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Air Bank, the fast-growing Czech neo-bank owned by the recently deceased Czech billionaire Petr Kellner, is close to swallowing the larger listed Moneta Money Bank, which would make it one of the biggest banks in the highly profitable Czech market.

Kellner’s privately-held PPF Group bought close to 29% of Moneta for Czech koruna (CZK) 11.3bn (€435 mn) in a CZK80/share public offer in early March that was backed by the managers of the larger bank, ranked sixth in the market by assets. PPF has also proposed a merger with its unlisted online retail start-up Air Bank, ranked eighth by assets, which would end up giving it close to 60% of the combined group.

But the merger has now been thrown into doubt by the billionaire’s death in a helicopter crash in Alaska on March 27, with Czech media speculating that it could now be called off or modified. Moneta’s shares have fallen more than 2% since trading opened on Monday, March 29.

PPF executives insist that their plans are unchanged and that Kellner’s long-term dream of building a strong Czech bank will be fulfilled. “PPF will continue to work on its projects according to the plans and visions set out by Petr Kellner. This is the right way forward and it is what Petr would have wished for,” Ladislav Bartonicek, who has taken over as interim CEO, told PPF staff in a letter.

Air Bank CEO Michal Strcula, who has led the bank from the start, confirmed that the plan remains the same. “Ultimately, it will be on both Air Bank and Moneta shareholders to agree, but the primary driver of the transaction is that it makes sense. Therefore the transaction is still going forward,” he said.

It nevertheless remains unclear whether PPF would be more ready to raise the acquisition price if necessary, now that Kellner, who was used to getting his way, is no longer in charge.

The two banks are now carrying out due diligence on each other, with the results expected in mid April. PPF might then need just another 15% of shareholders in order to give it the 75% majority to approve the merger, assuming that only 60% of shareholders vote at the general meeting. This would give PPF control of the combined bank.

Assuming the merger does go through, the rise of Air Bank will be an earthquake for the Czech banking system. The combined banking group will have a total of 2.5 million customers in a
comfortable with the internet. Although it has 34 branches, most customers do the overwhelming majority of their transactions either via computer or smartphone – around 600,000 of their 865,000 customers use mobile banking.

Air Bank customers also use their bank cards 15 times a month, 50% more than peers, and 22% use their accounts daily, double the market average.

This internet-focused strategy has worked on the Czech market as the country has often been an early adopter of new banking technologies such as contactless cards. The pandemic has merely accelerated the digital trend, and made customers of other banks wish their lenders had more up-to-date systems.

Strcula said that what differentiates Air Bank from other neo-banks in Europe is that it has always been a fully-fledged digital retail bank with its focus on the primary banking relationship – rather than starting out as a monoliner – and that it is already highly profitable, with a return on tangible equity last year of 17.2%.

“The root cause behind the results is that we have been by nature a very savvy online-focused organisation from the beginning,” said Strcula. “We are clearly the biggest and fastest growing neo-bank on the market.”

Though it has domestic neo-bank competitors – and the traditional players such as Erste Group’s Ceska Sporitelna have improved their online offering – Strcula said so far it has been largely protected from wider neo-bank competition because Czechia is outside the Eurozone. “The Czech crown made it a bit more difficult for some of the other fintech and digital banks to tap into [the market],” he pointed out.

Rich valuation
The plan to merge with Moneta has been controversial, partly because of Kellner’s reputation as the killer whale in the Czech fish tank, partly because of the valuation of Air Bank.

This was Kellner’s second attempt to merge the two banks. Two years after Moneta’s CZK35bn IPO in 2016, he offered to sell...
it to Air Bank for CZK19.75bn, 2.2 times the book value; MMB replied with an offer of CZK18.5bn, which Kellner rejected.

The new bid is in the form of a reverse takeover that values Moneta at almost CZK 41bn. PPF is in the process of acquiring just under the 30% share threshold. If it exceeded the threshold, it would have to make a mandatory offer. By taking the approach it is, PPF is now in a commanding position to push through a merger with the larger bank that will also give it a listing. PPF proposes that Moneta issues new shares to buy Air Bank, peer-to-peer lender Zonky, and consumer lender Home Credit’s Czech and Slovak units. The ratio of the shares between the two banks would be roughly 60:40, so, with its existing shares, PPF would end up with close to 60% of the enlarged group. It would then make a mandatory offer for the remainder at the same CZK80 price, a 19% premium to the last close before the original offer announced in January. It says it does not intend to delist the combined group.

The valuation in the current bid has been criticised not so much because of the public offer price – in a research note in January, Citi has a slightly higher target price for Moneta shares of CZK84 – but because of the valuation of Air Bank in the merger.

While Moneta is valued at around CZK40bn, or 1.5 times book value, according to Citi, Air Bank is valued at CZK26.9bn, a chunky 2.6 times book, significantly more than the rejected bid of three years ago, at a time when the pandemic is making banking valuations extremely uncertain.

“These valuations appear rich against historical valuations for the assets offered by Moneta,” said Citi, which valued the PPF assets at around half of Moneta’s.

Air Bank points to its higher rate of profitability – its ROE was double that of Moneta’s 10.8 last year, according to Citi – as well as its lean cost structure (Moneta has four times as many branches) and, in particular, what it argues are its stronger growth prospects. Air Bank forecasts it will double its profit by 2023, even without Moneta.

Air Bank has been the fastest growing bank over the past 10 years, expanding its customer base by around 100,000 a year, or 0.9 percentage points of market share, up to its current 865,000 customers or 8.1% market share. It claims a 22% share of customers switching from other banks.

Its generally wealthier and younger customers mean that there is more opportunity to sell them new products such as consumer loans, pensions and other savings products as they get older, earning the bank fatter margins and fees. Air Bank’s close relationship via the internet with its customers will assist this process.

“This is the first time a bank had such regular interactions with their customers,” said Strcula. “That gives you a huge potential which we really like.”

Little overlap
Air Bank also argues that the merger offers the opportunity to achieve real synergies that will drive future growth. The merged bank would already be very strong in consumer credit, with an 18% retail lending market share. It would also be able to grow in other segments that Air Bank has hardly explored up to now.

Air Bank would contribute its well-known brand (though the future joint name is so far undecided) as well as its advanced IT system (though no decision has been made on the merged IT system).

For its part, Moneta can offer its 160 branches (the fourth largest network) and its existing experience with SMEs and pensions, as well as its building savings and mortgage products, which have been enhanced by its recent acquisition of Wustenrot’s Czech business.

“We can hasten their digital transformation which can help them,” said Srčula. “They have products we did not yet develop.”

The fact that there is little overlap in terms of customer base, with Moneta strong among farmers and small towns, reduces cost synergies but enhances potential revenue synergies.

But some analysts remain sceptical of both the Air Bank Group as a unit and the potential synergies with Moneta after any merger. On paper the Air Bank Group has 1.23 million customers, close to Moneta’s 1.4 million, but it remains three separate brands and so far there has been little overlap or cross-selling between the customers of the bank and Home Credit. Arguably the group is more of an accounting notion than a coherent business, though Air Bank deposits are used within the group for Home Credit lending.

If Air Bank merged with Moneta, the differences between them also might be more of a problem than an advantage. Air Bank’s strong image might be diluted by Moneta and its customers could drift away.

“I'm not sure how Air Bank customers will like Moneta being part of Air Bank,” said Milan Lavicka, banking analyst of J&T Bank in Prague. “They might look just like another bank.”

Similarly, it is not clear how well Air Bank’s brand will be received by Moneta’s farmers and small town dwellers. Moneta has also invested significantly in its own IT system, so there may be more costs than savings in imposing Air Bank’s technology.

“The outlook for revenue synergies, and for the earnings outlook in general, is uncertain and we think shareholders may want different exchange terms to acquire the PPF assets,” noted Citi.

However, convincing PPF to change its bid will be tough, as the failed negotiations in 2018-19 showed. “PPF is not the kind of company to accept worse conditions than it offers,” commented J&T’s Lavicka. •
**Companies & Markets**

**M&A hits €8.5bn in CEE in Q1, says Mergermarket**

Iulian Ernst in Bucharest

Merger and acquisitions (M&A) in CEE (excluding Russia and Turkey) in the first quarter hit €8.5bn, up by 50% year on year, according to data from Mergermarket released on April 15. The number of deals in Q1 was 115, just above the 109 in 1Q20.

The M&A value is the highest Q1 figure since 2013, the data and intelligence company said, and was boosted by several large transactions by foreign investors. Foreign investments represented 86% of deal-making by value, accounting for €7.3bn across 60 deals. The region’s top deals were both in Poland, with Allianz’s €2.5bn acquisition of Aviva Poland, followed by Cellnex Telecom’s €1.6bn purchase of Polkomtel Infrastruktura.

Fund transactions soared to €1.5bn across 18 deals, compared to €65mn and eight deals a year ago. The biggest fund transaction was Partners Group’s €800m buyout of Fortum Oyj, a Baltics-based district heating business. There were only 17 fund exits, worth €148 mn, compared with eight exits worth a much higher €1.9bn in 1Q20.

Mergermarket’s annual 2020 survey with Wolf Theiss had also shown surprisingly strong deal flow despite the coronavirus (COVID-19) pandemic, with trends towards bigger deals and a higher proportion of private equity deals.

Mergermarket said intra-CEE M&A remained stable, with 62 transactions worth €1.2bn, compared with 58 deals worth €1.2bn in 1Q20.

It said financial services was the busiest sector by value, with 11 deals totalling €3bn representing 36% of the overall total. Technology was the most active sector by deal count, with 26 deals totalling €551mn.

**wiiw raises 2021 CEE growth forecast to 3.8%**

Robert Anderson in Prague

Central and Eastern Europe’s economic recovery will be strong but delayed, because many countries have had to reimpose lockdowns to contain the coronavirus (COVID-19) pandemic, said the Vienna Institute for International Economic Studies (wiiw) in its spring forecast.

It has revised upwards its forecast for growth for the region this year to 3.8%, having predicted 3.1% GDP growth in its autumn forecast.

With the recovery beginning in the middle of the year, the wiiw predicts most of the region (which for it also includes Turkey and Kazakhstan) to return to pre-crisis levels of GDP by the end of the year, but with great differences in pace. Several countries in the Western Balkans will only regain their previous GDP levels in 2022, and Montenegro not until 2023.

In terms of economic growth, CEE mostly did better than Western Europe last year, falling only 2.3% overall, with the main exceptions being tourist-dependent countries such as Croatia and Montenegro.

However, the region has been badly hit by the second wave of the pandemic, and the wiiw expects growth to be lower than Western Europe this year and barely level with it next year. “Only in 2023 will the convergence process start again in our region,” Richard Grieveson, deputy director, told a webcast.

The strongest growth is forecast in Southeast Europe, helped by a recovery in tourism and a bounce back from a steep downturn last year (which was worse for the Western Balkans than that of 2008-9). The highest growth is forecast in Montenegro (6.5%), Turkey (5.8%), Serbia (5%), Kosovo (4.8%), Croatia (4.5%) and Albania (4.5%), followed by Romania (3.8%) and Slovenia (3.6%). There is expected to be a weaker performance in Bosnia and Herzegovina (2.5%) and Bulgaria (2.5%).
“These are countries that either used fiscal or monetary policy very successfully to mitigate the downturn (Turkey and Serbia) or else suffered especially badly last year, so that they will benefit from favourable base effects in 2021 (such as Croatia and Montenegro),” the wiiw reported.

Turkey will continue its strong performance, and the wiiw has revised upwards its forecast for this year by 1.7 percentage points. It, however, predicts growth to slow to 3.4% in 2022 and 3.5% in 2023. “Turkey and Serbia are the success stories of the pandemic so far,” said Grieveson.

For the CIS and Ukraine, where the downturn last year was far less severe than in 2009, growth is also anticipated to return strongly, with Russian GDP forecast to expand by 3.2% this year (an upwards revision of 0.7pp), Ukraine by 3.5% (an upwards revision of 1.5pp), while Belarus will grow by 1.5% (an upward revision of 2.7pp) and Kazakhstan by 3.2% (revised up by 0.7pp). Russian growth will slow to 2.7% in 2022 and 2.3% in 2023, while Kazakhstan’s will accelerate to 4.1% and 4.4% respectively.

For Central Europe, where the downturn last year was worse than in 2009, the picture is more mixed. Hungary (with 3.9% growth), Slovakia (3.6%) and Poland (3.4%) are the leaders, with Czechia behind on 2.9%. Polish growth is predicted to accelerate to 3.6% in 2022 and 4.4% in 2023.

wiiw expects the weakest 2021 real GDP growth to be in Estonia (1.2%), Lithuania (2.1%) and Latvia (2.8%). The Baltic states, which are suffering a severe second wave, have had their growth forecasts for this year revised down drastically, Estonia by 2.7 pps, Lithuania (2.4pp) and Latvia (1.6pp).

CEE (and particularly Central Europe) handled the pandemic better than Western Europe last year, with tough lockdowns and accommodating fiscal and monetary policies. It was also helped by being less reliant on the hard-hit services sector. But this year the lock downs have been less stringent than in the first wave, and worker mobility has been higher.

“In the second wave CESEE has sacrificed public health for the economy in terms of restrictions,” said Grieveson, pointing out that six of the 10 countries with the worst excess death rates in the world are in the region (Moldova, Serbia, Lithuania, Bulgaria, Macedonia and Russia). “This will unfortunately have negative economic consequences this year.”

Grieveson said the central question now was the roll-out of vaccines, with Ukraine, Moldova and parts of the Western Balkans set to take years to vaccinate their populations at current rates. “International solidarity on vaccines is going to be crucial to help the poorer parts of CESEE to exit this crisis, but unfortunately we don’t see much of that at the moment”, he noted.

Growth this year will be driven by a combination of goods and services exports, as the global economy recovers; the drawing-down of savings; better domestic sentiment, as the vaccination rates increase; and fiscal and monetary support, the wiiw reported. “Consumption will be [the] main driver everywhere in the next couple of years,” said Grieveson.

From next year, the EU Recovery funds will also start to kick in for Central Europe.

The wiiw stressed that its spring forecast was subject to great uncertainty and there were several risks to the outlook. But the wiiw analysts did not see rising interest rates as a big concern, given the way the region looks more to the ECB than the US Fed, and they argued that the current rise in inflation was likely to be short term, given the still very large output gap.

The exception they pointed to was Turkey, where debt is dollar-linked and short-term. “This is the one to watch here in terms of risks,” said Grieveson.
Russia slaps flight restrictions on Turkey after Erdogan backs Ukraine

Russia has announced that it is to restrict flights to and from Turkey from April 15 to June 1, citing climbing COVID-19 cases in the country. Although Turkey’s coronavirus outbreak – which threatens to spiral entirely out of control – will be seen by many experts as an excellent reason to prevent Russians from taking Turkish holidays, the suspicion will be that the restriction, announced on April 12 by Russian Deputy Prime Minister Tatiana Golikova, is actually a response to Turkish leader Recep Tayyip Erdogan’s expression of his readiness to support Ukraine amid a flare-up of tensions in its breakaway pro-Moscow eastern regions and a stark build-up of Russian forces on the Ukrainian border.

In a sign of worsening relations between Moscow and Ankara, Russian Foreign Minister Sergei Lavrov told Turkey and other “responsible” nations not to feed what he described as “belligerent sentiment” in Ukraine.

Erdogan met visiting Ukrainian President Volodymyr Zelenskiy in Istanbul on April 10, discussed military contracts with him – Turkey supplies Ukraine with, for example, armed drones – and supported him on all issues, expressing the hope that Ukraine would one day become a fellow member of Nato.

Suffering another heavy depreciation in the Turkish lira given its economic woes, Turkey risks slipping into another balance of payment crisis and, as noted by Timothy Ash at BlueBay Asset Management: “Erdogan cannot afford to give away perhaps $2-3bn in Russian tourism money this year”.

Added Ash: “I guess [Russian leader Vladimir] Putin warned him Friday night prior to the visit of Zelenskiy. The message from Putin was clear to Erdogan; don’t back Ukraine in the current fight in Donbas, but guess Erdogan made the choice between Putin, Ukraine and Nato. He has sided with Ukraine and Nato against Putin, and is now paying the price.”

**Seven million Russians**

Russians make up the largest single group of foreign tourists who visit Turkey. Seven million, or 16% of the total, arrived in 2019, the year before the advent of the coronavirus, providing $4-5bn in annual tourism receipts. Even in virus-afflicted 2020, 2.1mn Russian tourists still visited Turkey, often taking charter flights.

Head of Russia’s Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor) Anna Popova lately said that after Russia opened its borders amid an easing of the pandemic, 25,000 of the 3mn Russians who went abroad tested positive for coronavirus. Of the 25,000, 80% had returned from a holiday in Turkey.

The seven-day rolling average of new coronavirus cases in Turkey stands at just below 52,000; it was around 9,300 on March 1 when the government decided to relax pandemic restrictions.

Teneo Intelligence put out a note on Turkey’s tourism difficulties exacerbated by the resurgent coronavirus, saying: “Apart from its detrimental impacts on the country’s healthcare system and people’s lives, the continued spread of the virus could hurt Turkey’s tourism sector which is banking on a strong season to make up some of the losses of 2020, when revenue fell by around 70% [or around $22bn] compared to 2019.

“The US Centre for Disease Control and Prevention has recently placed Turkey on a Level 4 alert over COVID-19, meaning that travellers should avoid all travel to the country. Turkey also remains on the EU’s red list and it is not clear when flights to Turkey from the UK will resume.”

**Another calculation**

Another calculation Erdogan would have had in mind when deciding whether to back Ukraine in its latest showdown with...
Russia is what Ankara might gain as a reward from the Biden administration for standing by Kyiv’s side.

Turkey was angered last year when it emerged during Joe Biden’s campaign to become US president that Biden had described Erdogan to the New York Times as an “autocrat”, while urging encouragement for opposition parties setting out to dislodge him. Since Biden became president in late January, he has not placed a call to Erdogan and there has been little progress in solving the disagreements plaguing the US-Turkey relationship.

Washington and Ankara remain at loggerheads over the latter’s acquisition of Russian S-400 advanced missile defence systems – Biden officials have refused to budge on the US response, which includes a ban on Turkey acquiring F-35 stealth fighter jets that is starting to undermine the Turks’ attempts at keeping their air force up-to-date – while the US State Department has spoken out against Erdogan’s dire human rights record.

Other questions include an upcoming New York trial of Turkish state bank Halkbank on charges of evading Iranian sanctions and the prospect of Biden opting to designate Turkey’s mass killing of Armenians during WWI as genocide.

“I assume that Erdogan is expecting the Biden administration to pay him back for his loyalty, by giving him some wiggle room on the Halkbank issue and the looming decision over the designation of the alleged Armenian genocide. He hopes that through this action Biden will finally place a call to him,” Ash wrote.

US Vice President Kamala Harris comes from California, where there is a large Armenian-American community, and she was a co-sponsor of a Senate resolution to recognise the killings as genocide in 2019.

In further comments on Turkey’s worsening pandemic difficulties, Teneo said: “The government blames virus variants for the surge in infections, saying some 85% of total cases across the country are from the variant first identified in the UK. However, criticism from health professionals is mounting and the public is becoming increasingly frustrated.

“Turkish citizens are also becoming increasingly indifferent to the endless attempts by the government to divert public attention from the raging pandemic and the worsening economic situation. Given the negative trajectory of the pandemic, President Tayyip Erdogan will soon have to announce a tightening of the existing restrictions, a move that will further infuriate the Turks and cause additional economic distress.”

Army sent into Tirana airport after strike grounds all flights

bne IntelliNews

Military police were sent into Tirana airport on the evening of April 7 to remove striking air traffic controllers from the control tower.

The strike grounded flights at Albania’s only operational international airport as controllers protested against layoffs and pay cuts.

All flights due to depart after 10am on April 7 were cancelled, as are flights until 10am on April 8, as the air traffic controllers announced a 24-hour strike.

According to reports in the Albanian media, the strike was announced after five controllers were laid off. Controllers say their pay has been cut by around two thirds since the start of the coronavirus pandemic, which caused a slump in air transport to and from Albania.

Their list of requests includes the return of their colleagues to work, restoration of full salaries and financial transparency for 2021.

However, the strike has become highly politicised. At a press conference, Infrastructure and Energy Minister Belinda Balluku called the strike a “coup”.

“Prime Minister Edi Rama slammed the “hardline” controllers: “Serious sabotage of the activity of Mother Teresa Airport will not be tolerated!”

www.bne.eu
Prime Minister Edi Rama slammed the “hardline” controllers in a tweet, writing: “Serious sabotage of the activity of Mother Teresa Airport will not be tolerated!”

He also claimed the opposition was supporting the strike in an attempt to prevent coronavirus (COVID-19) deliveries by air to Albania.

A video posted by Defence Minister Niko Peleshi on his Facebook page shows armoured military police vehicles driving through the airport to the control tower.

“The Rinas Airport Mother Teresa is a strategic object of special importance for national security. Our Armed Forces structures, as an integral part of the airport, have increased vigilance to ensure the maintenance of the airport security perimeter especially after the boycott of work by the controllers of the civil aviation company Albcontrol,” wrote Peleshi.

The Air Traffic Controllers European Union Coordination (ATCEUC) commented on the situation in both Albania and Poland, where three air traffic controllers were dismissed recently. It appealed to Albcontrol and Poland’s PANS to urgently reinstate the fired employees.

“In Albania, five ATCOs [air traffic controllers] have been fired because, due to the heavy stress they have been living with over the last year, exacerbated by unilateral cuts in salaries of up to 70%, their dismissal occurred after they declared temporary inability due to these stresses in accordance with the Albanian ATCOs’ competence scheme,” said the ATCEUC press release.

“It would be wise not to underestimate the solidarity amongst European Air Traffic Controllers when witnessing such clear manifestation of abuse of power that our colleagues from Poland and Albania are facing!” the organisation added. ●

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**Telegram messenger aims for $50bn IPO in 2 years**

**bne IntelliNews**

The Telegram messaging app of Russian internet guru Pavel Durov aims to hold an initial public offering (IPO) in the next two years with a valuation of $50bn, Vedomosti daily reports citing unnamed sources close to the Dubai-headquartered company.

The Bell cited unnamed sources as saying that an IPO is most likely in 2023 on an Asian stock exchange, given that 40% of the messenger’s users are in Asia.

As reported by bne IntelliNews, Telegram has closed the book for $1bn of exchange bonds yielding 7% annually. Reportedly, the latest bonds mature in 2026, with the minimum offering at $0.5mn. The bonds are exchangeable for equity in the case of a possible IPO at 10% discount.

Reportedly, the IPO would not exceed 25%, with the minimum free float of 10%. The valuation is based on $50 per active user, estimating that the messenger’s active users will expand from 500mn people currently to 0.8bn-1bn people.

The Bell compiled the valuations of Telegram by a number of investment banks, which range from $50bn-$150bn. The valuation of at least $50bn is seen is justified, should the messenger present a clear business model and monetisation plan.

bne IntelliNews covered in detail how Telegram turned to debt financing to support its development after Durov halted his TON blockchain project in 2020, following a prolonged struggle with the US Securities and Exchange Commission (SEC). TON was ordered to pay back $1.22bn worth of investment in its Gram tokens.

In 2020 the messenger made a surprise comeback on the Russian business scene, as the messenger app has been unblocked in Russia after a two-year stand-off with the security services and legislators. Notably, the state sovereign Russian Direct Investment Fund (RDIF) bought part of $150mn of the bonds most recently issued by the messenger. ●
Sistema announces IPO of Russian timber major Segezha, dividends set

Russian paper and timber major Segezha Group has announced its anticipated initial public offering (IPO) on the Moscow Exchange, aiming to raise at least RUB30bn ($0.4bn) by issuing new shares, in line with previous reports.

Multi-industry investment conglomerate AFK Sistema will remain a major shareholder in Segezha, with an over-allotment option of secondary shares of up to 15% of the shares offered in the IPO.

As followed by bne IntelliNews, the IPO of Segezha was expected to be the main short-term catalyst for Sistema, after it posted solid 4Q20 IFRS results.

In the past few months Sistema has seen a number of other powerful catalysts, such as the sale of its stake in Detsky Mir children’s goods retailer, the IPO of major e-commerce player Ozon and consolidation of biotech assets.

On April 12 Segezha said in a separate press release that it aims to pay dividends of between RUB3bn and RUB5.5bn each year from 2021 to 2023. Starting from 2024, dividend distributions are expected to be based on adjusted free cash flow (FCF), with a 75%-100% payout stipulated in the dividend policy and "potentially higher payouts in case of stronger markets and/or leverage headroom."

"This is a nice catalyst for Sistema shares," BCS Global Markets commented on April 13, while noting that the IPO would crystallise Segezha’s value (current estimate of $1.3bn equity value pre-money) and some extra cash for Sistema.

BCS GM analysts anticipate the IPO shortly, unless deterred by geopolitical risks, and affirm a Buy rating for AFK Sistema's shares.

As detailed in Segezha’s recent company profile by bne IntelliNews, with the attention slowly returning to the climate crisis, Russia’s wood processing and timber business is coming back into focus.

Segezha Group showed IFRS revenue growth of 18% year on year to RUB69bn ($0.9bn) in 2020, OIBDA growth of 24.5% y/y to RUB17.5bn, making a 25% margin, up by 1.3 percentage points y/y.

GameStop-style investors trigger speculation in Arkle

Investors inspired by the speculative mania surrounding US videogame retailer GameStop have been piling into resource companies listed on the London Stock Exchange’s AIM market, bne IntelliNews can reveal.

John Teeling, the founder of Arkle Plc and a string of natural resource companies, said retail investors active on social media caused shares in his company to spike on Monday after a story broken by bne IntelliNews on March 22 was promoted on a UK-based bulletin board. Arkle’s stock hit a peak of 1.15p on hopes of a reverse takeover of the Irish gold and zinc explorer by a Mongolian miner.

“Some 60 million shares were traded after LSE South East’s chat room picked up the story at the weekend and started recommending the stock,” Teeling told bne IntelliNews. “There is a huge Twitter group who go in and out of these junior shares and we have been subject to this before and you see some of the guys who get in early, get out early.”
On the back of the share speculation, Teeling’s 162 Group was forced by the London Stock Exchange to issue a statement saying the potential takeover was no longer going ahead.

The group said it had been approached about assisting with the financing of a “mining project by an intermediary but have since declined to progress matters and there are no discussions regarding a reverse takeover taking place”.

Afkle Resources subsequently fell by 14.91% or 0.16p to 0.94p.

Teeling had held initial discussions with an intermediary about a reverse takeover of Afkle by Mongolia’s Undur Tsakhir mine, which is being explored by the Sod Gazar surveying company. The mine produces the metal molybdenum, which is used for steel alloys.

AIM-listed Afkle, formerly Connemara Mining, has gold projects in Wicklow and Donegal and zinc projects in Limerick and the Irish midlands. Afkle is one of a myriad of mineral and energy plays in Teeling’s 162 Group, including Petrel Resources, an exploration company developing opportunities in Africa and Iraq.

Teeling said the same Twitter investors have been speculating on other LSE AIM-listed stocks such as Kibo Energy, a Tanzanian company, and Vast Resources, a miner with assets in Romania and Zimbabwe.

“We don’t have access to particular Twitter groups and they are the ones – small, private investors, that work between themselves much like GameStop,” explained Teeling. “We don’t know who they are and there were probably hundreds of trades. They bought 60 million shares and sold 20 million shares, so some group has been left holding 40 million shares.”

Largest Russian coffee shop chain Shokoladnitsa opened its first outlet in Tashkent in 2018. The first restaurant of one of the world’s largest fast-food franchises, Wendy’s, opened its doors in the city a year before the pandemic. Before that, the country saw premium ice cream brand Baskin Robbins make an arrival. In the autumn of 2019, Russia’s rapper-owned Black Star Burger opened its first outlet in Tashkent.

Apart from world-famous brands, the country also boasts its own domestic consumer food market brands that have been realised from scratch. One of these is Yaponomama, which started out as a Japanese food delivery service. Over the past five years, the brand has managed to open nine restaurants across the city.

Hearty, rich and delicious Uzbek cuisine has, meanwhile, found its way to overseas markets. In 2018, Oshpaz.uz invested some $50,000 to set up production of canned pilaf, the king of Uzbek cuisine. Director of the company Xikmat Abdullaev said he had his own packaging production unit for canning as well as a teahouse, and he decided to combine both areas to create a new product. To date, canned pilaf is available via the virtual shelves of Amazon.com and other retailers across the world.

The international retail franchise operator Alshaya Group earlier this year announced plans to set up a Starbucks coffee chain in Uzbekistan. And now, according to information provided by AFC Uzbekistan Fund, its plans have started to come to fruition. The company has determined a premises for its first coffeehouse and has announced a commissioning date.

Uzbekistan is expected to see the grand opening of Starbucks’ flagship store in central Tashkent in 2022. Located on Taras Shevchenko, one of several “high streets” in the city, the Starbucks is to open in a recently renovated commercial building and become yet another global brand to enter Uzbekistan’s highly underserved consumer market.

Another food retail giant, KFC, opened its first outlet in the Uzbek capital in 2018. It presently has seven stores across the capital and has plans to open at least 25 outlets in the regions.

Considering Uzbekistan’s large and young population, a market offering a good “virgin” niche for foreign food business investors presents itself.

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The Russian ruble has been through some wild swings this year as it has almost completely decoupled from the price of oil and is almost entirely dependent on the ebbs and flows of geopolitical tension.

The US imposed new sanctions on April 15 that ban US investors from participating in the primary Russian Ministry of Finance ruble-denominated OFZ treasury bills market but allow purchases on the secondary market and so will have little impact on investors.

As Russian state-owned banks are very big players in the OFZ market – the state-owned banks have bought at least half the issues at recent auctions – it is simple matter for a US investor to immediately load up on as many OFZ as they want, buying them from a state-owned bank.

The exchange rate reaction to the details of the new sanctions was muted and the ruble strengthened from its recent low of RUB77.7 to the dollar to open at RUB76.2 on the following morning, still slightly weaker than the RUB75.4 it touched earlier in the week following US president Joe Biden's offer of a summit to Russian President Vladimir Putin.

The current market quotes have already largely included not only the sanctions, but also the likelihood of tougher sanctions on the public debt market, says Sofya Donets, chief economist at Renaissance Capital for Russia. She sees the potential for the ruble to strengthen in almost any scenario: "If more significant sanctions await us in the future, if oil prices remain at the current level, it could be 74 against the dollar in the second half of 2021, if there are no new significant sanctions – 69”

Economists say that the exchange rate should be at something like RUB68 to the dollar, based purely on macroeconomic fundamentals. But Russia has always carried its very own “Russia risk” premium in addition to the run of the mill “emerging market risk” premium, thanks to its prickly relations with the West, deeply entrenched corruption and its arsenal of nuclear weapons, which come with built-in tensions that the other emerging markets don't have.

And that RUB68 level is applicable following the 2014 oil shock. Before that, the ruble was trading at about RUB35 to dollar, but the price war started by Kingdom of Saudi Arabia to try to kill off US shale production meant the Russian currency took a permanent step down in value to the greenback.

Another factor weighing on the relationship between the ruble and oil prices is the so-called budget rule that automatically sterilises any oil revenues the government earns when prices go above $42 per barrel. The excess income is squirreled away into the National Welfare Fund (NWF) and taken off the market so it cannot affect the exchange rate. The rule was briefly suspended in 2014 and again in 2020, but it is back in place now as oil prices return to around the $60 mark.

Recent political history is written large over the FX chart. After collapsing to a low of about RUB80 vs the dollar in the bowl of the coronacrisis last summer, when oil prices fell to $30, the Russian currency staged a strong recovery as commodity and oil prices bounced back from October in anticipation of the end of the pandemic once the vaccines started appearing.

"ABC News' George Stephanopoulos asked Biden if he thought Putin was a killer and Biden mumbled “I do.” The ruble immediately tanked”

But at the start of this year the ruble was trading at around RUB74 and even strengthened a bit as it became clear that US President Donald Trump was going to lose.

FX traders had their first case of the collywobbles as they began to focus on what Biden was going to do about Russia. Biden was inaugurated on January 20, and the next day marked the strongest for the ruble in the first quarter at RUB73.3. But within a matter of days Biden gave his first foreign policy speech on February 2, which contained some
tough talk on Russia, which would “be made to pay a price” for hacking and election interference. The ruble rapidly weakened, falling to RUB76 in the following days.

It seems that traders began to think they had probably oversold the ruble, as in the hiatus that followed while the White House waited for the intelligence community to prepare several reports on Russia, commissioned by Biden in his first days in office, the ruble began to recover, strengthening to back close to RUB73 to the dollar again.

This was the time that all the macroeconomic results for 2020 were becoming available and it became apparent that Russia’s economy had suffered much less from the coronacrisis than feared. The 2020 reporting season also kicked off about this time and many companies, such as retailers and real estate developers, were coming out with record earnings as those sectors, among others, had actually benefited from the crisis. The Russian stock market began to rise and was returning 15% since the start of the year in February.

More speeches were made. The new US Secretary of State Antony Blinken gave his first foreign policy speech on March 3 that also identified Russia and China as problems, but it focused more on reviving the domestic economy and was relatively mild on the two US rivals.

The ruble continued to rally as investors increasingly took the view that Biden was more intent on fixing US Inc. and was not ready to start a global rumble with Putin or China’s President Xi Jinping. The ruble strengthened to RUB72.9 on March 17 – the strongest it has been all year and close to the level that many economists expected it to be at the end of this year.

Then the bomb dropped. That night ABC News’ George Stephanopoulos caught Biden with a provocative leading question journalist trap asking if the president thought Putin was a “killer.” Biden mumbled his reply “I do.” Russia recalled its ambassador to Washington the next day and the ruble immediately tanked. Within a week the rate had lost three whole rubles to the dollar to reach RUB76.15 before stabilising for a week at about that level.

But as March gave way to April it rapidly became clear that Russia was moving a lot of troops up to the Ukrainian border and on April 1 the ruble began another leg of weakening, falling to RUB77.8 by April 8 as the accusations began to fly and the fears of invasion mounted.

Tensions between the US and Russia have not been this high since Russia annexed the Crimea in 2014, but Biden attempted to pop the balloon this week in a phone call with Putin, where he offered to meet one to one in the near future to thrash out their differences. The ruble immediate strengthened by two whole rubles after the news broke, falling back to RUB75.6. However, just over 24 hours later the US press reported that the Biden administration was about to issue its first round of targeted sanctions on a dozen individuals and the ruble gave up all its gains of the previous day, weakening by two whole rubles.

Analysts believe that the Kremlin realises that Biden has to impose some sanctions for domestic political reasons after Trump was so widely criticised for being soft on Russia. Russian Foreign Minister Sergei Lavrov warned that Russia would retaliate but he was careful to stress that it would not tolerate “economically damaging” sanctions, leaving some space for the White House to make largely symbolic sanctions against individuals or expel some diplomats.

The sources quoted in the reports of April 15 also said that the key question of whether Russian debt would be sanctioned had still not been decided, and those are the economic sanctions the Kremlin is most afraid off. Until this question is resolved the ruble will remain highly volatile.”●
A new Russian techbillionaire emerged on the NASDAQ with the SPAC-enabled IPO of Arrival, a company touted as a game-changer in the electric car industry.

Born 42 years ago in the Soviet republic of Georgia, Denis Sverdlov founded his first company—an ERP integrator called IT Vision—in 2000, immediately after graduating from university in St. Petersburg. He sold it three years later to a system integrator, East-West Digital News (EWDN) reports.

In 2007, Sverdlov was among the co-founders of Scartel (Yota), one of Russia’s most remarkable technological successes of the late 2000s and early 2010s. With support from Sergey Chemezov, the CEO of Rostec and one of Putin’s oldest friends, Yota pioneered the Russian Wi-Max and LTE markets, deploying the world’s first LTE advanced network in Moscow.

The company also launched an innovative dual-screen smartphone. Sverdlov was one of the two authors of the international patent for this device—which did not turn out to be commercially very successful, however.

Scartel’s telecom business was finally acquired by Megafon, one of Russia’s telecom majors, while the smartphone manufacturing branch was sold to Rostec and a Hong Kong company.

From business to government
In 2012, the businessman turned government official, becoming Deputy Minister of Communications and Mass Communications in charge of communications, internet and e-government projects.

Sverdlov saw in his work “a unique chance to create an efficient regulation system for industry development”; however, he left this position a year later, in order to comply with new legislation that did not permit government members to hold assets abroad.

In 2014, Sverdlov briefly headed a Rostec subsidiary called Roselectronics (Rosel) before his career took a new direction. Like many other top Russian tech entrepreneurs—from Sergey Belousov, to Andrey Andreev, to Ratmir Timashev, to name just a few—Sverdlov found abroad his way to a larger fortune.

From Moscow to Oxfordshire
In 2015, the serial entrepreneur moved to London and launched a $500mn start-up fund called Kinetik.

The fund’s first investment went to Charge—the original name for Arrival—a company founded and headed by Sverdlov himself “with the idea to reinvent the way automobiles are made.” Charge first established itself in Enstone, near Oxford, at the site of the Lotus Formula One racing team. Sverdlov said this location made it easier to hire local top automotive engineers.

Sverdlov’s second creature was Roborace, “the world’s first extreme competition of teams developing self-driving AI.” Wired has described this business as promoting “a new sport where teams pit their artificial intelligence against competitors.” Teams differentiate themselves neither by the cars they use (which are identical electric cars) nor by how well competitors can drive—but how well they can code.

“Arrival has now positioned itself as a full-fledged EV manufacturer, “challenging the 100-year old automotive production process”
These lower-cost EVs open the way to “accelerated mass adoption globally.” Arrival expects to generate some $14bn in revenue by 2024, reports Forbes.

Arrival has now positioned itself as a full-fledged EV manufacturer, “challenging the 100-year old automotive production process.” The company has designed “low capex, low footprint Microfactories” utilising “in-house proprietary technologies and advanced cell-based assembly method.”

Designed to produce any vehicle from Arrival’s portfolio, these Microfactories can be deployed “anywhere in the world within six months, using existing warehouses close to areas of demand.”

Arrival has inked contracts with operators of delivery vans under competitive pressure to go green. “UPS has ordered 10,000 battery-powered commercial vans worth $1bn; the vehicles are expected to be on the road by late 2021,” reports Forbes. The company claims its vans will be lighter, more spacious, more energy-efficient and roughly twice as cheap as their rivals, which include the Ford Transit and the Mercedes Sprinter.

Among the firms’ products are also public transport buses. Not only do they promise to lower carbon emissions: they may also enhance passengers’ protection by employing social distancing measures inside the vehicles. Announced back in June last year, the Arrival Bus has “an adjustable interior to allow for passengers to follow protective measures while travelling and minimise the risk of either contracting or spreading the novel coronavirus,” notes Russia Beyond.

$13.6bn for yet-to-be-made vehicles
As of November 2020, Arrival has reported signed contracts with a total order value up to $1.2bn. Its first products are planned for production in Q4 2021.

“There are more than 560 cities in the world which have a population of over 1mn people, and each of these cities could have a microfactory producing 10,000 vehicles specifically tailored for the needs of that market,” Sverdlov was quoted as saying. “This model can be as scalable as McDonald’s or Starbucks.”

Sverdlov’s fund was Arrival’s only shareholder until new investors jumped in last year. These investors include BlackRock Innovation Capital, Hyundai Motor Company, Kia Motors Corporation, UPS Ventures and Winter Capital. The latter is a Moscow-based international fund backed, in particular, by billionaire Vladimir Potanin.

Arrival went public via a merger with a special purpose acquisition company called CIIC Merger Corp – following the example of several other EV start-ups, as noted by CrunchBase. These companies include DraftKings, Nikola, Virgin Galactic (2020) as well as EVgo, Joby Aviation, Lilium Air Mobility, Lucid Motors, Proterra, Xos (announced).

The SPAC transaction between Arrival and CIIC was agreed in November last year. The combined company became publicly listed on Thursday, March 25 at $22.40 per share, bringing gross proceeds of $660mn and securing a $13.6bn valuation. This brought Sverdlov’s fortune to $10.6bn, according to Forbes.

A week later, on April 1, the stock price had sunk to $16.24.

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Stock of Poland’s CD Projekt swings wildly in wake of GameStop battle

Wojciech Kosc in Warsaw

The shares of Poland’s gaming giant CD Projekt – the company behind Cyberpunk 2077 and The Witcher – soared by close to 50% on the Warsaw Stock Exchange only to tank nearly 16% on January 29, its volatility a side effect of the army of small investors in the US trying to hit short-selling hedge funds.

While the retail investors in the US – who banded together on Reddit – targeted stocks of less-known companies such as game retailer GameStop, some of the hedge funds that shorted the company also had short positions on CD Projekt.

That aroused interest in the Polish company, alongside, as it happened, a tweet by none other than Elon Musk sporting a picture of a Tesla with CD Projekt’s The Witcher on-screen and an appreciative remark about Cyberpunk 2077.

CD Projekt’s shares soared as investors poured in, and then corrected afterwards.

But unlike Gamestop and other nearly forgotten companies such as Blackberry or Nokia that the Redditors targeted in
their move against short-selling hedge funds, CD Projekt is an actual star of Poland’s gaming industry.

CD Projekt – with a capitalisation exceeding PLN30bn – is only one of the listed game developers in Warsaw that have given investors noteworthy returns recently, also prompting new IPOs.

Mobile game developer Huuuge is in the final stages of an offering that could be worth PLN1.7bn, the company said.

A smaller player, Game Island, also said it was preparing a pre-IPO for Warsaw’s alternative market, NewConnect.

CD Projekt’s shares have gained just over 10% in the past 12 months, with growth impeded by the unfavourable early reviews of bugs in Cyberpunk 2077, a problem that the company began addressing with a patch released in January and another one in February.

Another gaming company, PlayWay, had its stocks soar 134% since the beginning of 2020. Still another company, Ten Square Games, brought in returns of 111%.

The positive sentiment around gaming companies has literally dozens of them looking at carrying out IPOs in Warsaw. According to Poland’s financial website Bankier.pl, at least 30 gaming companies are planning IPOs on WSE’s main market or the alternative market NewConnect in 2021.●

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**Investment in Ukrainian-founded startups reached record high $571mn in 2020**

East West Digital News in Moscow

In 2020, the total VC and PE investment volume in Ukrainian or Ukrainian-founded tech companies reached a record high $571mn. This data is provided by Aventures Capital, a major local VC firm, in its authoritative VC report published last month, reports East-West Digital News (EWDN).

The volume of seed deals more than doubled year-on-year to $42mn. Meanwhile, the volume of Series A deals more than quadrupled to a $119mn, notes the report.

The better part of the funding went to a handful of global companies founded by Ukrainian entrepreneurs – and still relying, at least partly, on Ukrainian technical teams – but established in the USA. These companies are:

- airSlate ($40mn deal announced in 2021 but closed in 2020);
- Creatio ($68mn deal announced in 2021 but closed in 2020);
- GitLab (valued at $6bn in November 2020 as it organized a $195mn secondary sale);
- Restream ($50mn Series A in August 2020).

Most Ukrainian funds focus on early-stage rounds, while international investors target high growth opportunities at the Series A and further stages.

The report sees exits as a sign of maturation of a “product-oriented ecosystem:” globally-successful Ukrainian product companies “continue drawing attention from strategic players, international buy-out funds, and generate returns for early backers.”

Several startups with Ukrainian roots – Gitlab, Bitfury and Grammarly – are now unicorns, the report points out. A few others are on the track to become new ones: these includes
Coronavirus wrecks Poland’s Innogy’s electric car-sharing service

Polish electric power retailer Innogy, an E.ON company, will wrap up its electric car sharing service Innogy Go! in mid-March, the company said.

The COVID-19 (coronavirus) pandemic reduced demand for car sharing, Innogy said. The service’s fleet is 500 BMW i3s operating in Warsaw and also as a test in the mountain resort town of Zakopane between September and November last year.

The service has 100,000 registered users who covered 7mn kilometres in the cars offered on a pay-per-minute basis, Innogy said.

The shutdown of the service is an example of the wide impact of the pandemic across businesses, although there is still no overwhelming crisis.

In the second half of last year, Polish courts finalized bankruptcy proceedings of 210 companies, the Economic Information Bureau KRD, a business intelligence service, said on February 10, news website bankier.pl reported. Most of the bankrupt companies worked in construction and manufacturing, KRD said.

Overall, however, mass bankruptcies appear unlikely with Poland’s GDP contracting just 2.8% in 2020 in the wake of the pandemic and a recovery of around 4% expected this year.

“The shutdown of the service is an example of the wide impact of the pandemic across businesses, although there is still no overwhelming crisis”
Romanian software robot developer UiPath announces NYSE IPO

Iulian Ernst in Bucharest

Bucharest-born UiPath, the leader in the global robotic process automation (RPA) industry, has filed documentation for an initial public offering (IPO) on the New York Stock Exchange (NYSE).

The latest financing round, in February, put the company’s value at $35bn – three times more than in a prior round, last July – and the issue is likely to be one of the largest on the NYSE this year.

"We had plans for listing on the stock exchange before the coronavirus [COVID-19] pandemic, but we made a promise that we would apply for the IPO only when we were profitable. Now, the pandemic has accelerated our plans, we are in a very solid financial situation and we clearly plan to apply for the IPO next year," Daniel Dines, one of the company’s founders, said last July.

The company mentioned a $1bn target to be raised by the issue of common Share A, but the documents filed with the SEC do not mention more specific details such as the target price, therefore, the final sum might be larger.

The growth potential of the company stems from the size of the market that is expanding as new business areas become accessible to automation by the development of new technologies that enhance RPA instruments: artificial intelligence and machine learning.

According to UiPath’s own analysis and data from IDC, the global RPA market is estimated at over $60bn, but its boundaries are extending along with the technologies behind it.

Friday’s filing revealed that UiPath’s revenues grew by 81% to $607.6mn in the year to January 2021, while net losses narrowed from $519.9mn to $92.4mn.

The pandemic “may have accelerated the adoption of automation” as more companies were forced to work remotely, UiPath said.

The enterprise RPA software company was founded by Romanian entrepreneurs Dines and Marius Tirca in 2015.

The company faced a difficult situation in 2018-2019 when it announced it would lay off about 400 employees (one in eight of the employees at that time) as part of a global process of “reorganising its functions”.

After international media reports about the layoffs, Dines confirmed the reorganisation in a blog post on October 24, 2019. “Over the last few weeks, I have asked our teams to dive deeper into their operations. In some cases, we identified opportunities to streamline, such as combining our partner sales and direct sales teams in every region,” he wrote. “We are also shifting investments from back-office to customer-facing operations. While this is largely about improving our customer experience, it is also about improving efficiency; a necessary step as we mature our business.”

The company blamed the problem on “a lack of oversight and technical competence and experience within our finance department to identify such errors” and said the issue had been “remediated”.

As part of the reorganisation, CFO Marie Myers left the company after she joined it at the beginning of the same year.

At that time, there were reports of heavy spending by UiPath. Romanian daily Ziarul Financiar quotes internal sources saying that the company was spending cash at a speed that is “significantly higher than at any other RPA company”.

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Russian VC market fell to $702mn in 2020, foreign investment reached new lows

East West Digital News in Moscow

Dsight, a Moscow-based business intelligence company with a focus on investment, has just released the English version of its yearly Russian venture report.

The trends are disappointing, with a 20% contraction of total investment volume – from $869mn in 2019 to $702.8mn in 2020. Dsight attributes this fall to the “unpredictability of the pandemic” and “investors’ risk aversion,” reports East-West Digital News (EWDN).

The number of deals, however, grew noticeably last year (up 14% from 2019), essentially at the start-up and growth stages and mostly in the second half of the year, after the end of the first wave of the pandemic.

In sectoral terms, VC investment went mostly to e-commerce, entertainment and healthcare. Edtech, agrotech and fintech seem to be taking off, accounting for small values but showing spectacular growth rates.

Corporations and corporate funds increased noticeably their venture activity in both number of deals (47 vs 31 in 2019) and invested volume ($308mn vs. $191mn). Angel investing grew (64 identified deals, up from 77), while accelerators were involved in just 35 deals (down from 64 in 2019).

The level of involvement of foreign investors in the Russian venture remained appallingly low last year (putting aside a spectacular US pre-IPO investment in Ozon in March 2020). Dsight notes that the number of deals with foreign participants grew – from 18 in 2019 to 24 in 2020 – but the value of these deals fell from $232mn to $103mn year on year.

The reality is probably even worse, since the Dsight study covers deals involving some Russian-founded start-ups that now operate in other jurisdictions (typically the US and Western Europe). Thus disturbingly, this Russia VC report refers to such companies as British Arrival, Californian Miro or Polish Novakid without even distinguishing them from ‘truly Russian’ start-ups.

Nevertheless, the report offers a variety of interesting facts and figures, including an analysis of VC activity in the capital. Moscow City accounts for as much as 76% of Russia’s VC investment in value and 56% in number of deals.

The report also includes inputs from such companies as DS Law, iFarm and Kaspersky, as well as a contribution from CrunchBase about international venture trends.

This article first appeared in East-West Digital News, a partner of bne IntelliNews.
UZBEKISTAN’S STOCK MARKET COMING TO LIFE

Ben Aris in Berlin
Uzbek President Shavkat Mirziyoyev recently launched a new push to develop the Uzbek capital markets with a new decree that brings in sweeping reforms. It does not represent the first attempt to get the Tashkent Stock Exchange (TSE) moving, but it is the most ambitious so far.

Since it was set up in 1994, not much has happened on the bourse. The total market capitalisation of the market stands at around $6bn or 11% of GDP, but the vast majority of listed companies are state-owned and they are only listed because they had to have shares as part of the reorganisation of the economy following the collapse of the Soviet Union. It’s not like Uzbekistan is home to a lot of equity investors or investment banks.

However, in recent years that has started to change. There is trading on the exchange and a small group of around 7,000 retail investors that have started to play the market account for something around 40% of its daily turnover of about $2mn per month.

Bekhruzbek Ochilov is one person trying to push market development. He works for Freedom Finance, the largest brokerage in the country with an approximate 75% market share of the active retail equity investors.

**Indices and research**

He is also the founder of EquityResearch.uz, which is the first attempt to gather research on publicly traded companies by local analysts and track performance – a basic tool for a would-be trader.

“We have done many things to help develop the market. We have bought illiquid shares and sold them again to improve liquidity – a de facto SPO,” Ochilov told bne IntelliNews in an interview from Tashkent. “We have created an index of all the liquid stocks. The problem is that 90% of the main index is illiquid. We made an index of just the liquid stocks and update it every day on site. It’s also a research platform. In the US you can find many sites like that where you can get all the information and financials. For the TSE there is none of that.”
There is now. Ochilov called all the brokers and invited them to contribute their research to the EquityResearch.uz project and most of them did. It’s a pie-growing exercise: the more information there is available, the more confident the investors will be, so the more they will trade and the more business there is for the brokerages. The site now offers company research, macroeconomic results, brokerage assessments and commentary, as well as some “How to” articles with step-by-step explanations on how to open a brokerage account for both local retail investors and international investors. For the meantime, the site is just in Russian, but there are plans to do an English version too.

A decent index is a first requirement for traders. As bne IntelliNews reported, the Uzbek market just experienced its first big “pump and dump” incident where the shares in insurance company Universal Sugurta soared 2,000-fold in just a few weeks in February only to crash back in March. Actions like this make index results meaningless.

“It’s the same with [the national pipeline operator] Uztransgas,” says Ochilov. “A few months ago there were some big trades and the price was swinging up and down. It just shows we need a decent index to assess the performance of the market.”

Ochilov adds that he also plans to include analysts’ historical predictions compared to what then actually happened so that investors can start to work out who the best analysts are. In short, Ochilov is trying to set up a UzBloomberg of sorts.

**Tiny market as stocks locked in limbo**

Saying that it is early days for the Uzbek capital markets is probably an understatement. The market remains tiny. While the total market cap is worth over $2bn, the trading volumes for any one name are of the order of $10,000-$20,000 per day, says Ochilov.

“The market cap is a few percent of GDP but the free float is tiny. It’s a huge problem,” says Ochilov.

One source of stock to trade should come from all the company employees that were given shares in their companies during the privatisation rounds in the 90s. Shares in companies were distributed to workers, most of which still have them, but they have never done anything with these shares.

“People know they have their shares but they do nothing with them. If they wanted to sell them they would have to open a brokerage account. There were lots more tools for these investors to work with and the first privatisation funds, but today these have turned into joint stock companies and there are less tools to work with,” says Ochilov.

The market mechanics of what needs to be done to transfer the ownership of these privatisation shares have proved to be an obstacle to freeing them up.

In Russia many bankers got rich by going into the regions and going door to door to offer the workers of big companies bottles of vodka and gifts of cash to take ownership of their privatisation vouchers. They would fly back to Moscow and convert the vouchers to shares and take big positions in some of the most important companies in the country, making millions of dollars along the way.

In theory, the same scheme could be carried out in Uzbekistan, but no one has tried; Ochilov says that you would have to bribe the depository to get the list of owners but even then it is not as straight-forward as the company being listed on the TSE, as most of them are; transferring the ownership of a share without a broker is not possible.

**Cleaning up the market**

A lot of work has already been done to clean up the market. There were a total of some 500 stocks traded on the TSE, all OTC, but after the rules were tightened that number has been reduced to 135. And Ochilov says that if those that are still listed were asked to reapply half would fail to meet the new criteria.

As the quality of listed stocks in the liquid part of the market improves, retail investors are being sucked in as the best stocks are performing well and starting to produce decent returns.
Two cement companies have attracted particular attention as their stocks are liquid and they pay decent dividends. Kizilkumcement has seen its shares rise from about UZS1,500 a year ago to UZS6,000 today. Kuvasaycement has a very similar story and is another investor darling.

The only true blue chip on the TSE is the Uzbek Commodity Exchange. It has likewise seen its share price rise from about UZS10,000 a year ago to an all-time high of UZS15,000 ($1.42).

Ironically, the very illiquid nature of the market has also created willing parties on both sides of the deal, but a key part of the trade is if a company pays dividends – almost all the liquid stocks pay decent dividends.

“If the shares of a company rise then some investors see that as an opportunity to finally exit and sell,” says Ochilov. “But if the stock pays dividends and the share price is going up then there are those that want to get in and buy. So that is the basis of the market and creates the liquidity.”

The dividend yields in Uzbekistan for the stocks that pay dividends are a fairly generous 15-20%, but are denominated in local currency, which reduces their appeal due to high inflation. The focus on dividend stocks also causes the stock’s price to rise as the date of record approaches when the dividend payments come due, and the price falls off again immediately afterwards before building up again slowly a few months later.

Freedom Finance has been selling its brokerage services to regular Uzbeks and Ochilov estimates the firm has some 7,000 people who are actively investing in the market, which represents about three quarters of the total retail investment base in the country.

In other frontier markets, international investors set up shop and basically track the index and then sell products like exchange-traded funds (ETFs) to their international clients. However, until a year ago foreign investors were not allowed to invest into Uzbek shares unless they formed a partnership with a local partner bank. Those rules have already been relaxed.

Capital market reforms
The president’s decree on the capital market reforms is a bid to improve the conditions on the market; at the heart of the decree is a goal to increase the free float on the market to 5% of GDP – a huge increase from now. The way to achieve this will be to list some of the biggest and sexiest companies on the TSE as a way of privatising them.

One of the measures already in place is a ban on Uzbekistan’s biggest and best companies from listing overseas before they have a local listing. Typically in a resource-rich country like Uzbekistan there are a few gigantic cash cows, usually natural resource companies, that are already big enough for a listing in London, Warsaw, Toronto or one of the other big international markets. But the government is hoping to use these blue chip stocks to attract domestic investors to the local market before allowing the company to raise hundreds of millions of dollars on a foreign exchange.

As bne IntelliNews reported, Uzbekistan’s privatisation drive has been re-launched and the list includes almost all of the country’s biggest and best companies. However, few are ready. Banking shares have already been liberalised and foreigners can now buy up to 5% of a bank’s stock, making them some of the most liquid shares on the exchange.

“There are more banks on the list and they may be ready this year,” says Ochilov. “But many of the others are still in the process of being prepared. [The national oil and gas company] Uzbekneftegaz is still merging all its production assets and having its non-core assets cut away. But there is a problem, as the state wants to turn the common stock of the subsidies into a preferred stock that pays very little dividend yield if any, and the shareholders are resisting. [Mining giant] Navoi is still dividing its gold and uranium mining assets, as the gold part will be privatised but the uranium will remain in state control. And Uzbekistan Airways will also not be ready until, say, 2022.”

There’s clearly a lot of work to do, but the government looks increasingly serious about getting it done. Part of the president’s decree dissolved the Capital Markets Development Agency (CMDA) and transferred the authority to push the reforms to the Ministry of Finance.

“The CMDA had a lot of good ideas and worked hard, but it was decided that it wasn’t going fast enough,” says Ochilov. “But now with the weight of the Ministry of Finance behind the reforms, I’m sure they will be able to push them through.”
Fiezullah Saidov in Tashkent

Previously unthinkable reforms have embraced many aspects of Uzbek economy and society. Presidential reforms in areas such as taxation, foreign exchange, regional co-operation, green energy, direct communication between the government and the general populace have been in the international media spotlight and have attracted the attention of international investment community.

Uzbekistan has become an active player in international debt markets, where the government and state-owned banks have issued not only conventional Eurobonds in US dollars, but also Eurobonds issued in Uzbek soum, and banks are also getting long-term Uzbek soum-denominated loans from the international financial institutions (IFIs) and the private sector.

Banks have played the key role in funding the impressive growth Uzbekistan has been experiencing over the last four years. Although banks already constitute 80% of the stock market value now, due to low free float and lack of depth in the market, capital raising abilities are reduced and many have reached their limits in lending to the country. To reduce risks and increase the funding base, capital markets need to play a more significant role.

The Tashkent Stock Exchange was set up in 1994 but has done little since then. A new presidential decree has launched a major capital markets reform that could change all that.

"Uzbekistan has become an active player in international debt markets, where the government and state-owned banks have issued Eurobonds in dollars and soum"

A vibrant capital market is the missing element from the overall market infrastructure. The size of the Uzbek capital market is not commensurate with its peers in the region.

The new Presidential Edict 6207 of 13.04.2021 should mend this issue. This decree is the result of a lot of hard work put in by Uzbekistan’s allies in the development banks such as European Bank for Reconstruction and Development (EBRD) and Asian Development Bank (ADB) in the last few years, as well as various other government grants.

The decree comes with a roadmap and concrete goals, concrete people who are responsible and concrete targets to be reached within two short years, by the year 2023.

The decree calls for:

Increasing the number of issuers, new financial products (such as Sharia-compliant Sukuk bonds, exchange-traded funds (ETFs), including Gold ETFs, and crowdfunding) and improving supply by improving corporate governance (such as adoption of OECD corporate governance guidelines) and developing issuance of corporate bonds.

Development of securities market infrastructure, by improving the market access, provision of complete information and simplifying the settlement process, establishing associations and strengthening local rating agency capabilities. Also, the pricing of issues should take place based on underwriters’ suggestions. Valuation has always been a contentious issue in Uzbekistan, as the state looked for simple single-value setting, whereas the markets could set ranges. The edict also calls for reduction of the state’s share in Tashkent Stock Exchange to 25%+1 share, where Korean Exchange is already a shareholder.

Improving the IT systems of the capital market, by developing mobile applications to directly access the capital markets, allowing opening accounts for non-resident investors at www.bne.eu
a distance and automating the KYC and AML procedures, stabilising the functioning of the Single Software and Technical Complex (SSTC) by creating reserve servers and making SSTC more transparent for the regulator to make it easier to monitor.

In terms of the legal framework, the decree calls for the development of a new Capital Market Law based on the principles of the International Organisation of Securities Commissions, an association of organisations that regulate the world’s securities and futures markets, and increasing the regulator’s independence by improving the fund management legislation to seamlessly integrate the funding market and sectors of economy and by improving the holding company legislation.

Increasing the investor base and improving the general investing public literacy by allowing non-residents to open accounts without having a physical presence, allowing them to participate in local IPOs and SPOs, allowing insurance companies to participate in the local capital markets and establishment of investment funds with foreign counterparties, taking measures to educate the population about the capital markets, and holding international investment forums and conferences to introduce the market developments to the international investing community.

Involving the population of Uzbekistan in the securities market allows them to have a skin in the game and makes the reforms irreversible, and lets them benefit from the reforms personally.

Development of local treasury debt issuance market, allowing residents and non-residents to invest in treasury bond market (except for Central Bank debt) and establishing the role of market makers, further developing the treasury debt issuance, including issuance of inflation linked debt, aligning the local issuances with international best practices, and introducing project bonds to fund infrastructure projects. It also calls for publications of issuances in advance and holding regular issuance dates on certain days of the week and moving to internationally accepted T+1 and T+2 settlement.

Improving the market participation qualifications by training and re-training through developing programmes jointly with leading learning institutions and creating special training capabilities at the Banking Academy and training the regulator staff by overseas on-the-job training and conducting courses for them at Business School at Ministry of Economy.

The edict comes with ambitious targets that are set until the year 2023 (See table below).

<table>
<thead>
<tr>
<th>Goal</th>
<th>2020</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap (free float in UZS trillion)</td>
<td>1.9</td>
<td>45</td>
</tr>
<tr>
<td>Free float market cap in % to GDP</td>
<td>0.3</td>
<td>5</td>
</tr>
<tr>
<td>Total Value of Corporate Bonds (UZS, trillion)</td>
<td>0.16</td>
<td>3.94</td>
</tr>
<tr>
<td>Total Value of Corporate Bonds (% to GDP)</td>
<td>0.03</td>
<td>5</td>
</tr>
<tr>
<td>Financial and Investment Literacy for population and entrepreneurs</td>
<td>-</td>
<td>40,000</td>
</tr>
<tr>
<td>Investment Settlement Accounts</td>
<td>4,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Regional Development Projects financed through capital markets</td>
<td>-</td>
<td>5</td>
</tr>
</tbody>
</table>

Capital market development is always a chicken-and-egg issue, no investors because there is nothing to buy and no issuances because there are no investors. Hence the president’s decree lists national jewels to be listed on the stock market, to short-circuit this loop.

The companies and banks that will be listed on the local stock exchange are and have been indicated in the past as “companies and banks not for immediate sale”. They include many of the most attractive companies in the entire economy:

1. National Bank for Foreign Economic Activities of Uzbekistan
2. Navoi Mining and Metallurgical Plant
3. Almalyk Mining and Metallurgical Plant
4. Uzmetkombinat
5. Uzbekistan Airways
6. Uzbekneftegaz
7. Agrobank
8. Xalq banki
9. Uztransgaz
10. Uzbekinvest
11. Uzagrosugurta
12. Qurulishmashleasing
13. Uzavtosanoat
14. Qishloq Qurilish Bank
15. Mikrokreditbank

The names on this list coincidentally overlap with companies listed in the Presidential Decree 6096 that listed the leading companies to be transformed.

The Project Management Office at the Ministry of Finance, headed by First Deputy Minister of Finance Omonulla Nasretdinhojaev, guided by Ravshan Goulyamov, Chief Economic Aide to the President, are performing a Herculean task of transforming these companies and banks, and these two streams (company transformation and capital market development) should converge in the year 2023.

The markets will be ready to accept these transformed companies with strong corporate governance, improved and clear commercial and operating models as well as having introduced IFRS reporting at all of them. Decree 6096 had been previously discussed
in detail. They should be fit as growth companies at time of listing.

As bne IntelliNews reported, the functions of the Capital Markets Development Agency (CMDA), which spearheaded these changes have been moved to Odilbek Isakov, the Deputy Minister of Finance, who is an ex-HSBC debt capital markets banker and who has a strong track record of introducing Uzbek state and large state-owned banks to the international markets, by heading the international debt issuances.

Ex-Goldman and ex-EBRD senior banker Atabek Nazirov, who had headed CMDA, now has moved to head the private equity fund of Uzbekistan and became an aide to the Minister for Investments and Foreign Trade. Ex-Goldman Banker Sarvarbek Akhmedov may head the department in charge of the securities market department of Ministry of Finance.

Underdeveloped market infrastructure is hampering the reduction of cost of funds to borrowers in local currency. Banks do not have a functioning overnight placement of paper, nor a mechanism for repo, hence overnight funds are not being utilised to fund longer-dated paper.

This is one of the ways to reduce dollarisation of debt, reduce the cost for borrowers and help banks and insurance companies to earn more on the float. Hence whilst development of equity markets instrumental to start playing a significant role in financing growth, local debt market infrastructure is important to stabilise the debt situation. As an example, Japan can withstand large debt/GDP levels, due to majority of investors being local investors.

Perhaps, along with these measures, the government should be open for dialogue with international investors on pre-IPO investment and listing of smaller companies in international stock exchanges. It will give the needed hands-on experience and could further improve the capital markets operations in Uzbekistan. There are several strong candidates; however, they are not big enough to be considered a strategic asset, but big enough and are ready to be listed in international markets imminently.

Fiezullah Saidov is the CEO of Uzbekistan Equity Fund and a banking sector consultant for the IFC.

Uzbekistan's stock market sees its first big "pump & dump" incident

Ben Aris in Berlin

Tashkent’s Stock Exchange (TSE) had a rude introduction to the world of capitalism in January after shares in insurance company Universal Sugurta soared, taking the TSE index from around 900 to almost 1,900 points in a matter of a few weeks, only for the index to crash back to where it was by the start of March.

Controlled by Uzbek businessman Anvar Irchaev, Universal Sugurta is part of the Orient Group, a diversified holding that also owns, amongst other things, a majority stake in Universal Bank and an asset management firm also under the “Universal” umbrella.

No one is quite sure what happened, but it looks like the local stock market has been introduced to the world of the fictional Wall Street investor Gordon Gekko, who made his money manipulating stock prices and from insider deals. Universal Sugurta’s stock price boom seems to have been the victim of a classic “pump and dump” play.

Turnover on the TSE is tiny. Despite reforms that now make it possible for foreign investors to buy shares and, crucially, repatriate their profits to their home country without restriction, few international investors are in the market.

That is important, as in other frontier markets like Vietnam there are some international players that largely track the index and a favoured scam is to pump up a stock to the point where it has to be included in the index because that forces the international index trackers to buy the shares and sucks in investment, at which point those that have been doing the pumping start the dumping.

However, Uzbekistan’s stock market is so underdeveloped that it doesn’t have any index trackers yet, so there doesn’t seem to be any point to pumping a stock and there is little money available to attract.

Nevertheless, starting at the end of December someone began buying large blocks of shares, pushing the share price up close to the 20% gain-a-day limit, after which the market rules trading is stopped to prevent market volatility. This went on for several weeks, until the unknown traders stopped buying and the share price rapidly collapsed again in February.

At the start of December the stock was trading at UZS0.01 and the stocks had literally zero daily turnover. Then on Christmas Eve someone began buying in ever increasing blocks until the share price peaked on February 26 at UZS20 – a whopping 2,000-fold increase in just two months.

The trade volumes fell off after the peak and the share price quickly dropped by
half. However, there is still some trading in the stock now, albeit at much reduced volumes, and the share price as of the start of April was UZS3.89 – still up 389-fold from its December start. The collapse of the Universal Sugurta share price dragged the TSE Composite index down with it by 45% from 1,442 to 793 in March.

Market participants interviewed by bne IntelliNews were perplexed, as they couldn’t see how a speculator could benefit from a pump and dump scheme. The smaller stock markets are prone to these scams. The Turkish stock market has a trader universally known as “The Dude” who has not been identified but periodically enters the market and makes large purchases, sending the index up, before dumping the shares again.

“And it’s not just frontier markets that have these problems. It’s better to describe it as a small cap problem, as even in the West this happens all the time: traders target a company with a small capitalisation, and pump up its stock, before dumping it again,” one trader told bne IntelliNews.

**Increasing the TSE free float**

While pump and dump scams are an ugly aspect of money-making on a stock market, the case of Universal Sugurta’s surging shares is also encouraging, as it shows that someone is now interested in local stock prices and willing to put some money into manipulation. Turnover on the TSE had been as still as a millpond since the exchange was launched in April 1994.

Now the TSE is starting to grow. Market capitalisation expanded by 21% from $4.94bn to $6bn between the end of 2019 and March 31, 2021.

That is good news as the government is revving up to significantly expand the free float on the TSE as part of its privatisation drive. Currently the entire market capitalisation of the TSE is equivalent to 12% of GDP. It is mostly made up of state-owned companies that are not freely traded.

As part of the capital market reforms launched in 2019, under the latest development the government hopes to increase just the free float of tradable shares to 5% of GDP and will list some of its most attractive companies, freeing their shares to be traded, to get there. Up to 5% of Uzbekistan’s banking shares have already been made available to foreign investors last year to kick the process off.

In parallel the government launched the Tashkent Commodities Exchange. Over the past several years, the government has required an increasing number of commodities to be traded through the exchange to promote efficiency, and more importantly transparency, in a bid to stem corruption. Cement, plastics, timber, rebar and so forth are all traded through the exchange. The exchange has flourished and also has a platform for government procurement where tenders for services and equipment are listed, as well as platforms for car licence plates and mobile phone numbers, which can be traded; they are social status symbols and so are in high demand.

Another concrete step was taken in implementing this plan this week when the Capital Market Development Agency of Uzbekistan was abolished by presidential decree and its functions were transferred to the finance ministry. The decree also stated that Uzbek companies will be allowed to list their shares on foreign exchanges starting from January 1, 2023.

But the TSE is starting to attract interest. AFC Capital is a fund set up by foreign investors who want to take an easy position in what should become a leading exchange in Central Asia due to Uzbekistan’s large population and already diversified economy.

And the re-rating has already started, albeit it is still in the very early stages. In December, AFC said in a comment published by bne IntelliNews: “It’s early days for a once-in-a-generation revaluation on the Tashkent Stock Exchange. Many listed companies have merely gone from being “unreasonably cheap” to “deeply undervalued”. There should be several more years of upside ahead.”

Likewise, in March the state said it plans to abolish a monopoly on sales of state-held shares. The country’s Agency for State Asset Management is to unlock access to all those state-owned companies that are listed on the TSE but that are not traded.

The privatisation drive has already begun after the state sold off the iconic Hotel Tashkent last year and put two dozen state-owned petrol stations under the gavel in March. This month it announced another long list of state-owned real estate assets that will be sold off soon. ●
Impact of global chip shortage on carmakers spreading across Eastern Europe, Turkey and Central Asia

Robert Anderson in Prague

The global semiconductor chip shortage has so far hit manufacturing at automakers in countries including Romania, Turkey, the Czech Republic, Hungary and Uzbekistan, 

The scarcity of chips has been caused by factors including a pandemic-led surge in demand for phones, TVs and gaming consoles from populations locked down under coronavirus restrictions. The situation lately prompted US President Joe Biden to sign an executive order as he pledged to seek $37bn in funding in line with legislation to supercharge American chip production.

Here is a list of some of the companies known to have been impacted by the crisis:

Romania
Recently French group Renault announced another seven outage days at its Dacia car plant in Romania. A lack of semiconductors has caused interruptions at the plant since February.

"The company makes every effort to limit the impact [of the semiconductors crisis] on production. It is estimated that the peak of this deficit of electronic components could be in the second quarter. The group's latest estimate, globally, taking into account a production recovery in the second half, assesses the risk of approximately 100,000 vehicles for the current year," announced Dacia.

Czech Republic
Toyota Motor Manufacturing Czech Republic suspended its car production in Kolin for 14 days from March 22 due to insufficient stocks of semiconductors. It said some semiconductor shipments were held up because of snowstorms in Texas.

The same problem was reported by Volkswagen-owned Czech car maker Skoda Auto. It said its production was

Audi Hungaria was one of the first automakers in Europe to report production disruption caused by the chip squeeze.
being reduced and deliveries of new cars were slowing.

Toyota has eight plants in the EU.

**Turkey**

Turkish automaker Oyak Renault on March 9 announced that it would halt production at a plant that produces Clio and Megane models from March 15 to March 22 because of the global chip shortage.

As Oyak Renault’s stoppage got under way, Turkish automaker Tofas, owned jointly by local conglomerate Koc Holding and Fiat Chrysler Automobiles, announced in a Borsa Istanbul filing that it would suspend production from March 19 to April 5 due to chip supply problems.

Tofas said the company has been impacted by the chip deficit “due to the high technology in its products, the increasing use of electronic composition and the world-integrated production system”.

Analysts said that if the chip crisis spread to other carmakers in Turkey, damage would be felt in the macroeconomy. Automotive is Turkey’s largest export industry.

**Hungary**

In Hungary, reports began to emerge as early as mid-January of disruption caused to automaking by the dearth of chips.

Mercedes-Benz Manufacturing Hungary halted production at its factory for 10 days at the end of January.

Also at the end of January, German carmaker Audi’s base in Hungary returned to three shifts after reducing the number to just one for nearly two weeks because of the semiconductor squeeze.

Audi Hungaria said global demand for semiconductors had increased by such a scale that parts deliveries failed to arrive or came late. The auto-chip shortage stemmed from overly conservative demand estimates made by carmakers, while chip manufacturers allocated more capacity to meet soaring demand from consumer electronics makers, it added.

On March 12, data from Hungary’s Central Statistics Office (KSH) on March 12 showed the output of the country’s automotive industry fell 27.5% y/y in January due to the scaled back production. The sector accounted for 25% of Hungary’s total manufacturing output in the month.

**Uzbekistan**

Sole Uzbek car manufacturer UzAuto Motors on March 2 said it planned to delay delivery times on manufactured vehicles by up to two months because of the impact on production of the worldwide shortage of semiconductors.

Production plans for the second quarter have been affected, the state-owned company said.

UzAuto Motors makes Chevrolet cars under a deal with US giant General Motors.

“GM’s Global Supply Chain Management works closely with suppliers to find solutions to their semiconductor requirements and mitigate the impact on GM and its partners, including UzAuto Motors. Our intention is to cover as many production losses as possible at each facility,” said Christian Sommer, GM’s president and managing director of strategic markets, alliances and distributors. He said he anticipated that the situation would stabilise in the second half of this year.

**EU’s ambitious target**

The BBC has reported that the European Commission has set an ambitious target to boost production of cutting-edge computer chips by the end of the decade. It wants 20% of such chips, in terms of value, to be manufactured within the EU by 2030. The figure was 10% in 2020.

Setting up chip fabrication factories is, however, tremendously expensive. A large plant can cost up to $20bn to build and kit out, according to a 2020 report by the US’s Semiconductor Industry Association (SIA). And it can take many years before the plant can make a profit.

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Zelenskiy meets Macron as Russia engages in a diplomatic dance over a possible Biden-Putin summit

Ben Aris in Berlin

Ukrainian President Volodymyr Zelenskiy called for a summit with Russian President Vladimir Putin and for a restart of the four-way talks under the Normandy Format during a trip to Paris to meet with his French counterpart, President Emmanuel Macron, on April 16.

Macron met Putin in person for the first time during the first Normandy Four summit in December 2019, where he began negotiating an end to the fighting in Ukraine's Donbas region against the Kremlin-sponsored rebels. However, a follow-up meeting never happened due to disappointing progress in the negotiations and the outbreak of the coronavirus (COVID-19) pandemic.

Now as the world begins to emerge from almost a year of lockdown Zelenskiy is attempting to revive the talks with Russia. German Chancellor Angela Merkel also participated in the meeting via video link.

The three leaders also ended their Friday meeting by urging Russia to withdraw extra troops amassed on the Ukrainian border and in occupied Crimea.

Zelenskiy told reporters that he also hoped to restore the ceasefire in war-torn eastern Ukraine at an upcoming meeting of four advisors to the leaders of Russia, France and Germany on April 19.

The ceasefire "was productive at first, but then unfortunately" ended, Zelenskiy told reporters.

The meeting came a day after US President Joe Biden slapped fresh sanctions on Russia for its threatening military build-up along Ukraine’s border and a shopping list of other complaints.

Kremlin played down any possible negative economic impacts from the new sanctions. Spokesman Dmitry Peskov replied to reporters on Friday, when asked if the Russian economy would weather the new restrictive measures imposed by Washington:

"[Russia’s] macroeconomic stability is fully ensured, our regulator is acting moderately and successfully, the efficiency of our economic bloc is recognised internationally.

“We see no reason to doubt this effectiveness,” the Kremlin official added, TASS reported.

The markets welcomed the sanctions as some of the mildest of the possible alternatives, targeting two dozen officials and banning US investors from participating in the Russian ruble bond primary market, but not choosing the far more damaging option of banning them from buying the bonds on the secondary market.

Russia responded angrily and announced a range of retaliatory measures, but pointedly the Kremlin seems to have accepted Biden’s sanctions as measured and has not ruled out the possibility of a summit between the two leaders.

Moscow expelled 10 diplomats and imposed visa bans on a number of senior US officials including John Bolton, a well-known Russia hawk and formerly US president Donald Trump’s National Security Advisor of the United States.

Russia also announced it was restricting access to the Sea of Azov and banning military and state-owned vessels passing through the Kerch straits, controlled by Russia, until October. The restrictions could bottle up two of Ukraine’s largest ports that are responsible for handling the cargo of some of its best hard currency earners such as grain, steel and coal exports.

And tensions ticked up another notch on April 17 when Russia’s Federal Security Service (FSB) detained a consul of the Ukrainian General Consulate in St. Petersburg for “activities incompatible with his diplomatic status.” The consul was accused of obtaining classified information from the databases of law-enforcement agencies and the FSB, the FSB’s press office told TASS.

"The Normandy Four process is in a coma and I think it is Macron can give it artificial respiration"
Ukraine President Volodymyr #Zelenskiy meets French President Emmanuel Macron.

to Paris was intended to rekindle the Normandy Four talks, which has been the main vehicle for international mediation.

"I want to get the four of us" together to discuss "the issue of the security situation in eastern Ukraine and the de-occupation of our territories", Zelenskiy said after the meeting with Macron and Merkel.

Zelenskiy said that the Normandy Four process was "in a coma" and that "I think it is Macron who can give [the Normandy format] artificial respiration," the Ukrainian president told Le Figaro before the meeting.

"Ukraine's sovereignty is under threat," Macron's office said heading into the talks, adding: "All our work is aimed at avoiding an escalation and defusing tensions."

Zelenskiy also visited Turkey, where Turkish President Recep Tayyip Erdogan threw his weight behind Ukraine and surprised observers by declaring Turkey didn't recognise Russia's annexation of the Crimea peninsula in 2014, incurring Moscow's ire. Russia responded by cancelling charter flights to Turkey from Russia that could cost Turkey up to $5bn in lost tourism revenue at a time when it is desperate for hard currency earnings.

Zelenskiy also urged NATO to speed up his country's membership of the application to join the military treaty on April 6, saying it was the only way to end fighting with pro-Russia separatists during a meeting with NATO Secretary-General Jens Stoltenberg on April 6.

Neither NATO nor the EU have ever offered Ukraine the prospect of joining either club and joining the military alliance is a red line Russia would not tolerate Ukraine crossing, although it is more ambivalent about Ukraine's desire to join the EU.

However, both organisations have welcomed Ukraine's turn to the West and have warm relations with Ukraine. That has left Kyiv in a no-man's land of disrupted relations with Russia but with no real prospect of joining the West. Zelenskiy suggested this limbo be brought to an end and both NATO and the EU make their intentions on Ukraine's eventual membership application clear.

"We cannot stay indefinitely in the EU and NATO waiting room," Zelenskiy told French daily Le Figaro. "If we belong to the same family, we must live together. We cannot go out together forever, like eternal fiancées; we must legalise our relations."

**Kerch closed again**

This is the second time Moscow has closed off the Kerch straits, after an incident in November 2019 that shut down the key shipping route ended with the Russian navy capturing a Ukrainian navy boat that failed to stop when hailed in the strait.

Opinion remains divided as to if the incident was a provocation by former President Petro Poroshenko designed to drum up more support from his Western allies, or an act of military aggression by a belligerent Russia. The upshot was that the straits were closed for several weeks, hamstringing Ukraine’s merchant fleet and hurting its foreign trade regime.

Tensions between Moscow and Kyiv have flared again after Russia sent thousands of troops to the Ukraine border, and the new US sanctions have only poured oil on the fire.

"From 21:00 on April 24 until 21:00 on October 31, passage through the territorial sea of the Russian Federation for foreign military ships and other state vessels will be halted," the state-run RIA Novosti news agency cited a defence ministry statement as saying.

The restrictions will affect the western tip of Crimea, the peninsula's southern coastline from Sevastopol to Hurzuf, and a "rectangle" off the Kerch peninsula near the Opuksky Nature Reserve, the Moscow Times reports.

The final area is near the Kerch Strait, which connects the Black Sea to the
Sea of Azov, which is home to two of Ukraine’s biggest ports.

Ukraine’s foreign ministry slammed the navigation restrictions, which were initially reported without specifics, as a “usurpation of the sovereign rights of Ukraine.”

**Moscow reaction**

Russia expelled 10 US diplomats from the country in the traditional tit-for-tat retaliation for Washington’s decision to expel the same number of diplomats from the US as part of Biden’s package of sanctions the same week, as well as suggesting that US Ambassador John Sullivan return home for consultations.

Moscow also banned eight high-ranking US officials from entering the country, including former national security advisor John Bolton, FBI Director Christopher Wray, Director of National Intelligence Avril Haines, US Attorney General Merrick Garland and Secretary of Homeland Security Alejandro Mayorkas.

Others to face an entry ban were Director of the Federal Bureau of Prisons Michael Carvajal, Director of the Domestic Policy Council Susan Rice and ex-CIA head Robert James Woolsey, Reuters reports.

In addition, the Kremlin said it would make it harder for the US embassy in Moscow to staff itself by banning Russian nationals from working at the embassy.

"Now is the time for the United States to demonstrate good sense and to turn its back on a confrontational course," Russian Foreign Minister Sergei Lavrov said in a statement. "Otherwise an array of painful decisions for the American side will be implemented."

Lavrov warned Russia has options to hurt the United States economically and to shrink its diplomatic corps in Russia to just 300 people, but was holding fire for now. While Russia’s economic leverage over the US is limited, it does control 40% of Boeing’s supply of titanium amongst other things, an essential metal in the construction of aircraft. Boeing has a large R&D facility in Russia and is reliant on Russia for the metal.

**Biden reaches out**

Biden followed up the release of his sanctions with comments to try to pour some oil on the ruffled waters. He is playing a difficult game where on the one hand he needs to appear tough on Russia for domestic political reasons and on the other, keeping the door open for co-operation with Russia on a number of international problems for which he needs Russia’s help, including Afghanistan, Libya, Syria, the fight against international terrorism, dealing with the climate crisis and restarting arms control talks.

The Kremlin is well aware of Biden’s dilemma and has also been careful to cut him some wiggle room. Lavrov has warned that Moscow will react harshly to sanctions imposed by Washington that cause “economic damage” to the Russian economy, leaving the White House a loophole to impose sanctions without bringing down a harsh retaliation. The fact that the Kremlin suggested a summit between Putin and Biden remains a possibility following new US sanctions suggests that Biden’s sanctions were acceptable to Moscow.

Biden reiterated the message of compromise in comments the day after the new sanctions were released by saying: “This is not the time to escalate. We want stable and sustained relations with Russia.”

However, Biden emphasised the tense nature of the relations and warned things could go badly instead of well.

"If Russia continues to interfere with our democracy, I’m prepared to take further actions to respond. It is my responsibility as President of the United States to do so," Biden said from the White House.

"I was clear with President Putin that we could have gone further, but I chose not to do so, I chose to be proportionate," Biden said of the measures, adding that he did not want to “kick off a cycle of escalation and conflict with Russia.”

Russian presidential spokesman Dmitry Peskov met these comments with equally pragmatic comments that significantly scaled down some of the harsher rhetoric from Russian lawmakers following the new sanctions release.

"(Putin) has repeatedly said we’re ready to develop dialogue as much as our counterparts are ready to do so. In this sense it is probably positive that the views of the two heads of state coincide," Peskov told reporters before the Russian counter sanctions were unveiled.

Nevertheless, the summit will be hard to organise as the two sides dance around the fraught relations denigrated by years of confrontation.

Russia’s foreign ministry said Biden’s Putin summit proposal had been initially well received, but was now being studied in the context of unfolding events.

"We would like to avoid a further escalation with the United States. We are ready for calm and professional dialogue," the ministry said.

"However, the reality is that we hear one thing from Washington and in practice we see something completely different. There should be no doubt – not a single sanctions ‘wave’ will remain unpunished."
Laszlo Bige, owner of CEE’s leading fertiliser company Nitrogenmuvek, says he is under pressure to sell his lucrative business to cronies of PM Viktor Orban.

Hungarian millionaire’s persecution shows reality of ‘rule of law’ in Viktor Orban’s Hungary

Tamas Szilagyi in Budapest

Hungarian fertiliser magnate claims that he has been threatened and harassed by state authorities to force him to sell out to oligarchs close to Prime Minister Viktor Orban.

Laszlo Bige, one of Hungary’s richest men, says he has had 17 state raids over the past two years, including one involving hundreds of officials from the police, fire department and even the disaster management office, but he is still refusing to sell his business.

Since December the 62-year-old tycoon has been under house arrest for allegedly selling fertiliser at a below the counter price to a distributor in 2010 and then sharing the proceeds. He is charged with accepting more than HUF800mn (€223mn) in kickbacks as part of the deal. He denies the charges, which could carry a sentence of up to 10 years’ imprisonment.

The conflict also has a political dimension as Bige has made himself unpopular by recently funding an opinion poll that showed that the proposed coalition of opposition parties could win more votes than Orban’s Fidesz at next year’s general election.

The extortion allegations, made during an interview on the Partizan YouTube channel, chimes with other reports about the way oligarchs close to the Hungarian premier go about expanding their businesses by using the state to put pressure on rival companies that do not have political protection. The European Commission has repeatedly expressed concerns about the rule of law in Hungary, though its new budget clawback mechanism will likely only take effect after the general election.

At present Bige is the tenth wealthiest Hungarian, with an estimated wealth of HUF112bn (US$370mn). He is the majority owner of Nitrogenmuvek, one of the biggest makers of artificial fertiliser in the region. The company booked HUF95bn (€263mn) in revenue last year and an after-tax profit of HUF3.6bn. The company sells nearly half of its output in 13 European countries, while it has about 10,000 customers in Hungary.

Bige has always been a figure of suspicion to the right. He bought Nitrogenmuvek in the mid-1990s under the Socialist-liberal government of Gyula Horn. This has earned him the reputation as a ‘red baron’, a nickname assigned to entrepreneurs in the early 1990s who had good ties with the former communist political elite.

Bige claims that he also had good ties with the rightwing as well. He says he has supported football club Ferencvaros with hundreds of millions of forints since 2010 when Fidesz swept to power. Orban has encouraged businessmen to donate money to his favoured football clubs as proof of their loyalty to his regime. But Bige stopped making payments a few years later after the ruling party raised the tax on imported natural gas, a move that may have removed his protection.

Despite huge amounts of investment at Nitrogenmuvek, Bige’s company has never received any state support, unlike Lorinc Meszaros, Viktor Orban’s childhood friend from his home village Felcsut.

Meszaros, widely seen as Orban’s front man, has become one of Hungary’s richest men over the last few years, helped by lucrative state contracts. The former pipe layer’s rise coincided with the fall from grace of Lajos Simicska, who lost a construction firm and a media empire after an unusually public fallout with Orban in 2015. After the third supermajority win by Fidesz, Simicska sold off his business conglomerate, which ended up in the hands of new oligarchs, including Meszaros.

‘Clear message’ from the boss

Bige claims that his problems started when he came into conflict with Sandor Csanyi, the head of Hungary’s largest lender OTP Bank and another powerful ally of Orban’s. Even though Csanyi originally financed the acquisition of Nitrogenmuvek, OTP unilaterally with-
UEFA's 'unfair' punishment of Czech football player raises furore among fans and politicians

bne IntelliNews

UEFA's decision to punish Slavia Praha defender Ondrej Kudela for allegedly using racist language with a worse match ban than two Glasgow Rangers players condemned for violent behaviour has stirred heated emotions among Czech fans and politicians.

But it has also demonstrated the wide gulf that exists between attitudes towards racist behaviour in Western Europe compared to the newer member states in Central and Southeastern Europe. Racist chanting at Czech football games is still common, and rampant racist online abuse is shrugged off as 'free speech'.

The bans, announced by UEFA on April 15, follow a torrid Europa League game in Glasgow between Scottish champions Rangers and Czech champions Slavia on March 18, during which two Rangers players were sent off, and there was an altercation between Kudela and Glasgow Rangers player Glen Kamara on the pitch and in the tunnel afterwards. Slavia won 2-0 and progressed to the quarter finals, where they were knocked out by London's Arsenal on April 15.

In the key incident, Kudela approached Kamara and covered his mouth with his hand so he could not be lip read by the TV cameras. He admits swearing but denies calling Kamara a "fucking monkey". His words immediately caused outrage from the surrounding Rangers players and appear to have provoked Kamara to attack him in the tunnel after the game.

While Kudela was punished for allegedly making a racist insult to Kamara with a ban of 10 UEFA games, Kamara only received a three match ban for attacking Kudela in the tunnel. And his Rangers teammate Kemar Roofe was banned for just four matches after being given a red card for a high-boot challenge on Slavia goalkeeper Ondrej Kolar, who ended with a fractured skull.

Czech politicians and media focussed on the fact that Kudela denied the offence, and that UEFA punished him far more severely than the violent Rangers players.

"Next time, don't whisper anything into his ear but just punch him right away, for four games," said the controversial mayor of Reporyje Pavel Novotny (from the rightwing Civic Democrats) about the logic of UEFA's decision.

"Verdicts like the one today make people racists. Fractured skull: 4 games, attack a rival with fists: 3 games. Alleged racist insult: 10 games. UEFA should think better of it. Due to such decisions, brownish [fascist] parties are thriving in Europe," said Pirate MP Mikulas Ferjencik.
“I have not yet commented on the match of Slavia in Glasgow. I wasn’t there, I only saw it on TV. But today’s UEFA verdict on Kudela is insane. Convicted without evidence... They really went crazy in the West,” said MEP Alexandr Vondra (Civic Democrats), a former foreign minister.

“Kamara for the crime of assaulting - ban for 3 matches, Roofe for a liquidation foul resulting in serious injury - 4 matches and Kudela for verbal expression without proving a racist subtext - 10 matches. What’s for killing - 6 matches? WTF!,” wrote Mirek Topolanek, a controversial former Civic Democrat prime minister.

“An obvious disparity which does not make sense in a standard environment of freedom. But at the time of the onset of the new progressive totalitarianism, nothing surprising. The word is considered by the new totalitarianism to be a crime. Cardinal, hereditary and unforgivable,” commented populist Czech President Milos Zeman’s spokesperson Jiri Ovacek.

The Head of Zeman’s Office, Vratislav Mynar, even decided to send an open letter to UEFA, condemning all imposed punishments, unless evidence is proven.

“I would like to note that racism is unproven and alleged. Even the UEFA inspector himself questioned Ondrej Kudela’s racist statement. Nevertheless, you have decided to place a completely unprecedented punishment for a player who did not harm anyone and then only verbally, according to his statement, offended his opponent. You condemn a decent person without a single piece of evidence. You make it impossible for sportmen to fulfill their dream in the European League,” he wrote.

“All this just to fulfill the perverted expectations of a small group of activists and a club unable to win on the field, all the more so by shouting empty and hurtful phrases about racism,” he added. According to Mynar, UEFA’s fight against racism has become the fight of the unsuccessful against the successful, the pinnacle of hypocrisy and positive discrimination.

“Your efforts can lead to the opposite, a situation where a person with a colour other than black will be discriminated against, oppressed and deprived of his rights. That is why I also consider it necessary to oppose this procedure,” Mynar stressed.

Slavia responded to UEFA’s verdict by saying that it respects its decision, admitting that Kudela should not have approached the opposition player, which immediately triggered hard criticism from Slavia’s fans.

“I deeply regret that and apologise to Glen Kamara for a situation that has clearly caused distress to him and his teammates, as well as everyone associated with Slavia and Rangers. I am taking positive steps to prevent such a situation from happening in our club ever again,” said Slavia Chairman of the Board Jaroslav Tvrdik.

“Kamara for the crime of assaulting - ban for 3 matches, Roofe for a liquidation foul resulting in serious injury - 4 matches and Kudela for verbal expression without proving a racist subtext - 10 matches. What’s for killing - 6 matches? WTF!,” wrote Mirek Topolanek, a controversial former Civic Democrat prime minister.

The former Czech Radio correspondent in the UK and current sports commentator for SeznamZpravy, Jiri Hosek, explained that coverage of the accident was very different in the UK and at home in Czechia. “One big difference, which is hugely disappointing to me as far as the British media is concerned, was that the lack of respect shown by Glasgow Rangers players, the way they behaved on the pitch, was completely ignored, with the focus just being put on the alleged racist incident on the pitch.”

Hosek noted that while the ‘Black Lives Matter’ movement resonated strongly in the UK, it touched Czechia only marginally. That’s why the Czech media focused mainly on the toxic atmosphere of the match, he said.

Hosek stressed that Czech society and the Czech media insist on a presumption of innocence, while the approach in the United Kingdom toward racism is that a claim of victim of racist abuse is generally taken as true and the alleged perpetrator has to prove his innocence. He also pointed out that the 10-match ban was the minimum for this kind of offence and had been criticised as lenient in the UK.
Regina Maria overtook rival MedLife to become the biggest player in the Romanian private medical services market by turnover in 2020. Now its private equity backer Mid Europa Partners plans to build it up further into a company of systemic scale.

According to 2020 results for the two companies, Regina Maria’s turnover shot up by 27% in 2020 to €237mn, while MedLife’s consolidated turnover rose by a more modest but still robust 11.5% to RON1.08bn (€220mn).

Both rivals have been expanding aggressively in an expanding market. In Romania, as in much of Central and Southeast Europe, demand for private medical care has been steadily growing among the expanding and increasingly affluent middle class. Pre-pandemic, demand for private medical services was spurred on by Romanians looking for better alternatives to the poorly funded and scandal-hit state healthcare service, as well as companies keen to offer private healthcare as a benefit to attract and retain employees, especially in highly competitive sectors like IT.

Mid Europa took over Regina Maria in 2015, from fellow private equity investor Advent International, which had bought into the company, then called Centrul Medical Unirea, or CMU, in 2010.

According to Matthew Strassberg, partner at Mid Europa, the firm has been investing into private pay healthcare services in Central and Eastern Europe for more than a decade “We started in Poland with Luxmed when it was still a relatively small chain of clinics that we built up to the number one position and sold to Bupa. That was our initial exposure to the huge opportunity of backing the roll-up strategy in the region around private healthcare,” Strassberg told bne IntelliNews.

“We think one of the unique features in the region is the large unmet demand from the growing middle class, who pay national insurance contributions but...”

“Regina Maria’s turnover shot up by 27% in 2020 to €237mn, while MedLife’s consolidated turnover also rose by 11.5% to €220mn.”
find the level of service in the national healthcare systems does not meet their expectations, and are willing to pay for private healthcare. The private pay market is worth over ten billion euros across Central Europe.”

While there is a similar growth trend in private healthcare in the major economies across the region, each market has its own specifics. “As in Poland, in Romania there is a high level of acceptance of private operators complementing the public system. There is broad social acceptance of the wealthier strata of the population using the private healthcare system. This relieves pressure on the public system by reallocating several million patients visits,” explains Strassberg.

“Where Romania differs from Poland is that there is a greater demand for private hospital services, and significantly more private beds. Regina Maria has 800 beds in its network. In that sense, the Romanian market is very attractive, and we think that as the population in Romania becomes wealthier the sector will be supported by an ever-growing number of patients who can afford to go private.”

The market in Romania is consolidating as Regina Maria, MedLife and other major players pursue aggressive consolidation strategies as well as achieving organic growth. While there are still a large number of single-doctor practices, there is a clear trend towards chains of clinics with a range of specialists and well equipped with diagnostic equipment.

Among Regina Maria’s acquisitions in recent years are the Premiere Hospital in Timisoara, the largest private multi-disciplinary hospital in western Romania, the Kinetic Sport & Medicine centres, which provide physiotherapy and kinetotherapy services, and the Endo Institute, the largest centre for the diagnosis and treatment of endometriosis in Southeast Europe.

“Since we invested in Regina Maria in October 2015, the company has done more than €130mn worth of investment in greenfield expansion and acquisitions. We consolidated 22 businesses in Romania, and quadrupled the size of the business in terms of revenue and profitability,” says Strassberg.

It continued growing during the pandemic, for example opening a fertility and IVF centre within the Regina Maria Hospital in Cluj. The hospital was the largest investment in a private medical facility in the country at over €18mn, and a further €500,000 was spent on the fertility and IVF centre.

MedLife, which listed on the Bucharest Stock Exchange in 2016, has also been snapping up smaller operators, among them fellow private medical company Polisano’s medical services division and pharma companies CED Pharma and Pharmachem.

Growth continued throughout 2020 despite the disruption caused by the coronavirus (COVID-19) pandemic, which led to patients postponing all but the most urgent treatment during the initial lockdown. However, later in the year utilisation rates started to return to normal even through the third wave of the pandemic, and some pent-up demand is expected once the pandemic starts to come to an end in the second half of 2021 and early 2022.

On the other hand, the pandemic wasn’t a major source of extra revenues for private healthcare companies, except for PCR tests.

Looking ahead, Regina Maria CEO Fady Chreih said in an interview with daily Ziarul Financiar streamed online that there remains strong unmet demand in the market. “We have budgeted a 20% growth this year, so we hope to reach over €260mn. The increase is mostly organic, but we also have some purchases in the pipeline,” he told the daily.

Having a private equity backer has given Regina Maria additional firepower for investments into new facilities and acquisitions, which helped it to draw ahead of MedLife and which is expected to lead to strong growth in future.

A year ago there was speculation that Mid Europa might be preparing to sell its stake in Regina Maria, with interest reported in the local press from Chinese investment fund Sino CEEF and Italian group Techint’s health division Humanitas.

However, Strassberg told bne IntelliNews that the growth of the company to date “does not mean we are interested in exiting. We are very happy with the investment and plan to keep growing it. We will probably hold on to the investment for at least another four years, with the earliest exit horizon in 2024,” Strassberg says. “By then, we expect to further double the size of the company from today’s level and at that point it would become what could be termed systemic, in terms of its strong position and sustainability.”

Where Romania differs from Poland is that there is a greater demand for private hospital services, and significantly more private beds”
A week after the April 4 general election, Bulgaria seems to have a new ‘saviour of the nation’ in Slavi Trifonov while Prime Minister Boyko Borissov heads for the dustbin of history. However, the new and old faces of the day seem alike, and after three terms under Borissov the country could be heading for more of the same.

Trifonov, a popular showman and TV host, was the unexpected runner up in the election with his party There Are Such People gaining more than half a million votes. As Borissov, whose Gerb party won the most votes, seems unable to form a new coalition, Trifonov might become the next premier.

The TV host, now owner of the 7/8 TV channel, became popular in the early 1990s, shortly after the fall of communism, when he was part of the team that produced the Cuckoo TV show (later renamed Canaletto). A student at musical academy at the time, Trifonov along with the rest of the team were the first to create an independent comedy show after decades during which all broadcasts were controlled by the state.

In 1997 the country faced mass anti-government protests due to the deep economic crisis caused by the Socialist-led government of then prime minister Saxe-Coburg-Gotha, Bulgaria’s last tsar before the communist era, who was prime minister between 2001 and 2005. Saxe-Coburg-Gotha, along with former communist leader Todor Zhivkov, had been one of the clients of Borissov’s private security firm. On becoming prime minister, he appointed his former bodyguard as chief secretary of the interior ministry, an influential position that Borissov held until he ran successfully for Sofia mayor in 2005.

In 2019, Trifonov set up his political party, initially called No Such State and renamed There Are Such People after a court’s refusal to register it under the original name. Before that, his show initiated a referendum, which was held in November 2016 along with the presidential election. Voters were asked whether they supported limiting public funding of political parties to BGN1 per year per valid vote received in the previous election, the introduction of compulsory voting in elections and referendums, and changing the electoral system for the National Assembly to the two-round system.

All three proposals were backed by a majority of those who voted, but turnout was slightly lower than in the 2014 parliamentary elections, meaning the quorum was not met.

These three questions were also the clearest political objectives of Trifonov’s party ahead of the April 4 general election. The party has not presented a detailed programme, earning it widespread criticism from opponents and analysts, but that did not stop people from voting for it.

Old saviour’s fading charisma
While Trifonov’s next move will determine whether he heads Bulgaria’s next government or brings the country closer to early elections, Borissov, the country’s three-mandate premier, is losing his charm for voters with the support for his Gerb party collapsing. Although gaining slightly above 26% of the vote on April 4, nearly 10 percentage points ahead of Trifonov’s party, which had around 17%, Borissov will most likely fail to find coalition partners to form another parliamentary majority and a fourth government.

For many years, Borissov was Bulgaria’s man of the moment. He started to gain popularity while serving as chief secretary of the interior ministry during the government of Simeon Borisov.
Borissov, a former firefighter, founded Gerb the following year and the party became the largest Bulgarian party represented in the European parliament just five months later. Gerb went on to win the parliamentary elections in 2009, and Borissov’s first term as prime minister lasted until February when he was forced to step down amid mass protests over high energy prices, low living standards and corruption.

18 months later, after the Socialist-backed technocratic government of Plamen Oresharski, Bulgarians backed Gerb again, albeit with a smaller share of the vote than in 2009. This meant Borissov was able to form a new minority government with support from a mixed bag of rightwing, leftwing and nationalist parties.

The coalition was already starting to splinter when Borissov badly misjudged the 2016 presidential elections, pledging to step down if Gerb’s candidate Tsetska Tsacheva did not emerge as the winner.

After his resignation, however, Borissov won the next snap vote and headed a third government, this time picking a far-right nationalist coalition as Gerb’s partner. However, Borissov’s third mandate was shaken by numerous corruption scandals, months-long anti-government protests joined by thousands of people, several changes of ministers and the coronavirus (COVID-19) pandemic, which led to the demise of his popularity and the subsequent poor showing on April 4.

In the days to follow, he made several proposals, including to back Trifonov’s government by giving him the votes of 10 Gerb MPs, but eventually announced he would give up his seat in parliament. This led analysts to anticipate that he will not fight for a new mandate as prime minister.

Borissov was a firefighter and bodyguard before he entered politics, while Trifonov made his name on television, but they also have much in common. Both have controversial pasts with alleged connections to controversial businesses – Borissov has been linked to former insurance company SIK and founded the IPON 1 security agency that specialised in debt collection and provided bodyguards to Bulgaria’s most powerful figures, including the disgraced communist dictator Zhikov, and Saxe-Coburg-Gotha.

Trifonov, on the other hand, was rumoured to have links to Multigroup, a company founded by Ilia Pavlov in the 90s. From the 90s to the present such security agencies as IPON 1 and Multigroup have been widely reported in Bulgarian media to have acted as fronts for racketeering and extortion outfits.

The two are also seen as men with big egos who make all the decisions in their political parties without debates, as well as not being keen to talk openly to the media.

Borissov and Trifonov have had rather good relations in the past and many believed they would form the next ruling coalition. However, Trifonov became a loud critic of Borissov when he became mayor of Sofia. The rift between the two men was partially overcome in 2018 when the prime minister had a rather friendly interview on Trifonov’s show. Critics of the showman said at the time that the interview was very disappointing as Trifonov asked all the right questions to Borissov to help him look good and avoided all inconvenient ones.

His critics have repeatedly said that his style of management and political discourse seem rather similar to those of Borissov and that the country has picked more of the same.

On the other hand, the showman-turned-politician has repeatedly said he would not agree to form a coalition with any of the three traditional parties – Gerb, the Bulgarian Socialist Party (BSP) and the ethnic-Turk Movement for Rights and Freedoms (DPS).
Next steps for Romania's Fondul Proprietatea

Clare Nuttall in Glasgow

Romania's Fondul Proprietatea (FP) celebrated the tenth anniversary of its listing on the Bucharest Stock Exchange (BVB) earlier this year. Since 2011, several of its portfolio companies have also listed on the exchange and the long-anticipated IPO of its largest portfolio company, hydropower producer Hidroelectrica, is finally expected in late 2021 or early 2022.

FP listed on the BVB the year after US-based investment firm Franklin Templeton took over as the fund manager. This was followed in 2015 by a secondary listing on the London Stock Exchange, where portfolio companies electricity distribution company Electrica in 2014 and gas company Romgazin 2013 had already carried out dual listings.

Today FP, originally set up to compensate Romanians who had lost property and other assets under the former communist regime, is the most-weighted company on the BVB’s blue-chip BET index, just ahead of the largest local bank, Banca Transilvania.

"FP was originally set up to compensate Romanians who had lost property and other assets under the communist regime"

It is also the most traded stock on the BVB – its traded volume represented 35% of the total equities volume on the BVB between 2011 and 2020 – and it is the fifth largest listed company on the exchange. It was the first company to introduce buy-back programmes, tender offers and accelerated bookbuild offerings on the exchange which, it said, later become popular among local issuers.

“The push for positive changes across the Fund’s portfolio companies has unlocked significant value over the past decade. It has been a rewarding journey, in which the team has innovated, opened new avenues, and helped contribute meaningfully to the progress of the local capital market,” said Johan Meyer, portfolio manager and FP.

Unsurprisingly FP, which acts as a proxy for major Romanian listed companies, has suffered a hit from the pandemic. FP made a net loss of RON102.9mn (€21.13mn) in 2020, compared with a RON3.1bn net profit in 2019, which it attributed to the coronavirus (COVID-19) pandemic. The main contributor to the loss was the negative net change in fair value of its equity investments, though this was partly netted off by gross dividend income from portfolio companies of RON1.2bn, the fund said.

The fund also reported a strong performance of its share price in the second part of 2020, following the rebound of global stock markets. This led to a historical high share price of RON1.450 per share on December 30, 2020, while the discount to the NAV dropped to a low of 9.71% on the same day.

Long-awaited IPO

The IPO of Hidroelectrica – accounting for around half the size of the fund by value – is anticipated in late 2021 or early 2022, the company’s CEO, Bogdan Badea, said in January. FP owns a 20% stake in the hydropower company that according to Fondul Proprietatea’s estimates has a market value of around RON26bn (more than €5bn) in total.

The government decided back in 2013...
on the listing of 10% of Hidroelectrica’s shares, but the process has met many obstacles in recent years, most recently the coronavirus (COVID-19) pandemic and the adoption of the law blocking the sale of shares in state-owned companies.

“In pursuing the privatisations of its portfolio companies, FP fund managers have frequently clashed with the Romanian government”

Now Hidroelectrica will finally be able to launch the IPO after the current centre-right ruling coalition decided to change the law to enable the sale of shares in state-owned companies.

FP has long pushed for the IPO of Hidroelectrica. It has already reduced the size of its portfolio considerably in recent years. In 2015, FP’s portfolio comprised 49 companies, down from almost 90 following a series of sales and IPOs. By the beginning of 2021, this had fallen further to 32 companies: six listed and 26 unlisted.

The fund has sold its easier-to-sell stakes in listed companies such as Transselectra, Transgaz, Romgaz and Conpet, and significantly reduced its holdings in OMV Petrom. In February it emerged that FP had exited its entire state in Romanian nuclear energy company Nuclearelectrica.

Commenting on the exit during an online press conference on March 24, Meyer told journalists: “We constantly look at the portfolio and we look at the potential in every investment on an ongoing basis. We got to the point where we were looking more intensely at Nuclearelectrica and the potential returns that could be generated going forward and we made the decision to sell. A block of it was a large transaction that would be incredibly difficult to execute on the market on an ongoing basis.”

In answer to a question on why FP doesn’t buy into other Romanian companies, Meyer pointed out: “We need to keep in mind from a historical point of view the fund has continued to trade at a discount to NAV, which becomes very difficult to justify when you are using cash that is being realised from investors in the portfolio to reinvest in lots of companies at a discount. The reality is the shareholders can own the listed shares directly at no discount to themselves, as would happen via Fondul.

“Looking at the current situation, we are pleased to see a contraction of level of discount to NAV … However, it still makes sense to continue using discount control mechanisms considering the upside potential we see in the portfolio, especially for unlisted investments where we continue to employ a conservative approach to valuation and upside can be realised by bringing companies like Hidroelectrica, or Bucharest Airports at some point, or Salrom to the stock exchange.

“We still believe immense value that can be unlocked by bringing unlisted assets to the market,” Meyer concluded.

Conflicting approaches
In pursuing the privatisations of its portfolio companies, FP fund managers have frequently clashed with the Romanian government – the majority shareholder in many companies in which FP owns a minority stake – over how they should be managed and privatised.

Since Franklin Templeton became manager of Fondul Proprietatea, the investment firm has been working to improve corporate governance, through pushing for reforms to Romanian legislation as well as changes within its portfolio companies.

As a shareholder at Hidroelectrica, FP was involved in the battle against the so-called “smart guys” – the company had been hamstrung by contracts signed under previous managers, under which it sold electricity at a loss to private traders, dubbed “smart guys” by the company. These were cancelled, but not without difficulty. Progress was finally made in early 2015, when Hidroelectrica won several court cases against the traders.

Two years later, FP warned that new law initiated by two Romanian MPs could result in a massive transfer of wealth from the state to private individuals at the Bleak Sea’s largest port, Constanta. FP said at the time that should the law enter force, a new group of “smart guys” would emerge.

Some of the disputes with the government as majority shareholder concerned a capital increase at Posta Romana, part of which was aimed at covering the company’s overdue debts to the budget, and the disbursement of holiday vouchers to employees of national salt company Salrom.

Most recently, FP warned that Hidroelectrica could end up paying 55% higher taxes for the water it uses under amendments promoted by Energy Minister Virgil Popescu and Environment Minister Tanczos Barna. Should the proposal be accepted, it would hike Hidroelectrica’s expenses at a time when the company is preparing to list its shares on the BVB. FP called the change an “unnecessary and unreasonable increase” that pumps money in the pockets of “another state institution”. ●
COVID cabin fever creates a middle class Balkan jetset

Valentina Dimitrievska in Skopje

As Serbian hospitals were filling up with coronavirus (COVID-19) patients again, provocative Instagram photos of Serbian singer Jelena Karleusa, known as “Lady Gaga of Serbia”, sunning herself in Dubai appeared on Instagram. With much of Europe under lockdown amid the latest wave of the pandemic, Karleusa shared poses of herself in skimpy bikinis and in front of the iconic Burj Al Arab with her 2.4mn followers.

But it’s not only celebrities and the very rich who are taking exotic vacations. Travel agencies from the ex-Yugoslavia region report strong interest in destinations such as Dubai, Egypt and the Maldives as long haul holidays have become affordable for the growing middle class – not only in prosperous Slovenia, but in lower income aspiring EU members such as North Macedonia and Serbia. And after more than a year of fear, stress and boredom, people are more than ready to spend money on the holiday of a lifetime.

The long haul option has been a lifeline for the distressed outbound travel industry too. With most European destinations closed to visitors during the latest lockdowns, enterprising travel agencies from the Balkans have been opening up further flung destinations to an eager audience from the region.

“People are tired of all the restrictions and staying at home so they are ready to get their life and freedom back. That’s why they want to travel again,” director of one of the most popular Slovenian tourist agencies, Lifetime experience, Lado Rot, said in comments emailed to bne IntelliNews.

Long, sunny and sandy beaches on the other side of the world are all the more enticing now that European destinations are closed. And the travel agencies are offering plenty of destinations from Zanzibar and the Maldives to Dubai and Mexico, as after a dismal 2020 they reorientate from the near neighbourhood to long haul destinations, many of which allow entry with a PCR test.

Exotic offers

As traditionally popular destinations in Europe – Prague, Vienna, Budapest and Rome – are closed for Macedonian tourists for the time being, travel agencies in the country are offering Dubai, Egypt, the Maldives and the Dominican Republic among other exotic destinations, which are attracting quite a lot of interest amid the craziness of the lockdowns.

Since many people have already survived the virus, or simply do not feel afraid to travel, this is a unique opportunity to escape reality and try something new, which otherwise they would not have a chance to do.

Prices, according to sector pundits, are affordable even for the middle class. A normal family with average net income of €460 can afford one such trip, at least one in a lifetime. The amount people from North Macedonia spend on foreign travel increased sharply in the years immediately before the pandemic. According the Knoema statistics platform, outbound tourism from North Macedonia was worth $282mn in 2019, up 8.9% from a year earlier. This followed a 25.1% increase in 2018, the biggest rise in the last ten years. Naturally, outbound travel slumped in 2020, while domestic tourism did better as people took holidays in their home countries.

The government adopted several economic packages for firms and people to alleviate the consequences of the pandemic, but outbound tour operators were not a priority as the help was mostly intended for firms that bring tourists to local cities. The sector, which employs about 10,000 people, was left without state assistance during the crisis, said one industry insider who preferred to remain anonymous.

A recent survey on the consequences of the pandemic for the tourism sector in North Macedonia supported by USAID showed that there is no firm which was not affected, pointing to the need for state help to support these companies. 83% of the polled firms expected revenues to drop by over 50% in the last quarter of 2020. Travel agencies account for 10% of all companies in North Macedonia’s tourism sector.
A new business model

Ana Bogoevska, reservation manager at Savana tourist agency in Skopje, admitted that the tourism sector, as the most affected by the pandemic, has been facing challenges for a whole year, but says travel agencies are still determined to offer interesting and safe trips.

Additional difficulties, as she told bne IntelliNews by email, are closed borders in Europe, where it is impossible to go even with a negative PCR test. Only other Western Balkan countries (except Kosovo) can be visited without PCR tests at present. However, travel to a number of more exotic destinations is possible with a PCR test though the rules are being changed very often and vary for different countries.

“We expect the measures to be relaxed for trips in Turkey, so that after April 15 we can travel there without a PCR test,” Bogoevska said. Egypt, Dubai and the Maldives are also open, but PCR tests are needed.

“All these challenges affect travelling habits. Fear of the global pandemic is definitely present among travellers, making people to be more careful, so this year, trips in groups are absent or are very rare,” she said.

Another North Macedonia travel agency, Atlantis, also offers destinations for individual or group travels like the Maldives and the Dominican Republic, and soon will organise charter flights to Egypt. “Trips are safe with PCR tests needed. Everything goes smoothly,” an employee from the agency said.

Prices vary depending on the timing, but they range from just over €300 for a package holiday in Dubai to close to €1,400 for a trip to the Maldives for Orthodox Easter.

Dubai is not only a sought-after destination for vacations, particularly in the spring, but many young people from North Macedonia work there or in other tourist resorts in the United Arab Emirates (UAE). “I live [for work] in a village [in the UAE] surrounded by hills near the sea, where the weather is cooler. Summer is very hot in Dubai, so don’t go there in summer, now is much better,” Filip, who recently came to visit his hometown Skopje, said in an informal chat. And he added: “We are all vaccinated there, so don’t be afraid.”

Backlash amid the third wave

Unfortunately, North Macedonia was hit by the third wave of the pandemic since mid-February, after the number of infections subsided in the previous two months, which ruined some of the tourist agencies’ plans.

“There was interest in Zanzibar before the outbreak of the third wave of the pandemic one month ago, but not now,” an employee from a Skopje-based tourist agency, who insisted on not being named, told bne IntelliNews in a phone conversation.

This is mainly because the authorities recently imposed a 14-day quarantine for holidaymakers who return from African countries, due to the fears of spreading the South African variant of the virus. This followed public criticism over travel to distant destinations during the pandemic mostly from portals financed by the opposition parties.

The anonymous interviewee complained that negative comments from the Twitter community as well as fake news about trips to exotic destinations are damaging the tourism sector and represent “bad marketing”. In March, two government officials from North Macedonia were “caught”, one visiting Mexico and the other Dubai. This sparked harsh reactions from opposition parties and the opposition media as well as the Twitter community.

“There was a lynching of people who recently returned from vacations in Zanzibar,” said the anonymous interviewee, claiming that going to distant trips is much safer than enjoying food and drinks in crowded local café bars and restaurants in North Macedonia. “The virus is spreading mostly in the local environment by people who do not respect the measures. Going on vacation to the Maldives with PCR tests is much safer,” he said.

Changed priorities

Despite the pandemic, tour operators in Slovenia are preparing for a busier spring and summer. However, the uncertainty related to COVID-19 has naturally changed people’s priorities.

“There is a lot of fear and hazards in people’s minds so they do not want to travel on their own any more and would rather contact a travel specialist like us to organise everything for them. Safety is our priority,” Rot said, adding that for that reason the agency offers individual and small group tours. In 2021, Lifetime Experience will organise trips to exotic but safe destinations such as the Maldives and Zanzibar.

“This year we are focused on attractive destinations for a reasonable price and limited or no travel restrictions. In Slovenia there is a big interest in such trips as we are known as a nation who travel a lot,” Rot said. The deeper pockets of Slovenians compared to other nations in the region make these trips more affordable for them.

Recently, Slovenian officials advised citizens to avoid unnecessary trips at least until the situation calms down. However, Rot said that his agency’s trips are safe and clients have not been infected with COVID-19.

“Fear of the global pandemic is definitely present among travellers, making people to be more careful, so this year, trips in groups are absent or are very rare”
He said that in February there was the most interest in Zanzibar, while in March the focus switched to the Maldives. Other preferred destinations offered by the agency include Bali and Sumatra in Indonesia and Ayurveda treatments in India, but those trips were postponed due to the COVID-19 situation.

“Since the situation regarding the pandemic is changing quickly we are following the situation at destinations daily and if necessary we can postpone the tour or suggest a different exotic destination to our guests, if the situation get worse between the time of booking and the departure,” Rot said.

Slovenia has experienced several strong waves of the pandemic, and the authorities imposed another lockdown from April 1 to 11, the third in just over a year, including border restrictions, which will affect the tourist sector.

Closed borders particularly affected Slovenia’s outbound tourism. Pre-pandemic, total international expenditures by Slovenian tourists abroad totalled $1.68bn in 2019. Among the companies most affected by the crisis in Slovenia are travel agencies and tour operators, and only those catering to the domestic market were helped by the government’s voucher scheme to encourage travel to local tourist sites.

A gift in the desert
Jungle Tribe is one of the most popular travel agencies in Serbia that offers exotic destinations throughout the year. Now, when most of Europe is closed, the Red Sea resort of Hurghada in Egypt has become the hottest destination for affordable travel. The average salary in Serbia is €537, half of that in Slovenia, and a nine-day stay in Hurghada at the beginning of May is coming in at under €450. Some of Jungle Tribe’s Hurghada packages for April are already sold out, according to the agency’s website. Dubai is another attractive location for Serbian tourists.

Serbia made a fast and early start to vaccinating its population, having secured vaccines from multiple sources. Serbian government officials have said that the fact that Serbia is a leader in Europe in terms of the number of people vaccinated makes negotiations related to traveling to other countries significantly easier. Serbian PM Ana Brnabic said recently that by the end of April, 40% of the population will be vaccinated at least with one jab. This is expected to encourage people to travel more without fear of infection.

This is good news for Serbian travel agencies, after more than 2,000 people in Serbia lost their jobs in tourism due to the coronavirus pandemic, according to the director of the National Association of Tourist Agencies of Serbia (YUTA), Aleksandar Senicic. According to Senicic, domestic travel agencies that organised trips abroad previously had a turnover of about €1.5bn each year. Last year the turnover was just €150mn, which means that more than €1.2bn of turnover was lost.

According to Knoema, Serbian tourists abroad spent $1.8bn in 2019, 9.9% up from the previous year. The biggest increase was registered in 2018 of an annual 19% to $1.64bn. Since 2010 the average annual growth rate was 7.71%.

Closer to home
In normal years, people from the region tend to holiday closer to home. While Croatia is a traditional summer destination for Slovenians, Greece is more popular among Serbs and Macedonians. There’s still a lot of uncertainty about when the current wave of the pandemic will subside, and to what extent Southeast European holiday destinations will open up to tourists.

However, Croatia, which was one of the first markets to reopen to tourists in 2020 is doing the same this year. It announced its reopening on April 1 after which more than 22,000 people flooded into the country for Easter weekend.

Greece completely shut down its borders last year, but the full-beaches destination has decided to open to tourists for the upcoming season. Under the agreement reached by the tourism ministers of Serbia and Greece, Serbian tourists can go to Greece from mid-April so they will be able to celebrate the Orthodox Easter holidays at the beginning of May on Greek beaches. Low-cost carrier Wizz Air has announced two new flights from Belgrade to the Greek islands of Santorini and Crete from June.

People from North Macedonia will most likely be allowed to visit the neighbouring country (with a PCR or antigen test, or vaccine) from May 14, as media reported, but the official decision is still pending. From Skopje, Bogoevska said that as summer approaches the interest in travel to Greece, Croatia, Turkey and other near abroad destinations is increasing, though Turkey has recently been reporting record infection numbers.

“We already have a lot of interest and reservations for our Antalya charter programme, Kusadasi bus package in Turkey, hotel and private accommodation in Greece, as well as for Montenegro and Croatia,” she said.

And for those who are not thrilled by distant destinations, travelling to local tourist sites is still possible and all three countries have a lot to offer in that regard. Slovenia and Serbia have their spa and mountain centres, while North Macedonia has its lakes, of which the Ohrid, the pearl of the Balkans, is the most beautiful. Even with more overseas destinations opening up, staycations appear to be here to stay, at least in 2021.
KEEP YOUR EYES ON THE BALL

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IKEA has a total of 49 stores in Central and Eastern Europe, and plans to open at least another dozen in the coming years.

IKEA’s New Europe Empire

bne IntelliNews

Far from today’s big boxes with everything from spoons to a complete kitchen and, of course, IKEA meat balls, the Swedish furniture store’s beginning in Poland was in a dreary metal sheet shed in a dreary Warsaw district of Ursynow. Reportedly, it was the only building around with an entrance wide enough for getting a bed through it.

The year was 1990 and Poland had just emerged from decades of communism only a year earlier. Consumerism had arrived, with shelves of slick but affordable furniture and accessories highlighting the failure of socialism to produce anything anyone actually wanted to buy.

IKEA’s first store – called the IKEA Start Shop and advertised as “Extraordinary furniture store from Sweden” – offered a bit of everything, like it still does today; except the range of items on offer was smaller and most shoppers could only afford a few small items. The average monthly wage in Poland back then was barely over $100.

Three decades on and the Polish IKEA caters to millions of customers a year. Nearly uninterrupted economic growth and rising wages – the average gross pay packet is some 13 times larger than it was in 1990 – have ensured an ever-expanding market for the company’s products.

Today the Polish IKEA has 11 flagship stores across the country – including three in Warsaw – and one under construction. These are not the tin sheds of the first outlet, but the full-blown trademark yellow and blue labyrinths that are so familiar to the rest of us. The group also operates a property development company, 20 factories, and a banking services offshoot, Ikano Bank.

The company’s size in Poland makes the country of 38mn people the “second most important country for IKEA from the production point of view, just after China,” according to IKEA’s website.

IKEA’s 2019 revenue from retail only came in at PLN5bn ($1.3bn), rising to just over PLN10bn, if all of the group’s activities are accounted for.

In a slightly less-known story, 1990 was only the year in which IKEA entered Poland as a retailer. Poland’s history of co-operating with the Swedish furniture maker dates back decades earlier, to 1961, the year IKEA ordered a furniture factory in Radomsko to deliver 500 Ögla chairs made of bent beech wood.

Moscow opening
You could make a crude index from matching the opening of an IKEA outlet to a country’s economic development. The Polish IKEA opened when the country had just won its independence but had yet to taste any of the fruits of the new economic ideology. The same
can be said of the firm’s first Russian store that opened March 22, 2000, after Boris Yeltsin had resigned, but a week before Vladimir Putin was elected president for the first time, kicking off over a decade of rapid growth that transformed the average Russian’s life. The Swedish retailer seems to have an unerring knack of catching the absolute nadir of transition economies and opening a store in the midst of political and economic chaos. Ukrainians must be excited. They got their first IKEA store in February. Another wave of IKEA openings has recently swept the region as the company starts moving into the smaller or most backward countries.

The opening of the Moscow branch was an iconic moment, on a par with the first McDonalds that opened on Pushkin Square in the heart of Moscow in the dying days of the Soviet Union. (These massive Western multinationals have to move into these markets early, as they are there for the long term and the earlier they arrive the larger the market share they can easily capture.)

In March 2000 the chaos of Yeltsin’s 90s was about to end. The legendary president had resigned on New Year’s Eve a few months earlier and the country was about to vote in Vladimir Putin as president the following weekend. Things were changing fast but the material improvement in the quality of life was not visible yet. The economy had collapsed in 1998, defaulting on $40bn worth of the now infamous GKO bonds, and the ruble had devalued by three quarters overnight. Many Russians this correspondent talked to in those days wanted to leave for good.

But by 2000 the bounce-back was already under way. The 1998 financial crisis killed off what had been dubbed “the virtual economy”, where business was done through barter, and the devaluation had fairly priced the currency so everyone started using cash again. While the likes of the International Monetary Fund (IMF) were predicting a return to hyperinflation and a prolonged recession, what actually happened was a huge bounce back and Russia’s economy grew by 10% that year – a record that has never been beaten.

2000 marked the birth of Russia’s middle class and while the analysts wrung their hands in the aftermath of the 1998 meltdown, the people were out on the streets, shopping or hanging out in the numerous small cafes and restaurant that sprung up like mushrooms. Over the next eight years wages rose by about 10% a year as the government specifically tried to close the income gap between the public and the private sector.

Putin called on the elite to close the gap and “catch up with Portugal”, then the poorest of the EU states. The economy more than doubled in size in the next decade. Putin’s early successes have often been credited to the rise in oil prices from the 1998 crisis low of $15 per barrel, but oil prices didn’t start to climb until about 2003, when they eventually soared to a peak of $150. What drove the boom in the early days was simply putting cash back in the system.

In retrospect, the decision to launch IKEA in 2000 looks inspired. In fact it was just good luck. Lennart Dahlrgen was the general manager of IKEA’s Moscow store who arrived in August 1998 to set the business up, only a few days after the ruble crashed.

“It was a bit strange,” Dahlrgen told bne IntelliNews in March 2003 in an exclusive interview. “I was getting off the plane to launch a new business and all the other expat managers were getting on it to leave the country following the crash.”

But the company’s founder, Ingvar Kamprad, had long been committed to Russia.

“Kamprad has always wanted to have a store in Russia. He has been saying since the 1960s that Russia was a gold mine. It has the population. It has the raw materials. It has a very long tradition of appreciating quality furniture. Look at all the palaces they built in the Tsarist times. Kamprad has always wanted to come to Russia and always saw it as a major production centre of a European furniture business.”

Before the IKEA store opened the company prepared the ground with the MEGA shopping complex where its Russian flagship store was eventually built. The shopping complex is on the Leningradsky Shosse spoke road that leads to Sheremetyevo International Airport where several huge anti-tank iron cross beams stand in the middle of the road like giant jacks that mark the closest the Nazi forces got to Moscow in WWII.

The MEGA shopping mall became home to several other leading retail chains, including the French supermarket chain Auchan and its biggest Russian store, so the parking lot in the centre of the complex was always full at the weekends.

Opening day
The opening day of IKEA was a media circus. Crowds thronged into the store that looked like some wonderland of Western goods at affordable prices and happily wound their way through the interminable labyrinth of impossibly named throw cushions, snap-close picture frames and elegantly designed kitchenware. Within a few months middle-class apartments across the capital looked like miniature copies of the IKEA showroom.
Pretty much every foreign correspondent trekked out to the store and wrote a story along the lines of: “the fruits of capitalism come to Russia,” to tap in the euphoria that accompanied the store’s opening (and most did a bit of shopping while they were here). Built for a potential market of 10mn Muscovites, the store was one of the biggest in the chain and Dahlrgen told bne IntelliNews that while the product lines on offer had been slightly abridged to reflect the post-crisis state of the economy, the offering was largely the same as in the stores in Western Europe.

What the company didn’t expect was the out-of-the-balkp success of the store. The Moscow IKEA soon became the highest grossing IKEA, on a per square metre basis, of all the stores in the chain. The demand for high-quality attractive furniture at affordable prices was enormous and Muscovites had a lot more money squirreled away than the official statistics suggested.

“I did not have enough time to look around, because I came here looking specifically for a fold-up chair for our dacha. But then, well, the sofas here are so nice too,” Lyudmila Petrova, a pensioner, told AP on the opening day twenty years ago.

**Russian light industry**
The noughties in Russia were a good time. In the West Boris Yeltsin was seen as an icon of democratic progress and the great hope for the transmission of Russia into a respectable market economy. The realities on the ground were very different.

Yeltsin is widely hated in Russia today as the oligarchs ran wild, inflation was in double digits and the country was hit by multiple crises, of which 1998 was the worst. IKEA opened a few months after the second Chechen war had started as Russian tanks rolled into Grozny and flattened the city. Moscow was to suffer from a string of terrorist attacks and metro bombings that reached its apex with the Nord Ost theatre hostage drama in 2002, where at least 170 people died.

Putin brought an end to all that with his now famous “oligarch meeting” the following summer. As the decade wore on stability arrived and incomes soared, for which Putin is still much respected. The retail sector flourished.

Kamprad’s vision meant that IKEA became a pioneer for the development of the country’s light manufacturing sector.

The company’s history has not been entirely smooth. In 2016 IKEA was caught up in a corruption scandal and a court in Russia’s Smolensk region froze RUB9.3bn ($146mn) on the accounts of IKEA, ruling against the Swedish discounter that has just raised $2bn in an IPO, the company used to import three quarters of its good from China and the rest was locally produced. Now those shares have been reversed.

IKEA has continued to build up its Russian business and now boasts a total of 14 stores across the country. Russia is the fourth-biggest market by revenue after Germany, US and Sweden, and the biggest of the emerging markets.

There are now a total of three stores in Moscow, two in St Petersburg and more in the regional capitals of Nizhny Novgorod, Yekaterinburg, Kazan, Novosibirsk, Rostov-on-Don, Novaya Adygea (in Adygea near Krasnodar), Samara, Omsk and Ufa. Currently there are plans to open at least five more stores.

The company’s history has not been entirely smooth. In 2016 IKEA was caught up in a corruption scandal and a court in Russia’s Smolensk region froze RUB9.3bn ($146mn) on the accounts of IKEA, ruling against the Swedish discounter that has just raised $2bn in an IPO, the company used to import three quarters of its good from China and the rest was locally produced. Now those shares have been reversed.

The noughties saw the beginnings of a diversification of the economy, but light industry has only really taken off since the 2014 oil shock led to yet another steep devaluation of the ruble. Now Russian wages have fallen below even the level of the Chinese, leading to a huge rotation of orders away from the low-cost Chinese producers to the flourishing Russian light manufacturing sector. In a recent interview with the CEO of Fix Price Dmitry Kirsanov, a hard discounter that has just raised $2bn in an IPO, the company used to import three quarters of its good from China and the rest was locally produced. Now those shares have been reversed.

In summer 2016, the company threatened to cut back its $1.54bn investment programme in Russia after losing another long-running RUB500mn ($8mn) legal dispute in Smolensk against Konstantin Ponomaryev, who claimed the company owed him back rent for another steep devaluation of the ruble. Now Russian wages have fallen below even the level of the Chinese, leading to a huge rotation of orders away from the low-cost Chinese producers to the flourishing Russian light manufacturing sector.

In another case, IKEA’s head office in Moscow was raided in connection with a separate dispute over property ownership rights, which the company’s lawyers claimed was a blackmail attempt.

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"Now Russian wages have fallen below the level of the Chinese, leading to a huge rotation of orders to the flourishing Russian light manufacturing sector."
"We have zero tolerance on corruption and we have a very clear policy," IKEA Russia’s managing director Per Wendschlag said in 2011.

**Ukraine and Slovenia join the family**

Ukraine and Slovenia are the latest two countries to join the IKEA family. The Kyiv store has been a long time in the making. It should be a no-brainer, as the 43mn strong population makes it the third-biggest consumer market in the region after Russia and Poland. However, three decades of mismanagement and almost constant crises has made it unappealing. But now it appears the market is about to come of age.

The story with Slovenia is a little different. It also opened in February with a low-key socially distanced launch. With only 2mn people Slovenia is a tiny market by comparison – no bigger than one micro-district in a Moscow suburb – but as *bne IntelliNews* recently reported, it is the great secret economic success story of Emerging Europe. Incomes have risen sharply to the point where it is on par with the lower end of the old EU member states.

Like Poland in 1990 and Russia in 2000 Ukraine is poised to start its rapid catch-up growth spurt, but it is very early days and an imminent boom is not at all obvious.

In 2009, IKEA bought a plot of land in Odessa on which to build a store. A year later IKEA cancelled the store, saying there was not a strong enough market.

In September 2018, IKEA announced it was going to try again before the end of 2019. The store was planned for the Ocean Mall in Kyiv with their new concept city store. In December 2019, IKEA once again postponed the opening of the first store in Ukraine until spring 2020, when it launched an online service. The Ukrainian store finally opened in January in Blockbuster Mall in Kyiv.

"IKEA is pleased to announce the opening date of the first physical store in Ukraine. On February 1, the company will meet its first Ukrainian customers in the city format store in Kyiv, located in Blockbuster Mall. This event is another step towards expanding IKEA's market in Ukraine after launching the online store in May 2020," a company statement said.

Getting the Ukraine business going has been incredible difficult. The Ukrainian operation was dogged by scandal well before its doors opened.

Like the other markets, IKEA was already working with Ukraine to source inputs for its furniture manufacture, but last June British NGO Earthsight released the results of an 18-month investigation that alleged IKEA was selling beech chairs made from timber received from illegal logging of the forests in the Ukrainian Carpathians, an accusation IKEA has denied.

Even now that IKEA has started retail operations, it has kept that low key too. The Ukrainian branch is the company’s new “City store” format, a smaller store that is in the heart of the capital rather than the yellow and blue giant that opened in Moscow two decades ago.

“The Kyiv store opening is an important achievement both for our Ukrainian operations and for the whole of IKEA South East Europe, as this is the first city store in the region”, said Florian Mellet, market manager at IKEA Kyiv, at the opening of the store.

Overall, 2,000 home furnishing products are available for cash and carry, while the remaining 3,000 – mostly furniture and other larger products – are available for order. They can then be collected for free at one of the store’s pick-up points, including one directly in a store, or delivered straight to the purchaser’s home for an additional charge.

**Social responsibility in Central Europe**

IKEA now has a total of 49 stores across the region and plans to open at least a dozen more in the next few years. Only the very smallest countries are without; however, many of the oldest stores are in Central Europe where the company has “become part of the furniture” and plays an active role in promoting liberal values.

The company was relatively slow into the Baltic states, where it opened its first store in Lithuania in 2013, and those in Estonia and Latvia only in 2019. The first big name furniture store to arrive in the Baltics was the Finnish retailer Stockmann that set up in the 90s and then opened a legendary store in central Moscow that catered to the wealthy New Russians of the Yeltsin era and made a fortune. But as the market changed the focus, and profits, went from targeting a few super-rich minigarchs to catering to the mass market. Stockmann closed its flagship store in Moscow in 2016.

IKEA in Czechia operates four stores, two of them in Prague, one in Brno and one in Ostrava. The first store in the country was built by Prague’s Budejovicka metro station in 1991 and was moved to Prague Zlicin in 1996. In Slovakia, IKEA has operated only one store in its capital Bratislava since 1992. Since
The coronavirus (COVID-19) pandemic has catalysed the drive towards e-commerce. Despite the lockdown last year, sales at the Czech IKEA remain more or less the same year on year, according to its annual report: in the financial year starting in September 2019 to the end of August 2020, the company recorded sales of CZK10.3bn (€394mn), down by CZK209bn on a year earlier. The company’s profit amounted to CZK1.14bn.

"The result was significantly favourably affected by an increase in online sales of 97.5% compared to last year. The strong increase in online shopping was a significant growth factor, as the total number of visitors to our department stores fell by a tenth during the [coronavirus] quarantine in April and May,” the company said.

According to Finstat.sk data, Slovak IKEA posted a 2% y/y drop in sales to €115mn in 2020; its profit amounted to €10mn in 2020, down by 4% y/y.

And the company has been playing an active role in society. In 2020, IKEA Slovakia launched the sale of a limited edition STORSTOMMA rainbow bag which was able to “carry everything – plants, books, clothes, but not hatred. It’s not just a bag, it has a message.” The company sent the profits from bag sales to organisations that provide support, services and advice to LGBT+ communities in crisis.

IKEA has also run a campaign against domestic violence in Czechia. At the end of 2020, both the Czech and Slovakia stores launched the new campaign “For safe home” with the tagline “domestic abuse is real, even if it’s not visible”. Domestic violence has increased during the COVID-19 epidemic. The statistics show that 47% of women have experienced some form of domestic violence and IKEA ran TV spots in both countries promoting the campaign in the run-up to Christmas.

"We believe that the home should be a safe place for everyone, which unfortunately does not always apply. That is why we decided to actively help the victims of domestic violence," commented Equality, Diversity and Inclusion manager, IKEA Czech Republic, Hungary and Slovakia Roman Bojko.

According to the latest survey carried out by IKEA in Czechia, Slovakia and Hungary Gender Equality Study, only 45% of Czechs believe that Czech society is built on gender equality, while in Slovakia it is 48%. However, the responses of men and women differ significantly. While more than 50% of Czech and Slovak men are convinced of gender equality in their households, it is less than 40% for Czech and Slovak women.

“If most of the responsibilities of caring for the household are taken over by only one of the partners, it represents an excessive burden, which sooner or later may grow into anxiety, long-term overload and other symptoms. Real equality starts at home,” said Bojko. The study was published on Women Day on March 8.

Opening up Southeast Europe
The countries of Southeast Europe are perhaps a decade behind their cousins to the north but IKEA has deemed an increasing number have made enough progress to warrant a store.

"The countries of Southeast Europe are perhaps a decade behind their cousins to the north but IKEA has deemed an increasing number have made enough progress to warrant a storex”
## IKEA's New Europe Empire

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<tr>
<th>Country</th>
<th>Year</th>
<th>Location</th>
<th>N of stores</th>
<th>Notes</th>
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<tbody>
<tr>
<td><strong>Poland</strong></td>
<td>1990</td>
<td>Janki (near Warsaw)</td>
<td>11</td>
<td>There are three stores in Warsaw and one per Gdańsk, Wrocław, Katowice, Kraków, Poznań, Łódź, Bydgoszcz, and Lublin. A store is being built in Szczecin, due to open in 2021.</td>
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<tr>
<td><strong>Czech Republic</strong></td>
<td>1991</td>
<td>Budejovická (Prague)</td>
<td>4</td>
<td>There are two IKEA stores in Prague and one concept store: one at Zličín and one at Černý Most; both Zličín and Černý most are located at the periphery of Prague. The concept store was located on the Wenceslas square. The first original store at Budějovická - Prague 4 was abandoned. Outside of Prague there are two locations - in the country's second largest city, Brno, and in Ostrava. There are three stores planned within six years (Plzeň, Hradec Králové and a third location in Prague). In 2018 a concept store was opened on the Wenceslas square in downtown Prague and was closed at the end of 2019.</td>
</tr>
<tr>
<td><strong>Serbia</strong></td>
<td>1991</td>
<td>Belgrade</td>
<td>1</td>
<td>The first IKEA store in present-day Serbia was opened in 1991, but was closed in 1992 due to UN sanctions over Yugoslavia. IKEA returned after 25 years and officially opened its first store on August 10, 2017. IKEA plans to develop a 40,000 square metres retail park in Belgrade, in addition to the department store in Bubanj Potok and furthermore open one more department store in Serbian capital and three more stores in cities of Novi Sad, Kragujevac and Niš for which the land has already been acquired back in 2013. Belgrade IKEA office is regional center for former Yugoslavia and Romania.</td>
</tr>
<tr>
<td><strong>Slovakia</strong></td>
<td>1992</td>
<td>Bratislava</td>
<td>1</td>
<td>Original store was closed upon the opening of a new store in the Avion Shopping Park. There are two more stores planned in Slovakia, in Košice and Žilina.</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>2000</td>
<td>Khimki (near Moscow)</td>
<td>14</td>
<td>Fourth market by revenue after Germany, the U.S. and Sweden. There are 3 IKEA stores in Moscow (Khimki, Teply Stan and Belaya Dacha), 2 stores in St. Petersburg (Parnas and Dybenko), stores in Nizhny Novgorod, Yekaterinburg, Kazan, Novosibirsk, Rostov-on-Don, Novaya Adygea (in Adygea near Krasnодar), Samara, Omsk and Ufa. The IKEA stores in Russia are in connection with MEGA malls developed by IKEA. 5-6 new openings are planned by 2020.</td>
</tr>
<tr>
<td><strong>Turkey</strong></td>
<td>2005</td>
<td>Istanbul</td>
<td>7</td>
<td>There are three stores in Istanbul (Bayrampaşa, Kartal and Ümraniye), one store in İzmir (Bornova), one store in Bursa (Osmangazi), one store in Ankara (Mamak) and one store in Antalya (Kepez).</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>2007</td>
<td>Bucharest</td>
<td>2</td>
<td>26,000 square metres (280,000 sq ft) store opened on March 21, 2007, in Băneasa retail park. A second 37,000 square metres (400,000 sq ft) store was opened in Bucharest on June 24, 2019. Stores planned to open in Timișoara, Brașov and Cluj-Napoca.</td>
</tr>
<tr>
<td><strong>Bulgaria</strong></td>
<td>2011</td>
<td>Sofia</td>
<td>1</td>
<td>IKEA opened its first store in the Bulgarian capital Sofia on September 20, 2011. IKEA additionally runs three smaller stores called “order centers” with limited selections on location in Varna, Burgas, and Plovdiv. These stores also serve as online order pick up locations for deliveries from the main store in Sofia.</td>
</tr>
<tr>
<td><strong>Lithuania</strong></td>
<td>2013</td>
<td>Vilnius</td>
<td>3</td>
<td>First IKEA in the Baltics. The first IKEA store in Lithuania was opened on August 14, 2013 in Vilnius. It has the capacity of 26,000 square metres and is also considered to be one of the best projects in the history of IKEA. The store is located near Vilnius International Airport. The second and the third stores are located in Klaipeda and Kaunas.</td>
</tr>
<tr>
<td><strong>Croatia</strong></td>
<td>2014</td>
<td>Zagreb</td>
<td>1</td>
<td>The first IKEA in Croatia opened its doors on 21 August 2014 and with total area of 38,000 m² (410,000 sq ft) is one of the five biggest in Europe and among 10 biggest IKEA stores in the world.</td>
</tr>
<tr>
<td><strong>Latvia</strong></td>
<td>2018</td>
<td>Riga</td>
<td>1</td>
<td>The first store in Latvia was opened on 30 August 2018 in Stopiņi near Riga.</td>
</tr>
<tr>
<td><strong>Estonia</strong></td>
<td>2019</td>
<td>Tallinn</td>
<td>1</td>
<td>IKEA Estonia launched its online store as well as its first brick-and-mortar location, a limited showroom and pickup point, in the Lasnamäe district of Tallinn on 29 August 2019. However, the first full-sized store is planned to be opened in 2023 at Kurna village in Rae Parish, outside of Tallinn area.</td>
</tr>
<tr>
<td><strong>Ukraine</strong></td>
<td>2020</td>
<td>Kyiv</td>
<td>1</td>
<td>Multiple pick-up points and the online store with delivery.</td>
</tr>
<tr>
<td><strong>Slovenia</strong></td>
<td>2021</td>
<td>Ljubljana</td>
<td>1</td>
<td>First IKEA store in Slovenia was opened on February 25, 2021 next to BTC shopping city in Ljubljana.</td>
</tr>
</tbody>
</table>

IKEA entered the Bulgarian market in 2011, with a store in Sofia, and also has smaller “order centres” with limited product ranges and where people can pick up mail orders in the regional cities of Burgas and Plovdiv, and it opened an 8,000-square metre store in Varna last year. Greek investor Fourlis holds the IKEA franchise for Bulgaria along with Greece and Cyprus. This year, Fourlis plans to open a store in Mall of Sofia in central Sofia. According to a press release from Fourlis, like the Varna store, the new Sofia store will be one of the “new generation” of small and medium-size stores in urban centres the group is setting up.

Croatia was the third Southeast European country to get an IKEA store, which opened in August 2014 just outside Zagreb, the year after the country joined the EU. This was seven years after the Swedish retailer set up its Croatian subsidiaries. At the time, the store was one of the biggest in Europe.

IKEA’s first Serbian store opened in August 2017 in Bubanj Potok, Belgrade. To illustrate the significance of the company’s arrival, President Aleksandar Vucic wrote in a comment for daily Alo ahead of the opening that IKEA’s arrival in Serbia is important not only because of the investment and new jobs, but also because it brings changes to the “old … parts of mentality, collective laziness and resistance to chances as well as to a life philosophy which has been repeated often – to wait someone else to do something for us”.

There are now plans for a 40,000-square metre retail park in Belgrade – originally due to open by the end of 2020 – as well as new stores in Novi Sad, Kragujevac and Nis, as part of a wider expansion in Southeast Europe.

Slovenia was the latest country in the region to get an IKEA store, which opened on February 25, 2021 amid the COVID-19 pandemic.

IKEA initially announced the opening of a store in Ljubljana for the end of 2020, but the plans were postponed due to the COVID-19 restrictions. IKEA had been mulling an online-only launch but went ahead with the physical store opening when the government eased restrictions in March.

“The opening was a restrained affair compared to the huge queues outside the first Moscow IKEA that opened back in 2000, the deadly stampede at a store opening in Saudi Arabia or the stabbing when a new store opened in Edmonton, North London. Due to the coronavirus epidemic, IKEA has introduced a special system for visiting the store: in the first few weeks, customers must book an appointment in advance.

None of the smaller countries in the Western Balkans have IKEAs yet, and there seems no immediate prospect of this happening, given their small populations and relatively low incomes. However, future openings have been considered; on the opening of the Serbian store in 2017, Stefan Vanoverbeke, country manager of IKEA for Southeast Europe, mentioned the possibility of opening in Bosnia & Herzegovina at some point.

**IKEA-the-furthest**

Uzbekistan is home to Alexandria-the-furthest, the most distant of the string of eponymous cities founded by Alexander the Great on his epic travels, and was rumoured to become the location of what could be called IKEA-the-furthest.

Tashkent regional governor Davron Khidoyatov served up what seemed to be some great economic news to Uzbek President Shavkat Mirziyoyev during an investment presentation – Swedish giant IKEA, he declared in March, was set to build a $52mn furniture factory in Chirchik, outside Tashkent.

Except it turned out not to be true.

It seems that the governor had got ahead of himself and IKEA said they were not planning a store in Uzbekistan until 2025. But the hype surrounding Khidoyatov’s comments both highlights the badge of honour of becoming home to the yellow and blue building, and also is a comment on the “IKEA development index.” There has been a lot of excitement over Uzbekistan’s opening up and as by far the most populous country in Central Asia with 34mn people, it is an obvious destination for IKEA. But despite the obvious potential of the country, as the GDP per capita is still only $1,724, according to the World Bank – a tenth of Russia’s $11,585 or Romania’s $12,919 in unadjusted terms – it is still very early for the furniture giant’s arrival. The Uzbek middle class is yet to emerge.

By contrast, Kazakhstan is much further advanced and the GDP per capita of $9,812 means that a middle class is already well established. But the country’s population of only 18.5mn puts it on the small side.

There was a lot of talk about IKEA entering the Kazakh market in the early noughties when a retail and residential construction boom took off, driven by demand from the new middle class. Bne IntelliNews’ correspondent reports that there were rumours IKEA had got as far as looking at two sites on the Almaty ring-road, but found the land prices too high. In the meantime, Kazakhs can still buy IKEA’s goods online from a few companies not affiliated with IKEA that will accept orders and have them sent to Kazakhstan.

www.bne.eu
Ukraine gas business reforms have been a huge success. By unbundling the production and transport segments the country has attracted hundreds of traders who compete in a vibrant market that has largely eliminated the old corrupt scams and brought prices down for the consumer.

The reform has been based on the deceptively simple principle of separating the production of gas from its transportation and making the pipeline network accessible to anyone that has gas to transport at the same price.

The old system was based on the principles of “who you know” and “how much you are willing to pay” that led to chronic corruption and a distorted market as the oligarchs knew everyone and were willing to pay a lot.

The Ukrainian gas market reform came to fruition in 2015 with an unbundling that brought Ukraine’s gas market into line with the EU’s third energy package. The main feature was an unbundling of the system and a separation of the production housed in Naftogaz as well as the creation of the pipeline operator. At the end of 2019 Gas Transmission System Operator of Ukraine (GTSO), a fully independent state-owned company under the Ministry of Finance, was created to manage access to the pipelines. At its birth the GTSO, by dint of its existence, becomes the basis of a vibrant and competitive market for gas.

“The new gas law brings Ukraine into line with the EU’s third energy packet. It is an unbundling that mirrors the reforms in the EU,” Sergiy Makogon, CEO of GTSO, told bne IntelliNews in an exclusive interview. “The GTSO is an independent company and must supply equal access to the pipeline network to everyone on the market.”

And it is massive. The Druzhba pipeline system that crosses the country was built in Soviet times and even at the height of the Cold War, the Soviet Union continued to be the main supplier of natural gas to Western Europe, supplying up to 80% of its gas as late as 1970.

Since then, Europe has diversified its energy supplies, as following the collapse of the Soviet Union demand has risen, but there have been rising concerns about Europe’s dependence on Russian gas following several “gas wars” in the noughties where the EU found its gas supplies briefly cut in depths of winter.

Today the GTSO manages hundreds of kilometres of pipelines that transit Russian gas on its way to European clients. There are four main pipelines that can carry 146bn cubic metres of gas a year, the equivalent of between two thirds and three quarters of all of Europe’s imports of Russian gas.

However, since relations with Russia soured following the 2014 annexation of Crimea the amount of Russian transit gas has fallen dramatically. Under the terms of a new transit deal signed at the last minute in December 2019 Russia was contracted to send at least 40 bcm of gas via Ukraine, but due to the cold winter actually sent 55 bcm. And going forward it is contracted to send 35 bcm in the next two years on a take-or-pay basis.

The unbundling of the gas business has created an open and transparent market for gas that has at a stroke gone a long way to ending the corruption and distortions of the business that had long been a feeding trough for the oligarchs. The reforms are not finished, but the heavy lifting has already been done.

“We completely independent from Naftogaz, although of course we work closely with them. We are certified by all the relevant European authorities and 84% compliant with the EU gas network codes, so there is still some work to do. But we are already one of the biggest gas transit companies in Europe,” says Makogon.

Energising reforms
Ukraine has been quietly restructuring its energy business to put it on a transparent market-based footing and a lot of progress has already been made. The power market has also been overhauled but there have been a lot more problems there, as the government has been struggling to pay $1bn it owes...
to the producers of renewable energy that have set up in the last few years. But the gas business transformation has gone a lot more smoothly.

The unbundling is complete but the one big piece still missing is a gas market exchange for trading contracts, says Makogon. “We have an exchange, but it is not up to EU standards. However, there is already settlement and clearing of deals but more needs to be done.”

The old system was tightly controlled by a few players. Dmytro Firtash is probably the best known of the oligarchs who were big players in the gas business and still controls companies that account for 80% of the delivery of gas to households.

He also set up a string of unnecessary intermediate trading companies to handle the transit of gas from Russia to Europe that skimmed billions of dollars off the top to enrich those in the top tier of the Ukrainian government as well as Russian officials and the leaders of Gazprom. Those scams have been closed down many years ago, but the sector still suffers from some of these problems. However, the entry of hundreds of independent gas traders has been the key to the success of the reform.

“There are more than 900 companies working on our market. All the big European gas traders are here and 100 companies are involved in importing gas to Ukraine,” says Makogon. “European traders already account for tens of billions of cubic metres of gas imports to Ukraine – it's a huge amount.”

The sheer number of players means that the old school corrupt deals are almost impossible to do any more. There are simply too many players offering better deals.

Most of this gas trading is aimed at industrial customers, as the retail gas business has not been completely freed but is the focus of the current round of reforms. Companies now have a wide choice to potential suppliers and are paying rates that are set by an open market.

**Retail reforms**

In August this year a new law will come into effect that will open the retail sector up to competition too. Consumers will be able to choose to buy their gas from any supplier they want and those that can't afford to pay their utilities bill will get help from the government under the Public Services Obligation.

“The main goal of the reform is to lower prices for households. At the same time, for those that can't afford gas there will be subsidies to help so that people can pay as much as they can and the state will help with the rest,” says Makogon.

Paying for gas is a politically sensitive issue. The Soviets used to supply gas, power and heating to the entire population for free and many still regard utilities as something the state should provide and not something they should pay for. The International Monetary Fund (IMF) insisted that the heavily subsidised domestic energy tariffs be increased to market rates, a demand the Ukrainian government vigorously resisted for several years. However, the reform was eventually pushed through and remains highly unpopular; so unpopular that Zelenskyy’s government recently reduced the prices again “temporarily” due to the coronavirus and unusually cold winter. Zelenskyy’s ratings in the polls has been flagging recently but the president has earned some brownie points from voters with this and other populist moves.

The introduction of competition in the retail market will also help finally kill off another scam that was used by oligarchs; heavily subsidised gas earmarked for residential customers was re-routed and sold to the oligarch-owned industrial assets, thereby reducing their costs and boosting their profits.

“Now retail and industrial prices are more of less the same,” says Makogon. “It is no longer possible to manipulate the market, as the difference is so small.”

Firtash is still in a dominant position on the retail market and what competition has been introduced into the retail business has helped, but GTSO says that the price of gas for the consumer is still high, as the suppliers are not reducing their prices. It is hoped that throwing the market open to even more competition this year will make a bigger impact.

Naftogaz will help drive this process, as the national gas company is also expanding its retail operations, adding a retail sales arm to its operations. The company has already seen its share of the residential gas supply market increase from 4% a few years ago to 12% now and its share continues to grow fast.

Ukraine’s power companies are also getting into the residential gas supply business.

“It will be easier for them, as they are already set up to do this business,” says Makogon. “They already have a business relation with the consumers, the local offices and all the payment and back office set-up they need to operate.”

**Imported gas and Nord Stream 2**

Russia is still sending a significant amount of gas through Ukraine to Europe, but Ukraine itself has cut imports of Russian gas for its own use to zero. Ukraine has not imported gas from Russia for more than three years and has turned to partners in Western Europe for the approximately 30 bcm of gas imports a year it needs.

The problem is that this gas is more expensive than the gas Ukraine could import from Russia, but in fact Ukraine would end up spending the same amount if it bought the gas directly from Russia.

“The problem is, there is only one Russian company to deal with,” says Makogon. “Why would Gazprom charge less when there is no one else to deal with on the Russian side? If they let the other Russian companies export gas there might be a chance to do a deal, but Gazprom has a monopoly on exports.”

Gazprom only accounts for about half of gas supplies on the domestic Russian market and has to compete with several other big players such as the state-owned Rosneft and the privately owned Lukoil at home so Russians also benefit from a competitive internal market. But
the state-owned gas behemoth is the only company allowed to export gas.

This set-up is one of the foreign policy tools the Kremlin uses to manage relations with its neighbours in the Commonwealth of Independent States (CIS). Good relations come with cheap gas prices; in the noughties Belarus used to pay a quarter of the price Ukraine was charged and still enjoys preferential rates today.

Despite Ukraine’s massive overcapacity, Russia has decided to build Nord Stream 2 with a capacity of 55 bcm that will, if completed, allow Gazprom to cut Ukraine out of the transit loop completely; 55 bcm is exactly the amount that Ukraine transited to Europe last year.

While Ukraine has cut its own imports of Russian gas to zero it has been lobbying hard to keep the transit business, which is worth some $3bn a year in transit fees. There are two arguments in play: the political and the economic.

The political argument is straightforward: the two countries are effectively at war, Ukraine has repeatedly sued Gazprom in court and claimed (successfully) that it was underpaid. Russia says the gas is its own and can do what it likes with it.

The economic argument is a little more complicated.

“We spend UAH200bn a year on maintenance and will invest about $1.5bn over the next 10 years. Nord Stream 2 costs $12bn to build, so the two projects are incomparable,” says Makogon.

Moreover, Nord Stream 2 is a single pipeline, whereas Ukraine has massive redundancy with its multiple pipelines over its territory. Makogon points out that in 40 years of operation it has never had to halt gas deliveries due to accidents or maintenance, whereas Nord Stream 1, the already functional pipeline, had to turn off supplies last summer for a week while it carried out repair works.

“And there are no compressor stations along Nord Stream 2; only one at the start of the pipeline. If something goes wrong then that will shut down the deliveries. The Ukraine system has none of these problems. We provide a lot more flexible alternative,” says Makogon.

If Ukraine is cut out of the delivery loop Makogon says it won’t maintain its system as some kind of back-up in case the Russian system breaks.

“We can’t just wait. We have to spend continuously on maintenance. We employ 11,000 people. We will downsize and take care of our own needs as a country,” says Makogon. “It means Europe will lose the flexibility that Ukraine offers. It will become fully dependent on Russia.

Ukraine has been frustrated by Germany’s refusal to block the pipeline’s construction, which it insists is a purely economic project. Nord Stream 2 maybe less flexible and carries a higher exposure to outages caused by accidents, but it is probably cheaper to use and it runs directly between Russia and Germany, eliminating the political risks from a transit.

German Chancellor Angela Merkel has suggested a compromise where Russia sends most of its gas via Nord Stream 2 but agrees to also send part of its gas deliveries via Ukraine’s Druzhba pipelines, which ironically means “friendship” in Russian.

Makogon is convinced that if Nord Stream 2 is completed then the transit business will simply come to an end.

“The main goal for Russia is to cut Ukraine out of the transit completely. Since Turk Stream II came online [that passes to Ukraine’s south] Ukraine has lost 20 bcm in transit business, as gas that used to go to Romania, Greece via Ukraine now all go via Turk Stream I and II,” says Makogon. “Gazprom will probably find a way to cancel the contract. It definitely won’t prolong it.”

Another solution that has been suggested is that Ukraine make use of its massive storage capacity as a business. In the run-up to the new transit deal in 2019 the consensus was no deal would be done so all of Ukraine, Russia and EU members stored as much gas as they could to ensure uninterrupted energy supplies over the winter of 2019-2020.

The Soviets built huge storage capacity in Ukraine as part of its business of selling gas to Europe. Today these tanks are filled in the summer to ensure delivery to Europe in the winter – something else that Nord Stream 2 cannot offer. But Makogon says that storage has limited appeal.

“The problem is storage is cheap. The cost is in transport. It is not economically viable to send gas from Germany via Slovakia to store in Ukraine, only to send it back again when it gets cold,” says Makogon.

European demand
In the long term one of the key questions is what will happen to European demand for the relatively clean source of fuel that gas is. Will it go up or down?

Demand for energy in Europe is clearly on the rise, but then so are the alternative sources of energy. For example: Russia supplied 80% of Europe’s energy needs, but since then energy supplies have diversified and the share of Russian gas in the mix has fallen to about 35% today.

The advent of renewable energy and the new EU green deal that aims to make Europe carbon neutral by 2050 is moving the goalposts. At the same time, US LNG production has expanded rapidly and it is already the biggest supplier of LNG to Europe. Even Russia has big plans for LNG.

Makogon believes that over the long term demand for gas will fall, thus eating further into the transit business.

“Demand for gas will go down over the medium to long term. In some markets like Poland it will continue to rise as they need to replace their coal-fired power stations with something cleaner but in the long term demand will fall and so there is no need for Nord Stream 2,” says Makogon. “If Europe expects to use less gas then why commit to Nord Stream 2 for the next 40 years?”
Russia’s Economic Development Ministry and the local authorities on the Far East island of Sakhalin have proposed imposing fines of RUB150-2,000 ($2-25) per tonne on companies that exceed proposed new greenhouse gas (GHG) emissions quotas.

The hydrocarbon-rich island is home to major gas deposits and also the country’s first LNG plant. The fines are part of a push by the Kremlin to start dealing with the climate crisis and meeting its commitments under the Paris Accord that was ratified in 2019.

Russia has been criticised for going slow on tackling its GHG emissions, but that has started to change rapidly, first of all driven by the leading corporates, but now the government is getting into the game.

The proposed rules form part of a draft law on GHG emissions in the Far Eastern region now up for approval by the government in Moscow and represent a first pass at the thorny problem of setting a price for carbon emissions.

A string of massive environmental disasters in 2020 and the increasing realisation that Russia’s permafrost is melting has put emissions, the climate and ESG scores on the Kremlin’s agenda.

Russia gets ready for green power and problems from costing carbon

Ben Aris in Berlin

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A string of massive environmental disasters in 2020 and the increasing awareness that Russia’s permafrost is melting have put the climate crisis on Russia’s policy agenda and the Kremlin is responding. In recent months, the public discussion on stricter environmental disclosure requirements risks has picked up pace and the state is getting ready to legislate.

At the same time, the growing call by the general public for sustainable, as well as profitable, investments and bans on holding the equity of “dirty” companies that have poor environmental, social and governance (ESG) scores have forced some of Russia’s household names to launch in-house sustainability strategies and invest billions of dollars on clean-ups that add nothing to their bottom line.

And the risks of doing nothing are rising. This week investment bank VTB Capital (VTBC) argued in a note that Russia has already passed “peak oil” in 2019 as ESG concerns will prevent a ramp-up to previous levels of production once the coronacrisis fades completely. Russia produced an all-time high of 11.4mn barrels per day (bpd) in December 2018, but since the oil prices slumped in 2014 it has joined the OPEC+ deal to limit production and hold up prices. Oil production fell to a low of 9.2mn bpd in June last year and has since recovered to 10.2mn bpd, but some analysts say it will not rise much further. The OPEC+ deal is due to expire again soon as post-crisis demand returns, but VTBC analysts argue that even when the fetters are thrown off Russia’s production will continue to slide as the world increasingly turns to alternative sources of energy.

But the sword that may skewer Russia’s energy business is the EU’s new Green Deal that promises to make the trade club carbon neutral by 2050. Part of this programme is to introduce a carbon tax on “dirty” goods producers – companies’ with high CO2 emissions or just poor ESG scores.

Now the government is starting to take some action. Last year the state
introduce a national strategy to deal with emissions and in January this year Deputy Prime Minister and ex-Minister of Energy Alexander Novak announced that a strategy to reduce GHG emissions will start this year.

A 2020 mini-government reshuffle and the promotion of Novak to Deputy Prime Minister was seen as a response to "green" challenges that Russia’s energy sector will have to face in the international arena vis-a-vis the European Union and the administration of US President Joe Biden. Another veteran reformer, Anatoly Chubais, was entrusted with a role of "Climate Czar" and actually improving the ESG situation at home.

In a separate move, the Central Bank of Russia (CBR) announced in March that it intends to use ESG scores to calculate bank reserve ratios. A nationwide green certification system is also in the works amongst many other initiatives.

The government is taking up the baton, but so far the drive to introduce ESG ethics has been led by Russia's leading corporates after big Scandinavian state-owned pension funds started banning investment into their equity because of poor ESG scores.

**Utilities in the front line**

Russia’s utility sector is particularly vulnerable to environmental concerns, and power generation makes up just under half of all Russia’s CO2 emissions. The Klieg lights are increasingly focused on the sector and knocking it into emissions-acceptable shape before all these issues become a real problem.

So far, the only Russia-based utility that has tackled the problem head on is Enel Russia, which last year sold its coal-fired Reftinskaya, which was responsible for about a third of its electricity output, and has started investing heavily into renewable energy. The bulk of the other utilities have made little progress in cleaning up their act.

And part of the proposals being suggested at the moment would force companies to disclose the share of their revenues that come coal-fired power generation; currently none of the utilities report how much they earn from power generated from burning coal, except Enel, which now reports zero.

In Scandinavia investors have introduced a 5% threshold for utilities, above which they are not allowed to invest. According to investment bank estimates, few Russian utilities would clear this hurdle and several of the bigger utilities companies, such as OGR2, RusHydro and Unipor, earn at least a quarter of their revenues from coal-fired power plants. If the 5% threshold were introduced in Russia then these companies would see a lot of investors leave.

“For Russian utilities, we believe the dangers of carbon-pricing cash outflows are irrelevant at present; however, it might well become a provisional charge that must be reflected under IFRS rules,” VTBC analysts Vladimir Sklyar and Anastasia Tikhonova said in a recent report. “Over the last 12 months, we have witnessed a growing number of calls for climate-related disclosure to become a mandatory part of public companies’ reporting and auditing. The support for such needs comes from the most significant asset managers and key regulators.”

The problem that analysts are trying to work out is what the cost of carbon will be. The most prominent of the proposals currently on the table reflect the possible expenses on carbon purchases, be they at the prevailing CO2 price or those required to reach Paris Agreement targets. And the uncertainty of these prices is large.

“We estimate such costs could eliminate 9-100% of Russian utilities’ EBITDA, leading to a 35% dividend payment reduction, depending on the CO2 price benchmark used,” VTBC says. “Our conclusion is that such external costs must be considered when making investment decisions, given the 30- to 50-year lifespan of capital-intensive projects in the sector. So far, we have seen such care from Enel, recently joined by Unipro, both of which are guided by their international controlling shareholders’ green strategies. State-affiliated utilities broadly remain aloof to the risks of climate-related expenses in the future,” Sklyar and Tikhonova said.

**Russia and Paris**

A recent Bloomberg article claimed that Russia is “getting left behind in the global dash for clean energy”, but the country is not doing that badly in terms of reducing emissions, as bne IntelliNews reported in the feature “The cost of carbon.” Moscow signed off on the Paris accord in 2019 and is well on track to hit its emissions reduction targets.

Admittedly it set itself a low bar as it chose to bring its carbon levels down from its 1990 Soviet-era levels rather than the Paris Accord norm of 2005 levels.

A 30% reduction from the 1990 level would allow Russia to produce 1,678mn tonnes of CO2 per year, which is only slightly less than the 1,765 mtCO2/yr it was producing in 2017. However, if 2005 is set as the benchmark year then Russia would have to reduce its CO2 emissions by a third from their current levels, or by a hefty 550 mtCO2/yr.

Still, it has already made massive reductions, but these have come not from any environmentally friendly policies, but simply because energy and construction companies have been investing in new, more efficient, equipment that reduces emissions as a side product to boosting profits. For example, carbon emissions form the power sector have fallen by 29% between 1970 and 2017, while those from construction are now a whopping 56% lower in the same period. Going forward, the challenge will be bigger, as between 2005 and 2017 the only sector to see emissions fall was the power industry, while all other sectors saw emissions start to rise again by between 3% and 21% as Russia Inc. began to grow strongly in the boom years of the noughties.

**Next step up**

Russia’s power sector has just come to the end of another investment cycle and as capex needs fall most utilities have built up war chests and are generating lots of free cash. The power sector is well equipped to make some big changes if called on. All the companies are looking for new ways to grow.

“Despite delivering a robust combined 13.3% [free cash] yield, utilcos remain...
Carbon prices in the world

The project targets CO2 unit trading to be launched on them to their customers, but in Eastern Europe where the population are still used to the Soviet tradition of the state providing power and heat for free, dramatically hiking utilities prices is politically a very sensitive topic, as recent experience in Ukraine has shown where the government recently dropped domestic utility tariffs “temporarily”, much to the chagrin of the IMF. Again, the spread of the possible price increases based on the cost of carbon are very big.

“The government envisions a pilot project on CO2 trading to be launched at Sakhalin (Russia’s Far East) to reach carbon neutrality for the region by 2025. The project targets CO2 unit trading starting in July 2022, with the duration of the pilot phase until 2025. We are sceptical about seeing any meaningful national carbon price until then,” said Sklyar and Tikhonova.

Russia and other countries will be forced to put a real price on carbon. Currently just under a quarter (23%) of countries have attached a price to carbon emissions and at some point countries that have failed to do so will be seen as trading at an unfair competitive advantage and will be penalised, forcing them to price their emissions. Emerging markets have been down this road already in the '90s when the US designated countries “non-market economies” as their production took advantage of heavily under-priced, or effectively free, energy thanks to the vestiges of the centrally planned system and hit them with duties to protect its own market.

“We believe the lack of carbon pricing in the medium term will be considered an unjustified competitive advantage, pushing Russia toward more proactive consideration of launching a Emission Trading System inside the country,” says VTBC.

Carbon pricing uncertainty makes it very hard to forecast utilities earnings going forward. VTBC calculated the EBITDA for Russia’s major utilities under four pricing scenarios ranging from the IMF’s $75/t to China’s $6.3/t and found that in the worst-case scenario the carbon costs would eat up all of Russian utilities EBITDA, except for the hydropower company RusHydro, which would only see its earnings fall to zero.

Of course, if these costs are applied then the companies would simply pass them on to their customers, but in Eastern Europe where the population

Part of the problem is settling on a price for carbon. IMF head Kristalina Georgieva has called for a carbon price that would cause companies to meet the Paris Accord targets, which the analysts say translates into a cost of $75 per tonne. The EU has also already laid out climate disclosure guidelines, but they are not yet mandatory. And the proposed carbon prices vary wildly.

Sweden has the highest rate of $133 per tonne, with Liechtenstein and Switzerland also over $100. Finland and Norway also have high prices of $72 and $57 respectively, but almost everyone else in the EU has proposed prices of between $30 and $10, and another 23 countries price carbon at under $10, with the majority putting the price at under $5. From New Europe the only countries to propose a price are Slovenia ($20), Latvia ($10), Estonia ($2.3), Kazakhstan ($1.2) and Ukraine ($0.4). The global medium carbon emissions price is $11.1 per tonne.

On of the ways to find a workable price for carbon is to allow carbon trading that would let companies smooth out the process of greening their businesses.

“Every company is on the hunt for growth, with dividends of secondary concern.”

“Premium pricing for green energy

The flip side of utilities having to pay a tax for emitting GHGs is that utilities can charge a premium for producing green energy. Currently unlike Ukraine, which has seen a tsunami of green power investments thanks to an extremely generous green power tariff policy, only Enel Russia has made a serious attempt to invest into renewable energy.

However, that is also beginning to change and it is also being driven by the growing corporate interest in ESG scores: since the start of 2021 half a dozen blue chip companies, which are also large consumers of power, have been actively seeking out and switching to green sources of energy. The list includes fertiliser makers Shekineazot and PhosAgro, petrochemical company Sibur, gold miner Polyus, Russia’s biggest bank Sberbank, multinational consumer goods company Procter & Gamble and aluminium producer Rusal.

“Though the exact terms of these contracts are not disclosed, we estimate that they are undertaken with capacity prices at par with the market average and electricity day-ahead prices plus a 2-5% premium to the market, depending on the scale, duration and the complexity of the contract,” says VTBC.

But it is early days. These big consumers of power that have elected to use green power sources still only consume an estimated 87mn MWh, or about 8.3% of Russia’s total power generation, but this share is expected to grow rapidly in the coming years.
Belarus introduces new restrictions on political parties and media

Ben Aris in Berlin

The Belarusian authorities are cracking down on registered Civil Society organisations and preparing to take tighter control over political parties with additional restrictions ahead of planned changes to the constitution.

Belarus' President Alexander Lukashenko has decreed that associations and foundations must re-register and those that refuse may be closed.

The president promised to change the constitution last year and is under pressure to push through changes that are expected to strengthen the political parties in the system and dilute the president's powers as a possible solution to the current political crisis. However, Lukashenko has been dragging his heels on proposing a draft and says the process will take some two years to complete.

Lukashenko argues the changes are necessary to prevent the drift of the regime towards “managed democracy” on the Russian model with strengthened loyal parliamentary parties “neglects the desire of some among the ruling clique to form a ruling political party.”

The regime's plans for additional restrictions on opposition parties involve changes to the legislation on political parties that will attempt to isolate Belarusian political organisations from contact with partners abroad. This, according to the legislators, should reduce their influence in both Western capitals and Russia, and could lead to their dissolution in the future, reports Belarus in Focus.

A draft law on media has also been published with additional restrictions, prohibitions and requirements for journalists, retroactively legitimising the repression of journalists over the past year. The security forces are lobbying for additional immunities to legitimise prosecution of anyone they deem to be a threat.

So far, the government and the National Bank have managed to ward off economic collapse and maintain public sector employment, but the situation continues to deteriorate. Gold and foreign exchange reserves are declining, and the national debt has reached record levels of around $40bn. World Bank analysts expect Belarus' GDP to decrease by 2.2%, while the IMF estimates the economy will only grow by 0.4% this year. State employees average salaries have been in decline for several months, reports Belarus in Focus.

Agriculture lobbyists are pushing for traditional spring planting subsidies; state support for the sector is currently planned to be in the region of BYN450mn ($170mn).

**Opposition leaders party plans**

Several opposition figures have announced plans to set up new parties to contest parliamentary elections, although several have said they will not launch their parties until after Lukashenko is ousted from office.

The head of the National Anti-Crisis Management Pavel Latushka has initiated the creation of his own party but plans to defer official registration until after the existing regime loses power.

Similarly, staff of jailed ex-banker Viktor Babariko are actively involved in setting up a party and have already attracted over 5,000 supporters via an online questionnaire.

Babariko’s team released a video he made before his arrest announcing the formation of a new party “Vmeste” (Together) in September last year together with his campaign manager Maria Kolesnikova, who has since also been arrested and is being held on sedition charges.

Vmeste is expected to apply for registration in May this year, but few expect the authorities to accept the application. Babariko was the most popular candidate in the run up to last August 9 presidential elections and should have won by a landslide. He gathered an all time record 400,000 signatures on his petition to stand for office – four times more than the mandatory 100,000 required to register as a presidential candidate.

Opposition leader Svetlana Tikhanovskaya stood for election in the place of her jailed husband and won by a landslide, according to unconfirmed exit polls, but confirmed that she will not set up a party, despite becoming a major political figure in her own right as she tours Europe lobbying for support of the opposition against Lukashenko.

She has confirmed her non-partisan status as the legitimate leader of democratic Belarus and declares that she has no plans to create a political party. In consultation with the opposition's representative body, the Coordinating Council, she is preparing the criteria and a list of possible candidates to act as negotiators with Belarusian leadership regarding the transfer of power.
Kyrgyzstan: Referendum hands Japarov the super-presidency he craved

Ayzirek Imanaliyeva for Eurasianet

Voters in Kyrgyzstan have approved a new constitution that will give sweeping new powers to the president, ending a decade-long experiment with a mixed system that never quite lived up to expectations.

Turnout for the April 11 referendum, which also saw voters across the country cast ballots for local government representatives, was low, however, which may in theory weaken the legitimacy of the exercise.

According to preliminary figures released late in the evening, 36.7% of eligible voters took part in the referendum, thereby surpassing the required 30% threshold. Out of that total, 79% voted in favour of the presidential constitution.

“This constitution was devised by us, together with community elders, scholars and legal experts,” President Sadyr Japarov said in remarks on the day of the vote. “Everything was discussed openly with the people. […] If the people support this, we will begin living tomorrow under the rules of the new constitution.”

Contrary to what Japarov has claimed, though, grassroots discussion of the constitution was relatively muted.

As a result, even those who ostensibly supported it have struggled to articulate quite what ideas the revised basic law advanced.

“I think it is the right way to go. Scholars, experts and historians all worked together to create the

“Critics of Japarov, who came to power in October in the wake of discredited parliamentary elections, accuse him of ushering in a return to authoritarianism”
Kyrgyzstan president prescribes poison root for COVID-19

Ayzirek Imanaliyeva for Eurasianet

Kyrgyzstan’s president has alarmed health specialists by recommending coronavirus patients consider consuming a purported cure of a brew made with a poison root.

In a bid to quell the outcry over those remarks, the country’s health minister, Alymkadyr Beishenaliyev, gathered journalists for a press conference on April 16 and drank the concoction in front of them.

This is all playing out just as Kyrgyzstan appears headed into a new wave of COVID-19 infections – a situation that the government freely admits may overwhelm its healthcare system.

President Sadyr Japarov has largely ignored the coronavirus crisis of late, but he returned to the subject on April 15, when he offered some familiar recommendations on his Facebook page.

“Always comply with sanitary standards, wear masks,” he wrote. “If symptoms appear, go to the hospital immediately, do not stay at home.”

But he then dangled the prospect of a miraculous way out.

“Our doctors have discovered a way to treat the disease … during the initial stage of illness,” Japarov wrote.

By way of illustration, he attached a video showing a group of men, all without masks or gloves, decanting a mysterious, cloudy liquid into plastic bottles.

A close-up shot showed labels on the bottles carrying the words “Uu Korgoshun,” which literally translates from Kyrgyz as “poisonous lead.” That is the Kyrgyz name for a plant called wolf’s-bane, or Aconitum in its Latin designation.

The herb has been used in various ways since antiquity, most famously as poison, although also as an herbal medicine.

Japarov, who rose to become leader of the country in October after being sprung from prison, where he was serving a sentence on hostage-taking charges, swears to the efficacy of its curative properties. Last June, while Japarov was behind bars, it was said that he was consuming the wolf’s-bane brew and even giving it to fellow inmates.

“Japarov has sent a letter to the president in which he proposed using this medicine in the fight against the epidemic,” Japarov’s lawyer, Sharabidin Toktosunov, said at the time. “He wrote in the letter that this medicine was used by his parents and that it can be very dangerous. If used improperly, it can harm a person, but at the same time it could cure cancer.”

The suggestion that desperate people should resort to an entirely untested and very possibly lethal solution has stunned medical experts. Evidence-based medicine specialist Bermet Baryktabasova told the 24.kg news website that recommending the consumption of wolf’s-bane is theoretically a criminal offence.

“This plant belongs to a class of powerful but little-understood poisons. It has already claimed many lives. All Kyrgyz people know about this root – Uu Korgoshun. The very name contains the word ‘poison.’” Baryktabasova said.

Even the normally circumspect World Health Organization (WHO) has been moved to issue a statement stating that it has no information about the effectiveness or safety of wolf’s-bane.

“Beishenaliyev has lived up to that demand by consuming the wolf’s-bane brew in front of a packed room of journalists. The minister drank the tincture by the microphone so that the sound of gulping could be heard clearly.

Beishenaliyev then offered some tips on how to avoid the potential pitfalls of consuming a poisonous plant.

“It should only be taken hot. If you drink it cold, there will be spasms and death. If you drink it hot, but then drink cold water or eat ice-cream, you will also die. You need to drink it hot and wrap up warm,” he said.

Beishenaliyev claims that 300 people have already been treated with the tincture.

The minister cited Japarov as the inspiration for this purported cure.

“Now many people are treating themselves with this medicine. Sadyr’s father … taught him how to measure out the right dose for treating people usefully. And Sadyr Nurgozhoevich has been teaching us the right dose over
the last 15 days,” Beishenaliyev said, referring to the president by name and patronymic.

Beishenaliyev added that he now aspires to also learn the art of dosing wolf’s brew.

“For a long time, Sadyr Nurgozhoevich’s father used it and passed on the knowledge to his son. I too want to learn, and I am asking him [Japarov] every day to come to us for an hour and teach us about dosing,” he said.

Beishenaliyev said the roots of the wolf’s-bane plant grow prodigiously in the mountain pastures near Japarov’s family home. Health Ministry workers have been dispatched to that location to collect plants from which more of the potion will be produced, he said.

In the absence of tested medical treatments, many in Kyrgyzstan have been turning to folk remedies, although none have received an endorsement from so senior an authority.

Last March, messages spread like wildfire across WhatsApp groups extolling the virtues of ginger- and lemon-based concoctions as a defence against coronavirus infections. The chatter became so great and insistent that retail prices for these items surged. Dog and badger fat were likewise widely used as dietary supplements in the belief they might ward off disease.

Another folk technique that made a resurgence during the first wave of COVID-19 was a form of bloodletting known as hijama, or wet cupping. The patient has suction cups placed along certain areas of the body, and incisions are then made to those vacuum-inflamed patches of flesh, purportedly enabling some form of detoxification.

Japarov is not alone among the region’s presidents to offer spurious coronavirus-related health advice.

In December, Turkmenistan’s President Gurbanguly Berdimuhamedov spoke at a Cabinet meeting about the virtues of liquorice roots, which he said have been used since old times to treat coughs and respiratory diseases. There have been countless references to the curative properties of liquorice in state media since that time.

No leader is better known for offering controversial medical recommendations, though, than former US President Donald Trump. In April 2020, Trump provoked much dismay when he used a coronavirus briefing to wonder whether doctors might consider administering disinfectant as a form of treatment.

“I see the disinfectant that knocks it out in a minute, one minute. And is there a way we can do something like that by injection inside or almost a cleaning?” he asked. “So it would be interesting to check that … you’re going to have to use medical doctors … but it sounds – it sounds interesting to me.”

This article originally appeared on Eurasianet.
The president will be able to summon parliament or a public petition supported by 300,000 signatories could invoke such a plebiscite.

Critics of Japarov, who came to power in October in the wake of discredited parliamentary elections and on the wave of a largely aggression-fuelled street movement, accuse him of ushering in an authoritarian future.

Under the new dispensation, the head of state is to become head of the executive and assume the authority to appoint all judges and heads of law enforcement agencies. Another section envisions the creation of something essentially a rebrand of the Mekenchil party of which Japarov was a prominent business associate of Atambayev, who is now languishing in prison. He was also a close friend and personal aide of Almazbek Atambayev, who is now the party most clearly aligned with President Japarov. The party is, in fact, a level analogue of a traditional if often erratic form of local power-brokering. Sceptics carp that this vehicle may become a smokescreen for lending a sheen of popular legitimacy to questionable policies.

The general consensus is that the local elections may prove a rehearsal for the parliamentary elections scheduled for September.

Deputy Prime Minister Ulukbek Karmyshakov said at a post-election news briefing that election officials recorded “no gross violations.” Complaints, he said, centred onmalfunctions with electronic ballot boxes. He also maintained that there had been no deployment of “administrative resources,” a term that describes the manipulation of electoral processes by state entities in the interests of pro-governmental forces.

News website Kloop, which organised a monitoring exercise involving 3,000 people, was less forgiving in its assessment. Its observers recorded 840 violations, most of which involved the technical issues that Karmyshakov appeared to be alluding to.

The constitution adopted in 2010 was intended to give lawmakers more responsibility in deciding the country’s fate. Even that document’s most ardent supporters would hesitate to argue that plan came to fruition, though. Legislators remained, by and large, malleable pawns doing the bidding of the president of the day.

Elections expert Atyr Abdrahmatova was caustic in her judgement on the day’s voting.

“The elections and referendum saw a level of violations similar to what we saw in last year’s parliamentary elections. Unfortunately, there was vote-buying and the use of administrative resources. This had the intended effect, and the results are obvious,” she told Eurasianet.

One area of the new constitution that is a vague provision envisioning restrictions on anything deemed to go against moral values and the “public consciousness of the people of the Kyrgyz Republic.” This has been read by advocacy groups as opening the path to arbitrary censorship and the repression of minority communities.

Still, the outcome of the referendum vote was largely considered a given. Local elections appear to be producing a little more intrigue.

In the next election, which is due to take place later this year, 90 members will be elected to the legislature, instead of 120. In another change that stands to undermine the relevance of parliament, the president will be able to summon a referendum at his own initiative. That will circumvent the previous arrangement whereby only half the members of parliament or a public petition supported by 300,000 signatories could invoke such a plebiscite.

One area of the new constitution that has many activists and journalists concerned is a vague provision envisioning restrictions on anything deemed to go against moral values and the “public consciousness of the people of the Kyrgyz Republic.” This has been read by advocacy groups as opening the path to arbitrary censorship and the repression of minority communities.

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Parliament, meanwhile, is set to shrink. In the next election, which is due to take place later this year, 90 members will be elected to the legislature, instead of 120. In another change that stands to undermine the relevance of parliament, the president will be able to summon a referendum at his own initiative. That will circumvent the previous arrangement whereby only half the members of parliament or a public petition supported by 300,000 signatories could invoke such a plebiscite.

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Still, the outcome of the referendum vote was largely considered a given. Local elections appear to be producing a little more intrigue.

Of the 25 parties in the running for the Bishkek city council, at least six appeared to have surpassed the 7% threshold, according to data published on the evening of the vote. The most dominant parties were Emgek (Labour), the National Democratic Party of Kyrgyzstan, or NDPK, Ata-Jurt Kyrgyzstan (Fatherland Kyrgyzstan) and Ak-Bata.

Emgek, which was leading the pack, includes in its ranks former MPs and representatives of several now-defunct or severely diminished parties once close to the ruling order. Party leader Zhanybek Abirov, for example, was an MP during the presidency of Almazbek Atambayev, who is now languishing in prison. He was also a close friend and business associate of Atambayev, who stepped down in 2017 at the end of his single permitted term.

In the southern city of Osh, meanwhile, Ata-Jurt Kyrgyzstan took a commanding lead, snatching up about 50% of the vote. This may be significant since this is the party most clearly aligned with President Japarov. The party is, in fact, essentially a rebrand of the Mekenchil party of which Japarov was a prominent member.

“...The outcome of the referendum vote was largely considered a given. Local elections appear to be producing a little more intrigue.”
Iran makes defiant “60%” uranium move in wake of suspected attack by Israel

Iran on April 13 stepped up its defiance in the wake of a weekend cyber-attack on its main nuclear facility – widely thought to have been the work of Israeli agents – by stating that it was making preparations to begin enriching uranium to 60%.

France said that the Iranian move was a “serious” development and that the reaction to it would need coordination with the remaining parties to the 2015 nuclear deal and Washington, which Paris would organise.

The day also saw an apparent missile attack on an Israeli-owned ship, the Hyperion Ray, off the United Arab Emirates’ coast. Israel’s top-rated television news programme on Channel 12 TV quoted unnamed Israeli officials as blaming Iranian officials as being behind the incident, in which there were no casualties. Observers of the covert conflict between Iran and Israel are wary that tit-for-tat attacks on Iranian and Israeli shipping, which have been gradually escalating, could move to a more serious level amid worsening tensions between the regional arch-foes.

Iran is already breaching the nuclear deal, also known as the JCPOA, with uranium enrichment to 20% purity. Bringing that up to 60% would put Iran significantly closer to the 90% required for fissile material needed for a nuclear weapon.

Vienna talks to resume
The announcement of the uranium enrichment move came two days prior to the resumption of talks in Vienna aimed at finding a way to enable Iran and the US to restart compliance with the JCPOA that is designed to ensure Iran does not move beyond the civilian sphere in its nuclear development programme in return for a shield against major economic sanctions. Israel fiercely opposes the talks, saying that the accord is not fit for purpose when it comes to derailing Iran’s military nuclear ambitions, though Tehran claims it has never had any intention of producing a nuclear weapon. Agreeing with the Israeli line, former US president Donald Trump pulled the US out of the JCPOA three years ago and hit the Iranians with sanctions unprecedented in their scope and severity.

Announcing the planned move to 60% enrichment, Iran’s chief nuclear negotiator Abbas Araqchi said Iran would activate 1,000 advanced centrifuge machines at Natanz, the nuclear plant hit by a cyber-attack induced explosion in an underground facility on April 11 that Tehran called an act of sabotage by Israel. However, an Iranian official told Reuters later that “60% enrichment will be in small quantity” only.

“From tonight, practical preparations for 60% enrichment will begin in Natanz; 60% uranium is used to make a variety of radiopharmaceuticals,” the semi-official Fars news agency quoted Iranian nuclear agency spokesman Behrouz Kamalvandi as saying.

In Washington, White House press secretary Jen Psaki called Iran’s announcement “provocative” and said the Biden administration was concerned, adding that it called into question Tehran’s seriousness on nuclear talks.

Ability “eliminated”
Earlier, Alireza Zakani, head of the Iranian parliament’s Research Centre, speaking on state-run Ofoq TV channel, said thousands of machines used to refine nuclear material were destroyed or damaged in the Natanz attack. He said the incident had “eliminated” Iran’s ability to carry out the process.

The “nuclear terrorism” took place in a facility up to 50m (165ft) underground, another official said.

Israel has neither confirmed nor denied involvement in the attack that cut electricity to the uranium enrichment production halls, but Israel public radio cited intelligence sources as saying it was a Mossad cyber-operation.

Iran has said it will replace the affected centrifuges with the more advanced ones but US intelligence officials have briefed media that the attack may have set back the country’s nuclear programme by around nine months.

Iran’s top diplomat, Mohammad Javad Zarif, said on April 13 that the attack on the Natanz plant in central Iran
was a “very bad gamble” that would boost Tehran’s leverage in the talks to salvage the nuclear deal. In those talks, Iran – which is not speaking to the US directly, but is relaying its demands through European intermediaries – is demanding Washington lift more than a thousand sanctions before it returns to JCPOA compliance.

“I assure you that in the near future more advanced uranium enrichment centrifuges will be placed in the Natanz facility,” Zarif told a news conference alongside his visiting Russian counterpart, Sergei Lavrov, in Tehran.

In his televised comments, Zakani said: “Is it normal that today they reach a pit of our electricity system and take actions so that several thousand centrifuges are damaged and destroyed in one instant?”

"Should not we be sensitive over the incident that happened, eliminating the main part of our enrichment capacities?"

Separately, the former head of Iran’s Atomic Energy Organisation has disclosed that a blast and fire that occurred at the Natanz facility in July 2020 was caused by explosives hidden inside a table. Fereydun Abbasi-Davani told state TV that the perpetrators “amended the explosive [placed in the table] and sealed it, using, perhaps, resin or welding the steel”.

Azerbaijan accused of fomenting ethnic hatred with display of dead Armenian soldiers’ helmets

Armenia on April 13 accused its historic rival Azerbaijan of fomenting ethnic hatred by displaying helmets of Armenian soldiers killed last year during the six-week war over the Nagorno-Karabakh enclave.

At the conclusion of the war, arranged under a Moscow-brokered ceasefire, Yerevan ceded swathes of territory to Baku, which was seen in Armenia as a national humiliation.

On April 12, Azerbaijani President Ilham Aliyev visited a “park of trophies” showcasing military equipment seized from Armenian troops during the war. Hundreds of helmets of Armenian soldiers who had been killed were displayed in the park along with wax mannequins of Armenian troops. Since the war ended, Azerbaijani officials have persistently shown video footage online of the precision bombing of Armenian targets that took place during the conflict, leading to accusations on social media that they were guilty of posting “war porn” and not responding to their victory in a graceful manner. Much of the bombing was conducted with armed drones supplied by close ally Turkey.

The park, due to be opened to the public shortly, has sparked uproar in Armenia. The country’s ombudsman Arman Tatoyan was reported by AFP as saying it was “proof of genocidal policy”.

"The opening of such a ’park’ clearly confirms institutional hatred towards Armenians in Azerbaijan,” Tatoyan was cited as saying.

"This is true fascism,” 41-year-old historian Mher Barsegyan told AFP. The park “recalls evidence of Hitler’s barbarism that is exhibited in museums around the world”.

Political crisis

The defeat in the war caused a political crisis in Armenia, with Prime Minister Nikol Pashinian facing a series of protests from crowds not convinced by his assertion that signing the truce deal proved to be the best path forward because Azerbaijan had achieved a battlefield dominance that was poised to enable it to take control of the entirety of Nagorno-Karabakh. Pashinian eventually agreed to a snap poll that will be held in June.

Ethnic Armenian separatists declared independence for Nagorno-Karabakh and seized control of the region in a brutal war in the 1990s. It left tens of thousands dead and forced hundreds of thousands from their homes.

Baku and Yerevan have traded accusations of war crimes since the conflict – which had been largely dormant for decades – re-ignited last September.

Separately, Armenian police have reportedly completed their investigation into two men captured during last year’s fighting who are accused of being mercenaries from Syria. If the police findings are approved by the prosecutor’s office, the men will stand trial in Armenia and face a slate of criminal charges, including terrorism. Turkey has been accused of recruiting hundreds of fighters in Syria who were then deployed to Nagorno-Karabakh as combatants fighting on the side of Azerbaijan. Both Azerbaijan and Turkey have denied that they deployed mercenaries during the fighting.

“The opening of such a 'park' clearly confirms institutional hatred towards Armenians in Azerbaijan”
Drivers

Seven years after its Maidan revolution, Ukraine is a country in considerable difficulties. Economically, its GDP is still 20% below its pre-Maidan level; politically, it has not yet established a stable balance among the vested interests; ideologically, and in many ways culturally, it continues to be split. Ukraine has become a ward of the West, but its prospects of being admitted to NATO, not to mention the EU, are very remote: essentially non-existent for the foreseeable future. Since being elected president in 2019, Volodymyr Zelenskiy and his party have lost much of their once astounding popularity. The Servant of the People party has come under heavy pressure from the Russophone opposition based in the east of the country, and the nationalists rooted in Ukraine’s west.

Seven years after the start of its confrontation with the United States, Russia is bracing itself for even more pressure from Washington. For US President Joe Biden, Russia is a lower foreign policy priority than it has been for any US administration since FDR. Biden talks tough, imposes sanctions, and is going after Russian interests such as the Nord Stream II pipeline. Russia’s relations with Europe are worse than they have ever been since the days of Mikhail Gorbachev. The special relationship with Germany is no
The special relationship with Germany is no more. The dialogue with France, always superficial, has definitively stalled. At the same time, co-ordination between US and European policies on Russia has substantially increased under Biden.

late 2018, but it was enough to get him noticed in Moscow. The fact of the matter is that even if Ukraine cannot seriously hope to win the war in Donbas, it can successfully provoke Russia into action. This, in turn, would produce a knee-jerk reaction from Ukraine’s Western supporters and further aggravate Moscow’s relations, particularly with Europe. One way or another, the fate of Nord Stream II will directly affect Ukraine’s interests. Being seen as a victim of Russian aggression and presenting itself as a frontline state checking

Russia’s further advance toward Europe is a major asset of Kyiv’s foreign policy.

Even though Kyiv’s moves at that time were not preparations for a military offensive (Dmitry Kozak, Russia’s senior official responsible for dealing with Ukraine, said he saw them as a PR stunt), the Kremlin decided to seize upon them to raise the stakes. Given the current state of Russian-US relations, Moscow felt it had nothing to lose and something to gain by acting boldly and on a larger scale. Russia decided not so much to test the new US president as to warn him early on of the dangers involved regarding Ukraine.

The Russian military massed troops along the entire Russo-Ukrainian border, from the north to the east to the south. It did so visibly and made sure that Western observers could analyse the manoeuvres and conclude that they might not necessarily be a drill. Some reports, for example, spoke of field hospitals being brought to the border. In making its move, Moscow was pursuing several objectives:

To intimidate and deter Ukraine’s leaders, whom the Kremlin regards as inexperienced and irresponsible (in Kozak’s disparaging words, “children with matches”);

To send a message to the United States urging Washington to take better care of its wards, lest they get America itself into trouble (there were repeated references to the Mikheil Saakashvili syndrome, referring to the then Georgian leader launching an attack in 2008 against the Russian-protected breakaway region of South Ossetia in the belief that he would be supported by a US military intervention, which never came);

To convince the Germans and the French that supporting everything that Ukraine says or does carries a cost for Europe;

To reassure the people of Donbas that Russia will not abandon them to the Ukrainian army should it attack the two enclaves.

During the crisis, Kozak, who is also the Kremlin’s deputy chief of staff, essentially repeated President Vladimir Putin’s earlier stern warning that a Ukrainian offensive in Donbas would spell the end of Ukrainian statehood.

Having made their points by means of actions on the ground, the Russians were then available to discuss the situation, both with German and French political leaders and the top US military commander. In those conversations, they dismissed out of hand all European criticisms about the troop movements on their own territory and only engaged in a detailed professional discussion with the US chairman of the Joint Chiefs of Staff, simply to help him avoid a dangerous miscalculation.

Results

It appears that in the short term, President Zelenskiy got what he was aiming for. Having burnished his patriotic
credentials, Zelenskiy strengthened his position. In foreign policy terms, it was amid the crisis along the border that President Biden called Zelenskiy for the first time, ending an awkward pause. Both NATO as an institution and individual US allies voiced their support for Ukraine. The UK, in its new role as a power separate from the EU, convened a meeting of Ukraine’s closest friends: the United States, Canada, Poland and Lithuania. Against that background, Zelenskiy repeated Kyiv’s earlier request to be admitted to NATO.

It is hard to say whether Russia has “won” anything. Moscow certainly backed up its earlier verbal warning with a credible demonstration of force. However, it is less clear whether Russia’s demonstration will lead to the United States monitoring its Ukrainian clients more closely and avoiding making misleading statements of the kind that landed Saakashvili in trouble in 2008. As for the Germans and the French, who of course are much more worried about a war in their own neighbourhood, they have little influence in Kyiv. Russian pleas for the Europeans to take a less uncritical attitude toward Ukrainian policies and actions are unlikely to be heeded.

Perhaps the most important thing for the Russian leadership in this episode was to prevent the need to actually go to war against Ukraine in the future. It’s unlikely that Putin was bluffing when he said that a major attack against Donetsk and Luhansk would provoke a massive Russian response with catastrophic consequences for Ukraine. Unlike the 2008 war with Georgia, in which Russian objectives were limited to restoring the territory of the South Ossetian enclave and temporarily holding some areas in Georgia proper, it appears a war against Ukraine would be bigger by several orders of magnitude. Such a war would also deeply affect Russia itself and its international position. Going for overkill in terms of military manoeuvres on the Ukrainian border now may avoid the need to do terrible things at a later point. Under that same logic, doing nothing now would sow uncertainty and invite trouble, while doing nothing when trouble arrives would be suicidal for the Kremlin leadership. While Russia is not looking for more US sanctions, it is ready to take them as a price for its muscle-flexing.

“The most important thing for the Russian leadership in this episode was to prevent the need to actually go to war against Ukraine in the future”

Prospects

The passing of the war scare is not the same thing as de-escalation. The high level of tension in the region is now the new normal. Unfortunately, there is no political solution in sight. The 2015 Minsk II agreement, the basis of the diplomatic process for ending the Donbas conflict, was stillborn. To the keepers of the national flame in Kyiv, implementing that agreement would always have been a case of high treason. Poroshenko only signed it because the Ukrainian military was decimated in Donbas, and it was the only way to stop the disaster. Putting the agreement into practice, however, threatened to undermine the work of the Maidan revolution by giving Russia a foothold, and thus was deemed completely unacceptable. Withdrawing from the Minsk agreement is not an option for Kyiv either, however, because the agreement was brokered by Berlin and Paris. Zelenskiy’s mission to get Russia to agree to a major revision of the Minsk terms in Ukraine’s favour has turned out to be impossible.

Expanding the format of the Normandy talks (currently held among France, Germany, Russia and Ukraine) to get the dialogue to result in an agreement is both impossible – Russia is unlikely to agree to US participation – and impractical: even if the United States, which is not particularly willing, were to join, it would not lead to Russia yielding under US pressure.

Absent progress on the Minsk agreement and Normandy talks, however, diplomacy will be increasingly practised not in the usual way of harrowing but confidential negotiations (tellingly, Russia’s Kozak, frustrated with his counterparts, proposed making to the talks public: a non-starter, of course), but by means of sending messages through specific actions, like Russia’s current exploits on the Ukraine border. The only lifeline to peace left then will be direct contact between the Russian and US military chiefs.

This article was published as part of the “Relaunching US-Russia Dialogue on Global Challenges: The Role of the Next Generation” project, implemented in co-operation with the US Embassy to Russia. The opinions, findings and conclusions stated herein are those of the author and do not necessarily reflect those of the US Embassy to Russia. It first appeared on the Carnegie Moscow Center website.

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He retired from the Russian Army in 1993. From 1993-1997, Trenin held a post as a senior research fellow at the Institute of Europe in Moscow. In 1993, he was a senior research fellow at the NATO Defense College in Rome.”
BALKAN BLOG:

Few routes to power in Bulgaria’s fragmented new parliament

Denitsa Koseva in Sofia

"A lone like a dog" and delivering a swan song even though he “looks less and less like a swan” were some of the scathing comments made after Gerb leader and long-serving Prime Minister Boyko Borissov addressed Bulgarians the day after the April 4 general election.

Rather than facing awkward questions on his party’s poor performance at a press conference, Borissov made his statement in a video posted on Facebook, standing in the yard of his home under falling snow. While he spoke bullishly of Gerb’s election victory, it was widely commented that Borissov seemed abandoned and alone.

Once a highly popular leader and Bulgaria’s only prime minister to serve for three terms, Borissov’s third term was marred by scandal after scandal – from the “Apartmentgate” revelations of luxury properties bought at suspiciously low prices by high-ranking officials to the pictures of a gun, cash and gold bars mysteriously photographed from inside the prime minister’s bedroom. Along with the heavy toll the coronavirus (COVID-19) pandemic has taken on Bulgaria and mass anti-government protests through the summer and autumn of 2020, this contributed to the fall in Gerb’s share of the vote to just 26.12%, leaving it as the largest party in the new parliament but with no obvious routes to forming a new government.

Looking at the data from the central election committee with 96.35% of all votes counted, the chances of any party being able to form a majority coalition in the fragmented new parliament are slim. That leaves the possibility of either a technocratic government or another election in a few months, with the latter seen as the most realistic scenario (though Borissov clearly favours the former).

Limited options
Not only Gerb, but all three of Bulgaria’s main political parties – Gerb, the Bulgarian Socialist Party (BSP) and the ethnic-Turk Movement for Rights and Freedoms (DPS) – performed badly, but their new rivals that swiped a large share of the vote didn’t do well enough to form a new government either.

Gerb was followed by popular showman Slavi Trifonov’s There Are Such People with 17.81% of the vote. Trifonov’s newly minted party pushed the BSP down to third place with just 15% support. The DPS is fourth with 10.14%, followed by centre-right reformist Democratic Bulgaria with 9.54% and Stand up! Thugs out! with 4.78%. Gerb’s former far-right junior coalition partners will not pass the 4% threshold and therefore will have no MPs in the new parliament.

This result leaves Gerb with virtually no chance to form another government unless it manages to form a broad coalition with its old rival the BSP and the DPS, which informally supported Borissov’s last government and has previously been in coalition with the BSP. However, most parties have ruled out cooperation with Borissov’s party and in his first public statement after the vote he proposed a technocratic government to lead the country out of the coronavirus pandemic by the end of 2021 and oversee the management of the European Union’s post-pandemic recovery funds.

“We accept the definite victory in the election as a vote of confidence by the people that it is exactly us who must return Bulgaria to the path of growth. We have never escaped from responsibility, we shall not do it now. I expect to see whether the parties with lower electoral support, who allow themselves to speak on behalf of the people, really do care for the people. Because if they do, we should join forces and defeat the pandemic,” Borissov said in the video statement.

Speaking after dozens of protesters gathered in front of Gerb’s headquarters in Sofia, Borissov said (possibly joking) “We can have 20 – 30 – 50 young and strong Gerb sympathisers to chase you” before adding “I propose you peace. I propose to install the experts who will take responsibility and do what is necessary to take the country out of the coronacrisis by December.”

According to political analysts, the scenario of a technocrat government is highly unlikely as Gerb would have a very hard time securing the votes of 121 out of Bulgaria’s 240 MPs, Teneo analysts noted.

If Gerb fails to form a government seven days after receiving a mandate, it will be given to Trifonov. He has not yet commented on the election result but said previously that he sees only
Democratic Bulgaria and Stand up! Thugs out! as potential coalition partners. On the other hand, Democratic Bulgaria has repeatedly said it will not enter in coalition with any party in the parliament. Even if Democratic Bulgaria agrees to enter a coalition, without Gerb, the BSP or the DPS the new coalition would not have enough MPs, leaving Trifonov to either choose to lead a minority cabinet or go for an early election.

If There Are Such People fails to form a government, President Rumen Radev can pick another party to try to make a cabinet.

According to Teneo, in this third phase Gerb, the BSP and the DPS might decide to form a technocratic government in order to avoid another vote during the pandemic and to be able to receive the billions of euros aid from EU funds.

If this third attempt fails, Bulgaria has to hold another general election, which seems the most realistic scenario, Teneo said.

“On election night, when everyone was expecting them to go out and take responsibility for the future of the country, the three of them chose to hide from the media”

From no coalition to everyone against Gerb
Within Bulgaria, voters, politicians and political analysts are divided in their opinions on whether Bulgaria’s next parliament should form a government or if an early election is the better option.

Borissov has clearly indicated he is willing to form any coalition in order to stay in power.

BSP leader Kornelia Ninova ruled out the possibility of uniting with Gerb but indicated that the BSP is open to other coalition formations, aiming to oust Gerb from power.

Meanwhile, Democratic Bulgaria has clearly said it will not enter into coalition with any of the parties that have participated in the outgoing parliament – Gerb, the BSP or the DPS – and one of its leaders, Hristo Ivanov, noted that the party will not discuss coalitions until it sees who will vote against a fourth Gerb government.

Ivanov’s close ally, Ivaylo Mirchev, clarified that Democratic Bulgaria sees no possibilities to participate in coalition in the new parliament and that early election seem the better option.

Stand up! Thugs out! said that any coalition against Borissov is acceptable as he must be removed from power as a start of the change in the country.

Key players stay silent
After their parties’ battering in the polls, both Borissov and Ninova were slow to comment on the result. Ninova eventually addressed the media on April 5, saying that the executive leadership of the BSP has resigned but she will remain the party’s leader. Meanwhile, neither the DPS nor – crucially – Trifonov have made any comment on their positions.

Trifonov, the former TV host and singer who at a stroke becomes one of Bulgaria’s most important politicians, said as the results came in that he has symptoms of coronavirus and has self-isolated, and declined to make any further statement on the course of action he will take. While he has said he will not work with Gerb, he is seen as unpredictable and has praised Borissov in the past.

As Bulgarians are left wondering what government, if any, will result from the newly elected parliament, the Association of European Journalists – Bulgaria strongly criticised Borissov, Ninova and Trifonov for failing to arrange press conferences after the first election results came out.

“On election night, when everyone was expecting them to go out and take responsibility for the future of the country, the three of them chose to hide from the media,” AEJ – Bulgaria commented.

Trifonov’s claim that he was self-isolating got little sympathy from the association. “[A]s a leader of the second-largest parliamentary party, Trifonov could have used the possibilities given by the new technologies and to speak with media and journalists or to delegate this to his deputies,” AEJ – Bulgaria noted.

Hiding from journalists is not appropriate for responsible politicians and shows disrespect to their voters and to all Bulgarian citizens. It is vital for democracy for politicians to be available for questions of journalists,” AEJ – Bulgaria noted.

Borissov’s decision to comment on the election result on Facebook instead of giving a press conference was widely criticised, though expected as he has picked the same approach for a year.

His statement was widely mocked by critics and was dubbed the ‘swan’s song’ by political analyst Ivo Indzhev. “The epoch of the dumb ones and of the dumb decision of the chief of the dumb ones, Boyko Borissov. He looks less and less like a swan, but this victory is his swan song,” he wrote on his blog.
“Eight months ago, protesters suggested that Borissov goes in peace. He stayed to give away five billion [levs], to continue ruling, to buy voters. And when he saw he was collapsing, he sharply flip-flopped. He said he wanted to go. But to leave the experts who would rule. Without taking responsibility for the lost 10 years. Doesn't he have at least a little shame,” prominent PR expert and political commentator Lubomir Alamanov, another critic of the prime minister, wrote on Facebook.

Emil Jassim, a history teacher and member of Democratic Bulgaria, called Borissov’s decision to address people by video cowardice. “This Facebook live of Borissov was the press conference of the first parliamentary force. In front of his home, in the snow. And alone like a dog. A cowardly proposal for a consensus cabinet. This is the end,” Jassim wrote.

**Ruling party benefitted from use of state resources**

The Organisation for Security and Cooperation in Europe (OSCE) commented that the general election was run efficiently despite the difficult circumstances caused by the coronavirus pandemic, but that the massive use of state resources by the ruling party was concerning.

“It added that Bulgaria still needs to address key long-standing recommendations to bring election legislation in line with international standards and good practice.

The OSCE also raised concerns regarding the lack of editorial diversity and analytical coverage.

“The absence of investigative or analytical media reporting, together with political advertising in the guise of news, limited the ability of voters to make an informed choice. While public media is legally required to remain neutral and objective, public television offered little coverage of the political parties, but at the same time reported the activities of senior government officials in detail. Pressure on investigative reporters and a lack of investigation into attacks on journalists contributed to an atmosphere of self-censorship,” the OSCE commented.

It added that Gerb has gained wide exposure through a number of state investments related to the coronavirus pandemic and infrastructure projects during the election campaign.

“The long-term observers and many others informed the Assembly’s observation delegation about some long-standing problems, such as allegations of vote-buying, ‘controlled’ voting, and voter intimidation, attempted particularly among economically and socially vulnerable groups,” Alfred Heer, head of the PACE delegation, was quoted as saying in the statement.

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**MITTELEUROPEAN INSIGHTS:**

**Russian 'sanctions bubble' vs Ukrainian and Turkish fundamentals**

Gunter Deuber in Vienna

Russia, Ukraine and Turkey are currently being eyed critically by financial market investors, as the performance of currencies and local currency bonds in particular shows. That Russia is in the same basket with very vulnerable emerging markets is surprising at first.

Ukraine and Turkey are of course the usual suspects in market studies that try to identify the most vulnerable emerging or frontier markets in terms of macro fundamentals over the next 12-24 months in globally challenging conditions, together with countries such as Nigeria, South Africa or Argentina. Russia does not usually belong to such country samples.

It is therefore all the more interesting to take a closer look at the joint underperformance of these markets in recent days. In part, there are common and overlapping drivers here, although country-specific details should not be underestimated.

In our view, the most important key message here is that Russia is probably the only one of the three countries where the relevant players do not overestimate their (geo)political and economic room for manoeuvre.

The market background in 2021 is substantially different from 2020

In 2020, many emerging markets were able to come through the COVID-19 crisis reasonably unscathed, and national key interest rate and policy decisions did not have such a major impact on the financial markets – at least if they were within
Moreover, we see a substantial "sanctions premium" in the rouble of 10–15% compared to fundamental values. There should still be uncertainty here in Q2, but ultimately the downside risks should be limited.

Of course, Russia also has substantial backstops, even though we clearly believe that in the case of Russia all relevant actors are right in their thinking about their economic and geopolitical room for manoeuvre anyway. And we clearly do not expect a full escalation in eastern Ukraine that is openly supported by Russia. And in both the case of Ukraine and Turkey, their economic and/or geopolitical room for manoeuvre is possibly overestimated.

Ukraine clearly belongs in the camp of vulnerable emerging markets. Investors are also still slightly over-positioned here and locally we also see tendencies that the room for manoeuvre is partly overestimated. An IMF agreement continues to be delayed, and it looks as if the leadership wants to show their colours more in the conflict in eastern Ukraine. But in Ukraine there is an important backstop: the central bank. It has distinguished itself as a credible and stability-oriented actor and is consistently pursuing this course. After the interest rate steps taken so far, we see the central bank as determined to follow suit here, in a base scenario and also in risk scenarios. In addition, we see a certain geostrategic backing of Ukraine by the EU and the US, which could also result in new funds from relevant international financial institutions in order to avoid worst-case scenarios.

External deleveraging in Turkey will continue, NBU is trying to get ahead of the curve

In the case of Russia, recent market swings after the Biden-Putin phone call announcement have also shown how quickly market sentiment can turn in the "sanctions bubble". In addition, in the case of Russia and Ukraine we see partly normal and tactical position rebalancing approaches in the foreground at the moment. In Turkey, we find it difficult to see a credible backstop, while at the same time there is a clear trend to constantly overestimate the economic-financial and geopolitical room for manoeuvre.

Therefore, in case of Turkey, we remain more sceptical in the medium and long term against the background of the experience in Russia and Ukraine in particular.

In these two countries, too, foreign economic actors have questioned their presence in the country in the past and in light of certain disillusionment, which can be clearly seen in the long-term cross-border bank financing of international credit institutions. In Ukraine, there was a long seven-year adjustment process of external deleveraging from 2008 to 2015, with a reduction of exposures by 80–90%. In Russia, we have seen an external deleveraging of international banks’ exposures from 2013 to 2015 in the range of 40-50%.
In the case of Turkey, we have seen exposure reductions since 2016, but in our view we are not yet at the end of the line and are still at moderate declines compared to Ukraine or Russia. And such an external deleveraging process, with simultaneous macroeconomic vulnerabilities and event risks, continues to threaten much uncertainty for investors and the currency.

Moreover, we see no clear allies or backstops in the case of Turkey. The central bank is (again) a political second-hand agent. Turkey will not be going to the IMF before a full disaster scenario. In any case, a first step towards the correct assessment of the action corset would be no interest rate cut this week by the Turkish central bank, indeed rather an at least verbally hawkish bias for the coming months.

Here, the central bank of Ukraine is a model pupil in its statement: “The NBU stands ready to raise its key policy rate more resolutely in order to curb fundamental inflationary pressures, stabilise expectations, and bring inflation back to its target.” In any case, the NBU will probably raise the key interest rate again this week, and is still considering further hikes. The key interest rate should possibly go to levels of 9-10% over the next six-nine months.

We do not see any chance that the Turkish central bank will be in a position to follow this route.

RUB stronger, UAH at least temporarily, TRY on a one-way street
And as is often the case, everything comes together. In addition to the country specifics outlined above, global trends also speak more in favour of Russia and Ukraine than Turkey. The strong global cyclical recovery dynamics favour emerging markets, which clearly benefit from rising commodity prices, while energy importers like Turkey and/or countries at the beginning of global industrial value chains suffer from global energy and transport cost increases.

Moreover, we expect a traditional spring revaluation in the UAH rate, caused by seasonal currency oversupply by agricultural producers, as well as an improved financial account balance compared to 2020. Therefore, we see USD/UAH below the 28 level in the coming months, finishing the year around the 28 level.

For the RUB, apart from sanction risks, the fundamental support from the current account will seasonally weaken in Q2. We believe that due to geopolitical pressure the decoupling of the rouble from the oil price will persist in the coming months, which is why we have revised our short-term forecast upwards to 75 in Q2, 73.5 in Q3 end, and 72.5 at year-end 2021.

We do not think that the Turkish lira will come back any time soon below the USD/TRY 8 level, and would see it at least at the 8.30 to 8.50 level if material policy (space overestimation) glitches can be avoided. But this is not a given in Turkey, compared to Russia.

Gunter Deuber is the Head of Research at Raiffeisen Bank International in Vienna. Local RBI Research teams contributed to this analysis.

MOSCOW BLOG:
It’s time for a new pan-European security treaty
Ben Aris in Moscow

Five years ago I wrote an op-ed calling for a new pan-European security treaty. The piece opened with these words: “We are in the middle of the worst political crisis since the end of the Cold War and there is a very real, albeit still remote, possibility of war in Europe.”

That piece was written in the aftermath of the annexation of Crimea and the political crisis that followed. Everyone became very nervous as the fighting in Donbas escalated, culminating in the downing of Malaysian commercial airliner MH17 in July 2014 that took tensions to a new level. An undeclared war had broken out in Ukraine that was in danger of getting out of hand.

Here we are five years on and basically nothing has changed. The fighting in Donbas continues, albeit at much lower levels now. We are once again in a political crisis and the talk of war is back. Russia has unnerved the US and EU, not to mention Ukraine, by bringing up a large amount of troops to the Ukrainian border and reinforcing those already in the Crimea – the biggest non-scheduled troop movements since 2014.

While, as bne IntelliNews columnists Mark Galeotti and Robert Homans said in editorials, the chances of open warfare remain low, it is still a very real possibility.
“The problem is that unlike the Cold War, there are no rules to govern relations in the middle of Europe. As commentators such as Mark Galeotti and Professor Stephen Cohen have argued, despite its adversarial nature the Cold War was governed by a set of unwritten rules worn smooth by long use, which prevented the war ever getting hot. But all of those mechanisms were destroyed in 1991. It is time for Europe to sit down with Russia and draw up a new pan-European security pact,” I wrote five years ago.

The need for a new security pact is as acute today as then, as this last few weeks have shown. Without one we are destined to be plunged into these crises. And each one is pregnant with the possibility of mistakes leading to a hot war in Europe and beyond.

A security deal could put a permanent lid on those dangers. And the salient point here is actually the Russians want a new security deal. It has already thrashed out a possible framework and circulated it to the EU, NATO and other partners for discussion. But it was simply ignored. But it is too late to dust that draft off and take a serious look at the proposals as a starting point for talks to end this dangerous insecurity.

Them and us
The existing security arrangements in Europe have not changed much since the Cold War, except those arrangements have been significantly weakened after the US unilaterally withdrew from one missile treaty after another, including the ABM ballistic missile treaty in 2002, the INS nuclear missile deal in 2018 and most recently the Open Skies military surveillance treaty this year, to name the most significant.

NATO remains at the centre of ensuring Transatlantic security, but the alliance was set up as a Cold War “them and us” organisation that was specifically designed to unify US-European security through collective commitments (Article five) and unifying defence systems. NATO was specifically designed to point guns and bombs at the Soviet Union.

Russia has inherited some of the assets of the Soviet Union, including its massive military machine and its nuclear weapons, but the Russians complain it is not the Soviet Union, but has still had the “them” mantel thrust upon it.

The Cold War was an ideological clash between socialism and capitalism, whereas modern Russia is now “on our side” in that it has embraced capitalism. The material well-being of its people has been transformed out of all recognition as a result and it is committed to becoming a market economy.

Of course the state still plays an important role in the economy, but Russia has a well-developed market economy and boasts some world-class privately owned companies such as Europe’s most valuable tech company Yandex, a sophisticated telecoms sector, a flourishing agricultural sector, a rapidly developing light manufacturing sector, an already large automotive sector and several of the biggest retailers in Europe amongst many other things.

Economically Russia is now fully integrated into the global market as the attempt to sanction Oleg Deripaska’s aluminium company Rusal in 2019 showed: a ban on doing business with Rusal caused the price of aluminium on the London Metal Market to spike by 40% overnight and the leading Western investment banks howled in pain as hundreds of millions of dollars of Rusal securities had in effect to be marked to zero overnight.

That is not to say Russia has finished its transition to a fully fledged market democracy. It continues to face serious problems with corruption and weak democratic institutions. Its political opposition is small, fragmented and weak, thanks to state repression. But the same can be said for many of the former Warsaw block countries like Hungary and Poland, and all of those in the Commonwealth of Independent States (CIS).

I won’t labour the point, as there is plenty to discuss here, but it is clear that Europe’s relationship with Russia is deeply conflicted as it treats Russia as, on the one hands, a political problem, and on the other, as a large and lucrative business partner.

Brussels has sanctioned Russia for annexing the Crimea and Berlin has slammed the poisoning of anti-corruption activist and opposition politician Alexei Navalny. German Chancellor Angela Merkel made a point of meeting with Navalny personally when he was recuperating in a German hospital last year – a clear gesture of solidarity with Russia’s political opposition to Putin.

But at the same time Merkel has repeatedly stressed the controversial Nord Stream 2 gas pipeline that would directly connect Germany to Russia’s Yamal gas fields, by passing Ukraine entirely, is a purely “economic” project. The two points of view – political problem, lucrative market – are contradictory and leave the EU weak and divided on Russia.

The same is not true for the US, for which investment and trade with Russia play a much smaller role, so its rivalry in geopolitics is the main consideration, allowing it to be much tougher. The main constraint on the White House is its desire to repair relations all but destroyed by Donald Trump and so take European concerns into account when it comes to dealing with Russia.

Moscow itself has got fed up with this dual approach, where European firms hope to make fat profits selling creams,
cured meats and consumer electronics to Russians with one hand, but political leaders slap Russia down with sanctions in the other. Russian Foreign Minister Sergei Lavrov explicitly rejected this dual approach in his now famous joint press conference with the European Union's top diplomat Josep Borrell in February, where he laid out new rules of the game. Russia will no long accept "economically damaging" sanctions and is prepared to break off diplomatic relations if any more are imposed. At the same time, Lavrov said the Kremlin is happy to sit down to discuss arms control and climate change co-operation, provided the US is prepared to sign a commitment to mutually refrain from interfering in each other's domestic affairs.

Common ground
The Russian troop movements around Ukraine have brought relations to a new low, but ironically today is also one of the best opportunities to strike a new deal with Russia in years, as for once there is a lot of common ground between the two sides.

Arms controls: Putin's response to rising tensions since his famous Munich Security Conference in 2007 has been to sacrifice the prosperity won in the noughties boom years to re-equip the military and to build up a fiscal fortress to make Russia immune to sanctions. That came at the price of low growth and stagnating real incomes that are causing political problems on the domestic front as dissent at home is clearly rising.

The Ministry of Finance has basically been running an austerity budget since 2012 and that has hobbled economic development. The Kremlin would love to loosen the purse strings and leverage up the economy, which could lead to an economic boom, but won't do so while it feels threatened by the US.

The US also seems to have taken a new tack. Despite all the tough man "pay the price" rhetoric, US President Joe Biden has actually only done two things with Russia since taking office: mirrored the EU by imposing token sanctions on only nine officials in connection with the poisoning of Navalny; and rapidly signing off on a new START III missile deal in January.

Given that US has withdrawn from one Cold War arms treaty after another this is a major change of policy for Washington. Moreover, Biden has made it clear that he wants to continue the arms control talks and prevent a new arms race developing.

The Russian side ratified the deal within 24 hours of it being inked and the foreign ministry immediately suggested that Washington and Moscow start work on putting the INS missile treaty back in place.

Common market: Putin's long-term foreign policy goal is to create a common market "from Lisbon to Vladivostok" – a mantra that he has repeated many times over the years.

Although the current tensions are driving Moscow into Beijing's arms, Putin sees Russia's future as a partner of Europe, not China. Russia is a large country but in the coming decades it will be dwarfed by China, the US and the EU. It has to join a block if it is to remain relevant. I asked the former First Deputy Prime Minister Arkady Dvorkovich if Russia intended to throw in its lot with China during an interview a few years ago. "No, we are a European country and our future is with Europe," he replied.

The Kremlin is as worried about China's rise as Washington. But in the face of the relentless US aggression, which China also suffers from, Moscow has turned to Beijing, with whom it is presenting an increasingly united front against Washington. It's a temporary arrangement, but it will last several more years.

Putin's solution has been to set up the Eurasia Economic Union (EEU), which is modelled on the EU, and in the long term could do a supra-national trade deal with the EU to create the Lisbon-to-Vladivostok single market.

Climate change: The world is not going to solve the climate crisis without Russia's help and willing participation. Russia ratified the Paris Accord in 2019 and after a slow beginning the pace of doing something about emissions has picked up rapidly since the start of this year.

A spate of environmental disasters and the growing awareness that Russia's permafrost is melting and will cause tens of billions of dollars worth of damage is pushing the issue up the Kremlin's agenda. Analysts reportedly in the last week are warning that new cost of carbon fines could wipe out earnings for all of Russia's utilities entirely if the worst-case scenario for such fines is imposed.

A new EU Green Deal in place that is supposed to make Europe carbon neutral by 2050. It comes with new taxes and duties on carbon-intensive imports, which is obviously much of what Russia sells. The details are all still up in the air, but as mutually important markets there are a lot of negotiations ahead.

The US will also have to engage with Russia as Biden has put the climate high on his agenda, and as Russia is a global top five emitter of CO2 no comprehensive plan can leave it out.

Russian draft security deal
A new European security deal is not a "pie in the sky" idea. The Russians want it and they have already prepared a comprehensive draft deal they hope will appeal to Brussels.

In 2008, Putin ordered the foreign ministry to draw up a proposal, which was supposed to enshrine in international law the "principle of security, a legal obligation, under which no state or international organisation in the Euro-Atlantic area could strengthen their security at the expense of other countries and organisations." Copies were sent to everyone, foreign leaders, Nato, the OSCE, who simply threw it in the bin without comment.
NBU hikes rate 100bp to 7.5%

The National Bank of Ukraine (NBU) raised Ukraine’s prime rate by a full percentage point, to 7.5% on April 16, more than analysts anticipated, after inflationary pressures surged in March.

Inflation pressures have grown across the whole region. The NBU was the first of the central banks in Eastern Europe to hike rates and was followed by the Central Bank of Russia (CBR), which surprised markets with a 25bp hike in March.

Slovenia’s blue-chip index at its highest level in over a decade

Slovenia’s bourse blue-chip index SBI TOP exceeded 1,000 points on April 7, which is the highest value since the end of 2009.

SBI TOP went up by 0.78 points finishing at 1003.38 points, according to Ljubljana Stock Exchange (STA) data.

Rosstat revises 2020 GDP contraction to milder 3% y/y, 4Q20 data points to strong recovery momentum

Russia’s economy fared much better in the last quarter of last year than expected, according to the state statistics agency’s revised figures released on April 1.

Rosstat’s second GDP estimate for 2020 points to an even shallower contraction of 3% year on year in 2020. On a quarterly basis, the recovery momentum continued into 4Q20, with GDP bouncing back from a 7.8% y/y contraction in 2Q20 to contractions of 3.5% y/y in 3Q20 and 1.8% y/y in 4Q20.

Poland’s CPI surprises with jump of 3.2% y/y in March, flash estimate shows

The Polish CPI expanded 3.2% y/y in March, the inflation rate picking up 0.8pp versus the preceding month, statistical office GUS said on March 31.

The sharp increase surprised the market – which expected growth of 3% at the most – shifting this year’s inflation trajectory further up in effect. The main drivers were fast-rising prices of fuels – owing to dynamic growth in oil prices – as well as core inflation, which increased an estimated 3.9% y/y in March, up 0.2pp versus the preceding month.
Russian equity markets saw a surprisingly modest outflow of $10mn from Russia-dedicated funds during the week’s trading ending April 8 despite the arrival of the most Russian troops at the border with Ukraine since 2014, according to stock trackers EPFR Global as cited by BCS GM on April 9.

“Fund flows for the Russia-dedicated fund category returned into the minor negative territory last week. Looking into details reveals the total flow number would be close to zero if it were not for the Pictet – Russia Equities fund that reported outflows in the amount of $18mn for the week,” Slava Smolyaninov, head of strategy at BSC GM, said in a note. “Safe to say that Russia is ignored by global equity investors these days.”

Smolyaninov went on to say that the modest outflows should be seen as good news as tensions ratcheted up significantly over the last week as Russia aggressively moved troops close to Ukraine’s border and sent reinforcements to its military bases in the annexed Crimean peninsula.

The ruble, however, did not fare as well, having tumbled from a recent strength of around RUB73 to the dollar to RUB78 briefly on April 8, before recovering to RUB77.2 at the time of writing on April 9. All in all, the Russian currency has given up most of its gains YTD but is still up by 3% from the start of January. The value of the ruble this year has largely decoupled from oil prices and has become hostage to the ebbs and flows of geopolitical tensions.

Despite the apparent resilience to the mounting geopolitical risks and the prospect of harsh new US sanctions that will target Russia’s domestic debt, Smolyaninov warned that the markets remain nervous and could turn quickly.

“Global investor tolerance of [geopolitical] risks can end swiftly. Inflows into GEM equity funds slowed to $1.6bn. Elsewhere, global money was increasingly worried about EM equity outlook – all major regional and country fund categories reported outflows, albeit nothing dramatic. We read negatively into the data, [pending] developments on the Russia-Ukraine border and given the abating global interest to EM stocks. EM assets are likely to underperform global peers for now,” Smolyaninov said.

As bne IntelliNews reported on its weekly stock market wrap on Twitter (@bneintellinews), Russian stocks saw mild selling, with the leading dollar-denominated Russia Trading System (RTS) falling from recent highs of just over 1,500 to retreat to a low of 1,429 this week, reducing the YTD return to just 2%.

There was modest selling of sectors like utilities and metallurgical companies. However, the large inflows into banking stocks were unaffected and remain up 26% YTD. Investors have clearly been taking a position assuming an economic recovery in 2021 as banking stocks are often used as a equity market proxy for economic recovery, and that belief has not been affected by the recent nerves.

Bond investors are even more impervious to the gyrations of geopolitics, although Russia-dedicated bond funds also experienced very minor outflows, while combined emerging markets (EM) bond funds that include Russia saw $70mn of inflows compared with $20mn of outflows the week before, which was the best result since February.

The foreign investors share of the OFZ market has been falling slowly since the recent peak of 31.8% in June last year, and had currently dropped to 22.7% as of February. However, the amount invested has risen over that time from RUB3.068 trillion to RUB3.140 trillion ($40.7bn).
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