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The European Commission has criticised unilateral bans imposed on Ukrainian grain imports by Hungary, Poland and Slovakia.

“It is important to underline that trade policy is of EU exclusive competence and, therefore, unilateral actions are not acceptable,” a Commission spokesman told Reuters on April 16. “In such challenging times, it is crucial to coordinate and align all decisions within the EU,” the statement added.

Hungary joined Poland and Slovakia in introducing a temporary ban on the imports of cheap Ukrainian grain on April 15, after a growing glut pushed down prices and hurt local farmers.

Hungarian Agriculture Minister Istvan Nagy said in a written statement that the government has decided to “temporarily prohibit imports of grain, oil-bearing crops and some other agricultural products from Ukraine”. Nagy said that the ban was imposed as the food products were not being produced “to European standards”.

In response, Ukraine’s Ministry of Foreign Affairs said it was “deeply disappointed” with Hungary’s decision and that the ban “contradicts the principles of free trade and friendly relations between the two countries”. The ministry also urged Hungary to reconsider its decision and warned of “consequences” if it does not.

Hungary joins Poland and Slovakia, which have both also imposed temporary bans on the import of Ukraine’s grain in recent days for similar reasons. Bulgaria’s Agriculture Minister Yavor Gechev has said the country was also considering a ban on Ukrainian grain imports, local agency BTA reported on April 16.

Slovak authorities seized some imported wheat from Ukraine, making similar allegations as Hungary, saying “the
European agricultural ministers are now calling on Brussels to find “long-term” solutions to the problem of Ukrainian grain imports. Last month the Commission proposed giving farmers a total of €56.3mn to mitigate the fallout caused by an “excessive supply” of Ukrainian grain imports. However, farmers say this is not enough and in several countries they have been holding protests and blockading roads to demand more compensation and to halt the arrival of Ukrainian grain.

On April 14, six European countries called for a single European mechanism for purchases of Ukrainian grain and for imposing customs duties on Ukrainian agricultural products to prevent the market being flooded.

Hungary has banned not only grain but also oil-bearing crops as well as some other crops like honey, to protect its own producers. Nagy claimed that Ukraine uses agricultural technologies that are no longer permitted in the EU, which allows it to cut costs and flood European markets with large amounts of poultry, eggs and honey in addition to grain and oil-bearing crops.

The Hungarian ban will be in place until June 30, and Nagy expressed hope that the European Union will find a long-term solution to the issue while the ban is in place. He also expects the EU to ensure “fair” market conditions for European agriculture.

The grain bans highlight the longer term problems that Ukraine will face in its bid to join the EU. Ukraine and Moldova were granted EU membership status in June last year, but are facing a long vetting process before they can accede to the trade club. There is a lot of resistance to Ukraine's membership by Europe's agriculture lobby due to the vast size and low costs of its agriculture sector.

The same issue is behind the tiny duty-free quotas assigned to Ukraine as part of the Deep and Comprehensive Free Trade Area (DCFTA) it has with the EU. These are typically used up within the first few weeks of each year. The small quotas are a gesture to the growing cooperation between Ukraine and the EU, but their small size is a de facto protectionist measure to limit Ukraine’s competition with the EU’s agro-producers.
Hungary reaches new energy agreements in Moscow

Tamas Csonka in Budapest

Hungary signed new energy agreements in Moscow to ensure the uninterrupted supply of Russian gas and crude oil to Hungary and to amend the financing of the Paks nuclear power plant expansion, Minister of Foreign Affairs and Trade Peter Szijjarto said after talks in Moscow on April 11.

The new agreements once again fly in the face of efforts by other EU and Nato states to reduce their dependence on Russian energy and avoid direct contacts with Russian President Vladimir Putin’s regime.

Hungary’s top diplomat discussed the security of the TurkStream pipeline with Russian Deputy Prime Minister Alexander Novak, who is in charge of energy matters. Representatives of the finance ministry, energy ministry, Rosatom and Transneft also attended the talks.

Hungary receives Russian oil through the Druzhba (Friendship) pipeline, and gas through the TurkStream through Bulgaria and Serbia based on a 15-year agreement with Gazprom signed in late 2021. The agreement allows the annual shipment of 4.5 bcm of gas, but last year Hungary secured an additional 700 mcm. Last year, it imported 4.8 bcm of gas from Russia.

Szijjarto announced that an agreement was reached on extending an option for Hungary to buy gas over the volume stipulated in its long-term purchase contract, if necessary. He noted that 80-85% of Hungary’s gas comes from Russia and its continuous, uninterrupted delivery is of “critical importance”.

“Russia has always been a reliable supplier of energy resources, in the future we are also ready to provide reliable supplies to Hungary,” Novak said.

An agreement was also reached allowing Hungary to defer payments of its gas over a €150 price threshold in preparations for “extreme situations”, according to Szijjarto.

In spite of sanctions, the Russian side offered assurances that all technology, know-how and parts are at its disposal to ensure the maintenance of the TurkStream pipeline, through which Hungary gets most of its gas.

The parties agreed on the continued delivery of Russian crude to Hungary’s MOL through the Druzhba pipeline that runs through Ukraine. The Hungarian oil and gas company will negotiate direct transit fees with the Ukrainian operators of the pipeline, he added.

Hungary is one of the most dependent countries on Russian energy. The Orban government has come under criticism for not speeding up the process of reducing its dependence on Moscow.

“The Hungarian government is not willing to give up the security of the energy supply for any political reason,” Szijjarto said at an energy conference in Bosnia last month, adding that Budapest is counting on Russian gas for at least 5-8 more years.

While other European countries have successfully found alternatives to Russian gas supply, Hungary is planning to build three combined cycle gas turbines (CCGT) in a couple of years with a total capacity of up to 1,650 MW to meet the energy needs of new industrial facilities.

An agreement has been reached to amend the contract for the construction and financing of the Paks 2 expansion, Szijjarto said, adding that the two new 1,200 MW blocks should be built as quickly as possible.

“We have been through a long negotiation, but today we have agreed on all the necessary issues that will guarantee that the investment could go ahead”, he added.

“We hope that the European Commission does not wish to jeopardise the long-term security of Hungary’s energy supply, which can be guaranteed by the construction of the new blocks at Paks,” he added.

The Russian nuclear sector has been spared from EU sanctions, but Poland and Lithuania are pushing to impose sanctions on the country’s nuclear energy industry as part of the 11th round of sanctions. Hungary relies on Russia supply of fuel rods and wants exemptions. It has openly acknowledged that the government is considering an €12.5bn Russian-funded expansion of the country’s sole nuclear facility.
Air Astana booms as Moscow loses Europe-Asia flight hub status

Air Astana is based out of Almaty Airport, located around 15km from Kazakh commercial capital Almaty and 430km from the Chinese border. / Nikolay Ustinov Almaty Spotting Club public domain

Kazakhstan’s flagship airline Air Astana has plans to take full advantage of Moscow losing its status as a hub for flights between Europe and Asia. The carrier has also been buoyed by the post-pandemic reopening of China.

“Prior to the start of the war in Ukraine, a lot of traffic in general, going in the western direction, whether that was to Europe or to the US, was travelling from this region via the Russian Federation,” Air Astana chief executive Peter Foster was on March 29 quoted as saying by Reuters in an interview.

“Obviously,” he added, “that is no longer the case. And so what has happened is there has been a shift of gravity and we are extremely well placed to take advantage of that shift.”

Foster also discussed how Air Astana – 51%-owned by Kazakhstan’s sovereign wealth fund and part-owned by BAE Systems – was looking at “very big opportunities in China, as China has opened again, following Covid”. He also noted that “India is doing well... Pakistan is a growth market.”

Air Astana has plans to in 2024 move ahead with its delayed initial public offering (IPO).

Many global airlines stopped flights to Russia following its invasion of Ukraine 13 months ago, wrecking Moscow’s air hub status at a stroke.

Air Astana – based at Almaty Airport outside Kazakhstan’s commercial capital Almaty rather than at the international airport in the political capital Astana – aims to increase its fleet to 50 aircraft by the end of this year, from its current 44 planes.

The company also plans to accelerate expansion plans for China, India and Pakistan in coming years with the ordering of additional Airbus 320 family aircraft and the obtaining of Boeing 787 Dreamliners, expected to become part of Air Astana’s own fleet in 2025. The airline currently leases Dreamliners.

Air Astana posted a record after-tax profit of $78.4m last year, up 115% y/y and achieved despite the airline ceasing its own flights to Russia. In 2022, Air Astana also generated $1.03bn in revenue and carried 7.35mn passengers.

Releasing the financials in late February, CEO Foster observed that FlyArystan, Air Astana’s low-cost carrier, had grown by 366% since its launch year of 2019. “It has a great future, as this region probably has the fastest growing low-cost air travel market in the world today,” said Foster.

“Air Astana posted a record after-tax profit of $78.4m last year, up 115% y/y and achieved despite the airline ceasing its own flights to Russia”

In April 2021, Turkey’s TAV Airports, a member of Paris-based Groupe ADP, and Kazakhstan Infrastructure Fund (KIF) completed their buyout of Almaty Airport, with TAV taking a stake of 85% and KIF managed by VPE Capital and backed by Kazyna Capital Management (KCM), receiving the remaining 15%. They set out plans to double the capacity of the airport with a $200mn investment.

The completion of the buyout was the first step in a $655mn infrastructure project to feature the construction of a new international terminal, the modernisation of the domestic terminal and the adoption of the International Air Transport Association’s (IATA’s) Optimum Level of Service standards across the facility.●
Russia’s parallel imports hindered by Central Asia bottleneck

When the flow of Western goods to Russia was choked in the wake of the Ukraine invasion, attention turned to Central Asia.

In part by funnelling goods through Kazakhstan and Kyrgyzstan, Russia managed to bring in $20bn worth of goods between March and December 2022, Kommersant business daily reported on April 10. Other countries relied upon for this parallel import strategy include Armenia, Belarus, Georgia and Uzbekistan.

Industry insiders are warning, however, that there is a ceiling to capacity for this arrangement because the nations that are most heavily used for parallel imports are suffering from a chronic shortage of warehouse space.

Demand for foreign-sited warehouses from Russian logistics companies and retailers has doubled since last spring, around the time when Moscow embarked on its invasion of Ukraine, according to analysts cited by Kommersant. Real estate consulting company NF Group said Russian companies looked for almost 400,000 square metres of warehouse space over that period. But the space is simply not there.

A shortfall of skilled logistics facilities developers across the Commonwealth of Independent States means fixing this problem will not be easy. Russian companies are said to be able and willing to take up the challenge, but then there is the lack of suitable, ready-to-go construction sites to worry about.

Armenia, Georgia, Kazakhstan, Kyrgyzstan and Tajikistan are said by analysts to have no vacant sites. Uzbekistan has some marginal capacity to offer newcomers.

Kommersant cited NF Group as saying that the demand for fresh warehouse capacity in the CIS is coming from online retailers and logistics operators. According to Alexander Perfiliev, commercial director at Ghelamco, a logistics park developer, fully 80% of requests are coming from two companies alone: Wildberries and Ozon.

Wildberries is focusing considerable energy on Kazakhstan. In February, the mayor of Almaty, Yerbolat Dosayev, met with Wildberries founder Tatyana Bakalchuk to discuss plans for building a $100mn logistics facility in the city. Bakalchuk talked up this investment as an opportunity for Kazakh producers to sell more of their goods abroad, but the real prize may lie, for as long as Russia is trapped in a state of diplomatic and economic isolation from the West, in the re-export market.

The road has been far from straightforward for Wildberries, though.

In December, Trade and Integration Minister Serik Zhumangarin travelled to Moscow to meet with Bakalchuk to discuss a number of options. One was to set up a cross-border hub in Khorgos, a giant trade zone on the border with China.

“...A shortfall of skilled logistics facilities developers across the Commonwealth of Independent States means fixing this problem will not be easy”

Contrary to what analysts told Kommersant, Zhumangarin seemed to suggest this location did in fact have free areas for building new warehouses.

Another idea pushed by the Kazakh government was to create a cross-border trade centre dubbed Eurasia in the West Kazakhstan region, which shares a long border with southern Russia. Zhumangarin said the centre could capitalise on continent-straddling transport corridors running north-south and west-east.

But it does not sound like Wildberries is especially interested in all this lofty talk. It just needs to solve a pressing business problem and wants to do so without incurring too much financial pain. This strong pragmatism may be ruffling some feathers in Astana.
Only a few days after Zhumangarin returned from Moscow, Deputy Foreign Minister Almas Aidarov complained that Wildberries had laid out what he considered to be unreasonable conditions for coming to Kazakhstan and investing in the construction of warehouses.

“During our very first negotiations, Wildberries demanded exemption from taxes for a period of 30 years, as well as assistance in constructing warehouses,” Aidarov said. “Naturally, we have not agreed to such conditions.”

It is not known, meanwhile, what kinds of terms Dosayev, the Almaty mayor, discussed with the company.

Ozon has had a more fruitful time of things.

The company announced in March that it had completed construction of a 38,000-square-metre fulfilment centre in Astana. Facilities of this kind, modelled after the fashion of US e-commerce titan Amazon, are used to both store goods and handle their delivery to customers.

Ozon says this hub will be able to store nine million items, anything from food and electronic goods to building materials, and process 260,000 orders daily. Delivery times to buyers in Russia are being slashed as a result, Ozon said. The facility is due to start work this month.

Ukraine seizes assets of billionaire Novynskyi’s Smart Holding

Ben Aris in Berlin

The authorities have seized the assets of leading Ukrainian conglomerate Smart Holding, changed the name of the beneficial owner of shares in the registrar and taken control of its gas fields that supply gas directly to the embattled city of Kharkiv amongst other customers in what management told bne IntelliNews is probably a corporate raid.

The company was raided by law enforcement officers on April 10, two hours after it refused a buyout offer for “next to nothing”, Smart Holdings CEO Yulia Kiryanova told bne IntelliNews in an exclusive interview.

Ukraine’s security services have said they seized UAH3.5bn ($96mn) of assets, including deeds to 40 companies and three gas wells. “The property of pro-Russian oligarch Vadym Novynskyi, who is involved in aiding the aggressor country, was seized,” the Security Service of Ukraine (SBU) said in a statement.

Smart Holding is the holding of top-ten Ukrainian billionaire businessman Vadym Novynskyi, who is worth $1.4bn, has been accused of “aiding” Russia and was sanctioned by the government last year. The SBU did not specify how Novynskyi has been aiding Russia, nor elaborate on the claim to the company’s management.

“We received a call from an interested party who told me ‘we need to do a deal on sale of gas business quickly,’ and said our offices were about to be raided. Two hours later the police officers arrived and searched out offices,” Kiryanova said.

Novynskyi transferred control in all his companies to trustees last year to allow him to devote himself full time to the Ukrainian Orthodox Church (UOC), where he was made a deacon in 2020, and is reported to have left the country. Kiryanova believes the raid and criminal charges levelled against Novynskyi are due to his association with the church.

Amongst Novynskyi’s holding is a minority stake in Metinvest, owner of the Azovstal metallurgical works in Mariupol that was worth billions of dollars but was completely destroyed during a months-long Russian siege of the city last year.

Smart Holding has seen almost all of its Ukrainian businesses either damaged, destroyed or brought to a standstill by the war. Management told bne IntelliNews that many of the domestic businesses are now loss-making, yet it continues to keep its staff on the payroll so they have some income to survive while the war rages.
Earlier Novynskyi claimed that he was being “persecuted on religious grounds.”

Kiryanova said the raid on the company on April 10 was “baseless” and claimed it is a corporate raid by an unnamed business rival supported by senior officials.

Criminal investigation
A criminal investigation has been opened into the Smart Holdings that gives the authorities wide powers to seize assets, confiscate documents and computers and makes it impossible to operate.

In addition to metal, Smart Holdings is a major player in Ukraine’s domestic gas production business but has been forced to shut down one field near Kharkiv that directly pipes gas to the city.

“We shut down operations on Thursday, as the general director could have been arrested. We don’t sell gas directly to the city – we sell it on the market – but our field is closest and directly piped gas to the city, which has been under constant Russian bombardment,” says Kiryanova. “Throughout the war despite the danger our staff has continued to work, supplying gas to the city.”

In December last year the government formally sanctioned the reclusive Novynskyi on the grounds of “aiding an aggressor state” based on his religious affiliation with Ukrainian Orthodox Church.

Under the Ukrainian law there is only one ground for sanctioning a citizen and that is for financing of terrorism, which has to be proved in a court of law.

“Sanctions mean you have to have committed some terrible crime: terrorism,” says Kiryanova. “However, ten months of investigation there has been no trial, no verdict. But now our assets have been arrested on the basis of this charge. Now the assets are being stripped. What needs to happen is to go to court if they think something wrong has been done.”

Register changed
The company’s assets can be seized thanks to the sanctions on Novynskyi, whose name has been returned to the Ministry of Justice’s register of legal entities.

The ownership to of Novynskyi’s shares in the group were transferred to trusts last year and legally registered, but Kiryanova says the trustees have been deleted from the register and Novynskyi returned as the ultimate beneficiary owner of the gas company Ukrgazvydobutok, or UGV, that is a rude violation of Ukrainian laws.

“The Ministry of Justice just opened their own ledgers and added his name,” says Kiryanova. The change of ownership is important, as under Ukrainian law (#2805) the subsoil licenses can be suspended if a company belongs to a sanctioned individual.

However, one of the two gas companies currently under state control is Enwell Energy, which is listed on London’s Alternative Investment Market (AIM), and circa 18% of its shares are owned by international hedge funds and other investors. The trustees are still listed as the owners in London. The authorities have given Enwell Energy one month to “fix the problem,” says Kiryanova.

“If you have a problem with the trusts then you need to challenge the trust itself in court, but trustees are all EU licensed lawyers and the trusts were accepted by the Ministry of Justice when they were registered last year”

Ministry of Justice when they were registered last year,” says Kiryanova. “If that is the case, then that is a matter for the civil courts, but we are facing a criminal investigation claiming Cypriot trustees being Russia’s agents acting in its favour. That’s mind-blowing.”

The criminal charges have brought the business to a halt. If the dispute was a civil case, then the company could continue to operate, but in a criminal investigation, the company’s banks would refuse to work with it, effectively freezing operations.

Gas business in the crosshairs
The criminal case against Novynskyi has been brought on the vague charges of “aiding the aggressor”, but the raid of Smart Holding’s offices on April 10 were very specific.

“They took all the detailed information about our gas fields; propriety geological information detailing all quirks and idiosyncrasies of the gas fields – big volumes of technical information,” says Kiryanova. “If they are investigating how Novynskyi was aiding Russia then why do their need information about gas fields? They have seized the deeds to the three gas fields we operate as well.”

Kiryanova says the company has been under pressure from SBU investigations since sanctions were imposed on Novynskyi last year and during questioning, the SBU officers were asking about the gas business as well.

Kiryanova suggests that there is a commercial rival behind
the attack and seizure of Smart Holding’s assets and says her suspicions were raised after a number of international investors approached her and offered to buy the company at a knock-down price.

“These were international investors, they said, who wanted to buy the gas business. We checked them out, but these are not strategic investors in the oil and gas business and did not represent any company,” Kiryanova told bne IntelliNews. “Only one of them came up as a former manager at an international oil and gas company, yet they knew the Ukraine gas business very well.”

Negotiations have been ongoing, with the last call on the day of the raid.

“They told us that “we need to do a deal quickly,” and warned that there would be a raid as part of the criminal investigation. I refused and two hours later the raid happened,” says Kiryanova. “It looks like it was a carefully planned operation.”

No property rights

“There are no property rights in Ukraine,” says Kiryanova. “In the matter of a few days all our assets were seized and the company unable to operate. There were no court cases and no way to defend ourselves from the allegations.”

Smart Holding already has one publicly listed company – AIM listed Enwell Energy – and Kiryanova says it has been meticulous about filing its accounts and paying its taxes. Moreover, she points out that Smart Holding has continued to meet its payroll during the war out of a sense of patriotic duty.

“We are one of the most transparent companies in Ukraine and I have gone out of my way to promote the country, to bring foreign investors here, whenever I could,” Kiryanova told bne IntelliNews.

As he has got more involved in the church, Novynskyi has been winding down his involvement with the business over the last few years. The trusts were set up so that he could remove himself completely, but leave in place a structure, based on the Cypriot lawyers, that would take care of the business and ensure a smooth transition to his heirs in the future. The trusts were registered with Ukraine’s Ministry of Justice and all their paperwork accepted.

“The trusts are governed by Cypriot law but now the authorities say Novynskyi is the actual owner again,” says Kiryanova. “The government is disregarding its own law and that of international law. We have been investing into Ukraine’s gas business, but now there is no rule of law. You cannot protect yourself at all. A criminal case was initiated without any substance and now all the assets are frozen.”

What will happen next is the Smart Holding assets will probably be placed under the supervision of ARMA, the asset recovery and management agency of Ukraine, which has the power to arbitrarily assign the management of seized assets to anyone it likes, says Kiryanova.

In the past, amongst other things, ARMA was charged with corruption in divesting large land plots in Odessa for no price to a no-name buyer following expropriation of land plots from AUCHAN based on criminal investigation unrelated to the company.

“We can go to court to prove we were not wrong, but everything we had is gone already,” says Kiryanova.

The company’s recourse is to sue the Ukrainian government, as the holding companies for its assets are in countries like UK and the Netherlands. Ukraine has signed investment agreements with these countries that guarantee property rights.

“We have to protect our rights and, unfortunately, we have no other choice than address the claims to the Ukrainian government,” says Kiryanova. “Now it is some corporate raider that will benefit from this, but it will be the government that is liable.”

Smart Holding’s problems come in the same week that famous US investigative journalist Seymour Hersh released another bombshell investigation that claims that Ukraine’s president Volodymyr Zelenskiy’s administration has siphoned off $400mn of US aid into its own pockets to buy diesel fuel and accuses the Ukrainian government of being deeply corrupt.

Kiryanova says she is certain that Smart Holding’s problems
have nothing to do with the president, but goes on to say: “there is corruption in Ukraine.”

“When you have problems, when you are vulnerable, there are people that will take advantage of that to take what they want,” says Kiryanova. “The system is very corrupt, and the corruption is unpunished. Under the cover of war you can do anything.”

Corruption remains a worry for Ukraine’s allies too. Last September Ukraine nearly ran out of money after Western donors were reluctant to transfer large amounts of cash to cover the government’s ballooning deficit, afraid it would be stolen. As a budget crisis loomed the donors relented and have committed to billions in macro support.

Aware of the problem, Zelenskiy has continued his anti-corruption campaign and especially focused on the oligarchs – another factor going into Smart Holdings’ problems. In February, Ihor Kolomoisky, another oligarch and a personal friend of Zelenskiy, saw his offices raided by law enforcement, and he has also been sanctioned.

“There is a law on oligarchs in Ukraine and Smart Holding’s founder legally is not “an oligarch”, though some media as well as SBU in its statement continue using this definition for PR purposes to underline their personal dislikes or damage his reputation” – says Kiryanova.

Transparent patriot
Kiryanova says she is working to resolve the problem and keep the company going for the sake of its 3,000 employees.

The company owns a shipyard in Kherson in the midst of the war zone, and another larger one in Chernomorsky. Neither has done any work since the start of the war, but the staff are still being paid so families “can put food on the table.” Likewise, the holding has kept its shopping centers with supermarket chain running, despite the fact that several stores have been destroyed in rocket attacks and the business is running at break-even at best. “If we closed them then where would people be able to buy food?” one manager told bne IntelliNews.

The SBU has offered no evidence to support its claim that Novynskyi is aiding Russia. Indeed, Smart Holding has donated $40mn to Ukraine’s military and civilian as humanitarian aid and is actively suing Russia for the damages to its assets.

The group submitted six lawsuits to European Court of Human Rights in October on behalf of Smart Holding’s companies, where it hopes the court will rule that Russia is responsible for the loss of assets.

They include shopping centres in Berdyansk, Kremenchuk, Mariupol, Melitopol, Severodonetsk and Kramatorsk which were captured or destroyed by the aggressors. From the 24 stores the group owned by 2014, only 50,000 square metres out of a total of 350,000 are left. The rest has been destroyed.

In the biggest claim, Smart Holding is hoping the court will rule that Russia bears responsibility for the destruction of Azovstal and will order compensation.

Even if Smart Holding wins in court, Russia withdrew from the ECHR in May and will no longer recognise its rulings. Most of Novynskyi’s assets are in the east and south of Ukraine in the middle of the battlefields. Rather than aiding Russia, the war with Russia has cost Novynskyi billions of dollars that can probably never be recovered.

Novynskyi sanctioned
Novynskyi withdrew from business life and resigned from all his executive roles in 2013. Last year he gave up his ultimate ownership rights as well after transferring the control of all his shares to irrevocable trusts, controlled by a law firm in Cyprus, and has ceased to play any role in the business of the companies in the group.

“The shares were transferred to a trust before the sanctions,” says Kiryanova. “Now they are controlled by EU licensed lawyers based in Cyprus. However, the authorities say Novynskyi is acting in the interests of Russia.”

“Under the cover of war you can do anything”

Novynskyi is a deeply religious man and member of the UOC, which has come under attack by the Ukrainian government because it was nominally under the Moscow Patriarchy, although the UOC formally cut ties with Moscow in February 2022.

This story is complicated, as under former president Petro Poroshenko a rival Orthodox Church of Ukraine (OCU) broke away from Moscow and crucially was granted a “Tomas” by the Patriarch of Constantinople in January 2019 – official recognition of its independence as an autocephalic Orthodox church, in what many saw as a political move.

Novynskyi remains true to the much larger UOC, which has been worshiping in Kyiv for more than 1,000 years, when Vladimir first brought Christianity to Kyiv. Novynskyi was ordained a deacon of the UOC on April 7, 2020. Since the war began, the UOC has been subjected to regular smear campaigns in the media and frequent searches and investigations by the authorities.
The Hague’s Arbitration Tribunal orders Russia to pay Naftogaz $5bn compensation for loss of Crimean assets

The Hague’s Arbitration Tribunal has ordered Russia to pay Ukraine’s state-owned natural gas champion $5bn in compensation for losses and damage caused by Moscow’s seizure of Naftogaz’s Crimean assets during the annexation of the peninsula in 2014, the company said on April 13 in a press release.

The court found that compensation should be equal to the fair market value of Naftogaz assets before expropriation.

“The Naftogaz team has won a key victory on the energy front. Despite Russia’s attempts to obstruct justice, the Arbitration Tribunal ordered Russia to compensate Naftogaz for losses of $5bn. This relates to the seizure of our assets in Crimea by Russia in 2014. Russia must now comply with this decision in accordance with its obligations under international law,” commented Naftogaz CEO Oleksiy Chernyshov in the release.

In September 2017, Naftogaz filed a lawsuit against Russia with the International Tribunal demanding compensation for lost assets in Crimea. The list of property valued includes the production assets of the company’s subsidiary Chernomoreneftegaz, gas in an underground storage facility in Crimea, as well as assets of other subsidiaries of Naftogaz.

The ruling is a big blow for Russia, as it sets a precedent that makes the Kremlin liable to compensate all Ukrainian companies that have lost assets after Russia took over the peninsula following a highly controversial referendum.

The court also ruled that Russia must reimburse Naftogaz for the costs associated with the arbitration proceedings. The award is the largest compensation ever awarded by an International Arbitration Tribunal as indemnity for the expropriation of assets by Russia in Crimea.

Previously, the Stockholm Arbitration court ordered Russia’s state-owned gas behemoth Gazprom to pay Naftogaz a total of $2.6bn in March 2018, ending a four-year legal battle over gas supply contracts. The ruling follows on from the court’s rejection of Gazprom’s claim for a payment of $56bn by Naftogaz for undelivered gas under the take-or-pay clauses of its supply deal to Ukraine.

While Gazprom initially resisted paying, the company eventually conceded defeat and coughed up. At the time it was by far the largest award made in Ukraine’s favour from among the numerous legal cases the two countries brought against each other as energy relations deteriorated in recent years.

The new award by the court in The Hague is twice as large, but will be even more difficult to collect, now that diplomatic relations between Russia and Europe have been cut off in all but name.

Arbitration awards can be executed through an enforcement mechanism, as the legal order allows European countries to seize Russian government state property and Gazprom assets based in Europe.

If Russia refuses to voluntarily execute the decision, Naftogaz has the right to initiate the process of recognition and admission to enforce the award in the territory of those states where assets of the Russian Federation are located, Naftogaz said in the press release.

In October 2016, Naftogaz and six other companies of Naftogaz Group initiated arbitration proceedings against the Russian Federation based on the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on the Encouragement and Mutual Protection of Investments, also known as the Ukrainian-Russian Investment Treaty, the company reports.

Naftogaz requested the Tribunal to force the Russian Federation to pay compensation for violation of the investment treaty including for the illegal expropriation of assets.

“If Russia refuses to voluntarily execute the decision, Naftogaz has the right to initiate the process of recognition and admission to enforce the award in the territory of those states where assets of the Russian Federation are located”
UPDATE: Since Naftogaz announced the result of the court’s decision, the company has updated its claim and is now demanding $10bn in compensation, Tass reported later the same day on the basis of “lost opportunity to use assets in Crimea.”

The Kremlin has yet to react to the decision, which “must be analyzed before a course of action is determined,” presidential spokesman Dmitry Peskov told Tass the same day.

“Indeed, this litigation took place. It is not new. The decision, however, is new and it needs to be analyzed. Our specialists who are engaged in protecting our rights in this case will analyze it and decide on a course of action,” Peskov said, commenting on the court’s ruling.

Naftogaz energy investments, which were among the main targets of the Russian Federation in Crimea in 2014.

In February 2019, the tribunal ruled in favour of Naftogaz, confirming its jurisdiction over the case and recognising that the Russian Federation had illegally expropriated Naftogaz investments in violation of its obligations under the investment treaty.

The second stage of the arbitration proceedings, which has just concluded, was initiated to determine compensation for Naftogaz losses. In July 2022, The Hague Court of Appeal confirmed the jurisdiction of the tribunal in this case as well. The arbitration award was made after hearings to determine the amount of compensation, which ended in March 2022 amid Russia’s full-scale invasion of Ukraine.

The turbulence-free mood on the global markets, meanwhile, remains intact. Turkey’s five-year credit default swaps (CDS) remain below the 600-level, while the yield on the Turkish government’s 10-year eurobonds remains around the 9%-level.

At end-2020, the pair stood at 7.4.

Amid the booming lira supply and hard currency outflows via record trade deficits, officials only keep the lira from entering into a nosedive by coercing bankers into blocking and gumming up domestic FX demand. Also supportive are unidentified inflows and support from “friendly countries.”

Another lira calamity would come as no surprise. It could happen at any time.

The digital USD/TRY lately set off on another record-breaking spree. The latest record, set on April 6, is TRY 19.45. From early March, the pair shot through barriers in the 18.80s that for a short while proved an obstacle. The pair is now mainly trading in the 19.30s, with some spikes.

Turks, meanwhile, are complaining that automats do not accept the new coins.

In 2021, the nominal values of Turkish lira coins fell below the coins’ scrap values.

Sahin denied that scrap dealers were melting down the coins given smelting costs in relation to the spread between the coins’ nominal and scrap values.

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US to check Turkey, Russia trade data for signs Ankara meeting sanctions pledge on goods

bne IntelliNews

The US will be scrutinising the March and April data on trade between Turkey and Russia for the impact of a pledge from Ankara to stop the transit of sanctioned Western goods to Russian importers, a senior US official was cited as saying on April 7.

James O’Brien, head of the US State Department’s Office of Sanctions Coordination, told Reuters that Turkish officials have been “very clear” with various governments and agencies that they have introduced a ban on the re-export of sanctioned goods to Russia, though Washington was yet to see the impact of the change.

“It will take us some time to see it, but we will see trade data from March and April and we will expect to see this trade dropping dramatically,” O’Brien was reported as saying, adding: “It’s the numbers. That’s all I care about.”

“We’re making clear this is a very high priority for the G7 – Russia is using these goods to make weapons,” said O’Brien.

The US and allies imposed extensive sanctions on Russia following its invasion of Ukraine in late February last year, but Moscow has turned to trade routes through Turkey, Hong Kong, UAE and other countries, including nations across Central Asia, to keep supply channels open for essential goods, including semiconductors. Microchips are among “dual-use” items that can be ordered by non-military importers, but can then be switched to defence contractors.

The Turkish government handed companies a list of banned foreign goods and instructed the firms not to transship the items to Russia from March 1, Istanbul Ferrous and Nonferrous Metals Exporters Association said last month.

Russia, meanwhile, looking to strengthen its exports despite sanctions, has started delivering goods to Turkey via Abkhazia, a self-proclaimed republic in Georgia under Russian control, according to local media reports. There is press speculation that the trade could in part amount to another attempt by Russia to evade international sanctions through re-exports to third countries.

First deputy chairman of the Abkhazian State Customs Committee, Alias Labakhua, confirmed that a locomotive pulling 62 containers had arrived in Abkhazia and was destined for Turkey. According to Labahua, the train was then scheduled to return to Russia with another cargo.

Last week marked the first arrival of a Russian container train carrying 62 containers and 2,700 tonnes of cargo in Sukhumi, Abkhazia, SOVA reported. It appeared that the cargo was due to be trans-shipped to Turkey on a Black Sea route using the ship Anatolian.

The Georgian government has not yet commented on the transit of goods to Turkey via Abkhazia.
Bulgaria’s far-right Vazrazhdane gathers 590,000 signatures for referendum on delaying euro adoption

Denitsa Koseva in Sofia

Bulgaria’s far-right pro-Russian Vazrazhdane party has gathered 590,000 signatures in support of referendum on delaying the country’s entry to the eurozone – far above the minimum 400,000 required for mandatory scheduling of a vote.

Vazrazhdane launched its campaign against the euro in January. It was seen as a tool for gathering more support ahead of the April 2 snap general election. The party has indeed managed to increase the number of its supporters, becoming the third largest in parliament.

The party’s leader Kostadin Kostadinov said as quoted by Dnevnik news outlet he expects the referendum to be called in the autumn when the country should hold local elections.

“Entry to the eurozone is a trap without an exit,” Kostadinov said as quoted on the party’s website.

However, in order for the referendum’s result to be binding, the turnout must be at least at the level of the last general election held in the country. On April 2, the turnout was 40.6%.

According to the latest poll carried out by Alpha Research, nearly half of Bulgarians are against euro adoption, although just 10% say they have information about it.

Meanwhile, Prime Minister Gulub Donev’s caretaker government has given up on applying to join the euro in January 2024, claiming the country has not fulfilled the requirements. Caretaker Finance Minister Rositsa Velkova said in February the country cannot meet the inflation criteria and has yet to make some essential legal amendments.

Several laws – namely those concerning changes to the Insurance Code, the Law on Measures against Money Laundering and the Commercial Law in the field of bankruptcy – were submitted to the parliament but adopted only in the first reading before the previous parliament was dismissed.

The new parliament will convene on April 12 but would need time to get to these laws.

Polls show almost half Bulgaria’s population don’t want to adopt the euro.
Turkey’s central bank collecting physical dollars at Grand Bazaar

Akin Nazli in Belgrade

The Grand Bazaar in Istanbul is back as the Turkish financial capital’s operational centre for FX transactions. It’s been reinstated given consequences of Turkey’s tight measures on FX transactions that take the form of macroprudential measures and non-capital controls and generate hard currency supply problems, local business daily Ekonomi reported on April 10.

From private companies to banks to citizens to public institutions, all economic actors are turning up at the Bazaar to meet FX needs.

Even the central bank has joined the institutions meeting their FX needs at the Bazaar. Each day it brings Turkish lira (TRY) 5bn to the Bazaar and collects around $260mn in exchange.

According to the central bank’s weekly balance sheet (A2. Foreign Banknotes FX [Thousand TRY] / USD Buying Rate), the national lender’s physical FX stock rose to $9.6bn at end-2022 from $4.3bn at end-2021. The figure stood at $8.5bn at end-Q1.

The central bank carries out its transactions with an unnamed exchange office. The office subcontracts transactions to a total of four to five bureaux.

The central bank directly collects FX with the use of “wheeled anchor chests”. The chests are carried by interior ministry vehicles. Such an extraordinary operation has never been seen before.

Unidentified FX inflows under the net errors and omissions account hit a record $27bn in 2022

The “wheeled chest transactions” are also carried out by some other institutions. Reportedly, something of a traffic jam is regularly caused by the chests turning up at the Bazaar.

Even if a transaction is for a small amount of dollars, a great number of lira banknotes are required to secure it due to the current exchange rate. Thus, logistics companies are hired to carry out operations using the chests.

“Even if a transaction is for a small amount of dollars, a great number of lira banknotes are required so logistics companies are hired to carry out operations using the chests”

The digital USD/TRY has lately taken off on another record-breaking spree. The latest record, set on April 6, is TRY 19.45. From early March, the pair shot through barriers in the 18.80s

As a result of the high demand, the spread between the FX rates on the interbank market and the Bazaar have boomed.

As of April 12, the USD/TRY was hovering in the 19.30s, while buying prices at the Bazaar were in the 19.60s versus selling prices in the 19.70s.

The Unidentified FX inflows under the net errors and omissions account hit a record $27bn in 2022.

Source: Türkiye Cumhuriyet Merkez Bankası
that for a short while proved an obstacle. It is now mainly trading in the 19.30s, with some spikes.

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The turbulence-free mood on the global markets, meanwhile, remains intact. Turkey’s five-year credit default swaps (CDS) remain below the 600-level, while the yield on the Turkish government’s 10-year eurobonds remains around the 9%-level.

Tahtakale at the Grand Bazaar, known as the “Footed Bourse”, is the most famous over-the-counter (OTC) forex market in Turkey.

Do not ask where its FX banknotes come from. Ekonomi asked and was told that they arrive from the “shadow side of the real sector and Anatolia”.

Anatolia is famous for its “dollar mines”. The “shadow side” could, for instance, be dealing with the production of some “white goods”.

Some say there is actually a wellspring under the Bazaar. Sometimes, FX banknotes well out, sometimes gold. The late Nasrullah Ayan gives some hints about this mysterious source in his autobiographical book The Bourse King.

The other end of the well system opens into Switzerland.

For a taste of what is going on, we can recall an old story. In 1985, Ahmet Ozal (then PM Turgut Ozal’s son), Gunes Taner (Turgut Ozal’s aide), Mehmet Percin (an MP) and Bulent Semiler (general manager of state-owned Emlakbank) held a meeting in a room at Dolder Grand Hotel in Zurich with Yasar Akturk (a drug smuggler known as “Barber Yasar”), Muhammed Sekerciyan (a Lebanese money launderer), Ugur Suzer (a fictitious exporter, or in other words a person who launders money via non-export activities), Hadi Urug (son of then army chief Necdet Urug, who was a partner of gangster Dundar Kilic), Yakup Kefeli (a money launderer), Suphi Asicioglu (a heroin trader), Turan Cevik (an FX/gold smuggler and fictitious exporter) and Emin Gorpe (a partner of drug smuggler Behcet Canturk), according to daily Cumhuriyet.

The newspaper also claimed that Turgut Ozal and Tekirdag MP Ahmet Karaevli were present at the meeting.

In May 1985, Turkey’s parliament lifted jail sentences for FX and gold smugglers.

In November 2008, Turkey’s Erdogan administration, then still within its first decade of rule, introduced the first of its so-called “wealth amnesty laws”. The legislation is still in effect. Quite simply, no one ever asks, “Where did you find it?” when someone brings a pile of money or trunk of gold into Turkey.

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Russians remain calm as ruble exchange rate rapidly weakens past pre-war value

bne IntelliNews

For the vast majority of the fourteen months following President Vladimir Putin’s decision to launch a full-scale invasion of Ukraine, the Russian ruble has been stronger than it was prior to the war. This trend has now rapidly reversed, and the ruble finds itself in free fall.

On February 23, 2022, a dollar was worth RUB80.7, a similar rate to where it had sat since the outbreak of Covid-19 in March 2020. Following a short spike to RUB134 in the immediate weeks following the outbreak of war, the exchange rate eventually settled between RUB50 and RUB60, putting the Russian currency in a stronger position than it had been in pre-invasion. However, since the turn of the year the ruble has started to tumble, eventually weakening past its pre-war value.

As of the time of writing, the dollar is now worth RUB81.6.

Despite the blow to the value of the government’s coffers caused by the plummeting value of the ruble, the average Russian citizen is not expected to feel the sting immediately. As a vast majority of the populace survives paycheck to paycheck and hand to mouth, the lack of significant savings means the impact of the fall is unlikely to cause much fear in the general population in the near future. There have been no reports of frenzied bank withdrawals or a rush for foreign currency, and the country’s financial institutions are yet to report any significant shortfall of dollars or euros.

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For the typical Russian, the depreciation of the ruble is likely to remain unnoticed in the short term. Those likely to feel the immediate hit are the Russians planning to travel abroad in the upcoming summer vacation period, who may see their hard-earned savings come up short.

“I’m not very worried about the change in rate, but I’m glad I already booked and paid for my summer holiday, because prices might go up," Svetlana Rodionova, 43, told bne. “I’m taking my kids to an all-inclusive resort in Turkey, so a cost increase for three people would have been prohibitive.”

The price of a holiday to Turkey has already risen compared to pre-war, in part due to currency fluctuations, but also due to higher fuel costs. Due to a large no-fly zone over Ukraine and in the south of Russia, airlines are forced to fly a longer route to reach Turkey, increasing the flight length to around 5 hours from Moscow to Antalya.

In Moscow, where salaries are higher and people are more likely to have significant savings, a growing number are exploring the option of opening foreign currency accounts as a means of safeguarding against currency fluctuations. Muscovites, in comparison with the rest of the country, are also far more likely to want to travel or move to the West, meaning that any fluctuation in value could have a meaningful effect on their life decisions.

“I saw on the news that the ruble will most likely settle at around 80 per dollar, so I’ve yet to convert my money,” Ivan Shevchenko, a 26-year-old IT worker, explained. “If the ruble continues to fall, then I will have no choice but to convert to dollars, or more likely euros, especially as I’ve just received a Schengen visa and want to go trade travelling in Italy in August. Sanctions mean that the cost of travelling to the EU has already risen significantly, so any further rise could mean a change of plans.”

For the majority of Russians, without travel plans or large savings, the depreciation of the ruble will hit hardest when imported goods start increasing in price. While years of sanctions have seen the rapid growth of a significant import substitution programme, the decision by many foreign companies to leave the Russian market means that some products, such as Coca-Cola and Guinness, need to be imported from abroad. The cost of this complicated logistics chain will ultimately be borne by consumers.

“I don’t have a passport, I have never been abroad, I don’t care about the exchange rate,” a woman, 54, who asked to remain anonymous, told bne IntelliNews. “I own my own apartment, so have no problems with rent. I will only start worrying about the value of the ruble when I have to go hungry.”
Russia has overtaken Kazakhstan to become the world’s second-largest cryptocurrency mining country in 2023, Kommersant reported on April 12.

Bitrver, Russia’s largest bitcoin mining provider, says that Russia’s coin generating capacity had reached 1 GW in January-March this year, second only to the US with a capacity of 3-4 GW.

Cut off from the international payments system following the imposition of the SWIFT sanctions shortly after the start of the war a year ago, Russia has accelerated its plans for digital currencies, which operate outside the control of international regulators. The Central Bank of Russia (CBR) has already launched a pilot programme to test the use of a state-backed digital ruble.

Bitcoin and other cryptocurrencies are already being widely used by the population to get around the restrictions on transferring money to the EU. And Russian companies are investing in developing new cryptcurrencies.

Russia has achieved significant progress in the crypto mining industry in recent years. In contrast, Kazakhstan has slipped down to ninth position due to its restrictions on crypto mining activities in 2022, due to its drain on the power sector and unlicensed activity.

As reported by bne IntelliNews, the Kazakh Financial Monitoring Agency (FMA) shut down ABS Change, a cryptocurrency trading platform that was operating illegally without a licence since 2021. Three people were arrested and $342,000 and KZT7mn ($16,000) in cash were seized during a raid in the company’s headquarters in Astana. Additionally, ABS Change had $23,000 worth of crypto assets in two wallets on Binance, which was temporarily restricted.

Kazakhstan, which attracted many cryptocurrency miners with its cheap electricity following China’s move to put in place a crypto industry ban, has taken steps to regulate the sector, including laws restricting mining farms’ access to low-cost power, and introduced licences for miners. Kazakhstan suffered multiple power outages across 2021 and 2022 due to the surge in crypto-mining operations.

Inhabitants of Ekibastuz in the north-eastern Kazakhstan’s Pavlodar Region were left without heating during the freezing winter days this year after cryptocurrency miners drained the local utility of power, until authorities shut down their operations.

China has been implementing a similar crackdown since 2021 and also did not make it to Bitrver’s top ten list. China banned crypto mining in 2021.

However, bitcoin use is limited in Russia due to restrictive laws on cryptocurrencies, including President Vladimir Putin’s 2020 law on digital financial assets. Although the law legalised cryptocurrencies, it banned their use to pay for goods and services. The CBR’s compromise has been to propose a regulated digital ruble, which is not a true cryptocurrency, as the regulator controls the supply of the coins and hence can fulfil a central bank’s traditional role of controlling the money supply.

After initially rejecting the idea of cryptocurrencies, the famously conservative Central Bank of Russia (CBR) has more recently softened its stance on the potential use of cryptocurrency as recognised means of payment. Deputy Head of the CBR Xenia Yudaeva said the regulator was toying with the idea of allowing the use of crypto for international payments and signalled a more lax stance on crypto-mining in June last year.

“We have changed our position on mining, and we [could] allow the use of crypto-currency in foreign trade and outside of the country,” Yudaeva said in June 2022.

However, Yudaeva reiterated the regulator’s position that crypto was a highly speculative instrument that is actually a ponzi scheme. She warned that legalising crypto in Russia could boost illegal activity and tax evasion.
In search of solutions to avoid sanctions restrictions, Russian Prime Minister Mikhail Mishustin added his name to the roster of Russian high officials endorsing the use of digital money to settle international trade deals in September.

The US, aware that the unregulated and decentralised cryptocurrencies represent a threat to the effectiveness of the SWIFT sanctions on Russia’s ability to make international payments, has already started to try to close the loopholes. The US has already blacklisted a bitcoin and an ether address in February, suspecting their involvement in Russian defence equipment sales abroad, and is examining various crypto-exchanges for their role in sanctions busting.

One of the largest crypto-currency exchange platforms, Binance, announced last April that following the EU’s fifth sanction package it is “required to limit services for Russian nationals or natural persons residing in Russia, or legal entities established in Russia, that have crypto-assets exceeding the value of €10,000”. Another exchange, Coinbase, also warned Russian users that their accounts will be blocked on May 31.

Additionally, the European Union imposed a total ban on carrying out cryptocurrency transactions with Russian citizens and anyone residing in the country as part of its eighth round of sanctions introduced last summer. The US Treasury Department also targeted Swiss-based Russian crypto-currency mining holding BitRiver in September.

But Russia has taken the first step towards international crypto-payment when the Russian Ministry of Industry and the Central Bank of Iran agreed that imports could in theory be processed using crypto-currencies last August.

Iran is another cryptocurrency hotspot, accounting for 4.5% of the global coin mining, according to a study made last year, partly because of the country’s cheap electricity.

If it happens, Russia’s use of cryptocurrencies to settle international trade deals won’t happen soon. In May 2022 Moody’s Investor Service warned that crypto-currencies will not help Russia bypass sanctions due to the limited market size and payment-tracing mechanisms. Moody’s believes that the low liquidity of the ruble/bitcoin pair of about $0.2mn makes crypto-currency an unlikely instrument to cover $46bn of daily transactions of Russian financial institutions for the foreseeable future.

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**Russian Post makes its first loss in nine years of $350mn due to sanctions**

**bne IntelliNews**

Potcha Rossii (Russian Post) reported its first loss in nine years of RUB27.2bn ($353mn) at the end of 2022, RBC reported on March 30.

A black pit with a famously poor service record, Potcha Rossii was transformed in the boom years during the noughties into a modern and highly profitable service that has important social implications in a country as large as Russia. A banking service was also set up based on its country-wide branch network in partnership with the state-owned VTB Bank.

However, its business has taken a hit thanks to the economic slowdown of the last year and sanctions.

The company’s revenue decreased by 4% year on year to RUB208.4bn ($2.7bn), with over half of that revenue coming from postal activities. However, Pochta Rossii suffered a loss on sales of RUB21.9bn, compared with a profit of RUB8.3bn in the previous year.

The company’s operating expenses increased by RUB16bn, with a significant portion attributed to logistics costs and equipment servicing.

The decrease in revenue was primarily due to a reduction in international mail flows, caused by payment difficulties, transport restrictions and the suspension of global brands in Russia, according to a company spokesperson.

Pre-war Russians made heavy use of online shopping and snapped up bargains in European countries, especially during the post-Christmas January sales, causing the Russian post
Mikhail Volkov, CEO of Russian Post, acknowledged that the past year was challenging for the company, and he emphasised that the main task for 2023 is to “reconfigure work taking into account new economic and geopolitical realities, reasonable cost reduction and increasing company revenues.” Volkov also underscored that the company will continue to prioritise social responsibility.

Pochta Rossii was able to achieve profitability in 2014 by reducing operating costs. However, in 2022, the company had to re-evaluate its strategy, including reducing administrative staff, and is currently working on a new approach.

Allegro posts PLN1.92bn net loss in 2022 due to Czech write-downs

Wojciech Kosc in Warsaw

Warsaw-listed online retailer Allegro posted a net loss of PLN1.92bn (€410mn) in 2022, a changeover from a net profit of PLN1.1bn the previous year, the company said in a market filing on March 30.

The loss was primarily due to write-downs of Allegro’s Czech acquisitions, the online retailer Mall Group and courier services company WeDo, totalling PLN2.3bn in Q3 2022.

Allegro bought Mall and WeDo for €975mn in 2021, in one of the largest transactions in Central and Eastern Europe that year. Allegro has now almost written off half the value of its acquisitions.

That said, Allegro’s stocks surged on the Warsaw Stock Exchange as last year’s results showed the group’s revenues jumped 70% to PLN9bn while adjusted Ebitda reached PLN2.15bn, a gain of 4% versus 2021.

Allegro’s shares rose nearly 14% to PLN29.76 as trading closed on the Warsaw bourse on March 31.

In Q4, Allegro’s revenue increased 93% y/y to PLN3.1bn, while the net profit fell 10% y/y to PLN180mn, which was below the consensus of PLN371.8mn.

The company’s adjusted Ebitda increased 33% y/y to PLN668.3mn, just over the consensus line of PLN667.2mn.

Meanwhile, the gross sales value (GMV) – the total value of goods traded on the platform – grew 14% y/y to PLN4.1bn in the fourth quarter. GMV also grew 15.9% to PLN49.4bn in 2022 overall.

The number of active buyers increased by 560,000 in y/y terms to over 14mn in the fourth quarter. The average GMV value per active buyer grew 11.3% y/y to PLN3,500.

Allegro has also announced it will be publishing quarterly results forecasts with the first forecast – for Q1 2023 – assuming a growth of 13%-14% in GMV and a 20%-22% expansion in revenues.

The company also said it is planning to launch a branded platform Allegro.cz in the Czech Republic.

“The loss was primarily due to write-downs of Allegro’s Czech acquisitions, the online retailer Mall Group and courier services company WeDo”
Due to its location near the EU, Ukraine has the potential to satisfy up to 20% of the premium biomethane market, which is in high demand.

Ukrainian businesses have already started building five biomethane plants with the capacity to produce 20mn cubic metres of biomethane per year. However, the price of biomethane needs to be profitable for these plants to operate.

For a biomethane plant to be profitable, the price of biomethane must be between €800-900 per thousand cubic metres, significantly higher than the normal price for Russian piped gas, but currently on a par with the spot market prices.

Although the EU biomethane market can pay up to €1,000 per thousand cubic metres, the domestic market can only pay €450, which is not enough to make these plants profitable, reports UBN.

The new plant is part of Ukraine's plans to be a hub for green energy production for Europe and to promote high ESG standards.

The biomethane project comes in the midst of Ukraine's efforts to rebuild its energy infrastructure that has been targeted by Russia during the war.

Ukraine's energy and thermal infrastructure will have suffered $10bn in damages from the war as of June this year – five times more than last June, according to to a new comprehensive assessment by the United Nations Development Program (UNDP) and the World Bank.

The largest share of losses falls on the electric power sector at almost $6.5bn, where the share of damage to nuclear power plants (NPPs) is $770mn, the report estimates.

At the same time, Ukraine's urgent needs for emergency repairs of critical infrastructure facilities (electricity and heat supply) are assessed by UNDP and the World Bank at more than $1.2bn, UBN reports.●
China to exceed 1.2 TW wind, solar by 2030

Roberta Harrington in Los Angeles

China is expected to exceed its target of having 1.2 TW of combined solar and wind energy capacity in place by 2030, with forecasts predicting a combined capacity of 3.3 TW by that time, according to a new report by Goldman Sachs Research.

China’s investments in clean-energy technologies have given it a significant edge in the market, with the country controlling about 90% of the global market for upstream solar products and accounting for about 30% of the market for wind turbine components.

Its investments have also helped it become the top-producing country for midstream materials and cell assemblies in batteries.

The report predicts that China’s progress on renewables should help reduce its energy imports by 10% by 2030, and a 50% cut in energy imports is possible by the early 2040s if renewable installations continue to accelerate. The Asian country could become energy self-sufficient by 2060.

Lower coal prices and renewable cost innovations are expected to ultimately lead to reduced energy costs for domestic consumers. However, achieving these goals will require a massive investment of $2.26 trillion by 2040.

“As China focuses on the challenges to reduce imported fossil fuels, we view an affordable renewable energy system, equipped with sufficient energy storage and smart grid transmission, as China’s long-term solution to achieving energy self-sufficiency,” write Goldman Sachs analysts Nikhil Bhandari, Amber Cai, Chao Ji and Chelsea Zhai in the report.

Renewable energy production’s increased scale will help drive down manufacturing costs, making round-the-clock solar projects more economically viable. Currently, the internal rate of return (IRR) for a solar generation project with storage operating 24 hours a day is below zero, but innovations will improve efficiency and push returns to almost 10% by 2030, the report said.

Godman Sachs notes that renewable energy sources deliver power intermittently, necessitating stored energy during periods of low or no power. As such, China will require about 520 GW of storage by 2030, with more than three-quarters of this amount coming from batteries and which is 70 times higher than China’s storage capacity in 2021.

The remainder of the storage increases will come from pumped hydropower facilities.

China has already invested heavily in raw materials for batteries and is expected to be self-sufficient in lithium by 2024. The country is also leading the way in emerging technologies such as sodium-ion batteries, which are cheaper and more eco-friendly than lithium-ion batteries.

“We expect the average battery prices in China to decline substantially and to fall faster than [other parts of the world] due to the severe local surplus of battery manufacturing capacity,” Bhandari and his co-authors wrote.

However, the report cautions that several factors could hinder China’s progress, such as slower-than-expected adoption of green electrification due to underinvestment or slow grid upgrades. Additionally, the country’s dependence on copper ore, which is essential for capturing, storing and transporting green energy, leaves its green electrification efforts vulnerable to geopolitical disruptions. China’s domestic production accounts for less than 30% of its demand.

The report concludes that China’s strong coal demand will decline around 2030, and renewable cost innovations will contribute to more affordable power for consumers while reducing the share of fossil fuel in the energy mix. Growing renewables capacity is also anticipated to reduce carbon emissions into the 2030s, even as overall energy demand rises.

To upgrade the grid for the influx of green energy, transmission companies will need to build more cross-provincial ultra-high voltage lines and expand digitisation, enabling them to manage consumer and commercial demand through real-time forecasting.

The report predicts that a smart and well-connected grid will become a core component of China’s ‘Energy Internet.’ It integrates different types of power resources and enables large-scale, interactive energy transmission and transaction, while more virtual power plants and big data analytics are expected to emerge, allowing an even higher share of green power in the generation mix.
Global power sector emissions may have peaked – Ember

Emissions from the electricity sector could have peaked in 2022, says a new report from climate and energy think-tank Ember.

The power sector is the largest source of climate-contributing emissions of carbon dioxide (CO2) globally.

Clean power growth is likely to exceed electricity demand growth in 2023; this would be the first year for this to happen outside a recession, said Ember.

“As soon as 2023, wind and solar could push the world into a new era of falling fossil generation, and therefore of falling power sector emissions,” said the report.

With average growth in electricity demand and clean power, Ember forecasts that 2023 will see a small fall in fossil generation (-47 TWh, -0.3%), with bigger falls in subsequent years as wind and solar grow further.

In short, wind and solar are slowing the rise in power sector emissions. If all the electricity from wind and solar instead were from fossil generation, power sector emissions would have been 20% higher in 2022.

But although electricity is cleaner than ever, the world is using more of it, noted Ember.

Even so, wind and solar power achieved a record 12% proportion of global power generation in 2022, up from 10% the year before, said the report.

Together, all clean electricity sources – renewables and nuclear – reached 39% of global electricity, a new record high, continued Ember in its fourth annual Global Electricity Review.

Solar generation rose by 24% in 2022, making it the fastest-growing electricity source for 18 years in a row. Wind generation grew by 17%.

The increase in global solar generation in 2022 could have met South Africa’s annual electricity demand, and the rise in wind generation could have powered almost all of the UK.

The change in global wind and solar generation increased by 19% in 2022 compared with 2021. Coal generation was up 1.1%, in line with the average annual increase over the past decade, and global gas generation was down 0.2% in the wake of high gas prices globally.

Of coal generation, Ember said: “The ‘coal power phasedown’ agreed at [the UN’s] COP26 [meeting] in 2021 may not have begun in 2022, but also the energy crisis didn’t lead to a major increase in coal burn as many [had] feared.”

More than 60 countries now generate more than 10% of their electricity from wind and solar. However, other sources of clean electricity dropped for the first time since 2011 due to a fall in nuclear output and fewer new nuclear and hydro plants coming online.

The IEA Net Zero Emissions scenario points to a 2040 net-zero power sector, 10 years ahead of a net-zero economy in 2050.

“As soon as 2023, wind and solar could push the world into a new era of falling fossil generation, and therefore of falling power sector emissions”
BRICS BLOC EMERGING

Ben Aris in Berlin
H as the US just made a strategic blunder? In leading the military support of Ukraine’s fight against Russia, introducing a massive package of sanctions and weaponising the dollar, Washington has caused a backlash that is rapidly driving the world’s leading emerging markets (EMs) together into a bloc led by the BRICS, who are clubbing together and de-dollarising in case they are next up to face US-led Western ire.

The Western world was outraged by the Russian invasion of Ukraine on February 24, the first large-scale war to be fought in Europe since the end of WWII, and acted almost immediately to make Russia a pariah as well as denigrate its economy.

However, the unintended consequence has been to undermine the basis of international commerce, introduce massive distortions into the global economy and degrade confidence in the dollar. No one approves of Putin’s war, not even his closest EM allies, but they are more concerned about the ferocity of the Western response that has highlighted their own exposure to censure should their relations with the West decay. Now they are being forced to choose sides, many have decided that President Vladimir Putin’s main complaint, that we live in a unipolar world where America calls the shots, is right and they would prefer to have a multipolar world, where every country makes its own choices and resolves problems collectively.

That is what is driving the EMs into the BRICS bloc, led by China and Russia, the only emerging markets with a seat in the UN Permanent Security Council, military and nuclear capabilities on a par with the rest and economically large enough to have real heft in geopolitics. Putin and Xi have become the unlikely champions of the now increasingly nervous emerging world.

And Russia and China have four things that draw the other EMs in. The first is the multipolar view includes an implicit promise not to push values on partners. There is no “global policeman” in the multipolar worldview.

The second is the EMs are coming of age but feel themselves under-represented in the current geopolitical set-up. The UN Permanent Security Council only has five members, but three of those are European, plus the US, born of Europe, as well as China. There are no representatives at all from Latin America or Africa, and even India, the most populous country on the planet, is not included.

Third, almost all of the rest of the world have suffered from the colonialism of the first world in the past, an abuse that still rankles today. India, Africa and large parts of South America were all captured by one colonial power or other. China was never conquered, but it was flooded with opium by the British and lost two wars trying to ban the trade, leading to the “century of humiliation”. The empires may be forgotten in the West but the scars are still raw today amongst the victims.

Finally, the smaller members of the EM bloc are simply not wealthy enough to afford to take principled stands; they are just trying to earn enough money to build their countries and keep their people happy. Sanctions that cut them off from vital raw materials or drive up costs are simply not an option. Unable to face down the G7 on their own, they are looking to the BRICS bloc for support in a common cause that can square up to the West.

It was never in the US interest to drive Russia and China closer together. Putin has always made it clear he would prefer to be part of Europe as he shares the same fears about China’s rise. Putin’s preference and long-stated foreign policy goal was to work with the EU to create a single market that stretches “from Lisbon to Vladivostok.” But his demands for a new security deal from the West and his security concerns about Ukraine’s move towards Nato were never addressed until he forced the issue onto the table at the start of 2022 with ultimata and then a war.

New BRICS on the bloc
The war in Ukraine has brought about a polarisation between the developed and the developing world. Three decades ago the world was united into a single market after the socialist experiment collapsed. Three billion capitalists were almost overnight joined by 3bn former communists into a common people United by a common ideology. The first decade was chaotic as the old systems collapsed. The second was a golden era as the new economies emerged and grew rapidly to catch up with the West. But now we are in a third period when the newly minted countries, some of them very large and powerful, are starting to flex their political muscles on the international stage.

The developed world is not comfortable with these changes. Rather than embracing China and Russia and

“... The smaller members of the EM bloc are simply not wealthy enough to afford to take principled stands; they are just trying to earn enough money to build their countries and keep their people happy...”

welcoming them into the international capitalist community, in his first major foreign policy speech, US Secretary of State Antony Blinken called both rivals, and the US has policies designed to contain both.

The war in Ukraine has brought all these tensions to the fore as the US tries to fulfil its self-appointed role as “leader of the free world” and use its considerable power to persuade, cajole or bully EMs
The reaction of the biggest EMs has been to actively start building institutions to counter this US-led pressure. While on tour in Brazil in the middle of April, Lavrov noted that Brazil takes the presidency of the G20 next year, “and we will chair BRICS,” Lavrov said. “In terms of co-ordinating our foreign policy activities, this creates a good opportunity to see how we could take advantage of a situation where all BRICS members are also part of the G20 to ensure mutual benefits,” Lavrov emphasised.

China’s President Xi Jinping has taken a similar line, and travelled to Moscow in March in an ostentatious show of support for President Putin that was an open challenge to the US’ claim to lead on the international stage. Xi’s parting words to Putin were: “Right now there are changes the likes of which we haven’t seen for 100 years – and we are the ones driving these changes together.”

The catalyst of the Ukraine crisis has put steel in the political will to break the US hegemony. EM countries are now actively building non-Western dependent multinational institutions and rapidly de-dollarising, amongst other things. As the biggest and most powerful of all the BRICS – its GDP is twice the size of all the other four combined – Beijing has become the epicentre of this change and has drawn in an endless string of leaders from both developed and developing worlds in the last months.

French President Emmanuel Macron toured Africa before going to Beijing with President of the European Commission Ursula von der Leyen to argue his case. German Foreign Minister Annalena Baerbock was also there a week later, followed by Brazilian President Luiz Inácio Lula da Silva.

Relations with India have also blossomed since the war started, with India going from nothing to one of Russia’s biggest buyers of oil together with China. And India is ramping up the purchase of all sorts of commodities from Russia as well as major investments in industry and the new Kudankulam nuclear power plant (NPP). Delhi has also joined the drive to get out of the dollar and settle its international trade in local currencies. Indian refineries last month started settling their import bill in rubles not dollars.

Oil, arms, nuclear power, commodities and trade. This is the cement Russia is using to build up the BRICS bloc and a programme China is happy to participate in.

When Lula joined the throngs of touring diplomats arriving in Beijing he signed joint investment projects and showed solidarity with the increasingly united BRICS front.

Like many, Lula would like to see the destructive showdown end, and made a point of flying on for a short tour of Europe after his Chinese trip was over. At the same time, he is hoping to increase Brazil’s standing as the leading economy in South America by raising his international profile. But in statements to the press, Lula made it clear he agrees with the BRICS basic premise: the EMs need to have more sway in international affairs and the US has too much.

Many countries in Africa and Latin America, long ignored by the international community, have willingly flocked to the BRICS bloc. The 15th BRICS summit is due to be held in South Africa in August, where it will discuss taking in 17 new members from Asia, Africa, South America and the Middle East, among other things. The US applied to attend the event and was refused.

Many of the new would be members, including Venezuela and Iran, have already been on the receiving end of US sanctions and even bombing runs, while most of the others still bear a grudge for the “vaccine apartheid”, when the West not only withheld supplies of its own coronavirus vaccines, but actively put pressure on South American governments to refuse Russia’s offer to sell its highly effective Sputnik V vaccine cheaply.

The Middle East is another region where relations with the US have rapidly soured since the so-called shale revolution made the US a net exporter of oil in direct competition with the Middle East.
Notably, Russia rebuffed OPEC’s first offer to join the oil cartel in 1983, but finally succumbed to OPEC+ in only 2016 after tensions with the Western ratcheted rapidly upwards after the annexation of Crimea two years earlier.

Another aspect of the new BRICS bloc is that between Russia, the Kingdom of Saudi Arabia (KSA) and Venezuela, it will control a large swathe of global oil and gas production. Indeed, most of the BRICs are also major commodity producers accounting for large shares in agriculture, minerals and metals, as well as major arms producers.

Trade booms
This is not a new Cold War. As everyone is a capitalist now, as bne IntelliNews has reported, this is an increasingly fractured world, but it is not divided into two camps. Most of the EMs want to maintain cordial and commercial relations with the West.

Given the choice, most countries would prefer to sit on the fence, especially the poorer ones that are simply trying to earn enough money to fund their ongoing development. A survey of MENA countries made by bne IntelliNews’ sister publication bna IntelliNews found that most of the northern African countries see the war in Ukraine as a European problem that has little to do with them. Their relationship with Russia is simply as a trade partner that provides essential energy, raw materials and arms. To earn some brownie points with Moscow, Egypt, one of Russia’s closest partners in Africa, briefly considered selling Moscow 40,000 rockets, according to recently leaked US intelligence documents, but backed away from the idea as too risky.

However, as the West increasingly finds itself playing a game of whack-a-mole in trying to enforce the sanctions, fence-sitting is becoming increasingly difficult. Russia has largely managed to evade sanctions so far and indeed so successfully that in 2022 it earned more money from oil and gas exports than it has earned in any year since the fall of the Soviet Union; the current account surplus was an astonishing $227bn – twice the previous all-time record set only a year earlier.

Russia has been able to co-operate with “friendly” countries to find alternative routes to import banned goods. Western and Russian diplomats are travelling the world to drum up support for their sides, and as soon as one route is closed another opens. In April, Turkey, Hungary and Serbia – all strong Russia supporters in Europe – said they were going to “rethink” their relations with Russia after coming under intense US pressure. Turkey even went as far as halting exports to Russia overnight, but within weeks Russian trade via the breakaway and Russian-backed Abkhazia sprang up to replace it.

Blinken travelled to Kazakhstan and Uzbekistan in April to exhort their leadership to enforce Western sanctions with mixed results. He received due lip service. Kazakhstan has imposed stricter inspections on exports to make sure they are sanctions-compliant in the last month, while its leading metallurgical companies have broken off relations with their Russian counterparts in May, a month after a Blinken trip to Central Asia.

However, Russia is too big to ignore and its trade with all these countries has soared in the last year. Washing machines have been a particularly hot item, as they carry chips that Russia can use to build smart missiles and repair tanks. And new routes are constantly appearing.

Kazakh and Uzbekistan have increased the number of joint projects they do with Russia threefold over the last year, according to Industry and Infrastructural Development Minister of Kazakhstan Marat Karabaev. Trade between Kyrgyzstan and Russia hit a new all-time high after expanding by more than 40% in 2022 to a record $3.23bn, according to Kyrgyz Chairman of the Cabinet Akylbek Japarov. And trade with Georgia has also hit an all-time high. In the first quarter, Russian goods imports to Georgia grew by 79% year on year, while Georgia’s export of goods to Russia increased by 61%. Georgia has become more economically dependent on Russia than at any time since its independence in 1991.

Talking past each other
Countries in Central Asia and the Caucasus have little choice but to trade with Russia, which dominates their regions, and the same is true, to a lesser extent, with other EM countries; North Africa remains heavily dependent on Russian wheat, fertilisers, energy and arms.

But the Western diplomats on the road don’t seem to understand the commercial imperatives for these countries and instead give long lectures about values and international law.

The EMs are getting thoroughly fed up with being lectured to by the West – a theme that Putin has been happy to play on. During his speech to 40 African lawmakers who were in Moscow at the same time as President Xi’s visit in March, Putin said: “Ever since the African peoples’ heroic struggle for independence, it has been common knowledge that the Soviet Union provided significant support to the peoples of Africa in their fight against colonialism, racism and apartheid, how it helped many African countries to gain and protect their sovereignty, and consistently supported them in building their statehood, strengthening defence capabilities, laying the foundations of their national economies and workforce training.” Putin told the delegates to a ringing round of applause.
Russia was the first to make explicit its intolerance of being told what to do – and sanctioned if it didn’t comply. In February 2020, during a visit to Moscow by the High Representative of the European Union for Foreign Affairs Joseph Borrell, Russian Foreign Minister Sergei Lavrov threw down the gauntlet in his “New rules of the game” speech. In a new hard foreign policy, Lavrov said that the Kremlin would no longer tolerate the dual policy of being told what to do on one hand, and expected to do business with the other. He went on to threaten to break off diplomatic relations with Europe if Brussels didn’t agree, and expelled three European diplomats while he was physically in a meeting with Borrell, who was still unaware what was going on.

Most of the EMs have the same complaint but they are not willing to risk war with the West over the dual policy of sanctions and business. But that dual policy remains the mainstay of Western diplomacy. However, now there appears to be a creeping realisation that a carrot and stick approach to international relations may not work as well any more.

In a major policy speech in April, US Treasury Secretary Janet Yellen in a continuation of the dual policy of carrots and sticks with one hand she reached out to Beijing, calling on it to maintain “constructive and fair economic relations”, but on the other warned that the US would have “frank” talks with Beijing if the US strategic interests were threatened, for which most commentators read “Taiwan.”

“The US will assert ourselves when our vital interests are at stake. But we do not seek to ‘decouple’ our economy from China’s”

Annalena Baerbock did the same thing, lambasting Beijing for not condemning Russia’s invasion of Ukraine and threatening China with “consequences” if it sold arms to Russia from a podium next to her counterpart Qin Gang.

“We cannot get around China,” she clarified, adding that the economic relations between the two countries are “good and important.” German trade turnover with China is €300bn a year, a third more than Russia and on a par with Russia’s entire trade with all the EU. Bilateral co-operation should continue, but Germany “should not be naive,” Baerbock said. As part of the government’s planned China strategy, Baerbock said that “we must safeguard freedom and the rule of law in the long term” and “stand up for the international order with a clear stance.”

Qin’s response was rather bemused, as China has already pledged not to sell arms to Russia, explaining that China’s policy is not to inflame the situation, before he politely went on to say that China will do whatever it feels is in its best interests and doesn’t need German advice.

Despite Macron’s statesmanship, his message will not be welcomed by EMs, as for them it is just a reshuffle at the top, with the West intending to continue to dominate the rest but reshuffling the chairs at top table. What the EMs are calling for is a wholesale remake of the global order, a “democratisation” at a sovereign level, that takes their interests more into account.

It is something that all the members of the emerging BRICS bloc have in common: they reject the Western premise that they are the “leaders of the world” and don’t see themselves as in competition with the West but partners. Except they reject the West’s self-appointed role as “global policeman” or the right to interfere in any country’s domestic affairs.

Colonial resentment

This resentment of living in a two-tier system where the US, France, German and the UK make all the rules is becoming more visible thanks to the Ukraine war. Hungarian President Viktor Orban has long admired Putin and Hungary’s
The Serbian example is especially controversial.

Likewise, Turkish President Recep Tayip Erdogan has sought to benefit from the sanctions on Russia by boosting trade and playing middleman between the two warring sides.

But maybe the most outspoken of the second tier European states is Serbia. Sofia too has long and deep historical and cultural ties to Russia and Serbian President Aleksandar Vucic has emerged as one of the most outspoken critics of the sanctions regime who, like Lavrov, has taken the unusual step of speaking out against the pressure the rest of the EU has exerted on Serbia to join the sanctions regime.

Vucic complained in a recent interview with TV Prva that the Swedish Foreign Minister Tobias Billstrom told him “over and over again” to impose anti-Russian sanctions, and threatened to block Serbia’s accession to the EU if it did not join Nato.

“He said our European path depends on that,” the Serbian leader related. “He said that Serbia must join Nato, because Russia had shown that it is a threat to everyone. We cannot join Nato, because it was Nato that threatened us – a country whose troops have never crossed another country’s border. Yet you were the ones to come to our territory and kill our people here. We will never join Nato, we will maintain our military neutrality.”

Serbs are already angry at the US, which has spent more than $1bn on upgrading Camp Bondsteel in Kosovo, which was established during the Nato campaign in the Balkans and used to bomb Serbia, as bne IntelliNews reported in feature Playing Real Risk. It continues to threaten the region and is hugely controversial.

The Serbian example is especially telling, as the Balkan campaign at the end of the 1990s is one of the examples where Nato acted as an aggressor and not defensively, bombing Serbia, albeit to stop the genocide that was going on in the country at the time.

The resentment at Western lectures is even more pronounced in Africa, which is still visibly smarting from their colonial experience. Lavrov was touring Africa in the middle of April to warm receptions all round, but when French President Emmanuel Macron went on a four country tour of francophone countries he faced protests at nearly every stop.

Macron was badly caught off guard and roasted on live TV by Felix Tshisekedi, the President of the Democratic Republic of Congo, during a joint televised press conference two weeks ago. “This must change, the way Europe and France treat us, you must begin to respect us and see Africa in a different way,” Tshisekedi said. “You have to stop treating us and talking to us in a paternalistic tone. As if you were already absolutely right and we were not.”

On each of the stops Macron made on his trip he was met by demonstrations outside the French embassy with locals protesting against their colonialist past.

Part of the problem is that the EMs don’t believe that the “values” espoused by the West are genuine, but merely an excuse by the West to continue profiteering from such EMs.

And the West is compromised by commercial interests, as illustrated by the dispute over Ukraine’s grain exports in April. Poland, by far Ukraine’s most ardent supporter in Europe, banned imports of Ukrainian grain because it had knocked the bottom out of the local grain market, and its own powerful farm lobby was losing money. Moreover, the need to cut the Black Sea grain deal that was renewed in March was widely reported as necessary to avoid a global food crisis and famine in Africa. As bne IntelliNews reported, the bulk of Ukraine’s grain was sent to the EU, where it was sold cheaply to fulfil commercial contracts, feed Spanish pigs or make biofuels. Only 17% of Ukraine’s exports went to Africa last year – a point not lost on the Kremlin.

“It is an open secret that the lion’s share of shipments are effectuated under commercial contracts in the interests of developed nations, while the deliveries of agricultural products to the poorest countries, which the White House is so vigorously concerned about in public, fell to a meagre 2.6%,” the Russian Embassy in Washington said in a statement in April, a fact that has been backed up by EU official export statistics.

The rise of the EMs and their insistence on more say in global politics is a dangerous situation. At the turn of last century the rapidly industrialising Germany had similar complaints as it pushed for more say against the diplomatic hegemony of Britain, at the height of its power, and France that dominated European politics. The two old war powers were unwilling to give, and that dispute resulted in WWI.

Today we find ourselves in frighteningly similar circumstances. The NATO involvement in the war is slowly escalating. In a recent interview with bne IntelliNews, Russian oligarch-turned-dissident Mikhail Khodorkovsky said: “If we had given Ukraine all the weapons we have given them in the last year then this war would have been over in a week.”

A Ukrainian spring offensive is due in Ukraine soon and NATO Secretary-General Jens Stoltenberg says that 98% of the military equipment promised to Ukraine “has been delivered”, including 230 tanks. If they are all thrown into the fray at once then Russia could receive a hammer blow, which the West is hoping will result in peace talks, but it could just as easily lead to further, and a much more serious, escalation. Until now the Western line has been that it is helping Ukraine to defend itself, but if Russia actually starts losing the war, the Kremlin could take the line that the West has changed from defence to offence – and that would constitute an attack by NATO on Russia. Then all bets are off.

www.bne.eu
South Africa is hosting what could turn out to be a historic meeting of the BRICS (Brazil, Russia, India, China, and South Africa) this August, where the leading emerging markets will invite new members to join an expanded “BRICS+” club that can challenge the established hegemony of the leading developed countries that have ruled the world since the industrial revolution three hundred years ago.

Nineteen countries have shown interest in joining the BRICS group of nations ahead of its annual summit in South Africa.

The meeting will be held in Cape Town on June 2-3, during which Brazil, Russia, India, China and South Africa will discuss the expansion of its membership, among other things.

Anil Sooklal, South Africa’s ambassador to the group, said that “13 countries have formally asked to join and another six have asked informally. We are getting applications to join every day.” China, as the world’s second-largest economy, proposed the expansion of the group when it was BRICS’s chair last year.

Russia has been holding regular negotiations with its partners in the BRICS group about possible expansion, Russian Foreign Ministry Spokeswoman Maria Zakharova said on April 27, following a decision to work out appropriate guiding principles, standards, criteria and procedures set at the fourteenth BRICS summit in Beijing.

“The entire range of issues associated with this is being discussed at BRICS sherpa and sous-sherpa meetings, and, of course, this requires a thorough analysis and delicate internal work by the five countries to reach a consensus,” the Russian diplomat said. Though the issue is being discussed on a regular basis, it is too early to reveal any details about the approval process, she added.

Growing family
In the middle of June 2009, the four fastest growing countries in the world came together for the inaugural BRIC summit. Leaders from Brazil, Russia, India and China met in the Russian city of Yekaterinburg to create a formal organisation where they could pool their resources and co-ordinate their relations with the old world powers. The first formal meeting of the BRIC foreign ministers took place in Yekaterinburg in 2008, but this meeting was attended by presidents and prime ministers, and significantly upped the ante.

Originally coined as a marketing term by Goldman Sachs’ legendary head of research Jim O’Neill to sell stocks, the 2009 meeting marked the group’s first foray into politics as it attempted to create an organisation that had never existed before.

South Africa joined in December 2010, bringing Africa into the fold, although O’Neill says it is too small compared to the others to really qualify. However, from its inception the BRICS leaders began the process of integrating the countries around them into a loose trading and investment confederation, although for most of the last decade trade with the West has been far more important for the BRICS than trade with their neighbours.

Now what has been a loose club is changing and attempting to establish something with greater, and more co-ordinated, political heft. The war in Ukraine has polarised the world, as Western diplomats have been touring the world and attempting to persuade, cajole or threaten the EMs into supporting Western sanctions on Russia. As bne IntelliNews has reported, many countries continue to have deep economic, political and military ties with Russia and are not interested in hurting these interests for what
they see as a European problem that doesn’t concern them. The unintended consequence has been for many EMs to turn to the BRICS as a counterweight to US-led pressure on them.

The proposed enlargement has raised concerns among current members, who fear their influence could be diluted, especially if China’s close allies are admitted. China’s gross domestic product (GDP) is more than twice the size of all four other BRICS members combined.

The BRICS countries are working to find consensus on the issue of expanding the alliance. Brazilian Foreign Minister Mauro Vieira said in an interview with Spain’s El Mundo published on April 25.

“Currently, a discussion is underway within BRICS on its expansion but we are looking for consensus,” the top Brazilian diplomat said. “But if we agree on expanding the union, then of course Argentina will be Brazil’s candidate,” he added.

The foreign ministers from the five member states have confirmed their attendance for the discussions in June. Several heads of state are expected to travel to the summit too, including possibly President Vladimir Putin.

South Africa’s Sooklal has confirmed that Putin has been invited and says President Cyril Ramaphosa said at the weekend that his government was going to pull out of the ICC to allow Putin to come, but then walked those comments back less than 24 hours later, as the decision is deemed to be unconstitutional. The Kremlin has requested clarification from Pretoria on the situation.

The decision to add South Africa marked a change of direction. O’Neill’s original configuration of BRIC was predicated simply on the fact that all four of those countries were very large, developing, had large populations and great economic potential. South Africa doesn’t fit all of those criteria but it is one of the leading economies in Africa, and the African continent as a whole does qualify.

More than a dozen countries have applied for membership and it seems like that some of them will be accepted on the basis of their geography, rather than O’Neill’s criteria.

Relations between the Middle East and the US have decayed rapidly since the so-called shale revolution saw the US go from a net oil importer to a net exporter. The Kingdom of Saudi Arabia (KSA) and United Arab Emirates (UAE) are both former close US allies, but have both seen relations with Washington sour, and now hoping to move closer to the other leading EMs. As leading countries in the Middle East their accession would bring a new and important EM geography into the alliance – and one that controls vital supplies of the world’s oil together with Russia. Iran, another Russian ally, has also applied for membership, as has Bahrain.

Brazilian President Luiz Inácio Lula da Silva is hoping to bolster South America’s clout in the organisation and has proposed Argentina become a member too, while Nicaragua and Venezuela are also both close to Russia.

Amongst the other candidates are Algeria, Egypt, Turkey and Indonesia – all Russian allies and customers of its commodities. Two nations from East Africa and one from West Africa have also shown interest, although Sooklal did not identify them.

Algeria, Argentina and Iran have already formally filed requests to join BRICS, while Saudi Arabia, Turkey and Egypt have signalled their interest, but are yet to make a formal request.

Tellingly, expanding the club is not the only topic of discussion on the agenda: the BRICS members are going to talk about payments too. As bne IntelliNews has reported, part of the changes that come with the rise of the BRICS is a drive to dump the dollar and trade in national currencies. Both Russia and China have already largely moved over using the yuan to settle international trade deals and the share of the dollar in sovereign reserves has already notably fallen. A large group of EMs co-ordinating a change out of the dollar could accelerate that process, as well help sanction-proof their economies from Western pressure.

“What was discussed during a visit to Buenos Aires and then in Montevideo and in a conversation with Paraguayan President [Mario Abdo Benitez], as well as with other countries, such as India and China, involved a payment system in national currencies and not a common currency,” Brazilian Foreign Minister Vieira told El Mundo.

“We would like to make bilateral payments in trade using corresponding currencies, bypassing strong currencies, thus avoiding burdensome transfer expenses,” the Brazilian foreign minister concluded.

To make a multilateral payment system work will require a multilateral bank to guarantee the payments. But that has already been set up, the New
Development Bank (aka the BRICS Bank), which will also be discussed at the confab.

**EMs confabs**

A large expansion of the BRICS bloc would increase the group’s sway on the international stage. India was a rotating member of the UN Security Council shortly after the war in Ukraine started and, together with China, abstained from the vote to condemn Moscow for the invasion. However, the EMs would like to see the Security Council expanded to include new EM members. Currently there are three European countries (France, the UK and Russia) along with China and the US on the council, but none from either Africa or Latin America.

Russia has just taken over the chairmanship of the Security Council, and Russian Foreign Minister Sergei Lavrov immediately called for the body to expand to include representation of Asian, African and Latin American countries.

“The evident under-representation [in the UN Security Council] of Asian, African and Latin American countries should certainly be fixed,” he said at a dramatic news conference last week to sum up the results of Russia’s first session as chairman.

“The multi-polar world is objectively being shaped. I don’t know what the final result and configuration will be,” he added.

The BRICS organisation is being chaired by South Africa this year but there will be a G20 summit next year, where Russia will be the chair, that is likely to produce a buzz of activity similar to that which this BRICS summit has done. This year’s G20 summit was in Indonesia, which is another Russia ally. Putin was due to attend that event too, but pulled out at the last minute.

Russia will also host the second Russia-Africa summit in July in St Petersburg, where the majority of Africa’s 54 heads of state are expected to attend. The US has already been actively lobbying African governments not to attend the Russian event, and how many skip it will be a litmus test of the Kremlin’s support in Africa.

Russia also took over the chairmanship of the Eurasian Economic Union (EAEU) that was set up to co-ordinate between several of the CIS countries. However, as bne IntelliNews reported, since the war in Ukraine started the Kremlin is in the process of re-tasking the EAEU to also take in new members in Southeast Asia and the Middle East. That tallies with China’s plans, for which Eurasia is also a vital region for its Belt and Road Initiative (BRI).

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*Source: IMF WEO April 2023*
Death of the dollar

Russian Deputy Prime Minister Alexander Novak said on April 25 that Russia is now settling more of its international trade deals with yuan than it is with dollars.

The unintended consequence of the US’ decision to weaponise the dollar and use it as part of the extreme sanctions regime on Russia has been to shock the world’s central banker community and undermine confidence in the dollar as the default foreign exchange currency of trade and reserves.

The result has been to give impetus to the long-mooted desire to break the dollar’s monetary hegemony, so that there is for the first time some real political will behind making the change.

The dollar has been the foundation on which global trade has been built since the Bretton Woods agreement in 1944 and that foundation is now starting to crumble. While developed markets are confident that the US will never sanction their use of the dollar, the same is not true for the global second-class citizens of the emerging markets. The EMs are now rushing into gold as the ultimate store of reserves value and actively rolling out programmes to settle their international trade deals in national currencies.

The switch away from the dollar will take a long time, but the process has begun.

De-dollarising Russia
Russia has been de-dollarising for years. The Central Bank of Russia (CBR) has been actively increasing its share of gold as a monetary reserves since 2007 and since the annexation of Crimea it has been actively selling off its dollar cash and securities. Today the central bank has no dollars left in its reserves and by the end of this year it intends to hold only yuan (60%) and gold (40%).

That will make Russia unique amongst the world’s big economies, as no one else would dare to concentrate its store of sovereign of wealth in so few monetary instruments. But since the imposition of the CBR sanctions in the first days of the war it has been cut off from using the dollar – the world’s preferred means of exchange.

Russia is still actively exporting and needs some sort of currency to settle its bills. Of the currencies on offer, the Chinese yuan is the leading choice and Beijing has also been actively promoting the internationalisation of its legal tender.

But Moscow is not alone in wanting to reduce the role of the dollar. In addition to China, India and Brazil have also both started programmes to use their own currencies in trade deals. Brazilian President Luiz Inácio Lula da Silva has even suggested setting up a pan-South American currency to facilitate trade on the continent – a Latin American equivalent of the euro.

That is still a while away and energy deals in particular are driving the current switch. Russia accepts more payments for energy exports in rubles than anything else since the Kremlin forced the gas-for-rubles deal on its European customers last March.

The increase in ruble usage was primarily due to natural gas supplies to “unfriendly” countries shifting to rubles in May 2022 following the introduction of the new rules, according to the CBR.

According to the Russian central bank, the yuan’s share in Russia’s import settlements in 2022 jumped to 23% from 4%.
“The yuan and ruble are in high demand, so that vector will continue. China already pays in yuan for gas and partially for oil, there are settlements in the ruble as well,” Novak told Russian state TV.

The ruble’s share in Russia’s export payments rose to over 30% by the end of last year, surpassing the euro’s share, and became equal to that of the dollar, according to the CBR’s “Review of the Russian Financial Sector and Financial Instruments” released in April.

Nevertheless, the dollar (and to a less extent the euro) continue to play the central role in Russia’s trade. Despite the ruble’s surge in the share of foreign exchange deals, the overall weight of the dollar and euro in payments for both export and import supplies in Russia amounted to slightly less than 50% by the end of 2022. This figure is in line with the country’s general foreign trade structure.

Dollar’s dominance in danger
Global de-dollarisation has been a long-standing trope, but now there is some political will behind actually implementing it and US officials are starting to get worried.

Former Treasury Secretary Lawrence Summers warned of “troubling” signs that the US is losing global influence. And the current secretary, Janet Yellen, also warned that there are signs that the dollar will also lose its dominance of the global financial system at some point.

The dollar has come into focus as a US yoke under which EMs labour. The ubiquitous use of the dollar to settle international trade deals gives the US enormous power as well as the ability to borrow an almost infinite amount of money.

But this system is in danger of breaking down, warn experts. It will take a long time, probably decades, but the weaponisation of the dollar in the US drive to punish Russia has unleashed some powerful tectonic forces that have already seen a flight from dollars and the yuan’s use in international trade double in just one sort year, albeit still taking only a small share.

The economic sanctions imposed on Russia and other countries by the US “put the dollar’s dominance at risk as targeted nations seek out an alternative,” Yellen said on April 25, 2023.

“There is a risk when we use financial sanctions that are linked to the role of the dollar that over time it could undermine the hegemony of the dollar,” Yellen said.

“Of course, it does create a desire on the part of China, of Russia, of Iran to find an alternative,” she told CNN’s Fareed Zakaria in an interview. “But the dollar is used as a global currency for reasons that are not easy for other countries to find an alternative with the same properties.”

These concerns are music to the Kremlin’s ears. Russia’s most effective counter to Western sanctions would be to break the dollar’s hegemony over international trade. That would be far more damaging to US power than any sanctions the West can impose on Russia.

“The Americans have started the de-dollarisation process. Already now this process is being analysed particularly by American political analysts and economists with deep concern,” Russian Foreign Minister Sergey Lavrov told a press conference following a visit to New York as part of Moscow’s presidency of the UN Security Council.

Yuan on the rise
The other big EMs looking for an alternative to the dollar are also turning to the yuan as the obvious replacement. The US decision to weaponise the dollar in its sanctions war with Russia has shocked central bankers around the world, undermining their confidence in the currency and galvanising them into actively reducing their exposure to the US-controlled currency.

The yuan’s share of global trade finance has more than doubled since the invasion of Ukraine last year, an analysis by the Financial Times found. “A surge that analysts say reflects both greater use of China’s currency to facilitate trade with Russia and the rising cost of dollar financing,” the paper reported in April.

Russia’s trade with China is booming, topping a record $185bn in 2022, and is expected to realise Moscow and Beijing’s mutual goal of $200bn this year – a year earlier than expected. Russian companies are already paying for most of their Chinese imports in yuan, and trading in yuan on the Moscow Currency Exchange has also soared as a result. Russian companies may be cut off from SWIFT, but they have access to China’s Cross-Border Interbank Payment System (CIPS) that allows direct transactions between the two countries, and could eventually offer an alternative to SWIFT. Total settlements on CIPS came to CNY97 trillion ($14 trillion) in 2022, central bank data showed, a year-on-year increase of 21%.

Another factor pushing traders to switch to the yuan has been the extremely rapid rise in US interest rates, which has increased the cost of using the dollar. The Fed has been aggressively hiking at its fastest pace ever – the Fed hiked rates nine times since last year – in an effort to contain soaring US inflation, while the People’s Bank of China (PBC) has cut rates twice in the last year, making borrowing in yuan cheaper.

Of course the yuan (or even the euro) is a very long way away from pushing
Despite the increasing role of the yuan, China and Hong Kong.

between the capital markets of mainland transactions, including securities trading period. The analysis included all types of trade fell from 83% to 47% over the same share of the dollar in Chinese foreign practically zero in 2010. Meanwhile, the share of Russia – with China buying Brazil's agricultural commodities and minerals and investing in the Latin American country's large consumer market and infrastructure sector.

Like Putin, Lula called on Emerging Markets (EMs) to work towards replacing the dollar with their own currencies in international trade, lending his voice to Beijing's efforts to end the greenback's dominance of global commerce.

India has also launched a campaign to reduce the share of the dollar in its international trade and settle deals in national currencies, although Reuters

Since the start of the war there has been a rapid yuanisation of the Russian economy with the CBR switching from the dollar to the yuan for market interventions and regular Russians changing their hard currency accounts from dollars and euros to yuan.

Last month Brazil signed off on a similar deal with China that allows all the South American countries to settle trade deals in yuan and their own currencies. A pool of EM trade deals in non-dollar currencies is developing with the yuan as the anchor currency that will allow of multi-currency trade outside of the dollar world.

"Every night I ask myself why all countries have to base their trade on the dollar," Brazil’s President Luiz Inácio Lula da Silva said in an impassioned speech at the New Development Bank in Shanghai, known as the “BRICS bank”.

"Why can't we do trade based on our own currencies?" he added, drawing loud applause from the audience of Brazilian and Chinese dignitaries. “Who was it that decided that the dollar was the currency after the disappearance of the gold standard?"

Like Russia, Brazil's bilateral trade has ballooned over the past decade to reach $150.4bn last year – not far behind that of Russia – with China buying Brazil's agricultural commodities and minerals and investing in the Latin American country's large consumer market and infrastructure sector.

Like Putin, Lula called on Emerging Markets (EMs) to work towards replacing the dollar with their own currencies in international trade, lending his voice to Beijing's efforts to end the greenback's dominance of global commerce.

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the dollar off its pedestal: 84.3% of international trade deals in February this year were still settled in dollars, down from 86.8% a year earlier, whereas the yuan's share of total trade has risen from less than 2% in February 2022 to 4.5% a year later, according to the FT. Those gains put China's currency in close contention with the euro, but even that only accounts for 6% of total global trade deals.

Nevertheless, currency traders were still shaken by the sudden jump in the use of the yuan, and 4% in their world of multi-billion dollar trades is still a substantial change and a win for Beijing's campaign to boost the yuan's use.

While the use of yuan in total international trade remains tiny, it is already starting to dominate trade at a regional level, especially in Asia. Russia already settles the largest part of its trade with China in yuan, but China too has just seen the yuan overtake the dollar in its own international trade.

The Chinese yuan surpassed the dollar to become the most widely used cross-border currency in March, according to Bloomberg, hitting a historic high of 48% at the end of March, against practically zero in 2010. Meanwhile, the share of the dollar in Chinese foreign trade fell from 83% to 47% over the same period. The analysis included all types of transactions, including securities trading between the capital markets of mainland China and Hong Kong.

Despite the increasing role of the yuan, the total volume of world trade in 2022 amounted to $32 trillion, while the total volume of China's foreign trade during the same period was CNY4.27 trillion (over $6.2 trillion). However, in January 2023, the PRC Customs Administration announced that trade turnover between Russia and China grew by 29.3% in 2022 to a record $190.27bn.

But there are still many headaches slowing the yuan's rise. The PBC has been pushing the use of yuan for years, but that ended in a devaluation and sever capital flight in 2015, after which the regulator introduced strict currency controls. Those have lessened the appeal of China's currency for other countries. A comprehensive set of derivative products is also still needed for hedging currency movements that are par for the course in trade financing. While the use of yuan in trade has doubled to 4%, its use in currency deal done via SWIFT has remained stuck at 2%, reports the FT. As a result for the moment, the PBC is focusing on promoting the yuan in the settlements of commodity trades and leaving the more generic currency trading or use as a store of value in reserves for later.

BRICS all in

President Vladimir Putin has repeatedly called for a switch away from the dollar but has joined Beijing in encouraging Russia's leading trade partners to adopt the yuan. During China's President Xi Jinping's three-day trip to Moscow in March Putin repeated that half of Russia's trade with China is settled in national currencies and other members of the Russian-led Eurasian Economic Union (EAEU) should think about doing the same.

www.bne.eu
reported that Delhi would rather not to settle deals with Russia in yuan and prefers using the UAE's dirhams.

In April the Reserve Bank of India (RBI) invited additional central banks from 18 countries – including Fiji, Germany, Guyana, Israel, Malaysia, Mauritius, Myanmar, New Zealand, Oman, Russia, Seychelles, Singapore, Sri Lanka, the UK, as well as several from Africa, including Botswana, Tanzania, Kenya and Uganda – to open special Vostro Rupee Accounts (SVRAs) that will allow them to settle payments in Indian rupees as part of a massive move to de-dollarise trade. In all the RBI has signed 60 SVRA agreements in the last year.

The UAE's dirham is another candidate for settling international trade, as its value is based on oil exports and trading. Russian oil is being increasingly traded on the Dubai exchange and the price quoted in the local currency as an alternative non-dollar market to those in the West for this oil.

The tense relations between China and India have made Delhi reluctant to hold or use yuan. Thousands of Indian and Chinese troops are locked in a standoff along their disputed Himalayan border since 2020, casting a shadow over the whole relationship.

The leading Emerging Markets (EMs) have been freaked out by America’s weaponisation of the dollar as the mainstay of its extreme sanctions regime against Russia. For eight decades the dollar has been a diamond hard currency, but overnight Russia’s $600bn worth of hard currency reserves – the fourth largest in the world – was made useless. In a world where central bankers can no longer trust the dollar they have scrambled to bulletproof their own reserves by accumulating the agnostic yellow metal. This radical change has given real impetus to the long-mooted process of dumping the dollar as the preferred currency for international trade and hard currency reserves.

So far only Russia has taken the radical step of selling off all its currency

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**EM Goldbugs**

**bne IntelliNews**

The dollar is becoming toxic in regular transactions, Russian Deputy Minister of Foreign Affairs Alexander Pankin told reporters on April 25, 2023. Several countries have drastically reduced their dollar reserves while increasing their gold reserves in 2022.

“These trends show that the US dollar is becoming big, strong, but still toxic for everyday operations. It’s not a mainstream trend, but I believe it might become a trend,” Pankin added.

But relations with Moscow have gone from strength to strength. India’s oil imports from Russia have risen from next to nothing in 2021 to 1.5mn bpd now and in the first quarter of this year some Indian refineries have started to pay for their crude imports in rubles, although the details of the interaction between the two central banks is still being worked out.

In the meantime, the UAE’s dirham remains the currency of choice for settling deals. The problem with settling deals using the Indian rupee is that it is only partly convertible – it has to be changed into dollars before it can be changed in other currencies – making it unattractive for Russia.

**Digital future**

Long term, Russia would like to get rid of national currencies altogether. The Kremlin has already launched a long-term project to introduce a CBR-regulated digital ruble, despite the regulator’s initial mistrust of electronic currencies.

The use of digital currencies in international payments will be completely unrestricted, Russian Finance Minister Anton Siluanov said on April 22.

“We are launching an alternative system of payments based on modern technologies (digital financial assets, digital currencies),” the minister said. “Digital currencies could be used in cross-border payments. This is just at the earliest phase of discussions, but the future lies with the use of the digital ruble, the digital yuan and other similar currencies. This is a system of payments that is bound by no restrictions. Two parties come to an agreement, make settlement payments, and no other country could step in and freeze such payments,” Siluanov noted as cited by Tass.

Earlier, the CBR said that the entire system of cross-border payments would undergo a transformation and could be based on national digital currencies in five to seven years.

The Russians have also started work on building digital exchanges with their own coins to trade commodities like metal that also provide the backing of the value of the coin. Like China’s emphasis on using trade to encourage the use of the yuan, Russia is hoping to use access to its vast store of minerals as a mechanism to get commodity traders to start settling deals using a digital ruble and so abandon money altogether. But that is a very long-term project.

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**BRICS BLOC**

**EM Goldbugs**

As bne IntelliNews reported, many countries are increasingly turning to the yuan as an alternative, but the first thing most have done is turn to the most ancient store of value: gold.

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holdings bar the yuan. But as part of that process Russia intends to increase the share of gold in its monetary reserves to 40% by the end of this year.

And other EMs are following suit. Emerging markets have been the biggest buyers of gold this year as they hunt for alternative and less vulnerable stores of value.

Central banks accumulated gold at the fastest pace on record in the first two months of 2023, according to a report by the World Gold Council's (WGC) Krishan Gopaul. In January and February, central banks collectively bought a net 125 tonnes of the yellow metal – the largest amount for the year-to-date period since banks became net buyers in 2010 – out of the total 400 tonnes of gold purchased in that period and 1,136 tonnes bought in all of 2022, according to the WGC. And it was EMs that did the most buying. Europe stopped buying large amounts of gold decades ago.

**Russian gold**

Russia has had a long-standing policy of building up its gold reserves. The CBR has been actively buying gold and increasing its share in reserves since 2007 – the same year that President Vladimir Putin gave his famous speech at the Munich Security conference warning that if Nato didn’t stop expanding Russia would push back.

And if anything the pace of CBR purchases has only accelerated in recent years. The CBR set new records for gold purchases ever year for five years in a row between 2012 and 2018 to build up 2,000 tonnes of gold – the same period that President Putin re-tasked the lion’s share of state investment from the economy to modernising the military.

In 2007 Russia’s gold reserves were worth about $14bn out of total reserves of around $420bn. Today Russia has a little less than 2,400 tonnes of gold worth $135bn (22.5%) out of total reserves of $600bn as of April. As the CBR intends to increase the share of gold to 40% of reserves by the end of the year under the new policy, the CBR will continue to be a big buyer of gold all year.

Russia has been increasing gold’s share in its reserves actively since 2007 as part of Putin’s long-term preparation for the possible showdown with the West. Indeed, the CBR has already sold off all its dollar and T-bill holdings and this year says that it will clean out the rest of the currencies it has, leaving only the yuan (60%) and gold (40%) in an unprecedented and highly risky move.

**EM gold**

In the last year, the other leading EMs have got into the act, buying more gold than at any time since records were started to get out of the dollar and into something that can’t be sanctioned. Reserve managers’ purchases of gold were up 152% last year, the Financial Times reports, according to an annual survey of 83 central bankers who manage $7 trillion in reserves. Respondents said they believed that two thirds of their peers would increase purchases this year.

The countries reporting the largest gold purchases in the first two months of this year include: Singapore (51.4 tonnes), Turkey (45.5 tonnes), China (39.8 tonnes), Russia (31.1 tonnes), Egypt (44.8 tonnes), Iraq (33.9 tonnes) and India (2.8 tonnes), according to WGC.

China now has more than 2,000 tonnes of gold as of December, slightly less than Russia, for the first time ever. Turkey has 542 tonnes after its reserves rose by a quarter in 2022. Countries in the Middle East and Central Asia were also listed by the council as “active buyers” of gold last year by the WGC.

What unites these countries is that they are all having economic problems of various degrees and they are almost all members of the Russian sympathetic bloc and have also seen their relations with the US deteriorate.

Gold is back in vogue, and almost no one has reduced their share of gold in reserves since the war in Ukraine started. Amongst the only net sellers were Kazakhstan and Uzbekistan, but both of those are big gold producers. Croatia and the United Arab Emirates (UAE) also sold, although year-to-date purchases far outweighed sales.

To an extent, the East-West clash has pushed the world back towards using gold as the basic store of value coupled with the increased political will to dump the dollar where possible.

That is a partial abandonment of the 1944 Bretton Woods Agreement – and agreements amongst Western countries including the US, Western Europe and Japan – that saw the creation of a fiat currency system based on guaranteed conversion of the dollar and the creation of the International Monetary Fund (IMF) to oversee the system. Set up in the late stages of WWII, the Bretton Woods system guaranteed the dollar’s dominance, but it is also seen as yet another Western system that the leading EMs are increasingly distrustful of.
Central and Southeast European companies eye lucrative Ukraine reconstruction opportunities

bne IntelliNews

There is no end in sight yet to the war in Ukraine, but governments and businesses in Central and Southeast Europe are already eyeing potential lucrative contracts when the war finally does cease. Rebuilding will be on a massive scale and cost hundreds of billions of dollars.

Databases of companies ready to get involved in the reconstruction have already been drawn up in Poland, which is expected to act as a hub for rebuilding efforts, together with Romania. But officials from even the smallest countries in the region have expressed their readiness to get involved in what should be a construction bonanza.

Ukrainian officials are also preparing the ground, perhaps in response to the increasingly vocal speculation from other countries salivating at the thought of the huge reconstruction contracts on offer. Kyiv made it clear on April 6 that the government wants local Ukrainian companies to carry out at least 60% of the work.

The scale of the job can hardly be underestimated, and only gets bigger each day the war drags on. The cost of reconstruction and recovery in Ukraine had risen to $411bn, or 2.6 times the country’s estimated 2022 GDP, by the one-year anniversary of the war on February 24, according to a joint assessment by the government of Ukraine, the World Bank Group, the European Commission and the United Nations. And that is just the physical damage. If you add in the lost business, fall in exports and other economic factors, then the total cost of the war gets up to around $1 trillion, according to Natalie Jaresko, the former Minister of Finance. Reconstruction and recovery is expected to stretch over ten years, requiring both public and private funding, although it is still not clear who will pick up the bill.

By sector, the biggest needs are in transport (22%), housing (17%), energy (11%), social protection and livelihoods (10%), explosive hazard management (9%) and agriculture (7%), according
to details published by the World Bank in March. Just demining the country could cost up to $1.5bn, according to the World Bank. Ukraine is now the most mine-contaminated country on earth.

Compared to June 2022, the largest proportionate increase in damages was in energy, where as of February it was more than five times higher, after Russia repeatedly targeted energy infrastructure with missile attacks. The geographic areas with the greatest increase in needs are frontline regions of the war: Donetsk, Kharkiv, Luhansk and Kherson.

According to a report by the Kyiv School of Economics, as of January the war had destroyed or damaged more than 149,300 residential buildings, including 131,400 private houses and 17,500 apartment buildings, as well as more than 3,000 educational institutions ranging from preschools to universities. Hundreds of hospitals, religious buildings, cultural facilities and other buildings were also damaged or destroyed.

The Ukrainian government and its partners have already started some of the work. The most urgent work, that won’t wait for the end of the war, is to build accommodation for displaced citizens. Next on the list is to repair the energy infrastructure.

For example, in the health sector over 500 affected healthcare facilities have been partially or fully repaired; the energy and transport sectors have received equipment, materials and financing to make rapid repairs. Kyiv made it through the first winter of war with the lights still on and water flowing from the taps, as reported by bne IntelliNews’ correspondent on the ground. Many Polish companies, for example, are already working in Ukraine, where the demand to rebuild infrastructure is ongoing, according to the Polish Investment and Trade Agency (PAIH), the newspaper Puls Biznesu reported on April 5.

Lithuania, another staunch supporter of Ukraine, has made the reconstruction of educational and training institutions and communications infrastructure, and the provision of temporary housing for refugees, its priorities in the short term, according to a plan approved by the government in August 2022. Among the projects announced at the time were construction of a mobile residential camp and renovation of a school in Borodyanka in the Kyiv region, rebuilding the bridge over the Trubiz river and rebuilding a kindergarten in the town of Irpin, in Kyiv’s suburbs.

Fellow Baltic state Estonia has focused on the Zhytomyr region, where it started rebuilding a kindergarten and the meantime and 97% believe that Ukraine will win the war, according to a survey by the International Republican Institute (IRI) conducted in March.

For Ukraine to withstand Russian pressure, however, it will need more military support from the West. Currently, European countries are struggling to fulfill their promises to send hundreds of tanks to Ukraine. There are fears that unless the West delivers more offensive weapons, Ukraine’s army could be overwhelmed this summer and there is a potential supply crisis looming this summer as Ukraine is running out of ammo. According to bne IntelliNews’ frontline reports, the Ukrainian army is already rationing shells as stocks start to run low.

Ukrainian President Volodymyr Zelenskiy said recently that Ukraine may be forced to start peace talks if it loses control of Bakhmut, in a two-day conversation with AP journalists on March 28-29. He predicted that if Russia defeats Ukraine in Bakhmut, Russian President Vladimir Putin would set out to “sell” a victory to the international community.

On the Russian side, the Kremlin has put Russia’s economy on a war footing and is ramping up military production. However, the Kremlin does not appear to expect a speedy victory; presidential spokesman Dmitry Peskov warned colleagues that they should get ready for a possible “forever war”, according to a recent report by The Guardian.

Looking ahead to reconstruction
But while the outcome of the war and its timing remain completely uncertain, officials and companies in Ukraine’s neighbours to its west are already thinking ahead to the reconstruction period.

“Databases of companies ready to get involved in the reconstruction have already been drawn up in Poland, which is expected to act as a hub for rebuilding efforts, together with Romania”
On February 15-16 the Rebuild Ukraine exhibition took place in Warsaw, attended by hundreds of representatives of government institutions and businesses from Central European countries such as Czechia, Estonia, Latvia, Poland and Slovakia, as well as Western Europe.

Poland has repeatedly been referred to as a hub for the reconstruction of Ukraine. Poland is the biggest economy in Central and Eastern Europe (CEE), it has a long border with Ukraine, and Warsaw has been one of the most loyal supporters of Ukraine since long before Russia’s invasion. Polish President Andrzej Duda was instrumental in pushing fellow EU members into promising Ukraine over 400 modern Leopard 2 main battle tanks (MTBs) and other military aid to be sent to Kyiv.

The issue of reconstructing Ukraine after the war is expected to feature prominently in Polish-Ukrainian talks in the coming weeks and months, as the two allies are negotiating a treaty to give their new special relationship fresh momentum.

The visit of Ukrainian President Volodymyr Zelenskiy in Warsaw on April 5 could be key in moving the treaty forward and laying the groundwork for Polish companies to partake in the reconstruction effort, worth hundreds of billions of dollars.

“It is a programme of very intensive co-operation on the reconstruction of Ukraine after the war, in which the Polish and Ukrainian authorities, as well as international organisations, and financial institutions such as the G7 Group, the World Bank and the International Monetary Fund [IMF] will participate,” Poland’s Deputy Foreign Minister Pawel Jablonski told Wnet radio in early April.

“Polish companies are very interested in this,” Jablonski also said, adding that businesses are asking about “conditions for economic operation” in Ukraine to prepare to move in after the war.

The minister said that the reconstruction of Ukraine is not only about reconstructing what was destroyed by Russia but also about building new elements of infrastructure in line with Western standards, for example the European-standard railway or making Ukraine a hub for European green energy.

There are more than 2,000 Polish companies in the agency’s database of Polish companies interested in exporting to Ukraine or participating in the reconstruction, according to Puls Biznesu.

A report by Polish bank Pekao SA said that the reconstruction of Ukraine after the war will expand Poland’s economy to €38.9bn, equivalent to around 3.8% of its GDP. Breaking this down, Pekao bank analysts estimate that Poland will gain €6.69bn in direct benefits.
In Latvia, opportunities during the reconstruction period were discussed at a workshop hosted by the Ministry of Finance in February.

“Ukraine’s post-war recovery and reconstruction needs are expected to be extremely high – estimated at about $349bn. These funds will be needed to restore public services, repair damaged infrastructure and sustain economic activity through investments in agribusiness, manufacturing, infrastructure and many other areas. Private sector export-oriented companies across the world, including Latvia, can support Ukraine’s reconstruction efforts by implementing projects financed and procured by the IFIs [international financial institutions], benefiting from a variety of financial and risk-sharing instruments,” said an announcement from AmCham Latvia, which participated in the workshop.

“The main objective of this workshop is to introduce the Latvian private sector to the IFIs … operations and upcoming reconstruction project pipeline in Ukraine, along with presenting IFI’s financial and risk-sharing instruments in Ukraine and other developing countries,” it added.

In one example, the chairman of the board of Latvijas Dzelzceļs (Latvian Railways), Rinals Plavnieks, said at the end of March that the company is “ready to continue supporting reconstruction of the Ukrainian rail industry”. The company took part in a meeting between Latvian and Ukrainian ministers and industry leaders in March, at which topics including reconstruction of Ukrainian rail infrastructure were discussed.

**Economic opportunities for Romania**

Companies in Romania, the second-largest economy in the region after Poland, are also positioning themselves to get involved in the reconstruction effort.

In Romania, the Romania-Ukraine Bilateral Chamber of Commerce signed a memorandum of understanding (MoU) with the Ukrainian embassy in Bucharest in January to create a database of eligible companies for Ukraine’s reconstruction projects.

The following month, the Chamber of Commerce and Industry of Romania (CCIR) signed another MoU with the Chamber of Commerce and Industry of Ukraine to strengthen business relations and develop economic co-operation between the two states. The memorandum includes a new article on the joint management of a platform to capitalise on economic opportunities related to the future reconstruction of Ukraine. CCIR will select Romanian companies with potential to meet the requirements launched by the Ukrainian side.

“Today, together with our Ukrainian colleagues, we laid the foundations for the creation of an integrated platform that will enable Romanian companies in the reconstruction effort that will follow. We are happy that we already have many signals from the business environment in Romania interested in participating in this process,” said the president of the CCIR, Mihai Daraban.

While less vocal than Poland on military support for Ukraine, Romania has already played an important role in helping keep the Ukrainian economy going by opening up its Port of Constanta to exporters of Ukrainian grain and other products. Constanta handled a record amount of goods in 2022 after Ukrainian grain and other goods passed through the port.

Bulgaria’s relationship with Ukraine is more complicated. Shortly after the invasion, Zelenskiy extended an invitation to Bulgaria’s then Prime Minister Kiril Petkov to participate in Ukraine’s post-war reconstruction programme, according to a statement from Bulgaria’s Council of Ministers. The invitation was a “gesture of gratitude” for Bulgaria’s support during the conflict, and will make Bulgaria one of the few countries to be included in the programme, it said at the time.

It later emerged that Bulgaria had secretly sent fuel and Soviet-calibre ammunition to Ukraine in the opening days of the war.

However, the strongly pro-Ukraine coalition government led by Petkov collapsed in mid-2022 and was replaced by a caretaker government appointed by President Rumen Radev, who has become increasingly Russia-oriented since the invasion. Sofia’s future course is unclear, as the country has just held its fifth general election in two years, with no immediate prospect of a new government being formed.

**Small countries seek to get involved**

Even the smaller countries in the region, among them Slovenia with a population of just over 2mn, are eyeing reconstruction opportunities in Ukraine.

Slovenian Prime Minister Robert Golob visited Ukraine on March 31 to express political support and solidarity with the Ukrainian people amid the ongoing Russian military aggression, but he also stressed Ljubljana’s interest in getting involved in the reconstruction.

During the talks with Ukrainian President Volodymyr Zelenskiy, Golob said that Slovenia is interested in co-operating in the recovery of Ukraine and is ready to engage in the reconstruction of the Kharkiv region, especially the city of Izium.
“We will provide further humanitarian aid and contribute to post-war reconstruction,” Golob said. In addition to discussing political matters, Golob and his delegation also met with Ukraine’s Prime Minister Denys Shmyhal to discuss economic co-operation.

Golob underlined the interest of the Slovenian side to start actively thinking about how to build on the cooperation that was established during the Russian aggression in the post-war period.

“The Ukrainian market is not unfamiliar to Slovenian companies, and it would be good to lay solid foundations for future economic relations now,” according to the statement.

Croatia also said several times that it is ready to help with Ukraine's post-war recovery. Balkan countries such as Bosnia and Croatia have their own experience of post-war reconstruction after the wars in former Yugoslavia in the 1990s. This was noted by Shmyhal during his Croatian counterpart Andrej Plenkovic’s visit to Kyiv in March.

Other small countries in the region such as Albania, Montenegro and North Macedonia have also pledged to do what they can to rebuild Ukraine.

Russia’s friends in CEE

Even those countries that have maintained a relationship with Russia – to the dismay of both Kyiv and most EU members – such as Hungary and Serbia, are seeking to play a role in the reconstruction of Ukraine. However, Hungary’s continued energy sector cooperation with Russia and Serbia’s refusal to join sanctions may well result in their companies being side-lined.

“Hungary will provide all possible assistance for the reconstruction of Ukraine”, the foreign ministry said in a short statement in early April, which came right after one of Hungary's top security policy experts said Hungarian companies will most likely miss out on post-war construction projects. It is rather unusual for any ministry to react to reports, which may show the desperation of the government, Forbes.hu wrote.

Ferenc Kaiser, a professor at the University of Public Services, said the future reconstruction of Ukraine will cost around $400bn-$500bn and Hungarian companies will thus be left out of what could be almost half a trillion dollars-worth of business. He is one of the first persons to say out loud what is becoming the reality that the prospects of Hungarian companies winning tenders in Ukraine are slim, given Budapest’s position on the war, which many allies see as representing Russian interests.

Hungary has refused to send arms to Ukraine, blamed EU sanctions on Russia for high-energy prices and the highest inflation in Europe, as well as threatening to veto assistance to Kyiv on numerous occasions. Last week, Nato chief Jens Stoltenberg convened the first ministerial-level meeting of the Nato-Ukraine Commission since 2017 despite Budapest’s objection, a sign that Hungary’s allies have grown weary of Viktor Orban's veto threats, breaking the unity of the alliance.

Hungary’s construction sector is also dominated by companies run by powerful oligarchs close to the prime minister, a fact well known in the EU, which is calling for Hungary to reform its public procurement system to access frozen EU funds.

Avoiding the pitfalls

Kyiv has talked of the need to learn from early post-war reconstruction efforts such as in Iraq and the countries of former Yugoslavia. There has also been an emphasis on the need to build back better, by investing, for example, into new renewable energy capacity and other modern high-tech sectors.

On the downside, bne IntelliNews sources have mentioned the inflated prices already charged by some companies employed to carry out early reconstruction projects. And that is not to mention the corruption in Ukraine’s own government that has already seen senior defence officials dismissed for inflating the cost of soldiers’ rations in January to make a quick buck for themselves.

The gorilla in the room is the endemic governmental corruption that will become an issue when the billions of dollars of reconstruction money start to flow. In anticipation of these problems, that is likely to slow the amount of aid sent to Ukraine by western partners, Zelenskiy’s government continues to roll out its anti corruption programme in the background. One of Ukraine’s most famous oligarchs is under investigation in an anti-corruption crackdown in February, when law enforcement agents raided the home of oligarch, and Zelenskiy’s friend, Ihor Kolomoysky.

Before the war, suggestions that the West fund a Ukrainian Marshall Plan to rapidly build up the economy as the most effective counter to Putin's pressure were instantly dismissed on the widespread belief that most of the money would simply be stolen.

Meanwhile, rather than allowing a free-for-all by forcing companies, Olena Shulyak, the head of Ukraine’s parliamentary committee on regional development and urban planning, said on April 6 that Kyiv aims to have 60% of all reconstruction work carried out by domestic companies, reported Ukraine Business News.

She recommended that the government protect domestic producers and launch a programme to revive business activity, including preferential lending, after the damage caused to Ukraine's economy by the war.

Shulyak also pointed to the need to analyse the materials required for reconstruction and to identify areas where the share of imports can be reduced. Ukrainian businesses can, for example, provide construction materials such as bricks, concrete, paint and ceramic tiles, while it would need to rely on imports of glass, electrical equipment and lifts.
Orban calls US a friend after he pulls out of Russian-dominated IIB

Hungarian Prime Minister Viktor Orban sought to ease tensions with Washington in an interview with state radio on April 14, calling the United States a friend and an important ally, a day after Hungary apparently bowed to US pressure to pull out of the Russian-controlled International Investment Bank (IIB).

The conciliatory move comes after media reports that US lawmakers are preparing draft legislation that would target several former Hungarian government officials and people close to the government with a travel ban to the US.

Local analysts argue that Orban’s accommodative response on the IIB does not mark a fundamental shift in policy, and that he has probably only toned down his rhetoric due to increased pressure from the Biden administration and the prospect of further sanctions facing Hungarian officials.

The US announced sanctions on IIB and three executives on April 12 and just 24 hours later Orban signed a decree paving the way for Hungary to leave the Budapest-based development bank. This could spell the end for the former Comecon development bank, established in the 1970s and revived in 2012, as Hungary was the only significant shareholder remaining apart from Russia.

Washington had long raised concerns over the presence of the bank, but unlike other Nato allies, the Hungarian government dismissed these and remained committed to hosting the IIB. Following Russia’s invasion of Ukraine in February 2022, Bulgaria, Czechia, Romania, and Slovakia ended their participation in the bank.

According to the US, the IIB’s presence in Budapest enables Russia to increase its intelligence presence in Europe, opens the door for the Kremlin’s malign influence activities in Central Europe and the Western Balkans, and could serve as a mechanism for corruption and illicit finance, including sanctions violations.

The Hungarian government did not react to news of sanctions announced by US Ambassador to Hungary David Pressman for at least 20 hours, but on Thursday afternoon, the Economy Development Ministry confirmed that Hungary would withdraw as there was no sense in carrying on with its operations following the latest sanctions.

“We’ve never agreed with the sanctions [against Russia], but we don’t dispute anyone’s right, including that of the United States, to impose sanctions if they see fit,” Orban noted in the interview.

IIB could have played an important role in developing Central European economies, he said, but ever since the outbreak of the war it was clear the bank’s potential had been circumscribed and the recent sanctions “destroyed it”, the prime minister said.

The prime minister maintained that the United States continues to “press” Hungary into supporting the war in Ukraine – the communication narrative used over the past months – but added that this difference of opinion is something that Hungarian-American friendship has to endure.

Diplomatic relations between Hungary and the US have sunk to an all-time low. Washington, along with Hungary’s EU allies, have been irritated by the country’s stance in the Ukraine war, the threats of vetoing sanctions, and lobbying for concessions for Russia, while Budapest continued to strengthen economic ties with Moscow since the breakout of the war, especially in the field of energy.

Two months earlier at a closed caucus meeting ahead of the spring session of parliament, Orban named the Biden administration as an opponent of the government, among foreign actors whom he accused of financing the joint opposition in the 2022 election campaign. Biden’s government has regularly criticised Orban’s regime for violations of the rule of law, corruption, and for its targeting of LGBTQ people.

Ambassador Pressman has been met with increasing anti-American rhetoric since submitting his credentials in September, and in mid-March, he was...
summoned to Washington by Secretary of State David Blinken to give an account of the situation in Hungary.

Orban himself has brandished his support for disgraced former US president Donald Trump, tweeting when Trump was charged with paying hush money to a porn star for keeping quiet about their relationship, “Keep on fighting, Mr. President! We are with you, @realDonaldTrump!”

In the radio interview, Orban also noted the government will take decisions on phasing out price caps when inflation “falls under a certain level”, but did not specify details.

“Government measures to reduce inflation so far have not had a sufficient effect to warrant removing the price caps, but inflation should accelerate in May in June”, he added.

Headline inflation in March slowed to 25.2% from 25.4% in the previous month, but core inflation continued to trek higher from 25.2% in February to 25.7% due to higher processed food and service prices, suggesting strong underlying inflationary pressures in the economy. Analysts predict that the phase-out of price caps could lift the headline data by 1-2pp.

Slovak central bank chief under pressure after conviction for bribery

Albin Sybera

Slovak central bank Governor Peter Kazimir has refused to resign after being found guilty of bribery by the country’s Special Criminal Court (STS) and fined €100,000.

Caretaker Prime Minister Eduard Heger called for Kazimir to step down and Slovak President Zuzana Caputova said that he “should consider stepping down” even though the court ruling is not yet in legal force.

Heger told a news conference in front of the central bank headquarters on April 13 that it was “unacceptable for a person to be convicted of bribery by a court to hold the post of governor of this respected institution”.

However, Kazimir, who has always protested his innocence, has said he will appeal the decision. The former Smer party finance minister was appointed governor in 2019 under the premiership of the populist leftist party’s leader Robert Fico, who is leading opinion polls ahead of snap elections scheduled for September. Any appeal is likely to be heard after the election.

SNB governors, who are appointed by the president, have a six-year mandate and can serve two terms.

“I’m innocent,” Kažimír said in an emailed statement to the Financial Times. “I’m yet to receive the court’s decision and order. I didn’t commit any crime and I’m confident I will prove my innocence during the main trial or an appeal in Slovakia or in the EU.”

In his statement, Kazimir implied that the case was political. “I will not react nor comment on politicians’ statements during the ongoing pre-election campaign. I believe in the presumption of innocence. I’m executing all my duties responsibly and honourably.”

The head of the National Bank of Slovakia (NBS) is accused of bribing the former president of Slovak Customs, Frantisek Imrecze, while finance minister. Imrecze admitted to accepting a bribe from Kazimir. The case involves an alleged secret system of salary supplements paid to top officials under Fico’s government.

Kazimir, who represents Slovakia at the European Central Bank, is one of the most high-profile central bank governors from Emerging Europe. He has always taken a hawkish stance on interest rates and, as finance minister, was one of the toughest in the EU’s Ecofin council over how to handle Greece during that country’s economic crisis in 2009.

Kazimir is also the most profile Smer politician or government official convicted under the current right-wing government’s anti-corruption drive, which followed the
outstanding of Fico and Smer after the murder of investigative journalist Ján Kuciak and his fiancée Martina Kušnírová in 2018. Corruption charges against Fico himself have been temporarily dropped but the case against former interior minister Robert Kalinak has been reopened.

Kazimir was backed by Fico who called the ruling “constructed” and based on “made up lies” of the whistleblower Imrecze. On his Facebook page, Fico highlighted that Kazimir “has parted ways with Smer already in 2018” and that the case serves as a pretext to “hit on Smer”.

The examination of evidence was done in an exhausting way. I don’t know of any new evidence which could be examined,” Bartoncik was quoted as saying by CTK. Populist ANO party leader Babis referred to his lawyer’s statement when approached for comment by CTK.

Nagyova, who ran in the Senate elections for ANO last autumn before losing to the Senate President Milos Vystrcil in his home district of Jihlava, told Czech Radio she is not surprised about the appeal given the position Babis wields in Czech politics. The steps of the state prosecutor “are a great disappointment to me, on the other hand given the political dimension I understand it”, Nagyova was quoted as saying by Czech Radio.

Babis lost a highly watched presidential race to Petr Pavel just a few weeks after being cleared but pledged to “not give up fighting” on behalf of the people against centre-right cabinet of Petr Fiala. Although ANO was established as a pro-business anti-corruption platform, Babis has in recent months styled himself as the “people’s” candidate and is criticising the cabinet for mishandling the energy and costs of living crisis.

In the Stork’s Nest case, Babis and his former manager Nagyova were accused of trying to conceal the conference centre’s ties to Babis’ large food, chemical, and agricultural conglomerate Agrofert in order to claim an EU subsidy designed for small and medium-sized enterprises.

Anti-corruption NGOs such as Transparency International have been ringing alarm bells about the case since Babis entered politics at the national elections in 2013. The centre had originally been owned by Agrofert but was then transferred to a new company, owned by Babis’ family members, with his estranged son testifying that he was never the owner and his signature was probably forged but said this had no bearing on Babis’ guilt or otherwise over the subsidy.

UK bank HSBC also provided a loan to this new unknown company because of its links to Agrofert, and Agrofert advertised heavily at the conference centre. In 2015 Babis was even caught on camera boasting that Stork’s Nest was his idea and was one of his best projects. Babis refused to answer police or the court’s questions over the case.

Babis’ fraud case to be reopened after state prosecutor appeals January acquittal

Albin Sybera

Czech state prosecutor Jaroslav Saroch has appealed the court decision that acquitted billionaire Czech opposition leader Andrej Babis and his former manager Jana Nagyova of fraud charges in January. Babis and Nagyova were accused of fraudulently obtaining a €2mn EU subsidy for the conference centre Stork’s Nest linked to Babis.

“I can confirm I have formally filed the appeal,” state prosecutor Jaroslav Saroch was quoted as saying by Czech Radio after the public broadcaster reached out to Saroch for comment. Czech Radio also quoted the city prosecution’s office spokesperson in Prague, Ales Cimbal, who said the appeal would be completed before the May 5 deadline.

“Considering the size of the written ruling, its structure and the complexity of the case, the state prosecutor is now studying the delivered ruling in detail,” Cimbal told Czech Radio, and explained that Saroch is considering “which argumentation he will use” and where his appeal will challenge the ruling. The appeal will be examined by the Supreme Court in Prague.

Babis’ lawyer Michael Bartoncik told the Czech Press Agency (CTK) there are no viable grounds for the appeal. “The
Public-private partnerships (PPPs) have become popular in the Western Balkans as governments try to catch up with developed countries in terms of infrastructure. However, a working paper published by the International Monetary Fund (IMF) warns of the risks from poorly managed PPP projects.

The last decade saw a surge in PPP projects in the Western Balkans, where, since 2012, PPP investments in the region have reached an average of 0.5% of GDP, which is higher than the EU and global averages.

Despite the benefits of using PPPs to reduce the infrastructure gaps in countries in the region – a legacy of the wars and political turmoil of the 1990s – the paper’s authors says that such projects “carry a potential for large fiscal risks and increased costs if not managed well”.

“PPPs that are not well designed and managed could in fact increase costs and introduce significant fiscal risks, due to the complex risk allocation structure and long-term nature of the projects. Moreover, risks could also materialise in the context of shocks,” says the paper, “The Future of PPPs in the Western Balkans”.

It notes that as yet, the “full impact of shocks from the COVID-19 pandemic and war in Ukraine are still playing out, with implications for the resilience of investment projects financed by PPPs.”

The infrastructure gap
The Western Balkans have long struggled to catch up to their European Union counterparts when it comes to public infrastructure development.

Historical factors such as political conflict in the 1990s depleted the capital stock in the region, and despite ongoing efforts to develop infrastructure, there is still a significant gap between the Western Balkans and the EU-15 countries.

The lack of quality public infrastructure in the Western Balkans poses a significant obstacle to higher economic growth and faster income convergence. The 2019 Global Competitiveness Index shows that the Western Balkan countries rank an average of 78 (out of 141 countries) for infrastructure, compared to EU-15 countries, which average 17, and CESEE countries 51. Higher public infrastructure investment
can increase short-term output by boosting aggregate demand and longer-term output by expanding the productive capacity of the economy, says the IMF paper.

**Lack of fiscal space**

One of the major challenges for increasing public investment in the Western Balkans is the lack of fiscal space. Public debt levels as a share of GDP are elevated and fiscal deficits have widened considerably. This has brought about greater economic and geopolitical uncertainty, including higher inflation expectations and financial market tightening, which inflates government borrowing costs.

Several Western Balkan countries have thus turned to PPPs as an option to close the infrastructure gap.

PPP investment could also play an important role in meeting energy transition goals by pooling resources and sharing risks between the public and private partners, the report’s authors note.

**PPP investment grows globally**

The increased interest in PPPs is not limited to the Western Balkans. According to the data in the IMF paper, globally, there has been a resurgence of interest in PPPs, and PPP-funded capital stock quadrupled between 2001 and 2019. The median global PPP capital stock climbed from 0.6% of GDP in 2001 to 1.8% of GDP in 2011, and further to 2.5% by 2019.

In Europe, PPPs have been primarily used for infrastructure and tend to be concentrated in the transportation sector in terms of the value of projects, though there are a large number of smaller projects in healthcare and education.

Annual PPP investment as a share of GDP has fluctuated from year to year, but strong growth has been seen since 2005, especially in Albania, Bosnia & Herzegovina and Serbia, while at the same time, the number of PPP projects in countries in the region is relatively low.

"While these data might not be fully comparable, they broadly suggest that PPP projects in the Western Balkans tend to be larger in percent of GDP compared to PPP projects in the EU. This implies that the failure of an individual PPP project could create a larger burden for these countries,” the report says.

**Sound PPP frameworks needed**

However, the report highlights that a sound PPP framework is a critical element in ensuring the success of PPP projects. While most Western Balkan countries have introduced a legal framework for PPPs, there are still many gaps in the underlying governance structure compared to internationally established benchmarks. Improvements are needed to strengthen the institutional control over PPPs, enhance competitive procurement processes, ensure more resilient contracts, and improve the management and reporting of fiscal costs and risks, the report argues.

Some of the specific recommendations include that finance ministers “should have the authority to veto projects – throughout their lifecycle – that lack value for money, are considered unaffordable, or entail significant fiscal risks.”

The paper also argues that unsolicited proposals “should normally be avoided, or at a minimum, be subject to strict scrutiny”. This has been an issue in Albania in the past, where the IMF and other international observers have urged Tirana to exercise more caution in giving the go-ahead to unsolicited PPP projects. They represent a sizeable share of PPP contracts, especially in the energy sector, the latest report notes.

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**Four Western Balkan countries pledge “100% compliance” with EU foreign policy**

*bne IntelliNews*

Officials from four Western Balkan countries – Albania, Kosovo, Montenegro and North Macedonia – have launched a new initiative, dubbed “Western Balkan QUAD – 100% compliance with EU foreign policy”, at a meeting in Skopje on March 29.

The focus of the meeting was the four countries’ full compliance with the EU’s Common Foreign and Security Policy (CFSP) “in light of the new geo-political reality, hybrid threats, the energy crisis and the economic consequences caused by the Russian invasion of Ukraine”, a statement from the Macedonian foreign ministry said.

The four aspiring EU members were quick to impose sanctions on Russia following the invasion of Ukraine a year ago, and have also extended humanitarian aid to Ukraine.

Meanwhile, Serbia, which maintains good relations with Moscow, has refused to join the sanctions, despite being under pressure to align with EU foreign policy. Efforts by some Bosnian leaders to join the sanctions have been thwarted by the Bosnian Serb leadership, which too has close relations with Russia.

The platform was launched by North Macedonia’s Foreign Minister Bujar...
Osmani, Albania’s Minister of Europe and Foreign Affairs Olta Xhacka, Kosovo’s Deputy Minister of Foreign Affairs and Diaspora Kreshnik Ahmeti and the foreign policy advisor to the prime minister of Montenegro Djordje Radulovic.

“After the aggression of the Russian Federation against Ukraine, alignment with the CSDP, but even more broadly with the positions and values of the democratic world, turned into one of the most important priorities of the countries aspiring for EU membership, but also as a clear message of where these countries belong,” said Osmani, according to the statement.

“[Today] in Skopje we launched WB QUAD w/100% CFSP alignment. Platform for closer coop. among the countries w/ full compliance with the #EU CFSP, but also more broadly with the democratic values & principles,” he wrote on Twitter.

“An excellent initiative from Minister @ Bujar_O [Osmani]. We look forward to deepening our cooperation within the Western Balkans QUAD,” wrote Ahmeti on Twitter.

Montenegro expected to speed up EU membership talks as Milatovic takes presidency

Montenegro is expected to speed up reforms that will help the country to join the European Union, after Jakov Milatovic, deputy leader of Europe Now, won the presidential election and ousted veteran politician Milo Djukanovic from power.

On April 2, Milatovic got around 60% of the votes amid high turnout of around 70%, ousting from power Djukanovic who ruled the country either as president or a prime minister for over three decades.

“Congratulations to the new president of Montenegro, Jakov Milatovic! I look forward to working with you to speed up the necessary reforms on the EU path of Montenegro,” the EU’s Enlargement Commissioner Oliver Varhelyi wrote on Twitter.

Europe Now, a party that was set up in spring 2022 by Milatovic and the party’s leader, Milojko Spajic, has made its top priority to carry out key reforms that would speed up Montenegro’s EU accession and raise the living standard of the population.

Montenegro made progress towards EU membership under Djukanovic and his Democratic Party of Socialists (DPS) for years, becoming the most advanced of the Western Balkan states on the

Denitsa Koseva in Sofia

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Denitsa Koseva in Sofia

Montenegro is expected to speed up reforms that will help the country to join the European Union, after Jakov Milatovic, deputy leader of Europe Now, won the presidential election and ousted veteran politician Milo Djukanovic from power.

On April 2, Milatovic got around 60% of the votes amid high turnout of around 70%, ousting from power Djukanovic who ruled the country either as president or a prime minister for over three decades.

“Congratulations to the new president of Montenegro, Jakov Milatovic! I look forward to working with you to speed up the necessary reforms on the EU path of Montenegro,” the EU’s Enlargement Commissioner Oliver Varhelyi wrote on Twitter.

Europe Now, a party that was set up in spring 2022 by Milatovic and the party’s leader, Milojko Spajic, has made its top priority to carry out key reforms that would speed up Montenegro’s EU accession and raise the living standard of the population.

Montenegro made progress towards EU membership under Djukanovic and his Democratic Party of Socialists (DPS) for years, becoming the most advanced of the Western Balkan states on the
Angry Erdogan wants election victory ‘to teach America a lesson’

bne IntelliNews

Turkey’s President Recep Tayyip Erdogan has angrily hit out at a visit paid by the American ambassador to Ankara to his main presidential election opponent, telling his supporters that they should teach the US a lesson.

“We need to teach America a lesson in these elections,” said Erdogan, referencing US Ambassador Jeff Flake’s visit to the opposition’s joint candidate Kemal Kilicdaroglu. “Joe Biden speaks from there, what is Biden’s ambassador doing here? He goes to visit Mr Kemal. It’s a shame, give your head some work. You are the ambassador. Your interlocutor here is the president.”

Prior to the April 2 remarks – reported by Middle East Eye – made to a small gathering of people at an Istanbul branch of the Turkish ultra-nationalist Idealist Hearths group, commonly known as the Grey Wolves, Erdogan had said little that was critical of the West while on the campaign trail ahead of the May 14 national elections. But Flake’s visit appeared to touch a nerve.

Referring to Flake, Erdogan also said: “How are you going to ask for an appointment from the president from now on?”

“Our doors are now closed to him. You cannot see [me] anymore. Why? You will know your limit. You will know how an ambassador works,” he added.
Erdogan has never had a smooth relationship with the Biden administration. In August 2020, Erdogan’s officials were angered when an interview with Biden, filmed by the New York Times the previous December, was released featuring the then presidential candidate Biden describing the Turkish leader as an “autocrat”.

In the interview, Biden criticised Erdogan’s policy towards the Kurds, and added that, “He has to pay a price”, before stating that Washington should embolden Turkish opposition leaders “to be able to take on and defeat Erdogan. Not by a coup, not by a coup, but by the electoral process.”

In a fair election, Turkey’s pro-Kurdish Peoples’ Democratic Party (HDP) could indeed prove to be the kingmaker that topples Erdogan. The HDP last month announced that it would not put forward its own presidential candidate. That move means its supporters can vote for Kilicdaroglu. The Kurds account for up to a fifth of Turkey’s population.

Election tensions were heightened on March 31 after two bullets hit the Istanbul office of the opposition IYI (Good) party.

A night guard at a nearby construction site was apprehended and, according to the authorities, told police that he accidentally hit the party’s office building with gunshots while he was chasing thieves.

However, IYI party leader Meral Aksener linked the incident to inflammatory comments made toward her by Erdogan earlier in the week. In those remarks, Erdogan snapped at Aksener’s criticism of him, saying: “She is messing with the wrong people. Be careful, don’t get yourself in trouble with me.”

Kilicdaroglu, meanwhile, has promised that if elected he will repeal the law that makes insulting the president a crime.

On the markets, bond traders have been trimming bearish Turkey bets on a possible Erdogan defeat.

By some accounts, Erdogan sees a path to victory in a second round of run-off voting that would be opened up by a strong performance by a third candidate, Muharrem Ince, in the first round.

“Washington should embolden Turkish opposition leaders to be able to take on and defeat Erdogan. Not by a coup, not by a coup, but by the electoral process”
Romania’s former top politician Liviu Dragnea now presenting YouTube cookery channel

Liviu Dragnea, the former leader of Romania’s Social Democratic Party (PSD), has reappeared in the public eye as the presenter of his YouTube cookery channel.

As the leader of Romania’s biggest party, Dragnea was one of the country’s most influential politicians. His party’s attempt to partly decriminalise corruption – seen as aimed at keeping Dragnea out of prison – sparked the biggest protests in Romania since the fall of communism in 2017.

This eventually forced a humiliating climbdown by the government installed by Dragnea, who was later sentenced for corruption and served two years in prison before being paroled in 2021.

The PSD, which is part of the current ruling coalition alongside the centre-right National Liberal Party (PNL), sought to distance itself from Dragnea after he was sent to prison.

No longer a powerful political figure, Dragnea appeared on his Bucătăria de acasă (The Home Kitchen) channel on April 3, showing viewers how to make a traditional Romanian bean dish. He has also launched on Instagram, YouTube and TikTok.

As of the morning of April 4 the YouTube video had received over 320,000 views, with viewers getting to see Dragnea chopping carrots and seasoning a pan of vegetables.

Over 3,300 people commented, but most of the comments mocked Dragnea over his political record and prison sentence.

“No longer a powerful political figure, Dragnea appeared on his The Home Kitchen channel on April 3, showing viewers how to make a traditional Romanian bean dish”

“Thank you for the delicious taci recipe, we hope that next time we can learn how to launder money!” said another.

Yet another viewer commented: “I encourage you to develop this skill. As long as you stay away from politics, you are welcome.”

Dragnea was sent to prison after being found guilty in a case concerning fake jobs for PSD workers at Teleorman county Child Directorate: two people employed by the directorate were in fact engaged to increase the turnout. The earlier conviction prevented Dragnea from becoming prime minister, but he was the power behind a series of prime ministers appointed by the PSD between 2017 and 2019.

Dragnea is not the only high-profile politician to have shared his cookery skills with the world.

Former German Chancellor Helmut Kohl, his wife Hannelore and chef Alfons Schuhbeck co-wrote ‘A Culinary Voyage Through Germany’, with hundreds of traditional German recipes for dishes such as potato pancakes and hearty stews.

The UK’s former education minister and shadow chancellor Ed Balls won BBC reality show Celebrity Best Home Cook and went on to author Appetite, a memoir interspersed with recipes.

As leader of the ruling Social Democratic Party until 2019, Liviu Dragnea was once the most powerful politician in Romania. / bne IntelliNews

As of the morning of April 4 the YouTube video had received over 320,000 views, with viewers getting to see Dragnea chopping carrots and seasoning a pan of vegetables.

“Stay till the end to find out how I got out of Lidl with all the ingredients without setting off the alarm,” joked one commentator.
The board of the International Monetary Fund (IMF) has approved a four-year $15.6bn extended fund facility (EFF) programme for Kyiv following discussions last month, Ukraine Business News reported on April 3.

Ukraine will receive the first $2.7bn tranche in the coming weeks and will get three tranches this year totalling $4.5bn following quarterly programme reviews. The deal is part of the US’ $115bn support package for the war-stricken country.

“It is an important help in our fight against Russian aggression. Together we support the Ukrainian economy. And we are moving forward to victory,” Ukrainian President Volodymyr Zelenskiy tweeted, thanking the fund for the deal.

The EFF programme was agreed on March 21 and consists of two phases. The first phase, lasting 12-18 months, aims to strengthen fiscal, external, price and financial stability by bolstering revenue mobilisation, avoiding monetary financing, and promoting central bank independence.

The second phase includes extensive reforms for recovery and reconstruction, measures to support Ukraine’s EU accession goals, and enhancements to financial resilience and long-term growth.

“Ukraine would be expected to revert to pre-war policy frameworks, principally a flexible exchange rate and inflation targeting, while boosting productivity and competitiveness, strengthening institutions, and tackling financial and energy sector vulnerabilities,” the IMF stated in a press release.

Ms. Gita Gopinath, first deputy managing director of the IMF, noted that the risks to the arrangement are “exceptionally high”. She added that it has been designed to resolve Ukraine’s balance of payments problem and “restore medium-term external viability in both a baseline and downside scenario”.

“The success of the programme depends on the size, composition and timing of external financing on concessional terms to help close fiscal and external financing gaps and restore debt sustainability on a forward-looking basis under the baseline and downside scenarios,” she stated.

“Moreover, the authorities’ track record of undertaking ambitious policies when warranted, their readiness to undertake contingency measures, and the frequent reviews in the first phase of the programme are risk mitigating factors,” she added.

In addition, the agreement will help mobilise additional financing from Ukraine’s international partners including the G7 nations and the European Union.
Kremlin releases a new foreign policy concept outlining its plans for a “multipolar” world

Ben Aris in Berlin

The Kremlin has released a new foreign policy document that lays out its plans for its post-war relations. The main points are based on a “multipolar world” and that Russia doesn’t see itself as an enemy of the West but does see itself as one of the centres of this new shared world, President Vladimir Putin said at a meeting with permanent members of the Russian Security Council on March 31.

“The system of international relations should be multipolar and based on the following principles: ... indivisibility of security in global and regional aspects; diversity of cultures, civilisations and models of social organisation, non-imposition on other countries by all states of their models of development, ideology and values, and reliance on a spiritual and moral guideline that is common for all world traditional religious and secular ethical systems,” the document stated.

Putin pointed out that expanding ties with co-operative partners and creating conditions for unfriendly states to abandon their hostile policy towards Russia require “special attention.”

Putin called for strengthening Russia’s sovereignty and enhancing its role in shaping a more just, multipolar world order.

“In our long-term plans, it is important to take into account the full range of factors and trends in the development of international relations, work to strengthen Russia’s sovereignty, increase the role of our country in solving world problems and shaping a more just, multipolar world order,” he stressed.

Putin and his allies, in particular China, seek to build an alternative non-Western alliance in the Global South.

Moscow aims to “support its allies and partners in ensuring their security and sustainable development regardless of their international recognition,” the concept says.

Russia will “give priority attention to suppressing attempts by unfriendly countries to hinder Russia’s co-operation with its allies,” the concept stresses.

The document says that “in order to help adapt the world order to the realities of a multipolar world, the Russian Federation intends to make it a priority to intensify co-operation in all areas with Russia’s allies and partners, and suppress the attempts by unfriendly states to obstruct such co-operation.”

The war in Ukraine has driven a wedge between the West and East as these institutions are increasingly being forced to take sides, and could lead to a fractured world, as described in a feature by bne IntelliNews. Former UN Secretary-General Ban Ki-Moon raised exactly this concern on March 27, warning that the conflict could create separate trade blocks delineated by “geopolitical borders” due to the increasingly acronymous disputes.

“More than a thousand years of independent statehood, the cultural heritage of the preceding era, deep historical ties with the traditional European culture and other Eurasian cultures, and the ability to ensure harmonious co-existence of different peoples, ethnic, religious and linguistic groups on one common territory, which has been developed over many centuries, determine Russia’s

Russkiy Mir

The new concept made no mention of Ukraine at all. However, the foreign policy concept does call for developing “ties with compatriots living abroad” and rendering “them full support in exercising their rights, ensuring protection of their interests and preserving all-Russian cultural identity.”

Russia has handed out hundreds of thousands of passports to residents of occupied territories in Donbas, the four regions annexed in Ukraine last year, as well as two regions of Abkhazia and South Ossetia that used to belong to Georgia until Moscow encouraged them to declare independence in 2008.

While the concept doesn’t make specific mention of Ukraine, the attitude of Russia to those countries that the Kremlin deems to lie in its sphere of influence and the so-called Russkiy Mir (Russian World, a concept of social totality associated with Russian culture) was spelled out in the concept, where Moscow views itself as a bulwark of these Russian values.

“Russia will give priority attention to suppressing attempts by unfriendly countries to hinder Russia’s co-operation with its allies”
special position as a unique country-civilisation and a vast Eurasian and Euro-Pacific power that brings together the Russian people and other peoples belonging to the cultural and civilisational community of the Russian world,” the concept reads.

As bne IntelliNews has argued previously, Russia rejects the Western values as enshrined in the so-called Washington consensus and has long ago adopted what has been dubbed the Moscow consensus, that does not have “the pursuit of individual happiness” at its core, but more emphasis on the wellbeing and security of the state, where citizens are expected to sacrifice some of their freedoms and prosperity for the sake of the state.

China has adopted a very similar outlook and Chinese Prime Minister Li Qiang echoed many of Putin’s foreign policy points during the Boao forum, dubbed “the Asian Davos”, where he also called for a multipolar world based on mutually beneficial relations based on equality.

China has become the biggest trade partner for every country in Asia but does not seek to use this economic power to its advantage but for the mutual benefit of all Asian countries. China has also become by far Russia’s single biggest trade partner with trade turnover set to top $200bn this year and then on to $300bn thereafter, Putin said earlier this month.

“Besides strengthening their ties with China, countries in Asia also need to deepen co-operation with one another. We should build a dense mesh of co-operation and interdependence, rather than a hub and spokes model, because this will result in a stronger and more resilient region,” the Chinese PM said.

“In this uncertain world, the certainty China offers is an anchor for world peace and development,” he added underscoring Beijing’s new assertiveness in international diplomacy. “This is the case in the past and will remain so in the future.”

**Global war threat mounting**

Moscow sees the risks of conflicts with the participation of large countries escalating and growing into a local or global war, according to the updated concept.

“The use of military force in violation of international law, the exploration of outer space and information space as new spheres of military action, the blurring of the line between military and non-military means of inter-state confrontation, and the escalation of protracted armed conflicts in a number of regions increase the threat to global security, enhance the risk of collision between major states, including with the participation of nuclear powers, and the probability of such conflicts escalating and growing into a local, regional or global war,” the document reads.

Tensions in a number of regions are growing, threaten to destabilise the world further.

“Destabilising build-up and modernisation of offensive military capabilities and the destruction of the arms control treaty system are undermining strategic stability,” according to the concept.

**Eurasia to be transformed into a peace space**

According to the foreign policy concept, ensuring peace and stability in Eurasia also requires a “comprehensive settlement in Afghanistan, assistance in building it as a sovereign, peaceful and neutral state with stable economy and political system, which meets the interests of all the ethnic groups living there and opens up prospects for integrating Afghanistan into the Eurasian space for co-operation.”

Put...
ensuring security in Eurasia and promoting its sustainable development by enhancing the organisation’s activities in the light of current geopolitical realities,” the concept said.

As bne IntelliNews reported, now that Russia has definitively broken with the West following its invasion of Ukraine a year ago, its hunt for new markets means uncorking the southern route out of Eurasia and into the massive markets of Pakistan and India has become a top priority. Afghanistan is the key to the region, as instability there has blocked the southern exit from the region into South Asia.

The end of Russia’s trade relations with Europe and the need to build new markets have given new impetus to remaking the Eurasian Economic Union (EAEU) as both a market in its own right and as a collective vehicle to build new trade relations with the Global South, a goal that Russia shares with China, which has also focused on the importance of developing Eurasia and its ties with the broader region.

Putin highlighted the role EAEU will play in this process as well as the SCO as two of the key organisations in the region. China has also focused on the SCO as playing a leading role in developing Eurasia. Both Moscow and Beijing are keen to build up the international non-Western political and economic co-operation institutions to rival the Western lead organisations such as the World Bank, IMF and EBRD.

Moscow is calling for the “strengthening of the economic and transport interconnectivity in Eurasia, including through the modernisation and increased capacity of the Baikal-Amur Mainline and the Trans-Siberian railway; the rapid launch of the International North-South Transport Corridor; improvement of infrastructure of the Western Europe-Western China International Transit Corridor, the Caspian and the Black Sea regions, and the Northern Sea Route; creation of development zones and economic corridors in Eurasia, including the China-Mongolia-Russia economic corridor, as well as increased regional co-operation in digital development and establishment of an energy partnership.”

Developing relations with China and India is especially important for Russia, the concept says, and mirrors Beijing’s desire to develop land-based connectivity between Asia and Europe both to bind Eurasia more closely together and also to get away from maritime trade routes due to the US navy’s dominance of the sea.

“Russia aims at further strengthening the comprehensive partnership and the strategic co-operation with the People’s Republic of China and focuses on the development of a mutually beneficial co-operation in all areas, provision of mutual assistance and enhancement of co-ordination in the international arena to ensure security, stability and sustainable development at the global and regional levels, both in Eurasia and in other parts of the world,” the document said.

The Chinese leader Xi Jinping was in Moscow for a three-day visit between March 20-22 in an ostentatious display of support for Putin. India has also clearly come out in support of Russia and trade between the two countries has soared in the last year.

According to its policy, Russia “will continue to build up a particularly privileged strategic partnership with the Republic of India with a view to enhance and expand co-operation in all areas on a mutually beneficial basis and place special emphasis on increasing the volume of bilateral trade, strengthening investment and technological ties, and ensuring their resistance to destructive actions of unfriendly states and their alliances.”

In related news, Belarus President Alexander Lukashenko said in his state of the nation speech on the same day that Minsk will make a “pivot to the East” amid the United States’ attempts to counter Russia, China and Iran.

“The so-called policy pivot to the East is the most reasonable step, which is in line with the spirit of the times. After all, the sun sets in the West and rises in the East,” he pointed out in an address to the country’s people and parliament. Lukashenko has also been travelling recently to shore up his ties in Asia and was in Beijing earlier this month to meet Xi and also join the SCO. He followed that with a trip to Tehran and signed co-operation agreements.

Lukashenko pointed out in his speech on March 31 that in terms of foreign trade, Belarus gave priority to its strategic partners and allies, namely Russia and China. “Our exports to Russia increased by half last year, exceeding $23bn, while overall trade passed the $50bn mark,” he specified.

Trade and FX
The concept says that Russia will focus on increasing non-energy exports to states pursuing a neutral policy. The document says that Russia will pay attention to enhancing its presence on world markets and increasing non-resource-based, non-energy exports.

It also aims to diversify economic ties geographically to redirect them to states that pursue a constructive and neutral policy towards Russia while remaining open to pragmatic co-operation with business circles of unfriendly states.

The statement also says that Russia will contribute to adapting the global trade and monetary and financial systems
to the realities of the multipolar world and the consequences of the economic globalisation crisis.

Russia has already abandoned the dollar and the yuanisation of the economy is proceeding at full steam as Russia adopts the Chinese currency as its foreign exchange of choice. During Xi’s visit to Moscow Putin said that half the mutual trade between the two countries was already settled in yuan and called on the other Eurasian countries to make use of the Chinese currency in international trade deals.

According to the statement, Russia is going to accommodate the world trade and monetary and financial systems, “taking into account the realities of the multipolar world and consequences of the crisis of economic globalisation.” This is aimed at narrowing the possibilities for unfriendly states to “excessively use their monopolistic or dominant stand in certain spheres of the world economy, while enhancing the participation of developing countries in global economic management.” In other words, Putin wants to denude the US of its ability to weaponise the dollar.

**Lack of trust**
The concept went on to say that diplomacy has been undermined by the growing lack of trust amongst the international community.

Russia itself started that process off with Russian Foreign Minister Sergei Lavrov “new rules of the game” speech in February 2020 that said the Kremlin would no longer tolerate the dual policy towards Russia of doing business with one hand, but applying sanctions with the other.

Lavrov humiliated EU foreign policy chief Josep Borrell at the same time and threatened to break off diplomatic relations with Europe if the EU didn’t respond to this new demand. Ironically, Borrell was in Moscow to suggest rolling back tensions with Russia and building more constructive relations based on pragmatic trade development. But as far as the Kremlin was concerned the European offer was too little, too late.

“The culture of dialogue in international affairs is degrading, and the effectiveness of diplomacy as a means of peaceful dispute settlement is decreasing. There is an acute lack of trust and predictability in international affairs,” the foreign policy concept says.

In comments following the release of the concept, Lavrov highlighted the new relations that Russia wants to build, emphasising that Russia is willing to co-operate with any country that treats it as an equal – an echo of his new rules of the game speech – but will “oppose” any country that tries to force its will on Russia.

“In the concept we have explained our vision of the principles of a more balanced and fair world order. They include polycentricity, the sovereign equality of states, their right to choose models of development, and the world’s cultural and civilisational diversity. The promotion of a multipolar world order is defined as a framework task on all foreign policy tacks,” Lavrov said.

Ominously, Lavrov went on to explain that the right to resist impingements on Russia’s sovereignty includes the right to use force, which is a scaling up of potential Russian aggression from Lavrov’s February 2020 speech.

“A provision has been introduced that armed forces can be used to repel or prevent an armed attack on Russia or its allies. This is how we unequivocally state that we will defend the right of the Russian people to exist and develop freely,” the minister said at the meeting of the permanent members of the Russian Security Council. “Important modifications have been enshrined in terms of the conditions for the use of force for self-defence within the framework of unconditional compliance under Article 51 of the UN Charter.”

In a sign of things to come, Putin signed decrees dismissing Russian Ambassador to Latvia Mikhail Vanin and Russian Ambassador to Estonia Vladimir Lipaev on March 31, as they are no longer needed.

Estonia has reduced bilateral relations with Russia to an absolute minimum since the start of the Russian special military mission. The Estonian Foreign Ministry stated in January 2023 that Russia, in order to achieve parity in the number of employees in embassies, should reduce the number of its employees to 8 diplomatic posts and up to 15 administrative, technical and service staff positions by February 1.

Putin’s long-preferred platform to run his concept of a multipolar world has been the United Nations. He has in the past appealed to the international community to put aside its post-Cold War rivalries and unite against the global challenges of terrorism, pandemics and climate change, but to little avail.

In 2015 Putin travelled to New York to call for the international community to form an international coalition against terrorism at his speech during the United Nations annual assembly on September 28.

“We need a genuinely broad alliance against terrorism, just like the one against Hitler,” Putin told the delegates assembled in New York, bar the Ukrainian delegation, several of whom walked out of the Security Council chamber as the president walked in.

However, as the speech came only a year after Russia’s annexation of Crimea and a military separatist movement in the Donbas well underway, even if Putin was sincere, Russian credibility was already in shreds at that time. In a stark admission of Russia’s powerlessness within the UN, the new concept says this platform has been degraded and “artificially devalued.”

“Serious pressure is being put on the UN and other multilateral institutions, the intended purpose of which, as platforms for harmonising the interests of the leading powers, is artificially devalued,” the concept reads.

The upshot is that Russia now intends to go it alone, with whatever help it can muster from the likes of China, India and its friends in Africa.
Kyiv willing to start peace talks with Russia if its forces reach Crimea

bne IntelliNews

In a major concession, Kyiv says it is willing to start peace talks with Russia if its forces reach the Crimea borders, the Financial Times reported on April 6.

Quoting a top adviser to President Volodymyr Zelenskiy, Andriy Sybiha, the statement comes after peace talks were cut short with the Kremlin in April last year.

Since then Zelenskiy has taken a hard line, saying he won’t meet with President Vladimir Putin in person and that peace negotiations cannot begin until Russian forces quit the entire territory of Ukraine, including Crimea, which was annexed by Russia in 2014.

Now, Sybiha said that if Ukraine’s forces reach the border of the Russian-occupied peninsula, negotiations can be opened to discuss the issue. However, Sybiha emphasised that the possibility of the liberation of Crimea by the Ukrainian army has not been excluded.

Crimea remains a thorny issue. During the April peace talks the Ukrainian side suggested a ceasefire and a discussion over the status of the Donbas that included the possibility of creating an autonomous region within Ukraine’s borders that would in effect hand de facto control to Russia, but maintain Donbas as being under Ukraine’s sovereignty.

At the same time, Kyiv suggested kicking the issue of the status of Crimea down the road, with a possible eventual referendum on its status sometime in the future.

The Kremlin indicated it was open to this solution and the deal was very nearly done. As reported by bne IntelliNews, the deal failed in the end after UK Prime Minister Boris Johnson travelled to Kyiv a few days later and said that the West would not support any peace deal with Russia.

Sybiha’s comments bring new hope that a peace deal may be struck this year, and relief to Western officials, who have been sceptical about Ukraine’s ability to reclaim the peninsula, which has been heavily fortified by Russia.

Western officials worry that any military attempt to recapture the peninsula could escalate the war and possibly result in a nuclear exchange. Under Russia’s nuclear strategy, the Kremlin is entitled to resort to nuclear weapons in case there is an “existential threat” to Russia’s sovereignty. As the Kremlin has long seen Crimea as part of Russia, its capture by Ukraine would be classed as an existential threat.

Mykhailo Podolyak, another adviser to Zelenskiy, revealed that Ukrainian forces would be on Crimea’s doorstep in “five to seven months”.

Both sides are widely expected to launch spring offensives in the coming months.

Ukraine’s willingness to negotiate could face resistance at home, as the polls show the population is adamantly opposed to conceding territory to Russia to bring the war to an end.

A recent poll conducted by the Kyiv International Institute of Sociology (KIIS) in February and March showed that 87% of Ukrainians considered any territorial concessions for the sake of peace unacceptable, the FT reported.

Only 9% would agree to concessions if they meant lasting peace. The poll found that 64% of Ukrainians want the country to attempt to retake all of its territory, including Crimea, even if there is a risk

“Western officials worry that any military attempt to recapture the peninsula could escalate the war and possibly result in a nuclear exchange”
of decreased Western support and a protracted war.

Sybiha is a veteran diplomat focusing on foreign policy in the president’s office and has been at Zelenskiy’s side during key moments in the war.

Sybiha’s comments come after several suggestions that peace talks should start soon.

In a surprising admission, Zelenskiy told two AP journalists that Ukraine may be forced to start peace talks if it loses control of Bakhmut in the Donbas, during a two-day conversation with AP journalists on March 28-29.

The battle for Bakhmut has been going on for seven months, with neither side gaining much advantage, leading some analysts to ask why Kyiv is expending so many resources to maintain control of the relatively strategically insignificant town.

Zelenskiy told the AP journalists that if Ukraine gives up the town it may be forced to sue for peace. Zelenskiy predicted that if Russia defeats Ukraine in Bakhmut, Putin would set out to “sell” a victory to the international community and at the same time it could change the mood of the domestic population, making it impossible for him to continue the war.

“Our society will feel tired,” he said. “Our society will push me to compromise with [Russia].” Zelenskiy warned that a loss anywhere at this stage in the war could put Ukraine’s hard-fought momentum at risk.

At the same time, several of Russia’s allies have also called for peace talks to start. China floated a 12-point peace plan on February 24, but the terms are unacceptable to Kyiv. The Chinese plan would leave most of the occupied territory in Russia’s hands, including the Donbas and Crimea, and turn the eastern half of the country into a demilitarised zone.

While this plan is seen as unworkable, French President Emmanuel Macron and President of the European Commission Ursula von der Leyen were both in Beijing this week to meet with President Xi Jinping. They called on the Chinese premier to use his leverage over Russia to help bring an end to the fighting.

Beijing has not commented on the war, and has refused to condemn it. However, Xi has also talked about the need to respect the sovereignty of countries and is attempting to position China as a mediator in the war. Xi has also yet to talk to Zelenskiy after spending three days in Moscow in March, but told Macron and von der Leyen that he would do so “when the time is right.”

Less significantly, Belarus President Alexander Lukashenko also called for a ceasefire during his state of the nation speech last week. Lukashenko proposed a truce without the right to move groups of troops and transfer weapons and equipment. He also said it necessary to immediately start negotiations between Moscow and Kyiv to bring peace to the region, in another proposal that is considered unworkable by experts.

Another Putin ally, Hungarian Prime Minister Viktor Orban, caused a storm last week after saying that his country supports the Chinese peace plan for Ukraine during a radio interview, and that a ceasefire is the necessary first step.

“We also consider China’s peace plan important and support it,” the Hungarian leader said.

Nato and the Western leaders have largely dismissed these suggestions, especially the Chinese plan, as none of these countries have condemned Russia’s war. The West contends that these suggestions for a ceasefire are simply a ruse to lock in the territorial gains that Russia has made and freeze the conflict where it is.

Ukraine marked the painful one-year anniversary of the liberation of the occupied territories in Kyiv’s suburbs on March 31.

In just 33 days, Russia committed over 9,000 war crimes during the brutal occupation of the Bucha region, the Kyiv Independent reported, with the murder of more than 1,400 civilians, including 37 children, and reports of rape and torture.

“It was horrifying,” Ukrainian President Volodymyr Zelenskiy said at a press conference. “The Devil is not somewhere out there, it is on Earth.”

The crimes shocked the world and led to Russia’s expulsion from the UN Human Rights Council. Nevertheless, Moscow denies any wrongdoing and blasted the reports as fake news, despite overwhelming evidence to the contrary.

To mark the anniversary, Zelenskiy was joined by Slovak Prime Minister Eduard Heger, Slovenian PM Robert Golob, Moldovan President Maia Sandu and Croatian PM Andrej Plenkovic at a ceremony in the region. The leaders will attend the summit “Bucha – Russia’s responsibility for crimes in Ukraine” later in the day.

“What happened in Bucha one year ago was not an isolated episode. Those
executions in cold blood were part of a bigger plan. The Kremlin’s plan to eliminate Ukrainians. Their national identity. Their sense of being. War criminals will be held accountable,” tweeted European Commission President Ursula von der Leyen.

Zelenskiy presented Bucha with an honorary award for its suffering and bravery. He assured the war-torn nation that Ukraine will never let Russia forget its crimes, announcing that all murderers will be brought to justice.

Since the occupation, nearly 100 Russian soldiers have been charged with crimes, with 35 indicted and sent to court, including the commander of Russia’s Central Military District. Two Russian soldiers have been sentenced to 12 years in prison for the illegal detention of civilians and looting.

The devastated region is slowly coming back to life, as bne IntelliNews noted last summer. An immense effort from mine action specialists managed to make Bucha habitable again in just one month after Russian troops planted hundreds of thousands of explosives as they left.

Nevertheless, the level of destruction is immense, with mine accidents still occurring and countless houses obliterated. Thousands of citizens remain homeless, some stuck in temporary shelters funded by the Polish government, where life is cramped and confined to a small room shared with four other people.

“It was very hard to move here,” Ira, a resident at a temporary accommodation unit in the liberated town of Irpin, told bne IntelliNews. “We understand it is not our home and there is not enough room for everyone.”

Nevertheless, like many, she refuses to leave her city despite losing everything.

towns and villages and the survival of residents, many of whom came together to protect one another and provide humanitarian aid, also showed the strength of Ukrainians.

“For many residents of the Kyiv region, it was the most horrific moment in life. But the liberation of these cities became proof that Ukraine will win,” Zelenskiy tweeted.
Azerbaijan dismissed allegations by the Iranian Army’s Ground Force Commander about the presence of foreign forces as “unfounded” and “unacceptable”.

Azerbaijan accuses Iran of "sponsoring terrorism"

Cavid Aga in Baku

The war of words between Iran and Azerbaijan has reached a new low point following the Azerbaijani foreign minister’s visit to Israel and Palestine, as well as an assassination attempt on an Azerbaijani MP who was regarded as a staunch anti-Iranian.

Although Azerbaijani-Iranian relations have been going on a negative trend for a while, it has gone especially downhill since a gunman recently stormed Azerbaijan’s Tehran embassy, killing the head of security. Azerbaijani authorities have accused Iran of not investigating the incident to the full ever since.

In the latest spat, the Azerbaijani Ministry of Defence has addressed Iran as “a state that supports terrorism and whose name is involved in the organisation of terrorist acts in different countries of the world”.

It dismissed allegations by the Iranian Army’s Ground Force Commander, Kioumars Heydari, regarding the presence of foreign forces in Azerbaijan as “unfounded” and “unacceptable”.

Heydari claimed that “Zionist” (Israeli) forces are present in Azerbaijan and that Isis terrorists from Syria were involved in “the 44-day War” or “Second Karabakh War” in 2020, with some remaining in the country. He also stated that Iran would not tolerate border changes with Armenia.

The Azerbaijani Ministry of Defence recalled the country’s support for the territorial integrity of all nations and non-interference in the internal affairs of other states. The ministry added that “the Azerbaijani army liberated its lands from occupation and achieved victory single-handedly during the 44-day Patriotic War”.

"Azerbaijani Ministry of Defence has addressed Iran as “a state that supports terrorism and whose name is involved in the organisation of terrorist acts in different countries of the world”
Economic derailment prices Mongolians out of family life

Antonio Graceffo in Ulaanbaatar

Economic crises. Low income. Inflation, unemployment, gasoline price hikes ... many Mongolian families are affected mentally and physically. As a result, a lot of people are leaving Mongolia to begin a better life,” reflects Tuul Chimed, a 26-year-old accountant who lives in Mongolia’s capital, Ulaanbaatar.

The cost-of-living crunch is hitting people all over the world, but there’s no doubt the Mongolians have it hard. Over the past two years, inflation in the country has been in the double digits. It moved as high as around 16% in 2022. The average salary, meanwhile, is approximately $450 per month, with a low-level manager on average expected to make toward $480. Apartment rentals cost around $200 to $500 per month.

Among Mongolians there is a tremendous variance in income, with the minimum wage only $142 per month. So, for most young people, there is no option but to remain living in their parents’ home. Marriage is now typically delayed. Prior to 1990, the average age at marriage was 21.6 years-old. Today, the average is 24.2 for women and 26.2 for men. The number of children per couple is at the same time dropping. In 1993, there were 3.5 children per woman; today that figure is 2.9. In urban areas, the birthrates are even lower.

Udval Battulga, 22, is typical of a growing demographic of young college graduates in Mongolia who speak English fluently. Shortly after graduating from a foreign university programme in finance, she found work at a consulting company, where her salary was $340 per month. “When it comes to marriage, it’s obviously hard to even imagine that I’m getting married with this low income. Getting married means that we will have to buy an apartment, and raise kids,” she says.

Homes in Ulaanbaatar are extremely expensive. The price ratio is now 10.8 times the average annual disposable income. And, where 90 square metres is considered as the size of a normal apartment in much of the world, the Mongolian government mortgage programme only provides attractive mortgages for apartments of up to 80 sqm. If you use the 90 sqm figure, then the ratio becomes 11.99 times the average disposable income. This is higher than in New York or San Francisco.

Udval explains: “In order to prepare ourselves for marriage, we must save money and have multiple incomes. To buy an apartment, we will have to take a loan, and pay interest in return. But in today’s society, it’s impossible to save even a small amount of money from our salaries because taxes are too high. My personal income tax rate is 22.5%. After tax, I am receiving around $263 a month. Other expenses are also high and paying a home loan would be even more difficult.”

Twenty-five-year-old Indra Sergelen, is a university graduate and marketing manager, whose salary is just over $700 per month, says: “It’s hard to live in today’s society with a high inflation rate and tax rate. I don’t have a car, but I took a loan and got an apartment two years ago to live alone without my parents, and to be independent financially. Even though my salary is pretty high and I have multiple income sources, it is still hard to cover all the monthly expenses.”

When asked about her plans for marriage, Indra replies: “I actually don’t have any plans to live as one of a married couple in Mongolia. If you ask other young adults, they also will answer the same way. It’s impossible to live on only one salary. In order to get married, and build a life together, we must take a loan, buy an apartment and raise kids, which means we should be stable financially.”

An additional burden for a lot of Mongolia’s young people, like Indra, is that they are helping to support their parents or pay the tuition fees for younger siblings.

Another professional, 30-year-old Anujin Amar, who works as a senior business consultant, says that despite her current large salary of $800 per month, she found it much easier to live five years ago.

Source: World Bank

Mongolia’s fertility rate showing total births per woman (1960-2020)
“When I look at the price of gasoline and daily products, it makes me realise that inflation has gone up a lot during the last few years. It’s getting harder to buy what I want with a tiny budget,” she said.

Unlike the others, Anujin has already married, a fact she attributes to the better economic climate she experienced when she was younger. “When I got married seven years ago, it was obviously difficult to build our lives together. On the other hand, the inflation rate was low, and our monthly salary was enough to keep life stable. In contrast, taxes and higher inflation now make me realise that it’s getting harder for us to pay all the expenses every month.”

Mongolia has free education and free healthcare, but Anujin complains that quality is lacking. “Every Mongolian has a right to use government services if we pay our taxes. The main problem is that the government doesn’t provide those public schools and hospitals with good equipment and management in return for the high tax we pay.”

Anujin has two children, as is typical of an urban family in Mongolia. She says she’d consider having more children, but has no plans to as things stand. “It’s expensive to raise kids. There are many parents who let their children go to public school because it’s free. I’m not saying that every public school is bad compared to private schools, but there’s a huge difference,” she determines.

About 39% of children in Ulaanbaatar attend private schools. And those families who can use private hospitals. Education and healthcare are clearly two substantial additional expenses that working families must cope with.

With a Mongolian working population of only 1,158,245 and an average income tax rate of 10% and low salaries not set to pick up any time soon amid global economic headwinds, government tax revenues are minimal, making it difficult to provide social services for everyone. Overall, 27.8% of Mongolians live below the poverty line, while in the countryside the percentage is closer to 38%. Roughly half of the population is receiving some form of government assistance, such as food stamps or other payments.

Approximately 85% of all children qualify for Mongolia’s Child Money Programme. Prior to covid, the payment was 20,000 tughrik ($5.70) per child, per month. During the pandemic, it was raised to 100,000 tughrik ($28.50) and it remains at this level. Despite government health expenditure accounting for 3.7% of GDP, infant mortality is extremely high. For every 1,000 babies born, 15 do not reach their fifth birthday. Weighing up these economic issues, accountant Tuul Chimed says: “If you ask people who live in Mongolia, they will all say that they want to go abroad, live there and make money because it’s safer, and the salary is higher.”

Over 70,000 Mongolians emigrate each year. It is hoped that economic development will, however, encourage more young people to remain in the country. But the economic outlook is mixed. The economy grew by a modest 2.5% last year, while the tughrik lost around 18% of its value.

Mongolia exports raw materials, metals and coal, with China the largest purchaser by a long shot. This year, with the world facing a sluggish economy, demand on the China horizon remains uncertain, as does Mongolia’s near-term economic growth.

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Antonio Graceffo, PhD, China-MBA, is an economist and China analyst. He has spent over 20 years living in Asia, including seven years in China, two and a half in Taiwan and three in Mongolia. He conducted post-doctoral studies in international trade at the School of Economics, Shanghai University, and holds a PhD. from Shanghai University of Sport, and a China-MBA from Shanghai Jiaotong University. Antonio is the author of seven books about Asia, with focused on the Chinese economy. For the past 10 years, he has been reporting on the Chinese economy, the US-China trade war, investment, geopolitics and defence. In recent years, he has written a diverse range of articles on Mongolian economics and society.

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Top EU official says 'real divergence' between Georgian rhetoric and reality on accession

Robert Anderson in Prague

There is a “real divergence” between the Georgian government’s statements and the concrete steps it has taken to meet the European Union’s milestones for candidate status, Katarina Mathernova, Deputy Director General for Neighbourhood Policy and Enlargement Negotiations, told a webinar by think-tank the European Council on Foreign Relations (ECFR) on March 29.

Last June Georgia was denied candidate status – while Ukraine and Moldova progressed in the accession process – because of the ruling Georgian Dream government’s erosion of democratic norms. The country was given 12 milestones to achieve before it could become a candidate.

These milestones included: reducing political polarisation; strengthening anti-corruption institutions and the fight against organised crime; implementation of “de-oligarchisation” by eliminating the excessive influence of vested interests; guaranteeing a free media; strengthening civil society; and undertaking a judicial reform strategy.

“A number of steps have been carried out,” Mathernova insisted. “The picture is really mixed.”

She said that for one third of the steps progress had been very good, one third had been good, but for the remaining third much more progress was needed.

On the most controversial step, the so-called de-oligarchisation law, she said when the government publishes its amended proposals the EU would be “very clear” on whether they actually will work.

“Georgia has become used to ‘positive reinforcement’,” Mathernova commented. “Suddenly [in June] this was the first time the EU signalled its displeasure.”

She added, “the notion, ‘oh we deserve it’, is not very helpful”.

The Georgian government has reacted to the EU’s slap in the face by, in domestic politics, claiming that it didn’t happen, while internationally it has continued to complain that it is much better prepared for membership than either Ukraine or Moldova, which were granted candidate status.

While professing its determination to fulfil the milestones and be granted candidate status by the end of the year, the Georgian Dream government has attracted terrible international publicity in recent months for its democratic backsliding.

The government tried to push through a Russian-style “foreign agents law” targeting NGOs and media that receive foreign funding. The EU has warned

After days of violent protests, the government early this month backed down on the foreign agents law, although the Georgian Dream Party has not excluded supporting some similar proposal later. / bne IntelliNews
Georgia that the foreign agents bill is incompatible with EU values.

After days of violent protests, the government early this month backed down on the law, although the Georgian Dream Party has not excluded supporting some similar proposal later.

It has also been criticised for the deteriorating health in jail of former president Mikhael Saakashvili, whom the government has refused to let leave the country for treatment. The EU issued a formal diplomatic note about the onetime leader of the opposition UNM in February.

Broken democracy
The other ECHR webinar panellists expressed fears that any laws that the government is forced to pass by the EU would be abused by the Georgian Dream-dominated judicial system to target the opposition.

“Georgian Dream has the whole political system locked up,” said Jaba Devdariani, founder of the Civil.ge news website, adding that “representative democracy was broken” and that is why protesters are taking to the street instead.

He accused the government of making only token efforts to achieve progress towards EU accession, while at the same time courting the Kremlin.

“Georgia has voted for sanctions against Russia...It has done what the West wanted,” he said. “On the other hand, the domestic political rhetoric has been the opposite.”

The government has also prevented some independent journalists critical of the Kremlin’s war policy from entering the country.

Journalist Regis Gente said the government could not make an “open move” against EU accession, given that three quarters of Georgians support membership, but he accused it of “distancing the country from the West and moving it to the Russian sphere of influence”.

Devdariani said the government’s rhetoric was often similar to Moscow’s and it had created an “alternative reality”.

“In this alternative reality the Georgian government is creating, Georgia is becoming part of the Russian orbit once again.”

Mathernova agreed that “Russia is a very active player” in Georgia, with “very strong hybrid warfare since 2008”, when Russia invaded the country and consolidated its hold on a quarter of its territory.●

BRICS bloc advances another step as Saudi Arabia joins China’s SCO

Ben Aris in Berlin

Saudi Arabia’s cabinet approved a decision to join the Shanghai Cooperation Organization (SCO) on April 6, cementing the increasingly close ties between the Middle East oil producer and China.

The move is also another brick in the emerging closer ties between what can be called the BRICS bloc of leading emerging markets, the creation of which has been catalysed by Russia’s invasion of Ukraine a year ago.

The SCO is a political and security union of Eurasian states and a key institution used by Russia and China to unite and facilitate co-ordination interests in the Eurasian and Asian space, outside the Western-dominated organisations. Membership includes Russia, China, Central Asia and India, among others.

The US also applied for observer status of the SCO in the early 2000s but was rejected in 2005.

The decision comes only a month after China brokered a reconciliation between Iran and Saudi after a seven-year break, brokered by Beijing, seen as a major diplomatic breakthrough.

Washington objected to the tie-up, citing security concerns, which were ignored by Riyadh. Previously close, tensions between Riyadh and Washington has risen dramatically in recent years, since the US became a net exporter of oil following the so-called shale revolution. Previously the US was dependent on Saudi for its oil supplies.

Washington objected to the tie-up, citing security concerns, which were ignored by Riyadh. Previously close, tensions between Riyadh and Washington has risen dramatically in recent years, since the US became a net exporter of oil following the so-called shale revolution. Previously the US was dependent on Saudi for its oil supplies.

Saudi also thumbed its nose at US objections to OPEC+’s decision last month to cut production by more than 1mn barrels per day (bpd) of oil to push up prices. The White House said that production should be increased to bring prices down. Analysts have speculated that the decision to cut production was partly made to support Russia, a member of OPEC+, by earning more money from its oil exports.

The SCO is one of many non-aligned organisations that is being built up the BRICS bloc that is becoming increasingly active. Russia has taken over the chairmanship of the Eurasian Economic Union (EAEU) this January and is intending to transform the trade club of a number of Former Soviet Union (FSU) into a more dynamic organisation of economic integration as well as expand its membership to more countries in Southeast Asia.
China is working to expand its ties and influence in Eurasia as part of its “tianxia” (“All Under Heaven”) foreign policy that stresses building mutually beneficial ties with neighbours. Eurasia has become a major focus of both countries as relations with the West unravel in what is becoming an increasingly fractured world. China in particular is looking to develop a land bridge from Asia to Europe that doesn’t depend on maritime transport and so frees it of fears of interference by the powerful US navy.

According to the Saudi state news agency SPA, Saudi Arabia has approved a memorandum on granting the kingdom the status of a dialogue partner within the SCO – the first step towards full membership in the mid-term, which was discussed during a visit by Chinese President Xi Jinping to Saudi Arabia in December 2022, reports Reuters.

The SCO was set up Russia, China and the ‘Stans of Central Asia in 2001 to better co-ordinate economic and security interests. It has since been expanded to include India and Pakistan, with Iran also expected to join as a full member next year. As a core concept, the organisation is based on the principle of creating a “multipolar world that also lies at the heart of Russia’s and China’s foreign policies.

It covers 60% of the Eurasian continent (by far the biggest single landmass on Earth), 40% of the world’s population, and more than 20% of global GDP.

Saudis membership of SCO also improves already good ties between Russia and the Middle East, where Russia has won kudos as a “honest broker” in mediating in difficult relationships between the likes of Saudi, Iran and Israel; Moscow almost uniquely has good relations with all of them.

The decision by Saudi Arabia to join the SCO followed an announcement by the state-owned national oil giant Saudi Aramco that it has just raised its multi-billion dollar investment in China by finalising a planned joint venture in north-east China and acquiring a stake in a privately controlled petrochemical group.

The growing influence and membership of the BRICS bloc institutions has shaken the White House, which has been touring the world on a campaign to bribe, bully or cajole countries from Africa, Asia and Latin America to support the Western-led sanctions regime on Russia following the start of the war in Ukraine. However, the reception to US entreaties has been mixed, as many countries have been subject to US bullying in the past themselves and more fear that the same sanctions regimes may be used against them should relations with the West sour in the future. The BRICS bloc offers a welcome counterweight to the predominance of the Western hegemony.

China’s diplomacy has also recently become much more aggressive after President Xi Jinping met with President Vladimir Putin in Moscow on a three-day visit to ostentatiously show support for the Russian leader. Analysts point out that Xi’s trip marks a new phase of more aggressive diplomacy on the international stage and can be seen as an overt challenge to the US claim to be the “leader of the free world.”

Washington views China's attempts to exert influence around the world as a threat and US Secretary of State Antony Blinken called China one of the US’ main “rivals” in his first major foreign policy speech in 2021.

However, Saudi Arabia and other Gulf states have voiced concern about what they see as a withdrawal from the region by the United States, their main security guarantor, and have moved to diversify their partners by turning to China and Russia.

At the end of December 2021 and into January 2022 China held a series of meetings in Beijing with foreign ministers from Saudi Arabia, Kuwait, Oman and Bahrain, plus the secretary-general of the Gulf Cooperation Council (GCC). The principal topics of conversation were to seal a China-GCC free trade agreement (FTA) and to forge “a deeper strategic co-operation in a region where US dominance is showing signs of retreat”.

China first cemented close ties with Saudi Crown Prince Mohammed bin Salman (MbS) from around 2015, when the prince proposed floating Saudi Aramco in a $100bn IPO. China offered to buy the 5% stake on offer and although the deal didn’t go through, MbS has been grateful to Beijing ever since, according to experts.

Relations with Russia also dramatically improved following the 2014-2016 Oil Price War, when the kingdom crashed prices in an unsuccessful bid to wrack the US shale oil industry and that almost bankrupted the kingdom.

At that point, Russia had stepped in to support the OPEC oil production cuts in late 2016 aimed at bringing oil prices back to levels that allowed OPEC members to begin to repair their decimated finances. That support was formalised by Russia’s membership of the OPEC+ cartel.
The war in Ukraine has amplified the rift within Bulgaria between pro-Western liberals and illiberal pro-Russians. With the fifth general election in two years approaching, the population of the EU’s poorest and most corrupt member state appears more divided than ever, with no apparent path towards unification. While these divisions existed before the war, Russia’s invasion of Ukraine a year ago helped solidify them. Those defining themselves as liberal and pro-Western support Ukraine and are throwing themselves into helping refugees, not only from Ukraine but also the victims of other devastating events such as the quake in Turkey and Syria and, closer to home, recent floods in Bulgaria.

The other group, which believes the country should abandon its pro-Western path and return to the Russian orbit, is preoccupied with issues such as whether Bulgaria will lose its sovereignty if the country joins the eurozone, or if the minds of young people will be twisted by the teaching of so-called “gender ideology” in schools.

Similar dividing lines have appeared in other countries in the region, where those who espouse traditional values clash with those who take a more liberal approach, but the gulf is particularly deep in Bulgaria.

The same divisions are reflected in voting intentions ahead of the April 2 snap general election. The first group seems more inclined to vote for the reformist pro-Western coalition Change Continues-Democratic Bulgaria, while the second would back pro-Russian Vazrazhdane or the Bulgarian Socialist Party (BSP).

The positioning of some other parties is less clear. The Gerb-SDS coalition, for example, claims to be pro-Western, but during his time in power Gerb’s leader Boyko Borissov made some valuable “gifts” to Russia, notably building the local section of the TurkStream gas pipeline that bypassed Ukraine.

**The fighters**

The separation of the two sides of Bulgarian society began years before the start of the Russian war in Ukraine, but after the invasion the population and politicians openly split into those supporting Ukraine and its refugees, and those backing Russia.

In the first days after the invasion, thousands of Bulgarians started aiding refugees and gathering funds to help the
Ukrainian army. Several went even further – fighting for Ukraine as part of the international legion there. The name of only one of them, Ivan Kalchev, is publicly known.

Kalchev, an IT expert, member of the Green Movement party and prominent civic activist, decided to go and fight for Ukraine days after the Russians invaded. He said he was fighting for Bulgaria’s and Europe’s freedom.

While in Ukraine, Kalchev occasionally posted on Facebook through trusted people in Bulgaria, inspiring his supporters. However, his posts also attracted a lot of comments from the other side of Bulgarian society wishing for his death at the front.

In July, Kalchev returned to Bulgaria for a ten-day leave and launched a campaign to gather funds and buy much-needed equipment for the international legion in Ukraine. The campaign was so successful that Kalchev gathered double the funds needed in just a few hours. He used the extra money to buy more equipment and launched another campaign to raise funds for the construction of a special drone for Ukraine. That one was also successful.

Although he was running in the upcoming election as a candidate for Democratic Bulgaria, Kalchev chose to stay in Ukraine in September and participate in the liberation of Kharkiv.

At the end of September, he returned to Bulgaria, saying he is continuing the same fight in another way. While campaigning, Kalchev is also still actively helping Ukraine and fighting for other causes in Bulgaria.

The fundraisers

While few Bulgarians chose to fight in Ukraine, thousands have supported the country with funds and campaigns to buy equipment. One of them, publisher Manol Peykov, was particularly successful, inspiring thousands of people and gathering more funds than anyone had expected. As soon as the war in Ukraine began, Peykov established contacts with people there through Ukrainian writer Khrystia Vengryniuk, who is married to a Bulgarian and went to Ukraine to help after the start of the war. Vengryniuk is part of a group that is securing equipment for soldiers. Peykov was the one gathering funds and buying the equipment in Bulgaria, as well as arranging its transportation to Ukraine.

After Russia attacked key energy infrastructure in Ukraine, leaving most of the country in the dark during the winter, it was Peykov who decided to gather funds for a few generators, after being asked for one by the theatre director Yordan Slaveykov for his friends from Ukrainian theatre. What followed was beyond any expectations – in just a few days, Peykov gathered more than half million levs for hundreds of generators, which he found a way to buy and transport to Ukraine.

Peykov claims that he was so successful because many Bulgarians have woken up and realised that it is in their power to change things. He believes that the huge donations are a signal of the birth of a strong civil society in Bulgaria.

After the devastating earthquake that hit Turkey and Syria, Peykov started another campaign to gather funds and quickly acquire and send essentials to victims of the quake. He was the first to find a way to send aid to Syria in the days when transferring anything to the country was almost impossible.

That campaign was again beyond any expectations. According to Peykov, people were coming by his office all the time to leave money, clothes, tents and other equipment. After just two days, the publisher had to find a warehouse to store all the donations.

A candidate for Democratic Bulgaria in the election, Peykov is so busy with his humanitarian work he says he has no time to campaign ahead of the vote.
The anonymous volunteers
The war in Ukraine increased the sensitivity of Bulgarians towards those in need and that has also extended to causes at home. In the autumn of 2022, floods destroyed or badly damaged houses and public buildings in several villages in their own country. Thousands of people donated funds, clothes and equipment within hours, while hundreds went to help local people by cleaning the areas and restoring buildings.

Another event, in November last year, also provoked a massive response – an autistic child disappeared in the town of Pernik. After his father alerted the police, hundreds of volunteers went to search for the boy for days, organising themselves without the help of the state authorities. The child was found alive and healthy thanks to their efforts.

But while the number of people responding to devastating events in Bulgaria and abroad has grown, so have their opponents. The voices of those criticising the Bulgarians who help the people of Ukraine, Turkey and Syria, especially on social media, have become louder.

A typical accusation is that Bulgarians who help foreigners do not care about poor retired people at home. The pro-Russian political parties participate in this rhetoric, and it has been claimed that such accusations are often started by trolls paid by Russia.

President’s U-turn towards the Kremlin
A political debate over whether and to what extent Bulgaria should support Ukraine with military and other forms of aid has been raging since the war started.

Pre-war, President Rumen Radev was recognised as a political figure fighting against corruption, which helped him to win his second mandate. However, he alienated many of his admirers when he started taking increasingly open pro-Russian positions since February 2022.

Radev’s main position is that Bulgaria should only provide humanitarian aid to Ukraine, preferably to Bulgarians living in Ukraine, and under no circumstances give weapons to Kyiv. The president claims that providing weapons to Ukraine will only escalate the war and will not bring peace. He went even further, accusing Change Continues and Democratic Bulgaria, who have repeatedly pushed for military aid to Ukraine, of being “the parties of war”.

It was revealed in January that former prime minister Kiril Petkov’s government secretly supplied Ukraine with fuel and Soviet calibre ammunition after the start of Russian invasion via third countries.

Radev also pushed Prime Minister Gulub Donev caretaker government to try hard to launch talks with Gazprom on the resumption of deliveries of natural gas. Gazprom halted supplies to Bulgaria in April 2022, after Petkov’s government refused to start paying in rubles. Radev accused Petkov and few of his ministers of violating the contract with Gazprom, which, he said, could lead to heavy fines for Bulgaria.

Recently, Radev also said that as long as the country is ruled by the caretaker government, Sofia will not provide any weapons or ammunition to Kyiv even though the last parliament ordered the interim government to do that. The president said that Bulgaria would seek guarantees from its EU partners that they would not provide any weapons purchased from Bulgarian arms producers to Ukraine.

Anti-euro referendum
Another pro-Russian politician, Vazrazhdane leader Kostadin Kostadinov – dubbed Kostya Kopeyking because of his pro-Russian aspirations – has started a petition for a referendum on delaying euro adoption until 2043.

Kostadinov and his party argue that should Bulgaria adopt the euro, people will rapidly become poor and will starve. Vazrazhdane claims that Bulgaria would entirely lose its monetary sovereignty, and that the decisions of the European Central Bank would harm Bulgaria’s interests.

Undermining Kostadinov’s arguments, it has been revealed that he and most of Vazrazhdane’s leadership keep their savings in euro accounts. The party showed the same duplicity regarding anti-coronavirus vaccines – while calling for protests against vaccines, it turned out that all of its MPs were vaccinated.

The fight against “gender ideology”
Another issue that has preoccupied those on the illiberal side of the divide is “gender ideology” – a term created by Russia and quickly adopted in Bulgaria several years ago when far-right parties fiercely opposed the adoption of the Istanbul
convention on the prevention of domestic violence and violence against women.

At the time, they claimed that the adoption of the convention would open doors to the introduction of a “third gender” and would turn young people into homosexuals. The constitutional court backed the nationalists, saying the convention contradicts the Bulgarian constitution that states there are two genders – female and male. A later constitutional court decision banned gender reassignment.

Now the leader of the BSP, Kornelia Ninova, has launched a fight against “gender ideology” in schools in a bid to take votes from Vazrazhdane.

Ninova claims “gender ideology” is increasingly widespread at schools. In one video, posted on her Facebook profile, she reads a lesson from a sixth grade textbook that mentions homosexuality. Ninova claims this is pushing youngsters towards the “third sex”.

“Youth organisations are helping this process,” Ninova said. “Support us to stop that together. May we be mother and father, not parent 1 and parent 2. May we have boys and girls and not something in between 60 different sexes. Our fight is for the children,” Ninova said.

No way to bridge the gap

With campaigns like those on gender and the euro intensifying ahead of the general election, the two opposing groups in Bulgaria seem more divided than ever, after no event or situation managed to bridge the gap between them over the past two years.

Druing this time, the lengthy political crisis in the country has made it even harder for the two groups to understand those who differ from them or even attempt to find common ground.

Unless Bulgarians decide to set aside their differences and work jointly for the country’s interests, unifying the population seems impossible in the coming years, while divisions might deepen even further.

Poland’s economy has bottomed out but anaemic growth lies ahead

Piotr Poplawski is a senior economist for Poland at ING in Warsaw

March data from the real economy indicates a decline in GDP in the first quarter, which we now estimate at 1.5% year on year compared with -1.2% y/y predicted so far. This was most likely the low point of the current downturn cycle, but we should expect weak annual GDP growth (probably below 1%) in the coming quarters.

Continued decline in industrial production

Industrial production fell by 2.9% y/y last month (ING: -1.5%; consensus: -1.9%), following a 1.0% y/y decline in February. Seasonally adjusted output dropped by 1.0% M/m.

The weak March result was heavily weighed down by a high base in energy generation, which translated into a 21.8% y/y decline in output in this section. Manufacturing production declined for the second consecutive month (-0.4% m/m), which we link to weakening demand from European, including German, manufacturing. Mining also recorded weak results (-7.1% y/y).

Among the main divisions of manufacturing the deepest declines were posted in wood (-22.0%), chemicals (21.8%) and metal manufacturing (-19.8%). In contrast, dynamic growth continues in the automotive industry and related industries. The production of automobiles, trailers and semi-trailers increased by 36.5% y/y, electrical equipment (including batteries for autos) by 20.3%, and other transportation equipment by 16.8% y/y. This is due to the normalisation of supply chains and the fulfilment of outstanding production orders.

Construction output down despite rising infrastructure activity

Construction output fell 1.5% y/y in March, against an increase of 6.6% y/y in February. This is a far worse result than the consensus (+0.9%). The dismal performance is...
most likely due mainly to residential construction, although infrastructure work did not fare well either.

Construction of buildings fell by 10.5% y/y in March. This is a result of the still difficult situation in the housing market, primarily related to the sharp rise in interest rates. The number of housing units under construction has clearly fallen from last year’s peaks, but still remains at historically high levels. Developers are most likely finishing projects already underway, but not starting new ones. With current demand, the apartments already on offer will cover demand for at least a year. The situation is unlikely to improve anytime soon, especially since some potential buyers may be waiting for details of the government support programme.

In the case of other categories, we are most likely to see the effects of the completion of public investments in the last accounting year of the “old” EU budget. Civil engineering construction increased by 9.5% y/y, but specialised works fell by 2.7% y/y. Public investment is likely to offset poor private outlays this year.

**Strong decline in PPI inflation**
Producer price index (PPI) growth slowed to 10.1% y/y in March (ING: 10.8%; consensus: 11.2%) from 18.2% y/y in February (revised). The main reason for the strong y/y decline in PPI inflation is the very high reference base. In March 2022, producer prices rose 6.6% m/m, with prices in the division that includes refined petroleum products rising more than 30% m/m. Compared to February, producer prices declined by 0.8% in March 2023. This was the fifth consecutive month of monthly price declines in manufacturing. Prices in the energy and power generation segment also fell markedly (-3.4% m/m).

The next few months will bring a continuation of PPI disinflation, and producer prices should rise at a single-digit pace as early as April. PPI inflation has climbed noticeably more strongly than CPI, and the same will be true in the reversal phase, i.e., the decline in producer inflation will be considerably more dynamic than in consumer prices.

**Monetary policy outlook**
Despite the strong deceleration of the economy and the disinflation trend that has begun, we do not share market expectations for interest rate cuts before the end of this year. The trajectory of core inflation points to strong persistence in price increases, which will require interest rates to remain at their current high levels for an extended period. It is noteworthy that in recent weeks the National Bank of Poland has changed its rhetoric and retreated from earlier declarations of readiness to ease monetary policy before the end of 2023, which would have been premature. In our view, the first NBP rate cuts will take place at the end of the third quarter next year.

Piotr Poplawski is a senior economist for Poland at ING in Warsaw. This note first appeared on the ING portal.

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**MACRO ADVISORY**

**Mongolia, surfing the seven Cs**

Chris Weafer of Macro-Advisory

This time last year Mongolia faced a difficult future, with a high risk of debt default. The country’s main trade partner, China, had mostly closed its borders (part of the Covid-zero policy) and reduced imports of coal and copper, Mongolia’s two most important exports. The country has experienced protests in April 2022 as people expressed frustration at government failures and the poor economic outlook.

Since then, the outlook for the economy has greatly improved and the country’s financial position is also considerably better. There is no risk of default, and the country should be able to reduce its debt burden to a more comfortable level in the coming years.

GDP is set to expand by at least 6% this year (from 4.8% in 2022 and only 1.4% in 2021). Inflation, which has averaged over 13% for the past two years should fall below 10% later this year. The trade balance is expected to expand to $4.5bn, double that of 2021, and the budget deficit should fall to 2.5% of GDP (versus a deficit of 3.6% last year).

The reasons for the improvement in the country’s current position and in the outlook, can be summarized under “Seven Cs”.

**China.** Beijing has dropped its previous highly restrictive Covid-Zero policies. It means the border is now fully open and imports of materials, to fuel the economic recovery, are flowing in. Over 90% of Mongolia’s exports are such materials and 80% of all exports are to China. The border closure had the most damaging effect on the economy in 2021 and up to last autumn, while its reopening is having the biggest positive effect.

**Copper.** The underground section of the Oyu Tolgoi mine has now commenced production (in early March) and should triple the production of copper concentrate from the mine. Previously, production from the open-top mine averaged...
1.5mn tonnes annually while the underground production is expected to average 3mn tonnes. This comes at a time when the outlook for the price of copper is very strong, with many industry analysts expecting it to double in the next three years. This is because of the fast growth in renewable energy projects (copper is still the most efficient and affordable way to transmit electric power) and strong growth in electric vehicle production globally. This is against a backdrop of low global inventories of copper.

**Coal.** China will continue to open new coal plants (until 2030), leading to rising coal demand. However, prices are expected to remain under pressure due to competition from Russian coal producers who are looking to markets in Asia to sell coal now blocked from Europe due to sanctions.

**Casinos.** The period 2023-25 has been designated as the “Years to Visit Mongolia.” The government has launched a major campaign to attract more visitors, including waiving visa requirements for citizens of 34 countries. The ambition is to attract an additional 1.5mn visitors this year and raise this to 2mn in 2024. Part of the effort to attract more tourists is to liberalize the casino industry. A bill has been submitted to Parliament and is currently being debated. The idea is to allow casinos to operate in a 1,000-hectare free trade zone located near the new Ulaanbaatar Airport. But only tourists would be allowed to use the casinos (no locals) and the proposed profit tax is 40%. Casinos and gambling are highly controversial in Mongolia following major scandals in the 1990s.

**Corruption.** The so-called Coal-Mafia scandal (allegations that current and former senior government and elected officials conspired to steal billions of dollars by falsifying coal export volumes) has proven to be the proverbial last straw for people’s frustration with public corruption. The very big protests of last December have forced the government to start tackling the issue more seriously. Several new measures and legislation have been announced and 2023 is designated the “Year for Fighting Corruption”. The hope is that such measures can also lead to higher investment, especially by multinationals.

**Credits.** The government successfully placed new Eurobond debt in January (the first since June 2021) and restructured the repayment schedule. The result is a much more comfortable debt service schedule in 2023 and 2024 and a declining debt load (relative to GDP). Sovereign external debt is expected to drop to 71% by the end of this year, from over 76% at the end of 2022. The country’s debt risk rating should be improved this year.

**Civic society.** The country has a young population structure but a high level of people living on, or below, the poverty line. Environmental problems have worsened in recent years. These issues had already led to some protests before last year’s major scandal (the coal-mafia) broke. There is a sense now that people will no longer put up with weak and ineffective government and state agencies – a message which appears to be heeded by the government and at a time when, relative to previous years, it can afford to start spending more money on economic and social programs.

But it is not all plain sailing.

There is a risk of further social and political instability. According to the World Bank, almost 30% of people live below the poverty line and another 15% are close to it. People are very frustrated, especially when they hear of officials stealing budget money, and the risk of further protests is high. Attempts by political factions to align with the protests, i.e., to attack political opponents, have failed. Protests in 2022 were mostly nonpartisan and any future protests will likely remain so. This creates a more dangerous situation for government if, for example, it does not deliver on social, economic and environment promises or, if there are more corruption scandals.

The most recent protests took place late last year as news of the Coal-Mafia scandal infuriated people so much that they occupied the centre of Ulaanbaatar (and several other areas) for several days in mid-December. The fact that the nighttime temperatures fell to minus 20C but did not deter the protestors shows how fragile is the socio-political balance right now.

The next parliamentary election is scheduled for June 2024. There were reports that President Khurelsukh pushed for it to be brought forward to this year. He said it was to allow people to express their frustration in an organized manner. But more likely this was an effort to hurt his rival, current Prime Minister Oyun-Erdene, with whom he is vying for control of the Mongolian People’s Party (MPP) which has controlled Parliament (The Great Khural) since 2016. Khurelsukh was previously PM (and head of the MPP) before starting a six-year term as president in January 2021.

Another action showing the rift between the President and government was his recent vetoing of a contentious law aimed at protecting human rights on social networks after international criticism and some public protests. The law is criticized as being too draconian and would restrict freedom of speech. The veto means that the legislation now returns to Parliament for further debate. A vote in favour by two-thirds of deputies is needed to approve the law and to overrule the veto.

The government is now in a more comfortable financial position and the outlook for export growth looks much better than it did this time last year. The big question is how it will use the improving export and tax receipts. There are several areas in need or urgent action, such as the environment and alleviating poverty. There is also the New Revival Policy program which is targeting economic diversification and reforms. All of which will be expensive. The hope is that lessons from the past have been learned and programs to create stable recovery will be favoured over the sort of short term expediency spending which led to problems in the past.
Is war between Iran and Azerbaijan out of the question?

Fuad Shahbazov

Tensions between Azerbaijan and Iran have grown rather raw recently in the wake of Baku’s inauguration of its first-ever embassy in Israel. Of course, diplomatic relations between the neighbours have steadily become more and more inflamed and embittered for several years now, with Iran concerned at the declining influence in the South Caucasus it has suffered since the second Karabakh war between Azerbaijan, urged on by Turkey, and Armenia in late 2020. And with a normalisation of diplomatic ties between Tehran and Baku unlikely in the near future, the big question remains unanswered: Is it possible that the tensions could escalate into a large-scale regional conflict?

The war of words between the two countries was aggravated in October 2022 when Iran’s Islamic Revolutionary Guard Corps (IRGC) conducted large-scale military drills on its border with Azerbaijan. Baku opted to refrain from responding to the exercises with comments that might antagonise Tehran. However, the situation became even more explosive when, in late January, an Iranian citizen armed with a rifle burst into the Azerbaijani embassy in Tehran, and killed the building’s security chief and injured two of his colleagues.

Unsurprisingly, the incident triggered an outpouring of anti-Iranian sentiment in Azerbaijan and much international condemnation. Yet things continue to escalate. Last week ended with Azerbaijan expelling four employees of Iran’s Baku embassy for “activities... incompatible with diplomatic status” and arresting six men, allegedly linked to the Iranian secret services, whose aim was said by Azerbaijani officials to be setting up “a ‘resistance squad’ aimed at establishing a Shari’a state in Azerbaijan through armed unrest and the violent overthrow of Azerbaijan’s constitutional order”.

The real worry is that – despite April 8 bringing a phone conversation between the countries’ top diplomats to discuss “problems and misunderstandings” – Azerbaijan and Iran are now fast descending to the point of no return in their ruptured relations. Neither side shows signs of budging in the standoff. Iran is deeply uneasy at the regional geopolitical eventualities that stemm from the 2020 war over Karabakh. They have significantly limited Tehran’s room for manoeuvre. The military victory strengthened Azerbaijan’s ties with Turkey and Iran’s arch-enemy Israel, which, like Turkey, provides Baku with the arms that make all the difference in its fight with Armenia, such as kamikaze and other combat drones.
Tehran will not see the deepening Azerbaijan-Israel partnership, particularly in the defence sector, as anything less than a threat to its national interests. It has several times pointed to alleged “activities of Israeli intelligence on Azerbaijani soil”. Then there’s Turkey’s growing move into Iran’s backyard. Seeking from its spoils Karabakh victory, Azerbaijan has aggressively pushed for Armenia to accept a transit corridor across its territory that would link Azerbaijani exclave Nakhchivan, and thus neighbouring Turkey, with Azerbaijan proper. The Iranians regard the prospect of such a corridor, which would run across Armenia’s Syunik province, as potentially erecting a barrier between Iran and its leading Caucasus partner, Armenia.

As the escalation mounts, the Azerbaijan-Israel-Turkey axis strengthens and Iran responds by boosting its support to Armenia as a counterbalance. Both Tehran and Yerevan suffer considerable isolation, the former due to the impacts of heavy US and other Western sanctions, the latter because it has long endured sealed borders with Turkey and Azerbaijan (leaving only the borders with Georgia and Iran operational for trade). Thus their desire for cooperation has long had a logical underpinning.

How effective the influence of big regional power Iran is on behalf of tiny Armenia can be difficult to gauge, but it has to be considerable. During last autumn’s deadly military exchanges between Azerbaijan and Armenia, Armenian state media went so far as to say that it was Iran that prevented Baku commanding its forces to engage in a far more extensive and prolonged military operation against Armenia.

From the Armenian point of view then, it’s clear that Iran’s muscle in the Caucasus is essential, as Yerevan could potentially benefit from Iranian military support if Azerbaijan did decide to go for a major military solution to its differences with Armenia and the ethnic Armenians of Karabakh.

Amid unconfirmed reports of a new defence deal between Baku and Tel Aviv taking shape, threats emanating from Tehran even triggered a debate over whether it is conceivable that the Iranians would launch an offensive against Azerbaijan under the guise of “protecting strategic partner Armenia”. Moreover, Iran recently agreed to diplomatic normalisations with Gulf monarchies, including Saudi Arabia and the UAE, following the brokering of talks by China. That shift will enable Tehran to step up its focus on the South Caucasus.

However, although Iran is clearly on guard against having a declining influence in the region, it is unlikely Tehran would go for a conventional war with Azerbaijan. Tehran has enough on its hands. Concerns include financial stagnation, social unrest, the sanctions burden and a lack of sophisticated weaponry in some areas (the Iranian air force is counting on Russia agreeing to deliver modern fighter jets, but it’s unclear whether the deal will materialise). All in all, it is difficult to imagine Iran launching a large-scale cross-border war against Azerbaijan, and, should it do so, the responses of the other big backyard player, Russia, and the West, would be hard to predict.

Far more likely is Iranian proxy warfare against Azerbaijan. Iran is not short of experience in such irregular warfare given its longstanding activities across the Middle East. What’s more, as the pre-eminent Shi’a Muslim country, Iran maintains visible influence among Azerbaijani Shi’a radicals, who make easy targets for recruitment by Iran-linked radical organisations, including Huseyniyyun and Liwa-Fatimuyyun, designated as terrorist entities by Baku.

Azerbaijan’s recent mass crackdown on an alleged Iranian spy network in Azerbaijan came as no surprise to observers. The mass arrests of Iran sympathisers also came shortly after an Azerbaijani member of parliament, Fazil Mustafa, a staunch critic of Iran, was gunned down in front of his house on March 30, leaving him badly injured.

So are there prospects for a Baku-Tehran normalisation in the foreseeable future? They are dim to non-existent. There are certainly none that have any visibility. On the contrary, Azerbaijan looks set to seek deeper ties with Israel and Turkey, particularly in defence, as Baku desires more military hardware to counter a potential Iranian proxy war. Tehran, meanwhile, will certainly keep throwing its weight around. It will stay right in Baku’s face, but it is unlikely to achieve concessions from Azerbaijan through intimidation and vocal threats. Baku sees no need to go out of its way to achieve a balanced foreign policy concept given the new regional balance of power.

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“Far more likely is Iranian proxy warfare against Azerbaijan. Iran is not short of experience in such irregular warfare given its longstanding activities across the Middle East”
**Russia’s international reserves are back to over $600bn**

Russia’s international reserves increased by 1.2%, or $6.9bn, in one week to top $600bn for the first time since the war in Ukraine started, the Central Bank said in a statement on April 13.

“International reserves amounted to $600.8bn as of April 7, up by $6.9bn, or by 1.2%, in one week as a result of positive revaluation,” the Central Bank of Russia (CBR) said.

**Ukraine’s inflation falls to 21.3% y/y in March, but remains stubbornly high**

Consumer price inflation fell to 21.3% in March year on year from 24.9% a month earlier, but despite keeping the prime interest rates punishingly high, it remains elevated, Ukrstat reported on April 12.

Worryingly, the weekly inflation rate rose at a faster pace in March, up by 1.5% compared with 0.7% in February and 0.8% in January.

Core inflation also rose 1.5% in March from 0.5% in February and 0.7% in January, Ukrstat said.

**Europe’s heating season ends as gas storage passes bottom**

The use of stored gas in Europe has passed bottom and gas tanks are now being refilled to be ready for next winter.

European gas tank storage hit a low of 55.36% full on April 1 and the volume held in tanks has grown since then to 57.94% full as of April 23, according to data from GIE (Gas Infrastructure Europe).

Gas use this year was exceptionally low and the nadir of gas use that resulted in gas tanks being more than 50% full is the highest volume in storage at the end of the heating season in at least five years.

**Slovenia’s retail sales decline further y/y in March**

Slovenia’s retail sales fell by an annual 12.7% in March, deepening from a 4% y/y decline a month before [chart], the statistics office, SURS, said on April 26.

In retail trade with food products sales went down by 8.3% y/y, in retail trade with automotive fuel dropped by 16.8% y/y and in retail trade with non-food products fell by 11.2% y/y.

In the first three months of the year, turnover moved down by 0.5% compared to the same period of the previous year.

At a monthly level, volume turnover in retail trade edged up 0.4%. In retail trade with automotive fuel it declined by 1.6%, in retail trade with food products by 1.1% and in retail trade with non-food products by 0.7%.

Volume turnover from trade and repair of motor vehicles grew at the monthly level by 2.5% and increased by 18.7% y/y in March.
It will cost $411bn to rebuild Ukraine

A joint assessment released by the Government of Ukraine, the World Bank Group, the European Commission, and the United Nations estimates that the cost of reconstruction and recovery in Ukraine has already grown to $411bn, reports Statista.

This ‘Rapid Damage and Needs Assessment’ (RDNA2) covers damages and losses for the 12 months following Russia’s invasion of Ukraine on February 24, 2022, with the reconstruction needs covering the period 2023 to 2033.

As described in a World Bank press release, “the RDNA2 provides a comprehensive evaluation of war impacts across twenty different sectors. It quantifies the direct physical damage to infrastructure and buildings and describes the impact on people’s lives and livelihoods.” As this infographic illustrates, the areas with the largest financial recovery needs are transport ($92bn), Housing ($69bn) and energy & extractives ($47bn).

Also notable is the almost $40bn required for ‘explosive hazard management’. As well as the countless so-called ‘explosive remnants of war’ (unexploded artillery shells, grenades, mortars, rockets, air-dropped bombs, and cluster munitions), landmines have been used extensively by both sides in the war. A report published in January by Human Rights Watch (HRW) found that Ukrainian forces appeared to have scattered landmines in eastern Ukraine last year. HRW also previously published three reports documenting Russian forces’ use of antipersonnel landmines in Ukraine in 2022.

Commenting on the recovery needs report, Denise Brown, United Nations Resident Coordinator in Ukraine said: “Behind every home or hospital, or school destroyed, a Ukrainian life is affected. Loss of a life, lack of access to proper health care for pregnant women and the elderly or a child who is not able to go to school. While the psychological trauma is incalculable, the RDNA2 is just the beginning of the estimation of loss. But some things can’t be rebuilt.”

The cost of rebuilding Ukraine

Source: Statista
Someone bombed Saudi Arabia’s biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to $100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

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