10 megatrends shaping emerging Europe in the post-pandemic 2020s

Meet “The Botox”, the mafia boss who’s singing like a canary about the Erdogan regime on YouTube

Kyrgyzstan’s gold grab

Leading Russian supermarket chain Magnit buys rival Dixy

Baltic states want to ensure the golden goose keeps producing unicorns

Mongolia’s apocalyptic sandstorms

Money laundering pushes up property prices in Western Balkan cities

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Poland is in for another major tussle with the EU after the bloc's top court issued an interim measure on May 21 to stop lignite mining at the Turow mine near the border with Czechia. Poland says it will not comply because of energy security issues.

Mining must stop at Turow immediately until the Court of Justice of the EU (CJEU) reviews the Czechs' complaint against plans to expand the mine. In early 2020, Poland allowed PGE to keep mining lignite – which feeds the adjacent Turow power plant, a major installation supplying up to 7% of Polish electricity – until 2026.

Poland says that the assessment was not necessary. In line with Polish law, if a mining extension is “motivated by rational management of the deposit without extending the scope of the concession”, it does not need an environmental impact assessment.

However, the CJEU said that the law in question may well infringe the EU’s Environmental Impact Assessment (EIA) Directive.

“It cannot be ruled out … that the Polish legislation infringes the requirements of the EIA Directive, according to which, in substance, the extension of an open-cast mining project must be subject to an environmental impact assessment or, at least, prior verification of the need for such an assessment,” the court said in a statement.

“In typical lignite mine-power plant set up, lignite must be fed to the plant on the spot, as it cannot be moved so easily as coal, for example on trains.

The Czechs filed their lawsuit at the CJEU in February, claiming that Poland granted the extension of the mine’s operations without carrying out an environmental impact assessment.

Poland says it will not comply with EU court’s order to stop Turow mine

Wojciech Kosc in Warsaw

www.bne.eu
The court also listened to the Czechs’ argument that to keep mining in Turow will likely mean considerable outflows of groundwater from the Czech Republic to Poland. Open cast mines like Turow typically cause such outflows from nearby locations.

Poland promised to build a screen to keep water on the Czech side but its construction will not be completed until 2023. The damage to the water table that will take place by that time is not reversible, the CJEU noted.

The CJEU also dismissed Poland’s argument that shutting down the Turow power plant, which would inevitably ensue once mining is stopped, would pose a threat to the stability of energy supply. “The electricity network operators are able to balance the electricity network in order to compensate for such unavailability,” the court said.

Hungary turns down EU's €9.4bn recovery fund credit line

Hungary has decided at the last minute not to take any loans under the EU’s Recovery and Resilience Facility (RRF), meaning that it has had to redraw its recovery fund plans, for which the official deadline was April 30.

Under the RRF, Hungary could receive HUF2.5 trillion (€6.9bn) in grants and HUF3.4 trillion (€9.4bn) in loans.

The decision follows talks between Prime Minister Viktor Orban and European Commission President Ursula von der Leyen on the NextGenerationEU recovery plan last Friday. There has been no detailed read-out of those talks but according to media reports the Hungarian strongman was told that drawing RRF money would require an overhaul of the country’s deeply corrupt public procurement process.

Hungary has denied an earlier Reuters story that said the Commission was deeply worried about public procurement in the country and that it had demanded reform before the Orban government could access the new funding line. According to the leaked EU report seen by Reuters, the country’s “competition in public procurement is insufficient in practice,” adding that that was linked to “systemic irregularities” that “led to the highest financial correction in the history of (EU) structural funds in 2019”.

By contrast, the Hungarian government is painting its decision not to draw the credit line as coming from its commitment to fiscal probity, despite the fact that it has taken out some much more expensive loans from Russia and China in recent years.

"Hungary is among those countries in the European Union that believe the crisis should be managed with as little indebtedness as possible," Gulyas said, adding that the government can still tap the loans until the end of 2023.
Hungary sold some HUF2.3 trillion in FX bonds last year and is set to take out a further HUF4.5 trillion in loans in the coming years on projects like the Russian expansion of the Paks nuclear power plant, the construction of the Budapest-Belgrade railway line and the establishment of the campus of China’s Fudan University. State debt surged to HUF38.4 trillion last year to 80% of the GDP with a 15pp spike.

Orban’s U-turn means that the country’s entire recovery plan has to be rewritten and universities could be the biggest victims of the cutback, analysts commented, particularly now that many of them have been put under an opaque foundation structure. Legislation on the transfer of the vast majority of higher education institutions to private foundations headed by political appointees is raising concerns in Brussels. The government planned to use some HUF1.5 trillion of the HUF5.9 trillion on university developments.

The EU recovery plan’s focus has drawn fire from government-controlled media. The EU set guidelines for using the funds, including promoting the green transition, smart, sustainable and inclusive growth and fostering social and economic cohesion among others. It also made social consultation a prerequisite but representatives of local governments, of which many are led by opposition parties, say there was no meaningful discussion about the use of EU funds.

Canada’s Centerra Gold on May 16 filed an international arbitration suit in an attempt at stopping the Kyrgyz government from taking further steps to nationalise the Kumtor gold mine.

The move came in response to Kyrgyzstan’s President Sadyr Japarov signing into law a bill opening the way to a state takeover of Kumtor and a $3bn fine for environmental damage issued by a Kyrgyz court. It is expected that Kyrgyzstan’s parliament will on May 17 appoint independent managers to run Kumtor for three months. The weekend saw Centerra Gold’s offices in the country raided, with documents seized.

It is not uncommon for new Kyrgyz governments to harass Kumtor’s operator, while ignoring any agreements reached by the previous regime, but the current regime – consolidating around nationalist firebrand Japarov, who last year took the helm from toppled ex-president Sooranbai Jeenbekov after his supporters busted him out of prison – has moved swiftly and heavily against Centerra.

The Kumtor open pit mine, which produces over 500,000 ounces of gold per annum, is Kyrgyzstan’s single largest contributor to GDP. It accounts for approximately 5-7% of national output. The enterprise behind the mine, located at an altitude of 4,000 metres in the vicinity of glaciers in the Tian Shan mountains, also amounts to Kyrgyzstan’s largest employer and taxpayer.

“Astonishing speed”
“...has acted with astonishing speed since the beginning of this year to undermine the basis on which the Kumtor Mine has been operated and has refused to engage with us on any matters it considers to be the subject of dispute,” Scott Perry, chief executive of Toronto Stock Exchange and NYSE listed Centerra, said in a statement.

Bishkek has also hit Centerra’s subsidiary Kumtor Gold Company with a $170mn tax claim, a claim the company is disputing.

The government’s actions have sent ripples of alarm, unsettling international financial institutions working in Kyrgyzstan.

In a joint statement, Canada and the UK warned last week that measures that “negatively impact trade and foreign direct investment will further undermine already fragile economic livelihoods of the Kyrgyz people”.

Hit hard by the coronavirus pandemic, Kyrgyzstan became one of the first countries to apply for emergency funding from both the World Bank and the IMF.
And consumption continues to grow. The amount of ice cream consumed in Russia is expected to grow by 1% by the end of 2021 to 3.1 kg per person, setting a decade-long record, the Centre for Industry Expertise of the Russian Agricultural Bank said on May 4.

"The volume of ice cream consumption in Russia at the end of the current year will increase by 1%, to a record over the past 10 years, that is 448,000 tonnes, or 3.1 kg per capita. The jump in consumption would be a continuation of the gradual increase in demand over the past 10 years. Given the cold Russian climate and the seasonal aspect of ice cream consumption, a further increase in export volumes may become a growth point for Russian producers," the centre said as cited by Tass.

Russia produced 451,000 tonnes of ice cream in 2020, up 8% year on year, which is expected to climb to 463,000 tonnes by the end of this year. And Russia is starting to sell its ice cream abroad, with exports growing eight-fold over the last decade from 3,000 tonnes in 2010 to 26,000 tonnes in 2020.

"Kyrgyzstan is in a terrible economic situation, it totally depends on external support. And the international response will be harsh. If the funding stops, Kyrgyzstan will be in trouble. This country cannot afford to lose it," the Financial Times quoted an anonymous foreign source working with the government and previously associated with Kumtor as saying.

Kyrgyzstan saw its GDP shrink by over 8% in 2020 amid the impact of the global pandemic and lockdown measures. It is the second poorest country in Central Asia, being only slightly better off than Tajikistan.

**EBRD’s “deep concern”**

The European Bank for Reconstruction and Development (EBRD) in a statement released on May 16 expressed “deep concern” that the Kyrgyz parliament could decide to begin the process of a state takeover of Kumtor Gold Company.

“We believe that any such decision would put in doubt the commitment of the Kyrgyz Republic to stand by its obligations to its international partners and foreign investors. It risks the country's economic recovery and its reputation as a secure place for investors to operate," the EBRD said.

The EBRD said it would work with its shareholders, the foreign and domestic business community and other international financial institutions to highlight the negative consequences of Kyrgyzstan's course of action and to mitigate its impact.

"The EBRD is committed to working with the Kyrgyz authorities on improving the business climate and investing to change people's lives for the better," the EBRD added.

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Russian ice cream consumption to hit new record of 3.1kg per person

**Ben Aris in Berlin**

British Prime Minister Winston Churchill was driving through Moscow during the depths of winter on his way to meet Stalin during WWII. On passing a cluster of Russians on a street corner Churchill asked his aide de camp what the people were doing out in such cold weather.

“They are eating ice cream, sir,” the aide told him.

Churchill paused and replied: “These people will never be defeated.”

Everyone loves ice cream and even in Soviet times the one consumer luxury that remained widely available was the Plombir ice cream cups, beloved by Soviet children and still available today.

Since the fall of the Soviet Union ice cream consumption has risen as a plethora of fancy imported ice creams arrived on the market. It is telling that amongst the very first foreign investors into the newly independent Russia was Baskin Robbins, the world's largest chain of ice cream speciality shops.

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Ice cream sales in Russia were hurt by the coronavirus after kiosks and cafes were forced to close during the lockdown, but consumers simply shifted to ordering online or buying ice cream in stores.

And the business is increasingly domestic after imports are expected to diminish again by 20% this year to 15,000 tonnes against 19,000 tonnes a year earlier, partly as ice cream imports are very sensitive to FX fluctuations, and last year’s ruble devaluation made imports expensive.

At the same time, the government is working to improve food standards and a new system of labelling will be introduced this summer as well as a green certification standard.

mostly going to other Commonwealth of Independent States (CIS) countries. Exports are expected to reach a record 30,000 tonnes by the end of 2021.

Russian manufacturers have turned to Soviet recipes, which have mass appeal and enjoy sustained demand from the former Soviet republics. The biggest importer of Russian ice cream is Kazakhstan, which in 2020 boosted its volume of imports by 27%, to 11,200 tonnes, and in monetary terms by 2%, to $20mn.

The United States is also a big buyer of Russian-made ice cream thanks to its large Russian diaspora population. Exports to the US tripled in 2020 to 3,800 tonnes, worth $9.2mn.

BRICKS & MORTAR:

What happens if Russia’s mortgage subsidy programme ends?

Ben Aris in Berlin

Almost as soon as the double whammy of the coronavirus (COVID-19) pandemic and a concurrent collapse in oil prices hit Russia’s economy last March, the government reacted by introducing a mortgage subsidy programme that cut the effective rate for would-be homeowners buying newly built residential housing to 6.5%. The programme has been a resounding success; in fact maybe a little too successful, as the Central Bank of Russia (CBR) is worried that a housing bubble may be forming as demand for new apartments has ballooned.

The programme is due to end this summer and industry players think that it may be cancelled or at the very least trimmed down. What will happen then is not clear.

The goal of the programme was multiple. The increased demand for housing allowed construction companies to keep working and avoided layoffs in one of the key growth-driving sectors of the Russian economy.

The flow of loans also provided relief to the banking sector, where mortgage loans have become one of the main money earners for the sector.

The Kremlin's long-term goal of increasing homeownership got a boost too, as it acts as “social cement” and improves the average quality of life. Owning property, so the argument goes, makes people less likely to protest, as well as more subordinate to the state thanks to the dependence on state services and their personal investment into bricks and mortar.

Russians jumped at the deal. Real estate developer says that each percentage point that rates are reduced by adds millions of new customers for whom a mortgage becomes affordable. And rates have been falling steadily for over six years, each year significantly expanding the pool of potential buyers.

The rate cuts stopped this March this year when surging inflation finally forced the central bank to bring its six-year-long easing cycle to an end, but economists believe that the current surge in inflation is the hangover from last year's crisis and rates could start to fall again as soon as next year.

Housing boom

Since the mortgage market appeared in about 2003 – the first mortgages were offered by Delta Bank, a USAID funded initiative, as growth of mortgage use is equated with
Companies & Markets

promoting democracy by the US government for many of the same reasons that appeals to the Kremlin – the market really only took off in around 2008 and has been growing very strongly ever since.

Initially Russians used a mortgage credit as a bridge loan between buying a bigger place and being able to sell their old place to pay for it. Mortgages were often paid off in full within a few years or less. Few held their mortgages to term.

That has changed dramatically now. Developers report as much as half to three quarter of their sales are now paid for with a mortgage and that the borrower intends to keep the credit to term.

The mortgage market has proved a boon for the four market leaders, PIK, Etalon, LSR and Samolet Group, which have seen steady growth and a steadily expanding pool of potential customers.

PIK is the stand-out front-runner in the business and an investors’ darling, putting in strong results quarter after quarter. Samolet is the new kid on the block, profiled by bne IntelliNews just before its IPO last year, having listed on Moscow Exchange (MOEX) in October with a valuation of $750mn, and has seen its share price soar by a third in the first quarter of trading this year. PIK was also profiled by bne IntelliNews in 2017 at the start of its run and has seen its share price go up by 60% in the same period.

All in all, Moscow housing sales were up a robust 22% last year, despite the coronacrisis, and residential sales soared across the country thanks to the government subsidy programme. The market leaders saw their profits rise even faster, with Samolet seeing revenues up by a third (36%) in the first quarter this year alone, its first financial results since going public.

“The sector results were mostly strong in 1Q21, potentially featuring one of the last periods of full support from subsidised mortgages and an outperformance by leading developers with wide market offers,” VTB Capital (VTBC) said in a note. “Quarterly mortgage origination was up 53% y/y to RUB1.2 trillion, while the [interest] rate hit a record low 7.0%.”

As a group the listed developers guide for a blended volume uplift of 25% y/y for this year, reports VTBC, ahead of analysts’ expectations, although that result may come in lower if the government chooses to end the subsidy programme.

But even if the programme is ended the rates may come down anyway. The previous programme subsidised rates to bring them down to 10% when the market rate was 12% but following the CBR cuts they fell below 10% on their own and that programme was ended. While the CBR rates are anticipated to climb to 5.5% this year, crisis-induced inflation pressure is expected to fade as the year wears on and the CBR could go back to cutting rates next year that will bring them down again to the 6.5% level or lower.

Housing bubble?
The decision on ending the programme has not been made and the big increase in demand it has created has led to the increase in housing prices to the point where the CBR has said out loud that it is worried about the appearance of a housing bubble. The regulator is against extending the programme again.

“But primary market prices have been climbing in the last twelve months, driven by developers’ price over volume strategy, their desire to maximise returns for projects under pre-escrow regulation and elevated demand, particularly due to tailwinds from the subsidised mortgage programme. As primary deals added 30% y/y in 1Q21 in Moscow, prices climbed 20% y/y,” VTBC reports.

This supported the primary market, with prices in Moscow adding 21% y/y in 1Q21, according to Metrtrim, while in St Petersburg prices added 26% y/y in 1Q21, according to Real Estate Bulletin. Secondary markets in both cities saw a comparable advance in prices (up 18- 23% in 1Q21), according to R&D Centre ‘City Development’ and Real Estate Bulletin.
Debating the programme

The mortgage lending programme is a large-scale subsidised primary mortgage lending programme introduced in late April 2020: the current cumulative origination stands at RUB1.1 trillion ($14.8bn) versus total mortgage lending of RUB4.2 trillion ($56.7bn). This is about 1% of annual GDP and about a quarter of all mortgage lending during this period.

The first programme had the following conditions:

• borrowing rate of 6.5% or less;
• only primary market borrowing is eligible, i.e. new housing;
• max borrowed amount of RUB8mn and RUB3mn for Moscow and St Petersburg versus other regions respectively;
• minimum down payment of 20%;
• total lending cap under programme at RUB740bn;
• the lender keeps full credit risk and is reimbursed monthly an amount equal to Central Bank of Russia's [key rate + 3pp max (6.5%, lending rate)] on the residual size of the loan;
• expiry date set at 1 November, 2020.

However, in November the programme was extended with the following changes:

• max borrowed amount increased to RUB12mn/RUB6mn for Moscow and St Petersburg/other regions;
• min down payment reduced to 15%;
• total lending cap lifted to RUB1.8 trillion;
• expiry date pushed to 1 July 2021.

The programme is due to expire in the summer but analyst say it may be extended, although they are expecting more adjustments to the conditions such as the possible exclusion of regions with the largest price rises.

VTBC says the current debate is mostly shaped by an attempt to reconcile three visions for the programme:

• A 'growth focused' vision of the programme assumes that it has been effective in supporting housing demand and suggests that it thus needs to be extended – preferably committing public support for another 34 years.

• A 'price stability focused' vision of the programme assumes that it has been key to the spike in real estate prices, and thus ultimately reduced affordability, so if housing inflation were to be allowed to run unchecked it could ultimately result in new financial vulnerabilities. Therefore, this argument goes, the programme must be either abandoned or constrained to a regional instrument.

• A 'public finance focused' vision of the programme is concerned with its efficiency, i.e. how much marginal demand the programme delivered per unit of funding and with accumulating floating rate liabilities at uncertain future cost for the tax payer.

What next?
The end of the CBR's easing cycle will already put a brake on residential real estate growth. Interest rates are not expected to rise dramatically but the overnight rate has already been raised from 4.25% at the start of this year to 5% after the CBR hiked in March (25bp) and April (50bp). CBR Governor Elvira Nabiullina kept the door open to more hikes later this year and analysts say another 50bp could be added to the prime rates.

Samulet told bne IntelliNews in a recent interview that it will not increase prices and that banks offering loans won't raise rates as fast as the central bank to maintain their market share in what has become an ultra-competitive segment.

In the first quarter the area under construction of residential real estate contracted by 13% y/y to 100mn sqm, the sixth consecutive quarter of contraction in Russia, as smaller and medium-sized players were unable to adjust their operations to the new escrow legislation requirements introduced last year after financing construction using pre-sales was banned. The smaller companies lack access to large-scale funding and are being pushed out of the market.

“Thus the sector consolidation continues, with the share of the ten largest companies increasing 1.5pp y/y to 19%. The implementation of escrow accounts is picking up, and 57% of the total portfolio (+27pp over the last 12 months) is being realised under this scheme as of March 2021, Dom.RF figures indicate,” VTBC reports. “According to the United Registry of Homebuilders, 1,978 homebuilders in Russia have portfolios of less than 100k sqm and account for 40% of the area under construction, which could trigger a further narrowing of the sector,” VTBC adds.

In the first quarter residential completions increased 15% y/y to 17.8mn sqm, reflecting a pick-up in the construction pipeline in the second half of this year.

The total amount of construction permits issued during the quarter reached 871 (+15% y/y) for a capacity of 7.2mn sqm vs. 4.7mn sqm as of the first quarter, as the overall project size has increased.

“The second quarter of this year will have a low comparison base, as last year construction sites were frozen from early April to mid-May in a number of regions, including the core Moscow Metropolitan Area,” VTBC reports. “It represented 30% of country completions in 1Q21 and 50-100% of sales for listed developers, while its higher prices (a more than twofold premium to Russia) brought favourable construction economics to local operators.”

The government estimates that completions will correct 5% y/y to 78mn sqm in 2021, according to Deputy Prime Minister Marat Khusnullin. The long-term target of 120mn sqm annual completions by 2030, a goal that is part of the 12 national projects, remains intact, implying a 2020-30 compound average growth rate (CAGR) of 4% versus the 3% observed over the last ten years.
Serbia aims to boost energy and mining sector to 10% of GDP in 10 years

Serbia's mining and energy sector is expected to contribute 10% of the country's GDP within 10 years, the government announced on May 21.

“This year, we are drafting an important legislative framework in the field of energy and mining, but we are also making very important decisions and embarking on a new, green and sustainable path of energy and mining,” Serbia’s Minister of Mining and Energy, Zorana Mihajlovic, said.

Serbia has already adopted a package of legislation on the energy and mining sectors. On April 12 the parliament adopted two new laws – the Law on the Use of Renewable Energy Sources and the Law on Energy Efficiency and Rational Use of Energy – as well as amendments to two existing laws, the Law on Energy and the Law on Mining and Geological Research.

Mihajlovic noted that the new Law on Energy Efficiency and Rational Use of Energy to help citizens improve insulation in their apartments stating that Serbia now consumes approximately four times more energy than the EU average.

The first contracts with citizens regarding the improvement of energy efficiency are expected to be signed at the end of the summer with the help of local governments, she said.

According to Mihajlovic, this year these project will be financed by local self-governments and the state budget, but the next year, Serbia expects financial support from the international institutions.

“We expect to have an average of around €150mn per year for such projects,” Mihajlovic said.

Meanwhile, the Law on the Use of Renewable Energy Sources (RES) aims to enable new investments in RES and enable an increase in the share of RES in total energy produced.

The new law will increase the involvement of citizens in the energy transition enabling them to become customer-producers, which means that electricity customers can instal solar panels on the roofs of buildings to produce electricity for their own needs.

The proposed amendments to the Law on Energy will enable the harmonisation of domestic legislation with the EU acquis communautaire, ensure security of supply and supply of energy and energy sources, and enable the entry of new participants in the energy market. The amendments to the law create the legal basis for the adoption of the Integrated National Energy and Climate Plan.

The main goal of passing the law on amendments to the Law on Mining and Geological Research is to create conditions for more efficient and sustainable management of mineral and other geological resources, as well as to increase investments in geological research and mining.

“Among the mineral resources in Serbia are deposits of coal, iron ore, gold, silver, copper, zinc and lithium worth up to $200bn”

Among the mineral resources in Serbia are deposits of coal, iron ore, gold, silver, copper, zinc and lithium. Earlier, Mihajlovic said in an interview with Happy TV that the estimated value of mineral reserves in the country exceeds €200bn.

Chinese company Zijin said on April 7 it plans to invest $408mn in production and ongoing projects in Bor and Majdenapek mining complexes in eastern Serbia, and plans total investments of over $1.1bn in three years. However, Zijin has run into controversy in Serbia, where Mihajlovic announced a week later that the Jama mine owned by the company had been shut down by inspectors because it was polluting the environment.

Also in Serbia, international mining Rio Tinto is developing the Jadar lithium-borates project at a deposit it discovered in the Jadar river valley in 2004. The site is estimated to contain 10% of the world’s deposits of lithium. Rio Tinto reported a maiden ore reserve in December, announcing that the Jadar project has the potential to produce both battery-grade lithium carbonate and boric acid.
Turkey’s TAV seals buyout of 85% stake in Almaty International Airport

Kanat Shaku in Almaty

Turkey’s TAV Airports and Kazakhstan Infrastructure Fund (KIF) have completed the buyout of Almaty Airport, with TAV taking a stake of 85% and KIF, managed by VPE Capital and backed by Kazyna Capital Management (KCM), receiving the remaining 15%. The capacity of the airport is to be doubled with a $200mn investment.

The deal has been sealed despite the difficulties posed by the coronavirus pandemic. The previously agreed purchase price of $415mn was revised down to $365mn to take account of decreased global passenger volumes. Subject to the recovery of passenger traffic to pre-pandemic levels, the consortium will pay an additional $50mn in coming years.

The project in Kazakhstan’s commercial capital has been hailed as one of the largest single foreign direct investments (FDI) in the Central Asian nation outside of the resources sector as it is set to bring in over $600mn in foreign capital while also drawing leading international airport management expertise for a key Kazakh infrastructure asset.

New terminal, modernisation
The completion of the buyout was the first step in a $655mn infrastructure project that will feature the construction of a new international terminal, the modernisation of the domestic terminal and the adoption of the International Air Transport Association’s (IATA’s) Optimum Level of Service standards across the facility.

Ainur Kuatova, CEO of Kazyna Capital Management, which played a key role in facilitating the deal, said: “Kazyna Capital Management’s mission is to promote sustainable economic development in the Republic of Kazakhstan, and this project does just that – at scale. We’re proud to be part of this milestone project that brings in excess of USD 600M in foreign capital along with leading international expertise into a key infrastructure asset. For every dollar that KCM is investing, foreign partners are investing more than 20 dollars.”

Almaty Airport, the home of Kazakh flag carrier Air Astana, served 6.4mn passengers in 2019, up 13% y/y. The airport was able to deliver a net profit in 2020 despite the pandemic-driven traffic drop to 3.6mn passengers during the year. Local airlines Bek Air, SCAT Airlines and Qazaq Air also use the airport as their base.

Major regional hub
Almaty, prior to the pandemic, was a major regional transportation hub for 26 passenger and eight cargo airlines serving multiple destinations. Air Astana provided nearly half of the passenger traffic, whereas Turkish Airlines led in cargo.

Roland Nash, partner at VPE Capital, said: “This project represents one of the largest foreign direct investments into Kazakhstan outside of the natural resources sector. The expansion and renovation of the airport will deliver significant economic and social benefit for the Republic of Kazakhstan, with the new terminal expected to increase total passenger capacity to at least 14 million passengers a year. We are proud of our role as a major driver of this project and as a catalyst for attracting international capital and expertise into an important infrastructure asset in Kazakhstan.”

TAV will put up the investment of $200mn over the next three years to build the new international terminal, which is set to double the airport’s capacity, taking it to over 14mn passengers annually.

The World Bank Group’s International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) are financing 50% of the acquisition and 100% of the new terminal investment with a loan. The financing is scheduled to close by the third quarter of 2021.

TAV Airports president & CEO Sani Sener, said: “Almaty is strategically located on ‘the modern Silk Road’, established from China to Europe and Africa through air transport. Kazakhstan is the largest country in the region – both geographically and economically – and Almaty is the largest city in the country producing 20% of Kazakhstan’s GDP. “

“As part of the largest airport management group globally, we’ll be promoting Almaty and Kazakhstan as the business capital of the region, as a country with a rich cultural heritage and diverse tourism opportunities,” Sener added. “Our expertise in route development will help to increase the connectivity of Almaty to the world.”
The Bucharest Stock Exchange (BVB) has been setting record after record in recent months. Not only has its main index, the BET, soared past its peak before the global financial crisis to reach a new all-time high, there has also been intense activity on AoRO, the dedicated market for smaller companies that has seen a string of new listings and bond issues. The chairman of the board of the BVB, Radu Hanga, talked to bne IntelliNews about the reasons behind the surge in activity.

In April, the BET exceeded the threshold of 11,000 points for the first time in the exchange's 23-year history, and has continued to rise, peaking at over 11,700 on May 12 and remaining over 11,600 since then. The BET-TR, which includes dividends, has also set new records. In the first three months of 2021, the two indices soared by 14% and over 12 months the BET rose by 46.7% and BET-TR by 54.4%. The value of transactions with all types of financial instruments increased by 30.4% at the end of the first three months of 2021 compared to the same period last year, according to bourse data.

This followed record levels of activity in 2020, when investors traded financial instruments amounting to RON18.3bn (€3.77bn), up by almost 25% on 2007, the previous high.

Looking at the reasons for the strong performance, one is the Romanian capital market’s upgrade by FTSE Russel to emerging market status. In September 2020, the BVB held its first session as an emerging market, which put it into the universe targeted by a wider category of investors, namely emerging markets funds that together have billions of euros under management.

“The upgrade to emerging market status is one factor which increased the visibility of the market for foreign investors,” says Hanga.

“On the other hand we have the local ecosystem with higher liquidity and lower interest rates, which creates attractiveness for alternative investments like the Bucharest Stock Exchange.”

He explains: “There is an excess of liquidity in the market coupled with very low financing costs. If you look at the banking sector, lending is growing but at a slower rate compared to the deposit base. In Romania, we see banks accumulating cash in deposits, a low interest rate for deposits, and a decline in the loan to deposit ratio.” That has allowed banks to be more selective in picking solvent companies that are well capitalised to lend to.

“Here we come into the picture as exactly the channel that feeds capital into companies. The local financial sector is developing now, standing not only on bank financing but also on the capital market,” adds Hanga.

This is part of a global trend, and markets around the world have continued to rise since the “vaccine bump” last autumn, when breakthroughs by major pharma companies indicated the end of the coronavirus (COVID-19) pandemic had come a bit closer. However, BVB was the first of the stock exchanges in the eastern EU member states whose main index (not including dividends) outperformed the boom years before the previous crisis.

There’s a virtuous circle as the current high valuations of companies on the BVB make the market more attractive for other companies. “Of course companies are now looking at the stock exchange as a financing route in connection to the valuations they expect. Now we have quite interesting valuations that increase our visibility and attractiveness as a financing route,” Hanga says, reporting a strong pipeline of companies at various stages of addressing both the main market and AeRO.

The biggest IPO in the pipeline is that of state-controlled hydropower company Hidroelectrica. Anticipated for years and put back multiple times, the latest from the company’s management is that Hidroelectrica will launch on the exchange potentially as soon as the end of this year. Given the sheer size of the company – its market value is estimated by minority shareholder Fondul Proprietatea at over €5bn – this is an important event for the Romanian capital market.
“We are doing our best in order to prove that the Bucharest Stock Exchange is the best place to be for Hidroelectrica, in order to increase the transparency, the image of the government if it decides to do this step,” says Hanga. “We rely on the fact that given the very good performance of the already listed state-owned companies we are going to see steps made by the state in this direction. If this is going to happen, it will help us in order to obtain the emerging market status also from MSCI. But we are not relying only on Hidroelectrica. We have two IPOs on the main market in the pipeline and we see the picture already improving in this area.”

Meanwhile, there has been a positive evolution in the AeRO market over the last two to three years. AeRO was launched in 2015, taking over from the former Rasdaq platform that hosted smaller, mainly former state-owned companies following the mass privatisations of the 1990s. Recently, however, it has been the go-to source of financing for smaller Romanian companies; the requirements for AeRO are less stringent than for the BVB main market.

“We see the ecosystem improving. The smaller companies are looking with greater interest towards capital market financing and of course that translated into a lot of new listings, especially on the AeRO market. We see this tend accelerating, in terms of liquidity and the market capitalisation of the AeRO market, which is reaching new highs,” Hanga tells bne IntelliNews.

“In 2019-21, more and more private entrepreneurial local companies have been using the platform as a way of financing. Companies are raising capital in the form of debt, through bond issues, and companies are raising equity using the AeRO market. The numbers are quite spectacular: in the first four months of this year alone, there have been nine bond issues on AeRO and seven companies listing. A few weeks ago there was a period when we had almost daily events with companies coming to the market. We see this trend continuing going forward.

“The information we have from the brokerage community is that there is a strong pipeline of companies at different stages of accessing the market, not only for AeRO; we also have a smaller companies addressing the main market through IPOs.”

While the BVB is open to companies from all sectors, it has been actively working with certain sectors that are better represented in the Romanian economy and have strong growth potential, specifically technology and agriculture. The exchange is getting closer to the two sectors to raise its visibility as a financing opportunity.

IT, says Hanga, has been a strong driver of the economy in the last few years, and to tap into its potential the BVB signed a memorandum of understanding with the highly successful local equity crowdfunding investment platform Seedblink in March. The two will work together to ease access to financial capital for companies, for example by supporting promising tech start-ups from SeedBlink’s portfolio to assess the opportunity to go public.

The first company to list on AeRO back in 2015 was from the IT sector. Six years later, Bittnet Systems announced it was entering the FTSE Global Micro Cap and FTSE Total-Cap indices. More recent companies to tap the market were online furniture and home decor retailer Vivre Deco and cyber-security company Safetech.

Agroland, operator of the largest network of agricultural stores in Romania, was listed on the AeRO market on March 1. The company’s shares soared over four times in the first trading day when its market capitalisation reached RON244mn. The very latest listing was by dairy company Laptaria cu Caimac, which went public on May 21.

The next goal

Asked what the BVB’s new goal is after achieving its long-held ambition to be elevated to emerging market status – the driving force behind multiple reforms in the last few years – Hanga says there is still a lot to do to grow the importance of the BVB as a financing route for the local market.

“Our target is to increase the presence and the importance of the Bucharest Stock Exchange as a financing source for the Romanian economy. This is a story that is not going to end. One of the strategic pillars for the Bucharest Stock Exchange is to increase the market capitalisation of the exchange towards 20% of Romania’s GDP.”

The fourth edition of the BVB’s Made in Romania – aimed at the development and promotion of the Romanian entrepreneurial environment – launched in April, for the first time using a new platform developed in partnership with Microsoft Romania. The aim of the scheme is to increase the visibility of the local entrepreneurial system, and bring together entrepreneurs, investors, brokerage houses and advisers.

Around 600 companies have taken part in Made in Romania, out of which some have issued bonds and others have ended up listing. The financing rounds that companies in the programme have carried out in recent years through the BVB have a total value of around €80mn.

Once the pandemic recedes, the BVB plans to step up its efforts among retail investors. In addition, the bourse recently launched an initiative to improve research for companies that again will help to raise the visibility of listed companies.

The BVB’s management are also looking at diversifying revenues streams and its product portfolio, for example by becoming more active in the data vending area. Probably the most important development is the central counterparty. This is being built by the Bucharest Stock Exchange in partnership with OPCOM, the Operator of the Romanian Electricity and Gas Markets. This co-operation will bring into the market derivatives not only on stocks and indices, but also on energy products. •
Leading Russian supermarket chain Magnit buys rival Dixy

Ben Aris in Berlin

Russia’s regional supermarket specialist and one of the two biggest chains Magnit is in a deal to take over rival Dixy and add over 2,500 supermarkets to its distribution network, almost doubling its size in the process, Magnit said in a press release on May 18.

Magnit will acquire the shares in Dixy through its main operating subsidiary Tander and take over the 2,651 stores in Russia owned by the Dixy Holding Limited.

Dixy is in the top five largest chains in Russia and has been struggling for years to lift its game to compete directly with Magnit and the current market leader X5 Retail Group, but has never quite managed to pull it off.

“The total revenue of Dixy stores acquired (cRUB300bn) is about 18% of current Magnit’s. Thus post acquisition Magnit’s revenue to come to RUB2 trillion – pretty close to X5, and gives a good chance to catch up the leader’s place in the future,” Sova Capital said in a note.

MAGNIT'S FOUNDER AND CEO SERGEI GALITSKY DECIDED TO QUIT AND SOLD A 29% TO STATE-OWNED VTB BANK IN FEBRUARY 2018, IN A CONTROVERSIAL DEAL. AT THE TIME MAGNIT WAS A PORTFOLIO INVESTORS’ DARLING TRADING WITH A P/E RATIO MULTIPLE TIMES HIGHER THAN THE BULK OF RUSSIAN STOCKS. HOWEVER, MINORITY SHAREHOLDERS PROSPERITY CAPITAL MANAGEMENT CALLED THE DEAL A "SPIT IN THE FACE OF INVESTORS", AS THE STAKE WAS JUST SHY OF THE 30% THRESHOLD THAT WOULD HAVE TRIGGERED A MANDATORY BUYOUT OF MINORITIES. GALITSKY RETAINED 3% OF THE COMPANY’S STOCK AND COULD HAVE SOLD 32% TO VTB, TRIGGERING THE BUY-OUT RULE.

In 2018 X5 surged past Magnit to become the biggest retailer in Russia on a revenue basis, but in 2019 a new management team took over and has started to put the business back on track, Jan Dunning, president and CEO of Magnit, told bne IntelliNews in an exclusive and in-depth interview in December.

Dixy also had big ambitions and that the 2014 sanctions imposed on Russia following the annexation of Crimea were a boon to large organised retailers as they forced a process of consolidation on the sector and increased both the revenue and market share of the leading chains, the president of the company at the time, Ilya Yakubson, told bne IntelliNews in an interview in November 2015.

But the company consistently failed to meet its revenue targets and couldn’t close the gap with its larger rivals. Dixy delisted from Moscow Exchange in 2018 and bought out the largest minority shareholder Prosperity Capital Management, which was a big investor in Dixy as well as Magnit, paying RUB8.9bn ($150mn) for its 20% stake.

In September 2019 it merged with liquor store chains Bristol and Red & White to become the third biggest retailer in Russia. But even that move was not enough to turn the company’s fortunes around.

Still, Dixy remains a major player amongst the ruthlessly competitive Russian supermarket scene. Its 2020 annual revenue was RUB281.4bn ($3.8bn) and in addition to the large net-
work of stores it operates 39 superstores under the Megamart brand that generated revenues of RUB17.4bn last year.

The majority of the convenience stores are located in Moscow and its surrounding region (1,329) as well as in St Petersburg and its surrounding Leningrad region (458 outlets).

The remainder of the stores in the convenience format are located in the Central, North-West and Urals federal districts. Most of the superstores operate in the Sverdlovsk region, with four stores located in the Tyumen region, according to the company.

The total selling space of the assets to be acquired is approximately 854,000 square metres, of which approximately 778,000 sqm are in the convenience format and 76,000 sqm in the superstore format. Over 90% of the selling space in the convenience format is rented, while 74% of the selling space in the superstore format is owned. In terms of floor space, Dixy is the same size as Magnit.

As part of the transaction Magnit will also acquire five distribution centres with the total space of 189,000 sqm located in Moscow, St Petersburg and the Chelyabinsk region.

For its part, Magnit’s Dunning told bne IntelliNews in the interview that it was looking scale up its operations through organic growth as well as acquisitions.

Magnit already made a $1.78bn bid to buy Lenta in April 2019, another of Russia's top five retailers, but was pipped at the post by steel tycoon Alexei Mordashov, who paid $729mn to by a 42% stake in the retailer as well as a cash offer to buy out the remaining minority shareholders, scooping up his first asset in the retail sector.

Dixy's president Yakubson's analysis that a consolidation of supermarkets happens in times of crisis seems to still be holding true as Russia's economy has been not only hurt by multiple shocks in the last year, but the eight-year long decline in incomes has also put a lot of pressures on retailers, who are slowly coming together to gain more market power and so better compete with the dwindling number of increasingly powerful rivals on the market.

**Agreement and deal price**

“Magnit has entered into an agreement with Mercury Retail Group Limited to acquire 100% shares of Dixy Holding Limited. The deal’s price is based on the current enterprise value of RUB92.4bn ($1.3bn) and is subject to certain adjustments depending, among other things, on the net debt and net working capital changes calculated as of closing date,” Magnit said in a press release.

The company went on to expand on its expansion plans and capex.

“At this stage Magnit’s full-year 2021 store opening, redesign and capex guidance published on February 4th, 2021 remains unchanged,” Magnit said. “The company's 2021-2025 long-term targets, including store openings, redesign, e-commerce development, margins, working capital improvements, leverage, dividend payments, etc. are also confirmed without any changes. It is expected that completion of the transaction will not limit the company's ability to continue dividend payments,” Magnit added in a comment that will please investors after it paid out $666mn in bigger than expected dividends in April.

Jan Dunning, president and CEO of Magnit, commenting on the deal said: “We are pleased to reach an agreement with Dixy Holding Limited shareholders to acquire their business. Magnit’s key strategic priorities focused on return-driven profitable growth stay unchanged. While organic expansion in all core formats remains our primary focus, we are happy to selectively take advantage of this opportunity to support further growth with the acquisition of the strong retail brand. Upon completion of the transaction, we will significantly strengthen our market positions in both capitals, which are strategically important for Magnit’s further expansion in the country. High-quality locations, well-known brand and strong customer base in Moscow and St Petersburg will allow Magnit to become one of the top-players in the respective regions. Moreover, given scale of the transaction this may substantially improve our overall market position in the sector.”

For the meantime Magnit intends to keep Dixy's business as a separate legal entity with the stores operating under existing Dixy brand. The deal awaits Federal Antimonopoly Services (FAS) approval and is planned for closure before 31 August, 2021.
Russian supermarket business rapidly consolidating as Lenta buys Billa Russia to become second-largest chain in Moscow

Ben Aris in Berlin

A day after a mega deal saw leading supermarket chain Magnit buy the third-largest chain Dixy, the fourth-largest player in the business Lenta announced it was buying smaller rival Billa to become the second-largest supermarket chain in Moscow.

The holding company Lenta LLC announced on May 18 that it had struck a deal to acquire the supermarkets business of Billa Russia GmbH for €215mn in cash.

“The acquisition significantly accelerates Lenta’s expansion in Moscow, adding prime retail locations that represent mature retail properties with a high sales density. As a result of the transaction, Lenta will have a total food retail market share of approximately 3% in Moscow and the Moscow region,” Lenta said in a press release.

Russia’s biggest cities of Moscow and St Petersburg are the focus at the moment and both have populations that are bigger than most Central European countries. Magnit built up its business in Russia’s far flung regions and for years largely ignored the twin capitals. But by buying Dixy Magnit adds some 2,000 stores in both Moscow and St Petersburg and significantly closes the gap with the current market leader X5 Retail Group.

The tie-up between Lenta and Billa also strengthens the hand of the company in the two most lucrative retail markets in Russia and will intensify the already fierce competition in the business.

Thanks to the economic slowdown of recent years and eight years of falling incomes, the retail business has been in a pressure cooker. The smaller players are increasingly being forced out and taken over by the biggest companies as the sector consolidates. The two-decade-long race to capture as much market share as possible by opening as many stores as possible came to an end a few years ago. More recently the leading companies have switched their focus from expansion to profitability and have started closing down some of the marginal stores. But a new phase of M&A started in the last two years that will probably end with a handful of champions.

Magnit already made a $1.78bn bid to buy Lenta in April 2019, but was pipped at the post by steel tycoon Alexei Mordashov, who paid $729mn for a 42% stake in the retailer as well as a cash offer to buy out the remaining minority shareholders, scooping up his first asset in the retail sector. Lenta is now positioning itself to take on both Magnit and X5 at least in the markets of Russia’s twin capitals.

Lenta’s CEO Vladimir Sorokin commented on the deal: “The acquisition of Billa Russia’s supermarkets gives us access to mature stores with established customer traffic, including in central Moscow neighbourhoods, and instantly doubles Lenta’s footprint in the supermarket segment in terms of the number of stores overall. Billa’s locations also enable Lenta to further expand its online express delivery offering across all of Moscow, supporting our ambitious plans to significantly grow the online business in the coming years.

“Becoming the second biggest supermarket operator in Russia’s largest and wealthiest metropolitan area represents a significant statement of intent backing up the ambitious strategic goals we announced at our recent Capital Markets Day. In addition, this acquisition demonstrates our commitment to continue playing an active role in the development of the grocery retail sector,” Sorokin said in the press release.

Billa Russia brings over 5,400 staff to the combined business and Lenta plans to integrate the 161 newly acquired supermarkets, supply chain infrastructure and Billa Russia employees into the Lenta retail network, the company said.

“Once the stores have been converted to the Lenta brand, the Billa brand will be discontinued within Russia,” the company said. Magnit has a similar plan and will maintain the Dixy brand for the meantime, but eventually will merge the two businesses completely.

Billa currently operates supermarkets with a total selling space of 138,051 square metres, the vast majority of them in Moscow and the Moscow region, as well as a distribution centre in Bykovo in the Moscow Region.

The transaction is expected to close in Summer 2021, subject to regulatory approvals from the Russian Federal Antimonopoly Service (FAS).
The average income of couriers is up to twice the average regional salary

**bne IntelliNews**

E-commerce is booming in Russia, but it relies on an army of couriers that are now earning up to twice the average salaries in Russia’s far flung regions, RBC reported citing a recent study.

Couriers earn an average RUB399 per hour ($5.42), which assuming 165 hours a month brings in RUB65,900 per month ($895), which is quarter (28.6%) more than the national average of RUB51,229 per month as calculated by Rosstat.

And the income, and its comparison to local incomes, varies greatly throughout the country; however, couriers earn more than the regional average everywhere in Russia except in Moscow, and in some cases twice as much, according to survey by the Center for Strategic Research.

“As usual, Moscow is the exception to the rule, where the average earnings of a courier are RUB55,600 per month against the city’s average income of RUB87,100”

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<tr>
<th>Region</th>
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</table>

Source: Center for Strategic Research.

Earnings of couriers and average for the region in some cities of Russia, thousand rubles:

The numbers are slightly skewed by the fact that many couriers elect to work part time, whereas some work 45 hours a week or more.

As usual, Moscow is the exception to the rule, where the average earnings of a courier are RUB55,600 per month against the city’s average income of RUB87,100.

In other regions the difference in income between the courier and local average can be extreme. In southern region of Saratov, a courier’s salary is RUB79,800 versus the regional average of RUB29,200. In Kazan, the capital of semi-autonomous Tatarstan, couriers get RUB85,400, while the average wage is RUB34,600. In Rostov-on-Don, the ratio in favour of couriers was RUB70,800 vs 31,000.

The main employers of couriers are Yandex.Eda, Delivery Club, SberMarket and CDEK.

Two thirds (65%) of the respondents said that working as a courier is the main source of income. About 20% work elsewhere, but of those half said that money from courier activities makes up a significant share of their income. 14% of couriers said that income from the job is less than 50% of total earnings.

The most popular mode of transport among couriers turned out to be a car, 28% of them use a bicycle, another 25% use public transport, and every seventh courier does not use any of these modes of transport.
Baltic states want to ensure the golden goose keeps producing unicorns

Linas Jegelevicius in Vilnius

Over the past 20 years, Estonia, a country of just 1.3 million people, has given birth to an astonishing seven unicorns, this year’s crop being Zego, which insures commercial vehicles, ID.me, which offers personal identification solutions, and Pipedrive, a cloud-based CRM tool.

The other Baltic states, Lithuania and Latvia, have been no slouches either. Lithuania in particular is enjoying a startup boom, with Vinted, the secondhand fashion marketplace, becoming its first unicorn (a startup with a value of more than $1bn) after a funding round at the end of 2019.

Nor is the region resting on its laurels. According to a report from Startup Wise Guys and EIT Digital, in the first half of 2020 the region saw significantly more funding than in the same period of last year (see chart on the right).

Overall, the number of startups per capita in the Baltic states has increased, especially in Estonia where there were 39% more startups than last year. Latvia and Lithuania also recorded increases of 15% and 4% respectively.

“I would be brave enough to say that coming from the Soviet past the Baltic states are a unique phenomenon, if not globally, than on the European scale for sure,” says Zane Bojare, Head of Marketing & Communications at Latvia’s Startup Wise Guys, one of the leading B2B accelerators in Europe.

The three Baltic states may have been incredibly successful at hatching startups – particularly given their size and communist heritage – but some big names in the local investment scene are now warning that they may be running out of steam, given the limited size of their local talent pools.

“Despite some challenges and setbacks, the Baltics, including Lithuania, are indeed a good place for startups. But it is worse now than it was five years ago,” says Ilja Laurs, a Vilnius-based serial entrepreneur and venture capital investor who chairs Nextrury Ventures. “I believe that Lithuania is starting to lose ground on many aspects against Estonia, Poland and the hot startup countries beyond the region, like, for example, Singapore.”

Making a splash

In interviews, top figures from the local startup scene told bne IntelliNews what makes the region special and shared their thoughts on whether and how it can maintain its incredible record.

Although all three Baltic nations are A-listers on the startup stage, it is Estonia that has made the loudest splash internationally. Like the other Baltic states, it had the benefit of a strong Soviet educational background, especially in sciences, and the links the countries reforged, first with the Nordic states and then with the rest of the European Union after accession in 2004. But Estonia was also quicker to make business-focused reforms and encourage inward investment.

Perhaps most importantly, with Skype communication software, which launched in 2003, Estonia made a spectacular start, helping it to build a tech cluster and develop an invest-
ment community. Skype’s success spurred the emergence of the next wave of entrepreneurs who had had experience of a unicorn, as well as a whole generation of angel investors with a tech entrepreneurship background. Estonia went on to generate Playtech gambling and trading software, Transferwise international money transfers, and Bolt, the taxi platform.

“Combined with Estonia’s very clear strategy towards e-governance and promoting startup culture, it was a win-win that is hard to catch up with – I mean for Lithuania and Latvia,” says Bojare of Startup Wise Guys, which was itself founded in 2012 in Estonia, and has now invested in more than 185 early stage startups with founders from more than 40 countries.

Bojare points out that Estonia’s commitment to tech startups is shown by the fact that two onetime presidents are deeply involved in the ecosystem: former president Toomas Hendrik Ilves and current president Kerste Kaljulaid.

She admits that Estonia is over-hyped, but this is another factor in its success. “Estonians are also master marketers and in a way that they have created a self-fulfilling prophecy, where sometimes the reality has to catch up to the hype,” Bojare says.

“Combined with Estonia’s very clear strategy towards e-governance and promoting startup culture, it was a win-win that is hard to catch up with – I mean for Lithuania and Latvia”

Yet Lithuania is now breathing down Estonia’s neck. Lithuania has had the biggest growth jump in new startups during 2019-2020, whereas Latvia really picked up the pace in November 2020, according to Agne Randyte from Versli Lietuva (Enterprise Lithuania), the Lithuanian business promotion agency.

According to Enterprise Lithuania, the country’s startup ecosystem now matches that of Estonia: there are 1,043 startups in Lithuania, compared to 1,121 startups in Estonia and 400 plus in Latvia. Randyte lists incubator Tesonet, digihealth startup Kilo Health, mobility services platform Trafi, 3D design company CGTrader, and microfluid tech company Droplet Genomics as names to look out for in the future.

“Estonia is famous for its digitalization, especially in the governmental sector. It is very easy to get an e-residency or open a new company,” says Sarune Smalakyte, head of the Rockit fintech and sustainable innovation centre in Vilnius. “No one doubts that Estonia is famous for its unicorns like Bolt or Pipedrive, but Lithuania has always been spotted with such startups as Vinted or [money transfer company] TransferGo,” she says.

Lithuania is now one of the biggest fintech hubs in the world, with a ranking of four (competing with hubs like the USA, Singapore, and UK) and this is our key area,” she says. Smalakyte picks out up and coming startups Ondato, which offers know-your-customer solutions, and financial research company StockInvest.us as top fintech hopes.

She also points out that the other Baltic states share many of the same advantages as Estonia.

“Most investors agree that the business infrastructure, tax regulations, and talent availability are quite similar across the Baltics,” she says. “An innovation-friendly environment, the strong performance of the regulatory system, the talent pool, and ease of doing business are among the strongest innovation dimensions for both Latvia and Lithuania,” says Smalakyte.

“What is more, acceleration programmes, collaborations between corporations and startups, the business angels network, and VC funds also play a big role in startup boosting in the whole region.”

Ivan Ladan, Founding CEO Marine Digital, a startup that originated in Riga, says that both Lithuania and Latvia have made a lot to progress in building a better environment for young companies to start a business.

“It might be so that Estonia has started these activities a bit earlier and established cooperation within the local ecosystem between the government, corporate business, and IT/industry entrepreneurs, while in Lithuania and Latvia these processes are still on the way to a great balance,” he says.

Bojare of Startup Wise Guys says Latvia and Lithuania have their own advantages too.

“If we look at Latvia specifically, its stronghold is what I like to call ‘heavy industries’ such as drones, hardware, robotics, biotech, medtech, deeptech. Also its recently passed employee stock option regulation puts it in a favourable position for founders looking for a good base in Europe,” Bojare says.

She also points out that both Latvia and Lithuania reacted very fast in reaction to the political crisis in neighbouring Belarus by welcoming tech migrants, which is already showing up in the startup numbers.

Think global

But the Baltic states are also coming face to face with severe constraints because of the size of their economies and their limited talent pools, which have become even smaller as the local superstars such as Wise (formerly Transferwise), Bolt, Vinted, Printify and others grow.

“The local market is small and there should be no illusion about a breakeven on the local markets,” says Ladan of Marine Digital. “Also, as not all industries are represented in the Baltics, one has to do the research in-depth before starting a project and locating it in a particular place, as an example Lithuania has the edge for fintech projects, Latvia has the edge
for engineering projects, Estonia might be good for some other industries/niches.”

Finance can also be a constraint. Laurs of Nextury Ventures says a big challenge now for Lithuanian startups is the rigidity of the local traditional banks. “They have become super-cautious [in issuing loans] and taking super extreme measures, which is a kill for any startup,” Laurs says.

This is even more damaging given the weakness of the local stock markets, meaning that startups often have to rely on local angels or venture capital funds until they can reach a size that enables them to do an international IPO or attract a global private equity fund.

This points to the reality that the small size of the Baltic states means that tech startups must think globally from the outset if they are to succeed, a feature that paradoxically has helped create so many local unicorns. Mindaugas Ubartas, head of Lithuania’s association of communication industries, Infobalt, says that to develop more unicorns, Lithuanian startups need to follow in the footsteps of Estonia and think globally, not regionally.

Marine Digital’s Ladan agrees that not all of the local funds and angels have the necessary international and global mindset yet, and some of the funds, for example, are willing to invest only in local operations. “For me it’s understandable, but this is definitely not related to business logic,” he says.

Turkey may be ripe for external debt crisis says Wells Fargo

Akin Nazli in Belgrade

Turkey has experienced multiple large currency devaluations over the past few years and could be ripe for some type of external debt crisis as well, US-based investment bank Wells Fargo has concluded in a note to investors entitled “Which Economies Are Most Vulnerable?”

Wells Fargo examined 25 vulnerable economies against eight criteria – Turkey got the worst ranking, a “red”, suggesting “High vulnerability,” for all of them. The most serious challenger to Turkey’s rock bottom status was essentially bankrupted Argentina – its blushes were saved by two “yellows”, suggesting “Moderate vulnerability”, for Argentina’s external debt stock and debt service, with longer maturities on servicing the country’s external debt compared to Turkey.

Another essentially bankrupted country, Venezuela, was ranked third worst. It receive a “green” for “Low vulnerability” in external debt stock and a “yellow” in debt service.

On May 13, the Institute of International Finance’s (IIF’s) Global Debt Monitor report for May showed that Turkey’s real sector had an FX-denominated debt stock equal to 37% of the country’s GDP at end-Q1.

Only the real sectors of Hong Kong and Singapore had higher FX-debt stocks than the Turkish real sector.

The Turkish government’s FX-debt stood at 25% of GDP, with only Argentina and Ukraine facing a greater burden.

The Turkish financial sector’s FX-debt also equalled 25% of GDP, behind the percentages calculated for Singapore, Hong Kong and South Korea.

Turkish households have no FX-debt via the financial system.

Also, when it comes to Turkey, critics, including this publication, have cautioned beware “inventive” growth figures. Turkey’s rivals in this field include Argentina, but China is the indisputable leader here. Turkey in 2020 signalled that it might challenge China for this “anti-award”, but then stepped back.

The chart above was on May 11 shared by Turkey’s industry minister Mustafa Varank (@varank). It shows industrial production growth figures of the G-20 countries in Q1 2021.

On May 6, Turkey’s finance minister, Lutfi Elvan, said that Turkey may release an official GDP growth figure of 5.5-6% for Q1, a double-digit number for Q2 and a figure higher than 5% for 2021 as a whole.
After a new acquisition, Sber wants to become a central player in the Russian digital music market

East West Digital News in Moscow

Sber, the state-controlled financial and digital giant, has announced a binding agreement to fully acquire Muzlab, a leader in the Russian B2B audio streaming market. The amount of the transaction was not disclosed, but industry publication VC.RU heard it was between RUB500mn ($6.5mn) and RUB1bn ($13mn at the current exchange rate), reports East-West Digital News (EWDN).

Muzlab has developed a platform, ‘Market Player,’ that uses artificial intelligence and data from visitors in physical venues to deliver targeted media content. Stores, cafés, commercial or public places create playlists automatically, manually, or with the help of music editors, to entertain their customers. Businesses can also manage audio advertising across all points of sale. Muzlab takes care of all interactions with copyright holders, including regarding royalty payments.

Founded in 2016, Muzlab serves such Russian and international clients as Burger King, Calvin Klein, Decathlon and Tatneft. The company claims to serves over 1,000 small and large companies with activities in some 300 cities, towns and villages in Russia and four other countries. Its reaches some 8mn users daily in over 10,000 locations.

As a result of the deal with Sber, the company will be integrated into the Sber ecosystem, which will “increase its audience dramatically and strengthen the company’s position in the B2B market,” according to Sber.

Going further, Sber aims to “create a new unique player in the Russian market, a player with B2C and B2B streaming products and complementary integrations between them.” This will be made possible by combining the activity of Muzlab with that of SberZvuk (SberSound), a B2C music platform recently acquired by Sber, previously known as Zvooq.

“Services that create high-quality products for B2B and B2C audiences have become popular in China, the USA and Europe, but an ecosystem-tier merger is a unique event the international market has not seen yet,” Sber quoted Muzlab CEO Viktor Khristenko as saying.

This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.

Bulgaria to get region's most powerful supercomputer

bne IntelliNews

The Bulgarian unit of France’s IT giant Atos said on May 11 it has fully delivered and assembled the EuroHPC supercomputer at Sofia Tech Park, which it claims will be the most powerful supercomputer in Eastern Europe and will help to leverage Bulgaria’s high-tech ambitions. Atos’ Czech Republic project teams have already started the configuration tests and the supercomputer is expected to start working operationally in July 2021,” the company said in a press release.

The supercomputer will serve the development of scientific, public and industrial applications in many fields, including bioinformatics, pharmacy, molecular dynamics and mechanics, quantum chemistry and biochemistry, artificial intelligence, personalised medicine, bioengineering, meteorology and the fight against climate change.

“As Europe’s leading supercomputing manufacturer, we are proud to be supporting researchers in industry and universities across Europe accelerate scientific discovery and to develop solutions for current challenges such as those in health, energy and agriculture,” Agnès Boudot, senior vice president, head of HPC & quantum at Atos, said in the press release.
Russia’s weather goes crazy

Russia’s weather has gone crazy. There is currently a heatwave inside the Arctic Circle where the coast is hotter than Mediterranean beaches. And Moscow has just reported its warmest days in May ever, where temperatures soared to over 30% while the rest of Europe was suffering from a cold snap that has seen gas prices used for heating double this “spring.”

The situation follows on from the end of last year, when there was no snow until December. (It usually starts some time towards the end of September.) In short: nothing is normal.

Russian President Vladimir Putin has been accused of ignoring the climate change issue and going slow on implementing Russia’s Paris Accord commitments, which the Russian government ratified in 2019.

However, after a string of environmental disasters last year, including the triggering of a federal emergency after mining giant Norilsk Nickel spilled over 20,000 tonnes of oil into Verkhoyansk also holds the Guinness World Record for the highest recorded temperature range of 105C, with a fluctuation from minus 68C to a high of 37C, according to the Moscow Times.

This year’s polar region heat wave will only have the Kremlin more worried. It has long been known that temperatures in Russia are rising two and half times faster than they are in the rest of the world, but a new study out this year suggests that the rate has increased to three times faster than the rest of the world.

The alarming result was part of a report published on May 19 by the Arctic Monitoring and Assessment Program (AMAP), which also warned of an increased risk of the region’s iconic sea ice disappearing completely in summer, before reforming in winter.

And Russia’s melting permafrost is a ticking CO2 emissions time bomb. Currently the ground temperature is about -3C on average but this has been rising by about one degree per decade. Frozen into the vast wastes in Russia’s interior are giga-tonnes of rotting prehistoric vegetation. If the ground temperature reaches zero then there could be a one-off massive release of CO2 into the atmosphere as gas trapped in the permafrost is released with unpredictable consequences. A process that was thought to take three decades looks like it is going to reach a climax much sooner than expected.

Going to be a long hot summer
Temperatures across the Arctic region are now 20-24 degrees higher than is normal. Temperatures in the Arctic Circle village of Nizhnaya Pesha hit 30 degrees Celsius (86.5

Heatwave
This is not the first time that Russia has had a heatwave. Last summer was the hottest since record-keeping began, as towns that are usually still blanketed by snow experienced blazing heat, thanks to the escalating climate crisis.

Arctic rivers, and a once-in-a-1,000-year snow melt flooded the TGKI power station near Murmansk, the Kremlin seems to have woken up to the fact that Russia’s permafrost is melting. As if to underline the point, there was a another large-scale oil spill this month by Russian company Lukoil.

Heatwave
This is not the first time that Russia has had a heatwave. Last summer was the hottest since record-keeping began, as towns that are usually still blanketed by snow experienced blazing heat, thanks to the escalating climate crisis.
degrees Fahrenheit) in mid-May, a measurement Scottish meteorologist Scott Duncan called “truly exceptional for any time of the year but mind-boggling for May,” as cited by Tass.

According to state meteorological service Roshydromet, the heat anomaly originates from south-western Siberia and has spread throughout most of central Russia.

In settlements near the Arctic Circle like Naryan-Mar, Arkhangelsk and Salekhard, the temperature has been hovering around 25-30C for several days, the Barents Observer reported. And from Siberia to Alaska, forest fires have also become a problem.

Weather anomalies have been recorded further south as well. St. Petersburg recording its hottest May 12 (26.7C) in 58 years just days after it saw snowfall, while Moscow and several other Russian cities broke all-time heat records on May 20.

Extreme weather events in Russia have doubled in frequency in the last 20-25 years, Roshydromet head Roman Vilfand said in an interview with the Ura.ru news website last year. UN scientists, who have observed a similar trend worldwide since 2000, concluded that climate change is the likely cause.

**Arctic Council summit**
The Arctic heat wave comes just as foreign ministers gather in Reykjavik, Iceland, for a meeting of the Arctic Council. Russia takes over this year to head the council for two years. However, the meeting was overshadowed by the meeting between Russian Foreign Minister Sergei Lavrov and his US counterpart, Secretary of State Antony Blinken, on May 20 as Washington and Moscow attempt to thrash out the terms of a new relationship.

Russia has thrown a lot of effort into developing the Arctic region as the retreating ice reveals vast amounts of new mineral wealth it can exploit. Currently the region is estimated to host over a third of Russia’s recoverable oil deposits and three quarters of its gas, not to mention the mineral deposits believed to be in the ground.

The Kremlin’s priorities as the council’s chair are socioeconomic development and protecting the Arctic against climate change as outlined in its Arctic Strategy 2035, published last year. However, the region is becoming increasingly politicised as rivals eye the riches in the ground.

“We are committed to advancing a peaceful Arctic region where co-operation prevails on climate, the environment, science and safety,” Blinken told his Arctic Council counterparts from Canada, Denmark, Finland, Iceland, Norway, Russia and Sweden.

“The Arctic as a region for strategic competition has seized the world’s attention” but “rule of law” must be ensured so that it remains “a region free of conflict where countries act responsibly,” he added.

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The statements were thinly-veiled warnings to China, which, although only an observer on the council, has made no secret of its interest in the vast and rich territory.

Russia has steadily beefed up its military presence in the Arctic in recent years, re-opening and modernising several bases and airfields abandoned since the end of the Soviet era. The Arctic Council was set up 25 years ago to deal with issues like the environment and areas of international co-operation, and its mandate explicitly excludes military security.

**Deserts in the south**
Putin used to joke that rising temperatures were not a problem for Russians who would “not have to spend so much on fur coats,” but the Kremlin is laughing less hard these days.

The rising temperatures are already turning large swathes of what was arable land into deserts in Russia’s south. This has not impacted Russia’s agricultural output yet, but it did affect Ukraine’s last year. It had a poor harvest due to drought.

While the land along Russia’s border with China could become arable and vastly increase Russia’s agricultural output in the next two decades, it will also destroy the agriculture in Russia’s “black earth” regions, some of the most productive land in the world.

In the remote north of Russia’s Caucasian Dagestan region, rich grasslands once sustained hordes of humans and animals alike, but in the last three decades they have been turned into desert dunes by the changes in the climate.

The problem is not new. Academic papers were written on the problem over a decade ago identifying millions of square metres of land in southern Russia and stretching into Central Asia that were in danger of desertification thanks to the poor management of land and badly designed irrigation systems. These are the regions that most intensively produce Russia’s wheat crop, with only minor production along the long border with China.
Global warming will open up Russia’s Far North to agriculture over next two decades

bne IntelliNews

The global climate crisis has a silver lining for Russia at least. Over the next two or three decades large swathes of Russia’s frozen northern regions will become warm enough to grow crops, according to the Natural Resources and Environment Minister Alexander Kozlov.

As bne IntelliNews reported, Russia’s permafrost is melting and temperatures in the Far North are rising two and half times faster than elsewhere in the world. That is bad news for the dozen cities located there since Soviet times that focus on extracting raw materials, and will cause hundreds of billions of dollars of damage, according to a series of studies, but it will also raise temperatures for farmers.

Currently the strip of land in the southern part of Russia’s border region with China is only marginally farmable and little agriculture goes on there, but within a short time this land will start to become productive.

And the negative consequences of rising temperatures are already hitting countries further to the south; Ukraine suffered a poor harvest in 2020 due to widespread droughts, whereas Russia’s fertile “black earth” adjacent regions slightly further to the north were unaffected and had the second-biggest harvest on record, yielding 131mn tonnes of grain.

As Siberia warms it will be able to produce all the straw cereals – wheat, barley, triticale, rye, etc., but also feed corn, grain corn and even soybeans, by the end of the century. With several harvests per year. Russia’s grain potential could jump from 100-150mn tonnes of grain per year today to 1bn tpy in 2080, according to experts.

Ukraine is expecting to see its problems with the warming climate increase as temperatures continue to rise and its crop yields will be negatively affected as the problems get worse. For Russia, its agriculture can simply continue to move north.

Melting permafrost
About two thirds (60-65%) of Russia’s territory is covered by permafrost, mostly located in central and the upper right-hand corner of the country.

Currently the average temperature of the frozen ground is -3C and experts believed that this was rising by about one degree per decade, although more recently they have been alarmed as the rate of the temperature rise has doubled in pace in some regions.

In an interview with the RBC news website, Kozlov said the government needs to learn how to “manage what is currently happening” with these rapid ecological changes.

“All such regions realise what will happen to them in 20-30 years: They will cease to be a northern region and will suddenly become agricultural,” he told RBC as cited by the Moscow Times.

Russia has been criticised for dragging its heels and, as bne IntelliNews reported in the “Cost of carbon in Russia”, while it has signed off on the Paris Accords, it has set itself a low bar by promising to reduce its greenhouse gas (GHG) emission levels to those of 1990, the end of the Soviet Union, which it already almost meets, rather than those of 2005 which is the Paris Accord norm and which would mean Russia would have to make much bigger cuts.

So far, any environmental action that has been taken has been led by Russia’s biggest companies, which were spurred into action after the Norwegian state pension fund banned investments into Russian companies with bad environmental, social and governance (ESG) scores.

That has started to change more recently as the government wakes up to the dangers after a string of environmental disasters last year, and it has begun to take concrete action.

New agricultural land
Although climate change may make new land available for agriculture, it will also lead to a more “nervous climate” in which unstable weather conditions will become the norm, said Alexander Kokorin, a climate scientist from WWF Russia.

“Global warming isn’t some ‘monotonous gradual process, allowing pineapples to grow in Siberia.’ It is a combination of two or three dozen different effects,” Kokorin told the 19rus.info news website last Tuesday.

And Russia’s black earth region has not escaped entirely from the problems Ukraine is already facing, as some arable land is facing “desertification”, which experts at the Institute of Geography also link to the climate crisis.

In addition to the problems agriculture is beginning to face, the
Russian government, along with all the governments in eastern Europe, has had an additional impetus to take action by the European Union (EU) “green deal” that is due to come into force next year. The EU is a major trade partner for all of the countries in Central and Eastern Europe (CEE) but from 2022 the EU plans to introduce a green duty that will be applicable to any “dirty” product that has been produced using emission-heavy inputs, especially energy. That will put a big dent in bottom lines and governments and companies are currently scrambling to re-engineer themselves to reduce the impact.

As part of these new measures the Russian government introduced its first carbon charge on the island of Sakhalin at the start of this year in a pilot scheme that prices carbon at $50 per tonne – a relatively high level compared to what carbon pricing costs have been suggested by other countries in the region – that could be rolled out across the whole country.

Putin has in the past downplayed the risks of climate change, saying that global warming might not be that bad and Russians, who can “spend less on fur coats.” But Putin has changed his tune now and highlighted the Sakhalin scheme during his participation in a climate summit organised by US President Joe Biden in April and reaffirmed Russia’s commitment to fighting climate change. The Russian president has latched on to the climate issues partly because the problems are palpable now and partly because it provides useful geopolitical leverage in Russia’s fraught relations with the West.

The Lukoil spill is the first environmental disaster this year, but the polluted water has been swiftly carried downstream from the Kolva into the connecting Pechora and Usa rivers and is now advancing toward the Barents Sea, environmentalists say. If the 100 tonnes figure is confirmed that would make the spill five times larger than last year’s spill by mining giant Norilsk Nickel, then dubbed the Exxon Valdez of Russia.

As bne IntelliNews has reported, Russia’s permafrost is melting and temperatures in the Far North are rising twice as fast as elsewhere on the planet. Russia’s changing climate is already starting to have severe consequences for the local environment. Some of Russia’s famously fertile arable land in the south of the country has begun to suffer from “desertisation”, although this has not affected grain production yet, which was close to all-time highs in 2020.

Russia already suffered its worst post-Soviet environmental disaster last year after a power unit belonging to Norilsk Nickel spilled over 20,000 tonnes of oil into rivers in the Pyasino region flowing to the Kara Sea in June 2020, making it one of the worst ecological catastrophes in the history of the Arctic region. Comparable to the 37,000-tonne spill of the Exxon Valdez tanker, the spill was declared a federal emergency by the Kremlin and Norilsk was fined $2bn for the accident.

A few months later an unusual algae bloom off the coast of Kamchatka killed all sea life along several kilometres of coastline in October 2020, which was initially blamed on a chemical spill, but later ascribed to a change in the water temperature in the sea.

An oil spill by Russian oil major Lukoil is five times larger than first feared and headed through local rivers towards the Barents Sea. A previous spill by Norilsk Nickel dumped 20,000 tonnes of oil into the local rivers.
The EU’s Green Deal: Putting a carbon price on imports

Richard Lockhart in Edinburgh

The European Union unveiled its Green Deal in December 2019 with European Commission President Ursula von der Leyen referring to the plans as Europe’s “man on the moon moment”, stressing Brussels’ determination for Europe to become the world leader in reducing emissions and combating climate change.

The headline target is to reach net-zero emissions, alternatively called being climate neutral, by 2050.

The first step to achieving this is to increase the 2030 emissions reduction target to 55% of 1990 levels, up from the previous 40%.

This metric means that UNFCCC’s COP26 targets for restricting global warming to 1.5 degrees by 2050 should be met. The European Parliament passed these targets into law in April 2021.

EU Commission President Ursula Von der Leyen has appointed Commissioner Frans Timmermans to head up European Green Deal.

All this would require €8 trillion from the EU’s budget, with a further €1 trillion coming in private investment.

Put another way, for the EU to reach its goals set out in the deal, approximately €260bn per year of investment is going to be required.

Wider green deal

While the central question is reducing emissions, the whole green deal package covers virtually all areas of the European economy.

This includes what the EU calls the circular economy, which involves boosting recycling and reducing raw material usage by industry. This will affect carbon-intensive industries such as steel, cement and textiles.

Efforts to decarbonise steel are a major focus, with Brussels wanting to fast-track clean steel made using hydrogen by 2030.

The Green Deal also covers a large number of parts of the sustainable economy, from housing to transport, biodiversity, construction, technology, agriculture, chemicals and methane.

The Green Deal also recognises that some post-industrial regions will suffer excessively. The Just Transition mechanism aims to provide extra funding to specific regions ad sectors, such as so-called rustbelt areas of Germany or Central Europe. This would involve €100bn of EU cash, either from the existing regional budget or from the European Investment Bank (EIB), to fund a Just Transition. The EU even plans to bend state aid rules to allow public support such for green projects.

In terms of cleaner tech, the EU will also earmark 35% of its €100bn 2021-2027 research budget for climate-friendly technologies.

Carbon Border Adjustment Mechanism

However, there is one weakness to this green deal. While the EU is setting some of the world’s most stringent emissions reductions targets, and enforcing them with such tools as the EU Emissions Trading System (ETS), European companies are exposing themselves to competitions from non-EU companies that neither have to pay for emissions credits, nor invest in reducing their CO2 output.

This risk, known as carbon leakage, would make European industry uncompetitive with countries with lax climate rules.

European Commission Executive Vice-President Frans Timmermans, who is in charge of the Green Deal, recently warned that the risk of carbon leakage “increases as the EU raises its climate ambition above that of its trading partners.”

The Green Deal’s Carbon Border Adjustment Mechanism (CBAM) aims to avoid this by enforcing carbon tariffs that are equivalent to EU ETS carbon prices on imports of certain raw materials from “less climate-ambitious countries,” which do not have carbon prices similar to EU levels, Timmermans said.

Russia, the US and Turkey’s polluting industrial sectors, such as steel and cement makers, do not have to meet emissions caps or buy EU ETS credits, currently priced at €50 per tonne.

This would mean that any emissions cut in the EU would in fact be exported, and total global emissions would not fall.

This could be done in two ways. Either the EU buys steel or cement form Russia or Turkey, with the emissions simply exported out of the EU, or EU steelmakers could relocate to neighbouring countries, with the same result.

The EU wants the CBAM, which should enter into force in 2023, to form the cornerstone of its climate and trade policies.
Threat
And herein lies the greatest threat to carbon emitters from the EU’s trading partners.

Put simply, the CBAM would extend the market prices of the EU’s ETS (generically called the carbon market) to the rest of the world by applying to imports a carbon levy that mirrors the price of carbon in the ETS.

This aims to prevent dirtier and/or cheaper imports of raw materials from arriving in Europe as the CBAM charge raises their price to comparable EU levels.

The EU wants to include a wide range of imports, including cement, steel, aluminium, refined oil products, paper, glass, chemicals and fertilisers.

Russia and the US have been quick to voice their concerns about the CBAM ahead of the European Commission’s anticipated released of the CBAM plans by July 14, when it will publish a formal CBAM proposal and impact assessments.

John Kerry has called the CBAM a "last resort" and has urged the EU to wait until after the COP26 conference in Glasgow in November.

In trade terms, the CBAM could be seen as a trade barrier and be discriminatory by favouring EU emitters over similar companies outside Europe.

The Commission has insisted that the Green Deal will be WTO-compliant, which means imported goods cannot be held to higher standards than domestically produced ones.

The biggest exporter of carbon-embedded goods to the EU is Russia, with trade worth nearly €10bn in 2019, according to research from Deloitte. China is next with €7bn, then Turkey with €6bn.

Crucially, none of these countries has a carbon price at present, making them vulnerable to the CBAM, which would effectively act as a border tax.

Moscow has already accused the EU of instrumentalising the climate agenda for its own benefit, and has referred to the CBAM plans as protectionism.

Russia has made some climate change plans, though. It has piloted a carbon price in Sakhalin region.

And Rusal has unveiled plans to demerge its high-carbon aluminium smelters into a new company so that it can focus on the fast-growing market for green aluminium. Rusal owner EN+ has announced it would reduce its greenhouse gas (GHG) emissions by at least 35% by 2030 and reach net zero by 2050.

Trade disputes
It seems that the EU’s effort to fight climate change is set to cause a trade dispute

"The challenges in introducing a CBAM should not be underestimated" said Totis Kotsonis, international trade law expert at Pinsent Masons.

"First, there is the challenge of ensuring that the mechanism complies with the EU’s WTO commitments, including the obligation not to discriminate between like products imported from different countries. Equally, the CBAM cannot be based [for] the legal or de facto discrimination of imports when compared against domestic like products."

"Separately, there is the challenge of convincing major trade partners of the appropriateness of this approach. We have already had the new US administration expressing reservations about CBAM. There should be little doubt that China would also be opposed to its introduction," he said.

Prices
A key issue for polluting companies across the globe, but especially in Eastern Europe, Asia and even the US, is what sort of levels of carbon price the CBAM will produce.

Recent research from the Potsdam Institute for Climate Impact Research (PIK) warned that that the 55% emissions reduction target and the CBAM would push up the EU’s carbon prices to close to €130 per tonne by 2030.

“All things considered, the 55% target will have massive consequences for the power sector,” said the PIK’s Sebastian Osorio.

“Under the previous EU climate mitigation target – which meant reducing greenhouse gas emissions by 2030 by merely 40% – it was expected that the carbon price within the EU ETS would rise to €35 per tonne [of] CO2 until 2030. Yet by adhering to the new target of minus 55%, carbon prices in the ETS would in fact more than triple to roughly €130 per tonne [of] CO2 in 2030.”

As mentioned, the CBAM price is designed to be equivalent to the EU ETS price.

By comparison, China’s carbon tax currently stands at around €1-3 per tonne, way below current EU ETS levels of €50.

Decision time
While EU companies and ultimately consumers already pay a carbon price, the EU plans to extend this price, as part of its comprehensive Green Deal.

The price may be trying to put a social cost on emissions, and indeed create an incentive for governments, companies and consumers to reduce these emissions, but the EU’s neighbours now face a major rise in their business costs that comes at a time when they are also trying to meet the Paris Agreement goals.
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PUTIN BOXED IN
BY LUKASHENKO

Ben Aris in Berlin
Belarusian President Alexander Lukashenko has boxed Russian President Vladimir Putin into showing the pariah president support in the face of harsh sanctions in the wake of the Ryanair flight affair.

The two presidents put on a show of bonhomie on Putin’s yacht in the Black Sea resort of Sochi on May 28 and the Kremlin announced it would release a second $500mn tranche of a $1bn loan announced earlier this year, although no new money was promised for the beleaguered Belarusian economy. Minsk has already effectively been cut off from the international capital markets. It has $18.3bn of external public debt that needs to be refinanced, but is now entirely dependent on Russia’s capital markets as the only source of financing.

The meeting was jovial and Putin was unusually jolly, giving Lukashenko a bro-hug as he stepped on to the president’s yacht. However, the whole meeting smacked of political theatre as the Kremlin has little choice other than to back Lukashenko as it plays for time to find an acceptable end to the worst political crisis the country has faced in 26 years.

It is noteworthy that Putin offered Lukashenko no new aid whatsoever. “Putin’s conversation with Lukashenko lasted over five hours and, in keeping with tradition, the details were kept secret. But there is little doubt Lukashenko asked Putin for economic support when the EU imposes new sanctions,” the Russian language news service The Bell said in a comment.

Even the bans on entering Russian airspace if they avoided Belarusian airspace were temporary and blamed on bureaucracy. A French plane was refused entry on these grounds, but by the end of the week an Austrian plane had been allowed to land despite also avoiding flying over Belarus. The ban seems to have been a gesture in support of Belarus, but Moscow understands an outright ban would drag it into the same conflict as Minsk with Brussels, and is not prepared to go there for Lukashenko’s sake.

“Aviation authorities will give the necessary explanations, but these are technical reasons,” Kremlin spokesman Dmitry Peskov told reporters.

The Belarus strongman arrived in Sochi with a briefcase and said he wanted to show Putin “some documents” related to the Ryanair incident that he hinted would explain everything.

The EU was incensed when Lukashenko personally ordered a MiG fighter jet that forced a commercial Ryanair flight from Athens to Vilnius to land in Minsk while it was crossing Belarusian airspace and only minutes before it would have crossed into Lithuanian airspace.

The plan was carrying over 120 passengers, most of them EU citizens, and the former editor-in-chief of the Nexta Telegram channel Roman Protasevich was arrested on arrival.

The EU immediately followed up with a recommendation that EU flights avoid Belarusian airspace and several countries banned the state-owned carrier Belavia from crossing EU airspace or landing. A flight from Minsk to Barcelona, which continued to permit Belavia to operate, was turned back at the Belarusian border after France refused permission for the carrier to cross French airspace.

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Privately the Kremlin is also extremely angry, according to Chris Weafer, the CEO of Macro Adisory, a bne IntelliNews columnist and veteran Russia-watcher who has been head of research at most of Russia’s leading investment banks over the last 30 years.

“Expletives were used,” says Weafer, who lives in Moscow and maintains contacts within the Kremlin circles. “I think this has significantly shortened Lukashenko’s time in office,” said Weafer, adding that he doubts Lukashenko will survive another two years, as he has become a liability.

As bne IntelliNews has been reporting, the Kremlin is engaged in a delicate diplomatic dance to create a conducive atmosphere ahead of a one-on-one summit between Putin and US President Joe Biden on July 16 in Geneva – the best opportunity in years to start to walk back the tensions that have built up between Russia and the West. Both presidents have said they need to deal with huge problems on their domestic agendas and the international sparring is a distraction they would like to dispense with. In addition, both leaders have said clearly they want to revive some of the Cold War arms control treaties and need to co-operate on international issues such as climate change, but also conflicts in Libya, Syria, Iran and other hotspots.

Lukashenko’s antics threaten to put a spanner in the works of that effort, for the sake of his downsizing a commercial carrier in order to slake his thirst for revenge on a 26-year-old blogger. The reaction by Brussels was entirely predictable, as it is very reminiscent of the downing of the MH17 Malaysian commercial jet by Russia-backed separatists in Ukraine in July 2014.

However, the more serious consequence...
of Protasevich’s arrest is that Lukashenko has made the point that even if Belarusians flee into exile, they are not safe from his security forces. Tikhanovskaya made the point in a tweet at the weekend: “No one is safe. Not even in the EU.”

Yet publicly Putin has been boxed into a very public display of support for Lukashenko.

At the end of the first month of protests last year Lukashenko came very close to being ousted, notably at a speech he gave to the workers of the MZKT, which makes military trucks, when they heckled the embattled president at a rally on August 17, in what some are calling his “Ceausescu moment.” Clearly flustered by the open defiance of the blue collar workers, traditionally his core supporters, Lukashenko beat a hasty retreat and subsequently said he was open to a power sharing deal.

Until that point the Kremlin had remained on the sidelines in the dispute, saying little, but as it became clear the situation was about to turn into a “colour revolution” and Lukashenko would be forcibly ejected, the Kremlin stepped in and Putin offered to send military support to Minsk “if necessary.” With the open backing of Russia, the security forces rallied behind Lukashenko assuring his position and the incumbent retook the initiative.

Since then Lukashenko has been cracking down on the opposition. Factory directors singled out activists, who have been sacked or jailed. All the opposition press have been closed, including most recently TUT.by, which was the bastion of opposition reporting, and security forces are raiding and arresting online activists in their homes on a daily basis. Lukashenko is now running a full-on repressive regime reminiscent of the worst of the Soviet-era regime.

Nevertheless, the Kremlin has put itself in a position where it cannot withdraw its support from Lukashenko or it runs the danger of his regime collapsing. The Kremlin is in the process of a managed transition where it remains in control of the process and is working to install some sort of government that will be compliant to Russia’s interests.

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With the open backing of Russia, the security forces rallied behind Lukashenko as a figurehead and allowing him a dignified retirement in several years time is also a likely possibility.

Lukashenko has been dragging his heels on the change. He promised to present a draft at the All –Belarusian People’s Assembly in February, but failed to produce it and now says the draft will be presented at the end of this year and a referendum will be held next year.

In the meantime, as bne IntelliNews reported, the Kremlin has been working to set up pro-Russian parties that could enter Parliament and represent the Kremlin’s interests since the end of last year.

Putin’s problem is that he cannot simply carry out a coup and replace Lukashenko by fiat. As Russia’s own domestic politics show, the Kremlin needs to win a genuinely large number of voters to support its candidates or it will face continued mass protests. Over the last three decades it has developed the “political technology” to delivery on this goal fairly effectively, but it takes time. In the meantime, Putin is forced to publically back Lukashenko, as he also cannot afford to undermine Lukashenko’s standing with the local elite and security forces, which is currently the only thing keeping him in office.

That leaves Putin in the embarrassing position of marrying himself to an obvious tyrant that will only complicate the upcoming talks with Biden. However, it could also become common ground, as some Western commentators have begun to admit that the West has no leverage over Lukashenko. The recent threats to sanction Belarus’ potash exports will certainly be painful, but they will not be more than an inconvenience. If the West wants to make progress on loosening Lukashenko’s grip the only effective way of doing that is with Russian help.

However, given the length of the shopping list on the table in Geneva at the Putin-Biden meeting, it is highly unlikely they will be able to get into such a specific and delicate discussion at their first meeting.
Opposition revived
Tikhanovskaya has hoped to capitalise on the furore to reignite the protest movement and rally international support for the Belarusian opposition cause after it fell off the front pages during the long winter break.

On May 29, the first anniversary of her husband’s arrest that sparked the first round of popular protests in Belarus, Tikhanovskaya called for a Global Picket to show solidarity with Belarus.

Meetings and demonstrations were held in capitals across Europe. Most were relatively small, numbering a few hundred people, but in some capitals such as Vilnius, Riga and Warsaw, several thousand turned out.

It will be hard to restart the mass rallies of last summer in Belarus itself, as the increased repression by Lukashenko has meant the crowd sizes have become small enough for the security forces to be used effectively against the demonstrators. Last year, with between 100,000 and 200,000 people joining the rallies, the OMON and police were overwhelmed and rendered helpless by the sheer number of protesters. Now when the crowds number a few hundred or even thousand the police can arrest and beat the demonstrators, raising the risks of participation to the point where fewer Belarusians are willing to protest.

The follow-on repressions and arrests of journalists and activists also add to the pressure and keep the number of active participants down.

The ground has shifted and the ability of protests to oust Lukashenko has faded. As the new editor-in-chief of Nexta Tadeusz Giczan told bne IntelliNews last week in a podcast, the best chance of getting rid of Lukashenko is to make Russia’s support of Lukashenko more expensive than the Kremlin is willing to pay.

It was significant that Putin announced no new financial aid for Belarus at the Sochi meeting other than the $500mn loan that had already been agreed.

Giczan estimates so far Lukashenko is costing the Kremlin $2-3bn a year, but as the country becomes even more isolated following the Ryanair incident that figure could rise to $10bn if the Kremlin is to prevent the economy collapsing and that will cause Putin to think twice about continuing his support, or at least accelerate the process of replacing Lukashenko with someone that is more conducive to both the Kremlin and the crowds.

Despite his stranglehold over the population and his repressive antics, the clock is running out for Lukashenko. As there is no prospect of making amends with the population and the slowly sinking economy, pundits believe that his days are numbered. Ironically Lukashenko’s biggest enemy now is the Kremlin as its policy of rapprochement with the US runs counter to that of Lukashenko’s of hanging on to power at the Kremlin’s expense by any means available to him.

EU chief Ursula von der Leyen on May 28 warned Lukashenko that “it is time to change course”, saying: "No amount of repression, brutality or coercion will bring any legitimacy to your authoritarian regime."

Von der Leyen repeated a promise that the EU has a €3bn package of aid and investment ready and waiting should Lukashenko go and be replaced by a democratically elected leadership.
EU to target Belarusian potash exports

Ben Aris in Berlin

The EU might ban (or limit) imports of Belarusian potash and other fertilisers as a part of its economic sanctions following the Ryanair forced landing and arrest of Roman Protasevich, said EU foreign ministers gathering in Lisbon on May 23, as it ratchets up its sanctions regime on Belarus’ President Alexander Lukashenko’ regime.

Russia remains by far Belarus’ biggest trade and investment partner, accounting for 42% of exports in 2019 and just under half of all the foreign investment. Ukraine is the next most important trade partner with 13% in the same year, whereas the EU collectively accounts for some 20% of trade.

EU trade sanctions on Belarus would be very painful but they would not be debilitating, as Russia would take up some of the slack, and although Ukraine will follow the EU’s lead, it simply cannot afford to cut itself off from supplies of power and fuel that it current receives from Belarus. For example, Ukraine has just announced it will halt Belarusian power imports until October, but it imports little in the summer, and in the first two months of this year, during an unseasonal cold snap, imported more power than it imported in all of 2020.

Nevertheless, the proposed EU sanctions are more aggressive and economically damaging than any sanctions that have been suggested to date.

Aviation bans

The EU immediately retaliated against what many have dubbed a “hijacking” of the Ryanair plane, which was forced to land by a MiG fighter on May 23, with retaliatory aviation bans.

The EU moved to limit flights through Belarusian airspace on a voluntary basis, a recommendation that most European carriers have been following.

Some EU countries, and also the UK, have gone further and banned the state-owned national carrier Belavia from landing at their airports. On May 24 a Belavia plane bound for Barcelona, where there is still no ban on landing, was held at the Belarusian border while seeking permission to fly over France. France has not only banned Belavia from landing, but clarified that it was also withdrawing permission to fly through French airspace, forcing the plane to turn back and return to Minsk.

The EU has already sanctioned seven Belarusian entities and 88 individuals, including Lukashenko, and was already working on adding more people to that list over their support for the regime and the repressions of protests. Following the Ryanair incident EU leaders agreed on May 24 to extend the list to include people involved in the Ryanair incident, which will be approved by the bloc’s foreign ministers on June 21.

Potash

The aviation bans, while very inconvenient, are not particularly damaging. Belarus earns approximately 20% of its budget revenue from potash and the EU is one of the biggest buyers.

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$50mn from overflight fees a year and the losses to Belavia will increase the total losses to approximately $100mn, according to expert estimates. All in all, aviation is worth 2-3% of GDP.

Following the initial actions European Commission President Ursula von den Leyen warned that more sanctions were on the way and the talk has turned to sanctioning Belarus’ potash exports. But it is not a done deal: Brussels said on May 26 it needs more “time to make the final decision.”

Foreign ministers gathering in the Portuguese capital on Thursday said they were looking at targeting sectors that play a central role in the Belarus economy, to inflict real punishment on President Alexander Lukashenko.

Luxembourg Foreign Minister Jean Asselborn said as cited by Reuters: “The keyword, I think, is potash. We know that Belarus produces very much potash, it is one of the biggest suppliers globally, and I think it would hurt Lukashenko very much if we managed something in this area.”

The small republic is home to Belaruskali, the largest potash producer in the world that accounts for 15% of global supply.

Belaruskali exports all over the world, and accounts for 18.2% of global potash production, the third-biggest producer. The EU takes up 20% of its total production. Moreover, potash exports account for 20% of Belarus’ budget revenues, with oil exports accounting for another 30%. The Belarusian budget already went into deficit last year due to the economic dislocation of country-wide protests and the deficit grew to a record 30% of GDP in the first quarter of this year, Tadeusz Giczan, the editor of Nexta, told bne IntelliNews. Cutting off exports of potash to the EU could be extremely painful for the already cash-strapped government.

If sanctions are imposed on Belarusian exports, VTB Capital (VTBC) said in a note that prices for the fertiliser would surge but the upswing would only be temporary.

Russia’s main potash producer Uralkali would happily step into the breach and supply EU farmers in its place. The two companies used to work together in a mini-cartel to boost prices, but the joint venture broke up in August 2013 after eight years.

Typically Lukashenko invited Uralkali CEO Vladislav Baumgertner to Minsk for talks with the Prime Minister on the deal the same month… and arrested him as he was on the way to the airport to leave. Another major scandal emerged. As bne IntelliNews reported at the time, it took until February the next year to get Baumgertner out of jail and the charges dropped.

China is one of the world’s biggest consumers of potash and there is a possibility of a grand deal between China, Russia and Belarus where the exports of potash are rejigged so all the players maintain their current supplies and revenues, but following the incident in 2013 there is no love lost between the Russian and Belarusian potash producers.

“We’ll substitute Europe, which is growing mercilessly old, for rapidly growing Asia,” Lukashenko said on May 27, as cited by Bloomberg.

Uralkali tried to restart the joint venture in June 2016, but was rebuffed by the Belarusian side. A potential deal fell apart after Lukashenko insisted on dictating the terms of the co-operation.

In the meantime Russia’s major potash producers have been consolidating. In December last year Russia’s two small republic is home to Belaruskali, the largest potash producer in the world that accounts for 15% of global supply.

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largest players, Uralkali and Uralchem, merged in order to increase their clout specifically against Belaruskali on the international market.

**Oil up next?**
After potash the next obvious target is to sanction is Belarus’s oil and gas exports, which comprise 30% of the government’s budget revenues.

The Soviet Union completed two modern oil refineries that were situated in Belarus shortly before the union broke apart, and these have been major foreign exchange revenue earners for Belarus as they process Russian crude and export it, mainly to the West. For example, Ukraine sources much of its diesel fuel from Belarus.

In addition, while Ukraine handles most of Russia’s oil and gas piped exports, there is also a significant network of pipes that run across Belarus to Russia’s Western European customers that earn Minsk transport fees and a margin on the refined products.

Lithuanian Foreign Minister Gabrielius Landsbergis said on May 27 that the EU should consider hitting the oil sector, while Germany’s Heiko Maas spoke of measures to target financial transactions, which diplomats said would probably involve preventing the EU from lending to Belarusian banks, which would also hit energy exports, as these need trade financing from Western banks to operate smoothly.

The EU has sufficiently diversified its oil imports so that it could weather the pain it inflicted on itself from banning Belarusian oil and gas imports, although analysts say that Ukraine would probably exempt itself from these sanctions, as it has few alternative options.

**Bonds**
Another option would be to sanction Belarusian bond issues. Although Belarus does not rely heavily on the international capital markets for funding, it has issued several billion dollars of Eurobonds which need to be serviced.

Belarus bonds slumped on the first day of trading after the Ryanairian government forced the Ryanairian flight to land in Minsk.

The yield on the country’s dollar-denominated sovereign Eurobonds maturing in 2031 rose 56bps to 7.81% and it was up 94bps to 6.52% for notes due in February 2023, Bloomberg reported.

Belarus has now become entirely dependent on the large Russian capital market for funding and has already cut itself off from the Western markets. In a sign of the new realities the Ministry of Finance announced in the middle of May that it was planning to issue RUB10bn ($1.36bn) worth of Eurobonds on the Russian market over the next two years to raise cash to meet its debt obligations and cover the record budget deficit.

Most of the money will go towards serving Belarus’ foreign debt. The external public debt of Belarus as of February 1 was $18.3bn, according to data of the Ministry of Finance of the republic. In January of this year the country attracted external government loans amounting to the equivalent to $35.7mn, including $25.5mn from the Russian government and $10.2mn from the International Bank for Reconstruction and Development (IBRD).

In July 2019, the Belarusian Ministry of Finance, after a nine-year break, placed government bonds for RUB10bn on the Moscow Exchange with a maturity of three years. Demand amounted to RUB45bn.
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28 June - 2 July 2021
10 megatrends shaping emerging Europe in the post-pandemic 2020s

Clare Nuttall in Glasgow

Once the pandemic is over, Emerging Europe can expect a rebound in economic activity, but accompanied by mounting risks from climate change and geopolitical standoffs.

An online conference organised by the Vienna Institute for International Economic Studies (wiiw) on May 5 tackled the tricky subject of forecasting the future of the region for the rest of this decade. The following list of megatrends is based on projections by wiiw panellists and bne IntelliNews' own reporting.

1. Roaring twenties redux with a risk of bubbles
The recovery of the Central and Eastern Europe (CEE) region was put on hold by the new wave of the pandemic at the beginning of 2021, but as the wave subsides and vaccination gets underway, better times are already in sight. wiiw expects most of the region to return to pre-pandemic GDP levels by the end of the year, and for robust consumption-fuelled growth to continue in the coming years.

Indeed, representatives of some international retail and consumer products giants are already projecting a repeat of the roaring twenties a century ago. But that didn’t end well, and this time around wiiw economist Olga Pindyuk warned there are already signs of bubbles forming in housing markets in the region, especially those countries like Russia and Romania that received a further boost from government programmes to support mortgage lending.

Growth won’t be evenly spread in the 2020s. The EU members that are already the richest and most developed in the region will receive extra stimulus from the bloc’s €1.8 trillion recovery and resilience package.

The Western Balkan countries that aim to join the EU are still a long way behind economically, and convergence will be slow. The World Bank anticipates only a subdued recovery in the region. Some – Montenegro and Serbia are the most advanced – may make it into the EU by 2029 but political issues on both sides are holding up enlargement and keeping candidate countries stuck in the EU’s waiting room.

Meanwhile, poorer countries, among them Europe’s two poorest nations Moldova and Ukraine, will take many years to vaccinate their populations at current rates, further delaying their recoveries.
2. Demographic collapse
Six countries in the CEE region – Albania, Bulgaria, Croatia, Latvia, Moldova and Poland – are set to lose 40% or more of their populations by 2100, according to long-term forecasts from the UN. The combination of low birth rates and mass emigration has already affected all of the region except the majority Muslim republics of Central Asia and Azerbaijan.

“Demographic decline was already unprecedented over the last decade, on a scale never seen outside of war or famine. This will continue,” said Grieveson.

Population decline has added to the labour crisis that intensified in the years before the pandemic, as many of those who move abroad are of working age. The fall in the domestic workforce is only partly compensated for by inward migration. High demand for labour and upward wage pressure are set to resume once the pandemic subsides.

3. Automation
Faced with a growing labour shortage, pre-pandemic companies from Central and Eastern Europe outstripped those in other world regions in the pace of investments into industrial robots, even though Eurostat data shows that in absolute terms they still lag behind their peers from Western Europe. An OECD report identified workers in Slovakia as the most likely among the 32 OECD members to lose their jobs as automation technologies are adopted.

4. Climate change and resource competition
The climate crisis is already leading to more extreme weather events: from droughts, flooding and wildfires, to the melting permafrost in Russia’s far north that threatens to cause entire cities to subside, to the severe dzuds in Mongolia, to rising sea levels. These are only expected to get worse during the first half of this century, despite global action to rein in the rise in global temperatures.

Climate change is exacerbating tensions over land and water, and new conflicts will emerge as resources become scarcer. A row over a disputed water distribution centre appeared to be the trigger for clashes between local inhabitants and the armed forces of Kyrgyzstan and Tajikistan in April. In Southeast Europe – seen as a global warming hot spot – shrinking water resources and other problems associated with climate change will worsen existing border tensions.

5. Green transition
With the climate crisis comes opportunities as new sectors emerge and investments are made into areas such as renewable energy generation, electric vehicles (EVs) and raising energy efficiency.

Carbon intensity per unit of GDP is higher in CEE than Western Europe. “Research we [have] done shows this is an opportunity for CEE,” said Grieveson. The region’s EU members in particular will benefit from massive injections of funding for the green transition.

But it won’t be easy. There is strong resistance to the shift to renewable energy generation especially in coal-dependent Poland, Ukraine and much of the Western Balkans because of fears that communities based around coal mines and power plants will be driving up prices and creating incentives for food producers and exporters in the region to raise production and increase productivity.

Pre-pandemic, Russia and Ukraine were competing for the title of the world’s top grain exporter after several bumper harvests. In 2019, President Vladimir Putin said that Russia’s agricultural exports are expected to double, reaching $45bn in the next five years. This was interrupted by the pandemic, but is part of a broader trend towards higher production that extends to other Black Sea region grain producers like Romania (the second biggest wheat exporter in the EU in 2019) and Kazakhstan.

Aside from grain, countries from the region can boast strengths in a diverse range of areas: Russia, Poland and Serbia are among the biggest producers of raspberries; Turkey produces almost three-quarters of the world’s hazelnuts; and Uzbekistan is the second-largest producer of carrots.

7. Digitisation
The pandemic achieved what techies had been dreaming of for years: the immediate shift online of retail and services. From the Western Balkans to Uzbekistan there was a boom in online retail, new apps were developed to help people and governments cope with the pandemic and robots were deployed to enable social distancing.

Rather than this shift online dying away once the pandemic ends, the momentum it gave to the ICT sector is anticipated to continue.

At the same time, there is a culture shift towards remote working. As work from home has become normalised, the role of the office – for some companies at
least – will shift from being an essential part of day-to-day work to a more collaborative space. Estonia, Georgia and Croatia already welcome digital nomads, and more countries will to follow suit. The hunt for talent – an issue in CEE’s tight labour markets – will diversify, with companies now able to recruit remote workers from poorer parts of the region (such as Armenia, Moldova or Ukraine) without the need for them to physically migrate.

8. More authoritarianism
The latest Nations in Transit report from Freedom House published in April points to a 17-year decline in democracy in the post-socialist space, where leaders are undermining democratic institutions to stay in power.

Nations in Transit 2021: The Antidemocratic Turn charts a “systemic shift toward authoritarianism in Europe and Eurasia”, where the number of countries classified as democracies has fallen to its lowest level since the report was first launched in 1995.

This is only set to worsen, said Michael J. Abramowitz, president of Freedom House. “Democratically elected leaders are turning away from democracy and creating their own warped realities to consolidate and retain power. Through their successes so far, these anti-democratic regimes are setting an example and fuelling the rise of authoritarianism in neighbouring countries. Left unchecked, they have the potential to undermine democracy and legitimise the abuse of power in Europe and beyond,” according to Abramowitz.

“How much does the increase in authoritarianism and state capture in the 10 years since the financial crisis matter from an economic point of view? Hungary, Turkey and Serbia have had some of the best economic performances recently, but I think there will be an impact in the medium to long term,” commented wiw’s Grieveson.

9. Hardening West-vs-Russia divide
Looking at the geopolitics, Russia’s influence has dwindled in the western part of Emerging Europe, where a growing number of states, not just Russia hawks Poland and Romania, have rejected Moscow’s influence. Several Western Balkan states are now NATO members, causing Russia’s sphere of influence to dwindle to Serbia and Bosnia’s Republika Srpska.

To the east, Russia has extended its influence in Eastern Europe and the Caucasus, where splitting states is a favoured tactic that has forced a Russian presence upon Georgia, Moldova and Ukraine. The eruption of the long-frozen Nagorno-Karabakh conflict into war in 2020 left Russia as the peace-broker with extended influence in both Armenia and Azerbaijan. Russia and Turkey were the main beneficiaries of that conflict, commented Velina Tchakarova, director of the Austrian Institute for European and Security Policy (AIES).

“The geopolitical lines – the West vs Russia, and the US vs China – that are global but played out in Europe have hardened a lot,” said Grieveson.

“I see the frozen conflicts in Eastern Europe still very much existent, with escalation phases and possibly some territorial changes. I wouldn’t exclude Russian military bases in Belarus by 2029,” said Tchakarova. As an alternative format, she speculated that a new China – Turkey – Russia – Iran axis could take shape in the region.

10. A bigger Chinese presence
China has been steadily increasing its presence across the region, from Central Asia to Central Europe, all of which is part of the Belt and Road Initiative (BRI) connecting East Asia to Western Europe along multiple land and sea routes. Investing into infrastructure, especially transport infrastructure, in the region gave China a chance both to improve transport links to Western Europe and to put excess engineering capacity to work.

This will continue as China was relatively quick to emerge from the coronavirus, which – barring a new wave – puts it in a strong position to continue investing. However, the Chinese style of investment is looking increasingly problematic. There have been objections over deals that fell through, pollution connected with Chinese investments in Southeast Europe and Central Asia and struggles to repay debt to Chinese banks.
Central Europe joins the EV revolution

bne IntelliNews

Central Europe has joined the electric vehicle (EV) revolution, brushing aside doubts that it would be left behind. But will this create the new high-tech sector the region so badly needs?

Carmaking is already vital to the region, with Slovakia and Czechia producing 1.22mn and 1.16mn cars respectively, making them the biggest manufacturers per capita in the world, though they rank only 15 and 16 in gross terms. Poland and Hungary are not far behind, producing 451,000 and 406,000 respectively.

Slovakia is the most dependent. A country of only 5.45mn people, it has four major car producers – Volkswagen (VW), Kia, PSA, and Jaguar Land Rover. The whole car industry, including the network of suppliers, represents a massive 50% of total industrial production, 47% of exports and 14% of gross domestic product. Some 177,000 people are employed by the four original equipment manufacturers (OEMs) and the Tier 1 suppliers.

There had been fears that the shift towards EVs could threaten the region’s automotive industry because the exclusively foreign-owned carmakers might focus on EV production in their home markets, leaving their Central European plants to keep turning out petrol and diesel models until they were phased out under national or European Union rules.

This has not happened and Czechia, Slovakia and Hungary now all produce electric models. Nevertheless, the regional industry still faces a massive long-term challenge because of the much lower interest in owning cars among young people, and because electric cars are much simpler in construction and require less labour. The German Ifo Institute for Economic Research forecast this month that the German auto sector could lose 178,000 jobs by 2025 because of these trends.

In the short term, the industry has also been hard hit by the coronavirus (COVID-19) pandemic, with European passenger car sales down by almost 25% last year, a drop of some 3mn units.

Central Europe will still remain a good place to build cars for the foreseeable future and electric and hybrid vehicles will be one of the few growth segments of the market, so carmakers have invested heavily in converting their plants in the region to produce EVs.

This will protect the industry as the EU moves to phase out new cars based on internal combustion energy technology on the grounds that they contribute to global warming. In 2020, European legislation enforced that the average carbon dioxide output of new cars across a manufacturer’s fleet be reduced to 95 grammes of CO2 per kilometre. This will have to be reduced by another 15% by 2025.

Apart from EVs, the region – particularly Hungary and Poland – is also becoming a new centre for electric battery production, and is competing for a new VW gigafactory. This fits with European Commission plans to encourage near-shoring of battery production, so that Europe can produce enough batteries by 2025 to power its fast-growing fleet of EVs without relying on imported cells. Czechia also has significant deposits of lithium, the key metal in the new generation of batteries, which will help achieve the Commission’s goal of the EU becoming almost entirely self-sufficient in lithium by 2025.

Most excitingly, electromobility offers the possibility of creating a new high-tech regional industry, which could have a series of spin-offs for local economies. Electric mobility is already stimulating innovation and generating start-ups across the region, raising hopes that it will help Central Europe make the shift from assembly line industries to high value-added sectors. Hungary has been most active in pursuing this strategy.

“There had been fears that the shift towards EVs could threaten the region’s automotive industry”
However, the region is being held back by low sales of EVs, partly caused by weak investment in charging networks, which creates “range anxiety” and deters purchases.

Also, the incentives offered by Central European governments to encourage electric car sales are much less generous than in Western Europe, while incomes are lower, putting EVs out of the reach of most people, particularly as the EV second-hand market is not yet well developed. Hiking taxes on petrol and diesel would be another way to encourage people to shift to EVs but this raises issues of equity, as it would hit the many poor Central Europeans still driving 20-year-old cars around their much improved roads.

The result is that while the proportion of pure EVs sold in the EU more than trebled in 2020 to reach 10.5% – up from 3% in 2019 – EV sales still only represent less than 2% of new car sales across Central Europe, with Hungary leading Czechia and well ahead of Poland and Slovakia.

Lagging sales are bound to affect EV investment in the region in the long run, even if for the immediate future cars will be still mainly shipped west. Central Europe’s lack of ambition in electric mobility – as demonstrated by the current Next Generation EU fund plans currently being submitted to the European Commission – could therefore end up costing it dearly.

Below, bne IntelliNews reporters from the four Central European countries examine the EV revolution in their countries and assess which of them is currently leading the regional race for foreign investment (FDI) to transform their carmaking industries.

Czechia

The Czech Republic has Central Europe’s only significant home-grown car brand, Skoda Auto, which after its takeover by VW in 1994 has become the German carmakers’ value brand. Skoda already produces several plug-in hybrid models but it is now set to become part of VW’s ambitious plans to be the world’s leading EV producer by 2025, a year in which it aims that one in five VW cars sold will be electric.

After spending €32mn on converting the Mlada Boleslav plant, Skoda began rolling out the Enyaq IV last year, the brand’s first fully electric vehicle, based on VW’s mass-market platform for battery-powered cars. It is adding a coupe version and has plans for a smaller EV by 2025 and a mid-sized one later in the decade. Skoda also produces high-voltage batteries at its Mlada Boleslav plant.

Marketing director Martin Jahn said recently that Skoda will not be among the fastest carmakers in going electric, as it is strong in slow adopting markets, but chairman Thomas Schäfer insists that it will still be fully electric in 10 years. Skoda Auto plans to invest €1.4bn over the next five years into EVs.

Hyundai, which operates the country’s second-largest car plant in Nosovice, also started EV production last year, with the Kona Electric battery-electric vehicle rolling off the production lines, the first electric car to be manufactured by Hyundai outside Korea. Toyota’s Kolin plant intends to start producing hybrid models later this year.

In terms of batteries, there is great excitement over VW’s announcement in March that it plans to build six gigafactories, with a total capacity of 240 GWh, enough to produce cells for almost 5mn cars annually. One of these factories will be sited in either Poland, Slovakia or the Czech Republic by 2027.
The Czech Republic is pushing hard to secure the VW gigafactory. According to Industry Minister Jan Havliček, the negotiations on the VW plant are linked to the previously announced project of state-controlled energy group CEZ to build a battery factory in northern Bohemia, as it could become a joint venture. “We are discussing it intensively, it is related to the CEZ gigafactory project, which I consider to be one of the priorities and a key investment in the coming years,” Havliček said. “We must not miss this opportunity, we are also following the connection to lithium mining, although it is not a condition, but it would be an excellent chain.”

CEZ wants to use lithium from the Cinovec area in the Krušno Hory Mountains for the production of batteries. Cinovec is the largest lithium resource in Europe, and is also forecast to be one of the lowest-cost deposits to exploit. European Metals, the Australian mining group, is currently preparing a project to start mining.

Czechia could also become a source of high-purity manganese (HPM), which is an essential input in nickel-manganese-cobalt (NMC) batteries, which are increasingly in demand for EVs. Canada's Euro Manganese expects to make a decision next year on launching a project in Chvaletice in the Pardubice region, which entails re-processing Europe’s largest manganese deposit, contained in historic mine tailings. By processing these tailings, Euro Manganese could produce an estimated 49,000 tonnes per year (tpy) of HPM, half EU’s requirements by 2025.

The shift into electromobility and battery technology also has the potential to create other spin-offs. But the EV industry complains that it has yet to get much help from the government. Incentives are far from generous – the state currently offers them only to businesses to purchase electric cars – and the roll-out of charging stations has been very slow. In 2020, the country recorded 808 charging stations, though there are now innovative plans to convert lamp posts in Prague into charging stations, which could add 400 to those numbers over the next two years.

Sales are nevertheless rising rapidly from a low base. While in 2019 there were only 756 new battery electric cars registered in the country, in 2020 this number amounted to 3,262 cars. Sales of plug-in hybrid cars in Czechia also expanded at a similar pace: in 2019, there were less than 500 sold, while in 2020 their sales reached 1,978. In terms of the total fleet of registered passenger electric cars, this amounted to 7,103 cars, or almost 10,000 when plug-in hybrids are included.

Slovakia

Slovakia, the biggest producer of cars per capita in the world, has 15 electric or hybrid models in production, with VW's Bratislava plant producing the electric e-Up! since 2013. The country’s Kia (South Korea) and PSA (France) plants also produce electric models and the French manufacturer plans to assemble batteries as well.

Slovakia is also in the running for VW's gigafactory, and domestic firm InoBat Auto aims to build a 10 GWh plant by 2024 in conjunction with Wildcat Discovery Technologies of the US.

Yet the country is still just forming its electromobility strategy. At the end of 2018, the Slovak Ministry of Economy proposed an Electromobility Action Plan for 2019-2020, including the provision of financial support for purchasing an electric car or plug-in hybrids and building a network of an additional 1,500 charging stations by 2025.

"Slovakia does not have a clear idea of how it will fulfil its obligations in the area of electromobility development and infrastructure for alternative fuels," said President of the Association of the Automotive Industry of the Slovak Republic Alexander Matusek.

Consequently, like Czechia, Slovakia lags behind Western European countries in sales of battery EVs – just 918 were sold last year – and in building charging stations. According to the 2020 Progress report of EAMA, the country has 649 charging points.

Poland

Poland is home to factories of Fiat, Opel and Volkswagen, but none of these makers is currently producing EVs.

Poland has, however, ambitions plans of its own. The production of Poland’s first domestically manufactured EV, Izera, in the southern town of Jaworzno in the industrial and mining region of Upper Silesia is expected to launch in 2024, ElectroMobility Poland (EMP), the state-owned company responsible for the project, said in December.

But even if Poland does not (yet) make any e-cars on its own, it has become the market’s key player via covering some 30% of Europe’s demand for e-car batteries. That is thanks to the 20-GWh e-car battery factory – the largest in Europe – operated by Korea’s LG Energy Solutions in Kobierzyce near Wroclaw in the south-western part of the country. Lithium-ion batteries now represent 2% of Poland’s total exports and are the largest single item, amounting to as much as a forecast €5bn this year.

LG Energy Solutions is planning to expand the plant at a cost of €300mn so that it will become the world’s largest, making 100 GWh worth of lithium-ion batteries for cars a year, 60% of Europe’s current demand.

LG is not the only manufacturer choosing Poland to make lithium-ion car batteries or related products. Belgium’s Umicore is planning to build a battery component factory in central Poland and another one in Radzikowice in the south-west.

Yet Poland still lags Western Europe in terms of its charging network, having only 1,364 charging points compared with over 33,000 in Germany. Its incentives are also far less generous, although a new scheme is meant to come into operation this year.

Consequently, Poland’s electric car market is still very small. Sales of pure electric cars were just 3,683, admittedly a huge jump of 147% versus 2019 but still an insignificant portion of the market.
Hungary

When German carmaker BMW announced plans in 2019 to build a €1bn assembly plant in Debrecen, near the Romanian border, it aimed to produce 150,000 models a year using internal combustion engines. After a delay because of the pandemic, the project is now back on track as an EV plant.

Audi and Daimler, which are already present in Hungary, are already producing hybrids. Audi began serial production of the Audi Q3 plug-in hybrid at its plant in Gyor last year and Daimler has invested €140mn to add fully electric vehicles to the production palette at its Hungarian base this year. Audi, one of the largest investors in Hungary, with a total of €9bn spent over the past 25 years, launched production of electric motors at its Gyor plant in July 2018.

Japan’s Suzuki exclusively manufactures hybrid Suzuki Vitara and SX4 S-Cross models for the Hungarian and EU markets.

The Hungarian government has supported these investments with generous subsidies as part of its push into electromobility. It is also pushing aggressively into battery production. The world’s leading EV battery producers have established their presence in the country. Korea’s SK Innovation plans to spend $2.3bn – the largest Hungarian greenfield investment to date – to start building a 30-GWh plant in Hungary this year; it already has two, one of them producing 7.5 GWh of batteries a year and another making 10 GWh. South Korean Samsung SDI and the Japanese GS Yuasa have already picked Hungary for their European manufacturing hubs.

The government is also backing autonomous driving. It has funded ZalaZone, a unique race track for testing autonomous cars. Hungary even has a domestic firm in this space: Almotive, which is developing technology using cameras and AI so a car can detect its surroundings. Almotive has become the largest VC-backed company developing automated driving technology in Europe, with total funding of $75mn.

Czech former president Vaclav Klaus reportedly secretly sent a loan to Soviet Union after revolution

bne IntelliNews

The Czech post-revolutionary finance minister (and later Czech president) Vaclav Klaus allegedly fulfilled a loan contract concluded by the head of the Czech communist government, Ladislav Adamec, with the Soviet Union just before the Velvet Revolution that brought the Communist reign to an end, and sent around $1.3bn to the Russians (one third of the total Russian debt to Czechia), daily Hradarske Noviny (HN) and Aktualne.cz reported.

The uncovered documents confirmed that Czechoslovakia did really send the money to the Soviet Union and that the Russians acknowledged the debt. However, the loan was quietly shifted to a package of so-called Russian debt from the 1990s which politicians claimed were old receivables from pre-1989.

The daily stressed that the loan to the Soviets was sent despite the protests of the then-state bankers, who warned Klaus against the billion-dollar loan. “It is not clear from what sources the Czechoslovak Commercial Bank will cover the transfer,” wrote CEO of the Czechoslovak Commercial Bank (CSOB) Rostislav Petras to Klaus in December 1989.

Back then CSOB was part of the Czech central bank and was in charge of financing foreign trade under the direct supervision of the state and loans in foreign currencies.

Klaus himself has denied these allegations. “I repeat it again that I know nothing about a contract of November 10, 1989. ... It’s been 32 years. It happened during [the] communist era, it was certainly a treaty that was not publicly discussed,” he said, claiming the reports are a pre-arranged attack on him, possibly with the aim of blocking his return to politics.

According to HN, an agreement was proposed in April 1989 by an official of the Ministry of Finance, Zdenek Rachac, who until November 6, 1989 was on the list of the Czech Secret Police (StB) as a collaborator with the code name Riga. Rachac later took a job at the finance ministry, in which he remained after Klaus joined the office as his adviser.

“I don’t know the name Zdenek Rachac, he was probably one of several hundred employees of the finance ministry, but he was by no means my advisor. I have never consulted with him, I do not know anything about him,” Klaus denied.

Klaus resigned as PM in 1998 and the current President Milos Zeman (back then leader of the Social Democrats) became the new head of the cabinet.

Zeman then in a hurry agreed a deal with the Russians amounting to only one fifth of the total debt, or CZK100bn, and the rest would be waived. The condition set by the Russians was that the transaction would take place through intermediaries, Russia’s RAO UES and a Czech firm Falcon Capital. But Russia only sent CZK53bn, half of the loan, and another CZK30bn went missing.
Romanian, Polish presidents call for stronger Nato presence on the eastern flank

Iulian Ernst in Bucharest

Romanian President Klaus Iohannis and his Polish counterpart Andrzej Duda declared on May 10 that there is a need for a “stronger allied military presence”, including US participation, in the southern part of the alliance’s eastern flank, amid the worrying security situation in the Black Sea.

Iohannis and Duda hosted a virtual summit of the Bucharest Nine (B9) format, an initiative launched by the two presidents, on May 10, just weeks after Russian military exercises along Ukraine’s border stoked fears of an imminent invasion. While the troops were withdrawn at the end of April, and the exercise appeared to be merely a bit of geopolitical theatre, they still ratcheted up tensions in the Black Sea area.

All NATO members of the eastern flank participate in the B9 format, including Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia, but Iohannis and Duda also approached the common projects the two countries have in a bilateral format.

The B9 summit was attended by video conference by US President Joe Biden, Nato secretary-general Jens Stoltenberg, and other heads of state from Eastern Flank countries (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Hungary).

Iohannis stressed that “Russia’s destabilising actions in the region” are worrying and contribute to maintaining a heightened climate of insecurity.

"The worrying security situation in the Black Sea – which we discussed at length – has shown us that we need to remain vigilant. Therefore, Nato must continue to strengthen its position of deterrence and defence, especially on the eastern flank, in a unified and coherent manner, from the Baltic Sea to the Black Sea. That is why I pleaded – including in the discussion with President Biden – for an increase of the allied military presence, including that of the US, in Romania and in the south of the eastern flank,” said Iohannis.

The two presidents also discussed the Rail2Sea railway project, which will link the ports of Constanta and Gdansk and the road Via Carpathia.

"We also addressed the issue of regional cooperation within the Three Seas Initiative, with an emphasis on the implementation of strategic regional interconnection projects. From this perspective, we agreed to continue to promote with priority the Rail2Sea railway project, which will connect the ports of Constanta and Gdansk and, respectively, of the Via Carpathia road project,” said Iohannis.

The president of Poland considers that “political and economic cooperation must be intensified after the pandemic” and thanked Klaus Iohannis for organising the B9 summit, before the Nato summit in Brussels.

The virtual event also took place shortly after Nato launched its Defender Europe 21 exercises with 28,000 troops in Central Europe.

“Russia's destabilising actions in the region’ are worrying and contribute to maintaining a heightened climate of insecurity”
Money laundering pushes up property prices in Western Balkan cities

Clare Nuttall in Glasgow

The real estate and construction sectors are being used to launder illicit money from the drugs trade and migrant trafficking in the Western Balkans, leading to a hike in property prices, according to a report by the Global Initiative Against Transnational Organised Crime.

Laundering money through construction and real estate businesses “is popular because it remains relatively easy and can absorb large amounts of capital”, says the report, “Spot Prices: Analyzing flows of people, drugs and money in the Western Balkans”.

Property “can be a place to store a significant amount of capital, potentially appreciate in value and enhance the quality of the criminal’s lifestyle” says the report. It notes earlier research showing that investments in construction and real estate “have a long history of absorbing illegal revenue in the Western Balkans, given that the sector is both meaningful in terms of economic share and poorly regulated”.

“Residential property is generally recognised to be at greater risk than commercial property because of its turnover potential,” it says “In fact, many property markets across the region have been skewed by laundered money as prices are artificially driven up by criminals who want to launder their assets there. Although real estate prices dropped across the region in 2020 due to [coronavirus] COVID-19 … many places still showed gains since 2017.”

Unexplained property booms
The report homes in on some of the money-laundering hotspots in the region that have seen strong increases in property prices in recent years. In Albania, it reports price hikes in both the capital Tirana – which has experienced a construction boom and a spike in property prices – and the coastal city of Vlora, where prices have also increased.

“In the Albanian resort city of Vlora, criminal groups have allegedly invested in the tourism sector, including in luxury hotels at the seaside”
soared. While Albania's economy as a whole, especially the tourism sector, was hit by the pandemic, real estate activity expanded by 5.5% in 2020.

“In Vlora, criminal groups have allegedly invested in the tourism sector, including in luxury hotels at the seaside. Prices have increased from €600 to €700 per square metre in 2017 at the waterfront to €1,000 to €1,200 in early 2021. Experts have argued that this increase could not be explained by higher demand from the real economy or the growth of formal revenue, but instead is largely driven by cash from organised crime and corruption which has been invested in construction and real estate,” says the report “In Tirana, additional luxury projects are currently planned in the city centre which do not reflect market forces.”

The report quotes an estate agent in Albania, who claimed that a large percentage of people who buy luxury apartments “use illicit money and pay in cash”. Even when payments are not paid in cash, according to experts, verification of the source of the funds is “rather sporadic”.

Serbia’s real estate industry also experienced “unusually high growth” between 2018 and 2020, even though many of the new builds remain empty.

“Similar to Albania, the construction industry continued to grow during the COVID-19 pandemic despite the contraction of the general economy. An example is the increasing employment and procurement of materials for the Belgrade waterfront project,” says Global Initiative. Prices per square metre have kept rising even in a market seen as saturated.

“Experts argue that this increase is most likely the consequence of a significant amount of illicit funds being injected into the market. They suggest that the Serbian real estate market has become the regional hub for money laundering through real estate.”

In Montenegro, Global Initiative estimates that the Kavac and Skaljari clans own property with a conservative estimated value of €27mn. Bosnia’s real estate market, particularly in Sarajevo, “has not only attracted local criminal actors, but also internationally operating drug-trafficking groups and Arab investors … [this] confirms the broader vulnerability that the Western Balkans offer an attractive location for foreign businesses to launder their money,” according to Global Initiative.

Kosovo too saw a boom in the construction sector in several cities 2016 and 2019. “A large part of these investments are allegedly funds generated through criminal activities, including corruption, tax evasion and drug trafficking, by people close to the ruling elite,” says the report. Following a similar boom in North Macedonia, there are several open investigations into money laundering through the real estate industry, including one linked to fugitive former prime minister Nikola Gruevski.

Looking at how money is laundered through the sector, the report notes

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<th>Comparative real-estate prices of selected cities across the Western Balkans region</th>
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<td><strong>Location</strong></td>
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<td><strong>2017</strong></td>
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<td><strong>Albania</strong></td>
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<td>Tirana (city centre)</td>
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<td>Vlora (waterfront)</td>
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<td>Durres (residential complexes)</td>
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<td><strong>Bosnia and Herzegovina</strong></td>
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<td>Sarajevo (old town and centre)</td>
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<td>Stari Grad, Belgrade</td>
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<td>Nis</td>
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<td>Novi Sad</td>
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Source: Information was obtained from local real-estate agencies, national statistical offices and media analyses.
that in several countries across the region, companies that apply for a construction permit are not obliged by law to show proof of their capital or its origin. They just need to pay the infrastructure tax, which depends on the value of the construction.

It lists numerous practices that create scope to hide illicit money such as prepayments by clients, high liabilities to suppliers, declarations of large loans from other parties (rather than banks or financial institutions) and direct transactions between buyers and investors or builders. “These methods enable companies to pretend that the whole investment is carried out based on the payments from customers and suppliers and loans from third parties, thus allowing for the completion of the cycle of laundering of criminal proceeds,” says the report.

**More illicit funds to launder**

Finding ways to launder larger amounts of money has become more pressing as the flows of fund from illegal activities, such as the drugs trade and people smuggling, increases.

Global Initiative’s conservative estimate of the total value of the migrant-smuggling market in the region (with a ± 20% margin of error) is between €33.7mn and €50.6mn for the three main transit zones, with the total for the Western Balkans somewhat higher.

There is also a sizeable drugs trade in the region, which is both a source and a transit route for narcotics. Albania has long been an important location for cannabis production, despite government efforts to stamp it out, and growing amounts of the drug are now produced in Bosnia, North Macedonia and Serbia. On top of this, accounts for around 2.7% of global GDP, or $1.6 trillion. The International Monetary Fund (IMF) puts the total at between 2% and 5% of global GDP. Applying these percentages to the Western Balkans, between €1.8bn and €4.6bn would be laundered every year.

“These numbers are remarkable, especially when put in perspective: for example, in 2021, the budgets of the interior ministries of North Macedonia and Albania each amount to €168mn; the Kosovo police force has only €87mn at its disposal.” says the report.

As well as the real estate sector, several other ways of laundering money are also charted in the report. Smaller amounts of illicit proceeds are typically laundered through cash-intensive businesses, such as restaurants, bars, filling stations and taxi companies. Gambling is another way to launder money, in the countries where this is permitted.

Banks, according to the report, “play a key role in money laundering, as they often act as gatekeepers to the financial system”. This takes place from small amounts of illicit money simply taken to the bank, to banks’ roles as an important intermediary in larger transactions and to offshore accounts.

Another way of money laundering is through purchases of luxury assets, such as works of art, jewellery, cars and yachts, says Global Initiative, as is trade-based money laundering, or investment into the emerging cryptocurrency markets.

**Patchy prevention efforts**

Governments from the region have made a number of efforts to tackle money laundering, including through the adoption of a revised anti-money laundering framework. However, says the report, there remain gaps, especially when it comes to the implementation of these frameworks. “Institutions across the region continue to have a poor track record of investigations, prosecutions and convictions of stand-alone money laundering cases,” it says.

An earlier report points to the international nature of illegal activity, and shows that not only do drug traffickers from the Western Balkans make most of their money outside the region, but that much of the assets from crime are laundered outside the region, for example in Spain, the UK and Dubai.

The latest report warns that even when relatively small amounts of money are laundered they can have a “significant impact” on local economies. “Money laundering can drive up real estate prices to make housing unaffordable; it strengthens patronage networks and reduces fairness in the marketplace; it has an impact on access to various types of services, and – if left unpunished – it creates incentives for others to follow suit,” says the report. “Furthermore, the dirty money being made and laundered in the region is perpetuating an ecosystem of crime and corruption that weakens the rule of law and hampers the ability of institutions to deal with the problem.”

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The collapse of tourism in 2020 due to the coronavirus (COVID-19) pandemic was unprecedented. Several countries in New Europe are heavily dependent on tourism to earn foreign exchange, with Turkey and Croatia the most noticeable, and saw their industries battered by the travel bans starting at the beginning of the season last April.

Tourism began to recover towards the end of last summer as lockdown restrictions started to be lifted, but then suffered a second blow as the second wave of the pandemic got under way.

Now the winter is over and the pandemic seems to be in retreat as more and more countries roll out mass vaccination programmes, there is hope that tourism will start to recover as the warmer weather arrives, but the virus’ persistence and the lack of adequate supplies of vaccine in many of the affected countries means the recovery will be slow, reports the Institute of International Finance (IIF) in a recent paper.

“While the situation remains difficult for the tourism industry at this point, there appears to be some hope of recovery due to vaccination efforts gaining momentum and fewer (travel) restrictions being discussed for vaccinated individuals. However, we find that even a relatively fast rebound of tourism would leave many countries in a precarious position in 2021, both with respect to economic growth as well as external vulnerabilities,” IIF economists Benjamin Hilgenstock and Elina Ribakova said in their note.

2020 was truly an annus horribilis for the hospitality industry that stood directly in the path of the pandemic’s juggernaut. Of the 38 countries for which IIF are able to collect visitor numbers, three quarters experienced declines of more than 95% compared to the second quarter of 2019, with a median decrease of 98%.

In some countries, largely those in EM Asia, borders effectively remained closed beyond 2020 Q2 and visitor numbers stayed at or near zero for the rest of the year, reports IIF.

“At the same time, subsiding infections in Europe allowed for fewer restrictions and led to a temporary uptick in visitor numbers over the summer,” IIF said. “However, the second wave of the pandemic and reintroduction of strict public health measures suppressed tourism again towards the end of the year.”

Destinations in Latin America benefited from fewer travel restrictions and a somewhat more laissez-faire attitude in the US. These dynamics are reflected in the full-year numbers, with Asian EMs seeing the largest declines.

Despite an end to the pandemic being in sight, this year is likely to remain very difficult for the industry. The first big holiday has already passed without bringing much relief; over half a million Russians chose to holiday in Crimea over the long May holidays – this year extended to 10 full days by Russian President Vladimir Putin – which was more than even the peninsula’s Soviet-era heydays. Russians usually take the opportunity of the May holidays to visit popular tourist destinations around the world, but this year decided to remain inside the country due to ongoing travel restrictions.

“It is important to recognise that even a relatively fast recovery of international travel in the coming months would leave many tourism destinations in a precarious position,” IIF says before offering three scenarios for the possible recovery this year.
**GDP recovery**

The first scenario assumes the pandemic continues to recede and tourism levels regain their pre-pandemic levels by the start of 2022. The second scenario is for a slower recovery and pre-pandemic levels are only reached at the end of 2022. And in the third the pre-pandemic levels are achieved only at the start of 2023.

“Even the most optimistic scenario would leave visitor numbers substantially below their 2019 levels this year – around 60% in Thailand and Vietnam, 50% in Croatia and South Africa, and 40% in the Dominican Republic, Mexico and Turkey,” IIF estimates.

“However, a full recovery by the start of next year would be surprisingly fast given the slow vaccination campaigns in some countries. In a more realistic scenario, numbers could stay 70-80% below pre-pandemic levels this year in some places,” IIF calculates.

First in, last out; the tourism sector will likely take the longest of all sectors hit by the pandemic to recover, says IIF, and that will have big knock-on effects for the economies that are dependent on tourism for income.

Comparing the seasonally adjusted real GDP in Thailand with the overall EM universe (excluding China), IIF forecast that Thailand will reach the fourth quarter of 2019 GDP levels roughly two quarters later only in the first quarter of 2022 – two quarters later than emerging markets as a whole. Indeed, drilling into Thailand’s GDP numbers and it seems that most of the sectors not related to tourism have already fully recovered the ground lost since 2019.

Croatia’s economy is expected to post a strong bounce-back growth of 5% in 2021, after contracting by 8% in 2020, and should exceed its pre-crisis level in 2022, the European Commission said in its spring 2021 economic forecast released on May 12. In 2022, the GDP should expand by 6.1%.

“Fuelled by pent-up demand and the accumulation of involuntary savings, household consumption is set to provide a boost to growth as constraints on the consumption of services ease. This trend should be supported by moderately positive labour market developments,” the EC noted in the report.

However, the exports of services, mainly of tourism, are expected to remain below pre-crisis levels throughout 2022 and not fully recover until 2023. However, just how fast they do recover over 2021 and 2022 will be an important growth driver.

And the country is still battling with the virus. In April the government decided to extend the restrictions imposed to contain the spread of coronavirus without specifying for what period, Deputy Prime Minister Davor Bozinovic said on April 18. Despite restrictions, Croatia has faced a rising number of new cases in the past several weeks, with the average daily number going significantly above 2,000.

Turkey has been suffering even more. There as a mild economic expansion in the first quarter of this year but the economy is expected to slip back into recession in the second quarter, as it has been fighting multiple crises in addition to the corona pandemic.

In addition, the government appears to have lost control of the epidemic in the country and went back into full lockdown at the end of May to try to contain the spread of the virus.

Officials are worried that they don’t act now, the country’s international tourism industry could for the second year running suffer devastating losses. Tourism accounts for around 11% of the Turkish economy. It earned Turkey a record $34bn in 2019, but last year the impact of the pandemic caused that figure to plummet by around $22bn.

"At a time when Europe is entering a phase of re-opening, we need to rapidly cut our [daily] case numbers to below 5,000 not to be left behind. Otherwise we will inevitably face heavy costs in every area, from tourism to trade and education," Turkish President Recep Tayyip Erdogan said when announcing the new measures.

Exhibit 1. Tourism remains suppressed, ...

Exhibit 2. with Asian countries most affected.

Exhibit 3. The tourism recovery will take time, ...
And Albania’s nascent ambitions to build up a tourism industry have taken a blow right at the start of the process. As *bne IntelliNews* has reported, what slender resources Albania already has have been crushed by the halt in tourist flow. With what may be some of the last unspoilt beaches in Europe, the government was planning to invest $100mn into its airport to better serve inbound holidaymakers at the start of this year.

“This investment plan by the new concessionaire is an ambitious plan, which aims to significantly improve the operation of Mother Teresa Airport and turn Tirana International Airport into a positive example in the region, with an extraordinary impact on the growth of tourism in Albania and improving the ease of doing business,” Tirana International Airport (TIA) announced in January.

The government also hopes to create the country’s first ski resort at Korça, Prime Minister Edi Rama said during a visit to the city at the end of January.

The supporting hospitality and transport infrastructure is also being developed and has made significant progress, but the destination is still not well known and the coronacrisis has set plans back.

**Current account recovery**

Beyond the impact on GDP and labour markets, the slow recovery of tourism also has important consequences for countries’ external balances.

In 2020, many EMs saw an improvement in their current accounts despite the decline in services credits, largely due to substantially lower imports of goods and services. Tourists that used to spend their dollars abroad were staying at home, which is a net win for the current account. Russians spend between $2bn and $3bn a year in Turkey while on holiday there.

The halt in outbound tourism acts as an automatic cushion for most countries’ current accounts and reduces external financing needs in a time of risk-averse sentiment in global financial markets. However, the stay-at-home boost is not enough to compensate for the fall in revenues for the favourite holiday destinations.

Now that tourism is beginning to recover, this will hurt current account positions as the “import of services” recovers. (Going overseas is a drain on a country’s stock of foreign exchange and so counts as an import.)

“Trade balances will revert to pre-pandemic levels in 2021 to a certain extent despite concurrently improving exports. With tourism revenues still significantly suppressed, external pressure is therefore likely to rise,” says IIF.

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**Exhibit 4.** ... and weigh on growth in the near term.

**Exhibit 5.** Current accounts adjusted markedly, ...  

**Exhibit 6.** ... but rebounding imports are a challenge.
Meet “The Botox”, the mafia boss who’s singing like a canary about the Erdogan regime on YouTube

Akin Nazli

Sedat Peker, a mafia boss known in Turkey as “The Botox Chief” or “The Botox”, has of late become a must-watch YouTuber. All Turks except the Erdogan media have been talking about his video series throughout May.

Peker has in fact had a YouTube channel for seven years. But recently, his viewer stats crossed the 3mn per video threshold. He has released four videos so far and he says he will release more.

President Recep Tayyip Erdogan has also made use of The Botox (“Erdogan gets his Peker out in war of words with Turkish academics”, bne IntelliNews Pro, January 14, 2016), and The Botox is currently talking about the shadowy ‘state within a state’ Pelicans group, police chief-turned-politician-turned-convicted criminal Mehmet Agar and Interior Minister Suleyman Soylu.

Peker has not said anything new yet. All the crimes he has referred to are well-known to the public. However, as The Botox was a participant in the crimes in question, they are open confessions and are adding to the current weakness of the Erdogan regime.

Perhaps, we need to stop here to take stock of a few observations on the development of the modern Turkish mafia since we will encounter many names in the coming days and it could get a little vexing for those who have never heard of them before.

Conflicts among gangs start to surface
The reason for wasting time on this matter is that Turkey’s collapse, which stretches back across the past decade, has reached an extreme point. Conflicts among the gangs that work off the regime are starting to surface.

Not too long from now, the new depths of Turkey’s collapse will make big headlines and assessing contemporary goings-on via the lens of The Botox case may help to understand the country’s plight.

What we have here is also the sexiest side of the murkiness that has proliferated under the Erdogan regime. There is abundant cocaine, money, guns, polemics, marinas, yachts, hotels, villas, homicides… you name it.

It is not the first time that Turkey has reached this point and, under normal circumstances, an early election would clean up all the mess. Erdogan’s current “crutch”, Nationalist Movement Party (MHP) head and junior coalition partner Devlet Bahceli, would raise the flag for a snap poll. But what we have right now, with a president fixated on hanging on, are not normal circumstances.

Roots of the modern mafia
Let’s go back quite some way to help work out where we are. It is thought that the roots of the modern mafia, a rotten fruit of all modern nation states, in Turkey date back to the “Occupation of Constantinople”, which lasted from November 13, 1918 to October 4, 1923. During this period, the Special Organization (Teskilat-i Mahsusa), the intelligence unit of the Committee of the Union and Progress (Ittihat ve Terakki Cemiyeti/CUP), organised old-style gangsters, known as Kulhanbeyi, along with all other criminals against the occupying forces (British, French, Italian and Greek).

The CUP was a coalition of Turkists and Islamists. It grabbed the government
of the Ottoman State and absorbed or eliminated all the other ideologies, which were also looking for a solution to the Ottoman collapse.

Having entered World War I under the control of Germany, the CUP was seen as responsible for the official end of the Ottoman Empire. However, a fresh generation of younger CUP members organised a reaction from Anatolia against the occupation and they, led by Mustafa Kemal Pasha (Ataturk), founded the Republic of Turkey.

Some of this might sound straightforward, but these are all controversial affairs. For instance, each argument, such as on what was the true ideology of the CUP or what really happened with the purging of the Islamists at the very beginning of the era of the republic, has its own set of literature and tonnes of debates that have never been resolved.

**From the CUP to The Botox**

Our aim here is not to involve ourselves in these discussions but simply to track the contours that connect the CUP gangs that targeted the occupation forces to The Botox.

For fans of gangster stories, Ryan Gingeras has a book entitled “Heroin, Organized Crime, and the making of Modern Turkey”.

By the end of the 1930s, Turkey was operating official heroin factories. Cengiz Erdinc has a book entitled “Overdose Turkey”.

Turkey remains a major heroin route, but it stopped heroin production towards the end of the 1970s due to the so-called opium crisis with the US.

1970s bring the MHP gangsters

The 1970s, hardcore years of the Cold War, brought the rise of the MHP gangsters, the current prevailing form of the Turkish mafia.

In 1980, the coup of all coups arrived, bringing with it a full-blown ethical collapse in Turkish society. Another gift was the Kurdistan Workers Party (PKK), which gained ground thanks to the heavy torture that Kurds experienced in the notorious Diyarbakir Prison.

And then we had the 1990s; Turkey endures a full-blown collapse in all fields, bringing bloodbaths.

The Botox is a son of the Turkish state of the 1990s.

There are details, details and more details. However, as we have reached The Botox, let’s leave it there for now and watch out for what comes next.

To be continued (for it never ends …).
Belarus scrambled a MiG-29 fighter to force down a Ryanair passenger plane flying over its territory and arrested a passenger, the former editor and co-founder of the opposition Nexta Telegram channel, who now faces the death penalty.

The plane was a commercial flight flying from Athens and Lithuania with 172 passengers on board, including Roman Protasevich (Belarusian: Raman Pratasevich), the former editor of the opposition Telegram channel and news organisation Nexta, which has been instrumental in reporting on Belarus’ President Alexander Lukashenko repression of the opposition movement and played a big role in organising and controlling the mass protests last summer.

Protasevich reports that he was followed to the airport in Athens by Belarusian KGB agents, some of whom got on the plane with him. Once the plane entered Belarusian airspace the presumed agents engaged with the Ryanair staff, claiming there was a bomb on board.

At the same time Lukashenko scrambled a MiG-29 jet fighter carrying live air-to-air missiles that forced the Ryanair plane to divert and land at Minsk Airport, according to eye witness accounts that filmed and photographed the plane after it was deployed.

The passengers were led off the plane and Protasevich was arrested and taken away. The plane left again to continue its flight without Protasevich about four hours later.

Protasevich was in Athens where he had been covering a visit by opposition leader Svetlana Tikhanovskaya, a former presidential candidate who has declared herself the country’s leader-in-exile due to widespread fraud during last year’s elections.

The incident caused immediate outrage and claims of kidnapping as well as accusations that Belarus has carried out an illegal act of state-sponsored terrorism.

Founder and editor in chief of Nexta Roman Protasevich was arrested and now faces a possible death penalty after a MiG fighter was used to force a commercial flight from Athens to Vilnius to land in Minsk.
The Minsk-based human rights centre Viasna has confirmed that Protasevich has been arrested and taken into custody.

The EU will meet to discuss sanctions on Belarus in a scheduled meeting, but clearly the agenda will now be dominated by the response to the Ryanair forced landing.

Several harsh sanctions have been already floated including: an suspend overflights of all EU airlines over Belarus, ban Belavia from landing in EU airports, and suspend all transit, including ground transit, between Belarus to the EU.

Confusion as plane forced to land

Protasevich is one of the most wanted of Belarus’ opposition activists, as the Nexta Channel has been instrumental in rallying and co-ordinating the otherwise leaderless mass protests that have rocked the country for almost a year.

He was put on a terrorist watch list in November by the KGB, which, unlike its Russian equivalent, didn’t bother to change its name after the collapse of the USSR in 1991.

Under Protasevich, the Nexta-Live Telegram channel documented police brutality at the mass protests against Lukashenko after his disputed re-election last year on August 9. Protasevich fled to neighbouring Poland, where he was enrolled as a student. More recently, Lithuania had granted Protasevich political asylum, where the government has been an outspoken critic of the Lukashenko regime.

It appears that Belarusian KGB agents boarded the plane, claiming there was a bomb on board and that there was a “conflict” between an unidentified passenger, presumed to be a KGB operative, and the plane’s crew.

Lina Beisiene, a spokeswoman for Lietuvos oro uostai, the operator of Lithuanian airports, said that Lithuanian civil aviation authorities had no information about any bombs on the plane.

“We don’t have such information,” she told the national LRT television channel. “There was a conflict between a passenger and a crewmember. It was decided to land the plane in Minsk,” she said as cited by Tass, giving no further details.

Ryanair released a statement that said: “The crew on a Ryanair flight from Athens to Vilnius today were notified by Belarus ATC of a potential security threat on board and were instructed to divert to the nearest airport, Minsk. The aircraft landed safely and passengers were offloaded while security checks were completed by local authorities. Nothing untoward was found and authorities cleared the aircraft to depart together with passengers and crew after approx. 5hrs on the ground in Minsk.”

A MiG jet fighter was scrambled to intercept the plane and rendez-voused with the commercial plane shortly before it was due to leave Belarusian airspace, forcing it to return to Minsk and land there.

At the time the pilot was told of the possible bomb by the Belarusian authorities the plane was near the border with Lithuania and its destination airport of Vilnius was the nearest landing point for the plane, but instead it was redirected and headed to Minsk.

Lukashenko personally ordered the MiG to scramble and intercept the passenger plane, the state-owned BelTA news agency reports, citing the Pul Pervogo Telegram channel close to the presidential administration.

"After the pilot of this civil aircraft [the Ryanair plane] decided to land at an alternative airport (Minsk-2) and turned the plane towards Minsk, it was decided to scramble a MiG-29 crew on duty from the Baranovichi airport (Brest region),” the ministry said on its Telegram channel, citing Andrei Gurtsevich, chief of the air operations and first deputy commander of Belarus air and air defence forces.

According to Gurtsevich, the country’s air defence forces were put on high alert following reports that a civil plane with a possible bomb on board was in the country's airspace. He said that the MiG-29 crew was tasked with controlling the situation and helping the civil aircraft make a safe landing at Minsk airport.

After the Ryanair plane landed, the fighter jet returned to its home base.

After the plane landed at 1pm local time law enforcement agents entered and searched it but no explosive device was found, the authorities confirmed. Ryanair said in a statement that the plane left again at 5pm local time to continue its journey.

However, according to reports, four Russians and two other Belarusian nationals, including one travelling with Protasevich, remained in Minsk and did not re-join the plane, although there are no details of who these people were or why they did not continue their journey.

Crowds of people and several senior Lithuanian politicians gathered at the airport in Vilnius to greet the plane when it at last arrived at its final destination in the early evening of the same day.

Dogged by the KGB

The incident also strongly suggests that the Belarus KGB is active in the EU and has been staking out opposition figures living in self-imposed exile.
Protasevich, who has been living in exile since 2019, told colleagues earlier the same day that he was followed to the airport and a Russian-speaking man was in the check-in line with him and attempted to photograph his documents.

“He was next in line at the document check and just turned around and walked away,” Protasevich said. “For some reason, he also tried to secretly photograph my documents.”

Other agents boarded the plane with him. As the plane came into land in Minsk Protasevich was clearly shaken. A passenger sitting next to Protasevich on the plane reported: “They took us out of the plane, the dogs sniffed our luggage. They took that guy (Roman) aside, threw his belongings on the runway. We asked him what’s going on. He told me who he is and added: ‘They’ll execute me here’,” Tadeusz Giczan tweeted, the current editor-in-chief of Nexta TV, commenting on information shared by passengers on the plane.

“He was calmer by then, but he was still trembling. An officer was standing next to him all the time, soon the soldiers came and took him away”

A passenger sitting next to Protasevich on the plane reported: “They took us out of the plane, the dogs sniffed our luggage. They took that guy (Roman) aside, threw his belongings on the runway. We asked him what’s going on. He told me who he is and added: ‘They’ll execute me here’,” Tadeusz Giczan tweeted, the current editor-in-chief of Nexta TV, commenting on information shared by passengers on the plane.

Stepan Putilo and former editor-in-chief Roman Protasevich founded the Nexta channel on YouTube in 2015 and launched a channel of this name in Telegram, which became one of the venues for Lukashenko’s opponents following the August 9, 2020 presidential polls.

During the height of the protests Nexta briefly became the most read news channel on social media in the world as it quickly garnered millions of followers. The state tried repeatedly to shut the channel down, but thanks to Telegram’s experience of foiling a similar effort to block the channel by the Russian authorities it has developed techniques to dodge efforts to silence it and continued to broadcast.

The Nexta Telegram channel was recognised as extremist by Belarus’ Supreme Court on October 20, 2020. Putilo and Protasevich have both been charged with organising riots and instigating social hatred.

In February 2021, Belarus issues an extradition request for Putilo and Protasevich to Poland, where they were living at the time.

Belarus reaction
Belarus’ interior ministry confirmed the detention of Protasevich, who faces 15 years in jail on terrorist charges and the possible death penalty if convicted.

Belarus has a 99% conviction rate of cases that go to trial.

“Founder of the Nexta Telegram channel Protasevich has been detained at the Minsk airport,” the ministry’s organised crime and corruption department wrote on its Telegram channel.

Opposition leader Svetlana Tikhanovskaya’s headquarters were quickly informed of the incident and raised the alarm, contacting Ryanair, EU politicians and broadcasting the news on social media.

“It is absolutely obvious that this is an operation of special services to seize the plane in order to detain activist and blogger Raman Protasevich. The regime endangered the safety of passengers on board and all civil aviation in order to retaliate against the man who was the editor of the largest Belarusian independent telegram channels. He was recognised as a terrorist only for that, and only for that now in Belarus Raman can be threatened with the death penalty,” Tikhanovskaya said on twitter.

Tikhanovskaya said her headquarters had already reported the incident to Ryanair’s office and the International Civil Aviation Organisation, demanding that an investigation be launched and action taken until Belarus was excluded from ICAO.

“As of today, no one who flies over Belarus can be sure of their safety. After all, the regime abuses the rules of air communication in order to capture dissenters,” Tikhanovskaya said.

The head of the People’s Anti-Crisis Administration and member of the Coordinating Council Pavel Latushko called the action of forcing down a commercial passenger plane by military
force “an act of military piracy and international terrorism” carried out by “military dictator Lukashenko” and his subordinates. He called for an immediate investigation of the incident.

**EU reaction**

The reaction from the EU was immediate and outspoken.

“Closely following developments around today’s @Ryanair flight from Athens to Vilnius, which was forced to land in Minsk over an alleged security threat. This is totally inadmissible,” European Union’s top diplomat Josep Borrell said in a tweet as the scandal began to unfold. “We hold the government of Belarus responsible for the security of all passengers and the aircraft. ALL passengers must be able to continue their travel immediately.”

European Commission President Ursula von der Leyen was also on the wire condemning the actions of the Belarusian government: “It is utterly unacceptable to force @Ryanair flight from Athens to Vilnius to land in Minsk. ALL passengers must be able to continue their travel to Vilnius immediately and their safety ensured. Any violation of international air transport rules must bear consequences.”

Berlin demanded “immediate explanations” from Minsk on the situation around the Ryanair flight and Protasevich detention, Miguel Berger, Secretary of State of Germany’s Federal Foreign Office tweeted a few hours later.

“We need an immediate explanation by the Government of Belarus on the diversion of a Ryanair flight within the EU to Minsk and the alleged detention of a journalist,” he wrote on his EU imposed sanctions on 40 senior Belarusian officials in October 2020 for organising a brutal police crackdown on protesters and repression of the people by security forces to keep incumbent Lukashenko in power. There were many calls on May 23 for more sanctions to be imposed, but clearly the effect of sanctions on the Belarusian economy are limited and Lukashenko has reached a point where he feels he has little to lose from more, but a lot to gain from further terrorising the population.

The head of RT, Margarita Simonyan, was fast on to Twitter to praise the “old man”, with Belarusian authorities saying she was “envious” of his ability to get things done. RT went with an editorial line similar to Belarus’, accusing Protasevich of inciting riots and hatred.

**Russia and US to kiss and make up?**

**Blinken and Lavrov meeting in Reykjavik**

Ben Aris in Berlin

Russian Foreign Minister Sergei Lavrov and his US counterpart, Secretary of State Antony Blinken, met on the sidelines of the Arctic Council summit in the first face-to-face meeting between the new Biden administration and the Kremlin on May 19 in an attempt to find a more “stable” relationship.

Both sides have been talking tough as they try to set the terms of a relationship for the next four years and redefine rules of the game after the erratic Trump administration.

The Kremlin has been particularly aggressive. After a decade of preparation it appears that Russian President Vladimir Putin feels his fiscal fortress is ready and makes Russia largely impervious to sanctions. At the same time, with Russia’s military modernisation that began in 2012 largely complete the

Kremlin also feels it is strong enough to face down US forces both in its own backyard as well as in theatres further afield like Syria and Africa.

Lavrov made the new zero-tolerance for “economically damaging” sanctions imposed on Russia by the West explicitly clear in a new rules of the game speech in February and followed that up with a threat to break off diplomatic relations with the EU if more sanctions were imposed.

The EU has taken the threats seriously and backed off, imposing only symbolic
sanctions on Russia for the poisoning and jailing of anti-corruption activist and opposition politician Alexei Navalny.

However, what Washington would do has been the subject of speculation. So far it has mirrored the EU symbolic sanctions over Navalny and pulled its punches, with another round published on April 15 which targeted Russia’s domestic OFZ bonds for the first time, banning US investors from the primary auctions but not secondary market trading that are largely symbolic, as they have no effect on investors in practical terms.

“We could have done more, but we didn’t,” Biden said after the details of the sanctions were announced.

Common ground
Biden has said that Russia will be “made to pay” for its interference in US domestic politics, but at the same time he has signalled that he wants to “stabilise” the relationship and is certainly not keen to escalate, but will do so if he is forced by Kremlin aggression.

Notably on the eve of the Lavrov-Blinken meeting on May 19 a report was “leaked” that the US would not sanction the Swiss-registered but Russian-owned Nord Stream 2 AG operating company, chaired by Putin’s friend and German national Matthias Warnig, that is building the Nord Stream 2 gas pipeline, thus more or less ensuring its completion this summer.

“I have determined that it is in the national interest of the United States to waive the application of sanctions on Nord Stream 2 AG, its CEO Matthias Warnig and Nord Stream 2 AG’s corporate officers,” Blinken said in a statement accompanying the report.

An official at the US State Department confirmed that the company was being excluded from the regular sanctions report, although subsidiaries and various ships remain on the list. The official also suggested that Biden valued Washington’s relationship with Germany more than it felt the necessity to punish Russia.

German Foreign Minister Heiko Maas welcomed the news and pointed out that Germany’s desire to see the pipeline completed was the “one major point of contention” between Berlin and Washington.

However, the decision not to sanction the company ahead of the Lavrov-Blinken meeting will also usefully be taken as a strong positive signal by the Kremlin that the White House is willing to compromise. Apart from the symbolic sanctions related to Navalny and the OFZ bonds, the only other significant interaction between the Kremlin and the White House since Biden took over has been to renew the key START III missile treaty – something else that both sides wanted. Both Biden and Russian President Vladimir Putin have said publically they are interested in co-operating on arms control deals, climate change and a raft of international problems like Syria, Libya, tensions in the Middle East and most recently the outbreak of violence in Gaza.

Summit to talk about
The meeting in Reykjavik went well, with Blinken telling Lavrov the US is seeking a “more stable and predictable relationship with Moscow,” but added that the US would “act firmly in the defence of US interests.”

“There are many areas where our interests intersect and overlap, and we believe that we can work together and indeed build on those interests,” said Blinken. “It is our view that, if the leaders of Russia and the United States can work together co-operatively, our people, the world can be a safer and more secure place,” he added.

Lavrov responded in kind by laying out a shopping list of complaints, but ended his opening remarks saying that Russia is also looking for “strategic stability” in its relationship with the US.

“We seriously diverge in our assessment of the international situation and our approaches towards how we should resolve it,” Lavrov said. “Our position is clear: we are ready to discuss all issues without exception, on the understanding that the discussion will be honest, factual and conducted with mutual respect. The laws of diplomacy recommend mutuality, especially when it comes to a response to any kind of hostile actions. Our task is to make the best of the diplomatic opportunities we have, and we appreciate that you demonstrate such an approach,” he noted. “Not exactly similar views but similar goals,” emphasised Lavrov, without the help of a Russian translator.

As bne IntelliNews has reported, the two rivals are engaged in a delicate diplomatic dance that combines offers of co-operation and sabre rattling. Blinken in particular highlighted the recent build-up of Russian troops on Ukraine’s border and also called for the release of two Americans – Paul Whelan and Trevor Reed – in Russians jails, who have been charged with espionage.

The list of differences is long and the two diplomats are not seeking the reset that former president Barak Obama tried at the start of his first term, but there is a clear message that pragmatic co-operation is possible.

Blinken mentioned Russia’s military operations in the Syrian civil war and added that it’s “no secret that we have our differences,” just after an elbow bump with Lavrov in his opening remarks.

Blinken, according the US account, added some more specifics of issues the two discussed, suggesting “enhanced cooperation,” involving Afghanistan, as
well as curbing the nuclear programs of Iran and North Korea. Russia is deeply involved in all three areas.

Lavrov took an almost identical line, saying before the meeting that there were “serious differences” in how the US and Russia view major issues in the world, but added: “our task is to make the best of the diplomatic opportunities that we have.”

“It seems we had constructive talks,” Lavrov said after the meeting with Blinken, according to the Ministry of Foreign Affairs website. He added that there was a need to get beyond the “unhealthy situation, which occurred in relations between Moscow and Washington in the previous years.”

Separately in Moscow on the same day Putin told the local press that he wanted to draw a line under Biden’s “killer” comments and focus on improving relations with the US.

While the two seasoned diplomats had their first opportunity to sound each other out and see where they might co-operate and where they might clash, the big item on the agenda was trying to settle a date and venue for a proposed one-on-one summit between Biden and Putin, which is supposed to happen somewhere in Europe on June 15-16.

No news was forthcoming as to what if any progress had been made in setting the date and place for the meeting. Lavrov declined to comment on a possible Biden-Putin meeting, according to an Interfax report. The Kremlin is reviewing the proposal, but still has not formally accepted the invitation.

The Russian business confidence index has risen to zero for the first time since 2012, when the index briefly went positive for seven months in a row for the first time ever.

Business confidence has been recovering after being knocked off its feet last year by the coronacrisis, falling to a low of -7.3 in the autumn of 2020, still not as low in the previous two years, when it fell to -8.

Russian business confidence is very seasonal, with the owners of businesses always being more depressed in the autumn and the most optimistic in the spring and early summer months, when the index typically rises to -1 or -2.

Last year was an exception, when even in the summer months the best the index did was to rise to -4.7. The autumn fall in confidence was offset last year as the first vaccines appeared in November, inspiring optimism that the pandemic would be over in the first half of this year, as appears to be the case.

However, the bounce back in optimism is unusually strong and April’s null result is the first time the confidence index has broken into positive territory for a decade. Prior to that, the index got well above zero at the height of the noughties boom in 2006 and 2007 to peak at an all-time high of +7 in 2007.

Those two years saw a reversal of over a decade of capital flight as Russian businessmen for the first time ever believed in the future of their own country and some $350bn of funds returned from offshore havens as Russians started to invest in the domestic economy. The global financial crisis in 2008 put paid to that optimism and the same amount of money flowed out of Russia that year as the confidence index crashed to its all-time low of -20.

The mood amongst businesspeople is certainly very buoyant as the Russian business confidence survey run by Rosstat every month has turned positive for the first time ever, for the first time in eight years, and for the second time ever. The index was at zero in April, after it was knocked off its feet by last year’s coronacrisis. However, it fell to a low of -7.3 in November, which is less than the -8 of the previous two years, its fall having been offset to an extent by the appearance of the first vaccines to counter the coronavirus (COVID-19) pandemic. The only other time the index has been positive was during the height of the noughties boom in 2006 and 2007, before the 2008 crisis knocked the index back to its all-time low of -20.

Some have argued that Russia’s economy has just started a new super cycle that
will be fed by the boom in commodity prices currently under way. The price of iron is at a nine-year high and copper prices are at an all-time high and expected to stay there, driven by the rising demand generated by electronic gadgets and electric cars. Oil prices have also recovered and are comfortably over $60 a barrel – well above the budget’s break-even price of $42 – which is also producing cash to prime the pump.

All the conditions are in place to drive growth, but the Russian government is still grappling with raising investment levels into its 12 national projects, which is the policy vehicle that is supposed to drive the next round of long-term growth.

The consumer confidence index, which reflects the aggregate consumer expectations of the population, in the first quarter of 2021 compared to the fourth quarter of 2020 increased by percentage points (pp) and amounted to -21% in the first quarter – its best result in a year – but is only measured quarterly and has not been updated for May. So far, consumer confidence in the first quarter still remains worse than the pre-coronavirus levels, which reached a maximum of 16% in 2019 and -17% in 2018. Given the population’s very high expectations for prices to rise that are at least double the actual rate of inflation, it appears the population remains significantly more pessimistic about the future than business people.

**The tragedy of 2008**

April’s confidence result was last seen in the halcyon days of the late noughties boom that ended in a tragedy that has coloured the Kremlin’s thinking ever since.

It is hard to exaggerate the extent of the tragedy that the global finance crisis wrought on Russia and the long-term consequences it has had on the business thinking and the government’s policy making ever since.

Russia was booming in those days, with GDP growth running at 6% to 8%, and there was even talk of “overheating” at the time. Russia bounced back from the Asian crisis in 1997 that caused the Russian financial meltdown a year later in August 1998.

Two years of misery followed until Russian President Vladimir Putin took over as president in 2000, in the same week as IKEA opened its first store in Moscow.

Oil prices had fallen to a low of $18.25 per barrel in November 1998, effectively bankrupting the government, but during Putin’s first year they began to recover.

It’s widely said that the prosperity that followed Putin’s election was gifted to him by rise of oil prices, but it actually took years for oil prices to climb. By the end of December 2000 oil had recovered to $41, but in 2001 they dived again to $30 by December 2001.

Yet the economy bounced back from the 1998 crisis and grew 10% in 1999 – a record that has yet to be beaten – and continued to expand in the following years, largely because the crisis killed off the “virtual economy” that was run on barter and everyone switched back to using a much more fairly valued ruble to settle bills instead.

An economic recovery was well under way by 2002 when oil prices began their inexorable climb to their peak of $170.80 in June 2008. But despite the torrent of petrodollars pouring into the Kremlin’s coffers, the population didn’t feel especially confident of the future. The trauma of the chaos during the Yeltsin years, the hyperinflation and the instability of the ruble kept them nervous, although the quality of life was improving steadily during between 2000 and 2006.

The point is probably best illustrated by the capital flight that continued throughout those six years. As bne
IntelliNews described in the feature “Capital flight figures to make your eyes water” Russia lost $53bn in capital flight during the first six years of Putin’s rule. All in all, $156.4bn left between 1994, when the Central Bank of Russia (CBR) started tracking capital flight, and the end of 2005.

And then something changed in 2006. That was the year that capital flight reversed and $43.7bn returned home, almost as much as had left in the previous six years. The next year in 2007 another $87.8bn came back, bringing the total for those two years alone to almost as much as had already left the country since 1994.

Many factors went into the change of mentality but probably the most significant was the stability of the currency. Russia’s most famous DJ at the time, Ivan Salmaksrov, told this correspondent that he had just been offered to host and produce a youth TV segment called “7-ya” (a play on words in Russia that means both “seven times me” and “family”) on ORT (now the First Channel, Russia’s biggest TV station, but was also toying with the idea of going to New York for a year to see another market at work. “What’s changed is things are starting to look better,” Salmaksrov said. “The ruble has been at RUB6 to the dollar for two years.”

People were starting to build careers. There was opportunity in nearly every walk of life. Money was abundant for projects and incomes were rising by 10% a year as the Kremlin had adopted a policy of using the petrodollars to close the gap between public and private sector wages. The future looked increasingly predictable.

The change is also visible in the business confidence survey. It had been negative for most of the six years of the boom, and started January 2006 at -2, but by February it rose, like this April, to zero before rising again in the summer to 3. There was the traditional seasonal fall that winter but the following year it climbed again even further to a high of 7 – its highest level ever – in July 2007. And it remained elevated throughout most of 2008 as well until September 2008, when Bear Sterns collapsed.

By January 2009 confidence slumped to -20 – its lowest level ever – and all of the $156bn that had come home in the last two years left again in a matter of months.

And there is the problem. It took six years of rapidly improving prosperity for Russian business people to start believing their country had a future and it was worth investing into growing their businesses, so they started to bring money stashed abroad in offshore havens like Cyprus.

Those hopes were cruelly and spectacularly crushed yet again. The entire population remains to this day traumatised and mistrustful. It was not just the oligarchs that were hurt in the collapse of 2008. The Cypriot banking crisis in 2012-2013 showed that most of the money held in Nicosia was Russian middle-class money, not oligarchs’. Regular Russians simply didn’t trust their own banks and currency and kept what they could elsewhere.

The government was also in shock. Another factor fuelling the boom in 2007 was the fact that inflation fell into single digits for the first time since the collapse of the Soviet Union. Putin immediately announced a $1 trillion investment programme into infrastructure – more than twice as much as the RUB27 trillion national projects programme currently in place. The Kremlin intended to use its petrodollar windfall to totally transform the country with economic multiplying infrastructure investments.

Those plans were quickly ditched. The Ministry of Finance had built up a war chest of almost $600bn, but a little less than half of that was spent in the following years to bail out the economy. Putin has just completed building his fiscal fortress and the Central Bank of Russia (CBR) has obtained its “comfort level” of $500bn in foreign exchange reserves last year, which have more recently risen to just under $600bn again.

While the fiscal fortress is mostly seen as a strategic financial weapon as it makes Russia largely impervious to the Western sanctions imposed on it since the 2014 annexation of Crimea, the idea for the need for a fiscal fortress was born in the aftermath of the 2008 crisis. The government’s policy-making since then has been pervaded by “never again” thinking. It is the reason that CBR governor Elvira Nabiullina is hailed as the “most conservative central banker in the world”, as she was already working in the former Finance Minister and Audit Chamber head Alexei Kudrin team and had a ringside seat to the shocking aftermath of the 2008 crisis.

The return of confidence in the future by Russian business people is more than welcome but with their history it will take several years of stable growth and fading geopolitical tensions before they start to bring their money home again. In the meantime, the onus will be on the government to make the necessary investments to transform the economy. And that will make a big difference, but investment rates continue to run below the 25% increase called for in the plan and it won’t exceed them until the domestic businesspeople start to participate. The government is fully aware of this and the investment plans explicitly calls for measures to improve the domestic investment climate; it’s going to take a lot to convince sceptical business people that “this time it’s different.”

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Kyrgyzstan’s gold grab

Kanat Shaku in Almaty

It isn’t every week that two Western powers join up to essentially warn a small frontier market nation that its actions risk soiling its reputation as a feasible destination for foreign direct investment, but that’s essentially what happened when the UK and Canada responded to Kyrgyzstan’s move to seize Kumtor gold mine.

Centerra Gold, the Toronto-listed miner that owns Kumtor – one of the largest gold mines in Central Asia operated by a foreign investor – through its subsidiary Kumtor Gold Company (KGC), has over the years gotten well used to Kyrgyz governments of various stripes attempting to milk it for more than contractually bargained for, but the tactics deployed by populist strongman President Sadyr Japarov to wrestle the mine from its hands were especially aggressive and shocked foreign investors. So much so that the British government, with a cold eye on the fact that UK-based BlackRock Investment Management holds a 10.6% stake in Centerra, lined up with the Canadians in warning Kyrgyzstan that measures that “negatively impact trade and foreign direct investment will further undermine already fragile economic livelihoods of the Kyrgyz people”.

Kyrgyzstan moved fast. In just two weeks, the government went from passing a bill on allowing a takeover of the flagship mine on environmental grounds to Japarov signing that bill into law to the parliament initiating the takeover on May 17. Almost simultaneously, a court slapped KGC with a $3.1bn fine for environmental damage.

No love lost
There would appear to be no love lost between Japarov and Centerra. In early October last year, avowed and fervent nationalist Japarov was still resident in a prison cell, serving a sentence for having in 2013 taken part in events that saw the kidnapping of a regional governor used as a hostage in a standoff with authorities over demands for the nationalisation of the mine. During the turmoil into which Kyrgyzstan was plunged eight months ago, Japarov was busted out of jail by supporters, after which he quickly took command of events that rapidly delivered him the presidency.

Curiously enough, Japarov quickly assured observers that his Kumtor campaigning days were over and that he would not in the current context be
pushing to place the mine – scene of the second highest gold mining operation in the world, located in the Tian Shan mountains more than 4,000m (14,000ft) above sea level and 60 kilometres from the Chinese border – in state hands.

Was he bluffing or did something happen to change his mind? Some Kyrgyzstan watchers suggest one need look no further than the truly dire state of the country’s economy caused by the coronavirus crisis. Indeed, it appears to have only dawned on Japarov in the past couple of months just what a mess the government’s books are in.

Acute budget deficit
Nikita Mendkovich, of the Russia-based Eurasian Analytical Club, was one analyst who took in the Kumtor uproar from this angle, telling 24.kg: “There is one factor – an acute budget deficit – behind the current attempts to [once again] revise the agreement on the project, as well as behind other similar stunts that [have been pulled by] all previous presidents of Kyrgyzstan.”

Mendkovich cautioned: “I have always considered attempts to renegotiate the terms of concluded agreements as alarming symptoms. Such actions cause serious and long-term damage to the economy. They are much more harmful than compliance with agreements that have been previously concluded, even those that may be financially disadvantageous.”

Kyrgyzstan saw its GDP shrink by over 8% in 2020 and by another 9.4% in the first quarter of this year amid the pandemic’s impact. It is the second poorest country in Central Asia, being only slightly better off than Tajikistan. Food aid has lately been arriving from the country’s oil-rich neighbour, Kazakhstan, while the United Nations Development Programme (UNDP), Asian Development Bank (ADB) and Kyrgyz Economic Policy Research Institute have predicted a 25% decline in much needed remittance inflows and an unemployment level that is expected to reach 21%. Income from tourism and travel services is thought to have dropped by around 90% in 2020.

Japarov officials are wont to make loud complaints about environmental damage that they allege has been caused by operations at the Kumtor mine – claims that KGC has been illicitly dumping waste on glaciers, for instance, may be one aspect of the case that will be looked at in response to Centerra’s international arbitration suit – but such objections are unlikely to amount to more than a minor part of the reality at play in the state taking control of the mining asset.

“Of course, ecology is an important element, but has there been any recorded damage to public health associated with environmental disturbances in this area? I believe that the state is simply faced with the task of finding additional sources of income to solve the problem of the state budget,” Kyrgyz economist Asylbek Ayupov told Vesti.kg.

“Kyrgyzstan saw its GDP shrink by over 8% in 2020 and by another 9.4% in the first quarter of this year amid the pandemic’s impact. It is the second poorest country in Central Asia”

Japarov is known as a fervent nationalist (Image: dumak.gov.ru CC-BY-SA 4.0).
forced to leave the field,” Kazakhstan-based political scientist Eduard Poletayev told Russian news agency REGNUM this week. “Either these are not very skilful attempts to initiate negotiations with the aim of increasing payments or [there is a move] to revise the state’s share in the company.”

“Canadian Centerra Gold, operating at Kumtor mine, is one of the few large investors in Kyrgyzstan, and direct pressure from Bishkek looks – at the very least – illogical,” the analyst suggested.

“This situation, if it goes too far, will make other foreign investors working in the mining industry of Kyrgyzstan think about things.” Poletayev added.

That latter point, however, may not be much of a concern to Bishkek given that in terms of other Kyrgyz gold mines, the second-biggest, Jerooy, is being developed by Russia – a geopolitical ally in the neighbourhood that no Kyrgyz political faction would dare to seriously oppose – and several smaller gold mines are owned by China, another giant that won’t brook much nonsense from its smaller neighbour, especially given the pile of debt the Kyrgyz owe Beijing.

Sore point
The ownership of the mine has always been a sore point with many Kyrgyz, given Kumtor’s importance. Kumtor is the country’s single largest contributor to gross domestic product, accounting for 5-7% of GDP, while the mine is also the nation’s largest taxpayer and employer. It is wholly owned by Centerra Gold through KGC, while Kyrgyzstan, via state mining firm Kyrgyzaltyyn, gets some reward via its 26% stake in the Canadian parent company.

Several political factions have long called for the nationalisation of Kumtor, and their demands were especially loud after the ex-Soviet country’s second revolution in 2010. The agreements signed by the former regimes of Askar Akayev and Kurmanbek Bakiyev, respectively, were widely assailed as “unfavourable to Kyrgyzstan”, with alleged personal enrichment for various individuals involved.

Nevertheless, provided it is legally watertight, a deal is a deal, thus Japarov and his posse need more than just environmental objections with which to attack the strategic investor. Allegations of political meddling are another factor that has been in play.

One vague insinuation voiced by the head of the state commission on Kumtor, Akylbek Japarov (no relation to the president), is that Centerra Gold has actively meddled in the state affairs of Kyrgyzstan.

“Some activists and politicians got into jail due to criticisms from [Centerra Gold], while others built their careers with the help of Centerra Gold. The company helped some of them take the posts of prime minister and even president,” Akylbek Japarov asserted on May 17. He provided no evidence to back up his accusations.

Nothing new
In many ways, there is nothing new about the government’s unproven claims about the environment, national interests and political meddling. Similar justifications have been employed during all previous disputes with Centerra over profit-sharing and investigations into the company’s purported connections with government officials.

One of the earliest examples of harassment directed at Centerra occurred in 2013. It featured as many as 10 cases of alleged criminality that emerged as part of a corruption probe at Kumtor, leading to the detention of some top-level Kyrgyz officials. Then there was the case of CEO of Centerra between 2004 to 2008, Leonard Homeniuk. He was detained in Bulgaria in July 2015 on corruption allegations made by Bishkek, but he was three months later allowed to fly home after a court refused to extradite him on the charges presented.

In 2014, Kyrgyzstan struck a non-binding agreement with Centerra Gold for the restructuring of Kumtor. Under this deal, the government would swap its stake – which back then stood at 32.7% – in Centerra Gold for a 50%
shareholding in KGC, thereby shedding its stake in Centerra’s other interests, such as the Boroo mine in Mongolia. The talks over the restructuring continued stalling and facing setbacks until they eventually collapsed in December 2015.

Later on, in 2016, under then president Almazbek Atambayev, Kyrgyzstan launched a series of probes to assess the legality of 2003, 2004 and 2009 deals with Centerra amid another dispute over profit-sharing entwined with announcements of fines over supposed environmental damages. The dispute even led to arbitration proceedings.

Also in 2016, Kyrgyzaltyn voted against a planned $1.1bn purchase of Thompson Creek Metals (TCM) by Centerra to no avail. Centerra agreed to buy US-based TCM as part of plans to reduce its dependence on Kumtor. It was that move that diluted Kyrgyzstan’s stake in Centerra to 26.28% from 32.7%.

The dispute eventually led to a deal to affirm 2009 mine agreements, including tax and fiscal rules, in 2017. The company agreed to provide a one-time $50mn payment to a new Kyrgyz state-run nature development fund as well as annual payments of $2.7mn. The payments were framed as contingent on the government’s compliance with the agreement.

Under the deal, Centerra was also to pay $10mn to a cancer care support fund and boost its payments to Kumtor’s reclamation fund to $6mn annually, until the payments covered an estimated reclamation cost of a minimum $69mn.

The years of 2018-2020 brought a brief period of relative stability in Kyrgyzstan’s relations with Centerra. That, of course, has by now been rudely interrupted.

Making the case
Yet everyone must be given a chance to make their case. The mine is a national treasure and the Japarov administration is apparently hoping to elaborate on its actions in meetings with international financial institutions called for the coming week.

This ultimately implies a measure of self-awareness on the part of top Kyrgyz officials, but that does not mean that the regime will not prove to have shot itself in the foot. And, if the consequences of lost FDI eventually mount up to be particularly damaging, that analogy may need to be extended to the kneecap.

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Mongolia’s apocalyptic sandstorms

**Antonio Graceffo**

In Mongolia, one trigger for the government to declare a disaster is a wind speed that exceeds 24 metres per second. This occurred in mid-March, when the country’s largest sandstorm in a decade struck. In Uvurkhangai, Bulgan and Umnugovi provinces the wind speed reached from 18 to 34 metres per second. The wind speed in Dundgovi province, was even higher, at 22 to 40 metres per second.

Other provinces, such as Govi-Altai, Bayankhongor, Arkhangai, Tuv, Khentii, Dornod, Sukhbaatar and Dornogovi experienced less severe, although still dangerous, storms with wind speeds of 16 to 28 metres per second. The storms left hundreds of people missing and claimed 10 confirmed casualties, including one child and nine adults. They also caused the loss of 1.6mn livestock.

As international headlines about the “apocalyptic” sandstorms and orange skies relayed, the storms swept across the border into China, pummelling Alxa Right Banner in Inner Mongolia Autonomous Region and Linze county in Gansu Province, with the effects felt as far away as Shandong Province and the Korean Peninsula.

Then, at the end of April, Mongolia and China were hit by second and third rounds of fierce sandstorms. In Mongolia, over 1mn livestock were killed in the first quarter of 2021, most of which died in the southwestern Mongolian province of Bayankhongor.

**Human consequences**
People who live in the affected areas tell how flying sand strips the paint from cars and scratches the glass. It turns over gers (yurts) and they roll away. “But, actually they are okay,” explains Enkh, “they can be rebuilt...
easily.” The gers are designed for life on the steppes, including, in the deserts. Although the exterior is made of felt, the wooden frame underneath is very sturdy. The walls are low, at only around six feet high, and the shape is round; consequently, gers can, for the most part, withstand heavy winds.

If they do collapse, Enkh comments, “It’s not dangerous, like a house. Nothing to hit you.” The gers collapse, and possibly blow away, and the family may lose their possessions, but the home can generally be rebuilt, relatively easily.

Enkhbayar Dashdorj, from Khuld sum Dundgobi, close to South Gobi, near the White Stupa, gives his account of what it’s like to experience a sandstorm. “All day and night, it was storming dust and dirt. It just kept pouring with dirt.”[i] North of his location, he says, some gers and fences were blown down.

According to Enkhbayar, sandstorms are a regular feature of life on the steppes and, usually, the family and the home are unhurt, but when they wake up the next morning, everything is covered in dirt and sand. “Sometimes we just have a dust storm, not a sand storm. Very heavy wind and dust.” But proper sandstorms reoccur. “The storm is not just one time, it comes back in intervals, and blows again. Now every time the wind blows, there’s dust everywhere.”

Enkhbayar, like most of the 40% of the Mongolian population who live on the steppes, is a herder. He has more than 100 livestock including sheep, horses and camels. He tells how during one of the latest storms some of the family’s animals went missing and some died. Spring is the time when the babies of the herd are born and many were not strong enough to survive the storm.

The storms did not just claim the lives of animals, they also took the lives of people. “In our province, in total nine folks went missing,” says Enkhbayar.

Sara Baksh, who now lives in Ulaanbaatar but used to live in the countryside, explains that when the sandstorm comes, the herd runs away. According to Erdenmunkh, the animals are conditioned to run with the wind, to seek shelter, rather than running into the wind. “So, the herdsmen chase after the herd, and very often get killed or disappear,”[ii] says Baksh. “It is dangerous, but the herd is their living… Sometimes, the father doesn’t come back. So, the wife or the son go out looking for him, and you wind up with two people missing.”

As a result of the storms, it is difficult to find grass for the animals to graze on. If the animals die, the herdsmen and their families will lose everything. Consequently, the herdsmen try to buy hay or animal feed, but it is expensive for them. A bundle of grass costs about Mongolian tugrik (MNT) 12,000 (about $4.21). Tejeel (grain) is even more expensive at between 25,000 and 35,000 tugrik. The government and some foreign and local NGOs are providing some assistance for animal feed and replacement gers, but not every herder or family qualifies for help.

Bolorshagai, from Umnugobi Province in southern Mongolia, Noyon soum, says: “I was indoors during the storm. Other than being panic-stricken, and in fear, wanting to stay inside, and wanting to go to the toilet which is outside, and taking care of the livestock, there were no other thoughts.”[iii]

The small details are often the most revealing. Of course, the toilets are outdoors, so during a sandstorm, it may be impossible to go out to the toilet for a prolonged time. Water has to be provisioned, usually in 10-litre containers. If the storm lasts several days, the family may be unable to go out and get water.

The centre of the ceiling of the ger has a wide hole, for the exhaust pipe from the stove. During a strong storm, explains Baksh, the pipe can be taken down and the fire extinguished, so that the hole can be closed. This can be problematic during a long, cold winter, but, says Baksh, the time it takes for a storm to pass is usually not too long, and the stove remains hot for a few hours, so the family doesn’t get too cold.

Bolorshagai tells how storms like those just experienced usually have a severe impact on the daily lives of the herdsmen. Her neighbours, she says, lost more than 80 animals, while her family lost about 30.
Degradation of the Steppes

Each year, more of the steppes change from grassland to desert. Mongolia is also periodically hit by a natural disaster, unique to the country, a weather phenomenon called the dzud. It too kills off livestock. A dzud occurs when an extremely long and dry summer is followed by an unusually harsh winter. A dry summer means that less grass is available for animals to consume, while a colder winter requires the animals to eat more.

In the 2009 dzud, roughly 10mn livestock died across the country. Many herder families lost their livelihood completely and moved to the city, seeking work. Today, nearly half of the residents of Ulaanbaatar live in the ger district, where the coal burned by each family has caused the city to become one of the most polluted capitals in the world.

The desertification of Mongolia has a number of causes, including reduced rainfall. According to a China-based environmentalist, Ma Junhe, “There is little that humans can do to remedy the problem.”

Overgrazing is another significant cause of the degradation of the steppes. Between 1990 and 2018, the number of livestock in the country has increased by 2.6 times. Human populations have increased, across the region, over the same period, as has the average income, and with it, the demand for meat.

In China, and Central Asia, similar increases in population and meat consumption have occurred, but with less environmental impact. In Mongolia, the increase in the number of animals is made more extreme, by the limited amount of grazing land. According to the United Nations Development Programme (UNDP), there are currently, 33mn more livestock in Mongolia than can be supported by the natural pastureland.

It is not just the increase in the number of animals, but also the types of animals that destroys the steppes. Goats are more destructive than sheep, because goats actually tear the grass up by the roots when they graze. Cashmere, made from goat wool is much more profitable than other animal products, such as sheep’s wool, meat or milk. About half of Mongolian herders live below the poverty line. In the hope of earning a better living, herders have been increasingly adding goats, for cashmere, to their herds. Since 1990, the percentage of goats, among the national livestock herd has increased from 20% to 40%.

The increasing numbers of livestock among large herding operations has driven smaller herders off the steppes, causing a population decrease in rural villages, and a population increase in Ulaanbaatar, as herders head to the city to find work. The transplanted herders are ill-prepared to earn a living in the city; they are unable to speak English or use computers, and most are relegated to the lowest order of manual labour.

Reclaiming the grasslands

There are numerous programmes run by the government, as well as various, local and foreign NGOs, involved in replanting the grasslands. Ironically, Beijing is generally hit harder by sandstorms than is Ulaanbaatar.

Consequently, even the Chinese government has begun a tree planting programme in Mongolia, in the Gobi. It is funding some of the reclamation efforts to prevent future sandstorms. This year’s sandstorms were so intense, that the Chinese government has vowed to expand the programme.

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The five Stans back in the Game

Chris Weafer of Macro-Advisory in Moscow

For most of the past hundred years, Central Asia was little known to most of the rest of the world. It was closed to outsiders during the over seven decades of Russian occupation and, like most of the other former Soviet states, the countries in the region have often struggled to deal with political and economic freedom since independence. Some are still struggling to define their historic and current national identities while also trying to chart the best course for social and economic development. With few exceptions, the region has been of little interest to investors or multinational corporations. That is now starting to change.

This year, the five states that make up Central Asia will celebrate 30 years of independence. As they do so, the region is again an area of intense interest to major world powers.

Famously the region was the setting of the so-called Great Game in the 19th century, when Britain and Russia competed for dominance from the Caspian in the West to the Tian Shan and Pamir Mountains in the East. There was a minor replay in the 1990s and noughties, although then it was more about access to, and control of, the region’s considerable natural resources, especially oil, gas and minerals. The protagonists were the world’s major energy and mining corporations.

Today we can see Great Game 3.0 across the region. The competitors are Russia, China, the United States and coming up fast in the rear-view mirror, Turkey. Each of these has a clear agenda in support of their respective strategic objectives. But in this variant of the Great Game, the foreign powers have a local competitor: national governments are more assertive, better understand the game and are in greater need to deliver on their respective population’s economic expectations. They need more investment and better access to global markets.

This time, the growing interest in the region by the larger economic and political powers presents local leaders with an opportunity: they are better positioned to attract financial aid, development loans and strategic investment. Some, such as Uzbekistan, have already benefited significantly from aid and loans and others are gearing up to join that queue. Governments are also better positioned to conclude trade deals and to balance the interests of the great powers with their own agendas. The expanding transport networks, most spurred off the Chinese BRI system, give real substance to trade deals, whereas in the 1990s and noughties they were largely symbolic.

What is Central Asia?
It comprises five states with a combined population of 77.2mn. Economies have considerable potential to develop, with target GDP, based on purchasing power parity (PPP),

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estimated using World Bank methodology at an aggregate $900bn, three times today's nominal value. Uzbekistan has the largest population, with 33.9mn, and Turkmenistan the smallest at 6.1mn. The region is resource-rich, with the Caspian states, Kazakhstan and Turkmenistan holding huge under-developed reserves of natural gas and oil, and the mountainous Kyrgyzstan and Tajikistan home to a wide range of mineral resources and hydro-electric power. Double land-locked Uzbekistan has huge agriculture and renewable energy potential.

One of the reasons why Central Asia remained relatively isolated for so long is because of the authoritarian political structures that emerged with independence. But that is also now changing and new regimes are now more accountable to a more politically active and demanding population. The remaining exceptions are Tajikistan, where President Emomali Rahmon has been in charge continuously since independence, and Turkmenistan, where President Berdymukhamedov is only the country's second leader and has been in power since 2006. But the example of the other three states is that when the long-term leader leaves office he is not replaced by a similar autocrat, as people demand change.

The Rise of Eurasianism

Moscow has the leading position in the region it refers to as its near-abroad. Two of the states, Kazakhstan and Kyrgyzstan, are members of the Russian-led Eurasian Economic Union and Russia has a military presence in Tajikistan and Kyrgyzstan. Excluding energy and minerals, Russia is also the leading trade partner for the region. Moscow officials are also a lot more determined to defend Russia's position in the region, especially since political relations with the West have deteriorated so badly since early 2014. Eurasianism is a word heard more often in political and cultural discussions in Moscow and defines what officials see as the country's legitimate area of influence in the world today.

The concept of Eurasianism is one of the varied conservative ideologies that emerged in Russia in the 1990s, according to research published the Central Asia and Caucasus Institute at Johns Hopkins University. It states that Eurasianism can be defined as an ideology which affirms that Russia and its "margins" occupy a median position between Europe and Asia, that their specific features have to do with their culture being a "mix" born of the fusion of Slavic and Turkic-Muslim peoples, and that Russia should specifically highlight its Asian features. Eurasianism rejects the view that Russia is on the periphery of Europe, and on the contrary interprets the country's geographic location as grounds for a kind of messianic "third way."

Eurasianism calls for a civilisational definition of Russia should be considered not as something specific to Russia but as part of a more global phenomenon. With the intellectual retreat of Marxism, socio-economic explanations seem to have been supplanted by the idea that only national identities, cultures and religions can explain the world as it is today. The (hoped for) widespread acceptance of Eurasianism confirms that the states of the former Soviet Union are fully in tune with the major ideological developments taking place across the planet in the early 21st century.

Stans in the middle

China's interest in the region is both obvious and yet harder to define. It has invested, and lent, hundreds of millions of dollars to all the Central Asian states but almost entirely for the purpose of building infrastructure – mostly railways and pipelines – that supports China's own economic development and trade expansion. China has shown no interest in establishing a political or military presence in the region. It has, after all, enough trouble dealing with its own western provinces. Very likely Beijing will continue to expand investments across the region, although it will have to alter terms to better balance the advantage with the local economies. It will most likely work with Moscow on political and military co-operation.

The United States has stepped up its various aid and investment programmes as it seeks to expand its influence in the region. This will increasingly be a priority as the Biden Administration withdraws military from neighbouring Afghanistan and very likely will want to both support the government in Kabul and monitor the activities of other groups in the country from neighbouring states to the north. Given the very clear dangers from the Islamic militant groups in Afghanistan, all of the Central Asian states will undoubtedly welcome security support from both Moscow and Washington.

Turkey is often referred to as being a latecomer to Central Asia, but that is not true. The language and culture of Turkmenistan, Uzbekistan, Kazakhstan and Kyrgyzstan are Turkic based. Turkish President Recep Tayyip Erdogan has been a frequent visitor to all the regional capitals and Turkish investment has grown significantly over the past ten years. Ankara has no intention of being left behind in a region it also views as a part of its historic near-abroad, a history that considerably pre-dates that of the Russian expansion of the original Great Game.

The bottom line is that as Russia, China, the US and Turkey broaden their efforts to establish greater influence in Central Asia, the five states are ideally positioned to benefit from financial, technical and trade support from their powerful suitors. That should help accelerate the closing of the gap between today's nominal GDP and the target PPP based potential. It also means that the region, which has mostly been of interest to high-risk tolerant energy and mining investors, is starting to be of interest to a broader range of investors and multinationals.

Chris Weafer is the founder and CEO of the Macro-Advisory consultant based in Moscow.
Uzbekistan’s Capital Markets Development Agency restructured as privatisation looms

Scott Osheroff in Tashkent

On April 13, 2021, President Shavkat Mirziyoyev signed a sweeping decree “on measures for the further development of the capital market” in order to expedite the government’s goals of rapid reform by the end of 2023, and which includes having some major companies listed on the Toshkent Stock Exchange (TSE) in Tashkent added to the MSCI Frontier Index watchlist. This is something which we believe could be a major “game-changer”, since it will put Uzbekistan on the map for many foreign institutional investors.

On the same day, it was announced that the Capital Markets Development Agency (CMDA) would be dissolved. The CMDA was established in January 2019 with the purpose of acting as the capital markets regulator and overseeing their development. While a surprise to the investment community, there will be little change in relation to how this affects investors, as the new regulator will continue from where the CMDA left off and hopefully move ahead at an even more rapid pace. As per the details of the presidential decree outlined below, we and most of the local investment community in Uzbekistan are very positive on this change, especially if the new regulator can execute even a portion of its long list of goals.

The presidential decree highlights some of the lingering issues in the capital markets which need to be addressed. They include, among others:

- A low free-float among listed companies
- Low participation among institutional investors
- A high share of state-owned companies in market turnover
- A low level of financial literacy among the Uzbek population

The first three points should be quite straightforward to resolve and have been in the pipeline for several years. Uzbekistan’s capital markets face a “chicken and egg” situation whereby the government has planned to privatise vast swathes of the economy through IPOs and SPOs, but if not conducted in an orderly fashion, and without foreign participation, then the process will continue to be drawn out. The majority of listed companies on the TSE have some degree of state ownership, so in order to increase their free-floats the state’s participation can easily be privatised through secondary offerings at prevailing market prices or modest discounts. This should also increase institutional participation in the market, as many of these privatisations would be valued in terms of dollars and there is unlikely to be sufficient local demand to absorb the supply of shares.

Some of the government’s more notable KPIs to transform the capital markets by 2023 include:

- Increasing the free-float on the TSE to 5% of GDP
- Providing education on financial literacy to 40,000 local minority investors

The free-float of the TSE is estimated at 0.4% of GDP, or less than 4% of total market capitalisation of the exchange, while the current market capitalisation of the exchange to GDP is 11.5%. If the free-float is to equal 5% of GDP, this would equate to roughly $2.6bn of equity value, or 43% of the current market capitalisation of the stock exchange. Clearly, in order to achieve its goal, the government needs to expedite its privatisation process of fully state-owned enterprises as well as sell its participating stakes in already listed equities. If this can be achieved, it would be a “game-changer” for the investment landscape in Uzbekistan and create a significantly more liquid market with a much larger local and foreign investor base.
which we believe will help transform Uzbekistan’s capital markets into the largest in Central Asia.

In addition to the largest cement plant in Uzbekistan, Qizilqum Cement (TSE: QZSM), and glass manufacturer Kvarts (TSE: KVTS), the presidential decree highlights the following companies to be privatised out to 2023:

- Uzmetkombinat (a listed steel producer which is slated for an international dual listing)
- Almalyk Mining (a significant gold, silver and copper miner)
- Navoi Metallurgical Mining Kombinat (a mining conglomerate that owns the largest open-cast gold mine in the world – Muruntau)
- Uzbekistan Airways (the national airline)
- Uzbekneftegaz (the state-owned oil & gas monopoly)
- Uztransgaz (a natural gas distribution/pipeline operator)
- Halk Bank
- Agro Bank
- Microcredit Bank
- Uzagrosugurta (a top-5 insurance company with the largest branch network)
- Kurilishmashlizing (a construction machinery leasing business)
- Uzavtosanoat (state-owned auto manufacturer and producer of Chevrolet cars)

The sea change in the government’s attitude in April towards many of these companies is remarkable considering that most of them were previously regarded as strategic, and therefore had to remain state-owned.

In order to achieve the above targets, the government is planning to pass a new capital markets law by the end of 2021 which, among other things, is expected to improve the efficiency of conducting IPOs and SPOs, designate the functions of underwriters, dramatically improve broad legislation for the protection of minority investors, enhance accounting and listing requirements, introduce Sukuk (Islamic) bonds, permit foreigners to invest in government bonds (currently not permitted), and perhaps most importantly, simplify the burdensome account-opening procedures for investors seeking to participate in the stock market and possibly go so far as to digitise the process.

The risks of capital markets development
While the presidential decree is very exciting and exactly what we have been anticipating, we will be watching closely to see how all of this positive news transpires, as execution will be paramount.

A former and just as aggressive privatisation plan was announced between 2016 and 2020 in Kazakhstan, Uzbekistan’s northern neighbour. This is what originally attracted Thomas and myself to the region, as Kazakhstan had planned to privatise vast swathes of the economy in order to decrease the government’s contribution of GDP from 70% to less than 50%. This included the privatisation of over 900 assets and companies, including the IPOs of KazPost, the national post office, Air Astana, the national airline, KazMunayGaz, the national oil & gas company, and Kazatomprom, the state uranium miner, by 2020. However, the process could be branded a failure, as it has largely been pushed back, and of the four planned IPOs, only Kazatomprom became listed. We hope Uzbekistan is able to execute its privatisation plans more effectively.

In order to achieve the above targets, the government is to outsource some of their polluting industries onto the territory of Kazakhstan.

Kazakh news website Orda.kz quoted Zhabolat Mamai, the man responsible for organising the protest arranged for Almaty, as saying in a rally speech: “China began construction of 56 factories in Kazakhstan. By the end of 2023, the construction of all 56 will be completed. In return, they promise investments worth $24.5bn. Who will build these factories? Not our ordinary Kazakh [workers], but workers who arrive from China. At least
hundreds and even thousands of Chinese workers will settle in Kazakhstan."

Mamai continued: “And then no one will be able to drive them out. This is the beginning of expansion. China never gives aid to anyone free of charge. Even in Africa the Chinese run their factories themselves. Do you know that our officials protect the interests of China and are ready to do anything for the sake of these investments? China gives billions. But as a result of this funding, Chinese influence is also set to arrive. They will have economic authority over Kazakhstan, and eventually political [authority].”

Mamai’s point was partly proven in the authorities’ nervousness ahead of the event. Despite granting a permit for the anti-China protest, law enforcement arrested at least 10 individuals in Almaty ahead of it without any explanation, local newspaper Nastoyasheye Vremya reported. The people, who were en route to the rally, were placed in police vans and taken away, the report said.

The actions directed from above, however, give off the air of a half-measure. Letting Kazakhs protest can be seen as a release valve for frustrations built up amid economic burdens emanating from anti-COVID-19 lockdowns that weigh on the backs of the poverty-stricken citizenry. The sanctioning of a rally is something like an administrative carrot, while the intimidatory tactics then applied to the event, such as pre-protest arrests, serve as the stick.

The government will not give up on finding ways to support its growing addiction to Chinese investment, a much needed factor in diversifying the economy away from dependence on oil exports. And, of course, China will not refrain from keeping a close eye on anti-Chinese sentiment in its ex-Soviet neighbour. Striving to keep China happy under such circumstances is a no-brainer.

The protests did in fact invoke a response from the Chinese Ministry of Commerce. The ministry’s spokesman, Gao Feng, on April 8 addressed the allegations that China has transferred polluting production enterprises to Kazakhstan. Gao said the claim went “against the facts” and had “ulterior motives”. He then cited figures on China’s investment in Kazakhstan, stating that it topped $7.83bn as of end-2020 and helped promote local employment and economic development. The spokesman also added that China-Europe freight trains made nearly 10,000 trips between China and Europe via Kazakh territory last year.

But as the contents of Mamai’s speech demonstrate, the protesters seriously doubt that the economic benefits of China’s investments in Kazakhstan will have a long-term advantage for the Central Asian nation.

Another aspect of the March 27 protests, as suggested by a Jamestown Foundation article published on March 30, could be that the protests were partly fuelled by the threat posed towards Kazakhstan’s Lake Balkhash by Chinese agricultural expansion in Xinjiang. The 16,400 square-kilometre body of water is Central Asia’s largest lake and the subject of worry over its potential for becoming “the second Aral Sea” and thereby almost disappearing from the face of the Earth.

Earlier in March, peer-reviewed journal Water published a study, titled “To save the lake, China would have to drastically reduce how much water it uses”. The study was widely publicised in Kazakhstan and across Kazakh media, partly thanks to a piece by Eurasianet.

**China mainly at fault**

The study, conducted using multiple simulations, concluded that the lake can only be saved if China dramatically cuts the amount of water it uses in Xinjiang; namely, stops drawing so much water from the Ili river that feeds Lake Balkhash.

The authors of the study pointed to the expansion of farming in China. Irrigated cropland around the Chinese side of the Ili grew by nearly 30% between 1995-2015. The threat this poses to Balkhash far outweighs any other potential danger. Kazakhstan, comparatively, did not see any significant rise in
agriculture in the examined period, though there could be an acceleration in the future.

“Agricultural development remains a priority area in the current Five Year Plan of the Chinese government, and land use change studies indicate continued conversion of scrub and grassland into irrigated agricultural fields,” the study noted.

“Above all, the results underline the potential influence of changes in upstream water use on downstream water availability for different water users, intensifying existing trade-offs,” it added, referring to, of course, the impact of China’s water use on the availability of water in Kazakhstan.

The fate of the lake and the waters flowing into it is made even more ambiguous by gaps in data as a result of the challenging political situation in Xinjiang, agricultural modernisation throughout North-West China and rapid changes under the policy agenda of the Chinese infrastructure development Belt and Road Initiative (BRI), the study said. China’s hegemony, reinforced by the BRI, drives rapid changes in cultivation practices and water regimes, the study observed.

“The limited information available indicates that development plans for the next decades designate the Chinese Ili Prefecture as a key grain-production area, with less attention for rice. Perhaps this makes demand scenarios 2 and 4 (both 50% rice cropping) less probable and more moderately increasing demands (scenario AC3 with 15% rice cropping) more likely,” it said. But even with less water-intensive crops, the consensus of the researchers is that China would still overuse the waters.

The researchers mainly explored China’s responsibilities in the face of global climate change, but how could Kazakh authorities get China to abide by them?

Nothing new
The attempts to address China’s usage of the Ili river started more than a decade ago. Suggestions that Kazakhstan could simply negotiate its way to sufficiently limiting China’s draining of Lake Balkhash are nothing new. Recommendations by EU experts on the topic can be seen as far back as 2010.

An article by Kazakhstan Today quoted Russell Frost, an EU project lead on the “Introduction of Tools for Ecological Politics in Kazakhstan” initiative, as saying all those years ago that “it will be necessary to conduct serious negotiations with the People’s Republic of China, because the springs and rivers that flow into the Balkhash, their upper reaches are on the territory of the PRC”.

“Having analysed the agreement that is currently in force on water resources management between the Republic of Kazakhstan and the PRC, I can say that there are no specific mechanisms in this agreement that would restrict water intake in the upper reaches of those rivers that flow into Lake Balkhash and whose drainages are located on the territory of China.”

“This agreement is unilateral, because it is practically only in the interests of China,” Frost added, while suggesting that a new fully functioning document needs to be developed jointly by Kazakhstan and China that would restrict water intake from the upper reaches of the Ili river. He also stressed the necessity of forming Kazakhstan’s own national strategy for the conservation and management of Balkhash water resources in order to strengthen Kazakhstan’s negotiating position. That included advice on forming a single regulatory body on water issues.

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"At the moment, water resources management in Kazakhstan is fragmented and suffers from conflicts of interest. International experience suggests that a single regulatory body is the right approach, integrating aspects of water use and wastewater disposal. In addition, such a body should not have an economic interest in water use," Frost concluded.

The recommendations are still as relevant today as they were back when Frost voiced them, and that serves to underline the lack of any real effort on Kazakhstan’s part to address the lake’s slow but quickening and inexorable road to demise. That does not paint a reassuring picture as regards Balkhash’s chances going forward.

In 2018, the then director of the transboundary rivers department at the Kazakh Ministry of Agriculture, Igor Kovalenko, told the local Kazinform news agency: “China, of course, is a dynamically developing country, the second biggest economy in the world. And it may soon become the biggest, and the understanding of environmental problems in China is also changing. One example is that for the first time in the existence of the Ministry of Ecology in China, it is now headed by an ecologist. A real ecologist who deals with environmental issues – this already says a lot. And the fact that China exists at the expense of natural resources will not end well. Currently, in many countries there is a [growing] understanding of the [importance] of preserving the ecological environment."

Kovalenko also briefly mentioned the existence of ongoing negotiations between Kazakhstan and China, in which Kazakhstan was arguing for maintaining water flows into Balkhash at appropriate levels. The recommended levels would mean the lake’s water level dropping no lower than 134 metres. Anything below that would be catastrophic for the body of water.

Doomed by Kazakh plans alone?
The primary reason for China’s exploitation of Balkhash can be determined as the attempt by Beijing to attract Han Chinese settlers to Xinjiang as one way of suppressing the Muslim minorities: the ethnic-Uighurs, ethnic-Kazakhs and ethnic-Kyrgyz, among others, in the region. This doubles as part of the effort to boost China’s agricultural output.

But even in the event that China, in a highly unlikely outcome, completely abandons this strategy, Kazakhstan’s own plans to increase use of the Ili river remain a big anxiety.

Kazakhstan has committed to increasingly ramping up its agricultural production. It is eyeing the possibility of becoming a regional food hub. The catch is that Kazakhstan hopes to supply most of hub’s food to China – a kind of de facto outsourcing of food output generated for China that ties into Kazakhstan’s aspirations for further integration into the BRI. China’s growing middle class has created a demand for organic food that Kazakhstan aims to specialise in.

So even aside from China’s use of the waters upstream from Balkhash, the risk of a “second Aral Sea” scenario could stem from Kazakhstan’s plans alone.

The chances of effectively addressing these concerns at both ends of the Ili might, thus, border on the impossible.

COMMENT:

Philanthropy in Russia – not for the faint-hearted

Stephen Bierman in Moscow

Wealth in Russia comes with no small number of headaches. But one of the more surprising ones, linked to money, is that sometimes you can’t even give it away.

Philanthropy has somewhat failed to launch as a mainstream culture amid the nation’s 30-year roller-coaster ride from a command economy to a capitalist model. The Soviet Union’s paternalistic approach eroded “giving” as a private institutional practice. Then the removal of the state itself in the 1990s managed to make things even worse.

The issue isn’t whether charity exists or not; Russians are plenty generous and sympathetic, and helping others is a core part of orthodox religious values.

The number one issue is a lack of organisation, structure and capacity to scale up. If, for example, tech billionaire Bill Gates wants to donate to a cause in the USA or Europe it’s just a case of deciding how much and on what. The organisations are in place to process it. The rest more or less can take care of itself.

If it were only so simple in Russia... but it is not. So when the Bill Gates-level types in Russia seek to donate, it’s not like there are widespread and mature systems in place that allocate to the needy. It is not that it doesn’t happen. It does, but that’s more the exception than the rule. The act of philanthropy involves something more than a simple donation; often it involves creating an organisation itself, or requires a social or economic position.

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leadership can see competition in independent organisations providing services that they consider their own turf. They only see potential complications. Restrictions on foreign agents and non-governmental organisations amid spats with the West create unintended obstacles. Good intentions get lost in a labyrinth of bureaucracy, which has never been lacking in Russia either.

For example, last month 50 charitable organisations, including the Hospice Charity Fund Vera which helps the terminally ill and Podari Zhizn, or Give Life, which helps children with cancer, sent a letter to the government asking that “foreign agent” restrictions related to funding sources be eased, according to a report from RTVI. Non-government organisations that have nothing to do with politics can be hit with the same restrictions as those that do.

A general lack of transparency is also damaging. The nation misses on significant swathes of giving from middle class and upper middle class money, which is no doubt available, and can be deployed for social good. This instrument is within reach. Yet the culture itself and people’s trust in organisations’ efficiency cannot not decreed by government. There is no legislative lever. Organisations can only form and function from concerned people themselves, who wish to gain larger scale and results for their efforts. One organisation, Need Help, has sought RUB1 donations, while others like Ruben Vardanyan’s Phil In or Friends Foundation enhance organisations’ reporting systems and make the charity infrastructure more professional in line with the best practice standards. These initiatives help to stimulate participation and create a culture of trust.

Yet the culture itself and people’s trust in organisations’ efficiency cannot not decreed by government. There is no legislative lever. Organisations can only form and function from concerned people themselves, who wish to gain larger scale and results for their efforts. One organisation, Need Help, has sought RUB1 donations, while others like Ruben Vardanyan’s Phil In or Friends Foundation enhance organisations’ reporting systems and make the charity infrastructure more professional in line with the best practice standards. These initiatives help to stimulate participation and create a culture of trust.

Rome was not built in a day. Russia will get there. It has no lack of courageous, persistent people who do seek to help others and do it professionally. But it might help if it required a little less courage and persistence.

Industrialist Oleg Deripaska founded the Volnoye Delo charity, one of the largest non-profit organisations in Russia. Yet Deripaska is a unique case of being well-connected on the one hand, but sufficiently independent and removed from political jockeying on the other. He also has the available organisation, legal team and personal drive to get on with it, be that putting some heft into the fight against the pandemic by financing the construction of hospitals and testing labs, supporting educational programmes, building schools or saving dogs. Likewise, oil baron Vagit Alekperov has also had success funding initiatives outside the normal purview of the government. His “Our Future” initiative supports social entrepreneurship. There are other examples.

Oleg Tinkov, founder of the widely successful online bank Tinkoff, has even stepped back from business and switched focus to his blood cancer foundation. Tinkov’s foundation plans to work with centres for bone marrow transplants, something he himself underwent following a leukaemia diagnosis in 2019.

This may be one reason why “giving” in the mainstream sense of the word is spinning its wheels in the world’s largest nation. The World Giving Index, published by the Charities Aid Foundation, includes at the top of its list the likely countries such as the United States or Australia. It also includes surprisingly high finishers like Myanmar or Sri Lanka, where Theravada Buddhist traditions have culturally ingrained widespread charity as a norm. Russia was low on the list and former communist rival China also trails the pack.

The second issue is that the act of philanthropy can be a political minefield in Russia.

New organisations, or those outside corporate-political channels, are viewed with suspicion. Local and regional
Russia’s better than expected recovery continues in first quarter

Rosstat released its first estimate of Russia’s 1Q21 GDP dynamics based on the production method, and revised up the contraction in the first quarter of this year from -1.4% to -1%, the state statistics agency said on May 17.

Romania’s Q1 GDP points already to full recovery after last year’s crisis

Romania’s economy performed above expectations in the first quarter of the year, when GDP missed an outstanding full return to the level posted in the same period last year by only 0.2%.

The country’s seasonally adjusted GDP rose vigorously for the third consecutive quarter, nearly closing the gap prompted by the 11.8% deep dive taken by the country’s economy during the lockdown in Q2 last year, according to flash estimates released by the National Statistics Institute (INS) on May 18.

Belarus economy grows by 2.5% of the first four months of 2021

In January-April 2021, Belarus’ GDP expanded by 2.5% over the same period of 2020, The National Statistical Committee of Belarus said on May 17.

According to initial estimates, GDP amounted to BNY50.6bn ($20.1bn) at current prices, up by 2.5% in comparable prices year on year.

Ukraine’s GDP falls 2% in 1Q21

Ukraine’s GDP fell 2% y/y in the first quarter of this year and -1.1% in seasonally adjusted terms compared to the same period a year ago, the state statistics committee said on May 14.

Ukraine’s bounce-back from last year’s crisis is going more slowly than hoped and the economy was still contracting over the first two months of this year.

Ukraine’s economy contracted by 2.8% in January and February, compared to the first two months of last year, estimated the Ministry of Economic Development and Trade. Except for retail trade, all sectors were down.
Russia’s Watcom shopping index stages recovery in April and May, shopping only 10% below 2019 levels

bne IntelliNews

Russia’s Watcom shopping index, which measures foot traffic in Moscow’s largest malls, started to show a stronger recovery between the middle of April and the middle of May, and is approaching levels not seen since 2019.

As the chart shows, the index crashed to historical lows at the start of April last year as the country was put on a strict lockdown in week 14 (April 1) and the population was forced to stay at home for much of the early summer.

The year-on-year comparisons with 2020 have been rendered meaningless, but the index has improved dramatically when compared with 2019.

The crisis started at the beginning of March, when Russia refused to renew the so-called OPEC+ oil production cut deal, which led to a collapse in oil prices and a devaluation of the ruble. The start of the pandemic only a few weeks later only compounded these problems dramatically.

The shopping index in the first few crisis-free months of 2021 was still some 20%-25% y/y down from 2019, the first year of strong growth since the last oil price shock in 2014, but shopping in malls has also been losing ground to the rise of online shopping, which is the fastest growing segment of the Russian economy in recent years.

Shopping foot traffic levels this year remained down by a quarter compared to 2019 levels throughout April, but things began to change in week 18 (May 3) at the start of the 10-day-long May Day holidays, when foot traffic jumped to an index score of 397.7, only 14.4% less than the 464.8 seen in the same week in 2019.

Traffic continued to recover the following week as this year’s index score rose above the 400 level for the second time, and stayed there. The index briefly rose to 402 in week 9 (March 1) but fell back below 400 the following week.

Since then, in weeks 20 and 21 (May 10-May 24) the index rose again to the current 420, only 9.7% below the 2019 result of 465.2.

The combination of the long holiday in May, the coronacrisis bounce-back and the recent record-breaking hot weather for May in Moscow have contributed to a surge of shoppers headed to the malls.

The improving foot traffic at shopping malls has yet to turn up in the aggregate retail turnover macroeconomic data. Rosstat reported that retail was down 1.6% y/y in the first quarter, and sales remain depressed by the ongoing compression of real incomes. However, the retail numbers for May should receive a boost from the holiday shopping bump and real income decline is anticipated to halt or even reverse in the second quarter as the government starts to roll out RUB400bn ($5.5bn) of extra social spending that Russian President Vladimir Putin promised during his State of the Nation speech earlier this year.

Russia’s companies are also currently enjoying their strongest profits in five years and may start to pass on some of the windfall to staff with pay rises that could restart a modest version of the virtuous circle of pay rises, consumption, profit and investment that drove much of the rapid growth in the noughties boom years.

Source: Watcom
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