Tougher times ahead for Emerging Europe

IEA chief warns Europe its gas efforts won’t be enough even as Brussels inks

Islamic State threatens Central Asian and Chinese ventures in Afghanistan

Iran capable of making nuclear weapon declares adviser to supreme leader

RUSSIA WOOS AFRICA

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FDI in CEE: It’s about Russia, inflation and populism

Wojciech Kosc in Warsaw

After February 24, when the first Russian tanks rolled into Ukraine, looking at a map of Europe is no longer what it used to be.

The ludicrously obvious fact that several Central and Eastern European countries border with, or lie close to, Russia and Ukraine could have a detrimental effect on their attractiveness to FDI projects in the short run, the recent “Attractiveness Survey Europe 2022” report by consultancy EY argued.

On the other hand, as businesses and investors flee Russia, those same countries could benefit, longer term, from the same geographical position (as it won’t be all that expensive to relocate a business or a planned investment project from Russia to, say, Poland) as well as from the extra layer of credibility and safety of EU and Nato membership.

Otherwise, the same factors have long reigned supreme in CEE when it comes to defining the region’s allure to FDI projects.

“The region is cost-competitive compared with Western Europe and benefits from the presence of skilled labour, IP protection and – in some cases – EU membership,” Marek Rozkrut, EU and CESA chief economist at EY, said in a note on the report.

Even with its position shakier now than before the war, the CEE region was still the third most attractive region for FDI in the EY survey this year. Of 501 respondents, 42% pointed to the region, which trailed only Northern America (52% of indications) and Western Europe (60%).

Mainland China and India came fourth and fifth with, respectively, 29% and 24% of indications.

Populists and inflation
Not that there are no risks. According to the EY survey, the main risk of investing in Europe is the “rise in populist/protectionist feelings among politicians and populations”.

That sounds familiar to anyone who has been following the news out of the region, where Poland and Hungary now have a track record of several years of eroding rule of law (that is...
Poland’s main problem under the Law and Justice, or PiS, government) or corruption (Hungary under the near single-handed rule of Viktor Orban).

Orban has recently won another term in office while Poland’s PiS stands more than a fair chance of winning one next year unless converging crises turn the tables on the party, in power since 2015.

Another serious risk is “high volatility in currencies, commodities, and other capital markets”. Again, CEE currencies, the zloty and the forint in particular, do show great volatility at times, most recently this month, when both currencies were among the worst-performing in the emerging economies group, alongside the Turkish lira.

The CEE region has not been spared the calamities ravaging the rest of the continent in the wake of Russia’s war in Ukraine, Poland fared a little worse with the number of FDI projects dropping 12% to 193 last year but still that was enough to keep the country inside the top 10 most attractive FDI destinations in Europe.

Despite the drop in the number of projects, the total value of FDI inflows was $24.8bn, growing 79% versus 2020, in line with what UNCTAD describes as a global FDI bounce-back. The figure includes nearly $4bn worth of greenfield investments, an increase of $807mn compared to the year 2020.

“What distinguishes Poland in the eyes of investors is primarily its young, well-educated people, the fast investor service path, aid programmes that are well-suited to market needs, such as the government grants supported by the Polish Trade & Investment Agency, and [tax] exemptions,” Poland’s Ministry of Development and Technology told Investment Monitor in early 2022.

Zooming in, Poland excelled in attracting FDI from the business services sector, followed by transport and logistics. Germany, the US and the Netherlands were the top investing countries.

In Hungary, transport, software and IT services, as well as electronics were top sectors, with the investment money flowing in from Germany, the US and Austria the most.

In perhaps a surprise find, it was not any of the other EU and/or Nato member states from the region that were among the top 20 FDI destinations in Europe last year. Serbia came 17th, as the number of FDI projects grew 4% to 73, mostly in the transportation, software and IT services and agri-food sectors.

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“The region is cost-competitive compared with Western Europe and benefits from the presence of skilled labour, IP protection and – in some cases – EU membership”

either. Inflation is high – the most recent macroeconomic outlook of the European Commission showed in mid-July that it was nearly exclusively the CEE region that is poised to suffer CPI growth larger than 11% this year.

High inflation spurred, or is about to spur, the region’s central banks (and the ECB for the Eurozone members: the Baltic states and Slovakia) to raise interest in what is another risk to the FDI outlook for this year and the next.

“If central banks raise interest rates to tame inflationary pressure, businesses may find it more difficult to finance foreign investments, which could decrease overall project numbers,” the EY report said.

So far, so good

Still, Poland and Hungary were top CEE FDI destinations in 2021 with the latter actually increasing the number of announced projects by 58% to 76, putting the country of 10mn people in 15th place among the biggest FDI destinations in Europe.

The overall value of FDI inflows to Hungary was nearly $5.5bn, according to the 2022 World Investment Report by UNCTAD, the United Nations’ trade agency. That marked a decline of nearly 20%, despite the huge growth in the number of announced investments.

Investors, welcome – now be screened

The times of unabated FDI flows into more or less virgin CEE markets, starving for capital and technology after the Communist era, are long gone. According to UNCTAD, the trend of screening investors is growing worldwide, including in CEE.

In Czechia, non-EU investors must obtain a permit prior to acquiring effective control of a company in the country.

Slovakia, in turn, established an investment screening mechanism according to which any acquisition of more than 10% of shares or voting rights in an operation of critical infrastructure may be subject to review in light of possible disruption of public order or national security.

“The governmental power to block acquisitions applies to a list of sectors that includes transport, information and communication technology, energy, mining, postal services, pharmaceuticals and chemicals, metallurgy, health care, water, finance and agriculture,” UNCTAD wrote.
Hungarian government declares energy state of emergency, tightens utility price cap rules

Viktor Orban’s government made a remarkable turnaround on one of its key policy issues, the regulated price scheme on July 12, after it declared an energy state of emergency and reduced eligibility for regulated energy prices for retail clients.

From August 1, regulated energy prices for households will apply only to electricity and gas consumption up to the national average, while market prices will apply to consumption over the average, said Gergely Gulyás, the head of the Prime Minister’s Office at the weekly presser.

The blanket cap on household electricity and gas prices is “simply unaffordable” in the current wartime energy crisis, he said.

In numbers, that means a quarter of households will pay the market price as they consume more than the 210/kWh monthly average for electricity and the 144cm monthly average for gas.

Hungarians pay the lowest gas and electricity prices nominally, as prices have been frozen since 2013.

As part of the energy state of emergency, domestic gas production will be raised from an annual 1.5bcm to 2bcm by adopting dearer extraction technology. Gas prices are high enough that it is even worth using more expensive technologies in gas extraction, he added.

The government has also mandated the minister of foreign affairs and trade to procure more gas. Lignite extraction will be stepped up ”to the greatest degree possible” and blocks at the country’s second-largest power plant, Matrai Eromu will be restarted. The government will apply for an extension of the lifespan of the existing blocks at the Paks nuclear power plant.

The largest opposition party DK said the abolishment of the blanket price cap is an acknowledgment of the government’s failed policies. In the election campaign, the government accused the united opposition of planning to unwind the utility price scheme.

Just more than two months after the election, the government admitted that it had lied throughout the campaign and gave up on his most important political “product”, MP Akos Hadhazy wrote. ●

“Hungarians pay the lowest gas and electricity prices nominally, as prices have been frozen since 2013. The average consumer’s monthly electricity bill comes to HUF7,750 (€19), which would be HUF50,800 without the utility price cap”
Czech financial group PPF is trying to find a strategic partner to acquire a majority stake in its consumer credit arm Home Credit in China, said PPF’s new CEO Jiri Smejc, confirming longstanding rumours.

“We are trying to find a strategic partner there who will gain majority and following that will completely take over the firm, because we believe that without that, it is impossible to operate in China under current conditions,” Smejc told reporters.

According to him, it was a mistake that PPF failed to sell Chinese Home Credit in 2017. PPF’s vision to create a company worth $10bn failed due to structural changes in the Chinese economy and the impact of the coronavirus pandemic, he added. The Communist regime has been imposing a liquidity squeeze to cool the economy down, and closing parts of the country to contain the pandemic.

PPF is also engaged in selling its assets in Russia, including the operations of its Home Credit arm there. The sale of a majority stake in Russia’s Home Credit & Finance Bank should be completed by the end of June.

The main focus of PPF Group’s investments should now be in Europe, he said, adding that the company will be able to define a comprehensive investment strategy in September.

Smejc would like to expand PPF’s business in Western Europe, particularly in industrial or financial services, while looking at acquisition opportunities in telecommunications. However, this would be more likely to involve a merger with another financial or investment partner.

PPF, which has investments in financial services, telecoms, media, mechanical engineering and biotech, was looking for private equity or family office partners to raise funds for acquisitions in Europe, Smejc said.

Even before Kellner’s death in March 2021, PPF had been trying to wind down its investments in Russia and Asia to refocus on more developed markets, diversifying its portfolio and stabilising its returns. Smejc said he believes founder Petr Kellner, who died in March last year, would have also preferred to invest in the European region.

After the cancellation of the long-prepared merger of Czech Moneta Money Bank with PPF’s Air Bank group, the company plans to further develop Air Bank, he said.

He said there are not many investors for PPF to cooperate with in the Czech Republic given its size, so it would be better to look for Western players. PPF has historically worked well with tycoon Daniel Kretinsky and there is nothing to change about that, he noted.

According to Purple Trading analyst Petr Lajsek, PPF’s actions after the death of Kellner only confirm the group’s westward trend. “Given the current geopolitical tensions caused by Russia’s invasion of Ukraine, it is not surprising,” he said, adding that the Chinese market is a big unknown given the continuing coronavirus crisis there.

Smejc said PPF wanted to develop Home Credit in India, Vietnam, Indonesia and Philippines but needs partners with banking licences to secure access to cheap funding from deposits, which were more stable than markets. Bloomberg has reported that those assets could be worth up to $2.5bn.

In November 2019, Home Credit dropped a plan for a $1.5bn initial public offering (IPO) in Hong Kong because of poor market conditions. The IPO had been designed to turbocharge Home Credit’s Asian growth. Subsequently, China’s slowing economy, liquidity squeeze and strict COVID-19 lockdowns have damaged PPF’s business there. The Home Credit group lost €303mn last year and €584mn in 2020.
Kremlin reminds Nur-Sultan who’s boss over Kazakh oil exports

Fuad Shahbazov

When it comes to the shipping viability of its indispensable oil exports, Kazakhstan is not in a happy place. Nur-Sultan knows it, but more to the point, so does the Kremlin. Around four-fifths of the oil exported by Central Asia’s largest economy only makes it on to world markets thanks to the Novorossijsk oil terminal located on Russia’s Black Sea coast. What’s more, there are no obvious alternatives should the Kazakhs need to replace much or all of that capacity. With Russia in the mood to pull multiple levers on world oil and gas supplies as it strives to battle back against the heavy sanctions imposed by the West in response to its war in Ukraine, the vulnerability of Kazakh oil consignments has already been amply demonstrated. Let’s delve into events so far.

On July 5, a Russian court in Novorossiysk ordered the Caspian Pipeline Consortium (CPC) that transits Kazakh oil to the port’s oil export terminal to halt shipments for 30 days, allegedly due to oil spill concerns. The terminal handles around 1% of global oil, thus the move was far from unnoticed on energy exchanges. Analysts also sat up as they assessed the latest development in relations between Moscow and ex-Soviet state Kazakhstan. Nur-Sultan has offered next to no backing for Russia’s decision to invade Ukraine, and some observers see the Kremlin pulling the strings on Kazakhstan’s oil exports as a method of reminding the country’s Tokayev administration exactly who’s in charge in the ex-USSR space.

Tense appearance with Putin

Kazakhstan, which has provided 82 tonnes of humanitarian aid to the people of Ukraine, experienced tensions with Russia when the country’s President Kassym-Jomart Tokayev attended the 25th St Petersburg International Economic Forum (SPIEF) in June. Tokayev made it clear during an appearance with Russian President Vladimir Putin that Kazakhstan did not recognise the so-called Luhansk and Donetsk “people’s republics” in occupied Ukraine, labelled them “quasi-states.”

Tokayev’s remarks, awkward for Moscow at such a high-profile economic event, provoked some provocative statements from various revanchist Russian critics. The suspension of the CPC pipeline followed shortly after.

However, this was not the first suspension of Kazakh oil exports at the mercy of Russia since the Ukraine conflict began in late February. In March, Russia temporarily froze oil exports via the CPC infrastructure claiming storm damage to the shipments facility, while in June it did so again after citing potentially hazardous items allegedly discovered in Black Sea waters, namely what Moscow officials said were possible WWII mines.

According to reports, the long-term halting of CPC’s operations would remove as much as 1.5mn barrels a day of much-needed crude from the global oil market, whereas for Russia, it would have virtually no impact as Russian oil makes up only 10% of CPC volumes. With shareholders like Shell, ExxonMobil, and Chevron, the CPC carries up to 1.4mn barrels/day of Kazakh oil to the European market, which is already constrained partly due to a supply cut from Libya amid political unrest. Of all stakeholders, Chevron is exposed the more as it accounts for 12% of the total output of the CPC.

Cuts to CPC pipeline flows have cost Kazakhstan hundreds of millions of dollars in lost revenue. With alarm bells ringing loudly in Kazakhstan over oil export dependence on Russian infrastructure and territory, Tokayev turned to US companies invested in drilling for Kazakh oil to help diversify oil exports.
away from Russia. Tokayev suggested that oil transportation across the Caspian Sea was “the most promising alternative”.

Prior to the outbreak of tensions with Russia over the Ukraine situation, there were plans to increase the volume of oil exports flowing through the CPC pipeline to up to 5.114mn tonnes this month, but that idea no longer looks realistic. Interestingly, the most recent CPC disruption came just one day after Tokayev held a phone conversation with EU Council President Charles Michel. During their conversation, Tokayev assured Michel that "Kazakhstan's hydrocarbon potential is available in order to stabilise the situation on global and European energy markets."

**Plausible deniability**

If Russia is attempting to "punish" the EU and Kazakhstan and complicate the energy crisis more by cutting the Kazakh oil supply using its local courts, it is an approach that offers Moscow plausible deniability. Whatever the realities, debates have been sparked in Nur-Sultan over the need for urgent export route diversification. Nothing, however, can happen overnight.

Two main options for supply diversification are usually talked about: directing oil flows to China and dispatching oil in trans-Caspian and trans-Caucasus shipments via Azerbaijan and Georgia.

The China option would see Kazakhstan re-route oil flows but the pipeline to China can take oil from east and central Kazakhstan, while most of the large fields are in the country's west. Technically, it would be a rather challenging task, and, according to a foreign oil company based in the country, "it is unlikely that the re-route of oil is possible."

The second option, which would entail increasing oil exports on tankers traversing the Caspian Sea to Azerbaijan, from where the European market becomes accessible, sounds more realistic – but there appears to be a stark shortage of tankers, and the project would require a great many. Again, officials might respond, “Great plan, but how many years can you give us to get it realised?”

Azerbaijan possesses the necessary energy infrastructure for oil flows to Europe, namely the Baku-Tbilisi-Ceyhan (BTC) oil pipeline that reaches Turkey. It has delivered around 518mn tonnes of oil to Europe since its inauguration. And in fact, the BTC pipeline already sends some Kazakh crude oil to Europe, though the volume is not significant.

The Russian court's decision to halt the CPC oil supply – later cancelled in favour of a small fine by a regional appellate court in Krasnodar – caused outrage in Kazakhstan. CPC argued that the ruling was unlawful in that it posed long-term risks to the pipeline's functionality. “CPC is a continuous-cycle enterprise. The immediate suspension of its activities could have irreversible consequences for the production process and cause adverse and uncontrollable processes at the facility,” the company said in a statement.

To some parties, the decision by the Krasnodar court to overturn the CPC suspension was a surprise and amounted to Moscow opting to de-escalate diplomatic tensions. But the markets won't be in any doubt – Russia successfully sent the message that the fate of most of Kazakhstan's oil exports remains in its hands. Russia's decision to hide behind provincial courts to camouflage a purely political context will not help reset relations with Kazakhstan. But the realities of the tense situation are inescapable.

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**Uzbekistan creating gas processing industry to feed soaring domestic demand**

**Clare Nuttall in Qarshi and Tashkent**

Rather than exporting natural gas as a raw material, Uzbekistan is investing into deep processing capacity to enable domestic production of fuels, plastics and other products.

The first synthetic diesel was produced at the newly built Uzbekistan GTL (UzGTL) gas-to-liquids (GTL) plant on July 1, in an important step in Uzbekistan’s quest to move away from natural gas exports to production of higher-value products domestically.

Uzbekistan, like its neighbours Kazakhstan and Turkmenistan, is a major producer of natural gas. It is planning to increase production, but rather than exporting the gas as a raw material, investments into processing capacity have been launched to help meet the demand of the country’s growing population and industrial sector for fuel, plastics and other products.

The GTL plant in Uzbekistan’s Kashkardarya region was officially opened on December 25, 2021. It is located south of the city of Qarshi, not far from Uzbekistan’s border with Turkmenistan,
There are also expected to be environmental benefits; during a visit to the plant researchers demonstrated the cleaner burn from its synthetic oil compared to traditional oil.

The energy ministry has said that GTL fuels will produce 40% less atmospheric emissions compared to usual emissions from comparative fuels. Annual emissions would thus be reduced by 13,500 tonnes.

**Export taps switched off**

Until recently Uzbekistan, one of the top three gas producers in the former Soviet Union, exported gas to Russia, China and some of its Central Asian neighbours. However, earlier this year Uzbekistan suspended exporting the fuel this year amid a surge in local consumption, and aims to end gas exports altogether by 2025.

Domestic gas consumption is expected to amount to 47.2bn cubic metres this year, according to government estimates. Moreover, given Uzbekistan’s fast-growing population, demand for car fuels, plastics and other products is rapidly increasing. This prompted efforts to develop deep gas processing within the country as an alternative to exporting gas as a raw material then re-importing finished products.

This has been most obvious over the last couple of decades in the struggles by Uzbek drivers to find petrol or diesel for their cars. In recent years cars have been switched en masse to run off compressed natural gas (CNG) instead, with filling stations advertising ‘metan’ (compressed gas), which is now used by almost two-thirds of cars. While motorists initially converted their own cars, local automakers now produce cars designed to run on the fuel.

Now UzGTL will be converting natural gas into liquid fuels and products, with import substitution potential estimated at over $1bn annually.

“Our main goals are to: expand Uzbekistan’s capacity for the deep processing of domestic natural gas; significantly decrease imports of hydrocarbons; satisfy local demand for high-quality and environmentally friendly fuel; and provide the market with strategic value-added products made from our own raw materials”
decrease imports of hydrocarbons; satisfy local demand for high-quality and environmentally friendly fuel; and provide the market with strategic value-added products made from our own raw materials,” said Energy Minister Alisher Sultanov at the launch of the plant in December.

At the Tashkent Energy Forum in June, First Deputy Energy Minister Azim Akhmedkhadjaev also talked of the need to develop deep processing production of high value added products from hydrocarbons.

Alisher Bakhadirov head of the downstream department at state oil and gas company Uzbekneftegaz, said Uzbekistan saw the potential of investing into petrochemicals projects such as GTL or methanol-to-olefins (MTO). He told journalists on June 24 that Uzbekistan doesn’t need the Central Asia-China pipeline, and while gas was previously transported via other pipelines or as LNG, the priority now is to feed domestic petrochemicals production.

Uzbekistan plans to increase natural gas production by more than 20% by the end of the decade, Bloomberg reported, citing Ahmedhojaev in March. Gas production is to rise to 66.1 bcm in 2030 from 53.6 bcm last year.

At the same time, Uzbekistan plans to move partially away from using gas to produce electricity, as it embarks on its green transition. Numerous renewables projects – wind, solar and hydro – have been initiated since 2019, as Tashkent faces the challenge of supplying energy to its growing population while at the same time reducing greenhouse gas (GHG) emissions in line with its Paris Agreement and COP26 commitments. Gas, meanwhile, will still be sent to supply modern CCGT plants that will make up the shortfall when weather conditions mean it can’t produce enough from renewables facilities. That should also ease the energy shortages that sometimes plague the country in winter despite its gas resources.

**Targeting the local market**
In line with this strategy UzGTL is initially targeting the local market with its production. “The first need is to sell to the local market and after that if we have capacity to sell for export we will,” Kholmatov told bne IntelliNews.

Odiljon Karimov, first deputy general director of UzGTL, said new products are likely to be added in future, but the current focus is on finishing all the commissioning works and on starting production of the initial range of GTL products.

Commenting on expected demand, Karimov noted at a briefing for journalists that the launch of domestic production, making products cheaper and more readily available, may cause demand to increase, reducing the availability of products for export.

“When we carried out a feasibility study we found we can cover almost 80% of the local demand [for diesel], however, when there is product availability the demand also increases, we see from previous products,” said Karimov.

“Once we provide the fuels to the local market, when the people see the business opportunity they can open new business, more businesses means more demand. That’s why in future we can see that even our full amount will not be able to cover demand in future,” he added.

**Feeding the domestic plastics industry**
Another mega project is now in the works at an earlier stage, the MTO project being developed by Sanoat Energetika GURUHI (SEG). Construction of the plant is set to cost over $2.5bn, and is expected to be completed by end-2024.

“The MTO project is one of the biggest now in the pipeline of investment projects in Uzbekistan dedicated to the new trend strategy to develop the country, monetisation of gas, creating the added value chain, and allocating all the value processes here in Uzbekistan,” Nigora Ibadova, head of the Gas Chemical Complex MTO, told journalists in Tashkent on June 24.

“Instead of selling gas as raw material we are now focusing on establishing the premises which could treat the gas and produce the fuels which are in big demand in the country.”

Ibadova references the country’s rapid population growth; already the most populous country in Central Asia its population is expanding each year by more than 600,000. “This means the consumption of many, many end products is increasing. One of those is products containing different polyolefins,” she said.

Gas processing is being developed at the same time as the future textiles industry. Just like gas, Uzbekistan is seeing a trend of “decreasing sales of cotton as a raw material, instead making centralised clusters to produce all the value chain like ready-made clothes. To increase the variety of products which could be produced with the use of cotton we need synthetic fibre,” explained Ibadova. Uzbekistan already has the fifth-largest producer of synthetic carpets in the world, but this currently depends on imports of artificial fibres from Turkey.

The developers of the MTO plant have been working closely with local producers that are currently importing polymers to ensure they produce what the industry needs. Just like the UzGTL plant, the MTO plant will focus on the domestic market. When it starts operation, 70% of its products will be sold on the local market, and the remaining 30%, mostly polypropylene, will be export production.

As for the GTL plant, however, this may change as the deep processing of Uzbekistan’s gas to create industrial inputs is already expected to lead to the creation of new businesses and new industrial sectors within the country.
Russian freight train arrives in Iran, marking new trade corridor milestone

bne IntelliNews

An initial Russian freight train has arrived at Iran’s Sarakhs railway station in Khorasan-Razavi province on the border with Turkmenistan, IRNA reported on July 12.

The rail haulage development is important in the context of the accelerated development of the International North-South Transport Corridor (INSTC). A big aim of the corridor is to provide Russia with substantial import-export trade access to the Persian Gulf and Sea of Oman (Indian Ocean) via Iran, while also allowing it to develop trade links with Iran’s Arab neighbours to the west. INSTC has been under discussion for years, with little tangible progress in realising the project, but it has taken on a new lease of life given how Western countries have cut off access to Russian hauliers following the invasion of Ukraine. The Iran route now provides Moscow with increasingly vital options when it comes to trade with India and other points east.

The Russian freight train is reportedly pulling 39 containers with building materials for India. It departed from Chekhov station in the Moscow region before covering 3,800 kilometres to reach Sarakhs.

Iranian Minister of Roads and Urban Development Rostam Qassemi said the locomotive would move on to the port of Shahid-Rajei in the province of Hormozgan in southern Iran. From there, the containers with cargo will go to India by sea.

“Thanks to good agreements and contracts concluded with countries such as Russia, Kazakhstan and Turkmenistan, as well as the availability of this route for the delivery of Russian goods to countries such as India, the train will continue to travel along this route,” Qassemi said.

INSTC backers point to how the corridor offers shorter routes than alternatives that go via the Suez Canal.

Islamic Republic of Iran Shipping Lines (IRISL) has assigned 300 containers to transport goods on the Russia-India-via-Iran route, Mehr News Agency reported on July 11.

Kyrgyzstan preps mining project with China in mind

Aigerim Turgunbaeva for Eurasianet

Kyrgyzstan is readying to develop a long-contested mineral deposit, shrugging off environmental and economic concerns about a project activists say is tailor-made for China.

The giant Zhetim-Too deposit in Naryn province is rich in an array of mostly non-precious metals, such as iron ore, although little real exploration has been conducted there since the Soviet period.

Sadyr Japarov announced his intention to exploit Zhetim-Too not long after coming to power in 2020 and cited the country’s debt to China – around $1.8bn owed to Exim Bank – as a motivation.

“We can pay off $1 billion in one year if we do it with resources,” Japarov said.

Those comments saw a wave of criticism and speculation that rights to mine part of the territory had been acquired – not for the first time – by a Chinese company.

Japarov’s office fired back, accusing critics of seeking to score points ahead of presidential elections and insisting that no deal had been struck. His ally and Kyrgyzstan’s de facto national mining chief, Tengiz Bolturuk, has suggested that exploiting Zhetim-Too fully could require investment to the tune of $2bn. Kyrgyzstan’s GDP is about $8.5bn.

www.bne.eu
Signs suggest the project is in motion, however it will be funded.

Earlier this month the president appointed a new governor of Naryn, Altynbek Ergeshov. At Ergeshov’s official posting ceremony on July 6, cabinet chief Akylbek Japarov – not related to the president – named Zhetim-Too along with several other projects and instructed Ergeshov to turn agrarian, mountainous Naryn into “an industrial-energetic region.”

As the country’s de facto prime minister, Akylbek Japarov has been the loudest voice warning about the perils of debt to China, noting last month that if Bishkek could not make its payments on time, it would have to cede control of strategic infrastructure built with Chinese credit. He mentioned Sri Lanka and Pakistan as precedents.

Nevertheless, he promised last week, the government would not pursue projects that damage the environment.

Scandals at Zhetim-Too date back to Kyrgyzstan’s second president, Kurmanbek Bakiyev, who was chased from the country in 2010 by crowds enraged at his corruption.

According to former national security chief Adil Segizbayev, Bakiyev’s son Maksim acquired for a symbolic sum the licence to mine the Dangi section of the deposit in 2009.

That part of Zhetim-Too alone contains around 500mn tonnes of iron ore, according to official estimates.

The younger Bakiyev then sold a majority stake for $20mn to a Chinese investor who built an ore processing factory over the border in Urumchi, Segizbayev said, offering an account that other politicians have supported.

Segizbayev said Japarov’s government was preparing to give away Zhetim-Too to “return Maksim Bakiyev’s debts” to the investor. Segizbayev, who was standing against Japarov in presidential elections when he made the comments, was arrested not long after. But other politicians and public figures have raised similar fears.

The 2009 plans to develop Zhetim-Too generated protests in Naryn, where locals blocked a road that a Chinese company was building.

After the 2010 revolution, investors in the deposit saw their licences torn up.

Media periodically raised fears that Zhetim-Too would be used as collateral for a railroad linking China to Uzbekistan via Kyrgyzstan.

Activists argue that the project poses risks to forested areas, vast pastures and the river Naryn.

Ulan Usoiun, a prominent activist who is campaigning against the development, told Eurasianet that “the traces of China are everywhere” in the government’s plans for Zhetim-Too.

“Officials say that a state company will run the project, but we know that no Kyrgyz company has these funds,” Usoiun told Eurasianet.

Usoiun recently debated with the cabinet’s deputy chair, Edil Baisalov, on a pasture not far from the deposit.

Baisalov said the project would enrich residents, and that any activity would be first agreed with the local population.

“I told Baisalov that local residents, activists, especially young people, are categorically against the development of Zhetim-Too. Of course, he met with shepherds, spoke beautiful words. But no one believes [the government],” Usoiun said.

In fact, surveys carried out under the auspices of the International Republican Institute (IRI) suggest that belief and trust in Japarov and his administration remain high.

While in opposition, Japarov made a name for himself as a crusader against Kumtor gold mine’s former Canadian owners, Centerra Gold, eventually being sentenced in 2017 to jail on kidnapping charges related to a rally against the company.

He was freed during post-vote political chaos three years later, and his reputation has further soared after he saw through a promise to nationalise Kumtor.

Zhetim-Too could prove one of the strongest tests of his popularity yet.

Aigerim Turgunbaeva is a journalist based in Bishkek. This article originally appeared on Eurasianet.
The West approves badly needed budgetary support for Ukraine, but delays dog distribution of funds

Ben Aris in Berlin

Both the US and European Commission have approved badly needed financial support packages for Ukraine to shore up the latter’s public finances but the distribution of the money has been dogged by bureaucratic delays.

The US and EC have signed off on similar mirrored financial packages to support budget spending of $9bn and €8bn each to help fund Ukrainian budget spending that is currently deeply in deficit. However, despite being approved, neither Washington nor Brussels has released the cash due to accountability concerns.

The Kyiv School of Economics has upped its estimate of the cost of the physical damage done to Ukraine’s economy from $104bn to $165.1bn needed for post-war reconstruction.

Damaged housing makes up for nearly 40% of losses, which amounts to $36.6bn, according to KSE’s latest update of its study “Russia Will Pay.” Estimates for the total cost of the war to Ukraine vary from $600bn to over $1 trillion.

The EC has signed off on a second tranche of macro-financial assistance that follows a decision made two months ago on a first 1bn tranche that was finally signed off on this week. The macro-financial assistance programme has been running for years and was in place before the war started, but has been massively ramped up in scale due to Russia’s destruction.

A spokeswoman for the EC said that the money would be released “soon”, reports Evropeyska Pravda, but was unable to give a firm date, as the Council of Europe and the European Parliament both need to approve the emission.

"It is important to emphasise that we intend to come out soon with a proposal for the provision of the remaining macro-financial assistance. And the rest will include the full amount of assistance that was agreed by the European Council for the reconstruction of Ukraine. Technical work on the second tranche is underway to provide it as soon as possible,” she said.

While the spokeswoman reassured that the EC would continue to work throughout the summer, she also said that the next session of the European Parliament is not slated to occur before September.

Germany has also been blocking 9bn in EU aid for Ukraine for more than a month, over concerns about accountability, as it is afraid the money will be stolen, according to reports. Previous calls for a Marshall Plan for Ukraine prior to the war were stillborn as European lawmakers had no confidence that any general investment money sent to Kyiv would not be diverted into corrupt schemes by Ukrainian officials and oligarchs.

The West has constantly called on Kyiv to tackle its endemic corruption, with little result.

The stalled loan and deadlocked talks has been confirmed by various protagonists both in Kyiv and in Brussels, reports the local press, that speculate it could have been the reason for Ukrainian President Volodymyr Zelenskiy’s decision to remove the controversial Ukrainian ambassador to Germany, Andriy Melnyk, last week, who has been an extremely outspoken critic of Berlin’s reluctant support of Kyiv.

Similar problems have stymied the release of the US money. A member of the US Congress, Victoria Spartz, reported on problems that the US has had in funding Ukraine and said some of them relate to the supervision of allocated funds on July 12. She added that “Republicans and Democrats are very worried about how we will supervise a large amount of money we have spent in Ukraine. That is, the problem I am talking about exists at the bipartisan level! And you need to solve it! There will be big problems in Ukraine if the Ukrainian government cannot come to an agreement with us now. Ukrainians don’t understand that Congress oversees where and on what American money is spent.”
Economists are warning that Ukraine can’t afford to wait until September and is facing a growing balance of payments crisis if more money to cover government spending is not made available soon.

The first concrete signs of trouble appeared on July 12 after state-owned national gas giant Naftogaz asked the holders of its $1.4bn worth of bonds to voluntarily delay coupon payments, as the company “needs to preserve cash” to buy some 5.6bn cubic metres of gas for the winter at a cost of $7.6bn, the company said in a press release. The delay technically constitutes a default on the bond.

“It feels like Ukraine is going to sink into default here as an afterthought. Because no one thought through the consequences to the full. Naftogas, the state gas company seems to want to pay a $350-odd million maturity due over the next few days and this seems set to start in motion a chain of events that likely then will see the sovereign default on $2.2bn in liabilities due in September. Our read is Naftogas management want to pay / as they think a default will make their task of finding finance to purchase critical gas imports thru the winter that much more difficult. Someone in government seems to be pushing for non payment. A Ukraine default would be a win for Putin. He would argue that the default reflects the fact that in the end the West is not committed enough to Ukraine to write enough cheques to keep Ukraine current. If Ukraine defaults he may well be right,” Timothy Ash, the senior sovereign strategist at BlueBay Asset Management in London, said in a note to clients.

As bne IntelliNews has reported, Ukraine is running out of money and is unable to fund its budget expenditure. Since the start of the war Ukraine has received a total of between $8bn and $11bn from international donors, according to various estimates, but has been running a deficit of between $4bn and $5bn a month.

The Ukraine Ministry of Finance said at the start of this week that foreign funds covered only half of Ukraine’s budget needs of $22bn in March-June. Between March and June, Ukraine received only $10.2bn in foreign loans and grants, according to the Ministry. The money sent has been used to partially cover the deficit. Since the war, Ukraine’s partners have pledged to provide loans and grants worth $32bn, but the government has estimated it needs $39bn, and more recently during the Ukraine Reconstruction Conference it increased that amount to $69bn.

The bulk of the budget finance is currently coming from the NBU, which has been printing money and transferring cash directly to the government since the war started. The government has also been dipping into the NBU’s hard currency reserves, which have fallen by some $5bn since the start of the war to circa $22.76bn this month – their lowest level in two years. As a result of the falling reserves the hryvnia has come under pressure and tight capital controls have been used to stop the currency devaluing and a dual exchange rate, not seen for a decade, is beginning to reappear on the streets of Ukraine’s cities.

Cut off from almost all other sources of funding, the Ministry of Finance has turned to the local bond market and issuing war bonds has become the second largest source of government revenue.

The falling appetite for the bonds in the last weeks led the Ministry to raise the rates of dollar military bonds to 4-4.5% this week in the hope of attracting fresh capital, but the hike was not enough and the last local currency auction raised the disappointing amount UAH143.5mn. However, the dollar-denominated bonds were more attractive and brought in $330.5mn this week, almost all at the short end of the curve. UBN reports that the rates for dollar military bonds were:

- 3-month bonds at 3.5% attracted $140.6mn
- 6-month bonds at 4% attracted $183.8mn
- 1-year bonds and 4.5% attracted $6mn.

Ukrainian’s Akhmetov transfers media licences to the state, saying “I am not an oligarch”

bne IntelliNews

Ukrainian’s richest man, Rinat Akhmetov, has transferred the ownership of his media assets to the state in a bid to shed his oligarch status.

“I made an involuntary decision that my investment company SCM will exit its media business,” the owner of the System Capital Management (SCM) conglomerate said in a statement.

“This week Media Group Ukraine will surrender for the benefit of the state all Ukrainian licences of our television channels for terrestrial and satellite broadcasting, as well as print media licences. We shall also cease operations of MGU’s online media,” Akhmetov said.

“This decision is driven by entering into force of the Law
of Ukraine On Preventing Threats to National Security Associated with Excessive Influence by Persons Who Wield Significant Economic and Political Weight in Public Life (Oligarchs). Being the largest private investor in the Ukrainian economy, I have repeatedly stated that I have never been and am not going to be an oligarch. A short six-month term provided for by the Law for the sale of media assets, coupled with the Russian military aggression against Ukraine, make it impossible for SCM to sell its media business on market terms,” Akhmetov continued.

Ukrainian President Volodymyr Zelenskiy launched a campaign last year to limit the influence of the oligarchs with his oligarch speech in March 2021, saying the oligarchs needed to remove their influence on government and end their various rent-seeking schemes to make money from the budget. He followed that up with an oligarch law in September 2021 that introduces a definition of oligarchs and sets up a state register of oligarchs. The National Security and Defence Council is tasked with adding individuals into the register of oligarchs and removing them from it.

State officials are banned from private meetings with oligarchs or acting on their behalf. One of the four criteria defining an oligarch is: “has a significant impact on the media.” The oligarch law entered into force on November 7 the same year and is valid for ten years starting on May 7, 2022.

Akhmetov has transferred the ownership of the licences of his media assets to the state, but retains control of the businesses, according to initial reports. It is unclear if the government will accept this move as ending his “significant impact on the media”, as it appears that he will continue to pay the bills at his various media outlets.

Akhmetov says that he has invested a total of $1.5bn in his media empire that employs 4,000 people in a number of TV stations, newspapers and other media outlets.

SCM’s Media Group Ukraine includes more than 10 TV channels and online outlets: TV channels Ukraine, Ukraine 24, NLO TV, Indigo TV, Football 1/2/3, 34 TV channel (regional), Xtra TV satellite broadcasting operator, OLL.TV platform, Baing Media Partnership agency, Segodnya site, Vogue.UA cross-platform project, Hromadske reports.

The initial reaction from the government was positive. Minister of Culture of Ukraine Oleksandr Tkachenko called Akhmetov’s decision a “precedent”.

“During the course of more than 20 years, beginning in 2000, we and the journalists together have built a media holding that is based on the principles of freedom of speech, truth and professionalism”

"The only thing I can say at this point is serious news. Because Media Group Ukraine is one of the four largest private media groups. This cannot but affect the market, because the market is already very depressed today because of the war. We will learn more information – then we will be able to comment in more detail," he said, as cited by Hromadske.

Akhmetov defended his ownership of media, arguing that he actively contributed to the promotion of free speech in the country. Detractors argue that he has used his control over major newspapers and TV stations for political ends and specifically to attack Zelenskyi and criticise the oligarch law in particular.

“During the course of more than 20 years, beginning in 2000, we and the journalists together have built a media holding that is based on the principles of freedom of speech, truth and professionalism,” Akhmetov said.

"It includes 10 terrestrial and satellite TV channels, online resources, print media and a modern media production ecosystem. We have invested more than $1.5bn in our media business. However, the most valuable investment is that of each of 4,000 journalists and employees of our media team. Owing to your great work, Ukraine and Ukraine 24 became the top Ukrainian TV channels ranked by share of viewing, and millions of football fans had gathered before TV screens to watch our Football channels. This is why the decision to exit the media business is so hard for me.”

Ukraine’s richest man, Rinat Akhmetov, has transferred the ownership of his media assets to the state – one of the four criteria that define an ”oligarch” under the new anti-oligarch law that came into effect last year. / wiki
Russians stampeded into foreign stocks last year, egged on by aggressive advertising and a desire to invest their savings into something a bit “safer” than Russian equity. As a result of sanctions on VTB their investments have now all been frozen. Retail investors are now suing the bank. / wiki

Kremlin VTB bank to be hit by investor class action for seizing foreign shares

Jason Corcoran in Dublin

A group of about 250 Russian investors is preparing a class action against VTB after their investments in foreign stocks were effectively seized by the Kremlin-controlled bank, bne IntelliNews can reveal.

The claimants, who have invested in a range of US blue-chip stocks including Tesla, Apple and Netflix, have exposure of about $10m at stake but that amount – and the number of investors involved – is just the tip of the iceberg.

Central Bank data shows foreign stocks and bonds accounted for a 31% of all Russian brokerage assets at end of last year after retail investors were hammered by advertising to dip their toes in hot US tech stocks.

The class action is being co-ordinated by German lawyer Max Gutbrod and Boris Feldman, a co-founder of Moscow firm Destra Legal.

“As soon as the invasion happened, VTB got an announcement it would be sanctioned within a month,” Gutbrod, a former partner of over two decades at Baker & McKenzie in Moscow, told bne IntelliNews in an interview. “So VTB sold whatever foreign shares they had. As for all the shares they had in trust, they decided they were allowed to transfer those shares to another depositary, which they are not.”

VTB’s brokerage allowed the domestic investors access to foreign shares via their own trading platform. Instead of informing their clients of an imminent problem, Gutbrod says VTB did nothing and transferred the shares to a depositary, where they were duly sanctioned and frozen.

Gutbrod said the Russian investors were effectively collateral damage in “a quid pro quo” after the West seized half of Russia’s $630bn in foreign reserves following the invasion of Ukraine on February 24.

“VTB has not provided adequate protection for their investors,” added Gutbrod. “They should have been informing the investors and giving them the choice to sell their stock – like VTB did. The only problem is proving the losses because you don’t fully know whether the investors would have ultimately sold.”

From communicating with the investors, Gutbrod said a majority of them definitely would have sold the shares. He said: “That becomes a question of proving it and whether the court will accept that. Our strategy on that side is to try to get the Central Bank or a state entity to compensate, because the problem is so big.”

During the pre-war boom in retail stock market investment, Russian brokers had been aggressively pushing foreign shares and investors had queued to sign up. In the second quarter of 2020, foreign investments totalled RUB0.3 trillion but surged to almost RUB1 trillion by the end of 2021, according to CBR data.

Citing the need to protect investors’ rights and interests, the Central Bank said it had decided from May 30 to restrict trading in foreign shares that have been blocked by international clearing houses, except for shares of foreign companies that carry out “production and economic activity mostly in Russia.”

The move affected all securities whose storage and settlement executed via the National Settlement Depository with the exceptions for foreign stock issued by Russian firms, such as Yandex, Ozon and TCS Group.

Prior to the invasion, investor protection and enhancing corporate governance standards would have been major priorities for Central Bank Governor Elvira Nabiullina.

However, Gutbrod accepts that the regulator is now trying to put out so many fires that protecting minorities will be far down her agenda.

“On a medium term, they are going to need to get a local capital market going,” he said. “However, one of the biggest hindrances will be continued ill-treatment of retail investors in all kinds of circumstances in 1998 and in every crisis since.”

The invasion and subsequent sanctions have been ruinous
for Russia’s domestic capital markets and for liquidity in local shares and bonds. Insiders said the market’s development has been retarded by decades, while many foreign investors and their existing investments may be stuck for even longer.

Foreign investors in local Russian stocks have also been caught in the crossfire. Non-residents have been prevented by the Central Bank from selling assets on the Moscow Exchange since February 28.

On June 6, VTB also announced the termination of its depositary receipts (DR) programme in the wake of US and international sanctions. Following termination of the DR programme, VTB’s own listing at the London Stock Exchange (LSE) will be also terminated.

In further nails to the local market’s coffin, foreign brokers were banned and dividends by Gazprom and Sberbank were also axed, which sent both blue-chips into a downward spiral.

The investor base involved in the class action ranges from high-net worth individuals with $1mn at stake to modest retail investors with $1,000-$2,000 on the line, according to Gutbrod.

“The impression I am getting is that they are very diverse – from the retail investor who puts his last money on something as glossy as share in April after reading some advertisement to pretty sophisticated investors.”

Gutbrod believes that the counter-sanctions to confiscate shares may not even be legal. “This legislation is not even in place for here or seizing oligarch yachts in Italy,” he said.

The next target for the lawyers is Otkritie Bank, which was previously bailed out by the Central Bank. A similar number of clients are believed to be affected with the number of claims rising daily.

Potential claimants are asked to contact Destra Legal here at their website.

“All the major banks and brokers have a similar problem, and our claim represents just a small part of the overall number of investors affected,” said Feldman. “Some like Sovcombank sent out a warning notice and recommendation to sell the stock once they got sanctioned but not most of the others.”

VTB’s press service did not immediately comment to an emailed request for comment.

Andrei Kostin, the former Soviet diplomat who runs VTB, last month said sanctions had frozen “billions of dollars” of its assets, but the lender still had the funds to buy bailed out rival Otkritie.

Tourists stay away from Montenegro as prices rival Cote d’Azur

Montenegro’s Prime Minister Dritan Abazovic has warned that the number of foreign tourists during the summer season in the country is lower than expected due to the significantly increased prices at hotels and restaurants, Indikator.ba reported on July 19.

Tourism is a key industry for Montenegro’s economy, contributing around a quarter to its GDP. Although the authorities have projected that this summer season might be better than that in 2019, so far the number of visitors is lower than expected.

Abazovic noted that the prices are equal to those at the Cote d’Azur, resulting in a lower number of visitors.

On the other hand, the income from tourism is at the expected level, Abazovic noted.

According to the latest statistics office data, Montenegro’s consumer prices went up by an annual 13.5% in June, after rising by 11.7% y/y in May. Food and non-alcoholic prices increased the most in May, by 22.5% y/y.

Mirko Stanic, member of the leadership of the Montenegrin Social Democratic Party (SDP), commented to Mina Business
that the government must take urgent measures to attract tourists and that the national tourist organisation's campaign started late and was carried out with a lower budget.

The Democratic Party of Socialists (DPS) has accused the government of being responsible for the weaker than expected tourist season.

Aside from the high prices, the European Commission warned in its spring economic forecast released on May 16 that Montenegro’s economy will significantly slow down its growth in 2022, to 3.8% from 12.4% a year ago, as tourism activity in the country will be negatively affected by Russia’s war in Ukraine.

In 2021, a robust revival of tourism pushed up Montenegro’s economy, but this is expected to slow in 2022. Surging energy and food prices will also drag down the economic growth, the EC noted. As Russians and Ukrainians represent 20% of all tourists in the country, the sector will be badly hit by the war in Ukraine.

“Tourism in particular is expected to perform worse in 2022 than previously expected and to reduce exports of services, while the fiscal stimulus is set to support private consumption particularly in 2022, before the impulse runs out in 2023,” the EC noted.

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**Bucharest office blocks being turned into hospitals to accommodate booming private medical sector**

Iulian Ernst in Bucharest

Immofinanz, one of the largest players in the local real estate market, has announced the signing of a 25-year lease for 6,500 square metres in Victoria Park office building to Leventer Medical Group, one of the most important private skin health operators in Romania.

This is the third project in Romania to transform an office building to house a private hospital, according to Economica.net.

The leased area will host Leventer Hospital, the country’s first private dermatology and surgical oncology hospital, and the transaction is one of the largest in the office sector this year.

Victoria Park is currently undergoing a significant refurbishment and modernisation process.

Leventer Medical Group will invest around €10mn in the future hospital which is planned to be launched in 2024.

Victoria Park office building is located in the northern area of Bucharest, with easy access to both Bucharest centre and the two airports.

Leventer Hospital will occupy an area of 6,500 square metres of Victoria Park office building, with five operating rooms and over 60 beds.

The medical unit will also have an outpatient department with 15 offices and treatment rooms, a pathological anatomy laboratory, imaging and superficial radiotherapy and orthovoltage compartments.

This is Immofinanz’s second major project to adapt an office building to accommodate a hospital to international standards after it also signed a 25-year lease last year with Provita Group, which is developing a multidisciplinary hospital in the IRIDE 18 building.

Medicover, one of the largest players in the private medical services market, will also convert the Multigalaxy MG 1 office building, located in Bucharest, near the Bucharest-Ploiesti highway, into a hospital with over 150 beds.
Belarus defaults on its Eurobond payments

Belarus has since spring this year announced that it was intending to pay its foreign debt obligations in its national currency; however, only recently was such a payment registered as Belarus made its Eurobond payment in Belarusian rubles.

On July 7, Fitch Ratings announced that it would downgrade Belarus’ long-term foreign currency issuer default rating (LTFC IDR) from CCC to RD (restricted default) if Belarus did not manage to make its next Eurobond payments under the original terms, i.e. in US dollars.

On July 18, Fitch Ratings downgraded Belarus’ LTFC IDR to RD; however, the LTFC IDR could be upgraded if Fitch judges that Belarus has normalised relations with international creditors through commercial debt restructuring or resumption of payments under the original terms.

Additionally, Fitch has withdrawn its ratings sand analyses for the three Belarusian insurance companies, “Belarusian National Reinsurance Organisation”, “Belgosstrakh” and “Export-Import Insurance Company”, citing insufficient information about the companies as the reason.

While Moody’s also agreed that Belarus’ inability to meet the Eurobond payments in US dollars by July 14 constituted a default, it left its rating at CCC. S&P Global Ratings said on July 15 that while it would keep Belarus on a negative credit watch (CC), it understood that the Belarusian authorities are seeking ways to pay the bonds in US dollars.

In a response to Moody’s decision to declare Belarus in default, Belarusian state media published an article with statements from Belarus’ Finance Ministry, which was notably upset with the decision.

Belarus’ Finance Ministry emphasised that it considers the “right of Eurobond holders to get payments” to be key, and that it’s currently working on making the payments in US dollars as stipulated by a decree from the country’s government as well as from a resolution by the Belarusian National Bank.

Nevertheless, the Finance Ministry noted that meeting the payments in US dollars was hard due to the rapidly changing foreign political conditions, as well as the increasing sanctions pressure.

Belarus’ problem is thus not that it doesn’t have the money, but rather that it can’t pay its debt in US dollars due to sanctions. The next months of this year will be key to see whether its Finance Ministry manages to solve the issue, otherwise more companies will choose to downgrade Belarus’ credit rating to default.”

Belarus will make its Eurobond payments in Belarusian rubles

Belarus’ Council of Ministers along with the National Bank of the Republic of Belarus (NBRB) have adopted a decree on settling Belarus’ Eurobond payments in Belarusian rubles, State Belarusian News Service BelTA reported on June 29.

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

According to Belarus’ Finance Minister Yuri Seliverstov, the decision comes as Belarus has had a hard time paying its debts through international clearing and depository systems.
The problems first arose when Belarus was due to make its last interest payment in February, for which the entire payment was made in US dollars to Citibank.

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

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

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

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

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

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

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

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

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

One way or another, Citibank will probably manage to get hold of the payments and send them to the debtors. What Belarus finance ministry is probably worried about, although it hasn’t said this, is that this headache is going to make many investors withdraw from Belarus in the future.

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**New Putin decree could force foreign stakeholders out of Sakhalin-2 gas project**

**Ben Aris in Berlin**

Russian President Vladimir Putin signed a decree on June 30 that will transfer all rights and obligations of the Sakhalin-2 oil and gas project to a new Russian entity, in effect giving the Kremlin the power to nationalise foreigners’ stakes in what is one of the largest energy projects in the world, and escalating the ongoing gas wars.

Putin’s decree stipulates that Gazprom will keep its majority stake, but foreign investors must ask the Russian government for a stake in the newly created firm within one month or be dispossessed. The government will decide whether to approve any request.

Putin’s decree will only unsettle energy markets further and put more strain on the LNG market. Europe has imported record amounts of LNG this year as it races to fill its storage tanks ahead of the heating season. This week Europe imported more LNG than piped gas from Russia for the first time ever, but that has put pressure on LNG producers, as current production capacity is not enough to meet the demand from both Asia and Europe simultaneously.

In that sense, Putin’s decree can be seen as a move to put more pressure on the West by concurrently restricting gas...
Fitch cuts Turkey to five notches below investment grade

Akin Nazli in Belgrade

Fitch Ratings has downgraded Turkey's sovereign rating by one notch to B with a Negative outlook, the ratings agency said on July 8.

Following the change, Fitch Ratings rates Turkey at B/Negative, five notches below investment grade. Moody’s Rating Services rates Turkey at B2/Negative, five notches below investment grade, while Standard & Poor’s has Turkey at B+/Negative, four notches below investment grade.

Putin’s decree creates a new firm that can take over the rights of the consortium’s Sakhalin Energy Investment Co. Japan imports 10% of its LNG each year from Russia, mainly under long-term contract from Sakhalin-2.

"Russia's decree effectively expropriates foreign stakes in the Sakhalin Energy Investment Company, marking a further escalation in ongoing tensions," said Lucy Cullen, a principal analyst from consultancy Wood Mackenzie, as cited by Reuters.

Japan has condemned Russia's invasion of Ukraine and has sided with the West in votes in the UN against Russia. But bereft of energy of its own, it remains almost entirely dependent on energy imports. Tokyo has said it will not give up its interests in Sakhalin-2.

Japanese Prime Minister Fumio Kishida said on July 1 that Russia's decision would not immediately stop LNG imports from the development, while Japan's Industry Minister Koichi Hagiuda said the government did not consider the decree a requisition, Reuters reported.

"The decree does not mean that Japan's LNG imports will become immediately impossible, but it is necessary to take all possible measures in preparation for unforeseen circumstances," Hagiuda told reporters.

Japan has two to three weeks of LNG stocks held by utilities and city gas suppliers and Hagiuda has asked his US and Australian energy counterparts for alternative supplies.

A Mitsubishi spokesperson told Reuters that the company was also discussing with partners in Sakhalin and Japan's government about how to respond to the decree. Mitsui has yet to comment. ☢

More downgrades are on the way.
Fitch forecasts official annual inflation in Turkey to average 71% in 2022, the highest inflation level of Fitch-rated sovereigns. The ratings firm said Turkey's inflation trajectory remained highly uncertain due to increased risks of backward indexation, rising expectations and additional lira depreciation, as the exchange rate pass-through has increased in both speed and magnitude.
Fitch expects Turkey’s overall policy mix to remain overly accommodative at least until the 2023 elections that must take place by June at the latest.

There is a risk that in the event of weaker depositor confidence or a deterioration in the until-now resilient access of banks and corporates to external financing, official international reserves would come under pressure, as a significant portion of banks’ foreign currency assets is held in the central bank, according to Fitch.

Earlier this week, Fitch Ratings said in a report that Turkish insurers are facing one of their most challenging operating environments of the past decade with earnings and capital adequacy likely to come under severe strain in 2022-2023.

The effects of macroeconomic deterioration, soaring inflation and the continuing price cap on motor third-party liability (MTPL) insurance could push some insurers below minimum regulatory solvency levels, forcing them to raise capital or to be acquired by stronger competitors.

Turkish CPI inflation rose to over 70% in May and Fitch forecast that it would remain very high (end-2022: 60%, end-2023: 55%).

Sustained inflation at such high levels will have significant negative implications for insurers, pushing up the cost of claims and potentially leading to reserve shortfalls on longer-tail business lines.

It will also erode customers’ disposable income, weakening their ability to buy insurance.

VK set to become Russia’s tech leader as IT crisis shakes up sector

Vladimir Kiriyenko, the new CEO of internet major Vkontakte, enjoyed a day in the limelight at the St Petersburg International Economic Forum in June (SPIEF). “We have exceeded a monthly audience of 100mn and a daily audience of 50mn,” he told a room full of executives and officials. “For us, that’s a big achievement, the group has been working towards it for a long time,” he added.

Before Kiriyenko joined, Vkontakte (more commonly known as VK) had been stagnating in comparison with its international peers. Revenue growth had been falling steeply since the end of 2020, and the company had a net debt to EBITDA ratio of around 2.5 going into 2022.

When Russia sent troops into Ukraine in February, however, VK’s fortunes changed. Sanctions on Russian tech companies saw some of the competition drop away, driving their users into VK’s open arms. Bans on some foreign social media platforms also helped VK. A host of new opportunities presented themselves – like acquiring assets being ditched by struggling rivals for knockdown prices and riding a wave of support from a government embroiled in an information war.

Now, Vkontakte is consolidating its position in the Russian market, even as its competitors suffer from a dramatic tech crisis which has seen industry professionals flee en masse and foreign investors ditch positions in Russian companies.

Old news
The change of shareholders in December 2021 and the arrival of Kiriyenko was meant to represent a new course. East-West Digital News reports that business motives were a consideration in the restructuring, including helping the company to avoid potential US sanctions. But it was clear that the main message behind the restructuring was a political one: Kiriyenko’s father is President Putin’s first deputy chief of staff, and The Bell
reports that the new management structure would see control of the company ultimately split with insurance company Sogaz, which is part-owned by a longtime ally of Putin.

Now the group appears to be adopting a new strategy: focusing on growing its flagship social media platform as much as possible.

Rival tech company Yandex is known for its adventurous investments in a vast range of verticals – from ride-hailing services to delivery robots. In contrast, Kiriyenko’s speech at SPIEF focused on VK's social media platform.

He emphasised VK’s efforts to reinforce the infrastructure supporting its social media service. As a result of these efforts, Kiriyenko said, VK can handle a 30% surge in traffic. The app has also launched a call function, a messenger and even short-form videos.

Nonetheless, much of VK’s current popularity rests not on improvements to its service, but rather on a lack of competition. Russia’s decision to label Meta (the owner of Facebook, WhatsApp and Instagram) as an “extremist organisation” has rendered many of the world’s most popular social networks unusable without a VPN. Users of VK surged by over 4mn in the month following Russia’s invasion of Ukraine.

80% of Russian internet users now use VK. With user numbers growing, VK is looking to invest in new functionalities. And there is no better time to be on the market. As foreign companies try to offload their Russian assets to limit reputational risk, VK has been acquiring a raft of new services.

VK’s consolidation in the media sphere has been particularly successful. It has recently reached a deal on the acquisition of Yandex’s news division, including blogging platform Yandex. Zen and aggregator Yandex.News.

Yandex.News is the main source of information for 41% of Russians, according to opposition activist and politician Alexei Navalny. But with the aggregator obliged to promote stories chosen by the state media regulator, Yandex was coming under fire from foreign shareholders for effectively boosting the Kremlin narrative.

Yandex entered talks with VK about selling its media services in late February. The details of the transactions have not been disclosed, but The Bell suggests that Yandex could swap Zen and Novosty for food and grocery delivery service Delivery Club (if it can cut a deal with joint owner Sber).

Sweeping up

Yandex’s media assets are not the only targets for VK’s ambitious expansion. Dutch holding company Prosus has put classifieds site Avito on sale, and VK is rumoured to be among those competing to buy it. Avito boasts over 90mn users, topping Similarweb’s list of the world’s most visited classified advertisement sites in November 2021.

Classified advertisement platforms saw a surge in popularity during the pandemic, and have continued to thrive even as traditional advertising methods have flagged over the past year.

Another service which is rumoured to be in VK’s sights is online cinema platform ivi, according to the Bell. ivi is the biggest online streaming service in Russia by user numbers, and would be a huge boost to VK’s plan to grow its online presence and drum up new users.

It remains unclear how VK would finance the deals. Swapping its own assets for the new acquisitions could be a popular method in the current business climate, but to secure such high-ticket purchases VK would have to be prepared to give away significant assets.

Alternatively, VK could take on more debt. But with relatively high levels of debt already, this move could test the nerve of investors and executives.

Trading in over $400mn in VK global depositary receipts was halted by the London Stock Exchange in March, and the bonds were subsequently de-listed. VK has said that it may have enough money to pay back bondholders, but is yet to set out a detailed plan for repayment or restructuring.

New friends

Options for financing VK’s buying streak seem slim. But the group may be hoping for the support of an unlikely backer to help sustain its growth – the Russian government.

State banks can provide low-interest loans for the purchase of Avito or Yandex’s news assets – the government’s actions in Ukraine are, after all, a factor in the sale of both entities.

It’s also possible that the government will follow the Chinese model exemplified by WeChat, integrating public services with the most visited sites or apps – including VK. This could further increase traffic to the app, driving up revenue. A trial by the Ministry of Digital Development is already trialling a verification process for its school and hospital portal, which allows users to sign in using VK.

Another law passed in June will oblige all organs of the state to create pages on social media. Given that many foreign social networks are blocked in Russia, this will likely create a good deal more traffic for VK in practice.

The good news for VK executives hoping to secure the support of the Russian government, is that it appears to have evaded the crackdown on social media which followed the outbreak of war in Ukraine. This is a sign that it is viewed as an asset in the effort to build a “sovereign internet”, rather than a threat.

VK’s founder, the renowned entrepreneur Pavel Durov, left the company in 2014, citing a decline in the “freedom of action” of the company’s management.
Serbia’s strong tech sector growth defies brain drain

Clare Nuttall in Belgrade and Glasgow

International companies in search of tech talent and innovative local startups are converging in Serbia, an emerging high-tech hub that is especially strong in blockchain and game development.

The latest figures, announced by Nenad Popovic, Serbia’s Minister without portfolio in charge of innovations and technological development, on June 21, are startling: Serbian startups attracted over $135mn of investments in 2021 – more than six times as much as in the previous year. Meanwhile, the Digital Serbia Initiative (DSI), an NGO whose aim is to develop a globally competitive digital economy in Serbia, has its own database of startups that number over 350, and the organisation estimates there are many more, probably around 400-500 in total.

Alongside them are the international companies drawn to Serbia by the availability of tech talent and relatively low costs; DSI CEO Nebojša Bjelotomic cites costs that are two to three times lower than in major European cities combined with the quality of life in Belgrade. Among the major global companies in Serbia are Microsoft, Intel, Dell and a number of game developers such as Endava and UbiSoft.

While some Serbians are happy to work for international companies, others choose to strike out alone. This has created a growing startup scene in the last few years. Many of these new startups are nurtured by the Impact Hub Belgrade, a co-working space and a business incubator. The hub is housed in what started out as the Palace of Co-operatives, then in the socialist era became a radio studio. Now furnished with co-working desks and coffee bar, the decor pays homage to this history, and during the recent lockdowns a 21st century take on the radio studio, the podcast.rs service, was launched.

Speaking to bne IntelliNews, co-founder Nenad Moslavac recalls just how much things have changed in Serbia’s startup scene over the last eight to 10 years. “Back in 2014 it was difficult to explain what a startup is; starting your bakery is not a startup,” says Moslavac. However, even now not everyone has the startup mindset. “Serbia, like many other European countries, is a rather comfortable place… being a tech engineer puts you in a very comfortable situation. It’s difficult to take off those comfortable shoes to become a startup founder.”

Other industry insiders also believe the attitude to entrepreneurship is changing. “I think we are going through a modification of attitude. On one side entrepreneurship is maybe not something very strongly engrained in the mentality of the Serbian people, but on the other side our younger guys grew up on Silicon Valley, seeing successful entrepreneurs riding off into the sunset … this had an impact on Serbia,” says Bjelotomic.

Impact Hub Belgrade is helping to foster the tech ecosystem in Serbia. Photo: Impact Hub Belgrade
Summing up what has happened in Serbia in recent years, Nemanja Petrovic, co-founder and business strategy adviser at startup Traken, says: “the IT sector development caught everyone by surprise. It grew organically – that’s the best thing.”

Bringing people together
Both the DSI and Impact Hub are working to bring people together – whether it’s large tech companies, startups, investors, government officials or all of these – with the aim of growing and developing Serbia’s tech ecosystem.

The DSI works with companies and the government, as well as organisations that support startups such as incubators and academic programmes. “We want to be the house for IT … we try to be middleman between big players, small players, academia, institutions, startups,” says Bjelotomic.

“You can’t really succeed without everyone being involved,” he stresses.

Nikola Mijailovic, CEO and co-founder of startup Joberty, comments on the recent changes. “Honestly, the last couple of years has been crucial for the startup ecosystem in Serbia. New accelerators, hubs and VC funds are emerging, and Serbia isn’t an exception,” says Mijailovic. He also comments on the acceleration programmes in Serbia, saying: “Mentoring, investors, lectures, grants and networking are the key benefits and provide tremendous support for the startup ecosystem.”

Impact Hub also seeks to create a community for startups, and bring them into contact with investors and the wider tech community. “We are a window to the world, we try to reach out to entrepreneurs in Belgrade and beyond,” Moslavac says. COVID-19 was a challenge in that respect. However, by taking things online, the hub was able to reach out beyond Serbia to entrepreneurs in other countries in the Western Balkans. The Serbian government is also increasingly aware of the importance of the growing tech sector, and is engaged in a dialogue with the industry. This led to, for example, the 2021 law on innovation which introduced for the first time a definition of a startup, as well as a registry of startups.

“There is a dialogue with government … there is an effort to create a better environment for the whole ICT sector and keep the ecosystem open, making it easier to start up companies”

Investors consider Serbia
The other component of the startup ecosystem is funding. Serbia is gradually getting more locally focussed investors, a similar trend to that seen elsewhere in Southeast Europe and helped by the European Investment Fund (EIF) that was the cornerstone for a number of venture capital funds in the region. More recently, the government initiated a €50mn venture fund of funds. Among the regional venture capital investors active in Serbia are South Central Ventures, Bulgaria’s LAUNCHub Ventures and Fil Rouge Capital of Croatia.

However, Bjelotomic argues there is more still to do. “To attract serious VCs and for deal flow to be sturdy and interesting for someone from abroad, our ecosystem needs to develop further, probably go up another 50% before three of four different VCs will be continuously working in this area.”

Both Impact Hub’s Moslavac and representatives of startups like Joberty and Traken believe the country needs more business angels and other pre-seed investors. Mijailovic tells bne IntelliNews: “What I would like to see more in the future are angel investments. Also, I would like to see more potential investors from the corporate world become motivated to invest in startups, get involved in the ecosystem, learn about them and support them to succeed.”

Blockchain for the energy sector
Traken’s Petrovic makes a similar point. So far Traken has been bootstrapped and secured grants, but it is now looking for seed investment. Its team have participated in several EU accelerators. Unlike first time founders, its co-founders have the advantage of already running a blockchain development studio, which gives them access to talent and other resources.

Traken, where the team developed a data tracking, management and exploitation tool for smart electrical grids, is part of Serbia’s growing blockchain segment. Back in 2019, advisory and research organisation Startup Genome report identified Serbia among the top five destinations in the world according to the number of blockchain developers. Serbia and nearby Novi Sad were found to have a particularly promising blockchain ecosystem.

Petrovic has a broad range of industry experience including as a former economy ministry adviser, on smart city projects and a venture capital investor, experience that he now aims to bring to the energy sector.

The Traken team are getting ready to pilot the project with international distribution service operators (DSOs) after an initial pilot with local startup Cargo (the Serbian Uber). “It is a good time for us because integration of renewables was a problem for the systems even before this energy crisis,” says Petrovic. “If you want Europe to move to sustainable, renewable energy, then you have to deal with viable sources of energy that need better tools to manage flexibility.”

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He references the “huge potential” of the 50% of installed solar capacity owned by individuals that is not currently part of the market. “The only way to manage it is by using blockchain. We created a system that validates the source, validates the data from source and connects data to the individual,” Petrovic explains.

The other standout area within the Serbian tech sector is game development. According to data from the Serbian Games Association, there are currently about 130 teams and companies in Serbia that are actively working on the development of games and other services closely related to the gaming industry. The organisation estimates that more than 2,200 people work in the video game sector, with another 450 jobs set to be created in 2022. Overall the Serbian video game industry had a turnover of around €125mn in 2021.

Among the most successful local companies is Belgrade-based mobile games developer Nordeus, creator of Top Eleven Football Manager and strategy game Heroic – Magic Duel. The company was acquired by Take-Two Interactive for $378mn in 2021.

Bjelotomi believes Serbian game developers can get even bigger. “Maybe we don’t have a unicorn in gaming but at least have really big global players in the market. And you never know, a single hit can make difference,” he says.

**Food and agriculture**

He also points to biotech and agritech as an area where Serbia has strong potential, given that “we are still predominantly an agricultural county”. New technologies to increase food production and – the other side of the coin – to reduce food waste are becoming increasingly importance in the context of climate change and the need to feed the world’s growing population.

Serbia’s second city of Novi Sad is home to the BioSense Institute that works on projects that span bio systems and IT. The institute, now an important research centre with hundreds of international partners, started out as a small group of people who believed in the idea that IT and bio systems would meet in the future, director of the institute Vladimir Crnogorjevic said in an interview with bne IntelliNews in April. That was back in 2005-06. “At that time it was science fiction,” he says. However, he adds, focusing on that area “was a really good bet, because now it’s completely melting. The borders between bio systems and IT are getting lost”.

Today, the institute is organised in three research centres: the centre for bio systems, the centre for sensing technology and the centre for information technology. Technologies developed under its research projects are used in Serbia and elsewhere.

Another aspect of feeding the world’s growing population is reducing food waste, an issue tracked by Serbia startup EatMeApp, developer of a smart assistant that helps users make educated decisions about how and when to use their food.

“Our grandmothers and their attitude about food are our inspiration. They built into our DNA that throwing food away is not under any circumstances a reasonable thing to do. So, one day in front of my open refrigerator it struck me while I was getting ready to throw away a chicken filet (again!) – what if we have an app that sends reminders about food expiration dates?” says co-founder Aleksandra Lazovic-Lønningen, explaining how the company came into existence.

“Eat Me App conceptually grew since then, but its core mission is to assist people in making conscious and educated food consumption decisions,” Lazovic-Lønningen adds. “The result is less food waste, less CO2, more disposable income.”
Android and iOS versions of the app have already been released, and Lazovic-Lønningen says the company’s user base is growing organically thanks to early adopters. This summer there are plans to accelerate adoption with an intensive user acquisition strategy.

Lazovic-Lønningen believes the current difficult times – countries across Europe and much of the world are experiencing rapid inflation including of food prices – are encouraging people to live more sustainable and reduce food waste. There is also an environmental dimension. Lazovic-Lønningen cites data showing that food waste is the third largest greenhouse gas (GHG) emitter, and within that household food waste accounts for 60% of total food waste. To give an idea of the scale, she says, a “family of four on average throws €30-50 weekly straight to the garbage bin”.

While there are a growing number of apps in the food waste space, EatMeApp differs from others, Lazovic-Lønningen says, because it is targeted at households rather than businesses such as restaurants and grocery shops. “Because we believe that the most important and numerous agent of change is – us, people, citizens.”

**International talent**

With local startups growing up, and the demand for skilled workers in international companies also increasing, the need to keep and retain talent in intense, a challenge cited not only in Serbia but across the region.

Joberty was set up precisely with this in mind. The company was born out of its founder’s experience of the search for talent; Mijailovic is a former CEO and co-founder of an HR company in Serbia.

“I had experienced first hand the difficulty of finding developers. And even if you magically happen to find them, it was about culture fit with the company, and developers would stay approximately 1.5 years with the IT employer … It was frustrating, so I’ve decided to do something about it. The idea existed in my head only for some time, and then I started opening up,” Mijailovic said.

Mijailovic and his wife Dusica, one of the company’s four co-founders and its product manager, began exploring the possibility of building a real product around this. “I never dreamed that something that was just an idea in my head would become a reality so soon. In 2019 in Belgrade, Serbia, Joberty was born, and ever since, it has grown each year exponentially. I couldn’t be more proud of the team that works very hard to deliver such amazing results,” Mijailovic said.

Today, the company has 25 employees, who Mijailovic describes as its key asset, and operates in Serbia, Croatia and Romania. It currently has over 50,000 registered users, 15,000 reviews on the platform, and co-operating with over 1,200 tech companies in Southeast Europe.

Global software engineering firm DataArt, which has been present in the Balkans since it entered Bulgaria in 2016, recently acquired Belgrade-based Software Nation. “We feel confident about establishing our presence in Belgrade because of the well-rounded tech sector, and the solid tech talent in the country and the region,” said Mikhail Zavileysky, head of organisational development at DataArt, at the time of the acquisition. He describes the labour market in Serbia as “strong and developed”, pointing to particular strength in Java and .NET skills.

“DataArt has always viewed the Balkan region as promising. Now we’re focused on Belgrade, but we’re planning to open a second office in Novi Sad – a prominent university town with great talent,” Zavileysky says, commenting to bne IntelliNews on the partnership with Software Nation.

“With local startups growing up, and the demand for skilled workers in international companies also increasing, the need to keep and retain talent in intense”

“We’re actively recruiting locally, and we welcome everyone who’s decided to relocate to Serbia. Erik Popovic, SVP DataArt Balkans, is spearheading our effort and helping us find the best talent. Remote recruiters are helping us as well.”

Later in 2022, developer of online military games Wargaming announced the opening of two new studios in Belgrade and Warsaw following its decision to quit Russia and Belarus after the invasion of Ukraine. The company commented that both cities have “fast developing technology sectors with enormous potential”.

**Working with the brain drain**

Serbia, like other countries in the Western Balkans – and across most of emerging Europe – has experienced mass emigration and population decline in the last few decades. That makes competition for talent all the more intense.

The DSI’s Bjelotomic notes that the brain drain is a huge problem for Eastern Europe, especially Southeast Europe, though he believes it has slowed down recently, for two reasons. “First IT is such global industry it doesn’t matter where you sit, you can do your job anywhere. The second factor is corona; when the going gets tough, the best thing is to go home.”

When it comes to tackling the brain drain, Bjelotomic believes the good jobs offered by the IT sector can help. “These are the good jobs, where people get to be creative, to grow personally and professionally. They are the guys that don’t leave … in that sense helping startups is almost like social service.”
Impact Hub’s Moslavac acknowledges the problem of brain drain and the difficulties in reversing it, but says it’s important to look for the positives. “We have good examples from other counties where lot of good talent left, but brought back knowledge and often funding,” he says. “I don’t think the brain drain is something that can really be stopped, but probably there are ways for Serbia to benefit more from great people that are not physically here.”

Petrovic also talks of Serbia’s “very big technical diaspora”, with highly educated Serbians who left their home country now sharing experience and knowledge. Like Bjelotomic, he believes there has been movement back into Serbia since the start of the pandemic, not least because it was one of the first countries in Europe to roll out a mass vaccination programme.

He believes Serbia has benefited from its relationships with developing countries forged during the Cold War when Yugoslavia was one of the leaders of the non-aligned movement. Even today, Serbia is well known among those nations. “We’re a brand in these countries, [young people are] still coming here to go to college,” he says. This brings new talented graduates into Serbia.

More recently, following Russia’s invasion of Ukraine in February, countries across emerging Europe, including Serbia, have received a flood of immigrants, among them numerous tech professionals. These include both Ukrainians fleeing the war and Russians and Belarusians who can no longer live with their government’s actions and their countries’ international isolation. DataArt’s Zavileysky comments that the Serbian market “is welcoming many engineers from Russia and Ukraine, which certainly has an impact”.

Starting with education
The start of creating a new generation of tech talent lies in education, and the DSI is reaching out to universities and schools to help. The organisation has been working with the education system from elementary school right through to postgraduate level. This includes the Master 2.0 programme where the DSI brings different faculties together to create cross-disciplinary master programmes that give students the skills to work in industries such as game development.

Industry representatives say that while Serbia provides a good technical education more needs to be done on the commercial side. “We need to change that,” says Bjelotomic. “It’s good that we are good engineers, but it’s important to note that people investing in start-ups are predominately from the financial sphere. They are looking for entries and exits, not necessarily for the best technology.”

Similarly, Moslavac says that Serbia has a strong education that is “left over from the old system of building good engineers”. However, he says, “being a good engineer doesn’t make you a good businessman … to build a good startup you have to understand business. There are a lot of smart people around but it’s not about building a perfect product, it’s about having a perfect customer for the product.”

On the other hand, Traken’s Petrovic is positive about Serbia’s “very good old school, technically based curriculum” which, he believes, “is a goldmine if you know how to act on it”. This education is coming into its own with the emergence of the blockchain industry.

Global companies with Serbian roots
One constraint cited many times by industry figures in Belgrade is the small size of the Serbian market. That being the case, ambitious startup founders look to go international from the start or at least early on in their development.

“The size of the market is a challenge for startup founders here. It’s a very small market with not such a startup culture,” says Maslovac. “Serbia is place of talent – there is certainly a lot of talent in Serbia, especially tech talent – however, such a market makes it very difficult to build a product or service for the customer, as this is a numbers game. This is why it’s very interesting to approach the market of the Western Balkans, which has a potential 20mn users instead of 6mn for their services.”

Some of the really standout Serbia-founded companies went abroad early on. Among them is consulting, software engineering and digital product development company HTEC Group, which now has its headquarters in San Francisco. In 2021, the company bought up Momentum Design Lab in Silicon Valley, following this with the announcement of a $140mn investment from Brighton Park Capital for global expansion. That deal was among the largest initial funding rounds by dollar value in Europe in the past year, HTEC said at the time.

Following the latest investment round, the aim is to “build HTEC into one of the most impressive global technology consulting companies,” said Aleksandar Cabrilo, CEO of HTEC Group at the time of the investment. The company, founded in 2008 as a startup within the Business Technology Incubator of Technical Faculties of the University of Belgrade, has now grown into an international company that employs over 1,000 people.

Startups interviewed by bne IntelliNews also referenced international expansion. Traken, for example, is seeking to work with electricity companies from other European countries rather than focussing on Serbia.

Joberty is fundraising for a seed round that it plans to use for its expansion to global markets, including the US. “Our plans are ambitious, but simply that's the only way to go,” said Mijailovic. “The startup scene is very fast-paced, and if you move slowly, you might still survive, but you won't win big. Big dreams took us here, and we won't stop until we succeed globally.”

EatMeApp’s Lazovic-Lønningen says “going global” when asked about the future plans for the company. At the same time, however, she talks of the power of Serbia’s culture and social networks. “[Co-founder] Sanja Dramicanin] and myself … want to create even stronger momentum in Serbia,” Lazovic-Lønningen says. “We dream big, cross-border, but our heart is where our home is and our grandmothers are.”

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Global efforts to combat climate change are being endangered by the global coronavirus (COVID-19) pandemic, the war in Ukraine and the current energy crisis. Unseasonal heatwaves, melting ice in the Arctic Sea and flooding across the world are symptoms of the climate crisis that requires urgent and wholehearted action by governments, corporations and the international community.

The actions demanded by the COP26 conference and a range of international bodies led by the UN to achieve green targets are being side-tracked as governments race to secure energy supplies.

The EU raised its Green Deal and Fit for 55 targets from 40% to 45% renewables by 2030 in response to the war in Ukraine by launching its REPowerEU programme. Brussels chose to focus on energy savings, diversification of energy supplies and the accelerated roll-out of renewable energy in a bid to replace fossil fuel imports from Russia.

But governments are also still buying Russian fossil fuels as it will take months for the EU’s gas and oil sanctions to kick in.

The world risks taking its eye off the ball in the race for energy and putting in danger any chance that the energy transition has of staying on track.

Renewable energy’s ability to provide the world with the power it needs is being severely tested by a combination of killer factors that threaten to annihilate the energy transition just as climate change is beginning to threaten life as we know it on Earth.

**Fossil fuels**

Two recent reports from the Centre for Clean Air and Energy warned that Europe is still importing fossil fuels, spending €57bn on Russia fossil fuels in the first 100 days of the war, even as governments make policy announcements to accelerate transitions away from oil and gas towards renewables.
in 2022 to $2.4 trillion, driven overwhelmingly by a 12% rise in clean energy spending, investment in coal is set to grow by 10% in 2022.

At the end of June, the G7 leaders called for research into how a cap on the price of Russian oil imports might work, involving allowing oil to be shipped on tankers if the oil is priced at an agreed maximum price.

Myllyvirta told bne Intellinews that “a price cap on oil purchases from Russia could curtail revenue for Russia before the EU oil imports ban kicks in.”

**Germany**

As well as oil, coal is a key concern, with the IEA noting that coal investment rose by 10% in 2021 and will climb by 10% again in 2022.

Germany has been the slowest country to support a gradual ban on gas, and it is considering switching some of its shuttered coal-fired power plants back on. Its hand was forced after Gazprom cut deliveries via the Nord Stream 1 gas pipeline in June.

The German government on June 23 said that despite its decision to rely more on coal for electricity generation until 2024, it would still meet its target date for a complete coal exit of 2030.

Myllyvirta was critical of Berlin’s behaviour, saying that, “Germany has dug a hole for itself in the past years. It has not been moving fast enough in green energy and has closed down nuclear plants. It has not been paying attention to reducing its reliance on Russia gas, especially in building and industry.”

He also noted that replacing gas with coal would only work in the short term, and was uneconomic when compared to cheaper renewables.

“You will have potentially a shift within the fossil fuel consumption in the power sector where you generate a bit more from coal and bit less from gas. It seems that coal is giving the power industry a bit more flexibility to manage their quandary.”

Russia itself has also reacted by slashing environmental protection rules and softening its emissions regulations and pollution standards.

A new law will allow the construction of pipelines and roads through protected areas with no environmental reviews. The government has also delayed by two years its flagship Clean Air Project, which aims to control pollution in cities.

**Politics**

On a Europe level, the energy price crisis makes it more complicated to harness the support from governments and industry to push through new policies, as industry seeks to combat higher energy prices and governments worry about the political impact of higher domestic heating and power bills.

For example, the new rules for the EU’s CBAM, which aims to introduce a carbon border tax and prevent imports of cheaper steel, chemicals and such like, were recently only passed by Parliament after opposition from industry and right-of-centre parties.

Myllyvirta stressed that the CBAM targets hard-to-decarbonise sector of industry, which have large emissions, but that such mechanisms to reduce emissions come at considerable cost to industry.

“Member states want to provide those sectors with free emissions allocations, and on the other hand they want to enact the CBAM to neutralise the carbon price they face. You can’t really do both. You can’t decide not to impose the carbon price, and on the other hand to impose countervailing duties to offset the carbon price.”

Myllyvirta said that these debates were part of long-term trends towards a green transition that in fact suffers little chance of being seriously held back by the impact of the war in Ukraine and the current energy price shocks. Indeed, he argues that high prices are more closely related to the continued reliance on fossil fuels, and that wind and solar offer cheaper power generation.

“The basic point being lost is that high prices are the result of reliance on fossil. The crisis means that the faster we can get off reliance on fossil fuels the faster we are going to have affordable, stable and predictable energy prices.”

He insists that the current shock cannot derail the underlying trend that the price of renewables is falling, as fossil fuels become more and more uncompetitive, despite any short-term policy choices by government.

“This political backlash is going to try to prevent economics playing out in the energy sector. But the economics are undeniable.”
Temperatures
2022 has seen heatwaves come early to Asia and Europe, while the Arctic is now heating up seven times faster than the rest of the world, with the region’s ice in danger of melting completely by 2050.

Such unprecedented increases in temperature in the Arctic threaten to make efforts to reduce CO2 emissions, limit global warming and deal with climate change almost worthless.

Iran recorded in June one of the hottest days, 52.2°C, since records began, while in the French resort town of Biarritz, temperatures reached 42.9°C on 18 June, the hottest ever June day in the town.

The world could also see more life-threatening heatwaves from Asia to Europe to the Americas, turning inhabited regions into scorched deserts and pushing millions of people to migrate in search of more bearable temperatures.

Such extremes prompt the public to worry that world leaders are focusing more on the war in Ukraine than climate change, which has the potential to wipe out the human race as temperatures rise, crops fail and swathes of land become uninhabitable.

Myllyvirta warned that high temperatures threaten to see an increase in fossil fuel burning, even though he argues that renewables offer a cheaper way out.

“With the high fuel prices, and with electricity being very tight, and demand for AC [air conditioning], it can also lead to more support for fossil fuel power plant. That is certainly what we are seeing in China, even as the government is careful to say that these plants do not increase fossil fuel generation overall, but to meet demand peaks,” he said.

“There is no economic case for more fossil fuels, even to meet peaks, in places with good solar resources.”

However, he warned that political change moves slowly, and “it is going to be the media that drives debate when heatwaves happen. For that to translate into meaningful policy changes, let alone political changes, will take time.”

Policy changes that will have a deep impact on the environment and climate change need to be long-term developments, and not the knee-jerk reactions to rising temperatures or war in Ukraine.

Indeed, Myllyvirta expressed confidence that the underlying economics of renewable energy, which will continue to undercut fossil fuels as the years progress, mean that distractions from the climate change agenda, such as war and high prices, will not slow down the energy transition as long as the fundamentals are in place.

It will become more and more obvious to government and companies over the next decades that green energy is cheaper and more profitable than oil and gas. The money that is currently spent on fossil fuels will then be freed up to be invested in renewables energy.

While the economics of renewables energy seem secure, and the policymaking processes in governments and international organisations from COP26 to the UN and the IEA are well-established, political support is less certain, as politicians chase votes and look for quick-fix way to secure cheaper energy.

What cannot be denied any more is that the climate and the planet are in crisis, and that rising heatwaves, melting polar ice caps, failing crops and food insecurity are very real symptoms of man-made global warming.

The path to affordable, stable and predictable energy is resilient, and most importantly, cheap, enough to weather the storms of politicians and governments reacting to the latest global crises.
Water imbalance in 'Third Pole' is wreaking havoc on Tajikistan and Kyrgyzstan

Aida Kadyrzhanova in Almaty

Researchers say climate change is causing rapid melting of glaciers in the 'Third Pole', disrupting water distribution in Tajikistan and Kyrgyzstan and making it difficult for these and other developing countries to provide water to their populations.

Nicknamed 'The Third Pole', the Tibetan Plateau is home to the largest global store of frozen water outside of the north and south polar regions. The region functions as a complex water distribution system which delivers the life-giving liquid to multiple countries, including parts of Afghanistan, China, India, Kyrgyzstan, Nepal, Pakistan and Tajikistan.

In Central Asia, water is vital for agriculture, as well as for hydropower stations that generate electricity for domestic consumption and export.

Now, however, climate change is causing an imbalance, with areas in the north getting more rain than in the south. This is exacerbating the problem of water loss downstream.

Because many vulnerable societies border these downstream basins, this worsening disparity could heighten conflicts or exacerbate already tense situations between countries that share these river basins. In 2021, the deadliest border conflict between Kyrgyzstan and Tajikistan in years started as a water dispute between local residents.

"Populations are growing so rapidly, and so is the water demand," said Lonnie Thompson, senior research scientist at the Byrd Polar Research Center, as quoted by Science Daily. "These problems can lead to heightened risks of international and even domestic disputes.

"The way that regional climate varies, there are winners and losers," Thompson added. "But we have to learn to work together in order to ensure adequate and equitable water supplies throughout this region. As local temperatures continue to rise and water resources become depleted, more people will end up facing ever diminishing water supplies."

To combat this, the study recommends using more comprehensive water monitoring systems in data-scarce areas. Better atmospheric and hydrologic models help to predict what's happening to the region's water supply. Policy-makers should use those observations to help develop actionable policies for sustainable water management.

If policymakers do decide to listen to the scientists' counsel, these new policies could be used to develop adaptation measures for the region through collaboration between upstream and downstream countries.

"For the most part, I don't think people in Tajikistan understand how climate change is going to impact electricity production. Part of it has to do not only with the lack of knowledge but also with a lack of transparency on the part of the government. The government never acknowledges the larger systemic issues behind electricity shortages, which prevents people from understanding how it's all connected to melting glaciers and climate change," Sher Khashimov, a Tajik journalist, told RFE/RL.

"After all, when things go awry in one area of the world, like the butterfly effect, they tend to have long-lasting effects on the rest of Earth's population," Thompson noted. "It doesn't matter what country or what part of the world you come from. Sooner or later, you'll have a similar problem."

Over the past five years, Central Asian countries have already seen some of the region's worst droughts, which has led to shortages of water for irrigation and hydropower.

Temperatures in Central Asia are rising faster than the global average according to the 2019 report by the Intergovernmental Panel on Climate Change. Scientists predict that the region will become drier, and more parts of it will turn into deserts.

"Irrigation in the region is very vulnerable to climate change, and investments in both institutional strengthening and infrastructure modernisation are required to build resilience," said William Young, World Bank expert in Central Asia, earlier in 2022.

A World Bank report published last September estimated that Central Asia could see as many as 5mn internal climate migrants by 2050.
RUSSIA WOOS AFRICA WITH ARMS, GRAIN AND NUCLEAR POWER
Russian Foreign Minister Sergei Lavrov took to the road at the end of July in a bid to build closer ties with non-aligned countries and defy the crushing sanctions imposed on Russia by the West over its invasion of Ukraine.

Lavrov wasn’t met with open arms, but he was greeted with sympathy. Russia has a lot of friends in Africa.

Moscow opposes a unipolar world based only on Western interests and is promoting Russian President Vladimir Putin’s vision of a multipolar international order, which has long been a centrepiece of his foreign policy.

Lavrov’s tour of Egypt, the Republic of Congo, Uganda and Ethiopia comes as African countries struggle with soaring food and fertiliser prices due to supply chain disruptions, which Moscow blames on the sanctions, as Washington does on the Russian invasion and blockade of Ukrainian ports.

The looming threat of a food crisis against soaring prices, also for fuel and fertiliser, could spark social unrest in Africa. Indeed, countries like Ghana, where annual inflation accelerated to 27.6% in May, an 18-year high, already saw riots in July over the cost of living, with basic foodstuffs out of reach of the poor.

Russian company Uralchem, among the largest global producers and exporters of nitrogen, potassium and complex fertilisers, announced on July 28 it will supply its products (urea or compound fertilisers) to Africa on a free-of-charge basis. The project at this stage provides for humanitarian delivery of the first batch of 25,000 tonnes to Togo.

Russia already enjoys close ties with many African countries, having built on relations that were cultivated during the Cold War era. And many if not most African countries already see Russia as an ally and supplier of food, commodities, nuclear power technology and arms amongst other things.

Those relationships were made clear during the UN voting to condemn Russia’s invasion of Ukraine in March. As bne IntelliNews reported, about half of Africa abstained from condemning Russia in that vote, although only Eritrea actually voted against the motion.

And even more African countries abstained in a second vote in April to remove Russia from the UN Human Rights Council, with eight countries voting against the motion completely.

Those votes do not appear to have influenced Lavrov’s choice of itinerary. Egypt voted to condemn Russia’s invasion, but the Republic of Congo, Uganda and Ethiopia all abstained.

Nevertheless, Russia and Egypt retain warm relations. Egypt depends heavily on Russian grain imports and Egyptian President Abdel Fattah el-Sisi was a guest of honour, joining Putin in his plenary session at this year’s St Petersburg International Economic Forum (SPIEF). Egypt was also the only country to set up a pavilion at this premier Russian investment event.

In the vote to expel Russia from the UN Human Rights Council, Egypt and Uganda abstained, while the Republic of Congo and Ethiopia voted against it.

The UN voting patterns paint a picture of many non-G7 countries trying to sail a delicate path between maintaining
good relations with the West, but at the same time not damaging their relations with the Kremlin.

**Breaking out of isolation**

Russia has been preparing the ground for a break with the West for several years and has launched a diplomatic drive to improve its relations in the non-aligned and Global South countries. It has invested heavily in improving ties with the Middle East, focusing on Syria and Iran, but has always enjoyed good relations with Israel as well.

China has been the keystone of its relations in Asia, but relations with countries like Vietnam have also significantly improved, with the help of arms exports.

But it is probably in Africa that Russia has made the most progress. In 2019, Russia launched the Russia-Africa summit that saw leaders from 49 of Africa’s 54 countries attend. The next two summits were cancelled due to the global pandemic, but the following summit was due to happen this November in Addis Ababa, until Russia postponed it until 2023 because of uncertainties owing to the war in Ukraine.

The first summit was a great success, co-hosted by Putin and Egypt’s el-Sisi. The Russian-Africa summit has become even more significant as Russia turns to the Global South for deeper ties. The event was likely cancelled as African nations still need to play their balancing game between East and West, and making long-term policy commitments while Russia is still in a proxy war with the West would be very difficult for most African leaders.

The West has sought to isolate Moscow and make it a pariah following the latter’s attack on Ukraine and Lavrov’s tour is designed to show that Russia still has friends, especially in the Global South. The welcome he received on his tour has shown the strength of the Kremlin’s influence on the continent, where many countries are interested in the material help Moscow can offer them.

Moreover, as *bne IntelliNews* has reported, the prevailing attitude outside the developed world is that the conflict in Ukraine is a clash between Europeans that has little to do with them. On top of that, the decision by Washington and Brussels to weaponise both money and trade in the conflict has unsettled the emerging markets leaders, who see Russia as a useful counterweight to the US, should they ever clash with the US themselves – a feeling that is particularly poignant in the Middle East, which has been a target for US missiles on occasion in the past.

Lavrov was warmly received by the Republic of Congo’s long-time leader Denis Sassou Nguesso on Monday, July 25 as well as by Egypt’s el-Sisi a day earlier. He was playing to a willing audience and during his meeting with Demeke Mekonnen, his Ethiopian counterpart, he told Izvestia that the ministers had discussed the impact of the food crisis on Africa and had promised to work together to find a solution.

In Uganda, President Yoweri Museveni was also seeking to play Russia off against the US to the country’s advantage, but this is a game that the
Russian veteran foreign minister knows very well, and Moscow is in the mood to haggle as it works to shore up non-aligned support to defy sanctions.

And Uganda is definitely interested in the goods Lavrov was purveying: Museveni said that Uganda is seeking Russia’s help in building a nuclear reactor. As bne IntelliNews has reported, Russian nuclear power exports are booming and earning the country hundreds of billions of dollars.

Museveni said that people with “limited understanding” want African countries to condemn Russia for its invasion of Ukraine but argued that Moscow had “stood with Africa for the last 100 years” as part of the continent’s anti-colonial movements.

(Hours after Lavrov departed from Uganda, Washington announced that the US ambassador to the United Nations, Linda Thomas-Greenfield, will be in Kampala next week for a two-nation visit to the continent, with Ghana being her other destination.)

Meanwhile, Egypt has broken ground on the construction of another nuclear power station at El-Dabaa, 300 km northwest of Cairo, that will come online in 2030. Egypt and Russia signed a deal to build the facility in 2015, and Moscow is reportedly lending Cairo $25bn for the project, covering 85% of the cost, which Rosatom director-general Alexey Likhachev called the "largest project of the Russian-Egyptian cooperation since the Aswan High Dam".

Russia’s war with Ukraine has provided Ethiopia with an opportunity to play Russia off against the US, which imposed sanctions on the country last year in response to a war in Tigray, and Lavrov’s visit provoked a follow-up meeting by Mike Hammer, US special envoy to the Horn of Africa, slated for a week after Lavrov leaves.

“Museveni said people with “limited understanding” want African countries to condemn Russia for its invasion of Ukraine but Moscow had “stood with Africa for the last 100 years” as part of the continent’s anti-colonial movements”

Russia has only one commercial nuclear power station, South Africa’s Koeberg plant near Cape Town, but several other countries have plans in the works. Nigeria – Africa’s largest country by population and biggest in terms of GDP – opened the bidding in March for a 4,000-MW nuclear power plant (NPP), and Ghana plans to choose a site for a new nuclear facility by year-end. Rosatom has already signed co-operation agreements with both countries, as well as Ethiopia and Zambia, which also have nuclear ambitions.

Russia had successfully reactivated old Soviet-era ties from a time when Moscow was viewed as more sympathetic than many Western capitals to the cause of liberation struggles in Africa.

Lavrov ended his tour in Addis Ababa, where he spent time with Prime Minister Abiy Ahmed. Ethiopia has emerged as a particularly close Russian ally in Africa and was due to host the second Russia-Africa summit this November, which has now been postponed until next year.

Ethiopia is also seeking to balance different power blocs, experts say.

Arms supplies

In addition to commerce, Russia has used its military to support several struggles in Africa, including sending the military forces of the nominally privately owned Wagner group to the Sahel and mining groups to the likes of Sudan and the Central African Republic (CAR).

With multiple wars running in Africa, Russian arms sales are a key plank for relations. However, the war in Ukraine is expected to reduce Moscow’s ability to supply arms as it rapidly burns through its own stocks. Russia accounts for a fifth of the world’s arms trade and generates about $15bn a year from sales. It competes with the other major arms producers of the US, France and Germany, and has a 20% market share, second only to the US ($37bn).

Russia’s arms sales to Africa have increased by a quarter over the last four years. In fact, Russia accounts for nearly half of major arms exports to Africa, according to the Stockholm International Peace Research Institute, with Algeria, Egypt, Sudan and Angola as the biggest customers (all of which, except Egypt, abstained in the UN vote to condemn Russia). And all across Africa, Russia has military trainers on the ground who are supporting the sales of the popular Mi-17 and Mi-35 helicopters and other equipment, according to US intelligence reports.

Food crisis

But Lavrov’s main message during his tour was to combat the idea that Moscow’s invasion of Ukraine had led to higher food and fertiliser prices. Russia has been emphasising that it has done nothing to stop Ukraine from exporting grain, insisting that it has been Ukraine’s decision to mine the sea off its coast that has prevented shipments.

In this context, the timing of the Istanbul grain deal on July 22, just days before Lavrov left for Africa, is significant, as much of the grain that is about to leave Ukraine is destined for customers in Africa. Putin’s decision to loosen the noose around Ukraine’s grain exports is partly motivated by pressure on Russia to supply its friends in Africa.
The chair of the African Union, Senegal’s president Macky Sall, travelled to Russia to meet President Vladimir Putin last month. “President Putin expressed to us his readiness to facilitate Ukrainian wheat exports,” he wrote on Twitter after the meeting.

Russia supplied about 32% of Africa’s wheat worth $3.7bn between 2018 and 2020, according to the United Nations, with Ukraine accounting for another 12% worth $1.4bn. However, even if deliveries of grain resume, after prices rose 45% this year due to the war disruptions, Africa is also asking for price relief, as expensive food is almost as big a problem as no food. The biggest importers are Egypt ($3.23bn) and Nigeria ($556mn).

**Western visitors**

Lavrov’s visit to Africa has been mirrored by trips by other political luminaries, as the race to secure relations in the new geopolitical set-up is on.

French President Emmanuel Macron also toured francophone Africa in the same week as Lavrov, trying to shore up relations as some of the countries there are actively embracing Moscow – partly as a rejection of their former colonial master. The military junta in Mali recently expelled the French military and replaced it with Russian private military company Wagner in its struggle against jihadist terrorists. Macron also visited the West African countries of Benin, Cameroon and Guinea-Bissau.

In May, German Chancellor Olaf Scholz flew to Senegal, Niger and South Africa to do arms and energy deals. Germany is the fourth-biggest exporter of arms to Africa, and Berlin is keen to source gas from Africa via a proposed pipeline from Nigeria to Europe via Niger and Algeria. Scholz also invited the South African president to attend the G7 summit in a show of solidarity among “democratic countries” against Russia’s aggression. The Indonesian president was also invited to attend for the first time.

Turkish President Recep Tayyip Erdogan has also been making inroads into Africa as part of his ambitions to make Turkey a regional leader.

He was on a four-day diplomatic tour of the West African states of Angola, Nigeria and Togo in October, partly to sell Turkey’s increasingly famous Bayraktar TB2 military drones. He followed up with another four-day tour in February to Central and West Africa that included Senegal, the Democratic Republic of the Congo and Guinea-Bissau. Turkey already does half a billion dollars of trade with Senegal, and Erdogan said he hopes to increase that to $1bn.

US President Joe Biden has also been trying to shore up US relations in the non-aligned world with his first visit to the Kingdom of Saudi Arabia (KSA) in July to meet with Crown Prince Mohammed bin Salman Al Saud (MbS). The US has been putting pressure on the prince to increase oil production to bring oil prices down, but the trip ended in failure after MbS refused. Relations between the KSA and Moscow have become noticeably warmer in recent years; they have been working more closely together after Russia joined the OPEC+ extended cartel to control oil prices.

The US is also pushing back in Africa and planning a summit of African leaders in Washington in December, the first of its kind since former president Barack Obama convened one in 2014.”

"Lavrov’s visit to Africa has been mirrored by trips by other political luminaries, as the race to secure relations in the new geopolitical set-up is on"
Special Report

NUCLEAR POWER MAKES A COMEBACK
The need for nuclear in the energy transition

Richard Lockhart in Edinburgh

Nuclear is set to make a "comeback" and sees capacity doubling between 2020 and 2050, from 413 GW to 812 GW, the International Energy Agency (IEA) said in a recent report entitled Nuclear Power and Secure Energy Transitions.

However, achieving net zero globally by 2050 will be extremely hard without continued investment in nuclear energy crisis, skyrocketing fossil fuel prices, energy security challenges and ambitious climate commitments, I believe nuclear power has a unique opportunity to stage a comeback. However, a new era for nuclear power is by no means guaranteed. It will depend on governments putting in place robust policies to ensure safe and sustainable operation of nuclear plants for years to come – and to mobilise the necessary investments including in new technologies.

IEA Executive Director Fatih Birol said: "In today’s context of the global energy sector, with 27 out of 31 reactors that started construction since 2017 being Russian or Chinese designs."

Indeed, by 2050 developing economies will dominate new reactor construction, while nuclear's share of total global generation will fall to 8%. By contrast, renewables will account for 90% of power generation if the world meets net zero in that year.

Emerging and developing economies will account for more than 90% of global growth, with China set to become the

“The report said that nuclear was the second largest source of low-emission power after hydropower, with 32 countries having nuclear power plants (NPPs)“
leading nuclear power producer before 2030.

Advanced economies collectively see a 10% increase in nuclear, as retirements are offset by new plants, mainly in the US, France, the United Kingdom and Canada.

Annual global investment in nuclear power rises is forecast to rise from $30bn during the 2010s to over $100bn by 2030, and will remain above $80bn to 2050.

The report highlighted that the sector faces rising costs, and that these must be cut in order for it to remain competitive with renewables.

This means completing nuclear projects in advanced economies at around $5,000 per kW by 2030, compared with the reported capital costs of around $9,000 per kW (excluding financing costs) for first-of-a-kind projects.

There are some proven methods to reduce costs, including finalising designs before starting construction, sticking with the same design for subsequent units, and building multiple units at the same site. Stable regulatory frameworks throughout construction would also help avoid delays.

One way forward would be to develop small modular reactors (SMRs). In the IES net-zero emissions scenario (NZE), half of the emissions reductions by 2050 come from technologies, including small modular reactors, that are not yet commercially viable.

SMRs, generally defined as advanced nuclear reactors with a capacity of less than 300 MW, have strong political and institutional support, with substantial grants in the US, and increased support in Canada, the UK and France. This support makes it possible to attract private investors, bringing new players and new supply chains to the nuclear industry.

The IEA recommended that in order to meet these targets, governments must extend the lifetimes of power plants, and make electricity markets value dispatchable low-emissions capacity.

Governments must also create financing frameworks to support new reactors and promote efficient and effective safety regulation.

Finally, they must implement solutions for nuclear waste disposal and involve citizens in prioritising approval and construction of high-level waste disposal facilities in countries that do not yet have them.

This is a key issue for nuclear power, and the source of much opposition to the sector. The problem of waste is also the main reason why many in the green movements do not view nuclear power as a green technology and do not see it as part of the energy transition.

What this means is that Russia has the capability in several segments of the nuclear value chain to make a particular service or material scarce or difficult to source. This would make many reactors, especially in Central and Eastern Europe but also in Western Europe and the US, vulnerable to supply problems that could take reactors offline.

Europe’s nuclear power sector is starting to worry about its fuel stocks as Russia’s invasion of Ukraine is calling into question the security of uranium supplies and processing services provided by Russia.

The issue has the potential to turn into a fuel crisis with parallels to the current gas crisis, with countries now needing to look for alternatives and the Kremlin using both raw uranium 235 and finished fuel to apply political and economic pressure.

**Fuel cycle**

Russia may only supply 6% of the global raw uranium market, but it controls 40% of the conversion market – where uranium oxide, or yellowcake, is converted into uranium hexafluoride – and 46% of the enrichment market, where the U-235 content in raised to 3-5%, allowing nuclear fuel to be formed.

Also, Russia is prominent is many stages of the global nuclear fuel cycle through various state-owned companies grouped under the Rosatom umbrella.

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The Centre on Global Energy Policy at Columbia University said in a recent paper that countries such as Finland, the Czech Republic, Turkey and Ukraine have Russian reactors in operation or

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**Central Europe remains highly exposed to Russian uranium**

Richard Lockhart in Edinburgh

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Hungary, however, remains committed to its nuclear ties to Russia. The expansion of the Paks NPP, involving two 1,200-MW VVER units, is due to be completed by Russian companies by 2030. They will use Russian nuclear fuel supplied by TVEL.

Likewise Bulgaria, which has 2,000 MW of capacity at Kozlodui, receives all its nuclear fuel from Russia’s TVEL via its trading unit Techsnabexport.

In Ukraine, Energoatom decided after Russia’s invasion to stop using any more Russian nuclear fuel once stockpiles are used up in 2024, and will instead use Western fuel supplied by Westinghouse.

The International Energy Agency (IEA) noted in its recent nuclear report that one impact of the war could be that heightened energy security concerns could bolster the case for nuclear energy in some countries as they seek to reduce reliance on expensive and volatile fossil fuels and accelerate transitions.

However, it could also have negative impacts. Aside from the effects on public opinion of active conflict in the vicinity of Ukraine’s nuclear facilities, the conflict raises questions about Russia’s future as a producer and exporter of nuclear fuel supplies.

Market share
Russia plays an even more significant role in the production of uranium fuel, accounting for 38% of uranium processing (conversion) worldwide and over 45% of fuel enrichment capacity in 2020.

Much of the uranium processed and enriched by Russia is sourced from Kazakhstan, which was

EU uranium supply sources in %, 2020

![Diagram showing EU uranium supply sources in 2020.](image)

Source: Euratom

under construction. They are at risk of operational difficulties or even outages without materials, equipment and services to maintain them.

Even the US relies on Russia for 16% of its uranium, with another 30% from Russian allies Kazakhstan and Uzbekistan.

However, all is not lost, as in various segments of the value chain, from uranium mining and milling, conversion, enrichment and fuel fabrication, various Western manufacturing companies can over time start producing replacements to overcome that supply challenge.

For example, Westinghouse already has a joint venture with Kazatomprom to provide fuel that can be used in Russian-designed VVER reactors.

European reactors
Russia is a major supplier of processed nuclear fuel to Russian-built reactors across Central and Eastern Europe and holds direct supply contracts with utilities and plant operators.

Indeed, 18 out of 103 reactors in the EU, or 10% of EU nuclear capacity, use Russian fuel under contract with TVEL. These are in Bulgaria, Czech Republic, Hungary, Slovakia and Finland.

TVEL operates worldwide, supplying nuclear fuel to 73 VVER reactors inside Russia and in other countries, including Ukraine, Belarus, Armenia, China, India and Iran, making up around 16% of the world market in 2020.

Many of the countries that import processed fuel from Russia are now reconsidering, with CEZ, the Czech state-owned electric utility, recently announcing it would obtain its fuel supplies for its Temelin nuclear power plant (NPP) from Westinghouse and Framatome from 2024.

Slovakia has secured enough nuclear fuel from TVEL for the next year and has a contract with TVEL for four more years, according to Euractiv, but the economy ministry has also began negotiations with Westinghouse, though it does not currently produce the fuel needed by Slovak nuclear power plants and it would also be more expensive.

“18 out of 103 reactors in the EU, or 10% of EU nuclear capacity, use Russian fuel under contract with TVEL”
responsible for 41% of global uranium production in 2020.

Indeed, Kazakhstan is by far the largest producer of uranium, mining 21,810 tonnes in 2021, according to the World Nuclear Association. Next comes Namibia with 5,743 tonnes, Canada with 4,692 tonnes and Australia with 4,192 tonnes. Uzbekistan follows with 3,500 tonnes, then Russia with 2,635 tonnes and Niger with 2,248 tonnes. This means that about 75% of uranium comes from Kazakhstan, Canada and Australia.

On the other hand, Russia is one of a number of suppliers of raw uranium to Europe, accounting for 20.2% of the market, just behind Niger with 20.3%. Canada, Australia and Kazakhstan are not far behind.

Within Europe, different countries have varying exposure to Russia. Some countries, such as Finland, source raw uranium from such countries as Canada, Australia and Africa, before sending it to TVEL in Russia for enrichment and processing.

France, by contrast, sources 9,700 tonnes of uranium oxide concentrate (8,200 tonnes of uranium) per year from Canada and Niger, before enriching and processing it in France.

Meanwhile, Euratom, which monitors European uranium trade, estimates that Russian companies provided about 24% of uranium conversion services and 25% of enrichment services to EU utilities in 2020.

France’s Orano supplies the majority of enrichment services and the largest share of conversion services to those utilities, while Canada and the US are also significant suppliers of conversion services to them.

Indeed, World Nuclear Association figures show that Russia provided 25mn SWU per year of enrichment capacity, against a global total of 69mn SWU, making it the biggest enricher, following by China, France, the US, the UK, Germany and the Netherlands.

Slow market

The IEA pointed out that the global uranium market is slow moving. Nuclear power plants (NPPs) need to refuel infrequently, reducing exposure to short-term disruptions, and fuel can be stored for a few years before being used.

Nuclear power is set to hold its own in the world in the coming 30 years. While capacity is forecast by the IEA to double between 2020 and 2050 from 413 GW to 812 GW, its share of global output would actually dip slightly to 8% as total global consumption rises.

What this means is that Russia has the capability to exploit the nature of the global nuclear market to use nuclear fuel to apply pressure across the value chain.

On the other hand, in many areas, from uranium supply to enrichment technology, other operators in other countries are available. Nuclear companies can change suppliers if forced by pressure from Russia, however economically painful or technically difficult it may be.

Yet the most exposed remain the Central European countries, whose Russian reactors are an inheritance from the days of the USSR and COMECON economic links. Ukraine and the Czech Republic have already sought alternatives supplied by Westinghouse, but others such as Hungary appear happy to maintain close Russian links.

“Kazakhstan is by far the largest producer of uranium, mining 21,810 tonnes in 2021, according to the World Nuclear Association”

World uranium production and reactor requirements, 1945-2020

Source: OECD-NEA, IAEA, World Nuclear Association
Cracks appear in German opposition to atomic energy

Richard Lockhart in Edinburgh

Germany’s opposition to expanding nuclear power could be changing slowly, as the current gas crisis leads to more voices calling for an end to the closure of nuclear power plants (NPPs).

Support for nuclear power is now re-emerging in the face of reduced gas imports from Russia, going against the post-Fukushima decision in 2011 to phase out atomic energy in the country.

In March, the German Council of Economic Experts recommended that the country delay the phase-out of its three remaining nuclear reactors, planned for the end of 2022.

Such a view broke almost 10 years of government policy, which called for the winding down of the country’s elderly nuclear reactors. It was also connected to the country’s traditional opposition to nuclear weapons, led by a powerful green lobby and the presence in the federal government of the Green Party.

Politicians on the centre-right, led by the Free Democrats, are also calling for the phase-out to be delayed. Neighbouring Belgium approved such a move in March, extending the lifetime of two reactors beyond the planned 2025 exit.

Three reactors are still operating – down from 17 in 2011 – and they’re scheduled for decommissioning at the end of 2022. Three other units closed at the end of 2021 and are in the early stages of shutdown. The three remaining reactors generate 11% of German electricity.

Keep the last three reactors open beyond 2022 would require a number of regulatory changes and reversing the decommissioning process, with new security and safety checks needed. There is now a shortage of trained staff.

Finally, the country only has enough nuclear fuel, in the form of uranium rods, to last until the end of 2022. Sourcing new fuel at short notice would be expensive.

The crisis in the EU-Russia gas relationship took another turn for the worse in mid-June, with Germany, Italy and France all reporting cuts in supply after all three countries backed Ukraine’s bid for EU candidate status. The German government announced on June 19 additional measures to boost gas storage levels ahead of the next winter heating season, amid rising fears that Moscow could cut off gas supply to the country completely. Its economy ministry said the new measures would include increased reliance on coal-fired power plants, as well as the introduction of an auction system starting in the coming weeks that would provide incentives to industry to consume less. The government is also providing a €15bn ($16bn) credit line to Germany’s gas market operator via state lender KfW, to help it stock up on gas faster, according to Reuters.

Alongside coal, renewables and managing demand, the country still has the nuclear option.

Yet nuclear power has limitations. It cannot replace gas used for domestic heating or in industry. Half of the country’s homes are heated by gas, while industry accounts for more than one-third of overall gas use.

Although building new nuclear reactors is wildly expensive, with experience in Finland and France demonstrating the difficulty in controlling costs, even green lobbyists recognise that utilising current atomic generating capacity has a part to play in addressing the current energy crisis.

Green think-tank Ember said in June that new nuclear reactors were not cost-effective or even needed for security of supply, while acknowledging that there was no need to abandon current projects in development, as building new plants as planned would not significantly raise costs, and could even help to reduce fossil gas more quickly.

Meanwhile, the International Energy Agency (IEA) considers nuclear an "essential foundation" of the energy transition, and the United Nations Economic Commission for Europe last year called nuclear phase-outs a “setback” for efforts to fight climate change.
Czech energy company CEZ switches away from Russian nuclear fuel

Czech state-controlled energy company CEZ has signed a contract with US nuclear power technology company Westinghouse and French Framatome for the supply of fuel assemblies for the Temelin Nuclear Power Plant, the company announced in a press release. The value of the contract is in the order of billions of crowns.

The contract is part of a shift by nuclear power station operators away from reliance on Russian nuclear fuel supplies, though many states in Central Europe – notably Hungary – remain dependent on Russian inputs.

Both suppliers were selected in a tender in April. "Of course, we selected the best offers with regard to both safety and price. At the same time, however, our goal was to diversify the number of suppliers in order to minimise the risk of possible supply failures for any reason," said Ladislav Stepanek, Director of the Fuel Cycle Department at CEZ.

"We welcome the decision of CEZ group to diversify its nuclear fuel supply and to select Westinghouse as a supplier of nuclear fuel for Temelin Nuclear Power Plant. Westinghouse has developed and supplied for many years our own VVER fuel designs for both the VVER 1000 and the VVER 440 types of reactors. We are extremely happy that our successful experience in supplying VVER fuel is going to benefit CEZ," said Tarik Choho, President of EMEA Operating Plant Services.

"Framatome is pleased to have been chosen by CEZ as a supplier to contribute to Temelin plant’s fuel security of supply," commented Lionel Gaiffe, Senior Executive Vice President, Fuel Business Unit at Framatome.

“We welcome the decision of CEZ group to diversify its nuclear fuel supply and to select Westinghouse as a supplier of nuclear fuel for Temelin Nuclear Power Plant”

Framatome and demonstrates the confidence of CEZ in the reliability of our fuel solution regarding their need and requirement to produce low-carbon energy in Czech Republic,” he added.

According to CEZ, this should be an important step towards strengthening the energy security of Czechia. Deliveries of assemblies to the Temelin plant will begin in 2024. Currently, in Temelin the company has fuel assemblies for approximately two years of operation; at the Dukovany plant even more.

"We decided to increase the stockpile volume at both nuclear power plants in 2016. Thanks to this, we have enough assemblies at Dukovany for approximately three years of operation of all the units. Of course, we continue to think about the diversification of suppliers," declared Bohdan Zronek, a member of the board of directors and Director of the Nuclear Power Division.

Westinghouse focuses its activities on carbon-free energy by providing innovative nuclear technologies to utilities globally. In May, the company signed a memorandum of understanding with the state-owned Bulgarian Energy Holding on building a long-duration energy storage facility in Bulgaria. In April, it signed memoranda of understanding with three Slovenian companies that will cover co-operation on the potential AP1000 nuclear power plant projects across Central and Eastern Europe.

Framatome is an international leader in nuclear energy, designing, servicing and installing components, producing nuclear fuel and supplying instrumentation and control systems for nuclear power plants.

CEZ Group is one of the key state companies, operating in Western, Central and South-Eastern Europe. The company focuses its activities on generation, distribution, trade and sale of electricity and heat, the trade and sales of natural gas, the provision of complex energy services and coal mining.

In March, after years of delays, CEZ finally launched a tender for the largest investment in the modern history of Czechia, for the construction of a new nuclear unit at Dukovany. The unit should be built by 2036.

Three potential bidders will likely enter the official tender – EdF of France, KHNP of South Korea and Westinghouse, while China General Nuclear and Rosatom of Russia are prevented from taking part in the tender.

Czech Prime Minister Petr Fiala announced last week that CEZ could be restructured within two years, in order for the Czech state to have a decisive influence with regard to critical energy infrastructure.●
Tougher times ahead for Emerging Europe

Clare Nuttall in Glasgow

Expectations of a quick end to the war in Ukraine followed by a rapid recovery from the economic shock across Emerging Europe proved to be unfounded. Instead, with no end to the war in sight, spiralling inflation is set to drag down growth across Emerging Europe in the second half of 2022 and into 2023, according to the latest set of forecasts from the Vienna Institute for International Economic Studies (wiiw).

Growth projections for virtually all the Emerging Europe countries have been lowered since Russia’s invasion of Ukraine in February, and now range from 4.5% in Slovenia to -38.0% in Ukraine.

wiiw forecasts that most of the region will avoid an economic recession this year, but this outlook is subject to considerable downside risks.

Across the region, the most resilient to the crisis are the 11 EU members of the region, where average growth of 3.3% is expected this year.

Growth in the aspiring EU members of the Western Balkans is expected to come in at a more modest but still positive 2.9%, while Turkey is heading for 2.7% growth.

On the other hand, sharp contractions are expected in both Russia and Ukraine, as well as Russia’s closest ally Belarus, which is also targeted by Western sanctions. Moldova, located next to Ukraine and with part of its territory controlled by Russia-backed separatists, is heading for a contraction of 1%.

“The region has been showing really remarkable resilience in its recovery from the COVID pandemic shock, but things are unfortunately changing for the worse,” said Olga Pindyuk, economist at wiiw and lead author of the summer forecast, on a webinar to present the results on July 6.

Rising inflation

Specifically, she said, “inflation has become a major challenge globally” and there is a high level of uncertainty with negative risks continuing to mount.

wiiw has had to revise upward its inflation forecasts for 2022-23 for most countries in the region, as wiiw economists now expect “inflation to be more persistent and last longer than previously thought,” Pindyuk said.

Inflation was in double digits across all 23 countries included in the wiiw report from Central Europe to Central Asia, with only one exception: Slovenia. While Turkey’s rampant inflation is many times higher than that of other countries in the region – it’s expected to come in at around 68% this year – the eastern EU members are heading for inflation at an average of around 11%.

wiiw’s report identifies the war as being behind the seemingly unstoppable rise in
food prices: “A major reason for this is the shortage of supplies on world markets due to the loss of Ukrainian and Russian agricultural exports. Lower supplies of fertiliser as a result of the war could limit crop production in many countries and further exacerbate the food crisis.”

However, inflation is not limited to food and energy prices. “Worryingly, core inflation (excluding food and energy) is also picking up in the CESEE region. This suggests that inflation is now becoming increasingly broad-based,” said the report.

Amid fast rising inflation, confidence is already deteriorating among businesses and – to a much greater extent – among consumers.

“Inflation is starting to bite households, eating into real incomes, and this is only the beginning. The situation is likely to aggravate in the second half of 2022,” said Pindyuk.

“Real wages declining in some counties and the positive growth [in others] is not sustainable as inflation is spiralling. This means a slowdown in consumer spending is coming. Households [in emerging Europe] are poorer than in Western Europe and a higher share of their spending is on food and non-alcoholic beverages. Demand for these items is inelastic so demand for other things will inevitably decline. At the same time, increasingly more households will be pushed into poverty,” she added.

Ukraine’s economy devastated

On top of the loss of human life and destruction in Ukraine, the country’s economy has been devastated by the war. Previous forecasts from various institutions initially projected a bounceback in 2023 but as the war drags on into the second half of the year that is no longer a given; wiiw currently forecasts growth of just 5.0% in 2023 rising to 13.0% in 2024.

“The war continues to have a devastating effect on the Ukrainian economy, with damage from the destruction of residential and non-residential buildings and infrastructure exceeding 60% of the country’s 2021 GDP,” the report says.

“As Ukraine is adjusting to the new reality of the war, economic activity is starting to recover slowly in both the manufacturing and the services sector, with more companies resuming their activity. Still, capacity utilisation remains 40% lower than before the start of the war.”

While the timing is unclear, at some point the war will be over and the reconstruction of Ukraine begin, heralding the start of the country’s recovery.

“We expect – on the end of the war and beginning of reconstruction, private capital to flow,” said Pindyuk, pointing to the IT and agriculture sectors as being particularly attractive, along with renewable energy.

On the other hand, Pindyuk said, “for the parts of Ukraine that may end up under Russia, the future is very gloomy, with no rebuilding, and isolation from the global economy”.

Delayed reaction in Russia

Russia’s self-inflicted comic contraction is now expected at 7% the year – milder than previously anticipated.

“Russia has so far coped better with the sanctions than was foreseeable in spring. The sharply lower imports and still high revenues from energy exports have pushed the rouble to a new five-year high against the euro and the US dollar,” the report said.

“The strong rouble and the population’s reluctance to spend are also dampening inflation, which we now see at around 16% in 2022. In the short term the country has additionally benefited from the EU oil embargo via further increases in the oil price.”

However, Vasily Astrov, senior economist and Russia country expert at wiiw, said more pain is in store for Russia. “Although it was possible to slow down the slump, the full effect of the Western trade sanctions is only gradually becoming apparent,” Astrov commented, pointing to the “dramatic” production losses in some industrial sectors due to a lack of Western components.

Negative risks abound

Even the increasingly pessimistic forecasts may yet be lowered since, as Pindyuk pointed out, the negative risks are mounting.

First among these are the continuation of the war, still a subject of “huge uncertainty”, though it’s already clear it will last much longer than initially thought.

Secondly, Pindyuk said, “persistently high inflation could trigger a stagflationary hard landing, with prices growing out of control and an economic recession.”

As Russia and the West continue to inflict economic damage on each other, Pindyuk believes a sudden stop of gas supplies cannot be ruled out, and this would be particularly damaging for the Central and Southeast European countries that almost all their gas imports from Russia. A suspension of gas supplies “would imply winter energy rationing and push many countries into recession,” warned the economist.

Fourthly, there are the inflated real estate prices, which wiiw sees as unsustainable.

Finally, analysts are already looking ahead to the next US presidential election in 2024, given the importance of the US to Europe’s security and economic situation.
Estonia’s Reform Party, Isamaa and Social Democrats reach deal on new coalition

Linas Jegelevicius in Vilnius

Estonia’s ruling Reform party and the opposition Isamaa and Social Democrats (SDE) have managed to hash out an agreement on a new ruling coalition to lead the tiniest Baltic country. The three parties will have a narrow majority of 56 seats in the 101-seat Riigikogu, the Estonian parliament.

Each party will receive five ministerial portfolios in the new government.

The senior coalition partner, Reform, which commands 34 seats in the 101-seat Riigikogu, will be charged with the portfolios of prime minister, minister of finance, minister of defence, minister of social protection and minister of rural affairs.

Isamaa, with 12 seats, will be given the portfolios of minister of foreign affairs, minister of education and research, minister of justice, minister of entrepreneurship and information technology (IT) and minister of public affairs.

SDE, with 9 seats, will receive the portfolios of minister of the interior, minister of health and labour, minister of economic affairs, minister of the environment as well as minister of culture.

The three parties also agreed that the position of first vice-president of the Riigikogu, currently held by Reform member Hanno Pevkur, would go to Isamaa, as would the chairs of the Riigikogu’s European Union Affairs Committee, Finance Committee, Environment Committe, and Rural Affairs Committee.

Agreement on family support and the reform of the electricity market were two areas that, until late on July 8, prevented the parties from striking a power-sharing deal.

Reform leader and Prime Minister Kaja Kallas likened the event to ERR, the national broadcaster, to the white smoke that issues forth from the Sistine Chapel when a new pope has been elected, saying on her social media account that: “Habemus papam. We have reached a new coalition agreement. There are some remaining details and positions.”

Reform had been in office alone as a minority government since June 3, an unusual situation for Estonia.

Upon the agreement, child allowances will rise to €80 per month per child, and the allowance for families with three to six children to €600, while the income tax-free threshold will also rise, to €654.

Family benefits will be phased out in increments as a child turns 24 – in other words in a family with three children, when the eldest child turns 24 the support will be cut by a third, then another third when the second child reaches that age etc.

To counter soaring energy prices, a reform of Estonia’s electricity market is under preparation. This will provide for the option to purchase electricity outside the market exchange, as a universal service, during the heating period (October to March inclusive), which will be additionally compensated to a maximum of €50 per MWh.

According to the agreement, a full transition to Estonian-language education in pre-school education and in general education in the first to fourth grades will begin in 2024.

Additionally, the financing of higher education will be increased as soon as this year, by an additional €10mn.

Kallas announced at noon on July 11 that the party's final picks for its ministers have been received by the party board, and that their names will be published together with those of the two junior coalition parties.

As reported by bne IntelliNews, the Reform dumped the Centre party as its junior coalition partner over disagreements over the family benefits package bill.
Latvia plans return of compulsory national service

bne IntelliNews

Latvia plans to reintroduce national military service, starting next year initially on a voluntary basis, and to build a new international military base as it strengthens its defences in the face of Russian aggression in its immediate neighbourhood, reported LSM.lv, a Latvian news website.

Neighbouring Estonia and Lithuania already have national military service, but most EU countries have abolished the requirement, which is seen as costly, unpopular and of dubious military value.

Minister of Defence Artis Pabriks announced at a press conference on July 5 plans to reintroduce national military service for males from 2023, first on a voluntary basis and then in compulsory form after five years. This comes despite reservations about national service being expressed by Latvia’s defence chief in February this year.

The Ministry of Defence says that the national service will be gradually introduced over the course of five years. From January 1, 2023, the first phase of implementation will take place, for which it will be possible to apply voluntarily.

It is expected that recruitment to the service will take place twice a year, on January 1 and July 1. It is planned that after a five-year transition period, the service will be compulsory for men aged 18 to 27.

However, if a person at the age of 18 is still studying, they will be able to defer their service until after graduation.

National service will last for 12 months, but one month of that will be holiday, and people can expect to be paid €400 plus travel expenses per month, slightly less than the national minimum wage of €500.

Women will be able to apply to the National Defense Service voluntarily, the Ministry of Defence plans.

Only citizens of Latvia will be admitted to the service and individuals will also have to meet health requirements, which are analogous to those of the National Guard.

Latvia abolished mandatory military service in January 2007, fully switching to a professional military service backed up by a National Guard militia.

Latvia also plans to establish another international military base in a zone straddling the regions of Aizkraukle and Jekabpils in the south of the country, Pabriks said.

Most of the property where the military base is planned to be built currently belongs to state forestry company Latvijas valsts mezi [Latvian state forests]. It is fairly close to the border with Lithuania.

The Ministry of Defence plans to take over 81 different plots of land with an area of 1,072 hectares in the territory of Aizkraukles and Jekabpils counties for the creation of the Zalve military zone. The expropriation process will take place in accordance with a special law.

"Along with the strengthening of national defence, the creation of the new military range will create new business opportunities, additional jobs, as well as contribute to the development of the region’s infrastructure and economy,” the defence ministry said in a statement.

Local residents will be able to continue to gather mushrooms and berries in “most” of the military zone, and the national armed forces will not prohibit movement on regional and national roads, but “movement may be restricted for the duration of the military training, which the public will be informed about.”

“The military zone will be established in an area rich in habitats and various bird species. The national armed forces will respect the requirements of environmental protection and treat nature with care,” the Ministry said, adding that the creation and use of new military ranges would not endanger protected birds and their nesting places.

The Canada-led Nato battlegroup group in Latvia currently comprises almost 2,000 soldiers, but the new commitment is to create combat-ready groups of brigade size – usually of 3,000 to 5,000 soldiers.
IEA chief warns Europe its gas efforts won’t be enough even as Brussels inks deal with Azerbaijan

Even as Europe was on July 18 signing a deal with Azerbaijan for more gas, International Energy Agency executive director Fatih Birol was sounding the alarm that the European Union’s attempts to diversify gas suppliers remain inadequate when it comes to getting through the coming winter without Russian gas. Immediate moves to cut demand were vital, he said.

“It is categorically not enough to just rely on gas from non-Russian sources – these supplies are simply not available in the volumes required to substitute for missing deliveries from Russia,” Birol wrote in an article published by the IEA, as fears grew Russia, pushing back against European opposition to its war in Ukraine, could end gas deliveries to Europe in the run-up to the winter season.

“This will be the case even if gas supplies from Norway and Azerbaijan flow at maximum capacity, if deliveries from North Africa stay close to last year’s levels, if domestic gas production in Europe continues to follow recent trends, and if inflows of LNG [liquefied natural gas] increase at a similar record rate as they did in the first half of this year,” added Birol.

The European Commission’s gas agreement with Azerbaijan so far amounts to no more than a memorandum of understanding with Baku that, should all be parameters be in place, it will more than double exports of Azerbaijani natural gas to an annual volume of at least 20bn cubic metres (bcm) a year by 2027.

On a visit to Baku for the move in line with European Union policy to attempt to end the bloc’s heavy dependence on Russian gas, Commission President Ursula von der Leyen said: “Today, with this new memorandum of understanding, we are opening a new chapter in our energy cooperation with Azerbaijan, a key partner in our efforts to move away from Russian fossil fuels.”

Azerbaijan has for around one and a half years delivered Caspian Sea gas to Europe via the Trans Adriatic Pipeline (TAP), the last leg of the 3,500-kilometre Southern Gas Corridor (SCG), which runs from Turkey to Greece, Albania and Italy. According to von der Leyen it presently makes deliveries at a rate of more than 8bcm per year. The objective is to expand the capacity flow to 20bcm by 2027, she said. The gas imports on the route are already scheduled to increase to 12bcm next year.

Azerbaijan is a crucial energy partner for us that has always been reliable,” added von der Leyen at a joint news conference with Azerbaijan’s President Ilham Aliyev.

Azerbaijan has for around one and a half years delivered Caspian Sea gas to Europe via the Trans Adriatic Pipeline (TAP), the last leg of the 3,500-kilometre Southern Gas Corridor (SCG), which runs from Turkey to Greece, Albania and Italy. According to von der Leyen it presently makes deliveries at a rate of more than 8bcm per year. The objective is to expand the capacity flow to 20bcm by 2027, she said. The gas imports on the route are already scheduled to increase to 12bcm next year.

Aliyev remarked: “Long-lasting, predictable and very reliable cooperation between EU and Azerbaijan in the field of energy is a big asset.”

Europe is wary of Russia turning its natural gas supplies into a weapon of blackmail given European opposition to the Russian invasion of Ukraine that began on February 24.

In May, EU leaders agreed to halt most Russian oil imports by the end of the year as part of the sanctions wave they have hit Moscow with in response to its military action in Ukraine.

The proposal of introducing a complete ban on Russian gas has, however, not progressed at this stage. In 2021, Russia met almost two-fifths of the EU’s gas needs, delivering around 155bcm of gas.
EC takes Hungary to court over LGBT regulation, launches new infringement procedures

bne IntelliNews

The European Commission referred Hungary to the EU’s highest court (CJEU) over the controversial LGBT regulation and the media authority’s rejection of a bid by independent broadcaster Klubradio for its old frequency on July 15. In two other cases, an infringement procedure was launched. One was for the discriminatory pricing of fuel and for introducing grain export restrictions, which may have breached EU rules.

The CJEU said the LGBT regulation, dubbed the child protection law by Hungary, violates internal market rules, the fundamental rights of individuals and EU values.

The legislation singles out and targets content that “promotes or portrays” what it refers to as “divergence from self-identity corresponding to sex at birth, sex change or homosexuality” for individuals under 18.

Critics said the law stigmatises LGBT people and conflated sexual and gender diversity with paedophilia.

The nationalist ruling Fidesz party made homophobia a key campaign theme. A referendum was held on the same day as the election, which failed as fewer than 50% of eligible voters cast valid ballots.

Voters were asked whether they support: the ‘teaching of sexual orientation’ in schools without parental consent; the ‘promotion of sex reassignment therapy’ for children; the exposure of children to ‘sexually explicit media content’; and showing ‘media content on gender-changing procedures’ to minors.

For a year, Orban’s populist government argued that the EU has withheld RRF funds due to the controversial legislation. This argument was debunked by former EU commissioner and minister for regional development, Tibor Navracsics, in a recent interview.

The EC took Hungary to court over Klubradio, the last independent radio station, with national coverage, that lost its broadcasting licence in 2021.

EU rules require radio frequencies to be assigned “on the basis of objective, transparent, non-discriminatory and proportionate criteria”. The radio’s application for spectrum was rejected “on highly questionable grounds,” the Commission said.

Justice Minister Judit Varga noted that the decision was taken by an authority independent of the government and upheld by an independent court.

The European Commission also launched an infringement procedure against Hungary over a measure requiring prior notification of cereal exports and giving the state pre-emption rights. The government earlier said the notification measure had achieved its goal of preventing a big increase in grain exports amid higher global demand, thus ensuring domestic supply. Hungary has two months to respond to the EC on the matter.

As expected, the decision that only Hungarian-registered vehicles are allowed to fill up their tanks at regulated prices also triggered an infringement procedure. Foreign motorists had to pay the market price for fuel since late May, while Hungarians pay HUF480 per litre. The price cap was recently extended until October.

The government argued that it wanted to end fuel tourism that threatened supply. Analysts warned of fuel shortages in the peak season as MOL is planning to carry out maintenance work at its Danube refinery near Budapest.

Demonstration against the government’s anti-LGBT regulation in June 2021. Critics said the law conflated sexual and gender diversity with paedophilia.
Albania and North Macedonia launch EU accession talks

bne IntelliNews

Albania and North Macedonia launched EU accession talks on July 19 after waiting for two years for Bulgaria to lift the veto on the start of talks with Skopje that also blocked Albania, which was coupled in the process.

The doors for North Macedonia's EU negotiations were opened after the country accepted the French proposal aimed at ending the deadlock on July 16. That led to the lifting of the Bulgarian veto, imposed over language and history issues. The proposal was accepted by the parliament in Skopje despite protests and rejection of the proposal by the opposition, which see it harmful to the country's national interests.

“What a historic moment. Today, Albania and North Macedonia are opening the accession negotiations to the European Union, and I am so glad to be here with you,” President of the European Commission Ursula von der Leyen said.

North Macedonia’s PM Dimitar Kovacevski congratulated the citizens of North Macedonia on the launch of the EU accession talks.

“They are the most deserving of today’s event. They did not surrender to any challenge, to mountains of difficult concessions and compromises, in order to fulfil their dream of belonging to the European family,” Kovacevski said.

Across the Atlantic, US President Joe Biden welcomed the start of accession talks with the two Western Balkan countries given the current geopolitical context.

“In a moment when Russia has shattered peace in Europe, it is more important than ever to support the aspiration for a Europe whole, free and at peace. A democratic, secure and prosperous Western Balkans remains essential to this vision,” Biden said according to a White House statement.

17 years of waiting
North Macedonia, previously known as Macedonia, has been waiting for this moment for 17 years, after it got candidate status in 2005. The country’s progress was blocked first due to the Greek veto, which was removed with
the 2018 Prespa name deal, and later Bulgaria threw up obstacles linked with history and language issues.

One of the biggest stumbling blocks in the relations between Sofia and Skopje is that Bulgaria does not recognise the Macedonian language and also wants changes to history textbooks to reflect its viewpoint of history.

On the other hand, North Macedonia’s authorities said that the language and identity issues are not negotiable.

Von der Layen addressed Kovacevski on this topic: “Dimitar, you can count on my support to ensure that the agreement is translated into the Macedonian language, no footnote, no asterisk, on an equal footing with all 24 EU languages.”

She underlined that North Macedonia will very soon negotiate with the EU on the deployment of the EU border force Frontex to North Macedonia which is expected to strengthen cooperation on migration. So far the signing of the deal was prevented due to the Bulgarian refusal to accept the document being signed in the Macedonian language.

The problem was solved by both countries, Bulgaria and North Macedonia, submitting unilateral declarations to the EU about the Macedonian language. Bulgaria sees the Macedonian language as a Bulgarian dialect, while North Macedonia says that it will continue with the EU accession process only if the Macedonian language is one of the official EU languages.

No longer a hostage
Albania became an EU candidate country considerably later than North Macedonia, in 2014. Yet until the recent breakthrough there was growing frustration in Tirana too that progress was blocked, especially as it was due to a dispute between two other countries that did not involve Albania.

Prime Minister Edi Rama has previously described Albania as a “hostage” to the dispute between Sofia and Skopje, and had talked of seeking to decouple from North Macedonia if it failed to move forward in June.

Speaking at the launch of accession talks, Rama called EU accession a “matter of life and death” for the Albanian nation.

He also commented on the importance of EU accession as a unifying force in the Western Balkans. “I want to point out that it will not be only two but four out of six Balkan countries [in accession talks]. In an area like the Balkans, it means fewer ghosts from history in our political life,” he said.

Also commenting on the progress made within Albania on its journey towards the start of accession talks, Rama highlighted the impact of the justice reforms made over the last few years as one of the conditions for progressing – and the subject of lengthy political battles within Albania.

Next steps
Right after the first intergovernmental conference (IGC), the screening of the EU acquis started in Albania and North Macedonia as the first step in the process.

“The screening will enable Albania and North Macedonia to get familiar with the rights and obligations of our Union,” the president of the Commission said.

Von der Leyen stated that both countries can expect benefits as they advance in the negotiations.

“There will be a boost in investment. There will be improved trade links. There will be closer collaboration in key areas, like, for example, energy or transport. You will maximise the use and the impact of EU funding. This means new jobs, new business opportunities,” she said.

Despite the breakthrough, the opening of EU accession chapters is expected only after the second IGC, which will be held after North Macedonia adds ethnic Bulgarians to the constitution, one of Bulgaria’s conditions for lifting its veto. This is an unprecedented addition to EU enlargement policy. ●
Russians and Ukrainians pile into Turkish real estate market

Justine Mazonier

The Turkish real estate market has increasingly attracted foreigners in the past 10 years. According to Nordic Monitor, the number of foreigners living in Turkey reached a peak in 2021 that represented a sevenfold expansion since 2010. Turkey campaigns to lure foreign investment via property sales to foreigners. This strategy allows the government to meet some economic needs amid rampant inflation and a sluggish economy.

In 2017, Ankara brought in a policy allowing foreigners to obtain a one-year residence permit in return for the purchase of a property (at any price) in Turkey. Also, Turkish citizenship was made available to any foreigner buying real estate priced at one million dollars or more. In 2019, the property price qualification level for citizenship was cut to $250,000. Subsequently, looking to regulate growing demand from foreigners for Turkish real estate, in May this year, the level was fixed at a minimum of $400,000.

The conflict in Ukraine drastically stepped up the trend of foreign buyers snapping up Turkish properties. Last year’s bout of depreciation suffered by the Turkish lira – it lost 44% against the dollar – made the Turkish real estate market even more attractive for foreigners with hard currency to spare. Russian and Ukrainian foreign nationals feeling impacts of the conflict have looked to secure their assets in Turkey.

The Turkish citizenship available through property investments was a clear target for many of the foreign buyers, according to the Association for the Promotion of Turkish Real Estate Abroad (GİGDER).

Arab News reporting indicated that Russians became the third largest real estate buyers in Turkey after Iranians and Iraqis. Since the February invasion of Ukraine by Russia, Russians bought 509 homes in Turkey, with 111 sold to Ukrainians.

Different expectations
Tolga Idikat, CEO of Turkish property website Emlakjet.com, and Sergey Volchenkov, a Ukrainian expert on investments, reflected that Ukrainians and Russians do not have the same expectations regarding their investments in Turkey. The Russians, it seems, are ready to pay high real estate prices to acquire Turkish property, with the procurement of Turkish citizenship their main motivation. Russian investors redirect assets the sanctioned Russia to Turkey where they can expand financial activities. The Ukrainians are more about looking for short-term deals in Turkey. They expect to return to Ukraine as soon as the conflict is over.

Turkish real estate website Turk. Estate said it had registered 51% more searches from Russia and 63% more from Ukrainians since February 2021. Hakan Sabbagh, sales manager for Akzirve, felt Russian demand for Turkish properties would probably increase throughout the coming months. Nihat Tufan, CEO of Rest Property, based in Antalya, Alanya, Bodrum and Istanbul, said: “We expect a 70 percent increase in demand from the Russian Federation.”

The most in-demand locations from Russian and Ukrainian real estate customers in Turkey are Antalya, Istanbul, Izmir, Ankara and Bursa. Turk.Estate said that in February Russians and Ukrainians bought 25% of properties sold in Antalya, representing an increase of 96% for Russians and 85% for Ukrainians. The war in Ukraine has simply served drive up the popularity of Antalya with Russians.

www.bne.eu
Some 30,000 are currently living there, along with 8,000 Ukrainians.

Website International Wealth indicates other interesting options for Russian property investors in Turkey. The province of Canakkale (formerly Dardanelles) has been presented as a promising alternative to Istanbul since the opening of the longest suspension bridge in the world between Lapseki and Gelibolu districts. Canakkale is said to be a good option for Russian investors looking for opportunities in logistics and industry. Russian analysts also predict the expansion of the cities of Lapseki, Gökçeada and Bozcaada where Russian investors are already buying more properties. Naki Karaaslan, head of the Association of Russian and Turkish Entrepreneurs (RTIB), highlighted the potential of Izmir and Istanbul.

Turk.Estate suggested Ukrainians could be attracted by Edirne, a province located near Bulgaria. The region is presented as cheap in terms of short-term residencies in Turkey. Its proximity to Bulgaria, a country Ukrainians can enter without a visa, is convenient.

The foreign demand for Turkish properties has helped to send real estate prices in Turkey skywards. According to the Turkish central bank, property prices doubled in one year. Though Turkey, of course, has soaring inflation. It hit an official 79% in June. Some independent estimates put it at more than double that.

Paying over the odds

Investment analyst Volchenkov noted that the richest Russian investors in Turkish real estate market are willing to pay over the odds. They are ready and willing to pay over the required threshold of $400,000 to obtain Turkish citizenship. Sometimes these investors splash out on overpriced properties without even negotiating the price, said Volchenkov.

Russian investors, it seems, are less and less attracted by the European market given the benefits of non-European destinations such as Turkey and the United Arab Emirates. The Turkish government lays on many comfortable services, provided to the same standard found in Europe but at cheaper prices and with no negative attitudes towards Russians.

Zeynep Fıratoglu, a manager at Space, a real estate company based in Istanbul, emphasised that the geographical location of Turkey, on the doorstep of Europe, and its neutral stance towards Russian policy, along with the mature Turkish banking system, makes it an ideal destination for Russian investors.

The Turkish government has not imposed any sanctions on Russia since the start of the war in Ukraine, whereas the most permissive European countries, when it comes to foreign investors, are taking a harder stance against Russian billionaires. According to Forbes, Cyprus, which was an attractive destination as a tax haven for Russians, has revoked the passports of eight Russian billionaires.

Turkey has also not closed its airspace to Russian airlines amid the Ukraine crisis. It takes the approach of attempting to stay on good terms with both Moscow and Kyiv in order to remain available as a trusted intermediary that can work for peace. Turkish real estate sales to foreigners look set to grow for as long as Western countries impose sanctions against Russia and Ankara stays neutral.

Russian richest investors have bought a lot of luxury goods in Turkey, particularly in Istanbul. The Turkish government tried to create more incentives to attract them. Foreigners can obtain Turkish citizenship within 3 to 4 months if they invest 500,000 dollars for three consecutive years in the banking sector, Turkish governmental bonds, companies, investment funds or deposits. However, erif Nadi Varlı, an estate broker at Vartur Real Estate (Istanbul) indicates that Russian rich investors are not looking primarily for luxury properties but more for the Turkish citizenship allowing them to invest massively in the country.

Growth in other Turkish sectors is likely to eventuate in tandem with the increasing presence of Russians in Turkey’s real estate sector. Construction could gain, while more and more Russians are coming to Turkey to relocate or open companies. According to Eray Sayin from Sayin Law & Consulting (Istanbul), Russians opened 64 new companies in Turkey in March 2022. According to her, the majority of these companies operate in the real estate and energy sectors.

According to the Turkish Union of Chambers and Commodity Exchanges, 136 Russian capital companies opened in Turkey in April, with 22 such Ukrainian openings in the same month.

Observers, meanwhile, point out a big difficulty for Russian investors coming to Turkey. Most have seen their banking accounts blocked outside Russia, while sanctions have also forced Russia out of the SWIFT international payments system. Most Russians arrive with cash or cryptocurrencies, hoping to make a quick property purchase.

Turkish banks remain reluctant to open formal bank accounts for Russian investors due to potential secondary sanctions that could be applied by the US. Turkish state lender Halkbank already faces a court case in the US for having allegedly taken part in a sanctions-busting scheme aimed at getting around American sanctions on Iran. If US sanctions enforcers once again target the Turkish banking sector, this could jeopardise foreign investors’ trust in this market.

As regards cryptocurrencies, Russian investors are more and more using them to transfer assets from Russia to Turkey and buy properties. Turkish real estate companies generally accept these transfers. Caldas and Alex Cihanoglu, a realtor from Istanbul, said that Russians were looking to convert cash into cryptocurrencies because financial transfers were viewed as increasingly complicated for Russians in Turkey. Thus, the cryptocurrency market is also likely to expand in Turkey on the back of Russian interest in Turkish real estate.
US warns of ‘profound threat’ of Putin’s efforts to deepen ties with Iran

bne IntelliNews

Russian President Vladimir Putin’s efforts to deepen ties with Iran amid the Ukraine conflict amount to a “profound threat,” US National Security Adviser Jake Sullivan said on July 13.

Sullivan’s comments come as US officials monitor what they have claimed is an Iranian plan to supply Russia with several hundred drones, including some that are weapons-capable and surveillance drones, for use in the heat of battle in Ukraine. Washington is also keenly aware that Moscow and Tehran are accelerating and building trade and investment links that will help the Kremlin counter impacts of Western sanctions imposed in response to the war. Putin is expected to visit Tehran next week where he will hold one-on-one and trilateral meetings with Iranian President Ebrahim Raisi and Turkish President Recep Tayyip Erdogan. US President Joe Biden on July 13 arrived in Tel Aviv at the start of a planned four-day trip to the Middle East taking in Israel, the occupied West Bank and Saudi Arabia. Iran is clearly high on his agenda.

Sullivan referred to the timing of the Putin trip as “interesting”.

"Russia deepening an alliance with Iran to kill Ukrainians is something that the whole world should look at and see as a profound threat," Sullivan said.

Since the US warned Iran was set to supply Russia with drones, media have attempted to get some answers from Tehran on the matter. Rome daily La Repubblica on July 13 caught up with Iran’s foreign minister Hossein Amir-Abdollahian as he paid a visit to the Italian capital. However, his comments to the newspaper, as relayed by The Associated Press, largely served to muddy the waters.

Amir-Abdollahian insisted Iran opposes Russia’s war against Ukraine, but was vague on whether Tehran’s military cooperation with Moscow would include sales of drones that could carry missiles.

The top Iranian diplomat was quoted as saying that “we are against Russia’s military attack in Ukraine”, while also observing that “we have various types of collaboration with Russia, including in the defence sector”. He then asserted that “we won’t help either of the sides involved in this war because we believe that it [the war] needs to be stopped”.

In further remarks, Amir-Abdollahian hit out at Western countries, saying their arms manufacturers want to sell the world weapons. “We will avoid any action that could lead to an escalation, but we will work to stop the war,” he concluded.

With some experts assessing that Iran is potentially only weeks away from having enough fissile material for one nuclear bomb — though weaponising it into a modern nuclear weapon might take an additional few years, or several months by some estimates — the fate of the dormant 2015 nuclear deal, or JCPOA, will also be raised by Biden in his talks during his Middle East tour.

AlJazeera on July 13 reported Iran as saying it remained committed to reviving the agreement with world powers that would curb the Iranian nuclear programme in exchange for...
the lifting of economic sanctions on Tehran, but talks on finding an agreed formula to achieve that have been deadlocked for months.

Nasser Kanani, the new spokesman for the Iranian foreign ministry, told reporters during a news conference that a time and place to continue recently launched indirect talks with the US – brokered by the EU – would “soon” be announced.

Kanani’s remarks came a day after Catherine Colonna, France’s new foreign minister, told politicians that Iran was deploying delaying tactics while pushing ahead with uranium enrichment under its nuclear programme. “The window of opportunity will close in a few weeks,” she said. “There will not be a better accord to the one which is on the table.”

One big difficulty with Iran is that should it sign up to a reinstatement of the JCPOA, Biden can give Tehran no guarantee that his successor will not unilaterally pull the US out of the multilateral deal, just as former US president Donald Trump did in May 2018, breaking international diplomatic convention, while asserting that a sanctions-led policy on Iran was the best way to achieve Washington’s aims.

In his interview with La Repubblica, Amir-Abdollahian said: “We are asking for a strong economic guarantee [as part of a return to the JCPOA]. If a Western business signs a contract with its Iranian counterpart, it must have the certainty that its project will be realised and will be able to receive compensation [if it is not realised because the US once again brings back sanctions].”

North Macedonia will hold its first intergovernmental conference (IGC) with the EU on July 19, three days after the parliament, in the absence of the opposition, gave the green light to the French proposal for lifting the Bulgarian veto on North Macedonia’s EU accession progress.

The country has been waiting for 17 years to start EU accession talks, but has been repeatedly thwarted by two of its neighbours – first Greece and lately Bulgaria – which used their positions as EU members to demand concessions from Skopje.

Despite the breakthrough, the opening of EU accession chapters is expected only after the second IGC, which will be held after North Macedonia adds ethnic Bulgarians to the constitution, one of Bulgaria’s conditions for lifting its veto. This is an unprecedented addition to EU enlargement policy.

The vote will also enable Albania, which was coupled with North Macedonia in the process, to start EU accession talks, but without conditions.

Opposition MPs boycott vote
68 MPs voted for the conclusions related to the modified French proposal, with no votes against as the opposition led by VMRO-DPMNE left the plenary session before the vote. The vote was supported by all ethnic Albanian parties.

After the parliament gave the green light, the government instantly approved the proposal.

“With this government session, we are making another historic step for our country,” said Prime Minister Dimitar Kovacevski.
The vote was held amid protests and tensions in the country as Macedonian opposition parties rejected the French proposal as harmful to the country’s national interests. They argue that it satisfies only the demands of Bulgaria.

The leader of VMRO-DPMNE, Hristijan Mickoski, held a news conference immediately after the vote, pledging that his party would never vote for constitutional changes putting ethnic Bulgarians into the constitution.

Mickoski warned that after the end of the mandate of the MPs from the ruling Social Democratic Union of Macedonia (SDSM), they will be criminally liable for betraying the country’s national interests.

North Macedonia changed its name in 2019 under the Prespa deal to solve the name dispute with Greece which allowed the country to become a Nato member in 2020, but failed to start EU accession talks at the time due to the Bulgarian veto imposed over history and language issues.

EU officials welcome vote
EU officials hailed the vote in the parliament in Skopje. EU Enlargement Commissioner Oliver Varhelyi tweeted:

“I welcome the result of today’s vote after last days of deliberate discussions in parliament giving [a] clear mandate for [the] government to start [the] 1st IGC based on the French proposal. We look forward to open accession negotiations with North Macedonia.”

President of the European Council Charles Michel said in a tweet that the vote in the assembly paves the way to hold the intergovernmental conference with North Macedonia.

“A crucial step for North Macedonia and for the EU. Our future is together and we welcome you with open arms,” Michel said.

“Congratulations to North Macedonia on the vote that now paves the way for opening the accession negotiations rapidly. It was a historic opportunity. And you seized it!” President of the European Commission Ursula von der Leyen said in a tweet.

Von der Leyen addressed North Macedonia’s MPs on July 14 urging them to vote on the proposal and seize the opportunity after being an EU candidate country for 17 years.

She assured MPs that the proposal protects the country’s interests and addresses the concerns of all sides.

“There can be no doubt that the Macedonian language is your language. And we fully respect that. That is why the revised proposal refers to the Macedonian language, without qualification by the EU. The proposal also respects your national identity,” von der Leyen said during the address.

However, just like the opposition within North Macedonia, some MEPs are not convinced.

“I am so ashamed about the EU’s continuous betrayal of North Macedonia. The words of von der Leyen cannot be sweet enough to sugarcoat this,” German MEP from the Green party, Reinhard Butikofer, tweeted on July 15.
The opinion polling data continues to look bleak for Turkey’s President Recep Tayyip Erdogan, who must face the electorate by next June at the latest.

Some 80% of Turkey’s Generation Z – those born after 2000 – say they will not vote for Erdogan’s ruling Justice and Development Party (AKP), according to a study by Gezici Research.

By next June, Gen Z will represent 11.8% of Turkey’s voting adult population.

“They do not approve of dictating, imperious or harsh language from politicians,” Gezici Research chairman and international security expert Murat Gezici told Turkish daily Cumhuriyet on July 10.

Gezici also noted that an “overwhelming majority” of young people said they would vote for the opposition’s Nation Alliance candidate if the presidential election went to a second round run-off. “Because they see the government as more oppressive and controlling,” he added.

The main constituency that will determine the outcome of the elections – in which the parliamentary and presidential contests will be held in parallel – is Gen Y. The demographic is made up of people born between 1980 and 1999 and represents 32.6% of the Turkish electorate. Gezici said it has a higher percentage of undecided voters.

“Their campaign for the opposition is making great progress,” he said. “They are following their own vice president, Muharrem Ince, who has a chance if the election goes to a second round.”

Gezici further explained to Cumhuriyet that Gezici Research assessed the current share of undecided voters as amounting to 16%, with 92.7% of these people under 40. “Out of this group, 68% live on less than 5,500 lira ($317) per month. The economic crisis is forcing a decision on the undecided, and often draws them closer to a party from the opposition front,” he said.

Of all surveyed Gen Y and Gen Z respondents, 72% said they had trouble getting by financially. Some 76% said they did not believe the economy would be fixed one year into the future. Also, 56.8% said an opposition candidate would make a better president than Erdogan, who has been Turkey’s leader for nearly two decades. A total of 43.2% said they did not have faith in the opposition either.

The sheer extent of the chronic economic crisis that has gripped Turkey for several years is illustrated by new data showing the country’s meat consumption has halved in the past five years.

Ahval summarised a report in Turkish daily Sozcu detailing how amid rampant inflation, a family of four in Turkey has reduced its annual consumption of red meat to 28 kg, from 2017’s 56 kg, according to figures from the Red Meat Industry and Producers Association (ETBIR).

Rising rates of poverty in the country have reportedly resulted in stunted development for children of low-income families.

80% of Turkey’s Gen Z tell pollster they won’t vote for Erdogan

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Amid a bitter and prolonged economic crisis, Recep Tayyip Erdogan faces a struggle to find anywhere near enough votes. / Turkish Presidency.
"Without a free Ukraine, Belarus can never be free" say hacktivists
Belarusian Cyber Partisans

Social media correspondent Dominic Culverwell

Hours after Russia launched its full-scale invasion of Ukraine on February 24, an unexpected announcement was released online: A special hacker unit called “Tactical group of Belarus” had formed and was joining the fight against Russia.

Making the announcement was a hacktivist collective called Belarusian Cyber Partisans (BCP) who emerged during Belarus’ violent protests in response to President Aleksandr Lukashenko’s fraudulent election. The group was already well established and previously worked with the investigative team Bellingcat and the Organised Crime and Corruption Reporting Project, identifying special forces and police informants working with Lukashenko’s regime as well as corrupt government officials.

On Twitter, they called for volunteers to join them in the resistance and announced a partnership with Ukrainian hackers. “Ukrainians and Belarusians have a common enemy – Putin, Kremlin, the imperial regime,” the spokesperson for the group Yuliana Shemetovets tweeted on February 24.

Although no one in the group expected Russia to launch a full-scale invasion, they had thought of possible responses in case the worst happened. From the first reports of a potential Russian attack, BCP prepared themselves alongside their hacktivist contemporaries in the Suprativ movement: Flying Storks, and People’s Self-Defence Brigade, which formed in May 2021.

BCP initially made headlines on January 24 after launching operation “Peklo”, Russian for ‘scorching heat’. They hacked the Belarusian state railway lines, obstructing the movement of Russian troops and artillery stationed in Belarus in the leadup to the Ukraine invasion. Infecting the servers, databases and workstations of Belarusian Railway with ransomware, the group demanded two things: “The release of 50 political prisoners most in need of medical care. Preventing the presence of Russian troops on the territory of Belarus.” Speaking in an interview with bne IntelliNews, the
Belarusian Cyber Partisans, via Yuliana Shemetovets, explained the reason for the January 24 attack. Although neither demand was met, the group still saw success in their action.

“The major reason for the attack was to show that Belarusians are against the presence of Russian military troops on the Belarusian territory and the potential occupation of Belarus which de-facto happened,” Shemetovets said.

“People and weapons on the ground are a decisive component and without this component, Belarusians don’t have many chances to overthrow Lukashenko”

“Another important aspect was to show that Lukashenko is not in control of the key infrastructure and cannot be trusted by anyone, even Putin.” The latter point was emphasised even further when BCP discovered the government had been wiretapping conversations from the Russian embassy in Belarus. They released the secretly recorded conversations last month, revealing that Minsk had been spying on its closest ally.

“Even if BCP created some unpleasant conversations and the increase in distrust between Belarusian and Russian officials, BCP would consider it a successful result,” explained Shemetovets. “It looks like Putin is doing everything possible to drag Belarus into this meaningless war, and we need to show that the relationship between Belarusian and Russian officials is not that smooth.” The attacks have certainly got under the skin of Lukashenko who claimed in March that cyberweapons are “more terrifying” than nuclear weapons and require more attention.

“The clown [Lukashenko] is once again complaining that he can’t do anything about our attacks,” the group posted to Telegram in response, “which means we’re on the right track and continue to shake up the regime until our overall victory.” Speaking to bne IntelliNews,

Shemetovets agreed that Lukashenko’s reaction was proof that the attacks reached their target, creating “a lot of damage for the regime”. Nevertheless, BCP realises that cyberweapons can only achieve so much in the fight against “a strong oppressive dictatorship regime”.

“People and weapons on the ground are a decisive component and without this component, Belarusians don’t have many chances to overthrow Lukashenko,” she said.

Although the war in Ukraine has hallmarks of an archaic 20th-century war, with a crazed despot invading a neighbouring country, the involvement of militant independent hacktivists is something completely new. The full impact of guerrilla cyber activists is yet to be seen.

“Cyber operations can be very successful, and in the case of Cyber Partisans, we can see how much they can achieve – from uncovering the crimes that the regime committed to disrupting the movement of Russian troops and helping find spies,” said Shemetovets.

“However, physical impact operations are much more influential at the end of the day. Especially if we are talking about war conflicts (...) The technology isn’t yet there to draw all the resources from classic warfare operations.” As such, BCP has collaborated with groups on the ground, namely the “Community of Belarusian Railway Workers”. Enacting both cyberattacks and physical “rail sabotage activities on the ground”, they brought military trains carrying equipment and ammunition of Russian troops to a halt on March 6.

Moreover, BCP also communicate with Ukrainian hacktivists, forming a volunteer group called the Kastu Kalino ski Regiment. Here important information is shared, such as the location of Russian or Belarusian troops.

But another hurdle lies in the lack of funding. Unlike the official armed forces, independent hackers don’t have a prodigious flow of money, limiting their capabilities.

“Hacktivists in general are not paid or supported by any state agencies (of course, if we are talking about non-state actors like BCP) and it’s hard to constantly show meaningful results,” said Shemetovets.

Nevertheless, their actions have inspired more and more hackers to join the Cyber Partisans, with the number of participants doubling since the start of the war. Currently around 60 people are part of the team, although

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**Project expenses as of 11 March 2022**

[Graph showing expenses distribution]
Theo Normanton

The pattern of onshoring, nearshoring and import substitution established during the pandemic accelerated dramatically after Russia sent troops into Ukraine. Six EU sanctions packages followed, and over 200 foreign companies exited the Russian market.

The group all centres around their desire for an independent Belarus, politically severed from Russia, which BCP condemns as an “imperialist state”.

“Putin and his cronies don’t consider Belarusians as a nation and won’t let Belarus outside of the Russian sphere of interest,” Shemetovets explains. “We still firmly believe that Belarusians have to make a civilisation choice and come back to the European family.” This line echoes Putin’s justification for the invasion of Ukraine, emphasising just how intertwined the Belarusian and Ukrainian fight is.

“Without a free Ukraine, there is no chance for a free independent Belarus. That’s why the BCP are now doing everything possible to help Ukrainians,” she added.

Speaking on the future of Belarus and its possible direct involvement in the war, Shemetovets believes that the decision will be a costly and unpopular one for Lukashenko.

“Belarusians don’t support the involvement of Belarusian soldiers in this war, even Lukashenko’s supporters,” Shemetovets stated.

Russia's metallurgical companies turned to China after Europe banned imports of Russian steel slab. Fastmarkets reports that Russia exported 1.3mn tonnes of steel slab to European countries in 2020. With this market gone, steel companies Severstal, NLMK and Evraz re-directed exports to emerging markets. The 400,000 tonnes of semi-finished steel products sent to China after Europe banned imports of Russian steel slab.

Meanwhile, China and India have overtaken Germany as the biggest buyers of Russian crude oil. Russia exported a record 8.42mn tonnes of discounted crude oil to China in May – almost 2mn barrels per day (bpd), which is an increase of 28% relative to April. Russia said last month it expects up to RUB1 trillion ($14.4bn) in additional oil and gas revenues in 2022. India and China between them are purchasing enough Russian oil to compensate for the loss in western custom.

**New markets**

The phenomenon is not limited to energy giants. Russian companies across the board have been redirecting trade flows in response to dwindling import demand in Europe.

China is one of the most significant new markets for Russian business. Russian trade with its southeastern neighbour grew by 26% from January to April, exceeding $50bn per year, according to data published by Chinese customs.

China and Russia hope to grow that figure further – to a whopping $200bn per year by the end of 2024.

By selling their products at a significant discount relative to the other regional steel producers (such as Malaysia and Indonesia), the Russian companies hope to establish a foothold in the Chinese market and cultivate relationships with new clients.

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Petrochemicals manufacturer Sibur provides another striking example. More than 20% of Sibur’s products used to be exported to Europe, which was the company’s second largest single market beside Russia. Sibur goods went primarily to Eastern Europe, France, Germany and the Netherlands. Now, the share of Sibur’s sales going to Russia’s western neighbours has been reduced almost to zero, while its Asian exports have ballooned. Forced to re-shape its trade flows, the company now plans to increase exports to Asia significantly this year. The company will most likely return to the market if sanctions are lifted, but for now some European companies will not be receiving products from Sibur.

Meanwhile, European imports of synthetic rubber and polymers from Russia have dropped steeply, as have some of the components needed to manufacture them such as naphtha and LPG. Analysts are predicting shortages of both goods unless European companies can find new suppliers to make up the shortfall, but specialist materials like these can be notoriously difficult to source at short notice.

Sibur’s case is a particularly effective litmus test because the company has not been sanctioned. It is therefore a useful indication of the general flow of Russian goods away from Europe and towards the Global South.

Sibur may well be ahead of the curve here, as it has been working with China for more than 10 years, allowing it to adapt more quickly than other Russian companies. The Chinese direction was set by former CEO Dmitry Konov, who left the company this year amid Western sanctions against Russian officials and businessmen. Educated in Switzerland, Konov has a reputation for striking up foreign partnerships and championing an outward-looking management style. His strategy of increasing resilience by orientating trade flows towards developing markets has proved very perceptive.

If Sibur is indeed an early indicator, and other Russian companies follow its pivot to the Global South, the implications for world trade could be significant.

Speaking at a business forum of leaders from BRICS countries in June (Brazil, Russia, India, China and South Africa), Russian President Vladimir Putin said that “Russian business circles are activating their contacts with the business communities of the BRICS countries… The volumes of Russian oil delivered to China and India are growing noticeably. Collaboration in the sphere of agriculture is developing dynamically. Russia is exporting significant volumes of fertilisers to BRICS states. Russian IT companies are expanding their activities in India and South Africa…”

As Russian producers forge new trading partnerships and strengthen existing ones, business confidence in June reached its highest level since February. Activity in Russia’s manufacturing sector also began expanding again last month.

Where next?
There can be no question that European sanctions are contributing to adverse effects on the Russian economy, and a deep recession is on the way. Russia’s Ministry of Economic Development estimated that growth was down 4.3% in May 2022. And transactions through the Central Bank of Russia’s payments system were down 7.2% in June compared with the previous quarter – a reliable sign of economic decline.

But it is also clear that Russian companies are flexible enough to look for new trading partners, and that many of them have long been geared up to do just that.

On the other hand, European industry is looking increasingly anaemic without the supplies of Russian raw materials which it had got used to. The EU is the world’s largest importer of natural gas, and some very industrialised countries such as Germany rely heavily on Russian commodities for their export-based economic model.

With benchmark European gas prices around five times higher than they were a year ago, Europe is reeling. The shock has contributed to a steady devaluation of the euro, which is now at its weakest level in twenty years.

WTO forecasts for merchandise trade volumes in 2022-3 show “Europe is now expected to underperform on the import side”. The continent is set to experience shortages of some of the raw materials and consumables provided chiefly by Russia, including grain, energy and rare metals like palladium.

European companies must now show that they are as resilient as their Russian counterparts, which are forging new partnerships and entering new markets. Africa could be an invaluable partner in this undertaking.

Italian Prime Minister Mario Draghi has signed a new gas supply deal with Algeria to increase gas imports by around 40%. And British energy giant BP is looking to new projects in Senegal and Mauritania to help fill the gap created when it left the Russian gas market.
West African LNG supplier Nigeria LNG is looking to boost gas production from the end of the year in order to help meet increased demand from the likes of France and Portugal.

The Middle East will be another important player in the bid to weaken Europe off Russian commodities. US President Joe Biden recently returned from a visit to the region, ostensibly hoping to improve trading relations with Saudi Arabia as well as to promote the US’ geopolitical objectives.

In an article for the Washington Post, Biden wrote that he was going to the Middle East because the region’s “energy resources are vital for mitigating the impact on global supplies of Russia’s war in Ukraine.”

Biden added that Saudi officials are “working with my experts to help stabilise oil markets with other OPEC producers.”

Qatar, which currently supplies around 30% of its gas to the European Union, has so far been the only Gulf state to indicate that it is willing to increase supplies to Europe to help cover the shortfall. But much more can be done. Israel alone could provide Europe with 10% of the gas currently coming from Russia. The Middle East’s steel market, meanwhile, can churn out about 16 times the annual volume formerly supplied to the EU by Russia.

Russian industry has shown that the decline in trade relations between Russia and Europe need not be a death knell. European companies must demonstrate the same versatility if the West is to successfully re-orientate its model of trade.

Basic facts from the Middle East:

- Qatar might double its gas exports to Europe
- Israel can provide Europe with 16% of Russia’s gas
- Iran is looking to exploit Middle East vacuum
- Middle East can supply 20% of world’s gas
- Qatar could replace Russia as world’s top gas supplier
- Gas demand to increase by 50% in 2030

**Ukraine Reconstruction Conference launches new platform to rebuild the war-torn country**

Politicians and top private sector leaders met in Switzerland on July 4 to discuss ways to create a new platform that would amount to a “Marshall Plan” for Ukraine’s reconstruction.

“One month ago, a young Ukrainian hero died on the battlefield, as he fought for the future of his country. His name was Roman Ratushnyi, and he would have turned 25 tomorrow. Roman belonged to a new generation of young Ukrainians. As a teenager, he was among the first protesters on the Maidan, demonstrating for Europe and for democracy. And ever since, Roman never stopped fighting for a better Ukraine,” European Commission President Ursula von der Leyen said in her remarks at the opening of the conference.

“Roman’s life was taken too early, but his dream lives on. The dream of a new Ukraine, not only free, democratic and European, but also green and prosperous. A place that Ukraine’s golden generation can finally feel their own. It is this dream that brings us here today.”

Ukraine’s Prime Minister Denys Shmyhal said the cost of reconstruction would run to $750bn and said Russia’s frozen Central Bank of Russia (CBR) reserves and the assets of the oligarchs should be used to fund the programme.

Von der Leyen has earlier suggested that the Russian central bank funds be used to fund reconstruction but has always been careful to add “if possible.”

The problem is that the CBR’s fund have only been frozen and not seized. Technically the money still belongs to the Russian state. Countries cannot simple appropriate the property of another country unless they are at war. And the West and Nato have gone out of their way to say that they are not at war with Russia for fear of reprisals and sparking WWII.

Experts say that appropriating Russia’s money and assets is a legal minefield and would be difficult to justify in courts. Many of the oligarchs have also challenged sanctions imposed on them as being outside the law and politically motivated.

The amount of damage done to Ukraine by Russia remains a matter of debate. The Kyiv School of Economics (KSE) has estimated the cost of the war so far at $600bn, which includes lost revenue, investment and opportunity costs in addition to the cost of the physical destruction of real estate, infrastructure and other fixed assets worth $104bn, according to KSE.

KSE estimate that at least 45mn square metres of housing, 256 enterprises, 656 medical institutions, and 1,177 educational institutions have been damaged, destroyed or seized.

Former Finance Minister Natalie Jaresko put the figure even higher at $1 trillion.

The amount of money needed for a Marshall Plan is also a matter of debate. The original Marshall Plan to rebuild German after WWII was worth $160bn in today’s dollars, liberal Russian economist and former head of the New Economic School Sergei Guriev told bne IntelliNews in an interview. He and his colleague estimate that Ukraine will need “between $250bn and $500bn” for a modern day Marshall Plan.

“The things that have been destroyed are simply more valuable today than after the war. Technology has come on and it will be more expensive to rebuild,” Guriev told bne IntelliNews on the sidelines of the EBRD annual meeting earlier this year.

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Platform for reconstruction
The two-day conference in the picturesque southern Swiss city of Lugano had been planned well before Russia’s invasion and originally was to discuss Ukraine’s reform programme.

The purpose of the conference was not to raise money, but to lay the groundwork for a reconstruction plan, should the situation in Ukraine normalise to the point where work can begin.

“This platform will be the place to shape strategic orientations and priorities for our common work to focus on future-proof reconstruction moving towards climate neutrality, embracing the digital decade, building a social market economy that leaves no one behind, ensuring security and defence, and all of it embedded in good governance,” von der Leyen said. “Ukraine will be in the lead. Because our action will be driven by the aspirations and the desires of the Ukrainian people, that is so important.”

Shmyhal made the trip in person and was accompanied by five other ministers. Foreign Minister Dmytro Kuleba reportedly had to cancel at the last moment due to illness.

All in all, around 1,000 people participated in the conference, including von der Leyen, who has distinguished herself as one of Ukraine’s most ardent and effective supporters in Europe.

Full reconstruction can only begin after the war is over, but Robert Mardini, director-general of the International Committee of the Red Cross, told the RTS broadcaster that some reconstruction work has to begin while the war is still raging to house the displaced and those who have had their homes destroyed.

The effort will require “colossal investments”, Zelenskiy acknowledged at the weekend.

MDBs
The Multilateral Development Banks (MDBs) have all rallied to Ukraine’s aid and will be important vehicles of investment and technical assistance.

The European Investment Bank (EIB) has announced the creation of a new EU-Ukraine Gateway Trust Fund to support urgent and long-term investing in Ukraine’s reconstruction. Already the EIB has committed €4.7bn for Ukraine’s urgent liquidity needs and support for Ukrainian refugees and more will be made available.

In early March 2022 the EIB deployed €668mn in financing for the Ukrainian government to meet urgent liquidity needs. The EIB also contributed a €4bn credit line for municipalities in Ukraine’s neighbouring EU countries who received refugees. Of the total, €2bn was allocated to Poland, the country with the largest number of refugees from Ukraine.

President of the European Commission Ursula Von der Leyen together with Swiss President Ignazio Cassis and Ukrainian Prime Minister Denys Shmyhal meet in Lugano at the start of the Ukraine Reconstruction Conference. Wiki.

President of the European Bank for Reconstruction and Development (EBRD) Odile Renaud-Basso was also present and her bank has already started work in Ukraine providing funding and assistance to the early reconstruction work.

Also present were Secretary Generals of the World Health Organization (WHO) Tedros Adhanom Ghebreyesus, the Organisation for Economic Co-operation and Development (OECD) Mathias Cormann and the Council of Europe Marija Pejcinovic Buric, who all participated in the Ukraine Recovery Conference.

Ukraine has presented a $750bn rebuilding plan. In Lugano, Switzerland, Ukraine introduced a post-war recovery plan with a cost of more than $750bn on July 4, which will include 850 projects to rebuild the country, announced the Lugano conference’s website.

The program is planned for 10 years, from 2023 to 2032, and will take place in two phases. The first will last from 2023-2025, in which most of the planned projects, 580, are to be implemented. These three years will cost more than $350bn.

The second phase will contain fewer projects but require more financing - more than $400bn. During these ten years, the plan stipulates that the Ukrainian economy will grow by 7% annually. The most expensive programs are:

- the restoration and modernization of housing and the infrastructure in all regions will require $150-$250bn;
- the expansion and integration of logistics with the EU will cost $120-$150bn;
- providing for energy independence and the green conversion will cost $150bn;
- macro-financial stability will require $60–$80bn;
- ensuring competitive access to capital requires $75bn;
- developing value-added sectors of the economy will cost $50bn; and
- spending in the defence sector will total $50bn.
Islamic State threatens Central Asian and Chinese ventures in Afghanistan

Lucas Webber for Eurasianet

Ever since they took control of Kabul last summer, the Taliban have sought to assure neighbouring countries that Afghanistan is open for business and that they can protect investments.

Islamic State is making that sales pitch harder.

Take Tashkent’s ambition to build a railway across Afghanistan that would connect Uzbekistan to ports in Pakistan and link Central Asia to new markets: In recent months, top officials from Afghanistan and Uzbekistan have discussed moving forward with a survey. The World Bank has reportedly expressed interest. The Taliban has promised security. And Islamic State

Khorasan Province (ISKP) – the terror group’s local branch, which has claimed a volley of atrocities targeting civilians across Afghanistan in the last year – has vowed to kill anyone working on it.

ISKP sees the railway as a devious scheme by non-Muslims to drag Afghanistan into the modern world. It “is the road by which the apostates plan to bring their democracy,” declared an April message on the Voice of Khorasan (Khorasan Ovozi), an Uzbek-language Telegram channel. “The caliphate’s mujahideen will never, under any circumstances, allow the enemies of Islam to realize this insidious plan.”

ISKP’s Al-Azaim Media Foundation and Voice of Khorasan released two Uzbek audio statements celebrating an attack that month on the Uzbek border and disparaging the rail project.

ISKP has been fighting the Taliban since around 2015. As part of its recruiting pitch, ideologues argue that the Taliban

“ISKP sees the railway as a devious scheme by non-Muslims to drag Afghanistan into the modern world”
are not true Muslims. ISKP alleges that
the new rulers in Kabul – the “Taliban
2.0” – have now cooked up, in concert
with Tashkent, “a secret agreement
against Islam.”

The pro-ISKP Tavhid Khabarlari
channel has likewise alleged the Uzbek
government is using the Taliban as
proxies to realise its railway project
and dreams of export routes to the
subcontinent.

It is not only the trans-Afghanistan
railway in Islamic State’s crosshairs.

ISKP-linked social media accounts
are pouring scorn on the prospective
Turkmenistan-Afghanistan-Pakistan-
India (TAPI) gas pipeline project. For
example, pro-IS propaganda outlet Anfaal
Media last November said the Taliban,
by working with foreigners to resurrect
the decades-old plan, was “protecting
the interests of the enemies of Allah in
Afghanistan.” The Taliban, cognizant of
the potential risk posed by the likes of the
ISKP, then promised to provide 30,000
troops to guard the pipeline.

While the leaders of Tajikistan and
Uzbekistan receive the lion’s share
of abuse on these platforms, Tavhid
Khabarlari last month took aim at
Turkmenistan, saying in a June 23 post

that the authoritarian government in
Ashgabat must be destroyed. In case
there was any doubt, it published
doctored images of masked jihadists
killing the president.

The Taliban’s seizure of power last year
deepened Afghanistan’s humanitarian
crisis and fostered a need for new partners.
China, with its wealth and influence, is a
natural and obvious source of investment

and aid. The Asian giant, however, does
not simply act as a charity. Beijing and
Chinese firms are proceeding with caution.

Meanwhile, ISKP has significantly
ramped up its anti-China propaganda.

The June 17 issue of Voice of Khorasan
magazine reprised familiar concerns
about Beijing’s crackdown on Muslim
minority groups in Xinjiang and blasted
the Taliban for befriending such a state,
likening the relationship to that of
master and servant.

Sights on the Middle Kingdom

“The Islamic State’s warriors will
attack the modern cities of China to
avenge the Uyghur Muslims,” Voice of
Khorasan declared. Similarly, the May
issue of ISKP’s new Pashto language-
magazine, Khorasan Ghag, promised
attacks on China and Chinese interests
in Afghanistan.

Unlike Turkmenistan and Uzbekistan,
though, China is a harder target. The
country is protected by a robust security
apparatus and natural borders in the
high Pamir and Tien Shan mountains.
So ISKP seems to be searching for local
Chinese targets. The pro-IS Anfaal
Media, for instance, in November
pointed to China’s involvement with
the copper mine at Mes Aynak, listing
the project among “the interests of
enemies of Allah in Afghanistan.”

ISKP knows that Taliban rule is weak.
Its strategy includes both kinetic attacks
– witness the June 18 assault on a Sikh
temple in Kabul, which ISKP claimed
had been carried out by a Tajik suicide
bomber – and psychological warfare in
diverse online networks.

The Taliban have promised investors
peace. Any attack on the Taliban’s nascent
international partnerships would further
isolate the war-racked country.

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This article originally appeared on
Eurasianet.
Mongolia celebrates the return of Naadam

Antonio Graceffo

“Mongolians should be grateful for their history... it’s a resource of who we are, and what we went through over the years. I believe all people feel that Naadam is important.”

Davaasuren, a 25-year-old monk living at Gandagchilen Monastery.

Mongolia’s Naadam festival, a UNESCO-recognised Intangible Heritage asset, commemorates the “three sports of men”: archery, horseracing and traditional Bökh wrestling. Initiated by Genghis Khan in 1206, it became an official holiday in 1922 and has been held almost every year since – until Covid-19 lockdowns in 2020 and 2021 derailed the tradition. In 2020, Naadam was held as usual in the provinces, but the national Naadam event put on in the capital city of Ulaanbaatar was a closed event with few spectators. Most Mongolians had to watch it on TV. In 2021, Naadam was cancelled completely.

Naadam is arguably one of the largest, yet least known sporting events in the world. It is celebrated across the nation and encompasses tens of thousands of athletes at the district, provincial, and national levels. It is also a time for Mongolians to wear traditional dress, and for city-dwellers to return to their ancestral homes in the countryside. One wrestler explained that Naadam is “an inoculation against modernisation”.

When Naadam was cancelled in 2021, hundreds of protesters on horseback and dressed in traditional deel descended on the capital to demonstrate in front of the parliament house. Some felt that Naadam should be held because of its great importance as a continuation of time-honoured customs. Wrestlers, archers and horse racers also wanted the festival to be held because they are dependent on Naadam to earn money or to pick up prestigious rankings which can have a major impact on their lives. Despite Naadam’s importance, there was much online criticism directed at the protesters, suggesting that the cancellation was necessary to prevent the spread of Covid, and that the government could better spend the Naadam budget on Covid relief efforts.

Some of the support for the cancellation of Naadam in 2021 also came from the fact that the 2020 event had cost a great deal of money even though it was only enjoyed by the elites, their families and guests. Some people felt that if the common people were not permitted to attend, it was better to cancel the event rather than use public funds to benefit a select few.

This year, Naadam will be held from July 11-15. After two years without a full Naadam, one might speculate that people had learned to live without it and that enthusiasm for the festival may have waned. At the same time, Mongolia is modernising and globalising quickly with nearly 69% of the population already living in cities. This raises the questions of whether Naadam is largely a rural phenomenon and if city dwellers, with higher levels of education and incomes, and as citizens less likely to ride horses, are still interested in Naadam.

From left to right: Naadam festival visitors and participants gathering for the big occasion (Fan111, cc-by-sa 3.0). Two young riders race cross the finish line in a Nadaam horse race in Mandalgovi (Marc Fischer, cc-by-sa 2.0). Archery at Naadam may be celebrated as one of the ‘three sports of men’, but there are archery challenges for women too (Zoharby, cc-by-sa 3.0).
Interviews with a cross-section of people ranging from young working professionals to retirees, city inhabitants, countryside people, wrestlers, archers and monks were conducted on the matter. The conclusion was that even though interviewees differed to some degree in their personal interpretation of the importance of Naadam, they all not only supported Naadam, but assumed everyone else did as well. This demonstrates how Naadam is integral to Mongolian culture.

Nandinsuvd Batchimeg, a 22-year-old accountant in Ulaanbaatar, believed that all city people “feel that Naadam is important”. Sixty-three-year-old retiree Otgonbayar similarly said: “Every city person attaches importance to Naadam. They also go to their birthplace or their family in the countryside [during the event].”

A 45-year-old school teacher in the province of Uvs explained: “When I was living in Ulaanbaatar from 2006 to 2007, I felt those city people also respect their culture, history and traditions as we do. Their lifestyle, vision, perspective and culture could be a little bit different than ours; however, we live in the same country. I think everyone feels that Naadam is important in Mongolia.” She went on to comment on the unifying nature of Naadam as everyone who speaks the language becomes one group to enjoy Naadam every year, regardless of who they are or what they do for a living.

Some Mongolians see participating in Naadam as a preservation and transmission of culture.

Batbileg, a 39-year-old wrestler holding the title “Lion of Aimag”, said: “You should always know your history, culture, and tradition if you identify as a Mongolian. No matter who you are or where you live, people feel Naadam or any other holiday is important since it is made of our history and culture over the years.”

When asked about the cultural importance of Naadam, the respondents provided somewhat differing answers, which provided insights into the nation’s culture.

Forty-five-year-old archer Boldbaatar regards Naadam as a commemoration of the strength of the ancestors, and an opportunity for him to continue an ancient tradition. “Because of Naadam, I’ve realised how strong our elders were, and we have so many important things to respect. Naadam made me an official archer.”

Naadam is also a way of educating the next generation of Mongolians about their culture and heritage according to Urin Baasansuren, a 56-year-old retired school teacher. "Naadam plays a huge role in teaching the young generation about our history because it takes place on Revolution Day [commemorating 11 July 1921], which commemorates independence from Manchu (now part of China). Secondly, the three games of men show our nomadic culture from the Chingis Khan era to the present which is an important part of our nation.”

The festival holds patriotic and historical importance for some as well.
Independence is an important issue for Mongolians who do not like the fact that many westerners do not distinguish between the independent Republic of Mongolia and Inner Mongolia, a province of China. Additionally, the partition of Mongolia, with the southern half being co-opted by China, is a sore spot for many.

Twenty-two-year-old-accountant Nandinsuvd Batchimeg who works in Ulaanbaatar remarked: “Naadam shows the world that we are an independent country. When I watch the opening ceremony of Naadam at 9 am, it really makes me proud of our culture, history, and tradition. Even though there are many issues in Mongolia, I will always love my country. Because this place gives me a place to live, a place to express my own opinions freely without government interference.” Mongolians are aware of the cultural crackdown in Inner Mongolia carried out by the Chinese Communist Party to align everyone to Han Chinese culture, and many are grateful to live in Mongolia where the language and culture continue to flourish.

Several of the interviewees also mentioned the fact that Naadam was a way of showing Mongolia to tourists and to the outside world.

A twenty-eight-year-old monk from Gandagchilen Monastery named Rinchenpuntsag Odjugder remembered the religious significance he and his parents attached to Naadam when he was a child. "When I was young, I always used to go to Gandantegchilen Monastery with my parents to pray and feed the doves there during the Naadam and Lunar New Year. It’s one of the cultural significances that I feel strongly about." But he also stressed the importance of Mongolia being a free country. “Moreover, Naadam shows us how we are lucky to identify ourselves as an independent country. There are many countries that are not able to call themselves independent countries, as we know. When I watch the opening ceremony of Naadam, it makes me cry, proud of the history for a very short time.”

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From left to right: A Naadam ceremony at the National Sports Stadium in Ulaanbaatar [Vidor, wikil]. For Mongolians, Naadam draws its strength from tapping into ancient tradition [Thomas Voekler, cc-by-3.0].
Iran capable of making nuclear weapon declares adviser to supreme leader

bne IntelliNews

Iran is capable of making a nuclear weapon but a decision on whether to do so has not yet been made, a senior adviser to Iranian Supreme Leader Ayatollah Ali Khamenei said on July 17.

Kamal Kharrazi's comments to Al-Jazeera TV on July 17 came as US President Joe Biden pledged on a trip to Israel and Saudi Arabia that Washington would prevent Iran from "acquiring a nuclear weapon" and ahead of an expected visit to Tehran by Russian President Vladimir Putin.

Radio Farda described the comments made by Kharrazi, head of Iran's Strategic Council on Foreign Relations (SCFR), as a rare mention that Tehran could have an interest in such arms. Iran has long denied it has ambitions to acquire or develop nuclear weapons, saying its nuclear development programme is strictly for civilian purposes.

"In a few days we were able to enrich uranium up to 60-percent and we can easily produce 90-percent enriched uranium... Iran has the technical means to produce a nuclear bomb but there has been no decision by Iran to build one," Kharrazi said.

Under the 2015 nuclear deal, or JCPOA – which has been increasingly ignored by Iran since former US president Donald Trump unilaterally walked out of the multilateral accord four years ago and reimposed an Iran policy based on heavy sanctions – Iran is not supposed to enrich uranium beyond 3.67%. Uranium enriched to 90% is suitable for a nuclear bomb.

Israel has threatened to attack Iran's nuclear sites if Tehran's nuclear programme is not contained through diplomacy. Biden on his Middle East tour said he would only authorise military action against Iran to stop it obtaining a nuclear weapon as a last resort.

Russia, as a major power signatory to the JCPOA, has said little about the deadlocked negotiations to reinstate the agreement in recent weeks, but its official position remains that it would like to see the deal revived. The matter may come up this week in discussions between Putin and Iranian counterpart Ebrahim Raisi.

Analysts will also be studying the visit for any signs that, as has been claimed by the White House, Iran is preparing to provide Russia with several hundred drones – some of which would be combat-capable – for use in its war in Ukraine.

To back up its claims, the Biden administration has released what it says is intelligence showing how Russian officials recently visited an airfield in Iran to see unmanned, weaponised aerial vehicles.

The White House said Iranian officials displayed the drones to Russian officials at Kashan Airfield, in central Iran, on June 8 and July 15. It released satellite imagery purporting to show Iranian Shahed-191 and Shahed-129 drones in flight and on show at the airfield with a Russian transport plane nearby.

“This suggests ongoing Russian interest in acquiring Iranian attack-capable UAVs," said White House national security adviser Jake Sullivan.

On July 15, Iranian Foreign Minister Hossein Amir-Abdollahian told his Ukrainian counterpart, Dmytro Kuleba, by phone that reports of Iranian drones bound for Russia were "baseless."

"We oppose any move that could lead to continuation and intensifying conflicts," he said.

"In a few days we were able to enrich uranium up to 60-percent and we can easily produce 90-percent enriched uranium"
What Karakalpakstan shows us about “New Uzbekistan”

Ivan Kłyszczy in Tartu

Karakalpakstan’s dramatic protests of July 1 thrust international attention on Uzbekistan’s sole de jure autonomous territory. The publication of Tashkent’s proposed changes to the country’s constitution prompted unprecedented popular mobilisation in Nukus. These amendments would have severely diminished Karakalpakstan’s already narrow autonomy, including the symbolically important right to secede.

The protests and the ensuing crackdown left eighteen dead and over five hundred detained according to the authorities. Uzbekistan’s president, Shavkat Mirziyoyev, announced after the violence that the amendments on Karakalpakstan will not go forward after all.

These events drew new attention to the ongoing process of constitutional reform initiated by Mirziyoyev. Announced in his November 9 re-election victory speech, Mirziyoyev stated that the constitutional amendments are intended to “enhance” the country’s Basic Law in the service of “New Uzbekistan”.

Up until recently, only imprecise points on the substance of the amendments were offered, such as rendering “society” the “initiator of reform”, “enhancing” the role of the mahalla committees (neighbourhood-level political organisations), and centering the family and “traditional human values”.

Later Mirziyoyev said that the changes are meant to render the constitution the “reliable guarantor” of the country’s development and to put human dignity “at the forefront of transformations in all areas”.

Uzbek authorities have been seeking suggestions from the public and plan to put the final version of the amendments to a referendum. Indeed, the constitutional reform commission frames the amendment process as a participatory one and not a top-down imposition.

Why is Mirziyoyev pursuing this constitutional reform now? The timing might seem off for tinkering with the constitution while several crises accumulate inside and outside Uzbekistan.

The constitutional amendments need to be understood in the broader context of Mirziyoyev’s chosen governing strategy. Drawing from the Nazarbayev example – himself inspired by Lee Kwan Yew’s Singapore – Mirziyoyev has sought to legitimise his rule through economic growth and improving
living standards. “Reform” has become the keyword for his regime consolidation strategy ever since.

Launching the reform programme shortly after becoming president, Mirziyoyev has brought change to many areas of Uzbek life. Under the slogan of “New Uzbekistan”, this modernization or “upgrading” of Uzbekistan’s authoritarian government has hinged on marginal improvements in social and political rights, and broad economic transformations.

Changes in the political sphere have been few but substantive. Repression has been eased. New channels of communication with the population have been opened, facilitating contacts between local and regional administrators with their constituents. The country has re-engaged with international media and there have been modest improvements in freedom of expression. A plan to allow NGOs to operate in the country is in the works.

Where changes have been more substantive is in the economy. Liberalisation, foreign investment, connectivity and privatisation have moved the country away from Karimov’s model of Soviet-style economic planning.

Changes are many. Uzbekistan’s currency, the som, was made fully convertible. Foreign retailers have been steadily opening new branches in Uzbekistan. Travel to and from Uzbekistan, for business and leisure, has become much easier; the exit visa regime was abolished, visa-free entry has expanded and new border crossings were opened.

Foreign investment has been facilitated by good relations with partners such as China and Russia. In China’s case, the number of Uzbek firms with Chinese capital nearly trebled between 2016 and 2019.

Generally, the regime has become more media savvy. Attracting international investment and tourism necessitated improving Uzbekistan’s image from the lows of the 2005 Andijan massacre. Since 2016, international media has returned to the country. Most recently, Tashkent hired several lobbying firms in Washington DC to capitalise on the goodwill earned after the Taliban took Kabul over in August 2021.

The opening up of Uzbekistan’s economy and the end to government-mandated forced labour in cotton harvesting made Uzbekistan “country of the year” for The Economist in 2019.

The COVID-19 era threw many obstacles at this reform project. Critically, the pandemic disrupted the fast GDP growth needed for the reform agenda to succeed. After a strong 2021 rebound, Russia’s full-scale invasion of Ukraine and its economic fallout risks 2022 being a repeat of 2020 when GDP grew at a sluggish 1.9 per cent.

The May 2020 Sardoba dam collapse produced over a billion USD in damages and highlighted the pervasive nature of corruption in the country.

Since the August 2021 Taliban takeover of Afghanistan, the threat of violence coming from the south has materialised many times. This happened most recently in the shape of cross-border rocket attacks against Uzbekistan’s Termez town. The security threat from Afghanistan is in particular sensitive as Karimov frequently justified his brutal regime on security grounds.

Tashkent’s responses to these challenges have highlighted the differences between Karimov’s and Mirziyoyev’s Uzbekistan. But some things have not changed. Namely, the country’s institutions offer no checks on presidential power.

The legislative branch of power is yet to leave its Karimov-era rubber-stamping function. There is no political pluralism with opposition operating underground only.

The press is far from incarnating a fourth estate. Incidents such as those at Sardoba in 2020 and Nukus in 2022 saw the intimidation of journalists covering the events.

Unimpeded, both the reform process and the recent constitutional amendments were initiated by Mirziyoyev. The reforms are passed mostly by presidential decree.

The constitutional amendments released reflect this trend. Shutting down Karakalpakstan’s autonomy would amount to dismantling one of the few institutional barriers to Tashkent’s authority. (Improving inter-ethnic relations was listed as one of the points guiding the amendments.) The amendments would also lengthen the presidential term duration from five to seven years.

Crucially, the constitutional amendments would effectively “reset” Mirziyoyev’s tenure, allowing him to follow in the footsteps of Karimov and avoid constitutional term limits.

Presidential power is not fully unconstrained. The fact that Mirziyoyev pulled back from closing down Karakalpakstan’s autonomy shows that Tashkent is responsive to pressure. But the centrality of the president’s decision underscores again the high degree of regime personalisation in Uzbekistan.

As the population faces rising inflation and unemployment, Mirziyoyev’s bet on growing prosperity for the continuation of his regime faces increased uncertainty.

Empowering institutions capable of checking executive authority could bring Tashkent the legitimacy it needs while economic growth is unavailable. Otherwise, checks to Mirziyoyev’s authority will continue to emerge in the form of protests with destabilising consequences.

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Desperate times require desperate measures. All available means of financing must be mobilised. The NBU is in the thick of this process.

To repel Russia’s military aggression, the NBU has deployed the monetary financing of the state budget deficit, providing funding for critical government expenditures in limited amounts. This has made it possible to support Ukraine’s defence capabilities and ensure the uninterrupted operation of critical infrastructure and the public finance system overall.

Had the NBU, in this time of hardship, decided against financing the budget deficit, the state’s financial system could have come to a halt.

Monetary financing, however, is an option that can buy Ukraine some time but that cannot resolve its economic and budgetary problems. Yet the government has actually been increasingly relying on the NBU to issue money to meet the budget’s needs, and this type of financing has gradually turned into the main source of covering the budget deficit.

The monetary financing of the budget deficit will not stabilise the economy in the long run. We should seek other ways to minimise the fallout from the war.

At the onset of the full-scale war, Ukraine’s only option was to let the NBU conduct the monetary financing of the state budget deficit so that the country’s critical needs could be met.

Compared to other ways of meeting budget objectives, the printing of money is a rapid response that makes the burden of the war easier for the people and businesses – in the short run.

In the long term, however, taking the monetary financing approach cannot keep the economy afloat. To mitigate the adverse economic and social consequences of the war, the authorities should use methods that optimise the state’s finances.

**Time is of the essence**

As Russia unleashed its full-scale invasion of Ukraine, a combination of factors expanded Ukraine’s budget deficit: Tax revenues decreased due to the physical destruction of enterprises and the occupation of territories, the disruption of production and logistics chains, and a drop in economic activity, income and consumption.

Significant defence, humanitarian and social needs led to an increase in budget expenditures.

Initiatives to reduce the tax burden on businesses also played a role.

This has led to a situation in which the possibilities of financing the state budget from traditional sources are minimal, and the need for funding grows with each day of the war.

Issuing money is no solution: Ukraine’s economy needs other support options

**National Bank of Ukraine Governor Kyrylo Shevchenko in Kyiv**

National Bank of Ukraine (NBU) Governor Kyrylo Shevchenko’s column about the risks of continuing the monetary financing of the state budget and how to minimise them.

Desperate times require desperate measures. All available means of financing must be mobilised. The NBU is in the thick of this process.

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Despite having slowly shifted into wartime operation mode, the economy has developed a chronic craving for more and more monetary financing: The UAH20bn that was issued in March turned into UAH50bn in April and May each, and another UAH105bn was provided in June.

**Not the best model**

The state’s economic policy is currently faced with a clear task: redistribute the economy’s resources to meet the priority objectives of a country at war. The monetary financing of the budget cannot ensure such a redistribution.

By issuing money, the NBU does not create new economic resources but only moves available resources around through the inflation tax. This burden is shouldered by those earning hryvnia incomes as their value declines in real terms (retirees, recipients of fixed salaries). This directly increases poverty.
High inflation has the potential to quickly erode the value of the incomes and savings of broad swaths of the Ukrainian population. Owners of real assets, foreign currency and other valuables reap short-term benefits, as do exporters of goods and services.

The state budget may also experience a short-lived relief: the inflationary growth in the tax base will for the time being exceed the need for financing fixed hryvnia-denominated expenses.

But in the end, everybody loses, because an economy without a reliable unit of currency has no way of growing, let alone recovering.

Exporters will have to buy production inputs at higher prices, and pressure to raise the wages of their workers will rise.

The government will struggle with unrelenting pressure to have its expenditures indexed as the amount of money required to meet the same needs grows.

So, how is monetary financing working so far? Increasing batches of the “issued” hryvnias are finding their way into the FX market, driving up pressure on the exchange rate. The NBU is taking some of this pressure off the market by making FX interventions.

Specifically, the central bank in February-May had to sterilise, through FX interventions, about 70% of the “issued” hryvnia injections. Meanwhile, the ratio between interventions and issuing reached 1:1 in May, up from just 2:3 in April. In other words, 1:1 means that the NBU in May “printed” as many hryvnias as it then took out of the FX market by selling foreign currency.

The NBU sells foreign currency it takes from international reserves, which are limited. The depletion of international reserves leads to the deterioration of exchange rate and inflationary expectations, which feeds into the next wave of demand for foreign currency and imported goods.

As a result, an increasingly large volume of hryvnia liquidity drives up FX demand through the government spending channel and the worsening expectations channel.

The real yield on hryvnia instruments, primarily deposits and domestic government debt securities, is going deeper and deeper into negative territory, incentivising economic agents to look for ways to safeguard their savings, in particular by purchasing foreign currency and imported goods, including those unrelated to their primary needs.

As a consequence, each round of “money printing” only acts to reinforce the dollarisation of the economy and the withdrawal of savings from the financial system.

The longer this trend persists, the greater the pressure on the hryvnia to depreciate and on the international reserves to decline, and the higher the risk of households gradually losing confidence in the government, the hryvnia and the NBU. The farther out that the negative expectations spread, the faster the price growth.

The non-linearity of the growth in the inflationary risks associated with a monetary expansion within the limits of monetary financing is corroborated by the IMF’s research.

Unfortunately, the world’s and Ukraine’s experience shows that the loss of control over inflation is far from being the only possible consequence of large-scale monetary financing.

**Learning from the mistakes of others is always a good idea**

We are already making plans for our economy’s post-war recovery, which is the right thing to do as we ponder the risks associated with the stepping up of the monetary financing effort.

The past episodes of fiscal dominance are still fresh in our memory. Ukraine’s efforts, in particular in the 1990s, to ensure the financing of state expenditures and the needs of enterprises by issuing money, had catastrophic consequences for both the economy (inflation in 1992-1994 galloped to 2,000%, 10,155% and 401%, while real GDP plunged by 9.7%, 14.8%, and 22.8% respectively) and the well-being of households.

The monetary financing of public debt in 2014-2015 had a similar fallout, with inflation accelerating to almost 25% and 43.3% respectively.

The experience of economic revivals in the aftermath of the wars that raged in the past century reveals a multitude of facts about the adverse implications of printing money to cover budget deficits.

Let’s take a look at a few cases that stand out the most. After the Second World War, the Bank of Japan actively bought bonds issued by the government in order to accumulate funds for the restoration of production facilities destroyed during the war.

Monetary financing was precisely what experts believe sent Japan’s inflation sky-rocketing into the triple-digits. What is more, it took almost five years for inflation to return to moderate levels.

In a more recent example, the Serbian central bank financed the growing budget deficit after the end of the war. In addition, the regulator and private banks extended direct loans to state-owned companies and agricultural businesses in order to keep prices for food and housing services low.

As a consequence of this grand-scale monetary financing splurge, inflation in the 2000s ended up surging past the 100% year-on-year mark.

Monetary financing experiments often result in the dollarisation of the economy, the loss of domestic currency and the forfeiture of monetary independence.
During the active phase of the war (1991-1993), the Croatian National Bank also tried to patch the fiscal deficit with monetary financing, which triggered rampant inflation. However, the deterioration in the economic situation and the looming hyperinflation prompted the government to take decisive action by conducting a rapid fiscal consolidation and rolling back the central bank’s financing of the budget deficit.

The joint actions of the government and the Croatian National Bank contributed to the achievement of macroeconomic stability, a rapid slowdown in inflation, stabilisation of inflationary expectations, and transition to sustainable economic growth.

**What options are on the table?**

What should Ukraine do if the government’s needs for meeting budget expenditures grow as the central bank insists on cutting back on the monetary financing of the budget deficit? Option one is the simplest solution, but it will cause a crisis in the long run. This option is to do nothing. This means continuing to rely more and more on the issuing of money by the NBU to finance the budget deficit.

The justification seems to be obvious: the nation is at war. But then we have to visualise the consequences of this scenario. After public confidence evaporates, the authorities may eventually lose control of the economy, social inequality will deepen, and the country’s defence capability will suffer a major blow, as will its monetary sovereignty.

Option two requires difficult decisions to be made, but it is effective. The economy has a limited resource. Given political will, it is realistic to redistribute this resource to meet priority needs (after all, this is supposed to be the goal of macroeconomic management).

On the one hand, there is a need to cut expenses by sequestering the budget and curtailing non-core spending, a task the government has already begun to accomplish.

The alternative is that if monetary financing is allowed to continue, the inflation-depreciation spiral will not make it possible to prioritise budget expenditures, and government expenditures will depreciate in real terms, making it impossible to achieve the set goals.

On the other hand, there is the need to increase revenues. Doing it by putting a greater tax burden on businesses and workers is not the best choice. Businesses need to recover.

Taxes should be an incentive to limit the indiscriminate spending of resources necessary for continued defence. This can be done by raising taxes on consumption, imports, assets and rent.

It is vital to ramp up domestic borrowing, including by increasing the rates on hryvnia domestic government debt securities to the market level. This will increase the appeal of hryvnia assets and allow the government to raise market resources to cover the budget deficit and, accordingly, reduce the need for the issuing of money by the NBU.

This will also safeguard households’ incomes and savings from inflation and reduce FX demand, which will prevent the further accumulation of imbalances, ease pressures on Ukraine’s international reserves and gradually resolve the issue of multiple exchange rates.

In addition, all representatives of the authorities should make maximum diplomatic efforts to increase the amount of international aid. We have already received unprecedented amounts of official funding. However, they remain dwarfed by the magnitude of the losses that Ukraine suffers with every day that the war drags on.

Of course, option two will in the short run take a more painful toll on the population and businesses. But at least it is straightforward and honest. It will make it possible to take pressure off the hryvnia and avoid a speed-up of inflation and a drawdown of international reserves. After all, such adverse processes will by no means contribute to the stability of public finances.

This will allow the authorities to retain control of the financial system and the economy as the war rages on, and will also facilitate a quicker return to the market-driven operation of the economy and financial markets after the war.

“Option one is the simplest solution, but it will cause a crisis in the long run. This option is to do nothing. This means continuing to rely more and more on the issuing of money by the NBU to finance the budget deficit.”

**How monetary financing impacts the European dream**

Large-scale financing of the public sector by the NBU can significantly prolong or even hinder Ukraine’s accession to the European Union.

The possibility of accepting a new country into the EU is provided for in Article 49 of the Treaty on the European Union. Any European country applying for EU membership must also meet what is known as the Copenhagen criteria, which require the candidate country to comply with certain requirements.

The eligibility criteria in the field of economic and monetary policy, in particular, contain clear rules that, among other
The EU summit at the end of June, which included an EU-Western Balkans leaders’ meeting, had a bitter aftertaste for the CEE region. By giving an official accession candidate status to Ukraine and Moldova, the EU has created an abstract enlargement perspective for those two countries. Such a move was possibly morally unavoidable. At the same time, the more concrete EU enlargement perspective for the Western Balkans continues to falter, as it has for years. Compared to Ukraine and Moldova, Bosnia has not been granted official candidate status yet, with less than a handful of EU members supporting such a move now. Albani and Northern Macedonia are still not allowed to finally start EU entry negotiations because of internal EU blockades and leadership weaknesses inside the EU. The EU accession negotiations of Montenegro and Serbia have been stuck in no-man’s land for 10 years. In some cases, not only disappointment with EU enlargement, but alienation is also recognisable in the Western Balkans, given the EU’s complicated relationship with the region.

But right now, ironically, there is also hope. In light of the massive challenges with the new EU candidate Ukraine, some Western Balkan issues appear more manageable. More strategically, with new EU enlargement candidates in the post-Soviet space, the EU’s enlargement agenda will remain an essential and (geo-)strategic policy field for decades to come. Prior to this, enlargement agendas were not necessarily considered an important EU policy area.

Overcoming the reliance on monetary financing can strengthen the country both economically and institutionally. And then the “post-traumatic” recovery will be more stable and more rapid.

GDP per capita (% of EU, at PPP)

Ukraine lags behind West Balkan average
GDP per capita on a purchasing power basis.

This column first appeared on Ekonomichna Pravda’s website and was republished on the NBU’s website.
Before the emergence of new EU candidates in the post-Soviet space, some hoped that the EU accession agenda – after the potential entry of the Western Balkans might be put aside or even closed down. In such a beautiful fantasy world, one could have proclaimed the completion of European unification and "only" sought deeper co-operation (less than membership) with the remaining neighbouring and partner countries.

Possibly, the frozen EU accession process of Turkey (a candidate at least as challenging as Ukraine) could have come to an end in this way as well. Now a return to more serious EU-Turkey negotiations cannot be ruled out completely in the coming decade(s), given that EU expansion into the post-Soviet space will likely be a long-lasting process that will keep the EU enlargement agenda alive for a very long time.

**Movement beneath the surface**

Despite the fact that the June EU summit did not produce concrete results for the Western Balkans, there is optimism that underneath things are moving. We might see some concrete progress later in 2022. The Bulgarian parliament’s vote on lifting the veto on North Macedonia under certain conditions goes in the right direction, although it remains unclear how palatable this will be to the fragile North Macedonian government.

The push from the French government – a staunchly reluctant player in enlargement until recently – to reach a compromise between Bulgaria and North Macedonia is very telling about the new geopolitical reality in Europe after Russia’s aggression against Ukraine. This is not to downplay that a lot of other EU member countries were also putting pressure on Bulgaria, among them Italy, Germany, Slovenia, Slovakia, Czechia, Hungary plus some Baltic countries.

Even for other countries in the region such as Bosnia and Herzegovina and Kosovo, the cup is not completely empty. The agreement brokered between the EU and all key Bosnian political parties in June seems to have laid the way for a positive outcome on the candidate status to be achieved by the end of 2022 – if October elections will run smoothly and milestones are achieved (especially in the areas of rule of law and judiciary reforms outlined in the agreement).

It is indicative that in such challenging times, Republic of Srpska turned back from full confrontation with Western countries and signed an agreement with EU politicians, along with other political parties. Thus it seems that there is a swivel West rather than East – even if a lot of (financial) sanction pressure from the USA and the UK was necessary. We see a fair chance that Bosnia will finally get candidate status in 2022, while Albania and North Macedonia might be finally successful in having their formal start of negotiations ticked off.

Kosovo, the youngest country in Europe, has shown a lively democratic environment, with competitive and fair elections, a rarity in this corner of Europe. Nevertheless, progress on the democratic front has not yet been rewarded by the EU. In our opinion, the EU wants to exert pressure on the Kosovo government to extract concessions in a final agreement with Serbia. That said, the EU could already offer Kosovo visa liberalisation as a gesture to bring the country closer, as it remains the only Western Balkan country that still has such restrictions.

The outlook of increasing competition among EU candidates and negotiating countries could also be interpreted in a positive way. It would be feasible to create a competitive "benchmarking" process. In this way, it might also be possible to initiate "accession rounds" again, although of course every accession decision is also a case-by-case decision. For example, it would be possible to achieve a faster round of enlargement in the 2020s with some selected more advanced Western Balkan countries, while countries that are still somewhat undecided in geopolitical terms (e.g. Serbia) might have to accept a later accession.

**Turf wars**

Potential enlargement of the EU into the post-Soviet space, i.e. to include Ukraine and Moldova as "former" Eastern Partnership (EaP) countries, has a substantive geopolitical dimension. The EU would expand far into areas that Moscow sees at its turf. In doing so, the EU would send an important signal from a long-term perspective to countries further in Russia's indirect and direct sphere of influence (Georgia, Armenia, perhaps also Belarus at some point?).

However, the EU is now entering into a geopolitical game with Russia and this must be taken into account. For example, the EU can hardly accept Ukraine or Moldova as EU members with significant long-term unresolved border issues. In this respect, the EU is dependent on Russia's "favour", or it indirectly forces Ukraine and Moldova to make unpalatable compromises.

Furthermore, Russia will actively eye any political and economic successes of the new EU candidate Ukraine. Any supposed failures or lack of progress in the EU agendas would certainly be actively addressed by the Russian side. In this respect, granting EU candidate status should by no means be understood "only" as a short-term fix and a political signal to provide Ukraine with a political tailwind and moral support.

In light of geopolitics, the EU candidate status is now a matter of promoting an EU-driven economic development and modernisation agenda for Ukraine (and Moldova), as the EU has done with the Economic and Investment Plan for the Western Balkans.

For the Western Balkans, the EU should mobilise up to €30bn in the coming seven years, adding at least 3% in additional GDP growth. Currently, 21 flagship investment projects worth a tad more than €3bn are already approved. From this perspective alone and in the light of their respective economic weights, for Ukraine at least €50bn in long-term EU investment funding (apart from an international reconstruction plan) would be a sensible minimum target.
Enlargement to include the Western Balkans and Ukraine should also be seen as partly connected in terms of time and content. On the one hand, the same transformation and reform efforts as in the Western Balkans must be demanded from the new accession candidates Ukraine and Moldova. In this respect, certain integration successes of the earlier and possibly more advanced EU candidates of the Western Balkans are also important for the new EU candidates in the post-Soviet space.

On the other hand, accession processes as slow as those in the Western Balkans must be avoided if possible. There is already great frustration there. Similar frustration or even partial alienation must be avoided in Ukraine (in the long term).

Moreover, it should be noted that Russia will actively exploit any weaknesses in the EU enlargement process (with regard to the Western Balkans and/or new candidates) in the future to show the “weakness” of the EU. Incidentally, the same can be expected if individual EU countries block the opening of official accession talks with Ukraine (or other candidates) at some point in the future. In this respect, the EU must also master sensible internal power politics (be it vis-à-vis Bulgaria and/or Hungary) and, as shown below, strengthen its own capacity to act.

“The push from the French government – a staunchly reluctant player in enlargement until recently – to reach a compromise between Bulgaria and North Macedonia is very telling about the new geopolitical reality in Europe”

Linkage to reform of the EU
EU enlargement to the Western Balkans is already seen as a substantial challenge at the EU level. This is especially true at the political level and in terms of voting procedures; it is less so in terms of population and economic power. In this respect, we believe it makes sense to actively link EU enlargement to the Western Balkans with the internal reform of the voting mechanisms. In this way, the EU would put itself under meaningful pressure and not just the enlargement candidates.

It would therefore be expedient to agree on both an EU reform and enlargement target date or time corridor (e.g. 2027-2030). We think that such a long-term goal fits well with the comprehensive mission- and vision-oriented EU policy orientation in other areas (such as green transformation). In this respect, it is clear that only when the Western Balkans (or a part of the group) is integrated into the EU, and the EU manages to reform its internal co-ordination mechanisms and demonstrates more geopolitical problem-solving competence (plus corresponding pragmatism), can the EU really turn its attention to the accession candidate Ukraine or other potential accession candidates.

In this context, it should also be remembered that Russia has viewed EU accession as less of a threat, because the EU is not viewed as a “military organisation” (yet). However, this could change by the time of a possible accession window for Ukraine (and other candidates). It should not be forgotten that Russia has in the past actively countered concrete EU advances by some countries.

Sometimes EU accession has not been a winning strategy for policymakers in candidate/accession countries. It’s therefore of paramount importance to overhaul the EU funding for negotiating countries, i.e. to provide substantive EU funding and co-operation with EU institutions ahead of final EU membership. A current Austrian policy proposal, which has the backing of some other EU members, goes in this direction.

If negotiating EU candidate countries make progress by closing individual chapters, it is very important that they are somehow integrated into the EU financing programmes that are relevant to those chapters. This would have a tangible impact on the population of the Western Balkan countries as well as in the preparation of these countries to become full members. Participation in EU meetings with a special status without voting rights, involvement in the preparation of policies, could speed up the process of convergence and render these countries more ready when full membership comes.

Geopolitical challenge
Providing funding to Ukraine as a negotiating country might also be a feasible strategy. This would be a way for the EU to provide long-term and concrete support to Ukraine – possibly even if the immediate and multilateral/international reconstruction plan/phase should eventually come to an end. Long-term economic development is key as Ukraine has so far shown one of the weakest catch-up performances of all potential EU candidates – not even taking account of the current massive war damage.

Not only the potential EU enlargement into the post-Soviet space should be seen from a geostrategic perspective. In the Western Balkans, there is active competition with Russia, China and, to some extent, Turkey. Even though the geopolitical challenge or confrontation may be smaller in the Western Balkans, the EU could show geopolitical problem-solving competence here with relatively little effort and risk.

Geopolitics can be productively combined with economic self-interest. And here it is true that the Western Balkan countries are already much more closely linked to the EU economy than Ukraine. European foreign direct investment (FDI) in the Western Balkans (estimated at €40bn) is possibly higher than “true” EU FDI in Ukraine (correcting for offshoring).
Sanctions hit a brick wall

Ben Aris in Berlin

Turkish President Recep Tayyip Erdogan got what he wanted. Sweden and Finland agreed to crack down on the various Turkish dissident groups, including the PKK, sheltering in their countries to unblock Turkish objections to their joining Nato. Erdogan came to the Nato summit in Madrid with a shopping list of requests and it was clear that he was going to play hardball. With Russia blasting Ukraine into the stone age it wasn’t hard for the Scandinavians to roll over.

Of course, the irony is if Russian President Vladimir Putin was paranoid about Nato expansion before, his war in Ukraine has brought about what he most feared. Russia had a tiny border with Nato before with Estonia. Now it has a much longer one with Finland. But I suspect that Putin accepts this. The only difference is that Russia is now in open conflict with the Nato members, and we are in effect back to a Cold War set-up. He was always prepared to go there, as he assumed that a conflict with Nato was inevitable.

The world is being divided into two: the West vs Russia and the non-aligned countries. The race to shore up these new relations is on and expect to see the majority try to sit on the fence, especially in the Global South.

But is it really such a bad bet? The Global South accounts for 80% of the world’s population and just over half of global GDP. Russia is already a major player there and the only one of the big emerging markets to be classed as "high income" by the UNDP after Putin’s 20 years on the job.

Going forward, EMs are where all the growth is, and while the West is not stagnating exactly, it is not dynamic either. Almost all of Europe is suffering from exactly the same demographic problems as Russia and already facing labour shortages: Germany’s demographic replacement rate was 1.48 last year – less than Russia's 1.5 – and the EU average is currently about 1.55. You need 2.1 for the population to grow. You’ve got that and more in most EMs.

Of course, the developed world has all the technology and is denying it to Russia – the only sanction that is really working well. But this has been true since the industrial revolution a 100 years ago and the basis for the West’s leap forward to dominate the planet. That advantage has still not been undone, but surely it is only a matter of time before the EMs close this gap, even if it does take decades. In the meantime, what the EMs lack in tech they will make up for with babies as a locomotive for growth. It will be fascinating to watch this story play out.

The addition of Finland and Sweden to the Nato family further consolidates and expands the North Atlantic block and the EU has shown remarkable unity on imposing sanctions on Russia, but that process has now hit a brick wall. All the easy “one-way” sanctions (that hurt Russia, but don’t hurt the West) that could be applied have been.

I have posted an explainer from our sister publication NewsBase.com on the proposed oil price cap sanctions that are supposed to be part of the seventh package. I have also posted a piece about Russia’s Dutch Disease, where the only way the government can control the value of the ruble is by reducing the amount of oil and gas it exports. The Central Bank of Russia (CBR) was once probably one of the best run central banks in the world and now it is reduced to using the crudest of all possible tools.

The oil price cap was supposed to be the centrepiece of the G7 summit in Bavaria this week, but I think that we can call that meeting a failure, as nothing concrete came out of it other than “proposals”. French President Emmanuel Macron admitted there were “technical problems” with the idea, which is putting it mildly.

The whole issue turns on using the threat of sanctions on oil tanker insurers to enforce the caps, and that has two problems.

First, the non-aligned countries are not on board. India has already given Russia’s fleet operator Sovcomflot safety certifications it needs to get non-Western insurance, which India will accept, and so in effect Delhi has opted out of any oil sanctions.
Secondly, even the EU countries are not as unified as US President Joe Biden and European Commission President Ursula von der Leyen would like you to believe. Note too that Erdogan also said this week that Turkey will not participate in sanctions.

I won’t go into the details here, but to make this work you would have to reopen the sixth package of sanctions where the rules on insurance are now and no one wants to do that, as it will kick off more really hard talks that would lead to the sixth package being watered down from the original proposals.

There is a fundamental flaw in the West’s economic war with Russia: it is trying to hurt Russia as much as possible but will not accept any pain itself (two-way sanctions).

The six packages in place now are full of exemptions and exclusions to protect Western interests. Extremely harsh sanctions were placed on Belarus in 2020, yet EU trade with Belarus doubled that year for the same reason. With Russia, an energy embargo and self-sanctions have been imposed on Russia’s oil business, yet Putin will earn the biggest current account surplus on record this year. What should have happened is the EU should have banned oil and gas imports from Russia in the first week of the war (with the summer to look forward to) and the Kremlin’s finances would probably have collapsed within a few months as Russia came close to a financial crisis with just the SWIFT and CBR reserve sanctions. But that would have come with a huge shock to the EU’s economy, which no one is prepared to accept. Even now, these exemptions are still being put in place: Greek shipping has been exempted from the sixth package bans on carrying Russian oil as it makes up half the international oil tanker fleet. Likewise, in Russia the largest insurer Ingostrakh is part-owned (36%) by Italian insurance giant Generali, which has refused to sell its stake and makes the largest share of its money from marine insurance. Allianz, Europe’s biggest insurer, has a big Russian business and is also not leaving.

More generally, the International Association of Classification Societies (IACS) that gives out safety certificates that oil tankers need to get insurance has 11 members but only four of them (France, UK, Norway and the US) have stopped certifying Russian ships. And the Indian Register of Shipping (IRClass), which is the official Indian member of IACS, has just certified all of Sovcomflot’s tankers.

The conflict has catalysed a process of EMs maturing politically that had already started. Until now the EM story has largely been an economic one about fast “catch up” growth and huge returns investors can make. Increasingly it is now going to be political as well. The BRICS is one obvious focus that has gone from a Goldman Sachs marketing term to a powerful political organisation, and Russian Foreign Minister Sergei Lavrov called for Argentina and Iran to join this week as well.

The biggest change is that China and Russia have been driven together and clearly the Kremlin has to work as hard as it can to build up its non-aligned alliances in order to avoid being simply consumed by China and becoming little more than a raw materials warehouse.

Although China has kept Russia at arm’s length to avoid being sanctioned itself, there is no chance of driving a wedge between Moscow and Beijing now, as China can see its next opportunity. Biden used the G7 summit to hype a new US infrastructure fund that is designed to challenge China’s Belt and Road Initiative (BRI). While the non-aligned countries will happily take the US money, unless the US also opens its lucrative markets to them, I doubt that this will make much difference.

Trade is the key to China and Russia’s offering and this is Russia’s ace thanks to its cornucopia of raw materials (and its arms and nuclear power industries). Putin is going to work very hard to build up Russia’s relations with the non-aligned nations and actually has already been working on that for years, with especially notable progress in the Middle East.

That will continue in November at the G20 summit, to counterpoint the G7, and also the second Russian-Africa summit that will be held in Ethiopia – both important platforms for promoting Russia’s soft power.

The West has run out of one-way sanctions, and it is hard to see what it can do next without going onto a war footing. The same is true of the military campaign in Ukraine. As this increasingly looks like it will be a much longer war than expected, the West needs to go on to a war footing militarily too. The West has largely used up its stock of Soviet-era armaments and I’m seeing an increasing number of reports saying that despite the massive US defence budget it doesn’t have the manufacturing capabilities to churn out a lot more weapons quickly. Russia has used up a lot of its high-tech weapons like smart missiles, but it has huge stores of “dumb” artillery shells and as the war in Ukraine is turning into an artillery duel slugfest, that is what will make the difference.

Increasingly it seems that the US has overestimated its own economic and military power (will Ukraine turn into another Afghanistan?) and underestimated how deeply Russia is integrated into the global economy, which is causing significant leakage to the sanctions regime already. Now that one-way sanctions are exhausted, the West will have to start using two-way sanctions and the failure of the G7 summit to produce anything concrete shows how hard that will be. The West is already spending huge amounts of political capital in its effort to isolate Russia, and frankly it is not working.

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The riskiest macroeconomic environment of the 21st Century!

Les Nemethy CEO and founder of Euro-Phoenix Financial Advisors

In my opinion, the macro environment is riskier than before the Dotcom Bubble and before the Great Financial Bubble. Why? A nasty cocktail of factors which may reinforce each other:

- Jerome Powell declared he wants to see a trend of lower consumer price index (CPI) data before the Fed takes the foot off the monetary tightening pedal. The Fed calling itself “data dependent” is like driving using the rear view mirror. The Fed intends to continue to raise interest rates until data, which is by definition lagged, shows a favourable CPI trend.
- What if raising interest rates kills demand, but not inflation? Then the Fed continues to tighten, literally until something breaks.
- Consumer expenditures are falling off a cliff.

- Both bond and equity markets have had their worst half year since the Great Depression.
- Jerome Powell seems to think he can “do a Volcker” and tame inflation. But the world is a very different place than under Volcker: US Government debt is at 120% of GDP, compared to 40% under Volcker, making the US Government far less able to withstand high interest rates. Individual, corporate and government debt have seen similar increases the world over, making the world ever-so-fragile.
- The number of emerging market countries experiencing a crisis is increasing by the month. High US interest rates are sucking moneys out of emerging markets into the US. This is because much of the emerging market debt is denominated in US dollars, making it harder to service given higher US interest rates and a higher US dollar.
- While oil and many other commodity prices have dipped a bit, prices remain very high by historical standards. In addition, underinvestment in energy and commodities has been so severe that it has created capacity constraints.

It will take many years to bring on new supplies. Tight supply conditions will continue to buoy prices, with the potential for price surges upon disruption.

- Wholesale electricity prices in Europe are going through the roof.

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The European Central Bank is in a “damned if you do, damned if you don’t” dilemma. It desperately needs to raise interest rates. However, raising interest rates would put strain on the periphery (e.g. Italy) and further dampen GDP growth.

On top of all this, we have the consequences and uncertainties from the coronavirus (COVID-19) pandemic and the Ukraine War. Epidemiologists are again raising concerns about the newest variants, while Putin just keeps escalating.

The above list is far from exhaustive. There are many other vulnerabilities. Certain European banks have equity-to-asset ratios below 3%. Demonstrations are going on by deposit holders in China who cannot withdraw deposits since April. Meanwhile, Evergrande’s default on over $300bn of debt continues to work its way through the system.

Much is already breaking. The economy is rapidly decelerating. In the US, Q1 2022 came in at -1.6% growth; the Atlanta Fed estimates Q2 growth at -2.1%. (Two negative growth quarters make a recession). Danger signals, such as inversion of yield curves and reverse repos at new records, are flashing.

“The number of emerging market countries experiencing a crisis is increasing by the month. High US interest rates are sucking moneys out of emerging markets into the US”

The trillion dollar question is when the US Fed will pivot from Quantitative Tightening (QT) to Quantitative Easing (QE). It is the high levels of debt that could make the next crash the most dramatic of this century.

Powell seems to think that there is a feedback loop, whereby high interest rates are enough to drive down inflation. But what if other things (increased money supply, supply bottlenecks, inflation expectations, etc) keep inflation from responding? The economy may crash before inflation comes down.

Think of a dry forest with an accumulation of flammable undergrowth. There may never be a forest fire; but one tiny spark has the potential to cause a conflagration.
Ukraine wheat and grain production forecasts tumble, but some exports start

The outlook for the production and export of Ukraine’s grain production this year has halved due to the war raging in the country, stoking fears of a global food crisis. USDA lowered its forecasts for wheat production in Ukraine from 21.5mn tonnes to 19.5mn tonnes as the harvest gets under way in Ukraine.

A more upbeat forecast from Analyst APK-Inform said that Ukraine could harvest 52.4mn tonnes of grain in 2022, including almost 18.2mn tonnes of wheat and 27.7mn tonnes of corn, that is still half of the harvest in 2021.

COVID-19 cases start to rise in Southeast Europe just as tourist season starts

Coronavirus (COVID-19) cases are increasing again in several Southeast European countries just as the region starts to welcome large numbers of tourists for the 2022 summer season.

After the lifting of most coronavirus related restrictions and a period of low infection numbers, several countries are now reporting the highest numbers of new infections for several months.

The rise in infections compared to the size of the population is particularly strong in Slovenia and Montenegro, but upturns are also evident in Albania, Croatia, Kosovo and Serbia.

Germany’s ZEW Index collapses as fears of gas rationing mount

Germany’s leading economic index, the ZEW, collapsed in July as fears mount that Russia will cut the country off from gas entirely at the end of the month, and that could spark a major economic crisis, Oxford Economics reported on July 12.

The ZEW index added to those worries by tumbling in July. The assessment of current conditions dropped 18.2pts over the month to -45.8, but the expectations sub-index fell even more, falling 25.8pts to -53.8, beating March 2020’s trough and indicating that investors are gravely worried about the current constellation of risks, not least a cut-off from the Russian gas supply, Oxford Economics said in a note.

Kazakh manufacturing sector PMI signals further expansion in June amid sharp rise in new orders

The Kazakh manufacturing sector signalled further growth in June following a reversal in May due to the outbreak of war in Ukraine and resulting sanctions on Russia, according to the latest PMI index data.

The index posted 53.0 in June, after the 52 print in May. The headline Kazakhstan Manufacturing PMI is a composite single-figure measure of manufacturing performance. Growth recovery was marked by new orders expanding the most in 40 months since the survey was launched.
US and Chinese slowdown will tip the world into recession, says IIF

The worsening economic data coming out of the US and yet another coronavirus (COVID-19) lockdown in China will tip the world into a global recession, the Institute of International Finance (IIF) said in a note on July 1.

The think-tank has been warning of a possible recession in Europe as a result of soaring inflation, exacerbated by the war in Ukraine. But the problems are spreading further afield as stagflation is about to set in as central banks around the world fail to take control of inflation.

Six weeks ago the IIF was predicting its global growth forecast at close to zero, adjusting for sizeable statistical carry-over from last year.

"Since we made this forecast, however, it has been US data that have surprised to the downside the most. This is driven by the sharp tightening in US financial conditions, with mortgage rates seeing their biggest rise – in real terms – in over fifteen years," said Robin Brooks, managing director and chief economist at IIF, with his colleagues Jonathan Fortun and Jack Pingle, in a note. "The rapid slowdown in the US pushes our global growth forecast from near zero into outright contraction."

A quick end to the war in Ukraine would make a big difference, as that would quickly bring an end to the food crisis, as well as reducing energy and commodity prices, which in turn would reduce inflationary pressure. However, with Russia’s very slow, albeit steady, progress in the war, a quick end seems increasingly unlikely.

At the same time, Brookes says that the coronavirus pandemic is unlikely to abate anytime soon and that more mutations and fresh infection waves are to be expected, which will lead to new lockdowns. "In short, things look bleak for the global outlook," said Brookes.

Previously the IIF was anticipating an outright recession in the Euro zone and on weak growth in China, with a 3.5% global growth forecast for 2022 substantially below consensus. Since then, the World Bank has almost halved its global growth forecast to 2.8% from 4.1% at the start of the year and others have also been revising downwards as the situation continues to deteriorate.

Germany’s economy is also slowing, and Berlin is becoming increasingly nervous about the possibility of being shut off from Russian gas. At the same time, the forward-looking orders minus inventories measure using Germany’s manufacturing PMI has sunk to levels last seen during the global financial crisis in 2008, reports the IIF. German consumer confidence has been languishing at levels below the 2020 COVID shock, "which is remarkably bad," says Brookes.

Russia is in position to inflict real damage in Europe, should it turn off the gas, as that would send gas prices spiking and the cost of commodities upwards too that would only pour petrol on the inflation bonfire that is already burning.

China also remains a wild card, says Brookes, as the spread of the coronavirus there is not predictable. "Unlike the first COVID wave in the first quarter of 2020, weakness in Chinese data looks set to be more drawn out, whether in manufacturing or in services. Whatever happens, China is unlikely to be a source of stimulus as global recession risk builds," says Brookes.

Economists have been cutting the global growth outlooks all year as the chances of a global recession become increasingly likely. Source: Haver, IIF
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