Ukraine must choose east or west in the Motor Sich sale saga

From Moscow to Berlin, digital music startups attract top investors

CEE-4 growth pulls ahead of the rest of Europe

Uzbekistan one of only two countries in Europe and Central Asia to put in positive economic growth this year, says World Bank

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Eastern Europe

Poland’s competition watchdog UOKiK said on October 7 it had fined the Russian gas supplier Gazprom PLN29bn ($7.6bn) for building Nord Stream 2, a gas pipeline from Russia directly to Germany via the Baltic Sea, without its consent. “[The] completion of the project constitutes a breach of legal provisions and fair competition rules,” UOKiK said in a statement.

Russian state support for its fishing fleet will not include subsidies for building crab-fishing vessels. Overall the ministry reserved RUB25.4bn, RUB22bn and RUB25.3bn for the support of domestic shipbuilders in 2021, 2022 and 2023 respectively, cutting the previous plan by RUB7.4bn. The subsidies for fishing companies for acquisitions of new vessels have also been eliminated.

US businessman and former diplomat Amos Hochstein has resigned as an independent director on the supervisory board of Ukrainian national gas company Naftogaz, complaining of opposition to reforms and of political interference. He was the latest of a string of independent directors leaving their posts because they were not paid.

Andriy Kobolev, the head of Ukraine’s national gas company Naftogaz, has been accused of treason as a power fight for control of the state-owned monopoly continues. Kobolev has successfully led the company for several years, steering it through its legal battle with Russia’s Gazprom that ended with the Russian gas company paying Ukraine $2.9bn in fines and signing a new gas transit deal at the end of 2019.

The Board of the National Bank of Ukraine (NBU) should follow the NBU governance framework, served the NBU and the Ukrainian economy, Goesta Ljungman, Resident Representative of the International Monetary Fund (IMF) in Ukraine, was quoted as saying by Interfax Ukraine on October 8.

Central Europe

Slovakia has won an international arbitration against Polish investor Muszynianka, based on a lawsuit concerning the use of mineral water from springs located in the Slovak village of Legnava in the Presov region, filed by the Polish investor under an agreement on protection and support of investment between both countries, announced by the Finance Ministry in a press release from October 8.

Smokers in Lithuania will be in breach of the law for lighting a cigarette on their own balconies if at least one neighbour in the building complains. The bill, proposed by Health Minister Aurelijus Veryga, also bans smoking in outdoor sports venues, bus stops, children’s playgrounds and outdoor cafes. MPs argued that people were exposed to second-hand smoke by their neighbours.

Southeast Europe

US Democratic presidential candidate Joe Biden on October 6 took aim at Turkey’s “provocative actions” against Greece in its push to secure maritime territory with gas exploration rights and at Turkish President Recep Tayyip Erdogan’s conversion in July of Istanbul’s Hagia Sophia back into a mosque. “The Trump administration must press Turkey to refrain from any further provocative actions in the region against Greece, including threats of force, to create the space for diplomacy to succeed,” Biden said.

Canada’s decision to suspend exports of drone technology over allegations the equipment has been used by Azerbaijani forces in the Nagorno-Karabakh conflict shows a double standard, Turkey’s foreign ministry said on October 6. “Turkey expects Canada to follow a policy free of double standards and to act without being influenced from those opposed to Turkey,” the ministry said in a statement.

Eurasia

Kazakhstan has evacuated at least 500 Kazakh citizens that work in mines in Kyrgyzstan, including employees of copper miner Kaz Minerals from the Bozymchak copper and gold mine. Only a few people are left at the mining and processing complex – mainly individuals responsible for the maintenance of the facility.

Kazakhstan is considering tightening penalties for environmental damage caused by both citizens and firms, the Kazakh prime minister’s press service said. Fines will be doubled from Kazakhstani tenge (KZT) 27,780 ($65.48) to KZT55,560, according to a draft environmental code.

Rio Tinto has reached a deal with the former employee who claimed the company knew about the multibillion-dollar expense and schedule blowouts at Mongolia’s Oyu Tolgoi gold and copper mine even before they were disclosed to the market, The Australian Financial Review has reported. Former employee, Richard Bowley, launched an unfair dismissal claim against Rio after his tenure was cut short in 2019.
Economics

Eastern Europe

Ukraine’s gross international reserves dropped 8.7% month on month, or $2.5bn, to $26.5bn in September after growing 0.9% m/m in August, according to the NBU, due to the peak repayment on external debt amounting to $2.7bn.

Ukraine’s consumer inflation slowed to 2.3% y/y in September from 2.5% y/y in the prior month, the State Statistics Service reported on October 9. Consumer prices grew 0.5% m/m in September compared to 0.2% m/m decline in August.

Belarus’ external state debt totalled $17.7bn, up by $0.6bn or 3.6% by September since the beginning of the year, according to the Belarusian Finance Ministry said. In January-August 2020 the Belarusian government borrowed $1,921.2mn abroad.

Central Europe

The National Bank of Poland (NBP) kept its reference rate at the all-time low of 0.1% on October 7. The NBP also reiterated its concerns about “the lack of visible and zloty exchange rate adjustment to the global pandemic-driven shock and to the [easing of] monetary policy.”

Sales of new passenger cars in Czechia fell by 22.4% year on year to 148,319 vehicles registered in 3Q20. September sales grew by 7%, according to data published by the Association of Car Importers.

Czech nominal government debt rose by CZK446.9bn (€16.5bn) year on year to CZK2.26 trillion in 2Q20, the highest figure in the past 20 years, according to a report published by the Czech Statistics Office (CSO).

Czech state budget deficit increased to CZK252.7bn (€9.4bn) at the end of September, up from CZK230.3bn recorded in August 2020 and CZK21bn posted in September 2019, which is the highest budget deficit since 1993, according to the Ministry of Finance.

Hungary surprised by voting through a balanced budget. The cash-flow based deficit, excluding local councils, reached HUF9bn (€25mn), bringing the deficit to HUF2.27 trillion at the end of September, the Finance Ministry said.

Hungary’s seasonally-adjusted Purchasing Managers Index (PMI) dropped to 48.8 points in September from 52.3 points in August, falling back under the 50-point threshold that signals a contraction in the manufacturing sector. The September gain was short lived and ended five months of decline, the fall was due to a surge in new corona infections.

The Slovak economy is expected to drop by 8.2% year-on-year in 2020, according to the National Bank of Slovakia. For 2021, the bank’s outlook is more optimistic; it expects Slovakia’s economy to grow at 5.6% in 2021, followed by 4.2% in 2022.

Southeast Europe

The European Commission said on October 6 it had adopted a €9bn comprehensive Economic and Investment Plan for the Western Balkans that should help the region move forward on its EU membership path and boost links between the countries in the region.

The World Bank thinks that Turkey’s economy will contract by 3.8% in 2020 given the impact of the coronavirus pandemic, but rebound next year to 4% growth. The Turkish government has said that in a best case scenario growth of 0.3% could be achieved this year.

Romania’s GDP contracted by only 11.9% q/q in Q2 according to the statistics office INS, which initially reported a plunge of 12.5% for the quarter.

Croatia’s economy is seen contracting by 8.1% in 2020 due to the coronavirus and will rebound by only by 5.9% next year, the World Bank said. Prior to the coronavirus (COVID-19) pandemic, the country had a steady economic growth of around 3%.

Eurasia

Uzbekistan is one of only two countries in Europe and Central Asia that will see positive economic growth this year as the rest of the world suffers from an economic recession caused by the coronavirus. In the first half of 2020, GDP growth was nearly zero, compared with growth of 5.8% in the first half of 2019.

Lithuania posted one of the EU’s highest annual retail trade growth rates for August, Eurostat reports, up 7.7% in August from a year ago. Higher growth rates were only recorded in the Netherlands (8.3%), Ireland (9.8%) and Belgium (12.9%). Meanwhile, Latvia’s retail sales grew 4.4% and Estonia registered a 4.1% increase.

Mongolia’s gross domestic product is projected to contract by 2% to 4% this year due to the coronavirus. Mongolia looks likely to enter its first recession since 2009.
**Business**

**Eastern Europe**

Office space sales and lease deals in Moscow in 3Q20 dropped 2.5-fold y/y to their lowest level since 2006. The post-coronavirus lockdown 3Q20 was the worst quarter for business centres in the past years, in line with the global trend.

Sweden’s Telia Company announced that it has sold the world’s largest international telecoms carrier business, Telia Carrier, to Polhem Infra – an alliance of Swedish pension funds focused on long-term infrastructure investments – for a value of Swedish krona (SEK) 9.45bn ($1.1bn) on a cash and debt-free basis.

Ukraine’s Cabinet ordered the merger of power generation company Centrenergo with some state-controlled coal mines into a new joint-stock company. The list of “efficient” mines that will be merged with the power generation company should be determined by the end of this year and their capacity should not exceed 4.2mn tonnes (mmt) of sellable coal.

EBITDA at Ukraine’s largest steelmaker Metinvest surged 3.8x month on month to $204mn in July, according to its monthly results published on October 5. The holding’s revenue gained 7.4% m/m to $910mn. Recall, Metinvest’s EBITDA was $54mn in June, plummeting 67% m/m due to accounts receivable impairments of $112mn that month.

Belarus has postponed the full launch of the first reactor at its Ostrovets nuclear power plant (NPP) by two years until 2022. Belarus was supposed to launch the Ostrovets NPP on November 7, according to embattled Belarusian President Alexander Lukashenko speaking on September 16.

**Central Europe**

The PPF Group of the richest Czech, Petr Kellner, can take over the media company Central European Media Enterprises (CME), as approved by the European Commission on October 6. According to the EC, the transaction would raise no competition concerns in the EEA.

A consortium of Hungarian companies has made an unsolicited offer for Budapest Airport, the fastest growing airport in Europe before the crisis. Budapest Airport is owned by GIC Singapore Investment Fund, Canadian pension fund Caisse de dépôt et placement du Québec and German airport operator AviAlliance. None of the owners have signalled an intention to sell their stakes.

Lithuania has seen the highest annual house price growth for 2Q 2020 among the Baltic countries, figures from Eurostat, the EU’s statistical office, showed on October 7. House prices in Lithuania increased by 7% in the year’s 2Q, y/y, compared with 4% in Estonia and 1.6% in Latvia.

**Southeast Europe**

Turkey’s ship and yacht building sector has revised its export revenue target for 2020 upwards to $1.2bn from the previously envisaged $1bn despite the pandemic. The industry’s export revenues lept nearly 332% on an annual basis to $160mn in September while its exports amounted to $920mn in January-September from $726mn a year ago.

Turkey plans to expand its LNG storage capacity by adding a third floating storage regasification unit (FSRU). The facility will be operational in Saros Bay, north of the Gallipoli Peninsula in northwestern Turkey by 2021. The second FSRU, with a 20mn cubic metre send-out capacity per day, was put into service in Hayat-Dortyol in early February 2018.

Turkish companies are already facing writedowns from open foreign currency positions due to lira weakness. At the head of the list was landline phone monopoly Turk Telekom, run by the Turkey Weath Fund (TWF), the government’s sovereign wealth fund (SWF).

Telekom Slovenije, the biggest telco in Slovenia completed the sale of its Planet TV for €5mn to TV2 ADRIA, a Slovenian subsidiary of Hungarian media company TV2 Media.

**Eurasia**

Kyrgyzstan has seen a wave of attacks on foreign-owned gold mines across the country amid the nationwide political unrest-turned-coup that is ongoing in response to the weekend’s disputed parliamentary election results, according to both local reports and foreign media.

Kazakhstan’s Agriculture Minister Saparkhan Omarov said on October 6 that his ministry expected a grain harvest in 2020 of 18.5mn tonnes and hoped to export 7-8mn tonnes. If realised, the grain harvest level would mark a boost from last year’s 17.4mn tonnes.

Canadian oil and gas company Condor Petroleum plans to invest over $1bn in the operation of gas fields in Uzbekistan’s Bukhara province in 2021-2024. Cooperation issues were on the agenda of a meeting between the Uzbek Ambassador to the US and Canada Jaylon Vakhabov and company heads.

International visitors to Mongolia declined by 88.5% y/y in 1Q20, according to the latest estimate by the National Statistical Office (NSO) of Mongolia on October 12. Mongolia received only 60,500 international tourists after it closed its borders due to the coronavirus crisis.

www.bne.eu
Eastern Europe

Russian internet major Mail.ru Group is considering an initial public offering (IPO) of its gaming division. The company has been developing a solid position in video games and cybersports. Its long-term target is doubling its gaming Ebitda by 2022 and achieving a 20-25% Ebitda margin in the segment.

Polyus Gold International Limited raised $1bn from Russia’s largest bank, state-controlled Sberbank. The company is owned by controlled by Said Kerimov, the son of senator and billionaire Suleiman Kerimov.

Russia’s national air carrier Aeroflot has completed the first placement of additional shares, raising RUB39bn ($0.5bn) at RUB60 per share out of the total expected placement of RUB80bn-85bn. After a disastrous year, the national carrier’s business is starting to improve again.

Ukrainian sunflower oil producer and grain trader Kernel announced bought bank Eurobonds maturing in January 2022 worth $350mn to reduce borrowing costs. Ukraine’s natural gas producer Naftogaz is also intending to tap the market with a large Eurobond issue this year.

Southeast Europe

The value of equity trading on the Bucharest Stock Exchange (BVB) exceeded €0.5bn in September this year, up by 260% both in m/m and y/y terms, after the country was upgraded from Frontier to Emerging market in September.

Turkey’s sovereign wealth fund (SWF), the Turkey Wealth Fund (TVF), has reported a 2019 net income decline of 48.3% y/y to TRY8.85bn ($950mn). The wealth fund’s assets increased to TRY1.5trn in 2019 from TRY1.2trn in 2018.

Slovenia’s Finance Ministry has launched a tender to repurchase existing euro-denominated bonds and to place a new Eurobond issue afterwards. The tender is for the repurchase of the bond issue of €1.6bn with a coupon rate of 4.375% maturing in January 2021 and the issue of €1bn with a coupon rate of 3% with maturity in April 2021.

Moody’s Rating agency upgraded Slovenia’s long-term issuer and senior unsecured bond ratings by one notch to A3 from Baa1. The outlook has been changed to stable from positive.

Hungarian oil and gas company MOL’s 49.08% stake in Croatian peer INA could be worth some $800mn, Hungarian business daily Vilaggazdasag said on September 29, citing a report in Croatian weekly Nacional. Nacional learned that the stake could be worth $800mn from sources in the economy and energy ministries.

Eurasia

Kazakhstan’s state-owned oil company KazMunayGas (KMG) raised a $750mn bond at 3.5% due in April 2023 after a “lengthy roadshow”, GlobalCapital reported. KMG is the latest in a string of Kazakh borrowers that tapped the international capital markets. The bond was priced on October 8 at par – that equated to a spread of 259.9bp over mid-swaps.

Central banks around the world switched from being net buyers to net sellers of gold in August for the first time in around a year and a half, the World Gold Council (WGC) said on October 7. Gold prices rose from just over $1,500 in early 2019 to a record high of $2,072 in early August, before touching the bottom at around $1,900.

The People’s Bank of Uzbekistan (Xalq Bank) has raised an Uzbekistani soum (UZS) 1.54 trillion ($150mn) credit line from Germany’s Deutsche Bank, the national bank said on its website on October 5.

Japanese Foreign Minister Motegi Toshimitsu will pay an official visit to Mongolia on October 9-10 and will sign a $230mn soft loan agreement with an interest rate of 0.01 percent with Ulaanbaatar.

The Mongolian government has issued a “Nomad” bond worth $600mn on the international market, the country’s finance minister Khurelbaatar Chimed announced. The annual interest rate on the “Nomad” is 5.125%, while the bond will mature in 5.5 years. Khurelbaatar said four international investment banks, namely J.P. Morgan, Morgan Stanley, HSBC and Nomura, in the past three weeks worked with his ministry and Mongolia’s central bank on the issue.

Central Europe

The net profit of the Polish banking sector was PLN5.6bn (€1.25bn) at the end of August, marking a drop of as much as 46.8% year on year, the most recent report on Poland’s banks by the financial watchdog KNF said. Though Poland has the mildest recession in the EU, the fall is unprecedented.

The European Commission allocated €720mn for the second stage of the synchronization of the power grids of three Baltic countries and Poland with that of continental Europe. Of the amount, €300mn will go to Lithuania.
From the beginning of the trading week from September 21 to September 25, there was talk of “foreigner interest in banks” after some upward movement in banking stocks was seen. The “foreigners” in question should have been aware that the Turkish government was getting ready to stage a ‘no-hike rate hike’ theatre on September 24.

Following the announcement of the hike that really wasn’t, the banking index closed 5% up day on day. Moreover, during the morning of September 25, the banking index moved up a further 3% d/d. Unfortunately, the index then closed the day with a rather limited rise but it was still up 5% w/w at the end of the trading week.

As things then turned out, the “foreigners” in question, in other words the investors who were supposed to have pushed up the banking share prices, were not visible in the data on foreign investors’ stakes.

Foreign investors’ share in banks’ free-floats from January 2019 to September 18 this year (by Ak Invest).

Banks’ price-to-book ratios remain at gut-wrenching levels.

The Turkish government sees life as simple. It believes that governing a country, or an economy, is only about governing perceptions.

This perspective is supported by another bold assumption, namely that everyone is a fool and ready to be steered in a convenient direction.

“The investors who were supposed to have pushed up the banking share prices, were not visible in the data on foreign investors’ stakes”

Such a way of seeing life makes the government unable to see that some people simply play the fool as long as they gain some benefits from doing so.

The government is unfortunately still not aware that even pure ignorant (as it sees them) Turks (whom it thinks it can fool by
Has the Turkish government given up yet keeping the foreign investors’ share at above 50% with a range of ruses? The 1,000-level for the Turkish lira-denominated BIST-100 is still holding.

According to the latest available data released on September 24 by the central bank, non-resident investors bought a net $3mn of Borsa Istanbul equities in the week ending September 18 versus a net $30mn outflow in the previous week.

Though a tiny gain, it was marked down as the first time since mid-June that the Borsa Istanbul had seen a net inflow.

But there was a surprise in stock-basis data as in the week ending September 18, the foreign investors’ share in the free-float of Turkcell (TCELL) jumped after nosediving the previous week (chart below from Is Invest online analysis tool).

Shares in Turkcell sold by Sweden’s Telia Sonera were circulating to the remaining shareholders, the Turkish Wealth Fund (TVF) and Russia’s Alfa Telecom, based on a share sale agreement signed in June.

Foreigners also bought the Sisecam group companies (SISE, TRKCM, SODA, ANACM) that will merge under Sisecam (SISE) as of September 30. As of September 30, Soda (SODA), Anadolu Cam (ANACM), Trakya Cam (TRKCM) and Denizli Cam (DENCM) will be delisted, and Sisecam will continue as a single company.

Foreign investors’ shares in Sisecam, Soda and Trakya Cam from January 2019 to September 18 2020 (by Ak Invest).

Following on from the Black Sea natural gas discovery stage performance (sceptics eagerly await the day when they find out how much gettable gas there really is), the current story suggests that the government has broken through all negative expectations on Turkey with a surprise rate “hike”. If you buy.

During the coronavirus (COVID-19) lockdown period, one story in circulation was that there were “individual investors’ who were interested in the Borsa Istanbul”. It sounded fishy and indeed no-one could come up with a tangible explanation.

So, the best choice was to avoid the Borsa Istanbul as foreign investors, as could be seen in balance of payments-related data, were heavily selling.

By now, even the stakeholders in the Borsa Istanbul are referring to the supposed individual investor accounts as “fake”.

Of course, as the Bard had it, "All the world’s a stage, And all the men and women merely players" (has it ever been more true?), but if we want to try and find at least some sure footing what we can do is to check the scoreboards, though the scores come in lagged and we have to eliminate manipulated data.

Borsa Istanbul Indices (USD)
The holding in question is Koc and the company in question is Koc’s subsidiary Ford Otosan (FROTO).

Foreign investors’ share in Koc Holding and its subsidiaries from January 2019 to September 18 2020 (by Ak Invest). Foreign market players have shown some interest in Ford Otosan and Arcelik recently.

In the same week, Sisecam group companies remained popular among foreigners.

When it comes to the price board, since the end-2019, aviation stocks (catering services provider DOCO, low-cost airline PGSUS, airport operator TAVHL) remain among the top sold stocks along with Tupras and banks (VAKBN, HALKB, GARAN).

Foreign investors' share in Sabanci Holding (SAHOL) and its subsidiaries Akbank and electricity grids operator Enerjisa. Enerjisa seems an outlier when it comes to foreigners’ interest.

Foreign investors heavily sold Turkish aviation stocks.

Foreign investors have shown some interest in brewer Anadolu Efes (AEFES). Retailer Migros (MGROS) seems to have reached its limits. Despite interest in retailers during the height of the COVID-19 period, Yunus Kaya of Alnus Invest thinks that foreign investors sold hard discount chain BIM (BIMAS) since BIM launched a share buyback programme and provided a sale opportunity. Emlak Real Estate Investment Trust (EKGYO) was popular recently due to a home sales boom while petrochemicals company Petkim lost its foreign investors a long time ago.

The net asset value of the most popular Turkey exchange-traded fund (ETF), the Nasdaq-listed and USD-denominated iShares MSCI Turkey ETF (TUR), remained unchanged at $195mn between September 16 and September 25.

It stood at $380mn as of February 10.

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**Holding company of Hungary’s top oligarch cruises through crisis with hefty profits as state contracts surge**

*Tamas Szilagyi in Budapest*

The lockdown has hit the hotel branch of Budapest Stock Exchange-listed Opus Global, but state contracts in construction more than compensated for the decline, according to the earnings report of the flagship holding company owned by Hungary’s second richest man, Lorinc Meszaros, the childhood friend of Prime Minister Viktor Orban.

The holding consists of 40 companies from all sectors of the economy, from asset management, insurance, agriculture and industry to construction and tourism. Meszaros used to have a huge media portfolio, but he transferred it to the Central European Press and Media Foundation (KESMA) in 2018.

The communication highlighted that it is still not possible to fully assess and model the impact that the second wave of the coronavirus will have on the group’s functioning.

The group’s total operating income was HUF98.8bn (€273mn), down from HUF130bn in H1 2019. The company booked after-tax profit of HUF2.6bn on continuing operations in the first half. Ebitda amounted to HUF17.7bn, thus nearly doubling from HUF9.3bn.

The epidemic halved the revenue of the tourism segment to HUF7.2bn leading to a loss of HUF7.2bn. The company carried out a 50% downsizing at its hotel chain Hunguest Hotels, but has been awarded billions for renovation under a state financed accommodation development scheme.

Opus’ industrial segment generated HUF62bn in revenue in the first six months, HUF4.8bn more than a year ago. Construction group Meszaros & Meszaros and R-Kord have won dozens of state contracts. Opus subsidy RM International is involved in the Sino-Hungarian consortium for the €2.1bn reconstruction and expansion of the Hungarian section of the Budapest-Belgrade rail line financed by Chinese-loans.
Wave of attacks on foreign owned gold mines amid Kyrgyzstan’s political upheaval

Kanat Shaku in Almaty

Kyrgyzstan has seen a wave of attacks on foreign-owned gold mines across the country amid the nationwide political unrest-turned-coup that is ongoing in response to the disputed parliamentary election results, according to both local reports and foreign media.

Much of the political violence directed at the gold mines was intertwined with long-running anger among Kyrgyz citizens who perceive foreign-owned entities as unduly benefitting from Kyrgyzstan’s natural resources at the expense of the population. The country is home to flagship open pit gold mine Kumtor, operated by Canada’s Centerra Gold, which is the single largest contributor to the Central Asian nation’s GDP, of which it generates around one-tenth.

Kyrgyzstan is also developing the Jeruy project, expected to enter production this year with the goal of eventually reaching 5.5 tonnes of annual output. Jeruy’s gold reserves are estimated at 88 tonnes and ore mining has already started at the deposit. The Russia-owned Alliance Altyan, the operator of the Jeruy project, set to be the country’s second largest gold producer, had to suspend mine development works on October 6 after intruders smashed and torched facilities at the site, the company said.

Extraction plant set alight

“Work has been suspended due to the unauthorised entry of unknown people onto the mine’s territory. More than 50 people arrived in cars. We were forced to suspend work for safety reasons,” a spokeswoman for Alliance Altyan was quoted by Reuters as saying. She noted that the intruders set fire to the gold extraction plant and smashed up offices in administrative buildings. Alliance Altyan is controlled by Russian mining company Vostok-Geoldobycha.

The Kumtor mine remained untouched as of October 6. It is located in a remote mountainous spot 430 kilometres away from the Kyrgyz capital Bishkek, the epicentre of the unrest and attempted coup that is playing out. Centerra Gold confirmed that operations at Kumtor continued uninterrupted amid the political upheaval. The company said it was monitoring political developments to ensure conditions remained safe for transporting people and supplies to the mine.

Mines that have been affected by the countrywide unrest included the Bozymchak copper and gold mine, which saw its production suspended on October 6 by the mine’s operator, London-listed Kazakh miner Kaz Minerals.

Locals seize Full Gold’s mine

The Ishtamberdi mine operated by China’s Full Gold Mining has been seized by 300-400 local residents, according to Kyrgyz media reports. Unverified sources claimed that the Chinese workers and staff were chased away from the mine’s territory, according to the reports.

At the Jamgyr gold deposit, operated by Global Jamgyr Mining and funded by Kazakh investors, locals reportedly took some of the workers and staff hostage.

Another Chinese-owned gold project, Kichi-Chaarat, tightened security at its mine, anticipating riots by the locals.

“Much of the political violence directed at the gold mines was intertwined with longrunning anger among Kyrgyz citizens who perceive foreign-owned entities as unduly benefitting from Kyrgyzstan’s natural resources”
Mongolian government issues "Nomad" bond on international market

The Mongolian government has issued a “Nomad” bond worth $600mn on the international market, the country’s finance minister Khurelbaatar Chimed announced on September 29.

The annual interest rate on the “Nomad” is 5.125%, while the bond will mature in 5.5 years. Khurelbaatar said four international investment banks, namely J.P. Morgan, Morgan Stanley, HSBC and Nomura worked with his ministry and Mongolia’s central bank on the issue.

“The new bond was not issued to bring more money to Mongolia. The purpose of the ‘Nomad’ bond is to repay 500 million US dollars of a five-year ‘Mazaalai’ bond”

Khurelbaatar added: “The new bond was not issued to bring more money to Mongolia. The purpose of the ‘Nomad’ bond is to repay 500 million US dollars of a five-year ‘Mazaalai’ bond which will mature in April 2021. This is debt restructuring on part of the current outstanding sovereign debts by exchanging 10.8% ‘Mazaalai’ bond debts with the low-interest rate ’Nomad’ bond.”

In 2016, the government issued the "Mazaalai" bond at 10.8%, the highest interest rate recorded since 2011.

In addition, with the issuance of the "Nomad" bond, the repayment of the remaining $1bn of the “Chinggis” bond has been postponed to lessen the burden on the budget, the finance minister said.

In 2012, the government issued the “Chinggis” worth $1.5bn with a rate of 5.125%, with due repayments of $500mn in 2018 and $1bn in 2022.

The finance ministry also has plans to issue bonds domestically. These bonds will be issued using a platform based on blockchain technology.
Kazakh fintech leader Kaspi.kz eyes October listing on LSE

Kanat Shaku in Almaty

Kazakh banking and fintech firm Kaspi.kz expects its planned London Stock Exchange (LSE) listing to take place this month.

In late 2019, Kaspi backtracked on an LSE share sale from which it hoped to raise between $500mn-$700mn. But it appears to sense a good new opportunity. Reuters lately reported that Kaspi, which controls the third largest Kazakh bank (Kaspi Bank) and is a leader in Kazakhstan’s payment systems and e-commerce sectors, may see an opportunity in capitalising on the impact of a deal announced by Russian technology firm Yandex. The Russian company plans to take over online bank Tinkoff for $5.5bn – this could set a valuation benchmark for digital banks in ex-USSR countries.

Kaspi said it aimed to sell new and existing shares by listing its Global Depositary Receipts (GDRs) on the LSE. It did not mention the size of the stake its shareholders were planning to sell or the amount that they were hoping to raise.

Higher income, revenue and margins
The company said earlier in September that its net income rose by 50% y/y in January-June to Kazakhstani tenge (KZT) 115.6bn (€232.13mn) on higher revenue and margins. Refinitiv data showed that Yandex’s offer valued Tinkoff at 10.5-fold its earnings and 2.9-fold its book value.

Citigroup and Morgan Stanley are acting as joint global coordinators for the deal and as joint bookrunners alongside Renaissance Capital.

In the 2019 attempt at a London listing, the selling shareholders of Kaspi were set to consist of Goldman Sachs, Baring Vostok funds, board chairman Vyacheslav Kim and management including CEO Mikheil Lomtadze.

The Kaspi app is used by many retailers in Kazakhstan to sell goods via its marketplace and to accept payments. Many retailers allow Kazakh citizens to use the payment system as an alternative to cash. This boosted the Kaspi app as a quickly growing popular payment option.

Expansion into travel
The company presently has growth plans such as expanding into new businesses, including online travel, in nearby Central Asian countries and the Caucasus region.

The Kaspi-controlled Kaspi Bank made a decision in February 2019 to delist the bank from the Kazakhstan Stock Exchange (KASE) during an extraordinary meeting. At the same time, Kaspi.kz remains listed on the KASE. Kaspi Bank's total assets as of 30 June 2020 amounted to KZT2.48tn.

In October 2019, the nephew of former Kazakh president of three decades Nursultan Nazarbayev, Kairat Satybaldyuly, sold his 30% stake in Kaspi.kz prior to its announcement of the postponed flotation in London.

Mail.ru Group plans to raise $600mn on London Stock Exchange

East-West Digital News in Moscow

According to an announcement by Mail.ru Group on the London Stock Exchange (LSE), the internet company plans to raise $600mn: $200mn in global depositary receipts (GDRs) to raise capital and $400mn in convertible bonds, reports East-West Digital News (EWDN).

Mail.ru Group will use this money to develop and support the business and finance future transactions, especially in areas that have spurred growth on the back of the coronavirus (COVID-19) pandemic. The holding plans to invest part of the money in O2O, the holding it launched in June last year togeth-
er with Sberbank and AliExpress Russia with Alibaba Group, the Russian Direct Investment Fund (RDIF) and Megafon.

The convertible bonds will be due in 2025.

The American investment bank Morgan Stanley will act as the co-ordinator and bookrunner of the bond placement.

On September 24, Mail.Ru Group GDRs gained 4% during trading on the LSE, and at its peak, the growth exceeded 8%. A similar dynamic was observed at the Moscow Exchange.

This article first appeared in East-West Digital News, a partner of bne IntelliNews.

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**Russian e-commerce giant Ozon preparing for US IPO by end of 2020, beginning of 2021**

B
ing three Russian e-commerce company Ozon Holdings says it will IPO either at the end of this year or the start of next, depending on market conditions, Sova Capital reports.

E-commerce is booming in Russia, with online sales growth twice as fast as traditional channels. And the four biggest companies – Ozon, Wildberries, Sber and Yandex – in the space are growing even faster at up to 80% a year, Ozon CEO Alexander Shulgin told bne IntelliNews in an exclusive interview in September 2019

Ozon is owned and has been funded by conglomerate AFK Sistema but has reached a stage in its development where it intends to scale up by reaching out to institutional investors. Sistema is dual listed in London and Moscow, and Russia’s leading private equity fund Baring Vostok are Ozon’s main shareholders. Sistema controls 43% of Ozon: 31% direct ownership and 13% via Sistema VC in which it holds 80%.

“We think Ozon’s IPO could provide a powerful catalyst for Sistema in the short term. According to the Wall Street Journal, OZON could be valued at $3–5bn, which we think could be higher than what the market is currently pricing. On our estimates, this potential range implies 2020E EV/GMV multiples of 1.5x–2.4x if we assume that OZON’s GMV grows 100% year on year this year,” Sova Capital said in a note.

Sistema currently holds a 43% stake in Ozon and the IPO plans were reported by the Wall Street Journal. They were then confirmed by Reuters the next day, which reported that Ozon is intending to go public later this year, although the decision has yet to be finalised.

Leading Russian e-commerce company OZON could IPO later this year and analysts estimate its value at $3bn-$5bn

BCS Global Markets reminds on October 2 that Sberbank was reportedly negotiating to invest in Ozon, but, according to its sources, the talks have since stalled and the plan has shifted to IPO.

“We believe IPO would make sense – e-commerce is now a hot topic, which makes it easier to get an attractive valuation for the asset. This could bring upside to our estimate on Sistema’s NAV [net asset value], especially if done around the targeted range,” BCS GM commented seeing the news as positive.

According to sources quoted by the Wall Street Journal, OZON could be valued at $3–5bn. The e-retailer has already confidentially filed paperwork with the SEC for an IPO, according to the Wall Street Journal. Reuters reported that talks with Sberbank over the bank receiving a minority stake in Ozon have apparently stalled, and the online retailer is now planning an IPO instead.

Ozon is likely to spend the proceeds from the potential placement on its further development. The company aims to spend over $300mn on logistics, add c. 2.7mn square feet of distribution space and open five fulfilment hubs, according to the Wall Street Journal, citing company data.

“We see the news as highly positive for Sistema. We think OZON’s IPO would help Sistema to crystallise the value of this asset. We also feel that OZON’s potential valuation range of $3-5bn could be higher than what the market is currently pricing,” Sova Capital said. “It is not yet known how the IPO would be structured, but we wouldn’t be surprised to see that in addition to raising equity for OZON’s further development, Sistema may try to monetise some of its stake in the company as well.”

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The potential valuation range indicated in the article implies a 2019 EV/gross merchandise value (GMV) of 2.9-4.9x and 2020E EV/GMV multiples of 1.5x-2.4x if one assumes that Ozon’s GMV grows 100% y/y this year, Sova estimates.

OZON’s GMV was up 115% y/y in 1Q20 and 188% y/y in 2Q20, and it kept growing by more than 100% y/y in July and August, according to Sistema.

Russian online retailers received an additional boost from the lockdown environment on the back of the coronavirus (COVID-19) outbreak this year.

According to Data Insight, the Russian e-commerce market will expand 44% y/y in 2020 to RUB2.5 trillion ($31.8bn), RUB300bn of which is due to incremental gains associated with COVID-19. This effect is likely to be a long-lasting one due to the inflow of new customers into online retail, the bulk of which will likely keep shopping online, increasing the frequency of orders and the rapid development of e-grocery services.

“The Russian e-commerce market could grow by a 2020-24E compound average growth rate (CAGR) of 33% to over RUB7 trillion in 2024E,” says Sova Capital. “We think that OZON, being the second largest multi-category e-retailer in Russia, is well positioned to benefit from these trends due to its rapid marketplace development (already over 50% in GMV reached in June) and the expansion of its logistics and fulfilment capabilities.”

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**Russian residential real estate group Samolet Group to IPO on MOEX as mortgage subsidy programme drives Russia’s real estate growth**

**Ben Aris in Berlin**

Up-and-coming Russian residential real estate group Samolet Group announced that it will list its shares on the Moscow Exchange (MOEX) with an IPO, the company announced on October 15.

The existing shareholders will offer circa 5.1% of the company shares to investors. The offer is lead by Samolet’s principle shareholder Pavel Golubkov and he will offer, together with his fellow shareholder, stakes of 1%, 0.5% and 3.6% from their respective holdings.

The offer has already been registered the placement via open subscription with the Central Bank of Russia (CBR). The money raised will be used to buy new land plots and fund the ongoing construction business, the company said in a statement.

The Russian state-owned bank VTB Capital is acting as sole global coordinator and joint bookrunner for the offering, with BCS Global Markets as joint bookrunner.

Anton Elistratov, CEO of Samolet Group, said: “Ever since we established Samolet Group, we have developed the company with the intention of becoming a public company. Within the partnership business model, which is not typical for the Russian market, there is an expectation of transparency for partners not only regarding joint projects but also at the level of the company as a whole. Samolet has therefore since its very beginning adhered to the standards expected of a public company in its corporate governance and the development of its business processes.”

The IPO expands the universe of listed real estate developers, which has been a popular sector with equity investors thanks to its dynamic growth, good corporate governance and generous dividends. The other players are lead by PIK and also include LSR Group (LSR) and Etalon make up the majors in the sector.

Samolet has the largest private land bank among its peer group, which is a key factor in the company’s consistent delivery of outstanding results, according to Elistratov.

“That enables us to set ambitious goals for our future growth. The company, as well as its existing and new shareholders, is ideally positioned to make a qualitative breakthrough in its financial performance and to further increase its market
share. With our new status as a public company, we aim to increase our free float to 30-40% over the medium term,” Elistratov adds.

By listing the company is recommitting itself to the high standards of corporate governance as part of accessing more capital to continue the fast pace of the growth, the company said.

The principle shareholder and chairman of the board Dmitry Golubkov added: “The company has set a course to progressively develop its corporate governance. Today, corporate governance remains one of the priorities in developing the business’s investment case and creating value for shareholders. Today, both the Management Board and the Board of Directors include senior managers from major consulting companies, as well as leading experts in finance and real estate.”

Good corporate governance is a pre-requisite for any listed company, but a generous dividend policy is what really gets investors’ notice.

Russian companies in general have adopted generous dividend policies as owners have on the whole decided to take the cash rather than invest into the business, due to the uncertain long-term outlook. But in the meantime generous dividends have become a general feature of Russian listed companies as they can see the appeal it has to investors and it has become necessary to invest into a companies equity with dividend payments as a way to counter the traditional perceived “Russia risk.”

Samolet will IPO with a new dividend policy that has a fixed minimum payout of RUB5bn ($64mn) annually, the company said. “The policy takes into account the company’s leverage and aims to increase the amount and regularity of payments.

The formula Samolet is proposing to calculate the size of the dividend pay-outs depends on the debt to earnings ratio and proposes to share any profits with the investors once the debt is taken care of.

If the net debt/adjusted EBITDA ratio is below 1, then the dividend payment for the previous financial period would be not less than 50% of net income, in accordance with IFRS. If the net debt/adjusted EBITDA ratio is equal to or above 1 but below 2, then dividend payment would represent not less than 33% of net income. And if the net debt/adjusted EBITDA is equal to or above 2, or if the payment of dividends would result in a breach of covenants under the company’s material undertakings, Samolet may choose not to pay dividends at all other than the guaranteed RUB5bn.

As of June 30, 2020, the Company’s net debt amounted to RUB13.2bn, up from RUB11.4bn as of December 31, 2019.

**Mortgage subsidies driving the sector**

As bne IntelliNews reported in an interview with the company, Samolet residential real estate business is flying on the back of the state-subsidised mortgage programme. The Kremlin has always been keen to promote home-ownership as it sees it as a “social stabiliser” as well as an effective means of supporting economic growth by indirectly supporting construction. The government’s scheme has brought the effective interest rates down to 6.5% for would be home-owners vs the central bank’s 4.5% prime rate and the programme has just been extended into 2021. The economic uncertainty caused by the multiple crises and the threat of new sanctions last led Russians to put their cash into property as a value store and the share of mortgage funder transactions has soared as a result.

Indeed, the business has been growing so fast that Alexander Danilov, director of the CBR’s banking oversight department, told PRIME in an interview on October 9 there is a danger of a real estate bubble developing in the future.

"There are no reasons for worry now. About RUB400bn ($5.1bn) of loans were given in the framework of the program as of the beginning of September, while the total limit is RUB900bn. This is not much because the entire mortgage portfolio of banks stands at about RUB8.5 trillion," Danilov said adding that the government scheme could cause demand and price rises.

**Samolet business**

Samolet has been growing fast, concentrating on the enormous Moscow market. With a population of about 15mn people, including the unregistered residents, the city of Moscow is bigger than most central European countries. And if you add in the surrounding Moscow Oblast (which is a separate administrative region from Moscow City, one of only two city regions in Russia) then the population is even bigger.

Samolet is one of the largest developers in the Moscow combined city and region area, and as of the end of 2019 was the fifth largest developer by commissioning volumes. According to an independent valuation carried out by Cushman & Wakefield, the company has the largest land bank among its competitors, with more than 15mn square meters of sellable area as of June 30 2020, the company said in its statement. About a third (30%) of these plots are already at the construction stage, and the rest are at the pre-project stage and the design stage, according to Samolet.

“Based on the Company’s current project pipeline, the Group intends to increase its number of active projects to 23 by 2024 and to commission about 1.8mn sqm. According to the same assessment by Cushman & Wakefield, the company’s land bank was valued at RUB176.9bn ($2.3bn) as of June, and its total assets were valued at RUB200.1bn,” the company said.

The company’s strategy is to continue to focus on the lucrative Moscow market and the metropolitan area in particular, where average incomes are multiples of the national average and on a par, or better, than most European cities. However, despite a decade of fast growth in the boom years of the noughties, the housing supply in Moscow is still lagging behind demand and many Soviet-era structures remain.

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At the same time the continuingly falling interest rates keep creating new sections of the population that can afford to buy an apartment. A rule of thumb suggests that for each 1% the CBR cuts off the prime interest rates makes a mortgage affordable for another million Russians.

“The housing market, both in Russia as a whole and in the Moscow region in particular, is characterised by low per-capita levels of housing stock compared with both developed and developing economies,” Samolet said. “At the same time, a high degree of depreciation has been observed in housing stock in Russia. Against a background of favourable mortgage rates and an increase in new housing, this is contributing to a gradual increase in the affordability of housing in the country. As a leading player in the mass-market segment, Samolet is able to capitalise on these trends in a meaningful way.”

As a later entrant into the business Samolet has adopted a slightly different business model where is seeks out partners and jointly develops land plots. Rather than just buy land, the company often approaches the owners of land – entrepreneurs, companies and institutions – and offers to develop their land for mutual benefit. For example some companies in and around Moscow own sizable plots of land, but as real estate development is a non-core activity they have done nothing with their land. Samolet comes in and develops the land in a partnership with the owner, which also reduces the up-front payment for land ownership.

The company further reduces its overheads and need for lots of working capital by outsourcing construction and installation works, which keep capital needs down to a minimum and the projects financially self-contained.

“[This model] makes it possible to minimise operational risks, ensure a competitive cost structure and finish construction ahead of schedule while maintaining flexibility during market downturns,” Samolet said.

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**Mail.Ru buying spree: My.Games invests in 3 game studios in 3 weeks**

**East West Digital News in Moscow**

My.Games Venture Capital (MGVC), an investment firm affiliated to LSE-listed Mail.ru Group, has just acquired a majority stake in Russian game publisher Deus Craft, reports Rusbase, as cited by East-West Digital News (EWDN).

MGVC intends to put up to $49.1mn to acquire 51.16% of the company, including an immediate payment of $14.1mn and potential additional payments totalling $35mn, depending on the Deus Craft’s further results. The company has set the goal to generate $15mn in monthly revenues in Q1 2021.

Registered in Cyprus, Deus Craft has more than 70 employees split between offices in Moscow, St. Petersburg and Novosibirsk. Its greatest hit so far has been Grand Hotel Mania, a game where you must show special abilities to build hotels for travellers who “want to take a break from the daily grind or do something fancy.” The move is coming just weeks after two previous deals. In mid-September, MGVC teamed up with Finland’s Aii Corporation to invest in a Hypemasters, a studio founded by a Russian team but headquartered in the USA. The deal amounted to some $5mn, according to media reports.

Last week MGVC announced an investment in Russian studio Reaction Games. The amount of the deal was not disclosed, but MGVC said it received “a minority stake with the option to buy a controlling stake.” Reaction Games was founded earlier this year as a mobile business unit of Alternativa Games, an established Russian game publisher (‘Tanki Online’). Reaction Games is currently launching ‘Days After,’ a mobile game about surviving in a zombie apocalypse, with support from MGVC.

MGVC (previously known as MRGV) is the investment arm of Mail.Ru’s international video games brand My.Games, launched in 2019 to run all the group’s gaming projects.

MGVC says it has “evaluated more than 1,000 partnership applications and closed 30 deals over the past three years, including consolidations for major studios like Bit.Games, Swag Masha, Panzerdog, Belgame, and others.” These studios have become “leading revenue-generating titles for My.Games.” For example, Swag Masha has increased its revenue 1.7-fold since Q3 2019, with its game ‘Love Sick: Interactive Stories’ becoming a top-5 mobile title for My.Games as of Q2 2020.
Ben Aris in Berlin

Ukraine has to make a cardinal choice when deciding whom to sell its Motor Sich engine maker to: does its future lie in the west with US and European partners or in the east with Russian and Chinese?

That’s the opinion of the outgoing CEO of state-controlled arms producer Ukroboronprom and one of the few reformer voices left in the government, Aivaras Abromavicius. Abromavicius has been an influential voice opposing ceding the company to Chinese control. He told Bloomberg: “A fight is underway for which vector of development Ukraine will take, western or eastern.”

The former Economics Minister under former President Petro Poroshenko, Abromavicius caused a political crisis by quitting, complaining of rank corruption in the Poroshenko government. He has now quit again from Ukroboronprom and is awaiting Zelenskiy’s approval of his resignation.

The government has been negotiating with Chinese investors that want to buy the iconic factory that will give it access to advanced and military-grade technology.

Japan’s Nikkei business news site highlights the military value of Motor Sich. “While Wang [Jing, a key shareholder of Skyrizon] is bidding for Motor Sich as a private businessman, Beijing has been keen to upgrade China’s engine manufacturing capabilities to support its ambitions for production of world-class military and commercial jets as well as missiles,” the Nikkei wrote in a detailed article: “Chinese tycoon takes fresh aim at Soviet-era engine producer.” The article quotes Douglas Barrie of London’s International Institute for Strategic Studies as saying: “The challenges of developing a high-end military turbofan engine are considerable, hence why only a small number of countries... have a national capability developed over the past six decades or so.”

That is why the US government has been trying to block the sale, but while putting up candidates to bid against the Chinese, it has failed to come up with a serious offer.

In August US Secretary of State Mike Pompeo called Ukraine’s President Zelenskiy, warning Ukraine not to go through with the deal to sell Motor Sich to “malign” Chinese investors.

With no serious Western buyer for Motor Sich on the horizon, Zelenskiy says Ukraine’s doors are open to Chinese investors. “Credit and investment, agro-industrial, machine-building and transport sectors should be mentioned among the priority areas of practical co-operation,” he said in a lengthy interview with Xinhua posted on October 4.

“Ukraine has significant scientific and educational potential, rich culture. This provides good opportunities for increasing trade and economic co-operation,” Zelenskiy added. After a slow start, China is now Ukraine’s top trading partner and increasingly investing in the economy. Zelenskiy has also invited Chinese President Xi Jinping to visit Ukraine.

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Motor Sich’s business has been improving recently and reported a 16% year-on-year increase in net revenue to UAH4.7bn ($169mn) in 1H20. Its EBITDA surged 14x y/y to UAH1.5bn and its bottom line turned to positive UAH593mn in 1H20, from negative UAH426mn a year before.

“The Chinese say they have already invested $1bn in their bid for the company, only to encounter envoys from Ukraine’s ‘leadership’ demanding a portion of shares”

"Overall, it’s positive to see the company improve its fundamentals despite an ongoing conflict about its ownership, in which Chinese and American interests are involved," Alexander Paraschiy, an analyst at the Kyiv-based Concorde Capital brokerage, said in a research note. "Meanwhile, the company’s shares remain banned from trading, with unclear prospects of resolving the issue.”

Skyrizon, subsidiary of Beijing Xinwei Technology Group, is pursuing a new, multi-prong strategy in its four-year bid to win control of Ukraine’s Motor Sich, one of the world’s largest manufacturers of aircraft engines and industrial gas turbines.

In September Skyrizon informed Ukraine’s Justice Ministry that it has started international arbitration, demanding $3.5bn in compensation after its deal with the government was scrapped over national security.

The Chinese say they have already invested $1bn in their bid for the company, only to encounter envoys from Ukraine’s ‘leadership’ demanding a portion of shares and $100mn in return for permission to exercise ownership rights. Wang says in a video message: “To gain a greater market share in the world’s largest, fastest growing Chinese market, to gain a stronger position in it and gain development prospects, a company must formulate and implement a strategic medium and long-term development plan.”

Separately, Skyrizon and its Kharkiv-based partner, DCH Group, last week filed an updated joint application with Ukraine’s Antimonopoly Committee of Ukraine to buy Motor Sich. In August, the Committee rejected an earlier application.

nChain acquires Slovenian software firm Equaleyes

Fintech company specialising in cryptocurrency software development nChain announced its acquisition of Slovenian software firm Equaleyes on October 1.

nChain sees the acquisition as a major step towards opening up blockchain for individuals and organisations in a way that is more accessible for everyday use. Maribor-based Equaleyes is focused on end-user mobile applications.

"In the last year, we’ve seen huge appetite for our off-the-shelf and bespoke solutions. There’s no shortage of demand, and with these acquisitions, we are even better positioned to dramatically increase the supply. I’d like to welcome our new colleagues from Equaleyes, and I’m excited to show the world what we’re building together," nChain CEO David Washburn said.

"At Equaleyes, we’ve shown our expertise in delivering human-first solutions, and I am thrilled to join forces with nChain to build solutions to some of humanity’s most pressing challenges. Together, we will put the benefits of public blockchain in the hands of two billion people," Equaleyes CEO Luka Topolovec said.

Acquisition financing was provided by Slovenia’s SKB Banka.
East-West Digital News in Moscow

As the global digital music market pursues solid growth, recent weeks saw three deals involving companies from Russia or with Russian founders, reports East-West Digital News (EWDN).

**Sberbank acquires Zvoq**

Just a day before touting its transformation into a tech “universe,” Sber announced the acquisition of Zvoq, one of the most established Russian music platforms. No details about the transaction were disclosed.

Founded in 2010 by UK expat Simon Dunlop and Russian businessman Victor Frumkin, Zvoq developed a sophisticated platform, aiming to provide a personalised music experience based on listener mood, activity, places and events. It got initial support from a group of Western and Russian business angels; then it raised substantial amounts from established investors, including $20mn in 2014 and $5mn in 2016.

The service now claims to offer some 40mn tracks to 8mn users from 12 countries. It has partnerships with telcos from Russia and neighbouring countries such as Azerbaijan, Kazakhstan, Ukraine and Uzbekistan.

“Investments in Zvoq are fully aligned with the development strategy of the bank’s ecosystem, enabling us to strengthen our offerings to entertainment market customers. After all, Lifestyle is an integral part of our life, and entertainment is the fastest-growing vertical on this market,” stated Lev Khasis, first deputy chairman of Sber’s executive board.

Zvoq has been rebranded to Sber-Zvuk. Mikhail Ilyichev, who headed Zvoq between 2014 and 2017, will be re-appointed as the service’s new CEO.

According to company register data cited by RBC, Zvoq’s Russian legal entity generated RUB346.9mn in revenues last year with a net profit reaching RUB17.4mn ($5.4mn and $270,000 respectively).

While Russia has over 64mn online music listeners, according to Sberbank, paid music services have generated only limited amounts thus far. The domestic digital music market was estimated at $166mn in 2018, including $137.5mn generated by streaming services, according to Statista data cited by RBC. The streaming segment specifically is expected to reach some $153mn by 2023, attracting 21.8mn users, up from 18.4mn in 2018.

Among the main players on this market are Yandex, VK (“Boom”), Apple and Google, as well as Spotify, which made its offer available in Russia in July 2020.

**Muzlab buys Market Music**

Recent weeks also saw the acquisition of Market Music by Muzlab for $4mn. The former, a Belarusian-born startup now headquartered in Moscow, is the leader in music broadcasting and digital signage in Russia, Belarus, Ukraine and Kazakhstan. It claims to serve more than 50 chains and 5,000 shops, cafes and gas stations.

“There are more than 64mn online music listeners in Russia, but paid music services have generated only limited amounts thus far. The domestic digital music market was estimated at $166mn in 2018, including $137.5mn generated by streaming services”

Based in Moscow, Muzlab is a B2B music streaming company. It has developed a platform, Market Player, that uses artificial intelligence and stores visitors’ data to deliver targeted media content. Founded in 2016, Muzlab serves such Russian and international clients as Burger King, Calvin Klein, Decathlon and Tatneft.

Muzlab has raised more than $2mn to date from Russian individual investors, including Eduard Tiktinsky, Mikhail Peregovod and Alexander Sysoev, according to VC.RU

**Target Global and Impulse VC invest in Endel**

Endel, a Berlin-based music startup founded by Russian tech entrepreneur Oleg Stavitsky, also made the news when it announced the completion of a $5mn round led by US investors Target Global and Impulse VC.

Endel is a music startup founded by Russian tech entrepreneur Oleg Stavitsky, which has announced the completion of a $5mn round led by US investors Target Global and Impulse VC.
serial investor Kevin Rose. Among the other participants in the round were Target Global, a Berlin-headquarter VC firm with Russian roots, and Impulse VC, a Moscow-based fund, which is said to be affiliated to Russian billionaire Roman Abramovich.

Endel touts itself as a “cross-platform audio ecosystem” that offers “personalised sound environments to help you focus, relax and sleep.” Stavitsky told TechCrunch that “Endel’s approach draws on several areas of science, including research around circadian rhythms (so that it complements where you are in your daily sleep cycle), the pentatonic scale (so that its sounds are pleasant) and sound masking (so that you’re less likely to hear anything distracting).”

The company is working with partners to do more to validate the science behind its approach. Stavitsky claims its sound environments can lead to a 6.3x increase in concentration and a 3.6x decrease in anxiety.

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Russia to launch self-driving tram and vessel experiments

East West Digital News in Moscow

Several ministries of the Russian Federation, including the Ministry of Finance, the Ministry of Transport, the Ministry of Natural Resources, the Ministry of Economic Development, as well as the Federal Agency for Maritime and River Transport (Rosmorrechflot) supported the draft government decree on conducting an experiment on the operation of self-driving vessels, reports East-West Digital News (EWDN).

According to the document, the experiment will be carried out from October 1, 2020 to December 31, 2025 in Saint Petersburg, the Leningrad Region, the Astrakhan Region, the Kaliningrad Region, the Magadan Region, the Murmansk Region, the Rostov Region, the Sakhalin Region, the Krasnodar Region, the Primorsky Region and the Khabarovsk Region.

The Ministry of Industry and Trade will be able to use the results of the experiment to organise production and install automatic and remote control systems on ships.

Commercial launch in 2021

Alexander Pinsky, head of the MariNet industry centre of the National Technology Initiative, explains that the main goal of the project is to ensure that from January 2021 any shipping company can equip its merchant or technical vessel under the Russian flag with autonomous navigation systems and legally use them in regular commercial activities.

According to the expert, the massive introduction of autonomous ships in the world is expected in the next five to ten years, and shipping companies will be able to reduce operating costs by 15-30% through the introduction of autonomous driving technology.

The idea of autonomous navigation in Russia was described in 2016 in the “roadmap” of the MariNet industry centre of the National Technology Initiative. The work on the project began in early 2019. In September 2019, the Ministry of Industry and Trade signed a contract with the Kronstadt Technologies company for the “development of a unified technological platform for unmanned management of commercial marine vessels for various purposes”. Also, a regulatory system, which is planned to be approved in the fall, was prepared within the framework of the National Technology Initiative.

Driverless trams in Moscow

Moscow Department of Transport and Yandex plan to test self-driving trams in Moscow. Meanwhile the Moscow Department of Transport and Yandex announced plans to test self-driving trams in Moscow. Such transport can be used almost 24 hours a day, 7 days a week. It is also reported that the use of unmanned vehicles should improve traffic safety on the roads, because 70% of accidents are caused by drivers.

According to the press service of the self-driving vehicles division of Yandex, the aim is to develop a universal unmanned control system that can be applied to any transport platform – cars, trucks, buses or even delivery robots.

This article combines materials in Russian language from RBC and the Moscow Dpt. of Transports.
**Russian e-commerce leader Wildberries launches in Ukraine**

Artur Kachur of East-West Digital News in Kyiv

Wildberries, the number one retailer in Russia, launched sales in Ukraine. Customers can order goods with free delivery in the wildberries.ua online store as well as through the iOS mobile application. An Android app will be launched shortly, reports East-West Digital News (EWDN).

In addition to Russia and Ukraine, the company operates commercially in six countries: Belarus, Armenia, Kazakhstan and Kyrgyzstan – as well as Poland and Slovakia, where sales started in January and May of this year respectively. Founded in 2004 by Tatyana Bakalchuk, now the richest woman in Russia, Wildberries generated nearly $3.5bn in revenues in 2019, up 88% from 2018.

The Ukrainian e-commerce operations are run by a Polish subsidiary of the company.

“The opening of an online store in Ukraine is yet another step in implementing our international strategy. Our customers will have access to a wide range of products from tens of thousands of brands. We see a high potential for development in the country: its residents are increasingly making purchases in online stores, and the growth rate of e-commerce continues to grow,” said Vyacheslav Ivaschenko, Wildberries Development Executive, in an exchange with Oborot.ru.

Wildberries claims that more than three million goods will become available to Ukrainian customers, including Russian products. Customers may receive orders at 8,000 partner delivery points or by courier delivery to their homes. Shipping time is 10 to 12 days.

**Moscow Metro to introduce facial payment technology**

East West Digital News in Moscow

Commuters in Moscow will soon be able to take a ride on the metro with just a turn of their heads, as the Russian capital embraces next-generation facial payment technology, reports East-West Digital News (EWDN).

At least one turnstile at each metro station will be equipped with the contactless facial recognition technology as soon as next spring, Moscow authorities say. The system, which is presented as a world first, is currently in the first stage of its testing, with initial test runs planned to be finished by October 1, 2020.

“The metro is moving to a new level: Face Pay,” Moscow Deputy Mayor Maksim Liksutov said in a statement. “Imagine the turnstile opening its doors in front of you. Sounds a bit fantastic, but this is our immediate future,” the official noted, without revealing any further details.
Fintech giant Revolut moves business customers to Lithuania ahead of Brexit

Linas Jegelevicius in Vilnius

Robust fintech startup Revolut is ratcheting up its efforts to move its core business customers in Central and Eastern Europe from its London entity to Lithuania, a result of Revolut’s preparation for Britain’s exit from the EU.

The move will ensure that Revolut can continue to serve its non-UK customers and hedge against a no-trade-deal Brexit. The process should be completed before the end of the Brexit transition period in December 2020.

Revolut, a bullish fintech with reportedly more than 10mn customers in the UK and Europe, was launched in 2015 with a vision to build a financial Super app, a single app where consumers can manage all aspects of their financial life. In just five years, the company has raised over $800mn in funding and now employs more than 2,000 people globally, including in New York and San Francisco.

The fintech has reportedly secured a Specialised Banking Licence from the Bank of Lithuania, which allows it to offer and passport a wider range of solutions to customers in Europe. Revolut, which counts more than 300,000 Lithuanian customers, allowed users to transfer their accounts from an e-money account to a fully-fledged bank account. It hired between 40 and 50 people this year as it beefs up its operations there.

Revolut said earlier this year that though its headquarters will remain in London and that UK payments will be managed from there, it will shift responsibility for its European payments to Ireland and Lithuania after Brexit.

US health and beauty online giant iHerb plans to invest $100mn in Russia

Adrien Henni in Paris for East West Digital News

iHerb, one of the most successful international e-commerce companies in Russia, is planning to invest some $100mn in the country in the next two years, reports East-West Digital News (EWDN).

These investments are aimed to “improve the Russian customer services, support and expand product export by Russian manufacturers, [develop] partnerships with Russian logistics companies, expand in-house technology development centre operations, and build robotic distribution centres,” the company stated, as quoted by the TASS news agency.

Specific details were provided by Russia General Director Ilya Minin in a media interview earlier this week. iHerb will participate in a customs bonded area experiment led by Russian Post in Tatarstan, a region 1,000 km east of Moscow. Minin expects this new logistics process to decrease average delivery time “from 8 to 2-3 days.” iHerb does not rule out creating its own distribution warehouse – managing not only import, but also export product flows. What is indeed new in these announcements is that iHerb, which so far focused on selling foreign products to Russian online consumers, is now planning to work the other way round as well. As an example of product, which iHerb could sell abroad, Minin cited R.O.C.S., one of the most popular toothpastes in Russia.

“iHerb, one of the most successful international e-commerce companies in Russia, is planning to invest some $100mn in the country in the next two years”
To increase the appeal of Russian products, iHerb considers launching an international marketing education program for local brands.

The US company also intends to hire Russian programmers to support its international IT platform.

A partnership strategy with Russian scientific organizations, as well as charities, is also under consideration, though not specified yet, said Minin.

**No iHerb app for Russians**

This past spring, the Russian authorities blocked access to iHerb’s mobile application from the Russian versions of App Store and Google Play. According to the authorities, some of the products presented in the app did not comply with the technical requirements of the Customs Union – of, which Russia and several other countries of the former Soviet Union are members.

The US company has appealed the case in the Russia’s Supreme Court. Meanwhile Russian customers can still fully access iHerb’s website.

A global e-commerce leader for health, beauty and natural products, iHerb recently expanded its reach to 23 new countries, coming in addition to the 165 countries and territories it already served. iHerb never disclosed its figures for Russia.

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**Facebook ‘refusing compliance with Erdogan’s social media law’**

Akin Nazli in Belgrade

Facebook has reportedly informed the Turkish government that it will not comply with social media legislation that allows regulators to remove content from platforms – rather than blocking access to it as they have done in the past – and demand that information on local users is stored in Turkey.

The provisions of the law, approved on July 29 and in effect since October 1, were unacceptable to Facebook, according to two unnamed people familiar with the matter who spoke to the Financial Times.

Companies including social media giants that do not comply with the law – demanded by President Recep Tayyip Erdogan who regularly hits out at content posted on social networks – can have their bandwidth slashed by up to 90%, essentially blocking online access in Turkey, and face other penalties.

Facebook, which also owns Instagram, has around 37mn subscribers in Turkey, a country of 83mn. Its personnel that deal with Turkey are based in London.

Yaman Akdeniz of Istanbul Bilgi University told Al-monitor he was “surprised” by Facebook’s decision.

**Google, Twitter decisions awaited**

Decisions on compliance with the law from Google and Twitter are awaited.

In September, Google informed clients it was set to impose a 5% fee on Turkish advertisers to meet “significant increases in the complexity and cost of complying with regulations”.

As of March, a 7.5% tax on the “sales revenues” of technology giants, including Google, Facebook and Amazon, came into force in Turkey.

The Turkish telecommunications authority will issue warnings to companies not in compliance with the law before issuing punishments that gradually grow in size if infringements continue. The scale starts with fines of $1.3mn in November and moves up to a $3.8mn penalty in December, while January brings about local advertising bans. The bandwidth throttling would start in April and May. It would become severe to the extent that any platform facing it would be rendered unusable in Turkey.

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KEEP YOUR EYES ON THE BALL

www.intellinews.com
Russia’s online economy is booming and no one has really noticed. The traditional economy will be badly hurt this year by the double whammy of the oil price collapse and the coronavirus (COVID-19) epidemic, but the growth of online sales has almost completely ignored the multiple crises and continues to expand at double-digit rates. Indeed, if anything it has only accelerated.

Russia’s new economy has reached a critical mass, where the leading companies have gone from building up individual business lines to creating entire ecosystems. A period of consolidation has already started where billion-dollar deals and IPOs are being announced on a monthly basis and there is no sign of any of this slowing down any time soon.

But there is still a long way to go. Despite the progress, Russia’s new economy and its penetration still lag behind those of more advanced markets like the US and China. Russia’s e-commerce is still relatively underpenetrated, highly fragmented and there is a low share of multi-category players, say the experts.

“2019 e-commerce sales as a share of retail sales in Russia reached just 6% vs 8% in Poland, 15% in US and 28% in China,” said Oksana Mustiatsa, an e-commerce analyst with Sova Capital during a recent webinar dedicated to Russia’s online business. “Multi-category players accounted for less than 20% of the e-commerce market in Russia in 2019, vs 50% in US and over 70% in China.”

E-commerce’s share of retail won’t stay at 6% for long. Traditional retail sales have been walloped this year and have completely collapsed to never-before-seen lows during the lockdown that started in May. Sales bounced back strongly in the summer after the restrictions were lifted, which is one of the reasons Russia’s economy is doing better than expected in the second half of this year, but as the second wave of the pandemic began to build momentum rapidly in the last week of September, sales are already slowing again, according to the latest data from the Watcom Shopping index; the outlook for the rest of this year is poor.

The story with online sales is very different. There sales have been putting double-digit growth and the lockdown barely registered. Indeed, according to Sova Capital’s estimates, the coronacrisis will accelerate the switch to online retail, which will account for 9% of total retail by the end of this year and 20% of all retail sales by 2024.

“The step up from 10% of retail done online to 20% in just four years is an enormous change,” says Mustiatsa. “And it means there will be a consolidation in the sector that will end with two or three very large players.”

Russia’s advantages for a prospective e-commerce player is its widespread fast internet, the rapidly growing penetration of smartphones and its very large population; Russia already has more people online than the entire population of Germany.

Residents of Moscow and St Petersburg, Russia’s two biggest cities that have bigger populations than most Central European countries, have been spoiled with super-fast, super-efficient express delivery services, but in the regions delivery times can stretch into days. If the supplier is relying on the Russian post office then deliveries can take up to 30 days.

A survey made by Data Insights last year found that 40% of respondents said they would not order online if the terms of delivery were “inconvenient.” “The geography of Russia has been more of a hindrance than a help so far,” says Mikhail Terentiev, Sova Capital’s head of research. “In Moscow you can promise to deliver goods in under 30 mins, but getting the same goods to some regional town or village is very hard and a lot more expensive. And most of the population live in the regions.”

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analyst at Sova. “That means online is also good for traditional retail chains that are adding online channels to their sales.” Now they have the habit of shopping online these new customers are unlikely to go back to visiting bricks and mortar stores any time soon, say the analysts. This is a structural change in the way retail is done in Russia and is a permanent change. “There is vast room for structural growth and market consolidation,” says Mustiatsa. “This year Russian online retailers received a boost from the lockdown. They e-commerce market could reach RUB2.5 trillion ($32.6bn) in 2020, with e-commerce penetration rising to 9%, according to Data Insight estimates. This effect is likely to be long-lasting due to the inflow of new customers into retail and the increase in the frequency of orders. The market should be able to grow at compound average growth rate (CAGR) of 3% or more for the next three years or so.” Part of the change has been driven by the rapid growth of smartphone penetration. Internet speeds are fast in Russia, as most of the networks are relatively new and companies have gone straight to state-of-the-art solutions. Broadband use is widespread.

Russians have been trading in their dumb phones for smartphones, with sales of the latter continuing to grow in double digits. Today more than a third of all phone calls are made by one of the messaging services and the mobile phone operators made more money from data services than voice for the first time several years ago. Even the Moscow Metro is about to introduce face recognition technology to do away with tickets altogether.

The switch from traditional bricks and mortar stores to “click-and-order” stores was always going to resemble a hockey stick. As Russian online pioneer Oskar Hartmann, the founder of online fashion store KupiVIP and an ethnic German born in Kazakhstan, told bne IntelliNews in a 2012 interview, once online sales move beyond the “consumer commodities” of airplane tickets and paying phone bills it still takes several years for punters to get used to buying other goods online.

Hartmann predicted in 2012 that “by 2020, the e-commerce economy should be of the order of $50bn to $80bn, depending on supply, and fashion sales will account for about $15bn of that.” Not a bad guess. And if you take into account that the ruble unexpectedly halved in value in 2014 then this year’s online turnover is almost in the middle of Hartmann’s range in ruble terms.

Winner takes all
The business has now entered a new phase where being big has become a serious competitive advantage. E-commerce is becoming a winner-takes-
all business with room at the top for less than a handful of multi-category players.

It costs a lot to set up an online business thanks to the costs of logistics, among other things. The only way to become profitable is to achieve a scale that allows the company to drive down these costs as a share of their turnover so that they can make a profit. This turning point is where the Russian market is now.

“We think that large multi-category players like Ozon that have diversified production offerings and robust infrastructure are better positioned to benefit from the market structural growth and eventually gain market share from smaller mono-category players with sub-optimal logistics capacity,” says Mustiatsa. “And the market is ripe for consolidation.” Analysts are very focused on Ozon at the moment, which at the start of October announced plans to IPO in New York. Sova Capital’s analysts believe the IPO could happen at the end of this year or the start of next year.

Ozon CEO Alexander Shulgin laid out the company plans to bne IntelliNews in an exclusive interview in September 2019 that predicted fast growth, and Mustiatsa also said she expects triple-digit growth for Ozon for the next couple of years.

“The volume growth this year will be up to 135% year on year to RUB190bn and it has potential to grow faster than the market this year,” said Mustiatsa.

Common middle ground
The acceleration of Russia’s online businesses has already challenged the traditional retail outlets, but many of them have embraced the new technology too and are becoming agnostic as to which channel they use to make a sale. It is telling that M.Video, Russia’s biggest purveyor of consumer electronics, already counts as the third-biggest e-commerce business in Russia, as its online sales have grown so fast in recent years. To bring the point home, M.Video became the fastest growing listed retailer in Russia in the third quarter of this year, posting a 25% y/y growth to RUB110bn ($1.4bn), while its sister company Eldorado reported 28% growth in the same period, compared to Russia’s total retail turnover, which has contracted by 4.7% over the same period.

Traditional retail that doesn’t make the change is in danger of getting left behind. The e-retailer Wildberries overtook the bricks and mortar franchise Sportsmaster as the biggest seller of clothes in Russia last year. It was the first time an e-commerce store became the biggest outlet for any product group.

Wildberries has been a smash success and saw revenues up 80% in the first half of last year to just under $1bn, while Sportsmaster, which has been around since the ’90s, has seen sales stagnate.

On the other side of the fence the traditional retailers are also developing online aspects like Market Places. Detski Mir, Russia’s leading purveyor of children’s goods, is a prime example. Detski Mir has set up a marketplace that provides goods and services that are related to childcare such as paediatricians, nannies, babysitters, cleaners and the like.

Russia’s premier supermarket chain Magnit is also experimenting with online variants. Of course the chain long ago introduced a loyalty card to gather more information about the shopping habits of its clients, but now it is developing a “super App” that will integrate the whole range of shopping services from sending messages, to buying online and financial services.

“Magnit’s super App is still well behind those in China and Vietnam,” says Galimov. “China’s internet is more isolated from the rest of the world than Russia’s, where the ad space, for example, is much more competitive. It is easier in China to put all the stuff you need into one space. It’s still early days for a super App in Russia.” But this might change too.

And X5 Retail Group, Russia’s leading supermarket chain, introduced a new strategy in the last week of October (see interview on the next page) that they are calling a “transformation”, as it will use technology to put the company at the start of the punter’s journey to buying groceries, not leave it at the end where it is now.

All these services are still in its early stages of development, but the traditional retailers and tech giants are building towards a common middle and eventually they will meet.
It’s been on the Kremlin’s agenda for years, but now the Russian economy is finally being rapidly digitalised. The coronavirus has accelerated the process after everyone was locked up at home in the summer and forced to buy their groceries online, but the pandemic didn’t create a new trend; it only made the existing ones move faster.

“There are no new trends or revolution to the existing trends. All that happened is the trends that existed before the coronavirus have just become a lot stronger. That has led to new opportunities. (I don’t want to say benefits),” Vladimir Salakhutdinov, the head of strategy at X5 Retail Group told bne IntelliNews in an exclusive interview.

For years the leading supermarket chains were growing as fast as they could in a race to capture market share while it was still up for grabs. However, that process has come to an end as the market reaches maturity and the leading companies have started to focus more on profitability than expansion.

X5 overtook its rival Magnit about two years ago to become the market leader in terms of turnover and just announced a radical transformation at its capital markets day on October 27 that will put the customer at the centre of its focus.

“We understand that TV ads used to be the number [one] place where people got information about food but now there are all sorts of new variants: a food blog, interest in healthy food, what the celebrities are eating, etc. The customer only goes to the store

“There are no new trends or revolution to the existing trends. All that happened is the trends that existed before the coronavirus have just become a lot stronger. That has led to new opportunities”

Vladimir Salakhutdinov
the head of strategy at X5 Retail Group
after taking all this in. Their journey starts a long time before they go to the store. We are at the end of that journey and we want to be at the beginning of the journey,” Salakhutdinov said in a video call with bne IntelliNews.

X5 has already been digitising its process, but now that process has accelerated as it strives to defend its market share and maintain its profit margins and revenues. The company has already become an investors’ darling and saw its share price double in 2017 as the equity market recovery got under way. This year the leading dollar-denominated Russia Trading System (RTS) index is down 26% YTD, but X5’s shares are up 32% in the same period as of October 28 as investors use the current crisis as a buying opportunity to get into their favourite blue chips on the cheap.

E-commerce is booming and the barriers for entry into the e-grocery business have come down.

important is increasing efficiency and that means a root and branch rethink of X5’s business.

Logistics

The coronavirus (COVID-19) epidemic has actually been a boon for food retailers. They were already investing heavily into digitisation before the epidemic hit and were half ready when the demand for home delivery went through the roof. The emerging battle between the online majors like Sber (formerly Sberbank), Ozon Holdings, Yandex and Wildberries who are all rushing to create online ecosystems has spread to the leading traditional retailers as they become increasingly agnostic about which channel they use to get their goods to the punter.

Its telling that the third biggest e-commerce player in Russia is already the leading electronics chain M.Video, which has been selling tellies and stereos from shops for over two decades, but just reported 25% revenue growth in the third quarter, the epidemic notwithstanding, while overall retail turnover is down 5% year on year in same period.

X5 had launched its Express Delivery service in January that promised to get your shopping to your front doors within 30 minutes after you click “buy” on your phone and the company’s existing online services were almost overwhelmed by the surge in demand.

“Some areas of retail have been negatively affected by the epidemic, but not food retail,” Salakhutdinov relates. “When the restrictions were most severe in the spring the food stores were still open. And there was a huge surge in digital delivery. So there was no real impact on our business. We saw very strong growth and digital delivery doubled.”

Logistics has been the key to building a successful e-commerce business in

“E-commerce is booming and the barriers for entry into the e-grocery business have come down”
a country as vast as Russia. X5 had set up “dark stores” all over the inner city in Moscow – essentially mini warehouses inside the inner city – and so was well placed to meet the increase in orders.

“Before corona we were making 1,000 deliveries a day. Now we are making 23,000 deliveries a day and it is still growing. We were already projecting 70% growth in digital retail before corona hit. Now the virus is still here and the e-grocery market might double or treble this year. It is hard to say exactly how it will play out, as every month things change,” says Salakhutdinov.

In food, and many other kinds of retail, e-commerce is not a disruptor but a complementary business, as it turns out that X5’s network of 17,000 outlets is a boon, not a hindrance. That network needs the same logistical support, which Salakhutdinov says is now on a par with the Russian Post Office’s system. And having a store brings added opportunities in terms of pick-up services and additional selling opportunities.

**Efficiency**

But how to grow the business from here is not obvious. However, all of Russia’s leading retailers seem to have come to the same conclusion: increasingly sophisticated digitisation and standardised, automated processes are the way forward.

All the retail companies *bne IntelliNews* has interviewed recently have emphasised the huge importance of IT and have invested heavily in expensive and powerful systems.

X5 already has 150 people working on dozens of big data projects and a total of 1,000 technicians in-house. But the company doesn’t have an IT department. The technicians are an integral part of the various product group teams and answer to the product owner in the company, as IT solutions are now an integral part of the sales and marketing process.

“You can’t create this intellectually. You must try the concept and observe its impact. It also affects the way we
work. The corporate chain of command doesn’t work well here, where an idea is discussed, approved and implemented. We need to do 20-50 small things and see what works and what not,” Salakhutdinov said.

But the IT goes way beyond just getting packs of pasta or blocks of cheese to the store on time. In the past food retail was an operational challenge of sourcing and delivering a product to a store where a customer could come and buy it. As organised retail that offered a wide selection of goods was a new thing to post-Communist Russia, getting the punters to come was not hard.

But things have changed now, as when the customer arrives with his or her shopping list they have already made most of their purchasing decisions and the store doesn’t really “sell” anything, but simply acts as a fulfilment centre.

Its new strategy, is not traditional retailing. It is a new way of thinking about customers and Salakhutdinov claims the Russian companies already have had some ideas and made some innovations that Western European companies can learn from.

Targets
At the moment X5’s on- and offline businesses are separate businesses, albeit the biggest in their respective niches. Over the next few years these two channels will be integrated into a complete “ecosystem,” which is rapidly becoming a buzzword in the industry.

Despite being the dominant player in the market Salakhutdinov says there is still a lot of growing room left. “The market is still not consolidated. We are the market leader but we still only have 12% market share and the top five players’ share is less than 25%. If you compared that to the leading international markets then the top five players often have more than 50% of the market and the leader will command between 20% and 25% market share. It means there is still a lot more growth available,” says Salakhutdinov.

The X5 group already own several retailers targeting different types of shopper. The Pyaterochka chain is a “proximity” retail of smaller shops that are close to home, whereas Perekrestok are bigger supermarket you have to drive to. Both these businesses are expected to expand over the next three years, but the fastest growth will be with the online business, up from RUB145bn ($1.9bn) this year to RUB605bn by 2023, according to estimates from the market research company Infoline. At the same time the digitisation effort is expected to add RUB20bn ($250mn) to the company’s EBITDA by 2023.

The goal of the new strategy is to go back to the beginning of the process where those purchasing decisions are made and be present at all stages on that journey in some form.

“Our approach to the customer is changing. Retail focuses on the customer fulfilment. Now we are re-engineering all our frontline processes to turn them to the customer’s point of view,” says Salakhutdinov. “That means we are opening new channels to reach the customers and not organise this centrally. We used to have 15 channels that we could use to reach the customer, with TV being the most important one to provide information about food. Today there are a lot more, using social media and the like.”

And Salakhutdinov says they have already made a lot of progress. The “transformation,” as X5 dubbed it, involves investment in smaller, greener delivery services that can get the food up from the store to the customer in an hour.

“The X5’s main online services

**X5’s main online services**

- **Perekrestok Vprok**: an online supermarket with its own “dark stores” in the city centres of Moscow, St Petersburg and Nizhny Novgorod for now; essentially warehouses where shoppers can pick up orders or have them delivered by truck.

  **Express Delivery**: a unique service launched in January that is a hyperlocal delivery aggregator. It makes express deliveries from Pyaterochka stores and has seen orders skyrocket from 20 per day in February to over 12,000 per day during the lockdown in May and now more than 20,000 per day in October. A delivery aggregator sends the order to the customer’s nearest store, where it is assembled and then delivered by a third-party courier.

  **Okolo**: X5’s delivery aggregator that powers express delivery from Pyaterochka and Perekrestok. In addition, X5 is starting to pilot deliveries from other businesses like local drugstores, restaurants and cafes as part of building a food ecosystem.
Russian tech deals galore

Ben Aris in Berlin

As Russia’s new economy comes of age it seems there is a new deal announced on a daily basis as the leading companies snap up start-ups or rivals in the rush to build an ecosystem that covers all of life’s needs and wants.

There are too many deals to go into one article but several really big ones have caught the headlines in the last few months.

Russian internet giant Yandex agreed to buy Russia’s only purely online bank Tinkoff Bank that is owned by TCB Group for a whopping $5.5bn in October, which would have added a powerful financial arm to the Cyrillic version of Google. However, the deal fell apart at the last moment after a reported argument of who was going to be in charge afterwards: Tinkoff Bank was talking about a “merger”, whereas Yandex talked about a “sale.” Yandex is proving to be a prickly partner, as it had already entered into a joint venture with Sber (formally called Sberbank until it dropped the “bank” part of its name in October).

By getting into bed with Russia’s biggest bank, the partners intended to build a multifunctional market place that would have covered half the population. But that deal also fell apart after a year, again over disagreements over who was going to be in charge.

Sberbank and Yandex are now rivals in an increasingly competitive market and are both rapidly fleshing out their portfolio of services through a never-ending string of acquisitions.

The retail bank has made similar investments into companies across the industrial spectrum to create a network of services made up at least 40 entities that it is slowly bringing together into a complete ecosystem.

Traditional retail has also attracted attention, as the leading retailers are proving to be great platforms for building e-commerce businesses, as they come with ready-made storage and logistical solutions. In a country as big as Russia, having an efficient logistics platform is a pre-requisite for building a working e-commerce business.

Sber’s main rival and the second-largest bank in the country, state-owned VTB...
Bank, bought a significant stake in Magnit, Russia’s biggest supermarket chain, last year that reaches into nearly every town in the country. In addition, VTB has taken over the job of setting up a Post Bank, using the premises of the Russian Post Office that reaches into almost every village as well. VTB has already brought Magnit into the Post Office deal which will open post offices in Magnit’s stores.

Russian steel tycoon Alexei Mordashov is following the same logic when he bought into Lenta, one of Russia’s five big supermarket chains last year, beating out a bid by Magnit to take the company over.

To battle these giants, the big-three Russian e-commerce company Ozon Holdings announced in October it will IPO either at the end of this year or the start of next, depending on market conditions, Sova Capital reports, to raise money to continue its expansion.

The e-commerce space is getting increasingly competitive and China’s Russian subsidiary AliExpress Russia is aiming to reach $10bn gross merchandise volume by 2022-2023, and has not ruled out a future IPO.

“China’s Russian subsidiary AliExpress Russia is aiming to reach $10bn gross merchandise volume by 2022-2023, and has not ruled out a future IPO”

Avito, the classifieds giant, was taken over by Naspers last year in a $3.85bn deal, while the explosive growth of the e-commerce company Wildberries, the rising star of Russian e-commerce, broke into the RUB41bn territory last year.

TalentTech is also a recent unicorn arrival and owned by the Severgroup subsidiary, which includes online education platform Netology.

This year Russia nanotube producer OCSiAl’s valuation topped $1bn, making it the state-owned technology organ Rosnano’s first unicorn.

Online recruitment platform HeadHunter has sealed its position as a $1bn tech company after a new multi-million dollar share deal confirmed the company’s soaring valuation in July this year. Headhunter became the first Russian-born firm to go for a US IPO since the imposition of sanctions following the annexation of Crimea in May 2019 and had a market capitalisation of around $200mn last year until Goldman Sachs paid $101mn this year for a 9.9% stake, quintupling the company’s valuation at the stroke of a pen.
Aft er a decade and a half as members of the EU, the leading four Central European countries of Czechia, Hungary, Poland and Romania are pulling ahead of their peers.

With the key institutions set up and key reforms under their belt, the CEE4 are now capitalising on what catch-up growth is left to do and benefiting from young and lean economies.

The four countries have been booming in recent years and have gone into the coronacrisis with more economic momentum than the other countries of Europe, as well as solid finances.

“It appears that the CEE-4 have increasingly decoupled from the euro area’s performance, with robust growth driven by strong private consumption due to high real wage growth (a reflection of tight labour markets), as well as robust capital spending supported by large withdrawals from EU structural funds,” the Institute of International Finance (IIF) said in a note.

When the coronavirus (COVID-19) pandemic began it was feared that the resulting slowdown in Europe would pull these economies back. The EU is expecting a historically large output contraction in 2020. But those fears are proving to be unfounded.

“The CEE-4 have outperformed growth in the euro area substantially in recent years – by roughly 2.5-3.0 pp over 2017-19. In our projection, they will, however, experience a contraction of above 5.5% in 2020, while the euro area’s real GDP looks likely to fall by 7.5%,” IIF said.

That’s not to say the CEE-4 have escaped unscathed. Economic activity declined by 0.8% in Q1 and 10.3% in Q2 quarter on quarter (seasonally adjusted), according to IIF.

“Despite high-frequency data so far indicating a strong rebound in the second half of this year – under the assumption that currently surging COVID-19 cases across the region will not cause a prolonged disruption to economic activity – we project that output will not return to its pre-crisis level until 4Q21,” IIF said. “Private consumption and gross fixed capital formation, which have become major drivers of CEE-4’s strong GDP growth in recent years, will likely continue to contribute to the output recovery into 2021, which should be also supported by a rebound in exports.”

Strong private consumption has been one of the main drivers of growth amongst the four and helping them weather the external shocks to the economy as the general European economy slows.

Over 2017-19 the growth contribution from private consumption reached 2.8pp, and from investment 1.6pp, on average, IIF reports.

“We expect these dynamics to persist in the post-crisis period beyond 2021, as (1) demographic factors will continue to lead to tight labour markets, which will likely keep real wage growth in the CEE-4 higher than the Euro area, and (2) CEE countries will have access
to sizable sums from the €1.1 trillion seven-year Multiannual Financial Framework (MFF) as well as a newly created COVID-19 recovery fund of €750bn. With drivers of growth in CEE-4 shifting from exports toward domestic spending, Germany’s export and growth performance has become less relevant for the CEE-4 economies,” says IIF.

Even if the rest of Europe in general, and Germany in particular, has become less important to the well-being of the CEE4, as all of them have big manufacturing sectors, and especially automotive, their economies remain tied to the wider neighbourhood and exports is a contagion channel through which other countries’ woes can affect their economies.

The four have been trying to diversify their economies away from the automotive sector without much success, as capital investment into the sector by the car companies has continued to build up their importance and has even shifted some of the production share from Germany to Central Europe.

“As the CEE-4 have been unable to diversify their manufacturing sectors away from heavy reliance on auto production, challenges loom going forward in light of the structural changes the industry is likely to experience,” says IIF.

Changes in the automotive industry are expected to take some of the wind out of their sales. For example, the shift to electric cars means fewer workers will be needed, as electric cars have much fewer parts. At the same time, the carmakers moved to Central Europe because of the lower wages, but the labour market and booming economy are pushing those wages up and so undermining one of the region’s key attractions. As bne IntelliNews has reported, at some point production will move on to Southeast Europe where the wages are lower, but experts don’t expect this to happen for several years yet.

“Over the near term, however, the relative complexity of hybrids will continue to support such companies’ prospects. The Czech Republic appears to be the most vulnerable country in the region; others are not too far behind,” IIF said.

Viktor Orban floats idea of bilateral agreements if rule of law conditionality blocks approval of €750bn recovery fund

Tamas Szilagyi in Budapest

Prime Minister Viktor Orban hinted that Hungary may block approval of the EU’s pandemic recovery fund if payouts are linked to rule of law issues. Before leaving for a two-day summit for Brussels on October 1, Orban said bilateral agreements could be an option if the debate over rule of law conditionality prevents the launch of the EU’s €750bn Next Generation recovery fund.

EU leaders gathered in Brussels for a two-day summit discussing foreign policy issues such as tensions in the Eastern Mediterranean, the situation in Belarus and the armed conflict in Nagorno-Karabakh.

Talks at the summit are likely to touch on the agreement member states reached in July on the EU’s multiannual financial framework for the 2021-2027 financial cycle and a recovery package to offset the damage wreaked by the coronavirus pandemic, the prime minister said. The deal was still complicated by disagreements as certain member states wanted to tie it to the issue of the rule of law.

The Hungarian government says that Europe should focus on managing the coronavirus crisis for now and the pandemic rescue package should be made available to member states in need of help as quickly as possible.

“We shouldn’t slow things down with debates on the rule of law,” it said. Orban expects heated debates on the issue and recommended that member states could make intergovernmental deals bypassing EU institutions to allow fast access of funds for countries that need it the most.

Hungarian opposition parties said the prime minister was just bluffing and by blocking any deal would hurt Hungary as the country is one of the biggest beneficiaries of the next budget. According to conservative estimates, EU funding for Hungary could jump to €52.8bn in 2021-2027 at 2018 prices compared to €39bn during the 2014-2020 EU budget cycle.

The country is set to receive €8bn in grants and €9bn in loans under the NGEU recovery fund. This would be supplemented by €10bn own contribution. Including the latter, Hungary’s total funding available during the next EU cycle would be boosted to around €31.5bn, which is 43% of the country’s annual GDP.

On Wednesday, the Council adopted its negotiating position on the so-called rule of law conditionality after a compromise text was put forward by Germany, the current EU presidency holder.

The proposed text scrapped all language referring to “generalised deficiencies as regards the rule of law”, replacing it with more general references to “breaches of principles” and made it significantly more cumbersome to suspend EU payments.

The Council, with Germany at its helm, will now enter into negotiations with the Parliament, which already said that it will want to see strong links between rule of law and EU spending before signing off on the next seven-year budget.
Poland’s anti-monopoly committee has slapped Russia’s Gazprom with a $7.6bn fine for building the Nord Stream 2 gas pipeline without its consent in a case that is headed straight for the arbitration courts. Poland, Russia heading for long-running legal dispute over Nord Stream 2

bne IntelliNews

Poland’s anti-competition authority and Russia’s Gazprom could be stuck in arbitration for years.

What: Polish regulator UOKiK has slapped a $7.6bn fine on Gazprom for going ahead with Nord Stream 2 without its permission.

Why: Poland, a staunch opponent of Nord Stream 2, says the pipeline will have a negative effect on its gas market.

What next: Gazprom has vowed to appeal against the decision, making a lengthy arbitration case likely. But the dispute will have little bearing on Nord Stream 2’s completion.

Poland and Russia look set for a lengthy and arduous legal dispute, after Polish antimonopoly watchdog UOKiK last week slapped Kremlin-run gas supplier Gazprom with a $7.6bn fine for going ahead with the Nord Stream 2 pipeline without its consent.

Poland’s efforts will have little bearing on the controversial project, however, given that UOKiK lacks jurisdiction to halt its construction, which is now almost complete. And in any case, Gazprom has vowed to appeal against the regulator’s decision, initiating an arbitration process that could take five or so years to reach a conclusion.

The crux of UOKiK’s argument is that Gazprom created a de-facto joint venture with its European partners to finance Nord Stream 2. Gazprom’s original plan was to form a consortium with Germany’s Uniper and Wintershall Dea, Royal Dutch Shell, Austria’s OMV and France’s Engie to finance, build and operate the €9.5bn ($11.2bn) pipeline. UOKiK’s approval was needed because of Nord Stream 2’s impact on the Polish gas market. It withheld this approval in 2016, forcing Gazprom to come up with a different plan.

Instead, the Russian company was lent funds by its European partners to cover half of Nord Stream 2’s cost, but UOKiK argues that these financing agreements effectively established a joint venture in all but name. The regulator said it had imposed the maximum penalty it could on Gazprom. It has also fined the company’s European partners some PLN234mn ($62mn), representing 10% of the annual turnover of their subsidiaries involved in Nord Stream 2.

Poland is among the staunchest opponents of Nord Stream 2 and Russian influence in Europe. Polish officials argue that Nord Stream 2 will undermine competition in Poland’s gas market, and also enable Gazprom to divert gas supplies to Europe that currently flow through Poland, robbing Warsaw of billions of dollars in transit revenues. The project would also increase Europe’s dependence on Gazprom for gas, UOKiK argues.

“Such a situation may bring about serious consequences for the economy of Poland and of the EU, in particular by introducing territorial restrictions affecting the delivery of natural gas, and by increasing the prices of gas to end customers, in particular to Polish consumers,” the regulator said. “The high cost of implementing the undertaking may be offset by higher bills paid by Polish recipients of gas, and the negotiating position of ... Gazprom will be strengthened considerably both in relations with Poland and with other EU member states.”

Questionable impact

How great an impact Nord Stream 2 would have on the Polish market is doubtful, however, given that Warsaw is striving to end its reliance on Russian gas anyway within a few years.

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Poland consumed some 18.6bn cubic metres of gas last year, while it produced some 4.1 bcm domestically. A further 9 bcm was supplied by Gazprom, while the remainder was met with 3.4 bcm of LNG imports and 2.5 bcm via interconnectors with Germany, the Czech Republic and Slovakia.

Poland’s long-term contract for Russian gas is due to expire at the end of 2022, and state gas supplier PGNiG does not intend to extend it. While Poland would still be able to make spot purchases from Gazprom after the contract’s expiry, its government has insisted it will not take any Russian gas at all.

“If we are talking about full diversification of gas supplies to Poland, we are talking about Poland’s full gas independence from Russia; this is the milestone on the way towards the independence,” Polish President Andrzej Duda said earlier this year.

To break gas ties with Russia, Poland has a raft of projects underway that will greatly expand its gas import capacity over the coming years. It plans to launch Baltic Pipe in October 2022, a pipeline from Norway that will provide Poland with some 10 bcm of gas annually. A final investment decision (FID) on the project was taken in 2018, and early construction work is underway.

Poland also intends to enlarge its Swinoujscie LNG import terminal to take an extra 3.3 bcm per year of gas beginning in 2023, and build a second, 4.5 bcm per year terminal in Gdansk by 2026-2027. Baltic Pipe alone could be enough for Poland to cut its Russian gas supplies to zero as early as 2023, and the government wants to resell any surplus LNG it imports to Ukraine and its other neighbours.

**Greater obstacles**
The prospect of potentially having to pay a large fine in a few years will undermine Gazprom’s share price performance and its credit rating. But UOKiK’s actions alone will have little impact on progress at Nord Stream 2. Even so, the project faces significant other obstacles to its completion.

The pipeline’s offshore section reached 94% completion in December last year before the US imposed sanctions, forcing Swiss pipelayer Allseas to halt construction. Russia has its own pipelaying vessels on standby in northern Europe to finish the job, but it is unclear whether they have the capability to do so without international assistance.

Looming over the project, a bill is making its way through US Congress that would impose even tougher sanctions.

Russian authorities say Nord Stream 2 will be ready to flow gas in early 2021. But Gazprom is stuck in a ship-or-pay contract with Ukraine until the end of 2024, meaning it will have to pay to deliver at least 40 bcm per year of gas through the country between 2021 and 2024, regardless of how much it actually sends. This will limit how much gas it is feasible for the company to supply via Nord Stream 2.

Then there is the EU regulatory headache. Nord Stream 2 will have to comply with the bloc’s energy law following a court ruling last year, which could require Gazprom to provide third-party access to its capacity. It is unclear how Russia could ensure this without breaking up Gazprom’s monopoly over pipeline exports.

Lastly, Germany’s support for the pipeline could crumble, not only in light of the recent assassination attempt on Russian opposition figure Alexei Navalny, but more significantly because of rising antipathy towards fossil fuels. Rather than derail the drive towards cleaner energy, the coronavirus (COVID-19) crisis has prompted governments to set more ambitious targets than ever before. This could lead Berlin to rethink its position on extra gas import capacity.

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The office isn’t dead, but it is evolving

Clare Nuttall in Glasgow

From the demand for logistics space caused by booming e-commerce to the slump in hospitality, the coronavirus (COVID-19) pandemic has had a seismic effect on the real estate sector, and the office segment is no exception. Lockdown forced an immediate shift to working from home for anyone that could, and even after a vaccine is found, this appears to have led to a change in approach to remote working and the function of the office. This in turn is expected to have an impact on both the volume of office space required – in Central and Eastern Europe (CEE) and elsewhere – and the type of space.

Some of the questions facing companies and those in the real estate industry are what the split between physical and virtual will be in the workplace? What role will offices have, i.e. what will we go to the office to do? These questions were raised at the CEE Property Forum on September 23, held as an entirely virtual event this year, as participants from many countries in the region aren’t able to enter the host country Austria due to quarantine restrictions.

Tamas Polster, head of strategic consulting EMEA, international partner at Cushman & Wakefield, who delivered the afternoon keynote speech, believes we will continue to have offices but they will be very different from those before the “radical shift towards digital” during the pandemic.

“The pandemic has taken trends that are 15-20 years old – the ability to work from home, the use of decentralised models – and now there is a slow reverse of the paradigm that office work has to be delivered from a physical core location,” Polster says.

Indeed, a survey by Cushman & Wakefield survey cited extensively by Polster shows that the experience of remote working during lockdown was highly effective in breaking down resistance to allowing employees to work from home. Even under less than ideal conditions – namely, working with kids home from school – working remotely didn’t result in the slump in productivity many expected. For their part, 90% of employees said they felt trusted to carry out their tasks from home.

“The initial results of our survey show companies have been operating pretty well. It’s easier for big international companies because they have the culture, the technology, but even SMEs are starting to operate pretty well on a remote basis,” says Polster.

Surprisingly, it is the older generation – many of whom were in management positions and previously resisted calls from their employees to work from home pre-lockdown – that adapted best. By contrast, the tech-comfortable generation Z, relatively new entrants to the workforce, were struggling as they missed out on receiving on the job training and bonding with colleagues.

While many industries still require workers to be physically present, work in other sectors and specific functions were showed to be possible remotely without too much disruption. The large business services sector in CEE, for example, has felt relatively little impact from the shift to home working. Overall, for work traditionally carried out in offices panellists said they expect a hybrid solution, with a mix of remote work and face-to-face time.

And the offices themselves will be changing. Hygiene has of course become all important – spurring the expansion of companies like Resysten, a Hungary-based producer of protective coatings now in demand from a wide range of sectors, or Connectome.ai, a Russian app developed to check if people have washed their hands properly.

Among the changes noted by panellists were more open space and more flexibility in layouts – for example to allow meetings of different sizes while maintaining social distance and to allow shift changeovers without mingling between two separate shifts.

Adrian Karczewicz, head of divestments CEE, Skanska Commercial Development Europe, says his company was “quite well protected” ahead of the pandemic, as the company had already developed an app that allowed people to move around its buildings – operating lifts and passing from the office to the car park, for example – using their mobile phones.
Polster speculates on a shift to quality as the function of offices changes. People will still need to go to the office, for example to receive training and meet with their colleagues. But they will spend less time there, and offices may be smaller. As a result, says Polster, “We expect a shift towards quality for both

in need of more space to accommodate more workers under socially distanced conditions.

Paul Hallam, managing partner, GalCap Europe, gives the example of a building in his portfolio given over wholly to labs and pharma companies. “If we could replicate that we would, as there are virtually no issues at all, aside from the standard requests for additional cleaning. They are all taking their own measures anyway. As tenants they are ideal, and this helps offset problems in buildings heavy on gastronomy.”

The tech sector is still going strong too. “Tech employment is exploding further and there is still a massive push for recruitment of digital talent,” says Polster. “There are a lot of opportunities for [the] real estate sector, [especially] in CEE, which still a region with [significant] growth in white collar employment. But developers to have to be more careful about where they locate their product, what they offer for increasingly mobile and location-agnostic employees and employers.”

There is some debate at the moment about whether we are seeing a permanent departure from offices, that will leave city centres bereft, or if people will be back once a vaccine has been discovered and rolled out.

Polster says it will be difficult to bring people back, and success in doing so will depend on what the city and the individual development has to offer. He says urban centres remain attractive, including some regional cities – but this depends on the quality of life they offer. By contrast, he adds, “places and buildings designed and operated as nine to five workplace are really at risk”.

“Tech employment is exploding further and there is still a massive push for recruitment of digital talent”
Turkey’s bid to join EU now further away from success than ever says Commission

**bne IntelliNews**

The European Commission executive said on October 6 that Turkey’s bid to join the EU is now further away from success than ever because Ankara is undermining the country’s economy, eroding its democracy and destroying its independent courts.

The criticism from the European bloc’s executive added to pressure on the embattled Turkish lira (TRY) which hit its weakest rate in nearly a week. It was also partly impacted by concerns over possible US sanctions after Bloomberg reported that Turkey would soon test its acquired Russian S-400 missile defences despite concern in Washington and the risk of EU sanctions after Turkish President Recep Tayyip Erdogan told German Chancellor Angela Merkel that decisions taken at an EU summit earlier this month were insufficient to overcome disagreements over maritime rights with Greece and Cyprus related to gas exploration.

In very late evening trading on October 6, the TRY was down 0.5% versus the USD at 7.8011 but still short of the all-time low of 7.8669 recorded on September 30.

The Commission’s heavy criticisms of Turkey, which drew an angry retort from Ankara, were made in its annual report on the country.

“Rapid changes in investors’ sentiment”

Blaming “excessively” centralised presidential power for deteriorating conditions in freedom of speech, prisons and the central bank, the European Commission said the government was also exposing Turkey to “rapid changes in investors’ sentiment”, Reuters reported.

“Ankara is undermining the country’s economy, eroding its democracy and destroying its independent courts”
“The EU’s serious concerns on continued negative developments in the rule of law, fundamental rights and the judiciary have not been credibly addressed by Turkey,” the Commission added.

“Turkey’s [EU] accession negotiations have effectively come to a standstill,” it said.

A Nato ally, Turkey has been negotiating EU membership formally since 2005.

The Turkish Foreign Ministry dismissed the report as “biased” and “far from constructive”, rejecting the criticism of the handling of Turkey’s economy, democracy and courts.

“Just as it [Turkey] is not straying from the EU, it remains committed to the EU membership process despite attempts by some circles to push it away,” the ministry said. “Turkey is acting within the framework of universal norms, in line with fundamental rights, democracy and the principle of rule of law.”

Turkey has faced several years of harsh Commission annual reports. This time the EU executive once again intensified its criticism, pointing out unsatisfactory monetary policy and public administration and widespread corruption.

**Biggest foreign investor**

The EU is Turkey’s biggest foreign investor and relies on the Erdogan administration to host some 4mn Syrians that have fled the civil war in their country, rather than allowing them to move on to Europe.

More pressure was heaped on the lira by an announcement from Erdogan and the leader of the Turkish Cypriots that a town in Cyprus that has been closed since a 1974 Turkish invasion would be re-opened. The invasion ultimately split the island in the eastern Mediterranean. The reopening of the town would likely wreck prospects for Turkish Cypriot talks with the Greek Cypriots aimed at bringing more unity to the divided island.

Turkish opposition politicians claim some official Turkish statisticians are more like magicians pulling rabbits out of hats.

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**Turkey’s economic data compiled by loyal officials and “detached from reality” says ex stats chief**

*bne IntelliNews*

Turkish economic data are “detached from reality” with statistics officials picked for their loyalty to the Erdogan administration rather than merit, a former chief of the Turkish Statistical Institute (TUIK, aka Turkstat) who’s now an opposition politician has reportedly said.

“When you tamper with data, you are treading the Greek path,” Birol Aydemir told Bloomberg in a phone interview, referencing the distorted accounting of Greek public finances that helped trigger the 2009 eurozone crisis.

“Institutions whose independence has been impaired can’t act objectively,” Aydemir was cited as saying in a separate interview with the Sozcu daily, adding that national recordings of growth, employment and inflation were all “dubious”.

*bne IntelliNews* has for more than three years periodically run stories on questions being raised about the reliability of Turkey’s official data. In September 2017, we reported on how Germany’s Commerzbank had concluded that the country’s official GDP figures were “more than questionable”. In the past two years, we’ve reported on how opposition politicians have protested in parliament that Turkey’s inflation data is not credible.

'Screened by Eurostat’

The TUIK declined to comment specifically on Aydemir’s accusations, Bloomberg said, adding that in the past it has rejected opposition criticism, saying its system of checks makes it impossible for anyone to change data and that the bureau’s procedures are regularly screened by European agency Eurostat.

Aydemir led TurkStat from 2011 to 2016. He is a co-founder of Turkey’s new opposition Deva Party, led by Turkey’s former economy czar, Ali Babacan, a former ally of President Recep Tayyip Erdogan. Aydemir has refused to discuss with journalists allegations on how the TUIK specifically alters the data it collects.

Turkey’s official inflation rate in June was 11.4%, but in a survey conducted that month by Metropol, around one-third of respondents said the real inflation rate was above 30%. Only around 15% of those quizzed said the official figure was correct.
European Parliament committee gives unequivocal support to Bulgarian protesters

Denitsa Koseva in Sofia

The European Parliament’s (EP’s) Committee on Civil Liberties, Justice and Home Affairs (LIBE) adopted a draft resolution on the worsening situation in Bulgaria on October 1, giving unequivocal support to the thousands of people who have been protesting for three months, demanding the resignations of the government and of chief prosecutor Ivan Geshev.

In the resolution, LIBE expressed concerns about the “significant deterioration of respect for the principles of rule of law, democracy and fundamental rights, including the independence of the judiciary, separation of powers, the fight against corruption and freedom of the media” in Bulgaria.

The resolution was backed by 35 of LIBE’s members versus 30 voting against it. It is due to be discussed by the EP on October 5.

“[LIBE] expresses its unequivocal support for the people of Bulgaria in their legitimate demands and aspirations for justice, transparency, accountability and democracy; firmly believes that peaceful demonstrations are a fundamental right in every democratic country and supports the right of people to peaceful protest; condemns any form of violence against peaceful demonstrations; underlines that freedom of expression and freedom of information must be respected at all times; highlights that the use of violence and disproportionate force is unacceptable,” the resolution said.

It expressed dismay at the allegations of use of force against women and children, including children with disabilities, during the protests.

LIBE noted it is concerned by the “unlawful and excessive audits of private businesses who have publicly expressed their support for the protests”, a reference to the local toy store chain Hippoland. The company became the subject of probes by the economic police, tax authorities and market supervision authorities under the direct supervision of the prosecution the day after its owner, Martin Kolev, wrote a critical post on Facebook about police violence at the protests.

LIBE also condemned the “violent and disproportionate” interventions by the police during the protests in July-September and called on the Bulgarian authorities to ensure a “full, transparent, impartial and effective investigation into the actions of the police”.

The committee expressed strong concern about the serious deterioration of media freedom in Bulgaria in the past ten years, calling on the local authorities to secure a proper environment for freedom of expression.

LIBE also condemned the numerous smear campaigns against journalists critical of the government, urging the authorities to launch investigations into all those cases. It called on the authorities to probe all cases of violence being used against journalists covering the protests, pointing out that “violence at the hands of state agents, is contrary to member states’ duty to uphold press freedom and to protect the safety of journalists”.

The committee slammed the “continuous lack of high-level corruption investigations yielding tangible results” and noted that corruption, inefficiency, and a lack of accountability continue to be pervasive problems in the judiciary. It pointed out that Bulgaria must conduct serious, independent and active investigations, as well as to achieve results in the fight against corruption, organised crime and money laundering. It called on the authorities to probe carefully all allegations of high-level corruption, listing recent scandals.
An opposition MP on September 30 claimed Turkey’s daily number of new coronavirus (COVID-19) infections is running at 19 times the figure presented by officials after gaining access to a screenshot of the Turkish health ministry’s official laboratory results portal, which is inaccessible to the public.

Murat Emir, a lawmaker of the main Republican People’s Party (CHP), said that the Laboratories Information Management System data showed that nationwide on September 10 there were 29,377 positive coronavirus test results, out of a total of 107,702 tests administered. Yet on that day, Turkey officially recorded just 1,512 new COVID-19 cases.

In a video broadcast by Fox Haber, Emir called on Minister of Health Fahrettin Koca to “tell our people the truth already.”

“The first rule of fighting a pandemic is to give correct information to our people,” Emir added in a tweet.

Several publications including bne IntelliNews have for months run reports of medics and local officials pointing out that when compared to coronavirus cases held for a single town or city, the national data appeared to present a massive under-estimation of the extent of the coronavirus outbreak in Turkey.

“Patients” versus “cases”

Following Emir’s revelation, Koca at his weekly news conference appeared to acknowledge that the government does not publish the full number of daily positive COVID-19 cases, but only cases in which the people concerned were symptomatic, Reuters reported. The number of daily new COVID-19 “patients,” which he defined as those who are symptomatic, was more important than the number of new “cases,” which includes those who do not show symptoms, he argued.

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“No all cases are patients because there are those who show no symptoms at all even though their tests come back positive. These create the vast majority,” he said.

The Health Ministry changed the wording of the data it shares on a daily basis in July. As of July 29, the data showed the daily number of new “patients”, while prior to that it showed the daily number of new “cases”.

Koca also claimed his ministry did not have the kind of interface that Emir said the screenshot was from and that the document, which he said was undated, showed the wrong number of tests conducted on the day to which Emir claimed it referred.

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The resolution was adopted a day after the European Commission released a very critical report on the lack of progress in fight against high-level corruption in Bulgaria, also expressing concerns regarding the pressure on media in the country as well as the slow progress in reforms to make the chief prosecutor accountable.

Accessed data shot shows Turkey’s Covid rate 19 times worse than officially presented says opposition MP

bne IntelliNews

A n opposition MP on September 30 claimed Turkey’s daily number of new coronavirus (COVID-19) infections is running at 19 times the figure presented by officials after gaining access to a screenshot of the Turkish health ministry’s official laboratory results portal, which is inaccessible to the public.

Murat Emir, a lawmaker of the main Republican People’s Party (CHP), said that the Laboratories Information Management System data showed that nationwide on September 10 there were 29,377 positive coronavirus test results, out of a total of 107,702 tests administered. Yet on that day, Turkey officially recorded just 1,512 new COVID-19 cases.

In a video broadcast by Fox Haber, Emir called on Minister of Health Fahrettin Koca to “tell our people the truth already”.

“The first rule of fighting a pandemic is to give correct information to our people,” Emir added in a tweet.

Several publications including bne IntelliNews have for months run reports of medics and local officials pointing out that when compared to coronavirus cases held for a single town or city, the national data appeared to present a massive under-estimation of the extent of the coronavirus outbreak in Turkey.

“Patients” versus “cases”

Following Emir’s revelation, Koca at his weekly news conference appeared to acknowledge that the government does not publish the full number of daily positive COVID-19 cases, but only cases in which the people concerned were symptomatic, Reuters reported. The number of daily new COVID-19 “patients,” which he defined as those who are symptomatic, was more important than the number of new “cases,” which includes those who do not show symptoms, he argued.

“No all cases are patients because there are those who show no symptoms at all even though their tests come back positive. These create the vast majority,” he said.

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Russian President Vladimir Putin said that the Kremlin was much closer to the US Democratic Party than the Republicans, as it has lots of “shared values” thanks to Russia’s Soviet past.

Observers have speculated that the Kremlin is going into damage control mode as it looks increasingly likely that the Joe Biden, the Democratic candidate in the US presidential due in November, will walk home to a victory over incumbent US President Donald Trump. A Biden administration is widely expected to be much more assertive towards Russia than Trump has been.

Putin has already tried to head off some of the Russia hysteria that is increasingly used for domestic political purposes in the US by suggesting a “mutual non-interference” pact in each other’s elections in September.

“One of the main strategic challenges of our time is the risk of a large-scale confrontation in the digital sphere,” Putin said in the Kremlin statement. “We would like to once again appeal to the United States with a proposal to approve a comprehensive programme of practical measures to reset our relations in the use of information and communication technologies (ICT).”

Putin said that the Kremlin has had no response to this proposal.

Common values
The Kremlin appears to be increasingly worried that relations with the US that are already very bad are about to take a big turn for the worse and that the Biden campaign is already locking itself into a tough stance on Russia before he even manages to get elected president.

“We hear rather sharp anti-Russian rhetoric from Biden,” Putin said in a long interview on October 7. “Sadly, we are now used to it. But something worth mentioning: The Democratic Party is traditionally closer to so-called liberal values, to social democratic ideas, if compared to Europe. It was from the social democratic environment that the Communist Party evolved.”

Putin went on to point out that he grew up under communism and was a rank and file member of the party for 18 years before the collapse of the Soviet Union.

“I believed in the party’s ideas. I still like many of these left-wing values: equality and fraternity. What is bad about them?” Putin asked.

Putin remembers huge portraits of black activist and US Communist Party member Angela Davis on display in the USSR.
Then in an obvious appeal to American voters Putin made statements that appeared to have been crafted to appeal to some of the main voting groups in the US elections.

He kicked off with a somewhat bizarre parallel between communist ideology and Christianity, whose adherents make up the largest part of the voting public in the US.

“In fact, [communist values] are akin to Christian values. Yes, they are difficult to implement, but they are very attractive, nevertheless. In other words, this can be seen as an ideological basis for developing contacts with the Democratic representative,” Putin said.

After dealing with conservative Christians Putin moved on to the African-American population and even cited black rights activist Angela Davis.

“It’s a fact that African Americans constitute a stable electorate, one of the electorates of Democratic Party. The Soviet Union also supported African Americans’ movement for their legitimate rights. Back in the 1930s, Communist International leaders wrote that both black and white workers had a common enemy – imperialism and capitalism,” a link Putin suggested that Russians still share.

“People of my generation remember when huge portraits of Angela Davis, member of US Communist Party, an ardent fighter for rights of African-Americans, were on view around USSR. We believe that it’s something we can talk about, that can be used as the basis for mutual understanding.”

Common START
One area the two leaders do have in common is a desire to restart the Strategic Arms Reduction Treaty (START) missile treaty negotiations. The current treaty, that limits the signatory’s ability to produce new missiles, is due to expire in February.

"Joe Biden has said openly that he is ready to extend the new START treaty or to sign a new strategic offensive
The upshot of the US decision to ditch the ABM was Putin’s decision to modernise the Russian army beginning in 2012, which has kicked off what is starting to look like a Cold War II after Russia annexed Crimea in 2014 and then went to Syrian President Bashar al-Assad’s aid in Syria.

Democrats hard on Russia
Putin’s outreach to Biden and the Democrats is likely to fall on stony ground, as on the whole the Democrats have been hard on Russia.

Biden has used Russrophobe language in his campaign, calling for donations to re-elect him so that he can “fight Russia” and calling Putin out by name.

Former president Barak Obama reached out to Russia with a reset that was sold by his then Secretary of State Hilary Clinton, but the initiative failed. Obama and Putin did not get on personally and under Obama the US foreign policy line became increasingly hard.

What makes Russia nervous is the US unilaterally withdrew from the Anti-Ballistic Missile Treaty (ABM) in 2002 that limits the deployment of short-range missiles in Europe and then followed up with plans for a “missile shield” in Europe to guard against attacks by “rogue states.”

While the unpredictable North Korea was officially named as the genesis for the need for a missile shield, the deployment of the new missile has so far all been on Russia’s border, in Romania and Poland.

Clinton in particular took a very hard line on Russia, comparing it the Soviet Union, and the Kremlin dreaded the prospect of her becoming the next president in the 2016 election.

And Biden has more experience than most US politicians of Eastern Europe. He flew to Kyiv and gave a speech to the Ukrainian Rada calling on deputies to do their “historic duty” and make reforms so the country could stand up to Russia. He has also been in Tbilisi as a show of solidarity following the short war Georgia fought against Russia in 2008.

More recently, Biden has come out in vocal support for the people of Belarus who are protesting against Belarus’ self-appointed President Alexander Lukashenko’s massive falsification of the August 9 presidential elections. Moreover, his tweets use the Belarusian transliterations of the names of the main actors rather than the Russian versions – for example “Lukashenka” instead of the almost universal “Lukashenko” – which is unusual and a sign that he has experienced advisors for Eastern Europe already in place.”

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**OMON sent in to break up Khabarovsk protest for first time in three months**

**Ben Aris in Berlin**

OMON riot police were used to break up protests in Russia’s Far East city of Khabarovsk on October 10, the first time police have been used, as the protest went into its 92nd day.

Twenty-five people were arrested as police brutally beat members of what had been a peaceful protest of mainly middle-aged and older residents of the city.

“The authorities in Russia are simply scoundrels. When half of the people in Khabarovsk took to the streets, the police hid like cockroaches. They waited three months, the number of people decreased, they grew bolder, went out and began to beat people for no reason,” anti-corruption blogger and opposition activist Alexei Navalny said on his Instagram channel.

The OMON arrived after demonstrators began attempting to erect tents in a central part of the city. Tents are closely associated with Ukraine’s Maidan demonstration, as a tent city quickly filled the centre of Kyiv and drew in ever larger crowds of supporters.

The protests have been a weekly occurrence for over three months following the arrest of the popular governor Sergei Furgal, who is accused of multiple murders. Furgal denies the charges against him, which he says are politically motivated. Furgal is a member of the nationalist LDPR party that is headed by firebrand Vladimir Zhirinovsky and he won a surprise victory in the 2018 elections against United Russia Party.

Despite his shady business past Furgal made himself popular by running the region well and improving public services. After his arrest tens of thousands of people took the streets calling for his return and demanding Russian President Vladimir Putin resign.

The authorities were initially hesitant to use local police to break up the demonstration as their loyalties were questioned. Police from other regions
The Fischer ski factory in Ukraine must be one of the country's best kept secrets. Set up in the 40s and employing over 1,000 people, it produces about 60% of all the skis and snowboards that ride the mountains of Europe each season, and many other pieces of equipment to boot, not that most punters are aware as they don't carry a “made in Ukraine” sticker on them.

Now disaster has struck. A fire burned almost half of the factory, by far the Fischer ski factory in Ukraine

Vladimir Kozlov in Moscow

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On October 12, a three-hour, pre-dawn fire started that burned 9,000 square metres of the production facilities and warehouse of the Mukachevo ski factory, Ukraine's emergencies ministry announced.

The factory is owned by the legendary Austria's Fischer Sports GmbH company which pioneered the mass production of skis and had a big part in turning the sport into a mass market phenomena.

According to the ministry, over 100 firefighters were involved in extinguishing the fire, while there were no deaths or injuries. The agency didn't reveal the cause of the blaze.

The Mukachevo factory in the Zakarpattia region was founded in 1944 but the Fischer family became involved in the 1980s, lead by the family's patriarch Joseph Fischer who

“Fire nearly destroys legendary Fischer ski factory in Ukraine

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The Mukachevo factory in the Zakarpattia region was founded in 1944 but the Fischer family became involved in the 1980s, lead by the family's patriarch Joseph Fischer who
gave his name to the skis and died last August at the age of 90. The plant was located in Mukachevo as originally skis were made of wood and the region was densely forested, but the business grew and in the 1970s the factory switched to producing its first plastic skis, after which it soon went international under Fischer’s guidance.

The fact that the Austrian-owned factory grew up in the Soviet Union never seemed to have much of an impact on its business. Fischer came for the trees and stayed for the low labour costs and skilled workers. The collapse of the Soviet Union and the creation of an independent Ukraine in 1991 also had little impact on the plant, which has continued to churn out skis from its facility for almost 80 years.

The factory makes 60% of its Fischer brand skis from the Mukachevo factory as well as manufacturing a number of other famous brands under licence from the same workshop. Few are aware that Ukraine is probably Europe’s biggest producers of skis in all of Europe and dominates the market, producing hundreds of thousands of skis and snowboards a year.

In the 1970s, Mukachevo was the Soviet Union’s first factory to start manufacturing plastic skis.

At this point, the size of the damage caused by the factory is not yet clear. Roman Chebunin, marketing director of Fischer’s Russian office, was quoted as saying by skisport.ru that it’s too early to make any judgement.

"All we can say at this point is that no one was injured, and the audit of the facility is currently in progress to determine the size of damage." Although the Mukachevo factory has kept a low profile, Fischer produces 85% of its skis at the plant, which, according to the Austrian company, accounts for one quarter of the international ski market and one half of that of the European Union.

In 2017, the most recent data available, Mukachevo posted a net profit of EUR3.3mn. The factory employs 1,200 Ukrainian workers. Fisher formed a joint venture company with Mukachevo in 1995. The Austrian manufacturer owns a 50% share of the joint venture.

Apart from skis, the Mukachevo factory produces ice hockey sticks, equipping 27 teams of the National Hockey League.
KEEP YOUR EYES ON THE BALL

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Kaspi on the cusp? Assessing the significance of Kazakh fintech firm's smash stock market debut

Kanat Shaku in Almaty

Kaspi.kz’s wildly successful initial public offering (IPO) on October 16 has given a general boost to the global financial technology (fintech) and e-commerce sectors. Its global depository receipts (GDRs) rose as much as 33% on debut day, raising Kaspi's valuation to $8.4bn from $6.5bn when its shares began trading. The GDRs closed 23% higher than the listing price on the same day at $41.50 on London Stock Exchange (LSE).

A month prior to Kaspi’s listing, Forbes Kazakhstan ranked the company first among the top e-commerce firms in Kazakhstan in 2020. The status was awarded within the TOP KZ Retail E-Commerce ranking compiled annually in collaboration with international consulting company Baker Tilly Kazakhstan and the Digital Association of Kazakhstan.

Forbes also mentioned that Kaspi.kz e-Commerce sees well-known international brands – such as Adidas, O’STIN, UGG, New balance, DECATHLON, DeFacto, Marks & Spencer, Nike, Reebok, KOTON, SPORTMASTER, ALDO, SKECHERS, Ecco and many others – selling through it.

Earlier, Moody’s ratings agency published comments on Kaspi.kz’s primary business, Kaspi Bank.

“Our Kaspi.kz Super App has now reached 8.5 million monthly users, further cementing its market leading position. Our e-Commerce platform, the largest e-commerce business in the country, is seamlessly integrated into our app and our team continues to work tirelessly to improve user experience,” Forbes Kazakhstan quoted Mikhail Lomtadze, CEO and co-founder of Kaspi.kz, as saying.

“We have expanded delivery to 54 cities and increased the range of products to almost 400,000. For the first eight months of this year, our users made 2.6 million online purchases for almost 200 billion tenge [$467mn]. The amount of purchases grew 125%, the number of purchases by 150% compared to last year,” he added.

Setting a benchmark

In September, Yandex made a bombshell announcement. It said it intended to acquire Russia’s only pure online bank, Tinkoff Bank, for $5.5bn. The news caused...
both companies to gain over $2bn in value as their stocks rallied. Kaspi shareholders originally hoped the deal could set a benchmark for Kaspi’s valuation, according to a report by Reuters.

However, Yandex called off the deal on October 16. That has made Kaspi’s IPO the real benchmark-setter for fintech deals and IPOs amid the ongoing coronavirus pandemic restrictions and lockdowns.

Still, Yandex’s willingness to carry out such acquisitions reveals the potential for Yandex to eventually buy out companies like Kaspi.kz. As covered by bne IntelliNews, Yandex is venturing into the financial services terrain, stepping up competition with the Sber ecosystem of its former ally, state-controlled bank Sberbank. Thus, another large potential acquisition by Yandex in the fintech sector may well hove into view in the near future.

But who knows? Yandex, the most valuable tech company in all of Europe, started out without much competition in Russia, before becoming a dominant force in the region, and Kaspi.kz finds itself in a similar position in Kazakhstan. There is yet potential for Kaspi.kz to take on a similar leadership role in Central Asia and beyond as it plans to expand outside of Kazakhstan.

While the Kaspi listing is seen as positive for fintech in general, it is also obvious that Kaspi is riding a general global wave and just happened to be one of the early beneficiaries of that wave.

**Hunger for tech IPOs amid coronavirus**

The tech sector has generally benefited from the pandemic globally. Much of the growth seen in US stocks has been driven by technology stock prices.

It is not far-fetched to say that Kaspi’s valuation is a unmistakable sign of the evident hunger for IPOs – tech sector flotations in particular as other sectors have been strangled by the coronavirus crisis.

Moreover, the stock market surge appears to be led by “growth stocks”, according to analysts. “The pace of the market’s recovery is not at all unusual. What makes this cycle different is the leadership of high quality growth stocks,” MarketWatch lately reported, citing remarks in a note to investors from Jonathan Golub, chief US equity strategist at Credit Suisse.

GlobalCapital’s Sam Kerr noted that Kaspi’s success means that future growth-oriented IPOs from emerging and frontier markets may also experience similar results.

Nevertheless, what makes Kaspi a standout among tech IPOs is its aforementioned systemic importance as a payment system and the third largest bank in Kazakhstan. One could argue that what we have here is not merely a coronavirus-inflated stock, though at the same time it is clear that Kaspi managed to raise its net income by 50% to Kazakhstani tenge (KZT) 115.6bn (€232.13mn) in the first half of 2020, mainly thanks to lockdowns.

“The key constraint on the [Baseline Credit Assessment] is the bank’s high reliance on the consumer finance segment, which is vulnerable to the coronavirus outbreak,” Moody’s said in comments on Kaspi.kz bank business in July. Indeed, Kaspi Bank accounts for 32% of all consumer loans in Kazakhstan.

“In the context of retail restrictions related to the coronavirus pandemic, our e-Commerce platform is an essential partner for many companies in Kazakhstan. We are helping our retailers increase their sales, grow their business and retain jobs,” Lomtadze was quoted as saying by Forbes Kazakhstan.

“In the midst of the Covid-19 pandemic, our Super App has become more important and essential than ever,” Lomtadze has said in a separate statement. “As people’s daily lives become increasingly digitalised we expect the relevance of Kaspi.kz’s ecosystem to the unfolding digital future to only increase.”

Lomtadze’s comments were made in a positive light, but the question remains: by how much will the eventual lifting of the pandemic-related measures weaken the appeal of fintech firms like Kaspi?

**Paving way for Kazakh IPOs?**

Kaspi’s LSE listing has another significance. Apart from being the first Kazakh financial company to float its shares in London since AO Alliance Bank’s offering in 2007, Kaspi is also the first Kazakh company to list on the LSE since uranium miner Kazatomprom’s IPO two years ago.

Ayuna Nechaeva, the LSE’s head of Europe, has been cited as noting that Kaspi’s London listing is not only the largest made by a Kazakh firm since 2007, it is also the biggest international technology-focused IPO in London to have taken place so far this year.

Kazatomprom’s outing was meant to be the first of a wave of flotations conducted by Kazakh state-owned firms as part of a larger privatisation programme. However, KazMunayGas, Kazakhstan’s state-run oil and gas company, delayed its planned joint London and Nur-Sultan listing in 2019 amid continuous delays with other promised Kazakh listings, including those of telecoms operator Kazakhtelecom and airline Air Astana.

But the main benefit of the successful Kaspi.kz IPO could be simply to put Kazakhstan back on the map and make it easier for bigger, regular companies to float.
Uzbekistan’s growth fell to zero in the first half of 2020 but is expected to recover somewhat in the second half of this year.

Uzbekistan one of only two countries in Europe and Central Asia to put in positive economic growth this year says World Bank

Alisher Kalandarov in Tashkent

The autumn edition of the World Bank’s Economic Update released on October 7 forecasts that Uzbekistan is one of only two countries in Europe and Central Asia that will see positive economic growth this year as the rest of the world suffers from an economic recession caused by the coronavirus (COVID-19) pandemic.

The pandemic is the most severe crisis Uzbekistan has faced since the economy’s recovery from the breakup of the Soviet Union. It has adversely affected growth and resulted in declines in employment, wellbeing and the incomes of citizens.

In the first half of 2020, GDP growth was nearly zero, compared with growth of 5.8% in the first half of 2019. Investment in fixed capital decreased by 12.8% in the same period. The unemployment rate increased sharply from 9.4% in the first quarter of 2020, to 15% in the second quarter.

Higher gold production and growth in agriculture helped offset a sharp fall in industry and services. Despite a 19% decline in remittances, a cumulative increase of 17% in social payments and a 10% increase in minimum wages since February have helped preserve private consumption.

Lower remittances and a bigger trade deficit widened the current account deficit to 7.7% of GDP in the first half of 2020. Exports fell by 22.6% in the same period, due to global supply chain disruptions and a fall in key commodity prices (natural gas, metals). Imports fell by 15% due to a sharp fall in machinery and capital imports.

Lower revenue collections and large anti-crisis spending contributed to a fiscal deficit of about 5% of GDP in the first half of 2020. About 2.5% of GDP was directed to additional health spending, increases in low-income allowances, support to enterprises, and an expansion of public works. Despite a large revenue increase from higher gold exports, weaker economic conditions and tax deferrals contributed to a two-percentage point year-on-year decline in revenues as a share of GDP.

Policy rate cut twice
Annual inflation fell to 11.6% in August allowing the Central Bank of Uzbekistan to cut its policy rate twice in 2020, from 16% to 15% in April, and to 14% in September. Anti-crisis credit lines to firms helped increase credit to the economy by 18% in January-August.

“The COVID-19 crisis in Uzbekistan has almost entirely extinguished GDP growth in 2020, and increased poverty levels for the first time in over two decades. To mitigate the economic, social, and health consequences of the pandemic, the Government has been taking anti-crisis policy measures. Despite the current challenges, the authorities have reaffirmed their strong commitment to continue reforms in key sectors of the economy to achieve stronger growth and improve wellbeing of citizens. This is very important to ensure a more resilient and inclusive post COVID-19 recovery,” noted Marco
Mantovanelli, World Bank country manager for Uzbekistan.

Uzbekistan’s outlook remains positive as market reforms continue to shift the economy towards greater resource efficiency and private sector growth. The lifting of lockdowns in the third quarter of 2020, robust agricultural production, and a partial recovery of remittances will result in stronger economic activity in the second half of 2020 in contrast to the first one.

Annual GDP growth is projected between 0.4 and 0.8% this year. That’s considerably lower than in 2019, when it reached 5.6%. Uzbekistan along with Tajikistan are the only states among 23 countries in the Europe and Central Asia region that are expected to demonstrate growth in 2020 (Table below). Assuming that lockdowns will not be reintroduced across the country, GDP growth is projected at between 4.8 and 5.0% in 2021.

Inflation will moderate over the medium term but remain elevated by further price reforms. The current account deficit is expected to be around 6% of GDP in 2020 due to a recovery in remittances and a lower trade deficit. It is projected to remain at this level over the medium term as imports of machinery and equipment resume post-COVID-19. This deficit is expected to be financed by higher public borrowing and gradually by rising foreign investment.

The projected fiscal deficit of 7.5% of GDP in 2020 will moderate in 2021-22 as anti-crisis spending is gradually reduced and revenues recover. It is projected to decline over the medium-term.

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Higher gold production and growth in agriculture helped offset a sharp fall in industry and services

The wider deficit in 2020 and the medium term will be financed by increased external borrowing, and public external debt will increase to 34.7% of GDP in 2020. Although the debt has increased since 2017, it is expected to stabilise over the medium term.

The country’s external debt remains moderate in comparison with the levels seen in 22 other states in the Europe and Central Asia region. The debt-to-GDP-ratios projected in 2020 for Kazakhstan is 26.6%, the Kyrgyz Republic – 64.2%, Tajikistan – 51%, Armenia – 63.8%, Azerbaijan – 19.6%, Georgia – 60%, Russia – 20.5%, Ukraine – 62%, and Belarus – 45.2%.

"Higher gold production and growth in agriculture helped offset a sharp fall in industry and services"

The projected fiscal deficit of 7.5% of GDP in 2020 will moderate in 2021-22 as anti-crisis spending is gradually reduced and revenues recover. It is projected to decline over the medium-term.

Inflation will moderate over the medium term but remain elevated by further price reforms. The current account deficit is expected to be around 6% of GDP in 2020 due to a recovery in remittances and a lower trade deficit. It is projected to remain at this level over the medium term as imports of machinery and equipment resume post-COVID-19. This deficit is expected to be financed by higher public borrowing and gradually by rising foreign investment.

The projected fiscal deficit of 7.5% of GDP in 2020 will moderate in 2021-22 as anti-crisis spending is gradually reduced and revenues recover. It is projected to decline over the medium-term.
Amid war, Armenians closely watching the signals from Russia

Ani Mejlumyan for Eurasianet

Amid their most violent conflict with Azerbaijan in a quarter century, Armenians are looking more closely than ever at their complicated relationship with Russia.

While Russian coverage of the war itself has been pro-Armenia, the Russian press has been noticeably critical of Prime Minister Nikol Pashinian, leading many Armenians to speculate that Moscow’s relatively aloof approach to the conflict is a way to teach their leader a lesson.

At the same time, the lack of a strong response from the US or European countries has reaffirmed for many Armenians that, for better or worse, their best hope lies with Russia.

More than 600 Armenian soldiers have died in the conflict so far, making it by far the bloodiest fighting with Azerbaijan since first war in 1994.

The conflict has been the leading topic of discussion on the show, which has mixed support for Armenia as a state with criticism for Pashinian himself.

On October 9, one guest – Konstantin Zatulin, the deputy head of the Russian parliament’s committee dealing with the former Soviet republics – was speaking when Solovyev interrupted him. “When I’m listening to Pashinian speak, I don’t understand.” Zatulin answered: “I couldn’t care less what Pashinian says … but it’s clear that Azerbaijan started the war.”

In an interview with Russian news site ridus.ru, Solovyev explained that while he respects Azerbaijan’s President Ilham Aliyev more as a leader, he also appreciated that “Karabakh is a place where Armenians have lived forever” and that Armenia is a Russian ally.

That messaging from Moscow has made Armenians wonder what the Kremlin’s intentions might be. And many are blaming Pashinian for spoiling their ties with Russia.

“Now we will see if Russia is a real ally or not,” said one twenty-something, Angela, one recent evening as she sipped wine and surfed Telegram news channels at the downtown Yerevan bar Calumet. “We understand clearly that we are standing alone against dictatorships and terrorists. That was enough for the US and others to bomb Syria, but they don’t have the guts to stand up against Turkey,” she said. “Russia does, Iran does – those are our real allies.”

Her friend Karen jumped in to criticize several moves Pashinian has made to push away Moscow and Tehran.

“Our prime minister should have been looking at the map and thinking about our national interest when he was flirting with the US and Europe.
Building an embassy in Israel was an act of disrespect to Iran, which we value a lot. He didn’t ask us, did he?”

Karen continued: “All those criminal cases against Russian companies, the criminal case against the head of the CSTO, they were all slaps to Russia. None of that is in our national interest,” he said. “No matter how the war ends, Nikol’s head is going to roll. This isn’t Georgia or Ukraine and he can’t make us into one.”

Since the war began, Armenians’ impressions of Russia have improved overall. One opinion poll has been asking Armenians to rate various countries based on how they reacted to the war; the only country whose rating has gone up as the war has progressed has been Russia.

Even many traditionally pro-Western figures have been coming out more in favour of Russia these days.

“I’ve been talking to Western countries’ ambassadors,” said Edmon Marukyan, an opposition leader and former political ally of Pashinian who once led an effort to get Armenia out of the EEU. “One of them, I won’t name who, said ‘in the end geography wins,’ that if we think Russia can help we should ask Russia, they see that only Russia can help us. If the ambassador of a country that has bad relations with Russia says that only Russia can help, I’m amazed how an Armenian walking this earth can’t understand that,” Marukyan told CivilNet on October 15.

There have been signs of a greater accommodation to Russia: the head of the National Security Service, who only had been appointed in June and was perceived as anti-Russia, was removed shortly after the fighting started on September 27.

“So, one step has already been taken towards Russia,” said Hovhannes Iskhanyan, an independent documentary filmmaker. “And the fact that people of American influence have started making pro-Russian speeches means that there are serious discussions inside the political elite to change the anti-Russian propaganda by 180 degrees,” he told Eurasianet.

Nagorno-Karabakh’s previously flourishing economy hit by coronacrisis but supported by Armenia

The disputed territory of Nagorno-Karabakh is a small but not insignificantly sized region that generated almost three-quarters of a billion dollars of GDP in 2019, according to the self-proclaimed republic’s statistics bureau.

The territory was under the rule of Azerbaijan at the time of the fall of the Soviet Union, but, populated largely by ethnic Armenians, it seceded amid the 1998-1994 Nagorno-Karabakh War, sparking raw tensions between the two neighbours that have existed ever since.

While the issue driving the conflict that flared up again is largely driven by ethnicity and territorial rights, the region is also a significant economy.

In 2019, Nagorno-Karabakh generated $713mn, which in per capita terms is $4,803, higher than Armenia’s per capita GDP of $4,528, according to the IMF.

Before the war reignited on September 27, the local economy was flourishing. It reported growth of 9-10% for several years, according to Ivan Takachev, the economics editor of RBC, but like everywhere else the enclave has been hit by the coronavirus (COVID-19) pandemic and the economy contracted by 1.5% in the first half of this year.

The local economy is surprisingly diverse with agriculture contributing 9% of GDP, mineral extraction 12%, and electricity supply just under 12% in 2019, according to the local statistics office.

Nagorno-Karabakh is self-sufficient in electricity and has been exporting electric power (mainly produced by hydroelectric dams) since 2018 to its benefactor Armenia.

Almost all of the enclave’s economic activity is aimed at Armenia as the western border is closed and staffed with Azeri military along the line of contact which has seen sporadic shooting over the years with the conflict always only precariously “frozen”. The worst incident came in 2016 when the two countries fought a four-day war in which about 100 people were killed, but tensions escalated last autumn too when Azerbaijan significantly increased its military presence along the line of contact. Baku has been using its oil wealth to modernise its armed forces in recent years with weapons largely bought from Russia, but with significant buys from Turkey and Israel.

The main export articles from the enclave are mineral products and precious/semi-precious stones and metals. Exports reached $283mn in 2019 with two-thirds headed to Armenia, where the products are re-labeled “Made in Armenia” and re-exported. Another third of Nagorno-Karabakh’s exports go to Russia. However, during the coronavirus pandemic logistics have become difficult and in the first half of this year all of Nagorno-Karabakh’s exports didn’t get any further than Armenia.

And Armenia has been actively propping the region up for years. Half of the enclave’s budget income has been funded by Yerevan in recent years. As the crisis set in this year, Armenia made a “budget loan” to the local government to help fund 70% of budget spending.

The enclave also receives help from the global Armenian diaspora, which sends significant amounts of remittances and aid home, but the actual size of these contributions has never been disclosed.
Opinion

Beware the Ides of August

In July Chris Weafer, CEO of Macro Advisory, wrote his annual op-ed for bne IntelliNews: “August in Russia: what could possibly go wrong.” August is supposed to be the quietest month of the year as everyone goes to the dacha for the long summer holiday – and it almost never is. But this year’s set of summer crises have been off the scale.

Weafer caught many of the crises that have since blossomed: the coronavirus (COVID-19) pandemic, protests in Russia’s Far Eastern city of Khabarovsk, and possible new US sanctions, the threat of which has crushed the value of the ruble in recent weeks. He even correctly pointed out that presidential elections in Belarus could blow up and even more presciently called out the rising tensions between Azerbaijan and Armenia to the south of Russia.

“On the southern border, the main concern is the steady increase in the fatal clashes between Armenian and Azerbaijani forces on either side of the Nagorno-Karabakh border,” said Weafer.

EEU riven by instability from Bishkek to Belarus

Ben Aris in Berlin

What’s wrong with the Eurasia Economic Union (EEU), the economic block set up by Russia that is a copy of the EU and was supposed to promote stability and prosperity throughout the Eurasian land mass?

Three out of the five members of the EEU are in flames and many of the countries around it that resisted Russian President Vladimir Putin’s strong-arming them to join are not much better off. A wave of protests and now even a war have swept over the region to join long-standing frozen conflicts that show no sign of ever being resolved.

Belarus is facing its biggest demonstrations since independence in 1991. It was joined by Kyrgyzstan, which erupted into riots following yet another fixed election. Bulgarians have been on the streets for months to protest against corruption, and even in Russia the Kremlin has been struggling to contain protests in the Far Eastern city of Khabarovsk, which are also in their third month. And if that were not enough, Armenia and Azerbaijan just went to war with each other.

The population began its post-socialism journey politically immature and have had to learn the power of their vote. But now they get it.

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Well done. Weaver’s only lacuna was his failure to call the outbreak of riots in Kyrgyzstan, but you can’t expect oracles to get everything right...

*bne IntelliNews* has been reporting extensively on all these stories as they unfold but recap the main points and you get an unsettling list.

Rioting broke out in Kyrgyzstan on October 5 following parliamentary elections a day earlier that were widely seen as fixed. Following the vote, only four parties out of 16 passed the 7% threshold for entry into Parliament, three of which have close ties to Kyrgyz President Sooronbay Jeenbekov. As *bne IntelliNews* went to press it looks like the crisis is already over, as the Central Election Commission (CEC) has called for fresh elections that have to be held within two weeks.

The rapidity with which the government caved to the protesters’ demands may have something to do with the mass demonstrations in Minsk following another stolen election on August 9. Belarus’ self-appointed President Alexander Lukashenko massively falsified the vote to hand himself a landslide victory, a result that has been rejected by the overwhelming majority of the population.

The Belarusian protests have just gone into their second month and show no sign of abating as the authorities slowly crank up the violence and introduce full-on Soviet-era repressions, not seen for three decades.

The demonstrations in the Far Eastern Russian region of Khabarovsk and those in Bulgaria have been going on even longer – over three months now.

The people took to the streets in Khabarovsk after the Kremlin arrested the popular local governor Sergei Furgal on murder charges and appointed its own placeman instead, leading to the largest domestic protests since the 2011 mass demonstrations in Moscow against a fixed Duma election. And while Bulgaria is not a member of the EEU and joined the EU instead, the people there have also been determinedly protesting against official corruption in a movement that has crushed trust in the authorities and proved an embarrassment for the EU.

And the war that has broken out in Nagorno-Karabakh is the worst clash between the two bitter enemies of Azerbaijan and Armenia in decades. While the details are still unclear, it appears that Azerbaijan attacked the disputed enclave of Nagorno-Karabakh on September 27 that is controlled by Armenia and within a week the two sides are now on the brink of a full blown war as the fighting spills over the border to Azerbaijani territory. Of all the political crises going on at the moment this is the only one that is the result of a border dispute left over from the break-up of the Soviet Union and the creation of 15 new countries. From this perspective, the break-up of the Soviet Union went remarkably smoothly.

Most of these countries are members of the EEU: Armenia is, but Azerbaijan isn’t, although both countries are friends with Moscow, which has been mediating their dispute since the 1990s; it also sells arms to both sides.

Belarus and Kyrgyzstan are also both members of the EEU, although Bulgaria isn’t, but it does suffer more than the other EU accession countries from the same sort of problems most of the countries of the FSU suffer from: corruption, poverty and a backward economy.

These are just the “hot” conflicts. In the background the war between Russia and Ukraine is now in its seventh year and the Crimean Peninsula remains firmly in Russian hands. The occupation of the formerly Georgian territory of Abkhazia and South Ossetia by Russia remains unresolved, as does the dispute over the Transnistria region between Moldova and Ukraine.

And more disputes are on the cards: Moldova goes to the polls this autumn; the Kremlin has already been accused of meddling in previous votes there.

**What the hell is going on?**

Why are all these problems appearing now? For most of the last three decades the majority of the countries emerging from the former socialist bloc have been hard at work trying to rebuild their collapsed economies. The protests and the war are probably the result of the interplay of three factors.

First, and most obvious, is the economic hardship inflicted not only the members of the EEU but all the countries of the Former Soviet Union (FSU) by the coronavirus (COVID-19) lockdowns that have caused massive economic damage across the region.

Incomes have fallen. Trade has been decimated. Travel halted. Economies have seen massive contractions. Unemployment has soared, especially in the poorer countries. And most importantly, remittances, which have been a lifeline for states such as Armenia and Kyrgyzstan, have evaporated.

Secondly, this is the end-game for the break-up of the Soviet Union. While the Soviet Union was formally dissolved in 1991 at a meeting in Minsk, that only started the beginning of the
process of moving beyond the totalitarian system of centrally planned economies.

Minsk is the perfect example. Under Lukashenko it has been the last hold-out of the Soviet system, as the president has run it as a neo-Soviet command economy where the state controls almost everything of value and employs a very large share of the population.

This system worked surprisingly well, as Lukashenko managed to shelter a large part of the population, the most vulnerable part, from the worst ravages of “shock therapy” and a decade of destitution. He could afford to do this thanks to the generous energy subsidies from Russia that allowed the government to subsidise an otherwise hugely inefficient system.

Minskians have described their parallel lives where they co-existed with the quasi-Soviet state, but focused mostly on their private lives. The August 9 elections broke this delicate equilibrium and the people are now demanding a definitive end to Lukashenko’s system and the introduction of a modern democratic system instead.

The story is very similar in the other countries like Ukraine, Bulgaria and even Russia; however, in these places it is corruption that is the more significant factor.

This tension has already boiled over in several countries producing their coloured revolutions. Ukraine and Kyrgyzstan have already ejected two presidents in mass protests, while Georgia and most recently Armenia have done the same.

Other countries in the region have been plagued by large demonstrations in the last year, including Romania, which saw almost half a million people take to the streets to protest against blatant corruption. There were mass demonstrations in Moldova after bankers connected to the president walked off with $1.5bn in a massive banking scam. Serbia has seen months of street protests at the start of the year. And both Georgia and Armenia have had regular large demonstrations in addition to their full blown revolutions. Even Russia has experienced a string of large demonstrations in the last year against smelly rubbish tips and the closure of local parks by greedy local administrations.

While the popular desire for more political freedom does not always end in a colour revolution – which are economically destructive – it is a powerful force fuelling domestic politics across the region. Increasingly managing the population’s expectations has become the overriding task of the long-serving presidents in the region. They ignore this force at their own peril.

Thirdly, and most subtly, has been the ongoing process of the population of the CIS becoming more politically mature. This is not just about rejecting one system for another. This is about the people coming to realise they have the power to dictate to their rulers through the power of their vote – and when that is denied them, through the power of street protests.

Several factors are feeding into this process. In Russia, for example, the youth have largely abandoned watching TV in favour of online channels like YouTube, where the likes of anti-corruption blogger and opposition activist Alexei Navalny and blogger Yuri Dud are active and reach millions of people. The biggest website in Europe in terms of the number of users (excluding the international sites) in 1990 was Vkontakte (VK.com), the Russian answer to Facebook, which ranks number 14th overall. That means the Kremlin has lost control of the political message.

It also means the entire population are well informed about other protests and demands in other countries. It is no coincidence that Belarusian flags have appeared at the protests in Khabarovsk, as the call to action and protesters’ demands have informed protests in other countries.

The bloody end to Ukraine’s Euromaidan revolution in 2014 and the economic collapse that followed are among the most responsible for the Belarusian opposition leaders’ clear insistence on exclusively peaceful protests. The geopolitical mess Ukraine finds itself in now, caught between the White House and the Kremlin, has led the Belarusian opposition to carefully reject taking sides in the geopolitical showdown between East and West, and their promises to maintain close and friendly relations with Russia as well as develop relations with the EU.

By the same token, Ukraine’s bitter experience acts as a restraint on Russian protests, as after a decade of prosperity in the noughties the Russian people have a lot more to lose than the Ukrainians did in 2014.

As Bulgaria’s experience shows, the problems faced by the members of the EEU are not exclusive to them but shared by all the countries in transition.

The population began its post-socialism journey politically immature and have had to learn the power of their vote. That is the essence of the showdown in Minsk: the people voted for a new president; Lukashenko has totally ignored those votes, so now the people are insisting on their right to choose a president via voting and their overriding demand is simply for new free and fair elections.

Most of the people living in the East were merely trying to survive in the 1990s. Three decades on and life is relatively normal in most countries in the region. Increasingly satisfied with their income the people are increasingly dissatisfied with the performance of the government. Instead of demanding more money, they are starting to think about the long term – their own old age, their children’s future – and demanding instead better services from the government and responsible and responsive leaders. ●
The billionaires' club, where the mega-wealthy go to meet each other

Ben Aris in Berlin

If you are rich enough to join, then you don't have to pay to be a member. That is the central idea behind what might be dubbed “the billionaires’ club,” a series of conferences for family offices and ultra-high net worth individuals that has been running for a decade.

It's a lonely life being a billionaire. Seriously. There are not many of them and it is not like they can all bump into each other in the pub. Last year there were a total of 2,825 billionaires in the world, according to market research firm Wealth-X, the highest number ever. But that is barely enough people to fill a small football stadium, or a large concert hall. If you have a billion dollars where do you go to hang out with your peers and swap gossip about how to deal with problems only the mega-wealthy have?

Ten years ago Katja Muelheim and Tobias Prestel almost stumbled across the format that has since attracted billionaires like bees to honey without really meaning to, if you listen to the way Prestel tells it.

“One of the problems of the super-rich is everyone wants to take a bite of their ear. There are queues of people trying to sell them something,” says Prestel. “They are actually quite lonely. So when they come to our events they find themselves in a crowd of peers, something that almost never happens to them, and they love it.”

The coronavirus (COVID-19) epidemic has seen conferences this summer cancelled, as the whole point of the event is to be in a room with other mega-wealthy people, which can’t be replicated online. However, the German Family Office Forum in Wiesbaden took place in September and the “Family Office Forum Zurich,” is scheduled to happen in Zurich this December and the regulars are already booking their hotel suites.

The pair got their start when they organised an event for wealthy Germans in Wiesbaden in 2010. The core concept is that the Ultra High Net Worths (UHNW as they are known in the private banking business) can come to the event for free, which is already a fairly radical idea, but the clincher is that those people with something to sell – private bankers, fund managers, high powered lawyers and posh school reps – have to pay to attend. And that is only if they can get invited. And it is very, very hard to get invited if you are selling something.

“It’s like a disco where there are more girls than boys,” says Prestel. “We try to filter out the solution providers and provide a space where UHNW can feel comfortable amongst their peers.”

And that is the genius of the idea: the Prestel & Partner events business doesn’t try to take any money at all from the UHNW, who are simply invited and given the best time the organisers can provide. The “solution providers,” as Prestel calls them, are hand-picked, carefully screened and banned from doing outright pitches. The billionaires are left free to mingle with their fellow billionaires and chat, compare notes and listen to the presentations if they are interested. After all, these people are super wealthy and do need and want most of the services that the various paying guests and speakers offer.

Prestel has adopted this low-watt approach from the beginning, and those that attended the Wiesbaden event enjoyed it so much they called and ask him to organise a similar event in other cities so their friends could come. The Zurich event has been running for eight years now, and attracts a more international crowd in addition to the Swiss, as it is easier to get to.
As the reputation of the conferences spread, mostly by word of mouth, the number of venues and events grew. More German cities were added and the hosting cities now reads like a scene list for James Bond movies over the last several decades. London, Dubai, Singapore and New York.

These days it’s got a bit easier to bring in the crowd. For example, EY is now actively involved and recommends the event to its top 100 richest clients in the Middle East as a worthwhile conference to attend.

"Dubai is popular with guests from the entire Arabian region, not just the United Emirates or Dubai City. At the last event in Dubai we had over 50 billionaires in one room, partly thanks to EY’s help who sent 34. But also our London event is popular with those that live in the Middle East who want to get away from the summer heat,” says Prestel.

**Ultra Networking**

Getting this kind of event business off the ground is hard, but once it is running it feeds itself. Running an event dedicated to attracting people with north of $120mn of personal wealth – the cut-off for being eligible to attend says Prestel – depends entirely on its reputation. And after ten years of putting on successful events Prestel & Partner has established itself as the premium conference for UHNW.

There are other events that cater to the family office and elite private banking industry, but the extremely well-heeled do not attend them regularly, as there are too many solution providers in the room to make them really enjoyable.

On the other hand, a Prestel & Partner event is like a networking event on steroids. There is no coffee break, as the coffee never stops being served. The speakers are all handpicked and cover topics of immediate interest, but the delegates are free to mill around and sit in on the talks or not as they please.

“The cut-off to be counted as super wealthy is about €120mn, or it could be dollars or pounds – it doesn’t really matter at that level. Any less and you can’t afford to spend the million dollars plus a year on all the services to manage your wealth through a family office,” says Prestel.

Prestel and Muelheim have already booked the conference hall at the Dolder Grand hotel in Zurich and are planning an outdoor Christmas market in space behind the conference hall, complete with gas heaters and gluhwein so that the participants can meet and chat but still maintain their social distancing as the second wave of the corona-pandemic momentum builds.

It goes without saying all the venues are five or six stars, but the Dolder Grand is especially luxurious. Its owner reportedly spent some CHF750mn ($829mn) on its purchase plus the renovation of the story-book building. Legendary architect Norman Foster was paid CHF440mn to redesign the hotel and another CHF300mn went on the fixtures and fittings. The hotel also houses the owner Urs Schwarzenbach’s modern art collection, 100 pictures that encompass an eclectic gamut running from Andy Warhol through Julian Schnabel and Joan Miro to the likes of Keith Haring.

**Solution providers**

One of the biggest problems Prestel faces is deciding who is getting in for free and who has to pay. You can be a billionaire and still be asked to pay in some cases, and vetting the speakers is also a tricky task, but they all have to pay.

The key, says Prestel, is to focus on what the would-be attendee’s motivation is rather than simply asking: “does this person have a lot of money?” And it leads to some odd results.

One of the event’s regulars is Prince Max of Liechtenstein, a member of one of Europe’s old families and undeniably super-rich in his own right. Normally someone like the Prince would easily qualify as a non-paying guest, except he is also the CEO of the LGT Group, the largest private banking and family-owned banking group in the world that caters to the needs of the other super-wealthy.

In Prestel’s book that classes him as a solutions provider and he has to pay to attend.

Another example is the Guggenheim family in New York. Again the members carry a legendary name and they still have a lot of money, but as so many of the scions are also working for Wall Street and have services to offer their fellow attendees, many of them have to pay to attend too, says Prestel. “It’s tricky. You have to judge each case on its merits.”

The same applies to family offices. The billionaire himself (they are mostly men, but not all) may not attend, but the topics being presented are all relevant to the managers of a family office, and as they represent the money they can attend for free.

Getting speakers is not hard, says Prestel, as now the event is established the industry players all want to come, as it is a rare opportunity to meet so many rich people in one room.

The presentations cover two main themes. The first is investment knowhow and best practices in the industry; how best to manage your money and all the tradecraft that goes with that.

“The speakers are usually from the industry. But these are not pitches. The talks have to be informative,” says Prestel.

The second theme is “family governance.” This covers problems the rest of us don’t really have. How do you draw up a family charter to share your wealth amongst the rest of your family without starting feuds? What is the best way to divide up profits and dividends amongst siblings? How do you share your wealth with your children without spoiling them rotten?

All of these are serious problems for the wealthy.

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AFC CAPITAL:

Uzbekistan’s “Golden Cross”

Scott Osheroff in Singapore

A “golden cross” is a chart technical analysis term in the investment industry referring to when the short-term moving average of a security crosses over a major long-term moving average, to the upside. Commonly, this is the 50-day moving average crossing above the 100 or 200-day moving average, indicating bullish momentum and the start of an uptrend from a conservative standpoint as the uptrend would likely already be weeks old at this point.

In Uzbekistan things are expected to play out as in other frontier markets. The sustained slowing of inflation and an injection of foreign capital into the domestic banking sector would in time enable the Central Bank of Uzbekistan (CBU) to lower its policy rate. That means falling lending and deposit rates by banks, which in turn increases the attractiveness of listed equities on the Tashkent Stock Exchange (TSE) for local investors. It is still early days, but there are signs this is already starting to happen. The market activity on TSE has already begun to pick up.

Other frontier markets are prone to violent re-ratings, in a positive sense, – especially in the equity and real estate markets – it is worth looking for potential triggers to kick this process off. For example, real estate on the outskirts of Phnom Penh, Cambodia in 2014 – actually no more than rice paddies at the time – was selling for $5/sqm at the time, but today the same paddy field is valued at over $200.

While every country re-rates in its own way, depending on the catalysts that drive the re-rating, on of the sparks that can set a rapid change in valuation off is when deposit rates fall below dividend yields on listed equities. And once the re-rating fire is alight it can burn for years.

This “golden crossover” has now happened in Uzbekistan. The deposit rates has already crossed the dividend yield curve and the spread between them is expected to continue to widen until more foreigners, who are increasingly arriving by opening brokerage accounts, and local investors wake up to the realization that one of the best investments to make in Uzbekistan today is in listed equities.

Courtesy of COVID-19, Uzbekistan’s GDP growth in 2020 is expected to slow to 1.5% from the previous World Bank estimate for 5.5% growth this year. The expected slowdown in GDP growth has seen demand for credit moderate and inflation fall (save for a short-term spike in various food-related commodities during the initial quarantine in March 2020 due to the closure of international borders).

Disinflation has enabled the CBU to lower its policy rate by 100 basis points on two separate occasions this year, falling from 16% to 14%. These cuts have led the average one-year term deposit rate for individuals at banks to fall from 20.3% in March to 16.4% in August. Businesses meanwhile are offered different (lower) deposit rates, which fell from 17.2% to 15.1% during the same period. As inflation continues to moderate and new banks enter Uzbekistan, while existing ones are able to increase their available capital for lending and competition for clientele should begin to drive down lending rates and in due course provide the CBU the means with, which to further cut its policy rate.

For example publicly listed bank, Ipak Yuli issued $25mn in new shares to German investment corporation DEG and Triodos Investment Management in August, while Gazprom Bank, Russia’s third largest bank received approval to open a representative office in October.

Likely in a bid to both slow credit growth – that in previous years was as high as 50% – and inflation further, the CBU put a cap on bank lending rates of 21% and 24% from July 1, 2020 through to the year end for business and individual borrowers respectively. As such socialist policies are usually ineffective,
lending has fallen precipitously and is likely to remain subdued until this cap is removed. While certainly not a free-market principle, it will be effective in moderating credit growth and subduing inflation, allowing the CBU to potentially cut the policy rate yet further, a situation, which would only make investing into the equities market that much more attractive.

What does all of this mean for the Tashkent Stock Exchange and the potential for listed equities? From an opportunity cost perspective, local individuals and corporations who currently prefer to invest their risk capital into term deposits can now receive significantly higher double-digit dividend yields from a multitude of listed equities. A typical excuse one will often encounter from locals in Central Asian countries when discussing the benefits of investing into exceptionally cheap listed equities with double-digit dividends is that the dividends are not high enough to justify the perceived risk of owning them, relative to term deposits. This is due to many local investors not understanding the risk-reward of investing in equities and view them simply as another fixed-income-type product where cash flow is all that matters. However, today even the relative cash flows favours investing into Uzbekistan’s listed equities.

The stage is now set. It is likely only a matter of time until the increasing foreign participation in the stock market and/or locals seeking high yield investment opportunities, triggers a more rapid and profound phase of re-rating.

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<td>13.5%</td>
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<tr>
<td>Cooking Oil Producer</td>
<td>17</td>
<td>27.8</td>
<td>1.4</td>
<td>12.7%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>49</td>
<td>6.1</td>
<td>3.3</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

(Source: Tashkent Stock Exchange, APC Research)

COMMENT:
Why the Balkan region should be on investors’ radar screens

Tim Umberger, deputy head of Eastern Europe investments at East Capital

Despite short-term volatility caused by the coronavirus (COVID-19) pandemic in 1H 2020, the Balkan region could be one of the relative winners globally in the post-COVID era.

Equity investors should acknowledge that the region is on course to receive one of the largest stimulus packages globally (equivalent to 17% to 35% of GDP) through the facilities of the EU Recovery Fund and budget, while it is also set to benefit from the key post-COVID economic and business trends. At the same time, regional markets offer some of the most attractive valuations globally, trading at only 6-10x P/E for 2021e, significantly lower than the 13x for MSCI Emerging Markets and 15x for Euro Stoxx 50.

EU funding – supporting strong economic growth in Southeastern Europe

Facing the largest economic drop in post-WWII times, European governments agreed to implement an extraordinary set of measures, including the establishment of the EU Recovery Fund, amounting to €750bn, aiming to facilitate economic recovery across the European Union.

The fund will include €390bn in grants (the rest is in the form of low interest rate long-term loans) targeting broad infrastructure and “green energy” projects, and will be implemented through the mutualisation of debt: it will be first time in history that the EU borrows money as a supranational entity and then uses these funds for common European purposes. As a result, Southeastern Europe (Greece, the Western Balkans) will be the key beneficiary of the EU Recovery Fund and the EU 2021-2027 budget over all, due to the size of funds’ allocation, its timing and strong multiplier effects on the economy.

In terms of size, the combined EU Recovery Fund and previously communicated EU Cohesion Funds for 2021-2027 are massive. Bulgaria and Croatia will receive funding equivalent to 35% of their 2019 GDP, while Greece, Romania and Slovenia will get support amounting to 27%, 26% and 17% of their 2019 GDP respectively. This means an additional 2.5% to 5% of GDP annually, a number that will be extremely supportive for the mid-term economic outlook. Our conversations with policy makers in Slovenia and Greece suggest governments will not waste any time in preparing the projects to be able to draw the majority of funding available.

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As the funding will be targeting multiple broad infrastructure projects and will be focusing on green transformation and improvements in structural efficiency, we expect sizeable multiplier effects in economic growth for Southeastern Europe. In Greece, for example, the mid-term potential growth rate of GDP can increase by 2-2.5pps compared to previous estimates. We believe most of the countries in the region will be able to grow at a pace of 5%, an environment that should be supportive for local businesses and their earnings.

Timing is yet another very positive factor, as approximately 70% of the EU Recovery Fund is intended to be committed by 2023 and fully disbursed by 2026, to facilitate economic recovery earlier in the cycle.

**Post-COVID trends benefiting the Balkans**

In the current environment, political and corporate ambitions are re-aligning by putting greater emphasis on local production, thereby reversing long-standing trends to push manufacturing overseas. It is reasonable to expect that a large portion of European companies will try to bring production chains within the EU and neighbouring countries.

The Balkans and Turkey could be the regions of choice, given their high level of education and professional skills, combined with still substantially lower average salary levels compared to Western Europe (the average salary in Romania in 1Q 2020 amounted to €1,082 per month, compared with €4,035 per month for Germany).

Emigrants flocking back home is yet another trend that should be structurally positive for the growth in the region, as the shortage in the labour force declines. According to official statistics (for example Romanian Ministry of Diaspora), ca. 5.6mn Romanians and 0.8mn Greeks were living abroad at the end of 2019. The return of at least part of the diaspora will cause a sizeable boost in the potential GDP growth level.

Many countries in Southeastern Europe are highly dependent on their tourism sectors, and while the initial shock was negative, long-haul tourism is expected to be affected the most by travel restrictions and health regulations, while short-haul should benefit. The higher chance of Europeans travelling to Greece, Croatia, Turkey and Bulgaria instead of vacationing in far-away countries benefits the Balkans in terms of redistribution of tourists flows.

**Responsive fiscal and monetary stimulus, combined with lower energy prices**

As a response to the negative economic impact of the COVID-19 outbreak, all countries in the region implemented a set of monetary and fiscal measures to support a faster recovery in economic activity.

Eurozone countries (such as Greece and Slovenia) are clearly benefiting from the accommodative monetary policy of the European Central Bank (ECB), while non-eurozone countries have also proceeded with cuts in key rates and local QE programmes. Since the beginning of the year, Turkey has cut the rate by 3.75pps (to 8.25%), Romania by 1pps (to 1.5%) and Serbia by 1pps (to 1.25%).

In fact, there is plenty of cheap liquidity available for companies and a credit crunch does not seem even remotely possible; a huge difference from the global financial crisis, when corporates were scrambling for liquidity.

Being in dialogue with the CEOs of both public and private banks, we believe the banking sector is in good shape and willing to lend, and we are convinced that we are not entering a deleveraging cycle this time around. Substantially lower rates are obviously also supportive for equity valuations.

On the fiscal side, all of the countries in the region announced a set of measures in an attempt to smooth the decline in GDP in 2020 and relaunch economic activity faster in 2021. Greece managed to allocate 13.3% of GDP, while Croatia, Serbia and Austria allocated 11.6%, 11.1% and 9% respectively.

Last but not least, being net energy importers, all countries in the region are expected to get substantial support for their economies and bottom lines from the lower energy prices. According to our numbers for Turkey, every $5/bbl difference in crude oil prices makes a ca. $3bn positive impact on the Turkish balance of payments (Brent is currently trading at $45.5/bbl vs. $64/bbl on average in 2019).

**Local pension funds support equity markets**

The base of local money invested into regional equity markets has continued to expand, and is now a significant market driver. In recent years, on the back of the increasing employment rate and growing disposable income, domestic pension funds have surged and stable inflows of long-term money are being channelled to the local equity markets.

In Romania, for example, the AUM of pension funds increased from RON25bn (€65bn) at the end of 2015 to RON60bn (€12.5bn) by the end of 2019. Equity allocations are clearly expected to rise given significantly lower bond yields. The lower interest rates also imply that shares with high dividend yields become a more interesting proposition for such funds.

Equity markets in the region have experienced different patterns in 2020, with the declines ranging from 9% in Slovenia to as much as 33% in Greece. Romania and Turkey ranked in between, with 16% and 20% declines respectively. But in most of the markets it has mainly been local investors picking up shares. We think the positive economic outlook and low valuations will eventually lure back foreign investors as well.

**Attractive valuations**

Despite sizeable supportive economic measures announced and a much better-managed control of the COVID outbreak (vs. the US and Western Europe), Balkan equity markets are trading at very low multiples.
Moscow’s Watcom shopping index starts to fall again as fears of a coronavirus second wave rise

Russia’s leading shopping malls had made back 85% of the ground they lost during the coronavirus (COVID-19) lockdown in May and June by the 36th week of this year, according to the Watcom Shopping index. However, by week 39 (September) there were the first signs that traffic was falling off again as the coronavirus infection rates in Moscow doubled to over 2,000 cases again.

Polish industry’s recovery continues sluggishly in September

Poland’s Purchasing Managers’ Index (PMI) inched up 0.2 points to 50.8 in September, the economic research company IHS Markit reported on October 1.

The September reading keeps the index just above the 50-point line separating contraction from growth, but the rebound that began in July is fading.

PMI shows Turkey’s manufacturing recovery losing steam in September

The headline purchasing managers’ index for Turkish manufacturing for September signalled a sustained improvement in business conditions, but also evidenced signs of rates of improvement in demand losing strength, survey compiler IHS Markit and the Istanbul Chamber of Industry said on October 1.

The index posted 52.8 in September, down from August’s 54.3. Any figure above 50.0 denotes an expansion.

Ukraine’s GDP falls by 5.8% in January-August

Ukraine’s GDP contracted by 5.8% in January-August 2020, the Ministry of Economic Development, Trade and Agriculture of Ukraine announced on October 12.

“In August 2020, against the backdrop of continued adaptation to activities amid a soft quarantine, almost all types of economic activity showed a slowdown in the rate of decline, and some even growth, in particular, the retail segment of the market and construction,” the agency said on its website.
Turkish monthly inflation was more than triple the official rate in September, according to a new model developed by a group of academics and researchers. The model is said to be based on more frequent data than the government statistics office TUIK collects.

Turkey’s Erdogan administration has in recent years been accused by opposition parties and some academics of publishing inflation statistics that bear little relation to reality.

Veyssel Ulusoy, a professor at an Istanbul-based university and head of the independent Inflation Research Group (ENAG), told Reuters the model collects “several times more” price data than the official TUIK tally, and is meant to complement it.

3.61% not 0.97%

ENAG’s first published finding shows that Turkish consumer prices in September rose 3.61% from the previous month, compared to TUIK’s calculation of 0.97%. The group will not be able to publish an annual inflation assessment until it has collected data for another 11 months. Official annual inflation stands at 11.75%. A bne IntelliNews Turkey correspondent says many Turks will tell you it is actually running at at least 30%.

“We observed price differences and volatility in almost all groups in the basket,” Ulusoy was cited as saying in an interview.

In early October, a former TUIK chief who is now an opposition party politician said Turkish economic data were “detached from reality” with statistics officials picked for their loyalty to the Erdogan administration rather than merit. “When you tamper with data, you are treading the Greek path,” Birol Aydemir told Bloomberg, referencing the distorted accounting of Greek public finances that helped trigger the 2009 eurozone crisis.

ENAG brings together academics from multiple Turkish universities.

“TUIK collects 550,000 prices for all the basket items in a month. ENAG calculations include several times more than that, constructing a richer set of data,” Ulusoy was further quoted as saying.

Filling gaps

The ENAG model can calculate inflation as frequently as every hour, meaning it can fill gaps for researchers and investors, Ulusoy added. It weighs items in the same way as TUIK, but excludes price data from health, education spending and alcoholic drinks.

The September calculation showed that school-related items had the most price spikes including computers, tablets and mobile phones, as well as children’s clothing and some agricultural goods.

Ulusoy said the ENAG model showed that tablets and computer prices were up more than 30% in September from August due to school reopenings. TUIK put these items at around 4% m/m.

Last year opposition parties submitted parliamentary questions to Finance Minister Berat Albayrak over claims that TUIK tweaked inflation data for political reasons. The head of the institute categorically rejected the claims.●
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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