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Central Europe launches new austerity drive

Robert Anderson in Prague

This spring Central European and Baltic governments are launching austerity programmes to cut their swollen budget deficits at a time when interest rates are still painfully high and many of their economies have yet to emerge from recession.

Up to now Central European governments have relied on one-off measures such as windfall taxes on banks and energy companies to keep their budget deficits manageable. Now Czechia, Slovakia and Estonia are launching or preparing eye-watering cuts, and the EU Commission and IMF are calling for more.

“Consolidation should be even more ambitious than currently planned in most of the region,” said Kristalina Georgieva, IMF managing director, in a speech. “While this will require difficult choices, it will bring the triple benefit of reducing inflation, lowering debt service costs and bolstering financial stability.”

Last month the centre-right Czech government announced a set of measures aimed at reducing the fiscal gap from an anticipated 3.5% this year to below 2% of GDP next year and 1.2% of GDP in 2025. The CZK94bn (€4bn) package is split fairly evenly between spending cuts – including scrapping many subsidies and cutting central government costs by 5% – and tax rises, including a hike in corporate tax from 19% to 21%, increases in property taxes, excise taxes, health insurance contributions and a broadening of the tax base by changing allowances and tax thresholds. The package...
also promises a long-awaited reform of the pay as you go pension system.

The recently re-elected Estonian government, led by the centre-right Reform Party, has just pushed through a budget that includes raising VAT and income tax by two percentage points and higher excise duties. “We need a moratorium on state spending,” Kallas said in April. “That is the only way we can climb out of the hole. This also means looking some past decisions in the eye, which is another thing we must decide.”

“We know Slovak public finances are at great risk”

In Slovakia the new technocratic government of former central banker Ludovit Odor sees its main task before this September’s snap election as preparing an austerity budget to reduce the deficit from this year’s roughly 6% of GDP to zero, as mandated by the country’s debt brake law. “We know Slovak public finances are at great risk,” Odor said last month.

The major outliers are Poland and to a lesser extent Hungary, whose radical right-wing governments are still making populist promises to their electorates, despite yawning deficits and the freezing of vital EU aid payments because of their violations of the rule of law.

In Poland the Law and Justice (PiS) party has ignored the country’s already high inflation to announce a series of spending giveaways before this October’s election, notably a sharp jump in monthly child benefit from PLN500 to PLN800 (€178), as well as subsidised mortgages and higher public sector wages.

Geoff Gottlieb, the IMF’s senior regional representative for Central, Eastern and South-Eastern Europe, warned Poland recently that “a new fiscal impetus would likely add to inflationary pressures”. This could necessitate additional monetary policy tightening,” Gottlieb told Reuters.

In Hungary the government has reined back some subsidies given out before last spring’s general election but it is relying on one-off windfall taxes on retailers, banks, pharmaceutical companies and energy suppliers to reduce the country’s huge budget deficit. Its current budget forecasts are seen as very optimistic by economists.

**Swollen deficits**

The region’s budget cuts are seen as essential to bring down deficits swollen by programmes to cushion the impacts of first the COVID-19 pandemic and then the spike in energy prices following the Russian invasion of Ukraine. These deficits have inflated public sector debt to record levels.

The cuts are also mandated by the EU. From the end of this year the European Commission will end the suspension of the Stability and Growth Pact, mandating governments to keep their budget deficits to within 3% of GDP from 2024 or risk being penalised under the Excessive Deficit Procedure.

Currently only Lithuania is expected to run a deficit of under 3% this year (2.3%), with Czechia at 3.5%, Estonia and Hungary at 4%, Latvia at 4.6%, Poland at 5% and Slovakia facing a 5.4% deficit.

Next year Hungary’s deficit is forecast to worsen to 4.4% of GDP, while those of Poland and Slovakia will remain elevated at 3.7% and 4.7% respectively. Czechia and the Baltic states should all just creep under the 3% threshold.

However, these budget cuts are happening when many countries are still mired in recession as high energy prices, inflation and interest rates batter consumers and companies. Hungary, Estonia and Lithuania are still in technical recession (two or more consecutive quarters of q/q decline). Czech GDP was flat quarter on quarter in Q1, and the economy remains below its pre-COVID-19 levels.

This wave of cuts also coincides with Western Europe’s later slide into recession, with the German economy declining q/q for the second consecutive quarter in Q1 (by 0.3%), meaning the region’s main trading partner is also now in a technical recession.

Many CEE countries have observed declining q/q GDP growth since 3Q22, though most downturns have been fairly shallow, with falls in domestic consumption up to now cushioned by foreign trade surpluses and the consumption boost from the huge wave of Ukrainian refugees. Now, stagnation or recession in the Eurozone threatens to dampen any nascent recovery.

This year only Slovakia is expected to grow more than 1%, with Polish GDP growth predicted at just above zero, and

**Europe. Real GDP Q1 2023 vs Q4 2019, %**

<table>
<thead>
<tr>
<th>Country</th>
<th>Q1 2023</th>
<th>Q4 2019</th>
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<tr>
<td>Poland</td>
<td>-0.4</td>
<td>0.5</td>
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<tr>
<td>Denmark</td>
<td>-3.3</td>
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<td>Norway</td>
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<td>-1.3</td>
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<td>Portugal</td>
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<td>Belgium</td>
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<td>Finland</td>
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<td>Czechia</td>
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**Source:** Oxford Economics / Haver Analytics
Czechia, Hungary, Latvia and Lithuania clustered around zero. Estonia is forecast to have a second year of recession, with the EBRD predicting a decline of 1.3% and the IMF one of 1.2%.

In 2024 all countries are forecast to return to growth of between 2-3% – hardly the pace they need to achieve to close the still considerable gap with Western European levels of prosperity. The austerity programmes therefore risk deepening the economic gloom in a region that since the 2007-9 Global Financial Crisis has struggled to return to the convergence path.

Central bank caution
Austerity is also being imposed at a time when monetary policy is still tight because of soaring inflation, pumped up by rising energy and food prices.

Inflation hit levels in CEE unseen in Western Europe, partly because of the weight of energy and food in consumer price index baskets, as well as the continuing tight labour markets, which have pushed up wages sharply in several countries (though often it has fallen in real terms). Hungarian inflation hit 25.6% year on year in March, the highest rate in the EU.

Inflation is now coming down as food and energy prices ease, though core inflation, which strips out those volatile prices, is still stubbornly high. In most countries inflation is only expected to be back into single digits at the end of the year.

Central banks have hiked interest rates to bring down inflation, even though the impact has been limited because most of the inflation push is imported. By doing so they have also often been working at cross-purposes with governments, creating tensions, as their tight monetary policies hurt the companies and consumers that governments are trying to support with their generous subsidy programmes.

The region’s three independent central banks (Slovakia and the Baltic states are in the Eurozone) were the first in the EU to raise rates – and to much higher levels than in Western Europe – and have so far been very reluctant to start to lower them.

Only the Hungarian National Bank (MNB) – which was the first in the EU to raise rates in April 2022 – has begun loosening, by reducing the interest rate on the one-day quick deposits offered at daily tenders by 100bp to 17% last month.

The Czech central bank, which has held its key rate at 7% for a year, had been anticipated to start cutting rates this summer but now the speculation is over a move in the other direction, after a knife-edge 4:3 vote to hold the key rate at 7%, with hawks pushing for a rise. Most analysts now forecast a rate cut only at the end of the year.

Poland’s central bank has kept its reference interest rate at 6.75% – a 20-year high – since September, and appears deeply divided over whether to begin loosening at the end of this year or to postpone it even longer.

The IMF has signalled caution and has even suggested some central banks should consider further raises. “Countries with independent central banks will need to keep a tight policy stance – and possibly tighten further if inflation remains sticky,” Georgieva said in her speech this week.

Getting the balance right
The key challenge for policymakers is getting right this balance between monetary and fiscal policy and calibrating the speed of cuts in deficits and interest rates. If governments slash budget deficits at a time when central banks are keeping interest rates high, this risks worsening the region’s economic stagnation.

This could have grave political repercussions in a region where populism is already rampant. Populist opposition parties are already exploiting the budget cuts, mounting filibusters in parliament in Czechia and Estonia. In Slovakia, the left-wing populist Smer Party is leading opinion polls ahead of September’s snap election and is set to benefit from the technocrat government’s balanced budget proposals.

However, if budget deficits and public debt levels are allowed to remain elevated, and interest rates are cut too fast, this could entrench inflationary expectations and lead to a loss of market confidence.

Hungary is probably the biggest worry here. Prime Minister Viktor Orban’s pre-election spending splurge left it with a deficit of 6.2% of GDP last year and gross public debt of 76.1% of GDP – the worst in the region – as well as the highest inflation and interest rates in Europe. In Q1 the economy remained in recession for the third consecutive quarter, declining by 0.3% q/q.

The central bank has had to do the heavy lifting to damp down the economy because the government has merely pruned its thicket of populist handouts to voters and still prioritises economic growth.

The country’s Fiscal Council warned last month that a further delay in EU funds, slower economic growth in Hungary’s main export markets or the prolongation of the Ukraine war could jeopardise the 2023 budget’s (very optimistic) revenue targets.

The erratic and highly unorthodox policies of the government and central bank have failed to reassure investors in Hungarian assets. Further slippage in the budget figures could make the Hungarian forint – the worst performing EU currency last year – once again the punchbag of the markets.

Further reporting by Wojciech Kosc in Warsaw, Albin Sybera in Prague and Linas Jegelevicius in Vilnius.
Hungary’s OTP bank still in Ukraine's “international sponsors of war” list

Ben Aris in Berlin

Hungary’s biggest bank OTP Bank is still on Ukraine’s “international sponsors of war” list despite months of pressure from Budapest because it continues to maintain a large and successful banking business in Russia.

The Hungarian government, together with Greece, this week held up the passage of the eleventh package of sanctions, which had been in negotiations since April, as they were lobbying for exemptions from the lists for their companies that maintain business ties with Russia.

Greece managed to persuade Ukraine to remove five Greek shipping companies from its list. Germany also got five from eight Chinese companies off the Ukrainian list, after eliciting promises from Beijing to pressure those companies to stop working with Russia, during a recent meeting between German Chancellor Olaf Scholz and Chinese President Xi Jinping.

Budapest, however, failed to get OTP Bank’s name removed from Ukraine’s list and waived the package through. However, it said it would return to the issue when the EU discusses a new tranche of money for Ukraine from the European Peace facility in the coming months, reports Reuters.

The bank said last March that it was looking at options to exit the Russian market but more a year later no progress seems to have been made.

OTP Bank has been included on Ukraine’s list of offenders as it has maintained its business in Russia, where it is one of the top 50 biggest banks and has 2.4mn customers. OTP Bank’s Russian business contributes 8% of the group’s total earnings and is the fourth most profitable of its various branches, according to the bank’s reported results.

The OTP Group first announced that it was exploring options to exit the Russian market in March last year, citing the threat of a liquidity shortage for the subsidiary in Russia that would lead to the possibility that the subsidiary bank would require additional funding – funding that would be made difficult by sanctions on Russia’s financial system.

Many international banks have left Russia, including Société Générale which sold its Russian banking business back to oligarch Vladimir Potanin. However, many banks and companies, including Austria’s Raiffeisen Bank International (RBI), have been reluctant to exit the large and lucrative Russian market. In May RBI also said that it was planning to spin off its Russian business, but no deal has yet been announced.

OTP Bank has also said it is willing to sell, but no concrete deals or negotiations have been announced. The management of the bank said it is complying with all the international sanctions imposed on Russia.

The Kremlin has made exiting Russia harder as any deal has to be approved by the Central Bank of Russia (CBR), which also needs to give permission to transfer proceeds abroad. A decree issued by Russian President Vladimir Putin on August 5 last year means foreign companies wishing to leave Russia are also expected to offer large discounts to the fair valuation price of their assets. The Hungarian OTP Group was included in the decree’s list of non-resident companies working in Russia that need permission to exit.

The bank’s financial report for the first half of 2022 said that the “bank’s shareholders and its management were considering various scenarios, including the possible sale of the Russian asset …at an acceptable price.”

That was followed by a statement from OTP Bank deputy CEO Laszlo Bencsik, published by Reuters, saying that “potential buyers are highly interested in the Russian bank,” but warned that Putin’s decree made an exit difficult.

OTP Bank repeated its desire to exit in its latest annual report in March and said it was still exploring all strategic options. The group also clarified that it adheres to the principle of continuity of operations regarding its subsidiaries in Russia and Ukraine.

OTP Bank’s lack of progress in organising an exit from its Russian business caught the attention of Ukraine’s National
Agency on Corruption Prevention (NACP), which included OTB Bank in a list of “international sponsors of war” in May.

The agency justified its decision by stating that the bank’s management continues to operate in Russia and “effectively recognises the occupied territories in Eastern Ukraine” (Donetsk and Lugansk “people’s republics”), Ukraine’s local media reports. Specifically, NACP cited media reports as part of an investigation that claim OTP Bank Russia was offering preferential lending conditions to Russian military personnel.

“It is emphasised that russians [sic], called up for military service by mobilisation or contract, as well as their families, can apply for a deferment of payments for loans and credits. In this regard, the banks refer to the russian law of October 7, 2022 No. 377-FZ, effectively recognising the so-called Donetsk and Luhansk ‘people’s republics’, the agency says in its statement, as cited by mind.ua.

The bank denies the accusations: “The reasons given by the [NACP] for this decision are incorrect on several points. The OTP Group considers the reasons for its inclusion on the list to be not objective, as shown by the fact that a number of major international financial and other companies, active both in Ukraine and Russia, are currently missing from the [NACP] list, which should be included on these grounds,” OTP Bank’s press service told bne IntelliNews in an emailed comment. “OTP Group or any of its members are not sanctioned by the EU. Being on the list of Ukrainian National Anti-Corruption Agency (NAZK) has no legal or sanctioning consequences, because it is not a sanction list, but it causes reputational damage and therefore harms our business interests.”

Hungary’s government has rallied to OTP Bank’s defence. Hungary’s Foreign Minister Péter Szijjártó reiterated that OTP had “not violated any international laws,” and “its operations fully comply with legal norms.” Szijjártó called the inclusion of the bank in the list of international war sponsors “unacceptable and outrageous”. He warned that as long as OTP remains on the list of international war sponsors, Hungary will not be able to participate in the implementation of the eleventh package of sanctions on Russia.

In its defence, OTP Bank claims that it is significantly reduced its business in Russia.

“‘The Group significantly reduced its presence in the market in 2022: the market share dropped to 0.17%, corporate lending was stopped and the corporate credit portfolio was cut by 75%. The OTP Group has repeatedly stated its search for opportunities to exit the market, including involving consultants from Rothschild Martin Maurel, but the sale procedure is legally blocked. The information about the recognition of the illegal formations ‘L/DPR’, and also about granting privileged loans to Russian military personnel, does not correspond to reality,” the bank said in a statement, as cited by mind.ua.

The bank also pointed out that it has donated UAH100mn to the Armed Forces of Ukraine (AFU), hospitals and children’s home in Ukraine. The bank has also bought UAH5.5bn of government military bonds to help the Ukrainian government finance its war deficit.

However, under pressure from Brussels, Szijjártó walked that position back, and allowed the eleventh package of go through with OTP Bank’s name still on the war sponsor’s list, but has also made it clear that the question of OTP Bank’s inclusion is not over.

Eleventh package talks

Having built up a successful banking business in Hungary, in the last decade the group has been expanding eastwards looking for new markets. It has built up a large business in Russia, and also operates in Ukraine where it is one of the largest 100% foreign owned banks on the market since 2006 after taking over RBI’s Ukrainian business.

Today the bank is the 11th biggest in the Ukrainian market and considered to be a "systemically important bank" according to the National Bank of Ukraine (NBU). For the first four months of 2023, OTP Bank earned a net profit of UAH2bn (€32.6mn).

OTP Bank continues to develop its international business with an ongoing exit from the Romanian market and entry to the dynamic Uzbek market.

OTP is currently looking to exit from the Romanian market and is in talks with four potential buyers in a deal that is estimated to be worth €300mn that may go through later this year.

The bank also closed the acquisition of a 73.71% stake in Uzbekistan’s Ipoteka Bank from the state on June 13. With this transaction, OTP Bank is in the vanguard of foreign banks setting up in the fast growing Uzbek market, following Georgia’s TBC Bank and Turkey’s Ziraat Bank into the market. OTB Bank has become the first foreign lender to participate in the privatisation of Uzbekistan’s banking sector, the bank said in a statement. ●
US chipmaker Intel to invest €4.6bn in Polish semiconductor assembly plant

Wojciech Kosc in Warsaw

Intel, the world's largest producer of microprocessors, will build a semiconductor assembly and test facility near the southwestern Polish city of Wroclaw, the US company said on June 16.

The €4.6bn project is the largest foreign investment in Poland's history, Prime Minister Mateusz Morawiecki told a press briefing held with Intel's CEO Pat Gelsinger.

“The €4.6bn project is the largest foreign investment in Poland’s history”

The plant in Poland will be an element of Intel's plan to build an end-to-end semiconductor value chain in Europe together with the company's existing wafer fabrication facility in Leixlip, Ireland, and its planned wafer fabrication facility in Magdeburg, Germany, Intel said.

The Polish plant will work on wafers manufactured in wafer fabrication facilities – so-called “fabs” – to cut them into individual chips, assemble them into final products and test them for performance and quality. The finished chips are then shipped to customers.

The Polish plant will create some 2,000 jobs on-site while also creating estimated thousands more for contractors of the US company.

The announcement from Intel comes on the heels of the COVID-19 pandemic shock of disruption to the supply of semiconductors, a critical element of today's economy.

To address that, companies began reshaping their supply chain, moving facilities to nearer and friendly countries in what has become known as nearshoring and friendshoring.

“Poland is already home to Intel operations and is well positioned to work with Intel sites in Germany and Ireland. It is also very cost-competitive with other manufacturing locations globally and offers a great talent base that we are excited to help to grow,” Gelsinger said in a statement.

Intel's investment in Poland is also in line with the EU's Chips Act, a €43bn plan to boost the EU's share in the global semiconductor value chain from the current 9% to 20% by 2030.

The factory near Wroclaw will cooperate with Intel's planned $32bn (€29.3bn) microchip manufacturing site in Magdeburg. The factory reportedly received €1bn support from the German government.

It is unclear how big the support from Poland will be for the plant near Wroclaw.
Armenia’s agriculture sector goes high tech

Clare Nuttall in Samarkand

Two new factors are putting farmers under pressure in Armenia: climate change and a fall in the competitiveness of the country’s agricultural exports due to the appreciation of the dram. The response to both of these has been a sharp increase in investments into new agricultural technologies, as outlined by Deputy Economy Minister Arman Khojoyan.

While both of these factors have negative effects on farmers, they have stimulated investment into robotics and smart agriculture technologies by farmers looking to increase productivity and make their products more competitive across a wider range of international markets.

“Integration of robotics and technology in the agriculture sector, often referred to as precision agriculture and smart farming, has great potential to revolutionise the industry by increasing productivity, efficiency and sustainability. Armenia, with its very significant share of agriculture in GDP, can benefit from this investment,” Khojoyan told the EBRD annual meeting and business forum in Samarkand in May.

“By leveraging robotics and automation, the tasks that were traditionally labour-intensive can easily become streamlined. Meanwhile the use of drones, sensors and data analytics can provide valuable insights on soil quality, crop health and yield predictably to enable farmers make data-driven decisions and optimise their production processes.”

Elaborating in an interview with bne IntelliNews on the sidelines of the event, Khojoyan said the government is supporting the process: “Armenian farmers are quite small, the lands are quite fragmented, so that is why efficiency is not that high in Armenia, and we are trying to increase that efficiency.”

According to the deputy minister, growth in agricultural output accelerated in 2022, though he warned that there are “different kinds of shocks which are negatively affecting the agricultural sector, and climate change is one of them. Our activity is to stabilise the sector, not to allow the sector to decline.”

On top of that, the agriculture sector in Armenia, like those around the world, is under pressure from climate change.

“One of the visible issues is the scarcity of water resources, and also the climate is changing and the vegetation is changing, so the traditional way of farming needs to be updated. This is also a new challenge for farmers [and they need to have new information about all these changes and to apply it],” said Khojoyan.

Price pressure

At the same time, the Armenian dram has appreciated, driven up partly by the arrival of thousands of Russians fleeing mass mobilisation in their home country. This has eroded the competitiveness of Armenian exports, including food and agricultural products.

“In the recent period, the Armenian national currency is experiencing rapid appreciation. In my opinion this can be the exact moment when the producers can benefit from investing in acquiring new technologies. We all understand that appreciation of the national currency in the short term also poses some negative effects but investing in technology has many advantages,” said Khojoyan.

The Armenian government is intensively supporting farmers and producers to update their production capacities and apply frontier technologies. Khojoyan named some of the areas the government is supporting, such as setting up intensive orchards to diversify the fresh produce market, and introducing smart farming and innovative greenhouses. In the last two years the active portfolio of these government projects exceeds $600mn, the deputy minister said.
“This technological advancement will enhance efficiency leading to increased productivity ... Companies can increase efficiency, optimise their costs, have quality products, diversify their markets and be competitive in local and international markets,” he told bne IntelliNews.

New tech sectors
According to Khojoyan, currently many of the new technologies being adopted by Armenian farmers are from international companies, but some are emerging within Armenia too, adding a new dimension to the country’s already thriving tech industry.

Asked about agritech companies within Armenia, Khojoyan said: “Yes, of course there are companies but these companies are quite small. We are currently creating an environment for these kind of companies to grow, joining efforts with the Ministry of High-Tech Industry, and also with the Agrarian University,” Khojoyan told bne IntelliNews.

“Arm being very prominent in the IT industry, it’s strange that it still doesn’t provide sufficient input in the agriculture sector. However there are companies founded by Armenians which are providing agricultural services in the US market, such as IntelinAir, which analyses data on crop growth and diseases.”

Khojoyan believes it is particularly important to involve young people in the agriculture sector in light of the challenges posed by climate change.

“This is a global problem: youth are not very interested in the agriculture sector, but it will be an important sector for the future because the population is growing and because of climate change natural resources are decreasing.

“In order to tackle these kinds of challenges, it’s important to combine technology and agriculture and make it attractive for the youth to come and innovate in the sector.”

It looks like Putin is getting his Central Asian gas deal after all

Ben Aris in Berlin

A tripartite gas union between Russia, Kazakhstan and Uzbekistan that Russian President Vladimir Putin started pushing last year is beginning to take shape. Initially reluctant to join, fearing becoming energy dependent on Russia, the necessities of developing their energy infrastructure have changed the minds of the leaders in the two ‘Stans.

In May Uzbekistan agreed to buy gas from Russia to alleviate a recent painful energy crisis by reversing the flow of Soviet-era gas pipelines connecting the two countries and this week signed a deal to import 2.8bn cubic metres a year from Russia. The price Uzbekistan will pay for the gas was not disclosed.

Central Asia has come under considerable pressure to break off relations with Russia. US Secretary of State Antony Blinken was there earlier this year to warn the ‘Stans not to facilitate sanctions-busting trade, but despite paying some lip service to the US demands it seems all five countries in the region have maintained business as normal.

“Following Russia’s invasion of Ukraine, any closer co-operation with Russia looks both risky and inconsistent, since Central Asian countries have been trying to distance themselves from an increasingly aggressive Moscow for the past year,” Temur Umarov, a fellow at the Carnegie Russia Eurasia Center, said in a note.

“But viewing revanchist Russia as the main threat to Central Asian states is more of an outside perspective. Local regimes are far more concerned by smouldering domestic discontent than by Moscow’s geopolitical ambitions, since the former...
could translate into socioeconomic protests at any moment. The events of this winter have demonstrated that gas shortages may well become the final straw,” Umarov added.

Kazakhstan has over 3 trillion cubic metres of natural gas reserves, while Uzbekistan has 1.8 tcm. The countries annually produce over 30 bcm and 50 bcm of gas respectively, which should be enough to cover domestic demand.

But the problem is that the rapid growth of domestic consumption, population growth and industrial development are increasingly straining their gas output.

Uzbekistan’s former energy minister, Alisher Sultanov, claimed in 2021 that the country had enough gas “for three Uzbekists.” But last winter inadequate heating and gas shortages caused blackouts in Tashkent in the depths of winter and countrywide disruptions that sparked protests.

The share of gas in Kazakhstan’s energy balance is constantly growing, says Umarov: 57% of people there had gas-supplied homes by the end of 2021, as opposed to 30% in 2013. In Uzbekistan gas accounts for over 80% of the national energy balance.

“Other reasons for the annual 7-10% increase in domestic consumption in Uzbekistan and Kazakhstan are population growth (1.5-2% a year), growing construction and industrial development. Industrial outputs are projected to increase by 4% in Kazakhstan and even more in Uzbekistan, which saw a record 9.5% growth in 2021,” says Umarov.

Early last year, the lack of gas sparked Kazakh protests in which over a million people took part. And last winter the energy crisis triggered local protests in Uzbekistan, costing many high-ranking officials their jobs as the otherwise popular regime of Uzbek President Shavkat Mirziyoyev took its first public relations knock.

Both Kazakhstan and Uzbekistan need more gas and the only countries they can turn to are Russia and Turkmenistan.

Turkmenistan has plenty of gas – annual production is over 80 bcm – but it has proved to be an unreliable partner, run as it is by the eccentric Turkmen President Gurbanguly Berdimukhamedov. In contrast, Russia not only has ample gas reserves but after being cut off from its European gas business is very keen to develop export routes running south and east.

The conflict in Ukraine has complicated Russia’s relations with Central Asia as the two try to find a new equilibrium that maintains economic ties, but avoids bringing down US secondary sanctions on the ‘Stans. For example, President Kassym-Jomart Tokayev was a guest of honour at last year’s St Petersburg International Economic Forum (SPIEF), but told Russian President Vladimir Putin to his face that Almaty refused to recognise the independence of the Donbas Republics, which caused a stir. Tokayev didn’t go to SPIEF at all this year, another slight. But the new gas hub the three counties are building shows their economies remain as tightly bound as ever.

Russia’s state-owned gas giant Gazprom continues to have significant influence in Uzbekistan’s energy sector through partnerships with local oligarchs.

“A recent investigation by Ozodlik radio revealed that Gazprom and Uzbek oligarchs control Uzbekistan’s key oil and gas fields through a network of offshore companies,” reports Umarov.

Sanctions on Russia and the end of its westward deliveries of over 150 bcm a year have opened the opportunity to negotiate favourable gas prices. It is now a buyer’s market and prices for Russian gas are potentially lower than what China pays for gas it imports from Central Asia. Currently undersupplied, Uzbekistan could easily expand its imports from Russia’s massive surplus of gas. In public Tashkent said last winter that it had to break its gas export commitments to China in the winter due to its energy crisis. However, Umarov reports that a $380mn-$450mn discrepancy in Chinese trade statistics suggests that Tashkent actually continued to export the gas to China, but hid this fact from the public.

Importing Russian gas for domestic use at low Russian prices could allow for increasing more expensive exports to China in what should be a lucrative business, Umarov speculates.

However, the public remains wary of deals with Gazprom. Reports suggesting that Gazprom was seeking ownership of the Central Asian countries’ gas pipelines sparked controversy and were quickly denied by the governments.

The tripartite gas deal is an economic win for all three parties, but it presents a problem diplomatically, as it further increases Russia’s clout in the region at a time when the ‘Stans are seeking to distance themselves a bit more as a result of the new geopolitical realities. Russia is due to start gas shipments to both Kazakhstan and Uzbekistan this month. ●
PwC study reportedly finds Uzbek gold giant Navoi victim of hundreds of millions of dollars in supply chain overcharging

Ben Aris in Berlin

Deloitte’s victory in winning the contract to audit the first full set of Western-standard financial statements of the company that operates the world’s largest gold mine – Navoi Mining and Metallurgical Company (Navoi, or NMMC), which runs the vast Muruntau mine in the deserts of Uzbekistan – could prove an embarrassment, according to The Sunday Times.

The UK daily reported on June 17 that “within months of its [Deloitte’s] audit for 2020 and 2021 being signed off last May, a report, by the rival PwC concluded that Navoi had been the victim of over-charging totalling hundreds of millions of dollars in its supply chain. They were caused, PwC said, by serious weaknesses in its procurement system”.

The PwC study was commissioned by Navoi’s supervisory board and seen by the Sunday newspaper. It reportedly outlined how Navoi purchased machinery from companies including digger giants Caterpillar and Komatsu through middleman companies that, despite competitive tendering, devised tricks, such as fake bids, to artificially inflate the sums Navoi was paying.

This, the report was said to have concluded, was because Navoi’s purchasing process created “false visibility of the market”. Between 2019 and 2022, PwC reportedly assessed, Navoi overpaid by between $380mn and $427mn.

However, Deloitte gave Navoi’s figures, showing an annual profit of $2.5bn, the all-clear.

The Sunday Times wrote that suppliers Komatsu and tyre company Michelin said they had hired law firms to conduct investigations after the newspaper brought the PwC report to their attention. In the cases of these two companies, the report alleged tender process manipulation by Uzbek company Trade Group and Dubai-based Empyrean Heavy Machinery Spare Parts Trading LLC.

An Empyrean spokesman was quoted as saying the company was aware of the findings, but declined to comment on specific allegations. Trade Group was reported as not replying to numerous attempts by the investigating reporters to contact it.

A Caterpillar spokeswoman was cited as saying: “Caterpillar believes fair competition is fundamental to free enterprise. We observe antitrust and competition laws where we do business. We are not involved in any arrangements, understandings or agreements with competitors affecting prices, terms upon which products are sold, or the number or type of products manufactured or sold.”

The PwC report was also reported as showing that Dubai company Empyrean supplied large quantities of Komatsu vehicles and equipment to Navoi, with one 2020 contract worth $41mn for the provision of Komatsu mining trucks – though Empyrean was, it was claimed, competing against several companies that did not submit tender proposals or submitted allegedly forged paperwork.

Komatsu hired the Washington office of law firm Reed Smith to investigate the issue. A representative of the law firm was quoted as saying: “Neither Empyrean nor Trade Group are Komatsu partners. Komatsu does not know or have any relationship with Empyrean or Trade Group… Prior to receiving the information [from The Sunday Times], Komatsu was not aware of Empyrean or any involvement by Empyrean in the supply of Komatsu equipment.

“Komatsu... is actively investigating the allegations. Komatsu will take appropriate action, if necessary, to ensure its continued compliance with all applicable laws.”

A spokesman for Michelin was reported as responding: “Michelin strongly forbids any violation of the laws in each country where we operate directly or indirectly, as stated in our codes of ethics and our anti-corruption code of conduct.”

When asked why Deloitte gave a clean bill of health to the Navoi accounts, a spokesman for the auditor in London was said to have replied: “Our professional standards prohibit us from commenting on entities we audit.”
After one year of operations, Russia’s McDonald’s replacement outperforms the original

Vkusno I Tochka, the fast food chain established following the exit of McDonald’s from the Russian market, is already outperforming the American chain after just a year of operations, the company has revealed.

McDonald’s made the decision to exit Russia in March 2022 due to significant pressure exerted on the company following President Vladimir Putin’s full-scale invasion of Ukraine. By June 2022, all of the company’s restaurants had been sold to local licensee Alexander Govor, who renamed the chain “Vkusno I Tochka” (Tasty, period). One year later, Vkusno I Tochka has successfully rebranded over 860 outlets throughout the country and has served more than 400mn burgers and 200mn servings of fries to its customers. The company claims to have approximately 1.8mn people come through its doors daily.

Speaking at a press conference commemorating the anniversary, Govor explained that Vkusno I Tochka had received over 500mn visits in the past year. He further revealed plans not only to reopen and rebrand all former McDonald’s restaurants, but also expand into new, remote cities that had previously been out of reach of the iconic American fast food brand.

“At the end of May 2023, our share among the three major fast-food players was 58%,” Govor said. “This exceeds the best performance of our predecessor [McDonald’s] and the combined share of our two main competitors. These results have been achieved thanks to the rapid refurbishment of the menu and key services.”

The best performance of McDonald’s in Russia, in terms of both sales and operating income, occurred in 2021. In 2023, Vkusno I Tochka’s sales have consistently surpassed the sales of the corresponding months in 2021.

In an interview with the Russian state-run media RIA Novosti, Oleg Paroev, the CEO of Vkusno I Tochka, disclosed that the company achieved its break-even point in autumn 2022, despite incurring various expenses, including rent and salaries, during the three-month period following McDonald’s departure and the subsequent rebranding and reopening of the outlets.

“When we started operating as Vkusno I Tochka on 12 June last year, the businesses opened gradually, and the entire chain was fully operational only by the end of September,” Paroev explained. “At that time we were working with a limited menu and set of services. But for all that, from autumn onwards, we reached the break-even point, and as far as plans for this year are concerned, we plan to run it at a profit.”

According to Paroev, the company’s biggest difficulties have been replacing popular menu items from McDonald’s, such as the Big Mac and Happy Meal, and managing increased costs while striving to maintain a low-cost business model and generate profits.

“The ruble exchange rate has risen, we are no longer part of a large corporation so we no longer receive the substantial discounts for volumes, and logistics are now becoming a very significant factor in production costs,” he explained. “The average increase in the cost of our products for the whole year has not exceeded 4%. It is very important for us to remain affordable.”

Despite experiencing initial growing pains when the chain first opened, Vkusno I Tochka’s popularity has continued to rise. Concerns about a potential decline in quality control and the standard of produce, in comparison to McDonald’s renowned consistency across different locations worldwide, have proved unfounded. Furthermore, after months of struggling to develop the sauce, Vkusno I Tochka has successfully introduced its own copy of the iconic Big Mac, named the Big Hit. The restaurant now even offers seasonal promotional items, such as the current Spanish-themed ‘Barcelona Burger’ that includes beef, bacon and Emmental cheese.

However, despite a nationwide advertising campaign, constant TV commercials and collaborations with high-profile actors Yulia Peresild and Miloš Biković, most Russians still continue to refer to Vkusno I Tochka by its old name.
“It tastes the same, it looks the same and all the menu items I like are still on sale,” one student in Vkusno I Tochka in Moscow’s Bauman Region told bne IntelliNews. “So I still call it MakDak.”

bne IntelliNews’ correspondent in Moscow also had the opportunity to try the Big Hit and verified that it tastes identical to McDonald’s classic Big Mac.

Vkusno I Tochka is not the only Western fast-food brand to have undergone a rebranding and name change in the past year. In April, former KFC restaurants in Russia began reopening under the new name Rostic’s. This change took place after Yum! Brands, the US owner, completed its exit from Russia and transferred the rights to a local company named Smart Service. Despite the rebranding, Smart Service has chosen to retain its employees, suppliers and the KFC menu, with only a few dishes receiving new names. The distinct red-white colour scheme and the iconic KFC buckets, which have become synonymous with the brand, will also remain unchanged. Over the next 18 months, the company plans to convert all KFC locations in the country to Rostic’s.

Other changes include Stars Coffee (Starbucks) and Pizza N (Pizza Hut).

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**EC bans Ukrainian grain imports to Central Europe for another five months, Kyiv bans sugar exports in response**

*Wojciech Kosc in Warsaw, Ben Aris in Berlin*

Five EU member states bordering Ukraine will be allowed to keep some of their restrictions on imports of Ukrainian agricultural produce in place until September 15, the European Commission decided on June 5.

The governments of Bulgaria, Hungary, Poland, Romania and Slovakia complained that cheap grain from Ukraine had hurt their local agricultural producers by making production unprofitable.

The EC has now presented Poland with a draft regulation that would extend the existing ban on the import of wheat, maize, rapeseed and sunflower from Ukraine to the five countries, Polish Agriculture Minister Rober Telus said on June 5. The proposed ban will run until September 15, according to Telus, and will go into effect from June 6.

**Imports restricted**

Imports of Ukrainian grain to Central Europe were restricted in May after prices on EU markets tumbled thanks to excess imports of cheap Ukrainian grain.

The Commission also allocated a financial support package worth €100mn to farmers in the five EU member states most affected by agri-food imports from Ukraine to compensate their losses.

To help Ukraine get its grain to international markets after exports through the Black Sea were impeded by Russia, and to prevent a global food crisis, the EU agreed last year to temporarily liberalise conditions for export via the EU until June 5 and to create “Solidarity Lanes” to expedite this.

Nominally the grain, delivered to the EU via rail, was destined for low income markets like Africa, however, as bne IntelliNews reported, the majority was sold to European companies as livestock feed or feedstock for ethanol fuel production.

Much of this grain remained in the bloc’s CEE members, creating a glut that drove down prices, hurting the region’s farmers, who lobbied their governments for a ban on further imports of Ukrainian grains.

Countries in the region initially imposed unilateral national bans on Ukrainian grain exports, despite criticism from the Commission and other member states that this was against EU rules. This promoted the European Union to impose restrictions.

However, the previous ban on the import of wheat, maize, rapeseed and sunflower seed expired on June 5.

**Phasing out**

Despite the extension, the Commission stressed that the restrictions will not continue indefinitely. “The EU is phasing out ... the exceptional and temporary preventive measures adopted on 2 May 2023 on imports of wheat, maize, rapeseed and sunflower seed from Ukraine,” the Commission said in a statement.

“The scope of these measures is further reduced from 17 to 6 tariff lines for the 4 products covered," the Commission also said.
The EU executive said that the limits on Ukrainian imports are “necessary for a limited period of time given the exceptional circumstances of serious logistical bottlenecks and limited grain storage capacity ahead of the harvest season” in the five affected countries.

Brussels has now prolonged the liberalised rules for another year but gave the five most affected member states additional time until September 15 to deal with the challenges brought about by the imports.

Kyiv has complained to Brussels as the export of grain is one of the few hard currency earners available to the war-torn country.

Poland has been one of the countries most affected and actively lobbied for the ban, despite being one of Ukraine’s most ardent supporters, which highlights the power of the agricultural lobby. With important elections later this year, the government in Poland is fearful of hurting its farmers ahead of the vote.

The ban will pressure Ukraine to find alternative markets at a time when the Black Sea grain deal that was renewed on March 18 for another 120 days is not working well, as Russia drags its heels on ship inspections that prevent them from leaving port.

Ukraine’s agro-exports down
The ban on Ukraine’s grain exports to the EU has already hurt the balance of payments for the cash-strapped government.

The volume of Ukrainian agricultural exports in May hit a 9-month low with the total export of agricultural products from Ukraine down by 3% compared to April, to 5.1mn tonnes, according to the agricultural association, UBN reports, due to problems with the grain corridor.

In May, the Russians stopped the operation of sea exports, did not allow new vessels to pass through the corridor, and, even after the grain corridor resumed operation, have significantly hindered its process. Only 1.3mn tonnes of agricultural products were exported through the grain corridor in May, which is 26% of the monthly export. In March, almost 4mn tonnes of products were exported through this channel.

In May, compared to April, the export of grain crops decreased by 11% to 3.5mn tonnes. Sunflower oil exports fell by 14% to 484,100 tonnes, while cake exports increased by 70% to 445,000 tonnes.

Tit-for-tat sugar ban
Ukraine responded to the EU grain embargo by banning the export of sugar. A sugar shortage is expected in Hungary – the largest importer from Ukraine. According to Observator News, from October 2022 to April 2023 it imported almost 85,000 tons of Ukrainian sugar, 26-times more than the previous year. Romanian sugar imports from Ukraine account for 30% of the total sugar imports in the EU. In addition, there are currently only two sugar factories left in Romania.

“Kyiv has complained to Brussels as the export of grain is one of the few hard currency earners available to the war-torn country”

The Cabinet of Ministers of Ukraine introduced a temporary ban on the export of sugar, which will be in effect from June 5 to September 15. The Ministry of Economy explained that the decision was made to avoid a shortage of sugar in the summer-autumn period in the domestic market.

In an effort to export more grain by other routes, Ukraine’s Ministry of Infrastructure says the government had approved a procedure for indemnifying civilian vessels entering its ports for damages if they can’t get insurance.

Launching the damage compensation mechanism will allow charterers and shipowners to continue to enter Ukrainian ports regardless of the grain agreement’s status. Insurers won’t cover ships if the Black Sea grain deal that was renewed on March 18 for another 120 days is not in force for fear of the ships being attacked and destroyed.

The Ukrainian government will pay compensation to the shipowner whose insurer has refused in writing to indemnify damage caused by the war. Only shipowners who have concluded an insurance contract or a P&I (Protection and Indemnity) policy under the procedure established by the legislation of Ukraine or another state will have the right to compensation. To receive compensation, the shipowner can submit a specified package of documents to the Ministry of Infrastructure no later than 90 calendar days from the date of receipt of their insurer’s refusal to pay. Ukraine has UAH20bn (S$545mn) to pay such compensation.

A nasty row has broken out between Central European countries and Ukraine. The EC has extended a ban on Ukrainian grain imports that hurt EU farmers, leading Ukraine to ban sugar exports to the EU. / bne IntelliNews
Russia’s economy gets a war boost from tripling defence production

Ben Aris in Berlin

Russia’s economy has been boosted by a tripling of defence production in the last year, Russian President Vladimir Putin said at St Petersburg International Economic Forum (SPIEF) on June 14.

Russia was quick to put its economy on a war footing after the invasion of Ukraine last February and arms factories in the hinterland have been working 24/7 with triple shifts to produce enough materiel to keep Putin’s war machine running, according to local reports. Much of Ukraine’s manufacturing base has been destroyed making Kyiv dependent on supplies from its Western allies.

Russia’s defence production increased 2.7-fold over the year, and by more than 10-fold for the weapons in most demand, Putin told a meeting of military bloggers on June 13.

Putin added that dozens and hundreds of private Russian companies that previously had nothing to do with the military-industrial complex have also been pressed into service.

“We have dozens, hundreds of private enterprises that have never had anything to do with the military-industrial complex and have joined this work,” he said.

In a previous interview Putin said that Russia was also producing hundreds of new tanks and the production capacity for the crucial 155mm shells, the workhorse of the Russian army, would reach 2mn rounds a year this year.

Ukraine was given 1mn 155mm shells by the US at the start of the war, but since the end of Cold War US shell production was downsized and can only produce around 100,000 rounds a year, although that has recently been boosted to 150,000 according to US reports.

The frenetic military activity has begun to show up in Russia’s economic statistics. Industrial production has been contracting since April last year thanks to the shock of the sanctions and wide spread shortages of essential inputs that had previously been imported.

However, industrial production turned positive again in May and grew strongly in April thanks to a low base effect and as factories continue to ramp up production. Industrial output grew by 5.2% y/y in April, up from 1.2% y/y in March. RosStat’s own seasonal adjustment showed growth of 1.7% m/m in April, the fastest pace since late-2021.

“The defence sector is now one of the main drivers of the Russian economy,” the Bank of Finland institute for Emerging Economies (BOFIT) said in its weekly update. “Defence and security is the single largest area of spending in 2023 and, by June 1, almost 60% of those funds had already been allocated.” Production and supply of weapons has increased seven-fold, Deputy Prime Minister Denis Manturov said last month.

There is also a drive to repair and supply tanks and armoured vehicles. According to Manturov, deliveries of repaired vehicles in the first quarter of this year were equivalent to the total deliveries throughout 2022.

The war-bump to the economy has also lifted the manufacturing PMI, which has been positive for the last four months. Unemployment has also fallen to 3.3%, a post-Soviet low, as the labour market tightens thanks to the emigration of well over a million young men fleeing Russia and another 300,000 that were conscripted.

The shrinking labour pool is worrying the Central Bank of Russia (CBR) which warned in its last economic update there was a danger of the economy overheating as the war shocks wear off.

“One of the surprises of this war has been how stable the Russian economy has been,” Elina Ribakova, non-resident senior fellow at the Peterson Institute for International Economics, told bne IntelliNews.

While the rest of Europe slides into recession as a result of the polycrisis – and Germany and the UK are already in technical recession – the International Financial Institutions (IFIs) have upgraded Russia’s economic outlook several times this year and are expecting mild growth in 2023. The Russian
Economics Ministry is forecasting growth of 1.2% this year, the CBR are predicting growth in the range of 1%-2% and Putin is the most optimistic of all, predicting growth of 1.5%-2% this year.

Money is being poured into the defence sector that is having a trickle-down effect and boosting real incomes and consumption. In parallel with the growing investment, inflation has fall to a mere 2.5% in May, lifting real incomes further and fuelling consumption.

However, the economy may cool somewhat in the rest of the year as Russian Finance Minister Anton Siluanov tries to keep spending under control. The budget deficit hit is full year target after the first ten days of March and is currently 17% over plan at RUB3.4 trillion ($48bn) as of the end of May.

The rate of state spending has already started to gradually slow, but remains high. The Finance Ministry has said that, from January through May 2023, spending was up 27% on the equivalent period last year (reaching RUB13.2 trillion).

"While monthly spending dynamics are approaching normal levels, they are still a long way from seasonal norms," BOFIT said.

The Crimea was a once much-loved holiday destination, but is being shunned by regular Russians this year as it becomes more and more dangerous

First there were fears that the Crimea might be attacked at any moment by Ukrainian long-range missiles as part of the looming counter-offensive and now there is no water after the Nova Kakhovka dam was destroyed. Russians have spurned the previously much-loved semi-tropical peninsula as a holiday destination this year with reservations falling to only 1% of normal holiday bookings, The Bell reports citing tourist agency Ostrovok.ru’s numbers.

The peninsula’s share of hotel and vacation rental bookings has dropped to 1% year on year. The main reasons for this decline are the limited transportation accessibility after airports were closed, and the Kerch bridge bombing on October 8 last year that links Russia’s mainland to the peninsula remains in the background.

Recognising the inevitable failure of this tourist season, Crimean authorities have pledged state support to the industry. Meanwhile, it appears that tourists who have chosen to forgo trips to Crimea are redirecting their plans towards Sochi and other cities in the Krasnodar region, also traditional holiday destinations, where there is a surge in demand for vacation rentals.

According to Ostrovok.ru, a booking service, Crimea’s share of hotel and vacation rental bookings for the summer has plummeted to 1% this year, down from an equally disastrous 3% last year after the war in Ukraine started. Prior to that the Crimea led the way with a 19% share of bookings. Similar data from the "Sutochno.ru" booking service confirms the decline, indicating that Crimea accounts for only 3% of summer bookings when considering daily apartment and house rentals.

Traditionally the southern Black Sea cities of Yalta, Sevastopol and Feodosia have been popular destinations for tourists in Crimea. However, even in these cities, rental prices for summer accommodations have dropped by 7-8% due to the low demand, while Russian resorts overall have witnessed a 15% increase, according to Sutochno.ru, The Bell reports.

The low demand for vacations in Crimea is further supported by a survey conducted by state-owned Russian Public Opinion Research Centre (VTsIOM), which reveals that the percentage of Russians planning to spend their upcoming vacations on the peninsula has fallen to the level seen during the pandemic year of 2020 of 5%.

In contrast, as reported by bne IntelliNews, Turkey is bracing itself for a surge in Russian tourists this summer: more than 7mn Russians are expected to vacation there, up from the usual 4mn-5mn that visit the country every year.

www.bne.eu
The situation in Crimea has been made even worse following the destruction of the Nova Kakhovka dam as locals report that the water quality is already noticeably worse only one day after the facility was blasted apart.

Market participants noted that even Crimean residents were travelling less outside the peninsula due to limited transportation options, primarily opting to explore destinations within their region, reports The Bell.

Kommersant reports that many tourists perceive Crimea as an “unsafe destination,” according to market participants interviewed by the publication in early May. Since then, the situation has become even more dangerous as fighting in Ukraine has spilled over into Russia proper in the last weeks. There are now regular reports of downed Ukrainian drones inside Russia and the arrival of evacuees from the Belgorod region.

The Crimean authorities are offering state support to the industry of over RUB2bn from the budget to ensure that hotels can provide their employees with a minimum wage in the absence of tourists.

As tourists who have chosen to skip Crimea this year appear to be turning their attention to Sochi, demand for hotels in that city has reached a five-year high. Sochi accounts for 15% of all bookings in Russia for this summer. Anapa and Gelendzhik in Krasnodar, which has a climate similar to France, are also experiencing high demand. Overall, the Krasnodar region has captured nearly a third (28%) of all bookings this year.

Additionally, there is an increasing demand for vacations in Dagestan and the Rostov region in southern Russia. Naturally this has led to a significant increase in prices for vacation rentals in these areas. In Sochi, the average cost of accommodation has risen by approximately one-third compared to last year, while in Gelendzhik, it has gone up by a quarter.

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Additionally, there is an increasing demand for vacations in Dagestan and the Rostov region in southern Russia. Naturally this has led to a significant increase in prices for vacation rentals in these areas. In Sochi, the average cost of accommodation has risen by approximately one-third compared to last year, while in Gelendzhik, it has gone up by a quarter.

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Additionally, there is an increasing demand for vacations in Dagestan and the Rostov region in southern Russia. Naturally this has led to a significant increase in prices for vacation rentals in these areas. In Sochi, the average cost of accommodation has risen by approximately one-third compared to last year, while in Gelendzhik, it has gone up by a quarter.

The Crimean authorities are offering state support to the industry of over RUB2bn from the budget to ensure that hotels can provide their employees with a minimum wage in the absence of tourists.
Speculation suggests that Hafize Gaye Erkan, a finance industry professional who served as co-CEO at First Republic Bank in the US, will be appointed central bank governor. The incumbent, Sahap Kavcioglu, remains in his post, however.

To recap, the Erdogan regime needs those hot money inflows. To play ball, the finance industry is demanding a chunky lira devaluation in advance as well as a shock policy rate hike further down the road.

In the bargaining for the devaluation, 25 and 27 to the dollar are among the numbers regularly talked of for the USD/TRY pair, while a benchmark rate of 25% has been suggested by some investment banks as the figure Turkey’s next rate-setting meeting should go for.

Prior to Simsek’s appointment, the visible impacts of the overvalued lira on the real economy and the gaping trade deficit suggested that a devaluation was inevitable. In such a case, an ongoing controlled devaluation will continue until the first monetary policy committee (MPC) meeting. Then, a front-loaded rate hike will open the doors for a flood of hot money inflows. If a 30-40% USD-denominated return in a few months of maturity is on the table via government lira papers, it will be hard for the finance industry to say No.

If the rate hikes are delivered gradually, then the portfolio inflows will be limited. The finance industry will hold back until the policy rate reaches its peak.

The next rate-setting meeting is scheduled for June 22. The key rate currently stands at 8.5%. For May, the Turkish Statistical Institute (TUIK, or TurkStat) released official consumer price index (CPI) inflation at 39.59% y/y.

After delivering a front-loaded hike that would bring the policy rate to above 20%, the central bank could argue that the hike will bring official inflation to below the policy rate. Given that the TUIK will be expected to deliver the required inflation figures, there’ll be a guarantee that more rate hikes would not be a risk.

Akin Nazli in Belgrade

With Turkey never far from a headline that suggests it’s set for a financial implosion, newly appointed finance minister Mehmet Simsek has his work cut out trying to persuade international investors to return to a country where so many have had their fingers badly burned.

On the one hand, Turkey is desperate for quick capital inflows, on the other it has a re-elected president, Recep Tayyip Erdogan, who’s famous for peculiar monetary and other economic policies that tend to trigger panicky outflows. So the global markets want to be damn sure that it’s Simsek – a former Merrill Lynch regional chief economist in London who’s on his second stint as Erdogan’s financial czar – who’s in control and not the strange strongman.

Simsek knows his immediate priority is strengthening his ministry’s team and designing a credible programme. On June 8, Simsek (@memetsimsek), who was appointed as finance minister six days earlier, blew some kisses to investors, sending out an English-language tweet. “Our guiding principles... will be transparency, consistency, accountability and predictability,” he wrote.

He also affirmed his commitment to rules-based policy making to enhance said predictability. There are no short cuts or quick fixes, he avowed.

In Turkish-language tweets, Simsek asked for patience and time. “Please do not trust any news or rumours that you have not heard from me regarding our practices and policies,” he wrote.

The tweets amounted to the first communication to the outside world by Simsek since he said on June 4 during the ceremony for Erdogan’s new cabinet: “Turkey has no alternative but to return back to rational ground. A rule-based Turkish economy would help us reach long-awaited prosperity.”

Fifty-six-year-old Simsek’s a veteran pro by now. He knows the keywords, the buzzwords and the jargon, and he knows the required steps to attract hot money inflows. Analysts don’t know if he’s convinced Erdogan to hike rates. Does he know?
On June 8, the USD/TRY rate in the interbank market remained in the 23s after posting a 6% d/d jump a day ago. A new record high of 23.56 was registered on June 7.

Free market prices at the Grand Bazaar in Istanbul were also hovering in the 23s. Lately, the gap between the interbank and the Bazaar rates has narrowed with the government allowing the lira to depreciate in the interbank market.

Turkey’s FX market has long been marked by its lack of free status. The Erdogan regime has been controlling the interbank market via government-run banks.

Amid the booming lira supply and hard currency outflows via unprecedented trade deficits, officials have only managed to keep something of a grip on the lira by strong-arming bankers into blocking (non-capital controls) and suppressing (macroprudential measures) domestic FX demand. Also supportive are those unidentified inflows and other assistance from “friendly countries”.

The Turks, meanwhile, terrified of the lira, have been piling up cryptocurrency, cars and gold. The KKM FX-protected deposits scheme rose to TRY 2.53 trillion as of June 2 from TRY 2.5 trillion as of May 26 while the USD-denominated amount declined to $122bn from $125bn thanks to the lira depreciation.

Prior to June 1, local banks were offering interest payments in advance for conversions from FX-linked deposits to the KKM. Some 30-40% for advance payments were pronounced, meaning that the banks were depositing $300,000 in advance in accounts converting $1mn worth of FX-linked deposits to the KKM. The central bank scrapped the advance interest payments as of June 1 as pre-election pressure on the USD/TRY was lifted.

To help break FX demand, the government has also permitted local banks to introduce higher lira deposit rates. As of May 26, the weighted average lira deposit rate with maturities of up to three months reached 34%.

As of June 2, the KKM accounts for 24% of total deposits.

€4bn Neptun Deep offshore gas project in Romania officially set for completion in 2027

Iulian Ernst in Bucharest

MVM Petrom and Romgaz, 50:50 partners in the Neptun Deep natural gas project in Romania’s Black Sea, announced separately that they agreed to begin a development plan aimed at beginning production in 2027.

The field is expected to cover most of Romania’s gas consumption of around 12bn cubic metres (bcm) of gas per year, generating significant export potential. Total development capex is estimated at up to €4bn, to be spent mostly during 2024-2026.

OMV Petrom repeatedly deferred its investment decision for several years until the authorities amended the Offshore Law in mid-2022 in a form closer to what the company expected. In the meantime, OMV Petrom became the project’s operator, as ExxonMobil sold its 50% stake to Romanian state-controlled natural gas company Romgaz.

“This is a major step forward in our Strategy 2030 execution and will bring a significant shift in our portfolio. Our proposition to shareholders remains growth in investments, increase in profitability and in dividends – all while securing a sustainable long-term business through our energy transition,” stated Christina Verchere, CEO of OMV Petrom.

Romgaz deputy general manager Aristotel Jude said that “the decision is a historic one for all interested parties and will bring undeniable benefits to Romania’s energy security and independence.”

The estimated recoverable volumes are currently at around 100 bcm (700mm barrel oil equivalent or boe). Plateau production is estimated at about 140,000 boe (238,000 MWh) per day for almost 10 years.

At a price of €38 per MWh (currently prevailing in the market), the value of the recoverable natural gas is worth €44bn. Unit production cost is estimated at an average of $3 per boe (or $1.76 per MWh) for the life of the field.
Romanian hydropower giant Hidroelectrica announces imminent IPO

Iulian Ernst in Bucharest

Hidroelectrica, the biggest power generation company in Romania, announced on June 6 that its shareholder Fondul Proprietatea intends to proceed with an initial public offering (IPO) to sell all or part of its 19.94% stake.

Hidroelectrica has a 100% renewable portfolio with an installed hydropower production capacity of approximately 6.3 GW and an installed onshore wind capacity of 108 MW from the Crucea wind farm.

“We are well positioned to continue the growth trend with a clear strategy focused on operational efficiency, diversification and expansion of the business and ensuring return on capital, all supported by a favourable long-term sectoral and macroeconomic environment,” said Bogdan Badea, Hidroelectrica’s CEO, in a press release.

The IPO was discussed for the first time at Hidroelectrica in 2013 when the company was supposed to issue new shares and raise capital for development.

Based on the updated valuation report using discounted cash flow method as the primary valuation method updated with the financial information as of March 31, 2023, Fondul Proprietatea revised downwards the estimated value of Hidroelectrica to RON54.3bn (€11bn) in May 2023, from RON55.7bn at the end of December 2022. The fund’s 20% stake was thus valued according to a report published on the Bucharest Stock Exchange at RON10.86bn (€2bn). No updated valuation in connection to the IPO has been made available yet.

Under the structure proposed by Fondul Proprietatea, the IPO would, however, safely be the largest in the history of Romania’s capital market, above the RON1.9bn (€428mn) IPO by the electricity utility Electrica in 2014.

The offer will take place after the approval of the prospectus by the Romanian Financial Supervisory Authority (ASF). Hidroelectrica says it plans to apply for admission of its shares to trading on the regulated market of the Bucharest Stock Exchange. The admission is expected to take place in July 2023.

The IPO will consist of a public offering to retail and institutional investors in Romania and an offering to eligible international institutional investors. The exact calendar of the IPO and listing, the number of shares to be initially offered and the target price will be determined at a later date, Hidroelectrica announced.

Fondul has previously received shareholder approval to dispose of its entire 19.94% holding in the IPO and list the shares at the Bucharest Exchange. The company itself will not raise new capital in connection with the offering and will not receive any proceeds.

“We are well positioned to continue the growth trend with a clear strategy focused on operational efficiency, diversification and expansion of the business and ensuring return on capital”

Citigroup Global Markets Europe, Erste Group, Jefferies, and Morgan Stanley Europe are the joint global coordinators of the Hidroelectrica IPO. BCR, Barclays Bank Ireland, BofA Securities Europe, UBS Europe, UniCredit Bank, and Wood & Company Financial Services are joint bookkeepers. Auerbach Grayson, BRD-Groupe Societe Generale, BT Capital Partners, and Swiss Capital are joint managers.

Rothschild is Fondul Proprietatea’s financial consultant for the transaction while STJ Advisors is the company’s financial consultant.
Nasdaq decides not to delist Russian tech giant Yandex’s shares

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US stock exchange Nasdaq has decided not to delist the Russian tech giant Yandex NV from its New York exchange, provided the company completes plans to sell off all its Russian assets, the company announced on June 8.

On March 15, shortly after the outbreak of the war in Ukraine, Yandex received a notice from Nasdaq’s Listing Qualifications Staff informing the management that the company’s Class A ordinary shares would be delisted from the US exchange as part of the extreme sanctions imposed on Russia and its leading companies.

Yandex appealed against the decision and began the process of ditching its Russian assets, which are in the process of being sold off, but has kept some of its non-Russian assets in the US listed entity.

A hearing was held before the Nasdaq Hearings Panel on April 27 to consider Yandex’s appeal.

On June 6, 2023, Yandex was told the Hearings Panel had decided to grant Yandex’s request and to continue its listing on Nasdaq, subject to certain conditions related to the timing and implementation of Yandex’s proposed corporate restructuring. Specifically, Nasdaq insisted that ownership and control of a number of core Russian businesses must be sold by the end of 2023.

Trading in the company’s shares on Nasdaq was halted on February 28 and the shares remain frozen, despite the positive decision by the exchange. The trading of Yandex NV’s Class A shares on the Moscow Exchange has been unaffected and continues as usual, the company said.

Yandex’s board of directors is in the process of restructuring the company and have received proposals from a number of potential investors to acquire the company’s core businesses, including all the Russia-based businesses.

Russia’s President Vladimir Putin greenlit the sale of the controlling stake in the internet giant Yandex to VTB Bank and billionaires Vladimir Potanin, Vagit Alekperov, Alexei Mordashov and VTB Bank on May 22.

But Yandex’s board resolved on May 25 that new shareholders will not get control over the company after the restructuring, which will continue to be run by its management.

“The new economic investors will not have control over the company. As with the current corporate structure, Yandex’s management will retain control,” the press service said as cited by Kommersant on May 26.

After the split of Russian internet major Yandex local investors are expected to take over 51% of the Russian entity for about $4bn (total $8bn valuation), while the minority stake of 49% will be retained by Netherlands-based Yandex NV, which is the legal entity listed in New York. About a dozen bidders of Russia’s richest oligarchs submitted bids for the company, with Potanin and Alekperov previously reported in the lead.

“The company’s goal is to bring a restructuring proposal to shareholders for approval later this year. After the company enters the binding agreement with respect to the divestment, it will publish a shareholder circular and the proposed restructuring will then be subject to shareholder approval (including separate approval of Class A shareholders),” Yandex said in a statement.

Volozh’s family trust (45.1%) and the company’s board members, managers and employees (6.6%) were the main owners of the voting shares. However, the Volozh family trust no longer has any voting rights in the company. In 2022, the trust transferred its voting rights to the company’s independent board members, according to a spokesperson for the family.

The state Public Interest Fund established in 2019 controls a “golden share” in the company. It is understood that the PIF will drop down to the Russian entity as a result of the restructuring.

Famed as the “Google of Russia” Yandex’s search and portal segment continues to earn more than half (54%) of its revenue of some $2bn last year. However, prior to Russia’s military invasion of Ukraine, Yandex was looking to boost the monetisation of its technologies on the one hand and leverage them to support its international expansion on the other. Apart from e-commerce, its investment case previously rested on developments in transportation, fintech and foodtech, with the developed ecosystem seen as a key advantage. Yandex was Russia’s leading developer of AI and driverless technologies.
Russian supermarket giant Magnit offers to buy out global investors at a 50% discount

Ben Aris in Berlin

Russia’s biggest supermarket chain Magnit has offered to buy out its international investors, whose shares in the company have been blocked due to sanctions-related capital restrictions, at knock-down prices.

Magnit said its indirect subsidiary is offering to buy as much as 10% of the company shares at a price of RUB2,215 per share ($26.4), “for the purpose of providing liquidity to investors.” That price is a 50% discount to the previous six months weighted average of Magnit’s shares. The price of Magnit’s shares on the Moscow Exchange at the end of trading on June 16 was RUB4,500.

As the buyout is capped at 10% of the shares, worth a total of RUB22.57bn ($269mn), the company said that if investors with shares collectively worth more than that amount apply to participate, then the buyout will be allotted on a proportional basis.

Magnit had to obtain a special permit from the Russian government commission to launch this deal, as large amounts of dollars cannot be sent abroad without the express permission of the Central Bank of Russia (CBR) under the current wartime capital controls.

The buyout price was determined in accordance with the decision of the government commission, which insists that foreigners can only sell out from the local companies at a considerable discount. Many international companies have exited their Russian assets with discounts of as much as 80% because of capital controls and other regulatory limitations that distort pricing for foreign investors.

In Magnit’s case, the discount is 50%, in line with practice of selling Russian assets by international investors at discounts in the current geopolitical environment. Still, the price is much higher than the company’s GDR prices at the end of February 2022, when international investors could still trade them in London. The tender offer includes the shares related to unconverted GDR’s of Magnit held by JPMorgan Chase Bank.

Investors will be able to tender shares for cash until July 11, while all settlements are expected to be completed by early August. They may choose to receive payments in US dollars, euros, Chinese yuan or rubles to international or Russian bank accounts.

The offer “represents a fair proposal for international shareholders”, Magnit said in a statement. Investors, whose rights are currently limited, would be able to “benefit from the option of receiving payment in multiple currencies as well as receiving funds in their bank accounts abroad.”

“Since [the] spring of 2022, foreign investors were unable to sell out from the Russian public companies due to trading restrictions in Moscow, London and New York, and thought these investments would have to be completely written off,” said one analyst covering the deal. “Magnit has become the first mover who [has] showed concern for international investors and offered them an easy way to cash out.”

As of June 16, most foreign investors selling Russian assets have only been able to do so via private placements. Uber Technologies sold its stake in JV with Russia’s Yandex. Shell sold its stake in Salhalin-2 project to Russian energy company Novatek. Henkel sold its Russian business to a consortium of local financial investors. VEON is selling its Russian business to the local management team.

The Magnit deal is the first time since the invasion of Ukraine that global portfolio investors have been able to exit from a publicly traded name. The closest equivalent example so far was the buyout announced by Detsky Mir, a children’s goods retailer and a mid-cap issuer.

Analyst hope that Magnit’s buyback will create a precedent for other investors who have billions of dollar trapped in Russian shares and are unable to sell. Magnit’s size and its high profile amongst international investors as one of the darlings of the market bring a lot of attention, as it has managed to organise it such that investors can receive cash in key currencies transferred to their accounts outside Russia.

While Detsky Mir’s shares dropped approximately 25% against the last closing price in the pre-war market, partly reflecting the company’s decision to go private, Magnit shares...

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were trading at only a moderate discount to that market, which may be one of the reasons behind the level of discount approved by the Russian regulators.

The Magnit chain of stores was founded in 1994 by Sergey Galitsky, and built its business in Russia’s region, ignoring the big cities like Moscow and St Peters burg.

The first retail chain stores opened in 1998. Based in Krasnodar, Galitsky shunned the glitzy life in Moscow and remained the driving force of the company that grew to have an annual turnover of more than $10bn a year.

By 2006 the network had 1,500 stores and had become a major force in Russian retail. He then floated the company on the Moscow Stock Exchange, selling 19% of the shares for $368mn before holding an SPO on the London Stock Exchange in 2008.

As a market darling Magnit has counted many foreign investors amongst its shareholders, including BlackRock, Vanguard, Van Eck, Nordea, Dodge&Cox, Norges Bank and others, RBC reports.

In 2013, Magnit became the largest retailer in Russia in terms of turnover, overtaking its main competitor, X5. But since 2016, the company’s financial performance began to deteriorate and in 2018 the businessman sold 29.1% shares to the state-owned VTB Bank and Galitsky quit. In 2021 VTB sold its stake, which was taken over by the Marathon Group.

Hungary pushes banks and investment funds to hold more government bonds

Jason Corcoran in London

The Hungarian government expects demand for government bonds to rise by HUF1.8 trillion (€4.8bn) from regulatory changes that it introduced on May 31 that penalise other investments and promote state issues.

The government slapped a "social contribution tax" of 13% on savings and set minimum levels for investment funds’ holdings of government bonds. Banks can also cut 2024 payments of windfall tax by up to half if they increase purchases of local government bonds.

In a decree, the government levied a tax of 13% on returns from investment funds – except real estate funds – bank deposits and some other investments. The extra levy is in addition to the 15% interest gain tax.

Households can buy government bonds without any fees, and gains are exempt from the interest tax. Banks must also inform clients once a year about potential gains made if they choose government bonds over deposits.

Economic Development Minister Marton Nagy said that the stock of government bonds holdings held by banks could rise by HUF1.3 trillion and additional demand from investment funds could reach HUF500bn.

Under the decree, the government will impose a de facto mandatory allocation in Hungarian government bonds for bond funds, equity funds and mixed funds. A decree issued in April set the weight of securities in their portfolio at 60%.

In the latest regulation, the government stipulated that these funds must hold at least 20% of their liquid assets in discount treasury bills from August 1.

Of the HUF1 trillion of money held in Hungarian investment funds, HUF3.2 trillion is held in cash and deposits, HUF3 trillion in investment units, HUF2.7 trillion in bonds and HUF2 trillion in shares.

According to the financial website Portfolio.hu, the amount held by domestic investment funds in bonds other than Hungarian government bonds is more than HUF1.5 trillion.

From a liquidity point of view, the expected change in the structure of savings will be irrelevant for banks, but 5-10% of banks’ retail funding could move, which banks could only stop at the cost of a large loss of profits. “As their loan-to-deposit ratios are sufficiently low, they will typically not try to do either,” Economic Development Minister Marton Nagy told reporters at a background meeting.

He also said that the main goal of the measure to impose a 13% tax on savings is to channel funding to government bonds, and said the budgetary impacts are secondary.

Hundreds of billions from retail investors could also flow to government securities from the HUF8 trillion held in bank deposits, according to analysts, Nagy said.

Local banks flooded with liquidity pay less than 1% interest on sight deposits and less than 5% on around HUF1 trillion forints worth of term deposits, Nagy added.

The Hungarian Banking Association said the move will be negative for the banking sector and it condemned the government for breaching its promise to phase out windfall taxes for the financial sector.
Entain launches £750mn buyout offer for Polish sports betting company STS Holdings

Wojciech Kosc in Warsaw

Entain CEE, a joint venture of London-listed Entain and privately-held Emma Capital, has made an agreed tender offer to acquire all shares in STS Holdings, a Warsaw-listed Polish sports-betting operator, for GBP750mn (€876mn), the company said on June 13.

The offer price is PLN24.8 (€5.52) per share, a 15% premium above the company's valuation from the preceding day on the Warsaw Stock Exchange when its shares closed at PLN21.5.

Zbigniew Juroszek and his son Mateusz Juroszek, who own nearly 70% of STS's share capital, agreed to sell their shares in the offer, Poland's state-owned newswire PAP reported. They will also reinvest some of their proceeds into Entain CEE for a 10% stake in the joint venture. Mateusz Juroszek, the CEO of STS, will remain in his role and join the board of Entain CEE.

“We believe that investors should respond to the tender offer, as the offered price is 15% higher than the [June 13] market price and 22% higher than our valuation,” Mikolaj Stepien, an analyst at DM BOS, told PAP.

“If the tender offer for the remaining 30% of shares is successful – as it probably will be, taking into account the acceptance of majority shareholders – STS will most likely be withdrawn from the WSE,” Stepien added.

The company's share price has been on the rise on June 14, reaching PLN23.95 – a gain of 11.4% – in the early afternoon.

Entain CEE is a joint venture between Entain and its partner Emma Capital in Central and Eastern Europe.

"STS is the number one sports-betting operator in Poland and will add another leading business to Entain CEE, which is expected to provide attractive synergies for our CEE platform," Jette Nygaard-Andersen, CEO of Entain, said in a statement. The acquisition is expected to generate over GBP10mn of annual synergies from 2024 for Entain CEE.

Entain is a company that is part of the FTSE 100 index and one of the world's largest groups in the betting and gaming industry, operating both online and in the retail sector.

The group has a rich portfolio of brands, including: BetCity, bwin, Coral, Crystalbet, Eurobet, Ladbrokes, Neds, Sportingbet, Sports Interaction and SuperSport. It also own gaming brands Foxy Bingo, Gala, GiocoDigitale, Ninja Casino, Optibet, Partypoker, and PartyCasino.

Entain shares Entain fell 10.5% in trading in London at the start of trading on June 14 over fears that the group had overpaid. According to analysts, the deal valued STS at almost 11 times its Ebitda, Reuters reported.

Emma Capital is the personal vehicle of Jiri Smejc, CEO of PPF, the largest Czech private financial group.

Entain and EMMA will finance the tender in proportion to their current stake in Entain CEE, which is 75% and 25%, respectively.

The proposed acquisition is subject to antitrust approval and is expected to complete in the third quarter.
The Court of Justice of the European Union (CJEU) ruled on June 15 that Polish holders of foreign currency-denominated mortgages can seek compensation from banks if their mortgage deals are unfair and thus ruled invalid.

Banks, in turn, cannot push for charging borrowers for the cost of capital in those cases, the CJEU said in the ruling, which is in line with an earlier opinion of the court's adviser and was expected.

“EU law does not preclude, in the event of the annulment of a mortgage loan agreement vitiated by unfair terms, the consumers from seeking compensation from the bank going beyond reimbursement of the monthly instalments paid,” the CJEU said.

“By contrast, it precludes the bank from relying on similar claims against consumers,” it also said.

The ruling hands Poland’s banks a defeat in their quest to neutralise an avalanche of lawsuits by borrowers claiming that the CHF-denominated mortgages handed out by lenders in the mid-00s were unfair and should be cancelled.

The ruling initially sent Polish bank stocks sharply down on the Warsaw Stock Exchange, with the sectorial index WIG-banki down 2.44%. The index recovered later in the day, eventually gaining 0.6% as trading closed.

“The judgment leads to a situation in which some bank customers will get a free loan. This is an extreme and unfair privilege [given to] one group of borrowers,” the head of the Polish Banks’ Association (ZBP) Tadeusz Bialek told a press conference.

Polish bankers also say that the ruling could impair lenders’ ability to credit and therefore hurt the economy.

The CJEU’s ruling could costs Polish banks PLN100bn (€21bn), an analysis by the financial market watchdog KNF showed in late 2022.

But analysts say that the sector will be able to stomach the ruling’s consequences without much trouble.

Polish banks made a net profit of over PLN12bn in 2022 – doubling the net result compared to 2021 – on the back of increased interest rates, which the National Bank of Poland hiked to 6.75% to fight inflation. Any costs that the banks might now incur in the wake of the CJEU ruling will be spread over time, given that the the borrowers need to either take their cases to court or go for an out-of-court settlement.

The Polish banks have had a longstanding problem with hundreds of thousands of mortgages denominated in foreign currencies, primarily the Swiss franc. The FX mortgage portfolio is worth an estimated PLN86bn.

Polish lenders face thousands of lawsuits over the CHF-denominated mortgages, which they granted when the franc was at an all-time low against the Polish zloty. Courts have so far sided with the claimants in an overwhelming majority of cases.

At a time of a massive property boom in Poland, banks and financial intermediaries highlighted the attractiveness of the loans’ lower repayments to customers who could not afford them in zlotys.

The borrowers have long said now that the banks lured them into the mortgages by not highlighting the currency risk enough and using a number of so-called abusive clauses, for example in calculating their CHF-PLN spread.

When the Swiss central bank unpegged the franc from the euro in January 2015, the zloty weakened considerably nearly overnight, causing the repayments to skyrocket. The Swiss National Bank’s recent raising of its policy rate from 0.25% to 1.5% only added to the borrowers’ woes.
Emerging and Frontier markets fintech ready to break out

Ben Aris in Berlin

The Digital Intelligence Index (DII) put together by specialist Emerging and Frontier market investment fund Sturgeon Capital provides insights into the potential for fintech investments in emerging and developing markets.

The fund’s latest DII scorecard highlights the prospects for countries such as Bangladesh, Kazakhstan and Georgia, which are categorised as “break out” countries due to their high pace of digitalisation and rapid digital growth, the fund said in its latest report.

Although these economies currently rank 83rd, 55th and 47th out of 90 respectively, they display positive attitudes towards digitalisation among their populations and have achieved innovation-led growth. However, they still face challenges in terms of infrastructure and institutional mechanisms required for a complete digital transformation, the fund said in a note.

In contrast, Pakistan and Egypt, with a combined population of 329mn, are classified as “watch out” countries with lower levels of digitalisation and momentum. These countries rank 80th and 78th respectively out of 90, indicating their current state of digitalisation. They encounter obstacles related to infrastructure, institutions, consumer demand and scepticism towards digital solutions. Additionally, lower digital literacy and limited access to digital products further hinder their progress.

While Uzbekistan and Kyrgyzstan were not specifically ranked in the DII research, they have demonstrated significant strides in digitalisation over the past decade.

Uzbekistan, with a population of over 34mn, has implemented a “Digital Uzbekistan – 2030 Strategy” aimed at enhancing internet access across the country. The government has committed to investing in 260 projects to develop e-government infrastructure and the banking sector. As a result, internet penetration in Uzbekistan reached 70% in 2022, compared with 51% in 2017. The country has also witnessed remarkable improvements in mobile internet connection speeds and significant investments in fibre optic communication lines. The Digital Strategy 2030 aims to expand internet coverage, increase affordability, provide online government services, implement digital passports and mobile IDs, and bridge the urban-rural digital divide.

Similarly Kyrgyzstan has seen an increase in internet penetration from 34% in 2017 to 51% in 2022. The government has recently launched an “E-commerce Development Programme” to improve the legal framework for online businesses and promote sectorial growth as part of its Vision 2040 development strategy. With a high adult literacy rate of 99% in both countries, there is a solid foundation to build upon as digital solutions become more accessible and affordable.

Rapid growth of mobile phone and fintech services penetration

The latest Findex data highlights the significant increase in financial inclusion among emerging market (EM) and frontier market (FM) economies. In 2021, a staggering 865mn people in these economies opened their first financial institution (FI) account, primarily to receive government payments. This surge in account ownership demonstrates the growing recognition of the importance of financial services in these regions. Additionally, a notable proportion of adults, one-third to be precise, have been utilising their accounts to pay utility bills since the onset of the pandemic.

Global account ownership has experienced a remarkable 50% growth since 2011. However, the progress varies between high-income countries and low- to middle-income countries. In EM and FM countries specifically, 74% of men and 68% of women had an account in 2021, showcasing the strides made in financial inclusion across these regions.

The Findex data also sheds light on the mobile phone and internet penetration rates within the sample countries.

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Kyrgyzstan, Kazakhstan and Georgia have emerged as leaders in this regard, with penetration rates ranging from 80% to 90%. These findings align with the favourable scores these countries receive in the Digital Intelligence Index (DII) supply conditions category. Furthermore, Kazakhstan and Georgia stand out for their mobile phone affordability and availability. On the other hand, Pakistan scores the lowest in mobile phone availability at 63%.

Widespread mobile phone penetration is twinned with deep penetration of financial institutions and mobile money accounts. “Kazakhstan and Georgia score the highest in financial institutions or mobile money account ownership, at 81% and 70% penetration levels respectively. Georgia also has the highest proportion of inactive accounts in the sample at 4%,” Sturgeon said. “The high account ownership in these countries tracks the high internet and mobile phone penetration of 80% and 91%.” Kazakhstan and Georgia boast advanced banking ecosystems, supported by multiple players offering digital financial services. Notably, Kazakhstan’s Kaspi stands out as a prominent example. Originally established as a traditional bank in 1991, Kaspi has evolved into the region’s most renowned fintech company. In October 2020 it made a significant mark by conducting its initial public offering (IPO) on the London Stock Exchange (LSE). This IPO resulted in a valuation of $6bn, making it the largest international tech IPO in London for that year.

Similarly, TBC Bank, the largest bank in Georgia, made strides in digital banking by launching its digital neobank called Space in 2020. This strategic move aimed to expand the bank’s digital banking services and facilitate cross-border banking activities. Space has already made progress by expanding its operations to Uzbekistan under the name TBC UZ. It obtained a banking licence and commenced operations in October 2020. The neobank has garnered significant attention, with its payment app recording over 2.4mn downloads by July 2022.

When it comes to the usage of credit and debit cards, Georgia and Kazakhstan continue to lead the way. In Kazakhstan, the penetration rate for credit cards stands at 21%, while it reaches 60% for debit cards. Similarly, Georgia demonstrates significant adoption, with a credit card penetration rate of 13% and a debit card penetration rate of 42%. According to the National Bank of Kazakhstan’s latest update in December 2022, the country has a total of 64.4mn payment cards in circulation, with 79% being debit cards and 18% credit cards, provided by 18 banks and KazPost.

Georgia has shown positive growth in credit card usage, increasing from 9% in 2011 to 13% in 2021, although there was a decline from 18% in 2014. On the other hand, debit card penetration in Georgia had risen to 42% in 2021. The country has received recognition for its advancements in contactless payments, with Visa reporting a penetration rate of over 95% in 2020, establishing Georgia as a global leader in this area.

On the other end of the spectrum, Bangladesh has the lowest penetration rates for credit and debit cards, standing at 1% and 5% respectively. Meanwhile, Pakistan has yet to make significant strides in credit card usage, with a penetration rate of 0%, while debit card penetration has reached 8%.

The coronavirus pandemic also had a significant impact as governments across the EM space used online payments solutions to distribute money.
“In 2021, 51% of respondents in Kazakhstan and 36% in Georgia reported opening their first financial account to receive a payment from the government or a wage from a private employer,” Sturgeon Capital said. “On the flip side, only 7% of respondents in Uzbekistan and 5% in Pakistan reported opening an account to receive private wages or government payments.” In terms of digital payments adoption, Kazakhstan and Georgia demonstrate impressive penetration rates. In Kazakhstan, 78% of individuals reported using a mobile money account, debit or credit card, or their phone to make payments from an account or engage in online and in-store transactions. Similarly, Georgia showcases a significant uptake, with 62% of the population embracing digital payment methods.

“Similarly Egypt, at 20% of digital payments penetration in 2021, has issues relating to a lack of trust and low digital literacy, with 72% of account holders paying their utility bills in cash. Digitalising wages in Egypt could reduce its unbanked population by 20%, but doing so would also require educational campaigns and support, as 65% of the unbanked in the country would need help to understand how online banking works,” says Sturgeon Capital.

Country drilldowns

The DII analysis drilled down into the digital landscapes of Egypt, Georgia and Kazakhstan. While there has been progress, there is still lots of room for improvement.

Egypt, with its high consumer spending, demonstrates strong demand on the DII. However, there exists a significant digital divide between different socioeconomic classes, particularly regarding account ownership, digital payments and internet usage. While access to financial institutions performs relatively well, the country’s communications infrastructure lags behind. Internet usage has rapidly expanded in recent years, with 72% of the Egyptian population using the internet in 2020. However, Egypt scores poorly on the institutional side, with limited transparency and freedom of expression online. The legal environment for business requires reform to enable unrestricted data exchange. Additionally, while start-up capacity shows positive advancement, Egypt’s business practices indicate low technology penetration and internet usage among private enterprises.

Georgia demonstrates the gender digital divide parity in internet usage, but a significant rural-urban digital divide persists. Urban households enjoy access to fixed broadband services at a rate of 83%, against only 5% in rural areas. Mobile access availability performs well, with 99% 3G coverage and a mobile connection penetration of 155%. However, inefficiencies in fulfilment infrastructure, such as lower quality roads and transport links, present challenges. Georgia excels in its institutional ability to tackle bureaucracy and corruption. Nevertheless, the government’s facilitation of ICT scores poorly, indicating restrictions on digital trade data and inadequate adaptation of the legal framework to digital business models. On a positive note, Georgia ranks first in start-up capacity, indicating a favourable environment for establishing and registering businesses. However, lower internet penetration among small and medium-sized enterprises (SMEs) suggests room for improvement in business practices.

Kazakhstan addresses the gender digital divide effectively, but consumer spending experienced negative growth (-3.79%) in 2020. The affordability of mobile access ranks high, with competitive handset prices and mobile tariffs, 70% subscriber penetration and 73% smartphone adoption. However, access to financial institutions presents gaps in credit data depth and meeting business needs. Kazakhstan excels in administering tax codes and reducing bureaucratic red tape. However, its ICT regulatory environment scores poorly, indicating ineffective regulatory frameworks that fail to foster market competitiveness, especially in sectors like electricity and telecommunications dominated by oligopolies. In terms of start-up capacity, Kazakhstan ranks second after Georgia, highlighting an environment that encourages innovation through an easy and low-cost business setup process. However, offline operations remain prevalent among businesses, as reflected in lower scores for business practices.
Eastern European payment market is driven by Ukrainian fintech companies’ expansion and specialists on the move

The experts at Ukraine’s Tempo France fintech firm believe that there are two main driving factors for Eastern Europe’s payment market: the expansion of Ukraine’s fintech and financial companies into the segment; and a significant number of high class specialists who are settling in the surrounding countries such as Poland, Hungary and Romania.

“Historically, Ukraine has a great level of education in technical and maths disciplines. This found great applications in the development of Ukrainian fintech and IT,” said the head of marketing for Tempo France, Yuriy Synenkyi.

After the war broke out, over 8mn Ukrainians moved out of the country, and over 5mn fled to neighbouring Poland. More qualified specialists moved to Hungary and Romania, where living costs are relatively inexpensive but where their presence in the EU makes it easy for them to communicate and find new clients, participate in fintech events.

“They have much greater opportunities to demonstrate the advantages of their products and services,” Synenkyi adds.

The start of the war against Russia was the catalyst, but the process was also driven by relatively low personal and corporate taxes that encouraged the decision to relocate to the Eastern part of the EU and the opportunity to recommence work using skills previously accumulated.

Synenkyi says that Ukrainian companies started opening branches and affiliates in Eastern European countries in the spring of 2022, when top managers realised that the war might last too long to simply wait it out.

By the end of last year, the Ukrainian companies also realised that the Ukrainian diaspora in such Eastern European countries as Poland are big enough to provide the necessary labour pool and will probably continue to grow. While the Ukrainian market shrunk, in Eastern Europe a new niche for activity opened up.

Ukrainian IT and fintech companies started filling the niche quickly, establishing affiliated companies and helping highly skilled professionals move. With no end to the conflict in sight, Synenkyi says that for almost 80% of fintech companies moving abroad became a matter of survival.

A common strategy has been to kick off by offering competitive services within the diaspora and then to move on to attract non-Ukrainian clients in the next stage.

And it is not a difficult task at the beginning. People naturally tend to get the products and brands they are used to. They want to use the same language services and no time is needed to adopt and learn to use new ones in a foreign language,” says Synenkyi. “Besides this, if we are talking about payment and fintech, the Ukrainian services feature a lower level of conservativeness than their Eastern European counterparts. It is very easy for them to be competitive.”

Amongst recent examples of the expansion are Monobank and NovaPay, a part of the highly successful logistic group, Nova Pochta, that is moving into the Polish market.

The economic migration to Eastern Europe of sought-after specialists, affects not only the Eastern European region but the EU generally, said Dmytro Oliliyk, senior officer of strategic and business development for the Cyprus-based fintech company, Armenotech.

“The centre of gravity in the tech world has shifted eastwards in the EU payment segment. It applies to all spheres ranging from payment processing and blockchain to new solutions, IT approaches and HR aspects,” Oliliyk says, adding that the shift is colouring everything. “We are talking about a vast number of very qualified specialists joining Eastern European companies, new high-profiled [Ukrainian] companies exploring the Eastern European market, bringing their visions and their products. The whole market is becoming more and more competitive and the companies from the Western part of the EU have to face it and stand against the competition.”

“I should say that this trend would contribute to a 2% to 5% decline in rates in the short run, and up to 3% in the course of the next two years.” Oliliyk of Armenotech said, adding that this trend will remain relevant for at least the next two years.
Central Asia’s water crisis gaining rapid momentum, cities forced to introduce water rationing

Ben Aris in Berlin

Central Asia could run out of drinking water this summer as rising global temperatures threaten the region with yet another severe drought that imperils the wellbeing of millions of people, the Climate Action Network (CAN EECCA) warned in a report on June 19.

“Central Asia is facing a severe water crisis that threatens not only economic development but also the lives of millions of people,” Baktygul Chynybaeva, communication manager of CAN EECCA wrote in a note. “The lack of fresh water due to climate change and inefficient water management poses significant challenges for the region’s countries. With the advent of summer, the capitals and many small towns of Central Asia are faced with an acute problem of access to drinking water.”

As followed by bne IntelliNews, Central Asia has already become victim to regular debilitating droughts. The lack of water saw a mass death of livestock after irrigation supplies ran dry in the summer of 2021.

In two Kazakh regions more than 2,000 domesticated farm animals died due to lack of water and forage, and in Kyrgyzstan farmers rioted in the northern region of Chui after lack of irrigation water threatened their crops.

A repetition of these scenes is on the cards again this year as the temperatures continue to rise. Southern Europe and Southeast Asia have already logged record-high temperatures in spring and the desert countries of Central Asia are much more exposed to drought than the relatively lush lands of Europe and Asia.

Kazakhstan

Kazakhstan is heavily reliant on water management and is particularly affected by the crisis. With only 2.8% of its territory covered by water and two-thirds consisting of desert zones, Kazakhstan heavily depends on water resources from neighbouring countries such as the mountainous republics of Kyrgyzstan and Tajikistan. But due to dams and drought the volumes of water flowing into Kazakhstan from its neighbours could fall five-fold by 2030 to as little as 23 cubic kilometres just enough to cover the Kazakh annual consumption of water – a cut-off level below which the country becomes uninhabitable.

Things have already become so bad that the government officials in Kazakhstan declared a state of emergency on June 9 after the Caspian Sea fell to a critically low level; it is the world’s largest enclosed body of water. The drop in the sea level was blamed on the lack of snowfall in the nearby mountains the preceding winter, increased water consumption and the retention of water for use at hydroelectric power stations in Russia. The Caspian Sea borders five countries: Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Of these, Kazakhstan’s section is the shallowest, which is what has prompted officials there to raise the alarm first of all.

Astana, the capital of Kazakhstan, has been hit hard by the water crisis in recent years, revealing disparities in resource access within the city. Since May 23, protests have erupted due to water cuts, with residents of two apartment buildings blocking a road to draw attention to their plight, CAN EECCA reports.

The protests coincided with an extreme heatwave that saw temperatures spike to 38-40 degrees Celsius.

The Water Management Service of Astana (WMSA) has introduced a daily update of supply controls in the capital since May 23 in an effort to cope with the crisis.

“The lack of drinking water is not limited to the capital; the situation in the smaller regional towns and cities across

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Kazakhstan is even worse. One of the practical problems the falling supplies has caused is in many older apartment blocks the pressure has dropped so much that water won’t rise to the upper stories, forcing residents to bring water to their apartments using buckets.

The provincial town of Atbasar has also been badly affected by water shortages due to population growth, infrastructure overload, design errors, deteriorating communications, insufficient groundwater surveys and outdated water supply systems, CAN EECCA says. In the Egindykolsky district of the Akmola region, a state of emergency was declared last month due to water scarcity caused by outdated water supply infrastructure.

Kyrgyzstan
The situation in neighbouring Kyrgyzstan is also bad, despite it being home to much of the water resources in the region thanks to the high Tien Shan mountain range which cuts the country in two.

The capital city of Bishkek has already had a water shortage crisis this year that left residents without access to clean drinking water for several days and sparked protests that disrupted the main roads, CAN EECCA reports. The city authorities have responded by urging the population to reduce water usage, avoid using drinking water for irrigation and temporarily halt water-intensive commercial activities.

CAN EECCA exports point to climate change as the source of the problems and the primary cause of the water shortage in Kyrgyzstan. Experts are advising adopting modern water-saving technologies, such as installing aerators, using motion sensors to control water flow, implementing two-button toilets, and employing water-use meters, but as one of the poorest of the Former Soviet Union (FSU) states the government has few resources to invest in these types of technology.

The regions is also heavily dependent on agriculture and modernising irrigation systems, particularly by adopting drip irrigation, is also crucial, says CAN EECCA.

“One of the practical problems the falling supplies has caused is in many older apartment blocks the pressure has dropped so much that water won’t rise to the upper stories”

"According to the World Bank, more than 300 villages in Kyrgyzstan have never had a drinking water supply system. In another 600, there is no clean water due to the deterioration of water pipes or the stoppage of work on installing water pipes. In total, there are about 1800 settlements in the country. About a million Kyrgyzstanis need help with access to clean drinking water. Currently, 40% of the country’s population drinks water from ditches, rivers, canals and springs and uses imported water,” CAN EECCA reports.

Uzbekistan
Uzbekistan has maybe the biggest challenge, as with 35mn citizens it is by far the most populous country in the region. It is also a famed entre of agriculture in the normally verdant Ferghana Valley, where cotton, fruit, berries and crops are grown.

Uzbekistan is ranked in the top 25 countries facing water scarcity out of a total of 164 ranked countries, according to the World Resources Institute. An Uzbek diplomat speaking to bne IntelliNews this week said: “The temperatures in Tashkent have already hit 45 degrees Celsius, and it’s still spring.”

Like Kazakhstan, only 4.92% of Uzbekistan is covered with water and the centre of the republic consists of very large deserts. Uzbekistan’s total water demand is 50-60 cubic kilometres a year, of which only 12.2 cubic kilometres are found on its own territory. The country relies heavily on water from its neighbours and the Tien Shan and Pamir mountains.

To make things worse, Uzbekistan has the youngest population in the FSU with a fertility rate well above 2 that is only adding pressure to the demand for water. By 2030, the population is projected to reach 40mn that will further reduce available water resources by 7-8 cubic kilometres, exacerbating the already limited supply.

“Under these conditions, the shortage of water resources will increase by 2030 from the current 13-14% to 44-46%, which will slow down the development of agriculture and other industries,” CAN EECCA said.

The authorities have already introduced drinking water rationing in the capital Tashkent and in many regions in order to manage the dwindling supplies.

“Currently, drinking water is not cut off only in Tashkent; in almost all regions, water is often supplied at a particular time. In many regions, especially in remote areas, residents are forced to buy water and make efforts to use it economically,” Nargiz Kosimova, head of the Ecologist NGO, told CAN EECCA.

And on top of the climate crisis, Uzbekistan had some really bad luck in May 2020. The ageing state of the water infrastructure was highlighted when the Sardoba dam burst in Uzbekistan, flooding nearby villages and causing nearly a billion dollars’ worth of damage.

Uzbekistan and Kazakhstan evacuated 70,000 and 5,400 people respectively from the Syr Darya river basin after the...
A dam burst on the Uzbek side of the reservoir on May 1 just before 06:00 local time, when heavy rains and stormy winds caused the Sardoba dam wall to partially collapse.

Water scarcity is already a pressing issue in many regions of Uzbekistan, including Karakalpakstan, home to the Aral Sea, which has already almost entirely evaporated. The lack of irrigation has already affected its famed agricultural production, a major source of foreign exchange earnings for the country, and the state is increasingly struggling to meet the domestic drinking water demand of the population.

**Action recommendations**

CAN EECCA recommends three courses of action to deal with the growing crisis.

The first is to increase co-operation and coordination between the Central Asian states.

“"The water resources of Central Asia, such as the Amu Darya and Syr Darya rivers, are transboundary and involve joint management. Countries must develop and implement agreed action plans based on fair and efficient use of water resources," says CAN EECCA. "However, regional structures dealing with water issues need more stakeholder trust."

Water management in the region has long been a bone of contention between the five ‘Stans, which are more focused on economic development than climate change. For example, Tajikistan has pushed ahead with the development of the huge Rogun dam hydropower project, which will allow the impoverished country to add to its income by exporting electricity, but at the cost of reducing the waterflow to its neighbours. Many consider the dam to be a white elephant and Tajikistan doesn’t have the capital to complete the project, which is nevertheless partially operational.

A second step would be to use the existing resources more efficiently.

“Countries in the region should make efforts to improve the efficiency of irrigation systems by introducing advanced technologies and water management practices,” CAN EECCA recommends. "This may include upgrading irrigation systems, using drip irrigation, and adopting modern agricultural practices that will reduce water loss and increase crop yields. In addition, it is essential to develop infrastructure for rainwater collection and storage, as well as industrial and domestic use."

The third direction is to develop alternative water sources to resolve the water crisis in Central Asia.

“One of the possible ways is the development of underground water resources and the use of seawater. The region’s countries may also consider opportunities for co-operation in transboundary water projects,” CAN EECCA says.

However, this solution has limited potential. The only two countries that have access to a sea are Kazakhstan and Turkmenistan, which both are littoral to the Caspian Sea. The other three ‘Stans are landlocked, bordered by Russia, China and Southern Asia and lie thousands of kilometres from the world’s oceans. Indeed, Uzbekistan, which is facing the biggest water shortfalls, is one of only two double-landlocked countries in the world. ●
HESS puts Slovenia’s largest solar power plant into operation

bne IntelliNews

Slovenian hydropower plant operator HESS officially opened the biggest solar power plant in the country on June 21. The plant with installed capacity of 6 MW is located next to the Brezice hydropower plant (HPP) on the Sava River.

The project uses a hybrid system that combines solar and water energy.

The investment in the solar power plant amounts to approximately €5.5mn with HESS receiving €750,000 in funding from the Eco Fund. The solar power plant is connected to the 110-kilovolt transmission network, serving as the fourth unit of the HPP Brezice in the eastern part of the country, RTV Slovenia reported.

During the opening ceremony, HESS director Bogdan Barbic emphasised that the facility will have an annual production capacity sufficient to meet the energy needs of approximately 1,800 households.

With an expected lifespan of 30 years, the power plant covers an area of six hectares and incorporates approximately 13,200 solar panels.

The project started in August 2021 and installation began in May of last year, with temporary operation commencing in December. This month, the plant received its operating permit.

Minister of Environment, Climate and Energy Bojan Kumer, who was present at the inauguration ceremony, announced forthcoming government initiatives to accelerate the adoption of renewable energy sources and innovative technologies.

He revealed plans for a government regulation aimed at facilitating the use of such energy sources, along with the announcement of a tender worth around €150mn in September.

Kumer also highlighted the preparation of the first draft of the national energy and climate plan, which is also scheduled for approval by the government on June 22.

Serbia announces Western Balkans' biggest renewable energy auctions

Djordje Tresac in Belgrade

Serbia is preparing its initial auctions for projects that use renewable energy sources, focusing on wind and solar power. The auctions will be the biggest for renewables in the Western Balkans region to date, Minister for Mining and Energy Dubravka Djedovic said on June 14.

These auctions signify the start of the three-year incentive plan aimed at distributing market premiums among renewable energy producers. The total allocated capacity under the plan amounts to 1,300 MW, with 1 GW reserved for wind power and 300 MW designated for solar energy projects, according to a government statement.

The auctions prioritise two primary sectors: wind farms, which will have a capacity of 400 MW, and solar power plants, which will have a capacity of 50 MW.

The government established the upper limit for bids from renewable energy producers participating in the auction, which is set at €105 per MWh for wind farms and €90 per MWh for solar power plants.

“We are aware of the necessity of switching to cleaner energy sources and are working responsibly to take measures to decarbonize our energy sector. I believe that the first auctions for 450 MW from RES are a clear indication of our determination for cleaner and healthier energy,” said Djedovic.

According to Djedovic, successful implementation of the auctions is expected to result in Elektroprivreda Srbije (EPS) generating annual revenues exceeding €31mn.

The European Bank for Reconstruction and Development (EBRD) provided the technical support and regulatory framework for the auctions, which have been backed by financial assistance from the Swiss State Secretariat for Economic Affairs (SECO) and EBRD stakeholders.
LONG LIVED LEADERS

Clare Nuttall in Glasgow
A little more than three decades ago Emomali Rahmonov was elected chairman of the Supreme Soviet of newly independent Tajikistan. The country had already started to disintegrate into civil war, and the 40-year-old former collective farm head was picked mainly as a compromise candidate who could later be replaced by a more charismatic leader. That was clearly a mistake. 30 years and six months later, Rahmon (he discarded the Russified -ov from his name) is still in power.

Data compiled by bne IntelliNews on prime ministers and presidents in Emerging Europe and Central Asia shows that he is now the longest-serving leader in the region, just pipping President Aleksander Lukashenko of Belarus, dubbed ‘Europe’s last dictator’, to the title. Lukashenko has been in power since 1994, but having brutally resisted pro-democracy protesters’ efforts to oust him, he may finally be removed by his own ill health.

Lukashenko collapsed twice in May after a meeting with Russian President Vladimir Putin and was hospitalised in Moscow on May 27. Earlier, Lukashenko’s sudden illness during the May 9 Victory Parade in Moscow had sparked rumours of his demise, though he later appeared again in public, where he seemed groggy and had difficulty speaking.

Recent years have seen the departure through deaths, electoral defeats or resignations of the last remaining political leaders whose time in power dates back before the end of the communist era.

President Islam Karimov of Uzbekistan, who became the first secretary of the Communist Party of Uzbekistan in 1989, died in 2016. Neighbouring Kazakhstan was ruled for 27 years by Nursultan Nazarbayev, the steelworker-turned-politician who was elected president by the Supreme Soviet 1990, and continued to lead Kazakhstan after independence the following year. Aged just 29, Milo Djukanovic first became prime minister of Montenegro in February 1991, just
#4 NURSULTAN NAZARBAEV
Kazakhstan

<table>
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<td>Steelworker at the Karaganda Steel Mill, Second Secretary of the Karaganda Regional Communist Party Committee</td>
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<td>Chairman of the Council of Ministers (1984-89), First Secretary of the Communist Party of the Kazakh SSR (1989-90), President (1990-2019)</td>
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<td>Education:</td>
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<td>Honorifics:</td>
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| Age: | 82 |
| Children: | 3 |

Career: A former steelworker, Nazarbayev later became a full time Communist Party worker; before being appointed the youngest ever prime minister of the Kazakh SSR in 1985. He guided the country through independence from the disintegrating Soviet Union and became its first president in an uncontested election in 1991. He held the position until his resignation in 2019.

#5 ISLAM KARIMOV
Uzbekistan

<table>
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| Age: | died 2016 (aged 78) |
| Children: | 3 |

Career: Karimov led Uzbekistan from his appointment as First Secretary of the Communist Party of Uzbekistan in 1989 to his death in 2016. Uzbekistan became increasingly isolated under his hardline authoritarian regime. This culminated with the Andijan massacre of May 2005, when hundreds of protesters were gunned down.

#6 VLADIMIR PUTIN
Russia

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<td>Previous jobs:</td>
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<td>Education:</td>
<td>Leningrad State University, Saint Petersburg Mining University</td>
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<tr>
<td>Career:</td>
<td>Putin joined the KGB in 1975 and spent part of his career as a liaison officer to the Stasi secret police in East Germany. He returned to St Petersburg after the 1991 coup in Russia. In 1999 he was appointed acting prime minister and ran successfully for the presidency the following year. He has been Russia’s top politician ever since, despite swapping the presidency for the prime minister position in 2008-12 to comply with the constitution. The economy stabilised during the first decade and a half of Putin’s rule. However, as Russia regained its position on the international stage it embarked on a collision course with the West, backing separatists in several ex-Soviet republics and finally launching the unprovoked invasion of Ukraine in 2022 that severed relations with the West.</td>
</tr>
</tbody>
</table>

| Age: | 70 |
| Children: | 2 |

months before Yugoslavia started to disintegrate. Aside from a couple of short breaks, he continued as either president or prime minister of the small country until 2023, when he lost the presidential election to newcomer Jakov Milatovic.

Not the end of an era
Yet this is by no means the end of the era of long-lived political leaders. Putin, who came to power in 2000, has now racked up 19 years as president plus four as prime minister, adding up to a total of 23 years as Russia’s undisputed leader. He shows no signs of quitting, and is expected to run successfully for yet another presidential term in 2024, which would extend his rule until 2030.

It’s not just Eastern European leaders that have been in office a long time. When Putin was confronted by a western journalist at an international event and asked how he could justify staying in power for a third term, he turned to the correspondent with a smirk on his face and replied: “You mean like Angela Merkel? She has been in office for four terms, hasn’t she? Longer than me.”

Turkish President Recep Tayyip Erdogan and Azerbaijan’s Ilham Aliyev have both recently marked 20 years as leaders of their respective countries. Erdogan became prime minister for the first time and Aliyev took over the presidency from his father back in 2003. Erdogan celebrated his latest presidential election victory in May 2023, announcing a "new Turkish century" as he took office on the centenary of the Republic of Turkey for his next five-year term. Erdogan defied expectations that his authoritarian rule and chaotic handling of the economy would motivate Turks to back his rival, the unified opposition candidate Kemal Kilicdaroglu, in large enough numbers to evict him from power.

Shavkat Mirziyoyev, who took over the Uzbek presidency after Karimov’s death, had already been prime minister for 12 years before that, bringing his time in one of the top two positions to 19 years.

In Hungary, Viktor Orban has spent a total of 17 years in the prime minister
position, from 1998 to 2002 and from 2010 to the present day. Despite controversies such as Orban’s clashes with EU institutions, concerns about the state of democracy and controversial policies on immigration, LGBTQ rights and other issues, Orban and his party have maintained electoral dominance in Hungary, with Fidesz winning multiple elections and holding a supermajority in parliament.

Democrats and despots
The former Soviet Union has become notable for its long-serving leaders. They may seek to look democratic by holding regular elections, but these are invariably a shoo-in for the incumbent. Typically leaders from Central Asia and other authoritarian FSU states are re-elected with improbably high shares of the vote on an improbably high turnout.

This isn’t the only world region where leaders manage to stay in power for decades. The world’s longest-serving president today is Teodoro Obiang Nguema Mbasogo of Equatorial Guinea. Having turned 80 in 2022, he won yet another election, allowing his authoritarian 42-year rule to continue.

However, in the democratic world, such lengthy stints in power are not seen except in countries with hereditary monarchs as head of state.

Most of the countries in Emerging Europe and Central Asia that had the longest-lasting leaders are rated as Consolidated Authoritarian Regimes by Freedom House. Montenegro and EU member Hungary are the anomalies, being ranked among the Transitional Government or Hybrid Regimes, described by the NGO as “positioned in the grey zone between democracy and autocracy”.

Among the leaders of European democracies, two German chancellors – Helmut Kohl and Angela Merkel – stand out for holding the position for just over 16 years. Eddie Fenech Adami led Malta for close to 20 years, serving twice as prime minister, from 1987-96 and 1998-2004, then holding the presidency from 2004-09. François Mitterrand served
The longest-serving West European leader currently in power is Mark Rutte of the Netherlands, but his 11.3 years is dwarfed by the terms of numerous leaders from the eastern part of the continent.

**Entrenched in power**

For the leaders of Central Asia and Eastern Europe, and to a lesser extent some of the other countries of Emerging Europe as well, when leaders become established in a position of power they become increasingly difficult to dislodge.

Once in power, leaders have the immeasurable advantage of state resources at their disposal to use to cement their positions and win future elections.

Leaders get to staff the civil service and state-owned companies with their allies. Those loyalists can then be deployed to bring out employees en masse with instructions to vote for the incumbent when elections come up. There are many reports of civil servants or students being instructed to photograph their ballot papers and show them to their managers or professors; if the cross is for the wrong candidate their job prospects or academic record is at risk.

Then there is the intimidation at polling stations, outright vote rigging and fraud once votes have been cast, as witnessed by international observers and bne IntelliNews correspondents in multiple countries in Eurasia. The latest election in this patch is a case in point; it’s notable that Turkey’s Supreme Election Board (YSK) failed to provide public access to the data behind the officially declared results of the country’s May presidential and parliamentary elections and also blocked access to the 2018 election data on its website.

Somewhat more subtle approaches include wall-to-wall favourable coverage on state media and lavish investments.
in the run-up to elections as the line between the incumbent’s electoral campaign and their job becomes blurred or disappears altogether. International election observers frequently point to the use of state resources by incumbents in their electoral campaigns everywhere from Central Asia to the Western Balkans. Even in Central Europe, Hungary in particular has been criticised for directing state companies’ advertising to friendly media; those with a more independent message are starved of funds.

Switching positions
In another example of the divide between the autocratic states of Eurasia and Eastern Europe, and the more democratic regimes further West, data compiled by bne IntelliNews shows that few leaders from Central and Southeast Europe served for more than 10 years. This is the length of two five-year presidential terms for most of the region.

The longer lasting leaders tend to be those that have served stints as both prime minister and president.

As well as Montenegro’s Djukanovic, they include Filip Vujanovic, who swapped places with Djukanovic as president and prime minister of Montenegro, holding the prime minister position from 1998 to 2002 as well as serving two terms as president of independent Montenegro and one as president while the country was still part of a union with Serbia, adding up to 20 years in total. Despite being born and brought up in Belgrade, Vujanovic was a prominent advocate of secession from the union with Serbia, and, as outlined in an interview with bne IntelliNews in 2016, a strong advocate for accession to the EU and Nato.

Similarly, Janez Drnovsek held the presidency of Yugoslavia before its breakup, going on to serve as first prime minister then president of independent Slovenia. During his long years in power Drnovsek embraced change, evolving from Communist Party member to new-age vegan.

Resetting the clock
Part of the reason the Western Balkan leaders stayed in power so long was because the collapse of Yugoslavia reset the clock on the presidency.

Many states – including those in the new democracies of Emerging Europe – have two-term limits on the presidency precisely to stop presidents becoming entrenched in the position.

However, clearly it is not impossible to get around this, with leaders switching from presidency to prime minister, or deliberately tinkering with the constitution to reset the clock. This has become something of an art form in the eastern part of the region.

Russian President Vladimir Putin has employed both those tactics since coming to the presidency in 2000, and has given himself room to stay in power till at least 2030.

“In the 2020 referendum, 78% of Russians voted in favour of changes to Russia’s constitution. The main amendment was granting Putin permission to run for another two six-year presidential terms”

In the 2020 referendum, 78% of Russians voted in favour of changes to Russia’s constitution. The main amendment was granting Putin permission to run for another two six-year presidential terms. With the next presidential election now a little more than a year away, the war in Ukraine does not appear to have dented Putin’s popularity. Most recent polls showed that Putin’s rating is trending at close to 80%, despite mass mobilisation, harsh political repressions and economic damage from international sanctions.

Similar tactics were employed by Central Asian leaders such as Rahmon, who extended his powers through constitutional referenda in 1999 and 2003, and Nazarbayev, who amended the constitution in 2011 to allow him to remain as president indefinitely.

Leaving the presidency
Kyrgyzstan stands out among the former Soviet republics for experiencing three revolutions in 2005, 2010 and 2020, resulting in the overthrow of ruling elites. The first of these, the 2005 Tulip Revolution, ousted former scientist Askar Akayev, who had led the country since 1990. Initially praised for his support of political and economic liberalisation – the country was once dubbed the ‘Switzerland of Central Asia’ – Akayev switched to an increasingly repressive approach and was ultimately seen as just another Central Asian dictator.

Akayev’s fate was naturally watched with anxiety in the other Central Asian capitals, at that time all ruled by leaders in power since the late 80s or early 90s. Despite some outbreaks of mass violence, all brutally suppressed, there have been no Central Asian revolutions outside Kyrgyzstan. Yet the question of what happens to an authoritarian leader once he (they are all he’s) leaves office remains a vexed one.

Both Karimov and Saparmurat Niyazov, the first post-communist leaders of Uzbekistan and Turkmenistan respectively, stayed in power until they died.

In Kazakhstan, the ageing Nazarbayev initiated a slow transition of power and eventually resigned as president in 2019, retaining significant influence but gradually handing over leadership to his successor, Kassym-Jomart Tokayev.

Yet there was no peaceful retirement for Nazarbayev. Deadly riots erupted in January 2022. Tokayev moved to shore up his own position at the expense of his predecessor; Nazarbayev was removed as head of the security council.
and a constitutional amendment, approved later that year by referendum, stripped him of his status as leader of the nation.

Lukashenko, meanwhile, has been working on contingency plans should he no longer be able to rule Belarus. While opposition leaders hope for new elections and regime change in the event of Lukashenko’s death, he has strengthened his control over the country in recent years. Lukashenko issued a decree granting the Security Council, headed by his ally Alexander Volfovich, power over the country if he is incapacitated, bypassing the prime minister as outlined in the constitution.

Eurasian dynasties
There is another option for Eurasian leaders. The first dynastic succession in the post-socialist space happened back in 2003, when Heydar Aliyev handed over the presidency to his son Ilham in Azerbaijan in 2003. (There was a brief interlude when long-serving prime minister Arthur Rasizade served as interim president until an election to appoint Ilham was organised.)

Heydar was the leader of the Azeri SSR from 1969-1982, when he was promoted to first deputy premier of the Soviet Union. He returned to Azerbaijan after independence, leading the new republic from 1993 to 2003, when ill health forced his resignation after a total of 23 years in power before and after independence. Ilham Aliyev took over the presidency later the same year, and continued in the same authoritarian vein, buoyed by the country’s immense oil and gas wealth. (Incidentally Rasizade, while having a much lower profile than the Aliyevs, became one of the region’s longest serving leaders in his own right, holding the prime minister position for 22 years.)

Nearly two decades later, Turkmenistan’s outgoing president Gurbanguly Berdimukhamedov handed over the reins to his son Serdar. After a rapid climb through the ranks, the relatively obscure Serdar Berdimukhamedov secured a predictable victory with 72.97% of the vote in the 2022 election. Gurbanguly Berdimukhamedov continues to exert influence behind the scenes, though, and was recently appointed chairman of the powerful People’s Council, while Serdar bestowed his father with the title of “national leader of the Turkmen people.”

This could, in fact, have been Turkmenistan’s second dynastic succession, as there has long been speculation among the Turkmen exile community that Gurbanguly Berdimukhamedov could have been the illegitimate son of the late Saparmurat Niyazov, who died in 2006.

Kazakhstan and Uzbekistan were seen as two more countries with the potential for a dynastic succession, even though both countries’ first presidents had only daughters, not sons. However, despite the prominence of Nazarbayev’s oldest daughter Dariga Nazarbayeva, power in the country was handed over to Tokayev...
and Nazarbayeva was removed from her position as parliament speaker. Karimov’s eldest daughter Gulnara Karimova was also seen as a potential successor to her father but decades of plundering the economy (plus dabbling in fashion design and pop stardom on the side) eventually caught up with her. She was sent to prison in 2019, three years after the quietly competent Mirziyoyev took the presidency.

Now, with Rahmon’s health, like Lukashenko’s, reportedly failing, he too is understood to be grooming his son as a successor.

Last September, various posts on social media alleged that Rahmon had experienced a stroke. 18 months earlier, when Rahmon was absent from public view for several weeks, rumours emerged suggesting that he was facing health challenges. As reported by bne IntelliNews columnist Bruce Pannier, these incidents have sparked concerns and raised questions about Rahmon’s well-being and his ability to fulfil his presidential responsibilities.

"Karimov’s eldest daughter Gulnara Karimova was also seen as a potential successor to her father but decades of plundering the economy"

While some of the individual leaders from the region like Rahmon and Lukashenko are now approaching the ends of their long periods in power, this is by no means the end of the era of long-lived leaders. Events such as the constitutional changes in Russia and the re-election of Erdogan show conditions are still very much in place for leaders from the region to hold onto their positions for decades. In the eastern part of the post-socialist region, nothing has changed.

Long live leaders time lines

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Source: bne IntelliNews
Anti-government march gathers 500,000 in Warsaw

bne IntelliNews

An estimated 500,000 people from all over Poland marched in an anti-government rally in Warsaw on June 4, turning up the heat of political debate ahead of historic election due later this year.

The march followed intense weeks in Polish politics, marked by the Law and Justice (PiS) government’s missteps, which echoed at home and abroad, and likely fuelled the turnout at the rally, the biggest in Poland’s history since communism.

“You’re all here because you have just believed we can win. Democracy dies in silence. As of today, the silence is no more,” Donald Tusk, the leader of the biggest opposition party, Civic Platform (PO), told the crowd, which crammed into Warsaw’s Castle Square.

Tusk originated the idea of the rally a few weeks earlier, sensing an opportunity that holding an anti-PiS protest match on an anniversary of Poland’s historic election of 1989 could boost his party’s momentum in the run-up to the forthcoming election.

But PiS and the ruling party’s ally, President Andrzej Duda, likely caused many people far beyond party affiliations to participate in the rally.

A few days before the rally, Duda signed off on a controversial law that has established a special commission to probe Russia’s influence on Poland’s internal security.

The commission, simply by deciding that a politician’s decisions were made under Russian influence, can bar him or her out from taking public office.

The opposition fears the bill could be an attempt to eliminate Tusk from running in this autumn’s election, using trumped-up allegations served up by the commission.

After a backlash at home and – perhaps

“You’re all here because you have just believed we can win. Democracy dies in silence. As of today, the silence is no more”
more importantly – from the US and the EU, Duda submitted amendments to the law he had only just signed, trimming the commission’s powers.

But the law, dubbed “lex Tusk” in the meantime, triggered a wave of anti-PiS sentiment last seen after the PiS-controlled Constitutional Tribunal virtually banned the right to abortion.

Early signs of a huge turnout coming up were seen at Warsaw metro lines, where people were left out on the platforms as trains calling at stations were too full for them to board.

A tightly packed crowd filled the streets and squares within several hundred metres of the rally’s starting point and only began marching after a two-hour wait.

People held Polish flags and anti-government placards and banners. “PiS = Polexit,” read one, referencing fears that the PiS rule could eventually lead to Poland’s leaving the EU.

“TVP lies,” read another, referring to the government-controlled broadcaster which initially ignored the rally and later painted it as a “march of hatred” serving Russia.

“We are going to win the election and hold [PiS] accountable,” Tusk said shortly before the rally dissolved to the tune of “I love freedom,” a Polish hit song from 1990, performed live by contemporary singer Bovska.

Tusk and other opposition parties – whose leaders were also present at the march – have just over four months to ensure their combined result at the polling stations gives them a majority over PiS and the far-right, which the ruling party is said to be eyeing as a potential coalition partner.

PiS averaged 35.5% of support in May polls, ahead of the coalition of PO and smaller parties (known as the Civic Coalition) at 27% and the Third Way – a joint effort by centrist Polska 2050 and agrarians from PSL – at 14.5%.

The far-right Konfederacja polled at 11% on average in May, while the Left’s average was 10%.

Simulations show that PiS would only win 190 seats in the 460-seat parliament (Sejm) but could secure the slimmest of majorities, of 231, in a coalition with the far-right.

Estonia becomes first Baltic state to legalise same-sex marriage

Linas Jegelevicius in Vilnius

The Estonian parliament voted in favour of legalising same-sex marriage on June 20, becoming the first Baltic state and the second country in Central and Eastern Europe to allow same-sex marriage, after Slovenia.

“Everyone should have the right to marry the person they love and want to commit to. With this decision we are finally stepping among other Nordic countries as well as all the rest of the democratic countries in the world where marriage equality has been granted,” Prime Minister Kaja Kallas (Reform party) said.

“This is a decision that does not take anything away from anyone but gives something important to many. It also shows that our society is caring and respectful towards each other. I am proud of Estonia,” Kallas wrote on Twitter on June 20.

The move comes just two months after the country’s new centrist coalition government took office. In April, Estonian Prime Minister Kaja Kallas promised to introduce the legislation for same-sex marriage “as fast as possible”.

Estonia has long been the most progressive of the Baltic states, seeing itself as closer to the Nordic region in its attitudes. Neither of its neighbours are currently close to passing similar legislation. In Lithuania, a same-sex civil union bill passed a second vote in the Seimas at the end of May. The final vote on the adoption of the law is still to take place. In Latvia, a similar law has not cleared the Saeima’s committee level.

In other CEE countries, notably Poland and Hungary, there has been a populist backlash against calls to allow same-sex marriage, with rightwing parties often trying to weaponise the issue as a “culture war” against Western European values and to use it against other parties that they claim are hostile to national and “Christian” values. Even in the liberal Czech Republic, the governing centre-right coalition has agreed not to pursue same-sex marriage.

During the vote in Estonia’s Riigikogu (Parliament), 55 members of parliament
enjoy the right to enter into a registered partnership. Such a partnership guarantees the right of registered spouses to have a say in decisions pertaining to their partner and to obtain support and benefits as needed. Couples who enter into a registered partnership will also be able to convert their status to marriage in a simplified procedure should they wish to do so, reported ERR.ee, the website of Estonian national broadcaster ERR.

The proposal also clarifies Estonia’s Family Law Act’s regulation of parenthood in regard to same-sex couples’ adoption rights.

Both marriage and registered partnerships bring rights and obligations for couples which do not extend to those in de facto relationships. These are mostly linked to home, assets, parentage and obtaining support. For example, in the event of the death of one spouse or registered partner this will help to prevent situations in which the surviving partner, in the absence of a will, has no right to inherit the other partner’s assets, all of which are automatically transferred to their relatives instead.

The help of the spouse or registered partner will also be used to confirm previously expressed intentions if the other spouse or registered partner is unconscious or incapable of exercising their will, so as to decide whether to accept or reject medical treatment.

The amendments required for entries to be made in regard to registered partnerships contracted between January 1, 2016 and December 31, 2023 prior to the remaining amendments taking effect will enter into force on October 1, 2023.

Minister of Social Protection Signe Riisalo (Reform) said that marriage equality will make Estonia a more inclusive and considerate place.

“I am genuinely very grateful for the patience and understanding the LGBT+ community has shown for all these years,” she said.

“Guaranteeing equal rights for all is such an elementary thing that this issue was essentially covered in the discussions that took place in the years immediately after we regained our independence. I am delighted that the decision has now been taken for a more forward-looking Estonia that cares for all”, ERR.ee said.

Former Czech PM handed a conditional 2.5 year prison sentence

bne IntelliNews

Former Czech Prime Minister Petr Necas was handed a prison sentence of 2.5 years suspended for four years and a fine of CZK1mn (€41,953) for his role in bribing parliamentarians with lucrative public posts in exchange for their support for his cabinet’s tax package.

The affair was one of the reasons his rightwing Civic Democrat led government collapsed in 2013 after police units stormed government offices and several ministries in what is probably the most high-profile police raid in Czechia’s history. Necas is the only Czech premier to be convicted of a serious offence committed in office up to now.

Necas’ wife Jana Necasova (then Nagyova), who was the then head of his cabinet and who has also faced charges for abuse of military intelligence in a separate hearing, was handed a conditional 2 year prison term and a fine of CZK300,000 as was the then Deputy Minister of Agriculture Roman Bocek.

“The act” was “clearly proven”, judge Anezka Pudilova said in a verdict quoted by the Czech Press Agency (CTK). The accused faced a sentence of
The police raid in June 2013 led to disgust with the country’s political elite and paved the way for early elections later that year, which brought to parliament new populist and far-right parties, the ANO vehicle of billionaire Andrej Babis and the SPD vehicle of another businessman Tomio Okamura. In the meantime, the country was run by a technocratic cabinet comprised of allies of the then-president Milos Zeman. All three Civic Democrat (ODS) premiers – Vaclav Klaus, Milan Topolanek and Necas – have had to resign at least in part over corruption scandals. The ODS, under Petr Fiala, was only able to return to power in 2022 as part of a five-party coalition.

Lithuanian PM flip-flops on her resignation promise over expenses scandal

Tamas Csonka in Budapest

Lithuania’s Prime Minister Ingrida Simonyte has flip-flopped on her pledge to resign after the presidium of her ruling Homeland Union (TS-LKD) party decided the three-party coalition must continue working, LRT.lt, the website of Lithuanian public broadcaster LRT, reported on June 12.

In mid-May, the conservative party said that if the parliament failed to approve snap elections in the wake of the ongoing expenses scandal, it would put forward the government’s resignation. At the time, Simonyte said she would resign after the Nato summit in Vilnius if the Seimas failed to back the early election bid.

As reported by bne IntelliNews, the parliament, the Seimas, voted on June 6 against holding an early election in what the conservatives said would have been a “reset” of the political system. Simonyte then softened her stance, saying that since the party delegated her, it also needs to decide whether she should resign.

“The presidium does not approve the prime minister and the government’s resignation to take personal and institutional responsibility for the prevailing flawed procedure for the use of and accounting for funds local councilors received for their activities,” the resolution reads.

After the TS-LKD sitting, Simonyte apologised for her “human reaction” and “inaccurate communication”.

“In light of the discussion of the presidium and the fact that the coalition is functioning and in principle does not see any obstacles to the continuation of the coalition agreement, the government will continue its work in the same composition, with [a new] education, science and sport minister to be added as soon as possible, and will continue to carry out its programme,” she said in a statement.

“The expectation that the ministers should be dismissed for allegedly failing to meet my own requirements of transparency was groundless, because I had and have no reason to doubt the morality of the ministers,” she said.

The TS-LKD council also for a new minister of education, science and sport to replace Jurgita Siugzdiniene who resigned last month.
Protests break out again in northern Kosovo after arrest of ethnic Serb

Valentina Dimitrievska in Skopje

Protests were held in the Serb-majority municipalities in northern Kosovo on June 19, following the arrest of another ethnic Serb suspected of being involved in an attack on journalists.

The demonstrations took place in Leposavic, where Uros Vukasinovic was arrested, as well as in North Mitrovica. Additionally, a protest walk from Mitrovica to Zvecan was organised to voice dissent, Serbian public broadcaster RTS reported.

Vukasinovic was ordered to be held for 48 hours by the police on charges related to the alleged attack on journalists, his defence attorney Nebojsa Vlajic confirmed.

In a separate case, the Pristina basic court issued a 30-day detention for Dalibor Spasic, who was arrested two days ago at the Jarinje administrative crossing. Spasic faces charges of assaulting journalists and engaging in hooliganism, and is currently detained in Podujevo.

In Leposavic, citizens gathered in front of the municipal building to protest peacefully against the arrests of Serbs from the northern region of Kosovo.

Participants held banners bearing messages written in Serbian and English, including "This is our country", "Stop Kurti’s violence", "Don’t beat our children", "Serbs want peace" and "Stop institutional violence".

In the meantime, truck drivers with Serbian license plates, who have been stranded at the Jarinje crossing due to the Kosovo government’s blockade of goods from Serbia, have taken further action by blocking major roads, Tanjug reported.

In a display of solidarity with non-

“Nato’s Secretary General Jens Stoltenberg called for a de-escalation of the mounting tensions between Kosovo and Serbia, since the recent arrest of three Kosovo police officers by Serbian forces”
Albanian communities in Kosovo and as a protest against the Pristina authorities’ decision to prohibit the entry of trucks with Serbian licence plates into Kosovo, around 30 truck drivers from Kursumlija orchestrated a blockade on the Nis-Pristina main road in the village of Rudare.

During a press conference in Berlin, Nato’s Secretary General Jens Stoltenberg called for a de-escalation of the situation between Kosovo and Serbia. Tensions have been mounting between the two countries since the recent arrest of three Kosovo police officers by Serbian forces.

The situation in the northern part of Kosovo, predominantly inhabited by Serbs, has been tense since the end of May.

Stoltenberg emphasised Nato’s commitment to its UN mandate in Kosovo. He stated that Nato-led KFOR mission will continue to take all necessary measures to ensure a safe environment and unhindered movement for all communities in Kosovo, Kosovan broadcaster RTK reported on June 19.

Neither the leaders in Kosovo nor those in Serbia appear willing to attend the crisis meeting called by the EU this week.

Serbian President Aleksandar Vucic has stated that he will not meet with Kosovo’s Prime Minister Albin Kurti in Brussels. However, he indicated that he may technically appear at that meeting.

On the other hand, Kosovo’s PM Kurti has expressed his unwillingness to decide on his participation until he gains a better understanding of the situation regarding three Kosovan policemen detained by Serbia.

The European Union has called for the unconditional participation of both parties in the meeting led by EU’s High Representative for Foreign Policy and Security Josep Borrell.

Since late May, tensions have been on the rise in northern Kosovo after new Albanian mayors, supported by the Kosovo Police, entered municipal buildings amid opposition from the local Serbs. These developments have further fueled the already delicate situation between the communities in the region.

As reported by RTK, the US envoy Gabriel Escobar and European envoy Miroslav Lajcak will engage in a public discussion regarding the resumption of the Kosovo-Serbia dialogue on June 20.

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Anti-violence protests spread across Serbia

Djordje Tresac in Belgrade

Thousands gathered in Belgrade in front of the National Assembly for the latest anti-government rally on June 24, marching once more to demand action from the government and Serbia’s President Aleksandar Vucic after two mass shootings in early May.

This is the eighth time demonstrators have taken to the streets of Belgrade since the first rally on May 8, with demonstrations this time occurring concurrently in 10 other locations, including Nis, Novi Sad, Kragujevac and Subotica.

Numbers in Belgrade were lower than in previous rallies – possibly because of the protests in other cities – and there was no sign of the radicalisation talked of at previous protests. However, despite the lower numbers the crowd didn’t seem defeatist.

The students will have their say

The protests started when the shootings – which resulted in the deaths of 18 individuals – led to widespread discontent among the Serbian population but have since broadened as protesters raise a wider range of issues. The protesters accuse the president and the ruling party of fostering a culture of violence through the media and are asking for the dismantling of the responsible regulatory bodies, and a ban on reality shows and journalistic outlets that print fake news and promote violence.

The June 24 rally started with a march by a group of students in front of the National Assembly in downtown Belgrade. The students held banners that said “The students will not keep quiet” and “Stop the violence”. As classical music played, people could be heard talking of the constant change of pace in the protests as something good, perhaps trying to remain hopeful.
Soon enough, there was an address from the master of ceremonies, radio host Smiljan Banjac, but it was somewhat less invigorating than the previous one when the call for “radicalisation” was made. There were no plans for blockades at this week’s protest.

Bnjac announced that the students will have the main say during the evening.

Mia Puric, a first-year student of the Medical Faculty in Belgrade, said that the protests gave the students hope to fight for their own rights, and said students have raised the question of unpaid internships.

Blagoje Rozgic from the Mathematical Faculty spoke after Puric, saying that he doesn’t want his younger siblings to go to school in fear after pupils were gunned down in a Belgrade school by one of their classmates, and telling the crowd that the students stand with them.

Before the march officially commenced Banjac said once more: “If a hundred thousand is not enough for them [the government], Serbia will stop!”

He also talked of the situation in Kosovo where tensions have increased in the Serb-dominated north in recent weeks: “We hear the cry of our people in Kosovo and Metohija, and they do not have the support of this country, they do not have support from this government.”

Peaceful atmosphere
The route started down the familiar Kneza Milosa, but this time the protesters took a turn toward Slavija, exploring new city spaces that they rarely experience on foot. The final destination was Autokomanda, a loop on the international motorway that was blocked in some of the previous protests.

There was a positive atmosphere, but there was no trace of the radicalisation that was announced the previous week.

Bnej IntelliNews asked Radomir Lazovic, from the opposition Ne da(vi)mo Beograd party, what would happen if the protest were to be successful.

“We can then sit down and talk ... [and see] how to get out of this crisis. The current government doesn’t have legitimacy, it doesn’t have the support of the people. That is why we must go to the polls. We need to have a general election, and certainly, one in Belgrade, because they don’t have the support of the people here.”

Asked about the current situation in Kosovo, Lazovic responded: “I sadly don’t have enough information on what is going on right now, but I feel like the Serbs and Albanians both suffer from the raised tensions.”

He later told an N1 reporter that one of the reasons for the smaller number of people is that there are protests throughout Serbia, and that the protest could build from there further. “We have shown how many people in Belgrade are willing to protest,” he said.

Among the protesters, bnej IntelliNews spotted former prime minister Zoran Zivkovic, who blended in with the protesters in a rather inconspicuous way, aside from a “Serbia” polo shirt and a walking cane that gave him some trouble as he was mounting the road barriers at Autokomanda. “Do you need some help?” asked one fellow protester. “I am beyond help, madam,” the former prime minister quipped.

Bigger things to come
bnej IntelliNews interviewed Vuk (28) a student of Norwegian from the Faculty of Philology, who was there with a group of friends.

He believes that if the requests of the protesters are fulfilled then that would be a “small but significant victory for the people”, and the next step would involve radicalisation. He feels that the series of protests are “the beginning of something bigger”, and that with the protests spreading to other cities, he hopes, “the consciousness of the current political situation is formed”.

One of the protesters had drawn his own version of the famous Tiananmen Square image, the Serbian version depicting a big bad wolf driving the tank painted with the names Pink, Happy and RTS, the TV stations that have been criticised the most for propaganda and glorifying violence.

He wasn’t sure if the vision was completely clear to all interested parties. In front of the tank was a sheep with two shopping bags, in the role of the oppressed citizen.

“Are[n’t] sheep gullible?” bnej IntelliNews asked.

“Well,” he answered, “maybe I didn’t think through all the angles, but I think it’s pretty clear who the wolf is [Serbian President Aleksandar Vucic].

“He is continuing the same politics as [late dictator Slobodan] Milosevic, and after everything that we’ve been through we are the bad guys in Croatia, and we are going to be the bad guys in Kosovo.”

With the crowd steadily dissipating as the night set in, the atmosphere begged the question, can the protest be successful?

“Only if the whole of Serbia stops. A general strike.” Still, he thinks, the protest needs to carry on. “We need to help, even if we don’t believe”. ●
Teachers strike puts Romania’s ruling coalition at risk

Iulian Ernst in Bucharest

Romania’s ruling coalition has put on hold the planned rotation of the prime minister position, and the rising social unrest aggravated by insufficient tax revenues might bring an end to the unusual political construct forged by President Klaus Iohannis in 2021.

Social Democratic Party (PSD) Finance Minister Adrian Caciu dismissed on May 30 two heads of agencies responsible for tax collection, after reportedly being behind the resignation announced earlier by the head of the tax collection agency ANAF, appointed by the National Liberal Party (PNL) – the PSD’s partner in government.

Announcing his resignation, former ANAF head Lucian Heius argued that the budget for this year targets unrealistic revenues and undervalues expenditures.

The president of the Romanian Customs Authority (AVR), Bogdan-Lari Mihei and the head of the National Agency for Mineral Resources (ANRM) were also dismissed by Caciu.

At the same time, Caciu himself came under fire from lower-rank members of the PNL (though not yet from Prime Minister Nicolae Ciucă) and is expected to soon be replaced by a Liberal appointee: either presidential advisor Cosmin Marinescu or current Minister of Digitalisation Sebastian Burduja.

The disappointing budget execution on the revenues side is complicating what was supposed to be a rotation of the two ruling parties, under the agreement reached in 2021.

The €1.8bn (0.6% of GDP) negative deviation from the planned revenues in January-May, likely to reach €4.4bn in the full year, is the effect of poor planning and the necessary corrective measures will generate political costs that each of the two ruling partners are avoiding.

Caciu claimed that the deviation in January-May was actually wider than announced by Heius – a claim quickly rejected by Heius himself. Caciu also stressed that the revenues should be brought in line with the plan — something that is totally unrealistic but is aimed at putting pressure on his Liberal successor.

Teachers in Romania are already in the second week of their strike. They rejected the latest offer made by the government on May 30 saying that they accept nothing but a permanent increase of wages inked in a document such as a government decree.

This is likely to ignite broader social unrest, possibly including strikes, after inflation eroded the income of large parts of the public and private sectors.

On average, wages increased in line with the inflation – but some categories (such as teachers) are significantly lagging behind due to their weak bargaining power.

Other categories of employees may request rights granted by laws already passed but suspended because of the lack of budget, such as railway workers and even doctors that insist on fair compensation for overtime.

At the same time, police officers have warned against the government curtailing their benefits in terms of early retirement age and special pensions. Although they cannot officially organise strikes, their associations warned of protest actions of a magnitude that might block the functioning of the system.

The ruling coalition has reportedly agreed on reforming the special pension system by increasing the retirement age for ‘military’ personnel, which includes police and intelligence services as well. The ruling coalition’s plan is to curtail magistrates’ benefits as well, but the bill was not yet endorsed by the lawmakers.
Europe slow to sign military procurement contracts needed to supply Ukraine with weapons

Ben Aris in Berlin

The West has, piecemeal, sent Ukraine some powerful HIMARS and Storm Shadow missiles as well as a few dozen modern Leopard 2 main battle tanks. A squadron or two of F-16s are next on the list of arms on their way to Kyiv. But the West has been slow to sign off on the multi-billion long-term procurement contracts the defence industry requires in order to make in large volumes the nuts and bolts guns and ammo Ukraine so badly needs to actually win its war with Russia.

After more than 15 months of full-scale war in Ukraine, the West has yet to commit to the contracts with arms producers to build the new factories that are needed to keep supplying Ukraine with weapons.

The West has sent some high-profile sophisticated precision missiles that are better than anything Russia has, which have caught the headlines, but the reality of the war in Ukraine is that it is little more than a war of attrition, an artillery duel of dumb shells and drone strikes. As bne IntelliNews reported, Ukraine is running out of ammunition and running low on artillery shells, armoured vehicles and other weaponry at a time that Russia is aggressively expanding its own military production.

Kyiv’s existing stores of Russian-made equipment are becoming depleted, as are the West’s own stockpiles, raising the risk of shortages by the end of the year.

The Ukrainian army was blasting through 180,000 artillery shell rounds per month, whereas before the war the US was producing only 14,500 shells per month, and the EU about the same amount. Since the war started the US is now producing 20,000 rounds a month and has invested into new capacity that could increase that output to 90,000 rounds per month “eventually,” the Washington Post reports.

“Ukraine will soon completely stop using its own equipment, as nothing will remain. All that they are fighting with and all that they are using – all this is brought in from abroad,” Russian President Vladimir Putin scoffed at the recent investment conference in St Petersburg. “You can’t fight like this for long.”

Nato spokesperson Oana Lungescu said the alliance was “continuing to work to rapidly address shortfalls in ammunition stockpiles, enhance interoperability and...
interchangeability and strengthen the transatlantic industrial base.” But little has been achieved.

Lungescu claims that Nato allies like the US, UK, Norway and France have already signed large contracts, but declined to provide additional details when pressed by the Washington Post.

Nato countries have still not scaled up their spending to just bring them to the recommended 2% of GDP all members are supposed to spend on defence, and remain very reluctant to commit to billions of dollars of long-term contracts so the privately owned defence sector can invest into new facilities.

The lack of crucial materiel comes as Kyiv launches the long-anticipated counter-offensive, after which it may be vulnerable to Russia’s own riposte.

Yet despite the dire situation on the battlefield, European governments continue to dither over doing the long-term deals that would allow the defence sector to tool up and produce the badly needed weapons and munitions for a number of reasons.

The European defence industry is facing numerous challenges after decades of underinvestment, mismanagement and bureaucratic red tape have left it unable to meet the escalating demands of increased production. Moreover, competition from non-European countries has added extra pressure on the EU’s defence sector that is undermining the effort to supply Ukraine.

**Nato underspend**

Nato members are supposed to allocate at least 2% of GDP to their defence budgets but only 10 of the 30 members have actually done so; the aggregate spending currently accounts for 1.8% of their combined GDP.

Poland was already spending slightly more than 2% before the war started but has seen spending soar to just under 4%, as in addition to helping Ukraine, it now intends to build the most powerful conventional army in Europe that can permanently face down the Russian threat.

The US has actually decreased the amount it spends on defence between 2021 and 2023 slightly to 3.4%, but as its economy is so large its nominal spend of over $800bn dwarfs that of the UK and Germany, the second biggest spenders in nominal terms, that both spend just under €50bn a year each. However, the US spends a year. But that was still equivalent to 4.1% of Russia’s GDP in 2022, up from 3.7% of GDP in 2021.

And unlike the West, Putin has put his economy onto a war footing. Military factories are running three shifts a day and working 24/7, while civilian facilities

“Nato countries have still not scaled up their spending to just bring them to the recommended 2% of GDP all members are supposed to spend on defence”

many of the other countries that have made big increases in percentage terms are small economies like the Baltic States and contribute little to the nominal spend. The US is still carrying the can for Europe’s security.

Russian military spending grew by an estimated 9.2% in 2022 and now makes up an estimated quarter of all budget spending (large parts of Russia’s expenditure is now classified), to around $86.4bn – still only a tenth of what have been converted to boost production further, according to remarks made by President Putin at the recent St Petersburg International Economic Forum (SPIEF). Defence production has tripled in the last year, giving the economy a war boost that could see it start to overheat, warned CBR Governor Elvia Nabiullina at the same event. Russia’s federal budget report showed Moscow spent RUB2 trillion ($26bn) on defence in January and February alone, a 282% increase on the same period in 2021, Reuters reported.

**Defense Spending as a Share of GDP in 2021 and 2023**

Source: National budgets; NATO; EDA; IMF; calculations by the ifo Institute.
In 2022, European countries did increase their defence spending by 13% to a total of $345bn, but the commitment to step up defence expenditure has yet to translate into signed contracts for weapons and ammunition.

“...Europe’s biggest arms producer Ger –

Private sector scaling up
Until Western governments finally commit to new long-term contracts, the private companies have been doing what they can to boost production at their existing facilities and several have even started to invest some of their own money into expansion while they wait.

Companies like Sweden’s Saab, Norway’s Nammo and France’s Nexter, as well as Germany’s tank-maker Rheinmetall and missile-maker MBDA, have invested their own funds to expand existing production. Saab, for instance, has already doubled its production and intends to double it again by early 2025. France has also doubled the production of certain items, including weaponry sent to Ukraine.

Germany’s Rheinmetall aims to increase annual output of artillery shells from 450,000 to 600,000 by expanding existing plants and integrating the takeover of Spanish company Expal Systems.

The European Union has pledged to deliver 1mn rounds of 155mm artillery ammunition to Ukraine in the next year, with all shells being manufactured within the bloc. In April, the European Commission introduced the Act in Support of Ammunition Production (ASAP), a €500mn initiative aimed at boosting industrial production and replenishing member countries’ ammunition stocks. A Defence Production Action Plan is also expected to be approved at a Nato meeting in Vilnius later this month.

However, despite all the breathless reports of Europe “scrambling” to make more money available, little has changed on the ground. Large sums have been pledged but after 15 months of escalating warfare, not enough is actually being spent.

“We’re taking a bit of a risk,” Saab CEO Micael Johansson told Politico, noting his company is investing in infrastructure, personnel and raw materials. “Those are our own investments completely,” he added, “it’s so important that we get some sort of long-term contracts.”

Germany’s biggest weapons-maker Rheinmetall has been particularly

That is going to make a difference on the battlefield. Russia made 1.7mn 155mm artillery shells a year – the vital workhorse ammo in the current conflict – before the war, but that will rise to 2.4mn by the end of this year, the New York Times recently reported. Germany’s biggest arms maker is struggling to increase its production to 450,000 rounds and Ukraine has already largely used up the stock of 1mn shells the US gifted it at the outbreak of hostilities.

In 2022, European countries did increase their defence spending by 13% to a total of $345bn, but the commitment to step up defence expenditure has yet to translate into signed contracts for weapons and ammunition.

No contracts
The West massively outsends Russia on arming itself, but the production of those weapons is all almost entirely produced by privately owned companies. These businesses are reluctant to invest hundreds of millions of dollars into new facilities unless they get cast iron long-term contracts. On the other side of the table, governments are unwilling to commit to long-term contracts for millions of rounds of ammo and hundreds of tanks they won’t need if the Ukraine war comes to an end soon. Indeed, the West’s reluctance to sign the necessary contracts strongly suggests that Western governments intend to push for a ceasefire sooner than later.

While a few contracts have been awarded, the pace does not align with the industry’s expectations. Building new factories is further constrained by limited access to scarce resources and skilled labour. The smaller defence industry has to compete for materials with the much larger car and electronic sectors. Finding and hiring enough skilled labour to man a new weapons factory is another costly bottleneck.

The problem of supply is made even more complicated as Russia remains a major supplier of many of the raw materials needed, such as aluminium and titanium. France’s aerospace industry has already started to stockpile titanium and is hunting for new supplies.

“There is no sense of urgency,” Jan Pie, secretary-general of the Aerospace, Security and Defence Industries Association of Europe, told Politico, and urgent reforms to the defence bureaucracy are still lacking. “We are in a peacetime mood with all these processes,” he said.

These business problems have been exacerbated by the chaos that reigns in Europe’s biggest arms producer Germany. As the third-biggest provider of military aid to Ukraine in nominal terms, its defence sector has fallen into disarray following over a decade of botched reforms that have left its procurement sector dysfunctional, Der Spiegel reported recently.

The new Defence Minister, Boris Pistorius, was appointed at the start of this year to tackle the problem, but progress has been slow. For example, of the 400-odd Leopard 2 tanks Germany has, only about a third of them are combat ready.

In the meantime, the Bundestag voted through an emergency €100bn for military spending, on top of the €47bn already in the budget, but this money too is being disbursed slowly thanks to the bureaucratic snafus.
proactive and is negotiating several billion-dollar contracts to manufacture ammunition for Ukraine. According to the company's general director, Armin Papperger, a contract could be signed very soon to produce more ammo, with the first batches being sent to Ukraine in July.

“The government has ordered 300,000 rounds [of 155mm shells], and this year we will deliver up to 60,000,” Papperger added. “When it comes to tank ammunition, we have the largest production capacity in the world. There is no problem. The situation is different for artillery ammunition with a calibre of 155 millimetres. We can currently produce 450,000 rounds per year, but Ukraine alone needs up to a million rounds. With the Spanish manufacturer Expal, which we would like to take over in the course of the summer, we intend to expand our joint capacity to up to 600,000 rounds. Other manufacturers have to supply the rest.”

However, Papperger admitted in an interview with the German Editorial Network last week that little of the state’s €100bn of emergency money has been spent so far, and that to supply Ukraine with a million artillery rounds governments will have to dip into their own strategic reserves this year. But that should change as the year wears on.

“Not that many contracts were signed in 2022, you are right. This year, however, that will change. We are currently in the process of negotiating several very large orders: tanks, ammunition, soon anti-aircraft – and aircraft. This involves long terms and many billions of euros,” Papperger said.

Rheinmetall expects to receive more orders for vehicles, ammunition, electronics and radar systems worth billions of euros annually. And in a new direction, the company will start making fuselage parts for the American F-35 fighter plane which the German government has bought. Papperger also said that in the coming months, Nato will publish more accurate guidelines on how much industrial capacity needs to be increased “to ensure the security of Europe and Nato for the next ten years.”

Concerns are also rising that what contracts that are signed will go to non-EU companies, potentially undermining the investment case in Europe further. Countries like South Korea, Israel and Turkey are actively marketing their weapons to Ukraine and the European paymasters. French President Emmanuel Macron warned countries at the GLOBSEC conference in Bratislava in May that if they purchase non-European products that they may face future problems. Indeed, Macron has strongly advocated for beefing up Europe’s military to become less reliant on the US security umbrella.

South Korea has already emerged as a leading supplier after it entered into a joint venture with Poland to produce arms and ammo that will initially be used to supply Ukraine.

The US has traditionally supplied half of Europe’s military equipment needs and has made it clear that it expects to win a large share of the necessary procurement contracts. Brussels remains divided on the issue, but the US still leads in the most sophisticated systems like the F-35 jet fighter.

The Wagner Rebellion: How normal Muscovites reacted as mercenaries headed towards the capital

The Wagner Rebellion: How normal Muscovites reacted as mercenaries headed towards the capital

In the sixteen months since Russia launched its full-scale invasion of Ukraine, the closest that residents of Moscow had been to danger were a series of drone strikes that resulted in superficial damage to buildings. On 24 June, as Wagner Group mercenaries made their way down the M4 motorway towards the capital, it seemed evident that this situation was about to change.

With panic beginning to set in, Moscow Mayor Sergey Sobyanin announced the implementation of anti-terrorist measures, enabling the authorities to search any building and restrict the movement of vehicles and pedestrians on streets. In the centre of Moscow security was heightened around government buildings and military facilities. The Russian Army deployed troops and equipment to the entrances of the city, where they erected roadblocks. Farther away from Moscow, roads were excavated to impede travel towards the capital.

However, whilst the world watched, anticipating a military standoff at the edge of Moscow that could potentially result in a coup, millions of Muscovites continued with their lives. Following President Vladimir Putin’s speech at 10 am, official information on state TV was scarce, thereby limiting minute-by-minute updates to only those inclined to spend their day on apps such as Telegram. While a few individuals keenly followed the news and remained home, the vast majority carried on with their day like a normal Saturday.

Being a weekend, many of the capital’s
residents spent the day at their small summer home, commonly known as a “dacha,” located in the countryside near the city. The potential of conflict in the capital led the city government to postpone the annual celebratory concert for high school graduates, prompting many to organise private gatherings instead. Others, apparently unaffected by the potential of a war in central Moscow, opted to go shopping, take leisurely strolls in pleasant summer weather and dine in the capital’s bars and restaurants.

On 24 June, as Wagner mercenaries were just hours away from the capital, bne IntelliNews spoke to numerous Muscovites to discover the mood of those in the Russian capital.

“I am incredibly scared,” Maria Vinogradova, a 26-year-old teacher explained. “I can’t just pause my life to follow the news. I have a lot of things to do this weekend.” Maria’s outlook was common in those who spoke to bne IntelliNews – fear of what will happen, but not enough to cancel the day’s plans.

“I’m going out tonight, the girls I was friends with in university are going to a bar together,” Marina Solovyeva, a 31-year-old accountant, explained. “The war has been going on for over a year now. There is nothing I can do about it. Of course I am scared. But I have no power, so why should I stop having fun and living my life?”

Maria wasn’t the only one planning to party. Throughout the day, bars and nightclubs in Moscow were still advertising their offers, events and DJs for the night, including in the city’s most luxurious and expensive area, Patriarch Ponds. Videos and images posted on Instagram from 24 June show revellers enjoying their weekend in the same way they would on any normal day – listening to loud music, enjoying an Aperol Spritz and dancing.

Others, however, were in less of a festive mood.

“I’m tired of our military failures in Ukraine, so I’m glad Prigozhin is fighting back,” 41-year-old Ruslan Lenkov said. “Of course, I don’t want even more Russians to die, but [Chief of the General Staff] Gerasimov and [Minister of Defence] Shoigu have done a terrible job. I hope Prigozhin gets to Moscow peacefully and convinces Putin that he is wrong.”

Like many other Russians, Ruslan was conscripted into the army at age 18 for his compulsory military service. He hasn’t been sent to Ukraine – and has no intentions of signing up – believing that his children are a more important priority.

“I’ve been sat at my dacha all day following the news with our [children] running around the garden. This could be the most important day in Russian history in the 21st century.”

A few hours later Prigozhin announced that he was calling it off, and would be returning to the front with his troops that had, in his words, halted “within 200 km of Moscow.” Moscow’s troops stood down, and barriers blocking entry to the city were opened up.

“Now the danger is over, I’ll be able to go out without feeling guilty and fearful,” Maria told bne IntelliNews, following up a few hours after the initial interview. “I suspect that many others in the city will be out celebrating, too.”

“In the centre of Moscow security was heightened around government buildings and military facilities”
Putin and Berlusconi stayed best of friends until the end

Ben Aris in Berlin

Russian President Vladimir Putin expressed his deep sorrow over the passing of former Italian Prime Minister Silvio Berlusconi, whom he considered a “dear friend.”

“For me, Silvio was a dear man and a true friend,” Putin said in a message of condolence to Italian President Sergio Mattarella.

“I have always sincerely admired his wisdom and his ability to make balanced, far-sighted decisions even in the most difficult situations. During each of our meetings, I was literally charged with his incredible vitality, optimism and sense of humour,” Putin shared his memories of Berlusconi. “His death is an irreparable loss and a great misfortune.”

Putin and Berlusconi first met at the G8 summit in Genoa in 2001. They held dozens of one-on-one business meetings over the years in big politics and at various international forums in Russia and Italy and in many other countries.

Putin and Berlusconi not only worked together, but were on friendly terms for more than 20 years and occasionally holidayed together with their families.

They frequently met up, in both Russia and Italy, even after Berlusconi left office in 2011. Putin visited Berlusconi at his Rome mansion in 2013 in between official engagements, after the former Italian PM was expelled from Italy’s parliament due to a tax fraud conviction and couldn’t travel abroad.

Berlusconi has been one Putin’s strongest supporters in Europe and insensitive to Russia’s aggression in Ukraine. In 2015, the pair were lambasted by Ukrainian prosecutors after they opened a rare vintage, a 240-year-old bottle from Jerez de la Frontera. The Spanish wine, brought to Crimea during the reign of Catherine the Great by Count Mikhail Vorontsov, was thought to be worth more than €100,000.

Ukrainian prosecutors prepared charges against the winery’s director, for giving away Crimea’s national heritage. Berlusconi didn’t care.

“It was delicious,” the Italian billionaire-turned-politician said in an interview. “We visited this famous winery and they asked us to taste their wines. Then, unexpectedly they allowed us to taste this bottle of wine from the 18th century, of which they were very proud. It was fantastic.”

On another occasion in 2018 Berlusconi skipped his own party’s annual conference and flew instead to Sochi to Russia to attend Vladimir Putin’s 66th birthday celebrations. The year before he gave Putin a duvet cover with both their faces on it.

The nature of their close relationship has puzzled some analysts, who speculated there were murky businesses deals and wild “bunga bunga” sex parties lying behind the bonhomie.

Putin once described Berlusconi as “the last of the Mohicans” in Europe and a remarkable figure associated with the most important events in Italy’s recent history. He highlighted Berlusconi’s dedication to his country’s interests and his significant contributions to its economic and social development, as well as its positioning in Europe and the global stage.

“A true patriot, Silvio Berlusconi has always put the interests of his country above everything else. Being at the helm of the Council of Ministers and holding other important governmental posts for many years, he did a great deal for the economic and social development of the country and for its
The Russian president also emphasised Berlusconi’s invaluable personal contribution to strengthening Russian-Italian ties and his unwavering support for friendly relations between the two countries. Until the war in Ukraine, Italy's firm foothold in Europe and in the world arena,” Putin said. The bombastic Belarusian dictator’s assertion follows an announcement made by Russian President Vladimir Putin on March 25, when he revealed that, at Minsk’s request, Moscow would “store” some of its tactical nuclear weapons in Belarus.

In a telegram to President Mattarella, Putin extended his deepest condolences on the death of the outstanding Italian politician. He acknowledged Berlusconi’s role as a true patriot who always prioritised the interests of his homeland. Putin regarded Berlusconi as the patriarch of Italian politics, highly respected both domestically and internationally.

“The most important events in the recent history of Italy are connected with the name of this remarkable man. A true patriot, Silvio Berlusconi always put the interests of his homeland above everything else,” the Russian leader said.

Putin further characterised Berlusconi as an extraordinary politician known for his sincerity and openness. He highlighted Berlusconi’s privilege of speaking his mind, a quality not often found in politicians of his stature.

“He was an unusual person for a politician because he was very sincere and open and had a privilege that politicians of this scale do not enjoy. That privilege of his was to speak his mind,” Putin said on the Rossiya-24 television channel.

Berlusconi’s death was reported by Corriere della Sera, marking the end of a long and influential career in Italian politics. The veteran leader, founder of the Forward, Italy! party, and three-time prime minister, died at the age of 86.

President Alexander Lukashenko said he would have “no hesitation” in using Russian nuclear weapons if Belarus was attacked, as the first missiles begin to arrive in the small republic.

“God forbid I have to make a decision on the use of these weapons in modern times. But there will be no hesitation, as long as there is aggression against us,” Lukashenko told Russian journalists during a working trip to the capital Minsk earlier this week.

The bombastic Belarusian dictator’s assertion follows an announcement made by Russian President Vladimir Putin on March 25, when he revealed that, at Minsk’s request, Moscow would “store” some of its tactical nuclear weapons in Belarus.

However, despite Lukashenko’s bold claim that he could fire them at any potential aggressor – he doesn’t have the launch codes. Putin was explicit,
Belarus President Lukashenko threatened to use Russian-supplied tactical nuclear weapons on any country that attacks.

saying the missiles would be held at a special Russian-controlled warehouse in Belarus and that Lukashenko would have no access to them.

Lukashenko flatly contradicted that, telling Belarusian TV shortly afterwards: “If the missiles are in Belarus then of course I have control of them.”

Instead of the deployment being for the protection of Belarus, many experts have suggested that the movement of nuclear weapons is simply a symbolic gesture aimed at telling the West that Moscow is serious about its potential to use its nuclear capability, while also making a statement about Washington’s deployment of tactical nukes throughout Europe.

On June 13, Lukashenko stated that a nuclear response to an attack on Belarus would be “immediate,” describing the bombs as a “deterrent weapon” that would be stored in six different locations throughout the country.

“Why do we need them? To make sure not a single foreign soldier sets their foot on Belarusian land again,” Lukashenko said, as quoted by Belarusian state media BelTA.

Lukashenko said that although Belarus would store Russian tactical nuclear weapons, he doesn’t need the more powerful Russian strategic nuclear weapons to be deployed to its territory. “Am I going to fight America? No,” he said. However, he added Belarus was readying facilities for intercontinental nuclear-tipped missiles as well – just in case.

Along with Ukraine and Kazakhstan, Belarus hosted a significant share of Soviet nuclear arsenals when they were all part of the Soviet Union. Those weapons were withdrawn to Russia after the 1991 Soviet collapse under a deal sponsored by the US.

A day later, in an interview with famous Russian propagandist Olga Skabeeva on TV channel Rossiya 1, Lukashenko somewhat backtracked, acknowledging that he would need to seek permission from the Kremlin before deploying any nuclear weapons to defend Minsk.

“They say these are Russian weapons and Belarus will not be able to use them without Russia,” he told Skabeeva.

“Look, if a war breaks out, I am not going to waste time. I will pick up the phone and call him wherever he is. He can call me, and I will answer any moment. It’s not a problem to co-ordinate a strike. There is nothing here to talk about. We have already reached the corresponding agreements. Let the enemies, Olya, shiver in their boots.”

In the same interview, he described the nuclear weapons as three times more powerful than those dropped on Hiroshima and Nagasaki during World War II.

The threat of a nuclear strike has been consistently present since Russia launched its full-scale invasion of Ukraine in February 2022. Specifically, Western politicians have expressed concern that Moscow may employ tactical nuclear weapons. Unlike strategic nuclear weapons, which are equipped with intercontinental ballistic missiles and have the ability to devastate entire cities, tactical nukes are intended to eradicate enemy forces and weaponry in combat zones.

However, despite the transfer of nuclear weapons and increased concern over their potential use, the US has revealed that it has not changed its nuclear threat assessment, with White House press secretary Karine Jean-Pierre stating that the US has not seen “any indications that Russia is preparing to use nuclear weapons for Belarus.”

“Speaking to that particular issue, this is yet another example of making irresponsible and provocative choices. So we remain committed to collective defence of the Nato Alliance. And I’ll just leave it there,” Jean-Pierre continued.
US releases satellite pictures of Russia site where it says Iran is helping to build drone factory

bne IntelliNews

The US has assessed that an attack drone manufacturing plant that Russia is constructing with Iran’s assistance could be fully operational by early next year, National Security Council official and White House spokesman John Kirby said on June 9.

Kirby said that the US was releasing a range of newly declassified information to the public on what Washington has come to regard as a deepening “full-scale defence partnership” between Tehran and Moscow.

“This is a full-scale defence partnership that is harmful to Ukraine, to Iran’s neighbors, and to the international community. We are continuing to use all the tools at our disposal to expose and disrupt these activities including by sharing this with the public and we are prepared to do more.”

Iran is thought by US officials to be directly shipping equipment for the drone plant, as well as hundreds upon hundreds of fully-built one-way “kamikaze” drones used in Russia’s war effort in Ukraine, to Russia via the Caspian Sea. Iran, said Kirby, was also using the route across the inland sea to send bullets and mortar shells to Russia, often deploying “dark” vessels, meaning ships that have switched off their tracking data to disguise their movements.

The US released a map on June 9 that shows the sea route Iran appears to be using to ship equipment from Amirabad, Iran to Makhachkala, Russia.

“Russia has been using Iranian UAVs (unmanned aerial vehicles) in recent weeks to strike Kyiv and terrorise the Ukrainian population, and the Russia-Iran military partnership appears to be deepening,” Kirby said in a statement.

US officials have also concluded that Iran has been shipping materials that Russia has been using to build the drone factory, located inside Russia’s Alabuga Special Economic Zone,
around 600 miles (966 kilometres) east of Moscow. The US government released a satellite image dated April 3 of the assessed location of the claimed drone manufacturing plant.

In return for Iran’s military supplies, Russia, according to Kirby, “has been offering Iran unprecedented defence cooperation, including on missiles, electronics, and air defence”.

He added. “Earlier this year, Iran announced that it had finalized a deal to buy Su-35 fighter jets from Russia. Iran is seeking to purchase additional military equipment from Russia, including attack helicopters, radars, and YAK-130 combat trainer aircraft. In total, Iran is seeking billions of dollars’ worth of military equipment from Russia.”

Kirby also announced that the US was set to put out a new advisory to assist businesses and governments in better understanding how Iran is illicitly obtaining components to build its drones. The advisory would give information on how measures can be used to ensure there are no inadvertent contributions to Iran’s unmanned aerial vehicle (UAV) programme. There are anxieties that despite restrictions Iran is managing to source plenty of commercially-available technology, including American-made microelectronics, on global markets for its drone building.

Kirby also stated that the transfers of drones by Iran to Russia constituted a violation of UN rules.

Iran was yet to respond to the new allegations from the US about its defence relationship with Russia, but Tehran has previously several times stated that the only military drones it has sent to Russia were dispatched during times prior to Moscow’s February 2022 invasion of Ukraine.

Ukraine has introduced sanctions against Iran that will not expire for 50 years.

‘Island of democracy’ Kyrgyzstan seen as succumbing to rise of Japarov’s nationalist populist regime

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Kyrgyzstan, famously sometimes dubbed the only “island of democracy” in Central Asia, is succumbing to the rise of the nationalist and populist regime of Sadyr Japarov, according to Advox, a Global Voices Online project that researches “digital authoritarianism”.

In an excerpt from its “Unfreedom Monitor Report” on the phenomenon in Kyrgyzstan, Advox says: “Since the adoption of the Law on Protection from False Information (aka the law against the spread of fake news) in Kyrgyzstan in August 2021, the legal persecution and detention of critics and bloggers because of their posts on social media has become possible.

“The number of Facebook or other social media users censored and interrogated by the Kyrgyz security services for their criticism towards the president and the incumbent government is skyrocketing.”

Separately, Human Rights Watch (HRW) on June 9 called on the Kyrgyz parliament to reject “a highly repressive” draft law that would interfere with the activities of nongovernmental organisations.

The legislation, accused by critics of aping an illiberal and oppressive law operated by the Putin regime in Russia, would require NGOs to register with the justice ministry as “foreign representatives” if they receive funding from abroad and engage in political activity.

“Failure to register under the law could
result in suspension of the organization’s activities, including its banking operations, for up to 6 months or until it is registered. This requirement is clearly intended to discredit and stigmatize groups that receive foreign funding and could have a chilling effect on the country’s civil society at a time when it is already under attack,” New York-based HRW said.

“The draft law is incompatible with international human rights obligations, restricting freedom of association and expression, as well as introducing in some cases criminal liability for nongovernmental organizations and their staff members,” said Syinat Sultanalieva, Central Asia researcher at HRW. “The draft law poses a serious threat to Kyrgyzstan’s vibrant civil society and should be withdrawn,” she added.

Advox’s report also referred to how seven bloggers, including bloggers related to media channels critical of the state, were censored and interrogated by the Kyrgyz security services in the period between January and June 2022.

“More than 30 critics of the regime – civil society activists, opposition politicians, independent journalists, bloggers and human rights activists – were detained between October and December 2022 for their social media criticism [mainly on Facebook] of the government’s decision to transfer the Kempir-Abad water reservoir to Uzbekistan in a border deal,” noted Advox, adding: “The detainees were accused of an attempt to overthrow the government after the security services released audio recordings of conversations between opposition politicians and civil society activists.

“Very soon [after], the authorities also shut down the website of Radio Free Europe [RFE/RL] affiliate Azatyrk in Kyrgyzstan for two months for ‘biased reporting’; in December 2022 the term was extended indefinitely.”

Prominent investigative journalist Bolot Temirov was expelled from Kyrgyzstan to Russia by a judicial decision in November 2022, added Advox.

In January, the Apparatus of the President of the Kyrgyz Republic released a draft Law on Mass Media, according to which the state will oversee bloggers, internet outlets and social media accounts with more than 5,000 followers. “The state intends to register them in a unified system in order to track and to monitor their activity,” said Advox.

Unlike previous presidents, Japarov, who was busted out of prison by supporters during Kyrgyzstan’s October 2020 revolution, is highly attuned to the influence of social media and is known to actively engage with it, Advox said.

He informally runs multiple fan or support pages/groups on popular social media channels Instagram, Facebook, Telegram, YouTube and WhatsApp, it added, saying: “Though these pages/groups might look harmless, they are heavily misused in order to increase authoritarianism and illiberal practices in the country (as documented in the public Airtable).

“Pro-president social networks misinform, disinform and manipulate information, create artificial support for the president and legitimise the authorities’ attacks on non-state media, civil society, bloggers and social media users. In other words, Kyrgyz authorities are worried about too much ‘digital freedom’ on the internet and thought of legislative measures to limit it.”

Social media groups supportive of Japarov “have emerged with the aim of garnering backing for the president during critical moments, and are run by individuals associated with his informal network, while receiving funding from unknown pro-president groups or individuals”, said Advox.

“The support pages promote the current regime’s decisions and policies by creating proregime content (usually videos) that is disseminated through multiple social media platforms, while also commenting on contentious news items published by critical media channels. These videos are directed towards under-educated Kyrgyz-speaking people who tend to trust unverified sources, conveying unconfirmed and intentionally exaggerated information,” it added.
Iran proclaims itself a hypersonic missile power

Iran proclaimed itself the fourth country in the world to boast hypersonic missiles in its arsenal on June 6, when it showcased the Fattah, meaning “Conqueror” in Farsi.

The Fattah, said Tehran, has an 870-mile (1,400-kilometre) range and could hit Israel within 400 seconds.

The announcement of the missile was soon followed by a move by the US to impose sanctions on more than a dozen people and entities in China, Hong Kong and Iran, including Iran’s defence attaché in Beijing, in relation to accusations that they helped procure parts and technology for key actors in Iran’s ballistic missile development programme. A statement from the US Treasury accused Iran’s defence attache in Beijing, Davoud Damghani, of coordinating military-related procurements from China for Iranian end-users, including subsidiaries of Iran’s Ministry of Defence and Armed Forces Logistics (MODAFL).

Iran’s president, Ebrahim Raisi, attended the unveiling of the missile, which the Iranians claim can travel at up to 15 times the speed of sound and bypass air defence systems.

Hypersonic missiles can fly at least at Mach 5 – five times the speed of sound. It is said to be possible to manoeuvre the Fattah in and out of the atmosphere. “It can bypass the most advanced anti-ballistic missile systems of the US and the Zionist regime, including Israel’s Iron Dome,” Iran’s state TV said.

Raisi asserted in the broadcast that the missile was a deterrent that would be “a point of security and stable peace” for the region.

“This missile power means that the region will be safe from evildoers and foreign aggression,” he said. “So its message to the people of the region is a message of security, and its message to those who are thinking of attacking Iran is that the Islamic Republic is a powerful country and its power aims to support the people of Iran and the oppressed people of the world.”

Amir Ali Hajizadeh, commander of the aerospace force of Iran’s Islamic Revolutionary Guard Corps (IRGC), described the Fattah “a missile that is unique in the world”.

However, Iran has not detailed any actual launch of the missile. Hajizadeh simply referred to a ground test of the missile’s engine. A rocket motor was put on a stand and fired to check its performance range. Iran has in the past faced claims of exaggeration in its missile technology claims.

Ukraine’s air force claimed in May to have shot down a Russian hypersonic Kinzhal missile with US Patriot air defences.

Israel and the US keep a watchful eye on both Iran’s ballistic missile programme and its space rocket programme, with the latter testing dual-use technologies they say can be utilised by the former. The fear is that Iran will develop missiles capable of taking nuclear payloads, though Tehran has always insisted it has never had the ambition to develop a nuclear bomb and is only pursuing the development of civil nuclear projects.

Laura Holgate, the US ambassador to the UN’s nuclear watchdog, the International Atomic Energy Agency (IAEA), speaking to the latest quarterly board meeting of body, said: “Iran continues to expand its nuclear activities far beyond JCPOA [Joint Comprehensive Plan of Action, the official name for the Iran nuclear deal] limits. In particular, we have underscored that Iran’s production of uranium enriched up to 60% has no credible peaceful purpose. No other country in the world today utilises uranium enriched to 60% for the purpose Iran claims.”

Israel’s economy minister, Nir Barkat, was on June 6 quoted by the Guardian as saying his country would “never, never allow” Iran to have nuclear weapons. “The Iranians should be deeply concerned, because if they come close to that threshold, they must realise that nobody in Iran should sleep well at night, because we will never allow that to happen. They should be really, really concerned.

“I remind our friends in America that we’re on the same line. We should all lay together and, naturally, it’s going to be easier for us in Israel to do it in collaboration with the rest of the free world, headed by the United States of America. This is my expectation, and I hope that Iran will understand, sooner rather than later, not to mess around with us.”

Putting the hype into hypersonic. / Tasnim news agency, cc-by-sa 4.0
The tragicomic transformation of Russia's power landscape: Yevgeny Prigozhin's descent into absurdity

Alexander Kabanovsky in Berlin

From ruthless butcher to daring political operative to inexplicable fool, the rollercoaster 48 hours that made and broke Yevgeny Prigozhin.

"I’m a dog chasing cars. I wouldn’t know what to do with one if I caught it! You know, I just... do things." The Joker, Batman, The Dark Knight (2008).

Yesterday, Yevgeny Prigozhin was on the cusp of becoming a historical figure who would reshape Russian history. Today he is nothing more than a clown who will be remembered for a series of inexplicable actions he took in a span of 48 hours. What seemed to be a daring and brilliant political gamble on the cusp of stunning success turned out to be, seemingly, nothing more than a desperate cry for attention from a wayward servant to a master who had long ignored him.

In the blink of an eye, Prigozhin, who yesterday looked like an influential political operative, transformed into a character more fit for a tragicomedy than big-time politics. The audacious uprising he orchestrated was warmly and enthusiastically met across Russia and even more so in Ukraine. The notorious Wagner Group soldiers, under his control, were received with open arms in all cities they entered, while interior ministry troops chose to flee rather than confront the encroaching force. Panic gripped Moscow; military equipment was pulled into the city, roads were destroyed to impede their progress, and helicopters and airplanes were launched in an all-out effort to quell the uprising. All to no avail. Wagner shot down four helicopters and one Il-22 transport as they swept aside the feeble impersonations of resistance. The Russian air force, to make a good show of it, fired upon Wagner’s columns regardless of the fact that they were moving among civilian traffic just to assure their masters that no consideration for life or limb of ordinary people was being made in the effort to quell the mutiny.

Once again proving that lives are the cheapest form of...
currency in Russia, Prigozhin, after his spectacular about-face, when asked why his men brought down a transport plane, replied that his crazy air-defence commander was firing on anything that flew and said he would pay RUB50mn to the families of the dead crew members. Four helicopter and ten IL-22 pilots died as a result of Prigozhin’s little tantrum, yet it did not stop either him or the Ministry of Defence from claiming that not a drop of blood was spilled, Wagner mercenaries were models of good behaviour, and no one had any complaints about their behaviour.

It was all to no effect as Prigozhin’s path to Moscow, and power, seemed wide open – and then... boom! The most unexpected of announcements – Lukashenko has reached a deal with Prigozhin, the uprising is over, thanks for coming to the show, there is nothing more to see here, we are all going home! At that moment, the mind of everyone covering and analysing the unfolding story in Russia was officially blown. Even attempting to understand, much less rationalise, this stunning development proved impossible.

As Telegram channels from Russia and Ukraine overflowed with clown emojis (there were over 140,000 of them on Prigozhin’s channel alone), the sanest decision one could take was to have a shot or two of vodka, go to sleep and try to work this out in the morning, which is what I did. Vodka usually helps to find meaning in Russia’s madness, but I must admit, it did not do so in this case. Clarity did not arrive in the morning, and the madness of Prigozhin’s actions made no more sense for the sober mind than it did for the inebriated.

It is now time to parse the events of the day to try to understand what lessons can be drawn from Prigozhin’s mutiny about the current state of Russian politics and the extent of Putin’s hold on power. Perhaps that will lead to more clarity and provide some method to the madness we witnessed.

Starting with the most obvious: Prigozhin’s revolt was a disaster for everyone, from Putin, to Prigozhin and to everyone else who threw their lot in with the undercooked sous-chef, whether soldier, politician, journalist or political analyst. If you threw your lot in with the hapless cook, you were burned. Some are now paying the ultimate price as videos are emerging on the internet of Russian soldiers who poured into the streets. In stark contrast, a chorus of “traitors” and “cowards” filled the air in Rostov and other towns as Putin’s police and other power ministries returned. The situation was so threatening to Putin that he left Moscow as well, choosing to wait out events in one of his many posh residences, this one in Valday.

Third, the re-emergence of Lukashenko became an even more bizarre twist in the theatre of the absurd. Lukashenko is no stranger to coups and national uprisings, as his resume is full of experience in subduing them in his native Belarus. The Kremlin, in all its wisdom, must have decided that such invaluable experience could not be allowed to go to waste and engaged him to negotiate a settlement with the ornery chef. The fact that Putin had to rely on Lukashenko to pacify Prigozhin speaks volumes about the state of affairs within his administration and his own impotence and weakness. Who among his handlers thought that delegating the negotiation of a settlement with Prigozhin to Lukashenko would be a winning move for Putin’s image in the long term? The mere proposition seemed farcical, highlighting the desperate measures embraced by the Kremlin to keep Putin at the helm for as long as possible in the face of growing discord and opposition.

Fourth, the disaffection with Putin’s government is not over; in fact, it’s just beginning. Whatever nutty reason Prigozhin had for moving on Moscow, since apparently it was not to seize power, did have one tangible consequence – it showed that Putin’s purported 80%-90% approval rating among Russians is a farce. Even as the news of Prigozhin unexpectedly cancelling Wagner’s national tour spread and his mercenaries started pulling out of the cities they occupied, they were hailed as heroes by the local residents who poured into the streets. In stark contrast, a chorus of “traitors” and “cowards” filled the air in Rostov and other towns as Putin’s police and other power ministries returned. This only added to the portrait of a nation in turmoil, its supposed strongman appearing weaker and more out of touch by the moment.

Fifth, Prigozhin is either an idiot or suffers from an extreme form of psychosis. No smart or sane person would ever agree to the terms of the settlement he agreed with Lukashenko.

“As Telegram channels from Russia and Ukraine overflowed with clown emojis the sanest decision one could take was to have a shot or two of vodka, go to sleep and try to work this out in the morning”
Prigozhin put his life in Putin’s and Lukashenko’s hands, siting their “personal guarantees” to let bygones be bygones as sufficient to dismantle his only source of power, Wagner, and give up what appeared to be an eminently winning hand. Putin may not be many things, but he is spiteful, has a long memory for slight real and imagined, and he does not forgive treachery. If history shows anything, it is that he mercilessly hunts down those by whom he feels betrayed and feeds them massive doses of polonium or Novichok. Prigozhin, regardless of the guarantees he thinks he received, appears not to be long for this world.

Sixth, the power elites that once stood behind Putin seem to be searching for an alternative. The need to halt the impending war and avert a catastrophic collapse is palpable, and Putin’s ability to provide solutions appears more dubious than ever.

Seventh, the fate of Wagner is uncertain at best. It seems that a large part of the orchestra will be dissolved into the regular army. Some analysts think that they, under Prigozhin’s command, will be relocated to Belarus in an effort to relaunch the assault on Kyiv. While that may be the case, there are certain problems with that scenario. First, Prigozhin has lost credibility with his own “corporation.” There are many poignant videos of Wagner soldiers, once loyal followers of Prigozhin, openly stating that they feel betrayed and abandoned by the chef. Their resentment is visible, and their vows for revenge echo ominously in the ether of Telegram, further underlining the volatility of the situation. Second, Lukashenko wants to avoid direct involvement in the war in Ukraine. It seems unlikely that he was waiting for this opportunity to bring in thousands of uncontrolled, battle-hardened mercenaries into his country to destabilise a situation he has worked exceptionally hard to keep under control. In essence, nothing was stopping him from bringing in Wagner in the past. It seems strange that his position would change radically because of Putin’s domestic problems.

Eighth, the exposed instability in Russia presents both challenges and opportunities for those backing Ukraine. On the threat side, the weakened state of the government brings up the obvious concern of who actually handles the nuclear weapons and whether Putin actually has any say on whether they could or would be used. While the chances of Russia taking this nuclear step remain small, the added uncertainty is uncomfortable. As to the opportunity, it has become more apparent that Russia is not really capable of carrying on a protracted war. The stamina, either economic or political, or military, is simply not there. The internal problems created by twenty-three years of graft and mismanagement are too severe to overcome, especially in the face of a pointless and very costly war.

The ripple effects of this attempted coup are yet to fully unfold. The sudden transformation of Prigozhin from a potential architect of Russia’s future to a laughable character has not only unmasked the frailty of Putin’s regime, but it also leaves Russia teetering on the brink. As the final act of this tragicomedy plays out, one is left to wonder: who will have the last laugh?

Alexander Kabanovsky is a formerly Russia-based banker and entrepreneur. This article first appeared on his substack “Thinking Out Loud”

KYIV BLOG

Moldovan EPC – much ado about nothing

Ben Aris in Berlin

The West has come up with weapons and money in abundance, but all that does is allow Ukraine to keep fighting and not lose. But it refuses to commit to the substantial geopolitics that Ukraine needs. What is missing is a concrete roadmap towards security guarantees to end this war once and for all. Zelenskiy again pushed for a real timetable for Ukraine’s Nato succession – and he has been pressing this point for a year now – as well as a detailed roadmap for drawing up real bilateral security guarantees in the interim. He got nothing – again.

Kyiv has already conceded it will give up its Nato ambitions and return to the neutrality stance it had before 2014 during last April’s peace talks (although Kyiv has gone back on that in the meantime).
Russia also said it would accept Ukraine’s neutrality + bilateral security deals with Europe as a compromise as that keeps Ukraine out of Nato (hence no Nato missiles in Ukraine) – the Kremlin’s main goal – and concedes all
countries want to have security deals. Indeed, Russia had been also asking for pan-European security guarantees and was prepared to offer them to Europe, including Ukraine, since 2008, but was ignored.

I still maintain that offering to do a pan-regional post-Cold War security deal that includes Russia is one way to end this war. The problem with Nato is it specifically excludes Russia, hence de facto makes it an “enemy” by definition.

French President Emmanuel Macron was famously down on the “brain dead” Nato, but clearly has come round and is looking like a statesman now arguing for real security deals for Ukraine. German Chancellor Olaf Scholz is typical of the more cautious camp that is saying no deals until the war is over.

I have argued elsewhere that if we are serious about helping Ukraine and are truly worried about Russia’s aggression we should call the Kremlin’s bluff and take Ukraine into Nato now as another (and far more dangerous) way to end the conflict. In this I agree with Henry Kissinger, who also did an about face on Ukraine in Nato for the same reasons. The war has gone too far. The opposing positions are too far apart. And the fighting is escalating in a frightening way.

The war has now spilled out into Russia. The villages along the border in the Belgorod region are now being shelled constantly and insurgents have crossed back into Russia in more raids. On top of that, the gung-ho UK is now supplying Ukraine with long-range missiles that can hit deep into European Russia and calling for more to be sent. It is only a matter of time now before Russia declares that it is under attack from Nato forces and triggers its mirror-image of Article 5, saying it is facing an “existential threat”, and hits back at targets outside Ukraine.

In the meantime Ukraine is left in limbo, with the flower of its youth dying on the battlefields, without any prospect of a ceasefire anytime soon.

It seems everyone is waiting for the famed Ukrainian counter-offensive before they will contemplate talks. I’m sure this will be spectacular, as it seems very clear that Kyiv is stockpiling weapons and ammo: there are plenty of reports of new tanks and shells being sent in in large numbers, but the battlefield reports continue to be about rationing and shortages, with little evidence of all the modern American weaponry. It seems that the plan is to hit Russia with a hammer blow and then start talks.

But even if that works, I still don’t see any genuine commitment by Europe to let Ukraine join either Nato or the EU, even if there is a ceasefire. I also remain highly sceptical of the chances of the West coming up with the circa $300bn-500bn that Ukraine needs to rebuild.

This is a two-speed world with the haves unwilling to admit the have-nots into their club. Although the West is appalled by Russia’s invasion, I’m pretty sure it remains mistrustful of Ukraine’s legendary corruption, worried by the large population of potential migrants and an agricultural sector that would swamp EU markets (ask Poland).

Brussels is having enough trouble with Poland and Hungary, which are both much more developed markets than Ukraine. The EU took the unprecedented decision to bar Hungary from taking over the rotating presidency yesterday. However, the vote has no standing in law, and Hungary’s right to run the EU for six months is guaranteed by the EU accession treaties. If you think the idea of Budapest being in charge is worrying, then I’m sure that giving the Ukraine the chair for six months, as it would be entitled to hold after joining, would give people like Scholz the heebie-jeebies.

“It’s heart-breaking to see Ukraine’s President Volodymyr Zelenskiy desperately trying to capitalise on his superstar status as a real life Marvel hero and get nowhere”

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“It’s heart-breaking to see Ukraine’s President Volodymyr Zelenskiy desperately trying to capitalise on his superstar status as a real life Marvel hero and get nowhere”
French President Emmanuel Macron tried to persuade sceptical East Europeans that they had nothing to fear from a Europe that was more self-reliant in security on May 31 – and he almost pulled it off.

In a keynote speech in French at the annual hawkish Globsec security conference in Bratislava, Macron insisted that “we cannot delegate our collective security and our stability to the choice of American voters in the years to come,” particularly when US presidential elections next year might bring to power a very different kind of US administration.

Though he did not spell it out, Macron clearly believes the threat of a return of Donald Trump – and his more US-centred, pro-Russian and Nato-sceptical foreign policy – may persuade East Europeans that Europe at least has to start making contingency plans to stand up for itself.

The former Communist states of Central and Eastern Europe (CEE) have traditionally looked to Washington to safeguard their security interests and have been suspicious of French attempts to make Europe more self-reliant, fearing that this could erode that US commitment.

Yet Macron argued that if Europe became more self-reliant it would benefit not only Europe itself but also Nato. Macron said that one of the lessons of the Ukraine war was how important it was to build up the European pillar of Nato.

His views were reinforced by strong comments by retired US general Ben Hodges on another Globsec panel, who delivered a bleak assessment of the lessons for Nato so far from the Ukraine war, pointing to shortcomings in infrastructure, capabilities and inter-operability. “We are so much better than what we were but we are nowhere near where we need to be if we want to defeat a Russian attack,” Hodges said.

Europe’s reliance on American defence technology and the shortages in its own defence supplies have reinforced Macron’s long-standing arguments that Europe needs to be more responsible for its own defence. Yet now he is couching this as something that is not just in Europe’s own interest but also Nato’s.

“We need a European pillar. Nato needs a Europe that protects itself,” he said.

After scorning Nato as “brain dead” in 2019, Macron appears to have embraced it as the vehicle for European defence co-operation. “I can say that today Vladimir Putin jolted it awake with the worst of electric shocks,” he added in reply to a question on his previous comments.

He complimented Nato on its response to the Russian invasion, where “the readiness was prompt, efficient and well-tailored”.

Macron also flattered the Eastern Flank Nato members by admitting that Western Europe should have listened beforehand to their warnings about Putin.

“Some said you had missed an opportunity to stay quiet,” he said to laughter, referring to former President Jacques Chirac’s comments on the Eastern European support for the US-led invasion of Iraq in 2003. “I think we also lost an opportunity to listen to you. This time is over.”

He pointed that under his leadership France was now taking a much greater interest in the region than it had done since the inter-war years. “I would like France to be perceived as a credible long-term ally and partner for countries in this region,” he said in answer to a question.

Yet there was no hiding the continued differences between France and the Eastern Flank states.

Beyond increased defence preparedness, Europe should also be more active in global politics, the French president said.

“We Europeans need to be active players, active stakeholders. We can’t leave it up to others: the US, the Russians. We need to be credible partners, credible players,” the president said. This may be a step too far for Nato’s members on the Eastern Flank, who worry that a much more active Europe might find itself striking very different foreign policy positions compared to the US, who they look to for global leadership.

CEE countries already reacted very negatively to Macron’s comments after his trip to Beijing in April, when he said that Europe should take charge of its own destiny and “not follow where the US leads” in its more confrontational stance towards China.

Questions from the audience afterwards also exposed other fault lines, not least over Ukraine.

CEE states continue to argue that any peace must primarily be acceptable to Ukraine, and that Russia should pay reparations for its destruction, and its leaders should face war crimes trials. By contrast, Macron was negotiating with Russian dictator Vladimir Putin right up until the invasion and has talked to him several times subsequently by telephone.
Macron said in June 2022 that Putin should not “be humiliated” and that Russia needs post-war guarantees and to be part of the post-war security architecture, something that smells to Eastern Flank countries as very like rewarding Moscow for its aggression.

They argue that Putin needs to be “humiliated” in order to prevent him launching aggression again. They fear that Macron’s comments confirm Putin’s view that Russia deserves special rights as a so-called “great power” and will only embolden him to continue fighting the war.

In the question and answer session, Macron laid out a position much closer to that of the Eastern Flank states on the room for peace talks. He said that Ukraine should not be forced to concede territory. “There is only one peace and that is a peace that respects international law”, he said.

He also dismissed calls for an unconditional ceasefire by saying “if we accept a ceasefire or a frozen conflict [in Ukraine], time will be on Russia’s side”.

Yet he also stressed that “you have to negotiate with the leaders you have” and it would be very difficult to pursue peace talks with Putin at the same time as demanding that he stand trial for war crimes. “It is a question of timing,” he said. “There will be an arbitrage between justice and peace.”

There were also differences visible in Macron’s answer to a question on Belarus, where he argued that, by imposing sanctions for stealing the 2020 elections, “we put [Belarus President Aleksander Lukashenko] in a situation where he was trapped with Russia”.

He said he was not in favour of further measures against the Belarus regime, because Lukashenko needed an exit strategy. “We have to make clear the upside scenario,” he said.

Finally, in response to a question on whether he would support Nato membership for Ukraine – something on which there was virtually a consensus at Globsec, if not across the whole Eastern Flank – Macron ducked a direct answer, saying only that at the Nato summit in Vilnius in July, “I am not sure we will have a consensus on fully-fledged membership”.

Instead, he suggested that Ukraine should be offered some kind of half-way house before being granted full membership. “We have to build something between the security provided [by the US] to Israel and full-fledged membership,” Macron said, including “strong, tangible and credible security guarantees”.

Yet in what appeared a shift in the French position, he said that Ukraine needed some kind of “path” to full membership. “We need something much more substantial and we need a path towards membership,” the president said.

He finished to strong applause, having largely won over an audience that was highly sceptical at the outset. He now goes to spread the same message to all the leaders of the wider European region in Chisinau at the European Political Community summit, a format he invented.

Macron clearly believes that he is now swimming with the tide with his call for greater European self-reliance in security – if not making the waves himself. ●
Precarious balancing act for ‘everybody’s friend’ Central Asia

Bruce Pannier

Russia’s war in Ukraine has brought a new importance to Central Asia and presented the region’s governments with new opportunities.

Russia, China, the European Union and the United States have noticeably increased their engagement with Central Asia since the Russian military invasion of Ukraine in February last year. However, preserving a balance in relations with Russia, China, and the West during these turbulent times has become more complicated.

The Kremlin’s decision to invade Ukraine has turned Russia into an international pariah. Yet Moscow needs allies.

Russian President Vladimir Putin visited all five Central Asian countries in 2022 and other top Russian officials have been regularly making trips to the region since the invasion to firm up ties.

Russia’s biggest market for oil and natural gas exports had been the EU, but part of the EU’s sanctions involved a drastic reduction of both. Moscow was forced to look for alternative customers.

Russia reached a 10-year agreement with Kazakhstan last December to ship some 10mn tonnes of oil annually through Kazakhstan to China.

After three consecutive winters of gas shortages, Uzbekistan is working with Russia on a Russian proposal to ship gas to Uzbekistan via pipelines that once carried Uzbek gas to Russia.

Kazakhstan has faced similar gas shortages in recent winters and is also discussing gas imports from Russia.

Moscow also needs help to avoid sanctions that ban exports of a variety of goods to Russia and companies in Kazakhstan, Kyrgyzstan and Uzbekistan have been mentioned as participating in the reexport of banned products to Russia.

Moscow has shown it can exert pressure to keep the Central Asian states close to Russia.

Kazakhstan exports some 80% of its oil through the pipelines of the Caspian Pipeline Consortium (CPC) that bring the crude to the Russian Black Sea port of Novorossyiysk for loading onto tankers. Many of those tankers are bound for EU countries.

In the first weeks of the war in Ukraine, Kazakh officials publicly said that they would not recognise the independence of the Russian-occupied Donetsk and Luhansk regions of eastern Ukraine.

In late March 2022, port authorities at Novorossyiysk said a storm had damaged two of the three mooring points and until repairs were completed Kazakhstan would lose 1mn barrels per day of oil exports.

Following those repairs, operations were suspended three more times for various reasons before the end of August.

The recent Victory Day parade in Moscow serves as another example of exerted pressure. Less than one week before the May 9 celebrations on Red Square, Kyrgyzstan’s president was the only Central Asian leader scheduled to attend.

During the 72 hours before the parade started, the other four Central Asian presidents, one-by-one, suddenly announced they would go to Moscow for Victory Day.

China, meanwhile, is gaining influence in Central Asia because Chinese policies towards the region remain consistent at a time when Russia’s relationship with it is changing.

Beijing sent a message about its interest in Central Asia when President Xi Jinping in September last year paid his foreign visit since the COVID-19 pandemic to Kazakhstan. He then went on to Uzbekistan for a Shanghai Cooperation Organization (SCO) summit.

The Kremlin appeared to exert pressure to ensure all of Central Asia’s leaders, plus Armenia’s leader, turned up for the Moscow Red Square Victory Day parade on May 9. / bne IntelliNews
China’s trade with Europe was affected by the disruptions that sanctions caused to Russian transit routes, so Beijing has been energetically promoting the Middle Corridor through Central Asia and the South Caucasus to Europe.

Infrastructure is in place but it needs to be expanded. Both China and EU countries are helping with this, while urging the Central Asian countries, Azerbaijan and Georgia to quicken their efforts in upgrading Middle Corridor options and capacity.

The Kremlin has kept quiet about the development of the Middle Corridor, but Russian officials must be unhappy about the growing success of this rival trade route.

Russian officials must also be concerned that following a low-key Victory Day parade in Moscow where no significant agreements were signed on the sidelines, the five Central Asian presidents went to Xian, China on May 18-19 to meet with Xi. Dozens of agreements worth billions of dollars were signed.

Russia’s partnership with China is particularly important right now. It allows the Kremlin to point to a powerful ally, while Western nations try to cripple Russia with sanctions.

In such a situation, Moscow cannot criticise Chinese moves in Central Asia or the expansion of the Middle Corridor.

The EU and US have also been active in Central Asia since the invasion.

EU foreign policy chief Josep Borrell visited Kazakhstan, then met with all five Central Asian foreign ministers in Uzbekistan last November.

Prior to Borrell’s trip, European Council President Charles Michel met with four of the five Central Asian presidents (Turkmenistan sent a deputy chairman of the cabinet of ministers) in Astana, Kazakhstan, before he also continued on to Uzbekistan.

Also, Michel has presently started a June 2-3 meeting with Central Asia’s leaders on the shores of Lake Issyk-Kul, Kyrgyzstan.

The EU wants more energy imports from Central Asia to offset the loss of oil and gas purchased from Russia prior to the Ukraine war.

Kazakhstan reached an agreement with Azerbaijan in early 2023 to annually ship up to 1.5mn tonnes of oil through the South Caucasus, most of it bound for customers in Europe.

The first shipment was sent from Kazakhstan to Azerbaijan in March.

The EU would like to see Turkmenistan start shipping gas to Europe, though Ashgabat remains reluctant to do this over fears of angering gas-rich Caspian neighbours Russia and Iran.

The EU does not have as much to offer as China, or even Russia can to Central Asia, but the bloc is working on projects in Central Asia such as green energy that will provide long-term benefits for the region, without its countries incurring large debts.

US Secretary of State Antony Blinken visited Kazakhstan and Uzbekistan at the end of February and early March this year.

Washington supports Central Asia reducing its dependence on Russia but does not wish to see the region instead grow overly close to China.

The US offers less to Central Asia financially than even the EU (though the EU is Kazakhstan’s largest trade partner), but America is a vital security partner for Central Asia, particularly as concerns Afghanistan.

The US gave Uzbekistan 50 military vehicles worth $2.8mn in October 2022 and Tajikistan reconnaissance drones worth $20mn in May 2022.

The Central Asian states are profiting from this sudden heightened interest from Russia, China, the EU and US and the competition among the four to coax the Central Asian states closer to them.

One of the biggest problems for the Central Asian states in maintaining good ties with all four parties and continuing to reap the benefits from this situation is adherence to the Western sanctions on Russia.

Russia wants cooperation from its Central Asian friends in avoiding those sanctions. Some of the goods being smuggled into Russia are coming from China and Beijing seems to have no qualms about this.

The EU and US want cooperation in preventing sanctioned goods from reaching Russia, but so long as the situation in Ukraine remains a stalemate, the Central Asian states are unlikely to make serious efforts to cut the flow of these products through their territories to Russia.

What the Central Asian governments fear most is being ousted by their own people. Kyrgyzstan, for instance, has been through three revolutions since 2005.

Russia and China want the status quo in Central Asia preserved and oppose so-called colour revolutions.

Central Asia’s two giant neighbours offer the region’s regimes support in holding onto power. The West won’t offer such support, so chances are that the region will remain closer to China and Russia than to the West.

To keep ties with Central Asia from souring, the West might have to accept half-hearted Central Asian promises to adhere to sanctions on Russia or pursue democratic reforms.
Bosnia & Herzegovina has been dragged to the brink of collapse by the actions of separatist Bosnian Serb leader Milorad Dodik.

He and his SNSD party have moved to either quit, ignore or block the work of state-level institutions and the international community's high representative, in the most radical steps towards the breakup of the country so far.

There are suspicions that Dodik stepped up his activity with encouragement from Russian President Vladimir Putin, whose loyal supporter Dodik is. He met twice with Putin recently, in visits condemned by Bosnia’s Western partners.

Dodik is president of Republika Srpska, one of Bosnia’s two autonomous entities. He has long called for the entity to secede from Bosnia and unite instead with Serbia.

Both Republika Srpska and the Muslim-Croat Federation have their own institutions. There are also state-level bodies, as well as international community’s high representative who has special Bonn powers to block or amend legislation in case it violates the country’s constitution or the Dayton peace agreement that ended the bloody 1992-1995 Bosnian war.

As well as Dodik’s political moves, there have been several reports by US experts in recent years that Moscow has been secretly providing weapons and military training to paramilitary groups in Republika Srpska.

Steps towards secession?
The SNSD, which is the ruling party in Republika Srpska, recently moved forward several key acts aimed at quitting state-level institutions and blocking their work.

On June 21, the entity’s government adopted legislation stating that acts announced by High Representative Christian Schmidt will no longer be published in the entity's State Gazette. It was backed by the votes of 54 out of 62 MPs in Republika Srpska’s parliament.

This effectively means the entity is blocking the implementation of Schmidt’s acts, even though it is obliged to adopt them under the Dayton peace accord.

Dodik and other SNSD leaders, urging MPs to back the legislation ahead of the vote, claimed that Schmidt is not a legitimate high representative as he was not elected according to the procedure. On his appointment in May 2021, both Dodik and the Russian embassy in Sarajevo said his appointment was illegitimate. This, according to the secessionist leader, makes Schmidt’s acts invalid.

“Is it … normal that his decisions are published in the Official Gazette based on the valid laws in Republika Srpska? Of course it is not,” Republika Srpska’s parliament speaker Nenad Stevandic told the assembly.
Constitutional court challenged
Dodik has also sought to block the work of the state-level constitutional court, and has threatened that Republika Srpska will stop recognising its rulings altogether.

In April, Republika Srpska's parliament ordered its judges in the court to quit. Under the rules at the time that meant it would no longer be able to operate, as sessions have to be postponed if at least three judges selected by the parliament of the Federation and/or at least one judge selected by Republika Srpska's National Assembly are absent.

In response, the court decided to remove the article from its regulations.

That angered Dodik, who gave the court a deadline until June 23 to give up the decision and threatened that otherwise Republika Srpska's parliament will adopt an urgent decision not to recognise the court’s rulings. If taken, that would be a significant step towards secession.

“Secessionist Dodik now explicitly trying to destroy the BiH Constitutional Court, a direct assault on BiH’s legal foundations. Hard not to read Western silence – especially as compared to their livid [reactions] to [Kosovan Prime Minister Albin Kurti] – as complicity. Especially by [Office of the High Representative] OHR BiH,” political analyst Jasmin Mujanovic commented on Twitter.

He added that Dodik has already largely succeeded in creating a legal vacuum in Bosnia in coordination with Dragan Covic, the leader of the main Croat HDZ BiH party. The SNSD and HDZ BiH have been coalition partners for years.

“The Constitutional Court, despite its pro-HDZ slant, remains a core institution of the Bosnian state that must be defended,” Mujanovic noted.

International community sees no real threat
Despite Dodik’s clear steps towards secession, the international community still insists there is no direct threat of Republika Srpska’s secession, or a military conflict.

In April, the EU's delegation to Bosnia said that Dodik's secessionist threats are unrealistic and groundless and urged Dodik to stick to his promise to work for Bosnia's EU’s accession.

The EUFOR's Althea mission to Bosnia also has said there are no signs of a real threat to the peace in the country.

However, Dodik’s visits to Kremlin have intensified and, apart from public statements on joint energy projects and support to Putin's war in Ukraine, experts suspect there might be something else the two leaders are discussing.

In March, the influential Centre for Security Studies (CSS) in Bosnia urged Schmidt to remove Dodik, warning that failure to do so could result in a new Bosnian war.

The CSS made the appeal after Dodik announced plans for restrictive new legislation on LGBT activists and journalists, which followed on from proposed legislation on NGOs apparently inspired by a similar law in Putin's Russia. All three steps appeared to be a challenge to the authority of the state-level institutions in Sarajevo.

Following Russia’s invasion of Ukraine last year, Bosnia was seen as one of the potential flashpoints where Moscow could seek to spark instability or another conflict within Europe.

Back in 2018, the Penn Biden Center warned that Russia could easily ignite a new conflict in Bosnia and use it to destabilise the region if Europe decided to impose more sanctions against Moscow. At the time, Michael Carpenter, the former US deputy assistant secretary of defence for Russia, Eastern Europe and the Balkans who is now senior director for diplomacy and global engagement at the Penn Biden Center, said he believed Dodik would not try to push his entity towards secession without Moscow’s support.

“They [Russia] are his primary backers. And from the Kremlin’s prospective they are satisfied with the status quo, they don’t want Bosnia & Herzegovina to enter either the EU or, God forbid from their prospective, Nato. They like the status quo because essentially RS [Republika Srpska] has a veto over the country's geopolitical direction,” Carpenter said at the time.

“However, if Russia feels that its back is up against the wall, that European sanctions for example are being increased perhaps in totally different context than Ukraine or something else, he [Putin] has Bosnia & Herzegovina always readily available … where he can just press the button and really destabilise the situation in the region,” Carpenter added.

Five years on, Russia is in precisely that position, with a full-scale war in Ukraine and multiple packages of sanctions imposed by Western governments.

Also in 2018, the Foreign Policy Research Institute (FPRI) released a report that claimed Moscow was helping the Serb-dominated entity in its efforts at militarisation, aiming to divide the country. According to that report, Dodik was arming and equipping Republika Srpska’s police and related security forces with military-grade weaponry and training them with the assistance of Russia, aiming to secure the future separation of the entity from Bosnia.

The following year, Republika Srpska officially revealed its new armed police unit, after backing off from its plan to form a reservist police unit several months earlier.

There have also been several reports from US sources saying that Russia has been secretly funding Dodik for years.
Croatia’s blue-chip index hits 12-year high

Croatia’s blue-chip Crobex index reached a 12-year high on June 12, ending the day at 2,306.25 points and passing the 2,300 points mark for the first time since March 2011, data on the website of the Zagreb Stock Exchange showed.

This was the index’ highest level since February 8, 2011, when it reached 2,309.29 points. The index kept rising on June 13, reaching 2,315.5 points at midday. The narrower CROBEX10 index, which tracks the top ten issuers in terms of free float, market capitalisation and liquidity, also posted a record, ending at its highest level since January 17, 2022, reaching 1,324.57 points on June 12.

Hungary’s retail sales fall for fifth straight month

Retail sales in Hungary fell 13.6% year on year in April and by 12.6% when adjusted for calendar effects, the Central Statistics Office (KSH) announced on June 6. The figure was below analysts’ projections.

Retail sales shrank for the fifth month in a row and the contraction remains marked in all main categories, as high inflation is eating into households’ disposable income. With headline CPI and core inflation both stuck well above 20%, real wages are shrinking fast. On a positive note, the rate of decline in the retail sector may moderate in the coming months as base effects fade. Last year’s pre-election transfers boosted retail sales in all major categories, and sales of price-capped fuel also soared.

Armenia’s exports to Russia almost triple in 2022

Armenia exports to Russia surged in 2022, at a staggering growth rate of 187% compared to the previous year. Moreover, over half of these exports were re-exports originating from third countries, adding fuel to speculation that Armenia is playing a key role in the rerouting of Western imports to Russia to avoid sanctions.

Due to its strategic geographical location, Armenia has emerged as a crucial transit route for trade between Western countries and Russia since the imposition of Western sanctions on Moscow.

The US has also identified Armenia as one of five countries that pose challenges in terms of evading sanctions.

Inflation in Ukraine dropped to 15.5% in May

The National Bank of Ukraine (NBU) estimates that inflation continued to decrease in May, following the current trend this year, Ukraine Business News reported on June 8. Inflation dropped to 17.9% in April and the NBU’s June Macroeconomic and Monetary Survey states that it dropped to about 15.5% last month. The recent improvements are due to the sufficient supply of food and fuel, the hryvnia growing stronger on the cash foreign exchange market, the improvement of inflationary expectations and 2022’s base effects.

Inflationary pressure experienced a decrease due to positive developments in inflation and exchange rate expectations, favourable conditions in the foreign exchange market, subdued consumer demand and reduced spending pressure. These combined factors effectively contributed to the ongoing moderation of inflation in May.
Ukraine’s population crashes to 29mn

Dominic Culverwell in Kyiv

Uzbekistan has overtaken Ukraine to become the second most populous country in the former Soviet Union as the war-torn country’s population plummets.

Uzbekistan had 34.9mn people as of June according to the UN and by far the youngest and fastest growing population of the Former Soviet Union (FSU) to 1.8 in 2023 – one of the highest in Europe – from record lows in the middle of the decade when the fertility rate fell to a record low 1.5.

Nevertheless, Russia is also suffering from a demographic crisis that will take Emerging Europe population levels back to the early 20th century as the dent in the demographic curve caused by the crashing life expectancy in the 1990s now hits the working age population.

The situation in Ukraine has gone from bad to worse thanks to the war, but it was already in trouble before the fighting started. The pre-war 45mn head count was already controversial as Ukraine has not held a formal census since 2000.

Ukraine’s population fell behind that of Poland for the first time after a cut price electronic census revealed the number of citizens had dropped by some 5mn people to 37.289mn in 2020 since the last census in 2000. Eurostat also estimated the actual population size to be 37.98mn in 2018.

It remains unclear how many of Ukraine’s refugees will return home should the war end. In the early stages of the war, most said they would go home as soon as hostilities stopped, but more recent surveys have suggested that half of those in exile now intend to stay there in countries like Poland and Germany as they build a new life and find work.

In a depressing study released last summer, a UN study predicted that Ukraine’s population will never recover from the war. The UN Population Prospects projections indicate that while the country’s population will recover to some extent from 2023 onwards – assuming the war ends within months – it will never again reach the 43.3mn seen at the beginning of 2022. Ukraine’s population will gradually decline until 2100 by which time it will have fallen to under 20.6m, the study predicts.

As bne IntelliNews reported, Emerging Europe is already suffering from a demographic crisis that will take population levels back to the early 20th century in the coming decade.

Germany has a fertility rate of 1.6 in 2023. By contrast, a UN study found the populations in Central Asia are booming and are all expected to grow in the next few decades.

Thanks to the relative prosperity that Russia enjoyed following the end of the recession in the middle of this decade plus pro-birth government policies as featured by bne IntelliNews ‘Putin’s babies’, Russian fertility rates recovered

![Ukraine was already facing a demographic crisis before the war, but the population has fallen by another 8mn people thanks to the war. / www.shutterstock.com](https://www.bne.eu)
Someone bombed Saudi Arabia’s biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to $100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

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