TIME TO FACE SOME HARSH REALITIES ABOUT THE WAR IN UKRAINE

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Warsaw-listed fuels and energy giant Orlen sold assets of peer Lotos PLN5bn (€1.15bn) below their market value, a report by the state audit body NIK said on February 5. The report – the main findings of which Polish media uncovered in January – could spell trouble for the now ex-CEO of Orlen Daniel Obajtek and his political patrons from the formerly ruling Law and Justice (PiS) party, on whose watch Orlen took over Lotos, selling assets to meet anti-concentration measures imposed by the European Commission.

The Commission cleared the merger in 2021 pending Orlen’s divesting a 30% stake in the Lotos refinery in Gdansk, the sale of 80% of Lotos fuel stations, and offloading Orlen- and Lotos-owned fuel terminals to a third party.

Orlen sold the stake in the Gdansk refinery to Saudi Aramco, which also bought Lotos’ wholesale subsidiaries Lotos SPV 1 and Lotos-Air BP Polska. Hungary’s state-controlled oil and gas firm MOL bought Lotos’ retail operations, while Polish company Unimot bought fuel terminals as well as two asphalt production plants.

But the sale of those assets took place well “strikingly below” their market value, NIK has now reported.

The state audit body also said that the Orlen-Lotos merger, which the PiS government said would boost Poland’s fuel security, had instead put it at risk.

That is due to Saudi Aramco’s “privileged position” in the Gdansk refinery and the fact that the Saudis could in theory divert sales of 20% of the refinery’s output outside the Polish market, potentially causing fuel shortages in Poland.

“Aramco gained a strong position in the Gdansk refinery, including the right to veto key strategic decisions regarding the company’s management ... There is a risk of paralysing...
the company's operations if shareholders do not agree on strategic directions of the company's development," NIK said.

The NIK report also pointed out the PiS-era ministers of state assets and climate and environment for failing to minimise risks that the merger could result in, and the state assets minister specifically for inadequate supervision over the merger process.

The PiS government said at the time of the merger that the goal was to bulk up Orlen so that it becomes better suited to compete in the global oil and gas market. The company had also taken over other Polish state-controlled firms in the meantime, the power utility Enea and the gas miner PGNiG.

Orlen rejected NIK's report. "The findings presented in the NIK report regarding the merger of Orlen with Lotos are worthless, compiled using an erroneous methodology and based on data that has nothing to do with the actual state of affairs," the company said in a statement.

"From August to December 2021, a few months before the signing of [the] preliminary [merger] agreement ... the average capitalisation of the entire Lotos Group was around PLN11bn. NIK valued the assets of the Lotos Group that went to Saudi Aramco at PLN9.4bn, representing over 85% of the average capitalisation of the [entire company] from that period," Orlen said.

"Therefore, NIK's calculations have nothing to do with how both domestic and foreign investors assessed the value of Lotos," it also said.

This year 130,000 vehicles are expected to roll off the production line, Magyar Suzuki deputy-CEO Robert Krisztian told journalists. Suzuki is expanding the scope of activities in Esztergom, pointing to the role of Hungarian engineers in developing prototypes and production technology.

Suzuki will launch electric models from 2025 and boost its share in the product portfolio from 2030.

Net sales rose 22% to €2.44bn in 2022 and production climbed 20% to 129,022 cars. Close to 90% of vehicles sold were exported to 123 countries around the world.

Magyar Suzuki reaches 4 millionth vehicle milestone

Japanese carmaker Suzuki marked the production of its 4 millionth vehicle, a Vitara GLX, at its plant in Esztergom, northern Hungary.

Magyar Suzuki has turned out seven models since production started in Esztergom in 1992. The company shifted to the series production of hybrid vehicles in December 2019 and the plant turns out Vitara and S-Cross models, exporting them to 123 countries around the world.

Suzuki is focusing on making hybrid drives available across the full range of its models.

The company has retained its leading position in the Hungarian market for new cars in 2023 for the seventh year.
New Polish government dismisses Orlen chief as clean-up after PiS continues in state companies

Wojciech Kosc in Warsaw

The supervisory board of the Warsaw-listed Polish fuels and energy conglomerate Orlen dismissed CEO Daniel Obajtek on February 1.

Obajtek had earlier said he would be “at the disposal” of the supervisory board, which the new Polish government – which has a 49.9% stake in Orlen – is expected to overhaul next week.

The departure of the controversial executive, whose rise from an obscure local administrator to the CEO of Poland’s largest company took place under the previous government of Law and Justice (PiS), comes in the wake of the new liberal-left coalition government taking over in mid-December.

The new Prime Minister Donald Tusk and his Minister of State Assets Borys Budka say that, under PiS, state companies became nests of cronyism and nepotism.

Orlen’s share price jumped 4.61% to PLN65.55 (€15.19) on the Warsaw Stock Exchange on February 1.

During his six-year tenure at Orlen, Obajtek oversaw a period of significant change, including ambitious mergers and acquisitions. These included the acquisition of a stable of regional newspapers that Orlen turned into a mouthpiece for the PiS government.

The key deal – a merger with peer Lotos – is currently subject to an investigation. Despite the consolidation and access to new markets, Orlen’s stock lost nearly 40% during Obajtek’s tenure, reported Bloomberg.

Another probe centres on the company’s lowering of fuel prices between August and November last year, which critics say was a politically-motivated move to help PiS ahead of the October election. PiS came in first in the vote but still lost its majority in the parliament.

The Lotos merger probe comes in the wake of a yet unpublished report into the merger compiled by the state audit agency NIK.

The European Commission cleared the merger in 2021 pending Orlen’s meeting a list of conditions, such as divesting a 30% stake in the Lotos refinery in Gdansk as well as the sale of 80% of its fuel stations and offloading both Orlen and Lotos fuel terminals to a third party.

Orlen eventually sold the stake in the Gdansk refinery to Saudi Aramco, which also bought Lotos’ wholesale subsidiaries Lotos SPV 1 and Lotos-Air BP Polska for a reported PLN2.2bn (€500mn).

The NIK’s report determined, however, that the divestment to Saudi Aramco should have brought Orlen as much as PLN9.4bn – the value of the assets in Lotos at the time of the merger, completed in 2022 – TVN24, a broadcaster, said in a report last week, based on a NIK report it obtained.

With Obajtek still at the helm last week, Orlen denied the charges, without denying the existence of the NIK’s report.

The new government does not appear convinced.

“We will soon know everything, but one thing is certain: we lost billions of zloty, we lost a significant part of ownership and we gave money and a lot of power to Saudi Arabia,” Prime Minister Donald Tusk told reporters on January 30.

“We will soon know everything, but one thing is certain: we lost billions of zloty, we lost a significant part of ownership and we gave money and a lot of power to Saudi Arabia.”

Orlen is Poland’s biggest company. It bulked up under PiS via takeovers of the power utility Enea and the oil and gas company PGNiG even before the Lotos merger.

Obajtek’s dismissal will be effective on February 5, a day before the extraordinary meeting of the company’s shareholders that is expected to replace the supervisory board and the rest of the management.
Russian automaker AvtoVaz is moving into Azerbaijan and in talks to set up the large-scale assembly of its famous Lada family of vehicles in the country.

The company’s head, Maxim Sokolov, recently told journalists that negotiations are currently well underway with Baku and expressed hope for “some good news this spring regarding Avtovaz’s presence in the region.”

AvtoVaz first announced its intention to launch serial production in Azerbaijan back in January. Large-scale assembly involves delivering fully ready-to-assemble components, often in the form of large units, from a manufacturing plant in Russia to a partner facility.

The arrival of AvtoVaz in Azerbaijan represents a significant step forward in the country’s manufacturing profile as the local automotive industry remains very underdeveloped and primarily focuses on assembling final products rather than making them from scratch. However, there is already some activity in the automotive sector.

Azerbaijan’s automotive production is expected to grow from 712 cars to 4,233 over five years.

“The automotive production enterprises in Azerbaijan’s industrial zones have experienced a positive trend. Automotive production was initiated in the industrial zones in 2018, with 712 vehicles manufactured in the same year. In 2023, this number surged to 4,233, marking an impressive 109% increase compared to the previous year,” wrote In January of this year, 406 cars were produced in Azerbaijan, which is twice the figure of the same month last year. As of February 1, 2024, there were 266 passenger cars in stock. Truck production increased by 57%, reaching 63 units in January, while tractor production was halved. Still, the development of the sector remains on square one.

In May last year, the Russian automotive group Sollers that used to be partnered with US carmaker Ford reached an agreement to organise the production of light commercial vehicles (LCVs) at the facilities of the Azerbaijani company Azermash, located in the Hajigabul industrial quarter. In 2021, the Uzbek company UzAuto Motors, which used to be partnered with US carmaker GM, began assembling five models of Chevrolet cars (Damas, Labo, Lacetti, Tracker, Malibu) at a plant in the Azerbaijani city of Hajigabul. Azermash is a joint venture established by Avtosanoat Invest LLC (Uzbekistan) and STA INSAAT LLC (Azerbaijan).

Azerbaijan began specialising in vehicle assembly back in the Soviet era. In 1978, the Baku Specialized Automobile Plant (BSAP) was launched, assembling PAZ-37421 vans and PAZ-3742 refrigerated trucks based on PAZ-672 buses. These vehicles were famously adorned with penguins on the rear door, earning them the nickname “penguin” among the people.

The “Baku Worker” machine-building plant produced road trains for transporting pipes used in the construction of oil and gas pipelines. The Kasimov Oilfield Engineering Plant built special vehicles and laboratories for oil fields. The 26 Baku Commissars Repair and Mechanical Plant manufactured service units based on Russia’s famous GAZ trucks.

The Ganja Automobile Plant began construction in 1986, intended to produce buses and trucks. However, due to the conflict that erupted in the region and subsequent economic problems, the facility remained unfinished for many years. The Ganja Automobile Plant only became operational in December 2004. In 2022, the Ganja Automobile Plant produced goods worth a total of AZM78mn ($45.88mn), which is 1.8 times more than in 2021. In 2022, it produced 588 units of various tractor models, 140 Ural brand vehicles, and 255 Russian designed KamAZ trucks. The plant’s current production capacity is 1,700-2,000 tractors and 950-1,000 trucks per year. Currently, the plant assembles six models of tractors based on Belarus’ famous designs: “Belarus 80.1,” “Belarus 82.1,” “Belarus 892,” “Belarus 1221,” “Belarus 80X,” “Belarus 1025,” and 6 models of MAZ trucks.

The Nakhchivan Automobile Plant was founded during the period of independence in 1993 under the name NAZ-IMPEX. In 2009, NAZ signed a cooperation agreement in Beijing with the Chinese automobile corporation Lifan for the assembly of their vehicles. Currently, the plant produces models of FAW (First Automobile Works), the second-largest car manufacturer in China by volume. In 2022, NAZ began assembling pickups from the Chinese brand ZX Auto. In March 2023, the assembly of Maple X3 PRO cars started in Nakhchivan.

In May last year, the Russian automotive group Sollers that used to be partnered with US carmaker Ford reached an agreement to organise the production of light commercial vehicles (LCVs) at the facilities of the Azerbaijani company Azermash, located in the Hajigabul industrial quarter. In 2021, the Uzbek company UzAuto Motors, which used to be partnered with US carmaker GM, began assembling five models of Chevrolet cars (Damas, Labo, Lacetti, Tracker, Malibu) at a plant in the Azerbaijani city of Hajigabul. Azermash is a joint venture established by Avtosanoat Invest LLC (Uzbekistan) and STA INSAAT LLC (Azerbaijan).
The Khazar SD car is produced at the automotive plant in the Nefchala Industrial Zone. This is essentially the Iranian sedan IKCO Dena, assembled in Azerbaijan. The opening ceremony of the joint Azerbaijani-Iranian Khazar factory (LLC AzKron, owned by JSC Azermash and JSC Iran Khodro) took place in March 2018, attended by the presidents of the two states.

For the Azerbaijani automotive industry to get on track, it’s essential for local enterprises not only to assemble cars but also to manufacture them. Typically, international carmakers produce parts at a centralised facility and export them to assembly facilities in various host countries. Localising the production of car parts has been an issue for many countries playing host to the assembly plants.

Here, Uzbekistan’s experience could be valuable as it has long been home to an extensive automotive sector originally based on Korea’s Daewoo’s technology that was later taken over by GM when it went bust, including the Uzbek Daewoo factory in Andijan. GM has since pulled out of what is now UzAvto, which the government tried floated last year as part of its privatisation drive.

Azerbaijan needs to attract major investors to the automotive sector and encourage global brands to establish car part manufacturing capacity in the country. While none of the global car brands have expressed an interest in investing into Azerbaijan, specific steps are being taken in the Turkic region to expand and increase the automotive industry's capacity.

A year ago, Azerbaijan, Uzbekistan, and Kazakhstan announced the creation of the “Turkic automotive industry” conglomerate. It was noted that this would allow the existing production capacities in Kazakhstan and Azerbaijan to transition from large-unit assembly to full-cycle production and increase the level of localization. This will also open new prospects for the Uzbek automotive brand to enter the markets of Georgia, Turkey, and African countries. The factories in Kazakhstan and Azerbaijan will assemble new Chevrolet models with the help of UzAvto, leading to an increase in the supply of components to these countries from Uzbekistan.

The consolidation of production will lead to increased profits, reduced risks, and enhanced reliability of the economic environment. This also opens up opportunities to implement innovative technologies in production activities. Importantly, the tripartite conglomerate combines markets with a population of over 65mn people.

UzAvto is the driving force behind the new automotive alliance, which, in partnership with Kazakhstan’s Allur Auto, will produce Chevrolet Onix cars in Kazakhstan. Later on, the production of Uzbek cars (small-unit assembly (CKD)) is also planned to start in Azerbaijan at the Azermash plant’s facilities.

Returning to the collaboration in the automotive industry with Russia, it’s noteworthy that a joint project between Russia’s giant truck maker KAMAZ and Ganja Automobile Plant was launched in 2014. The first batch of KAMAZ vehicles was produced in 2015. Currently, eight models of KAMAZ vehicles are manufactured there. In 2023, a joint service centre of KAMAZ and the Ganja Automobile Plant opened in the Jabrayil district of Azerbaijan, which was recently liberated as a result of the Second Karabakh War.

In an interview with bne IntelliNews, Azerbaijani economist Vugar Bayramov, a member of the Milli Majlis Committee on Economic Policy, Industry, and Entrepreneurship, said that the development of the automotive industry in Azerbaijan represents a strategic direction that is actively supported and encouraged by the country’s government. “The main goal of this support is not only to strengthen the economic potential of the nation but also to attract foreign investments and to implement innovative technologies in the production process,” he said.

The establishment of a joint venture with Iran, which also has a well-developed automotive sector based on France’s Peugeot technology, to produce Khazar brand cars is a vivid example of the successful implementation of this strategy. This allows not only to supply the domestic market with quality vehicles but also contributes to the development of local industry and technological exchange.

Furthermore, another project is the development of electric bus production in Sumgayit, which underscores Azerbaijan’s commitment to environmentally friendly and sustainable modes of transport. The planned start of production in 2025 and negotiations with leading global companies, including those from China, highlight the government’s policy and commitment to sustainable production and dealing with climate change. This will not only open up new opportunities for export but also significantly enhance the level of the automotive industry in the country.

“The implementation of the electric bus project, and subsequently electric cars, will largely contribute to the realisation of the government’s environmental initiative to create green zones in the Karabakh and East Zangezur economic regions as part of their ongoing development, now they have returned to Baku’s sovereign control. This will not only improve the environmental situation but also ensure the demand for new types of transport, contributing to further development of the local industry. For this reason, serious and fundamental work will be carried out in the automotive industry in the coming years,” Bayramov said.

The portfolio of the Azerbaijani automotive industry is currently modest. Large, the production cycle involves assembling the final product from imported spare parts. Additionally, the demand for locally produced cars within the republic is not high, with citizens still showing a preference for foreign-manufactured vehicles. However, with the correct investment policy and the right choice of partners, the situation could change significantly in the not-too-distant future.
Uzbekistan: Car buyers turning to foreign brands

Eurasianet

For the last two decades or so, motorists in Uzbekistan could buy any car brand they wanted, as long as it was either a Daewoo or Chevrolet.

This limited selection resulted from the de facto monopoly held by government-controlled UzAvtosanoat (UzAuto), which manufactured vehicles under those brands through joint ventures.

The ongoing economic liberalisation is altering this dynamic.

Data reported by Tashkent-based outlet Gazeta.uz reveal how far things have changed over the past year, however. While Chevrolets are still a ubiquitous sight on Uzbekistan’s roads, there is growing variety.

In 2023, Uzbekistan imported over 73,000 vehicles, marking a 2.4-fold increase from the previous year. The total value of those incoming vehicles amounted to nearly $1.8bn.

Last year was a banner year. The 30,000 vehicles imported in 2022 was a modest 12.7% rise on the year before. The value of vehicle imports in 2021 was just $588mn.

Chinese carmakers have done most of the running. Shipments of vehicles from China to Uzbekistan surged more than fivefold over that period, Gazeta.uz reported, citing State Statistics Agency data.

That means China’s automakers are now easily dominating market share for imports. Almost 80% of foreign-bought vehicles arrived from there in 2023, up from 36.9% in 2022. More cars are being imported from Germany, Japan, South Korea and the United States, but their market share is in relative decline.

Russia’s auto sector has experienced a total collapse in exports to Uzbekistan, meanwhile. More than 4,500 vehicles were shipped from there in 2021; that went down to 1,500 in 2022, the year that Russia incurred industry-sapping economic sanctions in response to its invasion of Ukraine, and now the numbers are so tiny that they are pooled together under the “other countries” rubric.

Another development of note is the rapidly growing demand for electric vehicles (EVs). President Shavkat Mirziyoyev said earlier this week that sales of these vehicles have increased 10-fold over the past three years. In 2023, 35% of vehicle imports were electric and hybrid vehicles, he said.

Mirziyoyev in December 2022 signed a decree mandating the installation of 2,400 charging stations for EVs over a two-year period. The same initiative required that all shopping, entertainment and business centres, gas stations, hotels and infrastructure facilities along highways built after January 1, 2024, be equipped with EV charging stations. Operators of the charging stations were under that decree permitted to set their own tariffs for electricity.

Variety in the car market is also being enabled by the arrival of more investors, again from China.

Mirziyoyev last month travelled to the headquarters of leading Chinese automaker BYD in Shenzhen to oversee a remote launch ceremony for an assembly plant of hybrid and electric cars to be built in Uzbekistan’s Jizzakh region. Once completed, the factory will turn out 50,000 units per year.

Mirziyoyev said at the ceremony that the plant needs to be upgraded “in the near future” to accommodate production capacity of up to 300,000 units.

BYD is only the latest Chinese automaker to set up shop in Uzbekistan.

Uzbek vehicle distribution company Roodell began assembling cars for Wuhu-based Chery Automobile in September 2022, also at a plant in Jizzakh.

This article first appeared on Eurasianet.
The Central Bank of Russia (CBR) has revoked the banking licence of Qiwi Bank, operated by the e-payment system Qiwi, the regulator announced.

Qiwi, one of Russia's most popular payment systems (operated under a banking licence), and was founded in 2007 by Sergei Solonin, Boris Kim and Andrei Romanenko. The latter left QIWI in 2017.

The regulator closed the bank, claiming it carried out settlements between individuals and shadow businesses and generally worked on a high-risk model, “including transfers of funds in favour of crypto exchangers, illegal online casinos, and bookmakers.”

The shuttering of Qiwi is the first bank that the CBR has closed in over a year and half. Following her appointment in 2013, CBR governor Elvia Nabiullina closed hundreds of banks, about three a week, as part of her comprehensive clean up of the sector that nearly caused a banking crisis in 2018 when she shuttered several of the so-called Garden Ring banks, amongst the largest privately-owned banks in Russia.

The bank was set up in 2007 and that same year, Qiwi launched its most popular service, e-wallets. In 2010, the group acquired its bank (later branded Qiwi), and in 2013 it held an IPO on Nasdaq. By 2010, the number of electronic wallets registered in the Qiwi system reached 40mn, and the market share of electronic payments was 45%.

The speed and ease of enrolment, and most importantly, anonymity, have made Qiwi the most popular payment system for participants in semi-legal and illegal markets.

The CBR said the bank opened virtual wallets for individuals without their knowledge and carried out transactions using them, the CBR claimed. It said that the bank made transactions “that have signs of committing criminal offences” in comments to law enforcement agencies.

The group’s first serious problems began at the end of 2020 and were related to servicing “grey” bookmakers and online casinos. Then the Central Bank prohibited Qiwi Bank from making payments to foreign trading companies and transferring money to prepaid cards of corporate clients for six months.

In July 2023, Qiwi Bank limited the withdrawal of funds by individuals from wallets to bank accounts and cash withdrawals due to the instructions of the Central Bank, due to “procedural problems,” the CBR said at the time, The Bell reports. Shortly before this, the QIWI group announced plans to divide its business into Russian and international parts.

As previously reported by bne IntelliNews, Qiwi sold its Russian assets to Hong Kong Fusion Factor Fintech Limited, which belongs to the CEO of the group Andrey Protopopov. The transaction price for the restructuring of the company was RUB23.75bn. Protopopov has stepped down from the board of directors and as a CEO of Qiwi, but will continue to lead the business in Russia.

And the group’s international business in Kazakhstan, the UAE and other countries will continue to develop within the framework of the US-listed Qiwi PLC.

“The speed and ease of enrolment, and most importantly, anonymity, have made Qiwi the most popular payment system for participants in semi-legal and illegal markets”
money abroad using cryptocurrency, it saw a whopping RUB1.5 trillion ($16.2bn) of transactions pass through its accounts in between January and September last year.

The Central Bank deliberately delayed revoking the licence, say analysts interviewed by Forbes, trying to reduce the number of payment transactions with regulations and restrictions. The revocation of the licence affected a disproportionately large number of people – the bank has 14mn active Qiwi wallets, or about 10% of the population.

Qiwi’s activities “were characterised by involvement in high-risk operations aimed at providing settlements between individuals and shadow businesses, including money transfers in favour of crypto exchanges, illegal online casinos, bookmakers, etc., as well as searching for new ways to circumvent restrictions imposed by the regulator,” the CBR claims.

Analysts surveyed by RBC believe that CBR shutting down Qiwi Bank ahead of the planned asset split could be related to the regulator’s fight against illegal online casinos, bookmakers, etc., as they could hide behind transfers to online shops.

Legal experts told Kommersant daily that while in theory Qiwi could try to challenge the CBR’s decision in court, the courts are very likely to side with the regulator.

Notably, the funds in electronic wallets are not insured under the deposit insurance system, the CBR commented, adding that Qiwi has enough funds to repay the holders of electronic wallets in full.

The state Deposit Insurance Agency reported that its insurance liability to Qiwi Bank depositors is estimated at RUB4.6bn ($49.7mn), with payments starting no later than 6 March 2024, according to Tass.

In 2020 and 2021, the capitalisation of the company dropped as the CBR limited the foreign operations of Qiwi Bank as part of the regulator’s crackdown on online gambling. The state’s decision to form a single betting operator also undercut Qiwi’s main revenue from online betting.

But in 2022 following the sanctions on the Russian financial system for the military invasion of Ukraine, Qiwi emerged as a specialist in payments and money transfers, including cross-border.

Despite the record-high 2022 revenues Qiwi’s board recommended not paying dividends, citing the impossibility of currently arranging a payout or share buyback with an equal opportunity for all shareholders.

Qiwi is registered in Cyprus and cannot settle securities through the sanctioned National Securities Depository. NASDAQ Stock Exchange said it would delist Qiwi along with Russian internet major Yandex, classifieds portal Cian, top three e-commerce major Ozon Holdings, and online recruitment platform HeadHunter (HHR).

Qiwi boosted its net IFRS revenue in 2022 by 48% year on year to a record-high RUB34bn ($0.4bn), while adjusted net profit was still down 22% y/y at RUB14bn. Corporate services segment was the main driver behind the top line expansion.”

Yandex N.V. leaves Russia in largest corporate exit since the start of the Ukraine war

Ben Aris in Berlin

One of the longest-running corporate sagas in Russia is finally coming to an end. Yandex N.V. – the Dutch parent of Russia’s biggest internet company – announced its exit from the Russian market on February 5, selling its Russian operations to a consortium led by the local management team for RUB 475bn ($5.2bn). This will be the largest corporate exit from the country since Russia invaded Ukraine in February 2022.

Yandex was among the early pioneers of the internet in Russia and has dominated the space for decades. The local management team is leading a consortium to buy the Russian operations and will continue to run the business there. The Dutch company (YNV), meanwhile, will focus on developing a portfolio of international businesses that co-founder and former CEO Arkady Volozh started working on after relocating to Israel in 2014. Volozh has effectively been side-lined from the operations since he was sanctioned in June 2022 by the EU.

YNV Chairman John Boynton explained the rationale for the transaction in today’s statement: “Since February 2022, the Yandex group and our team have faced exceptional challenges. We believe that we have found the best possible solution for our shareholders, our teams and our users in these extraordinary circumstances. The proposed transaction will allow shareholders to recover some value for the businesses that we are divesting, while unlocking new growth potential for the international businesses we will retain and enabling the divested businesses to operate under new ownership.”

YNV said in a statement emailed to bne IntelliNews.
The transaction itself will see YNV sell all of its assets in Russia, which have been consolidated into a new company incorporated in Kaliningrad. The consortium of buyers is led by the Russian management team, as well as a number of other financial investors: Argonaut (an investment fund owned by Lukoil); venture capitalist Alexander Chachava, businessman and former lawmaker Alexander Ryazanov, and Pavel Prass, an IT entrepreneur. None of the latter three are exactly household names; but after the board confirmed that they would not transact with any sanctioned individuals, the list of potential buyers started to shrink.

Once the sale is complete, YNV will hold no interest in the Russian businesses. As well as retaining its portfolio of international AI start-ups, YNV will walk away with the cash from the sale. The company says it plans to return a substantial proportion to shareholders, and also to retain some funding to finance the development of the four businesses: Nebius AI, Toloka, TripleTen and Avride.

The Dutch company – which will rename itself in the coming months – has announced ambitious plans to build up these startups into an AI-focused suite of global businesses, starting from Europe, the US, Asia and the Middle East, where the businesses are already in operation. Key to this ambition will be the approximately 1,000 engineers and developers who left Russia after the war began and are now setting themselves up in the Netherlands, Israel and various other locations.

Given the fate of other companies that have announced plans to leave Russia, Yandex seems to have negotiated a good deal. It is the biggest exit in cash terms by some margin – many other exits have been for nominal sums or seen foreign firms effectively write off their Russian operations. Most notoriously, the Kremlin has simply swooped in and nationalised or otherwise taken control of the Russian operations of a number of big-name international corporates – from Danone and Carlsberg among consumer names to Uniper, Fortum and Wintershall on the industrial side.

It remains unclear why and how Yandex escaped a similar fate, but it seems likely that a high-tech knowledge-based company of Yandex’s complexity would have posed a much more significant challenge to rein in, and with a much higher risk of a state takeover backfiring.

“The company has always had an independent streak and fought fiercely to maintain its special status. Looking at the “trusted hands” that other Western businesses have ended up in, it is hard to imagine who could have been found to run Yandex,” a source close to the deal told bne IntelliNews. “It remains important to the Kremlin to have a large and successful tech company and they realised that you can’t interfere with such a complicated company too much without running it into the ground.”

While the big takeaway from today’s deal may take some time to sink in – few journalists covering Russia probably ever thought they would be writing about Yandex’s parent company leaving the country. It does appear though to offer both the Russian and international parts of the company a way to move on.

“Yandex is a unique story. I am proud to have been a part of that story since the very beginning, and I am proud to be part of the next chapter. We believe that the proposed sale will position both parts of the current group to develop and grow for the benefit of their stakeholders,” said Boynton.

Another question is what happens to Volozh himself. An independent tech entrepreneur who left Russia a decade ago, Volozh never fit the profile of most sanctioned individuals, and his sanctioning by the EU in June 2022 came as a surprise. In August last year he became the first – to date only – EU-sanctioned individual to speak out publicly and slam Putin’s “barbaric” war in Ukraine. In response the Kremlin called him a traitor and Russian state media launched a crusade against him. The only other prominent Russian businessman to have condemned the war in public is Oleg Tinkov, the owner of Russia’s only purely online bank, Tinkoff Bank, who was also forced to sell out and leave Russia.

Initially, the EU accused Volozh of supporting the Russian government and the war. It seems clear to everyone (including the EU) that this is not the case. But the final remaining legal argument was that Volozh continued to hold shares in a company that owned a substantial business in Russia. Now that Yandex is leaving Russia, this is no longer true. Volozh has effectively burned any remaining bridges he may have had to Russia and will certainly never be allowed to do business there again, according to bne IntelliNews’ source.

What more the EU wants him to do is unclear at this point. With the EU actively discussing which sanctions to renew next month, now would seem to be the right time to take a closer look at the Volozh file.
Romanian government blocks sale of Fondul Proprietatea’s stakes in Bucharest Airports, Constanta port and Salrom

Shareholders of Fondul Proprietatea decided on February 13 to reject a proposal made by the fund’s manager Franklin Templeton to sell stakes in the national salt company Salrom, the Bucharest Airports company and Constanta port.

The Romanian government, a shareholder in Fondul Proprietatea, has a fundamentally different approach to Franklin Templeton. The fund manager’s policy is to bring Fondul Proprietatea’s price in line with the value of its portfolio and cash the portfolio as close as possible to its value. Meanwhile, the Romanian government wants to turn Fondul Proprietatea into a more active player, for example by investing into infrastructure projects financed under the National Recovery and Resilience Plan (PNRR).

The fund’s shareholders include the Romanian finance ministry with 10.4% voting rights and Romanian institutional investors (mainly pension funds) with 39.3% voting rights.

The government initially attempted to block all the exits planned by Franklin Templeton, for which it reportedly approached the pension funds to get support, but it failed to block the sale of Fondul Proprietatea’s stake in energy company Engie, a natural gas and electricity supplier and natural gas distributor.

Fondul Proprietatea will thus sell its 12% stake in Engie and will use the cash proceeds of RON433mn (€87mn) to buy back its shares.

“The reason behind our request [to stop all exits at Fondul Proprietatea] is the planned reorientation of Fondul Proprietatea on a medium- and long-term investment path, aligned with Romania’s economic development priorities. This realignment can be achieved by drawing a new mandate for the fund manager and by changing performance evaluation and remuneration indicators [for the fund manager],” Minister of Finance Marcel Bolos explained.

The Romanian government wants to involve Fondul Proprietatea to co-finance private equity investment funds that will be created under the PNRR. Romania aims to create up to 20 such funds, with a European financing of €400mn and local co-financing of at least €200mn.

“In perspective, the development of this ecosystem of private equity funds will offer the Romanian industry a wide, competitive, sophisticated and deep range of investors,” Bolos said.

In September, Fondul Proprietatea shareholders renewed Franklin Templeton’s mandate for just one year, as the Romanian government plans to find a different manager whose approach is more in line with its proposed development strategy.●
Protesting Bulgarian farmers flood Sofia streets with milk

Bulgarian dairy farmers flooded the street in front of the government building with milk on February 13, urging the cabinet of Prime Minister Nikolai Denkov to provide higher subsidies and change a deal on compensation for farmers whose businesses were hurt by Ukrainian imports.

The latest protest took place despite the government reaching agreements with several farmers’ organisations on February 12 and 13 in an attempt to stop the series of protests in the country.

Farmers in Bulgaria began protests two weeks ago, as part of demonstrations by farmers across the European Union, demanding more subsidies and better policies to help them respond to climate change.

On top of that, farmers across the eastern part of the EU say they have been badly affected by cheap imports from Ukraine, after the EU opened up to the Ukrainian market following Russia’s invasion in 2022.

Earlier this year, Agriculture Minister Kiril Vatev warned that the Ukrainian imports are flooding the market and that could cause problems with local production that cannot be sold.

Bulgaria’s government said it has signed an agreement for state support measures with two agricultural organisations that include several sectors amid ongoing protests of farmers across the country.

The agreement, signed late on February 12 with the Bulgarian Agrarian Chamber and the National Grain Producer Association, secures financial aid for the fruit, vegetables, livestock, dairy, meat, beekeeping and grain production sectors. The first payments will be made by April 22, the government said in a statement.

However, a committee comprising representatives of 26 agricultural organisations, rejected the agreement and continued the protests. These farmers demand policies that would protect the interests of all agricultural sectors and the immediate resignation of Vatev, saying that protests will continue in Sofia and on 25 roads across the country.

On February 13, Vatev reached an agreement with five of these organisations, according to a statement from the agriculture ministry. These five organisations will stop protests.

Vatev said the agreement includes 12 points and should be signed in the following days. Producers of mushrooms, nuts and potatoes will be provided state aid from budget funds.

The agriculture minister and the representatives of farmers have also agreed to form a working group to discuss the needs of the sector and policies that would help the agricultural sector increase productivity and become more competitive. 

Farmers tip milk onto the road as they demand higher subsidies from the Bulgarian government. / Association of Agricultural Producers in Bulgaria

www.bne.eu
Air Astana valued at $847mn in London and Astana IPO

Iulian Ernst in Bucharest

Air Astana Group, the leading airline group in Central Asia and the Caucasus regions in terms of revenue and fleet size, announced in a statement on February 15 that it has successfully completed its initial public offering (IPO), marking the largest privatisation in Kazakhstan to date with significant involvement from local investors.

The IPO, conducted simultaneously on three stock exchanges – the Kazakhstan Stock Exchange, Astana International Exchange and London Stock Exchange – had a total deal size of approximately $370mn (assuming full exercise of the over-allotment option), valuing the group at around $847mn.

The IPO garnered overwhelming interest, with substantial support from both local Kazakh investors, including retail and institutional investors, as well as the international investor community, Air Astana said. Local investors accounted for 58% of the offering, while international investors held 42%.

Demand from the local market exceeded $483mn, with approximately 60,000 orders from retail investors totaling around $216mn, the statement said. Retail investors received approximately 53% of their total demand. Kazakh institutional investors, including pension funds, received about 38% of their total demand, while international investors received around 25% of their total demand in the offering.

To ensure fairness, retail investors’ orders of $30,000 or below were allocated in full, with a pro-rata allocation for orders exceeding $30,000 based on the remaining amount, the statement noted. As a result, 97.8% of orders from retail investors were allocated in full.

Among the investors was the European Bank for Reconstruction and Development (EBRD), which injected $41.99mn (€39.02mn) into Air Astana shares, translating to a 5% stake.

As part of the IPO, the group raised $120mn in primary proceeds to expedite its growth trajectory. Existing shareholders, including Samruk-Kazyna and Kazakhstan’s Sovereign Wealth Fund as well as BAE Systems (Kazakhstan) Limited, sold shares (or GDRs representing shares), reducing their shareholdings to 41.0% and, assuming full exercise of the over-allotment option, 15.3% respectively.

Air Astana CEO Peter Foster commented: “This is a momentous occasion in the history of Air Astana as we officially become a public company. This IPO has been carefully constructed to ensure Kazakh investors receive the majority of the offering while also raising capital from the international markets.”

“Air Astana has come a long way since our maiden flight twenty two years ago. We have embarked on an extraordinary journey to become the largest airline in Central Asia and open the skies to millions of citizens across the region. It now gives me great pleasure to welcome on board our new shareholders as we share in the next stage of our growth story,” he added.
Tashkent Stock Exchange raising its game on marked gains in reform and retail

Odil Musaev

Delving into pivotal shifts of Uzbekistan’s capital market throughout 2023, Odil Musaev, managing director at investment banking boutique Alkes Research, offers some insights.

Path to progress: Uzbekistan stock market in 2023

The past year has left a notable mark on the trajectory of Uzbekistan’s stock market. In 2023, the market witnessed pivotal events, encompassing public offerings, remarkable shifts in retail investor dynamics and transformative regulatory and infrastructural changes.

Retail investment boom

Despite the high deposit interest rates offered by banks in Uzbekistan, reaching up to 27% annually, one of the most noteworthy phenomena of 2023 was the influx of tens of thousands of new retail investors. These individuals, entering the stock market for the first time, invested their funds in securities and became shareholders. This has had a strong impact on the overall dynamics of the stock market and has been reflected in the increased transaction volume on the Tashkent Stock Exchange.

Due to a sharp increase in retail liquidity, the number of exchange transactions surged fivefold (!) compared to 2022. In the past year, the stock exchange witnessed 411,900 securities transactions totalling 2.7 trillion som (~$215mn), with the value down by almost half versus 2022 given reduced activity in major privatisation and M&A deals.

The remarkable surge in retail investor numbers is chiefly attributed to the rapid growth of fintech, notably with the introduction of the mobile investment service Jett.uz. This innovation has allowed people from all over the country to access the purchase of securities through various mobile apps.

Despite the fact that the total trading volume through Jett amounted to just 15.59bn som (~$1.3mn), the number of transactions on the secondary stock exchange through the service exceeded 320,000, representing over 80% of all operations on the Tashkent Stock Exchange. This vividly illustrates the heightened interest of the population in securities.

Prices became more attractive

In 2023, the widely followed EQRE Blue index of liquid stocks declined by 5%, despite the UCI stock exchange index rising by 82%.

By the end of the year, the majority of blue-chip stocks found themselves in the red zone, despite the earlier growth observed in many shares during the spring-summer dividend rally. This once again confirms the emergence of seasonal trends in the local market.

The only sector that demonstrated positive dynamics was the banking sector: shares of the private bank Hamkorbank (HMKB) surged by over 90%, marking the second consecutive year as the best investment. Additionally, common shares of Ipotekabank (IPTB) increased by 8% due to the acquisition of a majority stake by the Hungarian OTP Bank for $324mn, nearly 50% above the market price.

The construction industry exhibited the most negative results, represented by the stocks of the glass plant Kvarts (KVTS), privatised last year, and the stocks of leading cement producers, namely Kizilkumcement (QZSM) and Kuvasaycement (KSCM). Additionally, shares of the leading black metallurgy player,
Uzmetkombinat (UZMK), were influenced by adverse trends, despite offering the market's maximum dividend yield at 14%.

Investors were also pleased with substantial dividend payouts from the Uzbek Commodity Exchange (URTS) at 11%, and the automaker UzAuto Motors (UZMT), which went public in 2023, providing a yield of 5%.

**More blue chips**

Privatisation in Uzbekistan is gaining momentum, including through “People’s IPOs”. For the first time, three public offerings took place within a year: the UzAuto Motors IPO concluded early in the year, raising approximately 57bn som (~$5mn); and towards the end of the year, investors witnessed the success of two additional public offerings. One involved the largest telecom operator, Uzbektelecom, raising 33.25bn som (~$2.7mn), and the other featured the state insurance company, Uzbekinvest, placing preferred shares amounting to 14.11bn som (~$1.2mn).

The recognition of issuers, effective marketing campaigns by underwriters, and the integration of modern Invest-Tech solutions collectively facilitated the attraction of over 10,000 new investors. This ultimately had a positive impact on market liquidity, with shares being traded in relatively robust volumes in the initial weeks of trading.

**Mysterious debt**

The debt market is notably less active, despite witnessing an almost sevenfold increase in the number of transactions over the year, primarily attributable to retail investors. As of the end of 2023, the central depository records corporate bonds issued by 33 entities, with a cumulative nominal value of 1063.4bn som. Among these, 26 companies, in the form of limited liability companies, have issued bonds totalling 669.19bn som, which became possible in Uzbekistan a couple of years ago – previously, only companies structured as joint stock companies could issue corporate bonds.

The average coupon yield on bonds is 22-27%, and the maturity 18-36 months. The highest yields are offered by several microfinance organisations, which were allowed to raise funds through bond issues.

However, fixed-income instruments are not currently attractive to retail investors due to high competition with guaranteed bank deposits. Nevertheless, they may be of interest to institutional investors or commercial organisations looking to “park” excess liquidity. Additionally, at present, thanks to ongoing reforms in the country’s capital market development, bond yields are not subject to taxation.

Arguably, the most significant event in the domestic debt market was the country's inaugural issuance of "green" bonds amounting to 50bn som (~$4 million) with a maturity of five years. The issuance was conducted by the holding company Saipro Group with the support of the Uzbekistan Direct Investment Fund and verification from the AIFC Green Finance Centre.

This transaction marks a crucial milestone in shaping the domestic market for GSS+ (Green, Social and Sustainability) instruments and serves as another testament to Uzbekistan’s consistent transition towards a green economy and sustainable development.

**New regulator, new opportunities**

The ongoing administrative reforms have also impacted Uzbekistan’s financial market, with the National Agency of Prospective Projects (NAPP) appointed as the new regulator of the capital and insurance markets.

The new roadmap for capital market development has received a positive reaction from professional market participants. Major infrastructure and regulatory transformations are anticipated, including the establishment of a bridge between global depositories Clearstream and Euroclear, the adoption of a unified capital market law, advancements in corporate governance, the introduction of new financial instruments and much more.

Substantial reforms are currently under way – the end of the year witnessed several pivotal events for the market: the central depository has been transferred to the central bank, the national clearing centre has been established, a new trading board for large transactions has been launched on the Tashkent Stock Exchange, and the main resource of corporate information, Openinfo.uz, has undergone comprehensive updates.

Moreover, it is important to note that, for the first time in the securities market sphere, a “regulatory sandbox” is being launched. Similar special regimes have proven successful in various countries, including Uzbekistan in the cryptocurrency market, serving as a truly effective mechanism for refining regulation.

**London welcomes Uzbekistan again**

In 2023, Uzbekistan made significant strides in the international capital market. Eurobonds worth $660mn and the first “green” bonds issue worth 4.25 trillion som (~$340mn) were successfully placed on the London Stock Exchange (LSE). The deal with “green” bonds can rightly be called historical – it is the first such sovereign issuance among the CIS countries.

Due to the high demand for GSS+ bonds from institutional investors and the meticulous groundwork by the Ministry of Economy and Finance (MoEF), the central bank and transaction consultants, the yield on the 3-year UZS-denominated international “green” bonds was successfully reduced from the expected 18% to a competitive 16.25%. This rate is notably favourable, particularly when compared to the ~17.5% rate at which domestic government bonds were issued at that time. Regarding the 5-year eurobonds with a maturity of five years and a yield of 8.125% (7.85% coupon), the issuance was over-subscribed by almost three times.

Placing these bonds on the LSE under such favourable conditions, considering the global market situation, reflects the
optimistic view of the global investment community toward Uzbekistan's dynamically developing economy.

**Looking ahead**

In 2024, reforms in the development of the capital market, particularly the stock market, are set to continue. Several IPOs of state-owned companies are expected, along with bond issuances focusing on sustainability.

It can be confidently stated that, thanks to modern technologies and the emergence of new blue chip companies, the number of retail investors will rapidly increase, positively impacting market liquidity. This trend will be further supported by active government initiatives, including tax incentives for investors, the development of employee stock ownership programs (ESOP) and the expanding admission of foreign investors to the local exchange.

Certainly, the Uzbekistan stock exchange is characterised as a “thin market”, which is typical for frontier markets. However, this particular feature creates attractive opportunities for institutional investors interested in developing countries, offering the potential for high returns.

The gradual establishment of a favourable investment environment and positive forecasts from international development institutions regarding economic growth will also contribute to strengthening the positions of the Uzbekistan stock market in the eyes of foreign investors.

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**Czech cabinet ministers clash over euro adoption again**

**Albin Sybera, Robert Anderson in Prague**

Czech Minister of European Affairs Martin Dvorak's appointment of economist Petr Zahradnik as envoy for adopting the euro currency has provoked another dispute inside the centre-right cabinet over the timetable for joining the eurozone.

Prime Minister Petr Fiala (ODS party) has called a five-party coalition summit in response to the Mayors Party politician's move. “Based on the request of one of the coalition parties in response to the one-sided step of Minister Dvorak, the prime minister called the coalition's 'bargaining and litigating' meeting”, cabinet spokesperson Lucie Jesatkova told media on February 5.

Dvorak, a member of the centrist Mayors Party, wants the government to take a decision to join the European Exchange Rate Mechanism (ERM II), a precondition for eventual membership, but the ODS, the largest party in the coalition, has long opposed membership for ideological reasons.

An analysis prepared for the ODS-run finance ministry last November said the risks of joining the eurozone were low but still did not recommend joining, provoking a cabinet row.

Czechia committed to adopting the euro as part of its EU accession conditions in May 2004, but several successive cabinets have not made any concrete steps towards it yet despite calls from pro-adoption economists and industrialists. Countries need to spend two years proving their currency stability inside the ERM II, meaning that, if a decision to join were made this year, a future government would actually take Czechia into the eurozone.

Dvorak said Zahradnik’s role should be to communicate euro-related policies towards the public, including the question of joining the ERM II.

Discussion over the euro has up to now been dominated by rightwing and populist parties, who oppose joining because it would arguably diminish Czech sovereignty and there is a risk the country would have to pay for the budget profligacy of eurozone members such as Greece.

Supporters point to the Czech economy’s close ties with the bloc – especially Germany, the destination of a third of Czech exports – arguing that membership would cut transaction and borrowing costs and remove currency risks. The Czech economy has already largely converged – GDP per capita on a
purchasing power basis was already 90% of the EU average in 2022. Some supporters also argue that eurozone membership would cement the country's position in the West at a time when populists in the region are looking east.

However, the eurosceptic wing inside Fiala's neoliberal ODS opposes euro adoption, as have several of the country's central bankers in the recent past, arguing that the country needs the flexibility of its own monetary policy or that it needs to converge further with the richer Western Europe or more structural reforms. Because of the ODS' resistance, the coalition cabinet did not commit to adopting the euro.

The calling of the five-party coalition summit is the first time this format of addressing disagreements inside the coalition will meet. The format is also designed to address issues not sufficiently addressed by the cabinet programme.

The chairman and two vice-chairmen from each party will attend the ‘bargaining’ part of the meeting while the ‘litigating’ part will take place in the coalition council format, which includes party chairmen and vice-chairmen, the chairmen of parliamentary fractions and the top manager or secretary from each party.

Jesatkova stated that the meeting will discuss “competencies and the need to maintain a common coalition stance in key political themes”.

This year the euro issue has returned to the top of the agenda after several high-profile economists and public figures called on the cabinet to address it. In particular, President Petr Pavel said during his New Year's speech that “it is about time that after years, we begin to make concrete steps which will lead us to fulfilment of this obligation”.

According to a recent survey conducted by the Association of Small and Medium-Sized businesses and Entrepreneurs (ASMP), a slight majority of its members are in favour of euro adoption – 39% of 600 members are in favour of adoption as soon as possible when Czechia fulfils the Maastricht criteria, 12% are in favour but later, and 39% are against euro adoption.

Some 80% of Czech exports go to the EU and many large exporters, such as VW-owned carmaker Skoda Auto, already take advantage of the ability to do their accounts and file tax returns in euros.

On the other hand, 68% of Czechs think euro adoption won't be advantageous, a Median poll from January shows.

The former vice governor of the Czech National Bank, Oldrich Dedek, said in an interview for Czech Radio last week that the “the public is in [a] negative mood towards [the] euro” and under the “Eurosceptic rhetoric” of both oppositional and ruling political parties.

A majority of Czech economists are still not in favour of joining the eurozone, Pavel Sobisek, chief economist of UniCredit’s Czech subsidiary told bne IntelliNews last month, though he himself supports joining as soon as practicable. “I can't see a reason why we should not be a part of the eurozone,” he said.

“The key obstacle is the opinion of the general public, which is still influenced by [former ODS premier and president] Vaclav Klaus,” he added.

Sobisek also explained the reluctance of the central bank board as caused by its own institutional interests. “Carp get rid of their own pond,” he commented. “But if there is a clear political task to join the eurozone, the central bank would do its best.”

Prime Minister Petr Fiala has called a five-party coalition summit in response to the Mayors Party politician’s move. / bne IntelliNews
The UK government is revealed to be planning to pay TikTok influencers to dissuade migrants from crossing the Channel, with a particular focus on Albania and other countries known for contributing to illegal migration to the UK.

The initiative, revealed by The Times, aims to target migrants in conflict-free countries, particularly young working-age men and their families, encouraging them to consider the risks associated with illegal migration to the UK.

There are plans to offer substantial sums of money to social media influencers in regions with high levels of illegal migration, aiming to dissuade potential migrants from undertaking perilous journeys via small boats. The influencers will also be tasked with highlighting the risks of deportation to Rwanda, according to the report.

The scheme would circumvent a ban on direct government advertising on TikTok, which was implemented last year due to security fears.

According to The Times, the campaign is budgeted at £1mn (£1.2mn) in total. It will include mass campaigns in countries such as Albania, Iraq, Egypt and Vietnam, with potential expansion to Turkey and India.

A significant portion of the budget, approximately £380,500, would be allocated to an extensive advertising campaign in Albania.

Additional funds of £15,000 are earmarked for influencers in Egypt and Vietnam.Allocations for Turkish, Iraqi, and Indian influencers are yet to be determined, although there is a total budget of £576,500 for these regions.

Multicultural Marketing Consultancy (MMC) has reportedly been contracted by the Home Office to identify suitable candidates.

According to the report, in Albania influencers like rapper Omg Dioh and comedian Roxhi Dibrani have been identified as key figures. Dioh, with 100,000 followers, and Dibrani, with an audience of 150,000, would be paid to leverage their influence to dissuade potential migrants.

However, some influencers have already said they have no intention of participating.

Albania has a high level of emigration as Albanians seek better opportunities in the UK and other West European countries. / bne IntelliNews
‘Amazon of the Balkans’ Ananas announces regional expansion plans

Serbia-based e-commerce platform Ananas plans to enter Bosnia & Herzegovina and Montenegro in 2024, the company’s owner, Serbian Delta Holding, said on February 1.

Ananas was launched with the aim of creating a regional platform with a presence across the Western Balkans – one executive told bne IntelliNews of its ambitions to create the ‘Amazon of the Balkans’. The region as a whole lags behind Western and Central Europe in online retail but the sector is growing.

Marija Cvetkovic, senior vice president for strategy and development at Delta Holding, said on February 1 that the company sees significant potential in both Bosnia and Montenegro, following its previous investment into North Macedonia.

“Ananas e-commerce is still in development, but recorded fantastic results in the second year of operation,” said Cvetkovic, as quoted in the company’s press release.

“For many retailers, Ananas has become the number one sales channel. In 2024, the key word for Ananas is expansion – after North Macedonia, we are opening the markets of Montenegro and Bosnia & Herzegovina.”

Ananas intends to expand to Montenegro in the first half of the year and to enter Bosnia at the beginning of the second half of 2024.

Cvetkovic also said in the future Ananas plans to expand to Albania and Kosovo.

In October 2022, Ananas officially became the owner of the Macedonian online shopping brands Grouper.mk and Paopao.mk, after it acquired 100% of Vebspot company from Payten.

Ananas CEO Marko Carevic said at the time that the company’s plan is to offer the largest marketplace in North Macedonia with a wide range of products, as well as safe and fast delivery.

Grouper (grouper.mk) was set up as a startup by former ex-finance minister of North Macedonia Nina Angelovska in 2011, and sells vouchers for services. Angelovska has joined Ananas to head up its international business development.

Paopao.mk is an online marketplace.

Marija Cvetkovic, senior vice president for strategy and development at Delta Holding, outlines plans to expand Ananas in the region.

Croatian Project 3 Mobility raises €100mn in investment round

Cautonomous mobility ecosystem developer, has closed its Series A investment round, securing approximately €100mn from private investors, the company reported in a press release on February 6.

The funds raised will be used for the further development of the project’s components and the delivery of P3’s urban autonomous mobility ecosystem. P3 is developing its own autonomous electric vehicle, specialised infrastructure and mobility service. Investments will also facilitate the expansion of the team.

The investment round attracted interest from both Croatian tech champions and global companies and investment funds, including prominent investors from the Middle East.

TASARU Mobility Investments (TASARU), a company owned by one of the world’s largest investment funds, Public Investment Fund (PIF), made its first investment outside Saudi Arabia in P3.

Other investors in the company include South Korean automaker Kia, website hosting technology company
SiteGround, Croatian tech company Infinum, Croatian electric hypercar producer Rimac Group, investment group Neurone and Qatar’s Elaf Auto.

“We are very happy with the closing of this investment round and bringing on board such strong investors to support us in achieving our bold vision,” said Marko Pejkovic, CEO of Project 3 Mobility.

The company’s aim, according to Pejkovic, is to revolutionise mobility and enhance the quality of life in urban areas. “We believe our project will bring significant benefits for Zagreb and Croatia, as well as many other cities worldwide where we plan to launch our service,” he said.

“Looking ahead, over the next two years we continue to attract private capital, aligned with the needs of our project’s implementation. We have a team that is enthusiastic about the journey ahead and the positive impact our service will have on communities,” Pejkovic added.

In May 2023, P3 received a €179.5mn grant from the European Commission, under an investment approved as part of Croatia’s National Recovery and Resilience Plan.

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Kosovo’s incumbent telco promises 5G services after massive investments this year

Kosovo’s state telecom operator Telecom of Kosovo, a business unit of Post and Telecom of Kosovo trading as Vala, will start delivering 5G services as of mid-2024, as the company is investing massively to improve its outdated infrastructure, company’s CEO Burbuqe Hana told Telegrafi in an interview.

“We have earmarked €13mn for investments in the coming year and another €12mn in the next three-year period. After a long time without investments in technology we will invest heavily this year,” said Burbuqe.

The lack of investments, platforms and old technology are challenges that Telekom has been facing for more than seven years, but the company is already on a good path “to return as a leader in telecommunications services in the Republic of Kosovo”, Burbuqe said.

She explained that the number of antennas will be increased so that Vala services can be extended to every place in Kosovo.

“For example, Pristina and the region will be covered with 4G+ and 5G technology by the end of June. While for other municipalities, we believe that by the end of 2024 the infrastructure will be extended and quality services will be offered,” she stated.

In addition to the mobile telecom services, the investments will target broadband internet services with plans to expand the fibre optic network.

The company posted profits in 2023 for the first time since 2015, after the company designed a recovery strategy in 2022 and contracted a loan to finance it.

Last February, the Regulatory Authority for Post and Electronic Communications (ARKEP) awarded Telecom of Kosovo and IPKO two 5G licenses. In December, Telecom of Kosovo signed a deal with Ericsson Nikola Tesla, a Croatian subsidiary of Ericsson, to modernise the operator’s mobile network, including 5G broadband.

“We have earmarked €13mn for investments in the coming year and another €12mn in the next three-year period. After a long time without investments in technology we will invest heavily this year”
The Kremlin's creeping control over Russia's internet

Russian officials are poised to try to shut off the Virtual Private Networks (VPNs) starting in March, according to Yekaterina Mizulina, the head of the Kremlin-supported Safe Internet League. These are widely used to dodge restrictions on access to international pages on the internet as the Kremlin intensifies its efforts to control the content its citizens have access to.

Mizulina told a meeting of school children that the government has been tightening its access to Western social media and independent news outlets in the wake of the Ukraine invasion.

Mizulina described VPNs, particularly free ones, as a “total portal into hell,” stressing the perceived security risks they pose to users’ devices. She confirmed that the government is “most likely” to proceed with the VPN ban on March 1. However, she noted the technical challenges in enforcing a complete ban, indicating that the focus would be on curtailing the most widely used VPN services.

The move is the latest in a long-standing effort by the Kremlin to take better control of the internet as part of the rising repression of the Putin regime.

Russia enjoyed a heyday of information freedom in the Yeltsin era when privately owned stations like NTV were launched and brought unvarnished reporting to the airwaves. At the same time, new newspapers such as Russian Telegraph, Russian Newsweek and Vedomosti – a joint venture between the Moscow Times’s publisher Independent Media, the Financial Times and the Wall Street Journal – were launched along with a plethora of news and other information sites such as TV Dozhd (TV Rain).

But after Putin took over there has been a long slow campaign of regaining control over the bandwidths of alternative news sources.

The TV stations have long since been returned to state control. The biggest privately owned station, STS, is an entertainment channel and told bne IntelliNews in off-the-record remarks a few years ago that it simply wouldn’t broadcast political content, as “it’s not worth it.”

The first thing that Russian President Vladimir Putin did on taking office in 2000 was to drive oligarch Boris Berezovsky into exile, who had taken control of ORT, now known as The First Channel, and throw Vladimir Gusinsky into jail, the founder of NTV, which was rapidly acquired by Gazprom Media.

The press was also under pressure but the first major broadside was the introduction of a 20% cap on foreign ownership of Russian media in October 2014 and that, among other things, forced the Financial Times and the Wall Street Journal to sell their shares in Vedomosti – a runaway success and the most respected newspaper in the country. It was taken over a year later by structures controlled by the Kremlin.

Getting control of the rest of the online media has not been so easy. Adopted in 2016, new Russian legislation (dubbed ‘Yarovaya law’ or ‘Big Brother law’) requires messenger apps and other “organisers of information distribution” to add additional coding to transmitted electronic messages so that the Federal Security Service (FSB) can decipher them.

In a hilarious bodged job, in 2018 the FSB tried to force Pavel Durov, the owner of a popular message service that benefits from uncrackable encryption, to hand over his security keys so the authorities could read everyone’s messages. He refused. The FSB tried to shut the service down. What followed was a game of cat and mouse, where Roskomnadzor, the agency responsible, tried to close down Telegram’s servers, only to be hopelessly outclassed by the Russian tech whiz kids, who hopped from server to server constantly one step ahead. At one point the only thing that Roskomnadzor managed to achieve was to shut down its own site, while Telegram continued to work perfectly.

In a brazen act of defiance a few days after the authorities tried to block the service, Durov sent a message to everyone on Telegram calling on them to throw paper aeroplanes (the company’s logo) out of their windows at the same time. Thousands of paper planes appeared falling like snow to the
ground in the middle of April, 2018. A crowd appeared in central Moscow where more planes flew.

After two years of abject failure to enforce the ban on Telegram, the Duma finally caved in and passed a law to unban Telegram in the summer of 2020.

But the Kremlin has learnt a lot since then and the repression became overt after the return to Russia of opposition blogger and anti-corruption activist Alexei Navalny in January 2021, who had been convalescing in Germany after he was poisoned by the state using the military-grade poison Novichok.

With the Kremlin’s human rights record now in tatters, the gloves came off and opposition media were simply shuttered, their business models wrecked and their staff either arrested or driven into exile. Those outlets that soldier on are now required to carry “foreign agent” warning notices in bold caps at the top of every article and face constant harassment.

Nevertheless, unlike China where the state has total control over online content, Russia’s internet remains relatively free, with many outlets having simply moved to countries such as Latvia and available to the tech savvy Russian population that are adroit in the use of dodges like VPNs.

“With the Kremlin’s human rights record now in tatters, the gloves came off and opposition media were simply shuttered, their business models wrecked and their staff either arrested or driven into exile”

Roskomnadzor’s technical capabilities have improved a lot since the Telegram fiasco. It has invested heavily in new technology, such as traffic filtration technology named Deep Packet Inspection, a lot of it supplied by US firms, and now seems to have gained the ability to shut off services like Telegram at will, which it has used at recent protests such as those recently in Bashkortostan.

Clearly the Kremlin was watching the mass demonstrations in Minsk in the summer of 2020 following Belarus’ falsified presidential elections, where the Nexta Telegram channel played a crucial role in organising an otherwise leaderless protest movement.

The authorities limited access to the messenger apps Telegram and WhatsApp during recent unrest in Bashkortostan; users in Yakutia, which experienced protests over the murder of a local man, also reported problems with accessing the two messaging apps, as did residents of several other Far Eastern regions a week later. On January 24, messenger services stopped working in two regions of the Far Eastern District of Russia – Khabarovsk region and Yakutia, where there was an interethnic conflict. There was no obvious reason for the shutdown in the Khabarovsk region.

Officially these disruptions were triggered by “work agreed with Roskomnadzor”, but residents believe that they are due to the protests.

In Yakutia the locals have made heavy use of online messaging to complain about the sorry state of the region and the messaging services outages, complaining en masse on social networks about the problems, The Bell reports. One of the few “platforms” on which they try to “reach out” to the local authorities is the page of the Head of the Republic Aysen Nikolaev on the Vkontakte Russian social network. Since Nikolaev writes nothing back, the disgruntled have been leaving their comments under all official posts available for comment.

“Turn WhatsApp back on! All of our life goes through the Internet, work, study, shopping, etc, etc. What kind of discrimination is this? Or turn on wi-fi for everyone,” indignant residents of Yakutian cities wrote, cited by The Bell.

LTE mobile internet was also briefly down in and around St Petersburg at the end of January, as well as in the Pskov and Novgorod Regions. Observers pointed out that this could be an attempt to thwart the flight of Ukrainian drones that rely on mobile networks after several Ukrainian attacks on oil and gas infrastructure in Russia’s northwest as part of the new drone war Ukraine has launched.

“It seems that the Russian authorities are actively preparing for mass protests and have already technically tested ways to make coordination between protesters through messengers more difficult,” The Bell said in a report.

The authorities are also trying to build internet infrastructure that is ringfenced from the rest of the world and the theoretical ability of the US to turn Russia’s internet off. A National Domain Name System (NDNS) was set up in 2019 in an attempt to isolate the Russian segment of the internet from access points linking it with the rest of the world – the “sovereignisation of RuNet” as the Cyrillic version of the internet is known. All big corporations are now required to connect their networks to the NDNS.

The system is not functional yet, but the country-wide internet outages of .ru sites in the last week of January have led some to speculate that the cause of the problems could have been a test of this system.

“The failure in the .ru domain zone had occurred because of a technical problem with the Domain Name System Security Extensions (DNSSEC) infrastructure, the .ru/ff domains co-ordination centre said earlier,” Roskomnadzor said on January 30.

Russian mobile operators quickly announced that there was
nothing wrong with their mobile data network, and sites in foreign domain zones and large messengers also continued to work without issues.

Even if the problems have an innocent cause, the Russian government is clearly ramping up its efforts to control the country's digital infrastructure, both as a repressive tool and as a means of protection against what the authorities perceive as foreign threats.

The Kremlin's control over RuNet is far from complete, but it has made great strides in increasing its control, as its ability to shut down messaging services in the protests of recent months show.

The start of the war in Ukraine and exit of most of the big international players from Russia like Google have provided the Kremlin the opportunity to make more gains. The state has backed internet giant VK, the so-called Facebook of Russia, which has been taken over by Vladimir Kiriyenko, the son of former Prime Minister Sergei Kiriyenko and head of political projects in the presidential administration.

While other leading internet companies have been restructuring or downsizing their ambitions, VK has been on a shopping spree, snapping up multiple online companies in multiple niches, increasing the state's influence over the entire e-commerce ecosystem. And the group appears to be adopting a new strategy: focusing on growing its flagship social media platform as much as possible.

But the Kremlin is not hell bent on simply owning the internet. As bne IntelliNews reported, a deal to break up Yandex into its Russian and international business was announced on February 5. However, rather than just plant a friendly oligarch at the top of what was Europe's most valuable tech company, the Kremlin has held back and left the control of Yandex largely in the hands of its existing management. While a dairy producer or brewer can be handed over to a Kremlin crony in a get-rich-quick scheme, that would be a death sentence for the large and sophisticated internet giant. The Kremlin also has ambitions to modernise its economy and understands the need for a flourishing and innovative tech company.

Russian internet major VK buys 70% in Many Apps developer

bne IntelliNews

Russian state-controlled internet major VK (former Mail.ru) bought 70% in the Many Apps (Mnogo Prilozheniy) developer, which was among other projects one of the developers of the RuStore mobile app shop, according to Vedomosti daily.

The amount of the deal is not disclosed and the remaining 30% in Many Apps are held by Red_mad_robot digital business solutions developer. VK commented that the deal is aimed at strengthening the digital product development team.

Notably, the deal could signal a new type of acquisition on the Russian market – aimed at buying ready-made teams amid severe qualified personnel shortages.

An IT market source familiar told Renaissance Capital that the "shortage of qualified personnel" was behind the VK and Many Apps deal, that "in this situation, attracting ready-made teams through the acquisition of an asset is a normal solution."

As followed by bne IntelliNews, after the military invasion of Ukraine, now state-controlled VK has started to shed assets, focusing on establishing domination in the Russian digital and social media space.

The company sold its market-leading gaming division and swapped its key foodtech services for media assets of another internet peer, Yandex.

However, the consolidation has had an adverse effect on VK's leverage. The company ended 2022 with a negative cash flow of RUB12bn (versus RUB4.5bn positive FCF in 2021) due to capital expenditure soaring 60% to RUB20bn. This pushed the company's net debt soaring four-fold y/y to RUB85bn as of the end of 2022, or 4.2x debt/EBITDA, with a net cash position of RUB49bn.

VK previously posted 4Q22 revenue growth of 19.5% year on year to RUB32bn ($0.4bn), but saw EBITDA decline by 30% to RUB4.8bn, making a 15% margin.
Oil and gas companies to invest over $1 trillion in the next decade expanding production / bne IntelliNews

A report from climate campaign group Global Witness reveals that the fossil fuel sector is anticipated to allocate more than $1 trillion worldwide over the next decade for the expansion of natural gas production.

Instead of weaning itself off fossil fuels, Europe will play a pivotal role in driving the surge in investment as it rushes to replace the missing Russian gas thanks to sanctions and the destruction of the Nord Stream 1 & 2 pipelines last year.

Approximately $223bn will be invested in expanding European fossil fuel production and developing new gas extraction sites to meet the continent’s growing demand for energy.

The report highlights that Shell, TotalEnergies, ExxonMobil, Equinor and Eni are expected to be among the top investors, contributing a combined $144bn to gas supply projects for Europe. Annual expenditure by the top 20 companies producing for Europe is set to increase by three-quarters, from $60bn in 2024 to $105bn in 2033.

“Burning the fossil gas alone from forecast production for Europe – 3,486bn cubic metres – would emit 6.6bn tonnes of carbon dioxide between now and 2033 – equivalent to 23 years’ worth of France’s carbon emissions,” Global Witness said. “The 6.6bn emissions figure is for carbon dioxide only, and would be significantly higher if it included methane emissions.”

Global Witness urged a reconsideration of Europe’s reliance on fossil gas and a more accelerated transition toward sustainable energy alternatives.

The International Energy Agency (IEA) estimates that the EU will account for 66% of the overall gas volumes consumed in the wider European region in 2024, with its share staying virtually the same in 2030 at 65%.

**Soft market in the short term**

Despite the anticipated long-term growth in demand for oil and gas, in the short term oversupply has weakened demand. Nevertheless, both the oil and gas market are set to be more comfortable than originally anticipated this year. Strong non-OPEC+ supply growth has shrunk the size of the oil deficit in 2024, while for natural gas, European storage is set to finish the season well above average, suggesting limited upside for prices, according to ING.

Dominic Eagleton, senior fossil fuels campaigner at Global Witness, said: “The numbers are stark – Europe is hurtling down a dangerous path by doubling down on fossil gas, and
needs to pull out all the stops to end the age of fossil fuels. The European Commission must seize its chance to quicken Europe’s exit from gas and set 2035 as a target date to phase out this costly, crisis-ridden and climate-boiling fossil fuel.”

The US is also contributing to the problem after it became the biggest oil and gas producer and exporter in the world in 2023, despite its nominal commitment to reduce the use of fossil fuels.

The bullish outlook for the oil market has softened in recent months, given stronger-than-expected supply growth from non-OPEC producers in 2023, predominantly driven by the US. However, growth was also seen from Brazil, Guyana and Norway. Stronger non-OPEC supply has meant that OPEC+ has had to take further action to try to keep the market balanced and is likely to extend its production cuts for the rest of this year.

“The additional voluntary supply cuts announced by a handful of OPEC+ members at the end of 2023 amounted to 2.2m barrels per day. However, 1.3m bpd was the rollover of existing cuts from Saudi Arabia and Russia, which means that the market sees around 900,000 bpd of fresh cuts for the first quarter of this year,” ING said in a note.

This action from OPEC+ has ensured that the surplus that was expected in the second quarter has been erased. However, ING’s analysis shows that the market will return to a fairly large surplus in the second quarter if OPEC+ do not roll over these cuts into the second quarter.

Warning of new ice age in Europe as currents in the Atlantic approach a catastrophic tipping point

Ben Aris in Berlin

The currents that circulate in the Atlantic are approaching a “tipping point” that will change the way water flows around the oceans of the world and could cause a return to ice age conditions in Europe, according to a new study.

The currents of water, known as the AMOC, or Atlantic Meridional Overturning Circulation, determine the world’s weather patterns by moving huge volumes of warm or cold water around the globe that in turn drives the wind and rainfall.

If these currents change course, then monsoons could be permanently displaced, turning previously lush regions like the Amazon arid and bringing Russian-like winters to Europe. Changing the AMOC patterns will have far-reaching consequences and would probably cause a cascade of other environmental disasters, say the experts.

The AMOC has remained stable for thousands of years, but now the tell-tale appearance of a very warm concentration of water off the east coast of the US together with a “cold blob” in the sea to the south of Greenland, visible in the image, are ringing alarm bells.

The way it works is warm salty sea water flows north where it meets fresh snow and ice-melt water. The heavier salt water sinks to the ocean floor creating a seabed current of cold water that flows south again.

“The AMOC has a tipping point beyond which it breaks down if the northern Atlantic Ocean is diluted with freshwater (by increasing rainfall, river runoff and meltwater), thus reducing its salinity and density. This has been suggested by simple conceptual models since Stommel in 1961,” Professor Stefan Rahmstorf at the Potsdam-Institute for Climate Science said in a blog.

With last year’s sea temperatures at highs not seen for thousands of years, this pattern is approaching a tipping point where the directions of the currents may change and once they have passed this tipping point the changes can’t be undone, even if the sea cools to its long-term average temperatures again.

A very rough schematic of the AMOC: warm northward flow near the surface, deep southward return flow in 2000 - 3000 meters depth. In the background the observed sea surface temperature (SST) trend since 1993 from the Copernicus satellite service, showing the “cold blob” in the northern Atlantic west of the British Isles. Graph by Ruijan Gou.
The last AMOC breakdown occurred about 12,000 years ago and triggered the Younger Dryas cold event around the northern Atlantic, a rapid return to ice age conditions in parts of the Northern Hemisphere.

The new study provides much more detailed and higher resolution simulations of the impacts of an AMOC collapse on climate than in the past, albeit considered in isolation and not combined with the effects of CO2-induced global warming.

They show how particularly northern Europe from Britain to Scandinavia would suffer devastating impacts, such as a cooling of winter temperatures by between 10 °C and 30 °C occurring within a century, leading to a completely different climate within a decade or two. London’s climate could become that of Stockholm and Stockholm that of Siberia. In addition, they show major shifts in tropical rainfall belts that will radically change the biosphere of large swathes of major land masses in Africa, Asia and Latin America.

“These (and many more) impacts of an AMOC collapse have been known for a long time but thus far have not been shown in a climate model of such high quality,” Rahmstorf said.

The idea of an AMOC tipping point has been around for a long time, but the research demonstrated for the first time in a state-of-the-art global coupled climate model that not only is it possible, but it has a 95% certainty of happening before the end of the century, according to another study by Peter Ditlevsen published in Nature last year.

“A forthcoming collapse of the Atlantic meridional overturning circulation (AMOC) is a major concern as it is one of the most important tipping elements in Earth’s climate system,” Ditlevsen said.

Van Western would not be drawn on predicting a more precise date for the tipping point as there are still too many variables and unknowns, but he and his colleagues were sufficiently alarmed to conclude their paper with strident calls for the global Climate Crisis to be addressed and the Paris Accord targets met.

The AMOC flows themselves have only been recorded in detail since 2004, but in that time noticeable changes in the flow of the currents is already very clear in what scientists say is a very worrying sign.

“The billion-dollar question is: how far away is this tipping point? Three recent studies, using different data and methods, have argued that we are approaching the tipping point and that it might be too close for comfort, even posing a risk of crossing it in the next decades,” said Rahmstorf.

Hydrogen production and use is expected to grow in 2024, but it remains very expensive to produce and transport, making progress slow.

Efforts to decarbonise the global economy reached a milestone at the COP28 climate conference, where there was a concrete pledge to reduce reliance on and make the transition away from fossil fuels.

But the potential for renewables is limited in energy-intensive sectors, where very high temperatures and carbohydrates are needed to make products like steel, plastics, pharmaceuticals and fuels for aviation, shipping and trucking.

Hydrogen does, on the other hand, hold that promise as it is a substitute for fossil fuels – especially green hydrogen – but 2023 was disappointing as costs to make green hydrogen, produced using renewable energy, remain stubbornly high, ING said in a note.

“Project developers delayed investments in earlier announced pilot projects, especially for green hydrogen. It took politicians more time to work out the complex details of policies to build and scale-up a hydrogen economy. Europe and Asia still face high energy prices, making the energy-intensive hydrogen production and transportation process a costly business. Finally, new expensive and unproven electrolysers don’t get a lot cheaper in just one year, especially when pilot projects are postponed,” ING said.

The prices of green hydrogen still put tears in taxpayers’ eyes, in particular in Europe. Even with proposed subsidies in the range of €3/kg, it fails to be cost competitive with blue or grey hydrogen in many cases, which are made from methane but with and without capturing the greenhouse gases (GHG) produced in the process respectively.

And the costs are going up, not down. Higher interest rates have increased rather than decreased electrolyser costs in
2023. The anticipated learning curve for electrolyser costs has not materialised as expected due to fewer projects that reached final investment decisions in 2023, says ING. And while wholesale power prices came down last year, grid tariffs have increased considerably in many countries.

“Strong cost declines for hydrogen are anticipated once there is a large global hydrogen market in which hydrogen users benefit from low-cost production regions. Currently the market is still very local, especially for green hydrogen, and it will take years to develop import and export hubs across the globe,” says ING.

It’s still too early in the development cycle for cost gains to appear. It took three to four decades to make renewable power cost competitive with power from coal or gas fired power plants. The solar and wind industry went through major boom and bust cycles during that process.

“The challenge for hydrogen is to reach this stage of market maturity twice as fast and without major market setbacks. We expect a lot more realism about the scale of such a challenge in 2024,” says ING.

**No silver bullet**

Green hydrogen does not per se lead to lower CO2 emissions compared to using fossil fuels like gas. The CO2 intensity of the power grid determines whether green hydrogen is good or bad for the climate. This is very relevant as power systems in many countries still depend to a large degree on fossil fuels, reports ING. As a result complex regulation to define the emission performance of hydrogen has emerged.

In Europe, for example, the Renewable Energy Directive now includes rules for green hydrogen production with renewables:

- **Geographical correlation:** the solar panels or wind turbines that feed the electrolyser must be close by – that is, in the same bidding zone. That is likely to limit the use of power price agreements (PPAs) that span multiple bidding zones or even countries, which is currently common practice (for example, using green hydropower from Norway in the Netherlands through a PPA).
- **Temporal correlation:** hydrogen can only be called green if its production coincides with the production of renewable power from solar panels and wind turbines (monthly correlation until 2027 and hourly correlation afterwards). This time matching requirement can lead to more interest in projects where electrolysers and solar panels or wind turbines are co-located. Or it could trigger interest in off-grid development.
- **Additionality:** after 2027, only newly added renewable capacity can support green hydrogen production as existing power from wind turbines or solar panels is already used for other activities, such as charging electric vehicles.

**Green hydrogen is still very expensive, especially in Europe where energy prices are high**

Indicative unsubsidised hydrogen production costs in euros per kg

<table>
<thead>
<tr>
<th>Region</th>
<th>Indicative cost (€/kg)</th>
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<tbody>
<tr>
<td>Germany</td>
<td>2.80</td>
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<tr>
<td>Austria</td>
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<tr>
<td>Italy</td>
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Grey and blue hydrogen costs are based on a gas price of €20/MWh in Europe and 3.55/MMBtu in the US ($11/MMBtu). For blue hydrogen we assume a CCS capture rate of 85%. Green Hydrogen is produced with a Western made alkaline electrolyser that costs around 1,000/kW and runs with an efficiency of 70% and capacity rate of 70%. Furthermore, we assume a power price of €200/MWh for Europe and $3,400/MWh for the US (€356/MWh). We have converted all dollar-prices using an exchange rate of 1€=0.91. Our results represent on-site production costs and don’t cover hydrogen transportation or storage costs, which can be considerable if the hydrogen is used far from the production location and needs to be temporarily stored.

Source: ING Research
Developers are likely to comply with these guidelines if they want the highest possible subsidies for their project. Apart from green hydrogen, progress in Europe is also being made on defining low carbon hydrogen from natural gas and CCS (blue hydrogen) or nuclear power (purple hydrogen).

The ‘Hydrogen and Decarbonised Gas Market Package’ defines emission thresholds that include standards to deal with upstream methane leakage and downstream hydrogen leakage as well as accounting rules for indirect emissions (the nuclear power and energy use of CCS). This regulatory clarity could boost activity in blue and purple hydrogen in 2024 and the years beyond.

The industry and politicians have been very focused on the supply side, but demand-side incentives have lagged far behind support for hydrogen production. Developers struggle to secure offtake agreements which then adds risk to the project, causing project sponsors to postpone the final investment decision (FID) and further slowing progress.

But that may change in 2024. In the US, Colorado and Illinois have introduced a subsidy of about $1 per kg for users of clean hydrogen, which is particularly aimed at stimulating hydrogen demand in hard-to-abate sectors like manufacturing. Pennsylvania has released a tax credit of $0.81 per kg of clean hydrogen purchased from a regional production hub, ING reports.

And in Europe, the EU’s Fit for 55 strategy and EU Emissions Trading System carbon trading scheme are starting to drive clean hydrogen demand in the coming years.

Users of grey hydrogen must replace 42% of their hydrogen volume with green hydrogen. Under the ReFuelEU Aviation initiative, 1.2% of fuels supplied to aircrafts at EU airports must be hydrogen-based by 2030. And the FuelEU maritime initiative requires shipping companies to reduce emissions by 2% by 2025 and to pay a carbon price under the EU ETS scheme by 2026, which already increases demand for hydrogen-based fuels like ammonia and methanol.

Shipping and aviation companies operate globally and can tap into the lowest-cost hydrogen markets. Air France, KLM and Delta Air Lines signed a seven-year sustainable aviation fuel offtake agreement with US-based synthetic fuel producer DGFuels, made from over 800 megawatts of electrolyzers, according to Bloomberg New Energy Finance. Maersk has signed the largest green shipping fuel offtake contract so far through a binding offtake agreement for methanol with Chinese renewable energy developer Goldwind.

But a lack of transparent pricing currently is another barrier for demand to kick off. Hydrogen offtake contracts are often bilateral and are undisclosed to other players. The market can benefit from initiatives to increase market transparency, for example by providing demand, supply and pricing statistics. The EEX Hydrogen Index in Germany is a good start, though development is still at an early stage.

“We expect and hope to see more progress on the demand side in 2024. The hydrogen economy simply won’t take off without it”

Five companies interested in building new reactors at Bulgaria's Kozloduy NPP

Denitsa Koseva in Sofia

Five companies have shown interest in building two new reactors using Westinghouse Electric’s AP1000 technology at Bulgaria’s state-owned Kozloduy nuclear power plant (NPP), the special project company Kozloduy NPP-New Build said in a statement. Kozloduy NPP-New Build did not disclose the names of the candidates.

Currently, Kozloduy NPP has only two Soviet-era working units – five and six. The energy ministry said in October last year that it will kick off the procedure to pick a contractor for the design, construction and commissioning of unit seven and will also start the procedure to build unit eight, both using the AP1000 technology.

Expansion of the nuclear power station is intended to ensure Bulgaria’s energy security. The seventh unit is planned to become operational by 2035, while unit eight will be completed at a later stage.
€12bn cost for new reactors

US Westinghouse Electric signed an agreement with Kozloduy NPP's special project company, Kozloduy NPP-Newbuild, in June 2023, that kicked off the procedure for construction of the first new AP1000 reactor.

“Expansion of the nuclear power station is intended to ensure Bulgaria’s energy security”

The AP1000 reactor is the only operating Generation III+ reactor with fully passive safety systems, modular construction design and has the smallest footprint per MWe on the market. Westinghouse will supply the fuel for the new reactor from its plant in Sweden.

In October, Bulgaria’s Prime Minister Nikolai Denkov said the new reactors’ total capacity of 2,300 MW will significantly exceed the 1,760 MW capacity of the four older blocks that were closed as part of Bulgaria’s accession to the EU.

Deputy Energy Minister Nikolai Nikolov said in December that Bulgaria will aim to achieve a price of €12bn for the construction of the two new units.

Nikolov said there are three potential companies to carry out the construction works: Bechtel Corporation, Fluor and Hyundai. One of them will be granted a contract as the main constructor of the units but there will be several subcontractors as well.

Bulgaria intends to be the sole investor in the two units, securing the financing through Kozloduy’s own funds and a loan taken by the state.

Independence from Russia

Kozloduy NPP already signed contracts with Westinghouse and Framatome on the delivery of fuel for its two operating reactors back in 2022, replacing Russia, which was until then the sole supplier.

In January, Kozloduy NPP-New Build, a project company owned by Kozloduy NPP, invited companies to express their interest in the construction of new reactors, setting the deadline for submission of documents.

The contracts were signed after the parliament decided that the country must speed up the process of securing an alternative supplier for the power plant, which is currently using fuel delivered by Russian company TVEL.

Russian companies will not be allowed to bid to build the new reactions at Kozloduy NPP.

Previously, Bulgaria planned to build a new nuclear power plant at Belene, using Russian technology, but the project was later scrapped, leading to a costly arbitration for Bulgaria.

Eligible candidates must have experience in the construction of at least two nuclear units, as well as in designing nuclear or turbine island systems, structures and components. They should also have installed equipment for at least two nuclear reactors.

Now the bids have been received, Kozloduy NPP-New Build will carry out pre-qualification of candidates to shortlist them.●
TIME TO FACE SOME HARSH REALITIES ABOUT THE WAR IN UKRAINE

Ben Aris in Berlin
The shock of Russia’s surprise invasion of Ukraine on February 24 two years ago was quickly followed by awe at the heroic defence of Kyiv, then delight as Ukrainians fought back, popping the tops of tanks and running circles around the cloudish Russian forces.

Optimism built to a crescendo when Kyiv struck a hammer blow in September, bursting through the Russian lines in the Kharkiv region and routing the Russian invaders, taking back control of hundreds of square kilometres. The month was crowned with the recapture of Kherson and Russia’s withdrawal to the left bank of the Dnipro.

Two years on and that optimism has evaporated. A black miasma fell over the recent Munich Security Conference amongst the allies as Ukraine faces multiple difficulties. Only one in ten of respondents in the EU now believe that Ukraine can win the war against Russia, according to a new survey commissioned by European Council on Foreign Relations (ECFR).

The US ran out of money for Ukraine in January. A US official warned that the Armed Forces of Ukraine (AFU) could face an ammunition crisis in the next few weeks if more aid is not provided. And Russia is pressing home its advantage, increasingly well-armed, well-supplied and with fresh troops in rotation thanks to a successful recruiting campaign, which has been so large that it is showing up in the banking statistics.

Ukraine is losing the war

Ukrainians’ impressive resistance to Russia’s invasion convinced many that Ukraine could win the war. And that looked increasingly possible after the first Ramstein conference where the West promised heavy and advanced weapons, including the German-made Leopard tanks.

The introduction of advanced longer-range missiles like the HIMARS were also used to devastating effect to blow up command centres and destroy large ammo dumps behind Russia’s lines.

But after retaking Kherson last September there was a long pause in the war while Ukraine waited for these weapons to arrive. The Russians dug in and built heavy defensive lines. When Ukraine finally launched its long-anticipated counteroffensive last summer it ran into a brick wall. By November Ukraine’s top general, Valerii Zaluzhnyi, admitted the war had reached a stalemate.

Russia continues to occupy a quarter of Ukraine’s territory. “About 26% of the country’s territory is still under occupation, but the Russian army cannot advance significantly. We have stopped them,” said Ukrainian President Volodymyr Zelenskiy in an interview with an Italian channel on February 5.

The tide has started to turn since the beginning of this year as weapon supplies started to run low. US funding had dropped dramatically already last August, and a military assessment reported in November predicted that Ukraine would start to run out of longer-range missiles in February, then air defence rockets in the following month before running out of shells in the summer. All this has come to pass and sooner than expected.

The end of the four-month intense battle for Avdiivka, which fell to Russia in February, has handed Russia the military advantage

If Ukraine has sufficient support from its partners and continues to maintain its defence this year, it can launch a counter-offensive in 2025, said the head of Ukraine’s military intelligence, Kyrylo Budanov. He added that the Russian professional army was largely destroyed in the first year of the invasion, and now the enemy is throwing untrained conscripts into battle. The full occupation of the Donetsk and Luhansk regions remains the priority goal of Russian troops in 2024, but they are unlikely to be able to achieve it, says Budanov.

But the supply of game-changing weaponry is also unlikely. The 40-odd Leopard tanks that have already been supplied have made no serious impact on the war, as they quickly became bogged down in the Russian minefields, and without air support were vulnerable to Russian drone swarms. Denmark reports the first F-16 fighters are due to arrive only this summer and will face the formidable Russian air force.

“Ukraine is losing the war”
The Bundestag again voted against supplying Ukraine with the powerful Taurus cruise missiles on February 22, but did sign off on replenishing “necessary long-range missiles.” Likewise, the EU will miss its target of supplying Ukraine with a million shells by March, EU foreign policy chief Josep Borrell announced, and will send less than half that amount. More recently it was reported that actually Europe will only transfer 170,000 shells by March.

Russia, which has placed its entire economy on a war footing, increased its production of shells from 1.7mn to 2mn last year and aims to produce 3mn this year, in addition to several million shells that are being supplied by North Korea.

**West doesn’t want Ukraine to win the war**

Despite the “as long as it takes” rhetoric and the talk of victory, the West has not attempted to supply Ukraine with what it needs to win. The strategy from the start has been to supply Ukraine so it doesn’t lose the war, but not with enough so it can actually win.

The fear in the Western capitals is that if Russia was faced with an imminent defeat in the wheatfields of Ukraine, it would either launch a nuclear strike or attack a Nato country such as the Baltics, Poland or Romania.

During the recent debate on sending Ukraine its Taurus missiles, German Cabinet spokesman Steffen Hebestreit laid out the thinking explicitly: the German government intends to support Ukraine as much as possible under the condition that Germany does not become a warring party.

“I can cite three principles: we support Ukraine as much as possible; we ensure neither Germany nor Nato become a warring party; and we coordinate closely and on the basis of trust with our partners and allies, above all with the United States,” he said.

This strategy means that the West has been happy to pour money into Ukraine, but remains reluctant to share its best and most powerful weapons. The EU’s €50bn package is exclusively to fund the Ukrainian budget, but the parallel Ukraine Peace Facility that is exclusively for weapons has money in it but much less, despite Zelenskiy’s calls that week for an additional €5bn to be added to the fund.

And after the US, Germany has been the most generous of all the EU countries, disbursing funds or reserving future spending commitments of approximately €28bn in military support for Ukraine.

Nevertheless, the weapons supplied so far are short-range and limited in power. The Javelin missiles handed over in the early days were effective against tanks in the field and the HIMARS precision missiles had a range of 80 km, enough to sit behind Ukraine lines out of range of Russian artillery and hit Russian supply lines, but the US withheld its longer-range 350-km version for fear Ukraine would fire them into Russia proper.

Likewise, Zelenskiy has been calling for F-16 fighter jets to “close the skies” from the very first day of the war, but the West continues to hesitate, as those planes are both capable of striking targets inside Russia and carrying tactical nuclear weapons, but are also seen as a danger that could provoke Russia into a more extreme response. The bottom line is that Putin has still not called for a general mobilisation and could flood Ukraine with troops if he did so.

It is notable that what Ukrainian attacks there have been inside Russia have either been made by special forces or partisans or use Ukraine-made long-range drones, not weapons supplied by its Nato allies. What effective weapons that have been supplied have been too little, too slow. Even in the case of the Leopard tanks, only 40 were delivered, when something closer to 500 were needed to change the course of the battle, according to military experts.

**Sanctions failed**

“Two years after Russia’s full-scale invasion, it is now painfully clear that EU sanctions have failed to meaningfully curtail Moscow’s ability to wage war on its neighbour,” the former head of the Institute of International Finance (IIF), Robin Brooks said in a recent editorial in the FT.

The problem is that it is extremely difficult to sanction a country that runs a large current account surplus. As the net transfer of money is to Russia, the West has been effectively borrowing from Moscow to buy its gas and fertilisers. If you cut off that trade, then due to the boomerang effect the sanctions do more damage to the West than to Russia, which has successfully redirected most of its trade to willing customers in Asia.

“Financial sanctions can be highly effective when imposed on countries that run a current account deficit, because such countries must continually borrow from global markets to pay for imports. No more foreign credit causes the economy to collapse,” Brooks added. “However, before, during and after the invasion, the value of Russia’s exports has far exceeded what it pays for imports. As a current account surplus country, Russia effectively lends to the rest of the world: it accumulates foreign assets. Russia’s current account surplus is forecast to be 4% of GDP this year by the IMF.”

As followed by bne IntelliNews, the oil price cap sanctions have failed, as not
March 2024

The EU is due to introduce its thirteenth sanctions package on the anniversary of the start of the war, but according to reports this will be the most modest package yet, doing little beyond adding a long list of individuals to the already 2,000-strong names already on the lists – including the management of the penal colony where opposition figure and anti-corruption activist Alexei Navalny died on February 16.

Russia has successfully rebuilt much of its trade, switching exports from west to east. The share of friendly countries in Russia’s foreign trade totalled over 75% in 2023. Around 95% of payments in the Chinese and Indian directions were made in national currencies in 2023, while China became Russia’s key trade partner accounting for 29% of total trade turnover.

The extreme sanctions imposed in the first weeks of the war were originally designed to collapse the Russian economy – and they came close. Had the West also stopped paying for Russian energy in the first weeks of the war, or at least paid the money into escrow accounts that could only be accessed by the Kremlin after it withdrew from Ukraine, the economy would have collapsed and the war could have been over very quickly. The billions of dollars Europe continued sending to Moscow was a lifeline that kept it in the game.

Instead the Russian economy bounced back and ended 2023 with only 1.9% of GDP budget deficit, putting in 3.6% of growth. That makes Russia the fastest growing of all the major developed markets in the world.

Hostomil, Ukraine. An unexploded rocket of the Russian occupying troops. www.shutterstock.com
Children's home crisis threatens very foundation of Orban regime, say analysts

Tamas Csonka in Budapest

Hungarian Prime Minister Viktor Orban has yet to comment on the resignation of two of the most prominent politicians of the Fidesz party – President Katalin Novak and former justice minister Judit Varga – as he continues to maintain a low profile amid the biggest scandal rocking his government since taking office in 2010.

The child sexual abuse scandal is threatening the very foundations of the regime, Political Capital wrote in a note.

In a nutshell, the story goes back to April 2023 when Novak gave pardons to two dozen people, including convicted terrorist Gyogy Budahazy, an influential figure of the far-right and now aligned with the parliamentary party Our Homeland. Novak also pardoned Endre Konya, the deputy director of a children's home in Bicske, central Hungary, who used blackmail to force young boys to withdraw their testimony against the director, who had abused them sexually for years.

The court sentenced the head of the children's home to eight years in prison, and his deputy received three years and four months. The story surfaced on February 2 when independent 444.hu website published it after receiving a letter from a reader, who had found a notification on the website of the Kuria, Hungary's highest court, about a clemency case. Konya had appealed the decision with less than one year left in his sentence.

The uncovering of the pardon triggered an unprecedented public outcry and eventually led to the resignation of Hungary's first female president, and the youngest as well, on February 10. Novak apologised and said the clemency was a mistake, but she did not explain who was lobbying for the plea. Novak is the second head of state to resign since 2010.

In a bid to contain the political fallout, Orban submitted a constitutional amendment to parliament last week, depriving the president of the right to pardon crimes committed against children, curtailing the president's
powers. The proposal was more of damage control than a solution to the crisis, and was the first sign that Orban had let go of her president’s hand.

Orban’s opponents and his critics say the resignations of two senior members of his radical rightwing Fidesz party are not enough, and that Orban must bear the political consequences, as there are all others, and why it is having such a big impact. One is that the case involves the highest levels of the regime.

It remains unknown on whose initiative the pardon decision was made, but Konya was connected to the ruling party circles and the family of Orban, Political Capital writes. According to local media, the lawyer defending the director of the children’s home has worked previously for the firm owned by family members of Orban and held a supervisory board position for a short period. Many also wonder how Konya could afford a star lawyer to represent him in court.

Orban’s inner circle is now facing an unexpected challenge from Peter Magyar, Varga’s former husband and a businessman close to Fidesz circles, who has unleashed scathing criticisms of Orban’s regime targeting his most powerful minister, Antal Rogan, in charge of communication and overseeing the intelligence services.

The 43-year-old was the first Fidesz insider to criticise openly his wealth. In an interview with Hungary’s leading online media site Partizan, now close to 1.5mn views in less than three days, Magyar accused people close to Rogan of forcing his ex-wife to countersign the clemency case.

On Tuesday Magyar took aim at Orban’s son-in-law, businessman Istvan Tiborcz, questioning how he had accumulated his wealth. Tiborcz, the husband of Orban’s eldest daughter, has amassed hundreds of billions of forints and recent revelations showed his wealth is multiple of what the lists compiled by Forbes or Hvg show as Tiborcz and the other members of the Fidesz elite have hidden their wealth behind domestic private equity funds. In earlier posts, Magyar said he does not want to live in a country where a handful of oligarchs control much of the wealth of the country and noted that many Fidesz cadres were hoping the party would not win a two-thirds majority.

Magyar said many people in the party are fed up with Rogan’s excess power and in his view, the propaganda minister should go. Orban’s press chief Havasi said the government “does not deal with desperate attempts by people in a hopeless situation”.

In other developments related to the clemency story, Zoltan Balog, former minister of Human Resources, now head of the Hungarian Reformed Church posted a video in which he acknowledged...
that he agreed with the clemency request of Konya, but he did not submit it to the president. According to earlier reports, it was Balog who encouraged the president to give the pardon. Balog, who was an advisor to Novak, said he was wrong and made a mistake. At the council meeting, the majority of delegates of the Hungarian Reformed Church gave confidence to Balog, who will remain head of the church.

Novak was a protégée of Balog at the ministry, and the two had built up a strong relationship. After Balog left the government in 2018, he remained close with Novak and became a key member of her advisory board after she was elected president in 2022.

The political crisis facing Orban comes just four months before the European Parliamentary elections, and Hungary’s leader needs to take back control of the narrative, analysts said.

The prime minister is set to deliver his state of nation speech on Saturday to set out his policy agenda for 2024. At this critical time, Orban has a lot of issues to address. The ruling party has no candidate for president and is without a leader to lead the EP list, and the ruling party still has not named its frontrunner to challenge Gergely Karacsony in the Budapest mayoral election.

Orban has to deal with a range of issues as he has to soothe the public outcry while keeping himself distanced from the case and at the same time providing explanations to his confused core base. A year ago to date, Orban finished his speech touching on paedophilia.

“Paedophilia cannot be forgiven. Children are sacred to us, and it falls to adults to protect children at all costs,” he said, adding that Hungary has the strictest child protection system in Europe. He went on to say that gender propaganda, which in his view is propagated by the West and by Brussels, is not just an entertaining caper, not just rainbow chatter, but the greatest threat stalking our children. “We want our children to be left alone because enough is enough”, he concluded his speech a year ago.

Hungarian State Audit Office fines opposition parties for alleged foreign campaign financing

Tamas Csonka in Budapest

Hungary’s State Audit Office (ASZ), led by a former Fidesz MP, has levied a HUF520mn (€1.34mn) fine on opposition parties four months before the local government and European Parliamentary Elections on claims that they received illegal campaign financing in the 2022 elections.

ASZ has ruled that the Democratic Coalition, Jobbik, Momentum, the Socialist Party, and LMP should pay the entire sum shared equally to the central budget within 15 days. There is no possibility to appeal against the decisions of ASZ, but parties said they will still attempt a legal recourse.

Presenting the report on February 20, ASZ head Laszlo Windisch said that the parties had received over HUF261mn illegally from abroad via the Hungary Belongs to Everybody (MMM) movement, set up by Peter Marki-Zay, the joint prime minister candidate of the opposition picked by voters in the historic primaries two years ago.

After the 2022 elections, the government began an all-out attack on opposition parties receiving “illegal” foreign funding, primarily from the US-based NGO Action for Democracy (AD).

In a declassified intelligence report, the Orban regime alleges that AD funnelled over HUF4bn to opposition-linked organisations through MMM.

Opposition parties vehemently deny the accusations, stating the funds in question came from micro donations from Hungarian citizens living abroad, which is legal.

They highlighted that no legal action had been taken against them, despite the government’s claims.

ASZ’s investigation found that MMM and the opposition parties had set up a campaign council to coordinate their campaigns. MMM had used funds from abroad to partially finance the parties’ billboards, leaflets and other campaign material, and joint events. The parties accepted the support, thereby breaking regulations against illegal party financing.

Analysts observed that MMM did not break the law by receiving foreign funding per se, but as they ran on a joint campaign, political parties inherently had made use of the financing, which could give legal ground to the findings if the funding was actually foreign.

Hungary’s Sovereignty Protection Act, approved late last year, tightens up on foreign funding of political parties. The acceptance of foreign funds for political purposes, or the attempt to conceal them, would be punishable by up to three years in prison.

The Orban government aims to cut off all kinds of funding to its political opponents, while it has an unlimited pool of funding for campaigns. A recent compilation showed that the cabinet had spent a whopping HUF1.4 trillion on communication between 2015 and 2023.
Hungary spent whopping €3.5bn on propaganda between 2015-2023

bne IntelliNews

The Hungarian government – including ministries, state bodies and state-owned companies – spent a whopping HUF1.3 trillion (€3.5bn) on communication between 2015 and 2023 and what is even more astounding is that 75% of the money went to two firms owned by the same person, according to a compilation by investigative news site G7.hu on February 19.

The combined €3.5bn in state advertisement contracts roughly equals half of the entire spending in Hungary’s communication market.

The government set up the National Communications Office (NKOH) in late 2014 headed by Antal Rogan, who also heads the prime minister’s Cabinet Office. From 2015, all communication and event management tasks of state bodies, government agencies and state-owned enterprises were centralised and assigned to NKOH, which signs framework agreements with winning applicants.

In the first years of its operation, NKHO signed communication contracts to the tune of HUF20bn-60bn per annum, which began to rise rapidly in subsequent years, peaking at HUF335bn in 2021.

The market has been monopolised as 73% of all contracts, around €2.56bn went to Lounge Design and New Land Media, companies owned by Gyula Balasy, a 45-year-old businessman with close ties to Rogan.

Balasy enjoys a monopoly in the event management market in state contracts with his company called Lounge Event, G7.hu writes. The company also has a strong position from market-based orders, as many companies are “well-advised” to do business with him.

In 2023, four weekly newspapers and broadcaster RTL filed a lawsuit against the government for distorting the media market by unequal distribution of advertising revenues. According to media researchers, the government distorts the media market by directing state advertising to pro-government media, which is contrary to EU competition rules and fundamental values.

State ad revenues in many of the outlets of media conglomerate Kesma, consisting of some 500 websites, newspapers, radio and television stations, account for half of their total revenue stream. Independent media maintains strong positions in the online news segment, but its operation is threatened by the discriminatory allocation of state funding.

“`The market has been monopolised as 73% of all contracts, around €2.56bn, went to Lounge Design and New Land Media, companies owned by Gyula Balasy, a 45-year-old businessman with close ties to Rogan”`
EU may sanction Chinese companies for the first time for facilitating Russia’s flourishing trade with friendly countries

The EU is toying with the idea of putting sanctions on three Chinese companies for the first time in its efforts to shut down Russia’s flourishing trade with friendly countries. / bne IntelliNews

The EU is contemplating the unprecedented step of imposing sanctions on three Chinese companies alleged to be aiding Russia’s military actions against Ukraine, *Bloomberg* reports.

This move, if ratified, would mark the first instance of EU sanctions targeting mainland Chinese entities in the context of the Ukraine conflict.

The proposal is part of the thirteenth sanctions package that is currently being debated, but is highly controversial as China is one of the EU’s biggest trade partners. The proposal is facing strong resistance from countries like France and Germany as China is a major buyer of their goods.

Chinese firms have never before been subjected to EU sanctions related to the Ukraine crisis and EU member states are afraid to disrupt the trade that is worth hundreds of billions of dollars a year.

The draft proposal, seen by *Bloomberg*, extends beyond China, encompassing companies from Hong Kong, Serbia, India and Turkey.

“The issue is of critical importance to the EU, which counts Beijing as one of its most important trade partners,” *Bloomberg* reported. Notably, the Chinese firms, while unnamed, are primarily engaged in technology and electronics sectors and stand accused of bolstering Russia’s military and technological prowess, as well as its defence and security infrastructure.

The West is attempting, in the upcoming sanctions, to tighten its sanction regime on Russia, which has largely failed. As *bne IntelliNews* reported, not a single barrel of Russian crude oil has been sold below the oil price cap of $60 since the twin oil sanctions were imposed at the start of last year. Likewise, the technology sanctions have also failed.

Despite multiple rounds of sanctions, more than €2.6bn worth of Western-made components that can be used for military production reached Russia in 2023, KSE reports.

Specifically, Russia imported more than $1bn in Western microchips in the first nine months of 2023. These microchips are vital not just for the military-industrial complex’s constant supply of weapons to the frontlines in Ukraine but also for Russia’s manufacturing of cars, smartphones, and household appliances.

This development follows a *Bloomberg* report on February 8, revealing the EU’s plans to introduce new sanctions against 55 corporations and over 60 individuals linked to Russia’s aggressive stance in Ukraine. Furthermore, *ByteDance*, the parent company of TikTok, faces significant fines as the EU gears up for an audit in light of stringent content moderation regulations, amid growing concerns over potential risks to minors.

The threat of disrupting trade with China highlights the dilemma that the EU faces where increasingly sanctions do not reduce Russia’s trade as it has successfully switched markets to trade with friendly countries, while the EU does cut itself off from major trade partners that hurts its own economies more than Russia’s in a boomerang effect.

The share of payments in rubles and currencies of friendly countries is rising the fastest with Asian, Caribbean and African countries, Russia’s Economic Development Minister Maksim Reshetnikov said.

Russia did three-quarters of its trade last year with friendly countries, Russian President Vladimir Putin said in a recent speech.

Exports to European countries plummeted by 68% to $84.9bn in 2023, while imports decreased by 12.3% to $78.5bn. But exports to Asian countries increased by 5.6% to $306.6bn, while imports declined by 29.2% to $187.5bn leaving Russia with a very robust and positive balance of payments with its main partners in the Global South.
Less significant is Russia's trade with Africa and South America. Exports to African countries grew by 42.9%, to $21.2bn, imports went up by 8.6% to $3.4bn. Russian exports to the countries of North and South America decreased by 40.4%, to $12.2bn, imports fell by 11%, to $15bn.

In the structure of exports, the share of mineral products, including products of the fuel and energy sector, decreased by 4.9 percentage points, to 61.2% ($260.1bn). The share of metals and products made from them increased by 2.2 percentage points, to 14.1% ($60bn). The share of agricultural exports increased by 3.1 percentage points and reached 10.1% ($43.1bn).

The largest imports include machinery, equipment and vehicles. Their share increased by 5.1 percentage points, to 51.1% ($145.8bn). They are followed by products of the chemical industry, the share of which decreased by 2.8 percentage points, to 19.5% ($55.7bn). The third place in imports is occupied by agricultural products, the share of which decreased by 1.7 percentage points to 12.3% ($35.1bn), TASS reports.

The upshot is Russia's economy is currently firing on all cylinders; the IMF this week upgraded its growth forecast for this year and said it is firmly “on positive growth territory” at the current stage, First Deputy Managing Director of the International Monetary Fund (IMF) Gita Gopinath said. “You know, we are in squarely positive growth territory; it has done better than we expected,” she said, commenting on the status of the Russian economy in an open online interview with The Foreign Policy weekly.

The IMF revised upward its forecasts for Russian GDP growth in the January update to the report on global economic growth prospects, she noted. According to new estimates, the Russian GDP will grow by 2.6% in this year and by 1.1% in 2025.

“The question is what happens over the medium term and there is considerable uncertainty,” the IMF official noted. The loss of human capital, and the restricted ability for Russia to import high tech products can potentially “reduce growth in Russia into the medium term,” she added.

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Duda–Tusk war continues as president signs 2024 budget but sends it to top court for review

Wojciech Kosc in Warsaw

P olish President Andrzej Duda signed the 2024 budget bill into law on January 31 but sent it immediately to the country’s constitutional court for review.

The budget is now law but the president’s insistence that the bill’s adoption by the parliament may have been unconstitutional has further strained his relations with the Donald Tusk government, which only took office in mid-December.

Duda is the last important redoubt of the formerly ruling Law and Justice (PiS) party. The president – who is stepping down next year after his second and final term runs out – pledged early on that he would use his powers to obstruct the new government each time he would consider it necessary.

This time, Duda referred the budget bill to the Constitutional Tribunal – a formally independent body, which PiS had engineered to become the party’s political tool – over concerns that it was adopted without two PiS MPs, Mariusz Kaminski and Maciej Wasik.

The two were in prison at the time following their conviction in an abuse of power case dating back to 2007. Duda pardoned Kaminski and Wasik earlier this month and insists they are incumbent MPs. The government says that their mandates were invalidated following their conviction.

Duda also hinted that he would take the same route whenever elected representatives faced obstacles in fulfilling their mandates derived from general elections, the president’s office said.

Prime Minister Tusk dismissed Duda’s take on how the budget bill was adopted, saying on X that “the budget is signed, and that’s the whole point. The rest is irrelevant. Money will reach the people and nothing will stop it.”

While Duda’s straightforward refusal to sign off the budget bill would have led to a snap election, it is unclear what will happen if the Constitutional Tribunal renders the budget bill, or parts of it, unconstitutional after the president signed it.

The budget bill assumes a deficit of PLN 184bn (€42.48bn), coming in part because of the government’s delivering on its promises to hike salaries in the education sector as well as maintain some welfare expenditure introduced by PiS.
The Balkan region offers a “particularly serious set of opportunities” for Russia’s unconventional military activities as it seeks to destabilise European countries beyond Ukraine, warns a new report from UK-based defence and security think-tank Royal United Services Institute (RUSI).

Close to two years into the war in Ukraine, Russia is interested in creating crises elsewhere in Europe, as well as continuing its expeditionary operations in Africa, where it aims to seize control of critical resources.

One of the most concerning areas outlined in the report is the Balkans, where Russia sees significant opportunities for its unconventional military activities, says the report titled “The Threat from Russia’s Unconventional Warfare Beyond Ukraine, 2022-24”, authored by Jack Watling, Oleksandr V Danylyuk and Nick Reynolds.

“The Balkans present a particularly serious set of opportunities for such enterprises,” the report states.

Despite setbacks for the Kremlin, including the expulsion of Russian intelligence officers from European capitals, Russia continues to actively pursue avenues to rebuild its capacity for unconventional operations. This includes efforts to expand its partnerships in Africa, supplanting Western alliances, and leveraging influential figures like Chechen leader Ramzan Kadyrov to build networks of influence in Europe and the Middle East.

The report highlights Russia’s multifaceted approach, combining conventional and unconventional military means as tools of national power. This includes information warfare and active measures aimed at manipulating public sentiment to mobilise or paralyse constituencies within target countries.

“Russia considers both conventional and unconventional military means to be tools of national power and applies them in combination,” the report says.

“Russia also has an active interest in destabilising Ukraine’s partners, and with a slew of elections forthcoming across Europe there is a wide range of opportunities to exacerbate polarisation,” the authors say.

“Moreover, with its conventional forces – so often used to coerce others – fixed by the fighting in Ukraine, the significance...
of unconventional operations as a lever of influence increases. This is especially important with the collapse of Russian overt diplomatic access across target countries.”

They believe Russia’s special services are actively seeking to “expand their capacity in several areas that pose strategic threats to Nato members”.

Instances of violent subversion for political destabilisation, such as the attempted coup in Montenegro in 2016 and subsequent efforts to destabilise Moldova, demonstrate Russia’s persistent use of these tactics.

In Moldova, the RUSI analysts believe, “Russia’s original plan had been to militarily occupy Moldova after concluding its operations in Ukraine. When the invasion of Ukraine failed, however, Moscow sought a mechanism to destabilise the Moldovan state.”

There have been two attempts by Russia to destabilise Moldova since the invasion of Ukraine. The first was on Victory Day, May 9, 2022, when protests were organised against the repression of Soviet military symbols during the Victory Day commemorations. According to RUSI, “Provocations during these demonstrations were to be used to drive an escalating cycle of violence in which politicians friendly to Russia could call for a change in leadership to stabilise the situation.”

This was followed by a second attempt to destabilise Moldova, Russian disinformation targeting the country became much more consistent and mutually reinforcing,” said the report.

“Russia shifted to strengthen the public association between Moldova’s aspiration to join the EU and President Maia Sandu personally, while simultaneously blaming her for the country’s economic woes. At the same time, the Russians began targeting Romanian nationalists within Moldovan society to amplify their voices, and in doing so exacerbated the threat felt by Moldova’s Russian-speaking population in relation to increased alignment with Europe.”

Majority Muslim countries, as well as those with Muslim minorities, were also targeted by Russia’s propaganda efforts. RUSI research found that Moscow portrayed Kadyrov in particular as a defender of traditional values in defiance of Western influence. “Russian official propaganda and networks of hidden influence operating in Muslim countries push a romantic image of Kadyrov as a defender of Islam, opposing Western heretics who are trying to destroy traditional values,” the report says.

The Akhmat Kadyrov Foundation (named for the Chechen leader’s father) is “especially active” in the Balkans, where it has established ties with authoritative Muslim representatives, said the report. It names not only the countries of Albania, Bosnia & Herzegovina and Kosovo, which have large Muslim populations, but also Croatia, Greece, Montenegro, North Macedonia, Romania and Serbia.

“Russia’s original plan had been to militarily occupy Moldova after concluding its operations in Ukraine. When the invasion of Ukraine failed, however, Moscow sought a mechanism to destabilise the Moldovan state”

Effigy of Serbian president causes new rift in relations with Croatia

Effigy of Serbian president causes new rift in relations with Croatia

Tensions between Croatia and Serbia rose following an event at a carnival in the village of Kastel Stari, near Split, where an effigy representing Serbian President Aleksandar Vučić was burned.

The incident occurred during the 211th International Carnival Parade on February 13, an annual event where participants symbolically burn effigies representing figures blamed for perceived misfortunes.

While some years the figures represented Croatian politicians, this year, the effigies included Russian President Vladimir Putin and Vučić, portrayed as Don Quixote and Sancho Panza riding donkeys.
The incident sparked outrage in Serbia, with extensive coverage in local media.

Reacting to the incident, Serbia’s foreign ministry issued a strongly worded note condemning the burning of Vucic’s effigy. Ivica Dacic, Serbia’s head of diplomacy, denounced the act as “unacceptable” and contradictory to efforts aimed at normalising relations and enhancing cooperation between the two nations.

“Burning a doll with the image of the President of the Republic of Serbia Aleksandar Vucic is an absolutely unacceptable act, which is in complete contradiction to the jointly expressed commitment to the full normalisation of relations and the improvement of comprehensive cooperation between our countries,” the note said, according to a foreign ministry statement.

“It’s part of the custom, people rejoice and have fun. When a doll is burned, life continues, it’s a new day. It seems to me that I was also burned, in Trilj or Sinj,” he said, adding that he did not get angry because of that,” he said, according to a foreign ministry statement.

Burning a doll with the image of the President of the Republic of Serbia Aleksandar Vucic is an absolutely unacceptable act

 Croatian Foreign Minister Gordan Grlic Radman commented on the issue at a press conference on February 15, saying that burning an effigy is a local tradition and the response from Vucic was the problem.

“Burning a doll with the image of the President of the Republic of Serbia Aleksandar Vucic is an absolutely unacceptable act,”

Croatia’s tradition of carnival celebrations, including the burning of effigies and political satire, has deep historical roots. However, tensions between the two countries, stemming from the 1990s war and unresolved border disputes along the Danube River, continue to simmer. Issues regarding minority rights, affecting both Croats

in Serbia and Serbs in Croatia, further compound the strained relationship.

The incident at the carnival adds to a series of recent diplomatic flare-ups between Croatia and Serbia. Last November, the expulsion of Croatian diplomat Hrvoje Snajder by Serbia, on allegations of espionage, triggered reciprocal action from Croatia, expelling Petr Novakovic, an adviser to the Serbian embassy in Zagreb. ●
Angry crowds chant “Can anybody hear my voice?” as Turkish health minister addresses earthquake memorial

bne IntelliNews

Crowds chanted “Can anybody hear my voice?” as Turkish Health Minister Fahrettin Koca spoke in Hatay city square during an early morning memorial event held to commemorate the tens of thousands who died exactly one year ago when southeastern Turkey was struck by two catastrophic earthquakes.

The slogan was a reference to calls heard from victims trapped under the rubble as people in many parts of the earthquake zone waited for days for help to arrive after the disaster occurred. Many died because it took too long for rescue teams to reach them as they lay trapped in the debris in the winter cold.

Hatay was worst-hit of the 11 provinces that experienced the earthquakes. Ahead of a first-anniversary vigil held for the victims, people called for the government and local authorities to resign and demanded that officials stay away from the memorial event. Speeches from officials were booed as attendees at the vigil reiterated that the government was guilty of negligence both in the immediate aftermath of the earthquakes and during the post-earthquake reconstruction period.

After the vigil, Reuters reported, people tossed flowers into the Asi River, which runs through Hatay.

The news agency described how Merve Gursel, who lost her aunt, her aunt’s husband and her cousins in the disaster, called out their names as she threw a carnation into the water for each one.

“Nobody was with these people that day. These people’s pain is that they could not be rescued. These people’s pain is that they could not have their voices heard,” Gursel was reported as saying.

“This [the protests] is the echo of people’s inner pain. It is an echo of how much people have suffered. There is no way to describe how to make up for the pain here. Those people’s hearts are bleeding.”

President Recep Tayyip Erdogan said in a statement posted on social media platform X that the pain of the loss caused by the earthquakes was as fresh now as it was a year ago. His government, he said, had moved to act immediately following what Turks call the country’s “disaster of the century”.

“The unity of the century was displayed in the face of the disaster of the century,” he said.

The two earthquakes, with the biggest reaching a slightly higher magnitude of 7.8, officially killed around 51,000 people in Turkey and around 5,900 in Syria, while making millions homeless.

However, following a politician’s reference to “130,000” in a TV interview, the question of whether the official death toll actually falls a long way short of the reality has been reopened for many Turks. There are multiple reports of families insisting that the bodies of their loved ones are still buried under rubble.

Great numbers of people, meanwhile, remain in temporary accommodation including “container cities” and sprawling tent settlements.

In the days after the disaster, Erdogan, aware he faced national elections within a couple of months, pledged his government would “heal the wounds of the earthquake to a great extent within a year”.

He went on to pledge 319,000 new homes by February 2024 and a total of 680,000 by 2025. But, according to the Environment and Urbanisation Ministry, only 46,000 homes have been finalised so far.
Turkey sinks to lowest ever score on Corruption Perceptions Index

bne IntelliNews

Turkey has sunk to its lowest ever score on the Corruption Perceptions Index (CPI), annually issued by watchdog Transparency International (TI) since 1995.

In the 2023 CPI rankings, Turkey placed 115th of 180 countries with a score of 34 points, down two points on its 2022 score. Turkey also dropped 14 places on the CPI table year on year. The CPI uses a points scale of 0 to 100, with 0 = highly corrupt and 100 = very clean, to rank countries according to their perceived levels of public sector corruption.

Since 2018, Turkey has been among a dozen countries experiencing a trend of substantial decline in its CPI outcomes.

Apart from Turkey, the other countries showing this trend are: El Salvador (31 points), Honduras (23), Liberia (25), Myanmar (20), Nicaragua (17), Sri Lanka (34), Venezuela (13), Argentina (37), Austria (71), Poland (54), and the United Kingdom (71).

“Turkey’s (34) steep decline of 8 points since 2015 is due to an overly dominant executive branch and few democratic checks and balances,” TI said.

It added: “Insufficient laws against corruption, reluctance to enforce these laws and lack of judicial independence stand in the way of progress. The tragic consequences of the February 2023 earthquake showed how the price of corruption is sometimes paid in human lives.”

After the catastrophic earthquake, officials were accused of customarily taking bribes to allow construction companies to build huge quantities of housing that, though built in a zone known to be vulnerable to massive earthquakes, was not sufficiently constructed to withstand significant tremors. Tens of thousands of people were killed when shoddy buildings collapsed almost instantly, with critics noting that many came down as if they were built with cards.

In late October, Turkey was ranked 117th of 142 countries on the rule of law index published by the World Justice Project (WJP), dropping one place in comparison to last year.

Two months prior to that ranking, Turkey was informed that it had failed to secure removal from from the Paris-based Financial Action Task Force’s (FATF) “grey list” on countries not doing enough to counter money laundering and terrorist financing. ●
Bosnian government makes push to adopt laws needed to unblock EU membership talks

bne IntelliNews

The state-level ruling coalition in Bosnia & Herzegovina has agreed to table to parliament four key laws, including one on prevention of money laundering, in an attempt to get a green light for the start of EU membership talks in March, Nermin Niksic, the leader of the Social-Democratic Party (SDP), said on February 9 following a meeting of political leaders.

The decision comes after a warning by Angelina Eichhorst, director general for Europe at the EU External Affairs Service (EEAS), that the country has just six weeks to adopt the four laws in order to get a green light for the membership talks.

The Council of the EU decided not to start membership talks with Bosnia at its session in December, saying that the country should first meet all criteria set as a condition for starting talks.

European Commission President Ursula von der Leyen in January urged Bosnia to unite and move forward with reforms, which can secure the country a shorter path towards EU membership.

“It seems like there are no spectacular results anytime we meet, but we are getting to agreement step by step,” said Niksic as quoted by N1.

He added that all political leaders have agreed it was important to meet the conditions for the opening of the accession talks with the European Union.

He said that the political leaders agreed they would insist on a specific date of the opening of the talks if conditions are met.

The parties forming the ruling coalition will set up three task groups that will work on the legislation concerning conflicts of interests, the election law and the law on courts.

Milorad Dodik, the secessionist leader of the main Serb SNSD party, said that his party supports Bosnia's EU path but that this will not happen if the international peace envoy, High Representative Christian Schmidt imposes changes to the electoral law.

The law on money laundering has already been agreed between the ruling parties.

Meanwhile, Bosnia's state-level tripartite presidency gave a green light for the proposed task group in charge of negotiations with Frontex and the framework for the talks. Starting talks with Frontex is among the requirements the country should meet to start EU membership negotiations.

The EU office in Sarajevo welcomed the decision. “This is an important step and one of the priorities before the European Council in March. Greater cooperation on border management is in the interests of both EU and BiH,” it said on X platform.

EU officials warned the government in Sarajevo it has just six weeks to adopt four key laws in order to get a green light for accession talks.
Russia arrests a US-Russian dual citizen on treason charges

bne IntelliNews

Russia’s Federal Security Service (FSB) has detained Ksenia Khavana, a 33-year old dual Russian and US citizen, on charges of treason for donating $50 to a Ukrainian charity on the day the war in Ukraine began.

Khavana was arrested in Yekaterinburg, where she was born and was visiting from her home in Los Angeles, where she now lives with her US husband.

A video released by Russian state media depicted the arrest, showing the woman, hooded and handcuffed, being led away by FSB officers. She faces up to 20 years in prison if convicted.

Russia’s Ria Novosti reports the FSB has charged her with not only raising money for the Ukrainian cause, but also attending anti-Russian events in the US.

The FSB’s statement, circulated by Russian state media, alleged the woman was “proactively collecting money” for a Ukrainian entity. The funds, according to authorities, were intended for the Ukrainian armed forces, earmarked for “tactical medicine items, equipment, weapons and ammunition.”

Khavana’s arrest will further inflame already rocky relations with the US and adds to the growing list of US citizens detained in Russia in contentious circumstances.

Dual citizen and Wall Street Journal reporter Evan Gershkovich was arrested last year on espionage charges and last week had his detention prolonged as he awaits trial. In a recent interview Russian President Vladimir Putin hinted that behind the scenes talks with the White House on a possible prisoner swap were ongoing. Despite appeals, Moscow courts decided to extend Gershkovich’s detention until at least March 30 last week.

Alsu Kurmasheva, another Russian-American journalist, has been imprisoned since October, facing charges for not registering as a “foreign agent” and disseminating “false information” about Russia’s military actions in Ukraine.

A third US citizen, Paul Whelan, a former US marine and security executive, remains incarcerated following his 2018 arrest and subsequent 2020 conviction on espionage charges.

Conditions in Russian jails are notoriously tough. Recently anti-corruption and opposition leader Alexei Navalny died suddenly on February 16 in a high security prison in Russia’s Far North where he was serving a 19-year sentence for extremism.

Political prisoners in Belarus are similarly in danger. Ihar Lednik, a former member of the Belarusian Social Democratic Party (Hramada), died in prison in Minsk on February 20. He was detained in 2022 and sentenced to three years for “slander against the president.” His health deteriorated significantly in prison. Lednik is one of more than a thousand people held in Belarusian jails on politically motivated charges. ●
OFAC “smart sanctions” target turbine lubricants and additives in an effort to stop Russian military production

Ben Aris in Berlin

Two days before Christmas the US Treasury’s Office of Foreign Assets Control (OFAC) quietly released new sanctions on what at first glance appear to be an esoteric product group: turbine lubricants and their additives. But banning the sale of these essential industrial products could have a devastating effect on Russia’s ability to make and maintain its arsenal of weapons, as well as hobbling its entire power industry.

The point is that Russia doesn’t make high-tech lubricants and is entirely dependent on imports. And using cheaper versions makes a big difference to a factory or power plant’s ability to make or do anything.

As the economic war between Russia and the US escalates, Washington is increasingly acting on its own and rolling out what could be called “smart sanctions” – the economic equivalent of the smart and highly accurate missiles that the US military is so famous for.

OFAC has authorised the sanctioning of any foreign financial institution that has conducted or facilitated the supply, sale or transfer to Russia of a range of chemicals considered critical to Russia’s military-industrial base.

On the list are things like nitrocellulose, high-precision ball and roller bearings, turbine lubricants and turbine lubricant additives, and internal navigation systems and fibre-optic gyroscopes.

OFAC has also belatedly banned the sale of precision tools, including computer numerical control (CNC) machines, which bne IntelliNews highlighted was Russia’s sanctions soft underbelly a year before the war started.

While these smart sanctions are not as dramatic as capping oil prices, freezing billions of dollars of reserves assets or throwing Russia out of the global financial system, which have caused Russia’s economy surprisingly few problems, the new smart sanctions target some of Russia’s biggest industrial weaknesses.

The smart sanctions are a change in tactics, switching from targeting the things that make the Kremlin money to things that strike directly at industrial production resources.

Lubricants are another sanction soft underbelly. Despite Russia’s abundant oil reserves, the production of advanced mechanical lubricants relies heavily on specialised additives that are almost all imported from US and European companies.

Lithium used in greases, are directly employed in military production. By cutting off access to these specialised components, the US and its allies hope to cripple Russia’s military production.

LNG and turbines

A similar smart sanction has already targeted Russia’s LNG production at the end of last year, when all sales of the highly sophisticated and specialist technology needed to super-cool gas to turn it into a liquid was banned. These sanctions directly affected Russia’s LNG champion Novatek that was halfway through completing its Arctic LNG-2 project to expand its exports to the global market.

The new unit had been due to come online this month and had already signed supply contracts with customers around the world. But Novatek declared force majeure in December, saying it will miss its delivery obligations.

The freezing components targeted by the sanctions are produced by only a handful of companies, almost all
American. Novatek has been trying to make its own Russian analogues, and while these work, they “don’t work very well,” the company admitted in January.

Russia doesn’t have the technology or experience to make these very precise components and with a ban on the equally sophisticated CNC machines the task of making them becomes even harder. As a result of the collapse of the Soviet Union, Russia missed out on two revolutions in the machine-building world and today remains hopelessly far behind the world’s leading manufacturers of these tools.

Russia has other industrial vulnerabilities. The reluctant withdrawal of Siemens in 2022 has also struck a heavy blow at Russia’s power industry, as it remains almost entirely dependent on Siemens state of the art high-efficiency gas turbines, for which there is no Russian analogue.

Siemens Energy formed a 65% joint venture with a Russian turbine manufacturer, Silovye Mashiny, part of a large conglomerate owned by a Russian oligarch, Alexey Mordashov, who has been lobbying for state support to develop equivalent Russian technology, but the effort never got off the ground. Likewise, numerous state-backed attempts to develop a domestic precision tools industry have made little progress.

Siemens also holds the monopoly over Russia’s production of high-speed trains, which were supposed to criss-cross the country, linking the most important cities in European Russia, but are now also impossible for Russia to make.

OFAC’s targeting of lubricants and LNG equipment suggests potential future sanctions targeting various highly specialised aspects of Russian military production, exploiting vulnerabilities in the chemicals sector, such as lithium and other specialised chemicals.

For the first time ever, a satellite guided Ukrainian naval drone hit and destroyed the Russian missile corvette, the Ivanovets, in the Black Sea near Crimea on February 1. The sinking of the Ivanovets marks the first instance in modern warfare where a warship in full combat readiness was annihilated by a coordinated drone attack at sea.

The Ivanovets was a Project 12411 missile corvette known for its armament with supersonic Moskit P-270 anti-ship missiles and a crew of 40. It was engaged near the Donuzlav naval base in Crimea. Six Ukrainian Magura V5 maritime drones, operated by the Group 13 unit of the Defence Intelligence of Ukraine, infiltrated the base undetected and launched a sequential assault on the corvette, which was actively patrolling and safeguarding the base at the time.

While the war has come to a stalemate on the battlefield, one of Ukrainian President Volodymyr Zelenskiy’s biggest boasts for the military campaign in 2023 is that Ukraine has largely driven Russia’s navy out of its home ports in Crimea and has sunk numerous expensive Russian ships, starting with the navy’s flagship Moskva, despite the fact that Ukraine doesn’t have a navy of its own.

Despite the Ivanovets’ potential for high-speed evasion, exceeding 30 knots, the suddenness of the drone attack left no time for the vessel to accelerate. Initial strikes strategically disabled the ship’s propulsion by targeting the stern’s propellers from both starboard and port sides, rendering it immobile and vulnerable to subsequent attacks, according to reports on social media.

Subsequent drone impacts were coordinated, with one striking the midsection of the hull, directly under the missile launchers, creating a significant breach. The precision of the attacks created a hole that allowed for subsequent drones to penetrate the hull, resulting in a catastrophic explosion.
that detonated the onboard Moskit missiles, leading to the corvette’s total destruction.

As bne IntelliNews reported, Ukraine is switching tactics and adopting tactics that increasingly rely on a deadly drone war that has countered Russia’s superiority in both manpower and shell fire rate.

Online video indicates the crew’s attempt to counter the drone assault with close-range machine gun fire, although the drones’ small size, speed, and agility rendered these efforts ineffective. Notably, the ship’s primary anti-aircraft artillery systems appeared unactivated during the attack, further compromising its defensive capabilities.

This operation showcases the high level of tactical planning, intelligence, and execution by the Ukrainian forces, particularly the Group 13 commanders, whose approach has been hailed for its strategic ingenuity. The intent behind deploying a group of drones was to ensure the complete destruction of the target, thereby maximising the inflicted damage.

The Ivanovets was destroyed by six Ukrainian-made Magura V5 naval drones, the head of Ukraine’s Main Intelligence Agency Kyrylo Budanov said in a comment to TheWarZone.

“The attack took place more than 130 miles from the nearest Ukrainian port, though it is possible the USVs could have been launched from a mothership further out into the Black Sea. Budanov declined to specify the USV’s launch point. During the destruction of the specified ship, six direct hits by naval drones were made to the hull of the ship. As a result of the damage, the ship rolled astern and sank,” it is reported in the Telegram channel of the Main Intelligence Agency of the Ministry of Defence of Ukraine.

Magura (Marine Autonomous Security Unmanned Robotic Vehicle) is a multi-purpose system that allows for surveillance, reconnaissance, mine warfare, search and rescue and combat missions, Interfax Ukraine reported.

Moscow ridicules suggestions it will launch nuclear weapon into space

bne IntelliNews

Moscow has denied reports that it is planning to launch a nuclear weapon into space, describing claims made by US media as “malicious” and “unfounded.”

According to the Kremlin, the release of this intelligence is a ploy to try to pass a Ukrainian aid package, which is currently stuck in the House of Representatives due to disagreements presented by the Republican Party.

According to Kremlin spokesman Dmitry Peskov, President Joe Biden and his Democrat allies are “trying to get Congress to vote on the appropriations bill any way it can.”

On February 14, American news outlets, citing multiple sources in the intelligence community, reported that Russia is attempting to deploy a nuclear anti-satellite system in space. According to the intelligence, the anti-satellite system is still under development and not yet operational in orbit. Some in Washington have expressed fears that such a system could significantly jeopardise US nuclear command and control satellites, essential for maintaining control over the nation’s nuclear arsenal.

This intelligence was briefed to Congress and key US allies, with some politicians like Representative Mike Turner publicly claiming that it should be declassified and made public. However, multiple members of Congress also came out to say that, while concerning, it is no immediate threat to the US or its interests.

“The classified intelligence product that the House Intelligence Committee called to the attention of Members last night is a significant one, but it is not a cause for panic,” said Jim Himes, a Democrat in the House Intelligence Committee.

Russia’s ambition for a counter-space system has long been known. In 2020, Moscow launched an anti-satellite weapon into space, destroying a small, obsolete satellite as part of a test. According to a 2022 Defense Intelligence Agency (DIA) report, the US believes Russia wants to develop weapons to target enemy satellites from the ground, air and space. However, the deployment of any nuclear-armed system in space is banned under The Outer Space Treaty of 1967, which prohibits “any objects carrying nuclear weapons or any other kinds of weapons of mass destruction” in orbit.
The Mongolian government has put the state on a high level of preparedness for disaster protection at the national level, as decided at a meeting on February 14.

The decision was made based on the extreme cold winter, known as a dzud — a phenomenon unique to Mongolia — which has caused a crisis in the animal husbandry sector.

There have been high numbers of animal deaths in the Sukhbaatar, Khentii, Dornogovi, Arkhangai and Dornod provinces in particular. As of February 10, 508,039 heads of livestock had died in the country, a government statement said.

Prime Minister Luvsannamsrai Oyun-Erdene ordered all necessary measures to be taken to overcome the problems in the livestock sector at the meeting on February 14.

Orders were also given to evacuate households that may be affected by flash floods, clear snow-covered roads and passes, and to help herdsmen.

The Mongolian authorities are working with international organisations and foreign donors to include herders in early detection and diagnosis, carry out surveys of herders who have lost their source of livelihood and have no livestock, and include them in livestock, social security and welfare projects and programme.

According to the Information Institute of Water, Climate and Environment Research, as of February 10, more than 80% of the country was under snow.

Earlier in February, the International Federation of Red Cross And Red

“The decision was made based on the extreme cold winter, known as a dzud – a phenomenon unique to Mongolia – which has caused a crisis in the animal husbandry sector”
Crescent Societies (IFRC) said the dzud had affected 245,005 families across the country.

Many herders, it added, had to resort to the migratory Otor Movement as their main coping mechanism. The Otor Movement is a nomadic practice of domestic herders migrating to seek pasture. It occurs throughout the country, but this year it is affecting many more families, including those who were not prepared for it.

The report also noted several other factors that have been contributing to humanitarian impacts for herder households this year.

A concurrent fuel shortage between early November and December across the country hindered herders from transportation for hay and fodder supply, which did not happen in previous years, it said.

The report also pointed to how, as of December, inflation was a high 8.6% in Mongolia, with a 14.4% increase in prices for food products, soft drinks, and mineral water, a 5.5% increase in housing services, water, electricity, gas, and other fuels, and a 7.6% increase in medicines and medical services.

Inflation has particularly reduced the buying power of herder households, as their main asset is livestock. The cost of hay and fodder has been surging as a result of both inflation and availability, as well as fuel price increases.

Kazakhstan: Tokayev appoints former anti-graft attack dog as PM

Almaz Kumenov for Eurasianet

Kazakhstan’s new prime minister turned 11 just two weeks before the Soviet Union collapsed.

And only the most avid followers of the local political scene had even heard of Olzhas Bektenov, 43, before he was appointed to head a new Cabinet on February 6.

His installation to the office occurred after an unexpected flurry of developments. One day earlier, Alikhan Smailov, who had served as prime minister since January 2022, resigned along with the rest of the government.

Top officials, including Smailov himself, have been circumspect about what precipitated the move. The outgoing prime minister described his tenure as a time in which the government has been pursuing crucial political and economic reforms “aimed at creating a new Just Kazakhstan.”

Loyal political commentators who would until the government resigned have refrained from harsh criticism were less generous.

“The Cabinet was operating in a crisis situation. It was able to do a lot, but there was a lot it could not do. It didn’t develop any long-term development strategy,” Daniyar Ashimbayev, a political analyst, told TASS news agency. “Many initiatives were met with hostility, there were many mistakes, there were scandals, there was a general decline in the standing of the authorities and, above all, the government.”

Smailov’s most vehement critics charge that there was an inability to contain the impact of inflation on Kazakhstan’s population.

“Prices are rising, rising horrendously. And this all has a bearing on people’s quality of life. The dividends are mainly being reaped by microcredit...
organisations,” journalist Mikhail Kozachkov wrote in a snap commentary on the government’s resignation.

Although Smailov is ostensibly leaving of his own initiative, it appears evident that his departure was a coordinated affair. President Kassym-Jomart Tokayev defied the forecasts of many commentators by quickly selecting a relative unknown as his candidate to head the Cabinet.

Most of the fully pliable parliament voted to ratify that choice. Seven members of the Majilis, as the lower house of parliament is known, abstained.

Tokayev wants Bektenov, who was born in Almaty in December 1980 and has a degree in law, to hit the ground running.

“The government needs to take bold, firm decisions to stimulate and diversify the economy for the benefit of the people. This task is of exceptional importance and is of a strategic nature,” he told lawmakers.

Tokayev listed the need “to develop new mechanisms in the social sphere and the agro-industrial complex” as top priorities.

Bektenov has over the years worked across many areas of the state apparatus, including in the office of the prime minister and, most recently, as head of the presidential administration, a job he has performed since April.

His most recent brush with prominence was when he headed the Anti-Corruption Agency, or Antikor, from February 2022 to April 2023. When he took up that mantle, he criticised the body’s earlier work, accusing its leadership of being interested in the “pursuit of impressive statistical indicators” as expressed in the number and rank of detained government officials.

Antikor under Bektenov extended its activities beyond what the name of the body suggests, however. The agency was tasked among other things with taking the lead in investigating allegations that police officers tortured detainees swept up amid the political unrest that roiled Kazakhstan in January 2022.

And it was under Bektenov that Antikor began in earnest to investigate the business dealings of close relatives of former president Nursultan Nazarbayev. It was deep-seated frustration at the perceived misrule of Nazarbayev that fuelled some of the rage seen on the streets during the events that have come to be called “Bloody January”, or Qandy Qantar in Kazakh.

One notable casualty of the post-Bloody January shakeup was a company called Operator ROP, which had a monopoly on collecting lucrative automobile recycling fees and was tied to the former president’s youngest daughter, Aliya Nazarbayeva. Amid much public grumbling, Tokayev ordered a state takeover of the company’s operations.

Another object of Antikor’s attentions was Kairat Satybaldy, a nephew of Nazarbayev who was arrested in March 2022 and later charged with defrauding the national telecommunications giant Kazakhtelecom and a railway services company to the tune of 12bn tenge ($25mn) and 28bn tenge, respectively. He was later sentenced to six years in prison.

Writing on his Telegram account, businessman Beibit Alibekov suggested this aspect of Bektenov’s background would come in useful when running his team.

“Antikor experience in managing ministers is of course [a plus],” he wrote.

The government reset is mostly surface deep. Many figures are retaining their jobs. Deputy Prime Minister Serik Zhumangarin, Deputy Prime Minister Tamara Duysenova, First Deputy Prime Minister Roman Sklyar, Justice Minister Azamat Eskarayev and Energy Minister Almasadam Satkaliyev are staying put. Meanwhile, the MP Madi Takiyev, a one-time deputy national economy minister, will take over as Finance Minister and Akmaral Alnazarova has been appointed the new Health Minister.

Urazgali Selteyev, another typically loyal political analyst, offered an intriguing hypothesis for this government reshuffle.

“Bektenov has turned out to be a dark horse,” Selteyev wrote on his Telegram channel, adding that he believes Tokayev landed on this appointment alone.

Selteyev argued that while Smailov’s job was to perform a holding transition role, graduallly removing leftover personnel from the Nazarbayev era, Bektenov’s job will be to reform the economy to Tokayev’s own specifications.

The most hardened critics of the authorities are unconvinced any significant improvements can be expected.

Dimash Alzhanov, an opposition activist and commentator, said in remarks to RFE/RL’s Kazakh service that he believes Tokayev began in earnest to investigate the business dealings of close relatives of the former president Nursultan Nazarbayev.

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Tokayev’s own specifications.
Corruption Perception Index “paints troubling picture” of Central Asia

bne IntelliNews

Transparency International’s (TI’s) 2023-edition Corruption Perceptions Index (CPI) “paints a troubling picture” of Central Asia, “an area struggling with dysfunctional rule of law, rising authoritarianism and systemic corruption”, regional advisors at the watchdog said as the ranking was released on January 30.

“The average score of 35 out of 100 makes it the second lowest-scoring region in the world,” added the advisors, Altnai Myrzabekova and Lidija Prokic, referring specifically to TI’s Eastern Europe and Central Asia region.

Berlin-headquartered TI’s CPI (which uses a points scale of 0 to 100, with 0 = highly corrupt and 100 = very clean) ranked all five “Stans”, and issued observations for each:

Kazakhstan
39 points, up 3 points
Ranked 93/180 countries

Central Asia’s largest economy is described by TI as “making some progress in addressing corruption issues, including through legal reforms and recovering stolen assets. However, these efforts are overshadowed by its autocratic governance alongside lack of transparency and judicial independence.

“This, together with the enduring influence of powerful political elites, allows corruption to thrive. To achieve substantial progress, Kazakhstan must make its anti-corruption initiatives comprehensive, transparent and free from political interference, while ensuring wider democratic reform.”

Uzbekistan
33 points, up 2 points
Ranked 121/180 countries

Central Asia’s second largest economy, said TI, “stands out in the region as a significant improver on the CPI”. It added: “Importantly, policies and procedures have been established to enforce these laws and criminal charges have been filed against numerous corrupt officials. The government also introduced stronger internal control and audit tools in various ministries and local government offices, such as anti-bribery management systems.

“However, its authoritarian governance resists moves towards transparency and democracy, exerting control over legislative and public institutions, and using the justice system against critics. This perpetuates corruption and underscores the need for comprehensive reform.”

Kyrgyzstan
26 points, down 1 point
Ranked 141/180 countries

Nominating Kyrgyzstan as one its “countries to watch”, TI observed that in “just four years, Kyrgyzstan… has turned from a bastion of democracy with a vibrant civil society to a consolidated authoritarian regime that uses its...
justice system to target critics. This is contributing to higher corruption levels, as indicated by the country’s CPI score going down by five points since 2020.”

President Sadyr Japarov’s transition to presidential rule has tightened his control over the country, said TI, adding: “His repressive and authoritarian governing style defies legal procedures and constitutional norms, erodes civil liberties and captures democratic institutions. He has undermined judicial independence from the national to local level, including by influencing critical judicial appointments and the State Committee for National Security (GKNB), which has played a pivotal role in high-corruption cases. The GKNB has become an opaque tool for repressing political opponents, independent media and critical bloggers.

“Undue influence on justice, coupled with the ineffective implementation of anti-corruption legislation, is undermining the rule of law” the public from exposing wrongdoing and increasing corruption risks.

“Of particular concern,” said TI, “are recent changes in public procurement laws that allow state and municipal enterprises to bypass tender processes and withhold information on their purchases. Kyrgyzstan’s leaders must urgently recommit to democratic principles, ensure the independence of the judiciary and enforce anti-corruption laws effectively.”

Tajikistan
20 points, down 4 points
Ranked 162/180 countries

Central Asia’s poorest nation received its lowest score to date on the annual CPI. The country, said TI, continues “to struggle with severe corruption issues”, with authoritarian control exercised by ruling elites prevailing over state institutions. Corruption is used to “sustain power and evade accountability”, it added.

Turkmenistan
18 points, down 1 point
Ranked 170/180 countries

The country’s anti-corruption efforts have significantly declined, said TI.

Like Tajikistan, it suffers from “systemic governance deficits and a lack of independent oversight, where corruption erodes various levels of society and state, while undermining civic and political rights”. ⬤
Observers report Azerbaijan election marred with fraud

International observers saw many electoral abuses during the snap presidential elections in Azerbaijan on February 7, which resulted in an anticipated victory for incumbent President Ilham Aliyev.

The preliminary results that have been announced claim Aliyev secured over 92% of the vote on a 76.73% turnout – an all-time high.

“These figures simply do not correspond to reality,” observer Azer Gasimli told RFE/RL. “We witnessed authorities orchestrating the movement of voters in coordinated groups. In the early hours of the election, large numbers of employees from state institutions were transported by bus to polling stations. Furthermore, there were instances of carousel voting. Finally, during our conversations with individuals on the ground, many indicated their intention not to participate in the vote.”

Gasimli claimed, based on his experience, that voter turnout was likely even lower than 20%.

According to the preliminary findings released by the Organisation for Security and Co-operation in Europe (OSCE) at a press conference, there were many flaws. The OSCE also pointed out the underrepresentation of women in political life and inconsistencies in campaign finance oversight. The media environment was described as significantly constrained, limiting independent journalism and critical discourse. Lastly, the OSCE expressed concerns over the election dispute resolution process’s impartiality and effectiveness.

Observers reported ballot box stuffing in 29 polling stations, indications of seemingly identical signatures on voter lists in 5% of observations, group voting in 4% of observations, and improperly sealed ballot boxes in nearly 4% of observed polling stations.

The counting process was negatively assessed in more than half (61) of the 113 counts observed due to substantial procedural errors and omissions. Indications of ballot box stuffing were noted, including clumps or stacks of ballots in 13 cases.

According to the OSCE, the negligible coverage of contestants in the media throughout the entire campaign, except for limited free presentations on İctimai TV (Public TV) and a few paid political advertisements, restricted voters’ ability to learn about the contestants and their programmes. The media environment was heavily skewed in favour of Aliyev, with extensive positive news coverage, while critical coverage of the government and Aliyev was almost completely absent.

According to Azerbaijani columnist Arzu Geybulla, the falsifications happened mainly because, in the absence of any experience of holding free and fair elections, Aliyev wanted to avoid a surprise outcome.

Independent observers reported harassment by state officials.

“When we attempted to inspect the ballots more closely, we were threatened with removal by the police. This intimidation occurred throughout the day, with one state-appointed observer even shoving me aside, despite my presence in no way obstructing their view,” Nilufar Afandiyeva, an independent observer told the Azerbaijani service of Voice of America.

Pro-government media scolded journalists and observers who exposed electoral fraud. Xezerxeber.az, a media outlet owned by state oil company SOCAR, expressed discontent with the fact that Azerbaijani observers found electoral fraud by examining official observation cameras live. The TV channel even suggested that these journalists should be punished, although they also agreed that electoral fraud captured by these cameras happened.

“Observers report Azerbaijan election marred with fraud”
A raft of incontrovertible issues remains between the two sides, particularly rooted in Azerbaijan’s escalating demands while it continues to exert military pressure on Armenia.

COMMENT

An Armenia-Azerbaijan ‘peace’ is further away than ever

Neil Hauer in Yerevan

Over the past few months, speculation over an impending Armenia-Azerbaijan peace treaty has reached a fever pitch. Numerous articles have suggested that the two sides are close to a final agreement, while both EU and US officials have expressed optimism on the long-running negotiations.

Perhaps the most positive outlook has come from officials of the two governments themselves: Top Azerbaijani officials expressed in late December that the two sides were “not that much far away from a final agreement”, while Armenian Prime Minister Nikol Pashinyan stated in October that his government was ready to sign a peace treaty by the end of 2023.

But these rosy public proclamations are a poor reflection of reality. A raft of incontrovertible issues remains between the two sides, particularly rooted in Azerbaijan’s escalating demands

while it continues to exert military pressure on Armenia. Barely four months after the full-scale ethnic cleansing of Nagorno-Karabakh of its ethnic Armenian inhabitants following Azerbaijan’s military offensive there in September, the list of sticking points for a peace agreement is growing, not shrinking.

Despite the public enthusiasm by both Armenian and Azerbaijani representatives, the talks themselves have long since stalled, analysts say.

“I think we are nowhere,” says Gevorg Melikyan, head of the Yerevan-based Armenian Institute for Resilience and Statecraft, when asked where talks are at now. “This process is not moving forward. It is just more and more demands by the Azerbaijani side, more and more preconditions,” he says.

Armenia has shown a willingness to compromise on many

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Azerbaijan has also proposed numerous suggestions for unblocking regional transport links, something that was stipulated as part of the November 2020 trilateral ceasefire agreement signed between Armenia, Azerbaijan and Russia to end the 2020 Second Karabakh War.

Azerbaijan, however, has been obstinate. The Ilham Aliyev regime insists on the opening of the corridor it calls the “Zangezur corridor”, envisioned as a road along Armenia’s southern border with Iran that will connect mainland Azerbaijan with its exclave of Nakhchivan. Azerbaijani officials have insisted that Armenia will not be allowed to exercise any customs control over the road, despite it passing through Armenia’s sovereign territory.

“[What the] Azerbaijani government actually wants is that Armenia will not have any control over this corridor, or anything passing over the territory of Armenia to Nakhchivan,” says Altay Goyushov, head of the Baku-based Baku Research Institute. “I think this is the most important thing for Azerbaijan, but at the same time, it’s not the only thing. Azerbaijan is using different kinds of excuses to avoid the peace agreement – demanding changes in the Armenian constitution, demanding the return of exclaves, and other things. All of these elements are combined to put pressure on the Armenian side,” he says.

Public backlash
The recent demands by Azerbaijan to modify Armenia’s constitution have become another sticking point. Pashinyan and other top Armenian officials have mooted the idea recently, resulting in major controversy and a public backlash.

“This is a totally unacceptable demand, and something that the [Armenian] government seems to not really understand the scope of, especially in the way it is presenting it,” Melikyan says. “Having one man [Pashinyan], who wakes up in the morning and thinks that it’s in Armenia’s interest to change the constitution, is not acceptable [to society].

“If Pashinyan tries to make a referendum with these changes, he will fail, because it means that every time Azerbaijan wants to make a change to Armenia’s symbols, history, narratives, whatever, that we must do it,” he says.

Perhaps the most alarming aspect of Azerbaijan’s rhetoric is its repeated references to ‘Western Azerbaijan,’ an irredentist political concept used to extend territorial claims to the entirety of the present-day Republic of Armenia.

Far from a fringe suggestion, the concept of ‘Western Azerbaijan’ – and of Baku’s rightful sovereignty over it – has been mentioned repeatedly by Azerbaijan’s highest official. Aliyev is a noted proponent of the idea, lamenting in a January 10 speech how “ancient Azerbaijani lands” – including the Armenian capital, Yerevan – were “given” to Armenia a century ago. The loss of these lands, according to Aliyev, was “a great historical crime”.

Invoking this sentiment is a clear declaration of Aliyev’s intention to create a pretext for a broader invasion of Armenia, under the guise of “reclaiming” ancient Azerbaijani land, Melikyan says.

“It’s very serious. I don’t know why people think [these statements] are just a bluff,” he says. “It’s a strategic approach to say, ‘we have legal rights to take over Yerevan, we have the legal right to enter it’. When autocratic states start a war, they find pseudo-legal justifications for it. In this case, they will say, ‘well, we don’t want to attack, but we need to restore justice’. And in the name of justice, people go to war,” Melikyan says.

Internal messaging
Another explanation for such statements is that of internal messaging, an attempt to consolidate Aliyev’s legitimacy among the population, Goyushov says, while not excluding the possibility of further military action on the same basis.

“There’s no doubt that [this talk] has some elements of putting pressure on the Armenian side,” he says. “But the most important is the internal audience. Firstly, it’s about [directing society] to focus on the foreign enemy, which is Armenia. It’s important [for Aliyev] to galvanise society around his only achievement, the war in Karabakh. It’s also kind of a competition against the leaders of the First Republic [of Azerbaijan, 1918-20], to downgrade their achievements by saying that they made a lot of mistakes. That’s why even in this speech, Aliyev says that the mistakes stopped being made when Heydar [Aliyev, his father] came to power [in 1969],” Goyushov says.

But even if this sort of messaging is the main point, a further war based on the same logic can hardly be ruled out.

“He’s a dictator, and dictators are unpredictable,” Goyushov says. “They can make reckless decisions. What should be taken into account is the way that it can have an impact on the public in general, where people then ask, if Yerevan is our city, why are we not liberating it?” he says.

While the idea of the public taking such claims seriously may seem farfetched, Goyushov emphasises that the degree of mass inoculation by state propaganda in Azerbaijan makes such a possibility entirely plausible.

“People in Azerbaijan, young people especially, they really believe this [falsified history],” says Goyushov, who also lectures at Baku State University. “For example, when I am
teaching a class about the Crusades and I mention their interactions with Armenia, students will stand up and ask me how that’s possible. They say that Armenians were not here then [in the Middle Ages], that they were only brought by the Russian Empire. So that’s what makes [these irredentist claims] so dangerous and unpredictable,” Goyushov says.

In such an atmosphere, it’s very difficult to imagine any genuine progress towards a mutual understanding, let alone a durable peace agreement.

“We have so little information on what is actually being discussed that we can only guess,” says Melikyan. “Despite the fact that we [Armenia] are supposedly democratic, we have almost no more information about what Pashinyan is saying than Azerbaijan does [about Aliyev]. We can say that [Pashinyan] is very eager to sign some sort of agreement, maybe not even a peace treaty, but Azerbaijan is not willing,” he says.

For Aliyev, meanwhile, the only real priority is to continue entrenching his control over the country – something that leaves room only for more militarism and violence.

“Despite everything, despite his victory, Aliyev still feels insecure,” Goyushov says. “That’s why we see these North Korea-style elections, the most controlled we have ever had. Meanwhile, the economy is declining, people are only going to be faced with more problems, while Aliyev and his family are only going to face more pressure [from society]. Things here are bad, but they are going to get much worse.”

Will economic wrecker Erdogan let the technocrats fix Turkey?

Will Conroy in Prague

There he is. Sat on the naughty stool. The economic wrecker Recep Tayyip Erdogan. He’s agreed to stay put, while the adults in the room, or the technocrats if you prefer, attempt to bring order to his basket case economy.

But will he stay put? Or rise and wreak more havoc with his “Erdogonomics”?

One by one, analysts are coming round to the idea that the stark policy U-turn permitted by Erdogan to his new economic team is the real deal and is here to stay. But the confidence is of a worryingly shaky sort. A very shaky sort.

Turkey’s meddlesome ruler could re-enter the economic fray at any time. As more and more Turks wince at the drastic bitter medicine administered by two ex-Wall Street bankers – finance minister Mehmet Simsek and Hafize Gaye Erkan (central bank chief until February 2, when she quit citing a “smear campaign”) – the authoritarian populist chameleon might decide that the treatment is not bearable after all.

In mid-January, bond giant Pimco gave Turkey a vote of confidence, saying it believed the country was on track for an investment-grade rating. The California-based fund manager has taken a bet on the abrupt economic reforms by buying some lira-denominated bonds.

“Interest rates have risen substantially, fiscal policy has tightened... policymakers continue to unwind unsustainable programmes, encouraging locals to invest back into the lira and away from US dollars... these efforts are working,” Pramol Dhawan, who heads Pimco’s emerging markets team, was reported as saying by the Financial Times.

But let’s not get carried away. Dhawan qualified the bubbling enthusiasm with the comment that such an upgrade could happen “within the next five years if everything goes to plan”.

That’s a very big ‘if’.

Turkey currently holds a single B rating across the major rating agencies, placing it five or six notches into junk status. Its investment grade designation was lost in the wake of the failed 2016 putsch against Erdogan.

Not in the mood to back Pimco’s rosy sentiments was Europe’s biggest asset manager Amundi on January 23.

Sergei Strigo, co-head of emerging market debt at Amundi, told Bloomberg in an interview that foreign investors would steer clear of lira bonds until inflation reverses course and decelerates. That, he said, is a distant prospect, implying that foreign inflows likely won’t materialise until at least mid-year at best.

“My sense is that for international investors to go into the domestic bond market, I would ideally like to see inflation really ticking down. And we are yet to see that. That for me would be the main trigger point.”

The now ex-governor Erkan was already by December stating that the time for foreigners to invest in lira-denominated government bonds “should be now”, given her quintupling of

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interest rates to 45% since her post-election appointment in June last year. But with official inflation still sat at 65% and set to go higher before falling, her urging seems premature. Non-resident holdings in Turkey remain below $3bn – the most since early 2022 but just a fraction of their $70bn peak more than a decade ago.

So back to the crux. Is Turkey’s policy U-turn the real deal? Well, first a comment from veteran Turkey analyst Timothy Ash on the “Erdogan factor”. On January 15, he advised investors that the “sheer scale of the problems that faced Turkey, in the aftermath of the 2023 elections, because of the past decade of unorthodox policies, was such that there simply was no alternative but to move back onto an orthodox economic policy tack. If policy had not changed in the aftermath of the elections, Turkey would have faced a systemic economic crisis to rival that in 2001/2. I think that was crystal clear to all rational economic thinkers, and the message I think was overwhelmingly related to Erdogan. He listened, understood and accepted the need for change”.

Finally, let’s take an extensive look at an analysis released on January 25 by Capital Economics. It amounts to the most wide-ranging research on the topic that has lately dropped into this publication’s inbox.

In the “Focus” assessment, written by the firm’s emerging Europe economist Nicholas Farr, Capital outlines why it has become more positive on the Turkey outlook, finding reason for optimism, but nevertheless treads cautiously.

Farr advises: “It’s unclear what exactly caused President Erdogan to steer policymaking onto a new path. Perhaps he realised that the previous policy set-up was unsustainable and that a fundamental change was needed.

“A more pessimistic view is that the U-turn is simply a short-term strategy to attract foreign capital.

“In any case, investors will be approaching this policy shift with their eyes wide open. After all, there have been several false dawns for policymaking under Erdogan in the past. In 2020, for instance, a new CBRT [Central Bank of the Republic of Turkey] governor [Naci Agbal] was appointed and interest rates were hiked. But Erdogan reversed course four months later by installing a replacement governor obedient to his desire for low interest rates.

“This time around there are clearer signs to suggest that Erdogan is committed to sticking with the new policymaking approach. Erdogan has publicly given up his unconventional view that high interest rates cause high inflation, and has fully endorsed the central bank’s monetary tightening. Even the prospect of a close race for his AK party in upcoming local elections this March has yet to sway him to fall back on stimulus to garner support.

“While we would not want to play down the risk of Erdogan shifting back to his old ways, it seems more likely this time that the policymaking shift will prove lasting.”

Farr poses the question, “Is Turkey’s economy adjusting to the policy shift?”

Tackling the question, he writes that “at face value, the early signs are that the policy shift is already helping to alleviate the macroeconomic imbalances that have built up over previous years. For one, interest rate hikes and changes to banking regulations appear to have taken heat out of credit growth; while nominal bank lending is still running at a very elevated level, real bank lending growth turned negative at the end of last year (see chart below)”.

**Consumer credit (% of GDP)**

Farr notes a sharp slowing of the economy, with GDP growth weakening from 3.3% q/q in 2Q23 to 0.3% q/q in 3Q23, driven by a fall in household consumption. Based on the latest activity data, Capital, he adds, thinks that the economy probably contracted outright in 4Q23.

“Encouragingly,” says Farr, “inflation pressures are also cooling. While headline inflation has risen further in recent months (and
hit 64.8% y/y in December), seasonally adjusted m/m increases in core consumer prices – which provide a better gauge of the latest underlying price pressures – have eased.”

Taking the baseline view that the new orthodox approach to macroeconomic policymaking is here to stay and Turkey’s imbalances will improve over time, Capital forecasts headline inflation will average 48.5% this year and 24.3% in 2025, noting the predictions are below consensus.

High inflation differentials will continue to weigh on the lira over the coming years, says Farr, “but we think that the scale of nominal depreciation will be less than is discounted in the forward market and by less than most analysts currently forecast. Our forecast is for a ~25% fall to 40/$ [from the present 30/$] by end-2025.”

He continues: “In this scenario, high interest rates are likely to offer attractive returns in Turkey’s bond market. We think that Turkey’s 10-year local currency bond yield will remain close to 25% this year, and fall to around 20% in 2025. Nominal lira depreciation will weigh on returns in dollar terms, but Turkish local currency bonds still stand out as having the potential to deliver among the highest returns among EMs if the policy shift stays on track (see chart below).”

**CE Projected 10Y LCU Government Bond**

*Total Returns, US$ – Terms, Now to End-2025*

Given the wild ride taken by Turkey’s economy in the last several years, no analyst will take two steps forward on assessing the outlook, without pausing to check on the whereabouts of the emergency exit, and as his analysis gathers momentum Farr halts and advises: “Notwithstanding the relatively positive signs so far, it is important to stress that the policy shift is very much in its infancy, and a lot more needs to be done before policymakers can declare any sort of success.”

The most important objective, he reiterates, is to bring down inflation substantially. “Despite the recent softening, the latest monthly gains in core prices are still consistent with an annualised inflation rate of around 35%. While that’s a lot lower than current inflation and suggests to us that a lot of disinflation is in the pipeline this year, it is far from the single-digit rates [looking achievable only by 2030 in Capital’s assessment] that policymakers are trying to reach,” says Farr.

“An important step,” adds Farr, “to achieving low inflation on a sustainable basis will be for policymakers to reduce inflation expectations, which are still extremely high. Five-year market breakeven inflation rates and surveys of analysts’ expected inflation in two years’ time are both still above 20%. This suggests that investors and analysts are not yet convinced that the central bank will do enough to get inflation under control in the coming years.”

As Capital notes, low and stable inflation is also needed to rebuild confidence in the lira as a store of value. Observes Farr: “Turkey’s inflation problem is a key reason why the lira has been under significant downward pressure for many years – and has continued to fall since the policy shift. (The nominal exchange has needed to weaken to offset upward pressure on the real exchange rate, which adjusts for price differentials between Turkey and its trading partners.)”

Relatedly, Turkey’s external vulnerabilities remain a dark cloud hanging over the economy. “The legacy of persistent current account deficits over past years,” says Farr, “has been significant foreign borrowing and an accumulation of large external debts. Total external debts currently stand at around $482bn (45% of GDP), of which a third is short-term (maturing within the next twelve months) (see chart below).”

**External Debt (% of GDP)**

Sources: Refinitiv, Capital Economics

“These external debts need to be rolled over, which leaves Turkey vulnerable to shifts in risk appetite and tighter external financing conditions. And a weak currency only makes it more costly (in lira terms) to repay these debts.”

“To achieve a more significant reduction in Turkey’s external vulnerabilities, current account surpluses will ideally be needed for several years. This would lower the economy’s dependence on capital inflows and allow the CBRT to further build its FX reserves.”

To encourage investors, Turkey will need to cement the shift towards policy orthodoxy and work to sustainably its macroeconomic imbalances.
Capital sees a need for high real interest rates to prevail for a sustained period. Says Farr: “This would keep credit growth subdued, encourage savings and reduce demand.

“In previous analysis, we looked at 18 EMs since 1980 that experienced inflation problems on a similar scale to Turkey’s and that subsequently lowered inflation to single digits. The key lesson from these experiences was that real interest rates in most cases increased to 5-10% (or higher), and it typically took more than five years for inflation to fall from a peak to below 10%. The tight policy stance was usually maintained for some time, even as inflation reached single digits.

“Similar to these experiences, we think that a positive real interest rate of around 10% in Turkey will be needed for at least the next few years to bring single-digit inflation into sight at end of this decade. While the CBRT seems to have ended its monetary tightening cycle this month with the policy rate at 45.00%, we think that inflation will fall below this level in the second half of this year.”

Capital expects the policy rate to be maintained at 45.00% throughout 2024 and above 30.00% out to end-2025. “In our view, policymakers are clearly wanting to send a hawkish message, which is why we think rate cuts will probably only materialise in early 2025 once inflation is at a much lower level,” adds Farr.

High real rates are also crucial to Turkey’s tackling of other imbalances such as the lack of lira deposits and related dollarisation in the banking sector, Farr says, adding: “High real interest rates would also help to improve the balance of payments by attracting capital inflows and improving the current account.

“In this regard, it’s worth noting that the adjustment in the current account balance is far from complete. The recent reduction in the current account deficit has largely been driven by a narrowing in the energy trade deficit back to more normal levels. That has a lot to do with falls in global energy prices, rather than a fundamental policy-induced adjustment in demand. A period of higher savings and weaker demand is likely to be required to weigh on imports and improve the current account further.”

Turkey since its economic U-turn has supported higher interest rates with tighter policy in other areas such as through fiscal consolidation, with various tax hikes brought in after the election, but, says Farr, a lot more work still needs to be done in this area, with Turkey’s budget deficit having come in above 5% of GDP last year, its highest level in more than a decade. High expenditures to support re-construction after the earthquake disaster that hit southeastern Turkey a year ago are set to keep the deficit wide this year as well.

“Any fiscal giveaways could easily be interpreted as a sign that commitment to the new policymaking approach is slipping,” says Farr, also advising that the government will need to scale back its indexation policies. Officials recently announced a 49% minimum wage hike for this year, adding to near-term inflation pressures.

“Of course, policymakers cannot cut back indexation too far and risk public discontent – this itself threatens a collapse in the policy shift. Accordingly, the government will need to find a balance; future minimum wage, pension and public sector salary hikes will need to become less generous over time to avoid offsetting policy tightening in other areas, whilst also keeping the public on board with the new policymaking approach,” adds the economist.

Analysts are also watching for work from policymakers on phasing out the use of unorthodox tools in the financial sector.

“The distortions in Turkey’s financial sector run deep and many have their roots in the unorthodox policies that have been adopted over past years,” Farr also notes in his report.

“Among the most pressing is the need to carefully dismantle the lira-protected deposit scheme. Under this scheme, holders of lira deposits since late 2021 have been able to receive a return equal to the higher of the interest rate offered by commercial banks or the rate of depreciation of the lira against the dollar. In other words, policymakers have insured depositors against currency depreciation.

“This tool played a part, along with other forced ‘lira-isation’ measures, in encouraging a shift away from holding deposits in foreign currencies in 2022. But it shifted a lot of exchange rate risk from the private to the public sector,” adds Farr.

The government has made steps towards abandoning the lira-protected deposits scheme, known as KKM, including banning conversion of regular lira deposits into the scheme from the start of this year (it is now only allowing FX to be transferred into the scheme). But this tool will need to be fully phased out to reduce debt risks further down the line and restore confidence in the exchange rate regime, Farr says.

Another distortion that has raised a lot of eyebrows is the central bank’s use of off-balance sheet FX swap contracts to support the lira. They have ramped up over the past year.
Once these liabilities are taken into account, the central bank’s net FX reserve position is still deeply negative (despite the increase in gross FX reserves) (see Chart 15). The lira has been allowed to depreciate at a faster pace since the election. It is more than 30% weaker against the dollar than it was at the beginning of the policy shift at 30.5/€.

“That said,” notes Farr, “following a sharp adjustment initially, the lira has depreciated at a slower pace and traded in a tight range in recent months. This suggests to us that authorities are still intervening to manage the extent of depreciation.”

Policymakers are faced by the need to perform a delicate balancing act of permitting market forces to take over in governing the exchange rate level over the coming years and managing the pace of depreciation.

Says Farr: “If policymakers allow the lira to depreciate too quickly, it will only feed into inflation and inflation expectations, which could have a self-defeating impact on the policy shift. It would also make it difficult to avoid a rush of deposits into foreign currency without further interest rate hikes – a smooth transition out of the KKM scheme will require lira deposit rates to be sufficiently attractive relative to the rate of inflation and lira depreciation.

“Similarly, letting the currency depreciate too slowly could undermine Turkey’s external competitiveness, weigh on foreign capital inflows and potentially store up pressure for a larger depreciation in the future.

“We expect policymakers to slowly release their grip on the lira and forecast the currency fall by ~15% by the end of 2024, from 30.3/€ now to 35/€. While that’s a large fall, it is less depreciation than what is discounted in the forward market over the coming year (a ~30% fall to 43/€) and lower than the consensus expectation among analysts (a ~20% fall to 37.5/€). We expect the lira to depreciate by a further 10-15% in 2025, to 40/€.”

Looking at the risk of the Erdogan administration abandoning the new policy settings, Farr concludes: “A sharp slowdown in growth, a material hit to the labour market, and/or a sharp decline in households’ real incomes could discourage President Erdogan from sticking with his new approach. Similarly, the local elections in March remain a potential trip hazard. While we think the policy shift will survive the election, a loss of support for the AK party or growing discontent has the potential to be a trigger for another policy U-turn.

“There are other risks to the policymaking shift too. Turkey’s large external debts leave the economy vulnerable to swings in global risk appetite. Global factors could lead to destabilising capital outflows, but also any sign that policymakers are not fully committed to the new approach could also discourage foreign investors, and cause strains in the external position to emerge. A rise in geopolitical tensions – including those related to Erdogan’s sympathetic views towards Hamas in its war with Israel – has the potential to dry up capital inflows too.

“Another (albeit less dramatic) risk is that the policymaking shift takes longer to deliver results than many are anticipating. As evidenced by the de-anchoring of inflation expectations, high inflation has become ingrained in Turkey over the past decade. This means policymakers may need to keep policy tighter for longer than we expect, and a more extended period of weak growth may be needed to get inflation down.”

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**How the Mongolians punch above their weight in military diplomacy**

Antonio Graceffo in Ulaanbaatar

Although it lacks the economic and political power to compete with its two giant neighbours China and Russia, Mongolia is leveraging its unique military heritage to build bridges with countries as far away as the United States and India. When it comes to military diplomacy, Mongolia punches well above its weight.

Military diplomacy is the strategic deployment of armed forces to attain diplomatic goals and strengthen international relations. This involves leveraging military capabilities, including defence cooperation, joint military exercises and military exchanges, to enhance a nation’s diplomatic influence, establish partnerships and contribute to regional or global stability.

Mongolia’s population is only 3.25mn-strong, with 35,000 active-duty military personnel and 135,000 reserves. Despite the country’s small size, Mongolia has participated in more than 20 UN peacekeeping operations worldwide and is ranked as the 23rd largest contributor to UN peacekeeping. Mongolian peacekeepers have served in South Sudan, Mali and the Democratic Republic of Congo. In early January, Secretary-General of the United Nations Antonio Guterres appointed Mongolian Major General Erdenebat Batsuuri as Force Commander of the United Nations Peacekeeping Force in Cyprus.

Nearly 10,000 Mongolian peacekeepers, including over 900 women, have served in the United Nations Mission in South
Sudan (UNMISS), protecting civilians and supporting the delivery of humanitarian assistance to vulnerable people. Medical peacekeepers from Mongolia have also provided free malaria testing for patients at Bentiu Hospital during the dangerous rainy season.

Mongolia has an exceptionally high percentage of female peacekeepers. A noteworthy female soldier is Sergeant Battsetseg Baatarkhuu (seen above (photo credit: UNMISS)) a former Olympic runner, who served three tours in Sudan.

Military diplomacy is seen as a crucial component of Mongolia’s “Third Neighbour Policy”. As with any diplomatic overtures beyond the region, Mongolia must always be careful to maintain the delicate balance in its relations with its primary economic and defence partners, China and Russia. Nevertheless, Mongolia has managed to steadily increase its military diplomatic ties with the US through joint military exercises, training programmes for Mongolian military personnel, cybersecurity assistance, equipment donations for specific purposes like peacekeeping and cooperation on counterterrorism and cyber threats.

At the same time, Mongolia is increasing its engagement not only with the US but also with other Western partners through joint training exercises. In 2022, Mongolia hosted the first-ever international conference of female peacekeepers under UN Security Council Resolution 1325, “Women, Peace, and Security.”

By far, the most significant multinational joint training exercise for Mongolia’s military diplomacy is Khaan Quest, jointly organised by the Mongolian Armed Forces and the US Indo-Pacific Command. Since 2003, this annual event has seen the participation of over 18,000 military personnel from 67 countries. Khaan Quest is part of the US-Mongolia Strategic Partnership but it is also a way for Mongolia to connect with other democratic nations such as Canada, South Korea, Germany, France and Japan. India, China’s frequent rival, has also participated in Khaan Quest.

For 15 years, India and Mongolia have also held a bilateral exercise called Nomadic Elephant, an apt name as elephants hold special cultural and religious significance in both nations.

While peacekeeping and joint training remain cornerstones, Mongolia has actively expanded its military ties through strategic partnerships with Nato. Mongolian troops participated in the Kosovo Force (KFOR) intervention, as well as two missions in Afghanistan: the International Security Assistance Force (ISAF), combatting the Taliban, and the Resolute Support Mission, providing training and assistance to the Afghan National Defence and Security Forces (ANDSF).

Additionally, Mongolia hosts the Five Hills Peace Support Operations Training Centre (FHPSTOC). Funded by the US Department of State’s Global Peace Operations Initiative (GPOI), the centre provides training for Mongolian military personnel participating in United Nations peacekeeping missions.

As important as closer ties with the West are, Mongolia, it bears repeating, is always careful not to alienate China and Russia. Mongolia regularly participates in the Selenge, a Mongolia-Russia joint tactical drill. And last November, China and Mongolia conducted the Border Defence Cooperation-2023 joint drill in the border region adjacent to Changji Hui autonomous prefecture in Northwest China’s Xinjiang Uygur Autonomous Region. The focus of the drill was on collaborative efforts conducted by China and Mongolia in combatting border crimes. In 2021, Mongolia also participated in joint exercises in China’s Henan province, along with the militaries of Pakistan and Thailand.

With military diplomacy, as with all forms of diplomacy, Mongolia has managed to strike a remarkable balance, actively engaging with Western partners while maintaining those close relations with China and Russia. Mongolia’s cooperation with Nato is particularly remarkable, given Moscow’s historical disdain for the organisation, and the fact that Vladimir Putin used Nato expansion as justification for his country’s full-scale invasion of Ukraine.

In recent years, Beijing has also expressed its dislike of Nato as the organisation’s mandate has shifted and may now extend to confronting China in the Pacific. Mongolia has carved out a unique space on the global stage as it continues to navigate the shifting sands of international relations. Its Third Neighbour Policy and military diplomacy are a testament to the country’s resilience and its refusal to yield sovereignty.

Antonio Graceffo, PhD, China-MBA, is an economist and China analyst. He has spent over 20 years living in Asia, including seven years in China, three in Taiwan and four in Mongolia. He conducted post-doctoral studies in international trade at the School of Economics, Shanghai University, and holds a PhD from Shanghai University of Sport, and a China-MBA from Shanghai Jiaotong University. Antonio has authored seven books on Asia, with a focus on the Chinese economy.
Czech inflation collapses to its lowest y/y rise in almost three years in January

Consumer price indices (inflation) in Czechia increased by 2.3% year on year and by 1.5% month on month.

It is the lowest y/y growth since March 21. It is also down 4.6 percentage points on December values, while the inflation growth was 17.5% last January.

“The development came mainly from prices of housing and food and also higher benchmark in the last year,” commented Pavla Sediva of the Czech Statistical Office (CZSO).

Slovak economy best performer in Central Europe with 1.2% growth in Q4

Gross domestic product (GDP) in Slovakia increased by 1.2% year-on-year and by 0.3% quarter-on-quarter in the final quarter of 2023.

The country’s Statistical Office published just the flash estimate figures without a detailed breakdown and put economic growth above 1% for the whole year 2023.

The Q4 growth “was supported mainly by the y/y increase in investments”, statisticians report highlighted. “For the whole year, the economic performance was driven by investment and a positive foreign trade balance. Final household consumption remained depressed”, it added.

Hungary’s economic recovery stalls in Q4

Hungary’s economic recovery stalled in the final quarter as output remained stagnant (chart) following a 0.4% rebound the previous quarter, ending four quarters of economic contractions, like a first reading of data released by the Central Statistics Office (KSH) shows on February 14.

Adjusted for calendar year effects, GDP rose 0.4% year-on-year in Q4. For the full year, adjusted GDP dropped 0.8%, falling for the first time since 2012, excluding the pandemic. Agriculture output was a major contributor to growth, rebounding from a low base, due to the devastating drought in 2022. KSH said the performance of the economy rose mainly in the farm, healthcare, social services, and ICT sectors.

Kazakhstan PMI shows manufacturing sector recovery in January

The Purchasing Managers’ Index (PMI) survey data for Kazakhstan’s manufacturing sector in January, conducted by Tengri Partners and S&P Global, indicated “notable improvements” at the beginning of 2024, the accompanying statement to the survey said.

The headline manufacturing PMI for January rose to 50.5 above the 50.0 no-change mark (from 48.6 in December), signalling a sector recovery.
Albania has the oldest car fleet in Europe and one of the dirtiest

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Eurostat statistics reveal that Albania retains the unenviable position of having the highest percentage of old cars among European countries.

While the rest of Europe moves towards environmentally friendly vehicles, over 90% of the vehicles in Albania are more than a decade old, most of them second-hand imports from Western Europe. The presence of large numbers of older vehicles adds to pollution in Albanian cities and increases the number of road accidents.

According to Eurostat data from 2022, 41% of passenger vehicles in Albania are over 20 years old, the largest share of any country in Europe. This is more than four times the percentage of Germany, a country recognised for its strong automotive industry, where only 8% of vehicles fall into the same age bracket. In many other West European countries, including Belgium, Denmark, Luxembourg and the UK, less than 10% of cars are over two decades old. Central and Southeast European EU members typically have older car fleets than their West European counterparts.

A further 51% of passenger cars in Albania are between 10 and 20 years old, meaning that 92% of vehicles in the country are over a decade old, another European record.

There is a similar picture across the Western Balkans in the countries for which data has been provided. In Bosnia & Herzegovina, 35% of cars are over 20 years old and 86% are over 10 years old.

North Macedonia doesn’t provide data for cars over 20 years, but 88% of vehicles are aged over 10 years. Kosovo boasts the newest cars in the region, with only 75% over 10 years old, although data for Serbia is currently unavailable.

In Italy and Germany, the share of cars more than a decade old is 59% and 40.5%, respectively.

Albania also has the lowest share of new cars, defined as cars less than two years old, which make up a mere 0.78% of the total. In Kosovo, 2.63% of cars are new, and Germany leads with 15.4%.

Eurostat’s data also shows that Albania and Kosovo have the highest proportions of diesel-powered vehicles in Europe, at around 74% and 82% respectively for the year 2022. Out of over 639,000 vehicles in Albania, 471,000 are diesel-powered, while alternative energy vehicles account for a mere 9.3%. There are under 1,300 electric cars in the country.

By contrast, Western European countries have more petrol-powered cars and an increasing adoption of alternative energy. For instance, the Netherlands has less than 10% diesel-powered cars.

In terms of population, Albania ranks among the countries with fewer cars in Europe, with 226 cars per 1,000 inhabitants in 2022.
One of the fastest growing countries in the world and one of only two countries that didn’t go into recession during the coronavirus pandemic, Uzbekistan is coming into its own.

The most populous country in Central Asia and third biggest country in the Former Soviet Union, president Shavkat Mirziyoyev unleashed a wave of economic reforms after taking office in 2016 that are starting to bear fruit.

The entire cotton and textile sector has already been privatised and banking, mining and the major state-owned industrial enterprises are up next. With a young and growing population, sectors like retail, IT and automotive are already flourishing as growth gathers momentum.

Follow the fast moving developments in business, economics, finance, energy and politics in this dynamic and ancient Silk Road country with bne IntelliNews’ Invest Uzbekistan newsletter, carrying the best stories from the last two weeks.