THE ENERGY WAR WITH RUSSIA ESCALATES

AS EUROPE SEARCHES FOR WAYS TO CUT OFF RUSSIAN OIL IMPORTS

Orban faces daunting economic challenges, many of his own making

Poland pushing hard to end oil dependency on Russia

Serbia won’t abandon Russia as West mulls ever-tighter sanctions

Gagauzia’s pro-Russian people open their arms to Ukrainian refugees

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Russia’s efforts to bypass the SWIFT sanctions that effectively cut it off from the global payment system took a body blow on April 20 after China’s UnionPay payment system said it is wary of cooperating with sanctioned Russian banks due to risk of being hit with secondary Western sanctions, RBC business portal reported citing unnamed banking sources.

As followed by bne IntelliNews, after Visa and MasterCard have pulled out of Russia, UnionPay would remain the only option for Russian banks to issue payment cards accepted internationally both offline and online.

Russia set up its own domestic payments service after possible SWIFT sanctions were mentioned during the initial round of sanctions imposed following the annexation of Crimea in 2014.

It uses the MIR card payment system to service card transactions within its own borders, which means VISA and Mastercards issued by domestic banks in Russia still work, despite the pull out of both western companies.

Between banks Russia also has the System for Transfer of Financial Messages (SPFS), which is analogous to SWIFT, the messaging service that allows for international transfers, although the SPFS handles less messages and is less efficient.

Russia has been hoping to hook both systems up to the payment systems of its allies such as China. UnionPay is a Chinese system that has been growing and used by an increasing number of international banks, hoping to cater to the growing Chinese international tourism traffic, but is far from universally available. Russian banks were very fast to start offering UnionPay enabled cards to their clients to give Russian an ability to use Russian-issued cards abroad, even if the number of banks accepting them are limited.

UnionPay’s pull back is a major blow to Russia’s financial system and further isolates Russia from the international financial system.

The Chinese payment system has been slow to advance the partnership as the US threatens to apply secondary sanctions to any country or company enabling Russian sanction-busting business ties. Russia’s banks are reportedly being forced to abandon projects related to UnionPay card issuance. The payment system continues to cooperate with those banks not affected by the sanctions, however, RBC’s sources said.

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Chinese UnionPay payment system backs away from Russian banks on secondary sanctions fears
Analysts and legal experts surveyed by RBC note that UnionPay using dollars in its operations exposes it to the secondary sanctions for dealing with SDN-listed entities. They remind that European banks such as Barclays and UniCredit previously had to settle with the Treasury’s Office of Foreign Asset Control (OFAC) for transactions with sanctioned entities.

UnionPay cards that are accepted in 180 countries are still issued by Rosselkhozbank (Russian Agricultural Bank), Gazprombank, Bank St Petersburg, Solidarnost, Zenit, Post Bank, Primsotsbank, Primorye and Russian Standard Bank.

Sources told RBC that Sovcombank gave up the plans on its own, concluding that sanctioned Russian banks will not have their payment cards processed abroad, no matter the payment system.

So far the SWIFT sanctions have only been applied to seven of Russia’s over 370 banks, but the two banks immediately singled out for a ban on SWIFT were the state-owned giants Sber (formerly known as Sberbank) and VTB Bank, which between them account for around half of all retail deposits in Russia.

Notably, Russia’s largest bank Sber will reportedly not issue UnionPay cards. Other banks that considered cooperating with UnionPay were Alfa Bank, Otkritie, VTB and PromsvyazBank, and Sovcombank, which are all on the SDN (Specially Designated Nationals) list of the US Treasury Department and so de facto cut off from working with dollars.

Price inflation and a shortage of goods are changing what Russian consumers buy

Mack Tubridy in St Petersburg

Walking through the mall in St Petersburg, Russia’s northern capital, these days is a bit like walking through a ghost town. Once greeted with bright lights and ambient music, shoppers now stroll past darkened display windows and signs reading “temporarily closed.” Only a fraction of the shops have remained open following the recent exodus of foreign brands following the invasion of Ukraine on February 24. Popular brands like Adidas, Calvin Klein and Uniqlo that all had branches in the former Tsarist capital have all shuttered their operations in the country.

The malls in St Petersburg are reporting that foot traffic is down by nearly 14% compared to the same period last year, while several newly constructed shopping centres in Moscow have postponed their grand openings due to a sudden lack of tenants.

As popular western clothing brands vanish, some Russians maintain a sense of irony, joking that now they’ll need to style their summer wardrobe with Belarusian threads. Others anticipate a return of Soviet-era fartsovka, or the illegal sale of hard-to-find or inaccessible goods from abroad.

But it’s not just Nike and Tommy Hilfiger. Even basic goods have gone missing from some store shelves. Videos posted on social media showing shoppers battling over packages of sugar and buckwheat have gone viral in recent weeks. In the Volga River city of Saratov, hundreds of residents gather in the central square at weekends, sometimes queuing for several hours to buy sugar that they can no longer find at the store.

“I asked a worker at my local supermarket why there isn’t any sugar. She said there is sugar, but a group of elderly women loitering in the store, waiting for the delivery, buy the stuff up like crazy when it appears,” says Sasha Petrov, a business consultant in Saratov. “I honestly don’t know why they need that much sugar. Maybe they’re witches making gingerbread houses or moonshine.”

“The disappearance of sugar is mostly a logistical problem,” explains a Moscow-based economist and entrepreneur, Dmitry Potapenko, in a recent interview. Producers cannot keep up with panic buying. So far, this kind of frenzied consumer behaviour is mostly affecting staple goods that Russia produces domestically, and therefore supplies are anticipated to normalise soon. As Potapenko notes: “there are other more worrying signs, namely printing paper and

With prices soaring and shortages of basics, Russians have been buying less while producers have been producing smaller packets.
feminine hygiene products. All of these things are made from imported materials.”

Sanctions-induced disruptions to logistical chains are causing shortages of everything from receipt paper to aluminium beer cans. Russia’s invasion of Ukraine has created a chaotic ripple effect across the entire economy, leaving few industries and sectors untouched. Even schools have been forced to reschedule the spring examination period to autumn, ostensibly because of coronavirus (COVID-19); however, many suspect the real culprit is a lack of paper.

There are some who believe doomsday reporting of barren shelves at the supermarket to be exaggerated. “I guess people outside of Russia are hearing that there are long lines at ATMs here, that we’ve run out of food,” says Natasha Obolova, a university researcher in Saint Petersburg. “My ex-boyfriend’s mother from Australia called me in a panic and said that I should grow sprouts, since they have all the nutrients a person needs! But I can still find everything I want at the store.”

In a survey published in Novaya Gazeta, sugar is the scarcest product, according to 84.5% of respondents. People from Western Siberia, the Volga region and even Moscow have reported its absence. It is being sold under the counter, on the internet, at inflated prices, one respondent said.

After sugar, respondents (22.2%) cited grain products and pasta as the second most difficult items to find. After these came coffee and tea (7.1%), cooking oil (5.2%) and alcoholic beverages (4.2%). Even when these products are still on the shelves, our study shows that the volume of product in a package is also decreasing. Grains – once sold in kilogram packages – are now sold in 800 gram amounts; certain brands of pasta are being sold in 400 gram, rather than 500 gram packages.

At the same time, soaring inflation is beginning to hit consumers’ wallets. Earlier this week Russia’s statistical agency RosStat reported that annual inflation for 2022 had already reached more than 15%, which is lower than earlier estimates. Inflation could reach a multi-year high of 20% in 2022. Some of the most impacted goods include sugar, salt, rice and black tea, all of which have seen prices increase in double digits in the last month alone. Onions, meanwhile, have increased in price by more than 18%, and carrots by over 11%.

Buckwheat – a Russian staple – is rapidly increasing in price, rising from an average of RUB70 to RUB80-RUB90, and in some places, even to RUB110-RUB130, one respondent to the Novaya Gazeta survey said. 680 respondents also reported that the prices of cereal and pasta have risen by more than 30%. Pet food has also been affected, with one respondent commenting that Grandorf dog food has risen in price by 100%, and in some stores the price has soared by 200-400%. Purina cat food has climbed by 50%. RosStat also noted significant price increases for laundry detergent and personal hygiene products.

“I’m definitely preparing for the worst,” says Oleg Kozlov, who operates a small advertising firm. “I stocked up on some items like cleaning products beforehand, when the prices were still low.”

For his own business, Kozlov faces challenges selling a range of products, like leaflets and flyers, after a number of foreign manufacturers temporarily suspended operations in the country. “I would say that 80-90% of my clients stopped buying products that they used to buy all the time. I’ve received almost no orders for printing materials this past month. Nobody can afford it.”

Anastasia Kazmina, a medical worker in Saint Petersburg, can still buy the same kind of groceries as before, albeit at a higher price. However, she hasn’t had the same luck with the imported contact lenses she normally uses. “I found out that there are Russian alternatives, but I’ve never seen them in the stores, and I haven’t yet figured out where to buy them.”

Perhaps the most concerning reports are those of the absence of vital medicines in pharmacies. Those for thyroid diseases, epilepsy, diabetes – and other diseases – are missing from the shelves. The medicines that are available have become more expensive. One respondent in the Novaya Gazeta survey reported: “The price of Maxidex (a Finnish drug that treats eye infections) has increased significantly. It was about RUB350, and is now RUB530. Sulfasalazine (an American drug that treats rheumatoid arthritis and Crohn’s disease, among other conditions) has increased from RUB400 rubles to RUB520. The price of Movalis (another American drug that treats arthritis) also increased a lot: it was RUB800 rubles, now it RUB1,300.”

The state has put pressure on retailers to hold prices down but most have abandoned the 5% limit on sugar trade margins introduced at the start of March as unworkable. The Auchan and Atak supermarket chains are now pricing sugar based on market forces, as they argue the price caps were only making shortages worse.

The Federal Antimonopoly Services (FAS) explained that retailers made such a decision “to expand the supply of goods and eliminate local shortages.” And the Ministry of Industry and Trade noted that the refusal of voluntary obligations, “may have signs of a violation of antitrust laws,” Kommersant reports.

Together with these networks, other leading supermarket chains, including X5 Group (Pyaterochka, Perekrestok), as well as Dixy and Magnit agreed to voluntarily limit the margin to 5% for socially significant products in March. The latter stated that it would continue to fulfil its previously assumed obligations, but the position of the others is unclear – they did not respond to Kommersant’s request for information.
Despite growing economic hardship, many in Russia appear determined to weather the storm. As Svetlana Dubinina, a homemaker from Saratov, puts it plainly: “Everything’s fine. We won’t starve to death. I always have enough to last half the year.”

Older generations familiar with past economic crises may express an almost business-as-usual attitude about a worsening economy, especially those that have a dacha vegetable garden, but younger urban Russians who take an abundance of goods and services for granted face a steep learning curve.

Katya Ostrovskaya, a nursing student who runs a small side business out of her apartment baking cakes, says that she’s had to rethink future plans. “I’m starting to earn less. That’s really not good because my growth depends on profits. Now I can’t open my own bakeshop like I was planning.”

The rising costs of goods has also forced Ostrovskaya to adjust her business model. “A lot of bakers are switching to smaller-sized cakes because you can make them quicker and in larger quantities, which makes up for the higher costs. It’s a kind of anti-crisis option, since people still want cake.”

Asked how he’s preparing for more austere economic conditions, Andrei Guriev, a delivery driver, responds dryly “I’m not.” Guriev recalls hours of waiting for basic goods during the late 1980s and early 1990s. “We’re used to this. We lived with constant shortages in the Soviet Union, so we’ll get by somehow. It might be like the 90s, but we’re not going back to the Soviet Union.”

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World's largest diamond miner Alrosa hit by US sanctions

Theo Normanton

The US has expanded sanctions on Russian state-controlled diamond miner Alrosa. By adding the company to the Specially Designated Nationals (SDN) list, the US will block Alrosa’s access to its banking system and prevent American nationals from doing business with the company.

Alrosa is the world’s largest diamond producer, accounting for around a third of global diamond extraction by carat volume and almost a quarter of the global market. In 2021 alone it produced 32.4mn carats. The company employs more than 32,000 people.

These sanctions come as an extension of existing curbs on Russian diamond imports. As followed by bne IntelliNews, the US has banned imports of non-industrial diamonds originating in Russia. The US has also banned debt and equity transactions with Alrosa and its CEO Sergey Ivanov.

The outlook for Alrosa was looking good for 2022 before Russia’s invasion of Ukraine. The company restarted output at one of its mines in late 2021, and tapped into the state reserves’ auctions of stones, anticipating support from rising prices on an improving market. This strategy appeared to pay off as Alrosa posted all-time record sales in 2021, with $4.2bn in revenue that year alone.

Diamonds are one of Russia’s top 10 non-energy exports, so the sanction will make a discernible difference to Russian economic output. However, Alrosa exports mostly to Belgium, India and the United Arab Emirates, with US customers accounting for less than 1% of total 2021 revenue. This is partly because of competition with Anglo American unit DeBeers for the American market.

“Through these designations, the Treasury is cutting off additional sources of support and revenue for the Government of the Russian Federation to wage its unprovoked war against Ukraine,” the US Department of Treasury wrote in a press release.

In late February, immediately after Russia started its invasion of Ukraine, Alrosa CEO Sergey Ivanov Jr was sanctioned by the US on a personal basis. Alrosa has also been sanctioned by the UK. The EU, meanwhile, has prohibited the export of luxury goods to Russia, but not their import.

In addition to Alrosa, shipbuilding design bureaus and enterprises of the United Shipbuilding Corporation were also added to America’s SDN list. “USC is responsible for the construction of almost all of Russia’s warships,” the Treasury said in its statement.
Russians flock to Central Asia to open sanctions-busting bank accounts

Joanna Lillis for Eurasianet

Russia’s invasion of Ukraine has brought a mini-boom in custom for banks in Kazakhstan. Russians and Belarusians are traveling to the Central Asian country to circumvent financial sanctions imposed because of the war.

Citizens of those two countries locked out of the global banking system have opened nearly 12,000 accounts in Kazakh banks since Russia invaded Ukraine on February 24, Kazakhstan’s financial regulator said on April 8.

That represents an 8% rise on the number of bank accounts they previously held in Kazakhstan.

Russians and Belarusians have opened 11,940 bank accounts since February 24, bringing the total to 162,000, according to data from the Agency for Regulation and Development of the Financial Market quoted by Vlast.kz.

The vast majority are personal bank accounts held by individuals. Just seven were opened by companies, bringing the total number of corporate bank accounts held by Russian and Belarusian firms in Kazakhstan’s banking system to 805.

Some 10,000 Russian citizens received personal identification numbers – known as INNs and required to open bank accounts – in Kazakhstan’s e-government system between February 24 and April 2, the Interior Ministry said recently. It did not provide comparative data, but the figure appears high for such a short period.

As citizens of countries which are fellow members of the Eurasian Economic Union (EEU), a free trade zone, Russians and Belarusians benefit from simplified residence and employment rules in Kazakhstan. They can easily obtain permission to work, and can remain in the country for 90 days at a time without residence permits.

This makes travelling to Kazakhstan to open bank accounts straightforward, especially from neighboring Russia.

It does not, however, afford them particular advantages in obtaining personal ID numbers or opening bank accounts, which all foreigners can do with relative ease.

The financial regulator was at pains to stress that due diligence is performed on new customers, including stringent ID checks.

Russians are also being lured to Uzbekistan by Russian travel agencies offering special packages purely to open bank accounts instead of doing the usual tours around exotic Silk Road sites.

Tours cost around $270 without flights at current exchange rates. They include assistance with preparing paperwork in advance to open an account, and a visit to a bank to sign documents and collect a debit card.

There is no data available on how many citizens of Russia have jetted into Uzbekistan to take up the offer.

Joanna Lillis is a journalist based in Almaty and author of Dark Shadows: Inside the Secret World of Kazakhstan. This article originally appeared on Eurasianet.

"Russians and Belarusians have opened 11,940 bank accounts since February 24, bringing the total to 162,000"
Sanctioned Russian banks seeking way out of Kazakhstan

Almaz Kumenov for Eurasianet

The Kazakhstan-based subsidiary of a Russian lender targeted by international sanctions triggered by the war in Ukraine is set to be taken over by local peer CenterCredit.

The acquisition is highlighting how Russian-linked banks across Central Asia, as well as the customers of those institutions, are falling prey to the severity of Moscow’s self-induced isolation.

Under the agreement announced on April 21, CenterCredit will acquire a 100% stake in Alfa-Bank Kazakhstan.

“After the legal completion of the transaction, CenterCredit will rebrand [Alfa-Bank]. Thus, it will be a fully Kazakh bank providing a full range of banking services for individuals and legal entities,” Alfa-Bank Kazakhstan said in a statement.

Although the full range of sanctions being levelled at Alfa-Bank were not due to come into force until May 6, it was already showing signs of distress. Immediately after the sanctions were announced, customers began withdrawing their savings en masse. The rush was so great that the bank was forced to impose a 200,000 tenge ($450) daily withdrawal ceiling to ensure it had enough hard cash to go around.

Another affiliate of a Russian government-owned bank, Sberbank Kazakhstan, whose sanctions kick in from July 12, appears to have weathered the test a little better. Kazakhstan’s financial regulator said last week that the bank was "generally demonstrating financial stability and fulfilling its obligations to customers in a timely manner."

Sberbank Kazakhstan was helped in particular by managing to offload a 440 billion tenge chunk of its loan portfolio, which included such areas as subsidised car loans, mortgages and business loans, to another local lender, Halyk Bank.

But the bank is nevertheless looking to exit the country. Moscow-based consulting company Frank RG reported on April 15 that Sberbank was seeking a buyer for its Kazakhstan subsidiary, and that Kazakh-listed investment company Freedom Finance could be a possible bidder.

VTB, Russian’s second largest state-owned bank after Sberbank, intends to continue operating in Kazakhstan despite the sanctions, Frank RG also claimed, citing a source close to the supervisory board of the holding company that owns the bank.

“The option to just leave everything as it is in Kazakhstan could work, because somebody needs to service Russian clients. Trade with Russia is only set to grow,” the unnamed source was cited as having said.

Sanctions-related complications are occurring elsewhere in the region.

In Uzbekistan, the government late last month reportedly instructed privately owned banks to warn their retail and business clients about the risks of exposure to Russian banks targeted by sanctions.

At least one lender had taken the initiative earlier. On March 3, KDB Bank informed its customers that it was no longer effecting transfers with numerous Russian and Belarusian banks. By the start of this month, the number of institutions blacklisted by KDB Bank had grown to 53.

Last week, another Uzbek bank, Ipak Yuli, jumped on the bandwagon to announce that it was suspending international payments in almost all currencies to the accounts of 20 banks and their foreign branches. The list included Sberbank, VTB Bank, Promsvyazbank, Tinkoff Bank, Rosgosstrakh Bank and several other Russian lenders. This ban does not extend, however, to transfers made in Russian rubles.

Almaz Kumenov is an Almaty-based journalist. This article originally appeared on Eurasianet.
China makes fresh forays into gold mining sector in Tajikistan

Kamila Ibragimova for Eurasianet

Tajikistan’s president travelled to the northern Sughd region on April 14 to oversee the opening of a new gold processing plant built by a Chinese investor at a cost of around $136mn.

The enterprise, Talco Gold, will produce up to 2.2 tonnes of gold and 21,000 tonnes of antimony annually, according to government officials.

China is by far Tajikistan’s main source of foreign direct investment. In 2021, businesses from China invested more than $211mn in Tajikistan, an amount that accounted for nearly 62% of the global FDI figure. Those funds mainly went toward the extraction and processing of lead, zinc and tin ores, and the mining of precious and semi-precious gems and metals.

Talco Gold is a joint venture between the Talco Aluminum Company, a Tursunzoda-based company said to be owned Hasan Asadullozoda, the brother-in-law of President Emomali Rahmon, and China’s Tibet Huayu Mining.
The company has promised it will provide jobs for 1,500 people, most of them Tajik nationals. That prospect comes at a fortuitous time, just as Tajikistan faces the prospect of a fresh economic crisis precipitated by international sanctions on Russia, where hundreds of thousands of Tajiks travel annually for seasonal labour.

Work on building the processing facility in the Sughd region, which will work with material mined at the nearby Chulboi, Konchoch and Shakhkon deposits, had begun four years ago, but was delayed by the onset of the COVID-19 pandemic.

Talco is ostensibly an aluminium concern, but it began to branch out in 2015 as a result of a state-designed programme to prop up the company. As part of that programme, the government handed the company a 25-year concession to the Konchoch gold and silver deposits.

Chinese investments invariably arrive with many strings attached – not least because Tajikistan is deeply in debt to Beijing. According to the Finance Ministry, Tajik debt to China as of January 1 amounted to $1.1bn, which is almost exactly one-third of the country's overall external debt.

Some economic experts cast doubt on whether China's debt strategy for Tajikistan brings sufficient rewards.

"China gives money as a loan to Tajikistan for specific projects, and often the parliament approves tax exemptions during the construction period," one analyst told Eurasianet on condition of anonymity, as criticism of the government can incur reprisals. "Construction equipment is brought in from China, Chinese workers are engaged in the building. As a result, all the money goes back to China, and Tajikistan remains saddled with the debt."

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Hungary to circumvent EU sanctions through gas payment 'technical solutions'

Hungary plans to pay for Russian gas in euros through Gazprombank, which will convert the payment into roubles to meet a new requirement set by President Vladimir Putin, Foreign Minister Peter Szijjarto told reporters during a break at a meeting of EU foreign ministers in Luxembourg.

Szijjarto acknowledged "heated debates in the media" over the matter of payment for Russian gas in roubles.

European Commission President Ursula von der Leyen said days earlier that paying for Russian gas in roubles would breach the sanctions against Russia. The EU sought a united front in opposing Moscow's demand for payment in the currency.

The remarks by the foreign minister come a day after the Hungarian government spokesperson Zoltan Kovacs said that payment in roubles for Russian gas is not a violation of European Union sanctions. Prime Minister Viktor Orban in an international presser has also confirmed that Hungary is prepared to pay with roubles for Russian gas.

Orban said it is impossible for Hungary to turn off cheap Russian gas and buy expensive American energy instead, adding that it is not viable for Europe to count on the transportation of sufficient volumes of LNG.

Szijjarto explained in a Facebook post the way Hungary would continue to pay for Russian gas.

State-owned energy company MVM's subsidiary CEEnergy is setting up two accounts at Gazprombank, which is not on the list of sanctioned banks, a euro account and a rouble account. It pays euros to Gazprombank, which converts the euros into roubles, and this goes to Gazprom Export.

"So we pay in euros, the euros are converted into roubles by Gazprombank and the amount is paid to Gazprom Export. This solution doesn't violate any of the sanctions that have been imposed while also complying with the demands of the supplier," Szijjarto explained.

He noted that the long-term contract signed in September on Hungary's gas deliveries from Russia allows for payment to be made in currencies other than the euro.

At Monday's meeting of the foreign ministers of the EU member states, no decision was taken on the imposition of sanctions on Russian oil and gas imports, although some members were in favour of a broader prohibition of energy supplies. Last week the EU leaders approved the fifth round of sanctions that includes a ban on Russian coal imports into the EU.

Hungary has opposed extending sanctions against Russia to oil and gas. Some 85% of its gas and 60% of oil needs are covered by Russian imports.

"We will not vote in favour of sanctions on oil and gas because these would effectively shut down the Hungarian economy," Szijjarto said.
Poland presents timetable for ending Russian energy imports by 2023

Wojciech Kosc in Warsaw

Poland will phase out imports of Russian coal, oil and gas in steps by the end of 2022, Prime Minister Mateusz Morawiecki said on March 30.

Poland is setting an example that other EU member states should follow, Morawiecki said. Since the outbreak of Russia’s war against Ukraine, Poland has intensified calls on the EU to wean itself off Russian energy commodities, which feeds Putin’s “war machine”.

“We have been persuading not for several weeks, not for several months, but for several years, to take Putin’s blackmail tools from his arsenal. Today, this tool of blackmail has also turned into a tool of war,” Morawiecki said.

“That is why we call on everyone in Europe to follow in our footsteps,” the PM added.

Poland is one of the EU’s biggest consumers of Russian oil and gas. Imports from the east covered nearly 47% of Poland’s gas demand and just over 64% of oil demand in 2020, Forum Energii, a think tank, said recently. Coal played a smaller role at 15% of the overall use.

In line with the plan, which Morawiecki said was “the most radical in Europe,” Poland will end buying Russian coal by May. The end of Russian oil and gas imports will come by the end of the year.

Ending coal and gas imports will be relatively easy. Coal imports from Russia serve mostly to cover heat demand from households and as the heating season is about to end, Poland should have sufficient time to find new suppliers. In the longer run, however, it will have to invest in energy efficiency and alternative sources of energy for heating.

For gas, Poland is about to complete the Baltic Pipe, a gas link from Norway to Poland that will replace gas imported under a contract with Gazprom. The contract expires at the end of the year and Poland has long said it will not renew it.

Between the Baltic Pipe, LNG imports from the US and Qatar via the terminal in Swinoujscie, and domestic production, Poland’s gas demand can be met even under the assumption that gas use will grow overall at the expense of coal.

On oil, Poland will use its oil terminal in Gdansk, which can handle 36mn tonnes of crude oil annually – clearly more than 26mn tonnes consumed each year. Polish oil companies, PKN Orlen and Lotos, will also not prolong their crude oil supply contracts with Russia that expire by early 2023.

“Poland is one of the EU’s biggest consumers of Russian oil and gas. Imports from the east covered nearly 47% of Poland’s gas demand and just over 64% of oil demand in 2020”

26mn tonnes consumed each year. Polish oil companies, PKN Orlen and Lotos, will also not prolong their crude oil supply contracts with Russia that expire by early 2023.

Poland has lambasted Germany and recently even its close ally Hungary for lack of effort in ending their dependence on Russian energy imports, which translates into opposition against an EU-wide embargo on them.

Both Berlin and Budapest say that a fast cut-off from Russian coal, oil, and gas would be economically detrimental. In Hungary, the issue is also highly political ahead of this week’s election, which the incumbent PM Viktor Orban hopes to win.

To make its energy sector more resilient to the switch away from Russian fossil fuels, Poland is also updating in long-haul energy policy, assuming faster growth in renewables and confirming the role of nuclear power.

Morawiecki also appealed to the European Commission to introduce a tax on Russian hydrocarbons.
Polish central bank surprises with massive 100bp interest rate hike

Wojciech Kosc in Warsaw

The National Bank of Poland delivered a massive 100bp hike in its reference rate on April 6 in a surprising acceleration of the tightening cycle, as it seeks to quash double-digit growth of consumer prices.

The reference interest rate is now at 4.5%, the highest level since late 2012, while the hike itself was the strongest since 1999 and surprised the market, which expected a move up of 50bp-75bp.

“The NBP is clearly shrugging off any concerns about any hit to activity on the back of the war in Ukraine and focusing its efforts on tackling inflation,” Capital Economics said in a comment.

“Although the Polish zloty has rebounded from its lows at the start of March, which prompted a 75bp hike and FX intervention by the NBP last month, the latest inflation data have made for uncomfortable reading as consumer prices surged 3.2% m/m and 10.9% y/y in March,” the London-based consultancy said.

The NBP refrained from offering much reasoning behind the unexpectedly sharp hike, reiterating the points about the ongoing inflation bout that have been clear for some time.

“Earlier significant rise in energy and agricultural commodity prices and increases in regulated tariffs on electricity, natural gas and thermal energy have continued to contribute to markedly elevated inflation,” the central bank added.

The upcoming press conference of NBP’s Governor Adam Glapinski could offer some clarity on why the central bank decided to increase the scale of the tightening.

“Assessments of factors determining inflation and its further path remained unchanged compared to the March communiqué,” Poland’s state-controlled bank PKO BP said, adding that the NBP also maintained its positive outlook of economic growth.

“If the reasoning was not to reach the target rate faster, then the market should start pricing in rates above 6%,” PKO BP said.

The National Bank of Poland delivered a massive 100bp hike in its reference rate on April 6 in a surprising acceleration of the tightening cycle, as it seeks to quash double-digit growth of consumer prices.

Turkish ministries ‘creating charter airline to exclusively transport Russian tourists to resorts’

bne IntelliNews

Turkey’s transport and finance ministries are set to create an Antalya-based charter airline to exclusively transport Russian tourists to its Mediterranean and other resorts on a one-million seats per year basis, according to local reports.

The country’s flag carrier Turkish Airlines has, meanwhile, struck an agreement to fly 1.5mn Russian tourists into Turkey over the year, with seats reserved in “blocks”. And low-cost operator Pegasus Airlines, will across 2022 allocate up to 500,000 reserved seats for Russian holidaymakers.

The three moves are part of a $300mn government-backed scheme to assist Turkish tour operators offering travel packages to Russians, partly by providing state-guaranteed loans.

Turkey, embroiled in an economic crisis that has lasted several years, fears it will this year face the added economic
Moldova can technically bring in natural gas from Romania, except for the southern part of the country that needs supplementary connections with Ungheni-Chisinau pipeline, and the country’s power grid has already been linked to the ENTSO-E grid. But the price paid for electricity and gas purchased from the spot market would be very high and notably the separatist Transnistria region would lose its economic viability if left without cheap (effectively free) Russian natural gas.

Spinu said that if Moldova is put in a position where it has to buy gas and electricity at the market price, “then this will be the price of the independence of the Republic of Moldova”.

Everyone knows that the market price is high, but if we end up paying for electricity at the market price, and for gas, this will be the price of the true independence of the Republic of Moldova. Especially after seeing the terror in Bucha, Irpin and other Ukrainian cities. It will be difficult, we will have to cut other expenditures, we will have to allocate more for new compensations, and we will have to give up certain things in order to get through this energy crisis. But, probably, it’s about the time,” Spinu said.

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"Thanks to this airline, it will be possible to attract an additional million Russian tourists," it added.

Russians are the most frequent tourists to Turkey. In 2021, almost 4.7mn Russian tourists visited the country despite the pandemic. Prior to the Russian invasion of Ukraine, Turkish authorities were forecasting around seven million Russian visitors over 2022.

Moldova prepares for 'plan B' if Gazprom cuts supplies on May 1

Iulian Ernst in Bucharest

Moldova is looking at other options to buy natural gas as it is unclear whether Russia’s Gazprom will continue delivering gas after May 1, Deputy Prime Minister Andrei Spinu announced on April 8.

The historic debt between Moldovagaz and Gazprom was supposed to be settled by that date, as agreed last November under a memorandum sealed along with the long-term natural gas contract. However, the two sides have not yet reached agreement on an independent audit, and Gazprom has not answered the inquiry sent by Moldova about whether it plans to terminate gas supplies as of May 1.

Moldova has asked Gazprom to say whether it agrees to defer the deadline for an independent audit on the debt, deputy Spinu said.

“Unfortunately, we have no answer and we are preparing for plan B,” Spinu told Jurnal TV station’s Cabinetul din umbra show.

Spinu said that as the actions of the Russian gas company are “completely unpredictable”, the government is seriously preparing to purchase gas from alternative sources.

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Croatia raises €1.25bn from 10-year Eurobond

bne IntelliNews

Croatia raised €1.25bn from a new 10-year Eurobond with Citi, Erste Group, JP Morgan and Morgan Stanley being joint agents, the finance ministry said in a statement.

This is the first Eurobond issue from Croatia this year. Prime Minister Andrej Plenkovic commented that the sale of the issue showed investors’ trust in the country despite challenging market conditions caused by the war in Ukraine and surging inflation.

“The terms we achieved confirm the status of Croatia as an attractive issuer. This also proves the strong confidence of investors in the quality of Croatia’s debt on the international market, and this has led to the fact that Croatia has paved the way for the euro-bond issuance for other countries in the region,” Plenkovic told his ministers.

The Eurobond carries an annual coupon of 2.875% and yields 2.975%. It was issued on April 13, 2022 and will mature in 2032.

Investors from US, UK, Ireland, Germany, France, CEE, Switzerland and others placed offers worth €3bn.

The funding raised through the new issue will be used for budget spending, including refinancing of an existing €1.25bn Eurobond maturing on May 30, 2022, which has an interest rate of 3.875%.

Qatar pauses Russia investments

Theo Normanton

Qatar Foreign Minister Sheikh Mohammed bin Abdulrahman Al-Thani has said that Qatar is reviewing its investments in Russia, and that it does not intend to make new investments at the moment. The move is a blow for Russia, which has seen many of its close business partners in the Gulf join western nations in condemning its invasion of Ukraine.

In an interview with CNN, Sheikh Mohammed said: “Qatar’s stand has been very, very clear: we are against any act of aggression or threatening of use of power or the use of power against a sovereign country or trying to undermine the territorial integrity of any country.”

On 29 March, the United Arab Emirates’ sovereign wealth fund – Mubadala Investment Company – also paused investments in Russia. The fund had closely co-operated with Russian partners and invested heavily in the country – from transportation infrastructure to real estate. In total, Mubadala has invested around $3bn in Russia.

In both cases, however, the decision to pause new investments appears to come as a result of necessity more than choice. Western sanctions on the Russian Direct Investment Fund (RDIF) make investing in Russia a complicated affair, and exposes third parties to heavy sanctions as well as reputational risk.

“Our investment decisions are based on commercial assessment, until we see a better atmosphere and more political stability we are not thinking about increasing that these days,” Sheikh Mohammed said of Qatar’s decision to suspend new projects in Russia.

Like the UAE, Qatar is trying to keep good relations with both Russia and Ukraine.

“Our world is interconnected,” Sheikh Mohammed said. “So whenever we see that we can offer our help and support for any efforts, we will not hesitate to make our offers. And this offer is extended to the Russians and to the Ukrainians in order to find a common ground and to help to put an end [to] this humanitarian catastrophe, and we will never give up on our efforts.”
Anti-war post ends era of Tinkov, Tinkoff bank to rebrand

bne IntelliNews

Russian banker and entrepreneur Oleg Tinkov is looking to sell his family trust’s 35% stake in TCS banking group, which controls the only Russian purely online bank Tinkoff Bank, which he founded, RBC business portal reported on April 23 citing unnamed sources.

As followed by bne IntelliNews, former Russian entrepreneurial class superstar Tinkov was one of the prominent oligarchs and businessmen sanctioned by the UK, and lost his billionaire status after his fortune plummeted by more than $5bn in a month. His TCS Group, former investor darling, was listed on the London Stock Exchange, with a capitalisation topping $20bn in 2021.

RBC’s sources claim that Tinkov was looking to exit TCS even before being sanctioned, reportedly wanting “to live a normal life outside and not depend on the current authorities”.

The newsflow in recent weeks indeed revealed a deep rift between Tinkov and the bank’s current management team. After Tinkov published a sharp foul-mouthed critique of "insane war" in Ukraine on his social media, Tinkoff Bank immediately distanced itself from its founder, saying its largest shareholder was merely “one of its clients”, and wished Tinkov, who is suffering from leukaemia, a “speedy recovery”.

Shortly afterwards Tinkoff announced it would be changing its name, noting that “recent developments had re-actualised the need for rebranding” and that the brand “outgrew” its name. The management of the bank holds 6.5% in TCS and another 58.4% are free floated.

Until 2021 Tinkov controlled 84% of TCS, but first started to sell out and then decentralise his stake following being diagnosed with leukemia and settling tax fraud accusations with the IRS.

The trading in TCS receipts is suspended on the LSE, after they plunged from close to $100 to $2.4. Tinkoff already said it could re-list in Moscow.

The capitalisation in London is frozen at $63mn (at $3.19 per receipt), down from its all-time high of $20bn. The capitalisation in Moscow is currently at RUB452bn (about $6bn), which would put Tinkov’s 35% stake at a little over $2bn, RBC estimated.

Previously Tinkov already tried to sell TCS. In 2020 Yandex called off the $5.5bn deal to acquire Tinkoff Bank, although the market and the analysts were inspired by a possible merger. The bank was also reportedly eyed by MTS Bank, subsidiary of MTS mobile major, controlled by AFK Sistema multi-industry investment conglomerate of now sanctioned Vladimir Evtushenkov.

Prior to Russia’s military invasion of Ukraine, in 2021 TCS revealed its 2023 strategy, with a focus on further customer growth cross-sell, and a deep dive into technology, targeting $1bn profit and 30% ROE by 2023, which was welcomed by both institutional and retail investors. TCS is also targeting a strong trend of retail investors flocking to the equity market in Russia, and has most recently unveiled its sustainability agenda.

The strategy is now in question. In April 20221 Oliver Hughes, the financier who has helped to build Tinkoff Bank into a global financial powerhouse, has relocated from Moscow to Dubai as part of a massive exodus of Russian talent. Hughes and Pavel Fedorov, his co-chief executive, left Tinkoff in April to launch a fintech startup focusing on emerging markets in Southeast Asia. ●

“After Tinkov published a sharp foul-mouthed critique of “insane war” in Ukraine on his social media, Tinkoff Bank immediately distanced itself from its founder, saying its largest shareholder was merely “one of its clients”"
The Kazakhstani tenge (KZT) has made a recovery since initially weakening against the dollar on economic and political impacts of the Russian invasion of Ukraine. The currency, which historically tracks the Russian ruble, fell substantially after the latter was battered by the economic sanctions response of major powers to Russia’s unprovoked waging of war on its neighbour.

Kazakhstan’s economy is heavily intertwined with that of Russia. After falling over 20% versus the dollar since the beginning of 2022 to nearly KZT525 in March, the tenge strengthened in parallel with the ruble in early April and on April 18 stood at KZT457 against the USD.

Some observers see the strength of the tenge as partly driven by the strengthening of oil prices in late April and early March, but that came partly at the expense of a reduction in oil exports at the CPC pipeline, one of the main routes – accounting for 1.2% of global oil supply - via which hydrocarbons export-dependent Kazakhstan ships its oil to the West. As such, supply disruptions at the CPC due to alleged storm damage claimed by Russia was unlikely to have a net positive effect on the rate of the tenge.

Bloomberg reported quoting Energy Minister Bolat Akchulakov that Kazakhstan expected its main oil-export route via Russia to restore full operations in late April, but remained concerned about the possible impact of Western sanctions and shipping troubles on the flow of crude. It remains unclear whether the restoration of oil shipments via the CPC would indirectly help support the tenge further down the line.

Kazakh political and financial analyst Andrei Chebotarev was recently quoted by the Finance.kz Telegram channel as saying that the local currency currently reacts to the rate of the ruble’s rate against the dollar more so than it does to the cost of oil or any other factors. The Central Bank of Russia has removed a number of restrictions on currency transactions, including the cancellation of a 12% commission for the purchase of foreign currency via brokers. It also said it would lift a temporary ban on selling foreign exchange cash to individuals from April 18.

This policy will inevitably lead to the weakening of the ruble against the greenback, Chebotarev noted.

A survey of the Association of Financiers of Kazakhstan saw many market participants and analysts predicting that the tenge would weaken to KZT473 as of the beginning of May.

Chebotarev was earlier quoted by the Alau.kz news website as saying that “anyone who will currently attempt to predict the [tenge] rate will be wrong”, stressing that geopolitics will ultimately serve as the main deciding factor amid the ongoing military conflict in Ukraine.

The ruble, as of April 18, was trading at approximately RUB80.8 versus the dollar, close to its rate before the beginning of the invasion, when it traded at RUB80. Before tensions started rising in October following a Washington Post story claiming Russia was massing troops on Ukraine’s border, the ruble’s fair value was estimated to be around RUB70 to the dollar.

“Kazakhstan expected its main oil-export route via Russia to restore full operations in late April, but remained concerned about the possible impact of Western sanctions and shipping troubles on the flow of crude”

The main support for the ruble – in the face of the aforementioned measures that are expected to weaken it - has been from the mandatory conversion of 80% of foreign exchange revenues by export-focused companies along with high interest rates, even though Russia’s central bank

Kazakhstan GDP growth y/y

Source: National Bureau of Statistics
unexpectedly cut its policy rate from 20% to 17% in early April. Despite forecasts that see Kazakhstan’s economy slowing down this year, including the World Bank’s spring economic update that anticipates GDP growth shrinking to 1.5% in 2022 following a recovery to 4% in 2021, the government remains optimistic about state revenues.

Kazakhstan has itself relied on tapping its rainy day National Fund in order to keep the tenge more or less afloat as the tenge exchange rate remains a highly politically sensitive issue in the country. “State budget revenues will increase from KZT9.2tn ($20bn) to KZT10.2tn ($22.2bn) in 2022 taking into account the expected external conditions for the development of the economy, according to the revised forecast for socio-economic development, also the measures taken to improve customs and tax administration,” Savelyeva said at the presentation of bills amending the law entitled “On the Republican Budget for 2022-2024” and on a guaranteed transfer from the National Fund for the period.

When the invasion of Ukraine began, the Kazakh government initially forced banks and exchange offices around the country to suspend foreign exchange operations in order to prevent panic and speculation among the population. The restrictions have been lifted since then.

The Kazakh central bank has said it sold $510mn worth of US dollars from the National Fund in February to finance the transfer of funds in tenge to the state budget - the measure serves as a method for supporting the rate of the tenge. The government has cut its own 2022 forecast for GDP growth to 2.1% from 3.9%, taking into account effects caused by Russia’s invasion of Ukraine, economy minister Alibek Kuanyrov said on April 5.

Kazakh Deputy Minister of Finance Tatyana Savelyeva was quoted as saying by Trend news agency on April 18 that “the guaranteed transfer from the National Fund will amount to KZT4tn ($8.7bn) this year and at the same time, the balance of receipts and expenditures of the National Fund will be positive at the end of the year.” The post-Soviet Central Asian nation plans to tap its rainy-day National Fund for a further $3.5bn this year to finance additional spending, Kuanyrov told a government meeting.

Kazakhstan has also announced that it is revising its budget, which had originally predicted the dollar rate of the tenge at KZT460 by end-2022. The assets of the rainy day fund are set to make up 32% of Kazakh GDP as of the end of this year, Kuantorov was cited as saying by Kapital.kz.

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bne:Tech

Russian tech frontrunner Yandex freezes investment, carsharing and foodtech in trouble

bne IntelliNews

Rossiian internet major and the country’s most valuable digital company prior to the military invasion of Ukraine Yandex is suspending “many” of its planned investments both domestically and abroad, The Bell wrote citing a 2021 report of the company to the US Securities Exchange Commission (SEC).

As suggested by bne IntelliNews, the ecosystem model of the development of Russian tech, finance and telecom is expected to be significantly slashed as companies are stranded for cash through feeling the effects of Western sanctions for the military invasion of Ukraine.

Yandex was Russia’s leading developer of AI and driverless technologies. Prior to Russia’s military invasion of Ukraine, Yandex was hailed as a global technological runner-up, looking to boost the monetisation of its technologies on the one hand, and leverage these

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He added that this could lead to significant hikes of wages, pensions and social payments.

Spajic said that Montenegro does not have the potential to attract big producers that would open large factories in the country as it is not directly connected to Central Europe and needs to focus on building an economy based on knowledge, skills and competitiveness.

Montenegro is already working on legislation that would create a proper environment for the development of the blockchain industry in the country, Spajic also said.

“I think that within three years blockchain can comprise around 30% of the Montenegrin economy, contributing by an additional €1.5bn-2bn to the gross domestic product”
Ultrafast grocer Yango Deli considers options for European operations

Theo Normanton

Ultrafast e-grocery delivery service Yango Deli is deciding what’s next in Western Europe, as its parent company Yandex reviews its strategic priorities outside Russia. Yango Deli plans to wind down operations in France, whereas prospects for its more successful UK arm look brighter, according to a source familiar with the matter.

Yango Deli is one of a number of foodtech companies offering to get grocery deliveries from a network of dark stores to customers’ doorsteps in a matter of minutes. Backed by NASDAQ-listed tech giant Yandex, Yango Deli launched in London in October with four fulfilment centres across the city, later adding a fifth.

Yandex, created in Russia more than two decades ago, owns one of the world’s most popular search engines. Neither Yandex, registered in the Netherlands, nor any of its subsidiaries have been targeted by US, UK or EU sanctions, which have hobbled Russia’s ability to participate in global financial systems and supply chains.

bne IntelliNews has learned that Yango Deli’s Paris unit will suspend operations after the project fell short of expectations. “Yango Deli is gradually suspending its ultra-fast grocery delivery operations in Paris. This was a pilot project with a small number of dark stores, and it has underperformed our internal targets,” said a spokesperson for the company.

Discussions about suspending the Paris business because of underperformance started in early February, a person familiar with the matter told bne IntelliNews. The London market, in contrast, proved more fertile for Yango Deli.

“The ultrafast delivery market in London is highly competitive and we see a considerable amount of interest in our business there, including from peers,” a spokesperson for the company said. “However, we can’t provide any further details on this at the moment.”

Yango Deli was able to achieve solid results in London, including lots of repeat customers, good shopping frequency and robust spending per customer.

Customer retention in London is 40%, which is approximately 1.5 times higher than the market average, according to Yango Deli’s estimates. This is a particularly important metric in the competitive field of ultrafast groceries. Order frequency is also high, with the average active user making 4.2 orders per month (which is around twice the market average).

In addition to its own dark stores, Yango Deli London operates “dark kitchens”, meaning that it can produce its own hot food. As such, its ultra-fast delivery offering includes hot food alongside groceries and other supermarket staples. Dark kitchens account for around 13% of Yango Deli’s monthly gross merchandise value (GMV) in London, according to the company.

The ultrafast grocery delivery sector is undergoing consolidation. Turkey’s Getir acquired UK-based grocery delivery startup Weezy for an undisclosed sum last year, while Germany’s Gorrilas bagged almost $1bn in a fundraising round after passing unicorn valuation last year. America’s GoPuff acquired British delivery platforms Fancy and Dija last year, and is now reportedly eyeing up European rivals as the segment’s penetration increases.
Rich countries must cut oil and gas output 74% to ensure fair transition

Richard Lockhart in Edinburgh

Rich countries must reduce oil and gas output by 74% by 2030 and fully by 2034 in order to keep the world on track for 1.5°C and give poorer oil-reliant countries longer to replace their income from fossil fuel production.

A new report from the University of Manchester commissioned by the International Institute for Sustainable Development (IISD) warned that in order to pursue a fair transition, which would minimise the economic impact of ending oil production on the world’s poorer producers, different phase-out dates for wealthier producers were needed.

Poorer nations should be given until 2050 to end production but will also need significant financial support to transition their economies, said the report, written by Professor Kevin Anderson, a leading researcher at the Tyndall Centre for Climate Change Research, and Dr Dan Calverley.

The richest countries, which produce over a third of the world’s oil and gas, must cut output by 74% by 2030; the poorest, which supply just one ninth of global demand, must cut back by 14%.

This means that there is no room for any country to raise production, with all having to make significant cuts this decade.

“Responding to the ongoing climate emergency requires a rapid shift away from a fossil fuel economy, but this must be done fairly. There are huge differences in the ability of countries to end oil and gas production, while maintaining vibrant economies and delivering a just transition for their citizens,” said Anderson.

The report noted that some poorer nations are so reliant on fossil fuel revenues that rapidly removing this income could threaten their political stability. Countries like South Sudan, Republic of Congo, and Gabon, despite being small producers, have little economic revenue apart from oil and gas production.

By contrast, it observes: “Wealthy nations that are major producers typically remain wealthy even once the oil and gas revenue is removed.” Oil and gas revenue contribute 8% to US GDP, but without it, the country’s GDP per head would still be around $60,000 – the second-highest globally.

When countries signed the UN Paris Agreement, they agreed that wealthy nations should take bigger and faster steps to decarbonise their economies and also provide financial support to help poorer countries move away from fossil fuels.

This principle has been applied to coal power generation, with the UN calling on wealthy OECD countries to phase out coal use by 2030, and the rest of the world by 2040.

The report, Phaseout Pathways for Fossil Fuel Production, applies similar principles to oil and gas. It quantifies how much future production is consistent with the Paris climate targets and what this implies for the 88 countries responsible for 99.97% of all oil and gas supply.

It sets viable phase-out pathways for five different groups of countries based on their differing capacities to make a rapid and just transition away from fossil fuels.

For a 50% chance of limiting the global temperature rise to 1.5°C different countries should meet different targets.

The 19 highest-capacity countries, with average non-oil GDP per person (GDP/capita) of over $50,000, must end production by 2034, with a 74% cut by 2030.

This group produces 35% of global oil and gas and includes the US, UK, Norway, Canada, Australia and the United Arab Emirates.

The 14 high-capacity countries, with average non-oil GDP/capita of nearly $28,000, must end production by 2039, with a 43% cut by 2030. They produce 30% of global oil and gas and include Saudi Arabia, Kuwait and Kazakhstan.

The 11 medium-capacity countries, with average non-oil GDP/capita of $17,000, must end production by 2043, with a 28% cut by 2030. They produce 11% of global oil and gas and include China, Brazil and Mexico.

The 19 low-capacity countries, with average non-oil GDP/capita of $10,000, must end production by 2045, with an...
Companies & Markets

18% cut by 2030. They produce 13% of global oil and gas and include Indonesia, Iran and Egypt.

Lastly, the 25 lowest-capacity countries, with average non-oil GDP/capita of $3,600, must end production by 2050 with a 14% cut by 2030. They produce 11% of global oil and gas and include Iraq, Libya, Angola and South Sudan.

“There is very little room for manoeuvre if we want to limit warming to 1.5°C. Although this schedule gives poorer countries longer to phase out oil and gas production, they will be hit hard by the loss of income. An equitable transition will require substantial levels of financial assistance for poorer producers, so they can meet their development needs while they switch to low-carbon economies and deal with growing climate impacts,” said Calverley

The report also offers a more ambitious scenario with a 67% chance of meeting 1.5°C. This would require the richest countries to end oil and gas production by 2031 and the poorest by 2042.

In a less ambitious scenario, with a 50% chance of meeting 1.7°C – reflecting “well below 2 degrees” – the richest countries would have to halve oil and gas production by 2035 and end it by 2045. The poorest countries would have until 2062 to phase out all production, but there would still be no room for additional oil and gas production.

Wind growth needs to quadruple to meet net-zero goals

Richard Lockhart in Edinburgh

The global wind industry posted its second-best year ever in 2021, posting 12% growth and adding 93.6 GW of new capacity onshore and offshore, bringing the global fleet to 837 GW.

Slight dips in new building onshore in China and the US compared to 2020 meant that additions were 1.8% less than in 2020, the Global Wind Energy Council (GWEC) said in its Global Wind Report 2022.

The report branded current energy market structures “perverse,” and called for wholesale reforms by governments worldwide to support renewables energy in order to stand any chance of meeting net-zero goals by 2050.

Despite the second year of the coronavirus (COVID-19) pandemic, the global wind industry continued to show resilience and maintain growth across the vast majority of markets.

Onshore, Europe (+19%), Latin America (+27%) and Africa & Middle East (+120%) had record years for new installations, but total onshore wind installations in 2021 were still 18% lower than the previous year, dragged down slower growth in China (+30.7 GW) and the US (+12.7 GW), the world’s two largest wind power markets.

By contrast, offshore had its best year ever, with 21.1 GW of offshore capacity commissioned, three times more than in 2020. China accounted for 80% of new capacity, helping it overtake the UK as the world’s largest offshore wind market in cumulative installations. Globally, offshore brought its market share of new installations to 22.5% in 2021.

Yet the GWEC stressed the growth figure of 12% needed to quadruple by the 2030 if the world is to stay on course for a 1.5°C pathway and net zero by 2050.

“Scaling up growth to the level required to reach Net Zero and achieve energy security will require a new, more proactive approach to policy making around the world... The last 12 months should serve as a huge wake-up call that we need to move decisively forward and switch to 21st century energy systems based on renewables,” said GWEC CEO Ben Backwell.

The report also found that auctioned capacity was up 153%, with 88 GW awarded globally, of which 69 GW (78%) was onshore and 19 GW (22%) was offshore.

Wake-up call
Looking ahead, it forecast that the compound annualised growth rate (CAGR) for wind installations for the next five years was 6.6%, which equates to 557 GW of forecast
installations from 2022-2026. This means that wind is way behind what net zero demands, as at current rates of installation, the report forecast that by 2030 the world will have less than two-thirds of the wind energy capacity required for a 1.5°C and net-zero pathway, putting climate goals in danger.

The report called for more supportive policies from governments and the international community.

“Decisively addressing issues such as permitting and planning will unlock economic growth and create millions of jobs by letting investment flow, while allowing rapid progress on our climate goals. If we carry on with ‘business as usual’, however, we will miss this unique window of opportunity,” Backwell said.

The emerging issues of energy security and volatile prices, exacerbated by Russia’s invasion of Ukraine, have pushed renewables up the investment agenda and should focus on fostering faster and more widespread growth in the wind sector.

“The events of the last year, which has seen economies and consumers exposed to extreme fossil fuel volatility and high prices around the world, are a symptom of a hesitant and disorderly energy transition, while Russia’s invasion of Ukraine has exposed the implications of dependency on fossil fuel imports for energy security,” Backwell said.

“The last 12 months should serve as a huge wake-up call that we need to move decisively forward and switch to 21st century energy systems based on renewables,” he added.

**Market design**

The report said that the current energy crisis is the consequence of energy markets built around fossil fuels. This meant that the wind industry faced higher costs amid perverse market design: The report called for policymakers need to re-evaluate markets to align with economic and social objectives.

“Policymakers must guarantee regulatory stability as well as overcome permitting bottlenecks and further develop grids. The wind industry stands ready for a massive deployment of renewable capacity; national and regional policy must clear the path for this,” said Xabier Viteri Solaun, managing director of Iberdola Renewables.

The report welcomed the energy system reform packages underway in Europe and other regions, in light of the Ukraine crisis.

For example, the EU is giving great priority to the Green Deal targets, via its new REPowerEU programme, as a key way to reduce reliance on Russian oil and gas.

**Looking ahead**

GWEC said that such initiatives could significantly revise upward its five-year forecast this year.

However, the body called for policymakers to accelerate permitting procedures for wind projects in the near term and initiate structural market design changes in the mid-term to enable an acceleration in renewable energy deployment.

The good news is that the energy policy environment is in flux, and GWEC said it expected a wave of new policy initiatives to address the gap between current installation rates and the trajectory needed to achieve net zero and energy security.

However, reforming the market will need such developments as removing direct and hidden subsidies or advantages for fossil fuels generation; prioritising land/seabed allocation, procurement, construction, grid connection and dispatch for renewables-based generation; accounting for the socioeconomic and environmental costs of carbon; and realigning electricity markets to consider system value more widely.

Technology innovation and scale are also necessary for supporting stability, flexibility and responsiveness as fossil fuels are phased out.

The report is welcome news for the wind industry and for the energy transition as a whole, but the rate of change is still woefully short of what is needed to reach net zero.

Global leaders put 2050 and net zero at the very top of the political agenda at COP26 in Glasgow in 2021.

Yet they also warned that the targets would be difficult to meet. This latest wind report demonstrates just how difficult, but still possible, that task is.
The energy war with Russia escalates as Europe searches for ways to cut off Russian oil imports

Ben Aris in Berlin
Energy war: Will Europe cut off supplies of Russian oil? If it does, how can it replace imports of Russian crude? Can Russia switch and sell its oil to other markets such as in Asia? Is there enough demand in new markets to absorb all the oil Russia now sells to Europe? These are the burning questions of the day as the energy war between Russia and the West escalates.

Following Russia’s announcement that it will stop deliveries of gas to Poland and Bulgaria on April 27, the energy war has moved into an active phase. The EU banned imports of coal from Russia as part of the fifth package of sanctions in April, the first time Russian energy had been targeted. But now Russia has cut off supplies of large amounts to two EU members and the list of countries included in the embargos is likely to get longer as the summer arrives.

It is going to be a difficult process. The EU is committed to reducing its dependence on Russian oil, but it remains dependent. Brussels is currently actively discussing a sixth package of sanctions that will include some bans on oil. But the realities of energy supply requirements mean it can’t just stop importing Russian oil tomorrow. Gas sanctions are even more difficult and plans to end those are being put off for the meantime, as Russian gas supplies are extremely difficult to replace.

Around half of Russia’s 4.7mn barrels per day (bpd) of crude exports go to the EU. Europe gets roughly a third of its gross available energy from oil and petroleum products, in sectors from transportation to chemicals production. Europe has paid Russia a total of €14bn for oil imports since the start of the war two months ago and about three times more for gas imports. In total the EU imported €44bn worth of Russian oil, gas and coal in just the first two months of the war, estimates the Centre for Research on Energy and Clean Air (CREA).

Germany was by far the largest importer of oil, gas and coal from Russia, totalling €9.1bn, followed by Italy (€6.9bn), China (€6.6bn), the Netherlands (€5.6bn), Turkey (€4.1bn) and France (€3.8bn), according to CREA.

“In the short term, Russia has no replacement for Europe as the source of demand. The majority of the country’s fossil fuel exports are transported to Europe via pipelines, as well as ports on the Baltic Sea and Black Sea. The LNG terminals or alternative pipeline connections to divert pipeline gas exports elsewhere simply do not exist. The varieties of crude oil and coal exported to Europe struggle to find other buyers, as there are few refineries and power plants designed to use them,” CREA said in a report.

However, even before the official sanctions kick in, Russia’s export volumes have already been falling due to the self-sanctioning by traders that are avoiding Russian hydrocarbons if they can, which have become toxic once again. A glut of unsold oil is building up in Russia, while the discount between the benchmark Brent blend and Russia’s Urals blend has blown out from the traditional $2 to $30.

In just the last month up until mid-April, deliveries of oil to the EU fell by 20% and coal by 40%, while deliveries of LNG rose by 20%, according to CREA. EU gas purchases through pipelines increased by 10%. Oil deliveries to non-EU destinations climbed by 20%, and with major changes in destinations. Russian deliveries of coal and LNG outside the EU increased by 30% and 80% respectively.

The EU and Russia are joined at the energy hip. Russia’s detractors have argued that the money the EU sends to Russia each week to pay its energy bills is used by the Kremlin to fund its war machine. However, at the same time Russia is currently pumping its contractual maximums of gas via the Ukrainian pipelines and also paying Kyiv hundreds of millions of dollars a month in transit fees that in turn Kyiv is using to fund its own war machine. Both sides are in effect helping to fund the military effort of the other.

Oil independence on its way
EU countries are voluntarily winding down Russian oil supplies where they can and as fast as they can to escape this uncomfortable bind. Germany has already cut Russian imports of crude oil from 35% of its total imports in February to 12% now, according to German Vice-Chancellor Robert Habeck, who added that Germany is “very, very close” to full independence from Russian crude imports.

“We are united in the EU and between Germany and Poland: we must quickly free ourselves from the grip of Russian
imports,” he said. In practice, this “intensified co-operation in the field of oil” will entail new supply countries and new supply contracts, something the relevant companies are frantically working on, Habeck’s economy and climate action ministry said.

Germany has two large refineries at Leuna and Schwedt that are hooked into the Russian Druzhba oil pipeline and entirely dependent on Russian crude supplies. However, Germany has been actively working with Poland on the option of importing crude by ship through the Polish port of Gdansk that would then be transported to the two refineries.

However, EU members are split on cutting off Russian oil because of the economic damage it will do to their countries. An energy embargo would hurt Europe as much as it hurts Russia.

Oil and oil products made up more than a third of Moscow’s export revenues last year. Currently, Europe spends around $450mn per day on Russian crude oil and refined products, approximately $400mn per day on gas, and roughly $25mn on coal, according to think-tank Bruegel as cited by Euractiv.

An emergency meeting of EU energy ministers is planned for May 3, where the oil ban will be discussed. European Union’s top diplomat Josep Borrell said the topic will be discussed again at the next EU summit due at the end of May, but that he did not expect any final decision on the matter before then.

Some of the EU countries that have been blocking the ban are reportedly weakening their positions under pressure from their peers. While Poland and the Baltic states have been holding out for a total ban, other countries are suggesting things like smart sanctions designed to limit the Kremlin’s revenues, but not blocking oil imports completely.

Germany and Hungary have been the most vocal opponents of a total ban on Russian oil, as they are both heavily dependent on Russian supplies. While Germany has been actively working to reduce its dependence with some success, now Hungary is also more amenable to reducing Russian oil supplies. According to Eurostat, in 2020 Hungary imported 44.6% of its oil from Russia.

The Hungarian prime minister’s chief of staff, Gergely Gulyas, said last week that the Hungarian government “would like to see what proposals are on the table and whether these proposals include alternatives to substitute raw materials from Russia,” reports Euractiv. He added that a ban on gas was “pointless,” but that there were “more alternatives” for oil.

Hungary’s MOL oil company is currently set up to refine the sour Russian oil, and to re-engineer it to handle other blends would involve heavy investment and take months of work to complete. Before any of this work is done an alternative source of crude would have to be secured.

“We do not see this today, and without it, it is irresponsible to talk about sanctions in any other area,” Gulyas added.

The challenge of ending oil imports from Russia
From all the sanctions that could be imposed on Russia, those on oil remain one of the most effective, as they would seriously harm the Kremlin’s finances and wreak real damage on Russia’s oil industry by destroying a significant part
of its production that would be very difficult to revive should Russia rebuild its infrastructure to send the oil to new markets. That infrastructure would also take about five years to build at a cost of billions of dollars. In the meantime, oil wells, unable to ship their crude, will quickly overflow, as what storage capacity Russia has is already full, and have to be shut down. The technical details of how oil wells work means that once a well is closed it is difficult to restart and much of the oil in the ground can be lost.

“Oil is where the EU has more leverage vis-à-vis Russia: diversification away from oil is less challenging than natural gas, and Russia’s reliance on oil for FX inflows and budget revenues is substantially higher,” said Elina Ribakova and Benjamin Hilgenstock, economists with the Institute of International Finance (IIF), in a recent note. “We expect an oil embargo by the EU to be a multi-step approach rather than an abrupt discontinuation of imports.”

Sanctions can target many parts of the business, other than a flat ban on all imports. Amongst the ideas being thrown around at the moment are monthly limits on volumes, secondary sanctions on tankers that limit Russia ability to send its oil elsewhere by ship, and payment for oil into escrow accounts that limit the Kremlin’s access to the money, amongst other ideas. A quarter of Russia’s fossil fuel shipments arrived in just six EU ports. The largest ports receiving fossil fuels from Russia are Rotterdam (estimated value of shipments €1,500mn) and Maasvlakte (€1,200mn) in the Netherlands, followed by Trieste (€1,000mn) in Italy, Gdansk in Poland, and Zeebrugge and Antwerp in Belgium. Stopping shipments to these ports alone would eliminate 23% of seaborne demand, CREA said in a report.

But getting any measure passed by an EU unanimous vote remains a challenge when so many and widely different national interests are at stake. Moreover, Russia may consider some of these ideas, such as the use of escrow accounts, as a breach of contract and use that to justify breaking the contract and ending deliveries unilaterally.

Still, a ban on oil is much easier to implement than sanctions on gas for several reasons, argues IIF. First is that the supply of oil to Europe is already substantially more diversified than that of gas. Russia accounts for roughly 25% of total imports (vs. 35% for natural gas) and Europe’s own production makes up a larger share of supplies as well. The more widespread use of ships to deliver oil also makes life easier as opposed to the pipelines that...
Hydrocarbon exports have accounted for around 50-60% of total goods exports in the recent past and reached $76.3bn in the fourth quarter of last year – the highest in ten years, according to IIF. For the year as a whole, the value of oil exports stood at $243.8 bn.

“Considering price dynamics in 2022, especially since Russia’s invasion of Ukraine, this is unlikely to have changed in the first quarter of this year; in fact, an all-time record current account surplus of $58.3bn points to a further increase,” say Ribakova and Hilgenstock. “Depending on Russia’s ability to redirect exports to other buyers, an EU embargo could dramatically impact FX inflows.”

Russia’s vulnerability is that while it mostly exports raw materials, it is heavily dependent on the imports of non-commodities, and machinery and technology in particular. The double whammy of cutting the Kremlin off from the hydrocarbon revenues coupled with banning exports to Russia of high precision machines and advanced technology could have a devastating effect on Russia’s economy.

On the fiscal side, Russia relies heavily on revenues from the extraction and export of hydrocarbons. Crude oil, petroleum products and natural gas brought in RUB11 trillion over the past twelve months – or 25% of total revenues over the same period – with mining and quarrying taxes on crude oil accounting for almost two-thirds of the total, says IIF. “A significant decline in exports and eventually production, as a result of an embargo, could have a meaningful impact on the budget and may make difficult spending cuts necessary,” says Ribakova and Hilgenstock. “One important caveat: a decline in volumes would be partially compensated for by the likely increase in global oil prices. In addition, a weaker ruble could, depending on the size of the depreciation, even lead to an increase in revenues in local currency terms. However, through its impact on FX inflows, an oil embargo would still represent a significant challenge for Russia.”

**Go east!**
Clearly banning Russian exports of oil to the West will be extremely painful for Russia, but the key question is to what extent the country would be able to redirect crude oil to other potential buyers, including China and India.

Russia dominates Europe’s oil supplies, accounting for 25% of all oil deliveries. Most of Europe wants to diversify away from Russian oil, but adding to the difficulties is that much of this oil is delivered not by ship but the Druzhba pipelines, as bne IntelliNews reported in a deep dive into Russia’s oil business.

Russia is already an important energy partner for China as its second-largest supplier of crude oil and coal and third-largest supplier of natural gas, and Russia is looking to China to take up some of the slack.

“Over the last twelve months, pipeline crude oil deliveries to Europe and China accounted for 16.9% and 18.4% of the total respectively. The other key export modes were Baltic Sea ports (26.0%) and Pacific Ocean ports (23.3%),” says IIF. “While oil tankers can theoretically be rerouted anywhere, Baltic Sea ports would be highly unsuitable for exports to Asia due to the extremely long and expensive journey. This means that crude oil would have to be redistributed within Russia via pipelines, either to China or to ports allowing for reasonably quick shipments to China and/or India. Exports via pipeline have risen considerably in recent years; however, the capacities of the Atasu-Alashankou pipeline through Kazakhstan and the Eastern Siberia-Pacific Ocean (ESPO) pipeline are limited,” says IIF.

The main problem Russia faces is that the bulk of its oil and gas export infrastructure is pointed westwards and it has very limited infrastructure that connects it to the east.

It is also bottled up geographically, despite having a territory that spans half the globe. If Russia is excluded from the western markets, then it has little access to the sea in the west. As it has only two warm-water ports of its own in the west it is very reliant on the Baltic ports, but these are easily put off limits to Russian crude by secondary sanctions on tankers.
and marine insurance. Its own ports in the Black Sea are also constrained by the Bosphorus straits. Even if Russia’s tankers get out into the Mediterranean, secondary sanctions could easily block them from using the Suez Canal, meaning they would have to steam right their way around Africa to reach Asia.

To the south Russia could send oil via the Central Asia pipelines, but most of these pipelines flow in the opposite direction, but the main problem is exports out of Central Asia and on to the lucrative markets of SE Asia are currently corked by Afghanistan and the Taliban, which has not yet agreed to build significant pipeline infrastructure over its territory.

But Russia is already pushing to develop the southern channel and promised to build a new $2.5bn natural gas pipeline in Pakistan, accompanied with the traditional parallel arms deal.

To the east the bulk of the border is with China, where there are only two significant pipelines from Russian oil and gas fields into the Middle Kingdom, both with small capacity. Moreover, the north-western territories are amongst its most underdeveloped, as the bulk of the population live on the southern coast and China has little in the way of a domestic pipeline network.

The main oil pipeline leading from Russia to China is the ESPO pipeline but it is already running nearly at full capacity: recent data indicate that 30% of its 100mn tonne capacity is used for crude oil deliveries to China and an additional 35% for flows to Russia’s most important Pacific Ocean terminal for “seaborne” oil in Kuzmino, reports IIF. The Atasu-Alashankou pipeline provides a capacity of 20mn tonnes per year (tpy), of which roughly 50% are used for shipments to China.

“This means that a little less than half of all Russian crude oil exports to China are conducted through pipelines and that the existing infrastructure would allow for an additional 45mn tpy – roughly one-third of Russia’s exports to the EU,” IIF says.

Even if there were more spare pipeline capacity to Asia, it is not clear that China would be willing to buy the extra Russian oil; Beijing has made it clear it is following a policy of diversified energy imports. If China were to take up all the slack created by an EU ban on Russian oil imports, that would take Russia’s share in China’s oil intake up over 45% – something Beijing is unlikely to be comfortable with.

“China’s stated objective is to limit the reliance on individual crude oil suppliers to around 15% of total imports. In 2020, Saudi Arabia and Russia reached this threshold,” says Ribakova and Hilgenstock.

India relied on Russia for only 1.3% of its oil imports last year and is a more promising option for Russia. Indeed, India has already signed off on a supply deal since the war started for oil and metal supplies, but all at deeply discounted prices.

Still, a rapid increase in oil imports from Russia could be technically challenging, as there is little transport infrastructure linking the two markets.

“Exports would have to be conducted exclusively via ships and create infrastructure-related challenges similar to those mentioned above,” says Ribakova and Hilgenstock. “In addition to infrastructure constraints, the threat of sanctions could significantly limit Russia’s ability to redirect oil exports, and thus complement an EU embargo.”

The US has used secondary sanctions very effectively in the case of Iran and is wheeling out the same now to try to plug the leaks in the West’s sanctions regime against Russia.

Not so the European Commission, which considers the extraterritorial application of sanctions illegal and may prefer directly sanctioning the shipping industry.

Overall, the EU stands a better chance of preventing the redirection of “seaborne” vs. pipeline exports due to the involvement of third parties. With the war in Ukraine unlikely to end anytime soon, measures related to energy imports from Russia will remain at the top of the agenda.
Voices are calling very loudly for the EU to shut off deliveries of Russian gas immediately. Since the start of the conflict in Ukraine, Germany has paid Russia some €9bn a week for gas imports, which are currently running at a contractual maximum; money, Russia’s critics say, that is being used to fund the Russian war machine.

But German Chancellor Olaf Scholz is very reluctant to do it, warning of an economic disaster. Economic institutes advising the government warned on April 12 Germany could face a €220bn ($240bn) hit to output over the next two years if Russian energy is cut off, and a full halt in Russian natural gas imports would result in a “sharp recession.” The loss to Europe’s biggest economy would be equivalent to 6.5% of annual output, they said.

Estimates of the economic hit to Germany are of the order of a 2%-3% contraction in GDP, something the most prosperous country in Europe can well afford, say his detractors. Moreover, there is widespread German public support for a ban on Russian gas imports. The new chancellor seems to be listening more to industry than his voters, say critics.

But digging into the weeds, it is not as simple as it appears. The main problem is the Russian gas is impossible to replace in the short term and cutting off Russian gas will cause an energy crisis in Europe and probably in the whole world.

Sanctions by the numbers – gas

Ben Aris in Berlin
Cutting Europe off from Russian gas will immediately have an impact on Europe, and Germany in particular, but there are multiple secondary effects. The German economy would contract, but the energy crisis thus created would spread much further afield. One of biggest problems is that Germany doesn’t use all the gas it imports from Russia. It is the main European gas hub. About half the gas it receives is sent on to supply other countries – Italy in particular. In addition, it has the largest storage tanks of any country in Europe after Ukraine and is a key part of the storage of gas to get through the winter.

Another affect is if Russian gas were cut off then there would be a mad scramble for LNG to replace it, but there is simply not enough LNG available to replace the 152bn cubic metres that Europe imported from Russia last year. The volume of gas Russia sends to Europe is equivalent to one third of global LNG production, but 70% of LNG production is already tied up in long-term contracts, leaving very little wiggle room indeed to increase supplies to Europe, and far short of what would be needed to replace Russian imports entirely. Even if there was more LNG available, the existing LNG terminals are mostly already working at close to capacity and simply do not have the capacity to handle another 152 bcm equivalent of deliveries a year.

Without Russian gas deliveries to Europe prices would spike, affecting the UK and Portugal in particular, which are both heavily dependent on LNG imports.

The spike in LNG prices would also cause an energy crisis in Asia, which is also heavily dependent on LNG as supplies are drawn away to Europe. The problem is made even more complicated, as Russia is also the biggest supplier of LNG to Europe. The US has said that it could increase LNG supplies by 10-15 bcm but that would only replace the banned Russian LNG. Qatar also said it could redirect another 15 bcm to Europe, but that is only 10% of the missing Russian gas.

The end of gas imports to Europe would also cause a major energy crisis in the coming winter. In another sign of how conflicted Europe is over Russian gas, the EU has ordered that all its storage tanks be filled to 80% by October 1, the start of the heating season, a historic high. That means pumping as much gas as possible between now and then if that target is to be hit.

At the same time, countries like Poland are calling for the gas supplies to be shut off now. The storage tanks are currently 26.8% full, but the remaining gas would be enough to get through the summer without Russian imports. But if the process of filling the tanks is not started during the spring there is simply not enough time to fill them to the point needed to get through the winter. Europe would run out of gas to heat homes during the coldest part of the year, and as this would become obvious by mid-summer, prices would soar to even higher levels than Europe experienced last summer as bne IntelliNews described in the gas crisis feature “V-shaped market”.

It is possible to cut off Russian gas, but it would mean the whole of Europe shifting to a wartime mentality

It is possible to cut off Russian gas, but it would mean the whole of Europe shifting to a wartime mentality, similar to the German Berlin airlift at the start of the Cold War, Christof Ruehl, senior research scholar, Columbia University and the former chief economist at bp, in a recent podcast with bne IntelliNews. That means turning thermostats down from 22C to 10-15C, a slowdown in industrial output, power rationing and rolling black- and brown-outs as well as unaffordable energy bills for the population that governments would have to subsidise at the cost of billions of euros.

Energy dependency
How did Europe get into this mess? The attitude to Russian gas varies vastly from country to country. Poland is largely reliant on coal-fired power stations and is able to fuel its power and heating stations from domestically produced coal while switching away from Russian imports.

Other countries like Germany and Turkey are so reliant on Russian gas that they have little choice but to keep buying the fuel. Despite the extraordinary acceleration in the switch to renewables, most of Europe is still years away from being able to power itself entirely without using Russian gas.

Germany has made amazing progress in developing renewables, which at 40% of gross power generation are now by far the largest contributor to energy production. Renewables make up 34% of the EU average power mix, but only Norway and Iceland have transitioned to 100% renewable power generation, with Albania in third place with 84% and Austria, Sweden, Denmark, Portugal and Latvia all now producing more than half their power from renewables.
Sanctions by the numbers – oil

Ben Aris in Berlin

Russia dominates Europe’s oil supplies and is the single largest supplier, accounting for a quarter of all oil deliveries. Most of Europe now wants to diversify away from Russian oil, but adding to the problems is that much of this oil is delivered not by ship but the Druzhba oil pipelines that have been operating since the 1970s, which makes switching supplier much more difficult.

Russia makes a lot of money from oil exports. Russia exports some 6mn barrels per day (bpd) to Europe – over half its total exports – and consumes a quarter of its output itself. China buys less than 20% of these exports, while the West normally absorbs over 70%. These Western imports represent more than half Russia’s entire oil output. At today’s prices, Kremlin tax receipts on export oil alone – about $500mn per day – will cover 70% of Russia’s Federal Budget for 2022, but the drive to ban Russian oil exports to Europe continues to face stiff resistance from some member states.

In the event of an embargo, Russia has threatened to redirect its Western export volumes elsewhere. But these “export substitution” threats are hollow – the volumes are far too large to redirect. Russia can’t store the excess either, as its storage facilities are already full to the brim because since the war started oil traders have refused to buy Russian oil, even though there are no sanctions on the oil business yet.

The wells can’t be turned off either, as the way oil drilling works, once the pressure falls it is very hard to restart a well, and much of the oil in the ground is simply lost. A European ban on oil exports would lead to Russia reducing its output by half and losing significant amounts of oil that could never be recovered, as tens of thousands of marginal wells would be put out of business, according to Craig Kennedy, an associate at the Davis Centre at Harvard University.

“Export substitution is a chimera and a large-scale shut-in potentially catastrophic, Russia is far more dependent on the West to absorb its oil than many Western policy makers may realise,” Kennedy says. “This dependency gives the West significant bargaining leverage – but only if it acts collectively. Properly exploited, it can be used to design smart oil sanctions that achieve Western objectives while minimising self-harm.”

European oil demand

In 2019, the extra-EU crude oil imports came from Russia (27%), Iraq (9%), Nigeria and Saudi Arabia (both 8%) and Kazakhstan and Norway (both 7%).

Energy was targeted for the first time with a ban on coal imports in the fifth package of sanctions passed last week. The EU is already working on a sixth package, which may contain new bans on oil imports to Europe, which will be a lot more difficult to effect than coal.

The massacre in Kyiv’s suburb of Bucha on April 3 has changed everything. Before that the issue of the oil embargo was discussed as a hypothetical. Now it is very likely to happen. “We have closed coal imports, now we have to look at oil,” European Commission President Ursula von der Leyen said on April 8 after the approval of the fifth round of sanctions. EU High Representative for Foreign Affairs Josep Borrell said a day earlier that “sooner or later this [oil embargo] will happen.” MEPs voted 512 to 22 so far to approve a symbolic resolution demanding a total ban on the import of coal, oil and gas from Russia.

And for Russia, this will be a very serious blow: according to the IEA, Europe accounts for 60% of Russian oil exports, which earned Russia $120bn last year, on a par with gas exports that earned $145bn, according to the Institute of International Finance (IIF) estimates. And that revenue is only going up as oil prices soar, while gas revenues are earned mainly from cheaper long-term contracts. In March 2022, oil accounted for 80.3% of all oil and gas budget revenues for the Russian budget. At the end of 2021, the share of oil and oil products in oil and gas revenues amounted to approximately two-thirds, and in total export earnings, a third.

The US has already banned Russian oil imports on March 9 that have risen since Washington slapped a ban on Venezuelan oil imports. But as bne IntelliNews reported, Russia only accounts for about 5% of US oil. As a net exporter of oil, the US can easily replace Russian oil, and as the volumes are so small Russia can easily find other buyers.
The UK has also said it will phase out the import of Russian oil by the end of the year. The UK currently is also not very dependent on Russian hydrocarbons, importing a mere 8% of its fuel needs. The vast majority of its fuel comes from imports of liquefied natural gas (LNG) from countries such as Qatar and the US. Among European countries the UK is one of the least dependent on Russian oil; nevertheless, London has given itself the whole of the rest of this year to phase out these imports.

Of the EU members, Poland has acted fastest to ban Russian oil imports. Poland’s Prime Minister Mateusz Morawiecki said on March 30 that Poland will stop buying Russian oil completely by the end of 2022. Yet critics say that the government is still not prepared to put its money where its mouth is, and has yet to take any decisive action.

Poland is one of the EU’s heaviest users of Russian oil. Pumped via the Druzhba pipeline, these supplies made up around 65%-70% of all oil imports into Poland in 2020, coming in at nearly 17mn tonnes. That is an increase of 48% versus the year 2000.

Import values expressed in million tonnes

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Source: Based on data of Eurostat

Overall, Russian oil covered 64% of Poland’s demand in 2020, which came in at 26.1mn tonnes, 97.3% of which was imported oil. Poland also imported oil from Saudi Arabia (15% of overall imports), Kazakhstan (11%), Nigeria (6%) and Norway (2%).

Sanctions by the numbers – coal

Ben Aris in Berlin

Coal was included in the EU’s fifth package of sanctions, the first time that energy has been targeted by the tough sanction regime being imposed on Russia, but it took almost a week to get the EU members to sign off on it. Coal only makes up 3% of the EU’s imports but even this tiny share of overall energy reliance on Russia proved extremely divisive. If Brussels can’t agree to ban coal, something they need to do as part of Europe’s Green Deal, then how will it be able to ban Russian oil and gas?

After several days of closed talks a deal was thrashed out. The head of the European Commission, Ursula von der Leyen, said on April 5 that the embargo would be partial and would affect coal imports worth 4bn a year, which at current prices is no more than a third of the physical volumes of coal Russia currently exports to the EU, reports The Bell. That was later increased to 8bn by the end of the week of talks. All new contracts are prohibited as of April 8, and existing ones must be terminated by mid-August.

The problem is that Europe, and Germany in particular, remains very reliant on Russia for energy. Together the imports of oil, gas and coal make up around 15% of total EU imports (in value terms), with coal being the least important in the overall energy use.

More than two-thirds of the EU’s energy imports in 2020 were petroleum products, followed by gas (about a quarter) and coal (less than 5%). Russia was the main extra-EU supplier in all three categories (25.5% petroleum, 43.9% gas and 54% solid fossil fuels), followed by Norway for natural gas and the US for crude oil.

But within that, Russia has a stranglehold on industries that use coal...
both as a fuel in power stations and as an input in the steel making business; Russian coal makes up half the total coal used in the EU, even though it would be possible to replace these deliveries with thermal coal from Indonesia and coking coal from Australia.

Coal is being phased out as a fuel thanks to the EU's efforts to go green, but it is still important; renewables are the biggest contributor to EU power production in 2019 with a 37% share of total output, according to Eurostat, followed by nuclear (32%), which has recently been classified as a renewable energy source by the EU. Solid fuels are in third place (19%) and bigger than gas (8%) and crude oil (4%).

But the use of coal varies greatly from country to country, with Poland using the most coal (77%), most of which it produces itself, followed by Estonia (62%), Czechia (52%) and Greece (49%).

And for Russia the coal embargo would also be painful. In 2020, the top exporters of coal briquettes were Australia ($36.4bn), Indonesia ($15.6bn), Russia ($14.5bn), the United States ($7.32bn) and South Africa ($6.37bn).

Russia exports most of its coal to Asia, with China being its biggest customer accounting for 13.1% of total Russian exports in 2020, followed by South Korea and Japan, both with a bit more than 10% each.

But Europe accounts for a quarter of all Russia's coal exports: the EU, the UK and Norway accounted for 26% of supplies in physical terms and 25% in monetary terms in 2021, reports The Bell. As most coal is transported by train it is very difficult to redirect this trade to Asia, leaving Russia without a ready market to sell the surpluses.

The governor of the big coal-producing region of Kemerovo region, Sergey Tsivilev, has already lobbied Russian President Vladimir Putin to supply more capacity on Russia's two big east-west railway routes – the Baikal-Amur Mainline (BAM) and the Trans-Siberian – for transit containers that can transport coal to Asia.

In addition, as part of the fifth package of sanctions the EU has closed Russian ships' access to EU ports, which will further stymie trade between the two.

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**Sanctions by the numbers – grain**

Ben Aris in Berlin

Rain has not been included in the West's sanctions imposed on Russia and is very unlikely to be, given that so many countries rely on Russian and Ukrainian grain. But Russia is threatening to restrict exports of grain and fertiliser for exactly this reason. Halting Russian grain exports could cause a global food crisis.

Prices for wheat in the global grain market have already soared to decade-long highs as the war in Ukraine shuts down ports and threatens to disrupt this year's grain harvest. Between them Russia and Ukraine account for a quarter of global wheat exports and an estimated 7mn tonnes of Ukrainian wheat will be taken out of circulation this year as a result of the war.

The European Union warned that Russia's war against Ukraine is putting the world on the brink of a food crisis due to the collapse of Ukraine’s economy, the bombing of wheat fields and the blockage of ports.

"[The Russians] are causing scarcity. They are bombing Ukrainian cities and provoking hunger in the world. They are provoking hunger in our world," Josep Borrell told reporters after a meeting of EU foreign ministers in Luxembourg on April 11, which had met to discuss more sanctions on Russia.

The ballooning prices of agricultural prices have thrown the spotlight on Europe’s dependency on Russian agricultural production, a sharp about-face from Russia's dependence on Europe in the 1990s.

Prices of wheat, coarse grains and vegetable oils have all soared, with shortages already appearing in some EU supermarkets.
Sanctions by the numbers – UN voting

Ben Aris in Berlin

There have been two votes in the UN to castigate Russia for its attack on Ukraine on February 24, but the voting patterns show that many countries outside the Western nations that have universally condemned the attack are sitting on the fence to some extent, concerned with hurting their commercial and trade relations with Moscow.

The UN General Assembly vote on March 3 to condemn Russia’s invasion of Ukraine went almost unanimously against Russia, with only five countries voting against the motion: Belarus, Syria, North Korea and Eritrea. Notably, China and India, which have close commercial relations with Russia, both chose to abstain rather than vote against the motion, further isolating Russia on the international stage. China is performing a delicate balancing act between backing Russia and protecting its commercial relations with the west.

However, despite the shocking nature of Russia’s decision to invade another country, as bne IntelliNews reported, another 35 countries chose to abstain rather than bring down Russia’s wrath and get added to its “unfriendly” list by voting “for” the motion. These countries included all of Central Asia and many countries in Africa. Notably the Arab countries also voted “for” despite the fact that many have good relations with Russia and in recent years have started investing heavily in the country.

On April 7 there was another vote. The UN General Assembly voted to suspend Russia from the Human Rights Council on April 7. This time a lot more countries voted “against”, 24 in total, and another 58 countries abstained. China voted against the motion but India abstained once more as it has better relations with the G7 than China.

This time most of Central Asia voted against expelling Russia from the UNHRC, with only Mongolia abstaining. Likewise several counties in the Middle East such as Iran voted against the motion, as did a few in Africa, including Algeria, Central Africa Republic, Republic of Congo and Zimbabwe among others. In South America Bolivia voted against the motion.

The EU’s sixth package of sanctions will target Russian oil exports to Europe

Ben Aris in Berlin

European officials are drafting plans for an embargo on Russian oil products, the most contested measure yet to punish Russia for its invasion of Ukraine and a move long resisted because of its big costs for Germany and its potential to disrupt politics around the region and increase energy prices.

The EU earlier this month banned Russian coal for the first time in a fifth package of sanctions imposed in April. Now oil is set to become part of a sixth package that is likely to be imposed even if there are no new triggers, say EU officials.

Russia is the European Union’s largest oil supplier, providing the bloc with a quarter of its oil and petroleum product imports in 2020, and as bne IntelliNews reported in a deep dive into Russia’s oil and other energy businesses, “sanctions by the numbers” (UN voting, coal, oil, gas, grain), a ban on oil exports could have a devastating impact on Russia’s budget revenues.
The earliest the proposed EU embargo will be put up for negotiation will be after the final round of the French elections, on April 24, to ensure that the impact on prices at the pump doesn’t fuel the populist candidate Marine Le Pen and hurt President Emmanuel Macron’s chances of re-election, officials told the New York Times.

Germany is particularly vulnerable, as it imports 34% of its oil from Russia and has been resisting a quick, universal and simultaneous EU-wide oil embargo. Out of all the European countries, Germany is the biggest importer of Russian oil and its two big refineries are fed by Soviet-era pipelines that make it difficult for them to change suppliers. In addition, the refinery in the eastern city of Schwedt near the Polish border provides 95% of Berlin’s oil products and is majority owned by Russian oil major Rosneft.

Hungary has also been resisting the ban, as it is also highly dependent on Russian oil, and Hungarian Prime Minister Viktor Orban has been a vocal Russian supporter. Orban recently signed a new and expanded long-term gas supply deal with Russia and also caused a furore by agreeing to Russian President Vladimir Putin’s rubles-only-for-gas deal that was imposed in April. EU President Ursula von der Leyen has accused Hungary of sanctions busting, but Budapest says the EU has no jurisdiction over a contract signed and altered by the two parties.

Orban has demanded future sanctions be decided by EU leaders rather than senior diplomats or ministers, raising the prospect of an emergency summit meeting to debate the topic. Sanction deals have to be agreed unanimously by all 27 EU members. The next European Union leaders’ summit on Ukraine is scheduled for the end of May, but observers say that could be moved forward as the crisis gathers momentum.

Putin has admitted that the sanctions are causing Russia economic pain and has urged his minions to find new markets for Russian hydrocarbon exports in anticipation of new sanctions on oil and gas coming into effect soon.

None of the details of the proposed oil ban have been made public, for fears that would expose rifts within the EU membership and cause a public backlash, particularly in France which is in the middle presidential elections. However, details on the structure of the ban are being thrashed out by small working groups over the Easter break to try to arrive at a phased formula all the member state can live with, reports the NYT.

The most likely approach is to distinguish between oil products and modes of transport. As bne IntelliNews reported in its deep dive into the oil business, Russia exported $48bn worth of refined products last year to a wide number of EU countries from its domestic refineries and those it owns in Europe. These sales would be easier to cut off, as each country can source the refined products from other suppliers. The Netherlands, France, Turkey and Germany are the biggest customers. The US also imported $4bn worth of refined products that year, but has now banned the trade following the invasion of Ukraine.

Still, even this will be painful for many that are heavily dependent on Russia for oil. Latvia relies on Russia for 64% of its oil imports, with its two Baltic neighbours Lithuania and Estonia importing 45.6% and 43.6% respectively. Poland also relies on Russia for more than half (54.9%) of its oil, while another half dozen EU countries get around a quarter or a third of their oil from Russia, according to a survey of the 25 counties most dependent on Russian oil imports by 247wallst.com.

“Putin has admitted that the sanctions are causing Russia economic pain and has urged his minions to find new markets for Russian hydrocarbon exports in anticipation of new sanctions on oil and gas coming into effect soon.”

Cutting off crude exports is much harder, partly because some of the
biggest European refineries are still hooked into the Soviet-era Druzhba pipelines that make it difficult to switch suppliers of crude.

Russia exported $74.4bn of crude in 2020, but a third of that went to China, with the EU countries of the Netherlands, Germany, Poland and Italy receiving the next 30% – Germany being the biggest EU customer.

From the Russian side, if the EU cuts off deliveries then this volume of oil would be too big to send to other markets, as they simply could not absorb it all. Big non-European customers like India and China wouldn’t want to try either, as they would have to cut back on other suppliers and raise their dependency on Russia as a supplier to over 40%, which comes with political consequences.

In addition, there is no pipeline infrastructure to rapidly increase supplies to Asia, so the entire European supply, most of which is currently piped, would have to be loaded on to ships. Russia’s own fleet of supertankers is insufficient to carry all this oil and could manage about 10% of the total. All Russia’s Soviet-era oil pipeline infrastructure is pointed west, with only two new low-capacity oil pipelines currently running from the Siberian oilfields eastwards, and both of those are already at full capacity.

Russia would have to commission some 200 supertankers to carry the EU oil, which would be a logistical problem, but these international tanker companies could also be easily targeted by secondary sanctions and so put outside the Kremlin’s control. The upshot is: a total EU ban would send the Russian oil industry into crisis and do major damage not only to the Kremlin’s finances, but also to Russia’s production base, as marginal oil wells would have to be closed down that would be impossible to restart once they were turned off for technical reasons.

Once the sixth package is introduced there will be a one-month minimum transition period for EU members to find new suppliers of refined products and a lot longer period for Germany to find ways of supplying its refineries with crude whose origin has yet to be determined.

German Economy Minister Robert Habeck has publicly stated that the country is weaning itself off Russian oil with a year-end horizon, a timeline that would likely be expedited.

“Companies are letting their contracts with Russian suppliers run out, not renewing them and switching to other suppliers at an insane pace,” Habeck said in Berlin in late March as cited by the NYT.

Since the start of the invasion, Germany has been frantically trying to reduce its reliance on Russian energy, including oil. However, an early progress report released by the German economics ministry on March 25 suggests that the EU’s previous deadline to end Russian energy imports by 2025 will be hard to reach, and little progress has been made.

“Import of oil products from Russia will account for about 35% in 2021. In the last few weeks steps have been taken to end supply contracts with Russia. Supply contracts are expiring and are not being extended. Imports are rapidly being replaced,” the German Energy Ministry said in its progress report, adding that the share of Russian oil in supplies would be reduced to 25% in the coming months. “Russian oil imports to Germany are expected to be halved by the middle of the year. By the end of the year we aim to be almost independent.”
Hungarian strongman Viktor Orban may have won the recent general election by a landslide but he now faces daunting economic challenges in his fourth consecutive term, many of his own making: a slowdown in economic growth, an unfolding energy crisis, rising inflation, and bulging budget and current account deficits.

Hungary’s radical rightwing leader will have to take difficult decisions on whether to keep price caps on fuel, food and energy that put a heavy burden on public finances.

The reliance of Hungary’s economy on EU funds could also put pressure on Orban to change his confrontational relationship with the EU, at a time when the Commission has won new powers to punish states with the rule-of-law conditionality mechanism.

"First we should shoot the bear, and then talk to the furrier afterwards," Orban said after casting his vote, shrugging off questions on whether he would launch austerity measures if re-elected.

The phrase austerity is missing from the dictionary of Fidesz politicians as it reminds Hungarians of the pre-2010 period, led by leftist-liberal governments that were rocked by the global financial crisis.

In the election campaign, the state of the economy was barely an issue, the last six weeks instead being dominated by the war in Ukraine.

Until recently the economy was on track for a solid 5-6% growth after a record 7.1% expansion in the previous year. But economists have been slashing their GDP estimates in recent weeks from 4-5% to 2-3% as the impact of the war begins to take a toll on Hungary’s export-oriented economy and pushes up inflation, crimping consumption.

Fitch Ratings has knocked down the 2022 GDP growth forecast to 2.3% as high inflation impacts domestic demand and the war in Ukraine hits external demand. It affirmed Hungary’s ‘BBB’ sovereign rating with a stable outlook at a scheduled review in January. The slowdown will also push up the budget deficit, by cutting tax revenues and increasing social expenditures.

The finance ministry has yet to issue any revision in its growth estimates, but the markets will take a cue from the updated convergence programme, which will be submitted to the European Union by April 30 at the latest.
In his last interview with state radio just days before the vote, Orban acknowledged that Europe faces a major crisis, the roots of which go deeper than the war in Ukraine. That war helped the incumbent politically, but now Orban faces the dire economic consequences of his loose pro-cyclical fiscal policy of recent years, not to mention the direct impact of the conflict on the European economy.

Embarking on an unprecedented pre-election spending spree before the election, the government dished out 3-4% of the GDP in tax rebates, bonus payments for the armed forces and an extra month of pensions. This drove up consumption and helped GDP, but put the public finances in disarray.

Hungary’s budget deficit ballooned to HUF2.3 trillion (€6.1bn) in Q1, a two-fold increase from the base period and 73% of the full-year target. Keeping the 4.9% deficit target will become increasingly challenging without fiscal adjustments.

In 2011, the government took over HUF3 trillion of private pension fund savings of 3mn people to reduce state debt, in what has become known as the pension grab. This time there won’t be that fiscal leeway.

Avoiding a political backlash
The first decision the cabinet must take is on the future of price controls. The government set a price cap on fuel, rolled back the price of a half dozen food staples to October levels, and fixed variable-rate mortgage loans before the election to boost its chances of re-election against the united opposition.

Price caps on both food and fuel are due to expire in May and the interest rate freeze on variable-rate mortgages will end at the end of June. Some 400,000 borrowers could see a 20-30% increase in monthly instalments if market rates return.

Speaking at an international press conference after the elections, Orban confirmed that the government will seek to extend these measures but did not elaborate. Analysts predict a gradual phase-out of price caps to avoid a political backlash. The measures have helped Hungary’s annual inflation rate stay below 10%.

There is consensus that the government will try to keep energy prices artificially low for as long as possible for political reasons. This has been a key election promise in the last two elections. Hungarian households have paid the lowest nominal price for gas and electricity in Europe since 2014 when the government froze retail prices.

But the economic fallout of the five- to six-fold rise in global gas prices is putting immense pressure on state utility giant MVM. If prices remain at current levels, MVM would need a HUF1 trillion capital injection this year.

The winding up of the retail energy freeze would be costly politically, but to take no action would lead to overshooting the deficit targets, analysts have warned. The prospect of an upward revision of fiscal targets could increase the chance of a negative outlook on Hungarian sovereign credit ratings, according to ING Bank.

The government could take a bet that prices will fall in H2, but that is way too risky, says portfolio manager Viktor Zsiday.

The size of the potential fiscal tightening will also depend on the Hungarian National Bank’s monetary policy. There are estimates that rising interest rates will lead to losses of HUF300bn-400bn households directly, which suggests that labour taxes, or VAT – the highest in Europe at 27% – will not rise.

Instead special taxes may be imposed on multinational companies and other firms, similar to the ones introduced in 2010, Orban hinted to foreign reporters, adding that such measures would depend on the EU’s ability to halt energy price rises.

Based on Orban’s comments and his past policy actions, the government could seek to raise funds by levying sectoral taxes, as it did after taking office in 2010.

Twelve years ago, the Fidesz government introduced windfall taxes on the retail and energy sectors, which were later overturned by the EU. With local players carving out an increased presence in these sectors it will be difficult for the Hungarian prime minister to single out foreigner players with windfall taxes, giving exemption to his cronies, without breaching EU rules. Hungarian blue chips tumbled after Orban unveiled his plans to extend the price caps and possibly slap large companies with extra burdens.

The budget already targets HUF70bn proceeds from the bank tax in 2022, up from HUF61bn, a third coming from OTP. Hungary’s leading lender is also

”Embarking on an unprecedented pre-election spending spree before the election, the government dished out 3-4% of the GDP in tax rebates, bonus payments for the armed forces and an extra month of pensions”
February 2022

**Facing difficult decisions on energy**

Energy prices have also sparked a new row with the EU. Hungary has vehemently opposed extending sanctions against Russia to the energy sector, saying it would significantly increase household costs. The country receives 85% of its gas and 60% of its oil needs from Russia.

Orban has partially blamed the EU for high energy prices, namely the EU's emissions trading system (EU ETS). He has proposed the suspension of that scheme and the blending regulation on the biofuel content of fuel but experts note that that would have little impact on prices. The government has also opposed the extension of ETS to buildings and transportation, which it claims would increase costs by €800 per year.

At the same time, Hungary has committed to cutting its greenhouse gas emissions by 55% by 2030 and achieving carbon neutrality by 2050, by relying on solar and nuclear power.

The government will now have to make some important long-term decisions on energy security. Despite warnings by experts, Orban seems reluctant to abandon the expansion of the Paks nuclear power plant to be built by Russia's Rosatom.

The €12.5bn investment, which is 80% financed from a loan by Russia's Vnesheconombank, has yet to receive the final permits. The project is now in jeopardy due to the sanctions on Russian companies. Sticking with Rosatom would go against the EU's intention to reduce energy dependence on Russia.

**Desperate for EU funds**

Hungary's economic woes are growing just as its relations with the EU have worsened further. Just two days after the election the EU Commission announced that it is triggering the bloc's rule-of-law mechanism against Hungary, which becomes the first country to face proceedings. The Commission waited until after the election to avoid accusations of interfering. The government has rejected the new mechanism as a politically motivated tool.

The Commission has long-standing concerns regarding Hungary's judicial independence, conflicts of interests and systemic corruption. OLAF, the EU's anti-fraud agency, has put the country at the top of its list of irregularities involving EU funds, with public projects considered to be often overpriced. These considerations have prevented the approval of Hungary's national recovery fund, amounting to €7.2bn in grants.

Orban has accused the EU of political blackmail for holding back the vital RRF funding. In a letter addressed to Commission President Ursula von der Leyen, the Hungarian PM asked for the funding to be released and also asked for the first time for a €9bn loan under the RRF scheme to help the country handle the slowdown and higher spending needs caused by the war.

Local analysts therefore believe Viktor Orban will be forced to make some compromises with the EU to secure the much-needed EU funds.

Fitch also expects the de-escalation of the tensions as its baseline scenario, though the EU's decision to trigger a conditionality mechanism "could signal a hardening of both sides' stances".

Fitch factors in the receipt of the €7.2bn of funding, the equivalent to 5% of 2021 GDP, into its growth forecast. It says the failure to secure the funds could cut Hungary's mid-term growth prospects by as much as 1.5pp in 2023.

If Orban wants to continue to play the troublemaker inside the EU he could therefore be forced to accept that Hungary will remain well behind its neighbours in their slow convergence with their richer partners in Western Europe. Whether Hungarian voters will be prepared to accept that will only be known in four years' time.

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**Report: Russia**

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Poland pushing hard to end oil dependency on Russia

Wojciech Kosc in Warsaw

For all the talk across the EU about how it is impossible to wean the bloc off Russian oil quickly, Poland says it is ready to do just that in the space of a few weeks.

Yet critics say that the government is still not prepared to put its money where its mouth is, and has yet to take any decisive action.

Poland is one of the EU's heaviest users of Russian oil. Pumped via the Druzhba (Friendship) pipeline, these supplies made up around 65%-70% of all oil imports into Poland in 2020, coming in at nearly 17mn tonnes. That is an increase of 48% versus the year 2000.

Overall, Russian oil covered 64% of Poland's demand in 2020, which came in at 26.1mn tonnes, 97.3% of which was imported oil. Poland also imported oil from Saudi Arabia (15% of overall imports), Kazakhstan (11%), Nigeria (6%) and Norway (2%).

Despite this overwhelming dependence on Russia, Poland has been at the forefront of the EU countries pressing to hit Russia's income from exporting energy commodities hard and fast.

Poland's Prime Minister Mateusz Morawiecki said on March 30 that Poland would end buying Russian oil – as well as coal and gas – by the end of 2022.

"Russia uses fuels and energy commodities – its most profitable source of income – to finance its military [and] as a tool of political and economic blackmail, as well as cross-border corruption," Morawiecki wrote in a letter to fellow EU leaders in mid-March.

On March 30, Morawiecki paid a visit to the storage facility of Poland's PKN Orlen, the state-controlled oil giant, to say that his government's plan to end imports of Russian energy commodities was "the most radical in Europe".

Poland's Prime Minister Mateusz Morawiecki said on March 30 that Poland would end buying Russian oil – as well as coal and gas – by the end of 2022.

"[The plan] is needed so that, finally, there is a wake-up call in Europe," Morawiecki said.

Coal will go as soon as next month in the easiest part of the operation, mainly because of the small volume of imports. While on gas, Poland has already laid much of the infrastructure groundwork in order not to renew its supply deal with Gazprom, which expires at the end of this year.

On oil, Poland says that it will use deliveries via the oil terminal in Gdansk, which can handle 36mn tonnes of crude oil annually, more than the 26mn tonnes Poland has consumed in recent years.

PKN Orlen's contract with Rosneft, which secures Poland 300,000 tonnes of oil per month, expires in December. Another contract, with Tatneft, provides for deliveries of up to 200,000 tonnes per month and expires only in December 2024.

"We are ready for full diversification," PKN Orlen's CEO Daniel Obajtek told the newspaper Rzeczpospolita on April 4.

Other than the contracted oil, PKN Orlen has now ditched purchasing Russian oil on the spot market, turning to North Sea suppliers instead.

But Poland's government has been accused of dragging its feet about ending Russian oil imports, while calling for an urgent EU-wide embargo at the same time. Warsaw says that a member state simply cannot unilaterally sever deals with third countries as that would go against EU law and lay it open to compensation claims.

"Ending any member state's trade agreements with a third country is..."
a violation of EU law, no matter what you might think about that. Decisions are needed at the EU level so that there are no problems with compensation later," Deputy Foreign Affairs Minister Piotr Wawrzyk told the broadcaster TVN24 recently.

The government’s fear of what the EU might say is surprising, critics say. Warsaw has long ignored the EU in the rule of law spat, for example, in which it chose to disregard the rulings of the Court of Justice of the EU, which are fundamental to the bloc’s legal order.

In the context of Russia’s war on Ukraine – which has unified the EU and also made Poland a strategic country overnight – it would be unlikely that Brussels would give Poland a hard time over going it alone against Russian energy imports.

“I doubt that the Commission would take any decisive steps, for example a complaint to the CJEU,” said Tomasz Wlostoński, a lawyer specializing in EU trade law, TVN24 reported.

The lawyer added that an intervention from Brussels would be seen as the EU actually defending Russian interests.

In any case, Poland seems inconsistent in its approach. Without looking at the EU, it has been working on a ban on coal imports, which is to take effect as soon as next month.

Coal is but a tiny part of the EU’s energy commodity imports from Russia. By contrast, Russia supplies around one quarter of the bloc’s oil consumption and Poland’s main concern is that if it went ahead and ended imports unilaterally, other countries could gain an unfair upper hand on the market.

“There could be a situation in which we would stop buying [Russian oil], but others, say German refineries, which are partly owned by the Russians, would continue to do so,” Obajtek said in the Rzeczpospolita interview.

Orban secures fourth supermajority with 53% of the vote

bne IntelliNews

Prime Minister Viktor Orban’s Fidesz party has won Hungary’s parliamentary election by a landslide, securing a two-thirds majority amid a near-record turnout of 69.4% on April 3. The results exceeded even the most bullish forecast for the ruling radical rightwing party, which gathered 53% of the vote and will have 135 seats in parliament, two more than the supermajority.

The united opposition alliance won just 35% of the votes, enough for 56 seats out of 199. The heavy defeat could spell the end of the alliance, and the blame game has already begun.

The radical Our Homeland party stunned pollsters as it edged over the 5% threshold at 6.2%.

The opposition alliance can take some solace from the failed anti-LGBT referendum, held concurrently with the elections.

Pollsters were expecting a close race between the six-party alliance spanning the political spectrum led by conservative mayor Peter Marky-Zay, running on a pro-European and anti-corruption platform and promising to roll back Viktor Orban’s illiberal policies that since 2010 have blurred the separation of powers in the country.

After the polls closed, analysts opined that another two-thirds majority for Fidesz was highly unlikely, but not ruled out, given the country’s election system, with 106 seats decided in individual districts. Most pollsters put the gap between the two political blocks below the margin of error and said key battleground districts would decide the outcome.

Median forecast a solid Fidesz victory after 7pm with 121-125 mandates after polls closed, but even that proved to be a conservative estimate.

The war in Ukraine completely changed the narrative of the campaign, sideling the opposition issues of fighting corruption and returning Hungary to the European mainstream. Orban has successfully implanted fear in people

Viktor Orban will be Hungary’s longest serving prime minister after securing a fourth consecutive supermajority.
and accused the opposition of wanting to send weapons and soldiers to Ukraine.

The Hungarian premier has positioned himself as a neutral peacemaker in the conflict, which drew criticism from abroad, and isolated Hungary even with the Central European V4 grouping.

"It is a war between two big countries, and it is something dangerous. We should not get involved," Orban told international journalists after casting his vote on Sunday morning.

He has also accused the opposition of wanting to impose sanctions on Russian oil and gas imports, which he warned would have led to the collapse of the economy in days.

The election map before midnight showed the country in full orange, the colour of the ruling party. The opposition won 16 of the 18 seats in Budapest and two more outside the capital. The future of one mandate in the capital hangs in the balance after 98.3% of the votes counted.

With the votes of Hungarians living abroad, this could go to the opposition, bringing the final mandate count to 134-58 for Fidesz.

Hundreds gathered at the Fidesz election night gathering near the Danube to celebrate the party's fourth consecutive landslide victory.

"The whole world could see here in Budapest tonight that Christian Democratic policies, conservative civic policies and patriotic policies have won," said Orban jubilantly in his victory speech.

"We’re sending the message to Europe that this is not the past, this is the future,” he said. "This will be our shared European future.”

The PM briefly mentioned Volodymir Zelenskiy in his speech, calling Ukraine's President one of the “opponents” he had to overcome during the campaign, besides the left at home, the international left, the bureaucrats in Brussels, and the money of the George Soros empire.

These comments by Hungary’s self-proclaimed illiberal leader foreshadow conflicts with his EU partners and Brussels, which has held back EU funds due to the rule-of-law issues. Securing these funds will be vital for Hungary’s economy, with public finances in tightening and EU funds flowing in.

The mood was sombre, to say the least, at the opposition camp at the City Park Ice Rink in Budapest as results started to trickle in.

“I’m stunned, just like everyone else,” Marki-Zay said. "I don't want to hide my disappointment and my sadness; we would never have thought that this would be the outcome.”

Marki-Zay said the conditions in the election were "extremely unequal", adding, however, that the opposition was not disputing the result, "only that it was a democratic and free race".

One of the most closely watched contests of the election was in Hodmezovasarhely, the home town of mayor Marki-Zay and Fidesz strongman Janos Lazar. The former Fidesz cabinet chief made a comeback, winning by more than 4,000 votes and a 52% majority.

The blame-game on the opposition side has already begun. Leader of radical-

“The whole world could see here in Budapest tonight that Christian Democratic policies, conservative civic policies and patriotic policies have won”

a shambles after a massive pre-election spending splurge and the fallout of high energy prices.

The first comments by analysts note that the changing geopolitical environment and the economic downturn will significantly narrow the new government’s leeway, not to mention increased isolation abroad.

The new government will have to make unpopular decisions, such as lifting the price cap on fuel and food. Keeping household energy bills at artificially low prices is costing billions of euros and will be untenable in the run. Without fiscal turned-centrist rightwing party Peter Jakab, who skipped Saturday’s closing campaign rally, has blamed Marki-Zay for the loss but said the unity of the opposition must be maintained.

Sources close to the Socialists alluded to the conflict between the two. After winning the primaries, the joint PM has lobbied for his own conservative fraction, but the proposal was vetoed by Jobbik for fear that it would lose influence and votes.

Observers note that one of the reasons for the meltdown of the opposition was the poor performance of Jobbik, which has lost much of its base. ♦
Hungarian opposition parties at crossroads after crushing election defeat

bne IntelliNews

Hungary’s six-party opposition alliance is still reeling from the crushing election defeat that saw Fidesz retain power with a larger vote share and margin than ever before, securing a fourth supermajority that will further cement Viktor Orban’s power.

The future of Hungary’s diverse coalition looks uncertain. The first reaction was to blame joint prime minister candidate Peter Marki-Zay, who has still not decided whether to keep his job as mayor or take up his seat in parliament and form a new political party.

"Apparently this model cannot be changed in a democratic way. If there is a lying propaganda machine and 12 years of brainwashing it’s impossible to defeat Orban on his own field,” said Peter Marki-Zay, the joint prime minister candidate of the opposition, in his concession speech.

The 49-year conservative economist and father of seven was standing on the stage at Budapest’s iconic Ice Rink when he delivered his concession speech, surrounded by his children and his wife.

The absence of opposition leaders was a conspicuous sign. The mayor of Hodmezovasarhely acknowledged a day later that it was at his own request.

He said he wanted to reassure shocked and embittered voters not to leave the country, a sentiment widely shared by many young people after another sweeping victory by Hungary’s self-proclaimed illiberal leader, despite corruption scandals, shrinking media freedom, and democratic backsliding.

Yet the lack of support by his allies was a symbolic message and underscores the problem of how the six-party alliance could continue to work together.

Two liberal politicians, Momentum president Anna Donath and Parbeszed co-president, Budapest’s liberal mayor Gergely Karacsony, were the only speakers of the night, but no politicians of the Democratic Coalition, Jobbik, or LMP were present.

Blaming the media dominance of Fidesz, the tilted election landscape, the gerrymandered districts and the pervasive overlap between state and party campaign financing is an obvious explanation of the election loss, but does not address strategic flaws in the campaign. The lack of a clear alternative to Orban, a new vision, was the key issue behind the downfall, said former Jobbik president Gabor Vona, who retired after the 2018 elections.

Free but not fair election

Hungary’s elections were well-run but did not offer a level playing field according to a report by the Organisation for Security and Cooperation in Europe (OSCE). They deployed a full election observation mission for the election with more than 300 observers, the highest in its history for an EU country.

Europe’s main electoral watchdog labelled the last two elections in 2014 and 2018 as “free but not fair” and after the 2018 vote concluded that there was a "pervasive overlap between state and ruling party resources."

The fact that OSCE experts take issue with “the absence of a level playing field,” media bias and “an opacity of campaign funding” can be considered business as usual. We couldn’t have possibly expected them to go down without putting up at least a little fight, commented Fidesz international spokesperson Zoltan Kovacs.

"Apparently this model cannot be changed in a democratic way. If there is a lying propaganda machine and 12 years of brainwashing it’s impossible to defeat Orban on his own field"
Losing 800,000 voters

For the first time in 12 years, it seemed that the six-party alliance spanning the political spectrum from left to right had a good shot at toppling Viktor Orban’s regime. Opposition parties held a historic primary to agree on a joint list and field a single candidate in all individual districts. But at the end of the day, they gathered only 1.7mn votes, some 800,000 less than four years ago, and got 57 seats compared to 64 four years ago.

Analysts opine that some 300,000-400,000 voters who chose leftist parties in 2018 remained on the sideline or voted for Fidesz, scared off by Peter-Marki Zay’s communication style and possibly his rightwing policies.

The other half of the voters deserted from centre-right party Jobbik, the strongest opposition party in 2018, mainly to the far right Our Homeland Movement, which passed the 5% ceiling comfortably.

The appearance of a political formation on the right of Fidesz also means the re-establishment of the so-called central force field, which means there is one party on the right and the left of Fidesz. For years this division has allowed the conservative nationalist party to position itself at an equal distance from the radical right and split the protest and anti-government vote.

MPs of the radical and anti-vaccination and anti-elitist Our Homeland Movement are likely to vote with Fidesz on the national strategic questions but promised to stand up against Fidesz on issues such as prospective austerity measures.

As expected, it was Jobbik who came out attacking the joint PM candidate first. “Marki-Zay promised to renew the opposition in October but rather than doing so, he has actually caused its fall”, Jobbik leader Peter Jakab said.

Marki-Zay struck back saying it was Jobbik who could not retain its supporter base, which shrank from 1mn to around 350,000 in four years. Opposition sources said the rivalry is rooted in Marki-Zay’s plans of wanting to establish a new conservative fraction, which is seen as a threat by Jobbik.

Ferenc Gyurcany, head of the Democratic Coalition and seen as the leader of the opposition with the largest faction, accused the joint prime ministerial candidate of being a weak leader.

Later in the day Green LMP politicians called it a strategic mistake for the left-center opposition to run a rightwing candidate.

These comments underscore the dilemma facing the united opposition of how to continue rebuilding themselves after the historic defeat as, by nature of the election laws, they are bound to work together in the future.

Even as opposition party leaders pledged to work together after meeting on Monday the future role of Marki-Zay in the alliance remains uncertain. He has still not decided whether he would leave his post as mayor of Hodmezovasarhely or take up his mandate in Parliament.

Nevertheless, he has not given up on his plans of setting up a centrist rightwing party that could eventually be a member of the European People’s Party, which has pitted him against Jakab.

Overcoming Orban’s populist appeal

Marki-Zay’s efforts to lure so-called Fidesz orphans, or disenfranchised voters of the ruling party, a key campaign promise, failed as there is just no bridge between the two blocks due to the deep ideological rifts in a deeply polarised society, analysts noted. Not only did the opposition fail to bring new voters in, including young people, but it also lost hundreds of thousands of supporters.

Analysts claim the opposition needs to build up a new, coherent vision and give it a political form. The message that Orban must go will not be enough to topple the regime even if it is riddled with corruption scandals and other controversies.

The opposition also needs to be visible in rural Hunary. The election results show that support for Fidesz was the highest in these areas. Households’ rising income and the fear of instability after the war also pushed many undecided toward the governing party.

What is the secret of the Hungarian prime minister?, a pro-government media anchor asked an analyst from government-funded research institute Nezopont after Orban’s election speech. “Viktor Orban understands the soul of Hungarians” came the answer from Agoston Samuel Mraz.

Orban has established an emotional bond and connection with voters after the 2002 election defeat. Over the years he has built up a loyal core base of around 1.5mn through a number of measures, including holding big rallies, and copying campaign methods by former Italian PM Silvio Berlusconi.

Potential foreign policy effects

The scale of Orban’s victory is likely to see him continue to defy EU attempts to enforce democratic norms. His victory speech on election night foreshadowed future conflicts with Brussels.

On the other hand, the overwhelming support has improved his position in negotiations in Europe, as Brussels might once again perceive that Fidesz has no alternative.

The European Commission and the new government could agree on RRF subsidies in the foreseeable future, according to a flash note by Political Capital.

The EC would then have the conditionality mechanism as a weapon to try to keep the Hungarian ruling party within a few red lines. The ruling party’s policies on Russia will not change. The government will not veto sanctions but they might block extending them, especially in case there was a proposal to restrict EU energy imports from Russia.

It is not impossible, however, that they will spend some EU subsidies on restricting Hungarian dependence on Russian natural gas, but mainly with the aim of improving their negotiating position vis-à-vis Moscow. Fidesz could become even friendlier to China. In the case of Beijing, they are not forced to clearly take a side, unlike in the case of Russia, Political Capital said.
Serbia won’t abandon Russia as West mulls ever-tighter sanctions

Clare Nuttall in Belgrade

Russian can be widely heard these days on the streets of Belgrade, the capital of one of the only countries in Europe to have defied western pressure to join international sanction over the invasion of Ukraine. The Serbian authorities’ insistence on maintaining neutrality after Russia’s invasion has turned the country into a route for Russian citizens still seeking to travel to Europe and a haven for Russian businesses, but this risks permanently damaging Serbia’s relations with the West and EU accession prospects.

Signalling no change in Serbia’s foreign policy as he claimed victory in the April 3 presidential and general elections hours after polls closed, President Aleksandar Vucic made it clear that he will continue with the increasingly difficult job of balancing relations between Russia and the West. Just three days after the elections – at a time when most European governments are searching for ways to end their dependence on Russian gas – Vucic held a telephone conversation with his Russian counterpart Vladimir Putin in which they discussed the imminent start of talks on a new long-term gas supply contract.

Vucic’s multi-vector foreign policy, under which Serbia seeks good relations with the EU, the US, Russia and China has served it well until now, allowing it to pursue the goal of EU accession while at the same time benefitting from Chinese infrastructure and industry investment, as well as from Russian political support in keeping Kosovo out of the UN and other international organisations. However, as Russia continues its unprovoked assault on Ukraine and news of atrocities surface, this position is becoming increasingly unacceptable, not only in the eyes of Ukrainian politicians but also among many in the EU, which Serbia seeks to join. On the day that Serbians went to vote in their general, presidential and several local elections, the news broke of the massacre in the Kyiv suburb of Bucha by retreating Russian troops.

A difficult decision

Russia invaded Ukraine in the early hours of February 24, around six weeks before Serbia’s elections. As he sought re-election to the presidency and another term in office for his Serbian Progressive Party (SNS) the question of whether to join sanctions was clearly...
a difficult one for Vucic; while western governments announced sanctions earlier in the week when Russia recognised the independence of two separatist entities in eastern Ukraine, he delayed making an announcement until February 25, when he set out the case for Serbia not to join sanctions in an address to the nation.

The statement issued by the presidency on the evening of February 25 said Serbia respects Ukraine’s territorial integrity, but Vucic recalled Serbia’s own experience of western sanctions during the wars of the 1990s and pointed to Russia’s support for Serbia at that time as well as Moscow’s support on the issue of Kosovo.

"Vucic recalled Serbia’s own experience of western sanctions during the wars of the 1990s and pointed to Russia’s support for Serbia at that time as well as Moscow’s support on the issue of Kosovo."

Despite not joining the sanctions, Serbia has backed key UN resolutions against Russia. At the emergency session of the UN on March 2, Serbia voted in favour of the resolution condemning the Russian aggression against Ukraine. On April 7, Serbia was among the countries that voted at the UN General Assembly to suspend Russia from the UN Human Rights Council for "gross and systematic violations and abuses of human rights" in Ukraine.

This is not enough for EU officials, who have repeatedly stressed that as a candidate country Serbia needs to align its foreign policy with that of the bloc. Fellow candidates from the region Albania, Montenegro and North Macedonia have all announced sanctions on Russia.

"Alignment with EU decisions in foreign and security policy is one of the requirements in the accession process. In March, the European Council in its conclusions also called on ‘all countries to align with those sanctions’ and stressed that ‘any attempts to circumvent sanctions or to aid Russia by other means must be stopped’,” said Peter Stano, the European Commission’s lead spokesperson for foreign affairs and security policy, in response to a question from bne IntelliNews.

"Alignment with EU Foreign Policy is regularly monitored and taken into account in the regular review of the progress achieved in the accession process by Serbia," Stano added.

The message was reinforced by German Foreign Minister Annalena Baerbock on April 12. “If you want to become a member of the EU, which Serbia does want, then it is central that at such moments you join EU foreign policy, and sanctions that go along with it,” Baerbock said as reported by Reuters.

In March, nine MEPs from the Renew Europe group sent a letter to European Commission President Ursula von der Leyen and High Representative Josep Borrell calling for accession negotiations with Serbia to be temporarily frozen and for a suspension of EU financial assistance until Belgrade aligns with Brussels on sanctions. Vucic, then in pre-election campaign mode, responded that “haters” were behind the letter, which was aimed at "stopping Serbia from advancing in any way".

Not abandoning old friends
Russia’s links to Serbia are clearly visible in the Serbian capital, where landmark buildings include the Hotel Moskva built on the site of a historic inn with investments from Tsarist Russia, and the Balkans’ largest Orthodox church, the Temple of Saint Sava, partly financed by Russia with Putin’s personal endorsement. Less visible is the soft power Russia wields in Serbia, on top of the traditional historic and cultural links as fellow Orthodox Slavic nations.

People I spoke to in Belgrade said seeing the devastation caused by Russian attacks in Ukraine brought back painful memories of the Nato bombings – but this has not by and large prompted Serbs to turn against Russia or to demand their government take action to support Ukraine. Russian officials have repeatedly played on this in official statements by recalling the Nato bombardment, and, as explored by bne IntelliNews, many Serbian media outlets have reflected these messages back to a receptive audience. The high level of support for Russia was also revealed by a thousands-strong pro-Russian march in the Serbian capital on March 4, while
Moldova appeals to Russia to respect its neutrality after invasion threat

The Moldovan foreign ministry has urged Russia to respect its neutrality after a Russian general openly announced plans to occupy the breakaway Transnistria region.

Brigadier General Rustam Minnekayev said on April 22 that the Russian army plans to take Ukraine’s Donbas region, then create land corridors to both the Crimea and Transnistria.

"Since the beginning of the second phase of the special operation, which has already begun, literally two days ago, one of the tasks of the Russian army is to establish full control over the Donbas and southern Ukraine," said Minnekayev, the acting commander of Russia’s Central Military District, as reported by Tass.

"This [control over the Donbas region] will provide a land corridor to the Crimea, as well as influence the vital facilities of the Ukrainian [military forces], Black Sea ports through which agricultural and metallurgical products are delivered to [other] countries," he continued.

"Control over the south of Ukraine is another way out to Pridnestrovie [Transnistria], where there are also facts of oppression of the Russian-speaking population. Apparently, we are now at war with the whole world, as it was in the Great Patriotic War, all of Europe, the whole world was against us. And now the same thing, they never liked Russia," added Minnekayev.

The Moldovan Ministry of Foreign Affairs and European Integration responded later on April 22 by summoning the Russian ambassador in Chisinau, Oleg Vasnetov. The ministry said it had taken note of the statements from the "representative of Russia’s Ministry of Defence".

"These statements are unfounded and contradict the position of the Russian Federation supporting the sovereignty and territorial integrity of the Republic of Moldova, within its internationally recognised borders," the statement read.

"During the meeting, it was reiterated that the Republic of Moldova, in line with its Constitution, is a neutral state and this principle must be respected by all international actors, including the Russian Federation."

What role for Transnistria in the war in Ukraine?

Transnistria is a long, thin stretch of land between the Dniester river and Moldova’s border with Ukraine that has been de facto independent since a civil war that ended in July 1992. It has political, economic and military backing from Russia, though neither Russia nor any other state has formally recognised it as independent.

Since the invasion, there has been speculation that – as a Russia-backed territory on Ukraine’s western flank, with Russian troops stationed in it – Transnistria could be used to open a new front in the war in Ukraine. This was fuelled by a video of Belarusian President Aleksandr Lukashenko with a battle map that appeared to indicate Moldova was part of Russia’s invasion plans.

Polls of the Serbian population show that in general people support the policy of neutrality, while an overwhelming 95% of respondents to an ECFR survey said they see Russia as either an ally or a necessary partner. A separate poll by consumer data company Valicon showed most Serbians blame Nato or the US for the war in Ukraine, rather than Russia.

Gas talks coming up

When announcing his decision on sanctions back in February, Vucic said decisions on restrictive measures or sanctions will “be guided solely by the protection of [Serbian] citizens’ vital economic and political interests”. Accordingly, Serbia is preparing for talks on the price at which it will import Russian gas after a pre-war agreement struck in November under which it is continuing to buy Russian gas at a price of $270 per 1,000 cubic metres for six months. The price is around a third to a quarter of that paid by other customers in the region, allowing Vucic to boast at the time of having secured an “incredible” gas price from Gazprom that would allow Serbs to spend Christmas “in their T-shirts”.

That six-month period took Vucic and his ruling Serbian Progressive Party (SNS) safely past the April 3 elections before the price rises under the next long-term contract expected to be agreed by mid-May. Srbijagas director Dusan Bajatovic announced in late March that under the new contract Russia will deliver 3bn cubic metres of gas per year at a price of $600 to $850 per thousand cubic metres, with the exact price still to be agreed.
Meanwhile, EU governments are debating whether they can afford to end Russian gas imports altogether to avoid funding the war in Ukraine through payments for the gas they import from Russia. Following the atrocities in the war, there has not affected its expansion plans and it plans to open 22 new stores over the next two years. This is in contrast to the closure of Mere stores in other countries following the invasion, including in the UK where it had been the goal of joining the EU, there has been speculation that Serbia might change direction after the elections are out of the way and Vucic and the SNS safely ensconced for another term.

Vucic appeared to dash such expectations when he commented in his victory speech after polls closed that the most important thing for Serbia is to have good relations in the region and to continue its European path, but not to ruin good relations with traditional friends.

Still, analysts are divided over whether Belgrade may decide eventually to join the sanctions. Igor Novakovic, director of research at the International and Security Affairs Center, told a webinar organised by Euractiv Bulgaria on April 11 that he expected Serbia to gradually join the sanctions. “Serbia will increasingly align with restrictive measures, but at a slow pace, attempting at the same time to assure Russia that it is not completely against it,” Novakovic forecast.

Meanwhile, Teneo analysts expect Serbia will seek to maintain its neutrality as long as possible. “Despite the mounting pressure from the EU and the US to align with Western sanctions on Russia, Belgrade is unlikely to shift its position and will seek to maintain a neutral position for as long as possible. To this end, Vucic might use the protracted government formation process as means to postpone any decision on the sanctions front,” said a note from Teneo after the elections. Commenting on the consequences of this, Teneo’s note added: “The reluctance to align its foreign policy with Brussels – along with slow reform progress – further limits the country’s prospects of joining the EU for the foreseeable future.”

“Serbian flag carrier Air Serbia continues to fly to and from Russia so Russians can fly into the Serbian capital then transit to other European countries, known as the ‘Serbian backdoor’”

But the economic links go beyond hydrocarbons. After reciprocal bans on airspace between Russia and most European countries, meaning no airlines can operate on routes from EU countries to Russia, Serbian flag carrier Air Serbia continues to fly to and from Russia. This makes it possible for Russians to fly into the Serbian capital then transit to other European countries, a process that has become known as the ‘Serbian backdoor’. Shortly after the war began, Air Serbia doubled its direct flights between Belgrade and Moscow to 15 a week – though in a sign of the unhappiness about this route, there have been bomb threats on some recent flights between Serbia and Russia.

In the retail sector, Torgservis Group, which operates stores under the Mere and Svetofor brands, launched in Serbia in late 2020 with its first Mere store, followed by the opening of Svetofor in 2021. Nova Ekonomija business portal reported in March, quoting a company representative, that just six Ukrainian companies opened during the same period, and three Ukrainian companies closed. Intellias, one of Ukraine’s largest IT companies, announced in March it was closing its development centre and office in Serbia and relocating to Croatia because of the two countries’ very different positions.

“Serbia will increasingly align with restrictive measures, but at a slow pace, attempting at the same time to assure Russia that it is not completely against it”
A grizzled pensioner with a grin sells used tools on a street corner across from the cobbled main square in Comrat, the capital of Moldova’s Autonomous Territorial Unit of Gagauzia. He’s got a Soviet field telephone set right on top of a crate above wrenches, chains, gaskets, knickknacks, odds and ends.

It’s been there since at least August 2021, probably longer. I know because my partner wanted to buy the thing when we last visited Comrat. The going price in March 2022 was MDL3,000 (about €150). I said I’d pay no more than MDL1,500, at a local friend’s suggestion. The older man countered with MDL3,500.

“It’s a Russian joke,” he said. It was good-natured needling and we continued bargaining, though I noted the sentiment. If you haggle in Russia, the person you’re negotiating with will tease you and bump the price? It didn’t seem to matter that we weren’t in the Federation.

That’s how it goes in Gagauzia. Since first coming to Comrat in 2016, I’ve heard on many an occasion that Gagauzians have a “Russian soul”.

According to Moldova’s Institute for Public Policy, in 2021 “the population’s political preferences in [Gagauzia and the bordering city of Taraclia, home to a Bulgarian ethnic majority] reveal unconditional support for political forces perceived as pro-Russian.” Only 34.5%, however, consider Moldova a “part of the Russian world”, as opposed to 64.6% in 2015.

The Gagauzians I spoke with this spring cited that between 70% and 80% of the population living on Gagauz territory is pro-Russian. A similar percentage supposedly supports Russia’s war with Ukraine.

Ira Selezniova, a 28-year-old Comrat professional working in the non-profit sector, estimates that about 5% of Gagauzians vehemently oppose the war in Ukraine, 20% are unsure of what is happening, and 75% fully support the war. They think “it’s a special operation and people are being freed from Nazism [and] nationalists… and they wait, of course, for [Russia] to free us,” she says.

This contrasts with majority opinion in Moldova. On March 18 Moldova’s independent Russian-language news outlet NewsMaker published the results of two polls indicating that more Moldovans blame Russia for the war than they blame Ukraine.

Magenta Consulting revealed that 61% of the Moldovan population believes Russia is waging war in Ukraine; 26% thinks Russia is running a special operation; and 13% does not know or declined to answer. Another poll...
conducted by the CBS-AXA Center for Sociological Research and Marketing shows that 38.4% finds Russia at fault, 20.6% blame Ukraine, and 40% refused to answer or do not know.

The contrast between beliefs in Gagauzia and Moldova at large have roots in political, linguistic and historical differences.

What is Gagauzia?
Gagauzia, which declared itself independent in August 1991, has its own constitution and self-governs, although the region also depends on some financial support from the central Moldovan government. Comrat is the capital of Gagauzia and hosts the People’s Assembly, the autonomy’s governing body. The main road through the centre of Comrat is Lenin Street and there is a statue of the striding revolutionary in front of the People’s Assembly.

Approximately 3.3mn people live in Moldova according to the CIA World Factbook, and Gagauzia’s government-hosted website reports that about 155,650 people live in the autonomous region, of which 82.1% are ethnically Gagauzian. These numbers are tenuous due to high rates of migration.

Gagauzia differs from Transnistria, Moldova’s other notably pro-Russian territory, because it is partly integrated into Moldova’s governance despite its autonomous status. In the past, Moldovan and Gagauzian authorities have butted heads over unclear guidelines over who makes what policy and governance decisions.

Transnistria, on the other hand, is a breakaway region where ethnic Russians and Ukrainians outnumber Moldovans. The site of a cold conflict since 1992, Russian “peacekeeping” troops remain in the region.

Ethnic Gagauzians make up 4.6% of Moldova’s total population although Bulgarians, Moldovans, Russians, Ukrainians and other nationalities also live there. Though the territory’s three official languages are Gagauzian, Russian and Moldovan, the majority of Gagauzians speak Russian in public, in schools and at home. In 2021, only 18% of Gagauzian residents claimed that they could both speak and read Moldovan fluently.

On March 22, 2015, Gagauzia elected the pro-Russian governor Irina Vlakh to lead the People’s Assembly and represent Gagauzia in national politics. Russia sent delegations to Gagauzia to participate in her election campaign that year.

The day after winning, Vlakh stated that her priorities were not only to revive Gagauzia’s economy and work constructively with Moldova’s central government, but also to “strengthen regional ties with [regions] of the Russian Federation.” Vlakh was re-elected for her second and final term on July 30, 2019.

Pro-Russian leanings in Gagauzia
If 70% or 80% of Gagauzians are pro-Russian, Selezniova says, it is in part because those who remain in Gagauzia are either the older Soviet generations or those in the countryside, who often have less access to education and tend only to watch Russian television for news. This is Gagauzia’s electorate, she explains.

The year after Moldova initiated an Association Agreement with the European Union, Gagauzia held a referendum on

February 2, 2014 to determine whether residents would prefer Moldova’s integration into Russia’s proposed Eurasian Customs Union. With a turnout of over 70%, 98.4% voted for closer relations with the Customs Union; 98.9% supported Gagauzia’s right to declare independence if Moldova were to lose or give up its own (meaning to unite with Romania); and 97.2% rejected greater integration with the European Union.

The younger Gagauz generations, which are more apt to be accepting of western values, tend to leave and find work opportunities in other countries without intending to return. Young people also tend to stay silent about such views at home to avoid conflict, a relative of my Gagauzian host mother says.

Selezniova clashes with her own family for such reasons. Her Russian-speaking relatives may trust her less than what they see on television. “Where did you get this information – on the internet or something?” they might ask.

Language is one of three general links to Russia that reinforce Gagauzians’ affinity with Russia. People in Gagauzia often talk about how Russians and Gagauzians speak with “one language”, Selezniova explains, and “it automatically creates a kind of loyalty”. Gagauzians grow up on Russian films and Russian music. “If there weren’t Russian channels, what else would people watch?” Selezniova asks.

Shared language also creates opportunity. Gagauzians find much better work in Russia, where they can establish stable careers and a higher standard of living. A Gagauzian in Russia can be a director of an organisation, for instance, but in European countries he or she would have to learn the language first, and even

“If 70% or 80% of Gagauzians are pro-Russian it is in part because those who remain in Gagauzia are either the older Soviet generations or are from the countryside

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themselves defenders of the Orthodox people in the Balkans,” writes Ivan Katchanovski of the University of Ottawa.

A third factor is Soviet nostalgia, in large part connected to the educational and economic development the Soviets brought to the region. Katchanovski writes that Gagauzia was “one of the least educated and [most] impoverished groups during Romanian rule in 1918-40 and 1941-44” and experienced severe discrimination in contrast with Moldovans, who were considered ethnic Romanians.

My host mother’s relative told me a story about her grandmother who was alive when the Soviets first came to Gagauzia. People were starving during that period, she said, and babies were dying because mothers did not have enough milk in their breasts to feed them. Their fields were filled with cattle, but they did not know enough to give their infants the cow’s milk to save them. The Soviets brought them this knowledge and modern medication.

People in Gagauzia also recall traveling to other parts of the Soviet Union, which they cannot afford now, as well as the lower prices of produce; one common comparison is the cost of a dozen eggs.

These stories still run very deep in the consciousnesses of the Gagauz people. “Now they are pensioners, it’s difficult to live, and there’s not enough money,” Selezniova says. “For them, Russia is still the Soviet centre that can somehow rebuild things, and they are probably living in these dreams.”

Many Gagauzians also have Russian passports and citizenship, says Maria Arjintari, a 29-year-old Comrat resident and teacher in one of Gagauzia’s villages. She believes that if Russia comes to Moldova, maybe 70% of the Gagauzian population “would be happy”. Selezniova agrees that “a large part” of Gagauzians would welcome Russia.

**Russian influence in Moldova today?** Despite Gagauzia’s long-standing pro-Russian leanings, it is hard to predict how Russia might now play on such sentiments in Gagauzia or Moldova more broadly. In a March 18 article, NewsMaker reported that the Russian embassy in Moldova invited Russian citizens or “compatriots” to complain about discrimination in Moldova.

The embassy’s post, which is now no longer available but recorded in screenshots embedded in NewsMaker’s article, suggested that those who felt threatened “in connection with the increasing cases of discrimination on national, linguistic, cultural, religious and other grounds, as well as the committing of acts of a violent nature or actions that pose a threat to life and health, contact the embassy’s email address”.

The post gained over 800 comments and the majority of those who responded said that they experienced no discrimination, and furthermore insisted that Russia should not come to Moldova to “save” them. One cheeky commenter proposed that someone organise “a flash mob and bring oars to the Russian embassy so there would be something to row in the direction they’ll be sent to”.

At the government level, Gagauzia has taken no sides. While Vlakh made a statement condemning the war on February 25 in a video she posted to Facebook, she maintained political neutrality.

Vlakh cautioned against blaming or seeking justifications for one side or another, which would “only add aggression to an already excessively heated atmosphere”. Rather, “the best option now is to call on leaders who can influence events to sit down at the negotiating table,” Vlakh said. “Dialogue is the only suitable way out of this dangerous situation.”

She lamented that these “people of all nations” have not yet “learned from the past” and become “one global family”.

On March 9, Tudora Arnaut, a board member of the Gagauz society in Kiev, called on Vlakh to support the Gagauzians living in Ukraine in wartime. “Why did you, as the bashkan [governor] of Gagauzia, not once in 12
days ask or express your support for the Gagauzians of Ukraine during the hour of the war in Ukraine?” Arnaut wrote on her Facebook page.

“We are not angry with you, and we are not offended ... just, bleeding in our souls, we waited for only one sentence: ‘Gagauzians, there is a war in Ukraine, you were attacked, and we are one people, we are with you, no matter what’,” she appealed.

Vlakh did not respond to Arnaut. She spoke again on Gagauz television on March 23, when she stressed the troubling uncertainty of the situation and repeated that all sides must “sit down at the negotiating table”.

Gagauzian views on war
Like Vlakh, Arjintari evokes the multi-ethnic status of Moldova when she explains why she thinks her country should remain neutral. “We are a multi-national [and] multi-cultural country, and we have people who don’t like Russia, but at the same time we have a lot of people who do like Russia,” she explains.

At the same time, she thinks Moldova “should silently help the people of Ukraine and interfere [politically] because we are a small country”. Her country already has so many of its own problems, she believes, and would prefer that Moldova “stays independent” to take care of them.

While teachers in Arjintari’s school would once would begin their days with the ‘ritual’ of complaining about Moldova’s pro-European president Maia Sandu, “every morning it now starts with the war situation in Ukraine, with the discussion of who is right, who is wrong.”

Selezniova explained that Gagauz opinions tend to break down into three camps. “There are people who very harshly criticise everything that is happening, they express that they don’t agree with the war. They repost all these terrible events and pictures, they try to expose networks and fakes that come from the Russian side,” she says.

“There is another part that speaks about it quietly, [they believe] it’s not simple,” Selezniova continues. “Look, yes, war is very bad’, they might say, but ‘there’s not only one side that is guilty’.”

The majority, she says, support Russia. She thinks this is because “they are completely dependent on the media that is produced in Russia. They are, one might say, even living in another country.” Selezniova noted that there are Gagauzians who believe the news coming from Bucha, the town outside of Kyiv where there has been evidence of brutal civilian deaths, is manipulation. Nokta, Gagauzia’s independent media outlet, posted a video to Instagram where locals shared their opinions on the Bucha revelations.

One man said it was a “provocation”, another responded that he had heard people died but could not say who killed them because there was “little information”. Another man claimed “it cannot be the Russians” and said that the Ukrainians are doing it to themselves but “blaming it on the Russians”. He paused, then qualified he did not know: “Maybe it’s the Russians.” Yet others said it had been faked, some blaming the West.
A relative of my host mother who was raised and educated in the Soviet Union confirms, despite agreeing that a war is being waged in Ukraine, that it is difficult to accept that Russia can commit such atrocities.

During the Soviet Union, people were raised with the idea that the Soviets defeated the German fascists and stood solely for peace. This kind of messaging was everywhere – repeated in schools, during holidays, and on March 9 or Victory Day, the annual celebration of the Soviet Union’s triumph in World War Two.

Selezniova thinks Gagauzians are apt to believe that the Bucha atrocities are fake, in part, because it is simply “too cruel” and so “people cannot wrap their heads around it”.

**Supporting refugees despite political dissonance**

Despite posting pro-Russian information about the war on social media, Selezniova observes, many Gagauzians are also fully ready to help refugees from Ukraine. She finds this activism to be dissonant, because while shelter, financial and other support for Ukrainians.

Anna Statova, who is the director of the Gagauzi Sofrasi ethnic hotel in Congaz and runs the business with her children, recalls the night of February 25 when the first surge of refugees overwhelmed the hotel’s premises.

At 5:30 in the morning, the hotel’s security guard called Statova to request she come outside to meet guests. Statova was surprised. “If he calls me at 5:30, then it means that there’s a serious problem that my children can’t solve,” she says.

When Statova emerged, the parking lot was full. “People were crying, falling [to the ground], asking for a place to lie down.” Waves of people came for the next several days as she and other community members organised aid, distributed food and placed refugees who exceeded the hotel’s capacity in private homes. Despite a lack of government support, she has been hosting refugees, who tend to stay for only a few days then move on, in her hotel ever since.

Still, Bezhenar and her family are nervous about telling people in Comrat that they are refugees. As they were walking in Comrat’s central park after they first arrived, they noticed an eight- or nine-year-old boy wearing a jacket with the word “Russia” emblazoned on the back.

“We were shocked. It’s not the time for such messaging,” Bezhenar says. “And that’s why we don’t like to accent that we are from Ukraine.”

NewsMaker reported on March 14 that government-supported centres host refugees in the Gagauzian villages of Congaz and Kirsova. In the city of Ceadîr-Lunga, a Baptist church has also opened its doors to refugees.

Many others volunteer. Over fifty Gagauzian families are hosting refugees and more than 2,500 people have joined the “Help Southern Moldova” chat group on Telegram, where concerned citizens have mobilised to provide support for refugees despite political dissonance.

Natasha Kirillova, a 42-year-old half-Ukrainian woman born and raised in Comrat, knew she had to act “because in Ukraine what is happening is murder, and it’s not just”.

She first became involved when she got a call from a friend who was volunteering with a restaurant in Kirsova that was organising aid. Kirillova left her phone number with the volunteers.

She was soon contacted, and on March 3, she and her 16-year-old son welcomed three refugees, a 45-year-old mother from Bilhorod-Dnistrovskiy and her two daughters, aged nine and 25. There are now “six girls and one boy” living with Kirillova, including her cat and the refugees’ dog who “compete for everyone’s love”, Kirillova laughs.

“There is no difference between my family and their family,” Kirillova says.

Korina Bezhenar is the eldest daughter of the refugee family and says that while she is eager to return home, “Natasha helps us with everything”. They cook, clean, go to the store and chat together every day.

“In these circumstances, it’s great, [Natasha’s] company and her family and all her help,” Bezhenar said. “We now think that she’s a part of our family.”

Her grandmother has even called from Ukraine to invite Kirillova to visit when the war is over.

Gagauzians claim to “empathise with the people in the war,” they also believe that “what [the Russians] are doing [in Ukraine] is saving them”.

Gagauzians are killing their own people, “It did not matter what people thought about it, whether they supported [the war] or didn’t support it, they helped. It was marvellous! They’re just good people.”
Revelations that Serbia received a Chinese anti-aircraft system in an unannounced operation have added to fears of a Balkan arms race, and sparked a war of words between Serbia’s President Aleksandar Vucic and the leaders of neighbouring Kosovo and Montenegro.

Six Chinese Y-20 transport planes with military markings were spotted at Belgrade’s Nikola Tesla airport on April 9, and local media and newswires reported that they were bringing in HQ-22 surface-to-air missile systems. While the delivery was not officially announced President Aleksandar Vucic said later in the day that he would present “the newest pride” of the Serbian military during the week.

The systems arrived at a time when there are concerns over the stability of the Western Balkans following Russia’s invasion of Ukraine. Serbia has so far refused to align with western sanctions on Russia, and Vucic reiterated after the April 3 general, presidential and local elections that the country will remain neutral, though Serbia has backed two key UN resolutions condemning Russian actions in Ukraine.

Prime Minister of Kosovo Albin Kurti said on April 12, as quoted by the Kosovan media, that the government is concerned that Serbia has bought weapons from China, but not scared.

"Serbia seems to me to be in a kind of panic when it realises that it cannot stay in three or four seats at the same time," Kurti told a press conference, referring to Belgrade’s efforts to maintain good relations with both western powers and Russia and China.

On the other hand, speaking to Reuters on April 11 Vucic also confirmed recent reports that Serbia is interested in procuring 12 Rafale fighter jets from France’s Dassault Aviation. "We have been negotiating this purchase of 12 new jets for a year, and we are also looking at buying another 12 used [western] planes from another country," Vucic told the newswire.

Region divided

The response among Serbia’s immediate neighbours to the Chinese delivery has been mixed, with those countries that have combative relations with Serbia – Kosovo and Montenegro – criticising the delivery, while Serbia’s partners in the Open Balkan initiative – Albania and North Macedonia – expressed no concern.

"Serbia's continued armament is not harmless for the region and the Republic of Kosovo, but on the other hand, it is an expression of their fear that they may be left isolated," Kurti added.

Belgrade has refused to recognise Kosovo, which unilaterally declared its independence from Serbia back in 2008.
In spite of the Kremlin’s persistent denials that President Vladimir Putin has ever been afflicted with anything worse than a mild cold, research by Russian investigative collective Proekt suggests that Russia’s president is concerned about his health. Records of the medical professionals present in Putin’s entourage suggest that he may be receiving treatment for thyroid cancer.

Since the beginning of Putin’s third term as president in 2012, Russian TV viewers have become increasingly used to watching “canned footage” of their president – pre-recorded videos showing Putin in meetings. Pre-prepared content like this can divert attention away from the president’s protracted absence from public view.

This is not the only case of a carefully curated media output apparently aimed at covering up the president’s ill health. On November 4, 2012, footage of Putin laying flowers with Patriarch Kirill of the Russian Orthodox Church did not air publicly. Clips of Putin’s participation in the ceremony could, however, be found on the website of the Moscow Patriarchate, and revealed that the president had a pronounced limp at the time.

This fuelled speculation that the president was suffering from back pain.

“Oncologist Evgeny Selivanov has flown to visit Putin 35 times, and spent a total of 166 days with him”

Three government officials confirmed rumours of Putin’s back troubles to Reuters.

But indications of more serious health problems arise from the report published by Proekt on Friday, 1 April. In the report, investigative journalists examine publicly available information about the doctors assigned to the 69-year-old head of state, many of whom have been visiting more frequently in recent years.
The outlet determined which doctors visited Putin at his residence in Sochi by checking hotel accommodation contracts published on the government’s procurement website showing visits to Sochi by medical specialists which coincided with Putin’s trips there.

The number of doctors permanently accompanying Putin appears to have grown from five in 2016 to nine in 2019. By this point, one of the most frequent medical visitors to the President was oncologist Evgeny Selivanov. According to data from Proekt’s report, this particular doctor has flown to visit Putin 35 times, and spent a total of 166 days with him.

The only two medical specialists who have spent more time with the president are otolarynologists – throat, ear and nose specialists – suggesting that he may be receiving treatment for a thyroid disease, most likely cancer.

Signs that Putin is increasingly concerned for his own health are also consistent with speculation that he is ill. Putin has allegedly taken to an unconventional remedy involving bathing in the extract of Altai deer antlers. Proekt cites an acquaintance of the president who confirms this, adding that a wider trend for unconventional medicines and methods of prolonging youth has sprung up within the country’s elite.

Putin appears to have been particularly solicitous for his health since September 2021, when he disappeared from public view for a month, even voting in a Duma election from his office. Since the start of the pandemic, the Russian president has held most of his meetings by video link rather than in-person, and the majority of his in-person visitors have reportedly been made to isolate for two weeks and submit a stool sample before seeing him.

The Kremlin has, however, repeatedly denied that Putin is ill. A spokesman said in 2020 that the President’s health was “excellent”.

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**Russian opposition ultra-nationalist Vladimir Zhirinovsky dies of COVID**

**bne IntelliNews**

Russian firebrand ultra-nationalist Vladimir Zhirinovsky has died aged 75 after contracting coronavirus (COVID-19).

As founder and leader of the misleadingly named Liberal Democratic Party of Russia, Zhirinovsky espoused far-right populist and authoritarian views. He stood for the presidency on no fewer than six occasions, and was a household name in Russia.

Zhirinovsky was part of Russia’s “systemic opposition,” a cadre of politicians from outside the leading party who are allowed to run in elections. Nonetheless, he and his views were far from tame.

Born in Kazakhstan, Zhirinovsky was notorious for his incendiary character. He threw juice in the face of liberal politician Boris Nemtsov during a televised debate, and started numerous brawls in Parliament. He once spat at a rival before telling the leader of the Democratic Party that he’d “smash in his head” in a TV debate for presidential candidates.

His party was famously mercenary, espousing right wing populist views, but loyally voting the Kremlin’s line in any major debate. At the same time the LDPR was rumoured to have a rate card for proposing legislation and voting on less important issues.

Nor were Zhirinovsky’s political opinions any less sanguine. He predicted the invasion of Ukraine almost to the exact day, and wholeheartedly endorsed it, telling MPs that “on February 22, you will feel [our new policy]. I would like 2022 to be a peaceful year... It will not be peaceful. It will be a year when Russia becomes great again.”

The Kremlin used Zhirinovsky as a way of blowing off steam and his extreme views served to normalise the pseudo democracy of the rest of the system, by making the cynical politics of Russia’s anocratic, pseudo authoritarian system look more reasonable in contrast.

In 2014, Zhirinovsky called the Baltic states and Poland “little dwarf states” and hinted that Russia would carpet bomb them due to their membership of Nato: “They’ll be wiped out... we have to do carpet bombing so that not a single launch pad remains or even one plane. So – no Baltics, no Poland,” he said.

He also held xenophobic and racist views, despite being half Jewish himself. When asked if he was Jewish on account of his patronymic (Volfovich), Zhirinovsky said: “My mother was Russian and my father was a lawyer.” He later disavowed the statement after researching his father’s life following his emigration to Israel, concluding that he was not after all a lawyer, but rather an “agronomist”.

Zhirinovsky claimed to have been vaccinated against COVID-19 eight times. He contracted coronavirus and was hospitalised with pneumonia in February. He died a month later.
The Security Service of Ukraine (SBU) has arrested Viktor Medvedchuk, Ukraine’s top pro-Russia politician and personal friend of Russian President Vladimir Putin, on April 12. He was under house arrest on treason charges, but escaped after the war broke out and was trying to flee to Russia disguised as a Ukrainian soldier.

Head of the political council of the Opposition Platform – For Life party, Ukraine’s biggest opposition party, Medvedchuk has been Russia’s go-to man in Kyiv, and is also the godfather to Putin’s youngest daughter.

Medvedchuk had been in hiding for 48 days after he escaped from the house arrest where he had been held since May 2021 as part of the treason trial against him.

President Volodymyr Zelenskiy’s government has been ratcheting up the pressure on Medvedchuk for more than a year, and he was accused of leading a fifth column from the top of Ukrainian politics and acting as a proxy for Russia’s interests.

In February last year the government imposed sanctions on Medvedchuk for “financing terrorism” and closed down three leading TV stations associated with him and his business partner, Taras Kozak.

Zelenskiy signed the decree that imposes special economic sanctions, closing down the Novyny news media holding that nominally belongs to Kozak but is widely seen as being controlled by Medvedchuk on February 2. The sanctions named Kozak and his companies, including those linked with the three TV channels, which he bought in 2018-19. Kozak is a close associate of Medvedchuk and is also a member of the Opposition Platform – For Life Party.

Medvedchuk also owned part of the PrykarpatZakhidtrans oil pipeline that brought Russian oil to Ukraine that was nationalised last year.

The decision to shutter the popular TV stations was criticised at the time as being partly politically motivated and a blow against speech freedoms in Ukraine. The legality of the sanctions was also questioned, as the Ukrainian Constitution prohibits sanctions being brought against Ukrainian citizens unless they engage in acts of terrorism.

On October 8 more charges were brought against Medvedchuk, including another count of treason and aiding terrorism due to his alleged participation in 2014-2015 in an illegal scheme that involved purchasing coal in the occupied Donbas, controlled by Russia-backed separatists. According to the investigation, after Kyiv lost control of most of the Donbas region, there was an increased need to purchase coal on the world market, particularly from South Africa. Russian authorities had plans to disrupt the implementation of these contracts and prevent Ukraine from strengthening its own energy independence.

In December last year Medvedchuk was also accused of failing to declare assets worth over UAH73mn ($2.7mn), the National Agency for the Prevention of Corruption (NAPC) said. According to the agency, Medvedchuk did not declare his Kyiv land plot and house, worth UAH29mn ($1.1mn) and UAH16mn ($592,000) respectively, in his 2020 asset declaration. The lawmaker was further accused of not specifying the value of four of his cars, together valued at approximately UAH27mn ($1mn).

The NAPC also said that Medvedchuk didn’t disclose six cars and a land plot in occupied Crimea owned by his wife, former TV presenter Oksana Marchenko.

In 2014, the US said Medvedchuk used his “resources or influence to support or act on behalf of senior Russian government officials,” sanctioning him following Russia’s invasion of Crimea that year.

This January, US again sanctioned Medvedchuk, along with other Kremlin-linked politicians, accusing them of plotting to set up a collaborator government in Ukraine after impending Russian invasion.

The treason charges are controversial, as Medvedchuk is democratically elected
and leader of the opposition in the Rada as he heads the head of the Political Council of the Opposition Platform, For Life Party, the largest fraction after the ruling Servant of the People (SOTP). Some pundits have speculated that part of Zelensky's motivation has been to take out his political rival.

Similar charges were brought against former President Petro Poroshenko, another Zelensky rival, who was also accused of treason in January.

"After Medvedchuk was charged with treason his glamorous wife, Oksana Marchenko, went into politics for “the protection of the Ukrainian people”"

Poroshenko, who led the post-Maidan revolution government for four years and ran for re-election against Zelensky in 2018, was also accused of co-conspiring in a criminal scheme to buy UAH1.5bn ($55mn) worth of coal from the uncontrolled territories in the Donbas using state funds in 2014-2015.

At the start of the war with Russia on February 24 the government immediately banned all opposition parties with Russian ties, including Medvedchuk's Opposition Platform, For Life Party. Other parties banned were "Sharia Party", "Ours", "Opposition Bloc", "Left Opposition", "Union of Left Forces", "State", "Progressive Socialist Party of Ukraine", "Socialist Party Of Ukraine ", "Socialists " and "Bloc of Vladimir Saldo".

After Medvedchuk was charged with treason his glamorous wife, Oksana Marchenko, went into politics for "the protection of the Ukrainian people", arrest in its information way with the Kremlin. The official Telegram account of the SBU security agency posted photos of Medvedchuk in handcuffs looking haggard.

In the attached note, SBU chief Ivan Bakanov thanked officers for the "special operation to detain Medvedchuk, who is – for now – people's deputy."

A similar statement was released by the president's office earlier in the day.

In later comments Zelensky said that Medvedchuk would be offered to Russia in a prisoner swap to “bring our girls and boys home, who have been captured [by the Russian forces]."

Kremlin spokesman Dmitry Peskov said the news of Medvedchuk's arrest should be verified due to a large number of fake reports coming from the Kyiv government.

On February 27, Medvedchuk's attorney Larisa Cherednichenko said the opposition leader had left his home in Kyiv, where he was staying under house arrest, fearing for his life amid threats from nationalist groups. However, in her words, he remained in the Ukrainian capital. On March 18, a Ukrainian court arrested Medvedchuk in absentia and put him on the wanted list.

The total war loss to Ukraine's economy is up to $600bn, according to an update to previous estimates issued by the Kyiv School of Economics on April 12.

The direct losses of Ukraine's economy due to the destruction of and damage to civilian and military infrastructure, documented in public sources, have increased by $12.2bn from the previous estimate issued at the end of March of $565bn, according to the new study: “Russia will pay”.

According to the study, as of April 11, the total amount of direct documented infrastructure losses, based on public sources alone, has reached UAH2.4 trillion ($80.4bn).

According to joint estimates of the Ministry of Economy and the KSE, the total losses of Ukraine's economy due to the war, including both direct and indirect losses, including GDP decline, investment cessation, labour outflows, additional defence and social support costs, range from $564bn to $600bn.

Some 7mn people have been displaced and around 4.5mn have left the country. Russian artillery and bombs have flattened entire cities in the south of Ukraine, while missiles have targeted roads, rail and other infrastructure across the country.

The estimates for the cost of the war vary and are rising daily as the war continues. Researchers from the Centre for Economic Policy Research (CEPR) put the total cost of rebuilding Ukraine in the region of $220bn-$540bn, or

The cost of the war in Ukraine rises to $600bn

bne IntelliNews
The cost of the war in Ukraine has risen to $600bn, according to a new study by the Kyiv Economic School, although estimates vary and the number goes up daily as the fighting continues.

Between one and two and half times the value of GDP just before the war started.

The Vienna Institute for International Economic Studies (wiiw) reckons that the affected regions together make up about 29% of Ukrainian GDP. Electricity consumption, a proxy for activity, is down by around a third compared with a year ago, according to wiwi.

But a National Bank of Ukraine (NBU) survey also found that 30% of Ukraine’s firms have stopped producing entirely, another 45% have reduced their output and electricity consumption is down by 35%.

The European Bank for Reconstruction and Development (EBRD) puts the hit to production even higher: as of the middle of April the fighting is happening on territories that produce around 60% of Ukrainian GDP, the development bank said in a recent report.

The World Bank reckons that GDP will contract by 45% this year as economists scramble to keep up with the scale of the expanding fighting. The World Bank believes that Ukraine’s economy, even with concerted reconstruction efforts, will only recover to a third of its pre-war GDP by 2025. Ukraine’s GDP could collapse to one third of what it was pre-war, International Monetary Fund (IMF) managing director Kristalina Georgieva said on March 22. The EBRD revised its growth forecast for Ukraine in 2022 to -1.7% on March 31, which will almost certainly be significantly revised downwards soon.

The government is pouring money into the war, much of it being provided by Western partners. Ukraine will see an increase in the state budget deficit of Ukraine from $2.7bn in March to $5-7bn in April and May per month, Finance Minister Serhiy Marchenko predicted on April 12, according to reports.

Marchenko estimates that infrastructure losses have skyrocketed to $270bn, up from the $120bn in damage Ukraine’s prime minister cited at the end of March. Over 7,000 residential buildings have been destroyed or damaged in the war. The recently established Kyiv School of Economics puts the value of destroyed housing at $29bn.

Grain exports decreased by almost 90%, total exports fell by half. The final fall in GDP will depend on the duration of hostilities, the minister said.

The state budget deficit in 2022 was originally projected at 3.5% of GDP, but Marchenko noted that it would grow many times over, depending on the duration of the war.

Ukraine’s access to the international capital has been cut off by the war and the domestic bond market, a major source of funding of the state, has also been closed. With the finance ministry losing tax revenues of about $2bn a month, it has started to issue emergency military bonds to investors and raised UAH6bn ($203mn) during the seventh auction on April 12. Investors were presented with two issues of hryvnia military bonds with a maturity of 6 months and 1.3 years at rates of 10% and 11% respectively. Each of the seven auctions so far have raised roughly similar amounts; however, the approximately $1.4bn raised is insufficient to fund the current spending.

Ukraine’s financing now depends almost entirely on grants and loans from its Western partners, which have promised some $25bn in total, of which $7bn has already been received as of mid-April.

Keeping agriculture on track has been a key goal, as grain exports are one of Ukraine’s foreign exchange earners. Farmers have been granted UAH20bn ($675mn) of loans as the planting season is about to begin and manufacturers are getting help to relocate within Ukraine.

The Russian naval blockade has closed down shipping completely, the main export channel. While grain can be shipped by train to Europe, heavy products like coal and metals rely on ships. Moreover, the change of gauge at the EU border hampers railway exports as well. The government says that 80% of exports can still leave the country by rail, but other commentators are a lot more pessimistic.

De-mining the country post-war is also going to be a heavy burden. Before this war Ukraine’s defence ministry put the cost of demining the Donbas region, which was invaded by Russia in 2014, at €650mn, reports The Economist. In Iraq demining cost roughly $1bn and took a decade to complete.

Rebuilding damaged infrastructure and industrial facilities – power plants and factories to bridges and roads – will
cost at least $50bn, according to the Kyiv School.

While experts have variously put the cost of the physical damage at between $100bn and $220bn in total, the government has estimated the total loss to the economy, including lost revenues and missing investment, is a far larger $565bn, Deputy Minister of Economics Yulia Svyrydenko announced at the end of March.

At the end of March the KSE estimated the cost of the war is $565bn, including:

- $119bn loss of infrastructure (almost 8,000 km of roads destroyed and damaged, dozens of railway stations, airports);
- $112bn decline in 2022 GDP;
- $90.5bn in civilian property losses (10mn square metres of housing, 200,000 cars, 5mn people suffering food insecurity);
- $80bn in loss of enterprises and organisations;
- $54bn in losses from direct investment in the Ukrainian economy; and
- $48bn in losses to the state budget.

Lost production from shuttered factories and missing investment mean that even the infrastructure that is still standing will need upgrading. Another study by wiwi finds that, after the invasion of Donbas in 2014, depreciation made up 60% of war-related infrastructure losses by the end of 2019, The Economist reports. The prime minister’s estimate of a cost of $119bn to infrastructure and industry this time may therefore not be far off.

Ukraine’s government has already set up a recovery fund, mirrored by a similar fund set up by the IMF. Funding will have to come from Western governments, international organisations and private investors. Tim Ash, senior sovereign strategist at BlueBay Asset Management, has suggested that US and EU powers use their special drawing rights (SDR) allocations that were issued to all countries by the IMF last year as part of the response to the coronacrisis. These total some $290bn and are currently sitting idle on the IMF balance sheet.

“This money could be released tomorrow. There is no technical problem preventing it. It is simply a question of political will,” Ash said in an email to clients.

Others have suggested that the sanctions on the Central Bank of Russia’s gross international reserves (GIR) on February 27 that froze some $300bn could be used for repairs and/or reparations. However, this idea has not been seriously discussed yet but may be part of a peace deal. Another option is that it is possible Ukraine could be fast-tracked for EU membership, when it would become eligible for EU infrastructure grants. Poland, which is about the same size as Ukraine, has received a total of €106bn in investment funds between 2014 and 2020. In the 15 years after it joined the EU, its GDP per person increased by more than 80%, The Economist reports. EU President Ursula von der Leyen gave a speech during a visit to Kyiv in April where she said that Ukraine “belonged in the European family.”

"We hope that [Ukraine] will get the status of a candidate for membership at the summit of leaders of the European Union in June this year, and this process will open new political horizons for us, primarily financial horizons,” Deputy Prime Minister for European and Euro-Atlantic Integration of Ukraine Olha Stefanishyna said during the nationwide telethon, Ukrinform reported on 11 April.

The international financial institutions (IFI) like the EBRD could also be a major source of funding. Ukraine became the EBRD’s biggest client country after the latter withdrew from Russia in 2014, and has since then invested a total of €18bn in total into Ukraine. ●
Russia has definitively broken with the West. Its war on Ukraine will permanently wreck its trade relations with the EU, collectively its biggest trade partner, and to a lesser extent with the US. Russia’s trade relations with China have blossomed in recent years but in its hunt for new markets it needs to uncork the southern route out of Eurasia and into the massive markets of Pakistan and India. Afghanistan is the key and for the first time in over a century Central Asia has become central to geopolitics.

In 2021, the total trade in goods between the EU and Russia amounted to €257.5bn. The EU’s imports were worth €158.5bn, of which fuels accounted for just under €100bn. In the same year, trade turnover with China topped $141bn, after rising by just under a third year on year, putting it on course to hit the $200bn target the two countries have set.

The war in Ukraine will change Russia’s trade calculus dramatically. Last year, Russian President Vladimir Putin was actively pushing the EU to sign off on new long-term gas supply contracts and give permission for the Nord Stream 2 gas pipeline to be put into action. But following Russia’s attack on Ukraine launched on February 24, the EU is now committed to stopping all imports of Russian hydrocarbons as soon as 2025. That will knock a €100bn hole in Russia’s EU trade regime, a regime that has already lost €100bn after Russia banned EU agricultural imports in tit-for-tat sanctions imposed in 2014.

One option to fill the hole is to boost trade with China and in particular sell Beijing more gas. Russia signed a new gas deal with China in February to boost volumes, but currently Russia only sends 13bcm of gas a year to China compared with the 155bcm it sold Europe in 2021.

And even under the new deal the volumes will not increase significantly from that level. Russia’s national gas company Gazprom announced on February 4 that it had agreed on the annual sale of 10bcm per year of natural gas to China’s CNPC over a 30-year period. The agreement underpins the development of a new export route for Russian gas to China in the Far East.

Part of the problem is that the massive Yamal gas fields in Russia’s Arctic regions were targeting European markets and there are no pipelines connecting Yamal to the new Power of Siberia pipeline that

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serves China from Russian gas fields in Siberia. New and expensive infrastructure will have to be built.

The story is very different in Central Asia, which has been hooked into the Russian pipeline network since Soviet times. Both Russia and the five 'Stans' have long had their eye on the lucrative markets that start in Islamabad and stretch beyond, but have been locked off from Eurasia by instability and then a 20-year occupation of Afghanistan by the US. As bne IntelliNews has reported, the departure of the US from Afghanistan in July last year has changed the game and Afghanistan is back in play. Having longstanding relations with Kabul, Moscow has gone out of its way to cosy up to the resurgent Taliban in an effort to open up the country to trade. Last week, Russia announced a Taliban envoy already active in Moscow had been officially accredited.

**Getting Afghanistan off its knees**

Russia and its partners in Central Asia are actively working to open Afghanistan up to trade and transit. In the midst of the Ukraine war, Lavrov found time to fly to China to discuss Afghanistan with his fellow foreign ministers from the region.

Lavrov took the opportunity to fire broadsides at the international community but the Uzbek delegate pleaded that the rest of the world should not forget Afghanistan.

“"In connection with known events in the world, we are unfortunately observing a certain decrease in the international community’s attention to Afghanistan,” Vladimir Norov, Uzbekistan's deputy foreign minister said. “The Afghan question has basically taken a back seat in world politics. This cannot be permitted.”

The foreign ministers from Afghanistan, China, Russia, Iran, Pakistan, Tajikistan, Turkmenistan and Uzbekistan all met in Tunxi for the talks. China also took some potshots saying that the US and Nato should “assume the primary responsibility for the reconstruction and development of Afghanistan,” The Associated Press reported, quoting its Foreign Ministry.

The main message from the meeting in Tunxi was that the West should take an active lead in helping Afghanistan to get off its knees. China led calls for the return of frozen assets to Afghanistan and Uzbekistan has been pushing for sanctions relief since soon after the Taliban takeover. Tashkent recently joined forces with Pakistan to lobby for the lifting of sanctions.

"Afghanistan is now at a decisive stage," Norov warned. "Either this country will, with the assistance of the international community, create the pre-conditions to lay the foundations for a normal economy and development, or it will again become a refuge for terrorist and extremist organisations."

**Opening up trade**

Russia’s war in Ukraine has plainly, to varying degrees, unnerved the leaders of the five Stans. Despite the Kremlin's substantial economic, political, military and soft-power capital in the region, keeping these nations on side will be no mean feat. The West's attempt to sideline Russia with heavy sanctions has and will cause enormous disruption and economic losses to Central Asia. Staying close by a new-era Russia's side will not be an easy road to travel, though when it came to the vote in the UN General Assembly vote on March 3 to condemn Russia's invasion of Ukraine, all of the Central Asian states chose to abstain. Keeping their relations sweet with Russia was clearly more important to them than standing with the international community’s condemnation of the unprovoked attack on Ukraine.

Securing trade and energy infrastructure routes between Russia, Central Asia and South Asia is a major plank of Uzbekistan's foreign policy. Even before the US withdrawal, Uzbek president Shavkat Mirziyoyev used his first speech at the UNGA to call for an international committee to be set up under the auspices of the UN to improve Afghanistan's security and help it along with its economic development. Mirziyoyev identified Afghanistan as the major security issue in his region but at the same time has promoted business and trade, building a power line over the border amongst other things.

Since last year, the Uzbeks have announced modest, incremental but meaningful progress in working with the Taliban-regime in Afghanistan and Islamabad in developing rail and road trade corridors linking Uzbekistan to Pakistan via Afghan territory.

In mid-March, for the first time, Indian cargo, mostly sugar, transited to Uzbekistan via Pakistan and Afghanistan.

“"Afghanistan is now at a decisive stage. Either this country will, with the assistance of the international community, create the pre-conditions to lay the foundations for a normal economy and development, or it will again become a refuge for terrorist and extremist organisations”

The Uzbeks are also looking at completing a rail link to China, via Kyrgyzstan, and reaching Iran's sole oceanic port of Chabahar on the Indian Ocean via Turkmenistan and Afghanistan. Pakistan's Gwadar port on the Arabian Sea is a rival.

No doubt Moscow in its new reality would like to piggy-back on the success
achieved in developing these trade routes so far and back negotiations to achieve an extensive opening up of the opportunities.

Russian foreign minister Sergei Lavrov already started actively courting Pakistan last year, perhaps in preparation for the collapse of relations with the West he must have been aware was on the cards. He visited Islamabad in April 2021 for two days in his first visit to Pakistan since 2012, arriving from a trip to India previously. Afghanistan topped the agenda in talks with his Pakistani counterpart, Shah Mehmood Qureshi, but the two foreign ministers also discussed bilateral ties and economic cooperation.

Russia has also already been actively preparing another key strategic energy transport route that runs across Mongolia to tap the northern Chinese market. In late February, Russia and Mongolia signed a project plan for the Soyuz/Vostok gas pipeline that would run from Russia to China via Mongolian territory.

Also, in mid-February, Pakistan’s energy minister said the South Asia country had been holding talks with Russia on the potential construction of a Kazakhstan-Pakistan gas pipeline. Then there is the perennial question of whether the planned Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline will ever be completed. Perhaps with its new need to integrate the economies of Russia, Central, South and East Asia, Moscow could even take a stake in this project. The Taliban, eager to secure some recognition and economic stability for their Islamic Emirate of Afghanistan, are keen on TAPI and have already provided the Turkmen with security guarantees for the infrastructure.

Hesitant Stans
An open question remains: How much political resistance might there be in Central Asia to playing a crux role in helping Moscow realise its new trade and economic ambitions?

Uzbekistan became the first former Soviet Central Asian country to properly distance itself from Russia's invasion of Ukraine. It said it insists on Ukraine's territorial integrity and will not recognise Russia's puppet republics in Luhansk and Donetsk on March 18, three weeks into the war.

"Uzbekistan recognises the independence, sovereignty and territorial integrity of Ukraine. We have not recognised the Luhansk and Donetsk People's Republics," Foreign Minister Abdulaziz Kamilov stressed as he addressed a Senate session on March 17.

"Uzbekistan has historically had traditional comprehensive ties with both Russia and Ukraine," the minister said. "Last year, the trade turnover with Ukraine exceeded $704mn, which is 60% more than in 2020. Co-operation for the current year included a plan of various events in Tashkent and Ukraine."

The Kazakhs have since followed suit. On April 1, m Timur Suleimenov, deputy chief of the Kazakh presidential office, told Euractive that Kazakhstan will not help Russia to evade Western sanctions imposed over its ongoing invasion of Ukraine.

Kazakhstan "will continue to invest in Russia and attract investment for Russia: there is no way for our economy to do it differently," he said in an interview. "But we will do our best to control the sanctioned goods. We will do our best to control any investment from a sanctioned person or entity in Kazakhstan, and this is something we wanted to convey to Europeans openly."

Suleimenov then went further in setting Nur-Sultan apart from Vladimir Putin’s Russia, saying: "Kazakhstan is not part of this conflict. Yes, we are part of the Eurasian Economic Union [EEU] but we are an independent state with our own system, and we will abide by the restrictions imposed on Russia and Belarus. We don’t want and will not risk being placed in the same basket."

Given that Kazakhstan is a member of the Russia-led EEU – the other members being Belarus, Kyrgyzstan and Armenia – and as recently as January saw its president, Kassym-Jomart Tokayev, invite in Russian troops in an urgent move that appeared aimed at saving his presidency from a coup, Moscow might be somewhat anxious that the Kazakhs are not proving more amenable.

As Russia tries to remodel its trade relations in its now dollarless world, Moscow may be disappointed with the less than helpful attitudes of some of its partners. EEU members Kazakhstan and Kyrgyzstan both recently refused to accept customs duties from Russia in rubles, a decision echoed by Armenia.

Paul Stronski, a senior fellow at think tank Carnegie Endowment for International Peace, said the refusals raise “questions over the cohesion of the bloc, which has long been Putin’s pet initiative to integrate the region, although it has not progressed far since its 2014 launch”.

Other actions, observed Stronski “suggest greater [post-invasion] resistance to Moscow than initial diplomatic statements indicated. “Kyrgyzstan, Tajikistan, and Uzbekistan have disputed Kremlin readouts of bilateral presidential phone calls that suggested greater support for the war than Central Asian leaders were willing to acknowledge,” he said. “As the Russian military campaign struggled and the extent of human suffering in Ukraine became increasingly evident, the governments of Kazakhstan, Kyrgyzstan, and Uzbekistan moved beyond muted expressions of concern to more open critique. They allowed some anti-war protests, permitted civil society groups to collect humanitarian assistance for Ukraine, and clamped down on local displays of the ‘Z’ sign used by supporters of the war. Those three governments also reiterated their commitment to Ukraine’s territorial integrity. The overlaps and variations of the shifting Central Asian responses to the war illustrate each nation’s delicate navigation of the crisis.”

Mirziyoyev’s first foreign trip as president was to Moscow as Russia remains the dominate force in the region, but at the same time the Uzbek president would prefer to keep Russia at arms length. Despite pressure from Moscow, Tashkent has never committed itself to one day joining the EEU and has always made
it clear its foreign policy is aimed at retaining good and constructive relations with all the major players including Russia, the US, the EU and China.

“Like other Central Asian states, the government in Tashkent remains hesitant to assign blame for the war. It has expressed its ‘deep concern’ and urged a diplomatic solution to end the ‘military activity and aggression’ to distance itself from Moscow’s actions. An authoritarian country, Uzbekistan has not sanctioned anti-war rallies and has reined in independent coverage of the many openings for organised crime. Before the invasion, Japarov mimicked Russian talking points to suggest Moscow’s recognition of the self-proclaimed republics of Donetsk and Luhansk in eastern Ukraine may have been justified. “Reportedly under pressure from Moscow, the Japarov government also banned anti-war protests in Bishkek and levied fines against protesters as of mid-March, although that has not stopped demonstrators from gathering or civil society actors from speaking out,” said Stronski.

Stronski also noted that as the Russian military has struggled in Ukraine, Tashkent has grown more vocal in its support for Kyiv, including displays of the Ukrainian flag at prominent locations in Tashkent and Samarkand, and tolerated small gatherings outside the Ukrainian embassy. Neither could happen without official sanction,” said Stronski.

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Support from Kyrgyzstan
Perhaps the strongest support from Central Asia for Russia since it launched its war on Ukraine has come from Kyrgyzstan’s populist strongman Sadyr Japarov, an autocrat who had to work hard to gain Vladimir Putin’s endorsement after he ascended to the Kyrgyz presidency following an uprising at the end of 2020, amid accusations from the West that his proposed administration might provide rather too

“The Russian ruble will cease to be a liquid currency for trade within the Eurasian Union. Russia will cease to be a country of reception of labour migrants”

war on social media. Yet it has allowed subtle demonstrations of support for Kyiv, including displays of the Ukrainian flag at prominent locations in Tashkent and Samarkand, and tolerated small gatherings outside the Ukrainian embassy. Neither could happen without official sanction,” said Stronski.

Stronski also noted that as the Russian military has struggled in Ukraine, Tashkent has grown more vocal in its support for Kyiv. “During a March 17 address to parliament, Uzbekistan’s long-serving foreign minister, Abdulaziz Komilov, declared that Uzbekistan would not recognize the Russian-controlled portions of eastern Ukraine as independent states and reiterated its commitment to Ukrainian territorial integrity.”

EEU in trouble
Might Russia’s economic isolation and the collapse of the ruble even lead to the disintegration of the EEU?

This point is taken up by Olga Gulina, director and founder of the Institute on Migration Policy, a member of the EU-Russia Civil Society Advocacy Group.

“The search and introduction of new export routes from the countries of Eurasia to the West, bypassing Russia, against which Western countries have imposed broad economic sanctions, and the ongoing devaluation of the ruble, and the commission on currency exchange introduced by the Russian government, among other things, can become factors contributing to the collapse of the [EEU],” said Gulina.

“With such a development of events, the Russian ruble will cease to be a liquid currency for trade within the Eurasian Union. Russia will cease to be a country of reception of labour migrants. Most of the 2.4mn citizens from Tajikistan may leave; [and of the] 4.5mn citizens of Uzbekistan; 884,000 citizens of Kyrgyzstan; 163 thousand citizens of Kazakhstan; 7 thousand citizens of Turkmenistan; 240,000 citizens of Ukraine; 174,000 citizens of Belarus working in Russia today, all these people, with the exception of citizens of Ukraine, Belarus and Turkmenistan, will be forced to leave Russia and return to their countries of origin,” she added.

Serious difficulties, forecast Gulina, will hit Kyrgyzstan and Tajikistan, with 30.1% and 27.8% of their GDP, respectively, consisting of remittances from labour migrants, mainly working in Russia. “Unemployment and demographic pressure in the countries of Central Asia, especially Uzbekistan, Kyrgyzstan and Tajikistan, will increase incredibly, which can lead to increased discontent, social protests and political instability in the region. Such internal challenges in the countries of the region, along with the weakening of Russia, will lead to major transformation processes and a drop in interest in any form of integration, including the [EEU],” she concluded.

In mid-March, describing how it was up to “true patriots” to help pull Russia through its difficult times, a belligerent Putin did not mince his words, referring to so-called non-patriotic Russians as “scum and traitors” whom patriots would simply “spit out like an insect in their mouth onto the pavement”. Countries that lie in Russia’s sphere of influence will be wary of Putin starting to make the same kind of distinction when it comes to Russia’s allies.
Kazakhstan seeks to thread diplomatic needle over Russia’s Ukraine war

Chris Rickleton for Eurasianet

Anybody spying the diplomatic weathervane in Kazakhstan at the moment is liable to be confused.

Nur-Sultan does not want to be seen in international eyes as being overly tied with Russia. But neither does it want Moscow to conclude that it is seizing this moment to creep away from their deep and involved economic and security relationship.

A strange development seemingly intended to underline the latter point occurred last weekend.

On April 3, the security services claimed they had detained an operative tasked by an unspecified foreign intelligence agency with assassinating President Kassym-Jomart Tokayev.

The National Security Committee, or KNB, said in their colourful and yet sparsely detailed statement that the alleged suspect, who has been identified only as Citizen A, was furthermore planning to kill several other senior officials. Video footage of the purported arrest showed masked officers inspecting a mounted sniper rifle and large amounts of US dollars in a small apartment.

In a final, curious and possibly telling detail that has drawn much mockery from sceptical online commentators, the man was said by the KNB to also be plotting to flood social networks with anti-Russian propaganda.

The timing of the revelation of this startling alleged scheme – and the claim that this unnamed figure was motivated by Russophobic sentiments – comes at a complicated time for Kazakhstan-Russia relations.

Earlier in the week, one senior Kazakh official caused a minor sensation by articulating his government’s boldest stance to date on Russia’s war in Ukraine. In a March 29 interview with the European Union-focused publication Euractiv, Tokayev’s first deputy chief of staff, Timur Suleimenov, restated Nur-Sultan’s support for Ukrainian territorial integrity and pledged full cooperation with international sanctions imposed on Russia.

“This of course, Russia wanted us to be more on their side,” Suleimenov told the interviewer. “[But Kazakhstan] will not risk being placed in the same basket as Russia.”

This has been widely read as Kazakhstan trying to put a wide berth between itself and its closest security ally, Russia. But the picture was muddied yet again on April 2, when Tokayev got on the phone with Russian President Vladimir Putin.

According to a readout produced by Tokayev’s office, the two men expressed “a common understanding on the exceptional importance of reaching agreements on a neutral, non-bloc, non-nuclear status of Ukraine.”

A commitment from Kyiv to remain neutral and refrain from seeking the reacquisition of nuclear arms are among the demands being made by the Kremlin in the ongoing talks to bring a close to the war in Ukraine.

Kazakhstan’s ambivalent role is informed by its eagerness not to fall victim to a dynamically evolving geopolitical landscape. Nur-Sultan’s concerns were laid out in specific terms by deputy Foreign Minister Roman Vassilenko in yet another interview with the European press – German daily Die Welt on this occasion – stating that Kazakhstan did not want to become...
a collateral victim of politically motivated economic warfare.

"If there is a new iron curtain, we do not want to be behind it," he told the German newspaper in an interview published on March 28.

In addition to performing a diplomatic tightrope walk, Kazakhstan’s authorities must also wrangle opposing local passions surrounding the war. There is no available statistical data on public sentiment in Central Asia on the war in Ukraine – indeed, one pollster has refrained from publishing its findings out of nervousness at causing an upset – so gauging the mood is complicated. The exchanges on social media have been vicious, however.

In the interests of avoiding more tension, the General Prosecutor’s Office on March 28 published a statement that was essentially a blanket warning for the general public to refrain from posting overly provocative messages on social media about the conflict. The arrest of a putative Russia-hating Tokayev assassin has in effect added a sting to this warning by implying that authors of posts critical of Moscow are the unwitting patsies of shadowy foreign spy agencies.

Even at street-level, authorities are searching for an elusive balance.

An anti-war gathering in Almaty on March 6 was attended by around 3,000 people who sang Ukrainian songs and hurled invective at Putin. These are big numbers by Kazakh standards, where permission for rallies is granted on an arbitrary basis, despite official claims to the contrary.

When organisers tried to mount a follow-up event two weeks later, though, the authorities demurred. The desired location had been booked, they said, by an all-day pro-Tokayev demonstration.

Chris Rickleton is a journalist based in Almaty.

This article originally appeared on Eurasianet.

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**Mongolian youth mount protest against ‘unliveable economy’**

**Anand Tumurtogoo in Ulaanbaatar**

Large numbers of Mongolian youth have mounted a protest demanding that the government address economic hardship and unliveable conditions.

Protesters yelled, “Do your job!” and “You [officials] cut back on your expenses!”, the latter slogan being a response to Speaker of Parliament Gombojavyn Zandanshatar, who lately pressed Mongolians to cut back on their expenditures during the current difficult times.

Mongolia is suffering high fuel costs triggered by effects of the war in Ukraine and jammed export channels to China, caused by Beijing’s “Zero covid” policy. Inflation, meanwhile, is on the rise. It is a real headache for Mongolians, who were shocked to see it hit an eye-watering 14% in January.

The rally, held over April 7 and 8, was peaceful, but police used force to arrest some protesters on the evening of the first day, claiming they were intoxicated. The second day saw the size of the protest crowd increase.

Mongolian PM Oyun-Erdene Luvsannamsrai addressed the gathering, attempting to address concerns. “The government will do all in its power to lower the price of meat, rice and flour, and to not cut off medicines and medical supplies, and to keep the price of gasoline stable,” he said.

Later that evening, he informed the protesters that he would be proposing legislation to parliament to bring about measures that would ease the current economic dire straits.

The government has said that it will set out to mitigate the negative effects of rising prices and consumer shortages; reinforce the prosecution of corruption and make the availability and awarding of soft loans for small and medium sized businesses more transparent.

Another move is to see the continuation of austerity measures imposed on government personnel in Ulaanbaatar at the height of the pandemic, such as a ban on the use of large vehicles in the capital city and the use of private means for rural travel.

Officials have also said they will address some concerns by having the Mongolian Youth Association’s premises and land use probed by law enforcement agencies.

Other issues that the government said it was unable to resolve on an executive basis – including concerns related to social insurance premiums, VAT, international payments, voting machines, and the immunity of members of the State Ikh Khural (parliament) – are to be tackled working with parliament’s leadership and a standing committee in the legislature.
Moscow warns Islamist militant infiltration of Central Asia could 'export instability to Russia'

Moscow’s anxieties about the possibility of Islamist militants in Afghanistan infiltrating Central Asia, from where they would seek to bring instability to Russia, were expressed by Russian Foreign Minister Sergey Lavrov on March 31.

"The plans of the Islamic State [ISIS] and its supporters to destabilise Central Asian states and export instability to Russia are of particular concern," Lavrov said, as cited by Reuters.

"The build-up of detachments of Jamaat Ansarullah and the Islamic Movement Uzbekistan around the Afghan-Tajik and Afghan-Uzbek borders [is] an alarming sign."

In early March, a US think-tank said sources close to military intelligence in a Central Asian nation had indicated that Central Asia, particularly Tajikistan and Kyrgyzstan, was set to be destabilised in the next four to six weeks with possible Taliban military moves and the infiltration of Islamic State and Al-Qaeda militants. On March 28, the Kyrgyz State National Security Committee (UKMK) said that a militant of the Katibat Tawhid wal Jihad international terrorist organisation, sent from Syria to commit a suicide bombing, had been detained in Kyrgyzstan.

Lavrov was speaking at a conference on Afghanistan in China. China has a short border with Afghanistan. Its other neighbours are Pakistan, Iran, Uzbekistan, Tajikistan and Turkmenistan.

Since coming to power in Afghanistan last August, following the exit of the US and allies from the country, the jihadist fundamentalist Taliban – which is opposed by Islamic State and other Islamist militant groups about which Lavrov expressed concerns – has pushed for its administration to receive recognition from the crisis-stricken country’s neighbours.

At the conference, Lavrov also announced that a Taliban envoy who was already active in Moscow has been officially accredited, saying: "I would like to note that the first Afghan diplomat who arrived in Moscow last month and was sent by the new authorities has received accreditation at the Russian Foreign Ministry."

The Taliban is still designated a "terrorist organisation" by Russia, but the Kremlin has on several occasions welcomed Taliban representatives for talks.

Lavrov also observed that growing trade and economic ties between Afghanistan and countries in the region were contributing to potential international recognition for the Taliban administration. Uzbekistan, for instance, is keen to achieve far stronger trade links with South Asia, but for that it requires secure transit corridors through Afghanistan.

Some neighbours, such as Iran and Tajikistan, have made it clear that they would want the Taliban government to include representatives of all of Afghanistan’s ethnic minorities before they would consider granting their recognition.

To Russia, its Central Asian backyard forms a defensive buffer against Afghanistan-based extremist groups. The largest Russian military base outside Russia is in Tajikistan. There is another such base in Kyrgyzstan. Since the US pullout from Afghanistan, Russia has been beefing up both of these bases.

"The plans of the Islamic State [ISIS] and its supporters to destabilise Central Asian states and export instability to Russia are of particular concern"
Turkmenistan: Serdar ascending

Akhal-Teke: A Eurasianet Bulletin

The era of Serdarism is slowly taking shape. Turkmenistan’s newly elected president, Serdar Berdymuhamedov, began impressing his own brand on the regime with a targeted array of personnel changes.

At his maiden national security council meeting on April 6, almost everybody kept their job. But in a convoluted piece of theatre, Berdymuhamedov fired the Interior Minister Ovezdurdy Khojaniyazov. The minister, complained the president, had over his nine months in the position failed to “exercise proper control over public order,” particularly when it came to ensuring road safety.

A state television report on the meeting then cut away to footage, also watched by attendees of the security council, of several men confessing struggle session-style to exceeding the speed limit. The vast majority admitted hitting speeds of up to 100 kilometres (62 miles) an hour.

One especially hardened delinquent, A. Gurbangeldiyev, reached 180 kilometres per hour in a 60-kilometres-per-hour zone. It will go down as just a curious coincidence that this man’s surname is so similar to the name of the president’s predecessor and father, Gurbanguly, who may have done more than anybody in Turkmenistan to celebrate the cult of high-speed motoring with his rally car antics.

Khojaniyazov will be replaced by Mukhammet Khydyrov, who formerly served as head of the Interior Ministry in Lebap province.

What this dismissal seems to illustrate is that Serdar intends to preserve the controlling and micro-management approach – or at least the appearance of it – that was favoured by his father.

In other security personnel management developments, for reasons unstated Berdymuhamedov scrapped the title of deputy prime minister with the portfolio for security, military and legal affairs. He also released Charymyrat Amanov from his position as chair of the security council, replacing him with Defence Minister Begench Gundogdyev.

There has been some mild but potentially significant tinkering on the economic management side too. Deputy Finance and Economy Minister Toyly Myalikov was released from his job to take the reins at the central bank and thus become Turkmenistan’s board member at the International Monetary Fund. In what feels like a related appointment, Deputy Labour and Social Protection Minister Dovletgeldy Amanmukhammedov was put in charge of the superfluous and opaque, as it operates at present, State Statistics Committee.

In his inauguration speech last month, Berdymuhamedov pledged greater cooperation with the IMF, which likely means that the government wants to resume the fund’s periodic scheduled visits. Allowing that to happen would lend some credibility to claims that Turkmenistan wants to open up to the world, even if in purely economic terms. The last time the IMF dispatched a mission to the hermit kingdom was in 2019.

Myalikov looks like a trusted lieutenant. He was appointed deputy chair of the Supreme Control Chamber, a body which oversees government spending, in February 2021, which is when Berdymuhamedov took over that same body, so the two men obviously enjoy a healthy working relationship. Amanmukhammedov’s previous position, meanwhile, indicates that some level of seriousness is finally being accorded to statistics-gathering in that he would have by necessity been deeply involved in data compilation – at the very least about the approximate number of people who actually live in Turkmenistan, one of the country’s many mysteries.

Gadyrgeldy Mushshikov, who had overseen the Central Bank since July 2021, has been tapped to take over the chair at Senagat, ostensibly a joint-stock, private-public-run bank, although this distinction is a fiction in Turkmenistan.

Berdymuhamedov is trying to take a firmer grip over the energy and farming sectors too. On April 8, he created two new presidential advisors to offer him guidance on those areas. But showing signs of his irascible temper, the president fired both within a few weeks on the job.
Are broad coalitions really the best way to overthrow authoritarian populists?

Robert Anderson in Prague

The Hungarian election earlier this month has dealt a big blow to the once confident hope that broad opposition pre-electoral coalitions are the best way to remove entrenched authoritarian populists from power.

On April 3 Prime Minister Viktor Orban’s radical rightwing Fidesz party retained power with a larger vote share and margin than ever before, securing a fourth supermajority that will probably be even more difficult to reverse in four years’ time. The six-party left-right opposition coalition won fewer voters together than they had attracted apart four years ago.

It reinforces the message that authoritarian populists are very hard to dislodge from power. They may come to power through the ballot box but they make sure that it is near nigh impossible for them to be removed that way, by hollowing out the democratic system from within.

When Orban lost the 2002 general election despite his Fidesz finishing as the largest party, he said notoriously: “We who are standing on this square will not be in opposition, because the motherland cannot be in opposition”.

Orban made sure that when he returned to power in 2010 he would never be in opposition again. He rewrote the electoral system to his own specifications and gerrymandered constituency boundaries. He enabled Fidesz-voting ethnic Hungarians in neighbouring states to vote by mail, but forced hundreds of thousands of mostly opposition-voting Hungarians who have emigrated to Western Europe to travel long distances to queue up at consulates.

He used state funds, rabble-rousing referenda and shady organisations to campaign permanently and without regard for spending limits. Opposition parties accuse him of covertly supporting fake parties to act as diversions and of blackmailing voters on public work schemes to vote for Fidesz.

Orban has also built a massive media machine using friendly
oligarchs and state advertising, closing down critical media and denying the opposition a voice.

“This is Planet Orban,” Milan Nic, senior fellow at the German Council of Foreign Relations (DGAP), told bne IntelliNews in an interview. “It’s very difficult to have a change of government.”

Orban is now expected to destroy any surviving pockets of independence.

“The most likely scenario is that the autocratic political system is extended even further,” Hungarian think tank Political Capital said in a note after the election. “The conquest of the judiciary can be finished, which is the last, still partly free branch of government, the space for free discussions will be even more limited, and the regime can become even more authoritarian as a response to the deteriorating economic situation.”

The Hungarian strongman is also playing a wider role in spreading authoritarian populism across Europe. He tries to use the Central European Visegrad Group as his mouthpiece, has built Hungarian business and political links in the Western Balkans, and is trying to form a radical rightwing European Parliamentary group.

Deformed democracies

Orban is an extreme example of the way populist authoritarians deform democracy while maintaining its trappings, but he is far from unique. In Central Europe, authoritarian populists of varying degrees and different political stripes have become the dominant parties in Hungary, Poland, Czechia and Slovakia. To the south in the Balkans, they have built commanding positions in Serbia and to a lesser extent Slovenia.

Yet until the Hungarian setback, there had been a sense that the tide was now turning. Slovakia’s leftwing strongman Robert Fico had been forced to resign in the uproar over the assassination of investigative journalist Jan Kuciak and his fiancée, and his Smer party lost power at the subsequent election in 2020, though it remained the largest party. All the opposition parties had declared before the election that they would not join with Smer and it was replaced by a four-party centre-right coalition.

In Czechia, the ‘centrist populist’ ANO party of billionaire Andrej Babis remained the largest party in the October 2021 general election but was replaced by a government of two pre-election coalitions, comprising three centre-right parties on the one hand, and a centrist and liberal party on the other.

Recently there have also been a string of defeats for authoritarian populists in the Balkans. North Macedonia’s rightwing leader Nikola Greuvski lost the 2016 general election and then fled to seek protection from Hungary’s Orban in 2018 when convicted of fraud.

Oligarch Vladimir Plahotniuc, who had ruled Moldova from behind the scenes, fled to Turkey in June 2019 after his centre-left Democratic Party lost the election.

In 2020, President Milo Djukanovic’s Democratic Party of Socialists of Montenegro was ousted at a general election by a ‘big tent’ combination of three wide pre-electoral coalitions ranging from the centre-left to the far right. His Democratic Party, which had ruled since 1990, remains the biggest party.

The victory of the Czech opposition coalitions last year in particular had appeared to show that when faced with a dominant authoritarian populist, the best strategy was to form a pre-election coalition.

Big coalitions were also built in Hungary and Serbia ahead of the general elections there on April 3. In Poland the opposition has also built two pre-election coalitions, of the centre-right and the broad left, in readiness for the November 2023 general election.

The stars appeared to be aligned for the EU’s only ‘hybrid democracy’ to return to being a full democracy. The Hungarian election was regarded as the opposition’s best chance since Orban returned to power in 2010, given his government’s mishandling of the COVID-19 pandemic, its corruption, his regime’s increasing isolation in Europe, and the looming cost of living crisis.

Though the hope of a majority faded during the campaign, the final result was still a shock. Fidesz won 1.1mn votes more than the opposition’s 1.7mn, which was down a massive 800,000 votes compared with four years ago. The winning margin was 54% against 34.5%, which in Orban’s skewed system gave Fidesz 135 seats against the opposition’s 57, which was down from 64 four years ago.

Compared to that disaster, the Serbian election was at least an improvement, given that the opposition had refused to even stand last time around. While the broad 10-party United Serbia (UZPS) coalition’s share of the vote was just 13.6% compared to the 42.9% won by President Aleksandar Vucic’s Serbian Progressive Party (SNS), for the first time in years the SPS did not achieve an outright majority.

Breadth vs depth

So what went wrong in the Hungarian and Serbian elections and what lessons should democrats draw from them? The two fundamental issues facing pre-election coalitions are how broad and how deep they should be, with one dimension usually inversely related to the other.

Firstly on breadth, this will usually depend on how dominant the authoritarian leader it opposes is, and whether there are any strong parties or leaders among the democratic opposition. The more dominant the ruler is and the weaker the opposition, the more likely the latter is to form a broad coalition.
In the successful Czech case, as well as in the upcoming elections in Poland and Slovenia, opposition parties have chosen to form ideologically close coalitions, while in Hungary, Serbia and Montenegro it formed broad ‘catch-all’ formations.

In some countries of course, one of the opposition parties is anyway so much larger that smaller parties are reluctant to join with it – fearing that they will be swamped – or its leader is seen as too divisive.

This seems to be the case in Poland, where some opposition parties fear that a broad coalition would be dominated by former premier Donald Tusk’s centre-right Civic Platform party, and that this would mark a return to the kind of neoliberal politics that arguably laid the foundations for the populist takeover by Jaroslaw Kaczyński’s Law and Justice party.

But against a dominant authoritarian figure such as Orban, Vucic or Djukanovic it is a great temptation to form as wide a pre-election coalition as possible to maximise the potential support and prevent any votes being lost by threshold requirements. The inevitable problem, however, is that the individual parties lose their core identity and voters can be put off by the grouping’s incoherence.

 ―The problem is that electorates aren’t pieces on a chessboard that you can move around," Alex Szczerbiak, professor of political science at Sussex University in the UK, told bne IntelliNews last year in an interview about the Polish election scene. “The electorates that comprise the opposition are quite heterogeneous and, as a whole, they would likely prove less than sum of the parts. There are people who would vote for the opposition parties they like but would not vote for the opposition as a single group,” Szczerbiak added.

In Hungary, political analysts estimate that some 300,000-400,000 voters who chose leftwing parties in 2018 did not vote or voted for Fidesz, scared off by opposition prime minister candidate Peter-Marki Zay’s communication style and his rightwing policies.

The other half of the voters deserted from the rightwing Jobbik party, the strongest opposition party in 2018, mainly to the far-right Our Homeland Movement, which entered parliament for the first time. Jobbik voters rejected its more centrist direction and its cooperation with liberal and leftwing parties.

As well as losing former voters, coalition leader Marki-Zay’s attempt to attract former voters of the ruling party failed as there is no bridge between the two blocks due to the deep ideological rifts in a polarised society, analysts say.

By contrast, in the narrower Czech SPOLU coalition, ODS leader Petr Fiala’s decision to wrap his rightwing party’s still rather tarnished brand in the new coalition packaging immediately gave it the weight of a real alternative to Babis’ dominant personal vehicle, the ANO party, and positioned Fiala himself as a potential premier.

In Slovakia in 1998 the defeat of rightwing authoritarian Vladimir Meciar had been a similar story, with centre-right parties forming a pre-election coalition that came a narrow second and was then able to form a broad government to oust the HZDS leader.

Synergy effect

Secondly, in terms of coalition depth, this will often depend not just on the breadth, but also on the electoral system and the campaign dynamics. A broad coalition will struggle to agree all but the most basic manifesto, while a more majoritarian election system and a campaign focused on one-to-one TV duels will favour a deeper agreement on a common programme, party list and leader.

The Czech SPOLU centre-right coalition is a textbook example of deep co-operation. It was able to agree regional party lists and a coherent programme in a relatively painless way because of the three parties’ ideological closeness and the fact that the ODS was no longer a dominant force. At the same time ODS leader Fiala was a low-key, unthreatening figure to his coalition partners, but also one who grew in stature when he was put forward as the head of the coalition in TV duels with Babis.

Unity of the coalition has a synergy effect as it shows voters that the parties should be able to cooperate in government. SPOLU is now discussing staying together for this autumn’s regional elections and beyond, though this will be much more challenging, given the different dynamics in each region.

In Serbia and Montenegro the pre-election coalition deals were shallower affairs, given the range of the parties involved and their fissiparous nature. In this month’s election in Slovenia the leftwing KUL coalition is also loose, without a single leader.

But Hungary is an example of a broad coalition that was both deep in ambition while remaining shallow in practice.

Despite the breadth of the democratic coalition, it did make perfect sense to form one nationwide party list and to choose single candidates for constituencies and the premier for the first time, given the way Orban has made the electoral system
Opposition parties held historic primaries to field a single candidate in all individual districts and chose Marki-Zay (branded MZP) as their PM candidate, which created big momentum ahead of the election.

However, the breadth of the coalition meant that immediately after the primaries the parties descended into several months of infighting over the programme and the party list rankings, during which all this momentum was lost.

“A broad but shallow coalition was not a good idea,” Professor Zsolt Enyedi of CEU told a webinar of the university’s Democracy Institute on April 5, adding that anyway “in Hungary you need a miracle for the opposition to win an election”.

Deep coalitions need to look united and have a leader who can unite, otherwise voters can see right through them. Hungarian voters were far from convinced by the opposition’s display of unity.

“It was insufficient,” Peter Kreko, director of Hungarian think tank Political Capital, told a DGAP webinar on April 5. “There is a need for much more substantial cooperation.”

MZP as scapegoat
Marki-Zay’s victory in the primary accentuated these problems because he was a political outsider who criticised the old coalition parties and was in turn cold shouldered by them. He was left to campaign largely by himself, with little connect with the campaigns being run by the individual coalition parties.

“MZP was part of the trend against party elites, an outsider,” says Nic. “It did not contribute to a united opposition. It was not a convincing act at the end.”

Since the election, the coalition parties have tried to scapegoat him for their own failures.

He was a talented communicator but he was too inexperienced for an environment in which even half-gaffes – such as agreeing during an interview that he would send Hungarian troops to Ukraine if Nato asked – were trumpeted by Fidesz’s media machine.

Nor was he able to build up much of a personal standing because Orban refused to debate with him, and state TV only gave him five minutes’ airtime during the whole period since he won the primary in October 2021. “The opposition could not overcome that they don’t have a megaphone,” says Nic. “They are cut off from the voters.”

Another problem of shallow coalitions is that they often focus solely on removing the incumbent populist leader, adding to polarisation in society, and allowing him to dominate the campaign.

Both Orban and Vucic were able to set the agenda, painting the opposition as a grave danger. They should have been on the defensive over the Ukraine war because of their friendship with Russian President Vladimir Putin, but they were able to turn this around, promising their voters that they would keep them out of the conflict. Vucic switched his presidential campaign message to “Peace. Stability. Vucic.”

To win, the coalition needs to have a positive message of its own, a simple one, typically focussed on bread and butter issues that ordinary people in the regions can grasp.

In Czechia, the opposition did not just campaign against Babis as a billionaire who was degrading the country’s democracy, but very early on it seized on the cost of living crisis, which appealed to all voters, including poorer ones. SPOLU made a strong effort to campaign right across the country, even knocking on doors, a rare practice in post-communist societies where under the former regime that often meant bad news.

In Serbia the opposition, though boosted by anger over environmental issues, had a weaker positive message of its own, especially for SNS voters in its heartland rural areas.

In Hungary, the campaign was relentlessly against the Orban regime’s corruption and its isolation in Europe, topics that had only limited purchase outside Budapest.

This is crucial as in both Serbia and Hungary the opposition tends to be strongest in urban areas and has failed to make inroads into the countryside, where voters have little exposure to opposition media. To do that, parties need to build grassroots organisations and campaign there all the year round.

Populist comebacks
Deeper co-operation between opposition parties, a positive and relevant message, and focusing on year-round campaigning across the country are not just vital for winning but also for staying in power – populist authoritarians don’t tend to give up and will try to make a comeback using the party machines they control.

Kaczynski, Orban and Slovenia’s Prime Minister Janez Jansa have already made successful comebacks, as have Slovakia’s Fico and Meciar in the past. Montenegro’s Djukanovic still poses a significant challenge as president and Czechia’s Babis is likely to run for the presidency next January, which would put him in a strong position to destabilise the government. The cost of living crisis and perhaps even refugee fatigue could play to populist strengths.

Opposition coalitions will make a populist revival much more likely if they fall apart in office, as the Hungarian, Slovak and Slovenian democrats have in the past, and as the Slovak government often seem on the verge of doing today. The broad Montenegrin coalition has already become virtually dysfunctional.
But they are the lucky ones, at least being in power. For the Hungarian and Serbian opposition there is little to look forward to as the regimes they are fighting against will now continue to entrench their positions.

“Once a ruling party has consolidated its hold on the state – on every level – it becomes increasingly difficult for any other political force to confront them,” Heather Grabbe, director of the Open Society Policy Institute, told bne IntelliNews in an interview.

In Serbia, political experts are not optimistic that the coalition will stay together.

“For the opposition, retaining unity will be a challenge. Given multiple internal tensions, the main opposition alliance UZPS could splinter. The opposition will also need to adjust to political life back inside parliament, where the SNS will use its control of parliamentary procedure to frustrate the opposition,” said an analyst note from consultancy Teneo published after the election.

In Hungary, the opposition already looks demoralised. Marki-Zay has decided to not take up his deputy’s seat, and he has even questioned whether democratic change is possible any more.

“Apparently this model cannot be changed in a democratic way. If there is a lying propaganda machine and 12 years of brainwashing it’s impossible to defeat Orban on his own field”, he said in his concession speech.

Political experts now expect the opposition coalition to collapse.

“[In Poland and Hungary] the coalitions are much more diverse,” Petr Just of the Metropolitan University in Prague told a Kafkadesk.org podcast on March 29 before the Hungarian election. “Their internal diversity sooner or later will lead to some disintegration of these alliances,” he said, adding: “I don’t see much long-term perspective.”

“The [Hungarian] opposition will likely collapse completely,” Political Capital said in a note after the election. “They have already started searching for who to blame, deflecting blame from themselves, but nobody can avoid facing the consequences of their actions in this case.”

Clare Nuttall in Glasgow and Wojciech Kosci in Warsaw also contributed to this blog.

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VISEGRAD BLOG

Victorious at home, Orban faces deeper isolation abroad

Robert Anderson in Prague

Viktor Orban is master of all he surveys in Hungary after his landslide election victory on Sunday, 3 April, but he is becoming more and more isolated within the EU – and is likely to remain so. This is shrinking his diplomatic influence and could even start to constrain his autocratic rule at home, foreign policy experts have told bne IntelliNews.

In his vainglorious speech on Sunday Orban said: “We won a victory so big that you can see it from the moon, and you can certainly see it from Brussels”. He also included “Brussels bureaucrats” in the long list of enemies who had tried to obstruct his victory, and said his brand of politics was “our common European future”.

This speech indicates that he is unlikely to use his crushing of the domestic opposition to forge a compromise with Brussels, but will rather continue to lead a radical right-wing crusade against the Berlaymont monster.

Populist leaders have indeed rushed to applaud Orban after his win. “Orban’s victory will boost all manner of anti-elite, populist parties in Europe,” Professor Sean Hanley of UCL told bne IntelliNews in an interview.

“He is not ready to do any major compromise,” Professor Zsolt Enyedi of CEU told a webinar of the university’s Democracy Institute on April 4. “He thinks he represents the future. He doesn’t want to show any weakness.”

“Orban is not going to become more moderate domestically or in EU policies such as towards Russia,” Roland Freudenstein, vice-president of Slovak foreign affairs think-tank Globsec, told a webinar of the German Council of Foreign Relations (DGAP) on April 5. “Rather we will see a radicalisation as he feels he has been hugely corroborated by the election result.”

Nor does Orban look prepared to end his close alliance with
the Russian leader, Vladimir Putin, which has deepened his isolation within the EU – though he may try to create some distance between them in the short term purely for PR purposes.

In his victory speech he did not even mention the Russia-Ukraine conflict among the future challenges he faces, Peter Kreko, director of Hungarian think-tank Political Capital, told the DGAP webinar. He predicts that Orban will try to stay on the fence over the Ukraine war in the hope that the EU’s relations with Putin will quickly return to normal after a peace deal.

“He deeply believes in the decline of the West,” Kreko said. “So he will keep betting on authoritarian regimes in the East.”

Orban’s refusal to send arms to Ukraine and his opposition to energy sanctions on Moscow has already broken apart the Central European Visegrad Group (V4).

Up until now, against a more combative European Commission, and lacking the protection of any of the European parliamentary groups, Hungary could often count on the support of the V4.

But changes of government in Prague and Bratislava over the past couple of years have divided the V4 group between authoritarians and democrats, and now Putin’s invasion of Ukraine has even separated Budapest from Warsaw.

“The Visegrad Group is dead and will probably not easily be revived,” Professor Wojciech Sadurski told a webinar at Princeton University on April 4. “The fall-out from Ukraine will last for many years.”

Orban’s isolation was embarrassingly clear in the tone of the congratulations on his victory from EU countries compared to that from fellow authoritarian populists such as Italy’s Matteo Salvini, France’s Marine Le Pen and Putin himself.

Not backing down
If Orban is staying put, the EU is unlikely to back down on his violations of EU values, and his alliance with Putin is likely to continue to put the frayed relationship under strain.

The EU Commission has always struggled to deal with the way Orban has gradually hollowed out Hungarian democracy, using EU funds to bolster his regime and grant patronage to friendly oligarchs, while at the same time attacking the EU as a bogeyman.

“He is a free rider,” Heather Grabbe, director of the Open Society Policy Institute, told bne IntelliNews in an interview. “He has pushed the boundaries of acceptable behaviour while attacking the EU and demonising the EU for electoral gain.”

Because of Hungary’s failure to prosecute rampant corruption, the EU is currently withholding €5.9bn of Recovery Funds, which the bloc is distributing to boost recovery from the coronavirus (COVID-19) pandemic. On April 5 it also triggered the new conditionality mechanism to punish violations of the rule of law, having hesitated to do so before the election to avoid being accused of interference in the campaign.

“EU institutions are not going to back down suddenly,” Freudenstein told the DGAP webinar. “There will be continual pushback.”

“There are political reasons to take time to give Hungary the recovery fund money,” Milan Nic, senior fellow at DGAP, told bne IntelliNews in an interview. “[Hungary’s stance on Russia] will make it more difficult for EU net payers to approve it.”

But at the same time, the EU needs to keep Orban on board during the Ukraine conflict to maintain pressure on Putin.

Some EU leaders, notably President Emmanuel Macron of France, may be prepared to do a deal with Orban in order to enable the EU to pursue a united foreign policy, argued Professor Jan-Werner Muller in the Princeton webinar. “Orban has lost Central Europe. But it might not matter if Western European leaders go soft on Hungary or have too much on their plates to get involved,” he said.

“The EU will wait,” Pavlina Janebova, research director of the Czech foreign affairs think-tank AMO, told bne IntelliNews. “It can’t really afford to antagonise Orban in case he will block further sanctions on Russia.”

Wedge politics
There has been speculation that the EU could try to prise apart Poland and Hungary by reaching a compromise with Warsaw, which is enjoying a much improved reputation because of its frontline role in confronting Putin and hosting Ukrainian refugees. In Poland it is regularly reported that Warsaw is about to receive its delayed Recovery Fund money.
If Warsaw could be bought off, it would allow for much tougher action against Hungary, as it would mean that Budapest could not rely on Poland vetoing any attempt to use the Article 7 procedure to suspend its voting rights.

However attractive this strategy might look, the execution looks problematic. Hardline member states such as the Netherlands are not about to give Poland a free pass on the rule of law conditions—which it has failed to meet—just because Polish NGOs are doing a wonderful job handling the huge tide of Ukrainian refugees that have crossed the border.

“As the Ukraine conflict drags on, the problems that Poland has been having with the rule of law won’t be forgotten,” says Janebova.

“There are quite a number of member states who say the conditions have not been met. It would trash our reputation to give money at this point,” says Grabbe, who also points out that there would still be the unsolved problem of Polish legal decisions being challenged in other EU courts because of the rule of law violations.

She argues that a short-term decision made to keep unity on sanctions would also store up long-term problems. “EU conditionality will have no credibility. It will be a green light for other governments to syphon off money, creating a moral hazard,” she says.

It could also send the wrong signal to countries applying for membership. “It is already giving ambiguous signal to countries on the way to the EU,” said Muller.

Moreover, Warsaw is also unlikely to completely abandon Orban. Jaroslaw Kaczynski, head of the Law and Justice Party and the country’s de facto leader, will not want to leave himself vulnerable to punishment by Brussels, though relations with Budapest are unlikely to return to their former warmth, at least while Putin’s atrocities remain fresh in the memory.

“Law and Justice may make a rational calculation and realise they need Orban,” says Janebova.

“The bromance is not entirely over,” agrees Freudenstein, pointing out that Orban and Kaczynski have had an agreement since 2016 to “agree to disagree” on Russia.

Orban’s bubble

Nevertheless, because he can no longer use the V4 as his megaphone, Orban seems to be shifting more and more of his attention to the Western Balkans, where Hungarian businesses close to his regime have been building up their presence for some time, particularly in the media sector.

The democratic backsliding of Hungary and Poland has made EU member states even more reluctant to allow the accession of flawed Western Balkan democracies, and this has ironically created an opening for authoritarian governments such as Hungary and Russia.

Orban’s new best friend is President Aleksandar Vucic of Serbia, another close ally of Putin, who also won re-election at the weekend. This raises the danger that they will combine, together with Russia, to create mischief in the region, particularly in Bosnia.

Orban is also likely to pursue stronger relations with Chinese President Xi Jinping while Putin remains too hot to handle. Orban has already blocked attempts in the European Council to criticise Beijing for human rights abuses.

“He realises he could lose EU funds. He is looking for other partners. His whole system depends on channelling public funds into private hands,” Professor Kim Scheppele told the Princeton webinar.

All in all, therefore, Orban looks like he will become more, not less detached from the EU after his victory.

“The long term I’m really worried by Hungary. It’s in a bubble. It’s moving in a very different way from the rest of the EU”
The recent sanctions against Russia catalysed a sudden fall of the ruble from RUB81 to the dollar to RUB150. But between March 7 and April 3, 2022, the ruble miraculously recovered to RUB85 to the dollar. What happened?

Very simply: Russia declared that from April 1, gas deliveries to “unfriendly” countries must be paid in rubles or gold. The Russian central bank also agreed to buy gold at RUB5,000 per gram, effectively linking the ruble to both gold and oil.

The Russians were able to strengthen their currency by (a) increasing demand for rubles (e.g. gas importers had to buy rubles to buy gas) and (b) tying it to gold. Russia just announced that this will be the prototype for other commodities in future (e.g. wheat, fertiliser, etc). Terms of trade also shifted massively to Russia’s advantage, (i.e. the prices of energy and food-related commodities, Russia’s main exports, soared).

In this financial war, each side played to its strength – the US to its control of the US dollar payment system, the Russians to their strength in energy (being the world’s largest gas exporter and third largest oil exporter).

Zoltan Pozsar, a well-known Credit Suisse analyst and former US Treasury official, stated that we are entering a new monetary order, which he calls Bretton Woods III: “Commodities are real resources … and resource inequality cannot be addressed by QE…you can print money, but not oil to heat or wheat to eat.”

For Pozsar, Bretton Woods I was the post-World War II agreement that established a gold-backed US dollar as global reserve currency. Bretton Woods II began in 1971 when Nixon “temporarily” suspended the gold backing of the US dollar.

“We are [now] witnessing the birth of Bretton Woods III – a new world (monetary) order centred on commodity-based currencies in the East that will probably weaken the Eurodollar system and contribute to inflationary forces in the West…It used to be as simple as ‘our currency, your problem.’ Now it’s ‘our commodity, your problem’.”

Pozsar believes that the Bretton Woods III era will be characterised by higher inflation and higher interest rates. Governments will substitute foreign currency reserves for commodity reserves. Demand for dollars will be lower, as fewer dollars will be held in reserves, and more trade will be done in other currencies.

The two charts below illustrate the decline in past years in the use of US dollar, both as a share of global reserve currencies and its share as currency used in international trade:

According to a very recent IMF working paper, “The Stealth Erosion of Dollar Dominance”, “the reserve managers have moved out of dollars in two directions, with one quarter headed into the renminbi and three quarters into currencies of smaller countries that have traditionally played a limited role as reserve assets.”

There is a fear that the seizure of Russian reserve assets may accelerate the trend.

According to Pozsar, “When this crisis (and war) is over, the US dollar should be much weaker and, on the flipside, the renminbi much stronger, backed by a basket of commodities.”

In my opinion, the Chinese are much more natural allies with Russia in this form of monetary/commodity warfare than allies in the military sense. You may recall that in February, 2022, Russian President Vladimir Putin and Chinese President Xi Jinping signed a joint statement calling for a new world order. The Chinese have made no secret of their desire to carve out a global role for the yuan.

If Bretton Woods III were to emerge over time, it would undermine the exorbitant privilege of the US dollar’s current status as the world’s reserve currency. Furthermore, if Pozsar is right, the deflationary impulse of Bretton Woods II (globalisation, free trade, etc.) will turn into an inflationary impulse (autarky, duplication of supply chains, etc.).

The global monetary order is going to change and become based on commodities as a reserve, not the dollar. But it is going to take a long time to happen.
Ukraine’s economy to contract by 35% in 2022 – IIF

Ukraine’s economy will contract by 35% this year as a result of the war with Russia, the Institute of International Finance (IIF) said in a note released on April 13.

“We expect Ukrainian real GDP to contract by more than 35% in 2022 under the assumption that the conflict will largely remain contained to the east of the country in 2022H2,” said Elina Ribakova, deputy chief economist with IIF, and economist Benjamin Hilgenstock in a paper. “As a result of the severe drop in economic activity as well as war-related tax cuts and additional expenditures for the military campaign, we expect government revenue to fall by roughly 50%, resulting in a fiscal gap of $3-10bn per month. Thus the international community’s commitments of $6bn to date will certainly fall short.”

Czechia’s inflation in March up to its highest level in past 25 years

Czechia’s inflation rate accelerated to its highest level since May 1998, up to 12.7% year-on-year in March from 11.1% recorded in February, the Czech Statistics Office (CSO) reported. The inflation growth was driven mainly by energy prices.

“This deviation was due significantly to all inflation components except taxes. A massive increase in fuel prices had the largest effect. Growth in food prices, administered prices and core inflation was also well above the forecast,” the Czech National Bank’s (CNB) Petr Kral, Executive Director, Monetary Department, said.

Russia’s CBR chief Nabilullina soft-lands ruble and cuts key rate to 17%

The Central Bank of Russia (CBR) made a surprise key interest rate cut from 20% to 17% on April 8, although the policy board meeting was not scheduled until April 29, as the regulator soft-landed the Russian ruble to the levels at which it traded before the military invasion of Ukraine.

The ruble is trading at pre-invasion levels, which is of extreme importance, as the ruble to the US dollar remains the most closely watched economic indicator by ordinary Russians at home. On the outside, a stable ruble rate helps project invincibility amid Western sanctions.

Albania experienced steepest population decline in two decades in 2021

Albania experienced its steepest population decline in two decades in 2021, when the population fell by 1.3% during the year. The population stood at 2,793,592 on January 1, 2022, down by 1.3% compared to January 1, 2021, while the natural increase [births minus deaths] turned negative for the first time, standing at -3,296, Instat said.

Albania continued to see mass emigration, with 42,048 people leaving the country during the year against just 9,195 immigrants. That left Albania with net migration of -32,853, compared with -16,684 in 2020, when mobility was impeded by the coronavirus [COVID-19] pandemic.
Inflation sleuths say Turkey now just a touch short of 150%

Akin Nazli in Belgrade

Turkey’s official consumer price index (CPI) inflation recorded 61% y/y in March following on from 54% y/y in February, the Turkish Statistical Institute (TÜIK, or TurkStat) said on April 4. Not since March 2002, when the indicator was recorded at 65%, has the CPI reading been higher.

At 61%, Turkey comes in a squeak behind Suriname in the global inflation league. Suriname posted annual inflation of 61.5% as of January, ranking it sixth worldwide.

The hunger and poverty rampant across Turkey as per usual hardly got a mention as the media went to work with their dry coverage of this Losers’ League of inflation, but, as is now traditional following the inflation data release, Istanbul’s independent inflation research group ENAG was quick to pop up to advise the scribes that they were crunching the wrong figures. The unofficial inflation readout from ENAG showed inflation of 143% y/y in March versus 124% y/y in February.

Unbelievable? Believe it. But even those who stick with the official 61% y/y cannot escape the ugly reality that the inflation rate now sits at least 47pp above the central bank’s policy rate of 14%. The rate determined by ENAG is 129pp above the benchmark.

In February, Turkey’s official producer price index (PPI) inflation entered three-digit territory for the first time since March 1995, when it was posted at 144% y/y.

The March 2022 figure for official PPI inflation was 115% y/y, up from 105% y/y February, TÜIK separately announced.

Following the March release for official CPI inflation, there was a sense that the market has thrown in the towel when it comes to anticipating where Turkey’s inflation reading might peak. Previously, the market assessed that a figure in the 60%s in May might provide the summit. Currently, god only knows.

Brent oil and commodity prices, in general, are still on a wild path. So far, the price fluctuations have been ascribed to speculative trading on the financial markets.

Despite the fluctuations, average commodity prices have boomed. The FAO food price index was record-breaking in February at 141, up 24% y/y.

As of April 4, Brent was up 60% y/y to $107 while the Bloomberg Commodity Index (BCOM) was higher by 48% y/y at 126. The USD/Turkish lira (TRY) pair was up 80% y/y to 14.7.

If the lira crashes again and commodity prices go totally off the rails, Turkey will sail through four-digit inflation.

On March 17, Turkey’s monetary policy committee (MPC) held the policy rate at 14% in line with market expectations.

On April 14, the MPC is scheduled to hold its next rates meeting. Currently, the market expectation is that it will again hold the benchmark.

On May 5, TÜIK and ENAG will release their inflation figures for April.

Turkey’s monetary policy remains entirely inefficient. There is no foreign interest in Turkish papers.

Net lira creation via loans has gone beyond the pale again. As of March 29, lira loans grew by TRY 179bn ($12bn) compared to end-February, setting a new all-time high, leaving the TRY141bn seen in April 2020 behind.

The Erdogan regime treats Turkey like a guinea pig. In 2020, it pumped lira into the economy via consumer loans. Now it is pumping in lira via commercial loans. It will soon learn that pumping in lira via commercial loans will also end in tragedy.

Despite the eased monetary conditions, economic activity has not responded positively. And Turkey’s big export market, Europe, has also endured a slowdown since the beginning of 2022.

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