and smaller local suppliers. Fix Price’s wholesale operations service a number of franchisees operating in Russia, Belarus, Georgia, Kazakhstan, Kyrgyzstan and Latvia.

• Fix Price has an efficient and easily scalable business model, which is underpinned by the following key pillars: data-driven procurement, streamlined centralised logistics, efficient and standardised store management, and a highly experienced management team. State-of-the-art IT solutions enable Fix Price to achieve a high degree of automation across its operations.
Telegram messenger places $1bn of bonds

IntelliNews Pro

The Telegram messenger app of Russian internet guru Pavel Durov raised $1bn from the placement of exchange bonds yielding 7% annually, RBC business portal reported on March 15 citing unnamed investors that participated in the offering.

As covered in detail by bne IntelliNews, Durov had already raised $1.7bn from the biggest ICO (Initial Coin Offering) in history to fund the development of his Telegram Open Network (TON) blockchain.

But he later abandoned the project due to objections by the Securities and Exchange Commission (SEC), which said the sale of its GRAM coins was the sale of an unregulated security. After that, Telegram was searching for debt financing for its development.

Reportedly, the latest bonds mature in 2026, with the minimum offering at $0.5mn. The bonds are exchangeable for equity in the case of a possible IPO at 10% discount.

The placement was reportedly organised by VTB Capital (VTBC) and Aton, as well as by Alfa Capital. However, given the small number of investors the placements were direct and involved no underwriting.

Previously Forbes claimed that the book for the bonds was oversubscribed two-fold, with the offering possibly expanded to $1.5bn. However, the analysts surveyed by RBC believe that the demand was moderate, given the final yield of 7%.

The analysts also agree that the possibility to participate in the future IPO of Telegram is the main driver of demand for the bonds, even without a clear monetisation strategy for the messenger.

Central Asia bond review

Maximilian Hess in London for EurasiaNet

Debt has been a key feature of Central Asia’s integration into the world economy in recent years. Chinese financing has attracted the most attention, little of it positive. But borrowing from Western capital markets, particularly in the form of tradable loans issued abroad and denominated in hard currencies (known as eurobonds), has highlighted key differences in the post-Soviet republics’ development 30 years after independence.

Uzbekistan is the poster child for these efforts, opening up dramatically since the death of President Islam Karimov in 2016 and being embraced by lenders. Tajikistan is proving more of a cautionary tale – both for the indebted government and its weary investors.

Tashkent’s triumph

In February 2019, two Western-educated bankers with extensive experience abroad – Arabek Nazirov of the Capital Market Development Agency and Deputy Finance Minister Odilbek Isakov – oversaw the issuance of Uzbekistan’s first-ever sovereign eurobonds, raising $1bn. The debt has performed extremely well. Half was issued in a 10-year bond that now trades at nearly 113 cents-on-the-dollar.

As bond prices rise, their effective yield goes down. Investors at issuance were promised annual interest payments of 5.375%, but the current effective yield is just 3.5% – meaning the cost of borrowing has fallen for Tashkent.

That November, Uzbekistan’s state-owned Sanoat Qurilish Bank (also known as Uzpromstroybank) followed suit, issuing a $300mn eurobond.

Uzbekistan was not immune to the COVID-19 pandemic, of course, and the March 2020 selloff in emerging-market debt saw the sovereign eurobond fall 24% (from 112 cents on the dollar to 85 cents) in just three weeks. It now trades at around 113 cents, having steadily recovered throughout the second
half of 2020. Domestic dynamics have not driven the recovery, but rather Western central banks’ stimulus spending has boosted bond prices globally.

Reports of a cash-crunch in Uzbekistan last April, including new limits on the payout of dollars and euros by local banks, had little impact on the taste for the country’s bonds. Tashkent sold significant stocks of gold in 2019 and 2020, taking advantage of record-high prices. While the sales garnered some criticism domestically, foreign investors have seen the moves as prudent.

One investor in the Uzbek eurobonds says that he was not concerned by domestic political dynamics or even the immediate economic impacts of the pandemic on Uzbekistan but instead remained comfortable with its credit due to strong gold reserves and overall low external debts, although its public debt-to-GDP ratio has nearly doubled to 38% over the last five years.

The National Bank of Uzbekistan and Ipoteka Bank, both also state-run, followed Sanoat Qurilish’s lead, issuing $500mn in five-year bonds at 4.85% and 5.5% in October and November 2020, respectively.

Also last November Uzbekistan issued a new 10-year sovereign eurobond, raising another $555mn. The annual cost of the borrowing is just 3.7%. Uzbekistan shaven nearly 1.6% off its long-term borrowing costs in just 18 months.

Notably Tashkent also sold 2 trillion som ($190mn) worth of local-currency debts in November, despite stubbornly high domestic inflation. Ultimately, the ability to sell local-currency debt abroad should help tame Tashkent’s borrowing costs in financing new development since local-currency loans do not face the exchange-rate risk and other challenges of borrowing in foreign currencies. Uzbekistan now appears poised to establish itself as a fixture of emerging-market investment, much like Kazakhstan. Tashkent plans to issue another 5 trillion som (almost $500mn) of local-currency bonds this year, as well as another $700mn in eurobonds, with investors eager to back both.

Kazakhstan

Uzbekistan’s path was blazed by neighbouring Kazakhstan, which began issuing sovereign eurobonds way back in 1996, paving access to Western credit for Kazakh firms. Today Kazakh corporations are more regular issuers of eurobonds than the sovereign itself.

In 2018, Kazakhstan sold 525mn in five-year eurobonds at just 1.55% annual interest, at the time a record low for any post-Soviet country. To put that number in context, this week the US Treasury is paying 1.45% to borrow over 10 years.

Kazakhstan has also sought to develop its local-currency bond market and last November issued its first “green bonds,” raising 14bn Kazakhstani tenge ($33.5mn) for sustainable investment with the support of the Asian Development Bank (ADB).

Trouble in Tajikistan

Central Asia’s third eurobond issuer offers a cautionary tale of how market enthusiasm for such securities can prove a double-edged sword. Tajikistan sold its inaugural eurobond in September 2017, raising $500mn. Due for repayment in 2027, Tajikistan pays a whopping 7.125% for the privilege. Over the tenor of the debt, that means Dushanbe will pay investors over $356mn in addition to repaying the $500mn in 2027.

Raiffeisen Bank, one of two bookrunners who helped market the Tajik eurobond, labelled it “the worst-performing among all” emerging-markets bonds in 2019. Last March’s market selloff saw the bond collapse even further, reaching a nadir of just 60 cents-on-the-dollar. While it has since recovered some, it did not keep pace with what proved to be a record-setting year for emerging-market debt in 2020. At present rates it is all-but-impossible to envision Tajikistan being able to return to the market. Therein lies the rub of bond market financing: Growing debts are sustainable as long as investors are willing to refinance them.

Tajikistan’s foray into eurobond financing is likely to meet an ignominious end. It is the sole Central Asian country to join the G20’s Debt-Service Suspension Initiative aimed at providing a bridge through the pandemic. Dushanbe has begun restructuring talks with Beijing. And though it received an emergency $189.5mn loan from the International Monetary Fund (IMF) last May, the IMF must be wary: It effectively accused Dushanbe of fraud the last time it tried to support the country.

So it is anyone’s guess where Dushanbe will secure the $562mn in fresh loans it says is seeking this year. As 2027 approaches, the spectre of its $500mn eurobond repayment risks putting off institutional creditors, China and other potential deep-pocketed saviours such as the Gulf states. ●

This story first appeared on Eurasianet.

Maximilian Hess is a London-based political risk analyst and writer.
Renaissance chief economist expects another Turkish lira crash within two years

Charles Robertson, the London-based global chief economist at Renaissance Capital, reportedly expects Turkey to experience another lira crash within two years.

In an interview with Bloomberg, Robertson said: “My current scenario is that we go back to another boom-and-bust cycle, with interest-rate cuts in the second half of this year leading to strong credit growth in 2022, just ahead of the presidential election in 2023, and then we get another crash.”

He added: “We have seen so many times that [Turkish President Recep Tayyip] Erdogan was persuaded that he has to do something. Each time, the cost has become higher and the gains have become more short-lived. You look at interest rates globally today and look where Turkey is. Every other mainstream emerging market has interest rates below 5% now, except Turkey.

“I don’t have high trust that Erdogan has learned his lesson. His comments just a week ago again suggests that, yes, he is being responsible for now, but as soon as he gets the chance and certainly ahead of the elections in 2023, you would expect Turkey to go on the credit-growth model again.”

Robertson also said: “Once again Turkey has got a choice. It still has a very cheap currency; it can go down an export-led model that will support its current account and bring in the dollars and euros that can be used for investment. I’d love to see the central bank be able to take inflation under control permanently through a long period of high interest rates and at the same time a cheap currency helping exports and helping re-balance Turkey’s economy away from consumption. That would be the better long term story for Turkey, but less exciting for growth. It is kind of a growth scenario of probably 3% or 4% a year, not 6% or 7% for a few years and then a crash.”

Reflecting on his outlook for Turkey, Robertson said: “I’d love to be wrong, for the sake of the Turks and their savings and their relative standing in the world. Turkey has an opportunity to change. Turkey is a well-developed industrial economy with a good, educated workforce. It could be a solid – perhaps the best – growth story in the European time zone for the next 10 years with the right policies.”

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E-commerce rising stars of the Western Balkans

Valentina Dimitrievska in Skopje, Clare Nuttall in Glasgow

With their small populations, relatively low incomes and large informal economies, the six countries of the Western Balkans aren’t the best environment to nurture e-commerce champions. The barriers to cross-border trade and existence of two distinct language families – South Slavic and Albanian – have also inhibited the emergence of pan-regional e-commerce platforms.

Despite these factors, there are a growing number of e-commerce platforms in the region that have achieved success in their local markets and in some cases in neighbouring countries as well. Not only that, but Serbia’s Delta Holding, hitherto mainly focused on real estate and retail, has announced plans to create an “Amazon of the Western Balkans”, Ananas, with investments of €100mn over the next five years.

A spokesperson for Ananas says the region “has been deprived of quality e-commerce platforms and services for too long”. “All of us are witnessing the expansion and potential of the online retail market which became even more evident since the beginning of the pandemic. All major global brands are starting or investing in the development of online trade. The potential of the online market in this region is significant and we are determined to use it in the proper way, by creating an amazing platform that will change the shopping experience of Western Balkan consumers.”

A World Bank report, focused on Albania but with data on the whole region, also highlights the significant potential for online markets in the Western Balkans region, because of both the limited existing penetration of e-commerce and fast growth rates.

Data from the 2020 Balkan Business Barometer published by the Sarajevo-based Regional Cooperation Council shows that 83% of the population across the region are internet users, up one point since the 2018 survey. The keenest e-shoppers, according to the survey, are Montenegrins, though only 26% of respondents said they shopped online; the lowest level was among Albanian respondents at 15%. Overall, respondents were most likely to use the internet for entertainment – as high as 79% of respondents in Kosovo – and least likely to use it to access government services.

Among those who are active internet users, the share of e-shoppers is reasonably high. For example, citing data from North Macedonia’s statistics office, Grouper’s co-founder Nina Angelovska said in an interview with bne IntelliNews that 40.1% of individuals with internet access in North Macedonia had made online orders and purchases in the 12 months to early 2020. That is twice as many people as in 2017.

Pandemic shopping habits

The pandemic gave a push to e-commerce development in the Western Balkans as elsewhere as non-essential bricks and mortar shops were closed. The World Bank survey carried out on social media (therefore targeting the internet-savvy segments of the population) confirms that the coronavirus (COVID-19) pandemic has accelerated the use of online shopping; 62% of respondents said they had increased the use of online shopping during the pandemic, of which 85% said they will continue to shop online more frequently once the pandemic is overcome.

This wasn’t always instant, though, as in some cases online purchasing patterns changed rather than increased, leaving e-commerce companies catching up.

Milan Nicetin, chief marketing officer of Serbia’s LimundoGrad, tells bne IntelliNews: “When COVID-19 arrived in Serbia, we noticed a sudden drop in sales for about 25-30%
during the first two months of the pandemic. People were frightened and didn’t know what to expect, so they were mostly buying necessities like flour, sugar, oil, toilet paper… About two months later, things started to get better and we saw growth compared to the previous year.”

The restrictions on movement and fears of spreading the coronavirus have changed people’s habits in North Macedonia, leading to increased online shopping and payment of bills online, according to Angelovska, who says the pandemic “really opened up an opportunity for e-commerce that has never existed before”. She cites a survey of 2,800 e-shoppers, of which 37% said they had increased their online shopping volume since the start of COVID-19.

Still, she adds, “Regarding Grouper, although it is an online e-commerce company, somehow the automatic thought is that we have had growth during the crisis, but it was not the case.” This was because travel and other services accounted for a large share of the company’s revenues, and these sectors were the most affected by the crisis.

Grouper was forced to adapt, launching new products such as the ‘Stay Home Stay Smart’ campaign offering over online courses, food delivery service Grouper Food or #HranaDoDoma and Grouper Shopping Mall. The last is a new project that “incorporates 10 years of experience in online sales and marketing and actually represents the best of e-commerce and digital marketing,” Angelovska notes.

At the same time, local retailers have stepped up their online presence to allow them to continue reaching customers. Podgorica-based digital innovator Amplitudo worked with local retailer Voli to set up the voli.me online store. Commenting on the launch, Amplitudo sales co-ordinator Nikola Plavsic says: “we know that in the first 24 hours after releasing Voli online stores there were 1.5mn clicks and Montenegro has around 600,000 citizens, so one can tell that the interest shown was huge.”

In Kosovo too, during the pandemic “many companies started to receive orders online, from food delivery, coffee, beer and alcoholic beverages,” says Besnik Skenderi, director for professional and development products at UBT – Higher Education Institution in Pristina.

Building on an existing trend
While the pandemic gave a boost to e-commerce, it was building on an existing trend. The World Bank survey on the Western Balkans showed that people in the region already saw advantages in online shopping, specifically time saving (80% of respondents) and greater product choice (57%).

For example, 50% of Albanian respondents said they went online to buy goods not available in local shops, while only 15% mainly used online shopping to buy from local stores. In Montenegro too, “People tend to buy through international resellers. In most cases prices are better when you buy from abroad and the variety of products is also better,” comments Amplitudo’s Plavsic.

Meanwhile, main motivation factors for online shopping in North Macedonia, as Angelovska says, are lower prices and free delivery. Additional reasons include saving time, the flexibility to buy anytime, anywhere, and to buy more safely during the COVID-19 pandemic.

The World Bank study showed that the most popular channel was via domestic sellers’ own app/site, but large numbers of purchases were also made from foreign sellers’ own sites and foreign e-commerce platforms, as well as through social media.

Instagram is a popular channel in Montenegro, according to Plavsic. He tells bne IntelliNews: “Most of the online retail in Montenegro works over the Instagram platform. Small and medium companies boost their accounts in order to have more followers to reach more customers and sell their products via the direct message system. In research that we conducted, 54% of Montenegrin companies do not have an online retail site at all, and of those who do 58% have a low quality site.”

Holding back the market
There remain a raft of obstacles holding back the development of e-commerce in the region. While the 2020 Balkan Barometer shows a high level of confidence among Kosovar respondents, of whom 81% respondents said they had no concerns about using the internet for online banking or to buy things, the figure was considerably lower at 46-49% in most countries in the region and as low as 34% in Montenegro and 38% in Bosnia.

The main fears when it comes to online transactions concern security and misuse of personal data. A fair number also said they preferred to do transactions in person so they could inspect the product or ask a real person about it.

According to the World Bank survey, “A key constraint for growth of online markets is a lack of trust in webshops, particularly when it comes to domestic sellers”, as cited by additional issues were high delivery costs and customs duties, along with access to accepted payment methods, lack of English language skills and lack of internet access.

Representatives of Albanian e-commerce companies told World Bank researchers that the large informal economy was also a constraint on the development of the formal digital economy. While this is a general issue across the economy, “in the context of emerging online markets, pressures from the informal economy are heightened. Digital markets make it easier for informal businesses to reach more customers – accentuating competitive pressures. As many customers form their first impressions of online markets, a negative experience with an informal company offering inferior services can
undermine consumer confidence in the e-commerce sector in general,” says the report.

The informal economy is a problem across the region, as shown by a recent study from the Center for Policy and Governance from Sarajevo, which estimated the size of the grey economy at around 30% of GDP in Bosnia, Montenegro and Serbia.

In North Macedonia, analysis conducted by the e-commerce association found that the biggest challenge for the sector is the low level of digital skills among the population, but another issue is finding suitable staff, Angelovska says.

E-retailers consider the barriers to the development of e-commerce are: low level of consumer awareness for online shopping (79%); distrust in online shopping (79%); low level of digital skills among customers (65%); and banks’ high fees for online payments (24%); with security concerns in the last place (23%).

In Montenegro, according to Plavsic, “[The] main obstacle is not having trust in online retails (fear of scams), also most people are not used to paying with credit cards online and a lot of people don’t have enough knowledge of basic computer science. And there is the issue of small market size.”

Cash on delivery remains the most popular way to pay for products from domestic vendors. according to the World Bank report, though most buyers paid by card when purchasing from international sellers.

In Kosovo, according to Rina Bulliqi, education programme and communications co-ordinator at Kosovo United States Alumni (KUSA) non-profit association, there are two major problems for opening e-stores: the small market size (Kosovo is a country of 1.8mn people) and the weak judicial system. In establishing their e-commerce platforms, businesses listed other challenges such as payment security, followed by low consumer awareness of how to shop online, low desire to shop online, and product delivery issues.

“On a positive note, businesses suggest an increased trust in online payments, with more people paying with cards instead of cash compared to previous years. It will be interesting to see what happens to online shopping in the next few years. I believe we will see a positive growth in online shoppers compared to when the pandemic first hit – once customers return to their full responsibilities,” Bulliqi says.

Despite surveys showing a strong appetite for e-commerce, Kosovo has particular difficulties: “[S]ometimes credit cards that are issued in Kosovo are not accepted in the global market. This also has to do with the issue that Kosovo still doesn’t have its own state domain internet,” says Skenderi. “We have potential but we need to build our own information systems, since at this stage we are just consuming and we are using third-party online platforms.”

A long-term change?
The question now is whether the momentum from the pandemic will translate into higher levels of online shopping in the longer term.

Most of the industry insiders interviewed by bne IntelliNews take a positive view of the future growth of e-commerce in the region.

“I think that we should be very optimistic about e-commerce in Serbia,” says Limundo’s Nicetin. "We can see that many offline retailers saw the potential of online retail and are already planning to offer their goods online. Customers have become very comfortable buying online and retailers should adapt to this trend by offering their buyers the best experience they can.”

In North Macedonia, Angelovska states that online orders have increased under the influence of COVID-19, but the main question is whether e-shoppers will continue to buy online at the same pace even after the crisis. The indications are that most will.

On the other hand, according to Bulliqi, in Kosovo “businesses noticed a significant rise of online shoppers right after the pandemic first hit; however, this was only the case when movement restrictions were very strict. Almost one year after the pandemic outbreak, businesses are now more likely to report drops in online shopping compared to a few months ago and more likely to report an increase in customers inside the stores. This behaviour suggests that people consider shopping as a leisure activity, and would rather do it in person.”

A new regional giant
The e-commerce sites from the Western Balkans are active alongside both international giants like Alibaba and Amazon,
and companies from the wider region such as Croatia-based eKupi that has sites for several of the Western Balkans countries. They will now face competition from a new regional player, Serbian Delta’s Ananas platform, currently under development. Initially targeting the Serbian market, Ananas will later be expanded to other markets of former Yugoslavia as well as Albania.

Delta’s main activity is real estate, but 2021 will mark “the company’s entry into a completely new business – online shopping,” it said in a press release. This will be part of its investment cycle over the coming years, amounting to around €500mn, with €100mn to be directed at the Ananas platform over the next five years.

The launch of the Ananas e-commerce platform is planned for summer 2021, and in the meantime, the team is working with potential customers and gauging their needs, developing the platform, creating partnerships, onboarding merchants, developing the marketing strategy, and many other things, the spokesperson tells bne IntelliNews.

“With the financial strength and investment experience that Delta has, we are convinced that we can create a regional giant in online trade. Pineapple will offer customers something they are not used to in domestic trade, and which only the biggest global retailers like Amazon or AliExpress have. At the very beginning, we will cover the Serbian market, but with the intention of being present in the markets of the former Yugoslavia very soon, plus Albania,” said Marija Desivojevic Cvetkovic, Delta’s vice-president for strategy and development, at the time the project was announced.

Via the platform, companies and businesses will be able to offer and sell their products on Ananas at fixed prices. According to the company spokesperson, the idea is to have various sellers of the same product, so each consumer can find the perfect solution for themselves at the best price. There are plans for a user-friendly and easy-to-navigate platform that Ananas is developing with HTEC Group, and a logistics system aimed at minimising delivery time and making the return process easier.

While acknowledging that “Being a pioneer at something always comes with certain challenges”, among them creating brand awareness and customising communications to the local market, the company official expects the project to benefit from being a startup launched by the biggest Serbian company, Delta Holding. And, despite the differences across the markets in the region, “Customers are the same, not only in the region, but worldwide. All of us would like to have the best experience and value for money.”

**NORTH MACEDONIA: Grouper.mk**

Grouper.mk was launched as a start-up company in 2011, when it was the first platform for group discounts in North Macedonia, a small Balkan country with a population of 2.1mn. Now it serves over 200,000 customers in co-operation with over 3,000 companies that sell their products and services online.

Its co-founder is Nina Angelovska, a former finance minister (2019-2020) in the Social Democrat government of PM Zoran Zaev, as noted by bne IntelliNews. In 2018 Angelovska was named on the Forbes 30 Under 30 in e-commerce and retail for Europe list. She is also the president of the first Macedonian E-Commerce Association.

With an emphasis on the travel and service sectors pre-pandemic, Grouper moved quickly into new segments as consumer habits were forced to change drastically in spring 2020. “As agility and quick adaptation are our strengths, ad-hoc campaigns were constantly launched to cushion the impact – such as the ‘Stay Home Stay Smart’ campaign, which offered over 100 online courses in collaboration with foreign providers, which attracted great interest and sales,” Angelovska says. It also launched the Grouper Shopping Mall marketplace that had been under development since 2019. So far over 100 companies that joined the Grouper Shopping Mall and opened their own e-shops now have a new sales channel with an online presence and access to new potential customers.

“The challenges of the pandemic worked most for the benefits of those companies that were willing to adapt quickly,” Angelovska says.

Grouper.com is also present in neighbouring Kosovo. Grouper Kosovo (www.grouperkos.com) is a franchise of the local company WEBSPOT, owner of the Grouper brand.

**SERBIA: Limundo.com / Kupindo.com**

Serbia’s Limundo.com started out as an online auction website but upgraded to have fixed prices as well. Its sister site Kupindo.com is for fixed prices only. According to LimundoGrad’s Milan Nicetin, Kupindo.com is a very popular website with over 1.5mn monthly visitors. In total, the two sites Limundo.com and Kupindo.com share an unique base of over 1mn registered members. Over 90% of these members are based in Serbia.
The most popular items are books, clothing, music (mostly vinyl records) and comics, says Nicetin.

The company faces competition from popular local websites like “classifieds Halo oglasi and Kupujem prodajem, big consumer electronics retailers who went online like Tehnomedia, Gigatron, and of course global marketplace Amazon”.

Looking ahead, “We are working on Limundo mobile app improvement and we started building a new website which we hope will suit our members even more. The new website will have some new features,” he adds.

Nicetin says the site initially saw a drop in sales when the pandemic struck and Serbia was put under lockdown as people started panic buying food rather than other products. However, sales revived after a couple of months, and Limundo has since seen growth compared to the pre-pandemic year.

SERBIA: KupujemProdajem.com

Kupujem prodajem is one of the longest established e-commerce portals in the region. By the time it celebrated the 10th anniversary of its launch in October 2017, it had listed over 50mn classified ads, had more than 1mn registered users and 12bn page views. In its first 10 years of operation it sold 4.75mn items with a total value of €630mn, including 710,000 mobile phones, 570,000 computers, 205,000 musical instruments, 35,000 cars, 21,000 tractors and 7,000 properties.

Founder and director Bojan Lekovic said at the time that Kupujem prodajem would continue, together with its users, to “build an online infrastructure for trade in our country”.

Lekovic, a one-time electrical engineer from Nis who is now based in the Netherlands, started Kupujem prodajem as a hobby alongside his brother. He later published his memoir “Bears on the road”, in which he talked frankly about his experiences in starting and running a business in Serbia.

ALBANIA: Ebuy.al

When ebuy.al launched back in 2013, online retail was almost non-existent in the country. The aim of its founders, who already ran the ikub.al portal, was to create an Amazon of Albania with everything in one place.

With no competitors on the market, ebuy.al quickly exceeded expectations. “It has been a challenge and a difficult path, of course, because the Albanian market is not so easy to reach, but to our surprise, it exceeded expectations in the first year. Ebuy.al quickly became the main destination for online shopping for Albanians,” said ebuy.al business development manager Iralda Mitro in a 2019 interview with Business Magazine Albania.

Clothing, especially for women, is the most popular category on the site, but Mitro also listed Albanian national team t-shirts, jewellery, selfie sticks and mobile phone accessories as some of the best-selling products.

Commenting on the name of the site – which bears an uncanny resemblance to international e-commerce site eBay – Mitro said it was a shortened form of "electronic buy", but admitted to Business Magazine Albania that the resemblance to eBay was “somewhat problematic”.

KOSOVO: Gjirafamall.com

Gjirafamall.com is the biggest e-commerce company in Kosovo offering a various products and services from food and clothing to health services, electronics and car accessories.

In February 2021 Gjirafamall.com launched a ‘Shija e Kosovës Online’ (A Taste of Kosovo Online) online sale platform to facilitate a new sales channel and promote some 30 local businesses offering finalised food products. The platform is a result of collaboration between GjirafaMall and the Swiss Agency for Development and Cooperation project: Promoting Private Sector Employment.

Gjirafa runs a variety of offline to online internet consumer services in the Balkans region and Albanian Diaspora. It is an Albanian search engine and a news aggregator for a market of 12mn people who speak the Albanian language worldwide. It claimed to be the fastest growing internet services company in the Balkans. In November 2020 Gjirafa was ranked 11th on Deloitte Technology Fast 50 growing Central Europe tech companies and first in the Balkans, with over 1,500% growth in the last four years.

“When ebuy.al launched back in 2013, online retail was almost non-existent in Albania”

in the Balkans. In November 2020 Gjirafa was ranked 11th on Deloitte Technology Fast 50 growing Central Europe tech companies and first in the Balkans, with over 1,500% growth in the last four years.

“What makes this recognition even more important is that this is the first time a company from Kosovo [has been] ranked in the list,” Mergim Cahani, a founder and Gjirafa CEO said at the time.

MONTENEGRO: Patuljak.me

Southeast Europe’s smallest country with a population of just over 622,000, Montenegro doesn’t have the scale to grow a domestic e-commerce industry. However, online classifieds site patuljak.me has emerged as the largest platform in Montenegro for the sale, purchase, rental and exchange of goods and real estate.
Russia to block Twitter in 30 days if it doesn't comply with orders, boosting the domestic tech industry

Ben Aris in Berlin

Russian authorities will attempt to block Twitter within the next 30 days if the company fails to delete content the government says is illegal, it was reported on March 16. The move is an attempt by the Kremlin to gain better control over Russia's internet, but it is also interested in protecting Russia's tech industry to grow the business.

The Russian authorities have charged the message service with promoting political dissent, pornography and suicide amongst minors, among other objections, reports the Moscow Times.

Observers say that the true motivation is political censorship after the state regulator also asked Twitter to delete the account of an opposition media funded by former oil tycoon Mikhail Khodorkovsky, who has since become an outspoken Kremlin critic.

"We inform you that Twitter has received an official request from the Federal Service for Supervision of Communications, Information Technology and Mass Media of the Russian Federation (Roskomnadzor) regarding the content on your Twitter account @MBKhMedia as violating the laws of the Russian Federation," MBKh Media that is funded by Khodorkovsky said in a statement citing information they had received from Twitter.

Vadim Subbotin, the deputy chief of Russia's state communications watchdog Roskomnadzor, issued the warning a week after attempting to slow Twitter by squeezing its bandwidth. Locals reported that while Twitter texts worked as normal, video and graphics content was slower to load.

However, as part of the effort to block Twitter Roskomnadzor inadvertently closed its own site, that of the government and kremlin.ru, the president's official site, all of which were briefly offline.

The government is currently considering its “sovereign internet” options, which include a scenario where it closes Russia off completely.

Inspired by the Twitter saga, lawmakers in the Duma plan to advance a long-standing proposal to mandate that foreign tech companies open offices in Russia in order to operate in the country, reports BMB Russia.

“The bill is currently being drafted by the Duma’s Committee on Information Policy and will then be sent to the relevant government agencies. In addition to requiring Russian branches, the legislation will reportedly contain “a number of requirements and conditions” that foreign IT giants must obey within Russia. If it moves forward, the legislation will create an administrative headache for firms like Twitter and Facebook, which do not currently have physical presences in Russia,” BMB Russia said in a note.

Roskomnadzor has bought specialized equipment in an effort to increase its control over the Internet as it seeks the ability to selectively block services and pages, so far without success.

The government’s inability to block sites it finds offensive was highlighted after it gave up on trying to block Telegram in June last year after a two-year battle with the popular messaging service.

“We've taken a month to watch Twitter’s reaction on the issue of removing prohibited information. Appropriate decisions will be made depending on the social network administration's actions,” the state-run TASS news agency quoted Subbotin as saying.
“If Twitter doesn't comply with Roskomnadzor and Russian legislation’s requirements, then we will consider the issue of completely blocking the service in Russia,” he warned.

The watchdog says the banned content at the centre of the conflict involves more than 3,000 posts containing information about suicide, child pornography and drugs that had apparently remained online since 2017. Polls say a mere 3% of Russians use Twitter.

President Vladimir Putin last month raised fines for social media giants accused of “discriminating” against Russian media. On New Year’s Eve, he granted Roskomnadzor the power to block social media platforms if they are found to “discriminate” against Russian media.

Putin accused social media giants in January of “controlling society” and “restricting the right to freely express viewpoints.” Russia previously banned the social networking website LinkedIn for failing to store users’ data on Russian servers and, more recently, reversed a decision to ban the Telegram messaging app after a two-year attempt to block it.

**Good for business**

The Kremlin is trying to increase its control over the Russian internet, but at the same time it is in effect putting in protectionist measures in order to give its domestic tech industry a boost.

The government is fully aware that tech is an extremely valuable business and can earn significant export revenues. Russia is already a major producer of games, such as the runaway success of World of Tanks, among other games, and is a major centre of software outsourcing.

Moreover, since its IPO almost a decade ago Yandex’s market capitalisation has more than doubled to $23bn, making it by far the most valuable tech company in Europe – western Europe included.

At the same time the e-commerce market leader Wildberries has seen revenues soar to become the biggest clothing, apparel and accessory retailer in Russia in 2019 – the first time an e-commerce company has become number one in any retail segment – making its owner Tatiana Bakalchuk Russia’s second ever female billionaire. Already dominant in its home market this year Wildberries has started to aggressively roll out it services in the “near abroad” countries of the Commonwealth of Independent States (CIS) and now increasingly it is moving into the EU.

Wildberries launched in Italy, France and Spain this month, following on from a German launch in January. Last year it set up shop in Israel, Ukraine, Slovakia, Poland and Kazakhstan amongst other markets.

The Kremlin is keen to see its tech business continue its growth and expansion, largely to limit the dominance of the US-based tech giants. Yandex already leads in the Russian speaking world for internet searches, while sites like vKontakte, ru rival Facebook in the social media sphere and Russian-conceived Telegram message service in the messaging App space – although after the showdown with the government Telegram is now based in the UAE and objects to being called a “Russian” company.

As part of this protectionism, that has worked so well to boost Russia’s agricultural sector since 2014, the Kremlin is forcing international internet companies to keep their user data in servers physically located on Russian territory and now is pushing for these firms to set up offices in Russia where they will be liable to Russian laws and taxes.

The latest in Russian tech protectionism, the government is considering implementing a new tax on foreign IT firms that use consumer data for advertising that has been dubbed the Google Tax 2.0. This tax follows on from the “law against Apple” that forces the US phone maker to pre-install Russian apps on all the phones it sells in Russia. Apple usually refuses to pre-install third party apps on its phones and threatened to leave Russia as a result, but eventually climbed down with a compromise. When users first turn on a new Apple device purchased in Russia, they will see a dialogue prompting them to install applications from the government’s list. The user can opt out of installation, however, by de-selecting the Russian apps.

And the government has also levied a bevvy of other taxes on foreign online businesses.

On the flip side the state has offered Russian tech companies significant tax breaks and is also easing the regulatory inspection regime to make their life easier.

“Russia’s tech companies may be exempt from undergoing annual inspections by Russia’s fire, labor, social security, and health watchdogs. The moratorium on inspections has been included in the second support package for the tech sector, which is currently undergoing review by deputy PM Dmitry Chernyshenko,” BMB Russia reports. “If the government approves the idea, it may be enacted by this fall. The goal of the moratorium, which was first proposed by industry participants, is to create more comfortable business conditions in the tech sector. Officials are eager not to let the large tax breaks of the first package, which slashed social security taxes from 14% to 7.6% and profit tax from 20% to 3%, go to waste due to administrative and regulatory hurdles.”

It is not going to stop there. Russia’s digital ministry is considering expanding the law against Apple by requiring that manufacturers also install a domestic search engine as the default provider on the selected Russian browser. The government will decide which search engine is required, but the likely beneficiary is Yandex, reports BMB Russia. As of late 2020, Yandex’s search engine accounted for 60% of the Russian market, while Google made up 38%.
Russian IT companies go into fintech: Forbes

Russian tech giants Yandex, Mail.ru Group, Ozon and Wildberries are developing their own fintech services in an expansion that could put them in stiff competition with the country’s leading banking institutions, Forbes Russia reports.

NASDAQ-listed Yandex, which has been described as Google, Amazon, Uber and Spotify rolled into one, provides services ranging from music streaming to express grocery delivery. Yandex has ended two joint ventures in ecommerce and payment with state lender Sberbank (now renamed Sber) and negotiations to buy Russia’s digital-only Tinkoff Bank last year did not end in a deal. Now, Yandex has decided to go at fintech alone. While the company has disclosed few details, fintech promises to be an important topic for Yandex this year as the company continues to seek ways to launch financial services either organically or through mergers and acquisitions, according to analysts at Sova Capital.

Email and online service provider Mail.ru Group recently announced that it has signed on to create two joint ventures in payment and finance with USM holding, Jack Ma’s Ant Group, Russian cell phone operator Megafon and the Russian Direct Investment Fund (RDIF). The values of the payment and financial joint ventures are estimated at $150mn and $200mn respectively, according to a Goldman Sachs analytical note.

Two of Russia’s leading online marketplaces have also entered the fintech race. E-commerce giant Ozon, which has been called the “Amazon of Russia” and had a wildly successful IPO in the United States last November, has been expanding fintech services for buyers and sellers on its platform. These include Ozon Credit microfinance loans to consumers, the Ozon.Invest lending platform for marketplace sellers and the Ozon.Card cashback debit card – the first offer of its kind from a Russian retailer and which also became available in digital format in December. Meanwhile, the marketplace Wildberries has just purchased a bank to advance its payment services.

The boom in e-commerce during the pandemic has given a major boost to fintech development, particularly among large retailers, according to analysts cited by Forbes. Digital payment is a key component of online shopping, and online retailers that can offer a seamless payment experience are more likely to increase customer loyalty, which will bring in more revenue.

And it’s not just tech companies edging into fintech as consumer activity increasingly moves online. Walmart, one of the largest retailers in the United States, has launched a fintech start-up that will offer online banking services. The fact that Walmart invited two senior Goldman Sachs bankers to lead the initiative underscores the new challenge that banks face as tech innovators edge into their traditional turf.

At the end of the day, the success of fintech services provided by technology companies will depend on how well they can serve their customers – from the convenience of their product offering to the speed and quality of product integration. The examples from Russia provide one test case of whether tech companies will be able to rise to the challenge.

Russia's Yandex maintains e-commerce ambitions, ecosystem seen as key

Russia's internet major Yandex is maintaining ambitious plans in the e-commerce space for this year and sees its ecosystem as a key competitive advantage, Sova Capital wrote on March 11 after a call with Yandex executives and investors.

As reported by bne IntelliNews, in 2021 Yandex for the fifth year in a row topped the list of most valuable tech and internet companies with a valuation of $23bn. Its investment case now rests on developments in transportation, e-commerce and foodtech.
Sova noted that the management's plans left "a moderately positive impression", as search and ad segments, as well as ride-sharing, the company's largest verticals, continue to recover, and Yandex "competitive position remains defensible".

There is also upside potential in Yandex's logistics services and Yandex.Plus, as well as in the commercialisation of the robot courier Yandex.Rover, Sova believes, while maintaining a Buy recommendation on the name trading at 2021-2022 estimated Price/Earnings of 50.5x-36.6x and Enterprise Value/EBITDAs of 29.0-19.6x.

**Main segments remain solid**

In the main search and advertising segment Yandex continued to show recovery in 2M21, rising by 14% year on year. The company still expects the Russian online ad market to grow in the mid-teens this year.

"There could be an additional positive effect from the pre-installation law, which has not been budgeted for by the company yet," Sova noted.

According to the latest report by Kommersant, the Russian government might add a clause to its terms for the mandatory pre-installation of Russian apps on new electronic devices by April, with the law coming into effect also in April.

*Kommersant* sources believe Yandex will be the beneficiary of such a ruling (59.9% total share and 55.7% on mobile versus 1% for Mail.ru search, according to Yandex).

"It is not fully clear if a Russian search engine is planned to become the mandatory default or a mandatory part of the choice screen, and if Yandex is chosen as the beneficiary. Yet, it could be positive for Yandex’ search share over time," BCS Global Markets commented on March 15.

In the meantime, Zen continues to be one of Yandex key assets in competing with social networks. "Zen is comparable with major Russian social networks (e.g. VK) in the amount of time spent on the platform, but its revenue is growing faster," Sova commented, with revenues at RUB13.1bn ($178mn) as of December 2020 (up by 49% y/y).

To compare, Mail.ru's VK (VKontakte), one of Russia's largest social networks, generated RUB25.4bn in revenue in 2020 (up by 17% y/y in 4Q20 alone).

**Top 3 e-commerce goal**

As followed by *bne IntelliNews*, Yandex intends to become one of the top three e-commerce players (after Wildberries and OZON) in Russia by 2021, aiming at such competitive advantages as the integration of its e-commerce offering within the subscription service Yandex.Plus (8.5mn subscribers), on-demand deliveries with Yandex.Lavka e-grocery service.

"One of the main challenges in e-commerce is infrastructure development, which is the company’s key focus for now," Sova warns, noting that Yandex is testing various partnership options with merchants (e.g. drop-shipping by sellers) and improving the back-end.

**Strong logistics**

As reported by *bne IntelliNews*, Yandex will merge its transportation and e-commerce assets under a single vertical "E-commerce and Ride-tech", in addition to "Search, Advertising and Cloud Services".

"Yandex is very excited about its logistics opportunity, given this is a platform with a strong network effect (the density of supply and demand is important) and considerable profit opportunity," Sova Capital commented.

The company was able to increase the number of its B2B logistics service clients from zero in March 2020 to 15,000 by end-2020, and the company notes that these services are used by Yandex peers such as OZON and Avito.

On the Yandex.Taxi joint venture with Uber Technologies, the company's core ride-hailing service continues to recover, while the market position remains defensible, Sova argues. Foodtech and Yandex.Eats have not experienced a slowdown this year so far, and e-groceries Yandex.Lavka continues to develop rapidly.

**Self-driving business**

Yandex is also Russia's leader in self-driving technology and in 2020 doubled its fleet of 100 self-driving vehicles. Operational driverless taxis were seen as possible by 2024 by the analysts.

"Although Yandex expects the commercial use of self-driving cars to start at least five years from now, commercial deliveries via its robot courier Yandex.Rover could become available next year," according to Sova Capital.

Yandex managers sounded quite optimistic on the prospects of Yandex.Rover, Sova analysts note, as it is a much simpler product (versus the autonomous cars) with easier tasks and less regulatory requirements.

FinTech, media, cloud services could see upside

The company continues to explore FinTech opportunities, and is aiming to launch a financial service in the next 12 months. That said, Yandex has yet to share any details, according to Sova.

In a separate report by The Bell, Yandex is said to acquire small Russian bank Akropol (about Rb1bn equity) and may sign the deal shortly. Reportedly, the acquisition is solely for the banking license, which would be a base for building Yandex's fintech vertical.

"The deal would likely mean Yandex opting for mostly organic development of its fintech vertical," BCS Global Markets commented.
TURKEY’S SLOW-MOTION CAR CRASH

Akin Nazli and Ben Aris
Is there anyone left on the planet who hasn’t commented on Turkey’s economic tumult? Investors and traders dealing with the Turkish markets were clearly in a state of stunned incomprehension as the trading week got under way on March 22. Three days earlier, very late on Friday night on March 19, President Recep Tayyip Erdogan had taken the shocking step of firing a third central bank governor by decree within two years.

Naci Agbal had only been on the job for four months, but in that time he had turned the Turkish lira from the worst performing currency in the world into the best performing. In all, he hiked rates by 875 basis points. The final instalment of that, a 200 bp rate hike, was brought in on the afternoon of March 18. Less than 48 hours later he was gone.

Agbal had won market plaudits by aggressively raising the policy rate, taking it to 19%, the highest level of any big economy. The 200 bp hike was portrayed as a “front-loaded” move to head off inflationary pressure, officially near 16%, also one of the highest levels of any big economy, and a reaction to rapidly rising US bond yields that some are calling a repeat of the 2013 “taper tantrum.” The lira gained 18% during Agbal’s four months on the job, making him the best performing currency in the world into the best performing.

Agbal was replaced by Sahap Kavcioglu, a former member of parliament for Erdogan’s ruling Justice and Development Party (AKP), and like the populist president, a critic of high interest rates. In short, Kavcioglu is seen as another “yes man” that can cut rates but won’t be allowed to raise them.

Since the carnage brought about by Erdogan’s refusal to stick with Agbal, the Turkish economy has, perhaps surprisingly, not crashed, but a deep depreciation looms and at a certain point there will be real anxiety that it could take out the banking sector. It can’t be emphasised enough that this has been enough to get ahead of the recent rise in US rates. But like many central bank governors in the region, Agbal was concerned about the possibility of a new taper tantrum and so front-loaded his rate hike to head off problems later.

The National Bank of Ukraine (NBU) was the first to end several years of easing in February with a 50bp hike and Central Bank of Russia (CBR) governor Elvira Nabiullina surprised markets at the start of March, reversing two years of easing with a 25bp hike and the promise of more to come. (Nabiullina signalled the change in direction by wearing a hawk brooch to a press conference on the rate move.)

It’s a dilemma all governors in the region are facing: do they hike early and by a lot to deal with rising US bond yields and mounting inflationary pressures at a time when most of their economies are still struggling to recover from the annus horribilis of 2020?

Agbal took the plunge, fairly certain that Erdogan would not approve, but perhaps hoping he would grin and bear it. According to local reports, Agbal had already been cut off from the president for several weeks prior to his big, and final, hike, as the local Erdogan press began to openly criticise him as he changed central bank personnel during his first 100 days on the job. Investors ignored these signs, dismissing them as “noise.”

Erdogan took to the airwaves as the first trading week following the firing of Agbal got under way. In a somewhat fanciful rearguard action, he called on Turks to sell their hoards of gold and foreign exchange to help shore up the country’s evaporating fiscal resources. Everyone ignored him. The Turks did not even buy into the lira story when...
it started finding its feet again under Agbal. They know all too well from bitter experience that in Turkey things can change in a flash.

Strikingly, the ceaseless rounds of boom and bust that stem from Erdogan’s default policy of pumping up the economy with cheap money and lots of credits are beginning to undermine his political grip on the country. Unofficial polls show that Erdogan’s popularity is fading fast as the economic misery begins to take an exacting toll on even many of his voters in the polarised country of 83mn. There are rumours of some rebellion in the ranks of the AKP as his economic incompetence becomes increasingly obvious to everyone. Some former loyalists have split away to form their own political parties.

The Turks in fact are starting to pay the bill for the horrendous economic mismanagement that most stakeholders, the global markets included, were only too happy to turn a blind eye to while the short-term profits rolled in. The foreign share of Turkish equity holdings has fallen to an all-time low and bondholders have fled the market.

And the country was already in a weak position before the latest train wreck. Erdogan’s son-in-law Berat Albayrak, quit as finance minister in early November after burning through over $125bn of the country’s FX reserves in a vain attempt at propping up the exchange rate while holding interest rates down. At the same time, Turkey is running a $36bn current account deficit that it is going to struggle to finance. During a speech to the faithful at a party congress, Erdogan said that if the country could hold on for the holiday season to start then Turkey would earn some $30bn from recovered inbound tourism. But with a third wave of the coronavirus (COVID-19) epidemic ripping through Europe and forcing country after country into yet another lockdown, it seems highly likely that the Europeans are going to spend the summer sunning themselves on their balconies and not on Turkey’s beaches.

Q&A: Turkey’s new central bank governor Sahap Kavcioglu’s first comments

Turkey’s newly appointed central bank Governor Sahap Kavcioglu gave his first comments to the press when he answered questions posed by Bloomberg in a written reply on March 28. Extracts below:

Central Bank independence
The Central Bank is vested with instrument independence by the Law to use the monetary policy tools to reduce inflation permanently. The CBRT will continue to use the monetary policy instruments independently considering the needs of the day.

Agbal’s 200bp hike
I do not find it appropriate to comment on previous decisions. In the Monetary Policy Committee Meeting in April, we will make our decisions as the Committee by evaluating inflation developments and all available data.

Rate Cuts on the cards?
We strictly adhere to the medium-term inflation target of 5% set jointly with the Government… When determining the monetary policy stance, we will continue to take into account the realized and expected inflation as well as global capital flows, real yields in peer countries, and the portfolio preferences of residents. In the new period, we will continue to make our decisions with a corporate monetary policy perspective to ensure a permanent fall in inflation.

FX Reserves sufficient?
In the period ahead, the Central Bank will adhere to the floating exchange rate regime as stated in the Monetary and Exchange Rate Policy document, and exchange rates will be determined by supply and demand balance under free market conditions. We maintain our goal of boosting FX reserves for monetary policy effectiveness and financial stability.

What causes inflation and how to fight it?
We see that in addition to cyclical conditions, structural factors also have an effect on inflation. This can systematize the price changes that fall outside the domain of the Central Bank. Thus, policies that will address the factors with inherent rigidities hindering the monetary fight against inflation, such as the high and volatile course of unprocessed food prices, rigidities in prices of services and the exchange rate pass-through, gain importance.

I think that implementing structural reforms geared towards disinflation, as set out in the Economic Reform Package announced by our Government, is critical to the fight against inflation.

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Investors run for the hills
Investors will no longer believe a word of what the Erdogan administration and central bank have to say on where Turkey is going economically. Many are angry at being burned yet again by the capricious president. Agbal had begun to build up some momentum that was drawing in increasingly large amounts of capital. But certainly in terms of Western investors, it looks like it may have been Turkey's last hurrah, certainly in the Erdogan era.

Central bank data shows that around $16bn entered Turkey to chase juicy lira interest rates through currency swaps between Agbal's appointment on November 7 and the day of his firing, March 19, Bloomberg reports.

Another $4bn entered the country to buy lira government bonds, while net flows to equities were about $700m in that period, having peaked at about $1.8bn in February. Additional flows to sovereign bonds denominated in foreign currency, corporate bonds and loans added another $4bn, according to the Institute of International Finance (IIF).

By March 25, Turkish lira swap rates in London jumped once more to more than 1,000% after falling to 50% the day before and testing records on March 23, when they soared into the 9,000-10,000% bracket.

Domestic government bond yields remained high at 18-20% across the curve.

The Borsa Istanbul, meanwhile, extended its up-tick rule on short sales into a third day.

To make things worse, the government has introduced restrictions on credit to get out of their positions in currency swaps. To exit a swap contract before it expires they need to borrow lira, but the rates they were offering on lira loans rose by 1,400% by March 23 in the face of an explosion of demand.

“What we are seeing now is backdoor capital controls,” a former Turkish official said, as cited by the Financial Times.

Investors said the situation would mean lasting damage to investors' trust.

“It’s really a feeling of exasperation,” said Yerlan Syzdykov, the London-based global head of emerging markets at Amundi, Europe’s largest asset manager, as cited by the FT. “We were just getting to the point where Turkey was rebuilding credibility.”

No visibility, no credibility
“Agbal’s sacking tells you that there are no rules. This is not how you treat people who finance your current account deficit,” one investor told bne IntelliNews in frustration.

Things have got so bad that analysts have frankly given up on trying to forecast where the lira is going. Previously bullish on the outlook for the lira in the week before Erdogan's decision, by March 22 they simply tore up their outlooks in despair.

“People are simply picking a big number at random and waiting for it to become true, before they pick a new bigger number,” Timothy Ash, senior sovereign strategist at London-based BlueBay Asset Management, said in a note to clients in the last week of March.

Investors and international financial institutions (IFIs) must be pulling their hair out in frustration. In the weeks before Agbal's sacking, the International Monetary Fund (IMF) and rating agencies were upgrading their forecasts to predict 6-7% growth in Turkey in 2021, but now Kavcioglu might even find himself presiding over a recession.

Following the fall of everything, there are of course some investors who are asking if it’s time to get back into the Turkish market when everything is dirt cheap. Ash argues that the leopard has not changed its spots and is unlikely to ever change them.

“The IMF, Fitch et al in recent weeks have been revising up Turkish real GDP growth forecasts for this year, to 6-7%. That was under Agbal,” says Ash. “Why would Erdogan fire Agbal who seemingly was going to deliver 6-7% real GDP growth, to then hire Kavcioglu to deliver recession? I may well be an idiot, some of you might think that, but surely if growth begins to lag, Kavcioglu will deliver early rate

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Turkey’s debt ‘least appealing in EMs’

bne IntelliNews

Turkey’s external sovereign debt has become the least attractive asset offered by developing countries after President Recep Tayyip Erdogan’s latest firing of a central bank governor, according to Shamaila Khan, head of emerging market debt at global investment management and research firm Alliance-Bernstein in New York.

“Credibility, unfortunately, has been lost for the medium term for this [Turkey] administration after what they did over the weekend, which I would classify as one of their biggest policy missteps,” Khan said in a Bloomberg TV interview.

The best case scenario for Turkey would be to stabilise markets, she said, though valuations were unlikely to rebound to what they were before the March 19 sacking of Naci Agbal, a central bank governor who was finding favour with the markets after embarking on a course of aggressive tightening to fight Turkey’s high inflation rate.

Erdogan’s decision to replace the central bank chief may have several policy implications, none of which were likely to be positive, Khan said.

‘Only path is orthodox’

“Politicians want growth, they want to reduce unemployment, however, the only path to do so is to maintain orthodox policies for a prolonged period of time and there’s unfortunately no bandwidth [for this with the Erdogan administration].”

Khan anticipated that exchange-rate depreciation and concern over the credibility of the central bank would now feed into inflation.

The new central bank governor is Sahap Kavcioglu, seen as an AKP ruling party loyalist who, like Erdogan, is opposed to the use of high interest rates to curb soaring inflation, unconventionally arguing that it indirectly pushes up prices. He has said the monetary authority will “continue to use the monetary policy tools effectively in line with its main objective of achieving a permanent fall in inflation”, but his actions will remain under close scrutiny as nervous investors look to see whether the central bank has any credible inflation-fighting credentials.

Erdogan is under fire for running ‘boom and bust’ economic policies under which cheap credit is used to inflate the economy in an unsustainable fashion.

The fear is that Turkey is on the cusp of another currency crisis, having not satisfactorily dealt with the aftermath of the August 2018 currency crisis.

Turkey’s overall short-term foreign debt, falling due in the next 12 months, reached $140bn, about one-fifth of GDP, in January.

There are anxieties that Turkey’s banks are in a weak position to service their debts.

cuts, and surely that will reverse any improvement in the current account, un-anchor inflationary expectations, push dollarisation and capital flight. It will then crush the lira.”

If there’s one thing analysts agree on, it’s that the lira is likely headed lower: Societe Generale, Commerzbank and Rabobank all see the currency dropping around 20%. But with the last scintilla of predictability in Turkish monetary policy now blown to the wind, who can really know?

Commerzbank says its year-end lira forecast of TRY10 to the dollar from around TRY8 at the end of March is purely “symbolic.”

“It’s just a way of labelling the probability of spiralling lira weakness,” said Ulrich Leuchtmann, head of currency strategy in Frankfurt, as cited by Bloomberg. “We find it impossible to identify a precise break point.”

Things have been bad, but the worst could yet to be to come. Turkey needs to cover a $75bn external financing gap this year and has no gas left to burn, having already spent almost all of its FX reserves. With the coronavirus (COVID-19) pandemic showing no sign of abating, it is also unlikely to earn much from tourism, one of its bigger hard currency money-spinners. And the backdoor capital controls that are already in place will only make it harder to raise any money at all.

Kavcioglu tried to talk the market down on March 29, saying that there probably would not be a rate cut at the next monetary policy meeting in April, but his comments had no impact on the exchange rate.

“He should have said there might be a rate hike,” said Ash on the same day. “That might have had an effect, but everyone knows that he can’t hike rates unless Erdogan says so.”
Turkey’s banks “key source of vulnerability” amid lira strife

bne IntelliNews

Turkey’s banking sector is a key source of vulnerability and arguably looks more exposed amid the country’s latest economic turmoil than it was in the run-up to the 2018 lira crisis, Capital Economics said on March 22 in the wake of the abrupt sacking of the Turkish central bank governor.

Naci Ağbal was by presidential decree relieved of his duties as Central Bank of Republic of Turkey (CBRT) governor late on March 19, less than 48 hours after delivering a larger-than-expected rate hike in an effort to tame inflation. His successor, Sahap Kavcıoğlu – seen as an AKP ruling party loyalist who, like President Recep Tayyip Erdogan, is opposed to the use of high interest rates to curb soaring inflation, unconventionally arguing that it indirectly pushes up prices – subsequently released a statement to try to reassure investors that the institution will “continue to use the monetary policy tools effectively in line with its main objective of achieving a permanent fall in inflation”.

Senior emerging markets economist at Capital, Jason Tuvey, said in a note to investors: “As we’ve argued before, the country’s banking sector is a key area of vulnerability. Local banks have made significant loans in foreign currency (or FX-indexed), which could start to go bad on the back of the sharp fall in the lira [triggered by the firing of the CBRT governor]. And tighter financial conditions could weigh on banks’ lira-denominated loans.

“That said, we don’t think that a potential souring of banks’ loan books is the main reason for worry. FX loans are strictly regulated and, despite sharp falls in the lira in recent years, the share of non-performing FX loans is low at just 1.1%. More generally, we estimate that bad loans would have to rise sharply before banks’ capital ratios fell below regulatory minimums.

“Instead, the problem lies with banks’ large burden of maturing (foreign currency denominated) external debts. Banks’ short-term external debts (i.e. those maturing within the next year) amount to $88.7bn, or 12.5% of GDP. Worryingly, there is a potential crunch point in April and May when an estimated $7.3bn in debt repayments are due.”

It’s worth noting, added Tuvey, that Turkish banks managed to secure syndicated loans at the height of the global financial market turmoil around this time last year. “But,” he added, “if borrowing costs rise to prohibitively expensive levels over the coming days and weeks, banks are in a weak position to service their debts. In order to meet external debt repayments during the 2018 currency crisis, banks drew down their FX assets at the central
Running on fumes: Turkey’s dire external position

Turkey has almost run out of money and is running on fumes. The current account deficit stood at 5.1% of GDP last year as tourism receipts slumped and a strong recovery in the second half of 2020 fuelled imports. Turkey also has large short-term external debts, equal to $190bn (26.7% of GDP), almost half of which is owed by banks. These make Turkey dependent on capital inflows and vulnerable to tighter external financing conditions.

The picture looks even more concerning when put in the context of Turkey’s depleted FX reserves. Even on the most flattering gross measure, reserves amount to $95.7bn or around half of short-term external debt. Reserves were depleted over the course of last past year as the Turkish Central bank (CBRT) intervened to prop up the lira.” says Jason Tuvey, an economist with Capital Economics.

“What’s more, Turkey’s gross reserves are distorted by commercial bank’s foreign currency deposits held at the CBRT under the “reserve option mechanism” (which allows banks to hold FX as required reserves against lira liabilities). These boost the CBRT’s foreign currency assets as well as foreign currency liabilities; stripping out these effects, net reserves stand at around $11bn, their lowest since 2003!” adds Tuvey.

The state of the CBRT’s balance sheet looks worse still after factoring in its FX swap transactions. The CBRT has been entered into swap contracts with commercial banks in recent years, selling lira in exchange for dollars with an agreement to sell dollars back at the forward exchange rate at expiry.

“These operations were a key component of the CBRT’s arsenal to defend the lira last year and, while they have been wound down a little recently, they still stand at more than $53bn. The swaps create an additional source of exposure to lira depreciation. If commercial banks are no longer willing to provide dollars to the CBRT to roll over these swap operations, the CBRT’s depleted FX reserves mean that it would be forced to obtain foreign currency in the spot market – putting even further pressure on the lira,” says Tuvey.

“The big picture is that the poor external position means any effort by the CBRT to defend the lira cannot be sustained for long... Officials’ bar for imposing capital controls and/or import restrictions appears to be high, but the situation in Turkey is now so dire that they may have little option to turn to such measures if capital flight persists and a severe balance of payments crisis is to be avoided,” concludes Tuvey.

Illiquid loans

Banks' other FX assets mostly consist of illiquid loans that cannot be used to service debts and the CBRT’s low foreign exchange reserves mean that it is not in a strong position to step in, noted the economist, concluding: “Indeed, the latest figures show that the central bank’s net reserves amount to less than $11bn. To repay maturing external debts, banks would need to access foreign currency from the spot market, which would put the lira under further downward pressure and cause banks’ balance sheets to shrink and credit conditions to tighten.”

Though Erdogan has a record of dropping grenades under the feet of the markets, his latest intervention in the country’s monetary policy, with the firing of the governor, has left investors puzzled and aghast.

The Economist wrote on March 22: “Unable to keep up with Mr Erdogan’s antics, analysts seem to have given up trying to predict what might happen next.”

It added that the “brutal market reaction may give Mr Erdogan some pause for thought and quoted Paul McNamara, investment director at asset management firm GAM, as saying: “My guess is that it’s going to get through to Erdogan that a country with so much foreign debt does not have the freedom to set interest rates as low as it likes.”

Turkey’s president and the central bank may grudgingly surrender to the markets, McNamara was cited as saying, adding: “There needs to be a realisation they’ve bitten off more than they can chew.”

Turkey’s overall short-term foreign debt, falling due in the next 12 months, reached $140bn, about one-fifth of GDP, in January.
Akin Nazli in Belgrade

Foreign investors holding of stocks on Borsa Istanbul falls to all time low

The foreign investor-held share of the market value of stocks on the Borsa Istanbul fell below the 45% level on March 10. It stood at 44.93% on March 12.

The figure was in the 70% in 2007-2008 and hovered in the 60% until as recently as the beginning of 2020, at which point the Turkish government decided to make life difficult for foreign players on the local stock market as it sought to use unorthodox means to quell Turkey’s economic turbulence. It was in July 2020 that the figure fell below the 50% threshold.

The figure based on the number of shares held is also not too encouraging. In September, on that measure, foreign investors owned around 28% of the market.

Following the Erdogan administration’s shake-up of Turkey’s economic management in early November, the figure climbed towards 31% until mid-January. Since mid-January, it has once more been subject to a trend of decline. It fell below the 30%-level in mid-February and since then it has been in the 29%.

Back in 2007, this figure was in the 59%. It fell below 50% in 2011. And it has been below 40% since November 2019. August 2020 brought the descent below 30%.

The central bank’s data on portfolio flows also supports the picture that suggests foreign investors’ renewed interest in Borsa Istanbul after the economic change of direction was short-lived. The Erdogan economic team may have been revamped, but the long-term negative trend did not reserve. That trend has essentially continued since end-2019.

Between January 15 and March 5, foreigners sold a net $1.1bn worth of Borsa Istanbul equities.

On the global front, the market stress has not dissolved. On March 17, the Fed will release the results of its monetary policy committee (MPC) meeting.

US President Joe Biden’s $1.9 trillion stimulus package is now in effect but it was already priced in. Biden is presently getting ready to hike taxes, which will add to the pressure on markets.

BIST-100 vs Foreigners’ Share in Free-Float
Slovak political crisis threatens to derail reform drive

Robert Anderson in Prague

Slovak Prime Minister Igor Matovic offered to resign on March 21 in an effort to end a coalition crisis that has paralysed his centre-right government.

The two more mainstream parties in his four-party government – Richard Sulik’s libertarian Freedom and Solidarity party (SaS), and Veronika Remisova’s centre-right For the People party – have threatened to leave the coalition unless Matovic resigns by Tuesday. Economy Minister Sulik said last week that he and the other SaS ministers had attended their last Tuesday cabinet meeting.

Both parties have attacked the OLaNO leader’s erratic handling of the coronavirus (COVID-19) pandemic and in particular the way he has made policy on his own and then announced it on Facebook. The final straw was when he secretly procured Russian Sputnik V vaccines despite their opposition, and then personally greeted the first shipment’s arrival at Kosice Airport.

Matovic finally offered to step down on Sunday evening, though he insisted he would only do so as part of a wider cabinet reshuffle, including the resignation of Sulik. “If our coalition partners meet the commitments they’ve declared publicly and on which OLaNO has based its demands, I’m willing to step down from the helm of the government and operate only as its member,” Matovic announced on Facebook.

There is speculation that OLaNO Finance Minister Eduard Hegr might be a compromise candidate for prime minister.

“The only slim chance is that the prime minister steps down and the government goes on for another year”

“...and the government goes on for another year,” says Martin M. Simecka, commentator for the daily Dennik N.
If the coalition were to collapse it would be a shattering blow for Slovakia’s rightwing parties, which came to power exactly one year ago amid huge optimism after eight years of corrupt leftwing nationalist-populist rule under Robert Fico’s Smer, which has dominated the country’s politics since 2006.

The murder of investigative journalist Jan Kuciak and his partner exposed the capture of the country’s police and judicial system by Smer and its business backers, and sparked massive public demonstrations that led to Fico’s resignation and the right’s victory in the February 2020 general election.

The current political crisis has demonstrated the weakness, inexperience, divisions and lack of governing ability of Slovakia’s right wing. Only SaS and For the People have clear ideological profiles; Matovic’s Ordinary People and Independent Personalities party (OLaNO) and Boris Kollar’s We are Family are just personal populist vehicles. None of these parliamentary parties have long histories – the SaS is the oldest and it was only founded in 2009 – and they will rise and fall along with their political founders.

“There is no tradition or ability to create something that could last long,” says Simecka. “All the parties are founded by alpha males and they are born and die with that alpha male.”

As well as personal animosities, these parties are divided on how liberal they are on social policy and the free market, and on their attitude the EU. They can unite when they face a monolithic opponent – such as Vladmir Meciar’s HZDS in the 1990s or Robert Fico’s Smer for the past 15 years – but usually struggle to maintain that unity in power. Disappointment then leads to political oblivion and the rise of new parties on the right, perpetuating the cycle.

“The agenda is anti-Fico without building a strong centre-right alternative” says Blanka Kolenikova, country risk associate director for IHS. “They focused their energy on fighting Fico.”

Polish writer faces prison for calling President Duda a ‘moron’

**Wojciech Kosc in Warsaw**

Polish writer Jakub Żulczyk is facing up to three years behind bars for calling President Andrzej Duda a “moron” in a critical Facebook post, Polish media report.

In his Facebook post written after the US presidential election, Żulczyk commented on a tweet by Duda in which the president congratulated Joe Biden on a “successful presidential campaign”, adding that Poland was awaiting “a nomination by the Electoral College”.

The grudging tweet, merely acknowledging the success of Biden’s campaign, was symptomatic of the Polish rightwing government’s attitude to the president-elect, whose defeat of Trump – whom Warsaw idolized – came as an unwelcome development.

“I have never heard of a “nomination by the Electoral College” in the US election process. Biden won … The president-elect in the US is ‘announced’ by news agencies, there is no central body or office that does it … Joe Biden is the 46th president of the United States. Andrzej Duda is a moron,” Żulczyk wrote. He is a graduate of American studies.

Żulczyk now faces charges for violating an article in the Polish criminal code that says “whoever insults the President of the Republic of Poland in public shall be subject to the penalty of the deprivation of liberty for up to three years.”

Żulczyk has refrained from commenting on the charges brought against him by Warsaw’s prosecutor’s office.

“Whether I plead guilty or not, I will tell the court first and then the media,” Żulczyk wrote in another Facebook post.

Some commentators have joked on social media on how the court case might proceed.

“I’m not sure which way the burden of proof runs with this one, but either Jakub Żulczyk is going to have to prove that President Duda is a moron, or President Duda is going to have to prove that he isn’t a moron. Either way, I’m sure this will be an edifying spectacle,” political scientist Ben Stanley tweeted.

It is not clear if President Duda even knows about the case – or knew about it before it made headlines in Poland and globally – as it was reportedly brought to the prosecution by a private citizen.

And it is unlikely that Żulczyk will actually receive a prison sentence. Similar cases in the past resulted in offenders receiving the penalty of community service as their offenses are fairly trivial.

An earlier case involved a man who created a computer game in which one shot at the image of Duda’s predecessor Bronislaw Komorowski. Another case involved a man who drew a penis on a Duda election poster.
The crisis matters because it could halt a promising reform drive to clean up the country’s police and judicial system. Even while the pandemic is ongoing, dozens of policemen, prosecutors and judges who did the bidding of powerful businessmen close to Smer are now in jail or facing prosecution. Marian Kocner, who is suspected of ordering Kuciak’s murder but found not guilty, is now serving 19 years in jail for brazen fraud.

The narcissistic stylebook
Political analysts interviewed by bne IntelliNews blamed the government crisis squarely on Matovic’s emotional, narcissistic and irrational style of governing, as well as his personal feud with Sulik. Matovic and Sulik both played a big part in the collapse of the last centre-right government in 2011, and history appears to be repeating itself.

Matovic, like his billionaire Slovak compatriot, Czech Prime Minister Andrej Babis, is a wealthy businessman who formed his own conservative populist party and used anti-corruption to build his brand. A 47-year-old publishing tycoon who admits to plagiarising his academic thesis, Matovic launched his OLaNO party in 2010, gathering around him a loose group of “independent personalities” who had little in common except for loyalty to him and a vague conservative orientation.

He raised his profile by using publicity stunts and social media to campaign against the corruption of Robert Fico’s government. He even flew to the south of France to make a YouTube video outside a mansion allegedly owned by one of Fico’s former ministers.

Through his focus on corruption he was in the right position to ride the street protests following Kuciak’s murder all the way to the Government Office.

OLaNO’s support soared from 6% four months before the 2020 election to first place with 25%. He then brought all the centre-right and rightwing parties into government, giving him a record constitutional majority of 95 seats in the 150-member parliament.

But Matovic has continued to act like an opposition politician even when in power, publicly attacking his own cabinet colleagues – calling Sulik an “idiot” on radio – and using Facebook to whip up public opinion against them.

“He can’t govern from day to day,” says Simecka. “It’s boring solving the everyday problems of the pandemic. He is not that type.”

The pandemic has accelerated what would have been an inevitable crisis anyway. Slovakia has had one of the worst death rates in Europe, with almost 9,000 deaths in a population of 5.5mn. The government’s handling of the pandemic has been erratic, and a loosening of restrictions over the summer is blamed for the subsequent surge in infections.

Slovakia won headlines for nationwide antigen testing last year but critics argued the massive effort was just another publicity stunt, and President Zuzana Caputova said the tests may even have made Slovaks complacent and worsened the pandemic.

Matovic’s stunt of going behind the back of his coalition partners to order Sputnik V brought about the final act of the crisis.

The Russian vaccine is controversial both because it has yet to win approval from the European Medicines Agency – patients would have to sign a form taking personal responsibility – and because it is Russian. Foreign Minister Ivan Korcok (SaS) called the vaccine “a tool of hybrid war” and slammed the way Matovic had maximised publicity for the Russian shipment, while he had ignored the import of Western vaccines and continually criticised the European Commission’s procurement efforts.

The For the People party thought it had already vetoed the vaccine. When they found that Matovic and the OLaNO health minister had gone ahead anyway, they and SaS demanded the minister’s resignation.

Matovic initially wavered, suggesting he would cancel the procurement, and after negotiations he agreed to sack the health minister. But then – after asking the opinion of his 286,000 Facebook followers – he refused to cancel the Sputnik V deal and said the minister would stay until the Sputnik vaccinations began. At that point, For the People and SaS demanded his resignation as their price for staying in the cabinet.

Political cycle revolves
If the coalition parties can agree to restructure the cabinet under a new premier, the big question is whether Matovic will be able to behave himself on the backbenches.

“But Matovic wouldn’t be able to stand that someone else is in the light of the cameras,” says Simecka. “He would try to be the centre of attention again and make problems.”

But other observers argue the government still has a chance of succeeding.

“They did quite good things but the pandemic prevented them from being more effective,” says Grigorij Meseznikov, head of the IVO think-tank. “They can continue, there is no doubt about this.”

Yet even if the government staggers on, it is doubtful that it can fulfil the hopes of those in 2018 who attended the biggest demonstrations since the 1989 Velvet Revolution against communism. Handling the pandemic and the economic rebuilding afterwards would challenge even a strong, united government.

“‘It’s boring solving the everyday problems of the pandemic. He is not that type’”
Slovakia continues to have a well-earned reputation for political volatility and fluidity, with new political forces being created for every election, as skill with social media becomes more important than traditional party structures. This leads to inevitable disappointment when the inexperienced parties grapple with the reality of governing, and then the rapid rise of new forces.

This cycle looks set to continue. According to a poll for the state television RTVS at the weekend, 83% of Slovaks are currently dissatisfied with the government and 82% want Matovic’s resignation.

Waiting in the wings is the new centre-left Voice party of former premier Peter Pellegrini, who split with Fico after the 2020 election and has taken much of his support. According to the RTVS poll, Voice would win 21.4% in an early election, with OLaNO back on only 11.3%. If Voice were to lead a government, significant reform of the police and judiciary would be unlikely.

Unless the Slovak centre-right can find a new unity and purpose, another failure in government could therefore be catastrophic.

“If this government were to collapse and we held early elections, we could say goodbye to a centre-right government for a very long time,” says Kolenikova.

The crisis has wider resonance. In Hungary and Poland, heterogeneous and divided opposition movements face dominant radical rightwing populists. If they finally win power, they must be able to maintain focus whilst in office.

“This is not just about Slovakia,” says Milan Nic of the German Council of Foreign Relations. “This is what you have to do after a long-term strongman government in CEE: whether you can actually govern. Hungary and Poland are watching. A similar job will need to be done there. It’s a warning lesson”. ●

Hungary’s ruling Fidesz party finalises divorce from EPP

bne IntelliNews

Just two weeks after quitting the fraction of the European People’s Party (EPP), Hungary’s ruling Fidesz party has left Europe’s leading conservative alliance altogether, putting an end to years of tense relations.

Fidesz deputy-chairman for international relations Katalin Novak, who serves as minister for family affairs, shared on social media a letter notifying the EPP’s secretary-general of her group’s resignation. “It is time to say goodbye” she wrote on Twitter.

The EPP has supported migration, abandoned its Christian conservative roots and is no longer a rightwing party, she wrote later on social media.

For the EPP, Fidesz’s resignation is a relief as the party has long been an embarrassment for the grouping, which had come under fire for failing to discipline the party. EPP President, former Polish PM Donald Tusk, welcomed the news, saying that “Fidesz has left Christian Democracy. In truth, it left many years ago”.

Over the years Orban came under pressure for Hungary’s democratic backsliding, its violations of the rule of law, the attacks on the independence of press freedom and the judiciary, but he managed to fend off these criticisms.

Hungary faces proceedings under Article 7 of the EU treaty, and will be subject to a new rule of law mechanism that will increase oversight on the distribution of EU funds once it is approved by the European Court of Justice.

His hardline position against immigration and his anti-EU rhetoric further tainted his relations with the centre-right alliance.

Even EPP moderates were disgusted by the Fidesz’ anti-EU campaign poster for the 2019 EP elections, which may have been the tipping point.

One billboard showed a picture of Hungarian-born billionaire George Soros and then European Commission President, 
Jean-Claude Juncker together with the caption saying: "You have the right to know what Brussels is planning to do."

This was a clear reference to what the government has spread for years, that Brussels is promoting illegal migration with the help of Soros, who has been used as a scapegoat for the migration crisis by Orban.

The EPP suspended the membership of Fidesz MEPs in March 2019. Orban avoided the most embarrassing scenario, expulsion as he had promised to keep to the rules.

Hungary’s illiberal prime minister then turned the 2019 European Parliamentary elections into a referendum on migration and the future of Europe. But his position weakened further within EPP as anti-establishment parties failed to make a breakthrough as he had hoped. Nevertheless, the Hungarian right-wing party remained one of the largest factions in the EPP with 12 MEPs.

The conservative party has remained divided for long on the status of Fidesz. Orban enjoyed the support of the French, Italian, Spanish and Austrian members, while smaller countries, such as Finland, Belgium and The Netherlands, have lobbied for the party's expulsion.

Earlier this month, the EPP amended internal party rules with overwhelming support, allowing the suspension of an entire party group and not just individual MEPs.

In a pre-emptive move, Fidesz left the parliamentary group before an eventual expulsion. Cutting off ties entirely with EPP was just a technical issue after that.

The 12 MEPs delegated by Fidesz will work as independent in the European Parliament. One MEP, delegated by the Christian Democratic People's Party will keep his post in the EPP.

As for the future Fidesz is likely to join like-minded nationalists and anti-immigration parties in the European Conservatives and Reformists Group led by Orban’s main ally, the Law and Justice (PiS) of Poland. ECR also includes Giorgia Meloni’s Brothers of Italy party, with whom Orban has established cozy ties.

In a recent interview the Hungarian prime minister said his party is in no rush to find new partners but that there should be a home for Fidesz in Europe with parties that share the same values, those that "do not want migrants" and want to "protect traditional families." ●

"Orban's recent attempts to torpedo the EU’s seven-year budget and the recovery fund in December was seen as blackmail by many"

But crucially he had the backing of Germany’s CDU and CSU even as had stepped over the red line numerous times.

Some observers attributed this lenient position to pressure from German business groups, which have established established assembly plants in the country, helped by big incentives and low taxes. These economic ties are vital for Hungary, as Germany accounts for some 30% of the country’s exports.

Orban’s recent attempts to torpedo the EU’s seven-year budget and the recovery fund in December was seen as blackmail by many and did not help to improve his tarnished image in the EPP.

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Hungarian central bank to extend scope of QE scheme

bne IntelliNews

The Hungarian National Bank (MNB) lifted restrictions on its quantitative easing scheme and also made changes in its bond purchase programme at a meeting on March 9. Until now the MNB was restricted to buy only 50% of the series in a given government security.

The MNB has scaled up purchases, buying around HUF60bn (€164mn) of securities a week in the QE programme since February. Since its launch a year ago, total purchases have reached HUF1.55 trillion. MNB rate-setters performed a technical revision of the QE scheme in November and the next technical revision will be performed when the stock reaches HUF2 trillion.

The central bank’s QE programme has helped to maintain the stability and liquidity of the market and reduce the steepness of the yield curve.

Earlier, MNB-deputy governor Barnabas Virag told financial media he argued for keeping the 50% threshold, arguing that the MNB needs to find the middle ground, so it does not become too big of a player.

The latest modification will have no impact on weekly purchases but the MNB will likely shift its focus to longer-end maturities to curb rising yields.

Rising fear from inflation has triggered a sell-off in global bond markets recently, pushing yields higher. The Hungarian market was no exception. The 10-year benchmark has risen by some 100bp since the beginning of the year.

The 15-year Hungarian bond was quoted at 3.35% on Tuesday, up from 2.3% at the beginning of the year.

The MNB also announced on Tuesday that it has extended its bond purchase programme to securities issued by public companies in line with the asset purchase programme of the European Central Bank.

According to the decision, the central bank can buy bonds issued by non-financial public companies with a credit rating of at least B+ for a minimum of HUF1bn.

In compliance with the ECB’s guidance, MNB will only buy bonds exclusively on the secondary market. The level of the central bank’s exposure to a group of companies may not exceed HUF70bn.

The MNB continues to neutralize excess liquidity arising from its purchases with the help of the preferential deposit instrument, it added.
OBITUARY:

Petr Kellner, Central Europe's great dealmaker

Robert Anderson in Prague

Petr Kellner, who was killed on March 27 in a helicopter crash while on a snowboarding holiday in Alaska, was by far the most famous and successful Czech businessman of his generation, and his death will leave a huge hole in the country's business scene.

Kellner, 56, was the richest man in Central Europe, with a personal fortune estimated at $17.5bn by Forbes. He made his fortune in the ‘Wild East’ of the Czech transformation from communism in the early 1990s but unlike many of the country’s other new tycoons, he quickly outgrew the country to become a major regional player in consumer finance, telecoms and media. He rapidly expanded his Home Credit consumer finance group into the Russian and Chinese markets, making it the world’s largest non-banking consumer lender.

A natural predator, he always remained a big player in Czech dealmaking across a range of sectors through his PPF Group, which has €44bn in assets, and was also influential behind the scenes in politics, a position enhanced by his acquisition of the main commercial TV station TV Nova last year.

His tragic death will change the balance of power among the country’s ‘oligarchs’, among whom he was the unchallenged king, and could have an impact even on the country’s orientation towards China.

His death has immediately raised questions about the future succession, direction or even the potential break-up of PPF, the financial group in which he had a 99% stake. It also raises questions about its unit Home Credit, which is currently undergoing a strategic rethink after rising loan losses in Russia and China. It will also create uncertainty over two big ongoing deals in the Czech market: the listing of PPF’s telecom infrastructure arm Cetin, and the proposed merger between its start-up digital bank Air Bank and Moneta Money Bank.

PPF shareholder and telecom and media manager Ladislav Bartonicek, who has been with PPF since the beginning, was quickly named interim manager on March 29. Jean-Pascal Duvieusart, head of Home Credit, as well as Home Credit shareholder Jiri Smejc, together with Kellner’s wife Renata, are all likely to have a say in the group’s strategy going forward.

Killer whale

Like several of the super-rich in the former Czechoslovakia, Kellner made his fortune by setting up an investment fund during Prime Minister Vaclav Klaus’ botched coupon privatisation programme in the early 1990s. Kellner was one of the “pikes” whom Klaus helped introduce to the country’s fishpond to stir the country’s sluggish state-owned “carp” into movement.

But unlike many of his fellow asset strippers and corporate raiders, PPF not only delivered a decent return for its coupon investors, but also had the stamina to become a long-term player on the Czech financial scene.

Becoming more of a killer whale in the country’s small pool, Kellner seized control of monopoly insurer Ceska Pojistovna in 1996 after buying a 20% stake. This enabled PPF, together with allies, to outvote the state. Afterwards, Klaus’ finance minister, Ivan Kocarnik, who appeared to turn a blind eye to the state’s loss of control, immediately glided through the revolving door to become the insurer’s chairman. Much later, Kellner became the main funder of Klaus’ personal foundation.

Kellner overhauled the dinosaur insurer, bought out the state in 2001, and used its financial muscle to expand into other businesses and make opportunistic ventures. In 2007 he agreed to fold Ceska Pojistovna into a joint venture with Generali, which he exited in 2012 for €2.5bn.

This sale enabled Kellner to supercharge the expansion of Home Credit, a consumer lender he had launched in 1997. After experimenting with the format in Central Europe, he expanded east to Russia in 2002, and then from 2007 into China.

However, in recent years Home Credit has often struggled with rising loan
losses in both countries. Home Credit, now 91% owned by PPF, has already begun refocusing its strategy on Europe, and is reportedly considering partnering with other companies rather than always going it alone.

As part of this gradual shift back into Europe, PPF has recently bought assets from major European and US companies, becoming a major presence in CEE media and telecoms through acquisitions from Telefonica and Telenor, as well as the purchase of TV group CME in the past few years. These deals put Kellner in control of both the biggest Czech telecom and private TV companies and made him much more visible – and controversial – inside the country.

**Towerling presence**

Until those acquisitions, Kellner had always remained more of a towering behind the scenes presence in the Czech Republic, someone who had to be reckoned with whenever any big deal was in the offing. According to critics, his hardball tactics with minority shareholders and his use of political influence to outmanoeuvre business rivals help to explain his stunning record in M&A. Without him, inevitably more space will be opened up for the country's other tycoons to flex their muscles.

Kellner’s flair for dealmaking in a range of sectors, as well as his genius at building financial businesses, made him much admired in his home country, though he always kept a low profile compared to other tycoons. He continued to live in the country, often picking his four children up from their private school in person.

Kellner very rarely gave interviews or even delivered pronouncements. In my only interview with him and his top executives some 15 years ago, he was very quietly spoken and often allowed his colleagues to hold the floor.

Though he made his flying start in business under the rightwing Klaus and largely shared his political views, Kellner has never been very closely involved with politics as such. Indeed, he managed to cultivate the populist President Milos Zeman, even lending the onetime Social Democrat his private jet to fly back from China in 2014. In return, Zeman enthusiastically pushed Home Credit’s expansion into China on his numerous visits to Beijing.

“The president held Petr Kellner in high esteem for his business success and is immensely sorry for his tragic death,” Zeman’s spokesperson said on March 29.

Kellner also maintained cordial relations with rival tycoon Prime Minister Andrej Babis, despite predictions that the two would come to blows after the agrochemicals billionaire became premier. In 2018 PPF’s Skytoll won a tender to set up the country’s satellite-based truck tolling system.

But Kellner’s behind-the-scenes influence, particularly on the country’s relations with China, did draw increasing criticism in recent years. It also sparked a backlash, with the government now rowing back, refusing to let Chinese companies enter tenders for the country’s telecom infrastructure or nuclear power station plans. Without Kellner’s lobbying, the country is likely to continue to shift back to the new European mainstream on China.
Slovenia started the transition as the most prosperous state in the post-socialist space, a position it has held on to despite a severe debt crisis and stiff competition from several Central European economies that were booming until the coronavirus (COVID-19) pandemic struck.

The small country’s post-independence history has been a series of firsts: it was the first Southeast European country to join the EU, the first emerging European country to join the eurozone and the first from the region to switch from borrower to donor status at the World Bank. It also outperforms the rest of the region, or at least is one of the leaders, on most human development indicators.

The chart (See page 46) below produced using a World Bank data tool makes the point nicely. It dynamically shows GDP growth over the last 20 years. You can see the wealth gap between Western and Emerging Europe clearly, but you can also see how Slovenia overtakes Portugal, Western Europe’s poorest nation, in about 2002 and starts to close the gap with the rich nations until the 2008 global financial crisis knocks everyone back.

Slovenia’s strong starting point when it embarked on the transition was thanks to a variety of historical factors. Much of what later became Yugoslavia was under the Ottoman Empire for centuries, while Slovenia spent hundreds of years under the Habsburgs, along with modern-day Austria, Czechia and much of Central Europe.

After the Second World War, a socialist government was installed in Yugoslavia, like the rest of Central, Southeast and Eastern Europe. Yet after Yugoslav leader Josip Broz Tito’s split from Moscow, leaving Yugoslavia as one of the leading non-aligned states in the Cold War, the federation was free to pursue its own economic policies, nationalising big companies while leaving smaller companies to operate independently, and it also benefited from Western loans.

“Slovenia had the highest per capita GDP among all countries from this part of the world at the time they started their process of transition from planned to market economy. The reasons are partly on the side of specifics of the former Yugoslavia as a whole and partly on specifics of Slovenia within Yugoslavia,” said Mojmir Mrak, professor and Jean Monnet Chair holder at the Academic Unit for Money and Finance at the Faculty of Economics, University of Ljubljana.

“As far as Yugoslavia as a whole is concerned, its socio-economic model of development was quite different from the one in all other ex-socialist countries. While economies of all these countries were based on state ownership and central planning, Yugoslavia introduced a very distinctive system based on public ownership and [a] self-management economic system. Yugoslav companies operated within an economic system that contained many market or at least quasi-market elements in the areas of...
production and trade. As far as Slovenia is concerned, it was traditionally the most developed republic of the former Yugoslavia. This was made possible due to its geographical location on the border with Austria and Italy, diversified structure of the economy with a large proportion of final goods production and well-educated labour force.”

The socialist era saw the emergence of some of the companies that remain central to the Slovenian economy today. Among them are Gorenje, one of Europe’s largest household appliance manufacturers now majority-owned by China’s Hisense. Gorenje started out as a producer of agricultural machinery when it was set up by the government in 1950. Four years later the Krka lab was established, which has now grown into an international generic pharma company, selling to over 70 countries worldwide. Another internationally recognised Slovenian company is Elan, founded by ski jumping champion Rudi Finzgar who made skis for Yugoslavian Partisan forces during the Second World War.

Yet the relative prosperity of industrialised Slovenia, and to a lesser extent Croatia, in contrast to the poorer republics to the south, contributed ultimately to the break-up of Yugoslavia, along with the debt crisis that escalated during the 1980s. Igor Guardianicich, assistant professor at the Department of Political Science, Law and International Studies (SPGI) and Università degli Studi di Padova, pointed out that by the late 1980s, the gap in GDP proxies between Slovenia and Kosovo in the late 1980s was as high as 8:1.

As early as the 1970s, the tensions within the Yugoslav federation were becoming apparent, as documented in one New York Times article from 1978, titled “Even in Yugoslavia, a rich-poor split”. The journalist wrote: “Slovenes are political realists, so no one here in their capital raises the subject of separating from Yugoslavia except to reject it. … But the political and economic crisis that has long confronted Yugoslavia has sharpened Slovenia’s awareness that its two million people have the highest level of economic development among the republics and provinces that make up this federal country of 23 million.” This raised the question of “whether northern Yugoslavia is paying too dearly for the south”.

By the early 1980s, Yugoslavia was struggling under a heavy debt burden after decades of borrowing from both East and West to drive economic expansion, and a further blow from the oil price shocks of the 1970s. The government introduced strict austerity measures, including fuel rationing. But this wasn’t enough to stop the economy lurching from one crisis to another in the 1980s, a decade characterised by inflation – though hyperinflation didn’t erupt until the end of the decade and in the early 1990s – rising unemployment and falling living standards. This made the richer republics, Slovenia and Croatia, increasingly unwilling to subsidise the poorer ones, sowing the seeds for secession and eventually war.

Yet Slovenia managed to avoid getting embroiled in the wars that cost thousands of lives and devastated the economies of other post-Yugoslav states as the federation disintegrated. Its war of independence from Yugoslavia, fought between the Slovenian Territorial Defence and the Yugoslav army – the latter weakened as many of its Slovenian members deserted or switched sides, lasted from June 27 to July 7, 1991, ending with the Brioni Agreement brokered by the European Community.

Three months after the agreement was signed Slovenia became formally independent. Figures compiled by the World Bank for 1991 show that Slovenia’s GDP per capita that year was $6,634, more than $2,000 below that of the poorest EU member state, Portugal, but more than twice as high as in any of the Visegrad states.

Another thing that set Slovenia apart from its peers in the region was the development model chosen at the start of its transition. “Slovenia adopted a gradual model of transition where the state kept its involvement in the economy, while others, notably Poland, adopted shock therapy and put forward a lot of market liberalisation reforms that accelerated this process,” says Radu Cracan, economic analyst at the European Bank for Reconstruction and Development (EBRD).

Already among the strong sectors were food and beverage, automotive, metals, pharma and chemicals. As incomes continued to rise, this stimulated the development of consumer sectors too. Pre-existing commercial links with neighbouring West European countries like Italy and Austria supported the development of export-led growth, an important contributor to the GDP expansion of over 4% a year between 1993 and 2008. At the same time, unemployment declined to just 4.4% between 2004 and 2008.

“Over the 30 years of Slovenia’s independence, the country established itself as a viable small and open economy with a reasonable good level of international competitiveness,” said Mrak.
“Slovenia’s exports of goods and services account for close to 75% of GDP, confirming that [the] economy is well integrated into global value chains. In my view, Slovenia’s competitive strengths are numerous and some of them are the following: First, favourable geographical location on the north of Adriatic and in the vicinity of European economic centres, such as [the] south of Germany and northern Italy. Second, well-educated labour force including strong R&D and innovation capacities. Though Slovenia is not characterised by a cheap labour force, its good quality to price ratio has become an increasingly important driver for inward foreign investments. Third, well-developed economic as well as social infrastructure contributes its part to the international competitive position of the country. And fourth, well-diversified and preserved nature provides by itself a good basis for tourism as one of the quickest growing economic sectors over the last decade.”

Guardiancich also noted that “despite growing imbalances – Slovenians began to consume larger quantities of foreign goods and services than they could afford, as evidenced by the BoP deficits that emerged after 2003 – Slovenia was a success story.”

He identifies several reasons for this: the gradual approach to transition, competitive neo-corporatism, namely productive exchanges between workers and managers, and technology-intensive production.

High human development
The “Green heart of Europe”, “Europe’s lung”, the “Garden of Europe” are all titles that have been used to describe Slovenia, not to mention seized upon by governments and the tourist board. The country prides itself on its green nature, picturesque scenery, Adriatic coast and high mountains, which has been accompanied by an ethos of outdoor good health – albeit in a country with a high number of smokers – and eco awareness. It has some of Europe’s largest forest cover, and almost half of its territory is protected natural areas.

Slovenia scores well on most human development indicators. It is the highest-ranked emerging Europe country on the United Nations Development Programme human development index, in 22nd place worldwide, again followed by Czechia and Estonia, and above West European countries such as France, Spain and Italy. Life expectancy is also the highest in the emerging Europe region at 81.3 years.

There has been no mass emigration, unlike in most emerging European countries, with the population hovering around the 2mn mark for the last three decades, though recent data show a decrease in the Slovene population offset by immigration.

The OECD’s Better Life Index shows that Slovenia scores well in measures of well-being, performing above average in the job and earnings, housing, health status, social connections, education and skills, work-life balance, environmental quality and personal security categories, even though it is below the OECD average for income and wealth, as well as civic engagement, and subjective well-being.

Despite this, Slovenians are less satisfied with their lives than the OECD average, says the report. When asked to rate their general satisfaction with life on a scale from 0 to 10, Slovenians gave it a 5.9 grade on average, lower than the OECD average of 6.5.

Slovenia didn’t see a spike in inequality as seen in some post-socialist countries with uncontrolled privatisations that created an oligarch class. Inequality is very low; among the OECD countries, only Slovakia has a lower Gini co-efficient than Slovenia, which is on a par with Czechia.

Boom and bust
Slovenia overtook Portugal in GDP per capita terms at the start of the 2005-08
boom. It mainly drew ahead because, unlike the other mainly southern European states that accelerated growth in the boom years, Portugal’s economy largely stagnated during the 2000s, and while there was some acceleration between 2005 and 2008 it didn’t see a housing boom like Spain and Ireland or debt-fuelled growth like Greece – or Slovenia.

Slovenia and Greece are two countries that followed a roughly similar path of boom followed by crisis. However, global financial crisis. Apart from this peculiarity the crisis was a private debt crisis as in the rest of the EU periphery, which brought Slovenia inches away from asking for an international bailout.”

The crisis had long-term implications even though Slovenia’s growth rebounded. “The turning point for Slovenia was the global financial crisis. Before that Slovenia – as [were] all the countries in the region – was growing at a fast pace, productivity was growing and 1990s, even though at the time it gave Slovenia a softer transition than, for example, Poland.

“At the time of the dissolution of former Yugoslavia, the newly born Slovenia found itself without its traditional “domestic markets” on the territory of the former common state. Next, Slovenia was a part of the bankrupt former Yugoslavia, so it took us several years to normalise our relationship with creditors. Slovenia established a normal access to international financial markets only in 1996, i.e., much later that many others in the region,” he says. “Another specific reason for sub-optimal economic performance was also our specific features of the privatisation in 1990s. In contrast to most transition economies, we opted a decentralised, voucher privatisation that had de-facto become an impediment to foreign direct investment [FDI]. And finally, there was the global financial crisis that due to specific features of its banking sector hit Slovenia more than most other countries in the region.”

Then came the coronavirus (COVID-19) pandemic. Slovenia suffered a severe wave of infections in autumn 2020, and the country of 2mn people has reported over 191,000 coronavirus cases to date, and its economy contracted by an estimated 7.1% last year.

Challenges ahead
Still, the European Commission forecasts Slovenia will do better than the eurozone average as it recovers from the crisis, with projected 4.7% growth in 2021 and 5.2% in 2022. Ironically, this will put Slovenia back on its convergence path with the eurozone in the next few years as it will grow faster than the averages for both the eurozone and the EU as a whole.

Compared to the international economic crisis a decade ago, Slovenia’s financial sector is in a much better state, which should help the economy to rebound post crisis. On top of that, Slovenia will benefit from the €1.8 trillion EU budget and recovery fund; while it won’t get as much funding in proportion to the size of its economy as the less affluent Southeast

“Slovenia overtook Portugal in GDP per capita terms at the start of the 2005-08 boom”

Greece’s boom was stronger and its subsequent crash was harder. Slovenia’s economy overtook Greece’s in per capita GDP terms in 2012.

This was despite, rather than because of, Slovenia’s own performance. Slovenia too was plunged into a debt crisis along with the international economic crisis. Its strong growth in the boom years of 2005-2008 had been mainly financed by debt, as the stock market was still relatively young. When the crisis hit, Slovenia made an initial recovery but this was only the start of its double-dip recession, as GDP dropped again in 2012 and 2013. Companies went bankrupt and banks were faced with growing burdens of non-performing loans. Major banks had to be bailed out by the government in 2013.

Overall, Slovenia recorded “probably the largest cumulative fall in real GDP in the euro area, except in Greece”, said Guardiancich. He says that while the reasons behind this are complex, it is mainly down to the only partial reforms, as interest groups opposed the full liberalisation of the economy: “In Slovenia this implied very cosy relationships between managers of non-privatised state-owned enterprises and the three major Slovenian banks (NLB, NKBM, Abanka), which extended massive unsustainable credits before the FDI inflows were high so the economy was doing well. The crisis in 2009, its negative effects exacerbated by the banking crisis in Slovenia, caused an economic stagnation that lasted longer than in other countries in the region,” says Cracan.

The Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD) also points out in its 2019 development report that Slovenia stopped gaining on other EU countries after the crisis. Although the gap between Slovenia’s GDP per capita started to narrow from 2016, by 2019 it was still wider than before the crisis, said a report from IMAD.

The report also noted that despite certain improvements of Slovenia’s competitive position, “given the relatively low investment rate in the years of growth, productivity gains have been slower than in the pre-crisis period and insufficient to bridge the considerable gap to more developed countries”.

Meanwhile, Mrak looks back to long before the last crisis to see why other counties from the region have achieved stronger economic growth than Slovenia, thereby reducing the development gap. These include factors such as the mode of privatisation in the

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European countries, this will still be a significant source of income. Ljubljana has indicated it is keen to direct the money into digitalisation and the green transition, which should put the country on a stronger footing for the future.

Measures of competitiveness, labour productivity, R&D spending and innovation show very clearly there are three frontrunners from the emerging Europe region – Czechia, Estonia and Slovenia – putting these countries in a relatively strong position once the pandemic abates.

The World Economic Forum’s 2019 Global Competitiveness Report ranks Slovenia slightly below its two main rivals from the region, but it still performs particularly well on macroeconomic stability, health and infrastructure.

On the Global Innovation Index co-published by Cornell University, INSEAD and the World Intellectual Property Organization (WIPO), Slovenia is again behind Estonia and Czechia.

“Creation of new companies, which represent the potential for the transfer of know-how and innovation into practice, picked up but remains low by international standards. Since productivity is a key long-term factor determining economic development and living standards, in particular against the backdrop of demographic change, systematic investments in the strengthening of innovation capacity and digitalisation represent a key development challenge for Slovenia.”

Moreover, as pointed out by the EBRD’s Cracan, “State involvement in the economy is still quite high. This state involvement, especially in the financial sector before some privatisation two years ago, is perceived as detrimental to a more productive allocation of resources in the economy and affects the dynamism of the private sector.”

He adds that Slovenia’s small size was also a problem when it came to the development of the capital market: “The EBRD has been engaged in developing the financial sector, which lags behind advanced EU markets, especially the capital markets. This didn’t allow for investments in more innovative but riskier firms. In general, it’s a challenge for the small countries in the region to develop their capital markets.”

On the other hand, to continue to converge with the western EU members and to stop fellow eastern EU members drawing ahead, Slovenia has some serious issues to tackle in its labour market that in the long term threaten to act as a constraint on growth.

“The premises are there for convergence in future, but rely on addressing existing gaps. Probably the main challenge going forward is the labour market. Access to labour and availably of employment is likely to decrease in the future, as demographics do not allow for a higher employment rate. This builds the case for a focus on increasing productivity and enhancing skills, among others,” says Cracan. Linked to that is the ageing population that is expected to increasingly burden the public finances, social care and pension system.”

So far Slovenia has one tech unicorn – entertainment company Outfit7, the creator of Talking Tom and Friends, that was sold for $1bn in 2017 – to Estonia’s four. Slovenia is behind most of Western Europe but ahead of all the new EU members except Czechia when it comes to labour productivity. As a percentage of GDP it spends more on R&D than any of the eastern EU members and is ranked tenth overall across the union.

Development across sectors has been somewhat uneven. Labour productivity continued to rise in the automotive and pharma segments, the main drivers of the country’s manufacturing sector, but performance was less strong in other parts of the economy. In the last few years, R&D spending as a share of GDP has fallen slightly below the EU average, though it remains ahead of other countries in the eastern part of the bloc.

“The trends in research and development and innovation, which should form the bedrock of sustainable productivity growth, have been mostly unfavourable,” the IMAD report said.

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In such a deeply divided society as North Macedonia even holding a census is not an easy thing to do.

With the last census held 19 years ago – the previous attempt in 2011 was called off when it became mired in political infighting – no one knows exactly how many people live in North Macedonia. The government says they need an accurate count of the population to be able to draw up long-term development plans, not to mention provide facilities such as schools and medical care to the population efficiently.

Yet the opposition led by conservative VMRO-DPMNE has seized on the census, which it says is a political exercise by Zoran Zaev’s government, and is urging people not to open their doors to census takers. The authorities have responded with threats of prison terms or hefty fines for those who refuse to take part or provide false data.

VMRO-DPMNE insists that the process must be pushed back until 2022, citing the coronavirus (COVID-19) pandemic as well as also fears that the process will be rigged for political reasons and will not reflect the real population.

Officials from the government and the statistics office, as well as some sociologists, say there is no reason to fear the census or postpone it, and they have sought to assure the population that the census will be held in line with all international standards.

On March 3, Zaev asked the parliament to hold a vote of confidence in his government, immediately after VMRO-DPMNE filed a draft law to the assembly on annulling the census. The motion was supported by 62 MPs with no votes against and no abstentions. Opposition lawmakers were not present in the parliament during the vote.

Data-supported development
Defending his government’s plans, Zaev has said that census data are needed for creating a development policy, to identify the regions with the highest jobless rates and pick locations for new industrial zones.

The government press office said in response to a query from bne IntelliNews said that without updated and relevant census data, North Macedonia “will be the only country in the world without real, data-supported vision for its development”.

“Nobody wants such a country as a partner. To illustrate this, no investor would be interested in investing in a country, which has no basic statistics data about its labor resources, market and consumer habits,” it said.

“The state will not be able to plan the construction of schools, kindergartens, health facilities where it is necessary to do, and at the same time to base its policies on 20-year-old data,” it added.

Without a census in the last 19 years, nobody knows how many people live in the country and what the structure of the population is, after many, especially young people left North Macedonia in search of a better life abroad in the last few decades.

The reasons include economic hardships and recurrent political crises after years of uncertainty related to the country’s EU and Nato integration. North Macedonia finally became a Nato member in March 2020 after it changed its name, thereby solving the long-standing name dispute with Greece that had blocked its accession, but at the end of 2020 the country faced a new hurdle – a veto from Bulgaria on the launch of EU talks, due to historical and language issues.

BALKAN BLOG:

Census sparks a political storm in North Macedonia

Valentina Dimitrievska in Skopje

Ahead of the March 3 vote of confidence, the first stage of the census had already started with people from North Macedonia who live abroad and employees in diplomatic missions able to register themselves online. Members of diplomatic missions and their families can fill in the self-registration form from March 1 to March 15, while people who live abroad have until April 21 to complete the form.

Asked about the possibility of postponement following the opposition pressure, the government press office said that the census will be held as scheduled. The government is convinced that North Macedonia will have a successful census.

“All institutions are ready to guarantee that the process will be conducted according to the highest international standards.”

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According to the census law, inciting a boycott of the census is a criminal offence. Those who refuse to be enumerated will be subject to misdemeanour proceedings, and face fines of up to €300,” the press office said.

After programmers found flaws in the application people abroad are using for self-registration, the director of the statistics office, Apostol Simovski, said that people could face three years in prison for entering false data.

“Some may register and think they managed to enter false data, but in fact the system itself will show that the data is not valid. We will register such cases as a deliberate intrusion into the application,” Simovski stated.

“The statistics office is an institution with a long tradition and capacities that are supported by technical assistance from the EU and other donors. The methodology presented is completely appropriate and there is no doubt that it’s in line with the EU/international standards,” sociologist S.N. said.

He described the public suspicion that something is hidden behind the methodology as “pathological”.

Fears of being less
“The forthcoming census will confront us with our greatest fears. But these are not fears of the ‘others’, but of how many there are in the country now,” President Stevo Pendarovski was cited by DW. According to unofficial data, about 500,000 people left the country in the last two decades, which is over 20% of the estimated population of nearly 2.1mn. According to the census in 2020, the population totalled 2.02mn, of which the majority of 64.2% were Macedonians, 25.2% were ethnic Albanians, 3.9% Turks, 2.7% Romani people and 1.8% Serbs. Other communities were below 1%.

North Macedonia is forecast to lose at least another 10% of its population by 2050, while the percentage of people over the age of 65 will rise to 25%.

Many of those who left the country managed to do so after neighbouring Bulgaria started to offer Bulgarian passports for people from Macedonia. With a passport from an EU member they can work elsewhere in Europe.

Bulgarian Foreign Minister Ekaterina Zaharieva recently said that more than 100,000 citizens from North Macedonia also have Bulgarian citizenship and their rights should be protected, deepening the rift between Sofia and Skopje. In February, the Ivan Mihajlov Cultural Centre in Bitola, North Macedonia, asked the authorities in Sofia to allow citizens of North Macedonia who declare themselves to be Bulgarians in the upcoming April census to obtain Bulgarian citizenship in a shortened procedure by submitting a photocopy of their declaration.

Thus, the claim that the census can be used for political manoeuvres is not a complete lie – although the authorities in North Macedonia have said people won’t be allowed to copy census forms.

In the previous census in 2002, only 1,417 people declared themselves to be Bulgarians, or 0.07% of the total population, according to emagazin.mk.

Opposition doubts and obstructions
VMRO-DPMNE started collecting signatures on February 20 in an attempt to force the government to cancel plans for the April census. After collecting over 100,000 signatures the party submitted its draft law to the parliament to annul the census on March 3.

A group of people have also formed a public call to hire about 6,000 census takers. The government will use a combined census method based on a combination of field data and data from the standard statistical database obtained from existing registers by using ID numbers. For the first time, census takers will use laptops while collecting field data instead of paper questionnaires.

The census will enumerate people, households and homes. It will provide data on the number of residents, the number of non-residents and total size of the population.

A sociologist from North Macedonia, who asked to be identified only by his initials, S.N., told bne IntelliNews that April is the most suitable month for this type of operation for many reasons related to the methodology. “But if we enter the labyrinth of party manipulations then the range of possible dates is huge and endless. There is no real reason for the delay and any calculations with dates will only confirm there is desire for manipulation and will certainly affect the confidence in this statistical operation,” he said.

S.N. admitted that unfortunately due to a combination of circumstances, – mostly the extreme partisanship of society – an atmosphere of collective fear has been created. “Collective deception and not accepting the truth has become a reality to such an extent that the logic of rational reasoning is completely lost,” he said, adding that in this context, people are forgetting about the basic functions of the census.

Tough penalties for boycotts and false data
The government’s press office told bne IntelliNews that boycotting the census is “not an option”, and every citizen should contribute to the process by providing data, which is important for the government to make its strategic development plans.

“We point out that according to the census law, inciting a boycott of the census is a criminal offence. Those who refuse to be enumerated will be subject to misdemeanour proceedings, and face fines of up to €300,” the press office said.

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Southeast Europe
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a national initiative “I do not open the door”, urging citizens to block the process by refusing to let the census takers into their homes.

They are convinced that the census will be falsified, talking of a possible conspiracy between Zaev and Ali Ahmeti, leader of the junior ruling party the ethnic Albanian Democratic Union of Integration (DUI), and claiming the percentage of ethnic Albanians in the country has been determined in advance.

They are concerned the census will show a higher number of ethnic Albanians than previously estimated, which could give them more rights. The Ohrid agreement, concluded in 2001, includes a provision that any language spoken by more than 20% of the population becomes an official language alongside the Macedonian language at the municipal level. In 2018, Albanian became the second official language in the country. Deputy Prime Minister Artan Grubi from the DUI has called on Albanian emigrants to mobilise and to register themselves in large numbers, sparking claims by VMRO-DPMNE that the government plans to hold the census as a political, not a statistical operation.

“It is clear to the public that this census aims to satisfy the needs of certain ethnic communities by [the ruling party] SDSM and PM Zaev,” VMRO-DPMNE’s deputy head and MP Aleksandar Nikoloski said. He claims that in return, the SDSM will get support from ethnic parties to pass key laws in the parliament, where it has a fragile majority.

“VMRO-DPMNE is not against the census, but it is against a fake and rigged census,” underlined Nikoloski.

The Synod, the highest body of the Macedonian Orthodox Church, also join the calls for the census to be postponed, saying that the epidemiological situation in the country is not good. The number of new infections started to increase in recent weeks when the British variant of coronavirus arrived in the country.

bne IntelliNews talked to some people to take the pulse of the general opinion about the census and the most of them said that despite the opposition obstructions the government has launched the process and it is now a done deal.

“VMRO-DPMNE is opposing everything that the government is doing, even the processes, which are positive for the society. The process is needed and there is no excuse for the obstruction,” a 53-year-old woman from Skopje told bne IntelliNews.

The US State Department has sent a strongly worded brief asking a federal appeals court to uphold a ruling that Turkey can be held liable for the assaulting of protesters that took place on the day of a White House meeting between Turkish strongman Recep Tayyip Erdogan and former US president Donald Trump nearly four years ago, Law&Crime reported on March 10.

“Both the Turkish agents (along with supporters of President Erdogan) and U.S. law enforcement separated the protesters from the Ambassador’s Residence at which President Erdogan had arrived,” counsel for the Justice Department and the State Department wrote in an 18-page legal brief on March 9.

After the attack, the New York Times reviewed videos and photos to track the actions of 24 men, including armed members of President Recep Tayyip Erdogan’s security detail.

Biden officials say Turkey can be held liable for Erdogan agents’ assaults on protesters in Washington

bne IntelliNews

The Rushed, punched protesters
Kicked, punched protesters
Punched a protester

After the attack, the New York Times reviewed videos and photos to track the actions of 24 men, including armed members of President Recep Tayyip Erdogan’s security detail.
“Yet the Turkish agents ‘crossed [the] police line’ separating them from the protesters in order to attack the protesters ‘violently,’ and they took that aggressive action without any indication […] ‘that an attack by the protesters was imminent,’ […] and without any finding by the district court of some other reasonable basis for perceiving a threat to President Erdogan,” the friend-of-the-court brief continues, summarising a federal judge’s findings of fact. “There is no basis in the district court’s account of the facts to regard the ‘attack’ by Turkish agents as protective in nature.”

Separately, Nordic Monitor, a media outlet that opposes the Erdogan regime, reported on March 11 how in 2015 a Turkish prosecutor levelled an allegation of conspiracy against White House press secretary Jen Psaki, citing her remarks about anti-government protests in Turkey as criminal evidence as he laid out the case that there was a global conspiracy against Erdogan’s ruling Justice and Development Party (AKP).

In a phone interview, an attorney for the anti-Erdogan protesters that were assaulted in Washington described to Law&Crime the State Department’s support as the Biden administration reasserting US advocacy for human rights.

“It seems to me that this administration may be signaling politically that we are reinforcing the notions of democracy in this country, after a long time of maybe democracy being beaten up a little bit,” attorney Andreas Akaras, from the firm Bregman, Berbert, Schwartz & Gilday, LLC, told the journal.

Beseiged
On the day that Erdogan first visited the Trump White House on May 16, 2017, protesters gathered outside of the Turkish Ambassador’s Residence. They were later besieged by the Turkish leader’s security detail. Voice of America broadcasts and other viral videos captured grisly scenes of guards punching, beating and kicking demonstrators.

The melee injured 11 people.

“A few of them are still sort of intellectually in shock that this occurred in the United States,” Akaras continued. “It’s beyond anything they could imagine.”

Prosecutors brought charges against 15 Turkish security officials in relation to the events. Eleven of those cases were later dropped. But civil claims have moved forward. In February, they overcame a motion to dismiss when a federal judge ruled that the Foreign Sovereign Immunities Act (FSIA) did not shield alleged assaults on peaceful protest on US soil.

“The Turkish security forces did not have the discretion to protect their president,” Judge Colleen Kollar-Kotelly, a Clinton appointee, wrote on February 6, 2020. “They even had the discretion to err, to some degree, to get beat up on the street, you don’t so easily go out and protest. Whereas here, though, you cherish that. You’re able to breathe more freely in the U.S.”

“A few of them are still sort of intellectually in shock that this occurred in the United States,” Akaras continued. “It’s beyond anything they could imagine.”

“The Turkish security forces did not have the discretion to protect their president,” Judge Colleen Kollar-Kotelly, a Clinton appointee, wrote on February 6, 2020. “They even had the discretion to err, to some degree, to get beat up on the street, you don’t so easily go out and protest. Whereas here, though, you cherish that. You’re able to see: ‘My God!’ So my clients constantly remind me of this notion of freedom because they, in a sense, are able to breathe more freely in the U.S.”
Turkey would like to see the landmark project in operation in time for the 2023 centennial celebrations of the establishment of the Turkish Republic. In Erdogan’s “2023 vision” released in 2010, officials foresaw the launch of three nuclear power plants in Turkey by the time of the anniversary. That is clearly not going to happen. One Akkuyu reactor in operation is the most that can be hoped for.

When completed, the plant is to generate around 35bn kWh per year at full capacity, meeting around 10% of Turkey’s electricity needs.

Sovcombank loan
A subsidiary of Rosatom has secured a $300mn and seven-year loan from Russia’s Sovcombank for the Akkuyu nuclear project, Rosatom said on March 9.

Last month, Turkey’s government-run Anadolu Agency news service reported that state-owned Russian company Inter RAO sold its 0.82% stake in the project to an unknown buyer for around Russian ruble (RUB) 1bn ($14mn).

In January, Turkish opposition lawmaker Ali Mahir Basarir claimed that there was a crack in the cement foundation of the project site. Seawater was seeping into the foundation, the Republican People’s Party (CHP) MP claimed. He posted video footage of the alleged crack.

Calling on officials to scrap the project to build the plant, Basarir said the foundation on which the reactor will be placed was first damaged during its construction phase.

Since the construction started in 2018, a group of NGOs has filed a lawsuit with a Turkish court demanding building work be halted due to claimed vulnerabilities of the site chosen for the plant.

“There is a tragedy being established on a foundation that has already cracked twice,” Basarir said.

“Our country is being pulled into an irreversible calamity, because Akkuyu is in an earthquake zone. The foundation is entirely [composed of] water. If there is an earthquake following the construction, the Mediterranean and Mersin will be faced with a tragedy,” Basarir added. The project must be abandoned “while there is still time”, he also said. ●
When will Ukraine’s economy reach critical mass and start the virtuous circle of profits, investment, rising wages and ballooning consumption? Of all the countries in the former socialist bloc, Ukraine is one of the last to begin its “catch up” growth spurt, but with a new raft of reforms and the first ever push-back against the oligarchs by the government, the take-off may be close.

UkraineInvest, the government investment promotion agency, has just had an injection of fresh blood as the Zelenskiy administration cranks the handle of the foreign investment engine. Sergiy Tsivkach recently took over as CEO of UkraineInvest and talked to bne IntelliNews on the sidelines of the German-Ukraine annual investment conference in Berlin on March 19.

“This forum is about aligning Ukraine and German co-operation strategies. It was opened by German Chancellor Angela Merkel, who called on more German companies to invest into Ukraine, and Ukraine’s Prime Minister Denys Shmyhal, as well as including sessions on specific investments,” Tsivkach told bne IntelliNews in an interview in the locked down German capital.

Germany is an obvious port of call for an Eastern European country looking to raise more foreign direct investment (FDI). It is already the fifth-biggest investor in Ukraine in terms of FDI stock, following the Netherlands, Cyprus, UK and Switzerland.

“But Germany is one of the leaders in terms of ‘real industrial investment’ in Ukraine,” says Tsivkach. “And there are a lot of German companies already operating in Ukraine, including Metro, BASF, KNAUF and others. As of the third quarter of last year the total German FDI stock was €1.9bn.” And as is usual, an early and very large investor has been the European Bank for Reconstruction and Development (EBRD) that has dramatically ramped up its investment activity in the country in the last few years, as part of its work to help develop an attractive investment climate. A pick up in the EBRD’s activity is usually a harbinger for increasing private investment.

To hammer home the point, EBRD President Odile Renaud-Basso was in Kyiv recently and said that state-owned enterprises stand to gain the most from radical reforms.

She told reporters: “The EBRD and Ukraine have been strong partners for almost three decades now. Ukraine is a top-three investment destination for the EBRD. In the past two years alone, the Bank has committed €2bn of investment to the Ukrainian economy. We provide a comprehensive support package for the country to assist its stabilisation, the anchoring of its reforms and sound...
inclusive and sustainable growth.” Among sectors with the highest potential cited by Renaud-Basso are: agriculture, energy, transport, information technology.

“There is a huge potential in Ukraine, especially in its people and its youth. Pursuing the reform agenda is key for the economic development. Structural weaknesses remain and weigh on the pace of economic growth, while labour productivity remains below other countries in the region. Progress in key areas of governance would provide a level playing field for investors and entrepreneurs, which is crucial for unleashing the growth potential of the Ukrainian economy,” said Renaud-Basso.

With a large population, an educated and skilled work force, and situated in the heart of Europe, potentially Ukraine has a lot going for it. But it remains a hard sell. The political instability, the slow progress on reforms and a war in the eastern part of the country all put investors off. The government is trying to do something about that.

In February the government launched a New Economic Strategy 2030 (NES2030) that introduces a number of investment incentives – including the much touted “investment nannies” – with which the government hopes to increase FDI from the zero FDI it received in 2020 to $15bn a year by 2030.

Changing the investment climate
Ukrainian President Volodymyr Zelenskiy was elected on a wave of optimism in April 2019, but the reality of making changes that have been ignored for some three decades is much tougher.

Scandal and war dominate the international headlines, but the country has already made significant progress in some areas. The banking sector has been cleaned up and ended 2020 with its best month-on-month profits in four years, the coronavirus notwithstanding. The lingering problem of high non-performing loans (NPLs) have now be provisioned for and don’t represent a danger to the system anymore.

A crucial new law on the sale of land has also been passed, albeit watered down and delayed from the more radical draft version. And most recently the Cabinet of Ministers has put in place a set of laws to define the conditions and perks for inbound investors.

“For the first time since independence the president signed off on a law to support significant investment for sums over $20mn over five years that will receive significant state support,” says Tsivkach. The support comes in form of things like tax breaks, low rents on land, reduced duties, connection to grids and construction of necessary infrastructure that in total will be equivalent up to 30% of the total amount invested. The law just came into effect in February and now the government is working on the all-important instructions that lay out the details of how the law should be applied.

The support comes in the form of things like tax breaks, low rents on land, reduced duties and attractive leasing rates on property that in total will be equivalent to 30% of the total amount invested. The law just came into effect and now the government is working on the all-important instructions that lay out the details of how the law should be applied.

The new investment law is designed to attract international investors but the same law applies to domestic investors, as the government wants to encourage investment across the board and believes creating strong local players, who can become partners with international investors, will pull in more FDI in the long run.

Indeed, Tomas Fiala, the CEO and founder of Ukraine’s biggest investment bank, Dragon Capital, already said in the middle of March that he was looking at the new rules and considering investing into two industrial parks, making use of the benefits on offer.

Privatisation redux
Another big plank of the Zelenskiy shake-up is to re-launch the privatisation programme, which has already seen some old disused prison buildings sold off and an iconic hotel in the heart of Kyiv. Bigger assets are in the pipeline to go under the gavel later this year, which will also be supported by the new investment law.

There are several big companies that have been on the list for years that were temporarily removed from the list while the coronavirus (COVID-19) ravished the country in 2020, but these restrictions are expected to be removed soon and those companies put back under the gavel.

On February 4, the Verkhovna Rada supported the draft law 4543 on unlocking transparent large-scale privatisation auctions in the first reading. The adoption of this bill in the second reading eliminates the last barrier to attracting sustainable investment through large-scale privatisation in Ukraine’s economy.

And the state has a lot of sell. The former president of Georgia and now a Ukrainian politician, Mikheil Saakashvilli, said in a Kyiv Post opinion piece recently that the state-owned enterprises (SOEs) cost the Treasury $6.1bn a year and that Ukraine has 63 times more state companies than Poland and 76 times more than Sweden.

In 2021, the State Property Fund plans transparent tenders for the sale of the...
United Mining and Chemical Company (UMCC), JSC “First Kyiv Machine-Building Plant” (“Bolshevik” plant) and the President Hotel, among other assets.

Several new classes of state property have been added to the list. Online auctions for oil and gas deposits have already happened and more recently the country’s significant reserves of non-ferrous and rare-earth metals, including unique deposits of beryllium, zirconium, tantalum and rare-earth metals, have come into focus.

“Ukraine’s estimated reserves of lithium are [some] of the largest in Europe. The country also has a real opportunity to enter the global market with pure and ultra-pure metals and other natural resources such as hafnium, cobalt, gold, zirconium, as well as gas and crude oil… Ukraine just needs to harness its mineral resources to thrive. For this to happen, new technologies and large investments are needed,” says Tsivkach.

With China accounting for 80% of rare earth imports into the US, Ukraine could benefit from Washington’s growing nervousness about supplies, mining experts say. Rare earths are essential for production of goods ranging from smart phones to fighter jets, Bloomberg argued in a recent editorial.

Some deals have already been done. With a population of around 35mn people (there is a dispute over the exact size of the population due to labour migration and the fact a full census has not been carried out for years), Ukraine is third largest retail market in Eastern Europe. German cash-and-carry firm Metro has already moved in and Swedish furniture store IKEA just opened its first branch in Kyiv.

Maybe more significant is that last year Ukraine signed off on the largest concession deal in its history: Qatar-based terminal operating company QTerminals won a UAH3.4bn ($138mn) concession to operate the Port of Olvia, as part of the state’s goal to develop its transport infrastructure. Tsivkach says there are another 16 similar concession projects in the pipeline that should generate around $2.4bn of deals in the coming years.

But the privatisation process is going slowly. A modest total of UAH13bn ($111mn) worth of state property was sold in 2020 but the plan for 2021 is to quadruple that to UAH12bn.

The main fly in the ointment to selling off the biggest and most valuable assets is the oligarchs that have stuffed many of these assets with poison pills such as large debts or threats of legal action if anyone else takes control of the asset.

Encouragingly, the head of Ukraine’s State Property Fund (SPF) Dmytro Sennychenko said out loud that the oligarch groups are actively trying to derail Ukraine’s privatisation programme by using law enforcement agencies to illegally raid objects slated for sale in comments in January, in a rare public admission of the main obstacle to privatisation.

“Large-scale privatisation is on the way and is very important for Ukraine, as many large SOEs still have vested interests and privatisation is needed to clean the system and root out corruption,” says Tsivkach.

“If all these changes are made then the privatisation revenues could go up ten-fold to UAH100bn,” says Tsivkach. “President Zelenskiy takes this very seriously. This was one of his initial promises.”

Decentralisation and judicial reforms

Another unsung reform success has been the efforts to decentralise government and make local government more accountable to its community. The reforms to decentralise government are now in their final phase and it has led to local government being more responsive to the local population’s needs and wants.

“Decentralisation has introduced regional competition as the local leaders all want to attract investment,” says Tsivkach.

The improvements in local government have been welcomed by regular Ukrainians but a general overhaul of the judiciary remains on the to-do list and is another major concern for foreign investors.

“The National Security Council has signalled that it wants to change the system to provide all legal means to protect the Ukrainian people. This is the first time that the change has come from the top,” says Tsivkach. “We have never seen this before – a top-down approach to tackle corruption and vested interests. Also, going after the big fish has never been seen before. The president is willing to change the country.” Fighting corruption remains at the heart of improving Ukraine’s investment climate and it seems that the Zelenskiy administration has finally grasped the nettle after the president make an “oligarch speech” in the middle of March, calling for Ukraine’s
top business to get out of politics and concentrate on doing business.

Zelenskiy speech was unprecedented and echoes Russian President Vladimir Putin’s famous oligarch meeting shortly after he took office where he told Russia’s oligarch they can keep what they have, but to stop the stealing. In Ukraine the jury remains out as to how sincere the new efforts to curb the oligarchs’ influence is, but Zelenskiy’s call to action has already been met with another unprecedented decision by the US government to impose sanctions on oligarch Ihor Kolomoisky, who has been actively working against the government and the reform programme.

Kolomoisky is a controversial figure. A personal friend of Zelenskiy, Kolomoisky bankrolled his presidential bid and is credited with putting him into office after Kolomoisky threw his considerable media assets behind Zelenskiy’s campaign. However, more recently the president has been forced into a choice between doing a deal with the IMF and supporting his friend, and increasingly it seems Zelenskiy is coming down on the side of the Ukrainian people. Zelenskiy openly supported the US sanctions on his friend and mentor on March 13.

The Kolomoisky saga was supplemented by a radical departure from the past after three senior former managers of PrivatBank were named in a fraud investigation in February. The bank used to belong to Kolomoisky but was nationalised in 2016 after a $5.5bn hole was found in its balance sheet. As IntelliNews reported at the time, the management had been making billions of dollars in related party loans and sending the money offshore. Yet no one at the bank has been investigated or charged with looting the bank since then.

The state was forced to pump in $5bn of fresh capital – by far the biggest bank bailout in Ukraine’s history and one of the biggest bailouts in the whole Former Soviet Union (FSU) – to rescue the bank, which is now under state management and once again in profit.

After four years of total inactivity, an investigation has been launched and the former CEO Oleksandr Dubilet along with first deputy of the bank Volodymyr Yatsenko named as suspects. Yatsenko tried to flee the country just before the announcement but had his plane ordered to the ground and was then taken into custody. Dubilet is reportedly in exile in Israel.

If all this adds up to a sustained and successful attempt to curb the influence and avarice of the oligarchs then it could set the stage for Ukraine’s take-off.

It’s still too early to say if that virtuous circle will start turning, but many of the necessary pieces are falling into the place. The effort will be helped by the general economic bounce-back following the shocks of 2020 that should prime the pump. After an unexpected mild 4% economic contraction in 2020 the economy is anticipated to grow by between 4.6% and 5.1% this year, according to various predictions, which could start the virtuous investment-consumption wheel turning.

UkraineInvest is committed to making this happen. Tsivkach says the focus is to attract industrial investment, what he calls the “New Asia” in Europe where among other goals UkraineInvest is hoping to attract Asian companies selling in Europe to re-locate production to Ukraine to shorten their supply chain and increase their profits.

“Zelenskiy’s call to action has already been met with another unprecedented decision by the US government to impose sanctions on oligarch Ihor Kolomoisky”
The 1.2-hour-long video “Lukashenko Gold Mine” is an investigation into Belarus’ President Alexander Lukashenko luxury residencies and the way he has enriched his friends.

“Lukashenko Gold Mine” investigation exposing Belarus president’s riches scores 2mn views in 24 hours

bne IntelliNews

The 1.2-hour-long video “Lukashenko Gold Mine”, an investigation into Belarus President Alexander Lukashenko’s hidden wealth, released by the Nexta telegram channel on March 8, has had 101,000 simultaneous views, a record for the channel.

In an echo of the “Putin’s Palace” investigation released by jailed Russian anti-corruption activist and opposition politician Alexei Navalny in January, the investigation exposes luxurious estates at the disposal of Lukashenko, his lavish lifestyle and how he has enriched businessmen in his circle.

“Nexta has just released massive video report about Lukashenko’s riches. And the role of the corruption & oligarchs play in acquiring the riches. And how eg EU credit lines are used as profit centres. And more,” tweeted Ihar Filipau, a respected Belarus watcher.

Released during the March 8 international women’s day holiday, the video viewership instantly soared to record highs in the same way as Navalny’s Putin’s Palace garnered over 100mn views in less than week.

Only five hours after the release of “Lukashenko Gold Mine” the video already had 500,000 views, and by the time of writing on March 10 had garnered 2.7mn views.

The video was posted by Belarusian journalists based in Poland on the Nexta Telegram channel that has been the main source of information for protesters since the disputed August 9 presidential elections last year.

The journalists accuse Lukashenko of financing several luxury real estate items and expensive cars with public money, based on an anonymous source in the presidential administration.

Lukashenko has not commented on the video, but just last week indirectly rejected claims that he owns a secret luxury estate.

It is fairly common for well-established leaders in the former Soviet Union to build themselves luxury hideaways. Only last month an RFE/RL investigation said Uzbek state companies had built a secret luxury mountain resort for use by President Shavkat Mirziyoyev that cost tens of millions of dollars.

And famously ousted Ukrainian President Viktor Yanukovych built the sumptuous Mezhyhirya Residence for himself just outside Kyiv, which included a private zoo complete with ostriches.

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For two decades it used to be said that there were two Russias: Moscow and everywhere else. The difference between the quality of life in Russia's capital and in the other 84 far flung regions was enormous.

In 2020, the quality of life in most Russian regions remained practically unchanged, according to a quality of life survey carried out by the state news agency Ria Novosti.

The rating found that the best places to live, as in the previous year, remain Moscow, St. Petersburg and the Moscow region, which comes as no surprise, and they have scores of over 80,000 out of a possible total index score of 85,000.

In the second tier, with scores of over 60,000, are many familiar names, led by Kazan in the Republic of Tatarstan, Belgorod near the Ukrainian border, Krasnodar in the balmy southern part of the country, Leningrad that surrounds St Petersburg, the agricultural powerhouse of Voronezh in the black earth regions and the oil-rich West Siberian Khanty-Mansi Autonomous Okrug as the only comfortable region that is not in the European part of Russia.

Right at the very bottom of the list are the regions in very depths of Russia grouped around Lake Baikal, although Irkutsk, the capital of the Siberian region, is a lot better off, ranked at 55 in the list with a score of 41,786.

The other regions in this neck of the woods are far poorer. All of Tuva, Altai Republic, Transbaikal and the Republic of Buryatia near the Mongolian border have scores of under 30,000 and are the poorest in the Federation. The Jewish Autonomous Region in Russia’s Far Eastern interior also stands out as especially poor with a score 28,118 and used to be a favourite end station for internal exiles.

The next group up from the bottom of the ranking contains several regions from the Caucasus, with Karachay-Cherkess Republic as the very poorest with a score of 27,693, according to Ria Novosti. But the group of regions with a score between 30,000 and 40,000 is also scattered over the hinterland east of the Ural mountains. Chechnya is also in this group but does better than many of its neighbours, ranked at 74 with a score of 36,754.

Internal migration
The old duality of “good in Moscow, bad elsewhere” doesn’t work as well as it used to. After three decades many of the regions have been investing into local infrastructure and services and the standard of living has improved dramatically.

Other regions offer a much easier life due to their climate. On a trip to Norilsk on the coast in Russia’s Far North, local pensioners told bne IntelliNews their dream was to buy a small dacha in Bryansk on the Ukrainian border, as the weather was pleasant and they could live almost all year round from produce from the garden.

Incomes in the capital remain as much as six times higher than in the Caucasus and are on a par with most western
European cities, but the cost of living is also extremely high. In somewhere like Brayansk the cost of living is so low residents have comfortable lives with much less evening out the pay difference gradient.

But income inequality remains a major problem, as does the differential in wages between the cities in the European part of the country (to the west of the Ural mountains) and the rest of the country. However, things are starting to change.

As bne IntelliNews reported two years ago, the average wages in most of Russia’s regions remain well behind the national average, but the wage distribution is distorted by the high wages in resource production monocities in the deep interior of the country. In a 2018 regional wage survey for three regions – Chukotka, Yamalo-Nenets and Nenets – all had higher average wages than Moscow. The latter two regions are both huge but remote gas producing regions and the reason why Chukotka’s average wage was so high was because oligarch Roman Abramovich was a registered resident and paid his income tax there.

These cities are mostly raw material producers with no connection to the road or rail networks and so have to have everything flown in. The wages are high, but so is the cost of living.

Net-net the quality of life in some of the regional cities has risen to the point where they are starting to compete with Moscow and seeing reverse migration.

The cities of Sochi and Krasnodar, to name two prominent examples, have seen their populations explode dramatically in recent years and are experiencing reverse migration – particularly by families with small children. The basic services of school, hospitals and affordable housing mean life is more pleasant than in the megalopolis of Moscow, and with firms increasingly moving production into regional cities where the costs are lower, there is plenty of work. For example, Kazan has become the call-centre hub for the whole of the Federation. Likewise, the rapid growth of e-commerce has been driving a groundswell of light industrial manufacturers catering to the domestic consumer market after rising incomes in China have started to price its consumer goods out of the mark in comparison to cheaper Russian alternatives.

About a third of Russia’s regions are now prospering, and have been helped by the government’s policy of heavy investment into regional infrastructure development.

The Sochi Olympics were widely derided as the “most expensive Olympics in history” after the government poured some $50bn into the preparations for the games – about ten-times more than is usually invested by the host country. But what critics missed is that the bill was not so high because of all the stealing (although there was plenty of that) but because the city’s entire infrastructure was overhauled: new airports, conference centres, modern housing, power and sewage – everything was upgraded. And the population of Sochi has more than doubled since.
The decision to host the World Cup was more of the same, except another 11 key region cities got the same treatment and they all feature well in the Ria Novosti ranking.

In parallel to the state investment is the growing inter-regional competition for domestic investment. A few regions, like Kaluga, spent very heavily on setting up industrial parks and as result attracted big investments from domestic investors. Kaluga became the “Detroit of Russia”, attracting most of the main car manufacturers from a standing start with its fully developed “plug and play” $1bn industrial park.

Elections and the fall in popularity of the ruling United Russia Party have helped too. The Kremlin has increasingly been forced to turn to the regional governors to help bring in the vote as the centre is powerless to sway the vote in the regions by itself. That has meant giving regional governors the money to make investments into local infrastructure and services, which has seen their popularity soar: last year Russia’s regional governors briefly saw their popularity overtake that of Russian President Vladimir Putin, who has enjoyed a 65% approval rating for pretty much all of his career as president.

The bottom line is life is still hard in Russia’s frozen interior. The World Bank has recommended several times that these cities and towns be simply closed down and the people relocated to the nicer parts of Russia, as many of these settlements no longer make economic sense. What stops it happening is the value of an apartment in Norilsk is so low the locals cannot raise enough money to buy a dacha in Bryansk. The local pensioners are trapped by the property price differential. Younger people don’t have this problem and so the interior is depopulating slowly, but it will take several generations for the rebalancing process to be complete.

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**Ukrainian oligarch Rinat Akhmetov richest man in Ukraine as fortune swells almost $4bn in a year**

**bne IntelliNews**

Ukrainian oligarch Rinat Akhmetov topped the Forbes richest list for Ukraine, being named its richest man after his fortune swelled by almost $4bn since June 2020, from $2.8bn to $7.6bn, the magazine reported, as cited by Interfax Ukraine on March 15.

Akhmetov is ranked 330th in the list of the richest people in the world. His main assets are Metinvest ($3.3bn) and DTEK Group ($2.1bn).

Metinvest is one of Ukraine’s biggest metal producers and has benefited from a surge in steel prices in the last year, which are now at nine-year highs.

DTEK is one of Ukraine’s biggest power companies and have been a big investor into renewable energy, which has been very profitable after the previous government offered extremely attractive green tariffs to power companies to attract investment into the sector.

The second-richest Ukrainian is Victor Pinchuk, who owns the Interpipe company that makes pipes for the oil and gas business. Since June 2020, Pinchuk’s fortune has grown from $1.4bn to $2.5bn, of which $800mn is real estate, $700mn is cash, and the remaining $500mn is Interpipe.

Kostiantyn Zhevaho is listed third in the ranking. His fortune increased from $1.1bn to $2.1bn. His largest asset is Ferrexpo ($1.4bn).

The list includes oligarch Ihor Kolomoisky with $1.8bn and his partner Hennadiy Boholiubov with $1.7bn, former president Petro Poroshenko with $1.6bn and Vadim Novinsky with $1.4bn.

As bne IntelliNews reported in "The Oligarch Problem", the wealthy elite in Ukraine are one of the main hindrances to the country’s progress. In addition to controlling several of the biggest companies in the country, Akhmetov is also believed to control over 100 deputies in the 450 strong Rada.
Gold is the traditional store of wealth in times of crisis, so not surprisingly prices soared an average of 25% during the annus horribilis of 2020, topping $2,000 per troy ounce briefly in August last year.

But after the slew of coronavaccines started getting certified last autumn, economies and commodity markets began to recover in November and the counter-cyclical gold prices began to slide. By January they had dropped below the $1,800 mark and are expected to stay there for much of this year, although things remain sufficiently uncertain that some predict another gold price rally in 2021.

Goldman Sachs in November had a target of $2,300, as recovery from the coronavirus-related recession fuelled higher inflation and demand, pent up for a year, was finally released. India and China in particular went back to buying.

Capital Economics takes a more cautious view of the pace of recovery. The upside to the gold price in 2021 will be limited to around $1,900 in 2021, or $92 above the average price for the first nine weeks of this year.

The Russian central bank goldbug
There have been some big changes in the global gold market in the last year. Russia has been actively building up gold as a share of its gross international reserves (GIR) since 2007, as part of a long-term policy to accumulate more non-US dollar reserve assets, and holds 2,298 tonnes of the yellow metal according to its last report at the end of the fourth quarter of last year. Russia’s gold reserves were worth $130.3bn as of March 1. (The central bank delays the release of some of its reserve information, like bullion tonnage, so as not to affect the market.)

The CBR was one of the biggest winners in the 2020 gold price rally because of this pile of gold: Russia’s gross international reserves (GIR) rose from $570bn in February 2020 to $586bn a year later in the same month, after the value of its monetary gold gained over $25bn in value by the end of August 2020 to $144.6bn before falling back again in the first months of this year.

“The price could rise as high as $2,000 and then stay there a long time.”

Part of what could drive gold prices higher is the US debt that currently requires more than $300bn a year to service, but annual gold production is only worth $200bn a year. That will keep the pressure on gold’s price, denominated in US dollars, upward in the long term, argues Schetinsky.

However, the company doesn’t base its investment decisions on these predictions. It has a working assumption of $1,500 per oz to assess the viability of a deposit with IRR more than 15%. “We remain very conservative when considering a new project,” Schetinsky adds.

Profits soar
Obviously 2020 was a good year for all gold producers, but it was an especially
good year for GV Gold, which has been enjoying faster than average growth for several years now. Profits were up 90% in 2020 and Ebitda more than doubled compared to 2019.

“It was a combination of factors. Production rose by 4.8% in 2020, the costs (AISC) fell by 12% year on year due to operating efficiency” says Schetinsky. The company reported an impressive set of results for 2020 as reported by BCS Global Markets.

• Total gold sales stood at 276 koz, up 14% y/y.

• Revenue reached $471mn (+41% y/y).

• Total cash costs decreased by 4% y/y to $694/oz, driven mainly by the 14% y/y increase in total gold sales, the completion of the Taryn Mine open-cast reconstruction project and the depreciation of the Russian ruble.

• Adjusted Ebitda doubled, achieving the record-breaking $248mn on the back of larger tonnages of gold produced and higher gold prices, as well as the effect of the operating efficiency improvement programme.

• Adjusted Ebitda margin reached one of the highest levels in the company’s history, 53%, having risen by 17 pp y/y.

• Net profit grew by 90% y/y and totalled $137mn.

• Capital expenditures increased to $109mn (+9% y/y) due to investments in open-cast development at the Golets Vysochaishy and Ugakhan Mines.

• Net debt decreased by 6% y/y and totalled $191mn as of 31 December, 2020. The net debt/adjusted Ebitda ratio declined significantly from 1.69x to 0.77x.

The company has followed a strategy of increasing its production steadily and plans a rise from the 272,200 oz in 2020 to more than 400,000 oz by 2025 via organic growth from the existing assets.

“If that is a compound average growth rate (CAGR) of 8.5% over the last five years – much higher than our peers and a rate of growth we intend to maintain for the next five years,” says Schetinsky. “There would be a steady increase in growth every year as we invest mostly into brownfield projects.”

And GV Gold has at least two new projects due to be developed – Svetlovsky and Krasny – that should boost production further.

Part of the reason for this faster growth is GV Gold has focused on developing smaller deposits than its rivals, starting with around 1mn oz of recoverable gold, versus the 3mn oz that Polysus Gold and Polymetal – the two other big gold companies in Russia – look for. These are big deposits by Russian standards.

Polysus scored a big victory in improving its asset base when it won the licences to exploit the Sukhoi Log, one of Russia’s biggest gold deposits that has been lying in limbo for decades, in early 2017.

Another really big gold deposit may come under the gavel soon: the Kuchus gold deposit is due to be auctioned off by the Federal Agency on Subsoil Use (Rosnedra). However, Schetinsky says the government has not even started the bidding process yet, nor announced a date for the auction, but GV Gold would be interested in taking part once the deposit is put on offer.

The price might be an issue, as GV Gold’s historical cost of reserves replacement is around $21.3/oz, which is about $10 less than that of its closest peers among Russian gold miners, and one of the advantages of going after the mid-size deposits is there is less competition.

Funding for development so far has been largely drawn from the retained earnings. Indeed, in 2020 the net debt to Ebitda ratio fell significantly from 1.6x to only 0.8x – a very low number.

All in all, the company has invested around $550mn over the last five years into developing its assets. And the capex requirements for further developments are modest. The two new deposits at Svetlovsky and Krasny will each cost similar amounts to Ugakhan Mine (circa $165mn), being split over several years.

Earning strong profits, GV Gold has been able to return significant profits to its shareholders and paid out over $250mn as dividends over the last five years.

The anticipated rising profits have bought space to improve the dividend payments of the company further; a new policy to raise dividends to 40% of Ebitda was recently introduced – one of the most generous rates in the industry.

“We expect to pay around $100mn in dividends for 2020 to our shareholders and we have already paid out $63mn on the first nine months,” says Schetinsky.

And soon international investors may be able to avail themselves to the company’s largesse. GV Gold remains a privately owned company, but as bne IntelliNews reported, there was talk of an IPO in 2018 and those plans may be back on.

“An IPO is one option we are looking at and the market conditions are good; the demand is there,” says Schetinsky.

Despite being privately owned the company has already made most of the reforms needed to clear the way for a floatation in terms of corporate governance and business processes. If the management decide to pull the trigger the IPO could happen very quickly.
Mongolia is a country of long, rolling steppes, with a population density of only two people per square kilometre, well-suited to the traditional occupation of herding animals. Even today, while the capital, Ulaanbaatar, is a large, reasonably modern city, 40% of the country’s population still live as nomadic herders, raising six animals which all give both milk and meat: cows, sheep, goats, yaks, horses and camels.

“I came to a conclusion that was pretty obvious. There are about a billion litres of milk laying around the [Mongolian] countryside, for which there is no market,” explained Michael Morrow, the American-born Cheeseman of Mongolia. Cheese making would create an income stream for herding families. It would also diversify and increase Mongolia’s exports, while helping the country to move up the value chain.

Michael has lived four lifetimes, first as a war correspondent in the Vietnam War, then as a businessman in Hong Kong and subsequently in China, and now as Mongolia’s Cheeseman. Starting with his work as a correspondent in the Vietnam War in 1966, Michael says he...
has spent his entire adult life in Asia. Eventually, he found himself based out of Hong Kong, running a technology company. When he decided to leave the company, around 2012, they asked him if he would be willing to take over the only non-performing investment he had made as director, the company’s subsidiary in Ulaanbaatar. Michael had been to Ulaanbaatar several times, over the years, and by 2014, he found himself running his own small company there.

Michael made a friend in Mongolia, named Tumurkhuyag, who was on the brink of bankruptcy. He had borrowed $15,000 from a bank, in the 1990s, to start a small cheese company, and suddenly discovered he owed $60,000. Tumurkhuyag had originally taken the loan from a bank which collapsed; now, nearly two decades later, the state bank had contacted him to say that they had bought up the assets of the defunct bank, and that Tumurkhuyag’s debt was now owed to them, including about 20 years of interest payments.

Michael was so outraged that an honest person could be caught in such an odd mess of bureaucracy, that he became involved. He negotiated with the bank, saying that if they would forgo the interest payments, he would repay the $15,000 principal. In the end, Michael found himself a partner in a very small company. When he sampled the cheese, Michael was impressed with how good it was, giving him hope that maybe the company could be expanded into something more profitable. “He made a good quality cheese and showed me that you could do that without a big factory,” said Michael.

Cheese making as compensation
How Tumurkhuyag learned cheese making and how the art came to Mongolia in the first place relates to the Przewalski’s horse which dates back to Genghis Khan. The Mongolians call the horse takhi, a name of reverence, meaning “spirit.” As the only breed of horse that has never been broken, Smithsonian magazine calls the Przewalski’s horse the last truly wild horse left on Earth.

The Przewalski’s horses nearly died out. European zoologists tried to conserve the animals, breeding them on preserves in various countries. At one point, there were as few as 12 breeding stock left. By the 1990s, however, the breed had made a comeback, reaching close to 1,000 animals, protected in multiple countries, on more than one continent. At that point, the decision was taken to reintroduce the horses into the wild. Mongolia had just transitioned from being a Soviet satellite to a democracy, keen on cooperating with the West. In 1993, the Mongolian government created Hustai National Park, about 80 km from Ulaanbaatar, as a Specially Protected Area for the reintroduction project of the Przewalski’s horse. The Dutch government was instrumental in helping to support the establishment of the park and over time has underwritten a number of its ecological initiatives.

Tumurkhuyag had been a hunter in the area as a young man, before becoming trained as an accountant. He knew the wildlife in the area and was given a job with the park, helping to establish its boundaries. In addition to the

“He made a good quality cheese and showed me that you could do that without a big factory”
heating grid, Michael devised a coal-powered heating system for the cheese. Later, he learned that there also had to be humidity control, or the cheese would become dry.

While being so far from the city was detrimental to distribution, it did mean that the company was close to the source of milk. So, there were some advantages which convinced Michael that the plan was feasible.

Michael was confident that Mongolia could make good cheese. It is one of the last places on earth where all of the animals are free range, grazing on natural grass and herbs. Additionally, “although they don’t give a lot of milk there are a lot of them”, he pointed out. As he was trying to work more closely with the herders, Michael began to understand their culture and the challenges they face. This led him to conclude that there was a significant social component to the project.

Mongolians, particularly mothers, are very concerned about the education of their children. Out on the steppes, there are no schools, so at the end of summer, each year, the family will pack up their children and send them to live with relatives in villages or towns, so that they can attend school. The herder economic cycle is such that they have very little cash for most of the year. They receive no salary and only earn money about twice a year. In the spring, they get money for the sale of cashmere, and in the autumn, they get money for the sale of animals for slaughter. School fees, however, must be paid in August, a time when many families have no money. Cheesemaking, Michael discovered, would create summer income for these families.

Participating in a cheesemaking project would mean doing a bit more work, milking the animals. Coincidentally, milking is generally done by women, and it is the women who are most concerned about raising school fees for their children. This meant that cheesemaking could fit well into the existing culture of the nomads. The mothers generally wake up early, milk the animals and have the work done by the time the family wakes up for breakfast. The cheese business, as Michael envisioned it, would create an income of about $1,000 per summer for a herding family. In a country where the average income is only $4,000 per year, this is a significant sum of money, and many times what is needed to pay for children’s education.

Michael explained how the arrangements had been working so far, saying, “The women want to be paid by August 15, so they have money to send the kids back to school.” The cheese work continues into the autumn. “They will calculate through the end of the season, but want to be paid in advance by August 15,” adds Michael. Credit is a tremendous problem in Mongolia. By some estimates, as much as 80% of the population is in debt. Paying the herders in August, meant that they would not have to borrow money to send the children to school. Breaking the cycle of debt may be one of the most significant socio-economic outcomes of this arrangement.

Additionally, there is an environmental component to the cheese business. Currently, cashmere is valued much more highly than meat or milk. However, the increasing number of goats, necessary for cashmere, has been largely to blame for the degradation of 70% of the Mongolian grasslands. If a herder wishes to earn more money, the two options are to raise goats for cashmere, or raise more of the other animals for meat. Cheese gives them a third option, one which increases their income, without increasing the number of animals.

Placing cheese plants in these remote areas would increase local income, ensure that children are able to attend school, preserve the grasslands and also create a few jobs in the plants themselves.

The model cheese plant
“I did some analysis and decided his [Tumurkhuyag’s] business was not efficient but the problems were fixable,” said Michael. In 2015, Michael began studying cheese production, eventually designing the small cheese plants he would go on to build. “Everyone thought I was nuts, including my wife. By then, I had discovered there were a few other small cheese makers in Mongolia. So, I went out and met them and thought I could organise them into a network to solve the distribution problems, but I got nowhere, because Mongolians are very distrustful even of each other,” he added.

By nature, herders are fiercely independent, which complicates attempts to organize them. Michael thus went on to set up the Mongolian Artisan Cheese Makers Union (MACU), the original purpose of which was to do sales and distribution for remote cheesemakers. The cheesemakers, however, refused to give Michael cheese on credit. They were too small to let him take the goods on consignment, and needed cash up front. This meant that Michael had to come up with large amounts of cash and had to incur all of the risks himself. Next, he found that when he bought cheese from the cheesemakers and placed it in grocery stores, the makers would then go to the grocery stores directly and undercut him.

This led Michael to develop a financing model which he began first with Tumurkhuyag and later used with
others. Under this system, he would place orders at the beginning of summer and pay in installments, with part at the end of summer and a final payment at the end of the year, although the actual work would extend into the autumn.

He realised that there was a need to make multiple cheeses and that he needed a model cheese plant to show to investors and prospective cheesemakers. So, by 2018, he had built an analogue, just outside of Ulaanbaatar. Given the close proximity to the city, the price of milk near the model plant is too high to do actual cheese production, but it can serve as a training school for new cheesemakers.

Michael’s next step was to send his wife to France to study cheesemaking. Once she returned, she began teaching the required skills at the model cheese plant. The plant is an exercise in simplicity. It occupies only one hectare of land, with the building itself, measuring 10 metres by 10 metres. There are two gers (yurts) for workers to live in, out back. The plant has its own transformer for electricity and gets its water from a well. The building is designed so that the workers are in the centre, while deliveries and shipping occur at various doors, around the outside. This saves space and means that the workers and the cheese move around very little. Michael’s vision is for this model to be replicated in communities across the country. There are six projects already in progress, with one scheduled for 2021, in Dornogovi Province in the Gob Dessert.

The plant currently makes 20 kinds of cheese. Each kilo of cheese requires ten kilos of milk. The curds can be dried and sold and the whey can be made into candy or drinks which have a higher value than milk. Moving forward, the hope is to add whey processing to the cheese plant. Due to the Covid lockdowns, with schools and hotels closed, herders lost their milk income, so the government has offered to buy each kilo of milk for 5,000 Mongolian tugrik ($1.75) over the market price. This would increase the price of a single kilo of cheese by 50,000 tugrik, a price the market cannot bear. Consequently, there is a shortage of cheese and the only cheeses available are the hard cheeses which were made and stored last year.

**Export market**

The Ulaanbaatar cheese market, explained Michael, is price sensitive, unsophisticated, and small. And so, export markets had to be found. It is, however, not easy to export cheese from Mongolia. Food is subject to strict regulations in both the export country and the import country. And each import country has its own, unique regulations. Being approved for one country does not guarantee being approved for another. Not only is cheese food, it is also classified as an animal product and a dairy product, making the restrictions even more stringent.

Clearing the export hurdles would be a boon for Mongolia’s cheese industry. Michael estimates that 100 cheese plants could produce 2,000 tonnes per year. “China alone consumes 200,000 tonnes, Korea 200, Japan 300 and Russia 500,000 tonnes. Not all of that is high end cheese. At the high end of these markets is say 50,000 tonnes. As a conservative number, it is not impossible to sell 2,000 tonnes of Mongolian cheese into such a large market when we can compete on quality and price.”

**Artisanal cheese from the steppes**

“This is the only place in the world where you can make cheese from animals grazing on wild grass. The great Mongolian commons is the only [such] place in the world left,” said Michael. “We are an exotic supplier. And, we not only have cows we have goats and sheep and horses and yaks and camels.”

Currently, yak cheese is being used to make yak cheddar in Ovorhangai Province. They have had goat cheese in the past and plan to make more in the future. Of all of the milk-giving animals in Mongolia, the horse is the only one whose milk cannot be used to make cheese, because the lactose level is too high. It can be used, however, to make the Mongolian traditional drink of fermented horse milk, called Airag (kumis).

Michael’s vision is for Mongolia to become a niche producer of exotic, high-end cheese which differentiates itself in quality and uniqueness. Mongolia hoofbeats will, once again, find their way to Japan, Russia, Korea, and the world.

The author, Dr. Antonio Graceffo PhD China-MBA, worked as an economics researcher and university professor in China, but is now living in Ulaanbaatar, writing about the Mongolian and Chinese economies. He holds a PhD from Shanghai University of Sport Wushu Department where he wrote his dissertation “A Cross Cultural Comparison of Chinese and Western Wrestling” in Chinese. He is the author of 11 books, including A Deeper Look at the Chinese Economy, The Wrestler’s Dissertation, and Warrior Odyssey. He completed post-doctoral studies in economics at Shanghai University, specializing in US-China Trade, China’s Belt and Road Initiative, and Trump-China economics. His China economic reports are featured regularly in The Foreign Policy Journal and published in Chinese at The Shanghai Institute of American Studies, a Chinese government think tank.

All photographs except where stated courtesy of the author.
Uzbekistan’s privatisation programme has begun and the government is in a rush to start selling off its holdings.

COMMENT:

Uzbek privatisation – this time it seems to be for real

Fiezullah Saidov director of Uzbekistan Equities in Tashkent

Privatisation efforts in Uzbekistan are moving to a practical level. The newly appointed State Asset Management Agency (SAMA) head has started to implement the Presidential decree #6096 that covers privatisation with a new zeal. SAMA has announced tenders to select sell-side advisors and valuation services for real estate assets and select state-owned enterprises (SOEs).

The decree has several appendices that list the SOEs to be transformed (including the likes of the national oil and gas corporation Uzbekneftegaz, the largest gold and uranium producer Navoi Mining Kombinat, Uzbekistan Airways, Uzbekistan Airports, gas pipeline operator Uztransgaz, and others). The management of this process has been moved to the Ministry of Finance from SAMA.

A second appendix includes likes of Almalyk Mining, the second-largest gold and copper producer Uzmetkombinat, and similarly large and important companies. And the third is list of smaller companies to be privatised right away, with a fourth appendix including major real estate assets.

For the companies to be privatised, a special company, UzAssets, was created, certain assets were moved under its aegis and the young and capable management of this entity is spearheading initial, large-scale, privatisation of assets as part of the Uzbekistan 2.0 rejuvenation programme.

They want to do things right from the beginning, seeking sell-side advisors among international professional firms, working with international lawyers and audit firms. The first asset to be sold under the new framework is Coca Cola Uzbekistan, which is being conducted with the help of Rothchild & Co. and international legal practices and a Big Four consulting firm. This process has already attracted quite bit of an attention and has already attracted several bids.

Real Estate Assets

Included in the real estate assets is the infamous ex-KGB building in the heart of Tashkent, as well as several other assets located in prime locations of the city centre, such as the building formerly occupied by the Stock Exchange, a publishing house, the location of the largest electronics market, one of the operating business centres within spitting distance from the main Independence Square and the Turkistan hotel, which belongs to the President’s office in the centre.

Besides these central locations, the tender is out to value some resorts located near the mountains such as Sijjak and Pyramids. The government seems to want to start by selling off these prime real estate assets that are ready to be developed into landmark assets. Hyatt Hotel in the city centre was also included in the initial list; however, it does not seem to be for sale just yet.

Companies

Among the companies that are in the first block are: nine alcohol producers, the largest glass manufacturer in the region, the largest oil refinery, oil and gas service companies, a large plastic products producer, and more. SAMA would like these assets to be valued in accordance with international valuation methods, run a competitive bidding process and sell them fully, and see them grow under a private ownership.

Banks

Banking reforms started slightly earlier than the transformation of companies with the acceptance of Roadmap on Banking Reform, with the IFC and EBRD leading with the transformation of several large banks of the country through their having invested or being in the process of investing in them.

Six banks are being prepared for privatisation this year, and in his address to Parliament, Uzbek President Shavkat Mirziyoyev stated that a European bank is considering acquiring one of the large banks in Uzbekistan. If this transaction closes successfully, it is going to be a major catalyst in upgrading of credit ratings of banks as well as proving the seriousness of government intentions. That will attract more investor interest into the country.

The banks that will be prepared for privatisation are: Asakabank, Aloqa Bank, QQB, SQB, Ipoteka Bank and Turonbank. These banks trade on the Tashkent Stock Exchange now, although there are certain restrictions on the investor base.
Energy
Mirziyoyev decided that the key to promoting foreign direct investment (FDI) and employment in the regions is to have a stable and reliable power supply, hence the first area of economy that saw massive FDI is the power generation.

Uzbekistan has chosen a slightly different approach to attracting FDI into the power generation sector by choosing to sign PPP contracts with major international players. Focusing solely on the electricity purchase price has helped to lessen the burden of choosing equipment suppliers, production process and financing of projects.

The IFC’s Scaling Solar II programme has been expanded into Uzbekistan, which helped to attract investors such as ACWA Power from Saudi Arabia, MASDAR from UAE and France’s Total Eren, which are key players, into solar, wind and possibly hydro projects. Uzbekistan has announced that there will be 11 projects in hydropower in 2021. Some of these players, such as ACWA Power, are also active in producing electricity from natural gas in Uzbekistan, having signed for a 1,500-MW gas-powered plant in Syrdarya region in January 2021.

Need for a Streamlined Process
Due to the speed and pace of the reforms, it seems like institutional capacity is having a hard time catching up. Even when presidential decrees and a decree of the Cabinet of Ministers have been issued authorising such privatisations, due to the sheer number of decrees issued (4,000 over the last two years), the execution of some of them is bound to fall behind.

This was noted in the presidential speech, and perhaps a more structured approach and the establishment of processes and systems will allow supporting the President’s intentions and beginnings at much wider level, than focusing on a single decree.

Fiezullah Saidov is the director of the Uzbekistan Equity Fund based in Tashkent and also a consultant to the International Financial Corporation (IFC).

Did sanctions evading Iran put together fake Armenian airline to buy planes?

Iulian Ernst in Bucharest

The story of a 22-year-old Boeing 737 making an emergency landing in Iran has caused a ruckus in the airline community following its sale to Iranian carrier Caspian Airlines at the end of February.

As initially reported by bne IntelliNews, on February 21, a Boeing 737-300 registered to Fly Armenia Airways, only founded in October 2019 and possessing only that one aircraft and never having operated a commercial flight in history, has raised plenty of eyebrows.

The aircraft was meant to fly from Tallinn to Yerevan, but was given a new flight plan to fly onwards towards Dubai in the United Arab Emirates, but it then disappeared over the skies of Iran, a country that struggles to acquire passenger jets because of the grip of US sanctions on its economy.

The aircraft was at first thought to have been hijacked, causing panic in Armenia and the UAE, but it was later found to have made a rather convenient emergency landing in Tehran, media reports suggested.

Newspapers in Armenia on February 24 reported confusion as to how an Armenian-registered Boeing 737 aircraft that took off in Estonia for a flight to Yerevan came to be diverted to land in Iran.

The One Mile At A Time aviation website, citing the events as “the most interesting airline story of 2021”, carried a nonsensical message from Armenia Airways posted on Facebook, reading: "Dear colleagues, We inform you that today’s press conference will not be held. The reason for the delay of the press conference is not to arrive from the Islamic Republic of Iran. We apologize."

"It is surprising"
Analyst and expert on US foreign policy Suren Sargsyan warned that the incident, involving an aircraft with no passengers as it was on a technical flight, could invoke US sanctions, writing in a Facebook post: "[The aircraft] was given or sold to Iran in unknown circumstances, and it is surprising how the aviation authorities have allowed that to happen, given the international sanctions against Iran. The aircraft was supposed to arrive in Armenia days ago but landed in Tehran instead.

"I’d just like to remind you that any entity (state) that sells products prohibited by US law to Iran may be subject to American sanctions.”

Hakob Tshagharyan, a former aide to Prime Minister Nikol Pashinian, was quoted by local press as saying that the plane flying from the Estonian capital was "hijacked" half-way into its flight and taken to Iran.

"On February 21, the Civil Aviation Committee of Armenia received a cable from the UAE General Civil Aviation Authority about an aircraft hijacking involving a Boeing 737 registered in Armenia," Tshagharyan wrote on Facebook.
Zelenskiy government launches a major de-oligarchisation drive, but is it for real?

Ben Aris in Berlin

President Volodymyr Zelenskiy's spokesperson Iuliia Mendel posted a blog on the Atlantic Council's website claiming that Ukraine has launched a major de-oligarchisation campaign. But is the campaign for real, as there are conflicting signals coming out of Kyiv, and Zelenskiy's relations with the oligarchs remain far from clear?

“The rise of Ukraine's oligarch class dates back to the early 1990s, when a select few were able to acquire enormous wealth during the privatisations that followed the collapse of the USSR. This small group of billionaires then used their personal fortunes to build media empires and establish networks of influence extending deep into Ukraine's political structures, judiciary and state organs. They have remained in this dominant position ever since,” Mendel said.

“Ukraine's oligarchic system has proved highly resilient, outliving numerous governments and coming through the turbulence of two separate post-Soviet revolutions more or less intact. Each successive drive to change the system has resulted in innovative new ways to maintain the unfair advantages and artificial monopolies that form the foundation stones of the oligarchic economic system. The overwhelming might of the oligarchs has kept Ukraine trapped in an obsolete and dysfunctional past while preventing the country from reaching its true potential,” Mendel concluded.

As bne IntelliNews highlighted in a recent op-ed, “The Oligarch Problem” is probably the major issue facing not only Ukraine, but all of the countries of the Former Soviet Union (FSU). Only this weekend it was reported that Georgian oligarch Bidzina Ivanishvili’s son had “ordered” security forces to question people that had criticised him on social media, leading commentators to say the Georgian government has been completely captured by the Ivanishvili family. Russia has its own oligarch problem, but there, Russian President Vladimir Putin has pushed out the oligarchs that lorded it under former President Boris Yeltsin and replaced them with stoligarchs – state-sponsored oligarchs that are personally close to Putin.
In Ukraine one oligarch in particular has caused the most problems: Ihor Kolomoisky, who is credited with putting Zelenskiy into office in April 2019 by using his media empire to back him. However, the relationship between the oligarch and the comedian-turned-politician remains unclear. The two men knew each other well before the presidential elections and have done business together. Zelenskiy continues to earn royalties from the broadcasting of his comedy shows on Kolomoisky TV channels and also from rights sold to Russian TV stations.

Zelenskiy has also held controversial meetings with Kolomoisky where they discussed the development of Ukraine’s business, although few details were released. However, most controversially of all, Kolomoisky is accused of looting $5.5bn from his bank PrivatBank, which was nationalised in 2016 when former President Petro Poroshenko was in charge. Kolomoisky remained in exile in Israel for all of Poroshenko’s term in office, but returned as soon as Zelenskiy was elected. No charges have been brought against Kolomoisky, nor has any investigation been launched despite very strong evidence showing that the managers of PrivatBank emptied the deposits accounts of cash, as bne IntelliNews reported in a cover story in November 2016 “Privat investigations” that triggered the NBU’s investigation into PrivatBank’s books.

That seems to have changed now.

Zelenskiy’s flip-flops

“Ukrainian officials announced in late February that three former top managers at the country’s biggest bank, Privatbank, are now suspects in a $5.5bn fraud case at the heart of Ukraine’s oligarch politics. One of these suspects was detained while attempting to leave the country. The news generated considerable international attention and was widely seen as an indication that the high-profile investigation may finally be gaining momentum,” Mendel said. “The Privatbank case has long served as a symbol of oligarch impunity. Progress towards justice would be seen as a major breakthrough for Ukraine.”

She is not wrong about that. The PrivatBank case being brought against its former managers is a litmus test, but it raises the question: why now?

Kolomoisky has been operating with impunity inside Ukraine and clearly increasingly interfering in domestic politics, specifically trying to counter International Monetary Fund (IMF) efforts to prevent him from recapturing his bank and to set up effective anti-corruption mechanisms that Kolomoisky, and the other oligarchs, use to run their rent-seeking business empires.

The political novice Zelenskiy appears to swinging in the wind depending on who is offering to back him. He has put through many contradictory policy decisions that have both supported the oligarch and have acted against him.

Last summer Zelenskiy personally sacked the well-respected central bank governor, Yakiv Smolii, on June 2, who complained of “systemic political pressure” as the reason for his departure. Kolomoisky had been attacking the central bank as part of his efforts to regain control over PrivatBank and National Bank of Ukraine (NBU) staff were threatened and their houses and cars burnt in arson attacks. The NBU branded attacks on its staff and former NBU governor Valeriy Gontareva as a “terror” campaign, naming Kolomoisky as responsible.

More recently, the Rada adopted a draft law that allows the government to sack the head of the National Anti-Corruption Bureau of Ukraine (NABU) that is part of a triumvirate set up at the insistence of the IMF to fight corruption and is entirely outside the government’s control. The draft bill was submitted to the Rada by the president’s office, according to local reports.

However, Zelenskiy has also worked against Kolomoisky. When the so-called anti-Kolomoisky banking law was presented to the Rada last May that was a prerequisite to get the next desperately needed $2.1bn IMF tranche, Zelenskiy personally went down to the parliament buildings to lobby deputies to vote for the law, which was narrowly passed.

The pressure on Kolomoisky is growing. The now state-owned PrivatBank has brought a number of cases against Kolomoisky in London and Cyprus, which are making good progress. The courts in London have already frozen $2bn of Kolomoisky’s assets. And the US government has also launched a Grand Jury money-laundering investigation into Kolomoisky, who used companies based in Cleveland and other US locations to launder hundreds of millions of dollars.

Then the new Biden administration dropped a bombshell, by sanctioning Kolomoisky, including asset freezes and travel bans for him and his family.

It has taken a long time. bne IntelliNews called for international sanctions to be imposed on Kolomoisky during his very blatant efforts to scupper the anti-Kolomoisky banking bill, which was not even on the agenda a year ago. Clearly something has changed.
One interpretations of these recent events is that the Biden administration has decided to do something about Ukraine and in addition to identifying Russia as the major problem, it has now decided that The Oligarch Problem is equally urgent and will do something about that too.

And Ukraine is in trouble. Kolomoisky’s machinations have led to the suspension of the IMF programme. Amongst the many issues, it appears that he organised a decision by the Constitutional Court of Ukraine to strike down the main anti-corruption laws last November, which was anathema to the IMF. Without the next two tranches of $700mn, left over from last year, and the $2.2bn due this year, Ukraine will struggle to pay off some $16bn of debt redemptions due later this year. Zelenskiy doesn't really have a choice. He has to restart the IMF programme by the summer at the latest.

Confusion reigns
Despite Mendel’s strong comment, Zelenskiy himself has yet to criticise Kolomoisky in public.

After Mendel posted a link to her blog on twitter, famous Ukranian commentator, Swedish economist and a Senior Fellow at the Atlantic Council Anders Aslund challenged her, saying that Zelenskiy has yet to condemn Kolomoisky in public.

“Really? Can he name Kolomoisky? To challenge the oligarchs in general means nothing. That is the reason why everybody says so, but Kolomoisky is the main problem. Can @ZelenskyyUa says so? Or is he still tied to him? Why are all these Kolomoisky stooges still his MPs?” Aslund said in a tweet, which led to a testy exchange.

“Mr.Aslund, I am pretty disappointed you’re so much influenced by too old disinformation narratives. Hope you’re speaking for high-quality analytics, not just because of an offence of being fired,” Mendel fired back.

“What "old disinformation narratives"?! I read all of @ZelenskyyUa statements. Has he ever said ONE NEGATIVE WORD in public about Kolomoisky? (We all know what a crook he is.) No. Please give me one piece of contrary evidence or withdraw your inappropriate tweet!” Aslund replied.

This exchange was made doubly curious by Mendel’s choice to post her comment on the Atlantic Council’s website. While the Washington-based think-tank, which offers foreign policy advice to those inside the Beltway, is famously rabidly anti-Russia and pro-Ukraine, it is also part-funded by two of Ukraine’s biggest oligarchs, Rinat Akhmetov and Viktor Pinchuk, as bne IntelliNews described in The Oligarch Problem.

While Mendel mentions several other oligarchs, including gas-scammer Dmytro Firtash and Viktor Medvedchuk, the head of the Political Council of the Opposition Platform, For Life Party – the first is in Vienna fighting an extradition to the US where he faces corruption charges and the latter was recently sanctioned by Zelenskiy – neither Akhmetov or Pinchuk have been mentioned by the Zelenskiy or included in any way in the new “de-oligarchisation” of Ukraine. Kolomoisky reportedly controls over 70 deputies in the Rada, but Akhmetov reportedly controls over 100 out of the 425-man body.

That opens up the possibility that the attack on Kolomoisky is not only due to the need to restart the IMF programme, but also a black ops sting organised by the other oligarchs against their rivals. A similar thing happened in Russia at the end of the 1990s when a “Bankers war” broke out and Russia’s leading oligarchs started taking swipes at each other in the press they controlled.

At this stage it is impossible to say what is actually going on, but what remains is that Zelenskiy continues to flip-flop. His main problem is as a novice in power he has no power base of his own. He relied on Kolomoisky to put him into office. Then he relied on the overwhelming majority of his Servant of the People (SOTP) party in the Rada. But now the party is fragmented and Zelenskiy can no long ram laws through without the co-operation of the opposition parties, including his nemesis former President Petro Poroshenko, he is turning to the US for support.

With his popularity in the polls plummeting and two thirds of the population saying the country is going in the wrong direction, Zelenskiy badly needs to score some reform victories if he is not going to become a lame duck president.

Kolomoisky is clearly in trouble as the pressure mounts, but perhaps it is only temporary, as observers say that the government in Kyiv only ever make radical reforms when it is faced with a crisis. And Ukraine is facing a crisis in September when $11bn of debt comes due. But as soon as the IMF pays out its crisis-averting tranches the government goes back to ignoring the reform agenda.

As Russia’s former Prime Minister and ambassador to Ukraine Viktor Chernomyrdin famously said: “We hope for the best, but things turn out like they always do.” ●
Georgia faces an internal political crisis. The arrest of the leader of the main opposition party – United National Movement (UNM) – at his party headquarters by government security forces reverberated across the democratic world. Narratively as well as purely propaganda-wise the opposition managed to gain the upper hand as the scenes of the storming damaged the ruling Georgian Dream (GD) party’s international standing.

Though it remains to be seen whether this crisis will reinvigorate support for the party among other groups of the population beyond hardcore opposition supporters, it could be argued that the opposition managed to re-invent itself and put itself again into the spotlight – not long ago the UNM was a declining political force.

For many, Georgia is in the midst of a democracy-building crisis precisely because of the situation after the 2020 parliamentary elections when the opposition refused to acknowledge the results. But the roots of the internal troubles could be more far reaching. Ultimately it could be about how detached the political elites of Georgia have become from the demands of the ordinary people.

Take the opposition, which is viewed with antipathy by wide sections of the public. A gradually decreasing number of supporters also characterises the governing party as long-term economic problems exacerbated by the pandemic constitute a major challenge. But little has been offered over the past few years from either side. For many, the current crisis is more about a GD-UNM struggle than a struggle for democracy and the economic development of the country.

This explains the large abstention rate of voters during elections in Georgia. Large sections of the population do not see a preferred party with an appropriate programme amidst the increasingly polarised political climate.

Perhaps what Georgia lacked throughout its post-Soviet independence period was long-term policy planning to re-boot its fragile economy, a heritage of the troubled 1990s. What it needs is for attention to be shifted away from inter-party politics towards the needs of the economically poor population.

Democracy is struggling and it is not only about whether the arrest of the opposition leader was a lawful act or even an urgently necessary move in these circumstances. We are dealing here with what the Georgian public has been accustomed to since the country regained independence – the belief that a ruling party stands always above the law. This was the case with former presidents Eduard Shevardnadze and Mikheil Saakashvili, and this is a scourge that befell the current government, whether it wanted it or not. For ordinary citizens there has been no break in the repeated pattern of actions by Georgian political elites for the last 30 years.

But the crisis has a wider dimension. A regional outlook perhaps would shed some light. It is a region where two small and extremely fragile democracies – Armenia and Georgia – are located. The former took a major hit last year when its dependence on Moscow grew exponentially following Yerevan’s defeat in the Second Karabakh War. Now Russia is more capable of backtracking the reformist agenda of the Armenian leadership. Protests are staged – internally the prime minister is weak and facing challenges, Russia plays a long game, it navigates and kills the last vestiges of Armenia’s independent foreign policy.

Georgia too is hit. Internal challenges have been troubling the ruling party for more than a year now. And this is what Russia needs – internal differences in Georgia, a weakening of its international standing, hopes for Nato/EU membership dashed. In the age of reinvigorated efforts on the Trans-Atlantic partnership between the US and Europe, Washington’s larger support for Nato, and its possible enlargement into the former Soviet space, Georgia’s woes are a boon for Moscow and a propitious development for those in the West who are feeling fatigue towards EU/Nato expansion.
Ivanishvili quits again

There are all indications that the current crisis in the country will be a recurring one. In many ways the basis for this lies in the resignation of Bidzina Ivanishvili, Georgian billionaire and founder of GD. “I believe that my mission is accomplished, so I’ve decided to step out of politics for good and fully give up the reins of power,” said Ivanishvili in a letter that was released on January 11. He was replaced by Irakli Kobakhidze, who served as executive secretary of GD.

It is not Ivanishvili’s first departure. Several years back he did the same only to return to play an active part in the country’s chaotic political landscape. No wonder that there are many sceptics who question the seriousness of his decision. Many believe it is a ploy to continue governing the country from behind the scenes.

Ivanishvili created the Georgian Dream party before the 2012 parliamentary elections when Saakashvili’s UNM was defeated. Having presided over the party, Ivanishvili has dominated Georgia’s political landscape ever since.

“Ivanishvili created the Georgian Dream party before the 2012 parliamentary elections when Saakashvili’s UNM was defeated and he has dominated Georgia’s political landscape ever since”

In 2014, he founded the 2030 public movement, then the Citizen non-governmental organisation, however, in 2018 he formally returned to politics to become the chairman of GD. Ivanishvili’s resignation could have thus triggered critical changes not only to the fabric of the ruling party, but also to the balance of power between the political parties, namely it emboldened the opposition parties.

His resignation caused infighting among party leaders. This was apparent in the unexpected resignation by Giorgi Gakharia, who refused to take part in the arrest of Melia. There are three strong groupings within the party: one around Tbilisi mayor Kakha Kaladze, the second around Kobakhidze, though he is politically unpopular among the population. The third is around the current PM Irakli Garibashvili with his so-called clan of Kakhetians (Kakheti is a region of Georgia).

The potential struggle will not be open and acrimonious, at least at first. Each grouping will try to have its associates appointed to crucial government positions, win tenders for the biggest projects, etc. Eventually, the weakening of the power vertical in Georgian Dream will lead to internal crises and conflicts, which will be manifested first latently and then openly. Among them, there will be tendencies to rearrange interests and powers according to corruption/personal interests, which can manifest itself even at the institutional level, for example in the form of conflicts between different agencies or ministries.

Another factor leading to the weakening of GD is the non-existence of ideological ties, no consolidated political interests, and no real, living practice of political unity. Moreover, no long-term development of the country’s economy and political system is being proposed. The emphasis is still on portraying the UNM as a destructive political force, and not on actual reforms, for instance, in the judiciary, education or economic spheres.

One of the theories behind Kobakhidze’s appointment was Ivanishvili’s idea of having as many poles of political power as possible so that nobody could garner enough momentum to challenge his legacy and the working of the party.

The leaders of the three groupings are personally associated with Ivanishvili. His influence on them is lasting, which means that technically he would be able to influence overall developments within the party. It is exactly because of this vertical of power that various sources familiar with the internal operation of the party claim that it is almost impossible to consider GD without Ivanishvili whether he is in charge or has relinquished de-jure political power.

Another possibility is that Ivanishvili has resigned for good. In fact, some logic could be seen in this thinking considering his political passivity in the last few years and the very difficult pre-election period. There are signs of a certain political fatigue and even frustration with the overall process of keeping the opposition at bay, fighting off Western criticism and keeping the economy afloat.

Pressure from the West

There is also a question of Western political pressure. Constant criticism of Georgia being run by a shadow figure often undermined expectations among Georgia’s foreign partners on the country’s democratic future. Rumours still swirl around in Tbilisi that Ivanishvili was likely to be targeted by US sanctions that would seriously constrain his actions and have a bearing on Georgia’s internal politics. His decision to quit for good could therefore be a permanent decision.

The timing of his resignation is also indicative of probable foreign pressure in this process. The elections held in October 2020 and won by GD are contested by the opposition spectrum. What is crucial in the negotiations held between the ruling party and opposition forces and moderated by ambassadors in Georgia is the West’s tacit support for GD. Many in Georgia believe this could have been an informal arrangement whereby the West approves of GD’s victory, but in exchange Ivanishvili should have left, removing an important obstacle for Georgia-West relations.
Others offered a different explanation. Amid a dire COVID-19 situation and a struggling economy, Ivanishvili’s decision could have been motivated by saving himself to avoid public outcry for upcoming troubles.

Non-political reasons too could be at play. After all, Ivanishvili has not always been a politician. A billionaire who, according to the Bloomberg Billionaires Index, is the richest man in Georgia with an estimated wealth of about $5.7bn, always claimed to be in politics only temporarily. A lover of animals and owner of a collection of rare paintings, Ivanishvili has always been famous for his distaste for public life, a life that he had to lead since he came to power in 2012. The 65-year-old could indeed be thinking of a permanent break.

But perhaps the biggest trouble for the ruling party is that Ivanishvili’s quitting emboldened the opposition. In many ways, the current political crisis is a result of a power vacuum in Georgian politics no leaders could fill. The opposition sees the possibilities of fracturing within GD which could be accelerated only with street demonstrations, picketing of administrative buildings and calling for Western involvement.

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How bad can it get if US imposes sanctions on Russian debt?

Maximilian Hess, head of political risk at Hawthorn Advisors in London

Sovereign debt sanctions targeting Russia’s ability to issue foreign currency debts are once again in the news, with the Biden administration and Boris Johnson’s UK government both said to be considering the move.

It is not the first time these have been proposed; indeed, ever since then-president Barack Obama responded to Russia’s invasion of Ukraine and efforts to crush its democratic and pro-Western aspirations by limiting the access of key Russian firms to foreign debt markets through the implementation of the then-new sectorial sanctions regime, capital markets have been among the key battlegrounds of Russo-Western rivalry.

But much has changed since Tom Tugendhat MP, the Conservative chair of the UK’s Commons Foreign Affairs Committee, first suggested barring Moscow from Western debt markets in March 2018. Moscow had already begun to improve its reserves-to-debt ratio in 2015, even as oil prices remained low, in the aftermath of the initial sanctions and escalated the effort that year, stepping it up from the introduction of legislation, dubbed the ‘bill from hell,’ by a group of bipartisan Senators later in August 2018.

By January 2019, Russia’s reserves exceeded its external debts. Moscow made much of this apparent success of fiscal management, brushing aside concerns that it was worried about the risk of such US sanctions even as it was clear that the threat was motivating debt management considerations.

Indeed, this effort involved not only managing the amount of Russian foreign currency debt issued, but also updating the wording of the contracts underpinning them. Russia did not issue any new foreign currency bonds in 2014 or 2015 as markets remained cool to the Kremlin’s ongoing devastation of eastern Ukraine and risk of further sanctions resulting, but it did resume issuing Eurobonds in 2016, raising $1.75bn that May.

The new wording reflected this sanctions risk, with the bond’s prospectus making reference to a so-called ‘[alternative] payment currency event’ allowing Moscow to re-pay debt holders in US dollars, Euros or Swiss Francs when interest payments or the principal came due “if, for reasons beyond its control, the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the New Bonds in US dollars”. What level of sovereign debt sanctions would trigger the event is not specified.

The clause was described at the time by Oleg Kouzmin of Renaissance Capital as “a totally new feature” of a sovereign bond instrument. No other sovereign appears to have since borrowed or adapted the innovation.
Investors holding such notes do not bear a significant amount of currency risk, even in the event of such sanctions, given the liquidity of the three alternative currencies and the fact that their valuation versus the US dollar is independent of the ruble and the status of Russo-Western relations more broadly.

However, when Moscow returned to foreign debt markets in March 2018 it sold $4bn in two series of dollar-denominated Eurobonds, tapping up a 30-year note it had issued the previous September for a further $2.5bn and raising the rest via a new $1.5bn bond due in 2029. The joint prospectus outlines a key difference in the ‘[alternative] payment currency event’ language that went little noticed at the time. Whereas the 2047 Eurobond contained the language quoted above, as with all other Russian sovereign Eurobonds issued in 2016 and 2017, the new notes featured a further modification.

Specifically, their ‘[alternative] payment currency event’ contained the language referenced above but also noted that “if for reasons beyond its control the Russian Federation is unable to make payments of principal or interest (in whole or in part) in respect of the New Bonds in any of those currencies,” that it may pay “in Russian rubles” at the exchange rate against the US Dollar set by the Russian Central Bank.

Although it has narrowed somewhat since 2018 as Russia’s baseline interest rate has fallen from 7.5% in March 2018 to 4.5% as of the time of writing, the higher interest payments demanded by investors in Russia’s local currency government bonds (known as OFZs) make clear that any such move would precipitate a major haircut on investors looking to dump their Russian Eurobonds. If a spike in Russian interest rates were to follow such Western sanctions action, either due to the Western reaction to the sanctions or due to subsequent ruble debt issuance by Russian state-run companies, as occurred in 2014 after Rosneft – barred by the sectorial sanctions from borrowing in US dollars and therefore from Western financial institutions more broadly – sold the equivalent of nearly $11bn in ruble debts, the haircut Western Eurobond holders would face if they were repaid in rubles would be even greater.

While the Central Bank of Russia (CBR) has received regular plaudits for its management of Russia’s macroeconomic stability in the years since the 2014 sanctions and near-simultaneous oil price collapse, the Rosneft 2014 debt issuance highlights that it too is subject to the same political forces that dominate the rest of the Russian economy. When Rosneft issued the debt, the CBR simultaneously announced that the new bonds would be eligible for its ‘Lombard list’ – in other words that the banks underwriting Rosneft’s emergency debt raise would be able to use it as collateral for loans from the CBR, including foreign-currency denominated loans.

It cannot be ruled out that the CBR would once again be subject to significant political pressures in the event of such Western sanctions, further raising the risk that Western holders of Russian Eurobonds issued with the ‘alternative payment currency event’ triggers would be at risk of suffering Moscow’s response.

Western investors so far have been rather sanguine about the risk of such sovereign debt sanctions – there is no meaningful premium to the yield on the bonds containing the ruble ‘[alternative] currency payment event’ trigger versus those that do not.

Indeed, Russia sold a €750mn seven-year Eurobond in November 2020 at a yield of 1.125%, a record-low for Moscow, despite US banks being barred by the US Treasury from dealing in the primary market Russian government debt issuances in August of 2019 (NB: participation on the secondary market for Russian sovereign Eurobonds is not subject to these restrictions).

Leading voices in Russia have called for calm over the risk of such sovereign debt sanctions as well, with Vladislav Inozemtsev recently writing that “a total ban on transactions involving the Russian foreign debt and the extension of that ban to the US allies will only result in serious losses for the Western financial institutions following the sell-out of this type of asset, and the Russian authorities will restructure their liabilities, making considerable savings on debt servicing”.

Whether he is correct on the Russian authorities’ ability to smoothly manage being frozen out of Western capital markets remains to be seen, but he is certainly correct that Western holders of Russia sovereign Eurobonds face a risk of incurring serious losses if the West does institute a sovereign debt ban.

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NBU raises key policy rate 50bp to 6.5%

The National Bank of Ukraine (NBU) reversed its easing policy and hiked rates for the first time since 2018 by 50bp to 6.5% at its monetary policy meeting on March 4.

The NBU has been slashing rates in the last two years as it has been highly successful in taming inflation, which fell to a post-Soviet low of 1.7% in May 2020. However, more recently inflation started climbing again on the back of rising food prices and reached 6.1% this January.

Polish PMI rises to the highest point in nearly three years in February

Poland’s Purchasing Managers’ Index (PMI) added 1.5 points to 53.4 in February, reaching the highest point in 32 months, the economic research company IHS Markit reported on March 1.

The reading also keeps the index above the 50-point line separating contraction from growth for the eighth month straight. The index’s expansion strengthens the outlook for recovery in Poland’s manufacturing sector in 2021 after the COVID-19 (coronavirus) pandemic ravaged output and sentiment last year.

Bucharest Stock Exchange starts 2021 with strong growth

The Bucharest Stock Exchange’s BET-TR index went up by 17.7% y/y as of the end of February.

The BET-TR index of the Bucharest Stock Exchange (BVB), which follows the share price movement paid by the companies included in the main BET index and their dividends, went up by 17.7% y/y as of the end of February, the BVB announced in a statement. Nearly a quarter of this growth, namely over 4pp, was achieved during the first two months this year.
Red hot enthusiasm for copper

Wenyu Yao is the Senior Commodities Strategist with ING in London

Copper seems to be marching towards the peak from its previous cycle thanks to risk-taking and inflation fears. The red metal’s constructive fundamentals, and green narrative on the demand side, seem to be reinforcing the bull run. Given that policymakers seem to be allowing the economy and markets to run hotter, we see further upside for prices in the near term.

Inflation fears boost bullish bets in commodities
With falling coronavirus (COVID-19) cases and accelerating vaccination programmes, investors are more confident about economies re-opening and returning to growth. As real assets, commodities look attractive to those riding the recovery and growth trade. However, the more imminent concern appears to be inflation, not growth, and that has pushed investors into commodities.

With US Treasury yields rising fast, policymakers seem to be allowing the economy to run hotter than they would have in previous cycles, which may create more upside for commodities in the near term. Cross-asset valuations suggest that commodity indices are relatively cheap compared to other asset classes, such as super-stretched equity market valuations.

Dr. Copper, the prime candidate?
Copper seems to be the prime candidate in current market conditions, with London Metals Exchange (LME) three-month prices fast approaching the previous peak during the post-global financial crisis cycle. A rising tide lifts all boats. The eye-popping spike in copper prices has seen the copper-to-aluminium ratio rise to levels never seen before (above 4.2), exceeding the level back in 2012-2013.

Speculation could easily arise and prices could spike on supply concerns, even if there is a large surplus market and no imminent shortage. Just last week, we have seen concern in the aluminium market that local policy changes on power tariffs in China Inner Mongolia could have an impact on capacity, and nickel further spiked on news of disruptions at Norilsk Nickel’s mines.

Fundamentals reinforce the bull vibe
We came into 2021 with a view that energy transition would fuel robust demand growth for copper. We expect strong growth in green-related copper projects to accelerate from 2021, and there seems to be stronger-than-anticipated enthusiasm for this in the markets.

Investors seem to be focusing on the speed of the growth, not the absolute demand figures currently coming from green projects. Battery electric vehicles (EVs) continued to excel in January. Copper consumption in global EVs is less than 4% of the total consumption per year. This year, the broader copper demand will be on a synchronous recovery driven by a cyclical uplift and a nascent global ‘green’ recovery.

During the first two months of the year, visible copper stocks remained low and those in LME sheds have continued to edge lower. The LME market has seen a structural tightness begin to unfold as nearby spreads tightened in backwardation. Meanwhile, the seasonal stock building, usually starting ahead of the Chinese New Year, looked disappointing; again, speed matters more.

Developments on the supply side are also fuelling expectations of tightening. The spot market’s multi-year low treatment charges have continued to shift lower and squeeze into smelters’ margins. As a result, China’s top two smelters, China Copper and Tongling, have revealed plans to slash production. There have been no meaningful actions taken yet but such news headlines help to fuel the bullish sentiment.
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