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Polish mortgage borrowers will gain a temporary credit vacation this year and the next, the government announced on May 10. Banks will also be ‘persuaded’ to raise savings rates.

The costs of the plan will be covered by the banks themselves, Prime Minister Morawiecki said.

The plan comes in reaction to growing discontent among borrowers, who are forced to pay ever higher mortgage repayments as banks are hiking their margins in line with the National Bank of Poland’s (NBP’s) policy to raise the cost of money to fight inflation.

To relieve borrowers, the government is proposing a credit vacation – meaning no repayments – for four months this year and four in 2023, Prime Minister Mateusz Morawiecki told a press conference.

In line with the proposal, borrowers will be spared repayment expenses for two months in the third quarter and another two in the fourth quarter. Throughout 2023, credit vacations will be spread to cover one month per quarter.

The NBP hiked its reference interest rate eight times in as many months between October and May from the all-time low of 0.1% to 5.25%, with more tightening virtually certain, as the central bank says containing rampant inflation is the number one macroeconomic policy now.

Poland’s CPI surged 12.3% y/y in April, an estimate from the statistical office GUS showed on May 1.

But the NBP’s super-hawkish mode has a side effect on millions of borrowers who must endure increasingly higher repayments with every hike of the central bank’s reference rate.

That has the potential to eat into support for the ruling Law and Justice (PiS) around a year before a general election in which PiS will be trying to secure a third consecutive term in office.

“The plan comes in reaction to growing discontent among borrowers, who are forced to pay ever higher mortgage repayments as banks are hiking their margins”
The government also plans to bulk up the banking sector’s fund to help borrowers in distress from the current PLN600mn (€128mn) to PLN2bn this year.

Another part of the proposal will be to stop using the three-month WIBOR rate – the Polish banking market’s interbank offered rate – as the basis on which banks are calculating loan margins to another, yet unspecified indicator.

Morawiecki also announced that the government would use “persuasion” to make banks raise their savings rates. “When there is increasing inflation and the central bank is raising interest rates, which leads to very high profits for financial institutions … the inability to share these profits with a citizen – such behaviour is unacceptable,” Morawiecki told a news conference.

The Warsaw Stock Exchange’s banking sector index, WIG-Banki, fell 0.42% as trading closed on May 10. Getin Noble, BNP Paribas, and mBank led the losses.

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**Lithuania launches GIPL gas link with Poland**

**Linas Jegelevicius in Vilnius**

One of Lithuania’s most important strategic energy projects of the last decade, the €500mn gas interconnector (GIPL) with Poland, was officially launched on May 5.

According to Lithuanian Energy Minister Dainius Kreivis, the 500km pipeline will open the way to the Western European gas market not only for Lithuania but also for Latvia, Estonia and Finland. Until now, they have only been able to buy pipeline gas from Russia.

The energy minister said that the GIPL pipeline opened slightly earlier than planned due to the tense situation in the region.

“The preliminary plan was for mid-year, but the situation in the region is now tense, companies have completed the paperwork faster, the pipeline has been submitted for evaluation and we can open it earlier,” Kreivys told LRT Radio.

Energy experts say the gas pipeline between Lithuania and Poland is one of the most important energy projects since independence. The energy minister said that the GIPL pipeline will not only make gas supply more secure, but also reduce the cost of maintaining Lithuania’s LNG terminal in Klaipeda. Vilnius has decided to completely give up importing pipeline gas from Russia.

“Once we are free of Russian gas, we need to have a gas system that is more stable and better functioning. The Polish pipeline and the interconnections with Latvia help us maintain a sustainable system,” Kreivys said. “Secondly, the system will allow us to have more gas competition. Polish suppliers will be able to compete on our markets.”

According to the minister, Poland is planning to use Lithuania’s LNG terminal to supply gas to its power plant in Ostrołęka. “This means that the terminal will be probably 90 to 100 percent occupied, the highest rate in Europe,” and therefore the cost of the terminal for ordinary consumers may go down, he said to LRT, the website of Lithuanian national broadcaster LRT.

Last week, Russia stopped supplying gas to Bulgaria and Poland. Asked how much Lithuania will be able to help Poland if it runs out of gas next heating season, Kreivys said that Vilnius would chip in, if necessary. However, Poland should be able to replace Russian shipments with gas from Norway by the end of the year, via the new Baltic Pipe to be launched in autumn, he added.

“By the end of the year, Poland will be secure,” Kreivys said. “Once the Baltic Pipe is up and running, our region may be able to get some gas from Poland when it needs it. As I said, the GIPL pipeline is a huge guarantee of our security.”

The EU is moving towards banning Russian oil imports in Europe and phasing out Russian gas will be the next step, Kreivys said. For that, Europe will need to build more LNG terminals.

“Germany plans to build three terminals by the end of the year, which will supply up to 20 percent of its total gas consumption. We also hear that the Finns and Estonians are planning a terminal. I have spoken to the Finnish minister for economic affairs, and he has assured me that they are planning to have a terminal by the end of the year,” the Lithuanian energy minister said.
Impairments and provisions on Russia and Ukraine operations put Hungary's OTP in red in Q1

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OTP Bank booked a rare consolidated loss of HUF33.4bn (€88.3mn) in Q1, down from a HUF93.3bn profit a year earlier, as impairments on its Russian and Ukrainian exposure weighed, Hungary's biggest commercial lender said in an earnings report published before the bell on May 6. Analysts expected net profit to halve from a record HUF121bn in Q4.

OTP booked a total HUF73bn risk cost for the quarter, more than in 2021 in total, up 143% from the previous quarter and rising from HUF8.5bn in the base period.

The bank also accounted HUF56.3bn of goodwill impairment at its Russian unit during the quarter, amid sovereign downgrades and exchange rate volatility because of the war in Ukraine. It accounted an impairment of HUF34.5bn on Russian government bonds held by its core business in Hungary and its Bulgarian unit, DSK Bank.

The bank's exposure to Russian government bonds, maturing in 2025 and 2027, is HUF100bn at a nominal value.

OTP noted that the combined weight of Ukrainian and Russian assets in consolidated assets stands at 6%, while the combined weight of net loans in Ukraine and Russia reaches 3.8%.

Chairman-CEO Sandor Csanyi said earlier at the AGM, that OTP is under pressure from Ukrainian authorities to sell its Russian unit.

In Hungary, the bank released provisions as it posted HUF94bn in profit, more than double than in the previous quarter. Dividend payments to OTP from subsidiaries (domestic and foreign) came to HUF105bn.

Management warned there might be an additional need for provisioning in the rest of 2022.

The Russian unit is expected to deliver positive earnings for the rest of 2022. The lender acknowledged "a high level of uncertainty" concerning expectations for the development of the operating environment in Ukraine. Q1 provisions were in line with the management's assumption for a 30% decline in GDP in 2022 and a rebound on a similar scale in 2023.

OTP added that under the "extremely negative scenario" involving the deconsolidation of both businesses and writedowns of gross intragroup funding, the impact on the group level CET1 ratio would be neutral in the case of Ukraine but reduce the ratio by 30bp in the case of Russia.

OTP's consolidated CET1 ratio stood at 16.2% at the end of March.

OTP reported net interest income of HUF240bn, up 18% y/y and down 3% q/q. Total income remained practically flat q/q at HUF361bn, but up 20% y/y.

The consolidated net interest margin declined 26pp on a quarterly basis to 3.43% and 19pp annually. The retail loan portfolio in Hungary amounts to HUF3 trillion, most of which is fixed and there is a rate cap until July 1 for variable interest rate loans. OTP sits on HUF3.7 trillion of Hungarian government bonds, which pay on average a 2.9% interest rate, compared to the central bank one-week deposits of 6.45%

The consolidated net loan-to-deposit ratio declined by 1pp q/q and y/y to 74%.

OTP had total assets of HUF28.8 trillion at the end of March, up 18% y/y.

The gross stock of client loans climbed 15% to HUF17 trillion and that of deposits by 17% to HUF21.84 trillion.

The ratio of loans over 90 days past due narrowed by 0.5pp to 3.2%. ROE fell from 18.6% to 12.1% and diluted EPS dropped from HUF364 to -HUF122.

Excluding the businesses in Russia and Ukraine, OTP’s management offered guidance for organic loan volume growth of "close to 10%" for the full year and adjusted ROE "similar" to the 18% level in 2021.

Net interest margin may stabilise and the credit risk cost ratio could be around the 2021 level, if the macroeconomic outlook doesn't deteriorate significantly, management said.

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Record-high food prices and shortages of cooking oil, wheat and flour amid the crisis stemming from the war in Ukraine have forced North Macedonia’s authorities to consider restructuring their farm policy.

The economy was already shaken by the COVID-19 crisis, and even though that is not yet over, a new crisis has emerged prompted by the Russian invasion of Ukraine, which has affected energy and food supply.

Agribusiness is one of the country’s most promising sectors, but North Macedonia is import dependent for many basic food products. Among the reasons for this are the poor organisational structure in the agricultural sector, insufficient use of farm land and accordingly reduced production.

The direct consequences of the Russian-Ukrainian conflict on North Macedonia’s agricultural production stemmed from the enormous jump in prices of energy as well as mineral fertilisers, but also the loss of Russian and Ukrainian markets for fruits and vegetables.

All this led to price hikes for basic food products such as oil, flour, bread, milk and meat, as well as a shortage of some products such as sunflower oil, which is mostly imported.

In turn, rising inflation has prompted protests as workers claim food is becoming too expensive for them and they are no longer able to afford their basic needs.

Sources from the country’s biggest dairy Bitolska Mlekara, told bne IntelliNews that there was a shortage of raw milk so this product was out of stock for a period of time in April.

“Simply there was no UHT milk due to the lack of purchase of raw milk,” they told us. After the supply was restored, the price of UHT milk and milk products increased again. Price changes have been frequent during the crisis.

Cooking oil crisis
Serbia lifted the ban on exports of edible oil, which put an end to the crisis caused by shortages of this product, which lasted for almost a month. But now a bottle of edible oil is being sold for MKD135 (€2.2), almost 40% higher than before. The price of cooking oil has jumped by as much as 125% since inflation started to rise back in 2021.

During the Serbian export ban, shelves in North Macedonia’s stores were emptied and people started to panic that this would last for a longer period of time.

“We received three packages of cooking oil (one containing 12 bottles) and they were sold out within few hours. We don’t know when to expect the next delivery,” a cashier in a Skopje’s KAM supermarket said in mid-April.

The situation was similar everywhere. Some people started stockpiling cooking oil, while stores limited purchases to only two bottles.

Now that the product is back in stores at much higher prices, the authorities are looking at making a serious policy adjustment to avoid such problems in future.

Boosting domestic production
“The Ministry of Agriculture is focusing on adopting measures to increase the domestic production of strategic crops,” the ministry said in a statement e-mailed to bne IntelliNews, adding that this also applies to production of sunflowers.

The ministry said it made changes to the programme for financial support of sunflower producers with the aim of increasing domestic production, which means that each producer that exercises the right to subsidies will have to sell their harvest to local processing facilities, not export it.

In March, North Macedonia imposed temporary restrictions on the export of sunflower edible oil to ease the pressure on prices on the domestic market, which will be valid until May 31. Later the ban was extended to include wheat, wheat flour, corn, barley and sunflower seeds.

According to some estimations, North Macedonia spends $45mn per year on importing raw materials for the production of sunflower oil. In the past three decades, the areas planted under sunflowers have been decimated to only 4,000 ha from 46,000 ha under sunflowers 30 years ago, Sitel reported.
Dragan, a greengrocer from Skopje, said in an informal conversation that North Macedonia is suitable for agricultural production, but it is a shame that the authorities neglected the sector.

"Instead of the authorities stimulating farmers to grow sunflowers, now the shelves are left without cooking oil," he said. Not only sunflower, but wheat and other crops can be planted more widely, he added.

On the other hand, Dragan expects prices of some fruits to drop in summer as farmers can no longer export to the war-stricken countries.

"Prices of cherries may drop in summer as farmers cannot sell them in Russia and Ukraine which were the main export countries for this fruit," he said.

However, the authorities said that North Macedonia is looking for alternative markets for exports of fruit and vegetables that have so far been exported to Russia and Ukraine, the two markets which are closed for exports following the war which started on February 24.

The agriculture ministry told bne IntelliNews that the government adopted a National Plan for food production, which incorporates a MKD400mn (€6.5mn) Intervention Fund, to support the production of strategic crops.

With these measures, farmers will receive 40% additional assistance to buy fertilisers for corn and maize, as well as MKD2,500 per hectare for soybean and barley.

"We are motivating farmers to increase yields, with an additional almost €100 per hectare," the ministry said. Applications for these measures are already underway.

The ministry also announced a public call for the allocation of an additional 5,722 hectares of agricultural land in 14 municipalities.

Prime Minister Dimitar Kovacevski said earlier that the same applies to the livestock sector, which means subsidies for sheep, pig and poultry breeding.

In March, North Macedonia’s government adopted a package of 26 measures and recommendations divided into two categories – for protection of living standards of citizens and maintaining the liquidity and financial support of companies worth €400mn to ease the effects of the economic crisis caused by the Russian invasion of Ukraine.

European Investment Bank (EIB) vice-president Lilyana Pavlova said recently during a conference in Skopje that sustainable agriculture, especially food production, should be high on the EIB agenda.

"This is particularly important taking into account the impact of the war in Ukraine, which will likely affect the global agricultural market," Pavlova said.

Pavlova added that EIB will support projects in the Western Balkans that will help countries dependent on food imports to boost their domestic production and improve the overall supply chain.

Protests as inflation eats away pay checks
How such issues will be dealt with in future depends on the government’s policy, but there are high levels of dissatisfaction among the population as prices soar.
During the event Mitsotakis stressed the contribution of the new terminal to the region’s independence from Russian gas. According to the International Trade Administration, North Macedonia’s agribusiness accounted for around 8% of GDP in 2019.

In 2020, exports of agricultural and food products constituted just over 10% of North Macedonia’s total exports. The top markets for agriculture and food products are the EU (mostly Greece, Germany and Croatia) which accounted for about 50% of the total exports, while Central Europe Free Trade Agreement (CEFTA) countries accounted for around 36%.

The EU is also the top import market, with 46.8% of the total imports, and largest single trade partners are Germany, Poland and Bulgaria.

The main export products from North Macedonia are tobacco, wine, lamb, and processed and fresh vegetables and fruit. The main import products include meat, sunflower oil, citrus fruits, chocolates and confectionery, cheese, processed foods, and grains.

Construction of Alexandroupolis LNG terminal launched to help reduce Balkans’ dependence on Russian gas

Valentina Dimitrievska in Skopje

The construction of a liquefied natural gas (LNG) terminal in the Greek city of Alexandroupolis was launched on May 3, a major project that will help Bulgaria, North Macedonia and Serbia diversify from Russian gas.

This will be the second Greek LNG terminal, whose construction takes place at a time when investments aimed at achieving independence from Russian gas are accelerating throughout Europe. Greece is thus set to become a major gas supplier for the Balkans region.

The official launch of construction works in the eastern Thrace region was marked by Greek Prime Minister Kyriakos Mitsotakis and his Bulgarian peer Kiril Petkov. The ceremony was attended by the President of the European Council Charles Michel, the President of Serbia Aleksandar Vucic as well as North Macedonia’s PM Dimitar Kovacevski.

The project worth €363.7mn in total will comprise the floating storage and regasification unit (FSRU) as well as a system of underwater and land pipelines for the gas to be transmitted to the national grid, Greece’s Kathimerini reported.

During the event Mitsotakis stressed the contribution of the new terminal to the region’s independence from Russian natural gas.

"The project in Alexandroupolis is a new energy gateway and with its completion we will soon be able to get rid of the gas..."
coming from Russian sources and our countries will have a role in the new energy map," Mitsotakis said, according to a government statement.

"Moscow's recent blackmail with gas makes not only co-operation necessary but urgent," he added.

For his part, Petkov said that this is a historic day for Bulgaria and Greece, during which an important step is taken for the energy independence of the two countries.

Russia's Gazprom decided to stop delivering natural gas to Bulgaria as of April 27 after Sofia refused to amend the existing contract. Bulgaria is highly dependent on Russia as the source of almost all its gas imports. North Macedonia is receiving gas via Bulgaria.

When Moscow closed the tap for Bulgaria, Greece became the sole supplier of gas to this country. 40% of Bulgaria's gas needs are met by LNG from Greek terminal Revithoussa and 60% by Russian gas sold by Greek public gas company DEPA, according to the article.

The Alexandroupolis project has been declared a project of special interest for natural gas by the European Union.

"We will end our dependence on Russian fossil fuels. This new LNG terminal is a geopolitical investment. It will help free Southeast Europe from the weaponisation of gas supply by Russia," Michel said in a tweet.

“Alexandroupolis terminal opens the possibility for the supply of gas from several different sources, such as from the United States and the Middle East countries” Kovacevski said.

Vucic, meanwhile, underlined that "at first I was quite skeptical, I was wondering if such a thing could happen, but now I want to say that I am grateful, because with this project we will be able to secure significant quantities of gas.”

Unlike the other countries set to benefit from the project, Serbia has not imposed sanctions on Russia over its invasion of Ukraine, and Serbia is expected to sign a new long-term gas supply contract with Russia in the near future.

The project is being implemented by the Greek company Gastrade, which envisages the project completion in 2023.

However the company, at the request of the Greek government, is making efforts to accelerate the process of completion by at least six months.

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Profs of Romanian gas, nuclear companies surge on high energy prices

Iulian Ernst in Bucharest

Two state-controlled energy companies in Romania – Romgaz and Nuclearelectrica – boasted record profits in the first quarter of this year helped by the high natural gas and electricity prices.

Romgaz sold 17% less gas in Q1 this year compared to the same period of 2021 and its production decreased by 0.3% y/y, but the company, a producer and supplier of natural gas controlled by the Romanian state, reported record financial results in the first three months of the year amid unprecedented price increases in the energy market.

The strong results were in line with expectations. The net consolidated profit of Romgaz Group increased by 111% y/y to RON980mn (€196mn ) in the first quarter of the year, according to the financial results sent to investors.

The consolidated net profit per share was RON2.5, for a price of RON 43.25 per share on May 13.

The company’s turnover amounted to RON3.93bln, 196% more compared to the first three months of 2021.

Nuclearelectrica, which operates Romania’s nuclear plant located at Cernavoda, announced that its net profit rose to
Cernavoda nuclear power plant was 3.02 TWh in Q1 this year.

The average price of the electricity sold under bilateral contracts (81% of the total, in Q1, 2022) rose by 127.5% y/y to RON563 (€115) per MWh while the average price of electricity sold on the spot market (19% of total) soared four times y/y to RON1,068 (over €200) per MWh, in the first quarter of this year.

RON819mn (€162mn) in Q1, 3.5 times more compared to the same period last year.

Total revenues rose by 165 y/y to RON1.86bn, largely due to higher electricity prices in the last year, as the nuclear power plant’s output was roughly flat.

The revenues were 26% higher than the target. The gross electricity production of the two operational units of the

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**Romania hopes to unlock Black Sea natural gas projects with revised Offshore Law**

Iulian Ernst in Bucharest

The Romanian Chamber of Deputies as the decision-making body endorsed the amendments to the Offshore Law on May 18.

The amendments have been expected for years to unlock several investment projects in the country’s Black Sea perimeters that are at various development stages but all of them blocked.

If they go ahead, the projects may bring 1bn cubic metres (bcm) of gas per year in the short term and another 6 bcm per year starting with 2027.

"With this law, production can basically begin in the Black Sea," Energy Minister Virgil Popescu told lawmakers.

"It brings stability, predictability, and a friendly fiscal system," he added.

The bill was endorsed with 248 votes against 34 and was submitted for promulgation to President Klaus Iohannis. None of the amendments proposed by the opposition parties, reformist USR and radical AUR, were accepted. Eventually, AUR was the sole party that voted against the bill.

It remains to be seen whether the new legislation, which lowers the tax and removes export restrictions on gas, is enough to convince investors to go ahead with their plans.

Out of the projects, the largest one is operated by OMV Petrom in partnership with Romgaz (ExxonMobil previously), while the most advanced is operated by Black Sea Oil and Gas (BSOG, owned by Carlyle investment fund), which expects production in the second half of this year if everything goes well, while Lukoil is also operating a perimeter in Romania’s offshore area.

Lukoil, which operates the block in partnership with Romania’s Romgaz, announced in 2020 its intention to exit from the project.

In total, the offshore blocks would hold potential reserves of about 200 bcm of gas, Romania’s consumption for about 19 years, according to estimates from the National Agency for Mineral Resources (ANRM).

"In total, the offshore blocks would hold potential reserves of about 200 bcm of gas, Romania’s consumption for about 19 years”
EU opens loophole for Russian gas-for-rubles scheme

bne IntelliNews

The European Union said that companies could keep buying Russian gas through Gazprombank without breaching sanctions for Russia’s military invasion of Ukraine, with the condition that they consider their obligations fulfilled once they pay in euros or US dollars, Bloomberg reports citing new guidelines of the European Commission.

The latest EC guidelines do not prevent European gas buyers from opening accounts in Russian Gazprombank as demanded by the gas-for-rubles scheme imposed by Russia’s President Vladimir Putin. The EC has softened its previous position that warned that gas-for-rubles scheme would violate sanctions.

As covered in detail by bne IntelliNews, aiming to blow a hole in sanctions on the Russian financial system, on March 23 Putin told Russia’s customers in “unfriendly” countries that they could only pay for their gas imports using the Russian national currency.

Putin’s decree, which caused much confusion, stipulates that European gas buyers open two accounts, one in a foreign currency and one in rubles, with Gazprom-affiliated Gazprombank responsible for converting the foreign currency into rubles and transferring the ruble payment to Gazprom.

However, the buyers “should make a clear statement that they intend to fulfil their obligations under existing contracts and consider their contractual obligations regarding the payment already fulfilled by paying in euros or dollars, in line with the existing contracts.”

The EC stops short of addressing the requirement by the Kremlin to open a second account in rubles, which according to Putin’s decree is the necessary condition of the completion of the payment, according to Bloomberg.

Unnamed sources told Bloomberg that Italian energy giant Eni will move to open accounts in rubles and euros with Gazprombank by May 18 so that it can make payments on time this month and avoid any risks to gas supplies. The company has been said to have been waiting for a formal EC statement before acting.

Last week Bloomberg said that a total of twenty European companies have opened special accounts with Russian Gazprombank, with another 14 buyers requesting paperwork to do so, Bloomberg reported citing unnamed sources.

“The companies will pay their next bills in euros,” German Economy Minister Robert Habeck told the press, as cited by Bloomberg. EU sanctions would still allow Russian banks to transfer this money internally to “so-called K accounts,” he added. “That is, in my view, in conformity with the sanctions, also according to the EU Commission,” he argued.

In the meantime, Polish Prime Minister Mateusz Morawiecki said he was “disappointed to see that in the European Union there is consent to pay for gas in rubles,” as cited by Bloomberg. “Poland will stick to the rules and will not yield to Putin’s blackmail.”

After Poland and Bulgaria rejected the gas-for-rubles scheme Russian natural gas giant and pipeline exports monopolist Gazprom halted gas flows to the countries in late April.

The full EC guidelines read as follows:

“Council Regulation (EU) 833/2014 and Council Regulation (EU) 269/2014 do not prevent economic operators from opening a bank account in a designated bank for payments due under contracts for the supply of natural gas in a gaseous state, in the currency specified in those contracts for the fulfilment of payments pursuant thereto, provided that payments are made in that currency, under normal commercial conditions, it being understood that such payments in that currency discharge definitively the economic operator from the payment obligations under those contracts, without any further action from their side as regards the payment. For that purpose, those operators should make a clear statement that they intend to fulfil their obligations under existing contracts and consider their contractual obligations regarding the payment already fulfilled by paying in euros or dollars, in line with the existing contracts.”

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Russian gas flows to Europe via Ukraine disrupted by war for the first time

bne IntelliNews

Part of Russian natural gas transit flows to Europe via Ukraine were halted due to the war on May 11, sending European gas prices spiking.

Gas entering Ukraine via the Sokhranivka gas metering station were halted at 7am local time, reports Bloomberg, after the territory that the station stands on fell under Russian military control. The Gas Transmission System Operator of Ukraine (GTSOU) said late on May 10 that it would turn the station off, as it no longer controls the station.

As bne IntelliNews reported, despite the war raging in the country, the gas transit business has continued unabated and indeed Gazprom has been exporting the maximum allowed volumes via Ukraine – and paying Kyiv its transit fees under the terms of the deal signed in December 2019 – as Europe races to refill its storage tanks ahead of the coming winter. Russia has taken control of some of the territory where pumping stations are located, but has been careful not to destroy the pipelines or interfere in the transit business.

There is a cluster of pumping stations around the Donbas region, where many of the Russian gas pipelines enter into Ukrainian territory.

While there have been calls for an immediate embargo on Russian gas sales to Europe by many countries, saying that European gas importers are funding President Vladimir Putin’s war machine, the irony is that Russia is sticking to the terms of its transit deal and continues to pay Ukraine for gas transit to Europe and is itself funding the Ukrainian war machine.

Gas prices have quadrupled from average pre-war levels, according to reports, and prices rose a further 6.8% on the news, Bloomberg reports. Benchmark gas prices traded 2.9% higher at €101.68 per MWh by 8:11 a.m. in Amsterdam on May 11.

Russia’s state-owned gas giant Gazprom declined a proposal by GTSOU to switch the transit route to an alternative entry point at Sudzha, the newswire reports.

The shutting down of the Sokhranivka pumping station is the first serious disruption of Russia’s gas transit business via Ukraine since the war started on February 24.

Russian gas had been flowing via both entry points normally despite the conflict, although most of the time at lower rates than the transit deal envisaged.
Siemens to wind down Russian operations

Kamila Ibragimova for Eurasianet

German engineering giant Siemens has announced that it “will exit the Russian market as a result of the Ukraine war”, and it is starting the proceedings to wind down its industrial operations and all industrial business activities.

The company said that that “the comprehensive international sanctions, as well as current and potential counter-measures, impact the company’s business activities in Russia, particularly rail service and maintenance”.

As reported by bne IntelliNews, the possible departure of Siemens is one of the most closely watched foreign industrial major pullouts out of Russia due its major role in the supplies of gas turbines. Siemens did not specifically comment on the sales of turbines in the press release.

Siemens’ most significant market-leading business in Russia is gas turbines used to power generation stations. About 50% of Russia’s electricity is generated using natural gas, and a major generation capacity modernisation drive launched by the government also included a state programme for supporting gas turbine production.

Previously Siemens survived a sanction-busting embarrassment when its gas turbines were used to power utility assets in the annexed Crimea peninsula, and it even solidified its presence in Russia by playing along with Kremlin’s localisation demands.

Should Siemens indeed pull out of Russia for good, it is unclear whether alternatives to Siemens turbines will be provided by domestic players.

Russian state utility major InterRAO planned to invest $0.8bn in the development of gas generation turbines, with a goal to...
Spared Russian oligarch Potanin sweeps banking assets with Tinkoff deal

bne IntelliNews

Russian oligarch Vladimir Potanin’s Interros will acquire a 35% stake in bank TCS Group that operates under the Tinkoff brand from the family trust of its founder Oleg Tinkov. Potanin is one of Russia’s richest oligarchs and is rebuilding his banking empire. The Tinkoff Bank deal has already been approved by the Central Bank of Russia (CBR), RBC business portal reported on May 2.

Potanin, CEO and shareholder of metals major Norilsk Nickel and who is not under Western sanctions, will emerge as a major banking player in post-invasion Russian, as his Interros is also acquiring Russia’s 11th largest bank Rosbank, fully owned by French Société Générale.

And he picked up one more piece to add to his burgeoning banking empire with the acquisition of payment processing company UCS (United Card Services) for an undisclosed amount it was reported on May 2, with the deal approved by the Federal Antimonopoly Service (FAS) and the Central Bank of Russia (CBR).

Interros said it acquired UCS to “continue developing the banking business”. UCS is the fifth largest card payment company globally as of 2020, with over $16.4bn payments processed (as compared to $30bn annually by Russia’s largest bank Sberbank).

The bank asset acquisition deals represent a return to banking for Potanin, who made his first fortune in the 1990s with Uneximbank that speculated against the ruble during the years of hyperinflation and became a cash cow making Potanin one of the richest men in the country.

Potanin use his enormous cash pile to buy Norilsk Nickel in the now notorious fixed loans-for-shares deal in 1995-96 that made him a billionaire all over again.

Thanks to the importance of Norilsk Nickel to the international metals market and the key role the company plays in supplying PGM (platinum group metals) to the electric vehicles (EV) business, Potanin and his companies have so far escaped Western sanctions.

In the 1998 financial crisis Uneximbank went bust but Potanin moved all the good assets out into Rosbank that was a minor bank in Potanin’s holdings that took over his banking business. At the end of that decade Potanin sold Rosbank to Société Générale, which used it as the basis of building up its Russian retail business.

As covered in detail by bne IntelliNews, Tinkov was one of the prominent oligarchs and businessmen sanctioned by the UK, and lost his billionaire status after his fortune plummeted by more than $5bn in a month. His TCS Group, former investor darling operating Russia’s only pure online bank Tinkoff, was listed on the London Stock Exchange, with a capitalisation topping $20bn in 2021.

After Tinkov published a sharp foul-mouthed critique of the “insane war” in Ukraine on his social media, Tinkoff Bank immediately distanced itself from its founder and Tinkov reportedly started to look for a quick exit from the asset.

The amount of the deal is undisclosed, but Tinkov’s 35% stake was previously valued at $2.4bn before the war. Tinkov reported got a few pennies on the dollar in his deal with Potanin.
PPF agrees to sell Russian banking assets

PPF, one of the leading CEE-based investment groups, has agreed to sell its Russian banking assets including its leading consumer lender Home Credit to a group of investors led by Ivan Tyryshkin, chairman of the fintech SPB Exchange.

"My partners and I have bought 50% plus one share, for now we are not disclosing more information," Tyryshkin was quoted as saying by Frank Media, a Russian banking focused publication, Reuters reported.

Tyryshkin is chairman, a leading shareholder and one of the founders of Russia’s SPB Exchange, one of the leading publicly traded fintech platforms in the region. Previously he was CEO of the RTS Stock Exchange, which merged to form the Moscow Exchange in 2011.

PPF – one of the biggest foreign private investors in Russia – had been trying to sell its Russian and Kazakh assets before the Kremlin’s invasion of Ukraine, with Hungary’s OTP bank and Russia’s AFK Sistema reported as being potential buyers.

A deal was reportedly held up by the explosion of unrest in Kazakhstan at the start of January. The Kazakh assets are now being sold separately to shareholders and top managers of PPF and Home Credit.

The Russian invasion on February 24 has undoubtedly significantly reduced the valuation of PPF’s Russian assets, though no financial information was disclosed about the sale.

PPF was founded by the late billionaire Petr Kellner and is now controlled by his widow Renata. Even before Kellner’s death in March 2021, PPF had been trying to wind down its investments in Russia and Asia to refocus on more developed markets, diversifying its portfolio and stabilising its returns.

The sale follows the appointment of Jiri Smejc, a shareholder and chairman of Home Credit, as PPF’s new chief executive, although he does not officially take over until next month. Smejc had previously been head of Home Credit and then of all PPF’s operation in Russia in the late 2000s, transforming the group into one of the biggest foreign private investors there. Home Credit had entered the Russian market in 2002.

There is also speculation that PPF is targeting disposals of Home Credit’s Asian operations in India, Vietnam, Indonesia and the Philippines. Bloomberg has reported that those assets could be worth up to $2.5bn. Some observers believe the China business could also eventually be put up for sale, given Home Credit’s financing problems there following the Communist regime’s liquidity squeeze to cool the economy down.

In November 2019, Home Credit dropped a plan for a $1.5bn initial public offering (IPO) in Hong Kong because of poor market conditions. The IPO had been designed to turbocharge Home Credit’s Asian growth. Subsequently, China’s slowing economy, liquidity squeeze and strict COVID-19 lockdowns have damaged PPF’s business there. ●

PPF said on February 28 that its Russian net assets were at that time valued at around €1bn, some 10% of its total net assets. The group has subsequently disposed of all of its Russian residential real estate, and is in the process of selling its agricultural businesses in Russia, according to Russian media.

Many European banks are scrambling to exit the Russian market, but the only other major sale so far has been made by Societe Generale of France.

Before the sale, PPF had total assets of €40bn, mainly in finance, telecoms and the media, spread across Central Europe, Russia, China and the Far East.

“My partners and I have bought 50% plus one share, for now we are not disclosing more information”
French car maker Renault will transfer its 68% stake in Russia's largest carmaker AvtoVaz to the state for a symbolic price one ruble and a five-year option to get the asset back, according to the announcement of the Minister of Industry and Trade Denis Manturov. Renault's fully-owned Moscow-based plant Avtoframos will be transferred to the City of Moscow.

As suggested by bne IntelliNews at the very beginning of Russia's military invasion of Ukraine, the worst-case scenario for the Russian car-making industry is Renault having to pull out its capital from the joint venture with AvtoVaz producing the iconic domestic Lada model and assembling foreign models.

Renault is the Western carmaker with the largest Russian exposure and the AvtoVAZ-Renault-Nissan-Mitsubishi alliance controlled 35.5% of the car market in Russia at the beginning of 2022. Billions of euros of equity injections and the technological know-how from Renault allowed AvtoVaz to turn around from deep losses in 2018 and regain market leadership.

While initially sending mixed signals on the future in Russia, last month Renault caved in to pressure to curtail its presence in Russia amid the latter's military invasion of Ukraine and said it would suspend operations at its plant in Moscow and would “assess the options” on its majority stake in AvtoVaz.

Now Russia's largest carmaker is effectively becoming state controlled. As foreign businesses and investors flee Russia amid the military invasion of Ukraine, the redistribution of assets left behind will come into focus. French financial group Societe Generale is rushing to sell Russia's 11th largest bank Rosbank before it is too late for as little as 0.2-0.3x the capital.

Kommersant daily claimed that Renault was also negotiating an actual cash sale of its stake in AvtoVaz, but had to settle for asset transfer. However, Manturov still claims that the ministry's goal is neither to buy or nationalise AvtoVaz, thus hoping for Renault to eventually exercise its option and return. Even if this were to be the case, it is unclear whether in the meantime AvtoVaz will retain the rights to produce the models that were jointly developed with Renault.

Reportedly the stake of Renault will be transferred to NAMI state automotive engineering institute. NAMI together with state technology agency Rostec that holds another 32% in AvtoVaz will now appoint its board and management. Previously TASS claimed citing unnamed sources that Chinese carmakers had made a bid for AvtoVaz, but Manturov denied these reports.

Due to shortages of imported components most Russian car manufacture has effectively stalled and the car market is expected to contract by at least 50% this year. AvtoVaz released all of its staff on vacation from April 4 to 24, and said it would switch to a four-day working week. The carmaker is also scrambling to set up an emergency assembly of a Lada model that would be self-sufficient.

Industry sources told RBC business portal previously that this would be possible for Lada Granta, Lada Largus and Niva Legend models, but with manual transmission only and without ABS, ESP and airbags.”

Renault is pulling out of Russia after investing billions of dollars into reviving the AvtoVaz plant, the maker of the legendary Lada, currently the best selling car in Russia. Photo: wiki
Russian-linked businessmen bid for strategic Greek port

Matt Bernardini in Prague

Dimitris Copelouzos, a Greek businessman with close ties to Russia’s Gazprom, is seeking to purchase a controlling stake in a port that has become a hub for US and Nato military operations in Eastern Europe.

Copelouzos’s Cameron SA, in a consortium with Bollore Africa Logistics and Gold Air Cargo, is one of the two leading contenders for control of at least a 67 percent stake in the Port of Alexandroupolis, close to the Greek border with Turkey. The other leading contender is an American consortium of Texas-based Quintana-ID and Washington DC-based Proxenos International. The other two interested parties are International Port Investments Alexandroupolis and Thessaloniki Port Authority.

The port’s privatisation comes at a time when it has assumed greater strategic importance for the US military. In December during a speech at the port, the US Ambassador to Greece, Geoffrey Pyatt, emphasised the port’s significance.

“The ever-growing volume of military activity here at the Port of Alexandroupolis underscores this location’s expanding strategic role and importance for Greece, for the United States and for the wider region,” Pyatt said.

Greece’s Kathimerini daily has reported that military equipment has been sent through the port to Bulgaria, Poland and Romania. According to a person familiar with the bidding process, the port is also important because it allows the US to monitor activities in the Black Sea.

In an interview with the Greek television channel Antenna in December, Kremlin spokesman Dmitry Peskov criticised the way military equipment was being sent through the port.

“The sticky part is very simple,” Peskov said during the interview. “You’ve got more and more Nato soldiers, American soldiers on your territory. You transfer hundreds and thousands of military equipment units through Alexandroupolis and so on and so forth. You’re opening new facilities for Nato. At the same time, Nato is naming us an enemy and Nato is formulating the main objective of the alliance and the main objective is to deter Russia. So, this makes us nervous, you have to understand us.”

The US Embassy in Athens declined to comment on the bidding process.

Ties to Gazprom

The Copelouzos Group, which Dimitris Copelouzos founded in 1973, has long had close ties to Gazprom. In 1991 the Copelouzos Group entered into a joint partnership with Gazprom called Prometheus Gas, which imports Russian gas to Greece and resells it to other Balkan countries.

The US government (USG) has long had concerns about the Copelouzos Group. Wikileaks posted a leaked cable from 2007 with the title “Dimitrios Copelouzos and the ‘The ever-growing volume of military activity here at the Port of Alexandroupolis underscores this location’s expanding strategic role and importance for Greece, for the United States and for the wider region’”

Copelouzos Group: Gazprom By Any Other Name?” The cable, which was written by the former US Ambassador to Greece, Charles Pies, claimed that there was “growing concern over Copelouzos’ activity that serves Russian interests and jeopardises USG’s efforts to promote

Nato military equipment has been sent through the port to Bulgaria, Poland and Romania. The port is also important because it allows the US to monitor activities in the Black Sea. Photo: Texniths
TBC Bank's top manager, economist Vakhtang Butskhrikidze, highlighted the growth of TBC UZ, the investors in which include the European Bank for Reconstruction and Development (EBRD). By the end of 2021, it had 35 locations, along with 10 showrooms, with a total coverage of 97% of the population. “Currently, we are only presented with the mobile banking app in Uzbekistan and we are planning to keep penetrating new markets with our technology only. International users are able to use the mobile banking app to save a deposit and receive loans and this is the model which we will continue to push,” Butskhrikidze lately told the Financial Times, noting that the technology “enables the bank to expand”.

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The bank has added a number of services that are new to Uzbeks such as consumer loans without collateral, payment of bills and P2P transfers. Global Economics recently awarded TBC UZ the title of “Best Digital Bank of Uzbekistan in 2021”.

More Russian Connections

Dimitris Copelouzos is not the only Russian-linked businessman that is seeking to acquire the port. Ivan Savvidis, a Russian-Greek billionaire and former member of the Russian parliament, holds a controlling stake in one of the other interested parties, the Thessaloniki Port Authority. Savvidis acquired a 67-percent stake in the Thessaloniki port last year.

In 2018, Savvidis was claimed to be funding politicians in Macedonia who opposed the country’s name change, according to the Organized Crime and Corruption Reporting Project. Last month, the Federal National and Cultural Autonomy of Greeks of Russia, an organisation headed by Savvidis, sent vehicles and generators to the sanctioned Donetsk separatists in Eastern Ukraine. Savvidis did not respond to a request for comment.

The port’s privatization coincides with the construction of a new liquefied natural gas (LNG) terminal in Alexandroupolis, which will help Bulgaria, North Macedonia and Serbia diversify from Russian gas. This will be the second LNG terminal in Greece and could make the nation a major gas supplier for the Balkans region. The LNG has been declared a project of special interest for natural gas by the European Union.

Bids for the Port of Alexandroupolis stake must be submitted by Q2 of this year, although the exact date is unknown, according to Roi Haikou, corporate communications manager for the Hellenic Republic Asset Development Fund.

‘Market disruptor’ TBC UZ makes digital bank inroads in Uzbekistan

Muzaffar Ismailov in Tashkent

Top Georgian bank TBC took the digital route into Uzbekistan and – according to a strategic report from LSE-listed TBC Bank Group – its app-based subsidiary in the Central Asian country can now proudly dub itself a “market disruptor”.

Launched in October 2020 as a digital bank, TBC UZ, operating through the group’s fintech platform Space, has started to record eye-catching market growth figures.

“2021 marked a new chapter in TBC’s history as we successfully expanded our banking operations in Uzbekistan and took firm steps towards establishing ourselves as a digital innovator in the region. We believe our position as the leading bank in Georgia, coupled with our Uzbek business, will enable continued strong growth, while our digital business model will drive robust profitability going forward,” chairman of the board of directors of TBC, Arne Bergren, said in a statement.
Companies & Markets

BSE-listed Hungarian IT company 4iG signed a preliminary agreement on the establishment of a joint venture with Germany's Rheinmetall and Hungary's state-owned defense contractor HM Electronics, Logistics and Property Management on May 16.

The JV aims to participate in the digitalisation of the armed forces in Hungary and selected Nato member states in the CEE region by developing digital combat system solutions as well as ground and flight simulation systems for the provision of the most modern soldier training, it added.

Under the agreement, Rheinmetall will hold a 51% stake in the defence industry company, while 4iG will own 39% and HM Electronics, Logistics and Property Management 10%.

The JV, expected to start operating in H2 2022, will "develop and sell digitalisation solutions, land and airborne simulation systems for the provision of soldier training within all combat areas and command levels and equipment based on C4ISTAR capabilities", 4iG said in a statement.

Rheinmetall will bring its "international military expertise" and know-how to the JV, providing technology for components, products and military capabilities. CEO Armin Papperger said the new partnership serves to support the strategic efforts of Hungary and other CEE countries in the digitalisation of their armed forces and "the achievement of the highest level of Nato compatibility".

4iG will chip in with its "strong IT and telecommunications background, cyber defence and development expertise, and its own significant infrastructure and capabilities to provide the appropriate software development environment", 4iG said.

The IT company – owned by Gellert Jaszai, the right-hand man of Hungary's most powerful oligarch Lorinc Meszaros – has completed a string of acquisitions in Hungary and abroad, creating a leading telecommunication group in the CEE and SEE region.

Rheinmetall, which gained a 24% stake in 4iG last year, is involved in a number of large-scale investments in Hungary, which are set to reach €600mn.

The company is building a HUF60bn plant next to the ZalaZONE test track for autonomous vehicles under construction. The plant will make 172 of the 218 Lynx combat vehicles for the Hungarian Armed Forces.

In January 2021, Rheinmetall Hungary agreed to set up the company's second base to manufacture and develop 100 wheeled combat vehicles a year.

The ammunition plant 75km southwest of Budapest would start operation in 2023 and generate billions of forints of revenue, he added. Viktor Orban's government now regards the defence industry as a new pillar for growth in addition to Hungary's main sectors of cars, pharmaceuticals and food. Defence spending is set to exceed 2% of GDP in 2023.●

TBC UZ's loan portfolio in 2021 amounted to 92.8mn Georgian lari (around $31mn), accounting for 0.5% of all consumer loans in Uzbekistan. It also accounted for 2% of the Uzbek population’s deposits in banks, or 207.5mn lari ($69.3mn).

In 4Q21, the bank's deposit portfolio grew by 80%.

Latest figures showed the TBC UZ app had 1.14mn registered users, of which almost 473,000 were added in the fourth quarter of last year. The number of active users in the country of 35mn was 141,000. The bank had issued 224,000 cards and 386,000 cards of other banks were linked through the application.

According to the strategic report, TBC UZ provided 12% of TBC Bank Group's revenue from commissions and fees.

TBC also noted the risk of negative impacts of the war in Ukraine on Uzbekistan's economy. However, a fall-off in transfers of remittances from Uzbeks abroad has been partially offset by high revenue from Uzbekistan’s sales of raw materials, it said.

TBC Bank Group's Uzbek assets also include the TKT ticket sales service and Vendoo instalment service.

The arrival of a foreign digital bank in Uzbekistan spurred local companies to form operations that might compete. When TBC announced its plans for the country, there was nothing like a digital bank serving Uzbeks. By the time TBC UZ launched, several competitors were already waiting to do battle on the market, including Anorbank and Bank Apelsin.●

Hungary’s leading IT firm teams up with Rheinmetall to develop digital combat system solutions

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Russia's Ozon 2021 results show growing orders

Russian e-commerce major Ozon has published its results for the Financial Year 2021. With order numbers and revenue up, the figures indicate that the company is set to continue gaining market share in 2022 in spite of the logistical difficulties posed by sanctions against Russia. Ozon also announced that talks with bondholders are underway with the hope of re-structuring obligations.

The standout figures include 223.3mn orders in FY21, which represents a 202% year-on-year growth, and full-year gross merchandise value (GMV) of RUB448bn (around $6.7bn). GMV is the total value of orders processed through Ozon and revenue from services to buyers and sellers on the platform.

Ozon saw a surge in sales during the pandemic, with the proportion of orders outside Moscow increasing sharply. It has since been investing heavily in expanding infrastructure beyond the capital, including new fulfilment centres and delivery services. The company also began cross-border ventures with Belarus and Kazakhstan in 2021.

In the first half of the financial year 2021, Russia's three biggest e-commerce players (AliExpress, Ozon and Wildberries) accounted for 34.3% of the market. Now there are signs that the market leaders are growing their share still further. Ozon's annual order frequency is up 61% compared to 2020, and revenue in Q4 was up 76% y/y.

The total number of sellers using Ozon grew by 250% in FY2021, which the company attributed to the development of logistics and fulfilment centres as well as a growing variety of marketplace models.

Ozon's strong growth figures for 2021 come as a rare piece of good news in tough market conditions. Sanctions imposed on Russian business by western countries this year in response to the invasion of Ukraine have complicated imports to Russia and made financial transactions with overseas partners almost impossible.
The e-commerce company is in talks to re-structure its eurobonds. Photo: bne IntelliNews.

In a statement on its website, Ozon acknowledged that “these actions have had, and are expected to continue to have, a material adverse effect on our business, financial condition and results of operations and on the value and trading of the American Depositary Shares.”

Also included in Ozon’s results was an announcement that the company is in negotiations with bondholders over the possibility of re-structuring obligations worth $750mn.

A de-listing event for convertible bonds was triggered in early March by America’s Nasdaq exchange as it suspended the trading of all Russian ADSs in the end of February. As a result, Ozon announced that it hoped to re-structure its obligations, with a source close to the company telling bne IntelliNews that it would do its utmost to find a solution for bondholders, no matter how extreme the conditions.

The “put date” is 60 days after the delisting event, so the company has until the end of May to finalise its proposal to stakeholders. Ozon has confirmed that a large group of bondholders has formed an “ad hoc committee” to negotiate the terms of a potential re-structuring.

In a statement published online, the company warned that a combination of external sanctions and Russian capital control measures meant that sending money from its Russian accounts to foreign bondholders could be difficult.

The company stressed that transferring the funds necessary to redeem all its obligations could have an impact on Ozon’s operations and growth outlook.

A source with knowledge of the matter told bne IntelliNews that an agreement on amending the terms and conditions of current convertible bonds could avoid the potential pitfalls of one big transaction from Ozon’s account in Cyprus, while also allowing the company to continue to develop its operations and achieve future growth, which Ozon considers to be in the best long-term interests of its investors.

One bondholder told bne IntelliNews that Ozon’s proposals are constructive, and have been positively received by many investors, with discussions continuing. The company itself mentioned in its annual report that it aims to “enter into

“In a statement published online, the company warned that a combination of external sanctions and Russian capital control measures meant that sending money from its Russian accounts to foreign bondholders could be difficult”

a standstill agreement with a significant number of holders of the Bonds in the near term with a view to reaching an agreement on the long-term restructuring of the Bonds within the current financial year”. ●
The war in Ukraine has interrupted grain exports from the country and could create a global food crisis as vulnerable wheat importing countries in Africa and the Middle East face shortages and rising prices.

Ukrainian President Volodymyr Zelenskiy this week warned that the international community to take immediate steps to end Russia's blockade of Ukraine's ports.

“For the first time in decades there is no usual movement of the merchant fleet, no usual port functioning in Odesa. Probably this has never happened in Odesa since World War Two,” he said after the port of Odesa was hit by Russian missiles on May 9.

“Without our agricultural exports, dozens of countries in different parts of the world are already on the brink of food shortages. And over time, the situation can become downright terrible … This is a direct consequence of Russian aggression, which can be overcome only together – by all Europeans, by the whole free world.”

Meanwhile, Russia itself has halted the export of grain and fertiliser to “unfriendly countries” in response to Western sanctions.

The war is exacerbating more established threats to food security posed by climate change, as rates of deforestation and desertification rise in vulnerable countries in Africa and Asia, often caused by overfarming and intense agriculture.

The war also follows sustained rises in food over the last decade, especially in the last three years.

The FAO cereal price index showed prices hit their previous 2008 high in 2021, and since the invasion they have exploded. Between 2019 and March 2022, cereal prices have increased by 48%, fuel prices by 86% and fertiliser prices by 35%.

Rising prices
The removal of Russian and Ukrainian wheat from world markets has pushed wheat prices to a 14-year peak in March, and maize prices reached the highest ever recorded, the International Panel of Experts on Sustainable Food Systems (IPES) said in a report.

Almost 40% of Africa’s wheat imports come from Ukraine and Russia, while rising global wheat prices have sent bread prices in Lebanon 70% higher, IPES said.

Russia and Ukraine supply about 30% of global wheat exports, but those have collapsed as a result of the conflict.

The report highlighted that the sudden halt to wheat and fertiliser exports from Ukraine, Russia and Belarus, combined with droughts, floods and high temperatures heat fuelled by climate change, are damaging more harvests.

This is pushing up prices and causing food insecurity in some of the world’s most vulnerable countries, pushing up poverty levels and threatening wider development goals such as access to clean water, energy and education.

The war in Ukraine has sparked the third food crisis in 15 years, the report warned.

However, the spike in food prices builds on the more worrying underlying trend of food insecurity. The report warned that the “underlying rigidities, weaknesses and flaws in global food systems” are fanning the flames of global hunger.

Fundamental flaws in global food systems, such as heavy reliance on food imports and excessive commodity speculation, have allowed the Ukraine conflict to become a full-blown global food price crisis, the report concludes.

The UN Food and Agriculture Organisation (FAO) said that the number of undernourished people could increase by 13mn because of the current war-induced crisis.
As such, the report called for more domestic wheat production using less fertiliser, less speculation on the markets and more effort to reduce poorer countries’ reliance on wheat imports from distant markets, such as Russia and Ukraine.

**Exposed countries**

Turkey and most of the Middle East and North Africa are dependent on imports of many foods from Russia and Ukraine – especially for cereals and vegetable seeds/oils. Asia, Africa and Central Europe sit somewhere in between, according to Capital Economics.

“We estimate that imports from Russia and Ukraine account for 20-30% of domestic wheat supplies in Turkey, Indonesia and parts of Africa and 40-50% in Egypt, the UAE and Tunisia. Imports of sunflower seeds/oil account for 30% of domestic supplies in Turkey, Poland, China and Korea, 60% in MENA and more than 70% in Tunisia, India and Malaysia. Other vulnerabilities include soybeans (Turkey and Poland), corn (Tunisia) and cocoa products (the UAE),” said Capital Economics’ Liam Peach.

Egypt sources 15% of its needs as imports, but in very large volumes. It has been desperately looking new suppliers in the last month, but without luck, and the authorities say it now only has three months of reserves left.

**Ways out**

Efforts to grow more wheat elsewhere replace Russian and Ukraine supplies are being made. India, for example, India has boosted exports of wheat to meet demand.

India exported a record 7.85mn tonnes of wheat in the year to March, up 275% on the previous year, taking advantage of rising wheat prices after Russia invaded Ukraine.

However, the country’s heatwave since mid-March has cut crop yields, the London-based Energy and Climate Intelligence Unit warned.

“Millions of people could be severely affected by the heatwave in India – another sign of the growing human cost of extreme weather. India might have stepped in to fill some of the global gap in wheat production caused by the invasion of Ukraine. But the new normal of extreme weather could put paid to that in India and other places around the world. Climate change will make this far worse in coming years and decades,” said Matt Williams, climate and land programme lead at the Energy and Climate Intelligence Unit (ECIU).

This is a prime example of how food production and indeed food security in the developing world is vulnerable to climate change, a situation that the current war is intensifying.

One irony is that agriculture itself is one contributor to climate change, with 23% of all global greenhouse gases (GHGs) coming from farming, loss of forests, and other land-use changes.

Without changes, emissions from the food system could increase by 30-40% by 2050, reducing the chances of keeping temperature rises to 1.5C, the ECIU said in a briefing.

While contributing significantly to climate change, food production and food supply chains are also at increasing risk from its most damaging impacts, with farmers deemed as one of the most vulnerable groups to climate change.

By 2050 harvests of staple crops in eight countries – Angola, Lesotho, Malawi, Mozambique, Rwanda, Uganda, Zambia and Zimbabwe – could fall by 80% due to climate change, forcing farmers to switch to different types of crop, the International Fund for Agricultural Development (IFAD) warned ahead of COP26 in November 2021.

**Farming practices**

But efforts to boost production globally have been hampered by shortages of chemical fertiliser. Russia and Belarus produced 40% of international potash exports in 2021 and that trade has also been hit by the war.

Fertiliser are now at their highest since the global commodity bubble in 2008, with the cost of nitrogen fertilisers rising by 253% in Europe in 2021.

This cannot be attributed exclusively to the Ukraine crisis – tensions over Ukraine did not begin to peak until late 2021. But they have continued to climb in proportion to the growing forces amassed on the border.

If farmers don’t use fertiliser, they will see their yields fall; if they do use fertiliser, they will have to pass through input costs. Either way, the pressure on agriculture prices will accelerate, warned Les Nemethy CEO and founder of EuroPhoenix Financial Advisors.

**Rising prices**

Rising prices for wheat is also pushing up inflation in many importing countries. The EBRD warned this week that inflation soared to 11.9% in March, the month after the invasion, which is close to the peak recorded during the international financial crisis in late 2008.

“Prices of wheat, corn, soybeans and other agricultural commodities have also risen rapidly,” the EBRD says.

“Many economies in the EBRD regions are highly dependent on gas in their energy mix, while some economies in the Caucasus and southern and eastern Mediterranean rely heavily on wheat imports,” the bank said in its Regional Economic Prospects report.

The EBRD also warned that North Africa was facing major threats to its food supply, as they are the world’s biggest importers of grain.

Egypt is particularly exposed to the Russo-Ukraine war, as
Raising EU green targets will cost an extra €195bn

Richard Lockhart in Edinburgh

The European Commission is considering raising its renewable energy target for 2030 to 45% in new green plans to be published later in May.

The increased targets aim to wean Europe off Russian gas and to keep Europe on course for reaching net zero by 2050, but an extra €195bn will be needed between now and 2027, the Financial Times reported.

The Commission could also speed up its permitting process for new green projects and beef up the solar sector by making rooftop solar compulsory for all new building, according to a leaked draft, EURACTIV reported.

The target is just one to be adjusted upwards in a widely reported leak of the EU’s REpowerEU plans.

The draft said that one option was to increase the EU’s renewable energy target for 2030 consumption above the current proposed level of 40%. The target is currently 32%.

Also, total energy demand is to be cut by 13% by 2030, compared to the current proposed target of 9%.

It also calls for twice as much solar capacity to be online by 2029, and for greater use of heat pumps, geothermal & solar thermal. It also calls for wind expansion to drastically accelerated.

Consumers face higher prices, while an inflexible global supply chain means that supplies in alternative countries cannot quickly be brought onto the market quickly.

Any ways to deal with the crisis, such as developing regional grain reserves, clamping down on excessive grain speculation, debt relief for poorer nation or supporting domestic food production, may deal with underlying trends and will play their part in combating climate change.

But sudden events such as the war in Ukraine show just how vulnerable the global food system is to sudden interruptions.

Europe’s Green Deal / European Commission

There is also a call for hydrogen use to rise to 20mn tonnes of green hydrogen by 2030, including half of it being imported.

The draft states that the aim of speeding up the transition to renewable energy is to reduce emissions and to cut Europe’s dependency on energy imports, as well as to keep energy prices down.

In the European Parliament there is already strong support for increasing the renewables target to 45% by 2030, EURACTIV said.

These targets form a central part of the EU’s Fit for 55 strategy, a package of climate legislation tabled in July which calls for the union to reduce its emissions by 55% by 2030.

Fit for 55 is part of the EU’s Green Deal programme, which includes reducing energy demand and investing in more green infrastructure across the continent.

The push for renewables has also been inspired by the war in Ukraine, as increasing green energy is seen by the EU as crucial to the EU’s ability to meet its stated targets of reducing to zero imports of Russian gas and oil.

it sources 42% of all the calories it imports from Russia and Ukraine. And Egypt and Lebanon import three quarters (75%) of their wheat from Russia or Ukraine.

Alongside Africa, India’s current heatwaves are also threatening food supplies, even though India is a net exporter of wheat.

Large parts of India risk becoming uninhabitable in future if current heat waves persist, threatening migration and climate crises that could displace 1.3bn people.

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The year is 2027 and it is five years since Russia invaded Ukraine. Just how much progress has the country made since then and just how much damage has the extreme sanction regime imposed on Russia done?

The world was changed in 2022. Today critics say that Russian President Vladimir Putin’s attempt to force a new security deal on Nato was a missed opportunity. After he died suddenly from leukaemia shortly before the 2024 presidential elections secretary of the Security Council of Russia Nikolai Patrushev was a shoo-in but has proved to be even more intransigent than his predecessor.

Patrushev’s decision to expand Russia’s military presence in the northern, western and southern military districts, as well as move significant hardware into Novorossiysk and Crimea that can reach the entire Mediterranean boards as well as beef up its naval base at Taras in Syria have alarmed Kyiv and Washington, as Russia reasserts itself in the region already wracked by food insecurity and social unrest following the food crisis in 2022.

The four-year global recession that started in 2022 after commodity and energy prices spiked has caused international relations to become brittle, and the intense US pressure on the rest of the global community as it tried to enforce its harsh sanctions did a lot of damage, forcing countries to choose sides in a fight they would have preferred to sit out.

The bread riots that broke out in North Africa in the autumn of 2022 and famine in many sub-Saharan countries continue to destabilise the region but has opened the door to Russian soft power with its “feed the world” campaign and cheap grain supplies.

The world has been broken into two, with many developing countries in the Global South welcoming Moscow’s support, and already not very liberal, have subscribed to the Moscow Consensus, which puts the interests of the state over those of the individual that is the core of the Washington consensus.

Russia laid the groundwork for this support with its active distribution of its Sputnik V vaccine during the coronavirus (Covid-19) pandemic in 2020 and there is still a lot of resentment over the West’s so-called vaccine apartheid. Following the outbreak of Covid-26 last year, many of the countries in the Global South are once again looking to Moscow for help.

Fourth Russia

When the invasion of Ukraine started on February 24, 2022 many said that Russia had returned to the Soviet Union, but instead Russia has emerged in a fourth reincarnation.

The first was 1,000 years of Tsarist Russia that dramatically gave way to the Bolshevik Russia following the October revolution. That too passed away dramatically with the collapse of the Soviet Union in December 1991, leading to three brief decades of relative prosperity and progress. However, with Putin’s decision to attack Ukraine the “Free Russia” period also came to an abrupt end and the country now finds itself in a fourth phase.

“The bread riots that broke out in North Africa in the autumn of 2022 and famine in many sub-Saharan countries continue to destabilise the region but has opened the door to Russian soft power.”
Russia has moved on from Lenin’s vision and retains a mix of free market economics coupled with autarky, and global trade limited by sanctions. It is a pseudo-democracy run by a repressive political elite. The leadership needs to win a large share of the popular vote, but it tolerates no dissent and is not against throwing its opposition into jail. Opposition blogger Alexei Navalny has now served six years of his 38-year sentence.

The combination of the war in Ukraine and the global pandemic brought the process of globalisation to an end, but the war also raised serious concerns amongst many of the non-aligned nations that only became apparent in the following years.

The other emerging markets, particularly China, were concerned by the weaponisation of the dollar and use of trade restrictions to punish Russia and have been reluctant to join the sanctions regime or ostracise Moscow. The decision to force Russia into default on its bond obligations, despite its willingness and ability to pay, has led many nations to rethink their debt strategies.

It has also led to closer geopolitical co-operation amongst the Emerging Markets, roughly based on the G20, that seek to balance the power of the West with the new Global South alliance, led by the Russia-China axis.

The change in orientation was most noticeable at the G20 summit in Indonesia in 2022, which Putin personally attended, to the protestations of Washington that boycotted all the Russian sessions.

G20 leaders, especially China’s President Xi Jinping, went out of their way to show their support for Putin, but still maintained enough distance to avoid bringing down US sanctions on themselves. At the event Putin gave a triumphant speech about how the US hegemony over geopolitics had finally been broken.

The same sentiments were on display at the second Russia Africa Summit held later the same month, where 35 African leaders made the trip – down from the 48 that attended the first summit in 2019.

Cut off from Western markets, Russia has increasingly been reorienting towards China and other emerging markets that are less squeamish about its invasion of Ukraine; Indonesia notably refused to disinvite Russia from the G20 summit in Jakarta in November that year.

Many speculated that Moscow would become the junior partner to Beijing, but the tensions between Beijing and Washington remain high since the Taiwan crisis in 2024 and the US attempt to force through the Asia-Atlantic Comprehensive Free Trade Agreement (AACFTA) in the last two years. The clash between the US and China for advantage in Asia has kept the Russo-China relationship more balanced. China needs Russia’s potential military threat to Europe, especially since the fragile ceasefire with Ukraine was signed in the autumn of 2022, to complement its own power in Asia that has contained US ambitions to open up Asia.

At the same time, the BRICS organisation has grown in prominence, becoming the Emerging Market equivalent to the G7 of leading industrial nations. The body was originally a marketing term invented by Goldman Sachs’ chief economist Jim O’Neill, but then became first an economic club but is increasingly playing a geopolitical role. That has been enhanced in the last few years after the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE) joined as official observers, representing the Arab world at the regular BRICS meetings.

The Russia Africa Summit is now in its seventh year and Russia has emerged as a major investor into Africa, rapidly expanding its mining and agribusiness, arms and energy sales, and increasingly its leading retail and banks are moving in to exploit Africa’s emerging middle class in conditions that are almost identical to those Russia experienced in the noughties.
Globalisation has given way to regionalisation, where groups of countries form regional security and trade alliances.

Regionalisation

At the same time, the SWIFT sanctions on Russia at the start of the war have had far-reaching consequences. As other emerging markets became nervous of exposing themselves to the US’ ability to weaponise the dollar. Russia’s MIR credit card payment system and the SPFS (System for Transfer of Financial Messages) messaging system that works in parallel to SWIFT have been adopted by dozens of countries and have become the basis of Russia’s international trade and settlement system.

These systems found willing partners in the rest of the Emerging World as countries like China were keen to insulate themselves from potential US sanctions, accelerating the de-dollarisation of global trade. Russia and the other BRIC nations now do half of their trade in national currencies, with the yuan emerging as a new global reserve currency, up from nothing in 2008.

Globalisation has given way to regionalisation, where groups of countries form regional security and trade alliances, such as Turkey in the Caucasus and Central Asia, as well as the Balkan states and SE Asia that is dominated by China. As the general store to many of these groups, Russia has sought to capitalise on the regional associations that are also interested in insulating themselves against Western power in their geographies.

Turkey has been a big winner from the war as one of the few countries that has been able to play both sides of the showdown. Turkish President Recep Tayyip Erdogan was already working hard to expand his influence in his region and the war has only strengthened his hand. Central Asia has also made real gains as Russia focuses on opening up the North-South corridor into Asia via Central Asia.

The Taliban was in Lahore again last September to meet Sergei Petrov, the new Russian Foreign Minister that Putin picked from obscurity following Sergei Lavrov’s death last year from lung cancer. A 30-year investment and gas transit deal is on the table that is supposed to be signed by the end of this year. That will be accompanied by a new railway and other infrastructure investments, says Petrov, as well as rare earth metal mineral extraction rights worth an estimated $50bn that will be jointly exploited with China.

The talks are expected to be difficult, but after three years of famine, as Afghanistan was especially hard hit by the global food insecurity crisis caused by the Ukraine war, the Taliban are in a mood to compromise, especially as the Kremlin has included guaranteed grain and arms supplies as part of the deal.

The new Afghan vector will open Central Asia, and by extension Russia, up to the massive Asian markets and give Russia new customers for its oil and gas exports over the medium term, say experts.

Foreign trade still accounts for over 44% of Russia’s GDP, while in the USSR of the mid-1980s it was less than 5%. For Russia trade in commodities and energy has grown even more important as a geopolitical tool, leading to the so-called commodity wars.

In the boom years of the noughties most of Russia’s raw materials business was in private hands and the owners sought to maximise profits. Today Russia is happy to sell its wares at a deep discount in exchange for support in its ongoing showdown with the West. The companies remain nominally private as the Russian state is no longer capable of running a centrally planned economy of this sophistication, but the Kremlin retains tight control over what the companies can do through a system of licences.

At the same time, Russia has invested heavily in building the infrastructure to support this new reality. New pipelines headed east not west are under construction. And Russia has built a fleet of nuclear-powered tankers that traverse the Northern Sea Route (NSR) connecting European Russia to Asia with only a few weeks’ travel time.

Fears that Russia would become a raw materials appendage to China transpired to be overblown as China’s own problems with the US maintained the need for good relations with the US and Russia’s own expanding relations with Africa, Southeast Asia and the Middle East. China has become an important source of technology for Russia and is increasingly able to replace the machines and electronics that Russia used to buy from Germany and the US.

But cut off from the latest technology and unable to develop this itself, Russia’s growth potential has been severely reduced, and it is slipping further and further behind the global economy, while China continues to power ahead. While the buffer of Russia’s almost limitless energy and commodity riches means this is a slow process, it is still inevitable.
THE FOURTH RUSSIA

The energy wars

Ben Aris in Berlin

The biggest change to the world over the last five years since the war in Ukraine ended is the remaking of the world energy order. While the West re-orientated itself away from Russian oil and gas and Ukraine emerged as a European green energy powerhouse, the Russian energy business was just too deep-rooted to tear up completely. Commodity laundering and Russia’s “Crude Cocktails” have proved too lucrative for too many of the non-aligned nations to ignore.

In the first months after Russia’s invasion of Ukraine in February 2022 Europe was adamant that it would block Russia’s oil and gas. Then it tried to do it. While volumes did fall, that was more than compensated by the associated jump in prices.

An attempt to impose a sixth energy package of oil bans was gutted by Russia’s friends in Central Europe and Balkans, which were also afraid of the damage cutting off supplies of hydrocarbons would have on their economies.

In the first years that followed the Kremlin found dozens of ways to dodge the sanctions and willing buyers in the Global South countries that were eager to buy deeply discounted oil, gas and commodities and at the same time curb the Western energy sanctions used to punish Russia – a cudgel they feared would eventually be turned on them.

Sanctions wound but don’t kill Russia’s oil production fell from a noughties’ peak of just over 11mn barrels per day (bpd) to 9mn bpd in the first months of the war before diminishing to 7mn bpd by the end of the year as countries like Germany abandoned Russian oil imports completely.

But since then the volumes produced have slowly recovered to 9mn bpd as five years of heavy investment brings new export capacity online. The main impact of the sanctions has been to force Russia to sell its oil at a 30% discount to the rest of the market, due to its reduced customer base and the risk of secondary sanctions, creating a two-speed market for oil.

The EU tried to wean itself off Russian oil entirely, but only partially succeeded, as too many countries were too dependent on Russian oil and several of them were not prepared to take the pain of replacing cheap and convenient Russia oil with supplies from elsewhere. Brussels’ reluctance to pay for Hungary’s retooling of its refineries to process the sweeter blends became a major factor in its decision to refuse to put the sanctions through.

Russia exported 231.6mn tonnes of oil in 2021, and 111.2mn tonnes (49%) went to EU countries plus Norway and the UK, according to the Federal Customs Service. Europe managed to halve the amount in 2022, with Turkey and Hungary taking the lion’s share.

Russian crude cocktails

The passage of the sixth package of sanctions in the summer of 2022 was extremely difficult to pass. Hungary, Bulgaria and Slovakia, all connected to the legacy Druzhba oil pipelines built in the 1970s, refused to end imports of Russian crude for both political and economic reasons. In the end a compromise was thrashed out but despite Brussels’ best efforts, Russia continues to export oil to Europe, albeit at reduced volumes.
The argument for cutting off Russian exports to Europe has shifted as the attempts to impose a total oil embargo sent prices soaring at the start of 2024 to briefly break above the all-time high of $147 set in July 2008. Diversification away from Russian oil, but not cutting it off completely, has created a more balanced market that has brought prices down to below $70 a barrel in the last two years and as Russia must sell its oil at a deep discount that has hurt its budget revenues far more than cutting off oil deliveries completely. The Russian budget technically has a break-even price of $42 for a barrel of oil, well below current market rates, but once you factor in the discount, the budget is barely breaking even.

This has also kept countries like Hungary happy, as they can still source cheap oil from Russia also at greatly reduced prices, and it has significantly reduced the cost to Europe of the sanctions.

The sanctions leakage has been significant. Germany joined the direct embargo at the end of 2022 but continued to import Russian oil indirectly for its big refineries near Berlin, buying oil arriving in the Polish port of Gdansk but also availing itself of the so-called “crude cocktails” of oil blends that started appearing on the market. A Latvian blend partly consists of Russian Urals blend and the Kazakh blend mixes Russian and oil from the Kazakh fields which is exported from the Russian port of Novorossiysk on the Black Sea. Shell was caught doing this in the first months of the war when it blended 49% of Russian diesel fuel with 51% of diesel from other origins, giving Russian products the status of “non-Russian origin.”

The cocktail blends have in the meantime become extremely widespread as part of the so-called “commodity laundering.” US officials admit that they are frankly unable to prevent a large part of this business from happening as oil and refined products are shipped around the world as part of the complex international commodities trade. The Russians have already proved they are adept at abusing the international financial system, but they are even better at busting sanctions through “commodity laundering”, as once mixed, it is impossible to tell where a petroleum product originated. Experts estimate Russia has added some 2mn bpd to exports via the schemes.

Russian tankers make ship-to-ship transfers in the middle of the ocean or at friendly ports to create new blends that have sulphur contents that specifically target certain refineries configured to cope with that. Another variant on the cocktail scam has been India's boosting its imports of Russian crude starting early in 2022, refining it into petroleum products, and then selling those to the US as “made in India.”

**Shipping in the crosshairs**
The EU also tried to shut down Russia's access to oil tankers, which mixed results. Russia sent 75% of Russian oil exports to Europe by tanker before the war, but in May 2022 it was completely prohibited by the end of that year.

The sixth package of sanctions threatened secondary sanctions on international shipping firms and insurance companies to prevent Russia sending oil by sea, but for Greek shipping meant that Russian exports to Europe fell by only 25% in the first year of sanctions and then to half by the end of 2024.

In the meantime, Russia was working hard to boost exports to new clients. China’s share of Russian exports was 31% (71mn tonnes) before the war and is now half. India's share was 1% (1.9mn tonnes) but has risen to 10% in the same period. India's imports of Russian oil were up nine-fold in just the first three months of the war, albeit from a very low base.

Deliveries to Asia in general have climbed steadily over the last five years from 1mn bpd in 2022 to 3mn bpd now, or a third of Russia’s reduced oil output of 9mn bpd, mitigating much of the EU sanctions impact. The trebling of the ESPO pipeline that runs from Siberia to Asia that is due to come online this year will add another 1mn bpd.

In the last five years Russia has invested very heavily into expanding its fleet of ships by pressing its huge shipyards into service, and has significantly expanded its shipping capacity that covers much of the shortfall while the new eastward bound pipelines are under construction.

"The crude oil cocktail blends have in the meantime become extremely widespread as part of the so-called "commodity laundering"
The end of Russian gas imports was always going to take several years to achieve and even boosted imports of LNG, especially from the US, were never going to be able to replace the Russian gas in the short term.

Impossible to do so, as there was no other fuel source available to replace the Russian gas. Moreover, the storage tanks needed to be replenished before the next winter or Europe would have faced another gas crisis even more extreme than that of 2021 – something the EU managed to do thanks to record levels of LNG imports in the first half of that year.

Russia delivered 155bn cubic metres of gas to Europe in 2021, but the volumes fell noticeably after EU countries began to wean themselves off Russian gas, with Russia cutting off Poland, Finland and the Baltics soon after the war started.

The EU was already in the process of reducing its dependence on Russian gas, since it used to import 80% of its gas from Russia during the Cold War and the share had fallen to some 35% in recent years, although it increased again to around 40% in the first quarter of 2022 due to an exceptionally cold winter and the need to replenish stored gas following the gas crisis in 2021.

Europe had paid Russia just under $100bn by April for gas, but despite pledges to stop the imports it proved impossible to do so, as there was no other fuel source available to replace the Russian gas. Moreover, the storage tanks needed to be replenished before the next winter or Europe would have faced another gas crisis even more extreme than that of 2021 – something the EU managed to do thanks to record levels of LNG imports in the first half of that year.

The end of Russian gas imports was always going to take several years to achieve and even boosted imports of LNG, especially from the US, were never going to be able to replace the Russian gas in the short term.

For Russia’s part, switching the pipeline infrastructure, which all runs west, to the east was an even more formidable task. In the last five years several new projects have been launched, including the Power of Siberia 2, a 3,000-km pipeline that connects Russia’s Yamal gas fields in the Far North to northern China. But negotiations with China over the price of the gas have been tortuous and raising the finance to pay for the $20bn pipeline extremely difficult. Cost overruns and technical problems caused by the ongoing melting of the permafrost have caused significant delays and dramatically raised Gazprom’s maintenance bill, as all its pipelines need upgrading to cope with the melting ground. The Power of Siberia’s completion date of 2030 looks likely to be pushed back again for the third time in four years.

Even when the pipeline is completed, the Chinese offtake volumes are unlikely to be anything like able to replace the European demand. The Power of Siberia 1 delivered 10 bcm of gas to China but that is less than 10% of the EU deliveries and the new pipeline will also likely build up in stages. Adding to the problems is that China does not have a developed domestic gas pipeline network, and this will also have to be built once the supply pipeline is completed. China will eventually replace Europe’s demand. In September Gazprom CEO Alexei Miller predicted that eventually China’s demand for gas will hit 250 bcm – 100 bcm per year more than the EU – but that is not anticipated until 2050.

In the meantime, while deliveries of gas to the EU have fallen by 25%, Europe continues to import significant amounts of gas. Hungary consumed 10 bcm in 2020, down from 14 bcm in 2005, but signed a new long-term contract with Gazprom in 2022, increasing the volumes back to 15 bcm a year, part of which is quietly exported to its neighbours.

Turkey also imports some 30 bcm a year since TurkStream came online in January 2021 and with TurkStream II due to come online this year, that should double to 60 bcm, delivered to Turkey and the Balkan states, as well as further to countries like Italy as “EU gas.”

Other EU states continue to import significant amounts of gas, although half the volumes from the 2022 levels of: Germany (142 bcm), Italy (76 bcm), Slovakia (5.3 bcm), Czechia (8.8 bcm), Serbia (2.5 bcm) and Bulgaria (3 bcm) as the main markets.

While the war was still raging Serbian President Aleksandar Vucic signed off on a new three-year gas deal with Russia on May 29 “on very good terms.” That came on top of a similar deal with Hungary that also renewed and expanded its long-term commitment to buy Russian gas in the first months of the war. Moreover, both countries have signed up to take more gas via the new TurkStream southern route that is not subject to sanctions than they need, and have been selling it to their neighbours in what is a significant leakage of the gas sanctions regime.

Altogether Russian exports of gas have fallen considerably since 2022 as the EU heavy investment into renewables eats into gas demand, five years on and Turkey, the Balkans, Hungary, Bulgaria and Czechia still account for 80 bcm per year.

Germany and Italy import reduced amounts of gas but still take some 30 bcm a year for their own use and distribute it across the European pipeline network, serving the base load needs of countries still in the midst of their switch to 100% reliance on renewables as part of the EU’s Green Deal. Like oil, the argument is that importing some gas from Russia keeps the prices down and actually detracts more from the Russian budget than cutting off gas completely would.
THE FOURTH RUSSIA

Gorbushka is back

Ben Aris in Berlin

On a warm day in June the crowds throng the Gorbushka electronics and media market in the Fili Park in west Moscow. The new iPhone XX is out and since Apple pulled out of Russia a month after the war in Ukraine broke out five years ago, it is not officially on sale in Russia. But it is in Gorbushka.

The famous market came to prominence in the 1990s after the fall of the Soviet Union. Traders flooded Russia with all the consumer goods that were missing from the People’s Paradise – consumer electronics, movies and software chief among them.

The so-called “suitcase traders” would fly to Istanbul or Berlin and pack their cases with sought-after goods to come back and sell them again at Gorbushka. Mini-factories were set up to copy the latest Hollywood blockbuster and games and software.

Already in the Yeltsin government the government tried to stamp out the rampant pirating of intellectual property and banned parallel imports – the import and sale of goods without the permission of the copyright holder. But it was difficult. Yeltsin sent armed police officers to close down Gorbushka several times before the market, which turns over hundreds of millions of dollars a year in sales, was finally forced to go white. Under Russian President Vladimir Putin the market continued to flourish,

but increasingly the vendors had legitimate distribution deals with the manufacturers of the white goods and intellectual property holders.

Now the market is back in all its former glory. The Russian government did a volte-face only two months after extreme sanctions were imposed and made parallel imports legal, effectively legalising piracy once more in an effort to keep the gizmo-crazy Russians supplied with all their favourite widgets.

Before the war Russians bought some 30mn smartphones a year, but without the formal relations with the producers importing that amount of phones is impossible. In the place of re:Stores, a legion of small traders have sprung up and import phones and other goods via third countries, but the lot size is necessarily limited and the markups are higher, adding as much as 30% to the prices. At the same time, none of the goods sold in Russia carry the manufacturer’s warranty and on phones many of the preinstalled apps do not work.

For those with a little more money or time on their hands, a trip to the local electronic store while on holiday has become de rigueur during annual summer holidays, with the more enterprising Russians offsetting the cost of their break by filling a suitcase with hard-to-find consumer goods.

Industrial regression

While Ukraine flourishes, life in Russia continues to go backwards after it was cut off from the international market five years ago. As bne IntelliNews reported a year before the war started, Russia’s sanctions soft underbelly was its almost total dependence on imported precision tools and advanced technology or software. Cut off from the rest of the world and then economically flat on its back for over a decade, Russia missed out on two tool-making revolutions and by the time it started to grow in the noughties industry was hopelessly behind.

“The famous market came to prominence in the 1990s after the fall of the Soviet Union. Traders flooded Russia with all the consumer goods that were missing from the People’s Paradise”
CBR Governor Elvira Nabiullina warned in March, a month after the war started, that Russian companies would have to go back two or more generations in technology to function.

five out of Russia’s six car plants were closed due to the lack of spare parts and car sales were down by 76%.

Since then industrial regression has set in. CBR Governor Elvira Nabiullina warned in March, a month after the war started, that Russian companies would have to go back two or more generations in technology to function. Companies, especially in the food processing industry, have had to buy old equipment and despite the best efforts of Russia’s entrepreneurs, they have not been able to reverse engineer much of the equipment that used to be largely imported from Germany and the US.

There have been a few exceptions in the less technologically sophisticated sectors. YedaPromMash, which makes food processing equipment, is the rising star of the sector after it entered into a joint venture with China, but in aviation, automotive and telecoms Russia continues to lag well behind the rest of the world. Iranian experts have been advising automotive producers, thanks to that country’s long experience of manufacturing Peugeot cars during decades of sanctions, and the improving quality of Indian and Chinese equipment has mitigated some of the problems. But Russia continues to fall further and further behind the rest of the world.

Even China can’t export its more advanced technology, as it is made under licence from US companies that are forbidden to trade with Russia.

Techless
Online services have also fallen well behind since Russia was cut out of the global technology revolution. Sberbank never changed its name back from Sber, when it dropped the word “bank” from its name as it tried to build a technological empire that catered to its customers’ entire life. German Gref, its long-standing chairman, continues to try to roll out new online services over the so-called RuNet, but Sber’s offering has gone from cutting edge to almost-ran as even the Baltic states far outstrip the Russian offering. Estonia closed its last bank branch four years ago and now banks only have their headquarters as an actual office, while all their services are in the ee-cloud, as it is known.

Many of the online services that disappeared in March and April 2022 have been recreated by local startups such as RuTube, RusBox, RuCloud and in retail the now ubiquitous RosBurger has successfully replaced McDonalds.

However, the surprising success of RuPay continues to go from strength to strength and is starting to compete with ApplePay and PayPal internationally. Now widely accepted worldwide, RuPay’s exponential growth has been driven by the rubit, the digital ruble set up by the Central Bank of Russia (CBR) just before the war – a regulated version of a cryptocurrency. The regulator actively promoted the rubit as a way to make international payments outside the reach of the US Federal Reserve. The making of rubit happened after it was incorporated as an exchange currency in the joint venture between RuPay, China’s Alipay and Turkey’s BKM, and the electronic currency started to gather momentum.

The flow of tourists between the three countries and the exponential growth of e-wallet use globally fuelled this success, which governments in the emerging world also promoted as a way to weaken the grip of the dollar on international payments.

Increasingly, corporates are experimenting with rubit payment systems for business purposes. Metals giant Norilsk Nickel has set up a commodity exchange that allows for rubit payments. The mining company placed 1mn tonnes of nickel in reserves on the exchange and 100,000kg of palladium to create liquidity and that has had the side-effect of opening up metal markets to retail traders, which in effect also backs the value of the rubit with commodities like gold and nickel.

The advantage the rubit has over pure cryptocurrencies is that it is regulated by the CBR, which is seen as a guarantee of its stability, and it has not been prone to the wild swings in value of the now defunct bitcoin and Elysium, now long-forgotten precursors. Unlike traditional cryptocurrencies that had to be mined, the rubit supply is controlled by the central banks of the participating countries and subjected to normal liquidity control management. That also means that there is no need to run energy-guzzling computer farms to “mine” the coins, which became unviable thanks to the Ukrainian war-induced energy crisis that sent power bills through the roof and killed off the first-generation coins.
The energy crisis that has wracked Europe since the EU began to cut itself from Russian energy five years ago has had a silver lining. It has driven the transfer to renewables much faster than anyone could have hoped. And the biggest winner of this transformation has been Green Ukraine.

The war was a blessing in disguise for Ukraine as post war, all the conditions appeared to rapidly transform the country into a green energy powerhouse.

Ukraine was already home to heavy investment into renewable energy after former President Petro Poroshenko introduced extremely attractive green tariffs to attract investment into the sector and reduce Ukraine’s reliance on Russian gas. Domestic and foreign investors had poured over $5bn into building solar and wind farms that already accounted for 15% of the country’s generation capacity at the time the war started.

Russia targeted much of Ukraine’s power infrastructure during its six-month campaign, most of which had to be rebuilt from scratch. Part of the $150bn Marshall Plan, partly funded by seized Russian reserves under the so-called Bucha Mechanism, was targeted at developing renewable power capacity to bring the share of green power in the mix up to 50% within three years. But it was the investments into hydrogen that have proved to be a game-changer.

Today Europe still imports nearly 100bn cubic metres of gas per year from Russia, although this is now only 15% of Europe total energy needs, down from 35% before the war, and can be entirely covered by the expanded LNG supplied by the US and Qatar among others.

Pressure to cut off all Russia’s gas deliveries has fallen after LNG production expanded to the point where it can supply all of Europe’s needs should another war start, which has dramatically depressed prices and hence Russia’s revenues.

But increasingly gas is being replaced by hydrogen currently still mixed in with gas. Russia’s rising hydrogen production is still being pumped via the Ukrainian pipeline system that has largely replaced the 40 bcm of methane Russia has been sending to Europe since 2019. The transit deal was renewed in 2024, but with new strict restrictions and a requirement that half the gas in the pipelines be hydrogen.

Reservations about buying Russian hydrogen remain, as the country mostly produces blue hydrogen, from chemical processes that create a lot of captured carbon waste, whereas Ukraine’s hydrogen is almost all green, produced by electrolysis using solar power. And Ukraine’s blossoming green hydrogen production is set to replace much of the Russian blue hydrogen supply in the coming years.

The decision to stop the flows through Nord Stream 1 in the middle of 2023 forced more gas transit via Ukraine, leaving Russia with little option other than to deal with Kyiv. Responsible for 55 bcm of gas per year – a third of all Russian gas exports to Europe – the decision to remove Nord Stream 1 exemptions from EU energy laws, and so in effect close the pipeline down, was a body blow to the Russian European gas business it is unlikely to recover from. Russia renewed its gas transit deal, with Ukraine paying $2bn in transit fees in the process.

The compromise was welcomed in much of Central Europe, which maintained Russian gas supplies without having to find alternative sources, and the extra cash Ukraine earned took considerable pressure off the budget in the first years of reconstruction after the war.

Ukraine has taken advantage of the changes to massively invest into hydrogen production. It has been buying Russian gas to use as feedstock for its own hydrogen production and as its own renewable generation capacity grows it is decreasing the amount of Russian gas used as feedstock and re-tasking its own 20 bcm of gas production as feedstock for its own hydrogen production, which is gradually displacing the Russian methane-hydrogen mix that was part of the 2024 transit deal.

THE FOURTH RUSSIA

Green Ukraine

Ben Aris in Berlin
The economy has been growing by at least 8% every year since 2024, and renewable energy investors rapidly returned as Ukraine began to recover from the war. In the last three years, foreign direct investment (FDI), which has doubled in the last two years, is driving growth.

Ukraine is expected to shed its dependence on gas by 2030, although it will probably continue to buy Russian gas to produce hydrogen. However, Europe has learnt its lesson and is keeping Russia’s contribution to EU hydrogen supplies to 15% – low enough that it can easily be sourced elsewhere if tensions flare again.

Kyiv became home to the headquarters of the European Green Hydrogen Corporation (EGHC) last December and talks with Russia to expand gas supplies to Ukraine’s solar-powered hydrogen production facilities are currently ongoing, but remain difficult.

Support for doing the proposed supply deal between Naftogaz and Gazprom has grown, as some argue that Russia needs to be brought back into the global emissions reduction campaign as temperatures continue to rise. The Paris Climate accord targets have been missed and no one is suffering more from climate change than Russia. Temperatures there are rising three times faster than elsewhere on the planet, and two thirds of Russia’s permafrost is now deemed to be in danger of melting. If the ground in Russia’s tundra reaches zero, which is now expected to happen in the next few years, then gigatonnes of primordial CO2 that have been locked in the ice for millennia will be rapidly released with unpredictable consequences. The Kremlin has been leveraging this danger to try to have some sanctions dropped and to repair commercial ties with Europe.

Moreover, with Norway’s gas production in decline and the Netherlands’ Groningen gas field having closed down four years ago due to earthquakes, those in favour of the deal say that Europe has little choice but to use expanded LNG deliveries from the US, which now dominates the business, as hydrogen feedstock is not economically viable if the gas is to compete as a fuel source with far cheaper green energy, even if some hydrogen fuel will always be needed to cover the baseload demand for power when renewable energy is not available.

Ukraine is also establishing itself as a major centre for battery production, based on its extensive lithium deposits, the largest in Europe.

The Lithium Metallurgical Kombinat of Ukraine (LMKU) celebrated the production of its first kilo of the metal last month at a ceremony attended by Elon Musk, who is negotiating for a long-term supply deal to support his growing Tesla empire.

The development of the LMKU plant has been fraught with problems, requiring the government to totally rewrite the concessions legislation, but investors are excited, as the plant’s construction is expected to clear the way for the development of an EV production complex in Ukraine.

Musk is also negotiating a deal to take over Ukraine’s small automotive producer Eurocar in the west of the country, which is anticipated to become the basis of a massive Tesla factor to match his $1bn plant in Berlin that is now five years old and struggling to keep up with demand.

Ironically, part of Ukraine’s tech success has been due to the flood of high-quality Russian technicians and software engineers that migrated to Lviv for work once they had obtained their “Persil proposk” certifying they were in opposition to Putin’s war. The certificate allows them to apply for Ukrainian work permits. Since merely having a Russian exit stamp in the first months of the war was made enough to qualify a tech engineer for a Persil proposk, the whole process became much easier, as Russian and Belarusian engineers remain in high demand.
The war in Ukraine is spilling out to affect the economies of the entire catchment area of the European Bank for Reconstruction and Development (EBRD), which includes Emerging Europe, Central Asia and North Africa.

There will be an economic slowdown emanating with decreasing severity from the epicentre in the Donbas region of Ukraine, but while Ukraine will of course take the worst hit, the looming food crisis in North Africa and possible debt crisis caused by soaring inflation could possibly do long-term damage to the countries on the southern shores of the Mediterranean, say the EBRD experts.

The war in Ukraine has come at a bad time for many emerging countries in the region that were already weakened by the coronavirus (COVID) pandemic. Having spent heavily on support measures for their populations, the spike in commodity prices, especially energy, coupled with soaring inflation, which has forced central banks to make growth-killing rate hikes, has only added to the headaches.

“Living in a time of turbulence”

Ben Aris in Marrakech

“All the post-COVID gains will now be wiped out,” said the EBRD’s chief economist, Beata Javorcik, during a panel discussion of the economic outlook for the region at the EBRD’s annual meeting in Morocco. “Many countries in the region already had depleted financial reserves and now the high inflation is driving up the cost of borrowing that adds to their problems...”

“...and many of all its companies have temporarily ceased work and that territory that accounts for 60% of gross production is currently the scene of hostilities.

In addition to the destruction in Ukraine, another factor that will depress Ukraine’s recovery is that around 13mn people have been displaced, either internally or who have left the country completely, out of a population of around 35mn.

“It's the biggest refugee crisis since WWII – more than the refugees that fled Syria,” says Sergei Guriev, Professor of Economics at France's Institut d’Études Politiques (Sciences Po) and former EBRD chief economist.

For Ukraine the EBRD expects a 30% GDP contraction this year. Javorcik estimates that between a third and half of all its companies have temporarily ceased work and that territory that accounts for 60% of gross production is currently the scene of hostilities.

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Russia too will be badly affected, with a 10% GDP contraction, says Javorcik, which is less than some other estimates “but it is still more than at the height of the COVID crisis and it’s quite a contraction”. An article in the Russian press the same week, based on a leaked Russian Ministry of Finance document, put the internal contraction estimate for this year at closer to 12%.

Marshall Plan
Thought is already turning to reconstruction, but the task is daunting. While the Kyiv Economic School has estimated that some $600bn of total economic damage has been done, Guriev, together with colleagues, has done a first estimate of the cost of a mooted Marshal Plan to rebuild the country and concluded it will need to amount to between $200bn and $500bn.

“That is unprecedented,” he told bne IntelliNews. “In current terms the original Marshall Plan cost $160bn in today’s dollars, so this is going to be the biggest ever programme.”

Russia will have to contribute to the cost and Guriev and others assume that some sort of reparations will be imposed on Moscow.

“Moscow will refuse to pay, but then the West will have to seize Russian assets,” says Guriev. That could include the approximately $300bn of Central Bank of Russia (CBR) assets seized at the start of the war, which are only frozen and technically still belong to Russia.

But the pain for Russia is not the 10% contraction per se, but the fact that the Russian economy will not bounce back after the war is over.

“This is not like the COVID crisis where economic contractions were deep, but it was clear the economies would bounce back once the epidemic was over,” says Guriev. “The sanctions will remain in place and Russia has been decoupled from Europe. This will hit everyone: the people, the oligarchs, they will all see a huge drop in income of at least 10%. It is hard to be optimistic about the short-term outlook for either of these two countries.”

Guriev said that the extreme sanctions imposed on Russia would slowly deplete its ability to fight by slowly removing its income from the export of hydrocarbons, but also limiting Russia’s access to technology. “Russia will have lots of cash in the short term but it can’t make tanks and rockets without access to technology,” Guriev said. “Even leaky sanctions will stop the war when it runs out of its stock of modern weapons and chips. It cannot replace Western technology with Indian or Chinese tech. The Russian story has crystallised how globalisation benefits countries and how reliant everyone is on global trade.”

North Africa spillovers
Heike Harmgart, EBRD Managing Director of the Southern & Eastern Mediterranean area, said that the effects of the war would be felt too in Morocco where the EBRD annual meeting is being held.

“[Morocco] dealt with the coronavirus [COVID-19] pandemic well. Morocco has the highest vaccination rate in all of Africa and put in 7.4% growth in 2021. A similar story was playing out in all the countries in the South and Eastern Mediterranean region, except Lebanon,” said Harmgart. “But Morocco used up a lot of its international reserves. Ukraine is not affecting the country directly but it will have a massive indirect effect, mainly via food insecurity.”

All of the countries in the South and Eastern Mediterranean are big grain importers, a large part of which comes from Russia and Ukraine. While the disappearance of Ukraine’s harvest only makes up a few percent of global grain production, so it should be possible to supply the region with food, the impact of food price inflation will by itself be extremely destructive.

Morocco has already been having food trouble as it is currently suffering from the worst drought since the 1980s and food prices were already rising before the Ukraine war started.

Javorcik pointed out that it is the poor that are particularly vulnerable to the soaring food prices, as food typically makes up at least a third of the average shopping basket.

“It means that the government will have to take action or they could see political instability – a repeat of the Arab Spring that affected 40 countries – but they have to do this at a time of reduced resources and much higher borrowing costs,” says Javorcik.

Some governments in North Africa have already re-launched subsidies for bread during Ramadan that has just come to an end, in order to keep a cap on discontent. However, these are stop-gap solutions and the problems are anticipated to remain for the rest of the year. Economists are starting to wonder if the world is about to face a period of stagflation, where prices keep rising at the same time as production decreases. That puts central banks in the paradoxical position of hiking interest rates that only depresses growth further.

One of the dangers, says Javorcik, is that economists fear inflation expectations will become unanchored – the population’s inflation expectations are based on their previous experience and also the things they buy the most. As food prices are rising so fast the population comes to believe prices will rise much faster than the economic indicators show is the reality. This is in itself inflationary and fuels the stagflation problem. ●
Ukraine’s Finance Minister Serhiy Marchenko has been one of the guests of honour at the annual meeting and spoke to the governors by video link in a keynote session on the situation in his homeland.

Marchenko added more details to the massive destruction and the cost of the war to Ukraine, estimating that its economy would contract by a whopping 45% this year and that Ukraine needed hundreds of billions of dollars to rebuild. In the short term, the minister said, Kyiv currently needs some $5bn a month to finance its budget but said that the government was “fully functional” and meeting all its salary, pension and social obligations for the population.

The EBRD board of governors has already committed itself to fully mobilising its resources to overcome the challenges created by the war on Ukraine by Russia, EBRD President Odile Renaud-Basso told the assembled governors in public comments earlier in the day.

Renaud-Basso predicted that the war “will affect every EBRD region… by increasing energy and food prices, undermining energy and food security, increasing inflation and weakening growth”.

The bank has already approved an initial €2bn ‘Resilience and Livelihoods Package’ to help Ukraine and other countries affected by the war in the short term.

"Time after time, the EBRD has shown its true character during a crisis,” she told the event, attended by bne IntelliNews. “And we’re demonstrating that character again today…. We’ve continued to disburse, and have increased our trade facilitation programme limits, in part to boost global food security. We’ve proposed reallocating donor resources to help with the crisis.”

“Massive walkout by most EU, G7 & other national delegations at start of Russian intervention @ebrd annual meeting because of war on [Ukraine],” tweeted Caspar Veldkamp, another EBRD board member in attendance.

The impact of Russia’s invasion of Ukraine has dominated most of the sessions at the first in-person meeting the bank has held in three years. Thus far, the EBRD has committed €2bn in aid for the Ukrainian economy, which has been devastated by the unprovoked attack.

"Russia and Belarus don’t belong to the EBRD family," tweeted Estonia's delegation at the EBRD annual meeting. "[Estonian delegates] @ KeitPentus, @rahandus, together with most colleagues, left the seat for the duration of RU and BY intervention."

"This is how the hall looks like while Russia speaks,” tweeted Mart Kivine, alternate executive director at EBRD, from the almost empty hall.

Many of the sessions at the EBRD annual meeting have dived into the details of how the Russian invasion has destabilised commodity and energy prices, severely affecting many countries in the bank’s catchment area. Rising food insecurity and the possibility of a food crisis in Africa have been especially high on the agenda.
EBRD supports Ukraine’s power sector and food security

Clare Nuttall in Marrakech

The European Bank for Reconstruction and Development (EBRD) and the Ukrainian authorities on May 11 and 12 signed new agreements to support Ukraine’s power sector and help ensure food security following Russia’s invasion.

On May 11, the EBRD and the authorities in Kyiv agreed to repurpose part of an existing loan to electricity transmission company Ukrenenergo to provide €50mn of emergency liquidity.

The European Union’s European Fund for Sustainable Development (EFSD) is providing a first loss guarantee to partially mitigate the risk of non-repayment for the EBRD.

“This EBRD support to the Ukrainian electricity company is vital to help maintaining everyday access to vital services for citizens. It is more important than ever to keep the real economy working,” said EBRD President Odile Renaud-Basso at the signing ceremony on the second day of the EBRD annual meeting in Marrakech.

“While Russia continues to wage its illegal war against Ukraine, it is more important than ever that we help keep Ukraine’s economy working as smoothly as possible. This is not easy under circumstances but we do what we can,” said European Commission Executive Vice-President Valdis Dombrovskis at the signing ceremony.

“Ukraine’s long-suffering people are already suffering hard enough just to survive Russia’s relentless bombardments. Keeping the power supplies running is a basic necessity, so I’m happy to sign this agreement on behalf of the EU to provide guarantee coverage for the EBRD for the state electricity company Ukrenenergo.”

Dombrovskis added that the European Commission is working with the EBRD on additional support and plans to help address the liquidity needs of Ukraine’s railway and pharmaceutical sectors.

“Both the European Union and EBRD continue to stand fully by Ukraine and its people, and to do whatever it takes to keep its economy functioning in this brutal war,” he said.

The new agreement was signed after the EBRD agreed to lend €149mn to Ukrenenergo in July 2019 to upgrade transmission infrastructure required to maintain system stability and back-up synchronisation with European electricity networks, and to help align Ukraine’s legal framework and operational practices with the EU Third Energy Package.

However, the loan has not yet been disbursed, and following Russia’s invasion Ukrenenergo asked for it to be repurposed to meet its urgent liquidity needs. The company has seen its revenues slump since the start of the war.

According to Renaud-Basso, the company needs to enable the stable functioning of the Ukrainian electricity grid and the country’s nuclear generators, and ensure power continues to be delivered to both industries and households.

On May 12 the EBRD announced it is boosting food security in Ukraine by issuing risk-sharing instruments to selected local banks and a leasing company to back more than half the credit risk of newly originated financing provided by them up to a total value of €53.25mn. The share of risk the EBRD takes on with ProCredit Bank, OTP Bank Ukraine and OTP Leasing comes to €30mn, the development bank said.

The EBRD is sharing 60% of risk on up to €8.75mn of loans to be made by OTP Bank Ukraine, and 50% of risk on €19.5mn for OTP Leasing, as well as sharing 60% of risk on up to €25mn of loans to be made by ProCredit.

“Boosting food security during the war is a key element of the bank’s five-pronged support plan for Ukraine’s real economy,” the EBRD said on May 12.

“The EBRD’s dedicated food security package envisages supporting €200mn of food security investment this year in Ukraine … Aside from direct war damage, agricultural production is hampered by lack of fuel, access to seeds, fertiliser and equipment. Limitations on ships in the Black Sea add longer-term logistical risks,” the bank’s statement said.
However, with the Russian forces’ withdrawal from around Kyiv and its increasing focus on the Donbas, the rest of the country is beginning to return to normal with the support of the EBRD.

“From what we have seen we have been very impressed with the resilience of the economy in Ukraine and the institutions. I met with the central bank and the finance minister and they were explaining that the banking sector is functioning. Most of the bank branches are open and the banks can provide financing and people are depositing their money. There were no bank runs. So the system is really functioning,” Renaud-Basso said. “And we see the same in public companies. We have signed a contract with [power company] Ukrenergo and the company is functioning and delivering electricity. And the sowing campaign is going on with the support of the government.”

Nevertheless, all Ukraine’s companies are under pressure and Renaud-Basso reported that many of the bank’s clients have asked for payments to be postponed or rescheduled, which the bank has been doing.

“There was a big shock at the beginning of the war with a bit of a standstill, but things are now coming back. One of the major challenges, and especially for the agri-businesses, is the question of logistics. The ports were blocked and it was a very important way to export grains and this remains a huge challenge, but we have seen a lot of SMEs and companies from different sectors developing different ways [to export] through Poland and other countries.”

The governors have decided to support Ukraine in both the short and long-term and we are “already beginning to think about reconstruction whenever it becomes possible”, Renaud-Basso said. During the controversial governor’s meeting on May 11 the donors committed to supplying an additional amount “towards €1bn” of funds to support Ukraine.

“We will deploy this money alongside our own resources to support

**President says it is supporting wartime commerce in Ukraine and planning for the future**

**Ben Aris in Marrakech**

The European Bank for Reconstruction and Development (EBRD) has switched its focus and is pouring help into Ukraine as it struggles to cope during the war with Russia, but thought is already turning to the eventual reconstruction of the country when peace finally returns, the president of the development bank Odile Renaud-Basso said at a press conference on the last day of its annual meeting on May 12.

“We are meeting of course as the world was trying to recover from the COVID pandemic and the world is now confronted with the war in Ukraine, which alongside major loss of life, major destruction, is bringing additional and fresh economic strain, threatening energy and food security,” Renaud-Basso said. “There will be some impact from this war beyond the immediate region to all our countries of operation… The EBRD will use all of its resources to support all these countries.”

The war in Ukraine has been at the heart of all the discussions amongst the delegates that gathered in Marrakech in Morocco from the 73 member countries, as the wide economic effects spill out to affect counties throughout Emerging Europe, Eurasia and down into Africa.

Renaud-Basso said that the EBRD was very fast to react to the news of Russia’s invasion of Ukraine on February 24 and protested “within hours” of the first tanks crossing the border. Both Russia and Belarus were swiftly cut off from using any of the EBRD resources.

“Since the assault on Ukraine in the early hours of February 24 the bank has moved swiftly. As the biggest international investor in the country, within hours of the attack we condemned Russia for starting the war and stated our unwavering support for Ukraine,” said Renaud-Basso.

The EBRD very quickly made available a €2bn package of support for Ukraine and other countries in the region to deal with the refugee crisis amongst other measures.
infrastructure and companies in Ukraine and other affected countries. It is an outstanding expression of confidence in the bank and definitely helps us invest into projects worth a much greater amount,” Renaud-Basso said.

The war is not over, but after Russia refocused its military effort into “Phase 2” and concentrated on capturing the Donbas region and the southeastern corner of the country, the rest of the country has largely returned to Kyiv’s control. The economy in the government-controlled regions is slowly starting to restart with shops and cafes in Kyiv reopening.

The National Bank of Ukraine (NBU) reported on May 10 that card terminal usage across the country shows that the Ukrainian economy is gradually returning to work, with the number of non-cash payment terminals owned by PrivatBank increasing by 42% in the last two weeks, with small businesses resuming card payments more actively. At the start of the war the number of active terminals fell by 66% at its lowest point, and the volume of transactions fell by 39% during the first two months.

The EBRD believes that between 30% and 50% of all Ukraine’s companies have suspended operations but as the military operations are now more concentrated in the eastern regions, small businesses in particular are starting to revive their operations and the EBRD has launched a programme worth €150mn specifically to support this activity.

However, the country still needs help to keep the power on and municipalities need cash to cope with the millions of people that have been internally displaced, not to mention help to allow farms to start on the sowing season.

Renaud-Basso said that the EBRD is also helping with these sectors, providing trade-financing facilities and it signed off on a €50mn loan to Ukrenergo, the national power company, to provide emergency liquidity to the company so that it could continue to provide electricity to the grid. In addition there was another €53mn package to provide farmers with funds to allow them to work.

Overshadowed by the Ukraine war, the bank’s governors also took another historical decision during this year’s meeting and approved a “limited and phased” expansion of the EBRD’s operations to sub-Saharan Africa and Iraq.

“This doesn’t mean we will be starting activities there yet. Further steps will be needed. For now our focus will be on the Ukraine crisis and we will come back, subject to further decisions taken by our board of governors, with the next steps on sub-Saharan Africa and Iraq no later than this time next year,” Renaud-Basso said.

Why Kosovo is one of the fastest growing economies in emerging Europe

Clare Nuttall in Marrakesh

Exports of both goods and services have driven Kosovo’s recovery from the coronavirus (COVID-19) as companies take advantage of its position as a nearshore destination for the EU, and are set to boost its growth in 2022 as well, Minister of Finance, Labour and Transfers Hekuran Murati said on May 10.

Kosovo is set to be one of the fastest growing economies across emerging Europe this year, according to the latest set of projections from the European Bank for Reconstruction and Development (EBRD). Its GDP growth is forecast at 4.0% in 2022, on a par with Uzbekistan and behind only Azerbaijan and Turkmenistan.

What these three Eurasian economies have in common is that they are all rich in hydrocarbons and are thus set to benefit from sky high oil and gas prices. Azerbaijan, moreover, is seen as a key supplier state as European countries seek to diversify their gas imports away from Russia, while Turkmenistan has been insulated from the ongoing geopolitical crisis by its extreme isolation.

Kosovo, a small nation of around 2mn people in the Western Balkans, has none of these advantages. However, as Murati told a panel at the EBRD annual meeting in Marrakesh on May 10, it has managed to benefit from the disruption to international supply chains by first the pandemic and more recently the war in Ukraine.

Murati spoke of positive indicators in 2021, notably real GDP growth of 10.53% as Kosovo’s economy recovered from the coronavirus crisis.

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“This year [growth] may be slowing down a bit due to the war and inflation, but we see the trend continuing in Q1. It is driven mainly by exports, as local companies are trying to fill in the void created by supply chain disruptions at global level,” Murati said.

Neil Taylor, the EBRD’s head of Kosovo, told the same panel that this year “we are looking at a very positive growth dynamic, supported not least by the diaspora, but also the increase in exports of goods, light manufacturing.”

Both Murati and Taylor also referenced Kosovo’s growing IT and outsourcing sector. “ICT is really flourishing. Kosovo has an average age of 30, and many people are fluent in English or German. It’s a great place to invest and take advantage of nearshoring opportunities from the EU,” said Taylor.

Elaborating on this on the sidelines of the conference, Murati told bne IntelliNews: “for us the main exports and the growth is coming from the ICT sector but also from the old fashioned manufacturing, because a lot of [companies] are nearshoring given the higher logistical costs. We see this usually in the textile industry but also in furniture as well,” he added. “Mostly it’s the labour intensive industries, where you have a lot of people involved. Considering we are near the European Union but it costs less to produce in Kosovo I think it seems a very good opportunity for companies to nearshore near to their home countries.”

Murati says this trend started with the coronavirus pandemic and the disruptions to supply chains during the initial lockdowns in spring 2020. “What followed was a bottleneck of logistics, shipments and transportation which pushed the prices higher. But [there is] also security of supply and predictability; being nearer and in continental Europe has its advantages.”

“The country produces most of its electricity from two ageing power plants, Kosova A and Kosova B. Kosovo never introduced any infrastructure for gas, and the question is whether it will be possible go straight from coal to renewable energy without gas as [an] intermediate step,” said Lundsgaard – and if so, whether other countries might follow Kosovo’s example.

Kosovo faces a growing need for energy, as its economy as a whole is forecast to be one of the fastest growing in the emerging Europe region this year, with export-oriented manufacturing an important part of its growth in 2021 and 2022.

“Local companies [are] trying to fill the void created by supply chain disruptions at global level, which created opportunities at the manufacturing sector. All this requires energy,” said Murati.

However, the energy transition is not simply a matter of expediency. “It’s important to make this transition, not because of national security, to become energy independent, [but because] we [are] committed to EU values and the decarbonisation agenda. We

Coal-dependent Kosovo prepares for leap to renewables

Clare Nuttall in Marrakesh

Kosovo, which relies heavily on coal power generation, is preparing to leapfrog entirely over natural gas power, straight to renewable energy.

Despite being extremely rich in lignite, Kosovo aims to switch to renewable energy and eventually achieve a full decarbonisation of its energy sector, according to plans outlined by Minister of Finance, Labour and Transfers Hekuran Murati and Minister of Economy Artane Rizvanolli at the European Bank for Reconstruction and Development (EBRD) annual meeting in Marrakesh on May 10.

To give an idea of the scale of the switch, according to Jens Lundsgaard, the EBRD board director for Denmark, Lithuania, Ireland and Kosovo, relative to its size, Kosovo has the largest coal reserves on earth, and in absolute terms it has among the largest coal reserves in Europe. Overall, Kosovo is fifth in the world for coal reserves, Murati told the panel.

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foresee a full decarbonisation despite [our] coal [reserves],” Murati added.

The government is currently working on finalising its energy strategy, and as well as a state investment aimed at creating an environment and mechanisms to unlock potential investment from the private sector as well.

Speaking via video link, Rizvanolli outlined the 2022-31 national energy strategy: Pristina’s vision is for decarbonisation, security of supply, affordability and regional market integration as the country leapfrogs from lignite to renewables. Overall, Pristina aims to have over 1,400 MW of wind and solar combined by 2031.

There is a long way to go, even though two EBRD-financed wind farms have already added more than 15% to the generation capacity of Kosovo’s grid.

“We rely quite heavily on electricity generation from two old coal-fired power plants. There is a limited contribution from renewable energy; only 12% of consumption,” Rizvanolli said. In addition, she pointed to the low energy efficiency in consumption and high energy poverty at around 30%, even though tariffs are the second-lowest in Europe. Taken all together, this makes it a “daunting challenge to integrate more renewables”, she commented.

Unlike in neighbours such as Albania, Kosovo’s water resources are limited. It is therefore turning to innovative ideas such as building energy storage capacity to enable the integration of significant renewable energy sources into the national power system.

According to Rizvanolli, energy efficiency is another top priority, as a lot of the power that is produced is lost due, for example, to the lack of proper insulation in buildings.

The EBRD’s head of Kosovo, Neil Taylor, called the plan to expand capacity to 1,400 MW “ambitious but achievable”, noting that the country “has many friends and supporters”.

However, aside from IFIs and donors, Taylor noted that Kosovo needs more private sector investors. “Energy intensity is four times the EU average, so there is a huge amount to do on both the supply and demand sides,” he said.

However, he added, “We are fast approaching a tipping point in green transition with a huge range of investments as well as jobs in the sector, which bodes well for Kosovo’s young population.”

“We rely quite heavily on electricity generation from two old coal-fired power plants. There is a limited contribution from renewable energy; only 12% of consumption”

At the conference, the EBRD and the Kosovan government signed a new agreement on energy efficiency in public buildings in the country’s second city, Prizren. This comprises a €5mn EBRD loan plus a €1mn grant from the EU.

Auto components manufacturing starts shift from war-afflicted Emerging Europe to North Africa

Clare Nuttall in Marrakesh

Manufacturing of cable harnesses and other critical automotive components is being shifted from Emerging Europe to North Africa due to supply chain disruptions related to the war in Ukraine, a European Bank for Reconstruction and Development (EBRD) banker said on May 11.

EBRD senior banker Milton Stefani said that supply chain disruptions have affected the industry in CEE, which relies on companies active mainly in western Ukraine that are manufacturing products for the car industry.

“This has also caused problems for the production of cars in Western Europe,” he said in response to a question from bne IntelliNews at the EBRD annual meeting in Marrakesh. On the other hand, he added, “Morocco and Tunisia benefit from the situation. Some production has been transferred or is to be transferred to Morocco and Tunisia, including of cable harnesses that are produced in Ukraine.”

According to Stefani, OEMs have asked manufacturers of cable harnesses to move to safer locations. “Morocco and Tunisia are traditional...
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As data for early 2022 is published in Central Europe, the impact of the war in Ukraine on the automotive industries there becomes increasingly clear.

Czech car production fell by 19% in the first quarter of this year, mainly as a result of shortages of components, in particular chips and wiring harnesses, bne IntelliNews reported, quoting the Association of the Automotive Industry. In March alone, car production fell by 21%.

Slovakia’s industrial production decreased by 7.3% year-on-year in March, with a significant 13.9% y/y decline recorded in car manufacturing.

Romania’s automobile industry has also been affected by the war in Ukraine. Minister of Economy Florin Spataru said that “the Romanian automobile industry”, with no reference to a specific plant, is facing bottlenecks in the supply chain with “essential parts” imported so far from Russia and Ukraine missing. The problems highlighted by Spataru are most likely linked to the wiring systems made in western Ukraine.

The Vienna Institute for International Economic Studies (wiiw) said recently that downward revisions for its Central Europe forecasts since March reflect supply chain disruptions as well as higher food and energy prices. “Economies in Central Europe are also closely integrated in manufacturing supply chains with Ukraine. For instance, owing to lack of deliveries of parts from Ukraine, a number of car factories had to partially or fully suspend production and look for alternative suppliers as hostilities escalated,” the EBRD report says.

Meanwhile, Stefani noted that Morocco has already become an important hub for the automotive industry.

Morocco’s automotive exports rose by 4.1% y/y to MAD15bn ($1.5bn) in February, as the industry continues to show strong growth despite the negative impact of the COVID-19 pandemic, the country’s Exchange Office said in a report, quoted by bne IntelliNews.

Morocco produces nearly 700,000 automobiles per year, as well as planes, trains, and ships. The automotive industry has topped the country’s exports for the past seven years with sales totalling $8.6bn in 2021, up 16% y/y.

In late March, the Moroccan government signed new investment deals worth $180mn with five automotive cable suppliers to meet the growing demand from electric vehicle (EV) makers.

Among the EBRD’s investments in Morocco’s automotive sector, the development bank extended a loan worth MAD127mn ($13.6mn) to Morocco’s Mobility and Automotive Centre (ATC) to develop its automotive testing centre in February.

The previous month, the EBRD announced that it is investing up to €80mn in a six-year bond ESG issue by French auto parts maker Faurecia to back investments in four countries – Morocco, Poland, Romania and Tunisia – until 2026.

Also in the first quarter of 2022, Japanese car airbag manufacturer Alva-One, a subsidiary of Toray Industries, launched operations of its new plant in Tunisia’s Naasène Chebedda industrial zone.

Zakaria Garti, principal banker at the EBRD, pointed out that Morocco has not been immune to the earlier supply chain disruptions caused by the coronavirus pandemic, which resulted in a shortage of semiconductor chips and other components.

“The shortage of chips led to a reduction in the volume of cars produced. Even in Morocco, some factories closed for several weeks,” Garti said. However, he added, “some OEMs managed very good results because they concentrated the chips they had in high-value cars”.

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Reforms and privatisation to drive Uzbekistan’s mid-term growth

Clare Nuttall in Marrakesh

Uzbekistan is set to experience a slowdown in growth in 2022, although remaining one of the fastest growing economies in emerging Europe, but if the pace of reforms continues to be as fast as in the last few years it is expected to rebound to around 10% a year once the current health and geopolitical crises are over.

The country’s relative resilience to crises in the last two years reflects not only its natural resources, but even more importantly the reforms and dramatic opening up of the economy since President Shavkat Mirziyoyev came to power in 2016.

Among the critical changes in the first few years under the new president have been the liberalisation of the foreign exchange and external trade regimes, the reduction of barriers to foreign trade and the start of a wide-reaching privatisation programme.

These changes, Deputy Minister of Investments and External Trade Shukhrat Vafayev told a panel at the European Bank for Reconstruction (EBRD) annual meeting on May 11, have “enabled Uzbekistan to maintain growth even during the pandemic”.

“I believe Uzbekistan deserves interest especially given the speed and scale of reforms. Under the new president, there have been fundamental changes, making Uzbekistan much more open and attractive for private and foreign investors,” Vafayev told delegates.

Among the positive consequences of the reforms, there has been steady growth in foreign direct investment (FDI) into Uzbekistan from 2018 onwards. Another example is that in 2021 Uzbekistan was admitted to the EU’s Generalised Scheme of Preferences (GSP), which gives preferential trade terms to lower and middle income countries committed to reforms in areas such as human rights.

Admittedly there has been a slowdown in GDP growth in 2022, as forecasts across emerging Europe have been revised downwards following Russia’s invasion of Ukraine, which has had impacts of varying severity across the entire region. Uzbekistan is, however, still set to be one of the fastest growing economies in emerging Europe the year, after only Turkmenistan and Azerbaijan, and on a par with Kosovo.

“Last year GDP growth reached 7.4%. Due to the certain impacts of geopolitical events, our forecasts were revised to 4% and 5% for 2022 and 2023 respectively,” Zsuzsanna Hargitai, the EBRD’s managing director for Central Asia, told the panel in Marrakesh on May 11.

“However, our regional economist expects a rebound for 2024 above 7% then, depending on reforms … easily reaching 10% from 2026 forward,” Hargitai added.

Meanwhile, the Uzbek central bank has pursued a conservative monetary policy that reined in inflation when it started to rise last year and has continued intervening this year as well.

Looking ahead, further reforms can be expected under the 5-year strategy announced by Mirziyoyev, who won a second mandate in the October 2021 presidential election. “We believe this will further improve the attractiveness of Uzbekistan for investors,” Vafayev said.

More privatisations also lie ahead. “You can’t talk about Uzbekistan without talking about reducing the footprint of the state and privatisations,” said Hargitai. Following government efforts and support from the EBRD and other international financial institutions (IFIs), “state-owned enterprises are managed better now, and we are there to look at transparent privatisations through open tenders”.

Hargitai highlighted the upcoming privatisations of chemicals company Farg’onaazot and Dehkanabad potash plant. Under the current geopolitical situation, “the fertiliser industry should seem a very promising investment area in Uzbekistan,” she commented.

According to Hargitai, the “financial landscape is changing when it comes to the capital market”. The finance ministry is working on a new capital markets law that should facilitate IPOs as well as sukuk bonds and other types of instruments.

Cotton and textiles is another area set to open up as the Cotton Campaign coalition lifted its years-long boycott on Uzbek cotton earlier this year after the International Labour Organisation (ILO) reported said there was no more child labour. And in banking, Spartak Tetrashvili, head of TBC Bank Uzbekistan, said that Uzbekistan was a “perfect fit” for its expansion from its home market in Georgia.
Poland has reached an agreement with the European Commission on revoking some elements of its controversial judiciary reform so as to unlock payouts from the EU’s pandemic recovery fund, it was reported on May 17.

Brussels has been holding up payouts from the fund, arguing that Poland’s rightwing government has engineered the country’s judiciary to compromise judges’ independence and impartiality, making them vulnerable to political pressure.

Poland stands to receive €35.4bn in grants and loans from the Recovery and Resilience Facility (RRF), which the EU set up to support the bloc’s economies after the COVID-19 (coronavirus) pandemic.

The deal was reportedly agreed upon late last week. According to Politico Europe, Poland will receive the money as soon as it overhauls the central and most controversial piece of the judiciary reform, the disciplinary regime for judges.

Doing so will entail removing the Disciplinary Chamber of the Supreme Court, the mainstay of the disciplinary regime. Poland will also reinstate judges dismissed under the regime.

Brussels will assess the real value of the changes before deciding ultimately on unlocking funds – a safeguarding mechanism after Poland dragged its feet about the overhaul, proposing cosmetic tweaks only.

"Poland stands to receive €35.4bn in grants and loans from the Recovery and Resilience Facility (RRF), which the EU set up to support the bloc’s economies after the COVID-19 (coronavirus) pandemic"
Nordic Nato accession set to reinforce Baltic states’ security

Linas Jegelevicius in Vilnius

The accession of Finland and Sweden to Nato will transform the strategic position of Latvia, Lithuania and Estonia, but the Baltic states still need further reinforcement to deter Russian aggression, argue Baltic defence ministries and experts.

“Finland and Sweden joining Nato would very clearly strengthen Baltic security as well as Nato security as a whole,” Estonia’s defence ministry told bne IntelliNews.

“It would strengthen the Nato naval dimension and increase the allied naval presence in the Baltic Sea, thereby enhancing deterrence and defence in the entire region,” a Lithuanian defence ministry spokesman emphasised.

Finland and Sweden, both previously non-aligned, have rethought their strategic position, given the way Ukraine was picked off by Russia because it was not a member of the Western defence alliance. Both countries have also rushed to send materiel to bolster Ukraine’s defences.

On May 16 Finland’s parliament approved its Nato application and Sweden’s government agreed to move forward with its approach to Nato. It is expected that a formal joint approach to Nato will be made during Finnish President Sauli Niinisto’s official visit to Stockholm on May 17-18 this week.

Accession requires unanimity from the existing 30 member states, which is expected to be finalised later this year. Although Turkish President Recep Tayyip Erdogan has said he is opposed to the entry of the Nordic states – because they allow Kurdish rebel movements to operate legally in their countries – Turkey is not expected to veto their accession.

Exceptionally close co-operation

Both Finland and Sweden have already been closely integrated with Nato, partly through the Joint Expeditionary Force – a Nordic and Baltic security force, together with the UK and the Netherlands – as well as regular interoperability exercises.

They also already share many security interests with the Baltic states, notably regarding Russian naval and air incursions in the Baltic Sea area.

The Lithuanian defence ministry said the Balts and Nordic states have developed close and enduring co-operation in many areas, including security and defence. “Our co-operation is exceptionally close, the Nato membership would elevate it to another level of co-operation,” the spokesman underlined.

An official at the Estonian Ministry of Defence told bne IntelliNews that Finland and Sweden are “already key defence co-operation partners” for Estonia in the Baltic region. “But these countries joining Nato would take that co-operation to another, much higher and allied level,” he underscored.

Some experts suggest that the deal to unlock the funds is just a fig leaf for the Commission to resolve the issue, which has become awkward in the context of Poland becoming the EU’s key member state in the context of the war in Ukraine. Poland has taken in by far the most war refugees from Ukraine and is the hub of military and humanitarian help for the war-torn eastern country.

“[The] Problem of course is that the … Commission may come up with easy to meet, nonsensical, partial “milestones” and/or pretend they are met on the back of cosmetic/fake changes, leaving systemic industrial-scale violation of EU rule of law requirements in place,” Laurent Pech, Professor of European Law at Middlesex University of London, tweeted.

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In particular, the two Nordic states would significantly bolster Nato’s sea and air defence forces in and over the Baltic Sea, which would now become a “Nato lake” surrounded by members of the Western military alliance. Among other things, this should mean that the Baltic states could be more easily reinforced by sea in the event of a Russian invasion.

This would partly offset the Baltic states’ weakened strategic position since Russia’s aggression against Ukraine, together with its creeping takeover of Belarus. Belarus’ role as a launchpad for the invasion of Ukraine means that Russia’s border has effectively moved up to the Belarus frontier, endangering Lithuania and Poland, which are contiguous with Belarus.

The invasion also meant the three Baltic Nato member states were very vulnerable to being isolated from the rest of Nato. A Russian thrust from Belarus towards its Kaliningrad exclave on the Baltic Sea could quickly close off the 65-km Suwalki gap between Poland and the three former Soviet republics. This would make it very difficult for Nato to reinforce them and fulfil its Article 5 guarantee to defend its members.

Angry reaction
These risks have only been underlined by Russia’s angry reaction to Finland’s and Sweden’s decision to join Nato. The Kremlin described Finland’s move as “absolutely” a threat to Russia. Dmitry Peskov, President Vladimir Putin’s spokesman, told reporters that “expanding Nato yet again does not make our continent more stable and safe”, according to Interfax, the Russian news agency. Putin told Niinisto last week that Finland is making a “mistake” by joining Nato, as it faces “no security threats”.

There are fears that – once free of its Ukraine entanglement – Russia could take military advantage of the interim period this year before Finland and Sweden receive the full protection of Nato’s collective defence agreement under Article 5.

Nato Secretary-General Jens Stoltenberg said at the Nato summit of foreign ministers in Berlin on Sunday that in this interim period, Nato would “look into ways to provide security assurances, including by increasing Nato’s presence in the Baltic region, in and around Finland and Sweden”.

Otto Tabuns, executive director of Baltic Security Foundation (BSF), an organisation promoting the security and defence of the Baltic Sea region, told bne IntelliNews that Finland and Sweden choosing to join Nato “could increase tensions with Russia”, but would “undoubtedly benefit” the Baltic states’ defence.

“It is in the Russian interest for Finland and Sweden to stay out of Nato, as that keeps Nato and EU from closer security co-operation and keeps separate the defence efforts of Sweden, Finland and the Nato members that share the Baltic Sea. Such a division had allowed Moscow’s bilateral influence to matter more,” Tabuns underscored.

What is important for the Baltic states, he says, is that the Baltic Sea – likely to be contested in any potential conflict – would not be completely blocked for the purposes of reinforcement.

“Therefore the security of key points such as [the island of] Gotland and the energy and telecom infrastructure that crosses the Baltic Sea is crucial, and is reinforced when backed by a collective security arrangement. Russia may not be able to stop that by opening another front right now. But it is expected to further threaten the two states to delay a Nato decision until a moment when it is better able to stop it,” the BSF director pointed out.

Spectrum of capabilities
Once they eventually join, the two Nordic states are expected to benefit Baltic security in many different ways.

“Finland and Sweden’s accession to Nato will allow [the enhancement of] our situational awareness on Russia’s military posture and military activities in the region. As Nato members, Baltic and Nordic states would even more closely participate in Nato common activities such as exercises and co-ordinate national activities to deter Russia,” said the Lithuanian defence ministry.

Asked how the Balts and Nordics can co-operate more militarily in the Baltics in warding off Russian military threats, the spokesman pointed out that the two countries becoming part of Nato will mean “integrating command structures, joint planning and more closely aligned exercises – an essential part of military operations”.

“Situational awareness in the airspace and at sea will improve, and intelligence sharing will be further facilitated if
Finland and Sweden join Nato,” the defence ministry official said.

A Lithuanian journalist specialising on defence issues told bne IntelliNews that Sweden and Finland’s Nato memberships would mean a “great deal” to the security of the Baltic states.

“Because it would enhance the spectrum of capabilities, the area of operations and, not just friendly but firmly allied nations bound by the security arrangements…of Article 5. It would also affect certain capabilities and operational planning by Russia if they had any hostile intentions towards the Baltic states,” he said.

When asked how the Baltic and Nordic states could work more closely on defence issues, he said: “ISTAR [linking sensors in intelligence, surveillance, target intelligence, surveillance, target acquisition and reconnaissance],

maritime security and surveillance capabilities come to mind; also a dramatic increase of availability of friendly naval and air infrastructure in Sweden and Finland, in case of hostile activities. The island of Gotland, aka the unsinkable aircraft carrier, …would play an ever more important role in deterrence.”

Built from scratch
The Nordic states’ accession to Nato will come on top of the efforts that the Baltic states and the Western defence alliance are already making to boost defence in the region.

The Baltic states have built armed forces from scratch since they regained their independence in 1991. They have long been among the few Nato members that have devoted more than the recommended 2% of GDP to defence since they joined the alliance in 2004.

In the wake of the Russian invasion of Ukraine, Lithuania raised defence spending to 2.52% of GDP. The current budget allocates just over €1.2bn, or 2.05% of GDP, to the country’s defence.

Latvia has decided to increase spending to 2.5% by 2025, implying about €100mn ($111mn) in extra funding, which will be used for medium-range air defence systems, ground force mechanisation and cyber security, among other upgrades.

Meanwhile, Estonia, the smallest Baltic state, has said it will increase defence spending over the next four years to 2.5% of its GDP. Estonia’s current defence spending is 2.3% of GDP.

Nato’s Western European members have recently moved more troops into the Baltic states, Poland and Romania to strengthen the pact’s deterrence against Russia and provide reassurance to the

create a “no cross air line” stretching for 240 km along Poland’s eastern border with Ukraine.

More secure than they have ever been
More is envisaged. According to the Nato summit declaration of March 24: “We will also significantly strengthen our longer-term deterrence and defence posture, and will further develop the full range of ready forces and capabilities necessary to maintain credible deterrence and defence.”

“The Baltic states are being reinforced like they could hardly ever dream of in 2004, 2008 or even compared to 2014,” said the defence journalist. “A paradox, that even in dangerous and destabilising times such as these, when Russia has unleashed its true self, Baltic states are more secure now than they have ever been, given the increased investment in their own security as well as increasing allied support,” the analyst noted.

However, the Baltic governments are calling for even larger and more permanent forces to be stationed in their countries, including heavier offensive weapons such as tanks, fighter jets and air and sea defence systems. They want the multinational battle groups in each country to be boosted to brigades of 3,000-5,000 troops. They also want the air-policing missions to be upgraded to air defence, so they can shoot down Russian intruders in their airspace.

This would complete the transformation of the Nato forces in the region from just a tripwire into something that would contain Russia and potentially defend the countries in the event of a conflict until Nato forces from Western Europe could arrive.

“The Baltic states have a military advantage in the region; in Kaliningrad it hosts huge offensive capabilities, including dual-capable missile systems, battle tanks, artillery systems. Russia’s war against Ukraine showed that Russia can take military actions very quickly in the region if it decides so,” the Lithuanian defence ministry emphasises to bne IntelliNews.
Hungary's dependence on Russian energy will make ending those ties very painful

He argues Nato should have more credible forward deployed forces in the region, underpinned by quick and viable reinforcement.

“Air defence is a particular importance. We invest in air defence; however, it won’t be sufficient to protect national and allied forces in the conflict. We expect that air policing [will] be transitioned to air defence,” he points out.

The Estonian defence ministry says that the Russian war in Ukraine and its threats against Nato allies show that military aggression against Nato “cannot be ruled” out at this point.

“Therefore the current enhanced Forward Presence posture needs to transition to a Forward Defence posture. This means increasing the allied presence in the Baltic states, developing a divisional-level command structure in each Baltic state and ramping up activities in the air and maritime domains. The main aim is to deny Russia the ability to reach their goals by aggression,” the spokesman says.

“In addition to a Nato division command structure, we need stronger air defence and maritime posture. What’s most important is a clear command structure, clarity in the mobility of critical capabilities, and pre-positioned equipment.”

The good news for the Balts is that Nato now appears to be moving in this direction, with the June summit set to agree a new Eastern Flank defence strategy, one which not just involves Sweden and Finland, but which also makes Baltic defence central to the bloc's thinking.

Despite Orban’s close ties with Russian dictator Vladimir Putin, Hungary has approved all sanctions against Russia, which also includes a ban on Russian coal imports into the EU. But Budapest has opposed extending sanctions to oil and gas due to the country’s high dependence on Russian energy.

Hungary’s opposition to energy sanctions has already caused a rift between Budapest and its onetime closest ally, Poland, and if Orban goes ahead and vetoes oil sanctions in Brussels this could lead him to be even more isolated and could even cause a fundamental break with the rest of the EU.

Budapest’s decision to oppose EU sanctions on Russian gas imports is just a question of Hungary’s infrastructure, Foreign Minister Peter Szijjarto told CNN's Richard Quest on his show on April 27.

Hungary receives 85% of its gas supply and 65% of its oil supply from Russia, a reliance that he described as the “physical situation in Central Europe”.

Szijjarto said Hungary would be ready to diversify its gas supplies, if possible, citing the Black Sea offshore gas project in Romania and recalling recent developments on establishing two-way interconnectors with Hungary’s neighbours.

The Orban government is credited with the completion of strategic natural gas storage facilities with a 1.2bcm capacity in southern Hungary, as well as the recently improved links between the Hungarian and Croatian gas networks, which gives access to other market players through the LNG terminal on the island of Krk, mitigating the impact of Russian energy dependency.

“We have done a lot in order to diversify, we have built all the interconnec-
tors with six of the seven neighbouring countries. In case there’s a new gas source being explored somewhere in the region, we would be happy to buy gas from there,” Szijjarto said.

But in the meantime Hungary’s share of natural gas in primary energy consumption remains one of the highest among EU countries at 33.6% compared to the EU’s average of 24.5%, according to data from Hungary’s National Energy and Climate Protection Plan adopted in 2020.

**Secret deals**

Hungary’s dependence on Russian gas goes back to the Communist era. The Kadar regime lobbied to have direct supplies in the late 1950s as reserves in Western Hungary were close to depletion. The first Friendship pipeline (Druzhba I) was completed in 1962 and the second one 10 years later.

Government programmes to install gas in households after the fall of Communism led to a spike in consumption by retail users, from 2.1bcm in 1989 to 4.14bcm 20 years later. During the same period, domestic gas production declined 35%, which has further deepened Hungary’s reliance on Russian deliveries. Domestic output is around 1.5bcm per year, accounting for a sixth of consumption.

Hungary has relied on long-term contracts with Gazprom for its gas supplies since the 1990s, delivered through the Friendship pipelines passing through Ukraine.

A 15-year contract with the Russian gas giant was signed in October for the delivery of 4.5bcm of gas through Serbia and Austria, bypassing Ukraine, because of the constant disputes over the pipeline between Kyiv and Moscow. The contract can be reviewed after 10 years. Details of the contract were classified by the government.

Budapest also wants to increase Russian gas deliveries through Serbia by 1 bcm per year, and this issue was brought up by Orban during his visit to Moscow in early February, on the eve of Russia’s invasion of Ukraine, but no agreement was reached.

The Orban cabinet claims it receives Russian gas at a fraction of the global price, but import statistics show the contrary. The price is linked to the stock exchange quotation, with a delay of one or two months.

According to Eurostat, Hungary paid HUF394 for 1cm of gas in February. This is nearly six times the price paid by Hungarian retail customers thanks to a government price cap, and four times higher when taxes and other fees are included in the retail price.

The trend of higher gas purchase prices is likely to continue in the summer when Hungarian reserves will need to be refilled for the next heating season.

Keeping utility prices artificially low for households has helped Orban win three consecutive elections with a supermajority, and it remains a key political promise. However, maintaining the generous subsidy scheme puts great strain on public finances.

Just in February alone, state utility giant MVM, which sells directly to households, incurred a loss of HUF140bn. Economists predict that the company’s losses could be in the HUF1-1.3 trillion range this year, and these losses could further widen the already yawning budget shortfall.

The government’s claims of cheap Russian gas may not hold, but even critics agree that it would be difficult to find a replacement quickly. This was one of the reasons why Hungary agreed to Russian demands to pay for gas in rubles, going along with the move by Moscow to evade Western sanctions and prop up its currency.

**Massive losses**

Hungary is less reliant on Russian oil than gas, but Moscow is still the major source of supply for MOL.

CEE’s second largest oil and gas company has benefited from the margin between Ural and Brent quotes recently. Massive profits realised on high refining margins have also allowed MOL to finance losses incurred by the government’s fuel price cap.

The government has set not only the retail but the wholesale price of petrol at HUF480 per litre, some 20-25% below the market price, leading to massive losses for Hungary’s leading fuel wholesaler and retailer.

MOL has recently disclosed that it would take hundreds of millions of dollars of investment and several years to switch completely from Russian oil to other types. Its Danube refinery close to Budapest is designed to process high-sulphur Russian blend crude.

Hungary is also dependent on Russia in terms of nuclear technology and fuel. Its major source of electricity generation, the Paks nuclear power plant, is based on Russian technology and Moscow will also supply the replacement for the existing blocks, which will be decommissioned in the next 10-20 years. The four blocks at Paks with a 500Mw capacity each account for around half of Hungary’s electricity generation.

Orban further cemented energy ties with Moscow when he signed an intergovernmental agreement in 2014 without parliament’s backing on the construction of two new 1,200 MW blocks at Paks (Paks 2).

State energy company Rosatom was picked for the €12.5bn project without a tender, and the investment is to be financed by a €10bn Russian loan. The project is years behind schedule and Rosatom has yet to receive the final permit for failing to meet strict EU safety regulations.

Even worse, the construction of the plant is now in jeopardy due to sanctions against Russia. Analysts say the government will eventually have to cut ties with the Russian contractor and find someone else to build the new plant.
Southeast Europe is split over the issues of sanctions on Russia and military aid to Ukraine, with some states firmly in the western camp, some staying neutral and others internally torn.

**Internally divided**

Top-level political rows are currently raging in Bulgaria and Croatia – both EU and Nato members – over the scale of their support for Ukraine. There are also rifts over the approach to the war in Western Balkan countries such as Bosnia & Herzegovina and Montenegro.

**Bulgaria**

In Bulgaria, President Rumen Radev and Prime Minister Kiril Petkov, until recently united in their aim of rooting out corruption, are now in open conflict. Petkov, who wants to send military aid to Ukraine, faces opposition not only from Radev, but also from the Bulgarian Socialist Party (BSP), a member of the four-party coalition that he leads. However, the BSP backed down on May 4, and voted in favour of allowing military and technical aid to Ukraine.

Many Bulgarians are disappointed in Radev’s apparently pro-Russian position; polls show that Bulgaria’s previously pro-Russian population has turned against Russia and its president, Vladimir Putin, since the invasion. Radev, however, argues he is defending Bulgaria’s interests by not allowing the country to become embroiled in the war. He even accused the government of betraying the Bulgarian interest by refusing to pay for Russian gas in rubles, which led to Gazprom’s decision to stop deliveries.

Assen Vassilev, deputy prime minister and co-leader of Change Continues alongside Petkov, called Radev’s position “disgraceful”, adding that it “implicitly includes the understanding that Russia will win this conflict and that it is normal and good for Russia to win this conflict”.

**Croatia**

The ongoing row in Croatia pits Russia hawk Prime Minister Andrej Plenkovic against President Zoran Milanovic.

The two clashed over Ukraine even before the start of the war, when Milanovic criticised Plenkovic’s visit to Kyiv in late 2021, and went on to inflame the situation when he said on January 25 that Croatian troops would not be involved in a possible escalation of tensions between Russia and Ukraine.
Ukraine. Ukraine’s place is not in Nato, the Croatian president added.

Plenkovic was quick to point out that his statement did not represent Croatia’s official position. Ukraine’s foreign ministry responded by summoning the Croatian ambassador to the country to lodge a complaint about Plenkovic’s words. A few days later, it emerged that Milanovic has been included in an online list of enemies of Ukraine compiled by the Myrotvorets website.

Since then, the long-time political opponents also argued in March over a decision by Milanovic to ban military flights above the capital Zagreb and other cities, and more recently Plenkovic argued that Milanovic has pro-Russian views. Most recently, Milanovic said he wants to block Nato membership for Sweden and Finland, calling it a “very dangerous adventure”.

**Bosnia & Herzegovina**

Top politicians in Bosnia & Herzegovina are also divided over the approach to the conflict. While the Bosniak and Croat members of the country’s tripartite presidency back sanctions on Russia, opposition by Bosnian Serb leader Milorad Dodik has thwarted plans to sanction the invading country. The position is not surprising, as Dodik has long boasted about his ties with Russian President Vladimir Putin.

As well as preventing Bosnia from taking sanctions action, this adds to the internal tensions within Bosnia, already seen at the time of the invasion as being in a dangerous situation with potential for destabilisation. Shortly after the invasion of Ukraine, the EU policing force in Bosnia was almost doubled as a precautionary measure.

**Montenegro**

Montenegro has a vocal pro-Russian segment of the population, and the county has long been torn between its aspiration to join the EU versus ties with Russia and Serbia. At the time of the invasion the former government of Zdravko Krivokapic was backed by a broad coalition of parties including the pro-Russian Democratic Front. Shortly after Russia invaded Ukraine in February, thousands of supporters of the Democratic Front – some of them carrying flags of the self-proclaimed People’s Republic of Donetsk within Ukraine – blocked roads across Montenegro.

Despite these tensions, Montenegro announced early on that it was imposing sanctions against Russia, though the government only adopted the sanctions on April 8, six weeks after Russia’s invasion of Ukraine. They included a ban on Russian state-controlled news outlets Russia Today and Sputnik. Podgorica has also expelled several Russian diplomats. Montenegro’s current leadership, President Milo Djukanovic and the newly elected Prime Minister Dritan Abazovic, who heads a minority government, are firmly pro-western.

**Firmly in the western camp**

These internally divided nations contrast with the firmly pro-western positions of states like Albania, Kosovo and Romania, where there is broad cross-party support for sanctions on Russia.

**Romania**

The war has brought Russian forces close to its border, and Romania – like Moldova and other frontline states – has received tens of thousands of Ukrainian refugees. Nato support for Romania has been stepped up since the outbreak of war as the alliance bolsters its eastern flank. In terms of economic support, Romania is making its Black Sea ports available to Ukrainian grain exporters who can no longer use the ports in their own country.

**Albania**

In Albania, the usually antagonistic government and opposition agree Tirana must back Ukraine – with political debate mainly concerning whether the government is doing enough and how it handles the domestic crisis caused by soaring food and fuel prices.

**Kosovo**

Its independence having been supported by Nato in the face of Russian opposition, Kosovo has been seeking ways to join Nato and the EU since the Russian invasion of Ukraine. Measures taken by the government in Pristina include freezing of assets and a ban on access and operations in the financial market of sanctioned individuals or entities in Kosovo, a ban on the broadcasting of Russian propaganda in Kosovan media and a travel ban for sanctioned individuals.

**North Macedonia**

North Macedonia too is a Nato member and EU candidate country that backs western sanctions against Russia, resulting in its inclusion on Russia’s list of ‘enemy countries’. The government’s position has broad cross-party support, with only one parliamentary party – the opposition Levica, the Left – maintaining a pro-Russian position.

**Slovenia**

Slovenia’s outgoing Prime Minister Janez Jansa has been a staunch and vocal supporter of Ukraine. Slovenian politicians have called for stronger EU sanctions against Russia and for Ukraine’s entry to the EU, while Ljubljana has expelled dozens of Russian diplomats since the start of the war. In March, Jansa joined the prime ministers of Poland, the Czech Republic and Slovenia on a visit to Kyiv to show support for Zelenskiy.

Jansa’s Slovenian Democratic Party (SDS) lost the April 24 general election to the green-left Freedom Movement after a campaign during which the war
Serbian officials blame bomb hoaxes that paralysed Belgrade on refusal to sanction Russia

Serbian officials including Prime Minister Ana Brnabić have linked hundreds of bomb threats to the country’s refusal to join international sanctions on Russia.

Since Russia’s invasion of Ukraine, Serbia, as an EU candidate country, has been under pressure to join the sanctions. However, while condemning the invasion it has so far refused to sanction Russia, citing Moscow’s longstanding support.

On May 16, Belgrade was paralysed by several hundred threats that bombs had been planted in public buildings across the city.

More than 100 of the threats claimed that bombs had been planted at primary schools in Belgrade. Other targets were bridges, shopping malls, a zoo, restaurants and a train station. None of the threats turned out to be real.

Minister of the Interior Aleksandar Vulin said on May 16 that e-mails to institutions and the media had been sent from several European countries. The newspaper Danas reported receiving a threatening message from the address sb1465@yandex.ru.

"It is a form of pressure for not imposing sanctions on the Russian Federation, coming from abroad. It is not naive at all, it is not accidental, it is something that has been well prepared and carefully planned," said Prime Minister Ana Brnabić during her appearance on the pro-government Pink television.

Vulin called the bomb threats "a special war [that] is being waged against Serbia", a ministry statement said.

"A special war is being waged against Serbia, and neither school institutions nor children were spared in that war. Our state is serious about solving the problem of false reports about bombs. The Ministry of the Interior takes care of the safety of all citizens, especially children, and we will do everything to ensure that classes go smoothly," said Vulin at a meeting with Minister of Education, Science and Technological Development Branko Ružić to discuss the issue on May 17.

In an earlier statement on May 16, Vulin said: "Threats from various European countries are threatening the addresses of institutions, news outlets and companies. Attacks on our country have not been initiated or carried out by any individual, they are mass, organised and very expensive hacker attacks, led from various centres for hybrid warfare."

He added: "The value of the equipment alone needed for a strike of such a volume and strength as took place today, exceeds one hundred thousand euros, but the damage inflicted in lost working hours and the suspension of the economy is in the millions."

Moldova
Moldova has condemned the invasion of Ukraine but still maintains its neutrality. This is despite the president and the government being from the western-oriented Party of Action and Solidarity (PAS) that aims to take Moldova closer to the EU. Officials including Foreign Minister Nico Popescu have explained since the outbreak of war that Moldova is simply too vulnerable to take a stronger stance against Russia. The decision to remain neutral was taken back in 2014, after the annexation of Crimea, said the deputy prime minister on March 28. Prime Minister Natalia Gavrilița confirmed in March that Chisinau will not seek Nato membership.

Indeed the country, sandwiched between Ukraine and Romania and...
with its eastern territory controlled by Russia-backed separatists, is seen as more likely than any other to get dragged into the war. In the last week there has been a series of unexplained attacks on targets within Transnistria, blamed by the authorities in Tiraspol on Ukraine and by Ukraine on Russia. The Times reported recently, citing Ukrainian sources, that Moscow has already decided to invade Moldova. However, Moldovan officials say they see no signs of an invasion threat.

Serbia
Serbia is one of Russia’s few remaining friends in Europe. The day of Russia’s invasion of Ukraine on February 24, President Aleksandar Vucic said Serbia would not be joining western sanctions on Russia, citing Moscow’s support on the Kosovo issue and its refusal to join sanctions against Serbia during the wars of the 1990s. Despite not joining the sanctions, Serbia has backed key UN resolutions against Russia. At the emergency session of the UN on March 2, Serbia voted in favour of the resolution condemning the Russian aggression against Ukraine. On April 7, Serbia was among the countries that voted at the UN General Assembly to suspend Russia from the UN Human Rights Council for “gross and systematic violations and abuses of human rights” in Ukraine.

After Vucic and his Serbian Progressive Party (SNS) won the April 3 general and presidential elections, there was speculation that with the urgent need to please pro-Russian voters removed, Belgrade might change course and fall into line with other EU candidate countries. However, immediately after polls closed, Vucic made it clear that Serbia will not abandon Russia. Meanwhile, Serbia is pursuing a new long-term gas deal with Russia.

An apparent rift between the two countries emerged in April, when Russian President Vladimir Putin made comments that appeared to indicate Moscow would drop its support for Serbia over Kosovo in exchange for concessions on the Donbas republics. Serbia’s usually pro-Russian tabloids immediately turned on Putin. Later, however, Russia’s ambassador to Serbia, Alexander Bocan Harchenko, told Insajder Television that Moscow has no plans to recognise Kosovo as an independent state.

Turkey’s inflation crisis has left millions across the country turning to credit cards to feed their families.

The real-life implications of inflation that officially reached 70% in April (or an even more astonishing 157% if you believe an independent research group that the government is attempting to shut down) are stark. The gains of pay rises have been decimated. Food and non-alcoholic drinks inflation by the official measure is running at 89.1%. Great numbers are forced to go hungry, skip meals or eke out a life on a credit card balance that becomes more menacing by the day.

“Before the Covid-19 pandemic, I didn’t have a credit card,” 30-year-old graphic designer Ege told bne IntelliNews in Istanbul. “Now food prices have gone up, and my landlord wants to increase my rent. I’m borrowing more than I ever planned to.”

Ege isn’t the only one. After paying increased bills and buying basic food, many people are stuck with nothing, and are left with no choice but to seek credit. According to the Interbank Card Center, a Turkish partnership of 13 public and private Turkish banks, there are 86.2mn credit cards currently in use in Turkey—more than the country’s population of around 84mn. Just five years ago, the figure was just 58.7mn.

Most strikingly, the volume of spend on Turkish credit cards has skyrocketed in the last year. In January 2021, Turkish lira (TRY) 94bn ($6.3bn) was spent on credit card accounts. One year later, this had jumped to TRY157bn ($10.5bn, though the value of the lira versus the dollar collapsed 44% last year and it’s down by around another 14% so far this year).

Price increases, forced upon businesses by the surging costs of importing commodities, are also taking their toll on the country’s smaller businesses.

At a small independent shop in Istanbul’s well-off Sisli district, customers are buying fewer items than ever before, and are now more likely to purchase single items rather than bunches.

“Food prices are changing almost daily, and it’s hard to keep up,” Muhsin, the shop owner’s son, explained. “If we raise our prices, we worry that our customers will go elsewhere. But we can’t increase them fast enough to match the cost of food, fuel. It’s a difficult situation.”
While the ruling AKP party would like to solely blame current external events for the inflation crisis – including enduring supply chain and other impacts of the Covid-19 pandemic and economic consequences of the war in Ukraine – many continue to point the finger at the country’s leader of nearly two decades, Recep Tayyip Erdogan.

The president has famously rejected conventional economic thought, and, as a staunch opponent of high-interest rates, has continually pressured the country’s nominally independent central bank to keep borrowing costs low. His administration claims that slashing costs will stimulate the economy, increase productivity and reduce consumer prices, against the advice of most experts. Conventional wisdom suggests that low-interest rates cause inflation.

The blame game comes ahead of the parliamentary and presidential elections, due to take place by June 2023. The opposition parties have put together an unprecedented (for Turkey) alliance. Their job is to capitalise on the cost of living crisis to dislodge Erdogan. But where the wily president is concerned, things in Turkey are never straightforward.

There’s no escaping Turkey’s economic nightmare, even in well-off districts of Istanbul such as Sisli. Photo: Valeriy Ded

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Formal Bulgarian PM launches new party to woo pro-Russian voters

Arshaluis Mgdesyan for Eurasianet

Former caretaker prime minister Stefan Yanev and members of his cabinets have initiated a new conservative party, Bulgarian Rise, which is expected to be pro-Russian.

Yanev, who was defence minister in the government of Prime Minister Kiril Petkov, was fired due to his openly pro-Russian position since the start of the war in Ukraine. He said he will set up a new party, Bulgarian Rise, which will fight to defend Bulgaria’s dignity.

Yanev, who was twice appointed prime minister by President Rumen Radev, was previously the president’s advisor. He became notorious after insisting that the word ‘war’ must not be used for the conflict in Ukraine as Russia’s President Vladimir Putin was calling the invasion a ‘special operation’. Yanev claimed the word ‘war’ had not been used in any Nato or EU document either.

“New, meaningful and useful for the society formation that will become a bridge between citizens and the state authority,” said Yaven during the ceremony for establishing the party.

A video of the ceremony was broadcast by Dnevnik news outlet on May 5.

Yanev claims that his party will remain close to the people. At the same time, the party will have clear conservative and pro-Russian positions, which is makes it a direct competitor to the Bulgarian Socialist Party (BSP) and far-right Vazrazhdane.

It is not yet clear whether the new party will gain enough support to enter the next parliament.

There has been speculation that Radev unofficially participated in the party’s establishment but Yanev denied this, saying his project is independent.

The former prime minister also said that he expects an early election in the autumn as the ruling coalition is highly unstable.

While the four parties that back the government recently put aside their differences to back the sending of military aid to Ukraine, this followed lengthy disputes between the BSP and fellow coalition members.

While the BSP is struggling to retain the support of its pro-Russian voters, both Yanev and former BSP member Maya Manolova are setting up their own parties. Manolova is aiming at BSP’s voters.
The US Treasury Department’s Office of Foreign Assets Control has sanctioned two top politicians from Bosnia & Herzegovina, including the President of the Muslim-Croat Federation, Marinko Cavara, and the Health Minister of Republika Srpska, Alen Seranic, it said in a statement on June 6.

In the statement, the US Treasury says the two top politicians have “threatened the stability of the region by undermining the Dayton Peace Accords and democratic processes or institutions”.

“Marinko Cavara and Alen Seranic have each sought to pursue ethnonationalist and political agendas at the expense of the democratic institutions and citizens of Bosnia & Herzegovina,” Under Secretary of the Treasury for Terrorism and Financial Intelligence Brian E. Nelson was quoted as saying in the statement.

Cavara is responsible for nominating judges to the Federation’s Constitutional Court. The statement noted that since 2019, Cavara has refused to nominate judges from lists of candidates provided by the High Judicial and Prosecutorial Council to fill vacancies at the court.

“By refusing to proceed with these nominations, Cavara has blocked the function of the VNI panel to further his and his party’s political interests,” the statement noted.

It added that Cavara was also designated for having directly or indirectly engaged in a violation of or an act that has obstructed or threatened the implementation of any regional security, peace, cooperation, or mutual recognition agreement or framework or accountability mechanism related to the Western Balkans.

Seranic was designated for supporting secession ideas of Milorad Dodik, the US-sanctioned Serb member of the country’s tripartite presidency, by proposing to Republika Srpska’s parliament a draft law on medicines. The law would establish a new medicines agency solely within the entity, and would thus disrupt the authority of the state-level Agency for Medicinal Products and Medical Devices.

“Seranic has publicly admitted that this law mirrors the functions of the state-level medicines agency, except that the agency it creates transfers authority from the state-level agency to a regulatory authority for medicines and medical products within the RS. Because a state-level institution exists and serves the RS and FBiH, the establishment of this new entity-level agency obstructs or threatens the implementation of the Dayton Peace Accords,” the statement noted.
Russia’s Ministry of Foreign Affairs has told Parliament to discuss the country’s future membership of a list of international organisations, including the World Trade Organisation and the World Health Organisation.

Pyotr Tolstoy, the Speaker of the State Duma, announced the discussions, saying that “Russia left the Council of Europe, now it’s the turn of the WTO and WHO, which have neglected all their obligations towards Russia,” (quotation from Interfax).

In practice, however, Russia has never really participated in the World Trade Organisation. It joined in 2012 at the culmination of a period of market liberalisation and moves towards greater integration with the West. In spite of the assertion by former WTO Director-General Pascal Lamy that Russia “will undoubtedly strengthen the multilateral trading system”, it ended up being a member of the organisation only in name.

In response to Russia’s annexation of Crimea in 2014, western nations introduced sanctions on Russia. The counter-sanctions adopted by Russia were decried by other members of the organisation as a breach of WTO rules. In particular, Russia was accused of obfuscating import tariffs and implementing restrictions on trade with Ukraine, Poland, Lithuania, Moldova and the US.

Russia, meanwhile, complained that western sanctions breached WTO rules. Ever since, Russia’s adherence to WTO rules was lukewarm at best, with arguments over sanctions undermining efforts to reduce barriers to trade since 2014. Image: bne IntelliNews.

“Former WTO Director-General Pascal Lamy said that Russia “will undoubtedly strengthen the multilateral trading system”, it ended up being a member of the organisation only in name”
UK sanctions Putin’s family and “girlfriend” former gymnast Kabaeva

bne IntelliNews

The UK has added Russian President Vladimir Putin’s ex-wife, cousins and alleged “girlfriend” to the sanctions for Russia’s military invasion of Ukraine, according to the announcement of Foreign Secretary Liz Truss on May 13.

Previously Putin has already been personally sanctioned, but unconfirmed reports claimed that Putin’s alleged “girlfriend”, ex-Olympic gymnast-turned-politician Alina Kabaeva was previously exempted from the US Treasury’s sanctions due to fears of a furious reaction from the Russian president.

The UK claims that Putin’s family members form a core contingent of his inner circle – receiving positions of power due to their affiliation to the regime. “Putin’s lavish lifestyle has regularly been on display, with reports exposing links to a GBP566mn yacht and the $1bn ‘Putin’s Palace’ – officially owned by a close associate, Arkady Rotenberg, who was sanctioned in December 2020,” according to the sanction announcement.

The latest May 13 UK sanctions include:
- Alina Kabaeva, a retired Olympic gymnast, chair of the board of the National Media Group, reportedly the largest private Russian media company. She is alleged to have a close personal relationship with Putin, and previously sat as a Deputy in the Duma for Putin’s United Russia
- Anna Zateplina, grandmother of Alina Kabaeva and associate of Gennady Timchenko – a long-standing Putin associate sanctioned by the UK on 22 February 2022 — from whom she has reportedly received a luxury flat in Moscow
- Lyudmila Ocheretnaya, former First Lady of the Russian Federation and ex-wife of Putin. Since her divorce from Putin in 2014, Ocheretnaya has benefited from preferential business relationships with state-owned entities
- Yuri Shamalov, son of Nikolai Shamalov (sanctioned by the UK in 2014), and brother of Putin’s former son-in-law, Kirill (sanctioned by the UK on 24 February 2022).

Yuri is a member of the new elite of children of Putin’s closest associates, and has risen rapidly to become president of Gazfond, and member of the board of directors of Gazprombank
- Igor Putin, first cousin of President Vladimir Putin, and a Russian businessman. Igor Putin is director of Pechenga International Sea Port
- Mikhail Putin, a Russian businessman and relative of President Vladimir Putin. Mikhail Putin is deputy chairman of the management board of SOGAZ Insurance and deputy chairman of the management board of Gazprom
- Roman Putin, first cousin once removed of President Vladimir Putin. Roman Putin is publicly open about his relation to Putin and emphasises how this family connection enabled his company, Putin Consulting, to help foreign investors in Russia
- Mikhail Sholomov, a Russian business owner and Putin’s first cousin once removed. Sholomov’s company Akcept LLC has allegedly shared employees with Binom JSC, the firm registered as owning ‘Putin’s Palace’. Sholomov, through his firm Akcept LLC, is also a shareholder in Bank Rossiya, a bank with close Kremlin links, and run by key Putin lieutenants, sanctioned by the UK on 22 February, 2022
- Alexander Plekhov, a close friend of Putin. He has benefited from his relationship with Putin, and his company Vital Development Corporation has benefited from significant state patronage
- Mikhail Klishin, an executive in Bank Rossiya, and a member of the board of directors at SOGAZ
- Vladimir Kolbin, the son of Putin’s childhood friend and alleged business associate, Peter Kolbin. Kolbin has benefited from and supported the government of Russia, acting as general director of Gelendzhik Seaport LLC
- Viktor Khmarin is a Russian lawyer and businessman, who is a friend and relative-by-marriage of Putin. Khmarin has owned a number of businesses, including LLC NetteProduktServis, which operated in the Russian energy sector

standards has been questioned by other members of the organisation.

Fourteen western nations stripped Russia of its WTO trading privileges after the invasion of Ukraine. Regulations were re-introduced on some Russian goods and services in western markets as a result.

Russia left the Council of Europe, Europe’s leading human rights body, shortly after its invasion of Ukraine.

The Council of Europe suspended Russia’s right of representation on 25 February. Shortly before a vote in which Russia was expelled from the organisation altogether, Russia’s Foreign Minister said it no longer wanted to participate in the Council of Europe anyway, a move widely viewed as an attempt to save face.

“Russia does not intend to put up with these subversive actions carried out by the collective West in line with the imposition of a ‘rules-based order’ to replace international law trampled by the United States and its satellites,” said the Russian Foreign Ministry.

“Russia will not participate in the transformation by Nato and the EU obediently following them of the oldest European organisation into another platform for incantations about Western superiority and narcissism. Let them enjoy communicating with each other, without Russia.”

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Critics say that Russia’s poor human rights record demonstrated that it had never observed the rules of the Council of Europe. Freedom House rates Russia as “not free”.

Russia’s membership of the World Health Organisation was more enthusiastic at times. Vladimir Putin endorsed the organisation in October 2021, saying that “Given the current situation, the role of the World Health Organization is becoming more and more important and its activities deserve global support.”

Nonetheless, Moscow has been criticised for its sceptical attitude towards western vaccines, which is likely to have contributed to vaccine hesitancy in Russia overall. Russia has one of the highest mortality rates among European countries, but it is likely that the real number of deaths is much higher. A discrepancy between reported coronavirus (COVID-19) deaths and the number of excess deaths since the pandemic began pointing to manipulation of the figures.

The WHO and the WTO have both made moves towards excluding Russia since the invasion of Ukraine. Members of the World Health Organization’s European region passed a resolution in May that could result in the closure of Russia’s regional office and the suspension of meetings in Russia. The resolution said that the war in Ukraine was a “health emergency” due to mass casualties and the increased spread of infectious diseases.

Russia’s parliament already took measures to facilitate leaving the WTO in the event that Russia decides to do this. On 21 March, Parliament voted to adopt a law allowing Russia to leave the WTO. Russia says that the WTO should be taking action against the western nations that are introducing sanctions against it. Russia’s likely exit from both organisations will see it further isolated on the world stage.

Which agricultural powerhouses can shore up world food supplies?

New research from the University of the Potomac shows that the food favoured in different countries does not necessarily correspond with what is produced locally. A taste for foreign crops was enabled by thirty years of globalisation and increasingly advanced agricultural and transportation technology. Now, this interdependency risks exacerbating food shortages around the world as the war in Ukraine imperils food security.

Wheat is one of the most striking examples. Wheat originated in Central and West Asia and the Mediterranean. Now it is consumed worldwide, and ranks as the most produced agricultural commodity for 14 countries. Wheat is a particularly significant crop right now, because the war in Ukraine is disrupting outflows of wheat from two of the world’s biggest exporters – Ukraine and Russia.

The root of the problem
Russia is the world’s third-biggest wheat producer. Russia and Ukraine together comprise one of the world’s crucial breadbasket regions, accounting for around 30% of the global wheat trade.

A Russian blockade of the Black Sea is preventing some Ukrainian wheat from reaching the market, and satellite photos appear to show Russian ships stealing Ukrainian grain. The effects are already being felt. Wheat prices jumped by 20% in March alone, and are now up 53% since the start of the year.

Wheat is an essential raw material for the processed food industry, so the increase in wheat prices is likely to have a knock-on effect on the prices of other foods, too.

Africa is particularly dependent on Ukraine and Russia for its wheat supplies. About 42% of the continent’s wheat imports came from Ukraine and Russia between 2018-20, according to The Conversation. Wheat prices in Africa are already up 60% since the start of the war. The poorest areas will be hardest hit by the rising prices.

The scale of the looming crisis is enormous. Around 25m tonnes of corn and wheat is

With a global food crisis looming, the onus is on the world’s biggest exporters to help compensate for the shortfall left by adverse weather conditions and the war in Ukraine. Photo: bne IntelliNews.
currently in storage in Ukraine. That’s the equivalent of the annual consumption of all of the world’s least developed economies.

The crisis isn’t limited to wheat either. A programme of modernisation of Russian agriculture over the past two decades has made it a significant producer – feeding 2bn people worldwide. Russia is the world’s biggest producer of barley and sugar beet, producing almost 15% of the global supply of both crops.

Ukraine’s fertile fields have turned it into a big agricultural supplier too. Two-thirds of its arable land is used for agriculture.

The UN’s Food and Agriculture Organization (FAO) lists Ukraine as one of the world’s largest producers of wheat, corn, sunflower seeds, barley, sugar beet, potatoes and soybeans in 2020. The total value of these crops in Ukraine in 2020 was $21.4bn. It’s also the world’s third-largest producer of potatoes and pumpkins.

Ukraine is also the biggest producer of sunflower seeds, providing over a third of global supply. As a consequence, sunflower oil has risen in price by over 25% since the war started. Sunflower seeds and sunflower oil are an essential ingredient in many food production processes, and are among the most exported agricultural commodities.

Russia and Ukraine are also responsible for 29% of globally traded barley and 15% of maize.

The globalisation of agriculture

The most exported agricultural products nowadays include wheat, rice, corn, barley, rapeseed, soybeans, sunflower seeds, palm oil and bananas. Some of those crops are particularly suited to specific climates. Whereas wheat is a versatile crop grown across Europe, Asia and North America, bananas are better suited to tropical regions.

Globalisation has led to some climate-specific crops being domesticated in foreign markets. Technological advances in agriculture mean that some plants can be cultivated in non-native soils, while transportation allows other crops to be taken to far-flung markets. A study in 2016 found that more than two-thirds of agricultural products in the world’s national diets originated from a far-away region.

Cereals are particularly versatile crops, and can be cultivated in a range of climates. Corn is the most produced agricultural commodity globally (1.1bn tonnes of the crop were produced in 2020), followed by wheat with 760.9mn tonnes and rice (756.7mn tonnes).

Agricultural superpowers

Agriculture accounts for 4.3% of global GDP. But with the effects of climate change (such as unseasonably heavy rains during planting season in China and a heatwave in India), geopolitical crises (such as the war in Ukraine) and an apparent trend for deglobalisation and protectionism, this figure is in jeopardy. And with supply of domesticated crops set to drop, price rises risk creating mass malnutrition or starvation.

Russia is one of the world’s five biggest
food producers. In addition to encouraging Russia to lift its blockade of the Black Sea and finding alternative ways to export Ukrainian crops, the remaining agricultural superpowers must lift barriers to trade in the interests of global food security.

In 2020, half of global agricultural production came from Asia. China and India are both crucial players in agriculture. Both are top ten countries for agricultural exports too.

China is the world’s biggest wheat producer, producing 134.2mn tonnes of wheat in 2020 alone, worth $53.4bn. Much of that wheat is reserved for China’s domestic market, however. India, meanwhile, is the second-largest producer, harvesting over 107.5mn tonnes of the cereal in 2020. They will therefore be the most important players in plugging any Russia-sized gap which could develop in the global wheat market.

In 2020, China was the top producer of more than 30 crops, including tomatoes, rice and potatoes. Rice is China’s most produced crop overall – totalling 353.1mn tonnes in 2020. In 2020, China’s agricultural production was valued at $1.1 trillion, a record high. Because it produces 25% of the world’s grain, China is a key player in global food security.

The US, meanwhile, is the world’s largest agricultural exporter, with exports valued at $147.9bn in 2020. In particular, it is a big exporter of corn, rice, wheat, sorghum and apples.

Notably, the US is the world’s biggest grower of corn, producing around $52bn worth of the crop per year, according to the University of the Potomac. In combination, the US, China and Brazil grow about two-thirds of the world’s corn.

There are other crucial players for specific crops too: Germany is the world’s biggest producer of milk, while Latin American countries lead the world in sugarcane harvests.

The temptation for these agricultural powerhouses will be to place restrictions on food exports as the prospects for food security continue to worsen. Indeed, over 20 countries have already imposed export bans on certain agricultural commodities, including Turkey and Argentina. To overcome the danger of millions going hungry, they must do the opposite, and relax restrictions on trade. Indonesia recently lifted a ban on exporting palm oil, a promising precedent. Officials around the world will hope that this is the beginning of a détente, not the exception which proves the rule.”

“In addition to encouraging Russia to lift its blockade of the Black Sea and finding alternative ways to export Ukrainian crops, the remaining agricultural superpowers must lift barriers to trade in the interests of global food security”
Belarus PM says Belarus will lose 30% of exports this year

bne IntelliNews

Belarus is set to lose 30% (approx. $14bn) of its export revenues in 2022 due to western sanctions, Belarusian First Deputy Prime Minister Nikolai Snopkov told state media on Wednesday, 25 May.

According to Snopkov, the negative influence of the sanctions has been increasing: “starting from June, the premium European market will be closed to timber, ferrous metals and products made from them, cement, tyres, and it’s some $1.8bn of export revenue.”

Belarus’ industrial sectors and its large GDP generating enterprises are being hit the hardest, especially wholesale and cargo transportation. In the service sector, banking and tourism are the hardest hit, and “construction has been affected by the sanctions indirectly, through a shortage of financial resources due to the closure of external financing and the narrowing of domestic sources”.

Belarusian officials’ public communications have in recent weeks become more open about the broad and hard-hitting effects of sanctions.

As a result of the EU banning Belarusian registered trucks from entering its member states, 30% of Belarus’ car fleet stands idle, and over the past four months its road haulage services have decreased by 9%.

Ukraine has begun to more or less completely terminate economic relations with Belarus due to the latter regime’s active support for Russia’s invasion. Previously, Ukraine’s Black Sea ports have been crucial for Belarus’ exports, but since Russia began its invasion all rail trade between Belarus and Ukrainian ports has stopped.

In 2021, Belarus sent 9% (about 12mn tonnes) of its total railway transport through Ukraine, out of which 45% was various petroleum products, with the rest being fertilisers, coal, timber, construction products and more.

Belarusian officials’ public communications have in recent weeks become more open about the broad and hard-hitting effects of sanctions.

On May 17, Lithuanian railways notified its Belarusian counterpart that it would terminate the transportation of all timber, rubber and ferrous metals products due to sanctions. Together, the loss of both the Lithuanian and Ukrainian export routes has cost Belarus 26mn tonnes of cargo.

Currently, Western sanctions are blocking about 40-45% of Belarus’ exports. Belarus’ recent assessment of losing 30% of its exports by the end of the year must therefore include an assumption of 10-15% of its exports reaching its destinations through new export routes.

The last time Belarus faced such a large export decrease was during the coronavirus (COVID-19) pandemic. The difference then was that trade managed to resume again after just a year of global logistical chaos. The sanctions restrictions can, however, be assumed to remain in place longer than that.
Lukashenko hits out at lack of unity shown by member nations of Russia-led military bloc

bne IntelliNews

There must be some discomfort in the Kremlin that, apart from Belarus, members of the Russia-led defence bloc have not spoken up in support of the Russian invasion of Ukraine. Belarusian President Alexander Lukashenko indirectly addressed that sore spot on May 16 as, speaking at a summit of the leaders of the Russia-led Collective Security Treaty Organisation (CSTO) in Moscow, he urged all members of the military alliance to stand united.

Kazakhstan, which have not openly backed Vladimir Putin’s military move to bring Ukraine to heel despite continuing to maintain close economic and political ties with Russia. During the violent civil unrest seen in Kazakhstan in January, the CSTO sent a “peacekeeping” force mainly made up of Russian troops to support current Kazakh President Kassym-Jomart Tokayev whom some analysts concluded was threatened by a potential coup.

"Without a united front, the collective West will build up pressure on the post-Soviet space,” Lukashenko said in televised opening remarks, in which he addressed Russian president Putin along with the leaders of Armenia, Kazakhstan, Kyrgyzstan and Tajikistan.

He also accused the West of hoping to prolong the war in Ukraine in an effort to weaken Russia.

Lukashenko said "hellish sanctions" against Belarus and Russia could have been avoided if the group had spoken with a united voice. Lukashenko’s remarks appeared to be especially directed at CSTO members like

“Lukashenko said “hellish sanctions” against Belarus and Russia could have been avoided if the CSTO had spoken with a united voice”
Also at the summit, Putin said the CSTO was planning a "series of joint exercises in Kazakhstan, Kyrgyzstan and Tajikistan in the autumn".

Putin also told the gathering that Moscow, during its invasion of Ukraine, had obtained "documentary evidence of components of biological weapons being essentially created" near Russia's borders.

"Possible methods and mechanisms of destabilising the epidemiological situation in post-Soviet space were being worked on," he claimed.

Armenia’s Prime Minister Nikol Pashinyan, meanwhile, accused fellow CSTO countries of disinterest in their obligations to each other. "Last year, these days, Azerbaijani troops invaded the sovereign territory of Armenia. Armenia turned to the CSTO with a request to launch the mechanisms provided for by the CSTO response procedure. Unfortunately, it cannot be said that the organisation reacted as Armenia expected," he said.

"In addition, we have long been raising the issue of the sale of weapons by the CSTO member states to countries unfriendly to Armenia. As a result, these weapons were used against Armenia and the Armenian people. This is also a problem. To be honest, the reaction of the CSTO member states during the 44-day war, after the war, did not inspire Armenia and the Armenian people. But I want to emphasise the special role of Russia and Russian President Putin in ending hostilities in Nagorno-Karabakh. Armenia continues to adhere to the tripartite statements of 9 November, 11 January and 26 November. Armenia is committed to the further development of the CSTO.

"We regard the organisation as a key factor in ensuring stability and security in the Eurasian region, and the security of Armenia. In general, we are positively disposed towards the full support of the organisation and its further development," Pashinyan added.

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**Critical TV director jailed in Georgia**

Javid Agha in Baku

The Tbilisi City Court found Nika Gvaramia, Director General of Mtavari Arkhi TV, guilty of causing damage to Rustavi-2 TV company while serving as director and sentenced him to three years and six months in prison on May 16.

Gvaramia denied all the accusations and said they were politically motivated. “I am an innocent person, what will the criminal regime do, what can I say now?” he told reporters before the judge delivered the verdict. "My arrest will be, in a sense, a step towards Russia. If there is an argument in favour of the arrest, it is that the road to Russia would be further shortened," he told Formula TV.

Rustavi 2, a free-to-air TV channel, is regarded as close to the main opposition party, the UNM of jailed former premier Mikheil Saakashvili.

Gvaramia, who was indicted by the prosecutor’s office and found guilty on two counts by the court, told reporters at the hearing on May 16, for which, according to the prosecutor’s office, Gvaramia and his family received an expensive car (worth €76,700) in return for reducing Rustavi 2 ad placement prices in 2015.

The second count concerns Gvaramia’s alleged abuse of power in 2015, when, according to the prosecutor’s office, Rustavi 2 TV company suffered a loss of GEL6.76mn ($2.2mn) due to an advertising contract with Inter Media Plus. For this reason, the judge fined Gvaramia GEL50,000 (€16,000), although, under Article 59 of the Criminal Code, the heavier penalty swallowed up the punishment for the lesser crime.

The court acquitted Gvaramia under articles 221 (3), 194 (3, "c") and 362 (2, "b") of the Criminal Code of Georgia, which deal with commercial bribery, money laundering and the manufacture, sale or use of a forged document, seal, stamp or letterhead.

Gvaramia’s lawyer Dmitry Sadzaglishvili said that the defence will appeal the court’s decision to a higher authority. “We saw a very clear choice made today by the authorities in favour of Russia,” he told reporters today. “In Western democracies, critical media directors are not arrested or prosecuted for dissent,” he added.

Gvaramia’s arrest came amid growing concerns about press freedom, the independence of the judiciary, and alleged political persecution in the country. Commenting on the sentence, the US Embassy in Georgia released a statement saying that it “casts doubt on Georgia’s commitment to the rule of law and highlights the fundamental importance of an independent and impartial judiciary in Georgia”. According to the embassy, “the worrying practice of selective investigations and prosecutions” of opposition figures "undermines the public’s confidence in the police, prosecutors, courts and the government itself”.

“The court fulfilled a political order by punishing the head of critical television, Nika Gvaramia,” Transparency International Georgia said after the ruling, adding the decision was politically motivated and a blow to free speech.
Will landlocked Kazakhstan prove a lure for Russian beach bums?

Joanna Lillis for Eurasianet

Landlocked Kazakhstan is not the first country that springs to the mind of most tourists as a destination for a beach vacation. But this summer, tour operators are touting trips to Kazakhstan for Russians unable to reach their traditional holiday destinations because of sanctions and travel restrictions precipitated by the war in Ukraine.

Kazakhstan is set to become the new Turkey, according to enthusiastic sales pitches from Russian travel agencies. Russia’s southern neighbour may be landlocked, but it does have a sea: the Caspian, the world’s largest inland body of water. And Aktau, a lively oil city on the sea’s eastern shores, offers all-inclusive stays in a five-star hotel “in the Turkish style”, enthuses Russia’s Association of Tour Operators.

“Beach vacationing by the sea in Kazakhstan has not been offered by tour operators until this year. But the geopolitical crisis and aviation sanctions have led to a severe shortage of options for foreign beach vacationing,” it said with some understatement.

There are plenty of flights operating from Russia to Turkey. But with no flights going to European Union countries and some EU states not issuing visas for Russians, those wishing to sun themselves in traditional summer hotspots on the Mediterranean have few other choices.

That makes Kazakhstan an attractive option in the optimistic view of the Association of Tour Operators.

The weather is warm and sunny and there is a direct flight from Moscow to Aktau on the Russian national carrier Aeroflot, it pointed out. The airline relaunched flights to Kazakhstan in April after suspending all international flights in March, other than to Belarus, because of sanctions.

The price of a vacation in Aktau is not competitive for Russians, though. A week’s all-inclusive stay in May for a couple at a five-star hotel costs around 180,000 rubles, or $2,500. A similar package to Turkey goes for around two-thirds of that.

Some may question if the service will be up to Turkish standards, too.

But Kazakhstan may prove an attractive option for Russians wary of receiving a less-than-warm welcome as they head abroad to sun themselves on the beach while Ukrainians endure bombing by their compatriots.

Joanna Lillis is a journalist based in Almaty and author of Dark Shadows: Inside the Secret World of Kazakhstan.

Life’s a beach: Russian holidaymakers may have to do with Kazakhstan’s ‘seaside’ this summer. The location pictured is Jasybay (or Dzhasybay) in the Pavlodar Province of northern Kazakhstan. / I. Ekamaloff, wiki, public domain.

www.bne.eu
After war victory, Azerbaijan keeps increasing military spending

Ulkar Natiqqizi for Eurasianet

For years, Azerbaijan has been one of the world’s biggest spenders on its military, building up its forces for a potential war with Armenia. Now that that war has taken place, with a resounding Azerbaijani victory in 2020, Azerbaijan’s military spending keeps going up.

The country is spending $2.6bn on defence and national security in 2022, the same as in 2021 and up from $2.2bn in 2020. The 2021 figure represented 5.3% of the country’s GDP, the fifth-highest figure in the world, according to a new report from the Stockholm International Peace Research Institute (SIPRI).

And it’s projected to keep going up: By 2025 defence spending is budgeted to reach nearly $2.8bn, according to the Ministry of Finance.

“Each day of the 44-day war [against Armenia in 2020] has been analysed in-depth, and, of course, this analysis allowed us the opportunity to build our future army on the basis of the real situation,” President Ilham Aliyev said in an April 12 speech.

Much about Azerbaijan’s defence spending remains secret, but Aliyev said that the country was arranging “the purchase of new weaponry and equipment” and increasing the numbers of special forces personnel. Those include new “blue beret commando” units based on similar units in the Turkish armed forces and now headquartered in Hadrut, in Karabakh.

“We will increase the number of commandos every year... Thousands of fully trained fighters have already been and will continue to be trained”

“Each day of the 44-day war [against Armenia in 2020] has been analysed in-depth, and, of course, this analysis allowed us the opportunity to build our future army on the basis of the real situation,” President Ilham Aliyev said in an April 12 speech.

Aliyev has justified the increased spending by citing the fact that Armenia has yet to sign a peace agreement.

“Some circles in Armenia and Armenians of the world, Armenians living abroad are still trying to intimidate us,” he said in an April 22 speech in Shusha, in Karabakh. “Weapons, equipment, the creation of new combat units – we are doing all this precisely because there are still manifestations of Armenian fascism there, and we should always be prepared to crush Armenian fascism if it happens to raise its head ever again.”

While there are few details available on where Azerbaijan’s military spending is going, there appear to be some increases in manpower, said Jasur Mammadov, head of the Germany-based think tank Caspian Defense Studies. “According to our estimates, there will be about 10,000 additional servicemen in newly created military units,” he told Eurasianet. All of those soldiers require equipping, training, and housing, all while inflation is increasing, he said.

With spending increasing in opaque conditions, there are inevitable questions about where the money will go. According to the most recent Defense and Security Report from corruption watchdog Transparency International, Azerbaijan ranked in the bottom tier of countries with a grade of “F.”

“In Azerbaijan, defense governance mechanisms are poor and corruption... Ulkar Natiqqizi for Eurasianet

Azerbaijani soldiers in a 2022 training exercise. / (photo: MoD, Azerbaijan).
risks critically high,” the report concluded. “With the military answering directly to the president, the parliament exercises virtually no control over the sector and information on defense-related decisions is not accessible to the public. Azerbaijan’s public procurement legislation explicitly forbids the use of open tenders in defense procurement, making the acquisition process highly opaque.”

Mammadov agreed: “According to our research, there is a lot of corruption in the Ministry of Defence and other military structures, and under the slogan of the victory of the Azerbaijani army there are a lot of dirty machinations,” he said.

Gubad Ibadoglu, an economist and opposition politician, said that even with the high level of corruption in Azerbaijan, the defence budget stands out. “The scale of corruption there is not in the tens of millions but hundreds of millions a year,” he wrote in a recent Facebook post.

In Armenia, meanwhile spending also has been going up: from $669mn in 2020 to $678mn in 2021 to $754mn budgeted for 2022. Armenia’s spending in 2021 amounted to 4.4% of its GDP, the ninth-largest figure in the world, SIPRI found.

Ulkar Natiqqizi is an Azerbaijani journalist.

This article originally appeared on Eurasianet.

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Reports of four dead in Iran as protests spread over bread price hikes

*bne IntelliNews*

Unconfirmed reports referred to the deaths of at least four protesters as demonstrations over rising bread and other food prices continued to spread over parts of Iran at the weekend.

There were instances of protests turning political with crowds chanting for top leaders to resign. Sources in Tehran contacted by *bne IntelliNews* on May 15 said that protests to their knowledge had not occurred in the capital or in Iran’s larger cities.

Iranian authorities, meanwhile, stepped up internet disconnections across the country to limit communications between protest organisers and the spreading of publicity about the unrest.

The spark for the first protests came from a cut in state subsidies on food that caused price hikes as high as 300% for a variety of flour-based staples. The government also raised prices of some basic goods such as cooking oil and dairy products. In announcing a subsidies shake-up last week, President Ebrahim Raisi indicated that price rises would be covered by cash subsidies going to most of the population, pledging: “The prices of bread, medicine and petrol will not increase under any circumstances.” The system does not appear to be working out, at least in its early days.

Unverified footage on Twitter showed protests in dozens of provinces such as Ardabil, Khuzestan, Lorestan and Razavi Khorasan. Some state-affiliated media subsequently said calm had been restored in the country. However, protests continued on early May 15 in at least 40 cities and towns across Iran, according to more unverified videos posted on social media.

Iran’s official news agency IRNA said on May 13 some shops were “set on fire in some cities”, leading to police arresting scores of “provocateurs”. Unconfirmed social media recordings showed people ransacking a supermarket in the Caspian Sea coastal city of Rasht as the price of pasta skyrocketed.

Semi-official ILNA news agency on May 14 quoted a lawmaker as saying one protester was killed in Dezful in the southwestern province of Khuzestan.

Iranian officials have placed part of the blame for price hikes on the smuggling of heavily subsidised flour into neighbouring Iraq and Afghanistan.

Freeze frame of video footage said to show protesters in Shahr-e Kord (note: unverified social media video).
KEEP YOUR EYES ON THE BALL

www.intellinews.com
How will the war in Ukraine affect Emerging Markets?

Les Nemethy CEO and founder of Euro-Phoenix Financial Advisors

We have all heard the adage that a butterfly flapping its wings in the Amazon could affect the weather patterns on the other side of the planet. Might the war in Ukraine also have such unintended consequences?

While I despair at the scale of the humanitarian disaster in Ukraine, this article explores the possibility of unexpected and unforeseeable effects beyond Ukraine’s borders, including the possibility of more people dying of starvation in other parts of the world rather than as a consequence of military action in Ukraine.

The three main possible transmission mechanisms for this butterfly effect include: (a) disruption of supply chains, particularly in agriculture; (b) energy supply disruptions and (c) monetary effects. These trends often reinforce each other. All were already underway before the war; the war seems to have aggravated and catalysed these effects.

Disruption of supply chains, particularly in agriculture
Global supply chains were already under strain, independent of the Ukrainian war, partly due to coronavirus (COVID-19). For example, 30% of the world’s containers are now at a standstill, waiting around ports, due to the disruption, with most of them stuck near Shanghai, locked down by COVID.

The Ukrainian war adds a big additional dimension to the supply side challenges, particularly those related to agriculture. As the chart below shows, Russia, Ukraine and Belarus account for a substantial percentage of production of the main agricultural commodities.

Source: World Bank, Credit Suisse research

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To make matters worse, a very large percentage of the above-mentioned exports go to emerging markets. Countries such as Lebanon and Egypt (the world’s largest importer of grain), as well as the entire sub-Saharan region, are highly dependent on Russian and Ukrainian exports. But also in the microchips sphere: did you know that two Ukrainian factories supplying neon for the production of lasers that make microchips were closed due to the war?

Energy supply disruption
The Ukrainian war has further reinforced tightness in oil and gas markets, which has had a considerable effect on hydrocarbon prices globally, particularly in Europe. Given that ammonium fertiliser is made from gas, and almost 40% of global potash exports from Russia and Belarus (as shown in the graph above), the world will see a sharp reduction in their use in 2022. Many producers of ammonium, including the largest in Hungary, have stopped production altogether, due to the volatility of energy prices.

If farmers don’t use fertiliser, they will see their yields fall; if they do use fertiliser, they will have to pass through input costs. Either way, the pressure on agriculture prices will accelerate. Although the chart below shows massive rises in agricultural prices, in my opinion, this process of increasing agricultural prices still has a long way to go.

Agricultural commodity prices near record levels

Source: World Bank

Energy price increases also have a negative effect on GDP growth and a general inflationary effect. Most post-war recessions coincided with energy price increases.

Monetary effects
The aforementioned supply chain issues and commodity price rises have all contributed to accelerating inflation. This, in turn, has mobilised several central banks towards monetary tightening. Much has been written about the difficulty central banks will have in reducing inflation without causing a recession, while they target the fabled “soft landing”. Never have current inflation levels been cured without inducing a recession. The ongoing problems of COVID (and associated lockdowns) and the Ukrainian war (and associated sanctions) further complicate central banks’ efforts – to use the expression – like taking a camel through the eye of a needle.

Chairman of the US Fed Jerome Powell has announced his intention to carry out what would amount to the most severe monetary tightening since the early 1980s. This would likely cause 10-year Treasuries rise from under 3% to well over 5%.

Whenever the US raises interest rates, emerging markets suffer greatly, as they are forced to hike interest rates by at least that much, to avoid capital outflows. Many emerging countries have already been forced to raise interest rates substantially, and once again, in my view, the trend will go further.

Debt servicing is becoming increasingly difficult. Sri Lanka has already defaulted. Pakistan and Peru, also highly indebted, have experienced outbreaks of violence or mass protests.

Emerging market banks are highly exposed to sovereign debt (usually bonds of their own national governments):

Banks’ domestic sovereign debt exposure is as at 15-year high.
Government debt holdings of banks as percent of total assets.

Source: IMF, Monetary and Financial Statistics; IMF staff calculations.

As bond yields rise, government bond prices plummet, impairing banks’ Tier 1 capital. A vicious circle may ensue. Weaker banks will lend less, contributing to the contraction of the economy.

Unfortunately, the average person in emerging countries already spends a huge percentage of their income on foodstuffs and owns very few assets that might help withstand inflation. It is the average person who will feel the brunt of the phenomena discussed in this article. Remember that it was food shortages that triggered the Arab Spring roughly a decade ago.

The butterfly effect is hard to prove, but over time, the Ukrainian war may actually cause more deaths from starvation in the world’s poorest countries than war deaths in Ukraine. ■
Sanctions are working, but the West risks isolating Russian reformers instead of galvanising them

Mark Galeotti

Shortly after the UK government announced sanctions against Vladimir Putin’s family and financial network, Russia’s Ministry of Foreign Affairs advised citizens to avoid travelling to Britain.

The official evidence proffered by the Russian government to illustrate the UK’s “unfriendly attitude towards our country” is a delay in issuing visas to Russian citizens. But critics say that the move was actually a direct response to the personal sanctions against Russia’s leader.

If this is true, it is a puzzling and disproportionate reaction, but it also indicates that sanctions are working.

**Different types of sanctions**

Before Russia invaded Ukraine, UK Foreign Secretary Liz Truss vowed that any incursion into Ukrainian territory would be met with “the toughest sanctions regime against Russia... ever”. She didn’t disappoint. Since the war began on February 24, Russia has been hit with successive waves of co-ordinated sanctions from the US, EU, UK and their allies. It has even usurped Iran’s title as the most sanctioned country in the world.

Whereas the sanctions imposed in the wake of Russia’s annexation of Crimea in 2014 were widely viewed as feeble and lax, the current sanctions programme has been swift, severe and relatively comprehensive.

Sanctions have targeted Russia’s elite and the government’s ability to fund and supply the military. Exports of dual-use goods which be used by Russia’s military have been banned by the US, EU and UK, as has all business with state-supported weapons manufacturers. Japan and the EU will also stop exporting high-tech components such as advanced semiconductors to Russia.

Other sanctions are designed to “constrict Russia’s economy”, in the words of US Treasury Secretary Janet Yellen. Freezing half of the $630bn in foreign currency reserves held by the Central Bank of Russia (CBR) was one such measure, causing the ruble to plummet by 22% before the CBR intervened and imposed tight currency controls.

The total value of goods exports to Russia from China, Korea, Japan, Turkey, France, Germany and the US was down by nearly 40% year on year in March, according to the Bank of Finland Institute for Emerging Technologies. Before the war, those countries provided around half of Russian goods imports.

And Russia has also been largely cut off from western financial markets, with most major banks removed from financial messaging system SWIFT and excluded from western financial systems.

As confidence in Russia’s economy and its future flags, so does support for Russia’s war with Ukraine, which dropped by 7% in April, according to polling by Levada Centre.

**Some sanctions are More Equal than Others**

When it comes to personal sanctions, however, the West seems to have dropped the ball. Individuals sanctioned since the start of the war with Ukraine can broadly be arranged into two categories. The first group consists of oligarchs and the bosses of state companies; the second group is more complex, comprising mostly of executives and founders of modern, private companies.

The former are clearly beneficiaries and facilitators of the regime which is currently waging war on Ukraine – the likes of Abramovich – but they remain underrepresented on the sanctions lists. Only nine of Russia’s 100 wealthiest individuals have been sanctioned by the US, EU and UK. Vladimir Potanin, Russia’s second-richest man, according to Forbes, has not been sanctioned by any of the three jurisdictions.

“Whereas the sanctions imposed in the wake of Russia’s annexation of Crimea in 2014 were widely viewed as feeble and lax, the current sanctions programme has been swift, severe and relatively comprehensive.”

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Potanin’s business partner Mikhail Prokhorov has also proved adept at dodging sanctions. He is yet to be included on the US, EU or UK lists of sanctioned entities, in spite of his $13bn net worth, much of which comes from assets acquired after the collapse of the Soviet Union, when his bank financed the privatisation of vast state assets. Prokhorov owned the Brooklyn Nets until recently, but sold off the last of his stake in 2019, reportedly at Putin’s request.

The sanctioned founders and executives of independent companies, on the other hand, are largely not complicit in the system and have nothing to do with its war in Ukraine. Sanctioning them feels like a desperate attempt to placate hawks by plugging the obvious oligarch-shaped gaps in the sanctions programme.

Oleg Tinkov is one example. Unlike the oligarchs, who obtained their wealth in the sell-off of state assets in the turbulent 90s, he made his money by importing electronics wholesale and selling them on in Russia at a markup. In this sense, he perhaps most closely resembles Lord Alan Sugar, although he models himself on Richard Branson.

Tinkov is best known in Russia for his neobank Tinkoff – the largest digital bank in the world by user numbers. Two months into the war, Tinkov took to Instagram and publicly lambasted the “crazy” war, insisting that 90% of Russians opposed it. He also asked: “How could the army be good if everything else in the country is s***t and mired in nepotism, sycophancy and servility?”

Shortly after the comment, Tinkov sold his 35% stake in TCS Group, which owns Tinkoff Bank.

In spite of his overt condemnations of the war, and the fact that he claims never to have set foot in the Kremlin, Tinkov was sanctioned by the UK after Russia’s invasion of Ukraine. Britain has since reversed some of the travel restrictions imposed against Tinkov, Vedomosti reports. It is unclear if the partial overturning of the sanctions against Tinkov was the result of an appeal.

“They must have thought ‘Look, here’s the main owner of a bank which pays lots of taxes to Putin’s regime’… But I’m sure they’ll work it out, because unlike us the English are decent people. Maybe it will take a year, two, even three, but they’ll take me off the list in the end. Because I don’t deserve to be on it. I’ve never collaborated,” Tinkov told journalist Yuri Dud.

“They put me on the list by accident, they made a mistake. But they made that mistake in the face of the enormous crime committed by the Russian government in starting this war. They’re simply shocked,” he added.

Other individuals from successful, modern Russian companies have also been sanctioned. They too tend to be innovators and career executives – the beneficiaries not of state-mandated corruption in the 90s, but of successful economic reform and liberalisation in the 2000s.

Dmitry Konov, former chairman of the management board of plastics manufacturer SIBUR, was recently added to the EU’s list of sanctions. Konov, too, falls into the category of non-oligarchs who appear to have been sanctioned simply because they are a big figure in the world of Russian business.

“A bunch of Russian businessmen who I don’t want to name have been fully sanctioned, although they’ve never even given a single interview. I’m not talking about the likes of Abramovich, but some people who are entirely uninvolved in politics. They’re looking at some other criteria, maybe the Forbes list,” Tinkov said.
Unlike the oligarchs, who have plundered the Russian economy for decades, Konov is part of a class of executive innovators who, alongside their teams, reformed outdated post-Soviet private companies into high-performing players.

He joined SIBUR in 2004, with the company on the verge of bankruptcy. By 2021, it was one of the world’s biggest petrochemicals manufacturers. Since then, the company’s turnover increased from $3bn to $16bn.

Konov, as part of SIBUR’s high-skilled management team, also transformed the company into an environmental leader in a country and an industry where ESG concerns are normally bottom of the list of priorities. It has focused on increasing the use of recycled materials in its production, reducing waste and launching environmental initiatives in the communities where it operates. It won acclaim in 2019 for becoming one of the first Russian companies to adopt a sustainable development strategy, and Forbes consequently listed it as one of Russia’s 30 most eco-friendly companies in 2021.

Konov has since stepped down as the chairman of the management board of SIBUR, and disputes the basis of the sanctions.

Alexander Shulgin, former CEO of Russian e-commerce major Ozon, is another example. After rising to the top of the company in 2017, he took Ozon to IPO on the Nasdaq exchange, where it raised a cool $1.2bn. It has now grown into a hugely successful company, often described as Russia’s answer to Amazon.

Shulgin was forced to step down as CEO of Ozon in April after the EU and Australia announced sanctions on him. The EU cites as justification for the sanctions Shulgin’s attendance at a meeting in the Kremlin on the day that Russia invaded Ukraine. But the meeting was scheduled well before the outbreak of war, and the guests – Russia’s biggest employers – say that attendance was not optional.

Oversalting the borsch

The efficacy of the sanctions regime to date is largely down to how carefully targets have been selected. The plummet of the ruble after Russian foreign currency reserves were frozen is one example. The decision to tell Russians to stop travelling to Britain, apparently in response to sanctions on Putin’s inner circle, is another.

The risk is that western governments will discriminate less and less as they feel the need to keep up with the impressive pace they have set for their sanctions regime. With fewer oligarchs and high-profile targets left who actively support the regime, they are resorting to self-made businessmen and Russia’s managerial class.

This is an understandable logical extension of the sanctions designed to “hobble Russia’s economy”, but it risks looking indiscriminate and ill-considered. It could also have the unintended effect of undermining the moral basis of the sanctions programme, making Russia’s most liberal businessmen – and not its corrupt and exploitative ones – answerable for the government’s sins. Have we considered all the implications of cutting off economic ties with those who have brought the world of Russian business closer to the West?

If it maintains its current course, the sanctions regime risks doing the opposite of what it sets out to achieve: supporting the refrains of Russian propaganda and effectively pushing away the Russians who don’t support the war. One quarter of Russians are already feeling the effect of sanctions. As the war rages on, the West will need to consider how it increases that proportion without engendering resentment and isolation.

COMMENT

Constanta concerns

Jeff Lightfoot in Constanta

Romania is a frontline state in the increasingly bloody conflict between Russia and Ukraine. For years before Russia’s latest invasion of Ukraine, Romanians had told any American visiting the region that it was the Black Sea – more than the Baltic region – that had suffered most from Russian aggression since the end of the Cold War. Last week I had a chance to visit the port city of Constanta on the Black Sea to see how Russia’s latest war on a sovereign Black Sea neighbour has impacted the private sector and wider business environment in the region.

Constanta is home to the largest port on the Black Sea and is an increasingly important gateway of food, material, humanitarian relief, as well as US and allied military personnel. / romaniatourism.com

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personnel based at the Mihail Kogalniceanu air base, just a few kilometers away from Constanta. Particularly with the war damage to Ukrainian port infrastructure, Constanta is likely to play an increasingly important role in the Romanian, regional, and even global economy.

Yet despite the optimism in Constanta about its future economic prospects and the diligent efforts of city and county officials to promote investment in the region, I came away from my visit struck by five central issues that are shaping the concerns of business and policy makers in Romania.

**How (and when) will the war end?**

In conversations with diplomats, government officials, and business leaders, there was growing concern and uncertainty about where the war is going and what the US and its allies are looking to achieve. While the new US provision of $33bn of military and humanitarian support to Ukraine was a welcome sign of US resolve, divergent statements from US and allied officials about American goals and policy toward Russia have raised concerns about the risks of escalation, mission creep, and an increasingly regionalised conflict.

Even Romania, one of the most strident and anti-Russia voices in Nato, has been somewhat cautious in its military support for Ukraine and how it talks about that support. Romanian business leaders also expressed concern that the eventual reconstruction of Ukraine will push up prices and labour costs in Romania as these two input costs become more scarce.

**Can the West think strategically about the Black Sea?**

There is a need for an integrated economic, security, and political strategy for the Black Sea. Viewing these issues in isolation fails to take into account the various interlinkages between them. For example, the renewed imperative to identify additional oil and gas sources in the Black Sea to help break the region’s dependence on Russian energy will prove a challenge if the region is effectively dominated by the Russian Navy due to the closure of the Turkish straits to allied warships. Spending just a few days in Romania shows that defence and security questions are intricately linked to economic development questions.

**Can Romania catalyse its energy exploration?**

The resistance of Hungary, Slovakia, Czecho and others in Central Europe to a speedy oil embargo on Russia demonstrates the importance of Europe’s coastal states in helping the EU’s landlocked countries to diversify their sources of energy. However, for years Romanian politicians have dragged their feet on granting offshore energy permits to US energy giant Exxon Mobil. Now many Romanians regret having wasted these years and effectively having chased off a major US supplier with the technical expertise and capital to quickly find new resources. Today, ongoing energy exploration work in the Black Sea is put at risk by aggressive Russian naval tactics that put operations at risk.

Business association leaders also complain that foreign investment in new energy exploration is blocked by bad Romanian legislation written in previous years by corrupted officials. The new foreign investment screening might better protect the sector from corrosive capital investments that could put national security at risk. But is Romania going to be able to reform its energy investment framework to unlock its regional energy potential?

**Will the US and EU keep rule of law pressure on Romania and other frontline states?**

Countries like Romania deserve top US and European support for their resiliency, security, and management of refugees. Romanian politicians I spoke to urged additional resources from the US not only to Ukraine but also to frontline allies like Romania to bulk up their defence and resiliency.

But particularly as more resources flow to the region, the US and EU must keep up pressure on political and business leaders to continue reforms to the rule of law environment, to stamp out corruption, and to improve the investment environment to attract high end constructive capital. The business community too needs to play its part in leading in best practices on corporate governance, business integrity, and compliance, particularly if the region hopes to attract high-end investment.

**How to navigate sanctions compliance in the Black Sea?**

One business leader I spoke to in Constanta echoed the familiar refrain from Centre for International Private Enterprise (CIPE) partners all over Eastern Europe, the Caucasus and Eurasia: angst about the growing complexity and breadth of Western sanctions and how businesses can comply in a very complex business environment. Major Russian oligarchs are in some cases heavily invested in regional construction companies active on infrastructure projects in sensitive sectors – a growing concern of business and policy makers alike.

Ultimate beneficiary ownership transparency remains a challenge. Compliance capacities are underdeveloped for domestic businesses. As a crossroads between the divergent business cultures of Russia, Turkey, the Caucasus, and Europe, the Black Sea business environment is fraught with complexity that defies simple solutions.

As always, I came away from my visit energised by Romania’s strong pro-Atlantic orientation, boundless optimism, and eagerness to court constructive capital from the US and other sources. But it was also crystal clear that Romania’s economic development potential is also closely tied to regional security and to the quality and effectiveness of its governance and legislation.

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ISTANBUL BLOG

With official inflation a hair’s breadth from 70%, Turkey is on the tail of Zimbabwe

Akin Nazli in Belgrade

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urkey’s official consumer price index (CPI) inflation in April amounted to 69.97% y/y in April, following on from the 61.14% reported for March, the Turkish Statistical Institute (TUIK, or TurkStat) said on May 5.

The April figure (presented with great discipline as 69.97% rather than 70% by officials), marked the highest headline inflation recorded by Turkey since the 73% posted in February 2002.

At 69.97%, Turkey left Suriname behind in the global inflation league. Turkey’s next rival is Zimbabwe, which took fifth place in April with 96%.

The ENAG research group, an Istanbul-based outfit led by academics that provides independent assessments of where Turkey’s inflation actually stands, calculated that CPI inflation in April was 157% y/y, following on from 143% in March.

TUIK, meanwhile, gave an official figure of 122% y/y for producer price index (PPI) inflation in April, up from 115% in March.

On April 28, the central bank hiked its expectation for end-2022 official inflation to 43% from the prediction of 23% it presented in its January inflation report.

The upper limit on the official inflation forecast was also moved up, taking the expectation to 47% from 28%.

The authority expects official inflation to peak at below the 75%-level in May and to fall across the remainder of the year.

The guidance is based on the assumption that the Turkish lira (TRY) will not experience another crash.

Turkey’s central bank currently serves as a lira printing house and as an accounting department for the palace administration.

The country’s monetary policy is absolutely inefficient and makes no sense at all. The central bank, working on the leash of President Recep Tayyip Erdogan, has no impact on monetary policy and its policy rate has no impact on market rates.

The war in Ukraine is a “new normal” for the markets now. But relative stabilisation in commodity prices (compared to the wild rides seen in February and March) has occurred at significantly higher prices, while the stress in commodities directly related to Russia or Ukraine (such as sunflower oil, natural gas) continues.

The FAO food price index extended its record in March at 159, up 34% y/y. As of May 5, Brent was up 60% y/y to $111 while the Bloomberg Commodity Index (BCOM) was higher by 43% y/y at 132. The USD/TRY pair was up 77% y/y at 14.9.

On May 26, Turkey’s monetary policy committee (MPC) is expected to hold its policy rate constant at 14% at its next rate-setting meeting.

On June 3, TUIK and ENAG will release their inflation figures for May.

The Erdogan regime has been aiming to keep the USD/TRY pair below the 15-level since March 4. It is unknown how much is flowing into the central bank’s account from the

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**Inflation rate / World**

<table>
<thead>
<tr>
<th>Country</th>
<th>Inflation</th>
<th>Date</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>284</td>
<td>340</td>
<td>Mar/22</td>
</tr>
<tr>
<td>Sudan</td>
<td>260</td>
<td>318</td>
<td>Jan/22</td>
</tr>
<tr>
<td>Lebanon</td>
<td>208</td>
<td>215</td>
<td>Mar/22</td>
</tr>
<tr>
<td>Syria</td>
<td>130</td>
<td>134</td>
<td>Aug/21</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>96.4</td>
<td>72.7</td>
<td>Apr/22</td>
</tr>
<tr>
<td>Turkey</td>
<td>69.97</td>
<td>61.14</td>
<td>Apr/22</td>
</tr>
</tbody>
</table>

Source: Trading Economics
On May 4, the Fed's open market committee hiked its policy rate by 50bp to a band of 0.75-1.00%.

In addition, the Fed will begin reducing its balance sheet as of June 1, with a monthly cap of $47.5bn by September and $90bn starting from September.

At the Fed press conference, governor Jerome Powell ruled out 75bp hikes.

On June 15, the Fed is expected to deliver another 50bp rate hike following its next market committee meeting. Updated projections from the governors will be released.

In March, the Fed governors anticipated the delivery of six more rate hikes in the remainder of 2022 to bring the policy rate to 1.75-2.00%. Two of them were delivered on May 4.

The USD index (DXY) remains above the 103-level, while the yield on 10-year US Treasury papers is below the 3.00-level. The EUR/USD is testing below the 1.05-level.

With the presidential election process in France concluded last week, the European Central Bank (ECB) and its French governor Christine Lagarde may get hawkish in the coming period.

Inflation in the Euro Area extended its record-breaking series to a sixth consecutive month with 7.5% y/y in April. Producer price inflation reached 37% in March.

The USD index (DXY) remains above the 103-level, while the yield on 10-year US Treasury papers is below the 3.00-level. The EUR/USD is testing below the 1.05-level.

Annual CPI inflation in the US rose to 8.5% in March.

In Turkey, social media is boiling over with anti-migrant propaganda. Hot-headed ideas are in circulation for transporting migrants back to their homelands.

Some ‘leaders’, who are aware of the required logistics even for carrying millions of watermelons to a wide geography spread from Syria to Pakistan, are ‘emerging’.

It costs nothing to swear at migrants on social media but hurling abuse at the person who has brought them to the lira deposit protection scheme and exporters and tourism companies, while the reserves are declining.

For April, the trade ministry reported a $6bn trade deficit, suggesting a month on month recovery but a doubling of the deficit compared to last year.

It is last September that Turkey’s latest monetary easing cycle began. Since November, the trade deficit has remained above the $5bn-level, accumulating to $45bn in the six-month period from November to April.

In May, a relatively limited recovery in external balances will continue as gas bills decline and the tourism season begins.

Turkey's 5-year credit default swaps (CDS) have surpassed the 600-level while the yield on the government’s 10-year eurobonds remains in the 8%.

There is no foreign interest in Turkish papers.

In April, net lira creation via loans amounted to TRY169bn as of April 27, following a record TRY208bn ($14bn) in March.

The regime is trying to introduce some "macroprudential measures" and non-capital controls while announcing new cheap loan packages.

Despite the eased monetary conditions, economic activity has not responded positively while Turkey's big export market, Europe, has endured its own slowdown since the beginning of 2022.
country (that’s right, the fella in the palace who’s, in election mode, been talking about “returning a million”) is forbidden.

Since the US withdrawal from Afghanistan last August, Turkey’s problem with uncontrolled migration has moved up a few places on the long list of the country’s woes that have got beyond the point where they can be solved.

Curiously, the regime has been pushing Turkish doctors and engineers to depart Germany for home, while not even registering who is entering Turkey via its eastern and southern borders. Not an effective approach to human capital.

Turkey, a perfect semi-colony, is not famous for solving its problems. Instead, it is skilful in doing whatever is required to necrotise them.

Since 2011, Turkey has been under a political authority that has invited everyone from Syria to Afghanistan into the country. After more than a decade, the Turks have now decided that the millions who arrived must now be sent back to their countries of origin. Most noble.

Turkey seems rather determined to create some serious violence over the migrants in the country. It is also well capable of doing so. Almost every day by now, there are clashes in various neighbourhoods.

As an example of the Turkish state’s more organised track record in creating violence, there is the determined killing and torturing of a sufficient number of Kurds per season (the season begins in spring). Such determination managed to create and sustain the Kurdistan Workers’ Party (PKK), which, still motivated by the Turkish state’s bombing operations, is sailing through its 50th birthday.

The PKK even managed to found a state in northern Syria under US patronage. Islamic State then broke in between the Kurds and the Damascus regime. While Erdogan was protesting “Kobane is falling” to Islamic State, Turkey gained a new neighbour, which carries posters of PKK founder Abdullah Ocalan.

It’s a matter of time before murderous violence in socially corroded Turkey against migrants flares up. It would be no surprise if it breaks out soon or at the point where the Erdogan regime loses at the polls (elections are due at some point by June 2023 at the latest). Some state violence might help escalate the process.

BOOK REVIEW

How the handling of migration from the eastern EU states pushed the UK towards Brexit

Clare Nuttall in Glasgow

“Here to Stay: Eastern Europeans in Britain” tells the story of the hundreds of thousands of migrants from the new EU member states from Central and Southeast Europe who have moved to the UK in the early 21st century. Author Yva Alexandrova charts the crucial missteps made by British politicians on the left, who might be considered natural supporters of the new working class of Eastern Europeans, that contributed to the vote to leave the European Union in the 2016 referendum.

The book is particularly relevant at the moment, as it was published two months before Russia’s invasion of Ukraine that led to yet another debate over migration from Eastern Europe, this time on letting in Ukrainian refugees – though the sympathy from the British public for refugees from the war-torn country is in stark contrast to attitudes to earlier waves of economic migrants from the region.

Setting the scene, Alexandrova traces the history of migration from Eastern Europe to the UK from the Jews who fled the pogroms in the Russian Empire from the 1880s onward to the citizens of ex-socialist countries who came to the UK after their countries joined the EU. She writes how Eastern Europe is viewed as “Europe but not Europe” and how old views of the region as populated by “barbarians” plus the modern view of post-communist Eastern Europe as “poor and largely
powerless" overlaid the enthusiasm for reunification of Europe when the eastern bloc started to disintegrate in 1989.

After states from the region joined the EU in a large wave in 2004, followed by Romania and Bulgaria in 2007 and Croatia in 2013, people from the region started to move to the UK and other West European countries. In all, half a million people arrived in the UK from the eastern EU members in 10 years, and Polish immigrants overtook those from Ireland and India as the most numerous in the country.

Alexandrova spoke to numerous people who had moved to the UK from the region. She found that the commonly held view of the UK as a progressive and tolerant country increasingly contrasted with the lived experiences of those who made it their home, temporarily or permanently.

As well as being an expert on migration, Alexandrova is a Bulgarian citizen who spent many years in the UK, so also writes from personal experience. The author grew up in communist Bulgaria, but spent some time in Britain as a child, and later moved back to live and work in the UK. She also writes from the perspective of a left-wing activist, who is positive about immigration and describes Brexit as an “abomination”.

**Kept in their place**
The author includes numerous examples of the experiences of East European migrants in the UK, which sometimes make for uncomfortable reading because of what they reveal about British prejudice. Typically migrants from the region worked long hours at low-skilled but physically demanding jobs such as fruit and vegetable picking, cleaning and labouring on building sites. She gives one example of a young student who moved to London where she worked three jobs for several months, barely sleeping.

Besides the trivial complaints – sinks having separate hot and cold taps rather than a single mixer tap is a particular bugbear of East Europeans in the UK – is the more serious issue of the racism faced by immigrants. This is not only the blatant racism like physical attacks or the fishery that put up a sign saying “no East Europeans”, but also subtler forms. In particular, several of Alexandrova’s interlocutors said they found it hard to break out of low-skilled jobs, seen as their “place”, into the careers their education and skills had prepared them to do. One successful entrepreneur, a Bulgarian citizen originally from North Macedonia, said that when she told people she was from Eastern Europe their response was like ‘flushing a toilet” on all her experience and career achievements.

“When Eastern Europeans were doing low-skilled jobs they were where they belonged and were therefore accepted,” writes Alexandrova. Meanwhile, those who were “tying to break into a different space” were “continuously questioned about they right to be there” not directly but in subtle ways that made them feel uncomfortable.

**From enlargement to Brexit**
Attitudes towards East European migrants steadily hardened between the first wave of enlargement to the east in 2004 to the Brexit vote more than 12 years later. Alexandrova doesn’t stint on her criticism of the British media, especially the tabloids, for their overwhelmingly negative coverage of immigration from Eastern Europe. Immigration from the region was greeted as a “calamity”, creating a “new scapegoat” for the “notoriously poisonous British tabloid media” that had previously targeted other groups including the Windrush generation from the Caribbean, Ugandan Asians, asylum seekers and others.

“An image was firmly established in the minds of Daily Mail readers: Eastern Europeans came in flocks to take their jobs while at the same time did nothing and lived on benefits,” she writes. Rather than try to challenge this sentiment, she argued, “no UK politician saw any other option other than to grovel to the bigots”. This in turn “set the stage for the growing anti-immigrant and anti-European sentiments that led to Brexit”.

“An image was firmly established in the minds of Daily Mail readers: Eastern Europeans came in flocks to take their jobs while at the same time did nothing and lived on benefits”

The situation worsened with the onset of the international financial crisis and the recession and austerity measures that followed. “Local resentment against immigrants that had been simmering when the economy was growing … with the worries of a recession, erupted onto the national political stage. Immigration was top of concerns in the 2010 elections, and a newly emboldened UKIP was swift in directing the anger against the EU and what it called its one borders,” writes Alexandrova.

**Mistakes on the left**
Tony Blair’s New Labour was in power at the time of the first wave of engagement of the EU to the east and deeper EU integration. However, Alexandrova argued that as well as underestimating the numbers, New Labour failed to change the narrative about migration.

Alexandrova initially welcomed the election of Jeremy Corbyn as leader of the Labour Party, but ends by being scathing about supporters of a ‘Lexit’ (left-wing Brexit). At the core of the EU values is free movement of labour, but most migrants took the result of the Brexit referendum “on the chin”. As the title of the book indicates, despite the drastic changes of the last few years, many are now here to stay.

**Here To Stay: Eastern Europeans in Britain** was published by Repeater Books in December 2021.
Russia’s CBR reserves down $43.7bn since the start of the war

Russia’s gross international reserves (GIR) held by the Central Bank of Russia (CBR) have fallen from $629.4bn on February 25 to $585.7bn as of May 13, a fall of $43.7bn according to the latest data released by the regulator.

The sanctions imposed on the Central Bank of Russia’s gross international reserves (GIR) on February 27 saw more than $300bn of its reserves held in Europe frozen, but technically that money still belongs to Russia. The war in Ukraine has gone on much longer than expected and is costing some $300mn a day, according to the latest estimates by Russia’s Ministry of Finance.

Romania puzzles analysts with robust 6.5% GDP growth in Q1

Romania’s GDP increased by a real 6.5% y/y in the first quarter of the year (Q1), according to the flash estimate published by the statistics office INS on May 17. The seasonally-adjusted quarterly GDP increased by 5.2% q/q compared to Q4, after a revised (from negative) 1.0% q/q advance posted in the last quarter of 2021.

INS’s flash estimate came as a surprise to independent analysts, who, based on the high energy prices and the effects of the war in Ukraine, included among their scenarios a technical recession episode in the first part of the year. Surprisingly, the energy prices may have actually been responsible for the stronger GDP in Q1 thanks to the strong growth of the leading petrochemical companies.

Poland’s GDP expands 9.1% y/y in Q1, brightening outlook for the year

Polish GDP expanded a seasonally adjusted 9.1% y/y in the first quarter, picking up from a gain of 8% y/y in the preceding three months, the Central Statistical Office (GUS) said in a flash estimate on May 17.

Robust growth is still the ripple effect of very solid activity in the second half of 2021 and puts Polish economy on a path to an expansion of even 5% in the entire 2022, analysts say.

Hungary’s core inflation gallops into double-digit territory

Headline inflation in Hungary accelerated to 9.5% y/y in April, from 8.5%, while core inflation edged up from 9.1% to 10.3%, according to data from the Central Statistics Office (KSH). In a month-on-month comparison, CPI was 1.6%, well above the 1.3% consensus, the highest rate of growth since 2012, when the government hiked VAT from 25% to 27%, the highest in Europe.

The April CPI figure overshot the central bank’s 9% forecast for April. In a monthly analysis released after the publication of the KSH data, the MNB said the increase in headline inflation was mainly driven by higher prices for core inflation items. Vehicle fuel prices contributed 1.4 pp to CPI.
Trust in TV news among Russians fell by around 10% in April, according to polling conducted by media investment company GroupM. Trust in social media, on the other hand, is up, signalling a possible move away from traditional state-owned media formats.

In April, only 23% of Russians said TV was the information source that they trusted the most, compared with 33% in March. Faith in TV fell most sharply in smaller towns.

The decline could partly be down to news fatigue driven by the preponderance of stories surrounding the Ukraine war. Updates on military positions and developments in Ukraine have dominated the news cycle in Russia, and have featured prominently in the popular talk shows of pro-Kremlin hawks like Vladimir Soloviev. Soloviev is known for his outspoken views, and has described Ukrainian President Zelenskiy as "a demon who should be exorcised rather than be negotiated with."

Russia’s second most popular broadcaster, Channel One, has replaced some entertainment shows with extra current events shows, so that the entire day’s programme is filled with news, with the exception of a short mid-morning period. Of the ten most watched programmes in the first week of May, nine were news and current affairs shows, up from five a year earlier, according to the Economist.

The apparent shunning of TV news may also partly be down to western sanctions against buying advertising time on Russian networks, which is squeezing the funding of big TV channels like Channel One, Rossiya-1 and NTV. The advertising ban unveiled by the US Treasury on May 8 will deprive the channels of significant advertising revenue from companies like Pepsi and Procter & Gamble, both of whom have already announced that they will stop advertising in Russia.

Turning to Telegram
On the other hand, trust in news on social networks, blogs and Telegram channels increased in April. The proportion of respondents who said that they would believe news from social media more than any other source increased from 19% to 23%.

Blocked sites like Instagram and Facebook can still be used in Russia by using a virtual proxy network (VPN) to circumvent internal blocks. Data firm Appfigures says that Russian downloads of the ten most popular VPNs reached 700,000 a day in the month after the start of the war, against just 16,000 a day the previous month.

Russians can also access a broad range of news sources using social media sites which haven’t been blocked, particularly the popular encrypted messaging service Telegram. Internet user numbers in Russia have been increasing since the start of a war. 68% of respondents now say they access the Internet every day.●
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