COMPANIES & MARKETS

4 CEZ achieves record net income of CZK80.7bn in 2022
5 Ukrainian refugees and Russian migrants bring economic benefits but also stresses to Emerging Europe
12 Volkswagen reported to be shelving plans for Central European gigafactory
13 Chinese carmakers break UzAuto monopoly as they move in on Uzbek market
10 Russia’s war in Ukraine has distorted global trade routes
13 Battle over Ukrainian grain terminal demonstrates challenges post-war foreign investors will face
14 Central Asia’s poorest farmers know the value of their land
14 Mongolia’s giant Oyu-Tolgoi copper-gold underground mine starting operations
15 Russia and China sign off $165bn of energy and transport deals in Xi’s second day in Moscow
18 Russian banks earn a record profit in January as the sector starts to recover from sanctions shock
20 Retail booms off the beaten track in Southeast Europe
22 Ruben Vardanyan, ousted state minister of Nagorno-Karabakh
23 Romania’s largest insurance firm Euroins loses licence
24 Court ruling on Hidroelectrica management calls into question IPO planned this year
25 Stable outlooks at lowest level for two decades in Emerging Europe, says Fitch Ratings
25 Ukraine signs off on a $15.6bn EFF staff-level agreement with the IMF
26 Russia’s budget deficit hits its full year target in the first two and half months of 2023
28 Croatian retailer Studenac on acquisition spree in market ripe for consolidation
30 NASDAQ to delist Russian tech majors Yandex, CIAN, Ozon, Qiwi and HeadHunter
30 Volodymyr Semenyshyn, president EMEA of Ukraine IT company SoftServe
32 Russia is successfully evading Western technology sanctions
35 How cryptocurrency mining froze a Kazakh city
37  Pace, scale of climate change action has been insufficient – IPCC

38  World faces 40% fresh water shortage by 2030 warns UN summit co-hosted by Tajikistan

**COVER FEATURE**

40  Western and Russian diplomats globetrotting to win support in ballooning sanctions battle

**SPECIAL FOCUS**

44  Georgia sticking with its EU ambitions

46  Georgia’s economy outperforms with 10% broad-based growth and record investment in 2022

**CENTRAL EUROPE**

48  US warns Orban on stance over Russian invasion

49  Orban demands that Sweden and Finland stop criticising his regime if they expect to join Nato soon

50  Czech President Milos Zeman: a populist tragedy of our times

52  Explosive Polish documentary claims Pope John Paul II protected paedophiles

**SOUTHEAST EUROPE**

54  Combined economic and political pressure push Serbia towards sanctions decision

57  Russomania slowly fades in Serbia as Putin’s hybrid war continues

61  Turkey cuts trade ties with Russia, Hungary to “rethink” relationship as Western pressure to end sanctions-busting mounts

63  I’ll defeat Erdogan, put Turkey back on track then retire to look after grandchildren says Kilicdaroglu

64  Put Erdogan on trial for ‘standing still’ in face of deadly earthquakes urges political veteran

65  All to play for in Russian-Chinese backyard

**EASTERN EUROPE**

68  The endless battle for Bakhmut

70  Putin woos 40 Africa lawmakers at Moscow conference with promises of money, nuclear power, arms and free grain

73  Western efforts to freeze and seize Russian oligarch money going poorly

**EURASIA**

74  TBC Bank looks to Uzbekistan for growth

76  Awkward embrace as Iran and Saudi Arabia seal deal on restoring relations

78  Women across Iran defy authorities by releasing illicit dance videos

79  Taliban threaten water resources of Uzbekistan, Turkmenistan and Tajikistan

80  Pashinyan declines to support right to self-determination for Nagorno-Karabakh residents

82  The guessing game about what Putin will do if he begins to lose even more badly in Ukraine

85  Where next for Georgian Dream?

87  IMF: Global food crisis may persist, with prices still elevated after year of war

88  Blinken visit delivered prod rather than shove in right direction for Central Asia
CEZ achieves record net income of CZK80.7bn in 2022

Robert Anderson in Prague

ČEZ, the dominant Czech power group, made a record net income of CZK80.7bn (€3.39bn) in 2022, boosted by soaring power prices and commodity trading profits. The group, which is 70% state-owned, said it could issue a record dividend of up to CZK117 a share.

Net income adjusted for one-offs was CZK78.4bn (CZK26.1bn in 2021) and Ebitda doubled to CZK131.6bn on revenues that rose 27% to CZK288.5bn. The company had predicted revenues of CZK115-125bn and adjusted net profits of CZK65-75bn.

ČEZ maintained its outlook for this year of an Ebitda of CZK105bn-125bn and an adjusted net income of CZK30bn-40bn.

The power group said it expected to pay more than CZK100bn to the Czech state this year (up from CZK23bn on 2021), including dividends of CZK44bn, CZK26bn-30bn in income tax payments and CZK30bn-40bn in windfall taxes and levies on production sales.

Under the impact of Russia’s invasion of Ukraine, Western sanctions and Moscow’s cut-off of gas to Europe, power prices in Europe have soared. ČEZ said the average price of electricity for delivery in 2023 was traded at almost €300/MWh last year, against an average realisation price of ČEZ production for delivery in 2022 of €100 per MWh.

At the end of last year, the company had sold 75% of expected production for this year in the Czech Republic at an average realised price of €117 per MWh. It forecasts that the average realised price from electricity generated in Czechia this year will be between CZK120-160 per MWh.

Development of Czech electricity prices and German gas prices from Jan 1, 2022 to Mar 13, 2023 (EUR/MWh)

The Czech government has said it will announce its plans for how to restructure ČEZ in the middle of this year, a decision that will be crucial for by far the most important stock on the Prague Stock Exchange. / bne IntelliNews
The high volatility of energy prices on international markets enabled CEZ’s commodity trading division to earn a record CZK18bn, which amounted to almost 1/4 of the group's consolidated net profit for the entire year.

In his report, CEO Daniel Benes highlighted the efforts that the group had taken in 2022 to make Czechia more independent of Russian energy sources since Moscow’s invasion of Ukraine. The power group booked a total of 59bn cubic metres of capacity over five years at the Dutch LNG terminal in Eemshaven, representing one third of Czech consumption.

CEZ also signed a contract with Westinghouse and Framatome for nuclear fuel for the Temelin plant for 2024 in place of Russian supplies, and was negotiating with the same two companies for a similar contract for its other plant at Dukovany. In addition, it took over Russian-owned Czech company Škoda JS, which maintains its nuclear power plants (NPPs).

Like much of Emerging Europe, the government is planning a huge nuclear power programme to take the place of CEZ’s coal-burning power stations, prepare for higher electricity demand due to the development of e-mobility, and ensure the country remains self-sufficient in power.

The government launched a tender to build a fifth unit at Dukovany in March 2022, with Russia’s Rosatom having been excluded in March 2021 because of Moscow’s alleged involvement in the sabotage of the Vrbetice ammunition depot.

Initial offers were received from Westinghouse, EDF and Korea’s Kepco in November 2022, and CEZ anticipates final offers this September, a decision by December and a contract signing by the end of 2024. The first unit is meant to enter production in 2036.

It is also considering building another unit at Temelin and two more at Dukovany, as the existing four units there are reaching the ends of their life.

Before any final go-ahead, the Czech government has indicated it will split CEZ’s nuclear generation off into a separate state-owned company. It has said it will announce its plans for how to do this in the middle of this year, a decision that will be crucial for shares in CEZ, by far the most important stock on the Prague Stock Exchange.

CEZ also plans small modular nuclear reactors (SMRs) of between 200 MW and 400 MW at Temelin and at the coal power stations reaching the end of their lives in Northern Bohemia and Northern Moravia. The first SMR at Temelin could be operational in 2032, according to CEZ, and it could operate 1,000 MW of SMRs after 2040.

Environmentalists argue CEZ should focus more on renewable energy and that the government remains too beholden to the powerful fossil fuel and nuclear energy lobbies. Under its Vision 2030 plan announced in 2021, CEZ intends to build 1.5 GW of renewable capacity by 2025 and 6 GW by 2030, and to operate 800 e-mobility stations by 2025. Some 27% of final energy consumption should be from renewable sources by 2030.

CEZ wants to reduce coal’s share of production from 39% in 2019 to 25% by 2025 and to 12.5% by 2030. The company itself wants to become carbon neutral by 2040.

Ukrainian refugees and Russian migrants bring economic benefits but also stresses to Emerging Europe

bne IntelliNews

Russia’s invasion of Ukraine has caused the largest displacement of people in Europe since the Second World War. One year on, more than 8mn Ukrainian refugees are still living outside their country, according to the United Nations. Meanwhile, around half a million Russians have left to avoid the draft, in opposition to the war or simply because of the country’s dismal economic prospects.

Aside from the estimated 2.8mn who fled from the battle zone of eastern Ukraine to Russia itself, most Ukrainians fled west, with 3.5mn refugees holding temporary protection status on European Union territory at the end of last year, according to Eurostat.

It says Germany and Poland granted temporary protection status to 968,000 and 961,000 Ukrainian refugees at the end of last year, while Czechia granted 432,000. This means that roughly one quarter of Ukrainian refugees in the EU were in Poland, another quarter in Germany, followed by Czechia, which had an 11% share, but the largest number per capita.

More than 2.1mn in total are still living in the Visegrad
countries of Central Europe, according to a report from the Bratislava-based Globsec security think-tank in January. It estimates that more than 1.5mn reside in Poland (equal to 4% of the total population), nearly 467,000 in the Czech Republic (4.3%), close to 103,000 in Slovakia (1.9%) and almost 33,000 in Hungary (0.3%).

In the Baltic States there are estimates of 54,000 Ukrainian refugees in Lithuania, 37,000 in Latvia, and 62,000 in Estonia.

By contrast, most Russians fled south, to the South Caucasus countries of Georgia and Armenia, to Turkey, or to Central Asia, but also Serbia – all countries where they usually do not require visas to enter.

These population movements have had a traumatic effect on Ukraine and its people of course, but they have also had a dramatic effect on the surrounding countries.

In Central Europe, despite the lamentable record of Visegrad countries in the 2015-16 Syrian migration crisis and the indifference towards Ukrainian migrant workers before the war, governments and ordinary people have reacted very generously to the current wave of Ukrainian refugees.

The integration of the refugees has on the whole gone very smoothly, helped by the existing networks Ukrainians had.

Popular attitudes to Ukrainians have remained very supportive, largely because of the strong support for Ukraine in the war, the fact that the refugees are largely women and children, and the close cultural similarities. None of these factors were present with the Syrian refugee wave in 2015-16.

“On the whole the war in Ukraine appears to have increased people’s openness to refugees fleeing violence and oppression,” said the European Bank of Reconstruction and Development’s (EBRD) Transition Report in November.

Nevertheless, it remains highly debatable whether this “openness to refugees” will be carried over to a new wave of refugees from Moslem countries in the Middle East.

So far there have been few signs that Central Europeans are losing patience with their long-staying guests. There have been inevitable stresses as the new arrivals have put extra demand on already overburdened housing, health, education and childcare resources.

But except for Slovakia – which has sizeable residual loyalty to Russia – an opinion poll conducted for Globsec in September shows that people still back helping Ukrainian refugees.

Again, only in Slovakia have refugees become a significant political issue, with the pro-Russian leftist Smer Party of former premier Robert Fico using it to campaign for a return to power in elections likely to be held this September.

Ironically, support for Ukraine is much stronger in Hungary, despite Prime Minister Viktor Orban’s criticism of sanctions on Russia and refusal to send defence equipment directly across the border to defend Ukraine.

By contrast, the Russian migrants in the Caucasus, Central Asia and Baltic states have often worsened still sensitive tensions between locals and their Russian minorities stemming from Soviet Union days.

In Georgia, the wave of Russian migrants into Tbilisi has upset inhabitants by forcing up rents and leading to shortages of consumer goods.

It has also become a political issue. Opposition parties and President Salome Zourabichvili have criticised the way the Georgian Dream government has appeared to appease Moscow by, for example, refusing entry to Kremlin critics. There have also been calls for the country to impose visas on Russians.

In Kazakhstan similar stresses led the authoritarian government to end the loophole that allowed Russians leave to remain using a rolling three-month tourist visa.

Yet the wave of fleeing Russians has also been of huge benefit to the recipient countries. Significant sums have been transferred into local banks for spending or to keep it safe.

According to a report by the Russian RBC news portal, residents of Russia last year transferred some $2bn to Georgia, more than $2.5bn to Kyrgyzstan, and more than $3bn was transferred to Armenia. Uzbekistan received $14.5bn, more the double the 2021 total, while Kazakhstan received $775mn.

Many of the Russian migrants are also highly skilled, for example in IT, and have set up businesses in their host countries.

In late December, the Russian Ministry of Communications said about 10% of the IT workforce, or more than 100,000 people, had left the country in 2022 and did not return.
For Central Europe, hosting refugees has imposed huge costs but it has also provided significant economic benefits in terms of spending power and contributions to taxes and social security contributions. According to Oxford Economics, if 1mn refugees remain in Poland, it would add a total of 2% to GDP by 2030.

The refugee influx could also supply much-needed workers. According to the EBRD’s Transition Report, this inflow could increase the EU’s labour force by 0.5% by the end of 2022, twice the impact of the flow of migrants across the bloc’s southern borders in 2015-6.

Central Europe has long been suffering demographic decline and a shortage of skills, so the wave of Ukrainian refugees could provide at least a short-term palliative.

The new refugees also tend to be higher skilled than the previous wave of Ukrainian migrant builders and cleaners.

“People who leave their counties are ‘positively self-selected’, as economists say,” EBRD chief economist Beata Javorcik told bne IntelliNews in November. “They are better educated, more entrepreneurial. They provide a benefit to their recipient countries.”

Having said that, many refugees have been unable to use their skills properly because of red tape or childcare duties.

A total of 33% of Ukrainians said they do not have a paid job, while 48% said their new job is below their level of education, with 30% claiming they are exploited at work, according to a survey by the EU’s Fundamental Rights Agency carried out in 10 European countries including Bulgaria, Czechia, Estonia, Hungary, Poland, Romania and Slovakia last month.

There has also been a move the other direction, as Ukrainian migrant workers returned to fight for their country.

Looking forward to the end of the war, whenever it happens, policymakers are already speculating on how many of the refugees and migrants are likely to stay and how many will return.

According to the report by the EU’s Fundamental Rights Agency, one in three Ukrainian refugees now feel part of their host country’s community, but the same proportion also wants to go home.

If they do not return, this will obviously be a benefit to their host countries and a loss to Ukraine, which is already facing huge demographic problems.

Yet the EBRD’s Javorcik believes that even if the refugees do not go back, this could be a new driver for cross-regional links that might help bring Ukraine closer to the EU.

“There are a source of investments, they form a bridge between the home and host country providing flows of trade and investment in both directions.”

Below, bne IntelliNews correspondents report on how their countries have been affected by the waves of Ukrainian refugees and Russian migrants.

Poland

According to daily reports from the Polish Border Guard, nearly 10mn Ukrainians have used Poland as their primary refugee exit route, with just over 8mn returning to Ukraine. Of the remaining 1.9mn, some have moved on to other EU countries, but Poland estimates that well over 1mn have made it their more or less permanent home, increasing Poland’s population by about 3-4% and giving it the largest Ukrainian refugee population in the EU. They are attracted by existing Ukrainian communities in the country and the linguistic similarities between Ukrainian and Polish.

Poland spent PLN18bn (€3.83bn) last year to assist Ukrainian refugees, including welfare payments, organising education for Ukrainian children, or providing refugees with healthcare, which is comparable to what Poles receive.

Private individuals in Poland also spent a lot, with hundreds of thousands, if not millions, of privately funded relief efforts, ranging from one-off donations of money and essentials to long-term renting out of apartments or rooms in their own homes.

Ukrainians are not just recipients of aid. They have also become significant contributors to the tax system, with over 82% of adult Ukrainian refugees having jobs in Poland, according to a recent study by recruiting company EWL and the University of Warsaw.

Some refugees are even active as small business owners, with Ukrainians in Poland starting close to 10,000 businesses, including hairdressers and beauty parlours typically owned by women, software service companies, and firms offering construction and renovation services.

However, some research suggested recently that while
Poles may overwhelmingly support Ukraine, they do not necessarily like Ukrainian refugees living next door. There are also concerns that the Polish welcome to refugees may soon wear out, especially as the unfolding economic crisis begins taking a wider toll on the Poles.

**Czechia**

Czechia has welcomed the highest number of Ukrainian refugees per capita in the European Union. According to Czech interior ministry, around 500,000 refugees from Ukraine have secured temporary protection visas, with about one-fifth of them already having returned home.

According to the survey conducted out last month by the EU Agency for Fundamental Rights, close to 45% of refugee respondents were employed at the time of the survey. In the latest unemployment figures, the Czech Labour Office stated that by the end of January, 94,383 Ukrainians were working in Czechia.

On a political level, Czechia’s efforts to provide assistance to Ukrainians fleeing Russian aggression have served to improve the country’s tainted international image. This was damaged at the height of the refugee crisis in 2016-17, during which Czechia, together with other V4 countries, blocked EU policies aimed at redistributing the refugee inflow across the member states.

The government’s support of Ukrainians seeking refuge in the country was accompanied by a wave of popular support and civic solidarity. This also helped to improve the perception of Ukrainians, who have constituted a significant minority in the country already before the war and were frequently relegated to manual and low-income jobs.

As the war dragged on, popular support waned somewhat and was openly challenged during a series of nationalist demonstrations in the autumn of 2022.

The far-right SPD party, which is one of the two opposition parties in the parliament, has picked the alleged prioritising of Ukrainians over the needs of the Czech population as one of its main political issues. A more moderate version of exploiting the frustration from the spill-over effect of the Russian invasion of Ukraine has been picked up by the leading opposition party, the populist ANO of controversial billionaire Andrej Babis, who has stressed a peace settlement as his new international priority.

**Slovakia**

The Slovak government has strongly supported Ukraine in its defence against Russian aggression, as well as the Ukrainian refugees who crossed the border on their way west. Around 100,000 are still estimated to be in the country.

However, public opinion has swung against the refugees, moved by loyalty to Russia among older Slovaks, successful Russian disinformation messaging, as well as political campaigning by the left-wing populist Smer Party of former premier Robert Fico.

Only 41.5% see hosting refugees as positive, while 52.5% are opposed, according to a survey carried out for the Bratislava-based Globsec think-tank in September.

Some 19.7% back support for refugees at current levels, while 35.1% want reduced support, and 42.4% are against continued support. 58.3% are negatively disposed to their town or city accepting more refugees.

If Smer, which is currently leading opinion polls, is able to form a government in the elections planned for this September, Slovak support for Ukraine’s defence and for refugees may be sharply reduced.

**Moldova**

From the days immediately after the invasion, Moldova was one of the main exit points for Ukrainians fleeing the war in their home country. Moldova and Ukraine share a border that is nearly 1,000 km long.

*bne IntelliNews* has reported from on the ground in Moldova that despite high poverty levels within the country, thousands of Moldovans opened their homes to Ukrainian refugees and offered food and other support. This happened in the Russia-leaning regions of Gagauzia and Transnistria as well as other parts of the country.

As of the end of December 2022, over 730,000 Ukrainian refugees had entered Moldova, according to data from the United Nations High Commissioner for Refugees (UNHCR). Many moved on to other countries, but almost 100,000 were still registered as refugees in Moldova as of mid-December, making it the main destination per capita for Ukrainian refugees.

The arrival of hundreds of thousands of refugees in one of Europe’s poorest countries added to the strains on the Moldovan economy caused by the war and sanctions on...
Russia. Sandwiched between Ukraine and Romania, Moldova’s economy was one of the worst hit in Emerging Europe by the war, and is expected to contract further this year.

Analysis from the Ministry of Economy shows public investments slumped in 2022, as a result of the triple shocks of the pandemic, the energy crisis and the inflow of refugees.

This is despite multiple packages of support announced by the EU and other international organisations and country donors. Proposing an additional €145mn to help Moldova combat the energy crisis and host more Ukrainian refugees in January, European Commission President Ursula von der Leyen said in a statement: “We stand in solidarity with Moldova while the shock waves of Russia’s brutal war continue to hit the country.”

Romania

As of January, there were 107,241 Ukrainian refugees in Romania, according to a government report published in January. Since the start of the war, more than 3.2mn border crossings directly from Ukraine and via Moldova into Romania had been recorded. The onset of winter and Russian attacks on Ukraine’s energy system that interrupted power supplies in both Ukraine and Moldova resulted in a new influx of refugees in recent months.

Romania is a staunch member of the Western camp and an important country on Nato’s eastern flank. While not taking such a bullish tone as, for example, Poland on weapons deliveries, the country has extended support to refugees since the start of the conflict.

“Since the start of the war, more than 3.2mn border crossings directly from Ukraine and via Moldova into Romania had been recorded”

Government data shows private and public funds amounting to €565mn were used to help Ukrainian refugees. The sum included €200mn provided by UN agencies and €106mn from public funds.

Unlike in Moldova, the number of refugees is relatively small compared to Romania’s population of over 19mn. Nonetheless, their impact on the economy is seen in figures such as the increase in retail sales over the summer and robust net imports of goods in 2022.

Despite the need for skilled workers in sectors such as IT, only 5,000 refugees have secured official employment in Romania. Ukrainian refugees face various obstacles to employment in Romania, as well as integration into the education system. These include the refugees’ anticipation of a short-term stay, language barriers (Romanian is one of the few non-Slavic languages in Eastern Europe), and the fact that Romanian education degrees are not recognised in Ukraine.

State counsellor Madeline Turza commented, as quoted in the government report, that Ukrainian refugees “have not only been wholeheartedly welcomed in Romania, but also provided with a comprehensive array of support services”.

However, the report acknowledged: “While there has been overwhelming support for Ukrainians and global condemnation of Russia’s invasion, the economic pressures, security concerns, and energy crisis pose an additional burden on neighbouring countries and necessitate robust strategies for refugee integration and inclusion.”

Serbia

As one of the few countries in Europe to maintain friendly relations with Moscow, Serbia has received numerous Russians avoiding the conflict – and more recently mass mobilisation – in their home country. Serbia became a popular exit route from Russia to Western countries as direct flights between Belgrade and Moscow continued following the invasion.

In particular, Serbia has benefited from the arrival of thousands of Russian tech professionals, who left their own country following the latter’s invasion of Ukraine. That has benefited Serbia, which has an expanding IT sector, but suffers from the emigration of skilled professionals to Western Europe and other parts of the world.

Since the start of the war, both Russian companies and Western companies that have quit the Russian market have shown interest in setting up in Serbia. In November, international software company Luxoft opened a development centre in Serbia, and announced plans to double its headcount in the country. While Luxoft is Switzerland-based, a Serbian government statement said 85% of the company’s employees are from Russia. The following day, Russia’s Yandex unveiled plans to open its own development centre in Serbia.

Prime Minister Ana Brnabic said at the time she will try to bring more IT companies from Russia and other countries, and to make Serbia an IT hub.

Armenia

Figures from Armenia’s Migration and Citizenship Service show that over 1.1mn Russian citizens travelled to Armenia last year amid the fallout from Russia’s full-scale invasion of Ukraine in February. Approximately 65,000 of them have stayed.

According to central bank data, banks in Armenia recorded an unprecedented net inflow of about $2.5bn in transfers in 2022. Martin Galstyan, the head of the central bank, said at
According to her, Georgia “need[s] regulations regarding labour rights, business registration, purchase of property, or opening of Russian-language schools.”

**Turkey**

By the time Vladimir Putin announced his military “partial mobilisation” last September, Turkey was already a big bolthole attraction for well-heeled and super-rich Russians looking to protect assets from sanctions and ailing markets caused by the February invasion of Ukraine.

Russian oligarchs’ yachts were becoming a near-permanent feature of Turkish marinas and the amount of Russians buying Turkish properties was soaring.

The fact that Turkey declined to close its airspace to Russian civilian aircraft, plus the attraction of the Istanbul “mega airport” offering connections to a huge number of destinations around the world, made Russia’s maritime neighbour over the Black Sea even more appealing to Russians.

Nato member Turkey, of course, also remained on amicable terms with Kyiv, which made for some interesting mingling of Russians and Ukrainians in Turkish cities and resorts during the first year of the Ukraine war.

After the mobilisation announcement, flights to Turkey from Russia quickly sold out for weeks ahead despite skyrocketing prices as ordinary Russians joined the rush to exit their homeland. Turkey was also a favourite as Russia’s IT brain drain gathered pace.

A blow for Russians in Turkey came in late September when Turkish banks, threatened by US sanctions, moved to shut down use of the Russian Mir bank card system.

By January, it appeared Turkish officials had calculated that it was time to end the big influx of Russians. Turkey was reported to have stopped issuing short-term residence permits to relocating Russians.

**Armenia**

Migrant inflows have boosted economic growth to double digits and narrowed Armenia’s persistent twin deficits, resulting in the appreciation of the Armenian dram against the US dollar by almost 18% year on year. This has reduced external and government debt stocks in US dollars and partially mitigated price pressures.

Labour and financial inflows from Russia could enhance Armenia’s long-term economic growth potential and structurally improve its fiscal and external balance sheets, reducing its vulnerability to shocks, Standard and Poor’s reported last month.

**Georgia**

In late December, Georgian officials reported that around 60,000 people who fled Russia in 2022 due to the war and economic effects of Western sanctions remain in Georgia.

Since Russia launched its full-scale invasion of Ukraine, nearly 110,000 bank accounts in Georgian banks have been opened by Russian citizens, according to data released by the National Bank of Georgia. In 2022 overall, money transfers to Georgia amounted to $4.37bln, nearly half of which came from Russia. Meanwhile, last year Russians spent $891mn in Georgia.

However, the influx of Russians has sparked protests in Georgia, with demands to introduce a visa regime for Russian citizens, who currently enjoy free travel to the South Caucasian country. However, Georgian officials have repeatedly stated that they do not support such a measure.

President Salome Zurabishvili has called on the government to look into the issue of thousands of Russians who have migrated to Georgia since the start of the war in Ukraine so that “society develops a conviction that the country’s national interests and security are protected”.
Kazakhstan
Kazakhstan's border with Russia runs to 7,591 kilometres, while the country's authoritarian government of President Kassym-Jomart Tokayev has frequently and clearly signalled it is no fan of Putin's war in Ukraine.

No wonder Kazakhstan immediately became a big favourite with Russians looking to flee the draft after the mobilisation was declared five months ago.

And Russians looking for an encouraging welcome from the authorities were not disappointed.

As many as 200,000 Russians entered the country by early October, if official statistics are correct, though 147,000 Russians were said to have exited Kazakhstan in the same time period, with many heading for third-country self-exile options.

“A lot of people from Russia have come here over the last few days,” Tokayev said in a late September speech. “Most of them were forced to leave by the desperate situation. We must take care of them and ensure their safety. This is a political and humanitarian matter.”

Displeasure caused to Kazakhs by higher inflation in rents and other consumer goods and services caused by the Russian arrivals was tempered by news of an investment boon – by

“A lot of people from Russia have come here over the last few days. Most of them were forced to leave by the desperate situation. We must take care of them and ensure”

October, Kazakh officials were saying more than 50 Russian firms had relocated to Kazakhstan since the Ukraine invasion, with scores more interested in making the move.

But by mid-January, Kazakhstan was moving to tighten up on the Russian addition to the population, with the announcement that the country would no longer permit Russian citizens to take advantage of the “three-month visa run” loophole to stay in the country indefinitely. This prompted speculation that neighbouring Kyrgyzstan, largely Bishkek, was set to see the arrival of many of the Russians no longer so welcome in Kazakhstan.

Absorbing more Russians remains a headache for the Tokayev administration, what with occasional provocative comments from the more revanchist Russian nationalists who insist that one day Russia should take back territories of northern Kazakhstan, where most of the country's ethnic Russians – around 16% of the population – live.

Still, there are tempting economic advantages to be had from working with both Putin, in cooperating with some of his reoriented economic plans, and skilled or entrepreneurial Russians not minded to go back home.

Other Central Asian States
Uzbekistan is dealing with similar considerations. While it faces no threat to its territorial integrity from Russia, it does jealously guard its multi-vector foreign policy, not liking to get too close to Moscow.

Statistics on how many Russians have made their way to Tashkent and other Uzbek locations are hard to come by, but a total of 2,300 people took up permanent residence in Uzbekistan last year, up by a fifth year on year. Among them were 813 Russians.

As regards Tajikistan, President Emomali Rahmon remarked to Putin in late October last year that “30,000, we will not call them refugees, the relocated ones, Russian speakers, came... to us”.

Tightly-controlled, remote Turkmenistan is not really an option for almost any ordinary Russian in their right mind, but Mongolia has become a sanctuary to a significant number of Russians escaping the military call-up, albeit usually often a tough one.

This article is part of bne IntelliNews’s series marking one year since Russia’s invasion of Ukraine.

Reporting by Robert Anderson in Prague, Wojciech Kosc in Warsaw, Albin Sybera in Ljubljana, Clare Nuttall in Glasgow and Will Conroy in Prague.
Volkswagen reported to be shelving plans for Central European gigafactory

Albin Sybera

Czech authorities and Volkswagen (VW) subsidiary Skoda Auto have denied a Financial Times report that the German carmaker has shelved plans to build a huge electric battery plant in Central Europe.

The FT reported that VW will focus on building a battery plant in the US, where it could obtain €10bn incentive under President Joe Biden’s new Inflation Reduction Act (IRA) and other schemes.

The US legislation to promote green technology has created panic in Europe, where state aid for foreign investment is tightly regulated by the European Commission and cannot match the US incentives. The EU fears that the IRA legislation could mean Europe is at a grave disadvantage attracting investment in the green industries of tomorrow, such as electric batteries. It is currently considering how to match the US offer to investors.

However, Czech authorities and VW’s Skoda Auto insist the carmaker’s plans for a gigafactory in Central Europe are merely postponed, and that VW is awaiting the EU decision on the new EU incentive framework.

“Volkswagen Group is still committed to building plants for battery particles with a capacity of approximately 240 GWh in Europe before the year 2030,” a statement by Skoda Auto reads, adding that VW “needs the right general conditions and wants to take into account the final framework of EU legislation regarding the so-called new Green Deal.”

Skoda Auto stressed that the “decision-making processes on the construction of gigafactory in Europe and North America are independent of each other.”

The FT article also prompted responses from the Czech government representatives.

“This morning I got in touch by telephone with Martin Jahn of Skoda Auto management, who confirmed to me that the decision on the gigafactoy in the USA has no impact on a similar project in Europe,” Minister of Industry Jozef Sikela (Mayors party) tweeted on Wednesday, March 8.

Government spokesperson Vaclav Smolka stated that the two gigafactory construction plans are unrelated. “Volkswagen has informed us that it wants to announce the final decision about the gigafactory in Europe, which Czech would like to host, only after the European Commission’s stance on the American anti-inflation law will be known,” Smolka told the Czech Press Agency.

Volkswagen had planned to have six battery plants in Europe by 2030, one of which would be in Central Europe, either in Czechia, Hungary, Poland or Slovakia, sparking a massive contest to attract the carmaker. VW has three existing gigafactory sites in Salzgitter in Germany, Valencia in Spain and Skelleftea in Sweden.

VW had been expected to announce the decision on the location of the planned gigafactory in Central Europe by December 16, but the carmaker postponed the decision shortly before the announcement.

The Czech cabinet has been very interested in having one of these in the country, arguing it is a key project for the transformation of the Czech automobile industry, which represents a quarter of the country’s exports and a tenth of its GDP.

A location in Plzen in Western Bohemia has been discussed. However, the Plzen site has been opposed by the municipal authorities, which has damaged the country’s chances.

Governor of the Pilsen region Rudolf Spotak (Pirates), on the other hand, supports the project arguing its relocation to North America would constitute a major loss for Czechia. “I am worried that our behaviour will return to us like a boomerang. Europe seems to repeat its mistakes of letting strong investors leave for other parts of the world,” Spotak was quoted as saying by Czech TV.

Skoda Auto’s massive car plant at Mlada Boleslav has become a major centre for building electric vehicles. / bne IntelliNews
Chinese carmakers break UzAuto monopoly as they move in on Uzbek market

Muzaffar Ismailov in Tashkent

China’s Chery, a state-owned automaker that has become one of the first foreign automotive brands in years to launch production in Uzbekistan, looks likely to put a big dent in the decades-long car monopoly held by UzAuto Motors.

That’s according to analysts and local car owners who have watched the first phase of Chery’s presence in Uzbekistan with fascination.

Last October, Tashkent was treated to a ceremony dedicated to the official sales launch for Chery’s Tiggo 7 Pro, Tiggo 8 Pro and Tiggo 8 Pro Max cars. The vehicles are all assembled at the ADM Jizzakh plant in Uzbekistan.

Even though Chery models are more expensive than cars produced by state-held UzAuto Motors, they are enjoying firm demand among Uzbeks who for decades have faced an extremely limited choice of cars due to high import duties that have kept out foreign makes. The duties meant consumers faced paying 120% more than the initial value of an imported car.

Today, however, as drivers surveyed by bne IntelliNews noted, every 10th car on the streets bears the words “Made in China”.

An additional circumstance that may help Chinese automakers occupy a big niche in Uzbekistan is the market focus on electric vehicles (EVs) and hybrid cars suitable for the Uzbek market.

In October last year, President Shavkat Mirziyoyev observed the growing importation of EVs into the country. In 11M22, Uzbekistan imported cars from 33 foreign countries. China led the list with 10,071 cars dispatched. The prominence of EVs among them, while small, was growing at a fast rate.

Mirziyoyev has also talked about the importance of producing “affordable, low-cost, modern EVs”.

In other local auto market developments, Chinese brand, BYD Auto, recently concluded an agreement with UzAuto to set up an auto assembly plant in Uzbekistan, while Chinese carmaker Exeed has announced plans to start producing cars in Uzbekistan in early 2023. Additionally, a joint venture called “UzFoton” is to be established in cooperation with the Chinese to produce medium-capacity trucks and minibuses. Chinese Oshan cars are also to be assembled and sold in Uzbekistan, with estimated prices expected to range from $13,000 to $30,000.

Chinese EV brands including Jetour, Haval, Hongqi, XPeng, Changan and Dongfeng have, meanwhile, opened dealerships and sales offices in Uzbekistan. The main factors driving Uzbek consumers who opt for Chinese EVs are the relatively low cost, the extended driving range and ease of use.

As bne IntelliNews reported in February, Geely Auto, based in Hangzhou, China, has also arrived on the Uzbek market. The first Geely model to go on sale in Uzbekistan will be the Geely Geometry C electric crossover. “A car with a 204 hp engine and a power reserve of up to 550 km will be offered to buyers at an attractive price,” said Saijon Tursunov, commercial director at Asaka Motors.

“Chinese EV brands including Jetour, Haval, Hongqi, XPeng, Changan and Dongfeng have, meanwhile, opened dealerships and sales offices in Uzbekistan”
Central Asia’s poorest farmers know the value of their land

bne IntelliNews

The soils of Central Asia yield far less meat, dairy and produce today than they did a few decades ago. While that is an undisputed driver of poverty, new research examining the relationship between poverty and soil management challenges the idea that the rural poor are shabby stewards of the land, and could foster novel approaches to soil restoration.

In a paper published this month, Alisher Mirzabaev of the University of Bonn and two Russian colleagues use household survey data from Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan to examine the “vicious cycles between poverty and environmental degradation.”

Mirzabaev has previously calculated that reduced crop yields, lower livestock productivity and increasing needs for costly inputs such as fertiliser and labour – all signs of land degradation – cost the Central Asian economies $6bn a year; the land was 4.8 times more productive in the early 1980s. Degraded land often needs more water, as well, to wash salts out of the topsoil.

But does poverty worsen soil degradation?

The poorest farming households, Mirzabaev and his co-authors found, are more likely to use their land sustainably, for example by reducing tillage (to cut down on fuel costs), diversifying and rotating crops. It stands to reason that farmers who are cash-poor have less money to spend on fuel and fertiliser and other environmentally unfriendly inputs: “Our results show that the poor households have adopted more SLM [sustainable land management] practices than their richer counterparts.”

SLM can be labour-intensive. But for the poorest farmers, who frequently live in rural areas with high unemployment, labour is often one thing they have in surplus.

This lack of alternative local work opportunities “reduces the opportunity cost of family labor, especially for women due to labor market inequalities, leading to increased allocation of family labor to farm production. From the view of land management, lack of non-farm employment opportunities may, thus, allow for the adoption of more labor-intensive SLM.”

In other words, the poorest farmers are putting more hours into tending the land by hand, doing less of the mechanised work that can deplete soils most rapidly.

The authors acknowledge their work could suffer a “survivorship bias,” meaning that the farmers surveyed do not include those who have quit trying to farm depleted fields: “We are looking into the areas where land degradation has not trespassed the irreversibility points and thresholds beyond which no agricultural production is possible.”

This article first appeared on Eurasianet.

Mongolia’s giant Oyu-Tolgoi copper-gold underground mine starting operations

Anand Tumurtogoo in Ulaanbaatar

The long-awaited Oyu Tolgoi copper-gold underground mine, bearing one of the world’s largest copper deposits, was set to begin mining operations on March 13.

Anglo-Australian giant Rio Tinto owns 66% of Oyu Tolgoi, with the government of Mongolia owning the remaining 34%. Throughout the mine’s life cycle, a number of controversies have arisen to date.

Oyu-Tolgoi is located in Mongolia’s South Gobi region. The project is divided into two sections: there is an open-pit mine and an underground mine. Since 2013, the open-pit mine has been producing approximately 1.5mn tonnes of copper concentrate per year. The underground mine holds 80% of the deposit’s total reserves.

The underground mine will significantly increase Oyu Tolgoi’s production and value. It is expected to produce approximately 3mn tonnes of copper concentrate per year, more than tripling current output. This will place Oyu Tolgoi among the top five copper mines in the world in terms of volume and profitability. The project is expected by officials to benefit Mongolia’s economy and society.

This article first appeared on Eurasianet.
Nonetheless, the mine is said capable of generating approximately $5bn in annual sales and of paying into the Mongolian public purse approximately MNT 700bn (towards $200mn) in royalties each year.

Rio Tinto, the project’s operator, intends to invest an additional $3bn in expanding and upgrading the facility over the next few years. Peak production is expected by 2030, when the company will be able to mine 95,000 tonnes of ore per day. Furthermore, Rio Tinto has predicted that demand for copper will rise by 25% by 2035 as a result of its use in renewable energy, electric vehicles (EVs) and digital technologies.

The mining expansion does, however, present some challenges and risks that must be carefully addressed. These include ensuring environmental sustainability, social responsibility, good governance and equitable benefit distribution, as well as effective revenue management.

However, promises in this direction were made in the past when Mongolia experienced a mining boom in early 2010. No such benefits are discernible as yet. For example, a World Bank report stated in 2020 that 27.8% of the country’s citizens live under the poverty line, with 15% on the verge of falling into poverty.

Russia and China sign off $165bn of energy and transport deals in Xi’s second day in Moscow

Ben Aris in Berlin

Chinese President Xi Jinping and Russian President Vladimir Putin held a second day of talks on China’s plan for the settlement of the Ukrainian conflict and expanding economic and trade ties during a meeting in Moscow on March 21.

“We are always on the side of peace, justice and historical fairness. We respect the UN charter. We have reached a consensus with President Putin and we have decided to expand and build our stable co-operation," Xi said.

Dmitry Peskov, the Kremlin spokesperson, confirmed the two leaders had discussed the conflict and a possible peace plan but neither confirmed whether any progress had been made nor gave any details.

Putin suggested that Russia should endorse the Chinese peace plan and will work with Western partners, but gave no further details. China published a 12-point peace plan on the anniversary of the start of the war, which called for a ceasefire, the resolution of the humanitarian crisis in Ukraine and the resumption of talks between Moscow and Kyiv.

Xi has also not spoken with Ukrainian President Volodymyr Zelenskiy yet by phone. When asked why, Chinese Foreign Ministry Spokesman Wang Wenbin said that China was in contact with all sides involved in the Ukrainian conflict.

"China takes a steadfast and clearly defined position on the issue of Ukraine," Wang Wenbin said at a news conference to the question from a Western reporter. "The Chinese side maintains communication with all sides."

Peskov also gave no details of other major topics of conversation, including on whether the leaders had discussed the issue of natural gas contracts or military-technical co-operation, but said this would be addressed in their upcoming statements.

He also referred to the Defence Ministry for information on whether the Russian and Chinese defence ministers would hold a separate meeting during Xi’s visit to Russia. The US
has accused China of supplying Russia with arms, although Beijing has denied the charge.

Chinese Foreign Ministry Spokesman Wang Wenbin says that Beijing intends to take an objective position on the Ukrainian crisis and, together with the international community, promote peaceful dialogue.

Xi visited Russia as part of his first foreign trip since his re-election as president for an unprecedented third term.

Deals
The Russian Prime Minister, Mikhail Mishustin, also met with Xi the same morning and highlighted the importance of strengthening comprehensive partnership and strategic co-operation between the two countries.

“We have chosen Russia for the Chinese leader’s first foreign visit. This fits into the bigger picture, because we are the largest neighbouring powers and all-round strategic partners,” Xi said during a meeting with Mishustin.

Mishustin and Xi agreed on 79 projects worth over $165bn in the Intergovernmental Russian-Chinese Commission on Investment Co-operation, which focuses on energy, high-tech areas, and transport and logistics corridors.

“We prioritise investment co-operation. The Intergovernmental Investment Commission’s portfolio includes 79 projects totalling more than $165bn,” Mishustin said.

China considers it extremely important to link the Belt and Road Initiative with the Eurasian Economic Union (EAEU), Xi told Mishustin.

“China attaches great importance to co-operation to jointly create a link between the Belt and Road Initiative and the Eurasian Economic Union,” Xi Jinping was quoted by China’s Central Television as saying.

He also noted that Beijing is ready to fully implement the agreement on trade and economic co-operation between the EAEU and China and carry out regional co-operation with Russia at a higher level.

Mishustin also highlighted the strategic energy partnership between Russia and China, emphasising co-operation in high-tech areas, and the agro-industrial complex. He also highlighted co-operation on some of the key energy projects, including Yamal-LNG, Arctic LNG 2, the Amur Gas Chemical Plant and the Ust-Luga gas processing complex, as all being examples of successful joint energy projects.

“China attaches great importance to co-operation to jointly create a link between the Belt and Road Initiative and the Eurasian Economic Union”

“I would like to highlight co-operation in high-tech areas. We are discussing aircraft construction, mechanical engineering, machine tool construction, space research, and end-to-end technologies aimed at creating innovative products and providing services. I am convinced that expanding innovative co-operation will strengthen Russia’s and China’s technological sovereignty,” Mishustin said.

In some brief comments after the morning meetings Putin also stressed the co-operation in both logistics and technology so that both countries could become “technologically sovereign.”

“By joining our rich scientific potentials and production capabilities, Russia and China can become world leaders in the field of information technology, network security and artificial intelligence,” Putin said. He also drew attention to the fact that the key to sustainable development of Russia and China is “to ensure technological sovereignty.”

As part of the sanctions regime, the export of tech and equipment to Russia has been banned. Likewise, in January similar restrictions on the export of technology to China were introduced by the US.

One of the few comments on energy co-operation was Putin’s announcement that almost all parameters of gas pipeline Power of Siberia 2 (Sila Sibiri 2) have been agreed.

After Russia’s exports of gas to Europe have been cut to a fraction of those in previous years and are unlikely to restart after the Nord Stream pipelines were destroyed last September, Russia is seeking to reorientate its gas sales from West to East but needs to build a very large new pipeline running to China through Mongolia.
Gazprom said on March 20 that gas exports to China via the existing Power of Siberia 1 pipeline reached a record 15bn cubic metres in 2022, but this still only a fraction of the approximately 150 bcm Russia used to sell to Europe.

Power of Siberia 1 has a nameplate capacity of 34 bcm and the new Power of Siberia 2 could have as much as 50 bcm or 60 bcm, but will take at least five years to build, and possibility longer.

“We have just discussed a good project, this is a new gas pipeline Sila Sibiri 2 running across Mongolia. Almost all terms of this deal were agreed. This means 50 bcm of gas, stable and reliable shipments from Russia,” Putin said.

Putin also stressed that Russia wants to develop mutual payments in Chinese yuan in trade with Asian, African and Latin American countries.

“We support the use of Chinese yuan in payments between Russia and countries of Asia, Africa and Latin America,” the head of state said. The Russian leader also expressed confidence that such “forms of payments will be developed between Russian partners and their colleagues in third countries.”

“National currencies are more and more actively used” in the bilateral trade and two thirds of the trade turnover between Russia and China are already “made in rubles and yuan,” Putin noted. “This practice should be encouraged further” and mutual presence of financial and banking institutions on Russian and Chinese markets should be expanded, he added.

Since Russia was cut off from the global payments system with the SWIFT sanctions that were imposed only days after Russia’s invasion of Ukraine in February, the country has been going through a rapid process of yuanisation of its financial system, adopting the Chinese currency as its reserve currency and for settlement of international trade deals.

US reaction
The high-profile meeting between Xi and Putin has strained relations between China and the US further. Analysts have argued that by the high-profile visit to Russia, China has adopted a more assertive role on the geopolitical stage and is openly challenging the US’ claim to be the global leader.

By offering to mediate in a peace process, China is also challenging the US authority there as well, which makes the issue of a conversation between Xi and Zelenskiy – which would be their first since the war began – of considerable weight.

In comments following Xi’s first day in Russia, US Secretary of State Antony Blinken was dismissive of the visit, blasting Xi decision only days after the International Criminal Court chose to issue an arrest warrant for Putin on charges of kidnapping Ukrainian children.

“The White House has countered that such meetings are standard practice and shouldn’t be used by China as a pretext for escalating the situation in the Taiwan Strait, a senior US administration official said, Reuters reported on March 21.

“We see no reason for Beijing to turn this transit, again, which is consistent with long-standing US policy, into anything but what it is. It should not be used as a pretext to step up any aggressive activity around the Taiwan Strait,” the official said. “There is nothing new from our point of view.”

According to the official, every leader of Taiwan had transited through the US, and Tsai has done so herself six times since taking office 2016, meeting with members of Congress during all of those visits.●
Russian banks earn a record profit in January as the sector starts to recover from sanctions shock

Ben Aris in Berlin

Russian banks earned profits of $3.4bn in January, the most ever for the first month of the year, but the banking sector is still limping from the shock of extreme sanctions imposed last year.

The Central Bank of Russia (CBR) has just resumed publishing banking results this week after a year's hiatus and reported that banks had managed to end last year flat despite a nightmarish summer, and were back in profit over the first two months of this year.

Russia came close to a financial crisis in the first months after the invasion of Ukraine and the imposition of extreme sanctions that immediately followed. For the banking sector one of the most painful were the SWIFT sanctions that were imposed only days later that sent a shock through the financial system.

The CBR results show that the banking sector immediately began to lose money, peaking with a loss of RUB900bn ($11.7bn) in April alone. Altogether banks lost RUB1.7 trillion ($22.1bn) between the months of February and June before the situation stabilised again. At the worst point, a quarter of Russia's banks were loss-making.

The last time Russia's banks earned so little was in 2015 following the annexation of Crimea and the beginning of the sanctions-era as well as a concurrent sharp drop in oil prices. Then the banking sector earned only RUB114bn of net profit for the full year. That compares with the average annual profit from 2012 to 2021 of at least RUB1 trillion.

CBR Governor Elvia Nabiullina has been given the credit of acting quickly to stave off disaster and rapidly imposed strict capital controls and drastically limited withdrawals from banks to prevent bank runs. She also put in a 1,000bp rate hike only days after the war started that stopped a meltdown of the ruble. By May confidence was returning and the sector began to recover, and by July banks went back into the black.

On a cumulative basis, it took all year for banks to make back the money they had lost in the first six months of the war, but the sector ended December with a small cumulative profit for the whole year of RUB203bn ($2.6bn).

As the new year began the sector seems to be getting back to normal. Russian banks earned RUB258bn ($3.4bn) in January – their best result for the first month of the year on record – but February saw a slowdown, with banks earning only RUB35bn, about a fifth of the result for the same month in 2020 and 2021.

The combined net profit of Russian banks increased by 14% on the month to RUB293bn ($3.8bn) in February but was down about 20% from normal pre-war levels.

"In February, the sector's net profit amounted to RUB293bn with a year-on-year return on capital of over 29%, which is a 14% rise on the month," the regulator said in its first banking update for a year.

Part of the fall in profits in February was due to the increase from positive currency revaluation on the back of the weakening, which amounted to RUB140bn.

NPLs
Having suffered such a big shock, non-performing loans (NPLs) would have been expected to have soared, but the level of non-performing debt remains modest.

In January the share of problem loans remained virtually unchanged compared to December 2022 with 6.5% of corporate loans impaired and unchanged, whereas 5.2% of retail loans were bad after a small uptick of 0.1% month on month.

Russia bank profit RUB bn (cumulative)

Source: CBR

www.bne.eu
NPLs in the most risky unsecured lending niche increased slightly in January, up to 8.9% from 8.7% a month earlier, but in the important mortgage loan segment NPLs are only 0.7% of the total portfolio.

Banks have been provisioning for the bed debt, so it doesn’t pose a danger to the system. At the beginning of February, problem corporate loans were 113% covered by reserves and 128% of retail problem loans were also covered.

Both deposits and loans are growing steadily and at about the same pace, so banks are able to fund their own credit book growth out of their own resources.

Russian banks’ retail deposits grew by 2% m/m in February, while corporate deposits climbed by 1.1% in February, the central bank said. The corporate loan portfolio of Russian banks expanded by 1.5% on the month, and the retail loan portfolio rose by 1%, the regulator said.

And the liquidity of the banking sector remains good. Russian banks’ liquidity assets in totalled around RUB18.9 trillion ($244.6bn) in February, the Central Bank reported on March 22.

“This is an adequate level sufficient for covering 26% of clients’ funds in and 58% of individuals’ funds. Another RUB8.6 trillion of liquidity, sufficient for covering 12% of clients’ funds, may be raised by banks with the Bank of Russia on the security of non-marketable assets. Consequently available sources of liquidity cover up to 37% of clients in rubles,” the CBR’s report said.

Russians also have foreign exchange accounts, but there too the liquidity cushion of $60bn those banks hold in reserves is also sufficient to meet demand, the CBR said.

“The banks’ liquidity cushion in foreign currency of $60bn is also at an adequate level, with around 49% of clients’ funds and 29% of currency liabilities covered,” the regulator added.

**Outlook for 2023**

The CBR expects the banking system to go back to more or less normal operations this year. The combined net profit of Russia’s banking sector in 2023 is expected to exceed RUB1 trillion ($13.3bn), according to Nabiullina in a preliminary assessment on March 2.

That result would still be half of the RUB2 trillion the banking sector earned in 2021, the last normal year of operations.

Nabiullina also predicted that Russians’ deposits with banks will rise by slightly more than 7% in 2023, while corporate deposits with banks will grow by about 15%. However, corporate lending growth will slow down to 10% in 2023 from 14% in 2022 and 12% in 2021.

The government has been playing its part to support the sector by subsidising mortgages, which has the added bonus of boosting the construction sector, one of Russia’s three biggest economic drivers. Nabiullina has voiced concern that the mortgage programme could lead to a credit and real estate bubble, but it remains modest.

Nevertheless, Nabiullina also predicted that mortgage crediting will expand by about 15% in 2023, and consumer lending by 10%. However, she cautioned that the quality of mortgages is deteriorating, and the regulator may take additional measures to curb risky mortgage loans.

Nabiullina has also raised a red flag as she says that some banks are attempting to make a quick buck to compensate for the low profits of 2022 by taking bigger risks. If this behaviour creates systemic risks, the regulator may toughen its regulations and monetary policy, she warned.

“As the new year began the sector seems to be getting back to normal. Russian banks earned RUB258bn ($3.4bn) in January – their best result for the first month of the year on record”

In 2022, some regulations and limits were relaxed to ease the pressure on the system, but that created the potential for credit expansion by about RUB15 trillion in the next five years. Cancellation of macro markups on retail and foreign currency corporate loans also freed about RUB1 trillion for banks to use.

Now things have calmed down again the CBR is slowly starting to return the norms to normal, but, dubbed “the most conservative central banker in the world,” Nabiullina still plans to prolong restrictions on the flows of capital and foreign currency, including limits on the withdrawal of foreign currency cash, on trans-border transfers, and on the withdrawal of money by foreigners from non-friendly countries. ■
Retail booms off the beaten track in Southeast Europe

bne IntelliNews

The Prishtina Mall, billed as Southeast Europe’s biggest shopping centre, opened in Kosovo’s capital earlier this month, as investment into malls across Southeast Europe is going strong.

Reports from the region show that demand for new modern retail space remains high, especially in smaller markets, and outside the capitals and major cities in more established markets like Romania.

This is despite the economic turmoil of the last few years, caused by first the coronavirus pandemic and related lockdowns, and more recently by rampant inflation that has pushed up the cost of consumer goods and eroded disposable incomes across much of the region – not to mention bomb hoaxes in several countries that have forced frequent evacuations of malls and other public buildings.

Prishtina Mall opens for business
The Prishtina Mall in Kosovo’s capital, managed by real estate business Sonae Sierra, opened its doors for visitors on March 9.

The shopping centre, located 10 km from the capital of Kosovo, is positioned as a regional centre that will serve the entire surrounding area of the Balkans. Sonae Sierra, which also operates in Croatia, Romania, Serbia and Slovenia, claims that the Prishtina Mall is the largest shopping centre in Southeast Europe.

The mall has a mix of well-known international brands, a cinema, playground, food hall and more than 3,500 parking spaces, and a gross leasable area of 115,000 square metre.

Expanding in the Western Balkans
In neighbouring Albania, the largest local mall, Tirana East Gate (TEG), is being expanded with a loan from the International Finance Corporation (IFC), part of the World Bank Group, as announced by the Balfin Group in December, when the agreement was signed.

The size of the loan was not disclosed but Balfin said it will be used for the expansion of the mall, funding its extension and refurbishment, and the production of green energy via solar panels.

Southeast Europe’s biggest Mall, Prishtina Mall in Kosovo, opened earlier in March. / Sonae Sierra

Tirana East Gate was set up in 2011 and is the biggest shopping mall in Albania.

IFC’s regional director for Europe, Rana Karadsheh, commented that the investment will help develop Albania’s retail infrastructure and create new jobs, signalling “the confidence of IFC in Albania’s long-term perspectives for socio-economic development”.

Balfin, an important regional player in several Western Balkan countries, previously opened North Macedonia’s biggest mall, East Gate Mall, in Skopje in 2021, just as the sector was bouncing back from the corona crisis.

Also in Skopje, Turkish Limak Holding is set to open Diamond Mall in the near future as part of the €250mn Diamond of Skopje multi-purpose complex.

Outside the capital, the La Plaza mall in Kumanovo is being developed by local company Liko Proekt and is an integrated concept for housing, shopping, food and entertainment, with a gross built area of 56,538 sq metres, of which 18,398 sq metres will be a shopping centre.

Among the tenants are Greek retailer Veropoulos, which is expanding its presence in North Macedonia and announced plans for a Vero supermarket and Jumbo toy and homewares store at the La Plaza mall, as well as outlets at the Diamond shopping centre.

Even the region’s smallest country by population, Montenegro, has attracted investment from Israel’s BIG Shopping Centers, which completed the acquisition of Delta City Mall Podgorica for €95mn in 2022. In May 2022, Prime Minister Dritan Abazovic said BIG plans to expand its business in Montenegro and create 1,000 new jobs.

Like investors in several other countries in the region, BIG is looking outside the capital for future investments. “After the acquisition of Delta City Mall Podgorica, BIG announced the expansion of its business to Bar, Kotor and Niksic,” Abazovic said in a tweet.
Focus on smaller cities in Romania

While large, modern malls open in the Western Balkans, bringing new brands to the region, in the more mature markets of Southeast Europe's EU member states the focus has been on opening new malls in secondary and tertiary cities that are less well served than the capitals.

Real estate consultancies forecast a strong year for Romania’s retail sector in 2023. Colliers expects the volume of retail projects in Romania to hit a 12-year high this year, with scheduled deliveries of around 260,000 sq metres of modern retail projects.

This is a considerable uplift compared to 2022, which saw limited deliveries of new modern retail projects, adding only 77,000 sq metres to the overall existing retail surface, about half the initially estimated delivery, the consultancy said in a report on the sector. Nonetheless, most retail categories registered good results in 2022 and the profitability level in Romania remains one of the highest in the European Union.

Real estate developer Prime Kapital and its investment partner MAS PLC, a green property investor and operator focused on retail properties in CEE, said in September 2022 that they plan to invest €1.97bn in retail, office and residential developments in Romania by 2029.

Among the recent developments, the first H&M store opened in Albania at the Tirana East Gate mall on March 20. This follows the opening of the first H&M store in North Macedonia, at East Gate Mall in Skopje, in August 2022.

Primark, while less visible in Southeast Europe than H&M or the Inditex portfolio of brands that includes Zara, has also been expanding in the region. It made its first foray into the broader Central and Eastern Europe with the opening of its Ljubljana store, and launched in Romania in 2022.

Last year, it was just one of 17 retailers that opened their first stores in Romania in 2022, among them Converse, JD Sports, Bath & Body Works, Popeyes, Poke House, and Submarine Burger.

In the homewares store, Ikea has been gradually expanding, starting with the larger markets such as Romania, then gradually moving into less populous countries. It currently has a presence in the four EU members in the region plus Serbia.

In Serbia, consultancy CBRE described the opening of new retail space as “sporadic” in 2022, though pointed to the openings of the AVA Shopping Park in Belgrade and the smaller TC Prozivka centre in Subotica in the north of the country.

However, it added that the pipeline of new projects “remains stable across the country”, and “when it comes to the secondary cities, the activity has remained high”.

BIG CEE is active Serbia, where it has announced the expansions of projects in India, Kragujevac, Krusevac and Zrenjanin, as well as a new project in Pazova and the BIG Cacak retail park.

New brands arrive in the region

Major international brands have long been present in the region’s EU members. Now the major malls in the capitals of the EU-aspiring Western Balkans also host a variety of the big mass market brands. As incomes increase, it has become more attractive for international brands – among those at East Gate Mall, for example, are the portfolios of international fashion retail groups Inditex Group and LLP – and there is strong demand for modern retail space.
Ruben Vardanyan, ousted state minister of Nagorno-Karabakh

Robert Anderson in Prague

The status of Nagorno-Karabakh must be settled as part of any final peace agreement between Armenia and Azerbaijan, and this will require a joint effort of Russia and the West in the United Nations Security Council (UNSC), Ruben Vardanyan, the ousted state minister of the unrecognised breakaway Azerbaijan territory, told bne IntelliNews in an interview.

“It needs to be a joint effort of Russia and the West in the UNSC,” the Armenian-born billionaire says. He admits that the “difficult relations” between East and West might obstruct this but says “in spite of differences in other areas [this could be a] good example of common ground”.

There have been indications that Armenian Prime Minister Nikol Pashinyan might be prepared to cut a separate peace deal with Azerbaijan – which has held the upper hand militarily since the 2020 war – and leave the ethnic Armenian enclave of Nagorno-Karabakh to reach its own settlement with Baku. Vardanyan says the two disputes have to be handled as one.

“This has to be one deal,” says Vardanyan. “There are so many inter-connected issues, I don’t see how they can separate this issue.”

He also warns that any attempt by the Yerevan leadership to stop being the protector of Nagorno-Karabakh would be a big political mistake. “I believe it would be the end of their political career if they do the deal with the conditions they now declare,” he says, pointing out that there is a “difference between the Armenian government and prime minister and the Armenian nation” on this.

Pashinyan’s government has long had a frosty relationship with Vardanyan, who was close to the previous Yerevan regime, and it was clearly glad to see the back of him last month. When asked about his relationship with Pashinyan, Vardanyan jokes, “I have no relationship with Pashinyan.”

Putting Azerbaijan under pressure

As a first step, Vardanyan says the involvement of Russia and the West and other powers is necessary to force Azerbaijan to end its three-month blockade of the only road from the breakaway territory to Armenia.

The former state minister says the blockade had created a “really tough” humanitarian situation inside Nagorno-Karabakh. He says the economy had “collapsed” as businesses shut down, construction and agriculture were impossible and electricity, gas and petrol supplies were unreliable, while children couldn’t get a normal education.

Last month the International Court of Justice ruled that Azerbaijan should reopen the Lachin Corridor to Armenia.

“Azerbaijan has to be put under pressure,” Vardanyan says, adding: “They [Russia and the West] need to come together to make this court decision obligatory on Azerbaijan.”

Vardanyan also argues that the existing mission of 2,000 Russian peacekeepers in Nagorno-Karabakh should be put under a UN mandate, extended for “dozens of years” and increased in size and given heavier weaponry.

There is no way that Nagorno-Karabakh can agree to put itself under the dictatorial rule of [Azerbaijan’s President] Ilham Aliyev, he insists. “There is no chance we can live together in one state [with Azerbaijan] but we can live side by side,” he says.

The controversial 54-year-old tycoon – who founded Russian investment bank Troika Dialog in 1991, sold it to Sberbank in 2011 and disposed of the rest of his Russian businesses in 2013 – continues to defend the Russian peacekeepers against criticism that they have deliberately stood by during the Azerbaijani blockade, which is ostensibly being carried out by environmental activists.

“I recommend that everyone who criticises the Russian peacekeepers comes here to live. They are the only ones providing security for us. I don’t see it as wise for us to criticise those providing security for us,” he insists.

The controversial 54-year-old tycoon disposed of the rest of his Russian businesses in 2013. / Office of Ruben Vardanyan
His defence of the Russian position in the Armenia-Azerbaijan conflict has led to accusations that he is a Russian puppet, a charge he dismisses. “They couldn’t believe someone of my level would come to this place for patriotic reasons,” he says.

Too big a problem
Vardanyan gave up his Russian citizenship in 2022 and moved to Nagorno-Karabakh. Since his dismissal he has remained in the enclave, where he has funded philanthropic activities.

Both Azerbaijan and Armenia were clearly unhappy with his appointment as chief minister in November and were relieved when Nagorno-Karabakh President Arayik Harutiunian dismissed him last month.

Baku had refused to negotiate with him as a representative of the breakaway territory, and face-to-face talks took place the day after he was dismissed.

Vardanyan says that Harutiunian himself openly admitted that he had come under heavy external pressure to dismiss him, and denies that there are any significant differences between them. “It was too big a problem for him,” he claims.

He also denies that he was an obstacle to a settlement, pointing out that there have been no follow-up talks and the two sides remain as far apart as ever. “If I was the obstruction, nothing changed [afterwards] and so it’s not true,” he says.

The meeting between the two sides showed the “different expectations” and was a “huge misunderstanding”, he argues. “Armenians came to discuss technical issues and Azerbaijan came to talk about the takeover of the country.”

Any talks should only resume under international auspices and under clear legal principles, he argues.

Asked finally whether there could still be a role for him in any peace process, he says, “whatever I am needed for by my country I will do it”.

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Romania's largest insurance firm Euroins loses licence

Iulian Ernst in Bucharest

Romania’s Financial Supervisory Authority (FSA) found elements of insolvency at the country’s leading insurance firm Euroins, and decided to withdraw the insurer’s license and filed a bankruptcy request.

The decision comes roughly a year after Romania’s insurance market witnessed the bankruptcy of former leading insurer, City Insurance – an affair that left the buffer formed by local insurers for unexpected accidents almost empty.

Euroins, part of Bulgarian group Eurohold with the European Bank for Reconstruction and Development (EBRD) among its shareholders, called the move “a hostile takeover” and blamed the ASF for its failure to tackle the past three bankruptcy cases on the local insurance market, according to a response quoted by Profit.ro.

Eurohold says it will appeal the bankruptcy procedure. It also accused the ASF of “not taking into consideration the position of the Bulgarian supervisory body”, which is “the main supervisory for EIG Re [Eurohold Insurance Group]”.

The report drafted by the ASF on the activity of Euroins indicates mismanagement and possibly fraud, even if the ASF doesn’t use this word specifically. The market supervisory body says, however, that revenues were overestimated and expenses underestimated; the reserve was insufficient compared to the calculation of future expenses based on national and European regulations. In fact, Euroins failed to follow its own reserve calculation requirements, it said. The deficit of reserves was calculated by the ASF at RON605mn (€120mn).

The ASF has specifically banned Euroins from transferring assets to parent group EIG Re in Bulgaria.

The Policyholders Guarantee Fund (FGA), which manages the insurance system’s buffer, should be designed as a temporary administrator of Euroins, in order to ensure the preservation of the patrimony, according to the ASF’s press release.

The FGA’s mandate ends upon the appointment of the judicial liquidator.

Euroins has failed to meet the solvency ratios for several consecutive quarters since June 2022. The insurer needs RON2.19bn capital in order to meet the required solvency ratio, ASF announced, adding that expecting the shareholders to contribute the requirements under a resolution procedure “is not viable”. The ASF said it has monitored Euroins since 2020 and the fines applied over the period add up to RON16mn. The insurer has challenged the fines in court, but lost all the cases.
March 6 court ruling invalidating the selection of Romanian state-controlled hydropower group Hidroelectrica’s management in 2019 has called into question the company’s IPO planned later this year.

The Court of Appeal rejected Hidroelectrica’s appeal to a lower court’s ruling issued in April 2022 in the case of the former Hidroelectrica CFO Petronel Chiriac who challenged the legality of the selection procedures for the company’s Board of Directors in 2019.

Hidroelectrica said in a statement released after the Court of Appeal announced its ruling on March 6 that the ruling has no impact on the planned IPO, reported Ziarul Financiar daily.

The ruling, furthermore not final, regards only the selection procedure and does not invalidate the mandates of the company’s board of directors, according to the interpretation by Hidroelectrica’s management set out in its statement.

The mandate of the board expires in June 2023 and a selection process is on course for appointing a supervisory board in charge of setting the selection procedures for a new board of directors, the company also explained.

However, a statement signed by lawyer Mihai Kehaiyan, who claims to have represented the plaintiff in this process, but does not mention his name, claimed that “the five directors of Hidroelectrica no longer have any legal capacity – they can no longer sign documents … Practically, they no longer operate as members of the Hidroelectrica Board as of March 1.”

The lawyer argued that some of the board members should have been rejected from the first stages of the selection procedures, as they failed to meet basic requirements such as speaking a foreign language, meeting seniority criteria or not being in a conflict of interest with the company.

Hidroelectrica was expected to carry out its IPO on the Bucharest Stock Exchange (BVB) either in the first part of May or in June, after filing the prospectus with the financial market authority, ASF, in April, Karoly Borbely, a member of the company’s managing board, said in February.

The IPO is designed to allow restitution fund Fondul Proprietatea to cash part of its 20% stake in Hidroelectrica. Borbely added that, in future, the Romanian state might decrease its 80% participation to 65-70%.

The manager of Fondul Proprietatea, Franklin Templeton, argued for a dual listing in Bucharest and London, but its shareholders approved the proposal backed by the Romanian authorities and Hidroelectrica shares will be listed only in Romania. The local market wouldn’t be deep enough for the 20% Hidroelectrica stake, Templeton argued.
Stable outlooks at lowest level for two decades in Emerging Europe, says Fitch Ratings

bne IntelliNews

The war in Ukraine has caused the proportion of stable outlooks among sovereign Emerging Europe issuers to be at its lowest level in nearly two decades, Fitch Ratings said in a report on February 25.

One year since the conflict began, the share of stable sovereign outlooks in Emerging Europe is at its lowest since late 2003, having fallen to just over 36% in February from 70% at end-February 2022. “This is by far the lowest share of any region in Fitch’s sovereign portfolio,” the report says.

The current share of positive and negative outlooks is fairly balanced, at about 23% and 32% respectively.

In Emerging Europe, there are seven sovereigns on negative outlook, the same as at the height of the COVID-19 pandemic, Fitch says.

The negative outlooks for North Macedonia ('BB+') and Romania ('BBB-') predate the war. Those for the Czech Republic ('AA-'), Estonia ('AA-'), Hungary ('BBB') and Slovakia ('A') reflect risks from the energy crisis and fiscal policy caused by the war.

As well as these negative outlooks, Ukraine ('CC') and Belarus (unclassified) were downgraded in 2022 because of the war. Meanwhile Turkey's ('B') negative outlook reflects long-standing risks from its economic policy stance.

According to Fitch Ratings' system, anything at ‘BB’ or below is junk or speculative rating.

However, Fitch says, the sovereigns in the South Caucasus and Central Asia weathered 2022 remarkably well. The influx of people and capital from Russia, Ukraine and Belarus to Georgia ('BB') and Armenia ('B+') boosted both sovereigns’ macroeconomic, fiscal and external performance. Georgia’s outlook was revised to positive in January 2023 and Armenia’s on 10 February.

High energy prices have also strengthened the fiscal and external balance sheets of exporters such as Azerbaijan ('BBB+') and Turkmenistan ('B+'). Fitch revised Azerbaijan’s outlook to positive in October 2022, and Turkmenistan’s earlier this month.

Bulgaria’s ('BBB') positive outlook is due to continued prospects for euro accession.

Ukraine signs off on a $15.6bn EFF staff-level agreement with the IMF

bne IntelliNews

Ukraine has secured a staff-level agreement with the International Monetary Fund (IMF) for a 48-month Extended Fund Facility (EFF) arrangement, the government said on March 22.

The programme will provide Ukraine with $15.6bn (SDR11.6bn) to aid its economic recovery, and help mobilise financing from its international partners. The IMF Executive Board is expected to approve the programme in the coming weeks.

The EFF programme consists of two phases. The first phase, lasting 12-18 months, aims to strengthen fiscal, external, price and financial stability by bolstering revenue mobilisation, avoiding monetary financing, and promoting central bank independence.

The second phase includes extensive reforms for recovery and reconstruction, measures to support Ukraine’s EU accession goals, and enhancements to financial resilience and long-term growth.

“Interesting to see the programme broke into two time stints: 12-18 months, then the next four years. Guess under the first the Fund gives time for the war to end – it also takes Ukraine to the period to the end of the current debt service moratorium, which ends in August 2024,” Timothy Ash, the
During the second phase, Ukraine plans to return to the policy frameworks that were in place prior to the Russian war against Ukraine, including a flexible exchange rate and inflation targeting regime. Structural reforms in fiscal policies will stabilise medium-term revenues by introducing a national revenue strategy, public finance management, and public investment management reforms that aid in the post-war reconstruction process.

“During the second phase it is anticipated that Ukraine will return to the policy frameworks that were in place prior to the Russian war against Ukraine, which includes a flexible exchange rate and inflation targeting regime,” Ukraine’s Ministry of Finance (MinFin) said in a press release. “Moreover, there will be a focus on implementing essential structural reforms in fiscal policies to stabilise medium-term revenues by introducing a national revenue strategy, and also launching public finance management and introducing public investment management reforms that will aid in the post-war reconstruction process. To help the post-war reform endeavours, it is necessary to improve competition in the crucial energy sector, while reducing quasi-fiscal liabilities.”

Finance Minister Sergii Marchenko welcomed the agreement, stating that it will significantly support the Ukrainian economy, financial system and ensure mobilisation of additional donor’s financial resources. He expressed his gratitude to the IMF team for standing with Ukraine.

“The teams of the IMF, the Government of Ukraine, and the National Bank of Ukraine did a tremendous job to ensure that an agreement is reached. I am grateful to the IMF experts for their decisiveness during the mission,” Marchenko said.

“After the Board consideration, the EFF programme will significantly support the Ukrainian economy, financial system and will ensure mobilisation of additional donor’s financial resources, which is necessary for our successful struggle against the aggressor. We are grateful to the IMF team for standing with Ukraine,” Marchenko added.

The staff-level agreement between the Ukrainian authorities and IMF will provide significant financial support to aid the country’s economic recovery and reconstruction efforts. The programme will help to maintain macro financial stability and mobilise additional financing from Ukraine’s international partners. The next step is for the IMF Executive Board to approve the programme, which is expected to happen soon.

Russia’s budget deficit hits its full year target in the first two and half months of 2023

Ben Aris n Berlin

Russia’s federal budget deficit for the first ten days of March has already exceeded the planned RUB2.9bn for the entire year of 2023, Russian Prime Minister Mikhail Mishustin admitted on March 24.

As bne IntelliNews reported, Russia ended 2022 with 2.3% deficit, more than the planned 2%, after oil and gas revenues crashed in December following the December 5 EU embargo on crude oil imports. The budget had been in surplus for 11 out of 12 months but revenues dropped like a stone just as the state made its large annual social payments, which added to the gap between income and outgoings.

This year started badly too when the monthly deficit hit RUB1.76 trillion deficit – more than half of what was planned as a deficit for the whole year. Russian Finance Minister Anton Siluanov explained at the time that much of those social spending costs have been moved to January to front-load the spending, rather than save it up for the end of the year, and certain tax reporting rules have been changed that also had a material impact on the deficit results. At the same time, oil and gas revenues were hit again by the February 5 embargo by the EU on Russia’s export of oil products.

In February, revenues began to pick up again as spending fell significantly, but the deficit continued to widen and now has already hit the target for the full year of RUB2.9 trillion, or 2% of GDP. Expenses in February were not as big as those as in January, and the March figures suggest that expenditures for the month should not exceed RUB2 trillion if nothing changes, reports The Bell.

Following the announcement of the January results economist changed their forecasts and said Russia was on course for at least a RUB3.3 trillion deficit, in the optimistic scenario, and more extreme versions predicted up to RUB6 trillion, or even RUB9 trillion if the January trends persisted, which is not widely expected to happen. The Bell reports that the consensus amongst
The Urals price is becoming increasingly meaningless, as this is the price calculated for oil sent from Russia’s Primorsk port in the Gulf of Finland to European ports and very little oil is sold on that route now. Concerned that these problems could be more serious than expected. The January figures showed that budget revenues for the first month of 2023 fell by 25% y/y, while spending increased by 59%, but Chris Weafer, the founder and CEO of Macro Advisory and former head of research at multiple Moscow-based investment banks, argued in a bne IntelliNews podcast that the January results were a one-off and the true situation with the deficit will not be clear until about April.

Mishustin repeated earlier explanations that the deficit is due to the government advancing its spending, with a significant portion of costs being postponed to the beginning of the year. Mishustin says the budget deficit is expected to gradually align with budget parameters.

As of March 22, the budget deficit had risen even further to RUB3.8 trillion, according to the Electronic Budget portal, The Bell reports. However, it may not be accurate to extrapolate data for the whole of March based on three weeks of data, given that expenses and budget revenues are unevenly distributed within the month.

On a month-on-month basis, the deficit was down RUB1.76 trillion in January, but that reduced to another fall of an additional RUB821bn in February. There was an additional fall of RUB319bn in the first ten days of March, according to the latest results, and extrapolating that suggests the addition will be RUB957bn for the full month, or slightly worse than the result in February.

It was already clear that the budget would face problems with filling, particularly in the face of restrictions on oil and gas exports and military spending. However, analysts are concerned that these problems could be more serious than expected. The January figures showed that budget revenues for the first month of 2023 fell by 25% y/y, while spending increased by 59%, but Chris Weafer, the founder and CEO of Macro Advisory and former head of research at multiple Moscow-based investment banks, argued in a bne IntelliNews podcast that the January results were a one-off and the true situation with the deficit will not be clear until about April.

A second factor is that since the February 5 embargo on products came into force, Russia has sent tankers with its products out over the world to find new customers, but as it takes two months for those tankers to travel to ports in Africa and Asia and back, it will take until April for the new flows of cash from those deals to appear in the budget.

A third factor is that for Russian oil companies it is more profitable to export oil at low Urals prices and refine them elsewhere such as at their EU-based refineries, sell the products on to the European market at normal prices, and book the profits at their EU subsidiaries, as all that reduces their tax bill in Russia. Russian Finance Minister Anton Siluanov has said that the Ministry of Finance (MinFin) is well aware of this change in the market and the ministry has already abandoned the Urals price for calculating taxes due, but it will take several months for the new system to be put in place. According to the latest reports, MinFin is proposing to simply use the Brent price minus a discount formula to calculate what taxes are due that will see revenues jump when this new rule comes into force in April. By how much remains to be seen.

In mid-March, Indian authorities published data showing that the discount was not as large as previously thought, with India buying Russian oil at an average of $79.8 per barrel in January, while the average exchange price of Brent was $84. Taxes for oil companies continued to be calculated based on the price of $50 per barrel of Urals for now, with the difference supposed to be deposited into foreign accounts of Russian oil company structures. Bloomberg reports that Russia has accumulated $80bn (about RUB6 trillion) of shadow reserves abroad in a year. This suggests that the situation with real incomes may not be as dire as the budget statistics suggest.

Despite this, economists believe that the budget deficit at the end of the year will not meet the plan, as promised by Mishustin. The median budget deficit for 2023, according to the Central Bank’s latest macro forecast, is expected to be 3% of GDP, or around RUB4.5 trillion, which is one and a half times higher than the plan.

“The Urals price is becoming increasingly meaningless, as this is the price calculated for oil sent from Russia’s Primorsk port in the Gulf of Finland to European ports and very little oil is sold on that route now.”

There are several new moving parts driving the current deficit: first is that the budget has traditionally used the Urals crude price as the benchmark for taxing oil companies. However, as bne IntelliNews has reported, the Urals price is becoming increasingly meaningless, as this is the price calculated for oil sent from Russia’s Primorsk port in the Gulf of Finland to European ports and very little oil is sold on that route now. Most of it has been redirected to customers in Asia, who are paying an average of $74 a barrel according to a recent study – a lot more than the discount of over 50% that the Urals price implies.

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Croatian retailer Studenac on acquisition spree in market ripe for consolidation

Clare Nuttall in Glasgow

Croatian retailer Studenac has been on an acquisition spree, growing from a local player in the coastal region of Dalmatia to a nationwide chain in just a few years after being acquired by private equity firm Enterprise Investors in 2018.

Today the company is Croatia’s largest retailer by number of stores with a total of 1,100 across the country, and a 7% market share. It aims to become one of the top three Croatian retail networks by sales within the next three years, and grow its market share to over 12% through a combination of organic growth and more acquisitions.

Studenac stands out from other Croatian grocery retail chains because of its proximity format; the company predominantly services a small basket of everyday shopping. Around 60% of Studenac stores have a sales area of between 60 and 180 square metres, and the average network size is around 120 square metres.

“We have developed and implemented a unique proximity retail model that makes us very different from other players in Croatia, and actually the only pure-play proximity format. We predominantly service a small basket of everyday shopping,” Michał Seńczuk, CEO of Studenac, told bne IntelliNews.

“The keys to success include location, opportunities for your customers to save time, a product offering tailored to the local consumer and a good, neighbourly atmosphere. We are convinced that small-format stores are the future of retail in Croatia,” added Seńczuk.

“We are flexible enough to fit into very small spaces – this gives us an advantage when moving into new urban territories,” he adds.

Rapid expansion
Studenac’s founder Josip Milavic set the company up in the early 1990s as a family-owned business. Initially, the company focused on wholesale operations but gradually expanded to include retail activities, with food retailing becoming its primary revenue stream. As of the end of 2017, Studenac had a retail presence in 384 locations, most of them in coastal areas and islands.

Enterprise Investors acquired 100% of Studenac through its Polish Enterprise Fund VIII in a deal announced in June 2018. The partner who led the investment, Michał Kędzia, said at the time of the deal that the firm expected Studenac to benefit from “favourable macroeconomics, a strong tourism industry and consumers’ preference for shopping close to work or home”.

Rapid growth through a combination of acquisitions and new store openings followed, enabling Studenac to approximately triple its number of stores in the ensuing five years. It now has a presence in 15 of Croatia’s 20 counties as well as the capital Zagreb.

Its first takeover was the Istarski Supermarketi chain with 104 stores at the time, also on the coast but in the northern Istria area. It went on to seal four more major deals, taking over Sonik, Bure, Pemo and Lonia, as well as six smaller add-on/bolt-on acquisitions. The company opened 100 new locations organically last year and 193 over the past five years, as well as three dark stores through its partnership with Wolt.

Studenac aims to become one of Croatia’s top three grocery retailers and increase its market share to over 12% though a combination of organic growth and acquisitions. / Studenac
In total, over the five years of Enterprise Investors’ ownership the company has invested more than €250mn in grocery retailing in Croatia, with most of this sum coming from Studenac’s internally generated cash, as well as bank debt.

**Ongoing consolidation**
Croatia’s retail market has followed a similar path to others in the region. Currently somewhat fragmented, there is a visible trend of consolidation in the sector.

“The Croatian retail market is still quite fragmented. It is ripe for consolidation, but the process is only just getting under way, and it will continue for years to come,” said Seńczuk. “Ultimately, only flexible companies with a long-term vision and laser focus on customers’ needs will be able to successfully develop their businesses. As for what Studenac itself is doing, we have an ambitious plan to continue with this path of growth.”

Following its acquisition spree, Studenac now has plans for ambitious organic growth. In 2023 it intends to open 130 new stores, this will rise to 200 a year for the coming years.

Commenting on the company’s future plans, Seńczuk said: “We are convinced that we have found a winning formula with our unique proximity concept, so the task now is to continue to roll it out further, both through organic growth and through acquisitions.”

He believes there is plenty of room in the market for expansion: “Based on our research on the market, we believe the potential is there to add another 3,000 stores in our proximity format, which is one of a kind in Croatia.”

**Digitisation shakes up retail sector**
The company intends to continue to use its digital centre of excellence set-up, as well as to build customer engagement, using tools such as the app it also launched last year.

“Digitalisation is shaking up retail around the world, and Croatia is no different,” said Seńczuk.

The centre of excellence uses advanced analytics to achieve three goals: improving internal processes and points of sale, enhancing the company’s position and supporting growth. Seńczuk says the first projects are beginning to bear fruit, though he warns: “Of course, when it comes to digitalisation, there is a constant threat of getting distracted by how cool the technology is. For it to succeed, you always have to ask how it helps your customers.”

**Several turbulent years**
The years since Enterprise Investors made its investment have been some of the most turbulent in recent history, with the pandemic in 2020 followed by Russia’s invasion of Ukraine, both events accompanied by major economic disruption.

Croatians, like other shoppers across Europe, have been affected by rising inflation since the global economy started to emerge from the coronacrisis, and even more since Russia’s invasion of Ukraine a year ago. The latest data from the national statistics office shows Croatia’s annual inflation stood at 12.7% in January, down from a peak of 13.1% the previous month.

“[C]onsumers are more selective and price-sensitive than before, in response to higher inflation. We are responding to their needs with initiatives including an expanded range of private-label products and wider range of promotional mechanisms,” said Seńczuk. “We are also seeing rising demand for convenience products that fit into a busy urban lifestyle, and we are expanding our To Go offering in markets such as Zagreb.”

Within Croatia, there was the significant step of entry to the eurozone on January 1, 2023, a major change for retailers in the country.

“Euro adoption affected every single employee, from the store staff who had to print out and put up more than 5mn new price labels, through the IT department.”

Euro adoption affected every single employee, from the store staff who had to print out and put up more than 5mn new price labels, through the IT department who had to ensure all of our payments were switched over correctly,” said Seńczuk.

“The biggest effort started with the rollout of dual prices beginning in August and culminated in the first two weeks of January, when customers could pay in kuna but we gave change back in euros. That was a big cash-management challenge, a logistical problem.”

There has also been controversy within Croatia over price increases, which the government and shoppers claim were unjustified, while retailers say they were based on high inflation.

However, looking ahead, Seńczuk believes “the effects on our business are only positive”. “Euro adoption, combined with membership in the Schengen passport-free travel zone, makes Croatia more convenient for tourists, and thus even an even more attractive destination,” he said. “We are looking forward to welcoming more shoppers on the coast this summer – and as a nationwide chain, we are looking forward to the benefits for the entire Croatian economy.”

www.bne.eu
The NASDAQ Stock Exchange has announced that it will delist Russian internet major Yandex, classifieds portal Cian, top three e-commerce major Ozon Holdings, e-payment operator Qiwi and online recruitment platform HeadHunter (HHR).

The shares will be delisted from March 24 unless the companies appeal against the decision. Trading in all the names has been suspended since February 28, 2022 following Russia’s full-scale military invasion of Ukraine, which triggered default clauses on the exchange bonds issued by Yandex and Ozon.

Yandex’s press service has already said that the company will file an appeal in the near future, while Ozon also said that the company is “studying the appeal process”, RBC business portal reported.

Moscow Exchange commented that trading in securities of Russian companies will continue as usual. “In accordance with the Central Bank of Russia regulations, issuers of foreign securities listed on the Moscow Exchange will retain their current listing level, provided they continue to disclose information,” MOEX commented, as cited by RBC.

As followed by bne IntelliNews, in April the government passed a bill banning Russian corporate issuers from listing shares or depository receipts abroad, while also cancelling any dividends or voting rights on foreign shares. An exemption from the ban could be specifically granted by a government commission.

The NASDAQ Stock Exchange has announced that it will delist Russian internet major Yandex, classifieds portal Cian, top three e-commerce major Ozon Holdings, e-payment operator Qiwi and online recruitment platform HeadHunter (HHR).

The shares will be delisted from March 24 unless the companies appeal against the decision. Trading in all the names has been suspended since February 28, 2022 following Russia’s full-scale military invasion of Ukraine, which triggered default clauses on the exchange bonds issued by Yandex and Ozon.

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Yandex’s press service said the company will file an appeal against NASDAQ’s decision. / Yandex

INTERVIEW

Volodymyr Semenyshyn, president EMEA of Ukraine IT company SoftServe

Dominic Culverwell in London

Ukrainian IT industry has remained remarkably stable in the face of Russia’s full-scale invasion. Whilst many leading sectors in Ukraine have suffered significant losses, IT saw a growth in exports helped by an impressive response from businesses.

Following the start of Russia’s full-scale war, Ukraine’s largest IT company, SoftServe, kicked into action. The company employs 9,500 people in Ukraine and helped 5,600 workers relocate, including 1,700 to countries abroad. With development centres across Ukraine and seven other countries, employees were able to continue operations at a significant level.

“Thanks to effective crisis management, diversified teams and the global character of the business, the war’s impact on the company hasn’t been significant,” explained Volodymyr Semenyshyn, SoftServe’s president EMEA, in an exclusive interview with bne IntelliNews.

SoftServe has been able to retain most of its clients and the company’s Net Promoter Score (NPS), which measures client satisfaction, remains unchanged at 80. Some 80% of Ukraine’s tech enterprises retained nearly 100% of contracts, but even then SoftServe’s NPS is above the industry average and it hasn’t let the war affect the quality of work.

Nevertheless, the war has forced the company to postpone some important decisions and decrease investment in new
innovative developments within the company. Instead, the company has looked towards expanding and growing beyond Ukraine with offices in Poland, Bulgaria, Chile, Colombia and Mexico, and a new development centre in Romania.

“This is definitely a way for us to stabilise the business in Ukraine as well. We provide new projects for Ukrainian associates thanks to diversified teams and other development centres,” Semenyshyn said.

Part of the success of the IT industry is the ability to work remotely, allowing employees to retain their positions after moving to safer regions. Throughout the pandemic, SoftServe introduced a flexible work format and currently sees a 15-20% attendance level at its offices. During the autumn and winter blackouts caused by Russia’s attacks on energy facilities, offices became crucial for workers, and attendance skyrocketed to 50-60%.

“At that time, our offices became “points of unbreakability” for our employees, allowing them to work uninterruptedly,” Semenyshyn stated.

Last year, SoftServe saw major relocation to its offices in Western Ukraine, which has so far avoided the brunt of the war. For now, the wave of migration appears to be over, with Semenyshyn noting that 69% of employees plan to remain where they are.

The vast majority of SoftServe employees are currently based in Lviv, where the company is headquartered, with 4,600 IT specialists now working there. This is followed by Kyiv (over 1,200), Ivano-Frankivsk (over 800) and Dnipro (over 800).

Employees also relocated to offices in Chernivtsi, Rivne and Ternopil, all in Western Ukraine. Those who opted to move abroad primarily chose Poland, with others relocating to Romania, Bulgaria, the US, the UK, Spain, Italy, Canada and Germany.

However, SoftServe’s office in Kharkiv, which has suffered heavily from Russian strikes, saw a significant decrease. Prior to the war, 1,300 IT specialists were located there, but this has dropped to 100. Although this has not had an impact on SoftServe’s operations, the city was one of Ukraine’s IT hubs and will need to attract specialists back once the war is over to ensure future investment.

Competition in Ukraine’s IT industry has increased. There was a much smaller number of open positions in the IT market last year, whilst applications remained at a similar level to 2021, resulting in the number of candidates per vacancy doubling from the previous year. Semenyshyn noted that although vacancies did not decrease, SoftServe redistributed positions from Ukraine to its development centres in other countries.

With significant growth last year, Ukraine’s IT sector has contributed immensely to the state budget and IT services made up nearly half of export structure last year. Between January and September 2022, IT enterprises paid UAH48bn ($1.3bn) in taxes. In addition, companies like SoftServe continue to lease offices across Ukraine, whilst employees continue to spend money in the country, strengthening the local economy.

“We preserve our systematic investments in education and training of the future talent pool for the Ukrainian IT industry by co-operating with dozens of universities, investing in local social and educational projects, etc.,” Semenyshyn added.

As such, the Ministry of Economy included the industry in its four key sectors for Ukraine’s recovery, alongside agriculture, metallurgy and military tech. Semenyshyn believes the IT sector will be “helpful at all stages” of reconstruction, as the industry has enough expertise, resources and desire to join the process.

The Ukrainian government is implementing strategies to facilitate “comfortable conditions” for IT professionals, which Semenyshyn believes will help retain tech specialists after the war. SoftServe is supporting the government on this front and is participating in initiatives such as the Diia City tax regime.

Nevertheless, as the conflict continues into 2023, the country’s economy remains unpredictable and businesses are hesitant to invest and work with countries at war. Despite SoftServe’s success in maintaining supportive global clients, the world has felt the consequences of Russia’s invasion.

“Whether the Ukrainian IT sector will continue to grow depends primarily on global processes – once the global economy stabilises and there is no threat of recession, the chances of a quick recovery of the industry will be greater,” Semenyshyn said.

But with Ukraine home to talented programmers and IT professionals, businesses are still coming to the war-torn country. Consequently the IT sector is unlikely to collapse and Ukrainian specialists will remain in high demand, which will only increase after the conflict.

Volodymyr Semenyshyn, president EMEA of Ukraine IT company SoftServe
Russia is successfully evading Western technology sanctions

Russia has managed to largely bypass Western sanctions on technology and semiconductor imports to supply itself with technology to keep its economy working and build sophisticated weapons, Bloomberg reported on March 4.

A senior European diplomat told the wire service that Russia may be sidestepping EU and G7 sanctions to procure vital semiconductor and other technologies for its war in Ukraine. The suggestion that Russia is successfully using middlemen and transit via “friendly countries” was backed up by a recent report on trade conducted by the European Bank for Reconstruction and Development (EBRD).

Amongst Russia’s most important trade sanction busting partners are Turkey, the United Arab Emirates and Kazakhstan, Bloomberg reports.

“Despite sanctions Russia is getting nearly all it wants and needs,” Elina Ribakova, deputy chief economist at Institute of International Finance (IIF), told bne IntelliNews in a recent podcast on sanctions effectiveness.

Despite multiple rounds of sanctions from the EU and G7 since the invasion of Ukraine a year ago, Russian imports have largely returned to their pre-war 2020 levels. Some officials believe that the impact of the sanctions is falling short of what was hoped for.

Shipments from China to Russia have surged and are now approaching a record $200bn turnover, with Beijing playing an increasingly important role in supplying Moscow. While those countries outside the EU haven’t imposed their own sanctions on Russia, most have repeatedly denied they are helping the Kremlin.

The EU has targeted many of Moscow’s key revenue sources and has imposed sanctions on nearly 1,500 individuals and restricted exports on hundreds of goods and technologies. However, officials are concerned that the bloc lacks an effective apparatus to enforce these measures, and that it lags behind the US, which has a longer history of sanctioning foreign powers.

In the US, there is a centralised agency and more efficient procedures for gathering information, as well as stringent legislation and tools to enforce the rules at home and abroad. In contrast, enforcement in the EU is a patchwork effort that mostly falls to member states. While the European Commission monitors implementation and provides guidance, national authorities are responsible for identifying breaches and imposing penalties, leading to inconsistent results.

Ultimately, it’s about political will, said one EU official involved in the process, and national officials can come under pressure when it comes to taking tough action against their own companies.

“Sanctions have not stopped Russia’s import of controlled and dual use high tech goods critical to its ability to wage war on Ukraine, such as UAV/parts and microprocessors/semiconductors. UAV deliveries continued to Russia as late as November and December from UAE, Hong Kong, China, and Singapore. Russia’s imports of microprocessors/semiconductors increased from $1.82bn in 2021 to $2.45bn in 2022 (for the year as a whole). China has become Russia’s most important source of semiconductors and integrated circuits. In 2022, China, Hong Kong, Estonia, Turkey and Germany led by dollar value of microchip sales to Russia; China, Hong Kong, Estonia, Turkey and Germany led by the number of transactions,” Economists at the Free Russia Foundation found in a report on the effectiveness of sanctions.

“The sanctions regime, closely coordinated by the US and EU, was able to disrupt the Kremlin’s direct access to western technology in the short term. Russia established alternative routes fairly quickly with imports of dual-use and controlled commodities now exceeding pre-war levels. Our data shows that countries most actively facilitating circumvention of wartime sanctions by Russia include: China, Turkey, Cyprus and the UAE. In 2022, China became Russia’s most important trade partner, receiving about 20% of Russia’s total exports and serving as the source of 35% of Russia’s total imports,” the economists added.
Turkish route

Turkish exports of similar semiconductors to Russia, rose from $79,000 in 2021 to $3.2mn in 2022, United Nations data shows. And Turkey, which has also declined to endorse US and European sanctions on Russia, has become a major exporter of overall electronic equipment to Russia. Russia’s tech import volume between April and November reached $2.6bn, while at least $777mn was used to purchase products of Western manufacturers, according to a Reuters investigation.

Moscow obtained microchips produced by US Intel, AMD, Texas Instruments Inc, Analog Devices Inc, as well as Germany’s Infineon AG. These microchips are used to build missiles to strike Ukraine’s territory, Reuters reported.

Turkey’s Azu International Ltd Sti registered in March 2022 as a venture that sells IT products in bulk and started supplying US spare parts for computers to Russia the next week. The investigators learned that the company exported and computers and parts for them to Russia worth at least $20mn.

Turkish trade with Russia in general has soared as it steps in to facilitate trade of non-sanctioned goods and supply Russia with a vast array of consumer goods that have disappeared from the market after some 1,000 Western brands decided to pull out of the Russian market. However, their goods are still reaching the Russian market under parallel import schemes.

Baltic States route

The Baltic States have emerged as a key route, with two companies in Estonia massively increasing shipments of semiconductors to Russia. It appears that traders with Russian connections have made use of Estonia’s famous e-residency scheme to set up virtual companies and use them to transit semiconductors sourced in China and elsewhere for transshipment to Russia.

Likewise, as bne IntelliNews reported, over 260 Lithuanian companies continue to trade with Russia, despite that country’s ardent support for the Ukrainian cause. Only a little bit more than one in every two Lithuanian companies that had business ties with Russia cut them after the invasion, according to the State Data Agency, Registru Centras, LRT.lt, the website of public broadcaster LRT, reported on January 4. But that left more than 260 Lithuanian companies still exporting to the aggressor country. According to the agency, Russia’s tech import volume between April and November reached $2.6bn, while at least $777mn was used to purchase products of Western manufacturers.

The Baltic ports are also buzzing with activity. The Port of Riga recorded an increased container cargo volume with 460,700 TEUs in 2022, a record-high cargo turnover rate, exceeding the previous year’s result by 16%, and transhipped 326,000 TEUs, which is the highest annual turnover in its history.

In 2022, the Port of Tallinn saw 18mn tonnes of cargo pass through the port, a 21% decrease y/y, due to the implementation of sanctions on Russian and Belarussian cargo. However, the decline in liquid bulk and dry bulk volumes due to sanctions was somewhat offset by growth in all other cargo types, the port said.

Middle corridor route

With China-Europe cargo forwarders looking to offer businesses the option of freight routes that avoid Russia, Turkey and other countries in the region are keen to help equip and build up the Middle Corridor, officially the Trans-Caspian International Transport Route (TITR) – connecting East Asia to Europe via Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and Turkey.

As reported by bne IntelliNews in 2022, cargo dispatchers in China faced with sending goods to Europe via either Russian or Kazakh territory are increasingly opting for the latter. Volumes dispatched via Kazakh railways are booming, as is transport via Aktau and other Caspian seaports. The head of the Aktau Sea commercial port, Abai Turikpenbayev,
forecast in mid-2022 that the volume on the TITR would increase sixfold during the year to up to 3.2mn tonnes.

Moreover, there is a new impetus to develop long-discussed routes westwards out of China, including the China-Kyrgyzstan-Uzbekistan (CKU) railway.

At the same time the European Bank for Reconstruction and Development (EBRD) stands ready to invest billions of euros in developing cargo routes between Europe and Asia that bypass Russia, as the tussle for control of trade routes across the Eurasia landmass gets underway.

Kazakhstan has become a key transit country for Russia to bypass Western sanctions and acquire advanced semiconductors and other technologies necessary for its war in Ukraine, according to a senior European diplomat. In 2022, Kazakhstan exported $3.7bn worth of advanced semiconductors to Russia, up from $12,000 the year before the war started.

The data suggests that Russia has largely returned to its pre-war import levels, with advanced chips and integrated circuits made in the EU and other allied nations being shipped through third countries such as Turkey, Serbia, the UAE, and other Eastern European and Central Asian economies. Shipments from China to Russia have also increased as Beijing plays an increasingly important role in supplying Moscow.

The EU and G7 countries have introduced multiple rounds of sanctions since the invasion of Ukraine in an effort to degrade Russia’s war machine and undermine its economy. However, the real impact of these sanctions in some areas is falling short of what officials might have hoped for. The situation is especially acute when it comes to advanced chips and integrated circuits that can be used for military purposes.

To tighten any loopholes and prevent sanctions from being circumvented, the EU and its allies are increasingly focused on improving enforcement mechanisms. The US, with its longer history of sanctioning foreign powers, has a centralised agency and more efficient procedures for gathering information as well as stringent legislation and the tools to enforce the rules at home and abroad.

In contrast, enforcement in the EU is a patchwork effort that mostly falls to member states. While the European Commission monitors implementation and provides guidance, national authorities are responsible for identifying breaches and imposing penalties, leading to inconsistent results. Ultimately, political will is crucial, and national officials can come under pressure when it comes to taking tough action against their own companies.

Commission Vice-President Valdis Dombrovskis noted that EU sanctions are contributing to a sustained economic recession in Russia but their effectiveness also depends on how well they are enforced. With Russia’s war in Ukraine continuing into its second year, the EU and its allies must remain vigilant in their efforts to prevent the circumvention of sanctions and tighten any loopholes.

**Western crackdown**

In what is rapidly turning into a game of whack-a-mole, Western powers are starting to crack down on sanction busters. Germany has introduced tough new laws to prosecute companies and businessmen that are actively bypassing sanctions. At the same time, both Europe and the US have launched major diplomatic efforts to put pressure on countries that are facilitating Russian trade to stop, without much success so far.

The Biden administration issued a compliance note on March 2 targeting intermediaries who facilitate the illegal redirection of restricted items to Russia, naming China, Armenia, Turkey and Uzbekistan as potential locations for such activities.

Last week, the G7 announced a new mechanism to strengthen enforcement, while the EU has introduced several tools in its recent packages to go after those aiding Russia. However, EU countries have been hesitant to use some of those tools and pursue potential breaches at home, at least publicly.

Discussions on toughening up the EU’s enforcement regime have raised debates over where the share of responsibilities between Brussels and Europe’s capitals should lie when it comes to policing measures, officials and diplomats say.

Toms Platacis, the acting director of the Latvian Financial Intelligence Unit, said that it would be more convenient for everybody if there was one EU level institution in charge. Latvia has criminalised sanctions violations, while other EU countries have not, making it possible for violators to “look for other countries where evading sanctions carries less potential penalty,” Bloomberg reported.

Europe remains deeply compromised as its efforts to sanction Russia have been mitigated by its efforts to avoid too much economic pain. The US does not have these problems as it remains largely autonomous from imports of key raw materials and energy. As a result there has been a tendency in Europe to offer calve outs and exceptions to some key sanctions, like shipping or the import of fertilisers, or turn a blind eye to some of the more obvious import schemes of good travelling via third countries to Europe.

This has at times led to arduous discussions between member states over exemptions and reporting requirements, as there is no unity within the EU on the sanctions policy.

One senior European minister told Bloomberg that with every round of sanctions, “we take a step forward with new measures and one step back with new exemptions.”
How cryptocurrency mining froze a Kazakh city

Nizom Khodjayev in Astana

To digital currency enthusiasts the term “crypto winter” speaks of a prolonged cryptocurrency bear market, but to Kazakhs in the know it will for ever be associated with the plight of a city hit by power outages during minus-30 degree Celsius weather.

Many media outlets and observers have in the past two years noted the quick rise and sudden death of Kazakhstan’s crypto mining boom. The demise came under the weight of heavy government regulation made urgent by the country’s energy needs. The Central Asian nation saw its electricity grid over-stretched by an influx of crypto prospectors, many of whom hurriedly moved on to Kazakhstan from China when Beijing introduced unsparing crypto crackdowns amid its own difficulties in various provinces with power shortages.

However, the news of the catastrophic city-wide power outage that hit Ekibastuz, in northeastern Kazakhstan’s Pavlodar Region, in late November – an outage that for many was not resolved until at least mid-December, with parts of the city’s power and heating systems still undergoing repairs to this day – was at first often contextualised as simply within the Kazakh government’s track record of such failures. There was no mention of crypto-mining.

Yet in hindsight, with the crypto surge over, it’s clear that energy-thirsty crypto mining probably inflicted damage on Ekibastuz both before and after the boom.

The outage
As mentioned, the energy stoppage in Ekibastuz continued into December and, even after power was restored, at least 17 apartment buildings remained without heating. News items on repair works – namely, to the combined heat and power plant in Ekibastuz and to city homes damaged by the calamity – are still appearing to this day.

After events in Ekibastuz, the authorities served warning that Astana could move to nationalise struggling energy firms. Politicians had been shaken by a full-blown crisis. President Kassym-Jomart Tokayev sacked the regional governor in charge of Ekibastuz, but likely only as a manoeuvre to redirect blame. And he instructed Prime Minister Alikhan Smailov to study the issue of nationalising problematic energy assets, according to a Facebook post from presidential spokesman Ruslan Zheldibay.

Kazakh authorities often attempt to take populist initiatives, such as with calls for nationalisations, to demonstrate the government’s apparent awareness of the issues. It’s all part of an attempt to divert responsibility from officials’ own roles in difficulties that have come to pass.

Kazakhstan’s ageing Soviet-era infrastructure often leads to disruptions in electricity provision. The government said in October that around 65% of regional power grids were in a poor state of wear and tear. The frustration with the grid stands in contrast to Kazakhstan’s status as a net energy exporter.

The rate of power outages became especially stark last year amid the influx of cryptocurrency mining firms to Kazakhstan that started in 2021.

The Kazakhstan Electricity Grid Operating Company (KEGOC), a state-owned company, even introduced scheduled blackouts throughout late 2021 to prevent a system overload amid the spike in crypto-mining.

In 2021, Kazakhstan was considering the possibility of importing electricity from Russia in order to compensate for the strain on the grid caused by the crypto-mining, but with the ongoing war in Ukraine this became an increasingly unlikely possibility with the country attempting to reduce its economic reliance on its traditional ally.

The crypto boom
By the middle of 2021, the crypto mining industry in Kazakhstan had expanded from hosting a small group of prospectors drawn from around 2017 by cheap electricity to having the second-largest crypto sector in the world. In October 2021, Kazakhstan accounted for a remarkable 18.3% of the world’s hash rate.

In the spring of 2022, Kazakhstan’s bitcoin boom peaked after the authorities abruptly disconnected miners from the grid.

By late 2021, there were local estimates showing bitcoin mining in Kazakhstan was consuming more than 1.5
The plant and energy infrastructure was already a major scandal, as Kazakh social media framed the situation as a greater failure involving the central government. But surely any possibility of the disaster being a near direct result of individuals in power mining crypto would have caused an even bigger uproar.

The situation also raises questions about all the “abandoned” crypto-mining farms – initially set up by foreign firms – that appeared in and around Ekibastuz. Were some of them taken over by individuals working for local authorities? Did mining operations simply continue instead of being halted as intended by the government?

Whatever the true sequence of events, the necessity of limiting crypto-mining in Kazakhstan was underlined.

As things stand, Kazakhstan has seen its global hash rate fall to 6.4% (down from the 18.4% peak) since the first quarter of 2022, reducing the carbon emissions of the nationwide power network by 10%, according to ClimateTech vice chair Daniel Batten. And due to Kazakhstan being 87.6%-fossil fuel dependent, less mining in the Central Asian nation results in a higher proportion of clean energy in the Bitcoin energy mix.

The country is unlikely to again become a top player in the cryptocurrency mining world unless it manages to properly address the issue of transitioning much of its energy sector to renewable energy. Or perhaps crypto might ride again in Kazakhstan if the ex-Soviet state builds an expected nuclear power plant.

Or not.

Following the collapse of the Bahamas-based FTX cryptocurrency exchange and hedge fund last year, a scandal that occurred around the same time as the Ekibastuz affair, Kazakhstan is in fact now considering a further tightening of crypto-mining regulations.

Heating or a higher hash rate? No-one put it to the vote in Ekibastuz.

(Photograph of a crypto mining farm in Iceland. Credit: Marco Krohn, cc-by-sa 4.0)

The pace and scale of what has been done so far to combat climate change, and current plans, are insufficient to tackle the problem, said scientists in the latest Intergovernmental Panel on Climate Change (IPCC) report.

In 2018, IPCC highlighted the unprecedented scale of the challenge required to keep warming to 1.5°C. Five years later, that challenge has become even greater due to a continued increase in greenhouse gas (GHG) emissions, said the report.

The IPCC is the United Nations body for assessing the science related to climate change.

Yet multiple, feasible and effective options are still available to reduce greenhouse gas (GHG) emissions and adapt to human-caused climate change – and they are available now, said the report.

“Mainstreaming effective and equitable climate action will not only reduce losses and damages for nature and people; it will also provide wider benefits,” said IPCC’s chair, Hoesung Lee. “This Synthesis Report underscores the urgency of taking more ambitious action and shows that, if we act now, we can still secure a liveable sustainable future for all.”

More than a century of burning fossil fuels as well as unequal and unsustainable energy and land use has led to global warming of 1.1°C above pre-industrial levels. This has resulted in more frequent and more intense extreme weather events that have caused increasingly dangerous impacts on nature and people in every region of the world, said the scientists.

As the report was released, UN Secretary General António Guterres called for net-zero power generation by 2035 for all of the developed world, and by 2040 for the rest of the world. He also called for ending all licensing or financing of new oil and gas. “These plans must clearly detail actual emission cuts for 2025 and 2030, and efforts to change business models to phase out fossil fuels and scale up renewable energy,” he said.

The IPCC report, approved after a week-long session in Interlaken, Switzerland, brings into sharp focus the losses and damages that the world is already experiencing and will continue into the future, hitting the most vulnerable people and ecosystems especially hard. Taking the right action now could result in the transformational change essential for a sustainable, equitable world, said the report.

“Climate justice is crucial because those who have contributed least to climate change are being disproportionately affected.”

“Climate justice is crucial because those who have contributed least to climate change are being disproportionately affected,” said Aditi Mukherji, one of the 93 authors of the report, in the closing chapter of the IPCC’s sixth assessment.

“Almost half of the world’s population lives in regions that are highly vulnerable to climate change. In the last decade, deaths from floods, droughts and storms were 15 times higher in highly vulnerable regions,” she added.

In this decade, accelerated action to adapt to climate change is essential to close the gap between existing adaptation and what is needed. Meanwhile, keeping warming to 1.5°C above pre-industrial levels requires deep, rapid and sustained GHG emissions reductions in all sectors, warned the report.

Emissions should be decreasing by now and will need to be cut by almost half by 2030, if warming is to be limited to 1.5°C.

The solution lies in climate resilient development. This involves integrating measures to adapt to climate change with actions to reduce or avoid GHG emissions in ways that provide wider benefits.
For example: access to clean energy and technologies improves health, especially for women and children; low-carbon electrification, walking, cycling and public transport enhance air quality, improve health, employment opportunities and deliver equity. The economic benefits for people’s health from air quality improvements alone would be around the same, or possibly even larger than the costs of reducing or avoiding emissions.

Climate resilient development becomes progressively more challenging with every increment of warming. This is why the choices made in the next few years will play a critical role in deciding our future and that of generations to come, said the scientists.

“The greatest gains in wellbeing could come from prioritising climate risk reduction for low-income and marginalised communities, including people living in informal settlements,” said Christopher Trisos, one of the report’s authors. “Accelerated climate action will only come about if there is a many-fold increase in finance. Insufficient and misaligned finance is holding back progress.”

There is sufficient global capital to rapidly reduce GHG emissions if existing barriers are reduced, said the report. Increasing finance to climate investments is important to achieve global climate goals.

Governments, through public funding and clear signals to investors, are key in reducing these barriers, said the scientists. Investors, central banks and financial regulators can also play their part.

There are tried and tested policy measures that can work to achieve deep emissions reductions and climate resilience if they are scaled up and applied more widely. Political commitment, co-ordinated policies, international co-operation, ecosystem stewardship and inclusive governance are all important for effective and equitable climate action.

If technology, know-how and suitable policy measures are shared, and adequate finance is made available now, every community can reduce or avoid carbon-intensive consumption, predicted the report. At the same time, with significant investment in adaptation, we can avert rising risks, especially for vulnerable groups and regions.

Climate, ecosystems and society are interconnected. Effective and equitable conservation of around 30-50% of the Earth’s land, freshwater and ocean will help ensure a healthy planet. Urban areas offer a global scale opportunity for ambitious climate action that contributes to sustainable development.

Changes in the food sector, electricity, transport, industry, buildings and land-use can reduce GHG emissions. At the same time, they can make it easier for people to lead low-carbon lifestyles, which will also improve health and wellbeing. A better understanding of the consequences of overconsumption can help people make more informed choices.

“Transformational changes are more likely to succeed where there is trust, where everyone works together to prioritise risk reduction, and where benefits and burdens are shared equitably,” said Lee.

“We live in a diverse world in which everyone has different responsibilities and different opportunities to bring about change. Some can do a lot while others will need support to help them manage the change.”

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**World faces 40% fresh water shortage by 2030 warns UN summit co-hosted by Tajikistan**

**bne IntelliNews**

The governments of Tajikistan and the Netherlands are in the midst of hosting the March 22-24 UN water summit in New York where experts will warn delegates that the world is facing an imminent water crisis – demand for fresh water is expected to outstrip supply by 40% by the end of this decade.

Water is an ever-increasing worry for Tajikistan. Disputes over water rights are one reason why the country has been embroiled in several armed clashes with neighbour Kyrgyzstan during post-Soviet times. Tajikistan is also among the Central Asian nations threatened by warming winters and shrinking glaciers that cause erratic and declining water supplies from the mountains. In fact, researchers say climate change is causing rapid melting of glaciers right across the ‘Third Pole’ – the Tibetan Plateau that is home to the largest global store of frozen water outside of the north and south polar regions – disrupting regional water distribution. The Third Pole functions as a complex water distribution system that delivers the life-giving liquid to multiple countries,
is that we have a water crisis. We are misusing water, polluting water, and changing the whole global hydrological cycle, through what we are doing to the climate. It's a triple crisis.”

The report sets out seven calls to action on water:

- Manage the global water cycle as a global common good, to be protected collectively and in our shared interests.

- Ensure safe and adequate water for every vulnerable group, and work with industry to scale up investment in water.

- Stop underpricing water. Proper pricing and targeted support for the poor will enable water to be used more efficiently, more equitably, and more sustainably.

- Reduce the more than $700bn of subsidies in agriculture and water each year, which often fuel excessive water consumption, and reduce leakage in water systems.

- Establish “just water partnerships” which can mobilise finance for low- and middle-income countries.

- Take urgent action this decade on issues such as restoring wetlands and depleted groundwater resources; recycling the water used in industry; moving to precision agriculture that uses water more efficiently; and having companies report on their “water footprint”.

- Reform the governance of water at an international level, and including water in trade agreements. Governance must also take into account women, farmers, indigenous people and others in the frontline of water conservation.

Addressing the water crisis is fundamental to fixing the climate crisis and global food crisis. “There will be no agricultural revolution unless we fix water,” Rockstrom was also cited as saying, adding: “Behind all these challenges we are facing, there’s always water, and we never talk about water.”

The report from the Global Commission on the Economics of Water warns: “We are seeing the consequences [around the world] not of freak events, nor of population growth and economic development, but of having mismanaged water globally for decades. As the science and evidence show, we now face a systemic crisis that is both local and global.

“Our collective actions have pushed the global water cycle out of balance for the first time in human history, wreaking increasing damage on communities everywhere. Further, countries are interconnected not only through transboundary rivers or streams of groundwater, but also through atmospheric flows of water vapour. And dangerously, we face water’s deepening connection with climate change and the loss of biodiversity, with each reinforcing the other.

“We can only fix this collectively. And if we move with urgency.”
WESTERN AND RUSSIAN DIPLOMATS GLOBETROTTING TO WIN SUPPORT IN BALLOONING SANCTIONS BATTLE

Ben Aris in Berlin
French President Emmanuel Macron was in Africa. US Secretary of State Antony Blinken has just been to Central Asia before visiting India, and Russian Foreign Minister Sergei Lavrov has just completed a tour of Africa, India and the Caucasus, and has no plans to stop travelling. As the war in Ukraine becomes increasingly deadlocked the combatants in the proxy war have been roaming the world in a game of diplomatic speed chess to shore up support and make or break the sanctions on Russia.

Diplomatic activity has become intense and is operating at every level. The series of UN votes has shown that the Russia enjoys plenty of support in the Global South and elsewhere, but as only a handful of countries have come out with openly supporting Russia, the fence-sitting by most of the emerging world has given diplomats plenty to work with.

For the West the main goal at the moment is to cut Russia off from importing weapons and munitions, and trying to plug the holes in a very leaky sanctions regime.

While the condemnation of Russia’s invasion of Ukraine a year ago in Europe and the US has been overwhelming, attitudes to the fight in the emerging world are more complicated as bne IntelliNews showed in a survey of Middle East and North Africa (MENA) countries just after the fighting began.

Lavrov rhetoric
Russian Foreign Minister Sergei Lavrov has been playing to several themes that resonate in these markets. In Africa, the veteran diplomat has repeatedly talked about the Western “neo-colonial” attitudes that are still a raw spot in many countries, and did so again while at the G20 foreign ministers summit in India.

Indeed, in Macron’s four-country tour of Africa his arrival was greeted with demonstrators carrying Russian flags and protesting outside the French embassy thanks to France’s colonial past. The French president’s attempts to reframe France’s role in Africa as a “European” not “French” project seems to have cut little mustard.

Macron was roasted by Felix Tshisekedi, the President of the Democratic Republic of Congo, during a joint press conference.

“This must change, the way Europe and France treat us, you must begin to respect us and see Africa in a different way,” Tshisekedi said. “You have to stop treating us and talking to us in a paternalistic tone. As if you were already absolutely right and we were not.”

Lavrov is preaching to a receptive audience by playing on this theme and the point is doubly sharp, as many of those countries in the Global South point out that the West has had no compunction against using force when it wants to enforce its goals in places like Iraq, Libya Afghanistan and elsewhere.

Lavrov has just completed his own African tour, visiting Mali, Mauritania and Sudan. Last month, Lavrov was in South Africa, which is seen as the most significant of several African nations to have taken a neutral stance on the Ukraine war and to have refused to condemn Russia’s invasion – to the disappointment of the US and other Western partners who also view Pretoria as pivotal to their plans to build relationships in Africa. Tellingly Russia launched joint naval exercises with South Africa on February 24, the anniversary of the start of the war in Ukraine. Russia is also proposing to build a second nuclear power station (NPP) in the country.

“You have to stop treating us and talking to us in a paternalistic tone. As if you were already absolutely right and we were not”
resentment of the West’s hoarding of anti-coronavirus vaccines during the worst of the pandemic is still strong. After rapidly producing the extremely effective Sputnik V vaccine, the Kremlin won kudos from selling it to emerging markets around the world, and especially in Latin America. At the same time, the US came in for a lot of criticism for practising “vaccine apartheid” and actively putting pressure on countries in Latin America into refusing to buy the Russian drug. Brazil and Venezuela have become particularly good friends of Moscow in the meantime.

Emerging markets are also being driven by commercial concerns. US Secretary of State Antony Blinken visited Kazakhstan and Uzbekistan at the end of February, hoping to widen the gap that has appeared between Moscow and Central Asia since the war started. President Kassym-Jomart Tokayev surprised everyone when he told Russian President Vladimir Putin to his face during last summer’s St Petersburg International Economic Forum (SPIEF) that his country does not recognise the breakaway republics in Donbas as independent that were recognised by Russia as being independent from Ukraine.

However, Blinken’s team admitted that there was little chance of breaking Russia’s hold over the Central Asian states, which remain heavily dependent on Russia’s economy and security arrangements, but he did hope to warn them off from selling sanctioned goods to Russia. Lavrov railed against Blinken’s interference.

“That we are now observing enhanced activity not only by the Americans, but also the Europeans, the British in the developing world and especially across the space of the Commonwealth of Independent States, is precisely the policy <…> they don’t hide it that they are working there so that these countries don’t continue to maintain friendly relations with the Russian Federation,” he said at a news conference on March 2 following a meeting of G20 foreign ministers in New Delhi. “If you try to determine the quintessence, it’s ‘take the side of the winner, Russia will fail, so decide in advance.’ And I’m not exaggerating,” Lavrov said.

**Economic power**

Belonging to the poorer half of the globe, most countries are little concerned with liberal values and easily tempted by Russian offers of cheap commodities, energy and arms. Moscow already has a global trade network and has been actively building on this to tie in partners. As Christof Ruehl, Senior Research Scholar at the Centre on Global Energy Policy, Columbia University, pointed out in a recently podcast with bne IntelliNews on oil, Russia has been selling all its crude to India and China, but it could as well sell to another dozen countries in Asia too, and hasn’t. The reason says Ruehl is that Moscow is as interested in using the oil sales to cement its relations with these two populous countries as it is in making money from the deals.

The same trend can be seen in Russia’s growing use of Rosatom, the state-owned nuclear power agency, as a foreign policy tool. Russia’s nuclear exports have surged as it sells nuclear power technology that come with 60-year fuel and servicing contracts to make countries in emerging markets energy-dependent on it. Rosatom has become the new Gazprom, which used to play the same role with gas exports.

Finally, many countries have been shaken by the US weaponisation of the dollar and energy, fearing the same tools could be used on them. As they also live outside the Western values of the liberal world they see Russia and China as an important counterweight to the US dominance of geopolitics. This was most clearly on display during the G20 foreign ministers’ summit in India, where the delegates failed to agree on common closing statement.

Here too, Lavrov played on the US diplomatic tour as evidence of US bullying in the name of “freedom.” The Russian equivalent is Putin’s oft repeated trope of a “multipolar” world, in contrast to the US “unipolar” hegemony. Lavrov emphasised in his speeches that Russia does not impose its wishes on its partners, which are free to pursue their own interests – a somewhat disingenuous line, given Russia invaded Ukraine with the express intent of preventing it joining Nato for its own protection.

**Multinationals**

The diplomatic globetrotting has become a new battleground as both sides attempt to appropriate the multinational institutions for their own ends.

In another sore point, Lavrov played on the Western dominance of these institutions and has been pushing for inviting more countries to join the G20 while at the same time promoting new emerging market institutions like the BRICS organisation as an emerging markets equivalent of the G7, the Russian-sponsored New Development Bank as a mirror of the International Monetary Fund (IMF), and of course the Russian dominated Eurasia Economic Union (EAEU) is a carbon copy of the EU.

Russia is in favour of the “elimination of the Western monopoly” in international organisations and of “increasing the role of developing countries in the World Bank, the World Trade Organization and the IMF,” Lavrov said at the G20. It is keen break away from the dollar as the universal foreign exchange of trade and instead expand trade in national currencies. Lavrov also pushed for new independent payment systems within the framework of the BRICS, the EAEU and the China-led Shanghai Cooperation Organization, he said during the G20 meeting.

Lavrov even tried to turn the tables on the West, appealing to the Global South to ally with Russia, by saying that Russia has not been shut out of the global economy by the West’s sanctions, but the West has shut itself into a sanctions bubble that will drive up its prices and cut it off from the raw materials and energy it needs.

Only “Western partners” have been talking about Russia’s isolation, Lavrov said. “We do not feel isolated at all. The
way I see it, the West is isolating itself, and this awareness will dawn upon it soon,” Lavrov said at the G20 meeting.

The Western countries demand that the developing countries condemn Moscow and in doing so they use a “blow-below-the-belt” tactic. When asked what they may promise in return, the answer is: “We will not punish you.”

This dig at the West is not entirely unjustified. Serbia is one of Russia’s few friends on the Continent, but has found itself under pressure to join the sanctions regime against Russia but has refused.

Serbian President Aleksandar Vucic said in an interview on national television station RTS: “I was told: ‘We have a war going on in Europe, we are participating, even though we don’t say it.’ And they say that [Belgrade] will lose a lot or everything if we do not behave as we should,” Vucic said, Vedomosti reports.

According to Vucic, representatives of Western countries did not rule out the possible termination of investments in Serbia, the withdrawal of funds already invested, as well as the closure of enterprises and the suspension of the country’s European integration process, if Belgrade continued to stay out of the sanction’s regime.

“The methods [of the West] remain the same: political pressure, military blackmail, financial enslavement, economic sanctions and, of course, false propaganda,” Russian Security Council Secretary Nikolay Patrushev said on March 1, during Russian-Venezuelan security consultations, where he was to shore up relations in South America. “We can clearly see how this toolkit is used from the example of our partners around the globe: they are facing an unprecedented pressure from the US, which seeks to force them to sever all ties with Russia, no matter how close and profitable they may be.”

The US is struggling to undermine many of these ties. During his visit to Central Asia ahead of the G20 summit, Blinken said that the US is closely monitoring Russia’s attempts to circumvent sanctions through Central Asia and expressed concern that Russia is obtaining microchips and other technology through imports from its neighbours – which it is. Exports of electronics and semiconductors from Kyrgyzstan in particular have soared in the last year.

Blinken said that the Biden administration will allocate an additional $25mn to help Central Asian countries diversify trade relations and export routes. In addition, the US has granted licences that can help companies in the region to conclude these activities and sever ties with Russia.

Kazakhstan’s Foreign Minister, Mukhtar Tileuberdi, offered platitudes, saying that the country does not want its territory to be used to circumvent sanctions during a joint briefing with Blinken. However, the majority of Kazakhstan’s oil is exported via a pipeline that runs through Russia to the Black Sea port of Novorossiysk, and more recently it did a deal to send its oil through Russia’s Druzhba oil pipelines to replace Russian oil being sold to Germany.

In Uzbekistan, Russia is offering to tie its gas pipelines into its network and set up a gas hub in the country, amongst many other large economic projects.

To emphasise Russia’s economic power in the region, Russia went to war with Georgia in 2008 after it was hailed as a bastion of democratic liberalism after Mikheil Saakashvili took over as president during the Rose Revolution. But since then the country has backtracked after it was captured by oligarch Bidzina Ivanishvili and pointedly wasn’t included in the offer made to Moldova and Ukraine to join the EU last year.

Economically, instead of moving closer to the West Georgia has instead moved closer to Russia. As bne IntelliNews reported, in 2022 Georgia was more economically dependent on Russia than at any time in its post-independence history. In 2022, Georgia received $3.6bn in income from Russia through money transfers, tourism and the export of goods, a twofold increase compared to pre-pandemic levels in 2019.

There is a similar story in Armenia, which underwent a similar coloured revolution, the Velvet Revolution, that installed the nominally liberal journalist Nikol Pashinyan as Armenian president. However, again, instead of turning to the West Pashinyan has gone out of his way to cosy up to Russia as it not only remains the country’s largest trade partner, but also its security guarantor. Pashinyan has met Putin several times to do gas and trade deals and needs Russia’s help to end the conflict it has been fighting against Azerbaijan in the Nagorno-Karabakh region.

The political-economic realities drive much of the regions with Eurasia and while most countries have distanced themselves from Moscow following its act of aggression they remain tightly bound to Russia’s sphere of influence.

The same considerations are true for the Global South, which in addition to the trade in commodities, energy and arms, are keen to see a powerful geopolitical alternative to balance against the US dominance of the international order.
Georgia sticking with its EU ambitions

Ben Aris in Berlin

Despite mass demonstrations in Georgia against the seemingly pro-Russian “foreign agents” law in March and growing trade turnover with Russia following the start of the war in Ukraine, the government in Tbilisi remains dedicated to its policy of deepening its integration with Europe and eventual accession to the EU.

The government continues to work on meeting a 12-point list of criteria the EU requires before granting EU candidate status on June 23, 2022, that officials say will be completed by the end of this year. The goal of joining the EU is enshrined in the constitution.

But the mass demonstrations in March have given Georgia, once considered the bastion of liberal reforms amongst the Former Soviet Union (FSU) countries, something of a black eye. At the same time, they showed how committed the citizens are to moving closer to Europe. Polls show that 85% of the population want to join the EU, forcing the ruling Georgian Dream to rethink its approach to EU integration and admit that trying to pass the law was a mistake.

The Director of International Economic Relations at the Georgian Foreign Ministry, Noshrevan Lomtatidze, told delegates at the recent Georgian Investment summit in London that Georgia is 100% committed to joining the EU but admitted that more work remains to be done to meet the 12 criteria the EU set before it is granted candidate status.

“We have to do our homework better to do all 12 points on the EU list,” says Lomtatidze. “All the major parties agree that we want to join the EU and there is now a competition to see who is the most pro-EU. I believe by the end of 2023 we will reach the end of the process and get candidate status.”

Since the Rose Revolution in 2003 Georgia has adopted a pro-EU policy and in those first years made very rapid progress with reforms. Then-president Mikheil Saakashvili’s foreign ties built much closer ties with the West, such as famously sacking the entire traffic cop force to end bribe taking. And legendary Georgian businessman and minister Kakha Bendukidze radically overhauled state regulation with an axe to propel Georgia to the top of the World Bank’s Ease of doing business ranking.

But in recent years progress has slowed due to foot dragging by the ruling Georgian Dream Party and the unfolding polycrisis.

Established in April 2012 by Georgian billionaire Bidzina Ivanishvili, who made a fortune in metallurgy in Russia, the pace of reforms slowed after Georgian Dreams first election victory in the same year, defeating Saakashvili’s United National Movement (UNM) on a platform of increased social spending and a more pragmatic foreign policy.
with Russia. Since then, Georgian Dream has cemented its hold on power as the dominant political party in the country. The party is currently led by Irakli Kobakhidze as Party Chairman and Irakli Garibashvili as Prime Minister.

The loss of momentum has taken the sheen off Georgia’s former poster boy image to the point where Tbilisi received a stinging rebuke last summer when the EU granted both Ukraine and Moldova candidate status in June, but pointedly left Georgia off the list. Even Bosnia has been granted candidate status in the meantime.

EU foreign policy chief Josep Borrell said in September that Georgia needs to accelerate reforms in areas such as the rule of law, the independence of the judiciary, and media freedom before it can be granted the sought-after candidate status.

However, the party and the country remain committed to the Euro-Atlantic direction and the mass protests in March highlight that one of the legacies of the Rose Revolution is the country has a vibrant civil society that can hold the government to account, similar to that in Ukraine, but almost entirely missing from Russia.

While reforms have slowed, they are still ongoing. Georgian Dream MP Irakli Chikovani said on November 11 that the “absolute majority” of conditions outlined by the European Union for granting Georgia membership candidate status would be completed by December.

And Georgia is still ranked at number seven in the World Bank’s Ease of Doing Business index after Bendukidze’s root and branch overhaul. Indeed, the panellists at the investment summit pointed out that technically Georgia remains one of the most advanced in reforms of all the CIS states.

“I think the question [of EU membership] has become over politicised,” says Vazil Hudak, an economic advisor to the Prime Minister. “We are told to “reduce polarisation in the country” but polarisation is part of democracy. The foreign agent issue was a mistake but now it is being reconsidered. Technically [as far as reforms are concerned] Georgia is far ahead of Ukraine.”

The recent demonstrations and Russia’s military aggression in Ukraine has highlighted the issue of political instability as an investment risk. About a fifth of Georgia remains under Russian occupation – the two northern regions of Abkhazia and South Ossetia were grabbed and annexed by Russia in the 2008 war – and there is the possibility that the Georgian government will use Russia’s distraction in Ukraine to retake these breakaway regions. But political analysts believe that is highly unlikely given the huge mismatch in military power between the two states.

“There are still occupied territories and we have to deal with our northern neighbour – including militarily – but our war is minimalistic. Stability is the key to reuniting the country – a strong economy and a strong democracy. It will eventually happen,” says Hudak.

“The government of Georgia has never been so close to the EU as today,” Hudak adds. “There is a high level of democracy in the country even if the region is unstable.”

Relations with Russia remain complex, as there are over one million Georgians living in Russia today and their remittances home also play an important role in Georgia’s economy. Despite the 2008 war and despite the fact that the

of Europe with close links to Nato,” says Hudak. “Does Georgia have a mandate to open a second front in the occupied territories? Georgia has had a bad experience with wars. Georgia should retain its strong ties with the West and the Prime Minister is prepared to continue to work with the West. Georgia is not pro-Russian.”

As bne IntelliNews has reported, Georgia is currently more economically dependent on Russia than at any time since independence; that is mainly due to the geography of diplomacy, Russia’s proximity and weight in the Caucasus, and the deep economic and cultural ties with Georgia. As part of this delicate balance, Georgia trade is growing with Russia, but the government claims no sanctioned goods are transiting the country.

“The Prime Minister has said that sanctioned goods are not transiting Georgia on their way to Russia,” says Hudak. There are no cases of a good that has been sanctioned passing through Georgia to Russia. Indeed, there are thousands of cases of sanctioned goods that were stopped at the border.”

To further complicate things, several hundred thousand Russians fleeing Putin’s repressive state have moved to Georgia, ironically giving it an economic bump in the process. Lomtatidze points out that Georgia has welcomed refugees from all the conflicts in the region, taking

“The government of Georgia has never been so close to the EU as today. There is a high level of democracy in the country even if the region is unstable”
Georgia’s economy outperforms with 10% broad-based growth and record investment in 2022

Ben Aris in London

The Georgian economy has bounced back fast from the series of sharp shocks of recent years, and rather than being dragged down by the polycrisis that has been unfolding, growth has accelerated in the last year: in 2022 Georgia’s GDP was up by 10.1%, foreign direct investment (FDI) reached record highs and the tourism sector has entirely recovered.

At the Georgian Investment summit held in London on March 16, Noshrevan Lomtatidze, Director of International Economic Relations at the Georgian Foreign Ministry, outlined the plan for further development that includes a focus on privatisation, boosting FDI, improving Georgia’s rating in the World Bank’s Ease of Doing Business, digital transformation, improving transport links and energy independence.

“Georgia has put in a strong economic recovery following the coronavirus pandemic and has proved to be very resilient to the shock of the war in Ukraine that has caused devastation in Ukraine and its people and also to also had affects well beyond the region,” said Lomtatidze.

Lomtatidze says growth in the last year has been broad-based, with exports, manufacturing, FDI all outperforming and revenues earned from tourism recovering to also set a new record high.

Macro stability
Georgia’s economy has been doing well in recent years, growing by about 5% a year on average over the last five years, but the pace of growth accelerated in 2022 to 10.1%, stimulated by a record amount of investment and the arrival of economic migrants from Russia, mostly from the IT industry, that bought their savings and work with them.

Counterintuitively, it appears that the influx of labour and cash has led to a bump in consumption and the migrants have acted as an economic stimulus.

The macroeconomic indicators are also all in good shape too. Inflation was a manageable 9.3% in 2022 (chart), the debt to GDP ratio a reasonable 55.1% and falling, and reserves an acceptable 3.3 months of import cover. Moreover, the dollar deposits at Georgian banks fell to 56.2%; high dollarisation of the sector has been a long-standing problem. The current account deficit of 7.2% remains one of the less good results, but that is also predicted to fall to 6.5% in 2024, says Fitch. Based on these results, if Georgia was already in the EU it would be amongst the top five best performers, says Vazil Hudak, an economic advisor to the prime minister, who was also on a panel at the Georgian Investment day organised by Strategic Council.

FDI into Georgia reached a record $2bn in 2022, equivalent to 8% of GDP, which gave the economy a boost, Lomtatidze said. The total stock of FDI has now reached $8.5bn in an $24.7bn economy, Hudak added, who highlights that a big chunk of this money has arrived in just the last few years, thanks to improving relations with Europe.

“Trade has improved thanks to a Deep and Comprehensive Free Trade Area (DCFTA) with the EU that has helped in the post-COVID period,” says Hudak. “Due to the sanctions on Russia Georgia is becoming an ever more important corridor for trade between Europe and Asia that can reach a population of about 3bn people.”

The investment was broad based into a number of sectors from retail through manufacturing and into energy. The biggest foreign investors are the UK, Spain and the US that together accounted for 46% of all the FDI in 2022.

The government finances have also improved with a budget deficit down to 3.1% and public debt falling from 60% back down to pre-COVID level of 39% of GDP.

“Georgia has been a top economic performer, with more than 5% GDP growth a year over the last five years, and it accelerated in 2022,” says Lomtatidze.

The EBRD backed that assessment up. George Akhalkatsi, the country manager for Georgia and Armenia, said that the EBRD has invested a total of
€5bn into Georgia over the last 30 years, but it has invested €1.5bn of that in just the last four years.

“After the COVID crisis we doubled the amount we had been investing to €600mn a year for two years to help the government, and two thirds of that went into sustainable infrastructure, including renewables,” said Akhalkatsi.

Fitch gives the country a ‘BB’ rating, one of the highest in the region and in its January review upgraded its outlook from stable to positive.

“There were many things that went into the upgraded outlook: recovering gross international reserves (GIR); falling debt to GDP ratio; recovering tourism; the arrival of Russian refugees and their capital inflows; and a sound macroeconomic policy thanks to the help of the IMF,” says Douglas Winslow, the senior director of sovereign debt at Fitch. “Considering we had a record 51 downgrades in 2021, just holding your own in this environment is a significant outperformance. A third of European sovereigns currently have a negative outlook.”

Tourism also recovered in 2022 with 9.3mn inbound visitors – three times the entire population of Georgia. “Tourism has fully recovered in 2022 and contributed to 9% of GDP,” said Lomtatidze.

“Some of these visitors were Russians fleeing the belligerent Putin regime, but their share in the over-all inbound visitors remained small, although the effect on consumption and the value of the lari was a lot more profound,” Koba Gvenetadze, Governor of the National Bank of Georgia (NGB), told bne IntelliNews on the sidelines of the Uzbek Economic Forum in Samarkand in November.

“Migration has played a very important role. The large foreign exchange inflows to Georgia from other countries [have] strengthened the currency and helped contain inflation,” Gvenetadze said.

Following the 2022 Russian invasion of Ukraine, an estimated 100,000 Russian citizens are estimated to have left Russia by mid-March 2022 as economic migrants to many countries. In September 2022, when the partial mobilisation began, another 222,274 people entered Georgia alone from Russia, according to the Georgian Ministry of Internal Affairs, as Georgia is one of the few countries Russians don’t need a visa to enter.

However, with a total of some 300,000 Russians now living in Georgia, that still makes up only approximately 5% of the total inbound visitors in 2022.

East-West trade corridor
The extreme sanctions on Russia and war in Ukraine is remaking many maps. Russia’s gas exports that used to predominately go west are now being redirected and will go east. Much of the land-borne trade from Asia to Europe too used to go through Russia, but now with the sanctions, the route through Georgia that goes under the Caspian and on Turkey via Azerbaijan will now take precedence.

Georgia is strategically placed between Europe and Asia and has access to a market of over 3bn people, says Lomtatidze.

“The route between East and West traversing the Caucasus has become even more strategically significant after the harsh sanctions regime imposed on Russia has effectively closed the more northern route via the Trans-Siberian railway, forcing trade to go below the Caspian Sea rather than to the north of it,” he adds.

“We have a free trade area that already captures 2.3bn and includes the likes of the UK, Turkey, the other Commonwealth of Independent States (CIS) countries and China,” says Lomtatidze. “And we are in talks to extend membership to Israel, UAE and India among others.”

The EU already has an important and fast-growing exports that expanded by 31% in 2022 of which the EU had a 16% share of exports and 22% share of imports – double the level from a year earlier.

The picture is made more complicated by the ongoing close economic ties between Georgia and Russia, despite the fact the two countries have yet to re-establish diplomatic relations since the eight-day war in 2008.

Georgia is currently more economically dependent on Russia than at any time since its independence thanks to booming trade relations. Georgia-Russia trade turnover exceeded $467mn in January-February 2023, up by half (48%) from a year earlier, making Russia Georgia’s number one trade partner. In January-February, trade with Russia was more than its total trade with the whole EU. The animosity from the war remains, but so too do the deep cultural and economic ties.
US warns Orban on stance over Russian invasion

Tamas Csonka in Budapest

The US ambassador in Hungary has warned Viktor Orban’s regime that its equidistant stance between its Nato allies and the Kremlin is unacceptable.

“Hungary has reached an important moment in determining its future path. As Russia’s unjustifiable war rages next door, the time is now for a stronger relationship between Hungary and its transatlantic allies and partners,” the US embassy in Hungary said in a statement after a meeting between Ambassador David Pressman and Secretary of State Antony Blinken on March 10.

The US has become increasingly worried by anti-American rhetoric from senior Hungarian officials and pervasive anti-American rhetoric in the media controlled by the government.

Pressman, a gay human rights lawyer, has found himself on hostile ground since he gave in his credentials in September 2022. The US diplomat has said Budapest’s call for peace should be directed to Putin rather than both sides.

Minister of Foreign Affairs and Trade Peter Szijjarto has come out hard against the diplomat for his criticism of Hungary’s position on the war. “What he or any other ambassador thinks about domestic political processes in Hungary is completely irrelevant, because it is none of his business, it is not his job to interfere in Hungary’s domestic affairs,” Szijjarto said.

Pro-government media have also run a smear campaign against the 48-year diplomat for his sexual orientation.

Hungarian foreign policy pundits say the government has crossed a red line and the meeting in Washington should serve as a wake-up call for Hungarian strongman Viktor Orban, who has positioned himself as a neutral player in the Ukraine conflict. His efforts to block sanctions and military and economic aid to Ukraine have earned him the nickname of the Trojan horse of Russian dictator Vladimir Putin within the EU.

Budapest also remains the only EU country not to ratify the Nato expansion of Sweden and Finland, which is fuelling anger within the military alliance.

The Orban government, in a debate over the billions of euros of cohesion funds and RRF money, has become completely isolated in the EU and in Washington. Pundits say the Hungarian premier is
putting his bets on a Republican victory in 2024. Just around the same time as White House officials were discussing Hungary's "betrayal", President Katalin Novak met Florida Governor Ron DeSantis, a close ally of Orban in Tallahassee.

The communique speaks with unusual frankness and candour in diplomacy about the US administration's concerns, said Istvan Szent-Ivanyi, a former liberal MP, MEP and state secretary of the foreign ministry in the 1990s.

This is a very tough ultimatum for the prime minister, Hungarian-born American journalist Miklos Radvanyi commented. The tone and content of the statement show that in Washington they rang alarm bells. The message is they are fed up with Orban's shuttlecock policy and this serves as a warning to the Hungarian leadership that if it does not join the ranks of allies, there will be serious political, economic and financial consequences.

The foreign minister of Hungary's first democratically elected government after the regime change called Pressman's comments shocking. Geza Jeszenszky said the vast majority of Hungarians were anti-Soviet and strongly pro-American before 1990. Hungary's economic and military security has been assured by EU and Nato membership. The former diplomat said statements by Hungarian officials targeted at the United States and personally against Pressman, are unacceptable, while there is no criticism of the aggressor whatsoever, he added.

"In classical diplomacy, such messages are usually communicated discreetly in a form of démarche [protest notes]. There are plenty of reasons why this was not the case this time. The Americans feel that the Hungarian government's disloyalty was such that it needed to make this information widely known. The Biden administration wanted to inform the public and its allies they were not sitting on their hands," he added.

Orban demands that Sweden and Finland stop criticising his regime if they expect to join Nato soon

Tamas Csonka in Budapest

Hungarian Prime Minister Viktor Orban, who has been stalling ratification of Sweden and Finland's applications to join Nato, has now demanded that the two Nordic countries stop criticising his regime if they expect to join the defence alliance soon.

If Sweden and Finland expect Hungary to be fair and agree to their Nato accession, then those countries must also be fair and stop spreading false information about Hungary, Orban told public radio on February 24, confirming that a parliamentary delegation would be sent to the two countries to resolve political disputes.

However, Hungary's illiberal leader did not elaborate on whether he was requiring any specific moves before the Hungarian parliament completes its debates on the ratifications.

Hungary is the only Nato member country besides Turkey that has not yet approved Sweden and Finland’s bids to join the Western military alliance. The two countries applied for membership in May in response to the war. A unanimous vote of all 30 Nato members is needed to admit new countries.

The Hungarian legislature has not put the matter on the agenda for seven months, citing a number of spurious reasons, including parliament having to pass urgent legislative proposals necessary to obtain the EU recovery funds.

Orban’s comments came a day after a caucus meeting of the Fidesz faction in preparation for the spring session, where lawmakers discussed the issue.

"A serious debate developed, with several lawmakers making a point that politicians of Sweden and Finland had crudely and baselessly offended Hungary ... over the past few years, and they are now asking a favour,” Fidesz faction leader Mate Kocsis said after the meeting.

Kocsis said the move would fall into the course of normal parliamentary proceedings and it would not entail an extension of these. No postponement of the decision by parliament is expected, he added.

Orban noted that the government has asked parliament to support the two countries’ applications for Nato membership. He added, however, that "some deputies of the ruling parties are not overly enthusiastic”, because, among other things, "these states spread obvious lies about our democracy and the rule of law here”.

Orban said Ankara was concerned about “Sweden harbouring terrorist organisations” opposed to Turkey, which was “also an ally whom we must listen to”.
Czech President Milos Zeman: a populist tragedy of our times

Robert Anderson in Prague

Czech President Milos Zeman's departure from office has been greeted with a chorus of boos, raspberries and a general outpouring of derision from all sides. The former Social Democrat premier is widely seen as, without question, the worst president since the restoration of democracy in 1989, with just one third of Czechs declaring they have any trust in him, the lowest figure on record.

Uncharacteristically, the one-time political bruiser is ending his second and final term not with a bang but a whimper. Wheelchair-bound and chronically ill after a lifetime of heavy drinking and chain smoking, Zeman, 78, is quietly disappearing to live in a modest new house close to the Lany presidential estate near Prague where he spent much of his final term.

Commentators have queued up to opine that the country's first directly elected president leaves behind no lasting legacy or achievements.

His successor, retired General Petr Pavel – who against protocol has been virtually acting as the country's new head of state since his election at the end of January – has made it clear that he wants to start with a clean slate. He has even ordered an audit of the Presidential Office before he takes over.

Pavel says he looks to dissident playwright Vaclav Havel, the country's first post-communist president, as his model, and in interviews he has struggled to name anything positive his immediate predecessor has done.

Zeman's wretched 10 years as president have overshadowed the very real political achievements before he became head of state. If he had really retired after his 1998-2002 government – as he told me in 2001 that he planned to do – history would be kinder to him.

Persistent critic

Zeman joined the Communist Party during the Prague Spring experiment of “socialism with a human face” but was expelled soon after the Russian invasion that ended it. Never a dissident, as an economist he was nevertheless a persistent critic of the regime's inadequacies, notably in a brave paper issued in August 1989 – three months before the Velvet Revolution. This earned him a place on the stage at one of the huge demonstrations during the revolution, where he made a much-admired speech.

During the 1990s he built up the moribund Social Democrats into the country’s main opposition party by intensive campaigning in poorer regions in which he savagely attacked the corruption of the right-wing government of Vaclav Klaus.

He was a natural campaigner with a real popular touch. He always looked like he slept in his suits and he genuinely shared working class tastes for beer and plain food. One of his former ministers once told me Zeman caused consternation in a fancy Rome restaurant during an official visit by refusing to eat a lavish seafood dish. A pork schnitzel had to be prepared for him instead.

Zeman was a witty if eccentric orator, able to speak without notes and quote facts off the top of his head, not all of which were accurate. “I am like a computer,” he told me.

One of Havel's advisers once told me that the president had been panicked by Zeman's drunkenness before they were both due to speak at a press conference at Lany to announce his ministerial team in 1998. However, once he took the rostrum Zeman instantly sobered up and gave a bravura performance.

As premier of a minority Social Democrat government tolerated by Klaus's Civic Democrats, he took the Czech Republic into Nato in 1999 and did the hard work of preparing the country for EU membership (finally achieved under the subsequent Social Democrat government in 2004).

His government also carried out a massive reconstruction job after the country's 1997-8 financial crisis exposed not only the insolvency and corruption of the banking sector but also demolished what Zeman called the whole "Potemkin village" built by Klaus, who had boasted that the country had already completed its economic
transformation. Zeman sold the rotten banks to foreign investors and attracted a record wave of industrial investment that laid the basis for the country's now largely completed convergence with Western European living standards.

“I am like a fireman. I inherited the Czech economy in a deep crisis. I have fulfilled my duty and I am completely satisfied. Now I am extremely tired,” he told me in 2001, adding: “I have fulfilled my dream and I have the right to retire.”

He also told me then: “politics is a drug. I am probably the only person for whom it is not. For me it was a profession”.

Unfortunately, he was already a political addict and the side-effects of his addiction were becoming glaringly obvious.

An only child who hardly knew his father, Zeman always had the arrogance of the lone rebel. He reacted badly to media criticism or opposition from party colleagues, never admitting that he could be wrong.

“Czech journalists are like prostitutes. They change their mind with new owners,” he told me in 2002. Later he publicly “joked” about eliminating journalists at a meeting with Russian dictator Vladimir Putin in 2017.

As party leader he was a very dominant figure but he had few real friends, surrounding himself with a tight group of henchmen, some of unsavoury provenance, with whom he plotted against his enemies.

He stepped down as party leader before the 2002 general election “to retire” but quickly returned to stand for the 2003 election in Parliament to succeed Havel as president. However, his erstwhile colleagues already feared what he might do as president and refused to support him, leading to his humiliating exit in the first round.

This defeat festered in his mind during his sojourn at his isolated country cottage over the next 10 years, during which he plotted with his henchmen how to revenge himself on his former party colleagues and return to power.

In 2013, with murky funding and some of his old campaigning flair, he won the country's first direct presidential election. Unfortunately the presidency would only bring out his very worst qualities.

**Expanding his powers**

The Czech president, whose office is the old imperial seat of Prague Castle, has almost a monarchical aura but few powers. All the country's three presidents have struggled to meet their own and the public's expectations of the role.

Havel (president from 1989-2003) failed to impose himself in domestic politics because his huge moral authority and international standing, because he had no party behind him.

Zeman, as well as his immediate predecessor Klaus (2003-13), were more influential on the domestic scene because they were able to meddle in their old parties, but they were still often frustrated with the limits of their powers and often clashed with the government, notably on foreign policy, much to the confusion of the country's international partners.

Zeman, as the first directly elected president, made the most concerted attempt to expand the presidency's powers and he became the most powerful president in terms of domestic politics. This will be his biggest legacy. Apart from that, he has few real achievements in foreign or domestic policy, and did much that was damaging, including lowering the standard of political culture and paving the way for the populism of former premier Andrej Babis.

In foreign policy, where the president traditionally has the greatest reach, Zeman aimed to switch away from Havel's values-based approach in order to focus on supporting exports. Infamously on one of his five visits to Beijing to build economic links he announced: "We don't teach you market economy or human rights, on the contrary, we want to learn from you." However, this policy often served only to benefit the business interests of particular domestic companies – notably Petr Kellner's powerful financial group PPF, with its Chinese consumer finance business – and had few positive spin-offs for the economy as a whole. The much trumpeted wave of Chinese investment never materialised.

Moreover, this value-neutral focus on exports meant Zeman pursued a foreign policy at cross-purposes to the government. He looked east to forge close relationships with the Russian and Chinese dictatorships, thereby damaging the country's image with its Western allies. Consequently, Zeman rarely met Western European leaders and was never invited to the White House, despite his desperate courting of then US President Donald Trump.

Zeman, who met Putin many times, often appeared to be just a mouthpiece of Kremlin propaganda. He criticised Western sanctions, said Russia's annexation of Crimea was a “done deal”, and suggested Ukraine should accept “Finlandisation”, or a tailoring of its foreign policy to meet Moscow's security interests. He also openly backed Russia's Rosatom to build a new Czech nuclear power plant (NPP).

Even worse than this, on several occasions the Presidential Office directly intervened in security policy to do what looked very much like the Kremlin's bidding. This looked even more sinister because the office was run by two aides without security clearance, one of whom – Martin Nejedly – had close Russian links.

Zeman pushed for Russian hacker Yevgeny Nikulin to be extradited to Russia rather than the US, but was blocked by the justice minister, who afterwards resigned.

When Moscow tried to assassinate its former agent Sergei Skripal in the UK with novichok, Zeman muddied the waters by making a false claim that the nerve agent could have come from Czech stocks instead. He also questioned the secret service's investigation that found that the same Russian agents that had tried to poison Skripal were behind the explosion at a Czech arms depot in Vrbetice in 2014.
In 2020 Zeman brazenly asked to see secret information on Russian agents in Czechia, but the State Security Service (BIS) refused.

These interventions led to an extraordinary open war between the presidential office and the country’s security services, which Zeman even accused of spying on him.

Zeman tried repeatedly to remove the head of the BIS and he succeeded in pushing out the head of the National Cyber and Information Security Agency (NUKIB) in 2019 after it released a report warning against using equipment from China’s Huawei.

Zeman’s independent foreign policies towards both Beijing and Moscow ended in complete failure. Chinese high-handedness – including attempts in 2019 and 2020 to bully the leaders of the Senate to prevent them from visiting Taiwan – led to a fierce backlash. One of president-elect Pavel’s first steps after his election was to hold a telephone call with the Taiwanese president, much to the fury of Beijing.

Zeman’s policy towards Moscow ended in even worse humiliation. The Vrbetice case led to a freezing of diplomatic relations, and then Putin’s invasion of Ukraine forced Zeman to go into full reverse.

“With this act, Russia is committing a crime against peace. ... The madmen need to be isolated,” he said on February 24.

“He got upset that Putin treated him like that,” explains former spokesman Libor Roucek.

Hostile journalists have suggested that Zeman did not really change his attitude towards Putin and was just trying to stay in tune with public opinion and avoid yet another attempt to impeach him.

A presidential coup
In domestic policy Zeman was, if anything, even more dominant for a while. He was able to dictate not just appointments to key state agencies and companies, but also to appoint his own government and extend the president’s constitutional powers by vetoing ministers.
But his power finally collapsed when his ally, billionaire populist Andrej Babis, lost the 2021 general election and then the presidential election in January this year. As in foreign policy, all those years of influence left nothing lasting of value and much that was negative.

Zeman began his presidency with a coup. Almost immediately Zeman came into office in 2013 Petr Necas’ right-wing government collapsed. Zeman seized the opportunity to appoint a caretaker government of his own choosing, even though the ruling Civic Democrats had proposed another premier. Zeman kept his former minister Jiri Rusnok in power for seven months, despite the fact he never won a vote of confidence.

When the Social Democrats (CSSD) won the subsequent general election in October 2013, Zeman tried to wreck his revenge on the former colleagues who had betrayed him a decade before.

First he masterminded a coup attempt against CSSD leader Bohuslav Sobotka. When that failed, he built a strong alliance with Andrej Babis, the agro-chemicals tycoon who had entered the government as leader of his own “technocratic populist” party.

Over the next eight years Zeman was able to use his popularity, his office and his supporters in Parliament to undermine his old party and help transfer its support to Babis, who went on to win the 2017 election and become the dominant coalition partner.

In 2021 the Social Democrats, now under a supine Zeman loyalist, failed to pass the 5% threshold to enter Parliament. Out of petty revenge, through his machinations he had destroyed the party that he had built up to become the country’s leading political force for two decades.

As well as the extension of the presidential powers, perhaps Zeman’s most profound legacy has been on the country’s political culture, where he played a key role in the rise of populism.

Even during his first election campaign as CSSD leader in 1996, Zeman sparked outrage because of his intemperate comments about Prime Minister Vaclav Klaus leaving behind a devastated “wasteland”.

But this was nothing compared to the divisive campaign he fought to win the 2013 presidential election, during which he deliberately stoked antagonism between his poorer, rural voters and the liberal “Prague café” supporters of his rival, former Havel adviser, the aristocratic Karel Schwarzenberg. He repeated the same tactics in his victory over the hapless chemist Jiri Drahos who stood against him five years later.

Zeman perfected the old populist tricks of aggressive rhetoric, insults against journalists and rivals, championing of the common man, and deliberate deepening of society’s divisions. But he was also one of the first to use the relatively new issue of Moslem migrants as a way of whipping up support.

“Zeman started this topic even when it wasn’t current,” Professor Vladimira Dvorakova once told me, remembering a debate at Prague’s University of Economics in 2012 when he asked her: “Why is no one asking about Muslims?”

This political style and selection of topics has helped pave the way for the rise of Babis and far-right leader Tomio Okamura, though they lack his flair.

Zeman also demeaned his office by his own behaviour and that of his close aides. Zeman was always a notorious boor – he drank all the way through every one of my three interviews with him as premier – but he appeared to be able to handle it, even though he repeated the same “bon mots” each time.

But as president this hard drinking eventually caught up with him. In the most famous episode, he was caught on video in 2013 lurching around drunk at an official state event after getting sozzled at a Russian embassy reception.

Zeman also surrounded himself with a gang of parasites who have been accused of numerous scandals. Often he appeared almost like their prisoner, and even former ministers complained they were unable to get through to him (Zeman does not have his own mobile phone).

This impression was only magnified when Presidential Office Chancellor Vratislav Mynar refused to acknowledge that Zeman was unable to perform his duties after he was rushed to hospital in October 2021. Facing calls to resign, Mynar later staged a photo with Zeman signing an official document from his hospital bed that just raised further questions.

Zeman’s reputation took another dive last year when he pardoned those involved in a corruption scandal at the Lany presidential retreat.

Pavel has said he wants to restore dignity to the office and he will draw a thick line under all this. But Zeman’s legacy of an expanded presidential role and the coarsened political discourse will be more difficult to escape.

Pavel has already indicated that – like Zeman – he has his own ideas and wants to be an active president. His problem will be that – unlike Zeman – he has no party behind him, and the country’s politicians will now be very keen to restrict his role after their unhappy experience with Zeman.

“Over the next eight years Zeman was able to use his popularity, his office and his supporters in Parliament to undermine his old party and help transfer its support to Babis”
Combined economic and political pressure push Serbia towards sanctions decision

Clare Nuttall in Glasgow

As economic and political pressure on Serbia to join Western sanctions on Russia grow, Serbian Economy Minister Rade Basta took the unexpected step of calling for Belgrade to impose sanctions.

He made the appeal – which sparked an immediate backlash – amid a tougher line taken by Western leaders on sanctions that has seen pressure increased on other countries such as Hungary and Turkey that have sought to keep a foot in both camps.

Serbia has so far refused to impose sanctions on its traditional ally Russia, despite being under heavy pressure from its Western partners to do so; as one of the EU candidate countries it is expected to align its foreign policy with Brussels’.

Such calls have been made in the past year by opposition figures as well as by former mining and energy minister Zorana Mihajlovic, who lost her job in the last government reshuffle, but there has so far been little open debate on the politically sensitive issue.

Basta, however, openly said he supports the introduction of sanctions against Russia in an Instagram post on March 13.

“Our country is already paying a heavy price for not imposing sanctions on Russia, and it is becoming unsustainable. As the minister of economy, I can’t accept that such amount of pressure is being put on Serbian President Aleksandar Vucic and we remain silent,” Basta, a member of the national-conservative United Serbia Party, wrote.

“That is why I am in favour of imposing sanctions on Russia, I stand by President Vucic in the defence of state and national interests, and I have absolute trust in him. That is why I am asking the government of Serbia and all ministers to make a statement on this issue,” he added.

Basta implied his position has changed as the war has dragged on, saying that “with the passage of time, the reality has changed, and the conflict shows no signs of ending. Small countries always suffer in the conflict of big ones, and due to the global turmoil, Serbia is faced with terrible pressures.”

Polls carried out over the last year show Serbians are broadly behind their government’s position on not introducing sanctions, and there is also a high level
of sympathy towards Russia. Basta’s comments thus drew criticism from both government and opposition ranks.

Foreign Minister Ivica Dacic said his party supports the government’s existing policy, Politika reported, while the Socialist Movement called on Basta to resign. United Serbia leader Dragan Markovic Palma said Basta had given his personal opinion and that the party does not back sanctions.

The public backlash against Basta’s statement was evident from the comments under his Instagram post. “I think that it is not right what you stand for, sir, and I think that 85% of the inhabitants of the Republic of Serbia think so as well!” reads one of the comments. “The people will not allow the introduction of sanctions against Russia!” another comment said.

Russian officials also weighed in on the debate in response to Basta’s comments. Kremlin spokesman Dmitry Peskov talked of “unprecedented, harsh [and] illegal” pressure on Belgrade, while foreign ministry spokesperson Maria Zakharova referred to Basta’s “strange attitude”.

Pressure to pick a side
As reported by bne IntelliNews, other countries in the region that have sought to maintain relations with both the West and Russia are also coming under pressure to take a clear stand against Russia. At the same time, Western diplomats are piling pressure on countries friendly to Russia to stop helping Moscow dodge sanctions.

With 10 packages already announced, EU foreign policy chief Josep Borrell admitted on March 10 that the West is running out of sanctions options, and the emphasis seems to be shifting towards enforcing existing sanctions more forcefully.

In the last few days, Turkey, which had been successfully playing both sides, abruptly stopped exporting goods to Russia. Meanwhile, one of Russian President Vladimir Putin’s strongest advocates in Europe, Hungarian Prime Minister Viktor Orban, has said that he might “rethink” his relations with Russia in the future in light of “shifting geopolitical realities”.

US Ambassador in Hungary David Pressman also warned the Hungarian government on March 10 that its equidistant stance between its Nato allies and the Kremlin is unacceptable. “Hungary has reached an important moment in determining its future path. As Russia’s unjustifiable war rages next door, the time is now for a stronger relationship between Hungary and its transatlantic allies and partners,” a US embassy statement said.

Serbia’s best interests
Vucic has said since the invasion that Serbia will act in its own best interests, a sentiment echoed on occasion by Dacic.

Belgrade has continued its policy of maintaining relations with both Russia and the West over the past year, despite this becoming increasingly difficult. While avoiding sanctions, Serbia has voted consistently to condemn the war in UN votes and refused to recognise Russia’s annexations of Ukrainian territory.

However, Basta is not the first government minister to push for Serbia to take a tougher stance on Russia. Until the new government was appointed last autumn, Serbia’s former Minister of Mining and Energy Zorana Mihajlovic was the main pro-Western voice in the Serbian government. She openly clashed with then interior minister Aleksandar Vulin during the latter’s visit to Moscow in August, when she accused Russian Foreign Minister Sergei Lavrov of “abusing” Serbia’s decision not to impose sanctions on Russia by falsely claiming Serbia supported Russia’s invasion of Ukraine.

After losing her position in the new cabinet announced in October, Mihajlovic told journalists that she will “always fight for Serbia in the West”.

Opposition politicians in Serbia have several times argued that Serbia should harmonise its foreign policy with the EU, or at least open up a dialogue on whether to impose sanctions on Russia.

Opposition to sanctions
Opponents of the sanctions cite the traditional ties such as culture and language between the two Slavic nations, Serbia and Russia. Moscow also supported Serbia when it was sanctioned by the West during the wars of the 1990s in former Yugoslavia.

There is a vocal pro-Russian contingent in Serbia, which has seen several far-right rallies calling for Belgrade to actively support Moscow.

Today, the main leverage Russia has over Serbia is its support in keeping Kosovo – which unilaterally declared independence from Serbia in 2008 – out of the UN and other international organisations.

With a deal between Belgrade and Pristina potentially approaching, this would most likely dramatically change the relationship between Serbia and Russia. However, any deal would face strong opposition from sections of the Serbian population. A slogan now being chanted at pro-Russian protests is “who signs, dies” – a direct threat to Vucic.

Sentiment starts to change
However, vox pops carried out by bne IntelliNews revealed that unconditional Russomania in Serbia has started waning despite aggressive campaigns by Moscow.

The set of interviews revealed that the impact of the war on everyday life,
such as higher prices of heating and electricity and food, is causing the change of sentiment. Other factors are the risk of isolation from the rest of Europe. The hundreds of Russians, who fled their homeland because of their opposition to the war and are now living in Serbia, have contributed to the beginning of the change of mindset.

This was also evident on the anniversary of the invasion of Ukraine, when several hundred people gathered at a peaceful demonstration on Republic Square, where they raised a Ukrainian flag on Republic Square, then marched through the city centre.

Among the protesters were Serbs, Ukrainians and Russians – many of whom have fled Russia for Serbia – as well as foreign diplomats.

On the same day, a group of activists arrived at the Russian embassy to deliver a request to Russian President Vladimir Putin to surrender to the International Criminal Court at The Hague. The group carried an iced cake that appeared to be dripping with blood and which was topped with a large skull, which they left on the pavement outside the embassy.

Reports of recruitment by the Russian paramilitary group Wagner in Serbia have also created tensions, as recruitment of Serbian citizens to fight in foreign wars is against the law.

Wagner is understood to have stepped up its activities in Serbia, where many people are sympathetic towards Russia, with the opening of a so-called ‘cultural centre’ in late 2022.

The criticisms were not limited to local activists, some of which filed a criminal complaint against Wagner; Vucic also spoke out on the issue, saying that Russia should stop efforts to recruit Serbs to fight alongside the Wagner group in Ukraine. Vucic said he had “told his Russian friends” that it is not fair on Serbs or Russians to invite them to fight against Ukraine via websites, because Serbs are “suffering for not imposing sanctions on Russia”.

Paying the price
Serbian Prime Minister Ana Brnabic said on March 12 that Serbia is paying the price economically for not imposing sanctions on Russia.

“Does the non-introducing of sanctions cost us? Yes, Serbia is also paying that pricea ... We pay a certain price because we were able to get a better price for government bonds, more favourable loans, more investments,” the prime minister told TV Prva.

Analysts interviewed by bne IntelliNews for a recent feature on FDI in the Western Balkans said that Serbia has damaged its standing among foreign investors by failing to take a strong stand against Russia.

The invasion of Ukraine shifted the emphasis from investing in nearby countries to investing into friendly countries with shared values.

“Nearshoring is the story of the past. Friendshoring is the new trend,” said Branimir Jovanovic, economist at the Vienna Institute for International Economic Studies (wiiw).

Natalia Otel Belan, regional director for Europe and Eurasia at the Center for International Private Enterprise (CIPE), told bne IntelliNews that investment destinations are now viewed in the context of the “global fight between autocracy and democracy”.

While almost all of the region is expected to receive much stronger FDI inflows in 2022, Serbia is the exception, as in nominal terms it saw a stagnation (for the data available so far), and FDI declined as a share of GDP.

Specifically, investment from EU countries dropped sharply in 2022, accounting from only around one-third of the total compared with around 60% in previous years. By contrast, Chinese FDI increased a lot, and in 2022 China will be the biggest investor, overtaking the EU for the first time.

The stagnation in investment is a major change. Jovanovic noted that until now, “Serbia was considered to be the success story for FDI in the region”. “For the same reasons as some companies left Russia, they are not investing in Serbia now. They don’t consider Serbia to be friendly to the West, to the EU. And because of that they are saying we don’t want to invest in this country which is a friend of Russia,” he told bne IntelliNews.

Expanding on this, Jovanovic cited company executives from Germany and other countries who disclosed they are having second thoughts about investing in Serbia because of the political uncertainty. “So far, they are postponing decisions to invest in Serbia, but if things do not improve they might also cancel investments. It seems Serbia is [paying the] price for its uncertain position re the Russia and Ukraine war.”

EU accession progress stalls
The EU has sought to encourage countries from the Western Balkans and Eastern Neighbourhood following the invasion of Ukraine by extending candidate status to Ukraine, Moldova and Bosnia & Herzegovina, and allowing Albania and North Macedonia to start accession negotiations.

Serbia, meanwhile, has faced repeated calls from MEPs to introduce sanctions on Russia or risk having its EU accession progress frozen. In one recent draft report, the European Parliament’s standing rapporteur for Serbia said the country’s alignment with a “warmongering autocratic regime” — namely Russia — is unacceptable.

US Ambassador to Serbia Christopher Hill also argued earlier in March that Serbia is “paying a high price” for not introducing sanctions on Russia. Hill said in an interview with Novi Pazar Radio Sto Plus that the failure to introduce sanctions was one of the main reasons slowing down Serbia’s progress towards the EU.

Hill also said he believes Russia is “not helping Serbia in any way”. “They [Russia] did nothing to help solve the Kosovo issue, they did almost nothing to help economically, even for their energy support, Serbia has to pay,” the diplomat said. ❖
Russomania slowly fades in Serbia as Putin’s hybrid war continues

Ann Smith in New York and bne IntelliNews reporters in Belgrade

A year after the beginning of Russian President Vladimir Putin’s war in Ukraine, unconditional Russomania in Serbia has started waning despite aggressive campaigns by Moscow.

Vox pops carried out by bne IntelliNews on the streets and in the cafes of Belgrade reveal the impact of the war on everyday life, such as higher prices of heating and electricity and food, is what is causing the change of sentiment.

Other factors are the risk of isolation from the rest of Europe, as well as the cruelty of the Russian aggression in Ukraine without an end in sight. Russians that currently reside in Serbian cities and openly oppose the war have significantly contributed to the beginning of the change of mindset too. Hundreds of them participate in public gatherings despite the risk of being spotted by Moscow’s agents on the ground, showing to local people that the Kremlin’s actions are not good for anyone, including Serbs.

Youngsters – a potential wind of change

“You surely know the song ‘Should I stay or should I go?’ from The Clash? Everybody knows it. You know why? Because that’s what we listen to every day, every hour, every minute, in our homes,” TS, a high school student from Belgrade, told bne IntelliNews reporters in the capital's Starbucks cafe.

“That’s a dilemma our parents always have. They stay because they don’t want to go, but they still know that if they go they may help us live without that dilemma. And where do they want to go? To the EU, Denmark, Germany, France... it doesn’t really matter where exactly, so long as it’s the EU. Isn’t this the answer to all our national dilemmas? I do believe that EU is not only a dream and that it is our future – to stay here but to be there – in the EU.”

His classmate Sofija jumped into the conversation, asking him what he is going to do to help his country make progress on its EU path.

“I’ll do what I can. I’ll talk about the benefits of democracy, free economy, free travel... I’ll talk to you, your parents, my parents, our teachers, jerks from our school. Someone will hear me. What about you, what are you going to do? You have the same dream, don’t you?” he said.

“I’ll join you and talk too! I don’t want to leave. I don’t want to ever live anywhere else but here,” she responded.

Both teenagers believe that Serbia needs to impose sanctions against Russian oligarchs and politicians, but not against the whole population.

Youngsters in Serbia want their country to join the EU, and are less exposed to Russian-influenced media. Instead, they follow Western trends in cinematography, music, fashion, science and politics. Most of them at least understand English and many speak it fluently. As such, they are less vulnerable to Moscow’s indoctrination. Right now, however, in order to push Serbia towards the EU, young people in the country have to fight the adherence to Russia that some of...
their friends couldn’t resist, not least because Moscow has long backed Serbia in its refusal to recognise Kosovo’s independence.

‘There are a few of them that blindly believe in the good intentions of Moscow and that fake brotherhood. They get that in their homes. They get mad when they hear different opinions and figure out that they were based on facts. But, arguing with them is not going to change them. They need to see certain things, like the war in Ukraine, with their own eyes,’ said Sofija.

‘A year ago, they celebrated believing Russia would conquer Ukraine in a day. They believed that Ukrainians were Nazis and similar nonsense. Today, they do not talk about that at all. Guess why? Because they don’t know how to answer the question: why war?’

Centuries of Russomania
Russomania or Russophilia, a phenomenon described as an admiration for Russian culture, has existed among Serbs for centuries. It is a result of the constant presence of Russian intelligence in the Balkans and comprehensive indoctrination.

However, within last 20 years, the term Rusophilia turned into admiration for Putin. For that reason, many today call the sentiment ‘Russopatophilia’ – a play on words indicating irrational love for the current Russian regime – and the people ‘Putinoids’. Besides love for Putin, Putinoids passionately hate the political West and firmly believe that whoever has no hate for the US, the EU and the UK is betraying Serbia. On the other hand, admiring Putin and calling Russia Serbia’s mother is, for them, the biggest act of patriotism. That is the reason why they are also called, derogatively, ‘patriJots’ (native Serbian speakers with poor grammar often write the letter J in words where it doesn’t belong – those people are the main targets for Russian propaganda).

For Moscow, Serbia and the Balkan region have been a tool for achieving its geopolitical interests against other global powers – Turks, Austrians, Brits or Americans, depending on the moment in history. Since Russia has been a constant presence in the region, it got to know the area and mentality better than its rivals. Russia’s influence in the region is how many Serbs ended up believing that war in Ukraine was caused by the political West. It received immense help from the Serbian media, where a quick scan of recent headlines shows a celebration of Russian victories and uncritical acceptance of Moscow’s position on Ukraine.

Media reporting shifts slightly away from Russia
According to research conducted by Belgrade based organisation New Third Way, that included monitoring of 11 news portals and 17,859 articles in March and April 2022, the most-read media in the country mainly favoured Russia when reporting about the war in Ukraine. They also blamed the West for the Kremlin’s attack. Its polls and focus groups demonstrated that the same narrative was dominant among ordinary citizens.

However, the newest results from the same New Third Way project showed that by September and October 2022 media reporting had changed slightly and there were marginally negative reports about Russia as well as marginally positive reports about Ukraine. This was the result of Ukraine’s advances on the battlefields. Two-thirds of the poll respondents and focus group participants still see Western countries as the reason for the war in Ukraine, but two-thirds also think that ending Serbia’s dependence on Russian gas would be a strategically smart move.

Citizens are worried about inflation and the potential decline of their standard of living. According to the research, citizens see the European Union as Serbia’s main economic partner but Russia is still the dominant political one. Skepticism for EU and Euro-Atlantic integration is still present but, lately, Euroscepticism has stopped accelerating.

A Ministry for European Integration poll from December shows that the percentage of population that would vote ‘no’ in a referendum on joining EU remained the same as a year earlier at 32%. Those that would vote ‘yes’ stood at 43%, a decline of 11% y/y. This is a direct result of the Kremlin’s operations in Serbia.

Memories that do not fade
A powerful tool that Russia uses in Serbia is constant reminding of the Nato bombing in 1999. Putinoids believe that attacking Ukraine was cosmic justice for the intervention in Serbia, even though Ukraine never supported it. For them, it was enough that Ukraine wanted to
become a Nato member to hate the country, even though Serbia has never been at war with Ukraine, and - just like with Russia – they share Orthodox Christianity as their religion, Slavic roots and similar languages.

JJ, a 76-year-old retiree, told bne IntelliNews reporters in a city park in Belgrade that he once believed that Putin had to do something to stop Nato growing.

“I had believed that someone had to do something to prevent another ‘Merciful Angel’ [a mis-translation of the unofficial code name for the Nato bombing of Yugoslavia] of spreading bombs wherever. How naïve was I?” he said.

“I had limited sources of information and thought there was a civil war like the ones we had in Yugoslavia, but when refugees from Ukraine and then immigrants from Russia itself started coming and coming and coming, I decided to look for better information. Sadly, Putin seems to be ‘Merciful Angel’ in this case. And he is not leaving after three months [the Nato bombing ended after 78 days]. I wish I personally and we as a country can do more for Ukraine, but I don’t know if that is possible without making Putin angry at us now. What stops him from attacking us? I don’t know what he wants from Ukraine anymore, he destroyed the poor country already.”

His friend, 78-year-old retiree AS, added that he is scared that siding with Putin could make Nato angry with Serbia again.

“We are in a very hard situation. It is very sad that we have to choose a side. Russian people are not our enemy for sure but what their president does is not good for us. I like Russia but I don’t remember that Russians gave us anything for free for my entire life. We even had to pay for liberation in WWII. But, again, they liberated us...”

Such views are very common among senior citizens, who often lean toward neutrality, or something similar to what Joseph Broz Tito achieved during Cold War. The generation that lived under the one-party system, they have a routine of watching public broadcaster evening news at 19:30h and read newspapers that have existed since they were young, many of which take a pro-Putin stance.

A deal with Kosovo?
In order to advance on its EU path, Serbia will have to accept the European Union proposal on the normalisation of the relations between Kosovo and Serbia. EU officials have made clear that failing to adopt the proposal will result in Serbia’s accession progress being stalled.

However, to do so, Serbia will have to minimise Russia’s emotional manipulation that has created a strong backlash against efforts to normalise relations.

Long before the proposal was published, Russian ambassador to Serbia Alexander Botsan-Kharchenko tried to spark tensions by misinterpreting the content of the so called “German-French plan for Kosovo”, a forerunner for the official EU proposal. In an interview with the news agency Beta on February 8, he said that “the plan, basically, represents international recognition of Kosovo and West openly insists that Belgrade has to recognise Kosovo”.

In fact, the latest EU proposal, that was published late on February 27, doesn’t require Serbia to recognise Kosovo. And while it states that “Serbia will not object to Kosovo’s membership in any international organization”, this does not automatically mean Kosovo will be able to join the UN because both China and Russia as permanent security council members are expected to continue to veto its access. However, there has been little attempt to explain this to the Serbian people.

Botsan-Kharchenko went even further and argued that the Kosovo issue can only be solved after the end of the current struggle between Russia and the West. In current geo-political circumstances, a long-term solution for some open regional issues is not possible, including one for Kosovo and Metohija,” the ambassador concluded, answering the question of whether Russia, as a permanent member of UN Security Council, would approve Kosovo’s membership.

Botsan-Kharchenko’s words are widely reported in the media and on social networks, encouraging Serbs to call on their leaders to reject the proposal.

When introducing themselves to random citizens in Belgrade, bne IntelliNews reporters faced various reactions, including threats. A middle-aged gentleman yelled: “Who signs dies!” The slogan is a direct threat to Vucic that has been used by rightwing pro-Russian groups opposing the signing of the deal.

However, if the polls are correct, they are probably just part of a loud minority. According to a Factor Plus poll, about 57% of participants said that Serbia should accept the ‘German-French plan’ if it doesn’t include formal recognition of Kosovo and its membership in the UN. Only 33% said they are against signing such a deal, local media reported on February 13.

Other interviewees took a more nuanced view of the proposal currently on the table.
“I wish [Serbia would accept the deal] but, I know it is not happening. It is not a fight against one man [Putin] but against indoctrinated aggressive masses. Behind those masses is the whole system [of Russian influence in Serbia] that removes whatever stays on its way,” GP, a teacher, told bne IntelliNews.

“They [the Serbian government] took bombs instead of a deal for Kosovo back in 1999, I don’t believe it can be different now. It is also too dangerous to try to even oppose the narrative. It is what it is, we don’t have other home but this one…”

“The only option is to accept the proposal and continue the progress we were achieving before covid and that’s what everybody normal wants. But, what if pro-Russian crowds stand against it and kill [President of Serbia Aleksandar] Vucic, cause civil war and take power? They will kill all of us who ever said a word in favour of the proposal. It is very delicate moment. But, we have to take the risk! We don’t have time to waste anymore. The last 10 years of the previous century were more than enough. I don’t want my children to experience anything similar!” OS, an accountant from Belgrade, told bne IntelliNews.

And for the younger generation, the loss of Kosovo is less important than their country’s European future. In any case, says Sofja, one of the teenagers bne IntelliNews interviewed in Starbucks, “the people that swear on Kosovo, don’t know to find it on the map during geography classes.”

Anti-war sentiment spreads
During a year of war in Ukraine, 148,927 Ukrainians entered and 144,897 left Serbia while 294,656 Russians entered and 263,577 exited, the Ministry of Interior told the BBC’s Serbian service. The ministry said that it approved temporary residence in Serbia for 23,804 citizens of Russia and 706 of Ukraine, the BBC reported on February 24. These numbers refer only to the ones that officially registered with the police. The real number is probably higher since people in bigger cities have been complaining that renting an apartment or an office at pre-war prices is not possible, as Russians have been offering more. The prices of real estate also went up because of increased demand that is mainly coming from Russians.

A big portion of Russians in Serbia are businesspeople and IT experts whose companies migrated because of sanctions. According to the Serbian Business Registers Agency, 4,200 Russian companies opened in 2022, a significant increase compared to 159 registered in 2021. There are also many Russians that escaped from the brutality of the regime. Some of them gathered in associations or informal citizens’ groups in order to try to spread awareness about repression in their country. In Serbia, they also cooperate with Ukrainians through their organisations.

Their bravery has inspired some local entities to raise their voices against the war. For the anniversary of the beginning of Putin’s war on Ukraine, several groups including the Russian Democratic Society (in Serbia), Serbian freedom movement Group October, Russians, Ukrainians, Belarussians and Serbs Together Against War, Ukrainian charity association Cini dobro (Do Good) as well as prominent individuals organised series of events that brought hundreds of people together, way more than a year ago when only a few dozen would show up. One of the most interesting projects was placing billboards in Belgrade displaying Ukrainian and Serbian flags. Funds for the billboards were collected through individual donations.

These actions by Russians and Ukrainians with first hand knowledge of the situation in their respective countries, together with the negative impact of the war on Serbians’ standards of living, are starting to change hearts and minds in Serbia.

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bne IntelliNews reporters in Belgrade also contributed to this article.
Turkey cuts trade ties with Russia, Hungary to “rethink” relationship as Western pressure to end sanctions-busting mounts

Ben Aris in Berlin

Turkey has abruptly stopped exporting goods to Russia and one of Russian President Vladimir Putin’s strongest advocates in Europe, Hungarian Prime Minister Viktor Orban, has said that he might “rethink” his relations with Russia in the future, as Western diplomats pile the pressure on countries “friendly” to Russia to end aiding Moscow in dodging sanctions.

Ten packages of sanctions have been imposed on Russia, but most of them are not working well. Russia has managed to almost entirely dodge those on oil exports, import of technology and has earned more money from trade last year than it has done in its entire post-Soviet history. At the same time, EU foreign policy chief Josep Borrell admitted on March 10 that the West is running out of sanctions options. The latest tenth package of sanctions contained little more than the addition of 122 names to the Specially Designated Nationals and Blocked Persons (SDN) list, many of them insignificant media personalities.

A second issue is that further sanctions increasingly hurt Western commercial interests and their economies more than they harm Russia’s, which has to a large extent sanction-proofed its economy thanks to the strength of Putin’s Fiscal Fortress.

“We are not expecting to receive any official orders or decrees, because then Turkey would have to admit that it was

As a result, the focus is switching from imposing new punitive sanctions on Russia to making the existing ones work better, with some recent success.

Hungary is rethinking its relations to Russia as it becomes increasingly likely that the war in Ukraine could be protracted. Hungarian Prime Minister Viktor Orban said that he was reconsidering his pro-Russia stance as a result of “shifting geopolitical realities”.

“I understand the need to rebuild Russian-European relations after the war but that’s far from realistic,” Orban said on March 9. “That’s why Hungary’s foreign and economic policy needs to think hard about what sort of relations we can establish and maintain with Russia in the next 10 to 15 years.”

Hungary is especially reliant on Russian energy imports of oil and gas, and since it is far from the sea and has been locked into the Soviet-era oil and gas pipelines, switching to new energy sources has proved to be especially hard. Germany was also locked into the same Soviet energy system, but as it has a coast it hired five floating LNG (FLNG) platforms last year that allowed it to completely reduce its dependence on Russian gas, and is in the process of building more permanent land-based LNG terminals.

Turkey has also been playing both sides, and refused to join Western sanctions on Russia.

However, Turkish customs officials abruptly stopped permitting the transit of sanctioned goods bound for Russia through Turkish ports on March 9, Russia’s Kommersant FM reported, citing Russian logistics operators. Exports to Russia from Turkey topped $738mn in August, a new all-time record, the Moscow Times reports.

“We are not expecting to receive any official orders or decrees, because then Turkey would have to admit that it was

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linked to facilitating [illegal] shipments of sanctioned goods to Russia over the past year,” Valeriya Savenkova, commercial director of Transasia Logistics, told Kommersant FM, as cited by the Moscow Times. “As of today, Turkey’s system for processing transit and export shipments to Russia isn’t working.”

Kommersant FM’s source cited pressure from US officials as a probable reason for Turkey’s sudden policy switch.

Turkey is also heavily dependent on Russian oil and gas and the TurkStream gas pipeline that delivers Russian gas to the south-east is both a source of cheap energy and a strategically important piece of infrastructure for Ankara.

“As of today, Turkey’s system for processing transit and export shipments to Russia isn’t working”

Moreover, Russia was already one of Turkey’s major trade partners before the war, but it has opportunistically benefited from the sanctions as trade between the two has soared in the last year, a time when Turkey was desperate for foreign exchange earnings due to a currency crisis.

Crackdown

The EU said it plans to ask those third countries where there has been a sharp increase in imports of European technologies and dual-use goods to start monitoring that trade, Bloomberg reported on March 11.

Bloomberg sources say that with the help of increased trade monitoring, the EU aims to determine whether sanctioned goods reach Russia. The EU request will include extended trade tracing information for hundreds of goods and technologies that could be used for military purposes.

However, it remains uncertain if any of the countries approached by the EU will comply. Moreover, the European Commission told Vedomosti that EU customs cannot block the re-export of sanctioned goods to Russia through Turkey, but does control the movement of European goods inside Europe and will step up the fight against sanctions circumvention, implying countries aiding Russia may see export controls imposed on them.

As bne IntelliNews reported, Russian and Western diplomats have been frenetically touring the world in recent months trying to shore up support for their respective positions. Africa and Central Asia have been especially the focus of interest.

The West is increasingly playing a game of whack-a-mole as it tries to shut down sanction-dodging as Russia reroutes exports via “friendly” countries. As has been widely reported, Russia has successfully dodged the crude oil embargo by rerouting all its oil exports to Asia. It is having more problems with oil products, which were targeted on February 5, and Russian diesel is currently building up in tankers idling at sea in oceans around the world.

Surprisingly, Russia has also been able to almost entirely evade sanctions on the technology trade and has supplied itself with all that it needs in the last year, as bne IntelliNews reported.

The EU also recently warned Georgia to stop transiting sanctioned goods to Russia and threatened it with halting its progress towards EU accession and maybe even reversing some of the EU-backed investments.

National Security Advisor Jake Sullivan also told Georgian President Salome Zourabichvili that her country should not take part in helping Russia to dodge Western sanctions last week, the White House press service said in a statement on March 11.

“Sullivan underscored the need for Georgia to avoid becoming an avenue for evasion or backfill,” according to a read out of the meeting.

Georgia has an ambivalent attitude to Russia. It is currently emerging from a crisis after the ruling Georgian Dream party tried to introduce a “foreign agents” law, sparking mass protests that clashed with police on March 7. An estimated 85% of the population are for a closer integration with Europe and the government was forced to withdraw the law two days later. Zourabichvili was openly against the foreign agents law and promised to veto it if it passed.

But exports of sanctioned goods via Georgia to Russia have soared in the last year as Georgia has become more economically dependent on Russia than at any time since independence in 1991 last year, as the country is too distant from Europe to have few alternative trading partners.

The story is the same in Central Asia, which is as far from the sea as it is possible to be. US Secretary of State Antony Blinken was recently in Kazakhstan and Uzbekistan at the end of last month, calling for an end to sanction-busting re-exports to Russia. The Kazakh foreign minister paid lip service to the demand but US pressure is unlikely to have much impact.

Even more than Georgia, Central Asia’s extreme distance from the rest of the world and its long-standing economic and cultural links to Russia make it almost impossible for it to do business with anyone else, as bne IntelliNews discussed in an article on the geography of diplomacy.

The Central Asian republics would love to trade more with Southeast Asia, but the southern route is blocked by instability in Afghanistan, leaving Russia to the north as the only viable trade partner.

Kyrgyzstan and Uzbekistan in particular have seen exports to Russia from places like China soar in the last year as well.
I’ll defeat Erdogan, put Turkey back on track then retire to look after grandchildren says Kilicdaroglu

Kemal Kilicdaroglu, the main opposition candidate for the presidency in Turkey’s mid-May elections, has said his ambitions do not extend beyond defeating President Recep Tayyip Erdogan, getting the country back on track for the next generation of leaders and then retiring to look after his grandchildren.

Unseating Erdogan would in fact be the “easiest” of the stated goals of the six-party Nation Alliance, or “Table of Six”, opposition bloc, said the 74-year-old Kilicdaroglu in a video posted to Twitter on March 20.

“In short, we will put our country back on track so that the leaders [coming] after us will have stable ground on which they can tread safely. ... And then I will retire to take care of my grandchildren,” Kilicdaroglu, who will take on the 69-year-old Erdogan on May 14, vowed in the video.

In a seeming reference to the New Welfare Party (YRP), one of the smaller parties in Turkey, Kilicdaroglu noted that a party, while discussing terms for joining the Erdogan-led People’s Alliance coalition, recently demanded that the president repeal Law No. 6284 on the protection of the family and prevention of violence against women. He argued that the “real target” of this move would be conservative young women in Turkey who wear headscarves. Erdogan’s ruling Justice and Development Party (AKP) and its allies want to “oppress” and “control” these young women, said Kilicdaroglu.

Some analysts have argued that Kilicdaroglu has the wind in his sails in his battle to topple Turkey’s leader of two decades and serial winner Erdogan, but there are worries that he is a dull speech-giver who has never won a major election during a long political career.

Selim Koru, an analyst at the Ankara-based Tepav think-tank, speaking to the Financial Times not long after Kilicdaroglu was selected as the main challenger to Erdogan, remarked: “Some people [like Erdogan], when they get in front of a crowd, it’s natural, they just connect. When Kilicdaroglu gets in front of a crowd ... everyone looks at their phones within five minutes.”

However, he noted that Kilicdaroglu had been performing better in public of late. His victorious speech to parliament following his selection as the challenger “connected with people”, he said.

The kingmaker in both the parliamentary and presidential polls could prove to be the pro-Kurdish minority Peoples’ Democratic Party (HDP), the third biggest party in parliament.

Ertugrul Kurkcu, honorary president of the HDP, told Middle East Eye (MEE) on March 13 that Erdogan “wants to get rid of the presence of the HDP in parliament [with moves in the courts] – he hopes voters will move from us to the AKP”.

“In short, we will put our country back on track so that the leaders [coming] after us will have stable ground on which they can tread safely. ... And then I will retire to take care of my grandchildren”
However, pointed out Kurkcu: “The general inclination among the Kurdish people is to vote for whoever gets rid of Erdogan.”

Two big issues in the election will be whether Erdogan is or is not guilty of economic mismanagement and whether he and his administration are responsible for the sheer scale of the earthquake disaster that hit Turkey in early February, killing at least 50,000 people and possibly many more.

Kurkcu is among those who have accused Erdogan of a slow response to the tragedy that cost lives, while many critics have said that corruption, laxity and incompetence have undermined Turkey’s building codes to such an extent under the president’s watch that thousands of buildings were inadequately constructed and were sitting ducks for major earthquakes that were highly predictable.

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**Put Erdogan on trial for ‘standing still’ in face of deadly earthquakes urges political veteran**

**bne IntelliNews**

Turkish President Recep Tayyip Erdogan should be “put on trial” for his administration’s response to the deadly earthquakes that hit Turkey in early February, killing tens of thousands of people, according to a senior figure in the country’s pro-Kurdish Peoples’ Democratic Party (HDP).

Ertugrul Kurkcu, honorary president of the left-wing HDP – the third biggest party in the Turkish parliament – and a veteran socialist activist, told Middle East Eye (MEE) that the government “watched the earthquake kill the people”. “I believe that in a democratic country, Erdogan should be put on trial for the deaths of tens of thousands of people,” he was quoted as saying.

Kurcu added that the earthquake and the economic crisis would be the primary issues of Turkey’s upcoming May 14 parliamentary and presidential elections, saying. “You cannot just blame negligence. Turkey had the resources [to properly respond to the earthquakes] but the government and army stood still.”

While Erdogan has conceded there were some initial problems with Turkey’s response to the earthquake, he has also stated that “no other country could act as quickly as Turkey did in this earthquake”.

Turkey’s official death toll for the earthquake disaster stood at around 48,500 by the end of March 13, but no missing persons estimate had been given by officials and some experts fear the actual total could be much higher.

Critics say Turkey’s government was too slow to mobilise and deploy the military, Nato’s second-largest ground force, in search-and-rescue operations after the earthquakes struck.

Defence Minister Hulusi Akar has rejected claims that the army battalions were late to intervene.

Some opposition figures, however, have even speculated that the government limited the use of the military in fear of an eventual coup being mounted against the Erdogan administration. The chairman of the Turkish Red Crescent, meanwhile, placed the blame on the country’s poor history of civilian and military relations.

Experts point out that the military wasn’t made part of Turkey’s disaster response plan as a main response team.

A senior Turkish official told MEE that, while the armed forces were not part of the response plan, the country’s disaster management agency used military infrastructure in the earthquake response, namely vehicles and equipment such as helicopters and other resources.

“The military actively used its air force to deliver aid and dispatched ships to provide medical assistance,” the official said.

An MEE investigation found that the military response varied in different areas in the earthquake zone, while there were also technical problems beyond the claims of conflict between the interior and defence ministers slowing the response.

The military, it concluded, did experience difficulties getting to earthquake victims, but not because of a lack of orders – the key reasons were a lack of coordination and insufficient manpower and tools.

A soldier on duty in Malatya, about 230 kilometres northeast of Gaziantep, which was among the vicinities severely hit by the quakes in southern Turkey, told MEE senior officers dispatched his unit to collapsed buildings in the immediate vicinity of their garrison. “We didn’t have the tools for search and rescue,” he said. “We took many citizens out of the rubble by digging with our bare hands. Some died, some survived.”

A senior military source told the publication that the criticism against the Turkish military was unfair because the Second Army was focusing on its operations in northern Syria and was keeping the bulk of its troops there.
If relations between Russia and China strengthen, the two powers will struggle for common policy on possible Russian soft underbelly Central Asia, as well as on Afghanistan, Mongolia, the vital Europe/Asia Caucasus crossroads, the Baltics, Central and Eastern Europe and Southeastern Europe.

Central Asia & Afghanistan
One description the Kremlin is not in favour of when it comes to describing Central Asia is “Russia’s soft underbelly”. Yet that is exactly what the region could turn out to be should Vladimir Putin’s bid for a new era of Russian greatness entirely unravel – and, as sympathetic to Russia as Xi Jinping might seem to be during his visit to Moscow, China is quietly positioning itself to ensure it does not waste opportunities if that turns out to be the future reality.

The most obvious area where Beijing in Central Asia is investing in projects that could shut Russia out of the picture is in trade transit. With European traders now loathe to use East-West/West-East cargo transportation channels that cross Russia, China has become a big supporter of expanding capacities in the Middle Corridor – officially the Trans-Caspian International Transport Route, or TITR – connecting China to Europe via Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and Black Sea routes or Europe-via-Turkey. And everyone wants a piece of the pie. The other four ‘stans’ – namely Kyrgyzstan, Uzbekistan, Tajikistan and Turkmenistan (with its Caspian Sea ports) – and even Iran are exploring how they can tap into TITR, while the European Union and US have committed funds to help make a big Middle Corridor expansion happen.

Last week, the UK became the latest country to join the party, when British Foreign Minister James Cleverly visited Astana and told Kazakh President Kassym-Jomart Tokayev that London would look at ways to support the development of alternative trade routes such as the Middle Corridor.

In a pointer to another reason why none of the major powers want to see the day where Russia entirely dominates Kazakhstan – the prospect of further developing its great mineral wealth, including uranium – Cleverly and Kazakh diplomats said they had signed a memorandum on critical minerals such as rare earth metals, though provided no details about it.

Across Central Asia, Kazakhstan and Uzbekistan in particular have offered no backing for Putin’s war in Ukraine. In fact they have exploited the situation to work on their multi-vector foreign policies and, while they go out of their way not to say anything that would spark open fury in the Kremlin, it’s quite clear that they want to avoid trade, investment and political orientations that are locked into Russian strategy and policy.

“All to play for in Russian-Chinese backyard”

While the ‘Stans go out of their way not to say anything that would spark open fury in the Kremlin, it’s quite clear that they want to avoid trade, investment and political orientations that are locked into Russian strategy and policy.”
bne IntelliNews has been writing for several months now on how realistically Russia’s two centuries of Central Asia dominance are over and should a post-Ukraine-war Moscow, already no longer a regional hegemon, fail to have the staying power to play a continued big role in the “backyard” to its south, Beijing would likely not hesitate too long before stepping in.

One big reason why China would be wary of a declining Russia not having the resources to exert much effective influence in Central Asia is Afghanistan. While China has increasingly become the ascendant economic power in Central Asia, the understanding between Beijing and Moscow says that the latter should remain the political and military power in the region. With the US gone, Taliban-ruled Afghanistan often appears vulnerable to chaos that could spin out of any real control, with various anti-Taliban terrorist and militant groups ever more active in the country. Russia, which strives to guard the porous Central Asia/Afghanistan borders with military assets positioned at bases in Tajikistan and Kyrgyzstan, and China, which has a short border with Afghanistan, remain nervous of Afghanistan becoming an entirely failed state from where terrorists could spread north and east. The US, perhaps, would not be too disappointed to see Moscow and Beijing given this distraction.

Mongolia
As a country entirely encircled by Russia to the north and China to the south, Mongolia’s economic and foreign policy options are rather curtailed. While plainly no fan of Putin’s belligerence in invading Ukraine, Ulaanbaatar rather keeps its lips sealed as it goes about the business of upgrading Mongolia’s “frontier” economy.

Russia and China, however, are counting on their remote neighbour for some big projects. Mongolia said last week it will take a decision on which part of its territory will be used to construct a Russia-China gas pipeline once Moscow and Beijing reach an agreement on costs.

Russian energy giant Gazprom wants to build the 2,600-km Power-of-Siberia 2 gas pipeline to supply 50bn cubic metres of gas per year to China by 2030. Mongolian Prime Minister Luvsannamsrain Oyun-Erdene told Reuters that talks between his country’s two big neighbours had been put on the back burner due to the Ukraine war, but there was a likelihood of them coming back to the negotiating table. After Russia and China decide on pricing, Mongolia will take a decision on how they can use its territory to transport the gas, Oyun-Erdene added.

Nearly 80% of mineral-rich Mongolia’s total exports go to China. Still, Mongolia, working with Anglo-Australian mining giant Rio Tinto at Oyu Tolgoi, is unlocking vast copper resources and could be sitting on major deposits of rare earths. To get the best reward, the country will want to maintain and widen links to global markets. Partly to that end, it is reaching out to South Korean investors, export and re-export channels.

South Caucasus
In the South Caucasus, China’s main focus has been to develop the Middle Corridor trade link, as described above. Beijing sees the Middle Corridor as part of its much-trumpeted Belt and Road Initiative (BRI) for modern infrastructure and economic cooperation, though the nations of the South Caucasus – Georgia, Armenia and Azerbaijan – have their own reasons for promoting links westwards.

However, the nuts and bolts of the Middle Corridor – particularly the Georgian port connections on the Black Sea and the Azerbaijani port hubs on the Caspian Sea, as well as the rail connections from Georgia to Turkey – all still need a huge amount of investment before they can provide the scale required to replace existing trade routes.

Expanding container services at Caspian Sea ports are essential to the Middle Corridor’s growth prospects.
Just as Kazakhstan cannot easily develop a major alternative non-Russian route for its westward oil exports – it quickly dawned on planners that there is a big shortage of tankers that ply the routes from Kazakhstan to Azerbaijan on the enclosed Caspian Sea – the desired hugely expanded Middle Corridor options cannot be provided overnight.

Central Europe & the Baltics
China has suffered a series of setbacks in Central Europe over the past few years, as pro-American regional politicians reacted to the changed mood in Washington as well as what they saw as high-handed interference by Beijing in their own affairs.

In the Czech Republic, a drive by previous president Milos Zeman to boost economic links with Beijing had always been controversial. Back in 2018, the country’s security services were among the first in Europe to warn against the alleged risk of using Huawei telecom technology. The government subsequently cancelled a contract with Huawei, and the main private telecom infrastructure company Cetin excluded it from the country’s telecom backbone.

The president’s pro-China policy then collapsed completely amid a backlash against Beijing’s criticism of elected officials’ trips to Taiwan. Prague City Council tore up its friendship treaty with Beijing and built up relations with Taipei. Straight after his election this January, incoming Czech President Petr Pavel pointedly held a telephone call with his Taiwanese counterpart before he talked to Beijing.

Moreover, the hoped for Chinese investments also failed to materialise – FDI from Taiwan is still higher than from China.

The Baltic States have gone the furthest in downgrading links with Beijing in response to the US change of policy towards China, as well as Chinese threats against Taiwan. All three states have now pulled out of the Beijing-led CEEC format offering a cooperation platform between Central and Eastern European countries and China.

Lithuania has taken the strongest measures and has faced the toughest response. In 2021, Lithuania allowed Taiwan to open an embassy in Vilnius under its own name rather than Taipei’s, leading to the imposition of unofficial trade sanctions by Beijing.

The EU eventually backed Lithuania in the dispute, though Brussels clearly felt that Vilnius had acted in a deliberately provocative manner.

Beijing’s last strong ally in the region is Viktor Orban’s Hungary, which is always keen to demonstrate its independence from the Western consensus and its supposed wealth of diplomatic options.

China’s Fudan University is building a huge campus in Budapest, despite criticism from the opposition-led city council. China has also been a big investor in Hungary, particularly in electric battery technology.

Southeast Europe
Some states in Southeast Europe are taking a similarly tougher line against China to their northern neighbours, most notably Romania which is an EU member and one of the closest US allies in the region.

In 2020, Romania broke off its agreement with China General Nuclear Power Corp. (CGN) for the building of two new reactors at Cernavoda nuclear power plant (NPP). The following year, Bucharest introduced a law setting strict terms for the licensing of software and hardware suppliers to 5G networks that appeared to be intended to keep Chinese tech giant out.

Montenegro, meanwhile, welcomed Chinese funding for the construction of the Bar-Boljare motorway – a huge financial commitment compared to the size of its economy – that it then struggled to repay.

However, other countries in the region continue to welcome Chinese investments. China has invested widely into infrastructure projects in the Western Balkans, including the Budapest-Belgrade high speed railway, and Chinese companies have also snapped up a number of industrial assets.

Governments in the region have been especially keen to attract Chinese investments into coal-fired power plants, after most multilateral development banks stopped investing into coal projects. They included the coal power plants Kostolac B3 in Serbia, and the Tuzla 7, Ugljevik III and Banovići in Bosnia. Analysts at independent climate change think-tank E3G said in 2021 that one third of Bosnia and Herzegovina’s, and two-thirds of Serbia’s planned coal projects were reliant on Chinese investment, though some such as Tuzla 7 have since been shelved.
The streets of Chasiv Yar, a small town in eastern Ukraine, are nearly deserted. The occasional emergency vehicle or military transport is all that breaks the grey monotony of the setting, trundling down dirt roads choked with the thick mud of the summer thaw. In the near distance, the constant boom of Ukrainian artillery rings out, howitzers hurling their deadly payloads towards the nearby frontline. Just six or seven kilometres to the east lies Bakhmut, the fortress city that has become a sort of Ukrainian Stalingrad. Of two roads that still connect it to the outside world, one runs through Chasiv Yar, coming within less than a kilometre of Russian positions at one point. Even amidst the incredible violence on the front line of the Russian invasion of Ukraine, nowhere else approaches the brutality of this sector.

Incredibly, civilian life still continues in Chasiv Yar. Of its roughly 15,000 inhabitants before the war, perhaps 1,500 remain, local officials estimate. They spend their days in basements hiding from the shells, emerging only to visit the store or one of the city’s humanitarian aid points.

At one of these aid locations, just a short way from the town’s administrative building, Gennady, a 70-year old local, has come to charge his mobile phone.

“There has been no power in my apartment for one month already,” Gennady says. He and his wife have remained in Chasiv Yar regardless. “At least we have a stove [at home], for heating and cooking. But I need to talk with my brother in Kharkiv, so I come here,” he says.

Outside, volunteers are helping a disabled senior into the aid point. Two workers take the man, his shoeless feet twisted severely as a result of some illness, and carry him into the shelter.

“I live alone,” says Vladimir Skripnyk, the 68-year old disabled man, as he warms his hands inside. “My house was not hit [by shelling], but two shells landed in the yard right beside it. I used to rely on my wife to bring food from the store, but she died two years ago, and everyone else has left. Every day is just waiting for some new bombing to finish us,” Skripnyk says.

A Russian shell whistles overhead as he finishes speaking, prompting the volunteers outside to duck down as it strikes uncomfortably close nearby.

The battle has drawn closer to Chasiv Yar these past few weeks. As Russian forces have pushed to encircle Bakhmut, they have driven a spearhead forward south of that city, grinding down Ukrainian defenders at great cost. Russian troops now sit at the southern edge of the nearby village of Ivanivske, perhaps five kilometres from Chasiv Yar itself.

Serhii Chaus, the head of Chasiv Yar’s civil-military administration, has seen the battle for Bakhmut himself, visiting the city regularly via the increasingly dangerous supply road there.

“I can describe the situation [in Bakhmut] with two words: stably f***ed,”
Chaus says. “Our boys are holding the line, but just barely. [The Russians] attack like insects – one wave after the next without thinking,” he says.

The near-encirclement of Bakhmut has made Chasiv Yar itself all the more important – and dangerous.

“Chasiv Yar is crucial now,” Chaus says. “We have one of the only two roads to Bakhmut, and ours is safer than the north road. Because of that, [Russia] is shelling us heavily. Just yesterday, there were Grad [rocket artillery] salvos on the town all day, almost without pause,” he says.

The months-long battle for Bakhmut, and Kyiv’s decision to continue to commit forces to hold the city, has become a contentious topic between Ukraine’s generals and their foreign allies in recent months.

The city has been in Russia’s crosshairs since the fall of the twin cities of Severodonetsk and Lyssychansk last June. Led by the mercenary Wagner Group, Russian forces began their assault on Bakhmut in August, sustaining massive casualties in the next few months as they confronted entrenched Ukrainian defenders.

But while Russian forces bled hard for every metre of their advance, they still managed to inch forward, attempting to slowly encircle the city from north and south. In January, Russian troops took the town of Soledar, a key defensive position north of Bakhmut. That prompted US officials to begin urging Ukrainian authorities to consider abandoning the city, and retreat to more advantageous positions at the next line of defence further west.

Ukraine’s general staff demurred, deciding to hold the city as it grew into a symbol of Ukraine’s resistance. “No one will surrender Bakhmut,” Ukrainian President Volodymyr Zelenskiy announced on February 3.

But the fight has grown more difficult as Russian forces seize the high ground around the city. Ukrainian casualties have grown, with soldiers reporting dire conditions as the battle continues. Most recently, US Secretary of Defense Lloyd Austin confirmed Washington’s view, stating that Bakhmut has “more symbolic value than strategic” for Ukraine.

Some of the city’s exhausted defenders agree with him. At a gas station in the city of Konstantinivka, Ukrainian soldiers regularly filter through, grabbing coffee and hot dogs on short breaks before they return to Bakhmut. Caked in dirt and blood, their physical appearance alone tells of a difficult fight.

“We have a lot of casualties,” says Oleksiy, a medic who has served in the Ukrainian army for 10 years and is now operating near Bakhmut. “I am performing 30 or 40 battlefield procedures a day, everything from small wounds to deadly ones. I’ve been here [on the Bakhmut front] all winter – it’s been tough,” he says.

Protocol dictates that Oleksiy must focus his attention on those soldiers who have the greatest chance of survival, necessitating heart-rending decisions at times.

“The other day, we picked up a soldier with numerous shrapnel wounds – he had been hit by a shell,” Oleksiy says. “I was trying to patch him up, but he was in terrible condition, and we picked up a couple other [injured] guys just afterwards. I had to follow protocol and focus on them, as they had a better chance of survival. I watched [the first soldier] die in front of me in the ambulance,” he says.

Sam is another soldier, an infantryman active in Bakhmut itself. An American, he served in the US Marine Corps from 1997 to 2012, completing several tours of duty in Iraq and Afghanistan prior to joining Ukraine’s International Legion last March.

“In Bakhmut, there are so many Russian tanks [in Bakhmut].” Sam says. “The Russians have a tonne of them, and they just keep coming.” Enemy drones are also ubiquitous, spotting for Russian artillery that rain down endlessly on Bakhmut’s ruined buildings, he says.

In Sam’s view, Bakhmut’s symbolic status has grown to such a degree that the city cannot simply be abandoned.

“Bakhmut is like Verdun now,” he says, referencing the French fortress city of World War I. “It has to stand. It can’t fall now, it’s too important, and anyways I think [the Ukrainian high command] has made the decision to hold the city,” Sam says.

For the inhabitants of Chasiv Yar, that will provide a degree of comfort at least, insofar as it keeps Russian forces from focusing on that town for the near future. While Bakhmut stands, Chasiv Yar will continue to serve as a link in the Ukrainian logistics chain – delaying its likely fate as the next stronghold in Ukraine’s defensive line.

Chaus, the civic-military head of the town, sees the echo of history behind the present tragedy.

“Now history is repeating itself. The jackals from Moscow have destroyed everything again.” Chaus says.
Putin woos 40 Africa lawmakers at Moscow conference with promises of money, nuclear power, arms and free grain

Ben Aris in Berlin

Russian President Vladimir Putin took time out from meetings with Chinese President Xi Jinping, who had just arrived in Moscow for a three-day state visit, to speak to lawmakers from more than 40 African countries on March 20 and woo them with generous promises of economic and military aid in a speech.

As the battle for influence in Africa heats up, Putin reminded delegates of Russia’s long-standing close ties and played on his favourite trope of the need for a multipolar world, a sentiment echoed by many delegates, whilst vigorously rubbing raw the lingering resentment in Africa of the European colonial-era, to good effect.

“I mean financial payments to all the people in Africa who suffered during the colonial period from European oppressors, from the consequences of colonialism”

As followed by bne IntelliNews, Western and Russian diplomats have recently been travelling the world trying to shore up support in the clash that followed Russia’s invasion in February 2022. Africa has been a key battleground where Moscow has been able to capitalise on warm Cold War-era relations between Africa and the Soviet Union. The Kremlin has also been playing on and stoking lingering resentment amongst many Africans of the colonial period that still shapes politics today.

“Ever since the African peoples’ heroic struggle for independence, it has been common knowledge that the Soviet Union provided significant support to the peoples of Africa in their fight against colonialism, racism and apartheid, how it helped many African countries to gain and protect their sovereignty, and consistently supported them in building their statehood, strengthening defence capabilities, laying the foundations of their national economies and workforce training.” Putin told the delegates to a round of applause.

The conference is a warm-up event ahead of the second Russia Africa summit slated for July in St Petersburg, where most of the continent’s heads of state are expected to attend. This will be the much-delayed second Russia-Africa summit after the first one, held in 2019 in Sochi, attended by 48 out of 54 African heads of state. Attempts to organise a second summit have been repeatedly delayed by the coronavirus pandemic and then the start of the war in Ukraine.

South Africa went ahead with joint naval exercises with Russia that began on February 24, the anniversary of the start of the war in Ukraine.

Macron was roasted by Felix Tshisekedi, the President of the Democratic Republic of Congo, during a joint televised press conference. “This must change, the way Europe and France treat us, you must begin to respect us and see Africa in a different way,” Tshisekedi said. “You have to stop treating us and talking to us in a paternalistic tone. As if you were already absolutely right and we were not.”

The parliamentary delegates have voiced similar complaints during their remarks to the summit in Moscow.

The Chairman of South Africa’s National Council of Provinces Amos Masondo said that “Russia has no colonial heritage in Africa and no African country sees Russia as an enemy. On the contrary, you helped us in our liberation, you are a reliable partner.” He echoed Putin’s favourite catchphrase, saying that his country stood for a multipolar world.

Putin is playing on a widespread feeling of resentment in Africa that its people are treated as second-class citizens by the Western world and excluded from the geopolitical decision-making
process. Several delegates, including the President of the Senate of the Parliament of the Republic of Congo Pierre Ngolo and the Chairman of the National Council of the Republic of Namibia, Lukas Sinimbo Muha, called for a reform to the UN Security Council to make it more inclusive with at least one African seat.

“The permanent historical imbalance in the Security Council must be changed,” Muha said.

In counterpoint to the bad feelings left over from European colonialism in Africa is the warm regard many countries there have for the Soviet Union that supplied many liberation movements with arms as well taking the best African students into its higher educational institutes.

The Congo’s Ngolo recalled: “Relations between Russia and Africa became special during the period of struggle for independence, when the Soviet Union was the main force supporting the national liberation movements. Thus, the USSR became the defender of the oppressed. Then it was the USSR, and now it is Russia taking a special place among the friends of Congo in difficult times,” also adding that Congo backs the idea of a multipolar world.

There were similar remarks from the representatives of Benin, Burkina Faso, Guinea, Guinea-Bissau, Zimbabwe, Mali, and others.

Soviet Union revanche

Putin has followed through on Russia’s promise to play the same role in Africa today as the Soviet Union did before, which was already Kremlin policy before the war in Ukraine started.

During the COVID-19 pandemic, Moscow earned a lot of credit by actively exporting hundreds of millions of dollars worth of its Sputnik V vaccine to many countries in Africa at a time when the West already had a full stock of vaccines to cover its own population but were reluctant to sell doses to Emerging Markets, in what was dubbed a “vaccine apartheid” by the director of the World Health Organisation. In October 2021, the WHO reported that rich countries had an average of 133 vaccine doses per 100 people, whereas low-income countries had less than four doses per 100 people.

“I want to emphasise that our country has always and will always consider cooperation with African states a priority. It would not be an exaggeration to say that it is one of the unchanging priorities of Russia’s foreign policy,” Putin said. “During the coronavirus pandemic, Russia was among the first countries to provide African states with large volumes of vaccines, test kits, personal protective equipment, and other medical and humanitarian cargoes.”

Amongst the delegates to the Russia Africa conference were members of the scientific, educational, and expert communities from Russia and African countries, the State Duma, federal executive authorities, senators of the Federation Council, chairmen of the legislative bodies of the constituent entities of the Russian Federation, as well as representatives of the business community.

The US has largely ignored Africa as unimportant until recently, highlighted by the fact is only one full-scale military base in Djibouti on the Horn of Africa, as described in a bne IntelliNews feature Playing Real Risk and investment into raw materials and energy on the Continent is dominated by China and Russia. The US held its own US-Africa summit in December that was attended by all 49 heads of state invited and has established a $600bn infrastructure fund led by the G-7 dedicated to Africa. However, Russia is much further ahead in terms of active investment projects on the continent.
Russia means business

“Large Russian investment projects are being implemented in Africa, involving such domestic companies as Rosneft, Gazpromneft, RusHydro, ALROSA, Lukoil and many others. We will continue to help African countries with electricity production, which so far covers only a quarter of the continent’s needs,” Putin emphasised.

One of the main successes of the first Russia-Africa summit in 2021 was to establish the African Continental Free Trade Area (AfCFTA) that Putin promised will integrate more closely with both the Russia-led Eurasian Economic Union (EUEU) as well as bilaterally with Russia itself.

“In the future, this zone will become a continental market with a total GDP of more than $3 trillion. We are in favour of actively developing ties with this new association both within the Eurasian Economic Union and bilaterally,” Putin added.

The promise of power is especially appealing as Russia has been actively selling its world-class nuclear power technology in Africa via the state-owned Rosatom, which is increasingly playing the same foreign policy role that Gazprom used to in places like Europe.

“Today we are offering new environmentally friendly technologies, primarily in nuclear energy. Rosatom is already building a nuclear power plant in Egypt and plans to expand its involvement in the development of the national energy systems of the African continent. I would like to note that significant, in some countries 100% funding, is provided by Russia. These are serious projects worth $15bn, $20bn or $25bn,” Putin said.

Nuclear power plant deals are particularly appealing to the Kremlin as in addition to locking in the client state with billions of dollars of debt, the NPP comes with typically 60-year servicing and fuel supply contracts that cement relations for the long term.

And Putin was flogging other Russian-made high-tech solutions. For example, Russia is helping to create the ANGOSAT satellite communication and television broadcasting system in Angola. Yandex is actively introducing information services to organise the transportation of passengers by taxi and other modes of transport in African countries.

“At the same time, Russia is always ready to share its technologies with African countries; it offers precisely joint, diverse technological development,” Putin said before specifically referring to military cooperation. “Military and defence industry cooperation continues, including the supply of Russian weapons and military equipment to African partners, and the training of relevant personnel. Currently, military personnel from over 20 African countries are studying at the institutes of the Russian Ministry of Defence.”

Russia’s Wagner PMC is already active in many African countries that are suffering from insurrections and Russia is a major supplier of arms and materiel across the continent.

And finally, Putin offered food. Russia is currently the world’s biggest grain exporter and Africa is particularly dependent on imports of Russian grain. A new Black Sea grain export deal was agreed on March 14, although some uncertainty remains over if it will run for 60 days or the full 120 days of the previous deals. The Kremlin’s room for manoeuvre on grain exports is limited as while preventing grain exports starves Kyiv of a major source of foreign exchange earnings, it also plunges Russia’s partners in Africa into famine and crisis. Putin assured delegates that would not happen.

“I would like to stress that Russia is reliably fulfilling all its obligations pertaining to the supply of food, fertilisers, fuel and other products that are critically important to the countries of Africa, helping to ensure their food and energy security,” Putin said. “You probably know that we are ready to supply some of the resources we have frozen in European countries to countries in need free of charge, including fertilisers; and the first batches have already been sent. But unfortunately, there are obstacles here as well.”

On the subject of grain exports, Putin didn’t miss the opportunity to rub raw the colonialist resentments by pointing out that while the Black Sea grain deal was sold as necessary to prevent famine in Africa, most of Ukraine’s grain was actually sold to the EU.

“For reference, I can give you the following information. From August 1, 2022, to March 20, 2023, 827 ships left Ukraine, of which only 33mn tonnes of grain were sent to Africa and 1.3mn to the poorest countries in Africa. As I said, almost 45% went to well-fed European countries, despite the fact that this whole deal was presented under the pretext of ensuring the interests of African countries,” Putin said. “By the way, let me note that at the same time, despite all the restrictions and limitations on the export of Russian grain, almost 12mn tonnes were sent from Russia to Africa.”

Putin went on to promise that if the deal does expire after 60 days, Russia was prepared to continue to export grain to Africa in the same volumes as under the deal, and send it to the countries in most need at no cost, which brought a round of applause.●
Western efforts to freeze and seize Russian oligarch money going poorly

The West is struggling to follow through on sanctions to freeze Russian money inside the EU. Conflicting reports on how much oligarch cash has been frozen emerged on March 9, while recently the EU legal department said it could only identify about $37bn of the $250bn of Central Bank of Russia (CBR) reserves thought to be in EU accounts.

The West has frozen over $58bn of assets belonging to oligarchs and other Russian nationals in the past year, the Russian Elites, Proxies, and Oligarchs (REPO) task force said in a statement on March 9. However, other reports put the number much lower at $20bn.

The task force has been set up as a multilateral body of Western countries to track down Russian money and assets hidden in the West, with powers to seize any properties associated with Russians under sanctions.

However, according to other unspecified EU authorities, the bloc has so far only frozen €20.9bn ($22bn) in assets, despite multiple rounds of sanctions, Bloomberg reported the same day. And that number is not growing. Back in October, the bloc reported that some €17.4bn had been frozen.

Belgium and Luxembourg have immobilised billions, but other member states have frozen sums that barely break out of six digits, with Greece saying it has frozen only €212,201 and Malta reporting €222,470, according to the latest numbers, seen by Bloomberg.

In February, Swiss bank Credit Suisse announced it had frozen CHF17.6bn ($19bn) worth of Russian oligarch assets frozen on its accounts, a figure estimated to be about one third of all the Russian assets registered in Switzerland (CHF46.1bn or almost $50bn), although Switzerland is not in the EU.

Experts believe that the amount of private money in Europe is an order of magnitude higher and most of it remains untouched. The London homes of just the top five oligarchs are worth more than $1bn alone. In general, Russia’s total foreign direct investment (FDI) stock in the EU was estimated to be €136bn, Bloomberg reports.

REPO reports more success. Since the start of Russia’s special military operation in Ukraine, the task force “has leveraged extensive multilateral co-ordination to exert unprecedented pressure on sanctioned Russians,” REPO said in the statement.

Members of REPO have successfully blocked or frozen more than $58bn worth of sanctioned Russians’ assets and heavily restricted them from the international financial system.

Amongst the targets are real estate, luxury yachts, aircraft and other assets associated with the oligarchs and others on the Specially Designated Nationals and Blocked Persons (SDN) List.

REPO said that in addition to freezing assets, the task force had also affected the first forfeiture of assets of a sanctioned Russian, but the sum is a paltry $5.4mn, which has been sent to Ukraine as foreign assistance.

The almost negligible amount of Russian assets that have not only been frozen but also seized, transferring their ownership to the EU authorities, highlights the legal difficulties of taking procession of frozen assets. Under EU law assets can easily be frozen, but they can only be seized if there is a criminal conviction of the owner. In the case of state-owned assets, those can only be legally seized if the two countries are officially at war.

There have been constant calls for the reported $300bn of CBR reserves frozen by the Western sanctions in the first days of the war. However, in the last month the EU legal authorities admitted that they can’t find most of Russia’s $300bn of frozen reserves. Only a total of just over $37bn had been identified and frozen. The EU is current putting together a centralised registry of frozen Russian assets so countries can co-ordinate their actions better.

The EU’s executive spokesman, Christian Wigand, admitted to Bloomberg that the EU relies on information provided by members states and that the frequency of the updates provided by different governments is uneven. In the tenth package of sanctions EU members wanted to introduce some Union-wide obligatory reporting requirements on banks but resisted efforts to impose fines on those that don’t comply.

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However, the key driver of growth was an enormous surge of money transfers from Russia. More than $2bn was moved into Georgia in 2022 as Moscow’s invasion prompted scores of Russians to relocate to the South Caucasus country, bringing cash along with them.

At the centre of Georgia’s roaring economy last year was TBC Bank Group, Georgia’s largest commercial bank by assets and a premium-listed company on the London Stock Exchange. TBC’s net interest income in 2022 jumped 29% to GEL1.29bn from GEL1.0bn. The bank reported a pretax profit of GEL1.25bn, up 35% from GEL921.4mn in 2021.

At the bank’s headquarters in Tbilisi, CEO Vakhtang Butskhrkidze told bne IntelliNews that TBC is using the financial windfalls to invest in cutting-edge banking technologies.

“We are investing approximately 25 to 30 per cent of our net profits into digital financial technologies. And for 2023, we will probably invest more than GEL300mn in these technologies,” he said.

The 52-year-old joined TBC when it was founded in 1992, and since 1998 he has served as its CEO.

After Georgia regained its independence and the Soviet Union collapsed, TBC was just one of hundreds of banks to spring up in the country’s new free market economy.

“Back then, all of the banks in Georgia had armoured windows,” recalled Butskhrkidze. “But we thought to ourselves: we are branches and we are banks. We are serving our customers. We are kind of like a supermarket but...
serving banking products, and we have to be open to our customers.”

“It changed the culture,” he said. “We also started addressing the customers by their names. It was very difficult for our employees to say ‘Hello, Vakhtang’. So we changed that philosophy of our employees, just to say ‘Hello’ to the customers.”

Today, TBC is Georgia’s leading bank, with has a market share of total assets of 39.1%, up by 0.5pp y/y, putting the company slightly ahead of its main competitor Bank of Georgia. TBC says focusing on customer experience and embracing new technology has given it an edge over other banks. However, Georgia is a small country, and so the bank is looking further afield to international markets for growing its operations.

“Our medium-term target is about 15 per cent growth,” said Butskhrikidze. “About 10 to 12 percent of which is coming from our Georgian operations. Whereas much of the rest is international.”

Uzbekistan has been the focus of the bank’s expansion so far. TBC entered the market in 2020, around the time Uzbekistan’s president Shavkat Mirziyoyev launched ambitious market-oriented reforms to open up the country and attract foreign investors.

TBC Uzbekistan ranks 23rd in terms of assets among all banks, including state banks, while among private banks it comes in 12th place. It currently provides digital customer services for retail users and offers online services including money transfers, loans, car loans, deposits, installments, bank cards and bill payments. All services are available through a mobile app.

“Georgia looks very penetrated compared to Uzbekistan. And in terms of population size, Uzbekistan is eight to nine times bigger than the Georgian market,” said Butskhrikidze.

“So putting these two parameters together – penetration and population – the Uzbek market is very interesting for us. In the next three to four years we expect strong growth in the Uzbek market.”

He added that TBC was interested in entering other markets, but said that, as of now, it is difficult to say where exactly.

Analysts have generally been optimistic about Uzbekistan’s banking market growth over the medium to long-term. They predict that the country’s favourable regulatory environment will attract more foreign investment, leading to increased competition and innovation in the banking sector.

In particular, analysts highlight the potential for growth in retail banking, such as consumer loans, mortgages, and credit cards, as more Uzbeks become financially literate and seek to access these services. However, they also note that the country’s banking sector still faces challenges, such as underdeveloped infrastructure, limited access to funding, and a high level of non-performing loans.

Butskhrikidze told bne IntelliNews that TBC was also considering launching another Eurobond somewhere in the medium-term.

“Bonds are very interesting for us. I don’t think in the short-term there will be interest, but in the medium-term we are thinking that we will issue a bond,” he said.

TBC last issued $300mln worth of 5-year Eurobonds in 2019, with a fixed coupon rate of 5.75% (6% yield to maturity).

As the surge of money transfers from Russia winds down, economic growth in Georgia over the next year also looks set to slow. Already in the first two months of 2023, money transfers to Georgia began to fall after peaking in December.

“For 2023 we’re forecasting less growth,” said Butskhrikidze. “We’re forecasting 6.4% growth, which means much less growth for Georgia’s banking sector in nominal terms.”

Leading position in Georgia
Top 10 largest banks by loans in Georgia, as of 31 December 2022 (GEL mln)
Awkward embrace as Iran and Saudi Arabia seal deal on restoring relations

bne IntelliNews

The Middle East’s arch Gulf rivals Iran and Saudi Arabia on March 10 unexpectedly announced they have agreed to restore ties and reopen embassies following four days of talks in Beijing brokered by China.

Tehran and Riyadh severed relations seven years ago. The breaking of the deadlock between the two big oil producers will have analysts assessing what impact the new relations could have on prospects for reviving the 2015 nuclear deal, or JCPOA, between Iran and the major powers, and on the war in Yemen involving Iranian and Saudi proxies. The new ties could also have a bearing on how events now unfold in Syria, Iraq and Lebanon, strife-torn countries where the rivalry between largely Shia Iran and Sunni Saudi Arabia is a big factor.

Reporting the deal to set aside differences in favour of diplomatic relations, official Iranian state news agency IRNA cited a joint statement, reading: “As a result of the talks, Iran and Saudi Arabia agreed to resume diplomatic relations and reopen embassies … within two months.”

“As a result of the talks, Iran and Saudi Arabia agreed to resume diplomatic relations and reopen embassies ... within two months”

The Saudi Press Agency confirmed the agreement. It said the two countries had agreed to respect state sovereignty and not interfere in each other’s internal affairs. Riyadh broke off ties with Tehran after Iranian protesters attacked Saudi diplomatic missions in Iran in 2016 following the Saudi execution of the Shia cleric Nimr al-Nimr.

Nour News, a media outlet linked to Iran’s supreme national security council, ran footage of Ali Shamkhani, the council’s secretary, at a Beijing signing ceremony with Saudi Arabia’s national security adviser Musaed bin Mohammed Al-Aiban and China’s top diplomat, Wang Yi. “After implementing the decision, the foreign ministers of both nations will meet to prepare for exchange of ambassadors,” Iranian state TV reported.

Hossein Amir-Abdollahian, Iran’s foreign minister, said: “The return of normal relations between Iran and Saudi Arabia provides great capacities to the two countries, the region and the Islamic world. The neighbourhood policy, as the key axis of the government’s foreign policy, is strongly moving in the right direction, and the diplomatic apparatus is actively behind the preparation of more regional steps.”

The sealing of the deal in Beijing took observers by surprise. Talks between Iran and Saudi Arabia have continued for years, but mainly in Iraq or with intermediation conducted by Oman. What’s more, there has been friction in recent months between the Iranians and Saudis as they have jostled for position in winning favour with China. To Iran, China has become extremely important economically since the US four years ago began its campaign to drive Iranian oil exports off world markets. The Chinese have continued to buy substantial volumes of crude from Iran, working on the shadow market.

The Saudis, naturally, remain preoccupied with the issue of how to guarantee that Iran does not move into the military sphere with its nuclear development programme. The JCPOA,
under which Iran introduced verifiable curbs on the programme in return for the dropping of economic sanctions, was seen to be delivering on that objective prior to former US president Donald Trump unilaterally pulling Washington out of the multilateral agreement in May 2018 in favour of deploying the heaviest sanctions yet faced by Tehran.

However, in the years since the US exit from the deal, Iran has gradually upped its enrichment of uranium to the point that the Americans say that, should Tehran take a decision to do so, it could assemble enough weapons-grade fissile material for a nuclear bomb within 12 days.

After the deal on relations was announced in the Chinese capital, the US cautiously welcomed the agreement. White House National Security Council spokesman John Kirby said the administration supported “any effort to de-escalate tensions in the [Middle East] region”. But he added: “It really does remain to be seen if Iran is going to meet their obligations.”

Israel did not comment.

After speaking in London earlier this week, the Saudi foreign minister, Prince Faisal bin Farhan al-Saud, was reported by the Guardian as saying he did not think the Saudis would have any additional demands as regards Iran’s civil nuclear programme than those presently outlined by the West, while adding: “I believe we can when we are at the table make it quite clear to the Iranians that this is not just a concern of distant countries, but it’s also a concern of its neighbours. Those neighbours would move into seeking better normal relations. So if we make clear that this is part of reassuring us, I think that may help them find it more acceptable to engage in such a process.”

One thing to Saudi Arabia’s advantage when it comes to relations with Iran is that Riyadh refused to join the Abraham accords that normalised relations between Israel and some Arab states in late 2020. The accords infuriated the Iranians who saw them as selling the Palestinians down the river.

Israel, meanwhile, has grown increasingly angry that Iran has been allowed to move to the point where it might soon be viewed as a nuclear threshold state. Hardly a day goes by without someone in the Israeli government warning that Israel would not tolerate such a status and would mount a military attack on Iranian nuclear facilities should it look like becoming imminent. The US is keeping its cards close to its chest on the matter, on the one hand advising all hope is not lost in terms of attempts to get talks on reviving the JCPOA back on track, but on the other hinting darkly that it would not stop short of joining bombing missions aimed at Iran if that’s what it would take to stop the Iranians from getting the atomic bomb.

For the Saudis, the decision to strike up new relations with Iran, via talks brokered by China, signals to the world that Riyadh will pursue a foreign policy independent of the West.

Prince Saud was further quoted as saying in London: “China is our largest trading partner. It is also the largest trading partner of most countries. And that is a reality that we will have to deal with. China, for us, is an important and valued partner in many areas. We have excellent working relationships across many sectors. But we have said and repeat this, “Israel, meanwhile, has grown increasingly angry that Iran has been allowed to move to the point where it might soon be viewed as a nuclear threshold state”. 
always, we will look towards our own interests. And we will look for them in the west and in the east.”

With Iran already increasingly allied with Russia – sending combat drones to the Kremlin that are used in the Ukraine war and helping the Russians combat sanctions – geopolitical analysts will also look at what the new Saudi-Iranian situation might mean in terms of Riyadh potentially aligning more closely with Moscow. More cooperation between Moscow, Beijing, Riyadh and Tehran could spell trouble for Western capitals, and Ukraine.

As news of the agreement struck in Beijing came through, there were many in Iran who – possibly quite right – downplayed its significance, with some mentioning that perhaps it should be the Lebanese who are happiest of all as the deal might mean a bit more economic stability for Beirut, where the rivalry between Iranian and Saudi influences can be intense.

One analyst, who previously worked with the Iranian foreign ministry and asked to remain anonymous, concluded that the “deal is not as big as it seems,” adding that “symbolically it may sound big but strategically it doesn’t change how Tehran acts in the region”.

A former diplomat with the Iranian foreign ministry, who also asked for the withholding of his name, said: “The last Iranian leader who attempted to bridge the gap between Tehran and Riyadh was Akbar Hashemi Rafsanjani [president of Iran from 1989 to 1997] and there seems to be no view that [current Supreme Leader of the Islamic Republic of Iran] Ayatollah [Ali] Khamenei has changed his position on the Sunni state.”

Women across Iran defy authorities by releasing illicit dance videos

bne IntelliNews

A dance video posted by five Tehran girls that went viral has inspired others across Iran to make and post similar videos with the same song in a new form of protest against the clerical regime.

The ‘copycat’ videos amount to a risky act of defiance as women in Iran are forbidden by the ruling clerics from dancing in public.

The five who put out the original video were reported by official media to have voiced contrition. But whether they have done so or not, or have done so without duress, is unclear.

The dance videos released on social media can be seen as an imaginative alternative format for protest as activists try to bring the anti-regime demonstrations that first broke out last mid-September back to the boil.

The unrest was sparked by the death of Mahsa Amini, 22, who died in the custody of the Tehran morality police. Amini was detained for wearing attire, including a hijab, or headscarf, in a way that ideological police officers claimed breached the Islamic dress code that applies in Iran.

Whether the protests will flare up again into big demonstrations on the streets in the months ahead continues to be an issue of much debate.

Iranian journalist Keyvan Samimi, who was recently released from prison, has said that Iranians are poised to push further in their anti-government protests despite the brutal crackdown mounted by authorities against them.

In an interview with RFE/RL’s Radio Farda, Samimi said Iranians appeared to have come to the conclusion that the protest movement won’t be satisfied until there is real change. That would require gaining further momentum to push authorities aside.

"Society is in movement, and this movement flows under the skin of the city. The protests are not over and are quite likely to rise again if something unexpected happens,” the 73-year-old Samimi was quoted as saying.

By many accounts the anger at the brutal lengths the regime has gone to to crack down on the protests runs very deep in Iran.

The Iran Watch column of UK satirical and current affairs magazine Private Eye has related in its March 3-16 issue how officials run a policy of preventing medical care being given to protesters.

It reported how since the protests began “the Center for Human Rights in Iran (CHRI) has recorded the detention of 81 doctors and medical students, with most still in prison. Hundreds more have been threatened with losing their licences if they treat the injured in secret, and security forces scour hospital emergency rooms looking for protesters.

"Doctors say they know of no medic who hasn’t been warned or harassed. Yet even in countries where doctors are state employees, their duty is to patients, not employers – a vow taken by all and clear in both western and Islamic codes of medical ethics.

"Hadi Ghaemi, of the CHRI, says persecuting doctors for treating the wounded exposes the inhumanity and criminality of the Islamic Republic. But it also shows the people of Iran how little their leaders, whom they put in power in 1979, to make Iran a better place, care about them now."
Taliban threaten water resources of Uzbekistan, Turkmenistan and Tajikistan

Afghanistan’s Taliban regime is pushing ahead with the construction of the 258-kilometre Kosh Tepa canal amid concerns in Uzbekistan, Turkmenistan and Tajikistan that the large hydraulic structure could deplete their water resources.

Water for the 100-metre-wide canal, expected to cost $684mn according to local reports, will be taken from the Amu Darya border river.

Construction began a year ago as the Taliban endorsed a project that is aimed at irrigating dry Afghan regions to the benefit of agriculture.

AKIPress reported on March 16 that the Kosh Tepa canal will not pose a substantial problem to Tajikistan, which, like Afghanistan, is located on the upstream part of the Amu Darya, but it could cause major difficulties for downstream Uzbekistan and Turkmenistan. Experts are said to fear the two countries may lose up to 15% of the irrigation water they draw from the river and watershed.

Afghan media have reported that the throughput capacity of the canal channel will be 650 cubic metres per second. Water would be taken for land in Afghanistan’s provinces of Balkh, Jawzjan and Faryab. Jawzjan and Faryab border Turkmenistan.

Kun.uz reported that upon project completion, Afghanistan’s consumption of water from the Amu Darya, historically known by its Latin name Oxus, may more than double per second.

Around 300 companies and 6,500 workers are said to be working on the canal construction. Completion of the project is scheduled for 2028.

The Taliban, ruling Afghanistan for a second time since August 2021 when the US and allies completed their withdrawal from the country, are struggling to govern a country never far from a complete economic and humanitarian catastrophe and riven by terrorist and militia groups opposed to Taliban rule from Kabul.

The Taliban’s administration is yet to win any recognition from neighbouring countries or other nations around the world.

Of Afghanistan’s neighbours, Uzbekistan has been the most positive about working on developing the crisis-ridden country with the Taliban. However, even Uzbekistan’s relations with the fundamentalist militant group have started to fray.

In early March, Russia and the six nations that border Afghanistan announced the formation of a discussion club for consultations on ways to bring about long-term peace and stability in Afghanistan.

Some Taliban diplomats have been permitted to maintain a presence in capitals including Moscow, Tehran and Ankara despite the lack of diplomatic ties.
Pashinyan declines to support right to self-determination for Nagorno-Karabakh residents

Armenian Prime Minister Nikol Pashinyan has declined to support the right to self-determination for Nagorno-Karabakh residents, marking a departure from Armenia’s longstanding policy on the conflict with Azerbaijan.

Previous Armenian governments had advocated for this right during peace talks mediated by the US, Russia, and France. However, Pashinyan and other officials stopped referencing self-determination a year ago and have instead focused on ensuring the “rights and security of the Armenians of Nagorno-Karabakh”, leading to concerns that Armenia is prepared to accept Azerbaijan’s complete control of the Armenian-populated region, rather than insisting on some measure of self-determination.

During a news conference in Yerevan, Pashinyan reiterated that the issue of the Nagorno-Karabakh people’s rights and security is crucial, but he stated that it is up to the people and government of Nagorno-Karabakh to determine the framework of those rights and security.

Azerbaijani President Ilham Aliyev invited representatives of Karabakh’s Armenian community to visit Baku for talks on the region’s “reintegration” into Azerbaijan, but Stepanakert has rejected the offer.

The five leading political groups in Karabakh released a joint statement demanding that Yerevan respect the right to self-determination of the Nagorno-Karabakh people and comply with a 1992 parliamentary act banning recognition of Azerbaijani sovereignty over Karabakh. Pashinyan did not clarify whether he could sign such a document, instead calling for direct dialogue between Baku and Stepanakert, while also accusing Baku of seeking a “mandate to perpetrate genocide or ethnic cleansing in Karabakh”.

In January, Pashinyan claimed that the international community has always viewed Karabakh as an integral part of Azerbaijan, a statement that was criticised by the Armenian opposition and Karabakh’s leadership.

UN inspectors confirm ‘near nuclear weapon-grade’ uranium particles found in Iran

Confirmation that uranium particles enriched to 83.7%-purity – just short of weapons-grade 90%-purity – have been discovered at Iranian nuclear development facilities will pressure Western powers to censure Iran at a board meeting of a nuclear watchdog next week.

It is the watchdog, the UN’s International Atomic Energy Association (IAEA), that confirmed the discovery in its quarterly report to its governing board.

Iran has vehemently denied enriching uranium to anything above 60%-purity. Tehran said the particles of 83.7% purity were simply a logical side-effect of an enrichment transition period “at the time of commissioning the process of [60%] product (November 2022)” or resulted from a process for “replacing a feed cylinder”.

However, the IAEA is not reassured. Its inspectors have made it clear that their faith in Iran’s statements on such matters, which are not backed up with corroborative evidence, is at an all-time low.

Israel continues to send out signals that it would be prepared to mount a military attack on Iranian nuclear development facilities, and would like to see UN “snapback” sanctions reimposed on Tehran in response to the progressing of its nuclear programme.

In their quarterly report, IAEA officials also pointed out that restrictions to
which Iran now subjects the watchdog inspectors meant that providing a full inventory or history of Iran's uranium enrichment process would take a substantial amount of time.

Iran continues to insist it has no intention of developing a nuclear weapon and that its nuclear programme will remain entirely civilian in nature.

And at the weekend, CIA director Bill Burns reiterated that US intelligence did not have evidence that Iran had taken a decision to weaponise uranium.

“To the best of our knowledge, we don’t believe that the Supreme Leader in Iran has yet made a decision to resume the weaponisation programme that we judge that they suspended or stopped at the end of 2003,” Burns told Face the Nation on CBS News, adding: “But the other two legs of the stool, meaning enrichment programmes, they’ve obviously advanced very far.”

Burns did concede, nevertheless, that Iran's nuclear enrichment was more advanced than previously known and "if they chose to cross that line," Tehran would only need a "matter of weeks" to enrich uranium capable of powering a nuclear weapon.

Noting Tehran has also been advancing its missile systems, Burns said Iran was now nearing the threshold of being a nuclear state, but, crucially, it had not resumed the weaponisation.

Under the 2015 Joint Comprehensive Plan of Action (JCPOA), or nuclear deal, Iran committed to limit uranium enrichment to 3.67%-purity, a level required to fuel nuclear power plants. In exchange, the major powers agreed to lift economic sanctions on Iran. But former US president Donald Trump unilaterally pulled the US out of the multilateral JCPOA in May 2018.

It is since the US exit from the deal and reimposition of heavy US sanctions that Tehran has taken its enrichment levels up to 60%-purity. There is no known civilian use for uranium of such a purity.

Kazakhstan, Russia in ‘star wars’ court clash over Yuri Gagarin spacecraft launch site

bne IntelliNews

Authorities in Kazakhstan have seized assets belonging to Russia’s primary operator of spacecraft launch sites in Baikonur.

Located in Kazakhstan’s southern region of Kyzylorda, Baikonur is famed for the 1961 Soviet launch of the world’s first manned space mission, making cosmonaut Yuri Gagarin the first human to reach outer space.

According to The Moscow Times, on March 14, Kazakhstan’s official bailiffs service banned Russia’s Space Infrastructure Center from moving its assets and property out of the country and ordered the company’s head to remain in Kazakhstan. This action was taken shortly after the chief of Russia’s Roskosmos space agency, Yury Borisov, criticised Kazakh Communications Minister Baghdat Musin for postponing the construction of a new spacecraft launch area at Baikonur. Musin, in response, called Borisov’s criticism “a diplomatic mistake”.

Musin explained that the Astana International Financial Centre (AIFC), which has a court that deals with cases on the basis of English law norms and principles, has jurisdiction over the decision to impound the space company’s property. He also clarified that the property seized does not include the entire Baikonur complex, but only property of one entity called TsENKI (Center for the Operation of Ground-Based Space Infrastructure). There are reportedly two court cases, one related to TsENKI and the other related to Baiterek.

Roskosmos reportedly has a debt of $29.7mn owed to Baiterek, a Kazakh-Russian joint venture, for work related to estimating ecological damage caused by Soyuz-5 rockets.

Baiterek was established in 2005 to gradually transition to environmentally safe rockets while phasing out Proton rockets, which use highly toxic heptyl fuel. TsENKI was created under the Russian Space Agency in 1994, to allow Kazakhstan and Russia to jointly use the Baikonur cosmodrome.

Kazakhstan has impounded the assets and property of Russia’s main operator of spacecraft launching sites in Baikonur, due to the Russian state company’s debt of $29.7mn to Baiterek, the Kazakh-Russian joint venture, for work related to estimating ecological damage caused by Soyuz-5 rockets.

The Baikonur space complex was originally built in the 1950s as a test range for the Soviet Union’s first intercontinental ballistic missile, the R-7. Later, the testing range was transformed into a spaceport, with the world’s first artificial satellite, Sputnik, launched from the facility on October 4, 1957. Cosmonaut Yuri Gagarin’s mission was launched from Baikonur on April 12, 1961.

Since the collapse of the Soviet Union in 1991, Russia has continued to use the Baikonur space complex, leasing the site from Kazakhstan since 1994.
The guessing game about what Putin will do if he begins to lose even more badly in Ukraine

Michael McFaul in Stanford

In 1986, I wrote my honours senior thesis at Stanford University on Soviet decision-making behind military interventions in eastern Europe as well as American responses to them. In my thesis – which turned out to be way too long (256 pages!) – I tried to explain why Soviet leaders intervened in Hungary in 1956 and Czechoslovakia in 1968 but did not militarily intervene in Poland in 1981, instead only supporting the imposition of martial law to destroy the Polish Solidarity movement there. I also attempted to assess whether U.S. foreign policy influenced Soviet decision-making in these three cases. Tragically, this topic is still relevant today.

I had a wise and brilliant thesis advisor, Professor Alexander Dallin. In the first draft of my thesis, I repeatedly wrote “Khrushchev believed”, “Brezhnev thought”, or the “Soviet Union wanted”. In the margins of that draft, Dallin dozens of times wrote, “How do you know?” Today, when reading the many analyses of Putin's decision-making, or sharing my views on Putin's thinking for that matter, I often hear Dallin’s voice in my head. “How do you know, Mike?”

I do know something about Putin and how decision-making works in Russia. I first met Vladimir Putin in the spring of 1991. I wrote my first article about him in The Washington Post, published on March 3, 2000, a few weeks before he got elected as president for the first time. I titled it “Indifferent to Democracy,” in which I warned about Putin's autocratic proclivities. The most recent piece I devoted to Putin was published in The Washington Post on January 26, 2022, and titled “Vladimir Putin does not think like we do.”

Since 1991, I have followed his career very closely. In fact, I just did a quick word search on my resume, and it looks like the word “Putin” appears in titles of over 60 articles and books I have written, including From Cold War to Hot Peace: An American Ambassador in Putin’s Russia and Russia’s Unfinished Revolution: Political Change from Gorbachev to Putin. While...
serving in the U.S. government for five years from 2009-2014, first as the Senior Director for Russia and Eurasia at the National Security Council and then as the U.S. Ambassador to the Russian Federation, I attended almost every meeting and listened in on almost every phone call that Putin had with President Obama, Vice President Biden, Secretary Kerry, and National Security Advisor Donilon. During those five years in the U.S. government, I also frequently met with some of Putin’s closest advisors and read the highest level of classified U.S. intelligence about Putin. To this day, I continue to interact with U.S. government officials of the highest level about Putin.

And yet, I do not pretend to know with certainty how Putin thinks. I am especially nervous about declaring with confidence that I can predict how Putin would react if he began to lose his war in Ukraine. So, everyone else should also stop pretending that they know with certainty as well. All of us “Putinologists” must be humble in our assessments especially about Putin’s future behaviour, which means worrying about worst-case scenarios, but also not assuming that these worst-case scenarios are the only possible outcomes – the only possible choices that Putin can make.

First, Russia is a dictatorship. A strong one. Putin faces no challengers from elites or society that a democratic leader might face when fighting or losing a war. People criticizing Putin for failing to achieve his initial objectives, which he clearly stated in his February 21, 2022, address, have no way to overthrow him or to even really criticize him. Putin jailed thousands of anti-war critics of the war with little trouble. If he wanted to do so, Putin could silence pro-war critics just as easily.

Second, again in part because Russia is a dictatorship, Putin can define victory in any way he wants. Tomorrow on television, Putin could declare victory by claiming that he (1) freed the people of Donbas from fascists, (2) protected “ethnic Russians” in Crimea, or (3) stopped NATO’s invading forces in Ukraine before they reached Russian borders. Sound kooky? If you think it does, you obviously haven’t been watching the craziness expressed every night on Russian state-controlled television as I have. Victory is often an elastic term in military conflicts, but this is especially the case in Putin’s Russia.

Third, if Putin ended his war tomorrow and claimed victory (as defined by him), the vast majority of Russians would support him. Survey data make this clear. Data from October 2022, however flawed, indicates that “60% of respondents would support Putin if he launch[ed] a new attack on Kyiv” and “75% would support Putin if he stop[ped] the war right now.”

This is exactly what I am talking about: 60% would support Putin if he launches a new attack on Kyiv 75% would support Putin if he stops the war right now

Putin doesn’t need to save face in front of the Russian people. They support him in war and will support him if he decides to end his war.


Another central argument made by the new army of Putin specialists is that the Russian leader will use his nuclear wagon against Ukraine if he begins to lose, and especially if Kyiv begins to use military force to restore sovereignty over Crimea. (The idea that Putin is going to launch a nuclear attack against the NATO countries is so far-fetched that it doesn’t deserve any attention.) This is a real concern. I think it’s very unlikely, but Putin might. I am certainly worried about this scenario even if it is a low-probability event. In fact, I am much more worried about this scenario than my colleagues in the Ukrainian government and parliament, who remind me that it is their families who get attacked.

“I do not pretend to know with certainty how Putin thinks. I am especially nervous about declaring with confidence that I can predict how Putin would react if he began to lose his war in Ukraine.”

Not my family, and hence we should listen to them more closely and stop deterring ourselves from providing better weapons out of fear of nuclear escalation. I agree. But I am also still worried. There is academic literature that discusses how leaders sometimes do crazy things – “gamble for resurrection” – in desperate situations. (See Hein Goemans, War and Punishment, 2000, and Downs and Rocke, “Conflict, Agency, and Gambling for Resurrection: The Principal-Agent Problem Goes to War,” AIPS, 1994.) Putin is an ideologically motivated risk-taker. I wrote about these proclivities in “Putin, Putinism, and the Domestic Determinants of Russian
But Putin is not crazy. He too can assess the very high risks of using a nuclear weapon because that action would (1) not end the war; Ukrainians would instead double down in their efforts to defeat Russia; (2) further isolate Putin and Russia from the rest of the world, including from China and India; (3) not be supported by large segments of Russian society and maybe not even his own generals; and (4) trigger massive new military assistance to Ukraine – ATACMs, jets, armed drones – from the West that Biden and other leaders so far have not provided out of fear of nuclear escalation. I don’t know how he tallies up the risks versus the rewards, but there is no doubt in my mind that Putin is assessing these costs against the benefits of using a nuclear weapon.

Moreover, Putin has other options to achieve his goals or defend his alleged “red lines” such as keeping Crimea. Most obviously, he could sue for peace. Yes, some leaders fight until death when losing wars. But history shows that other leaders also try to negotiate, as American leaders did, for instance, in response to losing in Vietnam and Afghanistan. Russian leaders have done so repeatedly throughout history too, including in Afghanistan as well as at the end of World War I, the Japan-Russia war, and even the first Chechen war (Yeltsin, suffering heavy losses, agreed to a ceasefire in exchange for territorial autonomy, but not independence.) Putin can do so too. The assumption that his only option is to double down by using a nuclear weapon is simply not accurate. He has options. Again, he could declare victory overnight, call for a ceasefire before he loses Donbas or Crimea, and then call upon European leaders to pressure Zelenskyy to stop fighting, especially before Ukrainian armed forces try to retake Crimea. Some, not all, European leaders would likely side with Putin in the name of peace, which would put Zelenskyy in a very difficult position. To come out of this war with a “saved face,” Putin has more options than just the nuclear one.

Finally, let’s interrogate the “rat in the corner” metaphor that so many newly minted Putinologists love to invoke to explain how Putin will react if he loses his face, or is embarrassed by defeat. Putin is highly motivated by grand majestic ideas and emotions and has a strong desire to be right next to Peter the Great or Catherine the Great in the history books. As such, Putin might lash out irrationally when faced with genuine defeat on the battlefield. (It’s hard to imagine Putin being mentioned in the same breath as Peter the Great if he does something so crazy as to use a nuclear weapon against his Slavic “brothers and sisters” in Ukraine.) I don’t know. But you don’t know either. Too many new Putin experts have bought into the Russian leader’s very cultivated image as a strongman, riding horses shirtless, flying MiGs, hunting in Siberia, swimming in an ice-cold lake, and all that. But his actual behavior in the past has been more complicated and not so macho and decisive. Indeed, a few times when he has been cornered and lost face, he backed down.

For instance, last October, Putin blocked 218 ships in the Black Sea, seeking to transport 40,000 tons of Ukrainian wheat to Ethiopia, despite the July deal to allow grain exports from Ukraine. Putin said that following drone attacks on the Black Sea fleet, he “could not guarantee safety of civilian ships.” United Nations, the West, and Turkey called him out on this bluff. Eventually, Putin gave in, backed down, and no escalation happened.

Even more dramatically, in 2015, Turkish President Recep Tayyip Erdoğan warned Putin of potential consequences should he continue to violate Turkish airspace by flying Russian jets into Syria. Putin ignored Erdoğan’s warning. So, on November 24, 2015, Turkey shot down a Russian SU-34 jet after ignoring several warnings made in English and Russian. The world braced for a big showdown between Turkey and Russia. But nothing happened. Russia did not attack Turkey. Putin backed down.

Finally, though a long time ago, Putin did not march into Tbilisi after he invaded Georgia in August 2008. He stopped short of the Georgian capital and did not try to overthrow President Saakashvili, even though Moscow told Washington that Saakashvili’s overthrow was a condition for stopping the invasion (Read chapter 53 of Condi Rice’s book, No Higher Honor.) He backed down. In 2014, Putin also halted his military operation to capture “Novorossiya” in eastern Ukraine, because Ukrainian armed forces stopped him.

I don’t know what Putin will do if he starts to lose in Donbas or Crimea. And nor do you. But we all should recognize that he is not suicidal, he is not crazy, and that he has options.

Michael McFaul is a Professor of Political Science, Director of Freeman Spogli Institute & Hoover Senior Fellow all at Stanford University. U.S. Ambassador to Russia, 2012-2014. This article first appeared on his substack blog.

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Where next for Georgian Dream?

bne IntelliNews

Two days of mass protest have forced the ruling Georgian Dream party to back down and withdraw a “foreign agents” bill. Had the parliament passed the bill, organisations receiving more than 20% of their funding from abroad would have been required to register as “foreign agents” with the government.

Critics of the bill compared it to laws passed by Russia more than a decade ago, which have since been used to clamp down on political dissent and muzzle independent media.

How did Georgia get to this point? Following the Orange Revolution in 2003, high hopes for reform and democratic development were placed on Georgia when now-jailed former president Mikheil Saakashvili was at the helm of state. But the country has backtracked since then after oligarch Bidzina Ivanishvili, a man whose wealth is equal to Georgia’s entire foreign direct investment (FDI) in any given year, returned home and captured the country’s politics.

In what now looks like a repeat of the Orange Revolution’s Prime Minister Yulia Tymoshenko’s narrow defeat by old school Viktor Yanukovych in 2010, who established a kleptocratic regime that ended in the 2014 Maidan revolution, Saakashvili was also voted out of office by an oligarch.

Saakashvili lost the elections to Ivanishvili’s Georgian Dream in 2012 and shortly after fled the country. He was later charged with abuse of office.

Eventually returning to Georgia in 2021 by slipping across the border ahead of another election, Saakashvili was quickly arrested and jailed. Thousands of protesters briefly rallied in his support in October that year, but if he was hoping to spark another Maidan, those hopes quickly faded and now there are increasing concerns over his deteriorating health. Authorities in Tbilisi have refused to release him for medical treatment in the West.

Georgian Dream has been in solid control since then, improving its grip on power during nationwide elections in 2020. While Ivanishvili is not openly pro-Russian, he is clearly sympathetic to the country that made him a billionaire. Some 85% of people, on the other hand, support the European-Transatlantic direction introduced by Saakashvili, according to polls cited by the opposition.

Ivanishvili said in January 2021 that he was quitting politics, few believe this to be true and he is widely seen as continuing to be the eminence grise behind Georgian Dream’s grip on power.

The Georgian Dream government perceives the country’s civil society sector and independent media, some of which receive funding from the West and are critical of the government, as a significant threat to their power and seeks to undermine them.

But the foreign agents law is a blunt instrument to achieve that aim, and it risked Georgia’s chance of joining the EU. The backsliding the country has already seen since Ivanishvili’s arrival on the scene has already badly tarnished its reputation in the West. When Moldova and Ukraine were both offered membership of the EU last year, the absence of Georgia’s invite was a glaring omission.

Georgia’s government probably thought that the geopolitical moment was ripe for clamping down on civil society thanks to the rest of Europe’s distraction with the war in Ukraine, which is more geopolitically important for Europe than the smaller and more distant Georgia. As bne IntelliNews argued “While Ivanishvili is not openly pro-Russian, he is clearly sympathetic to the country that made him a billionaire”
in a recent op-ed, geographical proximity is important in diplomacy.

Moreover, Brussels has a long history of doing little more than expressing “deep concern” when one of its allies does something distasteful. The EU is prone to overlooking these aberrations if its bigger goal of weakening Russia’s hold over Former Soviet Union (FSU) countries is achieved.

And Georgian Dream was under pressure from the country’s NGOs. As bne IntelliNews has argued, coloured revolutions rarely improve the economic lot of its revolutionary populations, but it does lead to an active and radicalised civil society that is more willing to defy the government.

“Coloured revolutions rarely improve the economic lot of its revolutionary populations, but it does lead to an active and radicalised civil society that is more willing to defy the government.”

civil society that is more willing to defy the government. That is testified to by the fact that Kyrgyzstan has had three revolutions in the last three decades and Ukraine two. In Russia, however, Russian President Vladimir Putin has managed to cow both the people and the opposition to the point where mass demonstrations are extremely rare and remain dangerous as participants can face long jail terms for participating in them.

Georgian NGOs have been upping the pressure on the Georgian government, which has taken an ambiguous position on the war in Ukraine. Rhetorically Georgian Dream has been supportive of Ukraine, but practically it has done little and has refused to join the Western sanctions regime.

At the same time, despite fighting an eight-day war with Russia in 2008 and still having no formal diplomatic relations with Moscow, Georgia has become more economically dependent on Russia than at any time since independence in 1991.

Another factor going into the desire to push the foreign agents law through is Georgia is slated to have fresh elections next year, so if Georgia Dream wants to consolidate its power, now would be the time to go after some of the government’s harshest critics, which tend to be in the civil society sector.

Although the foreign agents bill has similarities with the Russian law, it is not identical. The bill was passed in the first of three readings on March 7, but could have still been subject to revisions. There was also one version which copied the US Foreign Agents Registration Act.

The Euro-Atlantic direction is enshrined in the Constitution, but the government seems attracted to a watered down version similar to the policies being followed by Hungary: a prickly member of the EU, but a member of it nonetheless. However, Hungary’s main policy is simply pro-Hungary and being in the EU is in Hungary’s interests, even if at times it seems pro-Russia. When push comes to shove, Hungary does side with the EU.

Georgian Dream seems to want to follow a similar path that would also describe Poland and Serbia’s attitude to the EU. Certainly, it doesn’t simply become another Belarus that is entirely dependent on Russia.

For Tbilisi, Russia remains an extremely important trade partner and source of investment, while the most distant EU plays a minimal role in its economy in GDP per capita terms. A pro-Georgia policy ultimately means good functioning relations with Russia, similar to the nuanced stance that most of Central Asia has taken. The failure of the EU to include Georgia in the short invite list to join the EU last year only makes a balanced but amicable relation with Russia even more important.

Observers are debating what Ivanishvili’s role is in all of this. Opposition leaders demonstrating outside the parliament buildings last night were adamant that he pulls all the strings and clearly is calling some of the shots behind closed doors. Georgian Dream remains his project. Despite the fact that Russia is the source of his wealth, Ivanishvili’s relationship with Russia remains ambiguous and likely at the national level it remains pro-Ivanishvili, which translates into pro-Georgia, a Georgia that remains independent from Russia. It’s the pragmatism of big business applied to foreign policy: where is the profit for you and your company/country?

The decision on the morning of March 9 was also a pragmatic call. The people were sufficiently inflamed that the situation was becoming explosive and could have led to a second Rose Revolution. It was exactly the same clash between the Ukrainians’ desire to move westwards and Yanukovych’s deal with Putin that lit the fuse of the EuroMaidan protests in 2014. But that process quickly expanded and became a general protest against the rampant corruption of his government. All those conditions are present in Georgia now as well.

Georgian Dream seems to have miscalculated with the foreign agents bill. They likely were not expecting so much opposition, both domestically and from the West. It seems that the Rose Revolution did not help the economy, nor produce a liberal Western style values-oriented government. But it did create a vocal and vibrant civil society and a politically literate population that is prepared to hold its government to account. And that is real progress.
One year after Russia’s invasion of Ukraine upended agricultural commodity markets, food prices remain elevated even after retreating from their record highs in early 2022.

With two of the world’s largest exporters of wheat and other crucial crops entering a second year of war, many vulnerable countries still face heightened food insecurity. Fragile and conflict-affected states, home to 1 billion people, are at particular risk.

Eleven straight monthly declines have pushed food prices down 19 percent from a peak last March, the Food and Agriculture Organization of the United Nations said Friday.

As the Chart of the Week shows, inflation-adjusted prices in February remained above than the average level for recent years, though they are now back in line with levels seen before the war in Ukraine. The composition of the FAO Food Price Index shows that vegetable oils drove the decline in prices, along with dairy and cereals, while sugar and meat are little changed from early last year.

The IMF and other global institutions said in a recent joint statement on food security that governments and donors must step up support for the most vulnerable, facilitate trade and market functioning, and abandon harmful subsidies.

“More concerted action across these three key areas is needed to prevent a prolonged crisis,” the heads of the FAO, IMF, World Bank, World Food Programme and World Trade Organization said in a Feb. 8 statement, their third since July on the global food and nutrition security crisis.

The IMF’s new Food Shock Window has so far supported Guinea, Haiti, Malawi, and Ukraine. In addition, nine countries facing acute food insecurity benefited from IMF financial support through new or existing programs, with a focus on strengthening social safety nets and policies to help address the impact of the food crisis.

“With two of the world’s largest exporters of wheat and other crucial crops entering a second year of war, many vulnerable countries still face heightened food insecurity”
Blinken visit delivered prod rather than shove in right direction for Central Asia

Bruce Pannier

US Secretary of State Antony Blinken’s visit to Central Asia at the end of February drew a lot of attention. The top diplomat’s trip came almost exactly one year after Russia launched its massive invasion of Ukraine, a move that disrupted Central Asia’s traditional trade routes and caused anxieties in some of the region’s states over Moscow’s future intentions towards them.

Russia predictably saw the visit as the latest US attempt to drive a wedge into Central Asian-Russian relations.

Russian Deputy Foreign Minister Mikhail Galuzin warned the Central Asian states ahead of Blinken’s visit that the US experience in Afghanistan ended in “chaos and ruins” and in a multipolar world “there is no place for the democratisation experiments of Washington...”

However, officials in Kazakhstan and Uzbekistan, the two countries Blinken visited, seemed anxious to meet with him publicly to show they have other powerful partners besides China and Russia. Blinken’s statements about supporting Kazakhstan and Uzbekistan’s sovereignty and territorial integrity were no doubt welcomed by Astana and Tashkent, especially as they are the only Central Asian states that have publicly spoken out in support of Ukraine’s territorial integrity.

The approach of the United States to Central Asia is not about spending anything like the amount of money that China and Russia put into the region.

Some parties scoffed at the additional $25mn in aid that Blinken promised when in Astana he met with the foreign ministers of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

That sum is of course far lower than the billions of dollars that China and Russia have poured into Central Asia over the last couple of decades, but the American money is aimed at something rather different to what Russia and China are trying to achieve with their finance.

Russia and China, both of which directly border Central Asia, use their economic influence with the objective of binding Central Asia to them.

Russian and Chinese companies fund and build large infrastructure projects across the region and, as a result, the Central Asian states become deep in debt to them and dependent upon the giant neighbours for help in maintaining the projects.

That gives Moscow and Beijing leverage over their neighbours in Central Asia. Critics are wont to speak of “debt-trap diplomacy”.

One example of the leverage in action was the voting at the UN to condemn Russia’s war in Ukraine, or China’s campaign against Muslims in its western Xinjiang Region that borders Kazakhstan, Kyrgyzstan and Tajikistan. The Central Asian states abstained during these votes, except for remote Turkmenistan which simply does not vote at all on these topics.

The funds Blinken pledged are intended to help the Central Asian states become more independent from Moscow and Beijing, but not necessarily closer to Washington. As things stand in Central Asia, with Russia struggling to maintain

“...The approach of the United States to Central Asia is not about spending anything like the amount of money that China and Russia put into the region”...
Expanding non-Russian trade routes was a priority for Central Asia in 2022 and significant progress was made, but much remains to be done, particularly in finding alternative networks for trade with Europe to fill gaps left by diminished capacity through Russian corridors.

Expanding the Trans-Caspian International Transport Route (TITR), also known as the Middle Corridor, that connects China to Europe, avoiding Russia, is now the focus of a cooperation between the Central Asian states, Azerbaijan, Georgia and Turkey.

Some of the US money is headed toward TITR and similar transportation networks with the goal of giving the Central Asian states improved, non-Russian trade routes.

Better connections with Turkey, Europe and the Middle East will help balance trade relations with Russia and China.

Trade routes connecting Europe and the Middle East to China through Central Asia will also bring the Central Asian states added revenue from transit fees.

US-funded programmes to create new jobs in Central Asia stand in stark contrast to Russian programmes for attracting migrant labourers from Central Asia to work in manual labour jobs usually marked by low pay.

China’s impact on Central Asia’s labour market is limited to temporary employment for locals at sites in Central Asia where Chinese companies are working, or for those who were brought to China to study, employment in lower- or mid-level management positions in Chinese companies or as translators at work sites.

The $25mn might not sound like much money, but it carries no debt and is targeted at long-term benefits for Central Asia economically and is geared towards solidifying their sovereignty.

Additionally, it sends a message to the Central Asian governments that so long as their authoritarian form of rule continues, they cannot expect to receive large amounts of funding from the US government.

Blinken, third from left, with his Central Asian peers in Astana, Kazakhstan. / Kazakhstan foreign ministry
Russia brings in another all-time record harvest of 153mn-155mn tonnes of grain

Russia has brought in a new all-time high record harvest of 153mn-155mn tonnes of grain, President Vladimir Putin said during a visit to the Ulan-Ude Aviation Plant on March 14.

This is the second year in a row that Russia has set a new record grain harvest, as it brought in another record 153.8mn tonnes in 2022, smashing the previous all-time high – for both modern and Soviet times – of 135.4mn tonnes.

Ukraine sees increase in overdue loans but banks aren’t taking debtors to court

Ukraine saw an increase in overdue loans last year, rising from 34% to 39%, Ukraine Business News reported on March 14.

However, the number of debtors taken to court has dropped. In 2022, there were 37% fewer court cases than the previous year, with Ukrainian banks participating in 56,670 court cases.

Polish core inflation hits all-time high of 12% y/y in February

Poland’s core inflation, which measures price growth without food and energy, expanded 12% y/y in February (chart), adding 0.3pp to the January reading, the National Bank of Poland (NBP) said on January 16.

The core inflation growth rate thus picked up from an expansion of 0.2pp to 11.7% y/y in January. That was in line with a surge in the CPI, which came in at 18.4% in the twelfth month, adding as much as 1.8pp to the preceding month’s reading. Inflation is currently expected to begin easing – albeit very slowly.

Moldova’s GDP shrinks by 5.9% y/y in 2022

In 2022, Moldova’s GDP contracted by 5.9% y/y to MDL273bn (€13.5bn), the statistics office announced.

In each of the last two quarters of the year, the annual decline was steeper than 10%. In 2021, Moldova’s economy soared by 13.9%, reversing the 8.3% plunge seen during the COVID-19 year 2020.
Small majority of Croatians approve of euro changeover

The majority of Croatians – 54% – think that the switch to the euro was a good thing for Croatia, while 82% say that having the single currency is a good thing for the EU, a survey carried out by Eurobarometer showed.

Croatia switched to the euro on January 1 this year and, despite speculative price hikes at the beginning, the government’s measures quickly ended that.

The survey also showed that 57% of Croatians think that adopting the euro will have positive consequences for the country, while 58% think that the euro’s introduction will have positive consequences for them personally. The transition to the euro was assessed as smooth and efficient by 61% of people, while 37% said it went rather smoothly and efficiently.

“When asked whether they have experienced any problems when exchanging Croatian kunas or withdrawing euro cash in the first weeks of January, 81% of respondents say that they did not experience any problems at all,” the survey noted.

20% of Croatians think that price conversion to euros was very often correct, while 24% said it was often correct. Despite that, 62% of Croatians think the euro changeover will increase the inflation in the country and just 25% think it would help maintain price stability.

Meanwhile, the European Central Bank said in an analysis published on March 7 that the impact of the euro changeover on consumer prices in Croatia has so far been relatively small and similar to that in other countries that have joined the eurozone in previous years, despite a more challenging inflationary environment.

“62% of Croatians think the euro changeover will increase the inflation in the country and just 25% think it would help maintain price stability”

Generally speaking, do you think that..? (%)
Someone bombed Saudi Arabia’s biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to $100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

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