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November 2023

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Poland's first nuclear power plant clears key hurdle in ambitiously timed plan

EU ministers discuss multi-speed Europe to prepare for enlargement

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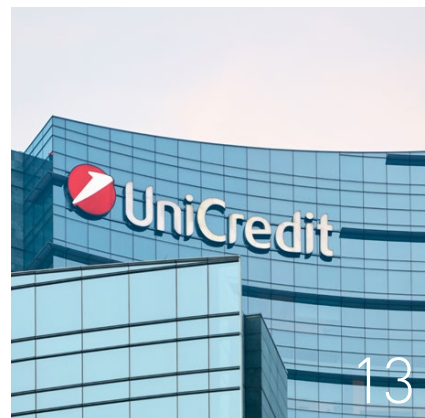
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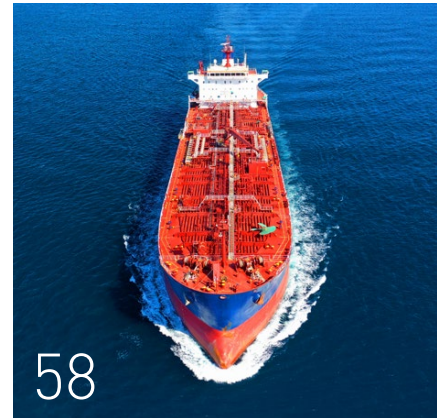
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OBB warned its Hungarian peer MAV to address schedule issues as it consistently failed to meet the timetable on the hourly international trains from Budapest to Western Europe. / bne IntelliNews

# Orban can't even make the trains run on time

Tamas Csonka in Budapest

**A**ustrian state railway company OBB has cut Hungary off from direct services to Western Europe due to regular delays on the Budapest-Vienna line, a further blow to the Ministry of Transport, which is overburdened by maintenance work on main railway lines.

The OBB warned its Hungarian peer MAV to address schedule issues as it had failed to meet the timetable on the hourly international trains from Budapest to Western Europe.

From October 2, railjets departing from Budapest and bound to Linz, Salzburg and Munich will stop in Vienna, which means that Hungarians travelling further need to change trains in the Austrian capital. Railjet trains to Hungary will continue to run on their full routes, according to the statement.

Renovation work on a 29km section of the Budapest-Vienna line, which passes through central Hungary, commenced in mid-September and is projected to continue until mid-December. The deteriorated condition of the track, which is one of the busiest in Hungary, had led to the imposition of speed limits of 100 km/h. These have led

to 20-30-minute delays, which increased further with the closure of one track, creating a bottleneck.

MAV argued that meeting OBB's requests would have disproportionately impacted domestic transportation. Replacement buses on the section ongoing reconstruction were put into use, but these did not affect international travel, it added.

According to pundits, MAV has breached EU guidelines pertaining to track renewal.

The maintenance work began overnight; however, according to EU directives, track maintenance that affects more than 30% of traffic and last longer than 7 days must be announced two years in advance. The regulation also compels MAV to consult freight forwarders and its peers in advance.

MAV has contracts with 53 freight companies, so the Czech and Austrian railway companies were right to expect to be informed of the limited use of the track for a prolonged period.

Transportation issues were delegated to Fidesz strongman Janos Lazar in 2022, after his comeback to national politics after four years. The former head of the Prime Minister's Office stepped back or was forced to step back by Prime Minister Viktor Orban after his humiliating loss in a mayoral by-election to Peter Marki-Zay in 2018, who four years later run was the joint prime minister candidate of the joint opposition.

Lazar inherited a state-owned giant, the largest employer in the country, after the MAV merged with state-coaching company Volanbusz, leading to competition issues. The merger was aimed at coordinating intercity traffic and reducing parallel lines. While Volanbusz is renewing its fleet, that can not be said of MAV. Despite EU funds going to track

renovations and fleet renewal, state railway company MAV is lagging behind its peers even in Central Europe.

Delays are just as regular on suburban lines and smaller lines. Few companies have the expertise in renewing railway tracks. One of them is RM International, the company owned by billionaire Lorinc Meszaros, close to Orban.

Local media reported that the upgrade of the Budapest-Belgrade railway line came to a standstill as the Chinese constructor has been unable to supply the security system required to meet EU standards. Its Hungarian partner has withdrawn from the construction site and sent staff and machinery for the reconstruction of the Budapest-Vienna line. ●

## Ukraine bows to Hungarian demands and removes OTP bank from 'international sponsors of war' list

Tamas Csonka in Budapest

**U**kraine's National Agency on Corruption Prevention (NACP) has temporarily suspended OTP Bank, Hungary's biggest commercial lender, from its list of "international sponsors of war".

The decision was made as a result of OTP's negotiations "to terminate cooperation with the Russian Federation", a condition which must be fulfilled for removal from the list, the NACP said.

The NACP "hopes that this decision will lead to Hungary's unblocking of €500mn of vital EU military aid for the Ukrainian people", the agency added. Budapest has used OTP being on the sponsors of war list as a pretext to block EU aid to Kyiv.

A permanent removal from the blacklist will depend on the bank's willingness to terminate cooperation with Russia, the agency said.

OTP was put on the blacklist in May, which further increased tensions between Budapest and Kyiv.

NACP said OTP continued to operate in Russia and provided loans to members of the Russian army on "favourable terms", and that it recognised the independence of the Luhansk and Donetsk regions

The Ukrainian central bank had earlier demanded that OTP Group, which has a stake in Ukraine worth approximately \$500mn, leave the Russian market.

Hungary's leading lender has dismissed the accusation that it conducted activities in the occupied territories of Ukraine and said that it operates in full compliance with local and international legislation in all its markets.

In July, Hungary announced that it would maintain its rejection of European financing for the shipment of weapons to Ukraine as long as Kyiv continues to include OTP on the list of sanctioned companies.

The "war sponsors" list was created in the aftermath of Russia's full-scale invasion of Ukraine in February 2022 in an attempt to deter companies from maintaining their operations in Russia.

"Until OTP is removed from the list, Hungary will not back any further European Union financing of Ukrainian weapons deliveries," Hungary's foreign ministry said earlier.

Relations between the two countries have been tense for years, with Budapest accusing Kyiv of limiting the rights of the Hungarian minority of 150,000 people living in the neighbouring country, while Ukraine criticises Hungary for supporting Moscow's policies and interests. ●

"OTP was put on the blacklist in May, which further increased tensions between Budapest and Kyiv"

# Plans for doubling Azerbaijan's gas flows to Europe on hold

David O'Byrne of Eurasianet

**P**lans agreed last year by Azerbaijan and the European Union for Baku to double the volume of gas it sends to Europe to 20 billion cubic metres a year are on hold as European gas buyers have yet to confirm they'll take the gas.

Speaking to reporters at a round table meeting in the Turkish capital Ankara on September 14, Turkish Energy Minister Alparslan Bayraktar confirmed that his ministry had instructed the operator of the TANAP pipeline, which carries Azeri gas across Turkey to Greece, to prepare to expand the pipeline to its full 31 billion cubic metres a year capacity, in order to carry the extra 10 billion cubic metres a year.

But he added that, as far as he was aware, as yet neither the operators of Azerbaijan's main gas fields nor the operators of the three pipelines which carry the gas from Azerbaijan to European markets had received confirmation that the gas actually has a market in Europe.

"I'm not quite sure whether the European market is ready to receive more gas on a long-term basis from TANAP," he said, explaining that he had discussed the issue many times with Azerbaijan's state oil company SOCAR which is a partner in all the country's gas fields and in the three transit pipelines that carry the gas to Europe.

"On the European side, I don't think they are giving a full-fledged long-term commitment for the off-taking of this additional gas. Without this commitment, I don't think the expansion is possible," he added, explaining that without commitments to purchase the extra gas, even the companies operating Azerbaijan's gas fields won't be able to invest to expand production to the extent needed to produce that extra gas.

Owned by Azerbaijan (58%), Turkey (30%) and BP (12%), TANAP is one of the sequence of three pipelines which make up the Southern Gas Corridor, the EU-backed gas corridor planned as far back as the 1990s and which finally began supplying up to 10 billion cubic metres a year of gas to Europe in 2020.

All three pipelines will need to be expanded to their full capacity to allow exports to reach 20 billion cubic metres a year, but that expansion will require substantial investment to install extra compressors, which in turn requires guarantees that there will be extra gas available to fill the expanded pipelines and that this extra gas can be sold.

The plans to double exports of Azeri gas to Europe were agreed under a memorandum of understanding between the European Union and Azerbaijan signed in July last year.

The agreement was signed in the wake of Russia's invasion of Ukraine the previous February and growing fears that the loss of Russian gas imports of upwards of 180 billion cubic metres a year would leave Europe starved of gas and suffering widespread power outages.

The wording however was not that of a formal commitment, signalling only that the two sides had agreed to "aspire" to support doubling Azeri gas exports to Europe to "at least 20 billion cubic meters of gas annually by 2027, in accordance with commercial viability and market demand".

But while Europe has faced unprecedented increases in energy prices, a continent-wide energy shortage has been avoided thus far thanks to greatly increasing imports of liquefied natural gas (LNG) and boosting power generation from other sources such as coal, nuclear and renewables.



This has left both sides facing a conundrum.

If there is no gas shortage, there is no guaranteed market for the extra gas Azerbaijan is supposed to supply, and no reason to invest in expanding either production or the capacity of the pipelines.

At the same time, it's still unclear just how much extra gas Azerbaijan will be able to supply, and when.

Current production capacity on the BP-operated Shah Deniz gas field which supplies the bulk of Azerbaijan's gas exports, is not able to supply the full 10 billion cubic metres of extra gas required.

BP has started drilling exploration wells in two deep reservoirs which may be able to provide more gas but it is unclear whether they will find commercially exploitable volumes.

But even if that happens, bringing those wells on stream will take time and require further investment which in turn will require some form of guarantee that the gas will find a market.

Also, France's Total Energies recently started production of around 1.5 billion cubic metres a year of gas from Azerbaijan's Absheron gas field.

That can be expanded to around 5.5 billion cubic metres a year but again that will require more investment, for which the operators will require commitments that the gas can be sold.

Azerbaijan has already managed to increase its gas exports to Europe to 11.4 billion cubic metres last year, and is expected to reach 11.6 billion cubic metres this year.

However Baku also has commitments to supply gas to its neighbours Georgia and Turkey as well as growing domestic demand, and last year's increased exports were realised in part by a complex gas swap agreement with Turkmenistan

and Iran, which was recently expanded further and may be expanded again, and also in part by Azerbaijan importing Russian gas (in contravention of the Azerbaijan-EU deal's political intention of reducing the EU's dependency on Russian gas.)

Again it's unclear to what extent that "swap" deal could be expanded, and, even whether gas sourced from Iran could be used to provide exports to Europe given that Tehran is still subject to international sanctions.

Also unclear is whether Azerbaijan's military offensive to take full control of Nagorno-Karabakh will have any impact on EU relations with Baku, and hence on future gas trade.

Speaking on September 24 French President Emmanuel Macron accused Azerbaijan's authorities of being "uninhibited" and "threatening the border of Armenia." And on September 25, David McAllister, the chair of the European parliament's foreign affairs committee, suggested that the EU "should make it clear that any attempt to remove or coerce the Armenian population from the Nagorno-Karabakh region will have serious consequences for our relations with Azerbaijan." (Indeed it appears that the large majority of the region's population has decided to flee rather than live under Azerbaijani rule.)

A solution to the conundrum may come from Turkey, in the shape of Ankara's planned gas trading hub in northwestern Turkey, close to the country's four pipeline connections which already transit gas to Europe.

Although details have yet to be finalised and made public, what Ankara envisages is a trading point like the Title Transfer Facility (TTF) trading point in the Netherlands where gas arriving from multiple sources either by pipeline or as liquefied natural gas is traded.

Speaking at his round table meeting, Turkish Energy Minister Alparslan Bayraktar explained how he envisages gas from various sources by pipeline and LNG arriving in Turkey could be traded on Turkey's existing EPIAS energy exchange in Istanbul, which already trades gas for the Turkish market.

That, though, requires gas from multiple sources, which can be traded. Turkey currently has considerable excess LNG import capacity, and imports gas by pipeline from Azerbaijan, Russia and Iran.

With international sanctions likely to restrict transit of both Russian and Iranian gas to Europe through a Turkish hub, that potentially leaves just LNG and Azeri gas, offering a possible incentive for investment to boost both Azeri gas production, and the capacity of the pipelines to carry any extra gas to Europe. ●



European Commission President Ursula von der Leyen and Azerbaijani President Ilham Aliyev signed the gas deal in July 2022. / president.az

*This article first appeared on Eurasianet ([www.eurasianet.org](http://www.eurasianet.org)).*



# Skoda Auto to re-enter Kazakhstan market

Kanat Shaku in Almaty

**C**zech carmaker Skoda Auto has announced that it is poised to re-enter the Kazakhstan market. The market return, conducted through a sales and production partnership with Allur Company, will include the production of four Skoda models – the Kodiaq, Kamiq and Karoq SUVs and the Octavia five-seat family car – in Kazakhstan from early 2024.

Anticipating local market growth, Skoda, a Volkswagen subsidiary, pointed out that only 186 cars are registered per 1,000 residents in Kazakhstan compared to 567 per 1,000 in the EU.

Skoda – which took a hit from closing its Russia business earlier this year amid the fallout of Moscow's war in Ukraine – previously operated in Kazakhstan from 2005 to 2021, selling more than 23,000 vehicles in the country. The partnership with Allur Company will oversee regional operations.

Starting in 2024, cars manufactured in Mlada Boleslav and Kvasiny in the Czech Republic will be assembled in Kazakhstan at an Allur Company plant in Kostanay and distributed to local dealerships.

Skoda Auto anticipates overall Kazakhstan car market sales will exceed 200,000 units over the next five years. The company aims to capture the growth and maintain a market share of 5% between 2024 and 2028.

The company, which in July said it was "ready to take the necessary steps to protect our rights" after the sudden unauthorised reappearance of its cars on the Iran market, said its re-entry to Kazakhstan aligns with Skoda Auto's broader internationalisation strategy. The firm recently launched its brand in Vietnam and is leading the Volkswagen Group's 'Brand

Group Core' in the Asean region. Also, Skoda Auto oversees the Volkswagen Group's activities in the rapidly growing Indian market.

Partner Allur Company maintains a "strong" presence in car production, components, spare parts and servicing in Kazakhstan, Skoda said. Allur held a market share of 44.4% in 2022, making it the largest automotive group in the region.

"The company said its re-entry to Kazakhstan aligns with Skoda Auto's broader internationalisation strategy"

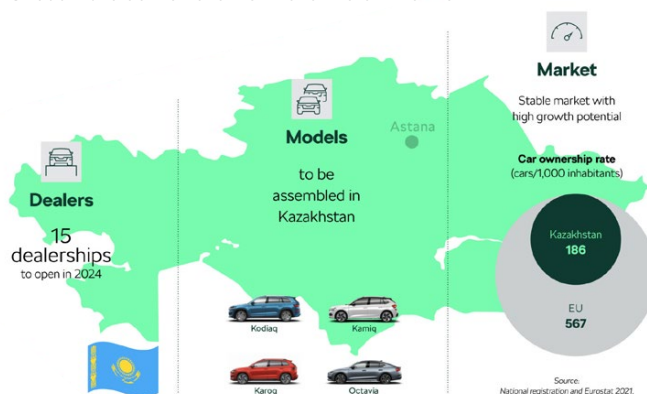
"Kazakhstan presents an exciting opportunity for Škoda Auto as our internationalisation accelerates. This marks a return to a market with promising potential, as currently less than one-fifth of the country's residents own a car. To tap this potential, we have found a strong partner in Allur Company, which will be supporting us with vehicle production and sales," Skoda Auto CEO Klaus Zellmer said.

"Next year, we plan to open 15 showrooms in major Kazakh cities, such as Astana, Almaty, Shymkent and Kostanay. We will be offering customers not only our bestselling Octavia but also our globally successful Kodiaq, Kamiq and Karoq SUVs. The SUV segment is now the second-largest in the market, and we are presenting a modern and attractive model range that will resonate with customers in the region," Skoda Auto board member for sales and marketing Martin Jahn said. ●



The Kodiaq is one of three SUVs Skoda will assemble in Kazakhstan. Alexandr Migl

## Škoda Auto set to re-enter Kazakhstan market



Source: Škoda Auto graphic



# Ukraine would be entitled to a massive €186bn of subsidies over seven years if it joins the EU

Ben Aris in Berlin

**A**s Kyiv would be entitled to approximately €186bn of EU subsidies over seven years, that would cause a revolution in how Brussels' budget is generated and force a deep reform on the way the EU works before Ukraine can be admitted.

"All member states will have to pay more to and receive less from the EU budget; many member states who are currently net receivers will become net contributors," concluded the paper by the secretariat of the EU council, as cited by the *Financial Times*.

This is according to a leaked internal estimates report on the European Union's common budget, seen by the *FT*. A third of the EU's entire budget already goes on agricultural subsidies, known as the Common Agricultural Policy (CAP).

As *bne IntelliNews* reported in September, Ukraine cannot join the EU unless the CAP is reformed, as the subsidies it would be entitled to could bankrupt the system under the current CAP terms. Also Ukraine's unfettered access to the whole EU market would also flood Europe with extremely cheap agricultural products that could drive much of Western European agricultural concerns out of business, or at least require enormous subsidies for the rest of Europe's agricultural producers. Just the agricultural subsidies for Ukraine under the CAP would cost €16bn a year, according to *bne IntelliNews* estimates.

The €186bn reported by the *FT* would be equivalent to payments of €26.4bn per year. Out of that amount under current rules applied to the expanded union, Ukraine would be eligible for €96.5bn from the EU's CAP over seven years, or €13.8bn, leading to a 20% reduction in farm subsidies for existing member states.

The paper makes clear that Ukraine's impact on the EU's agricultural subsidy regime would be the most significant. Ukraine would become the bloc's largest CAP recipient, with 41.1mn hectares of utilised arable land, pushing France into second place and reducing payments for existing member



recipients down by 20.3% per hectare of qualifying farmland.

Aside from Ukraine, adding the other eight prospective EU members from the Western Balkans and Moldova and Georgia would cost an additional €29.9bn in CAP payments.

In addition, Ukraine would qualify for €61bn from the EU's cohesion funds (€8.7bn a year), which aim to enhance infrastructure in less affluent member states. With the inclusion of nine new members, the study estimates that countries like the Czech Republic, Estonia, Lithuania, Slovenia, Cyprus and Malta would no longer be eligible for cohesion funding.

For comparison, currently the biggest recipient of EU subsidies is Poland, which receives €9bn a year from Brussels and has done so for more than a decade. And the EU has signed off on a €50bn support package for Ukraine to fund its efforts in the war with Russia, but spread over four years, or €12.5bn per year. This year, Ukraine's Prime Minister Denys Shmyhal said that Kyiv is expecting a total of €18bn in macro and military aid from the EU.

So far, the US has sent Ukraine \$43.9bn in military assistance and nearly \$100bn in total, according to the Pentagon. Last year the EU also sent €18bn in support.

The estimates of the cost of admitting Ukraine to the EU – accession talks are due to start in the middle of December – are the first to be revealed by Brussels concerning the potential cost of allowing Ukraine, Moldova, Georgia and six western Balkan countries to join the club.

The expansion of the EU to include these nations would bring the total financial impact to €256.8bn on the existing budget framework, including a notable cut in farm subsidies, the *FT* reported.

The proposed changes could see many member states that currently are net beneficiaries of EU spending become net contributors. This expansion would also increase the current budget by 21%, to €1.47 trillion, which equates to approxi-

mately 1.4% of the combined gross national income of the 36 EU countries.

There has already been some muted talk of reforming the EU to accommodate new members, acknowledging the problem of soaring costs, without drilling into the details. French President Emmanuel Macron has already suggested a multi-speed Europe where the new members become “associate members” of the EU, but not actual members, which would cut off their access to subsidies under existing EU rules – a suggestion that was rapidly slated by Kyiv.

Another issue that has surfaced recently is changing the voting system in the EU from the current need for unanimity in all votes to a simple majority vote. Those states like Poland, Hungary and Slovakia that would go from net beneficiaries to net contributors are highly likely to veto Ukraine’s accession on the basis it will end their subsidies. Hungarian Prime Minister Viktor Orban suggested cutting the EU’s support package in half from €50bn to €25bn.

The need to reform CAP has already been clear for several years and some reforms went into effect this year as part of the EU plans to reduce emissions in the fight against climate change; animal husbandry is a major source of methane emissions.

It is already clear that to accommodate the entry of nine new member states, substantial adjustments to the EU are required, including potential increased budget contributions from wealthier nations such as Germany, France and the Netherlands. The EU paper suggests the necessity of transitional periods and safeguarding measures to manage the impact.

The European Commission has not endorsed these estimates, says the EU, and the entitlements will be a key topic during the negotiations that are due to start at the end of this year.

The paper concludes: “[these] very significant challenges for the EU . . . will need to be thoroughly addressed also in order for this new enlargement to be at least accepted, if not supported, by our citizens.” ●

## Russian diesel export ban hits an already tight market

### bne IntelliNews

**I**n a move to stabilise domestic fuel prices, Russia announced a snap ban on diesel and gasoline exports on September 21, amplifying the strain on an already tight global fuel market and remaking the global supply chains.

Russia temporarily banned the export of gasoline and diesel to all countries outside a group of four ex-Soviet states in September, with the aim of stabilising its domestic fuel market as supplies of diesel to the military surge.

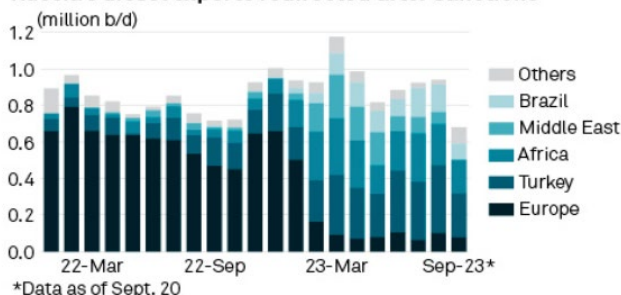
There were widespread reports of shortages in petrol stations across Russia in September as domestic deliveries were rerouted to the south in preparation for the winter season of fighting in Ukraine, according to reports. Russia has significantly increased fuel deliveries to its military units

near and inside Ukraine, reaching the highest levels since the invasion earlier this year, *Bloomberg* reports.

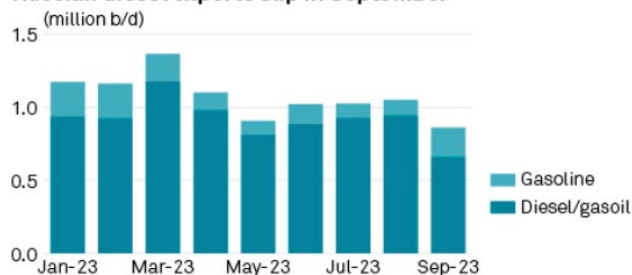
At the same time, the introduction of sanctions on Russia’s oil products introduced on February 5 has seen exports to Europe stop and be rerouted to “friendly countries” outside the sanctions regime, especially BRICS members as the intra-BRICS oil trade flourishes.

“Since the start of the war in Ukraine, Russia’s 1mn bpd [of] diesel exports have shifted beyond their traditional European market, finding new buyers in Turkey and Brazil – together now accounting for an astonishing 55% of the total Russian diesel exports – as well as in the African continent,” S&P Global said in a note.

**Russia's diesel exports redirected after sanctions**



**Russian diesel exports slip in September**



“Since the start of the war in Ukraine, Russia's 1mn bpd [of] diesel exports have shifted beyond their traditional European market, finding new buyers in Turkey and Brazil as well as in the African continent”

Russian diesel exports had come under pressure throughout September even before the ban was put in place, due to domestic refinery maintenance and efforts from the government to increase supply in the domestic market, ING said in a note.

Russia is a crucial supplier of refined products to global markets, with it exporting in the region of 1mn barrels per day (bpd) of diesel. In fact, Russia is the second-largest exporter of diesel, with just the US exporting larger volumes. “As a result, this is a key development as we head into the Northern Hemisphere winter, a period where we usually see a seasonal pick-up in demand,” ING said.

Russia has managed to avoid G7 sanctions on most of its oil exports, a development that will bolster the Kremlin's revenues as crude oil prices surge towards \$100 per barrel, the *Financial Times* reported on September 24.

At a conference in Moscow on September 28, Prime Minister Mikhail Mishustin said “the worst is over” for the economy after Russian Finance Minister Anton Siluanov reported that oil export revenues are now surging and predicted that the government will easily hit its 2% budget deficit target for this year. ●

## Tourism saves Southeast Europe's economies from stagnation

Clare Nuttall in Pristina

**G**rowth has decelerated across Emerging Europe this year, but the slowdown has been less marked along Southeast Europe's Adriatic coast. The reason – increasingly clear as data on tourist arrivals comes in from Albania, Croatia and Montenegro – is the very strong summer 2023 tourist season.

While GDP growth did not match the steep rebound growth immediately post-pandemic, the tourism-dependent economies in the region have avoided the marked slowdowns seen in Central Europe, as tourism compensated from weaker exports.

“In the Western Balkans, the effect of weakening trade with Eurozone partners at the beginning of 2023 was partly offset by the strong performance of the tourism sector in the region's service-based economies,” the European Bank for Reconstruction and Development (EBRD) said in its latest Regional Economic Prospects report in September.

The development bank forecasts GDP in the region will grow by 2% this year, rising to 3.4% in 2024. That compares to projected growth this year of just 0.5% in Central Europe and the Baltic states.



Croatia's foreign tourist revenue hit €3.85bn in 1H23, up 21.4% year on year, according to the Croatian National Bank (HNB). In 2Q23 alone, revenue was €3.18bn, an 18.4% y/y increase.

Minister of Tourism and Sport Nikolina Brnjac commented: “After the record year 2022 in terms of foreign tourist revenue, in 2023 we are registering even better results. Croatia has made big progress in quality and become recognised as a desirable tourist destination also outside of the summer months.”

In the first eight months of the year, Croatia reported an 8% rise in arrivals and a 2% y/y uptick in overnight stays, the Croatian Tourist Board (HTZ) reported on September 5.

Data from the eVistor system showed a total of 16.2mn arrivals and 88.5mn overnight stays, mirroring the pre-pandemic levels of 2019. German tourists contributed the most overnight stays, with 18.8mn.

In August alone, Croatia welcomed 4.6mn arrivals and recorded 31.5mn overnight stays, with arrivals up by 1% and stays down by 2% y/y.

“Despite the present circumstances, including the impact of global inflation and the ongoing conflict in Ukraine, Croatia

has achieved an excellent result, which will be further strengthened in the post-summer season," HTZ director Kristijan Stanicic said.

Rating agency Standard & Poor's listed "dynamic tourism" among the drivers for Croatia's growth, when upgrading the country's long-term sovereign credit rating outlook to positive.

Albania reported 1.9mn foreign tourist arrivals in August, a 22.5% y/y increase, according to statistics office Instat. That continued the strong performance of the tourism sector already seen in July, the first of the peak summer months.

Overall in the first eight months of the year, 6.7mn foreign citizens arrived in Albania for holidays, visits to relatives or other personal reasons, up by 26.6% y/y.

Passenger traffic at Tirana airport more than doubled in the first half of 2023, helped by the decision of lowcoster Ryanair to start operating flights to and from Albania, data from the Airports Council International (ACI) showed.

Tirana International Airport, the main airport in Albania, recorded a 105.1% y/y increase in passenger traffic in 2023. Albania performed even better in June, at the beginning of the summer tourist season.

Ryanair's decision followed a hike in the number of tourists visiting Albania, which experienced a dramatic post-pandemic recovery in the tourism sector, as well as a capacity expansion at Tirana International Airport to handle up to 10mn passengers per year.

The increase in tourist arrivals was despite the sharp rise in the lek against the euro and other major currencies, which has made the country somewhat less affordable.

In Montenegro, the number of tourists stood at 240,754 in August, up by 6% y/y, statistics office data showed.

As in Albania and Croatia, tourism is a key industry for the Montenegrin economy, contributing around a quarter to its GDP. In 2020, it was severely hit by the coronacrisis, but it has recovered rapidly. Expectations for this year are the number of visitors to reach a new record, improving on that from 2019.

Overall, the statistics office reported that foreign tourist arrivals totalled 221,416 in the eighth month of the year. Tourists' overnight stays stood at 1.085mn, up from 1.043mn a year ago. Foreign tourist overnights amounted to 999,203.

In 2022, tourist arrivals increased by 30.5% y/y to 2.18mn. ●

## McDonald's Turkey sends a million dollars to Gaza amid outcry over McDonald's Israel's free meals for soldiers

Akin Nazli in Belgrade

**M**cDonald's Turkey has donated a million dollars in humanitarian aid to Gaza to underline that it has no connection to McDonald's Israel.

The move was on October 21 confirmed by McDonald's Turkey (McDonaldsTR) in a statement amid simmering anger in Middle Eastern countries that back the Palestinian cause over how McDonald's Israel has been delivering free meal boxes to Israeli Defense Forces (IDF) soldiers involved in Gaza Strip military operations and Israel's besieging of the Palestinian territory.

McDonald's Turkey is a local entity owned by Qatar-based Boheme Investment, the statement pointed out.

In all, McDonald's franchises across the Middle East – including the franchises in Saudi Arabia, Oman, Kuwait, the UAE, Jordan, Egypt, Bahrain and Turkey – have donated more than \$3mn to Gaza in their bid to distance themselves from their Israeli counterpart, Aljazeera has reported.

As news of McDonald's Israel's generosity to IDF soldiers – including 50% discounts for soldiers visiting its restaurants – spread, there were calls in Turkey for a boycott of McDonald's Turkey outlets. Responding to the backlash, McDonald's





Turkey said there was no operational or organisational connection between McDonald's Turkey and McDonald's Israel. The latter, said the former, makes its own business and communication decisions.

Since announcing its support for the Israeli army, McDonald's Israel, after igniting anger among consumers in Arab and Muslim countries, has switched its Instagram account to "private".

McDonald's does not have any restaurants in Gaza or the occupied West Bank Palestinian territory, but Israel has been involved in clashes with Hezbollah fighters in neighbouring

Lebanon, a country that does have the American chain.

McDonald's (New York/MCD) Turkey, launched in 1986, operates 260 restaurants across the country.

In 2022, Boheme Investment acquired 100% of McDonald's Turkey from Anadolu Group (AGHOL) for a consideration of \$55mn.

Vienna-based Boheme Investment is owned by Kamal Saleh Al Mana, a Qatari investor. The investor also has a partnership that operates the McDonald's restaurants franchise in Qatar. ●

## UniCredit, Alpha Bank merge in Romania to form third-largest bank

### Julian Ernst in Bucharest

**I**talian global group UniCredit and Alpha Services and Holdings of Greece have announced the merger of their Romanian subsidiaries that will lead to the creation of the third largest bank in Romania by total assets, UniCredit announced on October 23.

"This is the first acquisition that UniCredit has made in 15 years, signalling the inherent potential that we, as a business, see in Romania and in the Central and Eastern Europe region. The opportunity offered by this merger is significant not only to our current and future clients but also to the employees of both institutions," said Andrea Orcel, CEO of UniCredit Group.

After the merger, UniCredit will rank third after Banca Transilvania (20% market share at end-2022) and Erste Bank's local subsidiary BCR (nearly 14%), but above Societe Generale's subsidiary BRD (10.5%).

The merger is cementing UniCredit's presence in Romania's "key growth market", with Alpha Bank retaining a 9.9% stake, the Italian bank's press release reads.

The transaction will most likely be completed in 2024, after completing the confirmatory due diligence process, and obtaining statutory approvals from all the regulatory authorities involved.



UniCredit announces its first acquisition in 15 years. / www.shutterstock.com

Besides the 9.9% stake, Alpha Bank will receive a cash consideration of €300mn subject to post-due diligence adjustments related to asset quality, if applicable.

Alpha Bank Romania, with a market share by assets of just over 3% at the end of 2022 (Romania's ninth largest bank by assets), is the last Greek bank on the Romanian market.

UniCredit Romania, with a market share of 8.6% by assets at the end of 2022, was the seventh largest bank.

UniCredit Bank Romania had 3,004 employees at the end of 2022, and Alpha Bank Romania reported 1,910 employees last year.

UniCredit Bank Romania has a new CEO, since October. After a 25-year career at UniCredit, Mihaela Lupu, who was chief financial officer (CFO) for Central and Eastern Europe in the UniCredit group, was appointed to take over the management of UniCredit Bank Romania.

She thus became the new CEO and president of the directorate of UniCredit Bank in Romania, starting on October 16.

Lupu replaces Rasvan Radu, one of the Romanian bankers with the longest career, of over 30 years, who served for almost two decades at the head of UniCredit in Romania. ●



# Russian IT group Astra successfully raises \$36mn with IPO in Moscow

## bne IntelliNews

**R**ussian IT group Astra successfully completed an IPO on October 13, raising RUB3.5bn (\$36mn) through the sale of shares at a price of RUB333 each, *Prime* reports.

The IPO prioritised small bids from retail investors, reflecting the company's commitment to broadening its investor base.

The offer price was determined by Astra's existing shareholders, setting it at the upper end of the price corridor. This pricing resulted in a market capitalisation of RUB69.9bn for the company.

The IPO included 10.5mn shares from selling shareholders, totalling RUB3.5bn at the IPO price. Additionally, RUB350mn worth of shares were allocated for possible stabilisation during secondary trading for up to 30 days after trading commencement.

“Astra reported that the demand for its shares exceeded the offer by more than 20 times, particularly at the upper end of the price corridor”

Astra reported that the demand for its shares exceeded the offer by more than 20 times, particularly at the upper end of the price corridor. The IPO attracted over 100,000 new investors. Following the IPO, Astra will have a free float of 5%.

Ilya Sivtsev, the general director of Astra, highlighted the significance of this milestone, noting that more than 1,400 employees of the company have now become shareholders in Astra.

Previously the analysts valued Astra at RUB30bn-RUB60bn, but some analysts such as Alfa Bank put the valuation as high as RUB70bn-RUB98bn.

As followed by *bne IntelliNews*, prior to the military invasion of Ukraine the Russian equity market was going through an IPO boom, in part fuelled by the retail investment revolution. But as the barrage of Western sanctions cut off Russian issuers from the global financial markets, the offerings have dropped dramatically.

In October 2022 the secondary public offering (SPO) of Russian cyber and information security solutions developer Positive Technologies failed to attract sufficient demand from investors. In December the only post-invasion IPO was held by Russian e-scooter-sharing service Whoosh.

The IPOs reportedly prepared for 2023 and for 2024 are dominated by IT and tech companies such as Softline, IKS Holding (data storage and transfer, information security) and Selectel (data and cloud storage solutions).

Astra Group includes several legal entities, including Rusbitech-Astra (developer of Astra Linux operating system), Rubekap (developer of RuBackup data backup and recovery system), Rupost (developer of RuPost Russian mail server for organisations) and others.

In 2022, Astra's revenue increased 2.5-fold year on year to RUB5.4bn, EBITDA grew 2.7-fold to RUB2.9bn and net profit 2.8-fold to RUB3bn.

The CEO Sivtsev owns 15% of Astra Group JSC, 5% is held by Svetlana Novoseltseva, while other shareholders are undisclosed. Previously Denis Frolov, who together with Sivtsev also owned Varton Group (lighting equipment manufacturer) and indirectly a controlling stake in Baikal Electronics (developer of Russian processors of the same name), was named as the owner of 80% of Astra Group, according to RBC. ●





# Hungary looks to partner with France's Vinci to buy back Budapest Airport

Tamas Csonka in Budapest

**V**iktor Orban's radical right-wing government appears determined to renationalise the country's main international airport operator Budapest Airport despite the fragile state of the state budget.

The government submitted a formal bid to buy a 51% stake in the airport from its international institutional investor owners last month.

It has also been looking for a "friendly co-investor" to take the other 49% of the airport for years.

The three-year saga over the sale of CEE's fastest-growing airport hub before the pandemic has now taken a new turn after details surfaced recently about Hungary's potential partner in the multi-billion euro deal.

According to *VSquare*, a network of investigative news sites in the Visegrad region, the professional investor could be none other than France's Vinci Airports, a leading global player in the airport industry, operating 65 airports in 13 countries, and a subsidiary of listed concessions and construction company Vinci SA.

The news was surprising as other media had speculated that the Orban government would likely partner with Qatari or Chinese investors.

Sources speaking to *VSquare* said pressure from Western governments forced Hungary's strongman, who has cosied up to Asian autocrats in recent years both politically and economically, to abandon that plan.

The French company's involvement follows the intensified cooperation between France and Hungary in the field of energy, *Telex.hu* reported, recalling the recent agreement between the energy ministry and French nuclear company Framatome on the Paks nuclear power plant expansion.

The negotiations on the airport deal are now reportedly nearing the end stage, with the remaining details to be hammered out including payment conditions. A source said the parties could unveil the final agreement in early December. The purchase price would be above that predicted by industry sources, but no details were given.

According to earlier reports, the government's formal offer

was between €4bn-5bn for a 100% stake. The French company would get management rights and could provide financing to Hungary to acquire the majority stake as well.

## Buyer's remorse

Orban has been fixated on buying Budapest Airport because, though a majority stake was first sold by the previous Socialist-led government, it was his government that sold the remaining state shares.

A 75% stake in Hungary's largest international airport was first acquired by BAA International Ltd at the end of 2005 for HUF465bn, or €1.85bn at the then exchange rate, and a year later re-sold to a consortium led by Germany's Hochtief (now *AviAlliance*), which operates a number of airport hubs in Europe, for around the same price, €1.9bn.

It was Orban's government in 2011, one year after sweeping into power with its first supermajority, which sold the remaining 25%-plus-one-vote stake in the company to Hochtief.

Reeling from the 2008-2009 global financial crisis, the government sought to generate funds to meet EU deficit targets. The sale price was HUF37bn, or just €132mn, or a fraction of the value of the present 51% offered by the government.

Subsequently the Orban government tried to renationalise the airport but the soaring valuation seemed to put it out of the government's reach.

"Reeling from the 2008-2009 global financial crisis, the government sought to generate funds to meet EU deficit targets"

A Hungarian consortium signalled interest in buying the airport in October 2020. The significant decrease in passenger traffic due to the pandemic enhanced the government's chances, people familiar with the situation said at the time.

The consortium included oil and gas giant MOL and property developer Indotek, owned by Daniel Jellinek, who has risen to

become one of the most prominent business figures over the past five years, through fostering close ties to Orban's son-in-law, Istvan Tiborcz.

In the spring of 2021, the government mandated the former Innovation and Technology Ministry to begin talks on reacquiring a majority stake in the airport in May 2021, less than a year before the elections. At the time Minister Laszlo Palkovics said that privatising the company in 2005 "went against Hungary's strategic interests".

The sale procedure advanced to the due diligence stage and the Hungarian consortium reportedly offered €4.4bn.

The project was unexpectedly iced in December 2021, when French President Emmanuel Macron travelled to Budapest for a summit of V4 countries.

Orban announced that the buyback of the airport would be deferred until after the 2022 spring elections "given the high inflation and the uncertainty of financial markets". The cabinet had hoped to wind up the transaction before the election.

### **The Qatari connection**

It seemed that the government had abandoned its plan in the wake of the Ukraine war and the energy crisis, but in January this year, Minister of Economic Development Marton Nagy confirmed that talks with the owners were set to begin again soon with the aim of closing the transaction before year-end.

A few months later, he noted that the "strategically important asset" must be Hungarian-owned and that Hungary was looking for a "friendly co-investor." This came after Orban's visit to Qatar, where the prime minister spoke at the Doha Economic Forum, saying Budapest would welcome investors from Qatar.

Cooperation between Qatar and Hungary in the field of infrastructure is currently focusing on the air transport sector, *Gulf News* wrote on August 20, just before the Budapest visit of the Qatari emir. The two countries are currently discussing the possibility of attracting Qatari investments to this sector, Amir Sheikh Tamim bin Hamad al-Thani was quoted as saying.

### **Budapest Airport in numbers**

Valuations of Budapest Airport have risen because it was the fastest-growing airport hub in the region before the pandemic, due mainly to the emergence of discount airlines. The rise of Wizz Air and Ryanair successfully filled the gap after the bankruptcy of state carrier Malev in 2012.

The collapse of the largest carrier at the airport had forced Budapest Airport to suspend numerous developments and implement drastic cost-cutting measures, including closing the airport's Terminal 1.

The expansion of budget flights led to a massive increase in traffic through the airport, while new construction has also increased cargo capacity.

Between 2014 and 2019, traffic rose from 9.2mn to a record 16.2mn. In size, this ranks the Hungarian capital not far behind its V4 rivals in Prague and Warsaw.

Ebitda rose from €108.3mn to €229mn and revenues from €196mn to €333mn between 2014 and 2019.

During the pandemic (2021-2022) the company racked up €150mn in losses and returned to profitability in 2022 with a net profit of €80mn, impacted by one-off items.

The airport operator has been in the red for 10 of the last 15



French President Emmanuel Macron travelled to Budapest for a summit of V4 countries in December 2021. / bne IntelliNews



years, with an aggregate after-tax loss of nearly a quarter of a billion dollars over that period.

Passenger traffic has yet to recover to pre-pandemic levels, reaching 12.2mn last year, or 75% of 2019's numbers. In its latest forecast, management expect it to reach or exceed pre-pandemic levels next year.

Cargo traffic climbed 6% to 194,000 tonnes last year, which is 44% above 2019 levels, reflecting Budapest's efforts to establish itself as a key air cargo hub in the Central and Eastern European region, serving as a primary gateway for Chinese merchandise.

### Owners feel the pressure

The airport's recovery has reinforced the determination of its institutional owners to hold out for a high price. At present the airport is majority-owned (55.44%) by AviAlliance, a German-based airport management company owned by Canada's Public Sector Pension Investment Board, Singapore's state investment fund GIC (23.33%) and Canadian pension fund Caisse du Quebec (21.23%).

The owners have long been under pressure from the Hungarian government to sell their stakes. The narrative was the same as in the case of other foreign companies operating in strategic sectors, with the government or its favoured companies allegedly resorting to bullying.

The airport has faced a number of on-site inspections and in the past few years government officials have accused management of not developing the airport fast enough.

Management has rejected these claims. Last year, the company made infrastructure investments worth a total of €47mn, bringing the total value of the developments to more than €270mn between 2018 and 2022.

Terminal 1 is expected to be completed by the summer of 2025, "at the latest" and the airport is making preparations for the construction of Terminal 3, which it aims to complete by 2030. The delay in the reopening of Terminal 1 would have a direct and significant impact on the growth of tourism in Hungary, it added.

### Creating national champions

Taking over Budapest Airport would fit well into the Orban government's strategy since he returned to power in 2010 of creating domestic-owned national champions, preferably owned by people close to the government in key sectors – energy, banking and the media and telecommunications.

In the energy sector, state giant MVM became the prime service provider of gas, electricity and heat. The merger of three mid-sized banks led to the creation of the second-largest commercial lender behind OTP, MBH Bank.

Orban's allies controlled 80% of Hungary's media landscape before transferring their ownership to a public foundation (KESMA).

In the telecommunication sector, Lorinc Meszaros' right-hand man, Gellert Jaszai has built up an info-communication giant, 4iG. The company is expanding in the Balkans is now the majority owner of Vodafone Hungary.

Taking over Budapest Airport would allow the government to carry out investments, which it claimed were held back by the present owners, and make Hungary a leading airport hub in the CEE region.

"The airport operator has been in the red for 10 of the last 15 years, with an aggregate after-tax loss of nearly a quarter of a billion dollars over that period"

Shadow finance minister of Hungary's largest opposition party DK, Zoltan Bodnar said the government's plans to take over the airport would open up a lot of opportunities for suppliers linked to the ruling party. He did not rule out that eventually, the government would transfer ownership to private companies close to the government.

Bodnar and other opposition leaders have called it unethical that the government is dishing out hundreds of billions of forint for prestigious investments and projects like the purchase of Vodafone, as Hungary's public services are grappling with financial problems.

According to Minister of Economic Development Marton Nagy, Hungary would pay for the airport operator from budgetary resources, development bank money and proceeds from the sale of non-strategic assets. There was no indication whether Budapest would tap development bank funds from Hungary or from abroad.

On the same day as reports surfaced over the formal bid, Hungary stepped out on the international bond market with a 10-year €1.75bn bond issue, which may be used to cover part of the transaction.

Hungary's budget has been under great pressure since Orban's spending binge before the April 2022 general election. Hungary's government recently revised its 3.9% deficit target for this year to 5.2%, and other investment plans have been put on hold because of the freeze of EU aid over Orban's violations of EU norms on the rule of law.

### Enter France

France's Vinci has emerged as a potential frontrunner to buy the airport alongside growing bilateral ties between Hungary and France.

These ties have come a long way since the 2022 French presidential elections, when Orban openly endorsed Macron's far right challenger. Marine Le Pen secured a €10.6mn loan for her campaign from then-state-owned MKB Bank, which would not have been possible without the approval of the prime minister, who, according to media reports was an intermediary in the deal.

Hungary's strongman is still hoping for a breakthrough of eurosceptic parties in the EP elections and to forge an alliance with other radical right-wing forces, as currently Fidesz is without a faction in Strasbourg after leaving the EPP in 2020.

At the same time, Orban has been systematically working to strengthen economic and political ties with Paris after relations with Germany soured following a shift to the left in 2021. Germany's three ruling parties stepped up pressure on Chancellor Olaf Scholz to "thoroughly" scrutinise Hungary's rule-of-law reforms and tie the disbursement of EU funds to reforms.

Hungary's leader, who has become the longest-serving prime minister in the history of the country, has found a solid ally in Macron in energy issues. Hungary and France have found common ground in the debate over whether nuclear energy should be incorporated in the EU Green taxonomy as both countries rely heavily on nuclear energy.

Hungary has also made some concessions to French companies in the energy sector. Veolia has successfully run in renewable tenders, while Germany's E.ON has failed and is facing headwinds.

*Telex.hu* has recalled that Pascale Andreani, former French ambassador to Hungary between 2018 and 2022, has played a major role in improving bilateral ties. The diplomat, who worked in the OECD and at the UN earlier, has been working for Framatome since March 2023.

Hungary and French state-owned nuclear company Framatome have recently signed an MoU on expanding an earlier partnership that focused on training and research and development to include the long-term operation of nuclear power plants and the supply of nuclear fuel and implementing next-generation technologies.

After the German government blocked the transfer of the delivery of a control system to Paks 2, Hungary agreed with the French company to take over the role of its German partner, Siemens Energy.

As Germany's indulgence of the Hungarian strongman comes to an end, it appears that France, as always putting business first, is now ready to step into its place. ●



## NBU abandons fixed exchange rate

bne IntelliNews

**T**he National Bank of Ukraine (NBU) has officially declared the end of the 18-month-long fixed-exchange-rate regime and introduced a "managed flexible" exchange-rate system, effective from October 3.

The central bank has slowly been easing its tight controls over the financial system as pressure on the war-torn economy recedes. Ukraine put in its first growth since the war started 19 months ago expanding by 19.5% in the second quarter y/y, driven partly by low base effects. Inflation has also started to fall allowing the regulator to start cutting interest rates.

Now the currency controls are being lifted. Under the new FX framework, the official exchange rate will undergo daily fluctuations, with the NBU actively overseeing bidirectional fluctuations. This transition marks a significant shift in Ukraine's monetary policy, Ukrainian investment bank ICU said in a note.

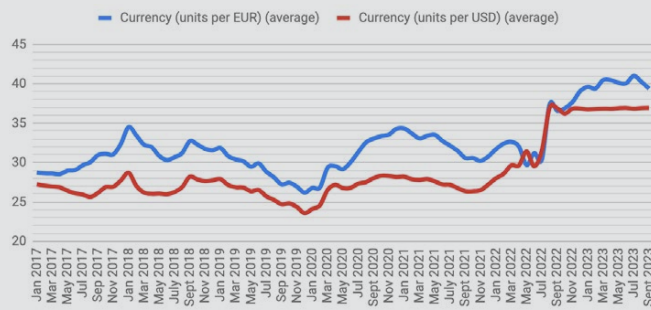
"The NBU announced it has abandoned the fixed exchange rate of the Ukrainian hryvnia vs the dollar starting today. The new,

flexible, exchange-rate regime implies the official exchange rate will fluctuate daily depending on market rates. The NBU will, effectively, remain the key player in the market.," head of research at ICU Vitaliy Vavryshchuk said in a note.

Forecasts suggest that the hryvnia exchange rate is likely to experience minimal changes in the immediate months ahead. (chart) However, it is important to note that over the longer term, particularly in 2024 and 2025, a managed and gradual depreciation of the hryvnia is expected, Vavryshchuk says.

"Our projection for the exchange rate by the end of 2024 remains at UAH42 per US dollar. Despite the expected depreciation, yields on hryvnia deposits are expected to provide sufficient compensation for potential currency risks," says Vavryshchuk.

The NBU's decision to abandon the fixed exchange rate is a pivotal development, symbolising a shift towards a more market-driven exchange rate regime. In this new flexible

**Ukraine FX: UAH vs USD, EUR (average in period)**

Source: NBU

system, the official exchange rate will be influenced by market dynamics, with the NBU retaining a significant role in shaping exchange rate movements.

The central bank's room for manoeuvre has been improved after it has built up record volumes of international reserves thanks to the support of the country's international partners' support. Ukraine has recorded its highest volume of international reserves in July that reached nearly \$39bn.

The fixed exchange rate, which was initiated on February 24, 2022, at UAH29.25 per dollar in response to Russia's full-scale invasion of Ukraine, played a crucial role in providing stability during a tumultuous period. It served as a nominal anchor for the economy, offering reassurance to businesses and households. Furthermore, this policy contributed significantly to reining in inflation, which had climbed into single digits since August 2023. However, maintaining this fixed rate required substantial interventions by the NBU, amounting to an average of \$500mn per week in 2022 and the first nine months of 2023.

"While the fixed exchange rate was effective in stabilising the economy, it resulted in an overvaluation of the hryvnia," says ICU. "This, in turn, led to imbalances in external accounts, including a substantial trade deficit of goods, which is expected to reach an unprecedented 16-17% of GDP in 2023."

Factors contributing to this deficit include stagnant Ukrainian exports and increased imports due to robust domestic demand. Additionally, expenditures on refugees abroad and significant withdrawals of foreign currency by the population, both domestically and abroad, added to the pressures on the balance of payments.

Ukraine lost around \$1bn in reserves as Ukrainian refugees in EU countries and elsewhere used their Ukrainian bank cards to withdraw foreign exchange from bank machines in their host countries, while those that remained in the country also changed money into dollars to protect against devaluation risks.

The NBU has indicated that it does not plan to address external account imbalances by adjusting the exchange rate

in the near term. However, their intention to do so over the longer-term horizon remains uncertain, with no specific timeline provided, Vavryshchuk says.

"The NBU has emphasised its commitment to maintaining exchange rate stability in the short term, with minimal deviations from the current rate," says Vavryshchuk.

To alleviate structural foreign exchange deficits, the NBU intends to maintain a presence in the FX interbank market and conduct significant FX sale interventions. However, the exact size of the structural deficit and the acceptable level of FX interventions under the new exchange-rate regime have not been disclosed.

"In the immediate future, the NBU is expected to prioritise hryvnia stability to prevent excessive depreciation or volatility in the official exchange rate, which could erode market confidence and trigger substantial FX purchases"

"In the immediate future, the NBU is expected to prioritise hryvnia stability to prevent excessive depreciation or volatility in the official exchange rate, which could erode market confidence and trigger substantial FX purchases," says Vavryshchuk. "As a result, any weakening of the hryvnia exchange rate by the end of the year is expected to be marginal, posing no significant risk to macroeconomic stability."

In the coming weeks, the market may experience some uncertainty as it adapts to the new exchange-rate regime. Cash exchange rates could exhibit higher-than-usual volatility, and FX demand in the interbank market may temporarily rise, necessitating increased FX sale interventions by the NBU. However, this situation is likely to stabilise within a few weeks.



The NBU announced it has abandoned the fixed exchange rate of the Ukrainian hryvnia vs the dollar starting on October 3. / bne IntelliNews

"Looking ahead to 2024 and 2025, we anticipate a gradual, managed depreciation of the hryvnia, aligning with yields on hryvnia deposits," says Vavryshchuk. "This approach aims to maintain the attractiveness of hryvnia-denominated instruments and discourage massive conversion of hryvnia savings into foreign currency. Consequently, the NBU is expected to maintain a relatively high real policy rate in the coming years. Our end-2024 exchange-rate projection remains unchanged at UAH42 per dollar."

The NBU is well-prepared to manage the FX market situation, boasting substantial reserves that stand at nearly \$40bn, significantly higher than pre-war levels," says Vavryshchuk.

This reserve level equates to over five months' worth of future imports, providing a strong buffer. While potential disruptions to international financial aid inflows from the US could impact further reserve accumulation, it is unlikely to result in a significant reduction in existing reserves, as long as inflows from other allies remain intact.

Regarding FX liberalisation measures, the NBU is expected to proceed cautiously in the coming quarters, taking incremental steps to facilitate cross-border trade operations. Rapid liberalisation of flows related to external private debt and foreign direct investment (FDI) is viewed with scepticism. ●



bne:Bond

## North Macedonia announces debut green bond issue

Valentina Dimitrievska in Skopje

**N**orth Macedonia's finance ministry will hold the first-ever green bond issue in the amount of €10mn on October 3, the government announced on September 27.

This is the second new financial instrument introduced by the ministry on the domestic capital market this year, diversifying the range of financial products and fostering competition.

Green bonds are specifically designed to support initiatives aimed at enhancing and safeguarding the environment, as well as financing environmental projects. Similar to the previously introduced civil bond, this is a novel addition to the domestic market.

Individuals and legal entities interested in participating can submit participation requests through their respective banks by October 2. The annual interest rate of the new bonds, with a maturity of two years, is set at 4.75%.

"The introduction of this instrument aims to cultivate the capital market in our country, thereby stimulating investment activity that will contribute to accelerated economic growth," Finance Minister Fatmir Besimi said.

Proceeds from this auction will be channeled towards the Energy Efficiency Fund within the framework of the the country's state-run Development Bank. This will provide companies with favourable financing for projects focused on environmental protection.

The introduction of the green bond in the securities market

follows the successful launch of the civil bonds in July 2023, which received interest that was two and a half times higher than the published prospectus amount.

In accordance with the Capital Market Development Strategy and the Plan for Accelerated Economic Growth, additional offerings such as project bonds and development bonds, targeted at development and infrastructure projects, will be introduced to the market in the near future.

Furthermore, following the issuance of the green bond, a second civil bond is also planned. ●



North Macedonia's finance ministry is seeking to develop the local capital market with new financial instruments. / bne IntelliNews





bne:Tech

# Konzum launches Croatia's first automated supermarket

Aida Kadyrzhanova in Prague

**C**roatian retail chain Konzum has launched what it says is the region's first smart store, where shoppers' purchases are automatically charged to their debit or credit card without the need to check out.

Konzum's store is one of a growing number of entirely cashierless shops that use a blend of advanced sensors and artificial intelligence (AI) technologies. Outside of Croatia, major retailers like Aldi, Carrefour and 7-Eleven are working on this technology.

In Croatia, customers can enter the Konzum SMART store in Zagreb, scan a QR code via the mobile app, select items and simply walk out, Konzum said in a press release. Payment is automatically processed through the registered debit or credit card, with invoices sent to the app and by email.

"This store confirms our leadership role in the market, delivering maximum efficiency for customers and the market while focusing on future development," said Fabris Perusko, CEO of Fortenova Group, Konzum's parent company.

The store employs computer vision technology with 150

cameras for precise item monitoring and billing accuracy, a partnership with AiFi, an AI tech leader.

The concept also encourages joint shopping, for example, if a married couple comes to the store, the items each of them chooses from the shelf are billed together on one bill.

"This is just another step forward in the digitisation of Konzum's operations. The technology used for this store concept is based on computer vision for recognition, and the space is covered by 150 cameras, thanks to which we can monitor which items the customer took from the shelf and charge only those that he took with him from the store. The goal was to provide customers with a faster and simpler purchase," said Jozo Dzakula, director of the IT department at Konzum.

Konzum specialises in fresh, local and healthy food options, offering over 1,700 items in the smart store.

The company has already introduced payment with cryptocurrencies, first online, and then in physical stores, and customers in stores can also pay via the KEKS Pay application. ●



Konzum's store is one of a growing number of entirely cashierless shops as international retailers explore the potential of AI technology. / Konzum

# Low prices make Southeast Europe top destination for digital nomads

Valentina Dimitrievska in Skopje

**S**kopje, the capital of North Macedonia, has earned the title of the top European city for digital nomads, followed by Sarajevo and Chisinau, according to UK magazine *Time Out*.

As the COVID-19 pandemic changed the way people work and travel, many now work from home, and some remotely from different countries. This has become a new way of life.

Travel experts at Norton Finance loan company evaluated 184 countries, weighing factors such as average rent, utilities, transportation, food, gym and internet costs, along with the expense of return flights from the UK.

"While it'll of course vary depending on where in the world you're journeying from, the rest of the factors provide a pretty comprehensive breakdown of the affordability of a place, and ranking at number one is Skopje in North Macedonia," according to *Time Out*.

"The city is a notoriously good-value tourist destination,

popular for its archaeological sites and street food. The value of public transport is one reason why Skopje scores so well, as a monthly public transport pass is an enormous eight times cheaper than the London equivalent."

Securing the second spot on Norton Finance's list is the capital of Bosnia & Herzegovina, Sarajevo, where the average rent for a one-bedroom flat in the city centre is an affordable €275 per month.

Meanwhile, Chisinau in Moldova took the third position. In this city, a pint costs a modest €1.3, making it an attractive destination for budget-conscious digital nomads.

Sofia, Bulgaria's capital, and Bucharest, the capital of Romania, occupy the fourth and fifth positions respectively. Belgrade, the capital of Serbia, secured the sixth spot.

Copenhagen and Dublin are considered some of the least favourable European cities for digital nomads. ●

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## Tech park opens in Pristina to boost Kosovo's ICT industry

bne IntelliNews

**T**he Tech Park Prishtina opened in the outskirts of the Kosovan capital on October 12. The tech park is intended to further develop the ICT sector, already an important part of Kosovo's economy, following strong growth in recent years.

The park is located in a previously unused building, spanning 4,000 square metres and owned by the Ministry of Industry, Entrepreneurship and Trade, that has been given to Kosovo Association of Information and Communication Technology (STIKK) for five years. The government of Kosovo invested €1.2mn in the project through the Ministry of Economy.

Prime Minister Albin Kurti said the opening confirms that Kosovo "is following the path of countries that use the power of information and communication technology to create jobs, to promote economic growth and to improve the quality of life for citizens".

"The investment in this technology park shows our commitment to the development of technology and innovation

that are the foundations of the economy of the 21st century," said the prime minister.

The park will support the development of startups and the ICT sector in general, as well promoting cooperation among all parties within the innovation ecosystem, a government statement said.

Minister of Industry, Enterprise and Trade Rozeta Hajdari said: "the park is expected to be one of the main drivers of the development and transformation of our industry through development of innovation and entrepreneurship." Vjollca Cavolli, executive director of STIKK, said in an interview with bne IntelliNews earlier in October that there has been strong interest from startups in the tech park.

While the office space is limited to companies with up to 30 employees, Cavolli said larger companies have proposed relocating their R&D departments to the tech park where they can benefit from collaborations with startups and students. ●



Steel mill in Australia. Any exports from it to the EU would, starting in 2026, be subject to a carbon border levy. / Marek Slusarczyk



bne:Green

## Europe's war on CO2 emissions goes global

Roberta Harrington in Los Angeles

**T**he European Union has launched the first system anywhere to impose CO2 emissions tariffs on imported goods, including iron and steel, cement, aluminium, electricity and hydrogen. These are all carbon-intensive goods.

The 27-nation EU is attempting to prevent 'carbon leakage' and also foreign imports from slowing down its green transition.

The EU will not begin collecting any levies, known officially as the Carbon Border Adjustment Mechanism (CBAM), at its borders until 2026.

The beginning of October was when the first phase of the programme started. The importer will have to report the embedded greenhouse gas (GHG) emissions during the production of the goods.

Starting in 2026, certificates will have to be purchased to cover the GHG emissions, to put foreign producers on a par with domestically produced goods, whose manufacturers must buy permits from the EU carbon market if and when they pollute.

If a carbon tariff has already been paid outside the bloc, then part of the CBAM levy will be deducted. This should prevent the World Trade Organisation from deeming the levies to be an illegal tariff.

The CBAM mechanism is to reduce pollution, discourage EU manufacturers from moving outside the bloc to

circumvent its carbon market, and to level the playing field for homemade goods. The bloc is seeking to slash its net emissions by 55% by 2030 compared with 1990 levels.

"CBAM will encourage industry worldwide to embrace greener technologies," said EU Economy Commissioner Paolo Gentiloni in a statement. "It will also prevent so-called carbon leakage, or the relocation of production outside our borders to countries with lower environmental standards."

But trading partners are not happy. The top climate envoy in China, Xie Zhenhua, has called for no such unilateral measures such as the CBAM.

The US government has asked for its steel and aluminium exports to be exempt. In response, some EU countries criticised the US's Inflation Reduction Act (IRA) of 2022 for the size of its tax breaks for domestically made green goods.

According to a report by the Carnegie Europe think-tank, the largest exporters to the EU are Russia, China, India, South Korea, Turkey, the UK, Ukraine and the US. It is not clear how hard each will be hit, because it depends upon how dependent they are on EU exports.

China, for example, is not that dependent. India recently announced its own carbon tax. And Turkey has ratified the Paris Agreement, in part because of the CBAM. ●



# Volkswagen and Umicore pick Poland for site of €1.7bn EV battery component factory

Wojciech Kosciuszko in Warsaw

**I**onway, a joint venture between PowerCo, part of the Volkswagen group, and Belgian materials company Umicore, has selected the Polish town of Nysa to build a factory to make components for electric car batteries, Volkswagen said on October 7.

The Polish government is contributing €350mn in grants to the €1.7bn investment. "This is a landmark investment for the entire Opole region and an opportunity for further regional development," Deputy Defence Minister Marcin Ociepa, who is running for the parliament from the region in the election this Sunday, said in a statement.

"The strategic location of the plant in Poland, right next to Umicore's [existing] battery materials plant, will further enable the transition to electric driving that is truly sustainable," said Umicore's CEO Mathias Miedreich.

Typically for a greenfield project of this type, Ionway picked its location due to the availability of a skilled workforce.



Volkswagen is making a belated push in the electric cars market.

The company also stressed the option to make the factory powered with renewable energy only.

Ionway's factory is but the most recent in a series of related investments in Poland, which is a European powerhouse in the electric vehicle segment.

Mercedes-Benz is planning a €1bn factory making electric vans in Poland while Volvo is establishing a technology hub to "facilitate transition to all-electric production", Notes from Poland reported.

South Korean battery parts producer SK Nexilis started construction of a €660mn factory in Stalowa Wola in 2022.

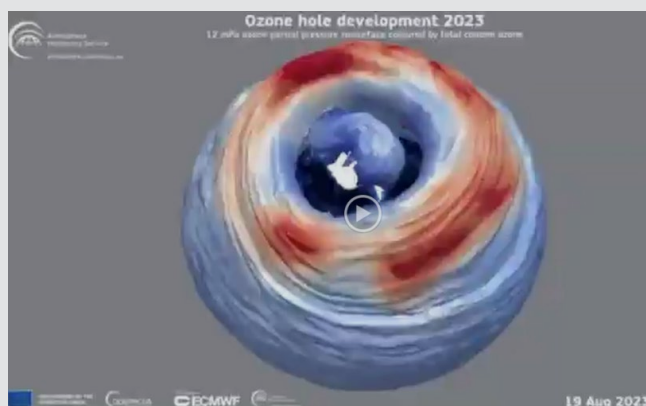
Poland's plan to put as many as one million electric cars on the country's roads by 2025 remains a pipe dream, however. Delays have also plagued the government's plan for a Polish electric car brand, Izera. ●

# Ozone hole three times larger than Brazil opens up above Antarctica

bne IntelliNews

**A** hole in the ozone layer three times larger than Brazil has opened up over Antarctica. Europe's Copernicus Sentinel-5P satellite shows that the ozone hole is one of the largest on record, according to the European Space Agency (ESA), and measured 26mn square kilometres on September 16, 2023 – roughly three times the size of Brazil.

[www.bne.eu](http://www.bne.eu)



An ozone hole the size of Brazil has opened up over the Antarctic.

Satellite data revealed that this year's ozone hole expanded to about twice the size of Antarctica. The eruption of Tonga's underwater volcano in early 2022 is a possible cause for the unusual size of the ozone hole, say scientists.

The ozone layer in Earth's atmosphere is approximately 15



to 30 kilometres above the surface and protects the planet from harmful ultraviolet rays from the sun. Ozone is a type of oxygen molecule with three atoms instead of the usual two that absorbs the sun's radiation.

The discovery of significant ozone holes above Earth's polar regions was made in 1985. Researchers found that chlorofluorocarbons (CFCs), a common chemical used in aerosol cans, packaging materials and refrigerators at the time, were reacting with ozone in the atmosphere, leading to ozone

depletion. In response, the international community banned the use of CFCs in 1989, allowing ozone levels to gradually recover.

However, gaps in the ozone layer still appear above the polar regions during each hemisphere's winter months. This occurs when cold air creates polar stratospheric clouds (PSCs), which are exceptionally high clouds composed of tiny ice crystals. These clouds further deplete the already limited amount of ozone above the poles. ●

## Earth's energy imbalance – world is starting to cook

Roberta Harrington in Los Angeles

**T**he earth's energy is out of balance and the world is starting to cook, says a new report. The authors include James Hansen, who testified to the US Congress on global heating as long ago as 1988.

More energy than ever before is coming into the planet (absorbed sunlight) than is going out (heat radiated to space), said the scientists.

The earth's energy imbalance (EEI) has escalated in the past decade, they said. The imbalance so far in the 2020s is almost double the rate during the study's calibration period, from mid-2005 to mid-2015.

In a study published in 2021, the EEI was found to have doubled in the 14 years from 2005 to 2019. The study was by scientists at NASA and the US National Oceanic and Atmospheric Administration.

Earth's climate is determined by a delicate balance between how much of the sun's radiation energy is absorbed in the atmosphere, and at the surface, and how much thermal infrared radiation the earth emits to space, says NASA.

A positive energy imbalance – which is what we have – means the earth system is gaining energy, causing the planet to heat up.

This is in addition to global climate change – also known as global warming – which is caused by emissions of CO<sub>2</sub> and other greenhouse gases (GHGs).

EEI is the result of a decline in the cooling effect of human-made aerosols, according to indirect evidence, say Hansen et al. In fact, the present El Niño is expected to create such extreme high temperatures that it is now “almost certain” that the 12-month running mean temperature will exceed 1.5°C above pre-industrial levels by May 2024 or earlier, said the scientists.

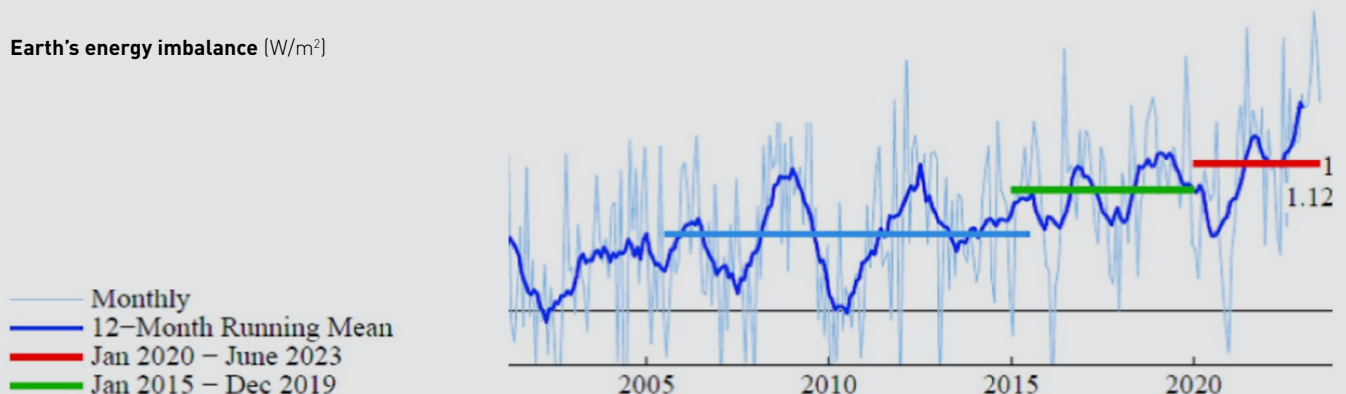
El Niño is a cyclical warming of the surface of the ocean in the central and eastern tropical Pacific Ocean.

According to the Paris Agreement, the signatories must pursue efforts not to reach an average temperature rise of 1.5°C compared with pre-industrial levels.

Aerosol emissions can come from, for example, sulphate emissions from ship fuel. Aerosol emissions are not measured by today's satellites.

“Without such data we will be flying blind into a future fraught with dangers,” said the scientists. “At the very least, we owe young people the knowledge of what we are getting them into.” ●

Earth's energy imbalance (W/m<sup>2</sup>)



# PUTIN AND XI CELEBRATE TEN YEARS OF THE BRI WITH MOST OF THE GLOBAL SOUTH

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Ben Aris in Berlin



**R**ussian President Vladimir Putin was the guest of honour at China's celebration of ten years of the Belt and Road Initiative (BRI) held on October 17-18 in Beijing, where everyone who was anyone in the developing world attended the party.

For Xi, it was a diplomatic coup that highlights the increasingly close ties amongst the developing countries of the world, where Western powers were noticeably absent. For Putin, it was a welcome opportunity to get out of the house and go somewhere where he was welcome.

Chinese President Xi Jinping hailed his "strong personal friendship" with his Russian counterpart as the two leaders met in Beijing on the margins of China's global infrastructure forum.

The BRI is at the core of Xi's foreign policy and is intimately tied up with Putin's Eurasia Economic Union (Euu), which has become core to Russia's foreign relations and was explicitly laid out in Russia's latest foreign policy concept earlier this year.

Despite recent efforts by the West to re-engage with Beijing, which has strong business ties to Germany and several other Western countries, Xi highlighted the "close and effective strategic coordination" with Russia.

"We are moving very confidently bilaterally," said Putin, who was reportedly in a very good mood, pointing particularly to flourishing bilateral trade as China helps Russia to circumnavigate Western sanctions and buys its surplus oil and gas.

All of the Central Asian presidents were there. They increasingly travel as the "C5" pack and have recently been in the US, China, Russia and Berlin as a group. Most of the senior Asian leaders also attended, as did several African leaders – a total of 130 countries were represented.

However, the delegates were almost exclusively from emerging markets, including all the G20 members and the newly extended BRICS+ group. The only leaders from Europe were Hungarian

Prime Minister Viktor Orban and Serbian President Aleksander Vucic.

The confab highlights the growing divided between the West and the global south that is emerging in this fractured world and driven by the ideological disagreement over creating a unipolar world vs a multipolar one.

#### Xi and Putin

Putin arrived with a large business delegation, including Russia's top banks and energy companies as well as half his cabinet. Economic ties are flourishing between Russia and China as sanctions have forced the Kremlin to abandon its long-standing commercial relations with Europe and turn to the East for new partners.

Xi and Putin met but notably did not mention in public the conflict that erupted in the Middle East on October 7

Both countries are keen to present themselves as the two biggest emerging markets that have the clout to represent the interests of the multipolar world to the existing hegemony dominated by the G7+ countries of the West.

And some in the West remain attracted to Russia by its mineral wealth and copious energy supplies. Vucic has been playing both sides of the fence, cutting lucrative gas supply deals for Serbia and refusing to implement sanctions. The Serbian president was even learning Russian in his spare time and is a regular visitor to Moscow.

Orban has been even closer to Putin as Hungary is equally dependent on Russian energy and commodities. Following Donald Tusk's epic victory in the Polish elections on October 15, Orban finds himself very isolated in Europe and naturally will look to Russia and

"The confab highlights the growing divided between the West and the global south that is emerging in this fractured world and driven by the ideological disagreement over creating a unipolar world vs a multipolar one"

when Hamas stormed southern Israel, murdering some 1,400 people on a prolonged rampage of terror attacks and taking some 150 hostage.

The Kremlin called an emergency United Nations meeting to propose a peace plan to bring the fighting to an end, but it failed to pass after G7 members, including the UK, the US, France and Japan, voted against it.

China has been even more reserved with observers saying Beijing has not mentioned the world "Hamas" once since the shooting started a week and a half ago.

But both leaders must be relishing the crisis, which plays directly into Putin's hands and will improve both their positions in the global south in general and in the Middle East in particular.

China for support. Poland's new Prime Minister-in-waiting is seen as much closer to the EU as Tusk is the former President of the European Council (from 2014 to 2019), whereas Brussels had to blackmail Orban in the recent votes for more aid to Ukraine by withholding €13bn in post-COVID relief grants.

During a conversation with Putin – his first meeting with an EU leader since Austrian Chancellor Karl Nehammer made a controversial trip to Moscow last April to buy gas – the Hungarian Prime Minister referred to Russia's war against Ukraine using the Kremlin's preferred moniker of a "military operation." Orban regularly makes anti-Ukrainian statements and has said that Kyiv has missed its opportunity to join Nato as well as calling for the financial aid to Ukraine to be halved.

Orban also met with Xi, who told Orban he was a "friend" to Hungary and that both sides should "elevate" their relations. Beijing has been investing in factories in Central Europe with a particular emphasis on production related to EVs.

"We consider you as a friend," Xi told Orban as cited by Reuters. "You have actively supported jointly building the Belt and Road and made contributions to promoting high-quality development of the Belt and Road cooperation."

Orban was obviously well pleased with Xi's bonhomie.

"Connectivity instead of decoupling: this is the Hungarian model. Our aim is to strengthen Hungarian-Chinese relations," Orban wrote on X following the meeting. "This is good for Hungary and good for the European economy."

#### Down to business

On Putin's second trip abroad since the International Criminal Court (ICC) issued an arrest warrant against the Russian leader in March for kidnapping

Ukrainian children, he was reportedly in an ebullient mood.

Vucic met with Putin in Beijing where they had a "brief" conversation.

"I have met with President Putin and we talked briefly, there was no bilateral meeting," he told local journalists, adding

**"You have actively supported jointly building the Belt and Road and made contributions to promoting high-quality development of the Belt and Road cooperation"**

that Putin looked "very confident". As *bne IntelliNews* has reported, Putin is attempting with Xi to build a BRICS bloc and the BRI event was attended by his core target market.

Xi was on hand to burnish Putin's image. Xi was in Moscow in March in an ostentatious show of support for the embattled Russia following the

imposition of sanctions and a clear challenge to the US claim to be the leaders of the free world.

At the heart of the Russo-Chinese cooperation is the Treaty on Good Neighbourliness, Friendship, and Cooperation signed in 2001, which is the basis of their trade and economic

collaboration and emphasizes a comprehensive, equal, and strategic partnership.

Trade between the two countries has been flourishing, and more recently was catalysed by the sanctions imposed on Russia. Trade turnover was 29.3% in 2022 y/y reaching \$190.27bn. This year trade soared 30% in the first half of





this year and will breach \$200bn for the first time in 2023, according to Russian Economy Minister Maxim Reshetnikov who is also in the delegation.

Russia is now China's second-largest trade partner outside of Asia, second only to the United States, which accounted for half a trillion in trade in the first nine months of this year, followed by Russia with \$176bn and Germany with \$158bn.

Increasingly this trade is settled in national currencies and since Russia was banned from SWIFT there has been a rapid yuanization of the Russian financial system.

Russia primarily exports energy resources, metals, timber, agricultural products, and seafood to China, while China imports cars, electronics, excavators, microprocessors, clothing, shoes, and consumer goods from Russia.

The Sino-Russian investment fund is supervised by a dedicated

LNG-2, involve Chinese investors, and Russia exported 6.5mn tonnes of LNG to China in 2022, a 44% increase from the previous year.

Russia has a reputation as a technological noob, but some of its military technology is world class, as a legacy of the Cold War. Russia remains a major arms exporter to China and Russian aviation, rocket, nuclear, and even submarine technology has been shared with China in the last decade, according to a 2022 assessment by the US Department of Defence.

### **Belt and Road Initiative (BRI)**

The BRI is not just an Asian project but extends well into Europe and also has major investments into raw material production in Africa as well as increasingly into infrastructure as a way of cementing relations with Beijing.

The BRI connects more than 60 countries in Europe with the global south. The concept was developed by Xi in 2013 and is the backbone of China's foreign economic

countries participating in the initiative: laying fibre optic cables and 5G cellular networks, creating data storage centres, using satellite navigation, and developing e-commerce.

In 2018, China initiated the Polar Silk Road project, which involves coordinating development strategies with Arctic states to facilitate the creation of a maritime economic corridor between China and Europe across the Arctic Ocean.

The projects are financed by the Chinese sovereign wealth fund and state-owned banks, including the China Development Bank and the Export-Import Bank of China as well as the Silk Road Fund created in 2014. The Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) are also major players.

China builds interaction with its partners on a bilateral basis. To date, under the initiative, the Chinese side has concluded agreements with 150 countries and 30 international organizations. The initiative's projects are being implemented in countries of Eurasia, Africa, Latin America, and Western Europe, covering two-thirds of all countries and more than 60% of the world's population.

Russia is not directly involved in the initiative, but supports it. In 2015, the Russian Federation and the People's Republic of China signed an agreement to connect the Silk Road Economic Belt and the EEU, which has Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia as members.

For the period from 2013 to 2022, trade turnover between China and BRI participants was \$19.1 trillion, with average annual growth of 6.4%. The total volume of investments exceeded \$380bn, including China's direct investments to participating countries to the tune of more than \$240bn.

In the first half of 2023 alone, trade turnover between China and BRI countries grew by 9.8% y/y. The share of this indicator in China's foreign trade turnover reached 34.3%. More than 3,000 projects with an investment volume of almost \$1 trillion have already been implemented through the initiative. ●

**"The Power of Siberia gas pipeline has been transporting gas since 2019, and a Power of Siberia-2 is expected to appear in the next ten years followed by a Power of Siberia-3"**

intergovernmental commission and currently has 79 large-scale projects with total investments of approximately \$170bn, reports Tass.

Russia is a significant supplier of oil and gas to China. The Power of Siberia gas pipeline has been transporting gas since 2019, and a Power of Siberia-2 is expected to appear in the next ten years followed by a Power of Siberia-3.

The heads of Russian energy giants Gazprom and Rosneft, Alexei Miller and Igor Sechin, are both part of Putin's retinue during his visit to China.

Liquefied natural gas (LNG) production projects, including Yamal LNG and Arctic

and foreign policy and expected to run over the next three decades.

The initiative includes several projects. First of all, these are the Silk Road Economic Belt and the 21st Century Maritime Silk Road. These projects, proposed by Xi Jinping in 2013, named after the ancient caravan route that runs through Central Asia. The maritime route connects the coastal regions of China with Southeast and South Asia, the Middle East, East Africa and Europe, as well as the countries of the South Pacific.

In 2015, the Digital Silk Road project was added, stimulating the development of digital interconnectedness of the



Sviatlana Tsikhanouskaya, the Belarusian opposition leader, who now lives in exile in Vilnius, has warned Lithuanian officials about the souring relations. / bne IntelliNews

# Yesterday's Belarusian heroes become today's foes in Lithuania

**Linus Jegelevicius in Vilnius**

**J**ust three years ago, following a brutal crackdown on democratic forces in Belarus after the rigged presidential election, thousands of Belarusians fled to neighbouring Lithuania, mostly Vilnius, the capital city, where they were embraced wholeheartedly.

Today, their reception has become decidedly frostier, with rightwing politicians – already suspicious of Belarus for historical reasons – seeing them as a potential threat to Lithuania's national security.

They now argue Belarusians should be treated more like Russians than Ukrainians when they come to the country. Lithuania has taken one of the toughest stances towards Russia in the

EU, and has been one of the strongest backers of Ukraine.

Several Belarusians have now had their claims for refugee status refused.

"My friend was denied refugee status two weeks ago, after almost two years of waiting. He cannot return to Belarus, because he would be immediately arrested there. He thinks about leaving," Andrey Erguine, who also fled Minsk for Vilnius, told *bne IntelliNews*.

Nataliya Kolegova, head of the Belarusian NGO Dapamoga, told *bne IntelliNews* that there is distinct fatigue in Lithuania about aiding the refugees.

"When the authoritarian Belarusian regime cracked down on protests of

democratically-minded Belarusians in late 2022, Lithuanian politicians sounded genuinely embrative and supportive, when talking of our common history. I remember the Lithuanian PM Ingrida Simonyte's words then 'We helped you, are helping and will always help. You just need to be patient'. But it seems that Lithuania has run out of patience with us. We've become Lithuania's pain."

The most high-profile case of denied asylum is Olga Karach, a prominent Belarusian activist whose Vilnius-based NGO Nash Dom (Our House) has been nominated for the Nobel Peace Prize.

Karach has recently been denied asylum in Lithuania due to her alleged links to the Russian intelligence service. However, she will remain in the country

with a temporary residency permit because the authorities admit there is a threat to her life in Belarus.

### Turning a deaf ear

Laurynas Kasciunas, the conservative Homeland Union chairman of the powerful parliamentary Committee of National Security and Defence (CNSD), turns a deaf ear to all the laments.

"We accepted 60,000 people [Belarusians]. That's a lot. And there will no doubt be a humanitarian corridor for people fleeing the regime – it is humane. But the Wagner [mercenary group's] arrival in Belarus has changed things, and we have to look at them differently," Kasciunas insists.

The CNSD head has said on several occasions that many of the Belarusians haven't been vetted properly upon arrival to Lithuania, meaning that their loyalty to Lithuania should be investigated. Referring to the findings of the VSD security service, he says approximately 1,000 Belarusians pose a threat to Lithuania's national security.

"The fact proves that not only human rights defenders, not only the democratic opposition, not only businesses fleeing authoritarianism, but also people connected to the regime in one way or another to the structures are starting to come to Lithuania... Therefore, Lithuania, as a self-respecting state, must manage risks. This is being done through the cancellation of residence permits in Lithuania, the unification of restrictions for Belarusians and Russians," he says.

"I think no one can be sure that with the thousands of Belarusians in Lithuania, Russia won't attempt to provoke a hybrid war using them as the card," he warns.

Political analyst Vytautas Dumbliauskas says the Belarusians who sought refuge in Lithuania should not be surprised about their different treatment now.

"Their country has gone from being Russia's satellite to a colony, one very supportive of the war in Ukraine. Due to our limited capacity to check the background of all the Belarusians who

arrived in Lithuania en masse then, our special services do the job kind of belatedly – some of the Belarusians are undoubtedly infiltrated by Belarusian intelligence," he told *bne IntelliNews*.

The way of obtaining Lithuanian visas by some Belarusians has also aroused suspicions in Lithuania.

Emphasising that foreign nationals make up nearly 7 per cent of Lithuania's population for the first time since independence, Raimundas Lopata, chairman of the parliamentary Committee for the Future, says that, every day, 4,000 to 4,500 Belarusians cross the border between Lithuania and Belarus.

"Given that we issue about 1,000 visas per month, one wonders who issues visas to the rest of the Belarusians," he says.

The MP says Lithuanian authorities have information that a visa of an EU country can be bought on the "black market" in Minsk for €1,000.

Experts say many of these Belarusian visitors are migrant workers, who are needed because of Lithuania's skills shortage.

Most temporary residence permits in Lithuania are granted to drivers, construction workers, and employees in the industrial and meat processing sectors, according to Investuok Lietuvoje (Invest Lithuania), Lithuania's foreign investment promotion agency.

Others are much sought after IT professionals. Data from Investuok Lietuvoje shows some 5,200 Belarusian IT professionals are now living in Lithuania.

### Clear differences

Nevertheless, citing national security concerns, the Seimas, the Lithuanian parliament, is set to revisit the issue of granting temporary residence permits to foreign workers in Lithuania. In its autumn session it is also likely to reconsider whether to impose more restrictions on Belarusian nationals despite protests by the liberals in the

government. This proposal is backed by President Gitanas Nausėda, who argues that Belarusians should be put under the same restrictions as Russians.

"In late 2020, many ruling MPs rubbed their hands, hoping that the Belarusians will fill up the [workforce] void. Now they appear to be bad. But how to find someone who is an excellent worker, loving Lithuania cordially and answers the mandatory question on the Crimea [which country the Crimea should belong to is part of the questionnaire by Lithuania's Migration] without a blink of an eye?" a Lithuanian businessman quipped to *bne IntelliNews*.

Kolega says there are already clear differences between the treatment of Belarusians and Ukrainians.

"Unlike Ukrainians, who can start working here as soon they enter the country, Belarusians, even doctors, who are willing to go to work as nurses in hospitals in the border municipalities, cannot do that. It is very sad," she says, adding: "The local politicians need a scapegoat. There was the pandemic, the war, the Wagner scare and us."

Sviatlana Tsikhanouskaya, the former Belarusian opposition frontrunner against Lukashenko, who now lives in exile in Vilnius, has warned Lithuanian officials about the souring relations. She said recently that some Belarusian IT companies that have moved to Lithuania are considering exiting the country. She has also spoken out against Lithuania's decision to shut down two checkpoints on the country's 670-kilometre border with Belarus.

"We ask the Lithuanian side not to equalise all restrictions for Belarusians and Russians," Anna Krasulina, communications head for Tsikhanouskaya, told *bne IntelliNews*. "First of all, this would hit pro-democratic Belarusians, those who participated in the protests in 2020, and our movement as a whole. This will be used by propaganda, which is also trying to equalise Belarusians and Russians, and will sow discord between our peoples, the Belarusians and Lithuanian. We shouldn't allow this to happen." ●

# Further evidence to come out about mysterious Finnish-Estonian gas pipe leak

bne IntelliNews

**N**ordic and Baltic seismologists detected blast-like waves on October 8 – the day that a leak occurred along the Balticconnector gas pipeline linking Estonia and Finland, potentially strengthening the theory that the incident was the result of deliberate action.

European authorities are on a state of high alert about the risk of sabotage to critical energy infrastructure since the Nord Stream pipelines were ruptured last autumn as a result of subsea detonations, and the latest development has only fuelled this concern further. The Finnish government has already said it does not rule out that the leak at Balticconnector was caused deliberately, potentially by a state actor.

Norwegian seismology institute NORSAR said it had analysed data collected in Finland and detected “a probable explosion” near the pipeline, noting that the resulting waves from an explosion have different signals to those caused by earthquakes.

But still there is not enough evidence to conclude that it was an explosion, the institute cautioned.

“We know that it wasn’t an earthquake and we know there was an explosion, but what actually caused the explosion is something to be further investigated,” NORSAR CEO Anne Strommen Lycke told *Reuters*. “We have seen that there is speculation about whether some ship could have dragged the pipeline and that [this] caused a hole and then a subsequent explosion, [but] that is too early to tell.”

## Market implications

Launched at the end of 2019, the Balticconnector is capable of flowing 2.6bn cubic metres per year of gas in either direction. For Finland, the 77-km pipeline was initially crucial as a means of alternative supply for Russian gas.

Prior to its completion, Finland relied on Russia for nearly all its gas supply; the Balticconnector enables the country to tap gas in the Baltic region and further afield – including LNG brought ashore in Lithuania and Poland, as well as from a major gas storage hub in Latvia.

Balticconnector proved a saving grace for Finland when Russia’s Gazprom cut off all gas supply to the country in spring last year. Fortunately, in March this year Finland also commissioned its own regasification terminal in Inkoo, which has helped it manage the impact of the disruption at Balticconnector.

In turn, the pipeline allows Estonia to access gas from the Inkoo terminal when necessary.

The leak at Balticconnector contributed to a spike in European gas prices last week to two-month highs, although the larger factors were news that strikes at Chevron’s major LNG facilities in Australia could resume later this week, as well as the market fallout from the Israel-Hamas conflict.

While both Estonia and Finland say that their markets remain well supplied for the time being, risks could increase this winter, particularly if it proves severe. Authorities say they do not expect Balticconnector to resume regular service until April 2024.

## The evidence

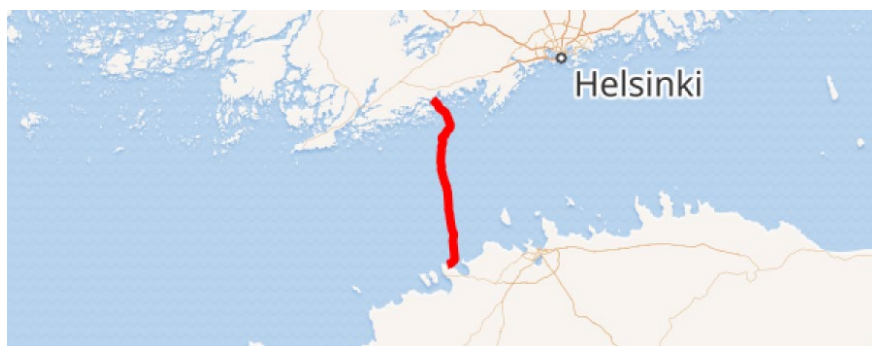
Finland’s National Bureau of Investigation said this week that external marks had been discovered on the seabed beside the pipeline and that it was assessing the movement of vessels in the area. It added that anchor damage might have been an explanation for the leak. The agency considers mechanical damage, rather than a blast, as the most likely cause, without ruling out an explosion.

Notably, the seismic signal picked up by seismologists had a magnitude of only around 1 – significantly less than the 2.3 magnitude ripples detected at the time of the Nord Stream blasts last year.

“What we are seeing is a seismic signal which originates in the Gulf of Finland at this time, and it has some characteristics that at least make it possible or likely that it is a blast,” seismologist Bjorn Lund at Sweden’s University of Uppsala told *Reuters*.

Seismologist Jari Kortstrom at the University of Helsinki added that data indicated it “might be an explosion,” while Estonian seismologist Heidi Soosalu said the signals likely showed a “man-made event”.

Russia, for its part, has dismissed suggestions that Russia may have damaged the pipeline. President Vladimir



Route of Balticconnector Gas Pipe / Wikimedia



Putin described the claims as “rubbish,” asserting that he had previously never even heard of the pipeline, as it is so small.

He went on to say that the assertion that Russia was to blame was aimed at diverting attention away from the Nord Stream explosions, which Moscow has repeatedly pinned on the US and the UK. The Kremlin has called on the UN to hold an independent investigation into the blasts – but the idea has been rejected by the Security Council. Washington and London deny any involvement.

Various US newspapers have reported that there was a Ukrainian plot to destroy the pipelines, and that the CIA was aware of the plans before they were carried out. And in February, veteran US investigative journalist Seymour Hersh cited unidentified sources as saying that the US navy had carried out the attacks at the behest of the Biden administration. The White House has dismissed that report as “utterly false and complete fiction.”

#### What next?

Regardless of the cause of the Balticconnector's leak, authorities are taking no chances.

Finland announced at the end of last week that it was tightening access to parts of the Inkoo port where its sole LNG terminal is situated. The UK has meanwhile said it will expand its military presence in northern Europe, including by deploying 20,000 troops to the region next year to defend critical infrastructure against potential Russian attacks.

Finland's interior ministry said it was setting up a working group to add the port of Inkoo to a national decree that restricts movement and residence permits.

“The decree contains items where movement and residence are restricted under the Police Act,” it said in a statement.

Authorities elsewhere in Europe are likely to beef up security across their vital energy infrastructure, fearful of attacks ahead of the upcoming heating season. ●

## European Parliament to tighten rules to protect journalists and media outlets

### Tamas Csonka in Budapest

The European Parliament on October 4 approved the European Media Freedom Act, which is aimed at guaranteeing greater press freedom in the member states and limiting distorting state advertising. The legislation aims to ensure media plurality and protect media independence from governmental, political, economic or private interference.

The bill was approved with an overwhelming majority, 448 in favour, 102 against and 75 abstained.

Speaking to Politico after the vote, European Commission Vice President Vera Jourova said media law will be “a major warning signal” for EU countries and could well turn into a thorn in the side of the Hungarian leader Viktor Orban.

“We cannot unscramble the scrambled eggs [in Hungary],” Jourova said, in a country “where everything and everybody is dependent on one party”, where “there is no public media but state media” and where “the difference between supporting a media economically in a transparent way and a corrupted media in a hidden way is big”.

Under Viktor Orban's 13-year rule, Hungary's media landscape changed dramatically since 2010 and this came in parallel with the decline of media freedom and the country's fall in various rankings measuring press freedom rankings.

With the government's help, 500 pro-government media outlets owned formerly by the prime minister's cronies were concentrated in a foundation (KESMA).

The media conglomerate operates with vast financial state funding, as advertising revenues favour pro-government outlets. Independent media maintain strong positions in other segments of the national market but are threatened by the discriminatory allocation of state funding.

State media has always been a battleground of parties, but it became a mouthpiece of the government after Orban's second supermajority in 2014.

The news departments, from TV to radio to the national news agency (MTI), have been perfectly subjugated by the government in recent years, with content often aligned with the government's political interests.

During the last election, the opposition's joint prime minister was given five minutes of airtime in the campaign.

To assess media independence, Parliament wants to oblige all media, including micro-enterprises, to publish information on their ownership structure.

Members also want media, including online platforms and search engines, to report on funds they receive from state advertising and on state financial support. This includes funds from non-EU countries.

# Hungarian finance minister suggests raising bank levy to cover rising budget deficit

Tamas Csonka in Budapest

**H**ungarian Finance Minister Mihaly Varga said the government could increase tax levies on banks, curb interest on subsidised loans, and put defence investments on ice to curb the country's soaring budget deficit.

Analysts agree that meeting the deficit target without austerity measures seems mission impossible for Viktor Orban's government, facing its biggest crisis since taking power in 2010.

Shares of OTP, Hungary's largest lender, plunged 6% on the news on the bank levy, and the forint edged 1% lower against the euro.

At a conference, central bank Governor Gyorgy Matolcsy clashed with Varga over who bears responsibility for the EU's highest inflation, saying that the government's botched economic policies, including price caps, lifted headline inflation by 3-4pp, and that has dampened economic growth.

Varga, in a keynote speech at the traditional two-day autumn conference of economists, had said the rise in energy prices, the drought and loose fiscal and monetary policies contributed to the EU's highest inflation in Hungary over the course of the last 12 months.

Whilst he acknowledged that inflation was partially fuelled by pre-election spending, a rare example of self-reflection by a Fidesz official, he said the primary responsibility lies with the MNB. The central bank carried on with the purchase of government and corporate bonds simultaneously to tightening lending conditions, sending mixed signals to the market, he said

He also blamed the MNB for prematurely ending its interest rate hike cycle at 13% in September 2022.

A month later the central bank was forced to increase rates by a record 5pp to 18%, introducing a new monetary instrument to curb the sell-off of the forint which hit record lows.

Matolcsy, speaking after Varga, defended the central bank's decision and said that Hungary was on the brink of a currency crisis in October. He compared the last few years of the government's measures to tackle inflation to a "mass disaster". While the MNB stepped on the brakes, the government's procyclical policy worked against monetary tightening, leading to overspending and higher inflation. Hungary's annual inflation peaked 10pp above its regional peers, close to 26% in early 2023, according to Matolcsy. The economy would have avoided a recession if inflation aligned with its regional peers.

In his speech, Varga flagged possible fiscal measures when the government reviews the budget, currently under way. According to the financial website Portfo.hu the planned tax changes will be presented next month, October, including details of the global minimum tax.

Varga pledged that the budget deficit will not exceed last year's 6.1% level, which analysts have interpreted as a sign that the government will abandon its deficit target.

Analysts unanimously agree that without fiscal correction, the budget deficit will overshoot the 3.9% target by at least 2pp. The budget gap in the first eight months widened to 97% of the full-year target.

Varga hinted at the possibility of revising or cutting interest on new subsidised loans, putting defence spending on hold and more importantly he flagged increasing financial burdens on banks if the sector's profit exceeds the record HUF1 trillion projected in 2023.

This has come a few months after the government vowed to halve the windfall tax for banks in 2024, contingent upon banks increasing their holding in government bonds.

The banking sector looks an obvious target, when it comes to finding additional revenue sources for the government, Portfolio.hu commented. In the first half, Hungarian banks, excluding foreign



Hungarian Finance Minister Mihaly Varga (left) and central bank Governor Gyorgy Matolcsy (right).

subsidiaries, booked an impressive HUF676bn in net earnings, due to the release of provisions and money parked at the MNB for high rates. But industry players claim that the favourable environment will be temporary, as the MNB is set to continue rates as disinflation gathers pace and the economy is facing the longest recession since 1995.

Hungarian banks are already sharing the financial burden with extra levies announced in 2022. So far this year, lenders have paid HUF77bn in bank tax, HUF226bn in windfall tax, and the interest rate caps on corporate and retail loans set them back HUF56.1bn.

Any increase in taxes would unquestionably hinder the expansion of credit supply by banks, precisely at a time when economic policy is eager to witness

a swift resurgence in the credit market.

Shortly after Varga's speech, the Fidesz faction issued a statement saying the government would not change interest-subsidised loans and would not raise bank taxes either. Faction leader Mate Kocsis, speaking at the break of a caucus meeting of the party said the comments reflect the private opinion of the finance minister. The rare rebuttal clearly marks a rift inside the ruling party on how to communicate impending and painful austerity measures, which look inevitable.

Financial analyst and prominent asset fund manager Viktor Zsidai said it is not a surprise that the government is targeting banks, reaping the benefit of high interest rates. In retrospect, it was naïve to believe that bank levies could be reduced, he added.

The Hungarian economy is facing the classic trap of countries pursuing procyclical fiscal policy, which is stimulating their economies in good times but lacking resources when a recession hits. This is compounded by high inflation, which is also hurting the country's recovery.

Hungary's OTP plunged 7% during the day to below HUF13,000 after Varga's comments. It erased some of its losses in the afternoon when Kocsis refuted the news that the bank levy would be upped. OTP shares plummeted 6.3% to HUF13,135 at the end of trading on the Budapest bourse.

The forint traded at 387.75 to the euro in the evening hours, weakening 1% on the day. ●

## Poland's first nuclear power plant clears key hurdle in ambitiously timed plan

Wojciech Kosciuszko in Warsaw

**T**he first-ever Polish nuclear power plant project has cleared a crucial hurdle on the path to completion by securing the all-important environmental decision on September 22.

The decision sets rules that the project must keep in order to limit its impact on the environment and is a must before the next major step, which is getting a go-ahead for the actual construction.

"This is a milestone in the implementation of an investment that is crucial from the point of view of [Poland's] energy security," Climate And Environment Minister Anna Moskwa said on X (formerly Twitter).

The plant will be located in the seaside municipality of Choczewo, some 80 kilometres west of Gdansk. According to the Polish government's ambitious plan for the project, construction is set to begin in 2026, with the first of three

units of the plant going on-grid just seven years later in 2033.

Poland will thus join most other CEE states as a producer of electricity from nuclear fission.

Nuclear power is the cornerstone of Poland's plan to reduce the currently dominant share of coal and lignite in electricity generation. Due to its reliance on dirty fossil fuels, the Polish electricity grid is one of the most carbon-intensive in Europe.

The country's energy transformation strategy assumes that coal's share in the energy mix will drop from roughly 70% today to no more than 28% in 2040.

Wind power – both on land and offshore – and solar energy are expected to drive Poland's decarbonisation effort before nuclear power complements the overhauled energy mix, which was

virtually 100% coal only 20 years ago.

The plant in Choczewo will use the US company's Westinghouse AP1000 technology and consist of three units. Poland's state-owned company PEJ is in overall charge of the project.

Critics have long questioned the ambitious schedule, pointing to the heavily delayed nuclear power projects elsewhere in the EU. There also is a local opposition to the project, claiming that the large plant will ruin local tourism potential.

The project has broad political support, however. Key opposition parties, the centrist Civic Coalition and the Left, both pledge to go on with further permitting and eventual construction of the plan should they replace the ruling Law and Justice (PiS) after the election on October 15. ●



According to European Commission President Ursula von der Leyen, the plan has the potential to double the size of the Western Balkans' economies in the next decade. / bne IntelliNews

# EU unveils growth plan for Western Balkans, offers financial stimulus for reforms

bne IntelliNews

**E**U leaders presented a new growth plan for the Western Balkans during the Berlin Process summit in Tirana, Albania, on October 16 involving granting partial access to the EU single market. They also offered financial support for the six Western Balkans countries contingent on their commitment to significant reforms prior to the planned EU enlargement.

The Berlin Process, which started in 2014 under the leadership of former German chancellor Angela Merkel, is a cooperation initiative associated with prospective EU expansion.

European Commission President Ursula von der Leyen said in her opening speech in the Albanian capital that the growth plan's primary objective is to narrow the gap with the EU by leveraging the potential within the Western Balkans and aligning it with the European single market. Currently, there is a considerable disparity between the Western Balkan economies, which are at 35% of the EU average GDP per capita (on a PPP basis).

According to her, the plan has the potential to double the size of the Western Balkans' economies in the next decade.

Von der Leyen emphasised that the enlargement process not only brings economic benefits to the joining countries but also enhances the EU as a whole by expanding the single market, which includes free movement of goods and services, road transport, energy, electricity, and integration into the EU's Digital Single Market.

Additionally, efforts will be made to streamline cashless payments through a unified European payment area.

Furthermore, deep-rooted reforms are imperative to enhance the business



climate and attractiveness of the environment, the European Commission chief highlighted.

These reforms will be accompanied by funding for investment from the European Union, if they take place.

"The EU Commission put forward an investment package totalling €6mn, comprising €2bn in grants and €4bn in loans. The underlying principle aligns with our investment strategy under NextGenerationEU for the member states," von der Leyen said.

In Tirana, it was suggested once more that the year 2030 is realistic for the EU's enlargement, with a primary focus on the Western Balkans.

#### Serbia-Kosovo conflict

The summit in Tirana also included discussions on Serbia and Kosovo's ongoing dispute. Charles Michel, President of the European Council, stressed that the EU cannot allow bilateral conflicts to hinder progress, particularly given the recent tensions between Serbia and Kosovo. Michel highlighted that cooperation hinges on reconciliation and that a stable future is contingent on it. Serbian Prime Minister Ana Brnabic

emphasised that in Kosovo, the essential conditions for the well-being of Kosovo Serbs are absent, categorising their plight as a humanitarian issue rather than a political one.

She also expressed bewilderment at Albanian Prime Minister Edi Rama's call for sanctions against Serbia, deeming it inconsistent with the principles of

"The whole world is under attacks that are destroying the peace and the order which we took for granted over the past decades"

good neighbourly relations and contrary to the objectives of the Open Balkans initiative, which include Albania, North Macedonia and Serbia.

Kosovo's Prime Minister Albin Kurti was also present at the Tirana summit, although Brnabic did not have a meeting with him. Nevertheless, Brnabic conveyed a clear message that it is crucial for Belgrade and Pristina to reengage in dialogue and establish the Association of Serbian Municipalities, as outlined in the Brussels Agreement.

German Chancellor Olaf Scholz emphasised the importance of implementing agreements brokered by the European Union to normalise relations and promote dialogue.

While this marks the tenth Berlin Process summit, it is the first time it has been hosted in a Western Balkan country.

Six Western Balkans countries are at various stages of the process. Montenegro and Serbia started the EU accession negotiation in 2012 and 2014, respectively. Albania and North Macedonia were given the green light for the start of negotiations last year, but Skopje has to make constitutional amendments required by Bulgaria to proceed in the process. Bosnia and Herzegovina is a candidate country, while Kosovo, which is not recognised by Belgrade, is a potential candidate. ●

## Moldovan president says 'great danger' from Russia requires new national security strategy

Julian Ernst in Bucharest

**M**oldova's President Maia Sandu unveiled for public debate the draft of the National Security Strategy at the meeting of the Supreme Security Council (CSS) on October 11.

At a press conference after the CSS meeting, the head of state emphasised that the document is based on three objectives, aimed at strengthening security in "the most dangerous moment since independence".

"We have two great dangers to national security today: the aggressive policy

pursued by the Russian Federation against our country and against peace, in general, and the corruption rooted in Moldova," said Sandu, a statement from the presidency said.

"The whole world is under attacks that are destroying the peace and the order which we took for granted over the past

"Neutrality does not mean that we should be passive and helpless"

decades ... Here in Moldova, we cannot pretend that this does not concern us. If we ignore the harsh reality, it will not go away. We must be prepared and make a clear choice on which side of the world we want to be on," Sandu added.

EU membership is one of the strategy's targets, besides boosting investments



Moldovan President Maia Sandu unveils the country's new National Security Strategy. / presedinte.md

in the national defence system and revisiting the country's international relations notably in regard to Russia.

The project includes several key areas such as the investment in defence, the peaceful resolution of the Transnistrian

conflict, the fight against corruption and the development of security partnerships with other countries.

"Neutrality does not mean that we should be passive and helpless. On the contrary, it obliges us to strengthen our

defence capabilities and create a modern army," the president said.

The settlement of the conflict in the separatist region Transnistria should be pursued "with the active participation of the European Union and other strategic partners," Sandu noted. She previously called for the replacement of the Russian peacekeepers with international forces and for the withdrawal of all Russian troops from the separatist territory.

Fighting against corruption is outlined as a part of the security strategy.

"Corruption in the system threatens the security of Moldova and promotes foreign interference in the internal affairs of the country, including through dirty money obtained from illegal activities," Sandu argued. ●

## EU ministers discuss multi-speed Europe to prepare for enlargement

bne IntelliNews

**M**inisters from across the European Union discussed issues related to enlarging the bloc to potentially include up to eight additional countries at a meeting in the Spanish city of Murcia on September 28.

The meeting of EU general affairs ministers took place shortly after France and Germany put forward an expert paper calling for a comprehensive overhaul of the EU's decision-making processes and financial structures if the bloc intends to admit additional member countries by 2030.

To enable enlargement of the bloc from the current 27 members, substantial changes are needed to decision-making processes, agricultural policies and regional aid budgets, the paper argues.

The meeting in Murcia, organised by the Spanish EU Council presidency, was intended to prepare for the summit of

the European Political Community (EPC) on October 5 and the EU Council summit on October 6.

At the meeting, ministers discussed the budgetary implications of enlarging the EU to more than 30 – or potentially more than 35 – member states and the institutional reforms that would be necessary, a statement from the Spanish EU Council presidency said. Also discussed was the concept of Open Strategic Autonomy, namely ensuring the capacity to cope alone if necessary but without ruling out cooperation whenever possible.

Spain's acting Minister of Foreign Affairs, European Union and Cooperation José Manuel Albares said that many states want to be part of the EU because they share the same values and aspirations. The meeting "has made progress on the new strategic agenda of the European Union, which will be approved next year

and which supports and is supported by enlargement and Open Strategic Autonomy," Albares added.

"[EU] reform & [EU] enlargement have to go hand in hand," wrote Germany's Europe Minister Anna Luhrmann on the X social media platform (formerly Twitter).

"While candidate countries need to prepare, we have to do our homework as well. Looking forward to fruitful debates on how to ensure our capability to act, to protect rule of law and to engage citizens in a bigger EU," Luhrmann added.

### Enlargement progress

There are currently eight countries with EU accession candidate status: five of the six Western Balkan states – Albania, Bosnia & Herzegovina, Montenegro, North Macedonia and Serbia – as well as Moldova, Turkey and Ukraine. Georgia and Kosovo are potential candidate states.

There has been growing frustration among the accession candidates from the Western Balkans in recent years because of the slow pace of enlargement; no new country has joined the EU since Croatia in 2013.

However, following Russia's invasion of Ukraine there has been a new emphasis on enlargement. That resulted in Moldova, Ukraine and later Bosnia being given candidate status, while Albania and North Macedonia were given the go ahead to start accession negotiations in 2022.

"A Europe that is expanding, strengthening and can play on an equal footing with other powers in an unstable world. This is the challenge of the next decade," commented French Europe Minister Laurence Boone on X.

EU Enlargement Commissioner Várhlyi said the meeting had "analysed ways of speeding up enlargement". He commented that "the most important thing at the moment is to put all the tools on the table to speed up accessions" and said the EU Council "has to be ready to admit new members before 2030".

Várhlyi plans to present a package "which will include ten candidate countries or countries with the prospect of accession" within the coming weeks.

#### Internal reforms needed

2030 has been put forward as a potential target date for accession, but influential politicians including French President Emmanuel Macron have stressed the need for internal reforms to the EU before that takes place.

The decision-making process in particular may be changed, as currently unanimity is required for decisions on important issues such as foreign and security policy and taxation. As the bloc expands, however, the unanimity requirement is perceived as potentially hindering or even obstructing the progress of the EU.

Another area where change may be required is agriculture, given Ukraine's importance as an agricultural producer.

Letting Ukraine into the EU would require substantial alterations to the current system of direct payments to farmers.

Similarly, the EU's regional policy, which currently allocates funding to support the development of less affluent EU member states, would need to be altered.

The Franco-German document, put forward for an initial discussion on

The deepest level of integration would comprise an inner circle akin to the eurozone, where member states use the single currency and are members of the passport-free Schengen travel zone.

The second tier would encompass the broader EU, while a larger circle beyond that would consist of associate members. These associate members would take part in the EU's single market for goods and services and uphold the EU's common principles.

**"A Europe that is expanding, strengthening and can play on an equal footing with other powers in an unstable world. This is the challenge of the next decade"**

September 19, proposed allowing certain EU countries to engage in varying degrees of cooperation, effectively creating four tiers of European integration.

Lastly, there would be the European Political Community that would serve as an outer tier for political cooperation, but whose members are not bound by EU law." ●



Ministers at the informal general affairs meeting in Murcia on September 28. / European Council





Boyko Borissov allegedly money laundered €5mn through property in Barcelona. / bne IntelliNews

## Bulgarian prosecutors drop Barcelonagate investigation into Borissov

bne IntelliNews

**T**he Sofia City Prosecution has ended the investigation dubbed Barcelonagate into alleged moneylending by former premier Boyko Borissov, saying the evidence was inconclusive, it announced in a statement on October 17.

At the end of May, the Sofia prosecution asked then chief prosecutor Ivan Geshev to demand the lifting of the Gerb leader's immunity, based on evidence of money laundering related to the 'Barcelonagate'

In July, when Geshev was no longer chief prosecutor and was replaced by acting prosecutor general Borislav Sarafov, Borissov gave up his immunity voluntarily. At the time, there were rumours that Borissov had given up his immunity so that the information provided to parliament would remain confidential.

Now the prosecution says it was unable to find evidence that points inconclusively to money laundering.

**"A team of prosecutors from the Sofia City Prosecutor's Office has come to the conclusion that there is no evidence to indicate in an undoubted and categorical way the crime for which the pre-trial proceedings were initiated"**

money laundering case. Several days later, Geshev did that and subsequently provided a huge amount of evidence to parliament.

"After a thorough analysis and verification of all collected materials, a team of prosecutors from the Sofia City Prosecutor's Office has come to the

conclusion that there is no evidence to indicate in an undoubted and categorical way the crime for which the pre-trial proceedings were initiated, namely a crime under Art. 321 of the Criminal Code, and also for money laundering, consisting in the purchase of real estate in the Kingdom of Spain, the city of Barcelona," the prosecution said in the statement.

It added that the testimony of witnesses does not contain allegations that Borissov personally or through an intermediary acquired the house in Barcelona in March 2013 worth nearly €3mn. It also concluded there was no strong evidence that Borissov had secured the funding for renting a luxury shop in the centre of Barcelona.

The information about possible money laundering involving people linked to Borissov was first revealed back in 2020 by Spanish *El Periodico* and confirmed at the time by the police. In February 2022, the government said it had received new evidence indicating that €5mn was laundered in the scandal.

The probe was then dropped, but in May this year was reactivated, coinciding with a rift between Borissov and Geshev.

According to *El Periodico*'s publication, police in the autonomous region of Catalonia were probing whether Borissov was linked to an international money laundering scheme. The article outlined allegations that former model Borislava Yovcheva (who has been linked to Borissov), her father and two companies received more than €5mn since 2013 from non-Spanish individuals.

According to Bulgarian investigative news portal Bivol.bg, Borissov has a child with Yovcheva and he has bought her the luxury house in Spain. These allegations were denied by the former prime minister several times.

The case concerning the luxury house in Barcelona was made public for the first time in 2015, when a leaked conversation between two judges and an unknown third individual included the claim that Borissov had bought a property in Barcelona for a girlfriend for €1.5mn." ●



# Erdogan finally submits Sweden's Nato bid to Turkey's parliament for ratification

bne IntelliNews

**T**urkey has finally submitted a bill approving Sweden's application for Nato membership to its parliament for ratification – but there is no guarantee it will be moved to a vote quickly.

There is no set timeframe for ratification. The bill will be placed on the agenda of the legislature's foreign affairs commission. Only after that commission passes the drafted legislation will it come before the general assembly.

The process gives Turkish President Recep Tayyip Erdogan ample opportunity to continue to frustrate Turkey's Nato allies with more delays to ratification should he wish to do so in pursuit of payoffs. The issue most commonly cited in this area is the demand for US congressional approval for a \$20bn sale of F-16 jets

and modernisation kits to Ankara, but Erdogan could also be pressing for other rewards-for-ratification from the Western powers behind the scenes. Turkey is currently in a spat with the US over its military operations against US-allied Kurdish groups in Syria and is walking a diplomatic tightrope in addressing the Gaza crisis. Erdogan could have demands relating to both of these complex matters and others.

In July, Erdogan announced at a Nato summit that he would send the ratification bill to parliament when it reopened on October 1, having previously raised objections over Sweden's alleged harbouring of Kurdish terrorists who pose a threat to Turkey. Sweden has denied harbouring terrorists but has moved to tighten its terrorism laws.

"The Protocol on Sweden's NATO Accession was signed by President Recep Tayyip Erdogan on October 23, 2023 and referred to the Grand National Assembly of Turkey," the Turkish presidency said on social media platform X without elaborating.

Sweden's Prime Minister Ulf Kristersson welcomed the move. He tweeted that Stockholm was looking forward to attaining Nato membership, saying: "Now it remains for the parliament to deal with the question."

Sweden as well as Finland applied to join the transatlantic defence bloc last year following Russia's February invasion of Ukraine. Finland's membership was granted in April. Sweden's bid has been held up by Turkey and Hungary. Hungary's demands in return for ratification are yet to be clearly spelled out. ●



Erdogan has slow-tracked Sweden's Nato bid. Western capitals hope to see a successful end to the matter soon. / Turkish Presidency.



According to Schröder the peace deal that was taking shape was shot down by the US at the last moment. / bne IntelliNews

# Former German leader Schröder divulges more detail on thwarted Russia-Ukraine peace deal

Ben Aris in Berlin

**F**ormer German chancellor Gerhard Schröder is the latest figure to confirm that a Russia-Ukraine peace deal was nearly reached in the spring of 2022. He discussed the apparent near-success that could have brought the war in Ukraine to an early end in an interview with *Berliner Zeitung* on October 21.

"At the peace negotiations in Istanbul in March 2022 with [the now Defence Minister of Ukraine] Rustem Umerov, the Ukrainians did not agree on peace because they were not allowed to. For everything they discussed, they first had to ask the Americans," Schröder told the German newspaper.

The question of whether a peace deal was so very nearly sealed between Ukraine and Russia remains a hugely controversial topic. As *bne IntelliNews* reported at the time, a contemporary report by *Ukrainska Pravda* claimed a deal between the Kremlin and Bankova was put together in March and April.

"Wow! The Ex-leader of Germany corroborates statements by ex-Israeli PM [Naftali Bennett], Ukrainian officials close to [Ukraine's leader Volodymyr] Zelenskiy, ex-senior US officials and Russian leaders," Ivan Katchanovski, a professor of political studies at the University of Ottawa, said in response to the interview with Schröder.

As the parties moved towards concluding the deal, the massacre at Bucha in Ukraine, a slaughter of hundreds of innocent civilians committed by retreating Russian troops, was discovered. The effort to seal the agreement was reportedly abandoned after former UK PM Boris Johnson flew to Kyiv to meet with Zelenskiy a few days later and advised him to abandon the path to the deal as the West would withdraw its support if he did not.

Schröder was involved in the talks and, according to his interview, most of the peace deal negotiations were conducted before the Bucha story broke. Moreover, he claims it was the White House that

refused to accept a deal as it wanted to “keep Russia small”, by continuing to fight a resource-burning proxy war in Ukraine. Schroeder’s version of events suggests that Johnson was delivering a US message, not expressing his own view.

Schroeder remains one of the very few former Western leaders that remains close to Russian President Vladimir Putin. The two men worked together for almost a decade when Schroeder was German chancellor. Schroeder was immediately given a seat on the board of Russia’s biggest oil company Rosneft after he left office. He has remained a strong advocate for Russian interests and was a vocal Putin supporter in the run-up to the war in Ukraine.

Thanks to his close rapport with Russia, Schroeder was included in the March 2022 talks held in Istanbul that attempted to bring the conflict to an end.

Prior to Schroeder’s statements, Israel’s Bennett confirmed that a peace deal was almost cut in Istanbul, but that the efforts were scuppered at the last moment by the US. Putin also recently confirmed a deal was agreed.

Putin made his first public remarks on the deal during a press conference taking questions from war correspondents at the Kremlin on June 13, 2023. He also confirmed that a peace deal had been tentatively agreed in March in Istanbul. The deal would have seen Russia withdraw to its pre-war position in exchange for a Ukrainian promise to give up its Nato aspirations.

But at the June press conference, Putin corroborated other reports on just how the deal had progressed. The tentative agreement had been initialled by both sides. “I don’t remember his name and may be mistaken, but I think Mr Arakhamia headed Ukraine’s negotiating team in Istanbul. He even initialled this document.” Russia, too, signed the document: “during the talks in Istanbul, we initialled this document. We argued for a long time, butted heads there and so on, but the document was very thick and it was initialled by Medinsky on our side and by the head of their negotiating team.”

The host of the Istanbul talks has also confirmed a deal was done. Turkish Foreign Minister Mevlut Cavusoglu told the local Turkish press that, because of the talks, “Turkey did not think that the Russia-Ukraine war would continue much longer.” But, added, “There are countries within Nato who want the war to continue.”

“Following the Nato foreign ministers’ meeting,” he explained, “it was the impression that...there are those within the Nato member states that want the war to continue, let the war continue and Russia get weaker.”

Cavusoglu is not alone. Numan Kurtulmus, the deputy chairman of Erdogan’s ruling party, told CNN TURK that “We know that our President is talking to the leaders of both countries. In certain matters, progress was made, reaching the final point, then suddenly

“Following the Nato foreign ministers’ meeting, it was the impression that...there are those within the Nato member states that want the war to continue, let the war continue and Russia get weaker”

we see that the war is accelerating... Someone is trying not to end the war. The United States sees the prolongation of the war as its interest... There are those who want this war to continue... Putin-Zelenskyy was going to sign, but someone didn’t want to.”

More recently Russian Foreign Minister Sergei Lavrov confirmed elements of the same story, with remarks made during his “Empire of Lies” speech at the UN, saying Russia signed off on the details of a ceasefire.

“We were not only ready – we agreed to negotiate, we reached an agreement in April 2022. And after that, as I understand it, Zelenskyy was told: since they agreed so quickly, let’s exhaust [Russia],” said Lavrov.

### Details of the deal

According to Schroeder the deal would have included the following main aspects:

- Ukraine would abandon its Nato aspirations;
- The bans on the Russian language in Ukraine would be removed;
- Donbass would remain in Ukraine but as an autonomous region (Schroeder: “Like South Tyrol”);
- The United Nations Security Council plus Germany should offer and supervise the security agreements; and
- The Crimea problem would be addressed.

“Umerov opened the conversation with greetings from Zelenskyy. As a compromise for Ukraine’s security

guarantees, the Austrian model or the 5+1 model was proposed. Umerov thought that was a good thing,” said Schroeder. “He also showed willingness on the other points. He also said that Ukraine does not want Nato membership. He also said that Ukraine wants to reintroduce Russian in the Donbass. But in the end, nothing happened.”

“My impression was that nothing could happen, because everything else was decided in Washington,” said Schroeder, who had two sessions of talks with Umerov, then a one-on-one meeting with Putin in Moscow, and then a meeting with Putin’s envoy.

In an interview posted to his YouTube channel in February this year, Bennett said something very similar in reference

to the US and its European allies. "Basically, yes. They blocked it, and I thought they were wrong [to do so]," he said, speaking of the efforts to end the war in March and April last year.

Schroeder also confirmed that the Europeans didn't push for the deal. "They have failed. There would have been a window in March 2022. The Ukrainians were ready to talk about Crimea. This was even confirmed by Bild newspaper at the time," Schroeder said holding up a copy of the German daily with the title "Finally peace in sight?"

Bild reported at the time that Zelenskiy was no longer insisting on his country's accession into Nato and that he was also

Schroeder also said that Bucha didn't change anything. Interviewed by the BBC on-the-ground in Bucha, Zelenskiy confirmed to a reporter that the peace deal talks were still on: "I have to [have these talks]," Zelenskiy said at the time.

The *Berliner Zeitung* reporter repeated to Schroeder Ukrainian statements that the Bucha massacres committed by the Russian soldiers meant the end of the negotiations.

"Nothing was known about Bucha during the talks with Umerov on March 7 and 13," Schroeder replied. "I think the Americans didn't want the compromise between Ukraine and Russia. The Americans believe they can keep the Russians

"What do the Russians want? Status quo in Donbass and Crimea. Not more. I think it was a fatal mistake that Putin started the war. It is clear to me that Russia feels threatened. Look: Turkey is a Nato member. There are missiles that can reach Moscow directly. The USA wanted to bring Nato to Russia's western border, with Ukraine as a new member, for example. All of this felt like a threat to the Russians. There are also irrational points of view. I don't want to deny that. The Russians responded with a mix of both fear and forward defence. That's why no one in Poland, the Baltics, and certainly not in Germany – all Nato members, by the way – has to believe they are in danger. The Russians would not start a war with any Nato member," Schroeder concluded.

Schroeder noted that while the West continued to supply Ukraine with arms, it was not combining that with an offer to start talks.

"If you combine that with an offer, you can do that," said Schroeder. "Why do [German Chancellor Olaf] Scholz and [French President Emmanuel] Macron not combine the arms deliveries with an offer to talk? Macron and Scholz are the only ones who can talk to Putin... None of the people who matter are moving. The only one who got anything done, even though he is always vilified, was [Turkish President Recep Tayyip] Erdogan with his grain agreement. This really bothers me."

Schroeder described what he regarded as Russian paranoia over Western expansion and said any deal would have to take account of Russian fears.

"Nobody in the West wants to hear it: No matter who is in power, there is a conviction in Russia that the West wants to expand further with Nato, namely into the post-Soviet space. Keywords: Georgia and Ukraine. No one at the head of Russia will allow this. This threat analysis may be emotional, but it is real in Russia. The West must understand this and accept compromises accordingly, otherwise peace will be difficult to achieve...." Schroeder ended. ●

## "Zelenskiy was no longer insisting on his country's accession into Nato and that he was also ready for a "compromise" on Crimea and the breakaway provinces in the Donbass"

ready for a "compromise" on Crimea and the breakaway provinces in the Donbass.

*bne IntelliNews* reported at the time that Ukraine was prepared to give up on its Nato ambitions, and that this was announced by members of the Ukraine negotiating team meeting with their Russian counterparts during the several weeks the talks went on.

Schroeder insisted that the US was in the driving seat of the negotiations, although the White House has repeatedly stated that the only people that can decide to start ceasefire talks are the Ukrainians. Schroeder flatly contradicted that rhetoric.

"[The Ukrainians] first had to ask the Americans about everything they discussed... My impression: Nothing could happen because everything else was decided in Washington. That was fatal. Because the result will now be that Russia will be tied more closely to China, which the West should not want," Schroeder said.

down. Now it is the case that two actors, China and Russia, who are constrained by the USA, are joining forces. Americans believe they are strong enough to keep both parties in check. In my humble opinion, this is a mistake. Just look at how torn the American side is now. Look at the chaos in Congress."

However, Schroeder did not end his interview without offering some hope for peace. Asked if he thought the peace plan could be revived he replied: "Yes. And the only ones who can initiate this are France and Germany."

Asked how the West could come to trust the Russians after the litany of broken promises in the lead-up to the war and since it started, Schroeder scoffed at the idea that Russia has ambitions to invade Europe.

"We have no threat. This fear of the Russians coming is absurd. How are they supposed to defeat Nato, let alone occupy Western Europe?" Schroeder replied.



# Belgium moves first to tap Russian central bank's frozen reserves, creates a €1.7bn Ukraine fund

Ben Aris in Berlin

**B**elgium has become the first European country to seize the profits of Russia's frozen \$300bn of Central Bank of Russia (CBR) reserves, it was reported on October 11.

Belgium will create a €1.7bn fund from the taxes charged on profits generated from frozen Russian assets, according to Belgium's prime minister, Alexander De Croo.

"Here in Belgium, we have taxation on the income from these frozen assets. Last year, it became obvious to us that the income taxes on these assets should be 100% aimed at helping the Ukrainian people. We did it last year and will do it this year," the prime minister noted.

These funds will go to the military, and humanitarian aid will be sent to the European Peace Fund to support the macroeconomics of Ukraine.

The president of Ukraine, Volodymyr Zelenskiy, thanked De Croo for the initiative and said that the money from the €1.7bn fund will be used next year, UBN reports.

"It is crucial that Belgium became the first country to start using frozen Russian assets to support Ukraine against Russian terror," Zelenskiy said.

Only days after Russia's invasion of Ukraine last year the EU imposed the CBR sanctions that froze half of Russia's reserves held in Europe.

Since then, the funds have become a political football as a debate raged over the legality of seizing the funds to use as reparations to pay for the reconstruction of Ukraine's economy post-war.

Western courts are free to freeze funds believed to be accumulated as a result of criminal activity. Seizing them – transferring the ownership of those funds – is legally more difficult, however. The frozen funds technically still belong to the CBR and should be returned after the war is over. Legally, to seize the funds there needs to be a criminal conviction, or in the case of countries, the EU would need to declare war on Russia.

The West has been reluctant to illegally seize the funds as it fears undermining its property rights and sparking an exodus of funds held in Europe by other countries that could destabilise both the financial sector and the euro. The European Central Bank (ECB) has been especially outspoken against requisitioning the CBR's money for the damage it would do to the reputation of Europe's common currency.

While the EU has ruled out seizing the CBR's principle capital, the legality of

seizing the profits generated by that capital is less clear. After a year-long hunt, about two thirds of the capital was discovered to be held by the Belgium-based Euroclear payment-and-settlement system, invested into various securities that are generating approximately \$3bn a year of profit for the CBR.

However, the Belgium proposal neatly side-steps all the property-right problems as it proposes to only redirect the taxes on the profits to Ukraine, taxes the government is entitled to levy and use as it likes. Both the principle and the profits from investments will remain untouched and continue to technically remain the property of the CBR.

The development is important as Ukraine will run out of money if the international community reduces its funding next year. Following the removal of a \$300mn allocation from a US spending bill at the start of October, funding for Ukraine is in increasing doubt.



Belgium is creating a €1.7bn Ukraine fund that is funded by taxing the profits earned by the Central Bank of Russia's frozen \$300bn reserves. / bne IntelliNews

Ukraine's 2024 budget expects \$43bn in funding from the international community to cover the \$39bn deficit – half of all of Ukraine's funding for next year is supposed to come from its foreign partners. US President Joe Biden has proposed to submit a bill for a package ranging from \$50bn to \$200bn, according to various reports this week, that would put the funding issue to bed for the next one or two years. But the passage of the bill, which may be submitted in the coming month, is in doubt.

US support for Israel will not affect aid to Ukraine, the US president's national security adviser, Jake Sullivan, said on October 11. The US can support Ukraine in Europe, its allies in the Indo-Pacific region, and Israel in their hour of need, as the White House tries to play down worries that further funding of Ukraine's war with Russia are about to dry up.

The EU is also debating a four-year, €50bn package, however, the visibly growing Ukraine fatigue has also raised question marks over this allocation. For example, Hungarian Prime Minister Viktor Orban has already suggested that

€50bn is too much and wants to cut the sum in half.

Due to uncertainty of further US support, the chairwoman of the US Federal Reserve bank, Janet Yellen, approved the EU's plan to tax the Russian Federation's frozen assets on October 12.

Yellen strongly supported the EU's plan to introduce a windfall tax on frozen Russian assets as a way of increasing the funding for Ukraine. It is hoped the plan will also stimulate the attraction of new funds to support Ukraine.

The governments of some EU countries were waiting for official US approval of a plan to use the profits obtained from more than €200bn of frozen assets belonging to the CBR before giving the green light to its own €50bn package. The Russian assets in Euroclear had generated €750mn in profit by the first quarter of this year.

After a meeting in Brussels with Ukrainian President Vladimir Zelenskiy on October 11, the Belgian prime minister promised to create a fund of

€1.7bn to finance assistance to Ukraine. Euroclear received €1.7bn in profit from investing frozen Russian assets in the first half of 2023.

While the Belgium money will help, it remains far too little to pay for the reconstruction of Ukraine. Kyiv School of Economics recently estimated the value of just the physical damage to the country at \$150bn and, in April, the World Bank estimated the total cost of the damage at \$411bn. Without using the frozen CBR money to pay for Ukraine's recovery, the plan has turned to calling on the private sector to invest into Ukraine, as outlined at the Ukraine Recovery conference held in London in June. But that remains an ambitious goal, given that investors remain wary as Ukraine has a corruption problem that is far from being solved.

An extension of using taxes on frozen Russian assets is likely to be included in the 12th sanctions package that is currently being prepared. The European Commission has not yet described the details for the new sanctions package, although all deadlines have already passed. ●

## Ukraine to become “a military production hub” as counter-offensive stalls

Ben Aris in Berlin

**U**kraine hosted an international defence industry conference in Kyiv on September 30. The country hopes to attract international arms manufacturers and make Ukraine a “large military production hub”, as the government searches for ways to arm itself and break a stalemate that has developed on the battlefield.

Ukraine's President Volodymyr Zelenskiy suggested that the West create an “arsenal of the free world” in Ukraine where Western firms establish the production of shells, missiles and drones in the first Defence Industries Forum, which brought together representatives

of 252 foreign military companies from over 30 countries. Defence ministers and representatives of several countries also attended the event.

Zelenskiy is ready to offer “special conditions” to companies that will produce weapons with Ukraine or on its territory. The event marked a new development in support of Ukraine, with the previous focus being on the delivery of weapons, repair of damaged equipment and military training of Ukrainian soldiers.

“Heroism alone cannot intercept missiles. Ukraine needs capabilities, high quality,

high quantity, and quickly. There is no defence without industry,” said Nato Secretary General Jens Stoltenberg, who spoke by video link during the forum on the day after his visit to Kyiv.

As *bne IntelliNews* reported, Ukraine was running out of ammunition last year, and since then the West has invested almost nothing into ammunition production, leaving the AFU undersupplied and outgunned by their Russian opponents.

Next year Ukraine will likely come under more pressure as Russia's 2024 budget has doubled the military spend to RUB10.8



trillion (\$112bn), or 6% of GDP, as Russian President Vladimir Putin goes all out on the war and prepares for a long fight. Ukraine's 2024 budget has also boosted military spending to 20% of GDP, but at UAH1,164bn (\$33bn), Russia is spending three times more on its war effort than Ukraine.

Turkey had already promised to set up a Bayraktar TB2 drone factory in Ukraine before the war started and now says it is investing \$100mn in three projects in Ukraine, among them the construction of a drone production plant that will be completed in one and a half years.

And last week leading German weapons maker Rheinmetall entered into a joint venture with Ukraine's state-owned counterpart, the Ukraine Defence Industry group (UDI), to build facilities to make and repair weapons, Rheinmetall said on its website on September 29. The strategic co-operation between Rheinmetall and UDI, formerly known as Ukroboronprom, began in May 2023 but now the relationship will deepen.

British arms producer BAE Systems has also announced plans to team up with Ukrainian producers.

Ukraine's Foreign Ministry said Ukrainian producers had signed about 20 agreements with foreign partners for

joint production, exchange of technology or supply of components to make drones, armoured vehicles and ammunition. It did not identify the companies.

"It will be a mutually beneficial partnership. I think it is a good time and place to create a large military hub," Zelenskiy said during a separate meeting with US, British, Czech, German, French, Swedish and Turkish weapons producers, *Reuters* reported.

#### Counter-offensive makes no progress

The focus on weapons comes as several recent reports say that Ukraine's much vaunted counter-offensive is making very little progress. After a secret meeting between Ukraine's high command and top Nato generals at the start of September saw a change of tactics and a concentration of Ukraine's forces on the southern front, little new territory has been taken, despite reports that the AFU has broken through Russia's defensive lines there.

The NYT ran a report that shows Ukraine has retaken almost no new land since the highly successful Kharkiv offensive last September and Russia's withdrawal from Kherson at the end of the same month.

Another report shows that the least territory changed hands in August since the war started and that there have been

no significant territory changes in the last month.

The war has now descended into a stalemate, with Ukraine unable to make any progress because of the limits on the supply and power of weapons being supplied by the West. Bringing production of arms to Ukraine would give Kyiv more options to increase the strength of its offensive.

It would also allow Kyiv to produce more armour that is more appropriate to the war it is fighting. The West's supply of the modern German-made Leopard tanks was hailed as a major advancement when they were promised last year, but without the accompanying air support – the mooted supply of US-made F-16 will not arrive until at least next year – the Leopards have failed to make any significant impact on the battlefield.

Indeed, some have questioned the value of the supply of these high tech Western weapons. Western-made armour isn't working in Ukraine because it wasn't designed for a conflict of this intensity, Ukrainian analyst said in a recent interview with *Business Insider*.

Other weapons systems, like the highly accurate HIMARS missiles and the Javelin anti-tanks missiles, clearly have

had a major impact and have inflicted devastating losses on the Russian forces.

But the armoured systems and tanks are susceptible to artillery and mines, which Russia has used liberally in its defensive lines and which have proved to be a fearsome challenge as Ukraine presses up against the extensive Russian defensive networks in the counter-offensive. Less than 5% of tanks destroyed since the start of the war had been taken out by other tanks, Ukrainian officials said in a *Wall Street Journal* report, with the rest falling to mines, artillery, anti-tank missiles and drones. The relative superiority of Western tanks vs the Russian Soviet-era vintage tanks counts for little in this type of fighting.

Taras Chmut, a military analyst who's the head of the Come Back Alive Foundation, which has raised money to purchase and provide arms and equipment to Ukraine, told Business Insider that "a lot of Western armour doesn't work here because it had been created not for an all-out war but for conflicts of low or medium intensity."

"If you throw it into a mass offensive, it just doesn't perform," he said.

Chmut went on to say Ukraine's Western allies should instead turn their attention to delivering simpler and cheaper systems, but in larger quantities, something Ukraine has repeatedly requested, the newspaper reported.

### Nato on weapons supplies

Nato Secretary General Jens Stoltenberg arrived in Kyiv a few days earlier to meet Zelenskiy to talk about arms production. Stoltenberg has previously admitted that many Nato allies have significantly run down their stocks of weapons in order to support Ukraine and need to increase production if that support is to continue. "This was the right thing to do, but now we need to ramp up production, both to meet Ukraine's needs and to ensure our own deterrence in events," he said.

For example, the West has used up most of its stock of 155mm artillery shells and part of the motivation to supply Ukraine with the controversial cluster munitions is that they can be fired from the 155mm calibre guns and the West still has a large stockpile of these munitions.

Zelenskiy said he agreed with US President Joe Biden during his recent visit to Washington on "the establishment of a new industrial ecosystem that will strengthen both Ukraine and all the partners." Zelenskiy described it as "one of the key outcomes" of his negotiations with Biden in Washington.

Zelenskiy's chief of staff, Andriy Yermak, also said that there will soon be meetings with representatives from the US "to determine the road map of co-operation with the partners about

localization of production, specifically in Ukraine," Al Jazeera reported.

During the forum, Zelenskiy announced the creation of the Defence Industries Alliance and added that 13 defence companies have already signed the corresponding declaration. Ukraine plans to establish a special fund to finance the construction, which will be paid into through dividends from state defence resources and profits from the sale of confiscated Russian assets, Zelenskiy said.

Foreign Minister Dmytro Kuleba said talks on setting up production have been going on since last autumn. "At first, we were talking about repairs within Ukraine, and then about joint production. And now this topic is prevalent everywhere," said Kuleba. "Just as we have benefited from Western weapons, Western arms manufacturers also gain unique advantages in the market to improve their models and create even more powerful weapons."

Ukraine's recently appointed Defence Minister, Rustem Umerov, said the country must do everything possible to produce all the necessary military services at home. The other priority is the development of defence technologies. Ukraine is also investing heavily into drone innovations, which have been used to devastating effect on the battlefield.

"Ukraine is in such a phase of the defence marathon when it is very important, critical to go forward without retreating. Results from the frontline are needed daily," Zelenskiy told executives at the forum. "We are interested in localising production of equipment needed for our defence and each of those advanced defence systems which are used by our soldiers, giving Ukraine the best results at the front today."

Zelenskiy said that air defence and de-mining were his immediate priorities, followed by boosting domestic production of missiles, drones and artillery ammunition. ●



Over 250 international defence companies were in Kyiv to talk about setting up shop in Ukraine, as the government seeks to break the deadlock on the battlefield, where little progress has been made in months.



# Ukraine's corruption problem

Ben Aris in Berlin

"Ukraine is the most corrupt country in Europe." This claim is bandied about by Russia's supporters and those that want to see the war come to an end. But the claim is hotly disputed by Ukraine's supporters, who point to the raft of reforms and laws that have been introduced in recent years and the growing number of arrests of corrupt officials.

Wherever the truth lies, no one denies that Ukraine has a major corruption problem and that this is now threatening the government's funding by its international donors and its ability to raise the hundreds of billions of dollars of investment needed to pay for the eventual post-war reconstruction.

Transparency International's 2022 Corruption Perceptions Index (CPI), which scored 180 countries on a scale from 0 ("highly corrupt") to 100 ("very clean"), ranks Ukraine at 116 out of 180 with a score of 33, ahead of Russia's score of 28 and ranking of 137, which has the lowest ranking of any European country.

Critics of the CPI point out that the score is based on a poll and ranks "perceptions" of corruption. There is no methodology to try to measure actual corruption so that Ukraine benefits from its good image in the international press. On the flip side, Russia has also put through some deep structural reforms and cracked down on corruption. Before becoming Prime Minister, Mikhail Mishustin was head of the tax service and after his revamp tax receipts went up by 20%, while the tax burden went up only 2%.

"Corruption is not a problem of the system. It is the system," a Ukrainian minister told *bne IntelliNews* in a private conversation a few years ago. Top politicians use their appointment to a lucrative ministerial job as the incentive to create loyalty to a leader, and their ability to take that job away is the basis of their power.



Ukraine's detractors claim it is the most corrupt country in Europe. That's a hotly disputed claim, but there is no denying it is very corrupt and that is a big problem. / bne IntelliNews

The debate continues. While it's clear Ukraine remains very corrupt, it is also making progress in stamping out corruption.

"Although it still scores low, war-torn Ukraine is one of few significant improvers on the CPI, having gained eight points since 2013. The country has long struggled with systemic abuse of power, but has taken important steps to improve oversight and accountability," Transparency International said in its more recent report.

Even while fighting back the invasion of February last year, by June the same year the parliament adopted a National Anti-Corruption Strategy and appointed a new head of the office that brings corruption cases before the courts.

"The strengthening of state institutions and functions vulnerable to corruption has been another vital factor in the country's progress: research shows that interference in the judiciary by oligarchs and other vested interests was one of the key corruption risks before the war."

## Corruption threatens Ukraine's funding

Good, but not good enough. The EU is slated to start Ukraine's EU negotiations on December 15, but the continuing high levels of corruption have unsettled Ukraine's supporters and is now threatening its funding by the Western allies.

"All layers of society are corrupt in Ukraine; it is not yet ready to join the EU," former European Commission President Jean-Claude Juncker in an interview with the *Augsburger Allgemeine* at the start of October.

"We should not make false promises to people in Ukraine who are suffering up to their necks. I am very angry with some voices in Europe who are trying to convince Ukrainians that they can become EU members immediately. This would not be good for the EU or for Ukraine," Juncker said.

"Despite the efforts, it is not ready for accession, it needs large-scale internal reforms. We have had bad experiences with some of the so-called new members, for example, with the rule

of law. This should not happen again," Juncker said.

During a conversation with the press on the sidelines of the third Summit of the European Political Community in Granada this week, Zelenskiy said the comments were a rehash of Russian talking points.

"[Russians] realised that they cannot break European unity and European support for Ukraine. And the United States, through its intelligence, sees the roots of all this, where it grows from and how Russia is trying to break the balance of power in the world, to undermine our support," the president said.

"Russia has found information that in some of our government agencies, someone is allegedly stealing some of the funds that come to us as part of support," Zelenskiy said. "Of course, there are many different people. It is difficult for our judicial system to control everything. This is true. But in any case, we are working to ensure that not a single dollar or euro that comes from partners ends up in the pockets of those for whom they are not intended," the head of state said.

Juncker is probably referring to Romania, which was admitted into the EU on January 1, 2007, three years after the main wave of former Warsaw pact countries were admitted. At the time Romania was considered one of the most corrupt countries in Europe and many said that it was also not ready to join.

On October 1, the US government voted through a new spending bill to avert a government shutdown; however, a \$300mn provision for Ukraine was removed, which has had in effect frozen Ukraine's US funding for the meantime. The Pentagon later said that it still has \$5.2bn of funds in the kitty of pre-approved money, enough to last another six months, but after that is gone the mooted new \$24bn package will have to be approved.

The issue that removed Ukraine's \$300mn provision from the spending bill was a lack of accountability. "The American people want to know how their

money was spent," said then-Speaker Kevin McCarthy ahead of the vote. Less well publicised, the EU has precisely the same reservations with its mooted €50bn support package that is to be paid out over the next four years. This week, the EU voted through a new multi-year budget for 2021-2027 that locks in €50bn of funds for a special Ukraine fund. But in the talks in Kyiv this week between EU foreign ministers and Ukrainian President Volodymyr Zelenskiy, the EU included reform of the justice system, corruption, money laundering elimination and better accountability of the spending.

The European Parliament's budget and foreign affairs committees overwhelmingly supported a proposal for a multi-year, €50bn plan, but one of the key demands from MEPs was for safeguards against corruption, fraud and other violations in the use of European funds in Ukraine. Among other things, the deputies stressed that companies with oligarchic influence should not receive funding as well as changes to promote greater transparency with all the spending and procurements published on a special website. The whole project will be put to a vote in the Rada on October 16-19.

Huge amounts of money have been sent to Ukraine in the last year. The EU has allocated €85bn in macro and military support in 2022, according to EU foreign policy chief Josep Borrell, while the US has spent about \$46bn in just macro support, and military aid brings the total up to around \$113bn.

But the West was not always so generous. While military aid was immediately forthcoming, as the West sent physical weapons to Ukraine, not the money to buy them, for the first six months of the war the West was very reluctant to send the government cash to fill in a gaping \$4bn a month hole in the budget. By the summer of 2022 Ukraine was running out of money and the government was in danger of shutting down.

Kyiv was desperate for cash to cover the deficit, but US senators blocked any transfers, demanding accountability for any aid they sent. Likewise, the EU was

reluctant to send money, saying it feared the corruption in Ukraine and worried all the funds would simply be stolen. However, as a budget crisis loomed ever larger, both Brussels and Washington bit the bullet and promised packages of €18bn and \$18bn respectively. (The US later quietly reduced its contribution to \$9bn.)

Part of the reason for the West's enthusiasm for sending arms to Ukraine and not cash is that buying more arms boosts the Western economies and is a de facto easy-sell new tax on their citizens, whereas sending cash to Kyiv is lost money that brings no benefit to the donor's economy.

These worries over corruption have not gone away. Politico reported this month on a leaked US strategy paper that sees corruption as a much bigger issue than the Biden administration is willing to admit in public.

"Biden administration officials are far more worried about corruption in Ukraine than they publicly admit, a confidential U.S. strategy document obtained by Politico suggests," the magazine reported.

"Perceptions of high-level corruption" the confidential version of the document warns, could "undermine the Ukrainian public's and foreign leaders' confidence in the war-time government," the article says.

A second US official familiar with the discussions confirmed to Politico reports that the Biden administration is talking to Ukrainian leaders about potentially conditioning future economic aid on "reforms to tackle corruption and make Ukraine a more attractive place for private investment." Military aid will not be made conditional, the report said.

### **Attack on the oligarchs**

Worries about endemic corruption run as a thread through all of Ukraine's post-Maidan recent history. In 2014 Ukraine was given an Extended Fund Facility (EFF) in March 2015, an International Monetary Fund (IMF) support programme that runs over several years, but half the money was never distributed and eventually

Ukraine was downgraded to a 14-month \$3.9bn standby agreement (SBA) in 2018 for foot-dragging by the Poroshenko administration – largely for the lack of action on corruption related issues.

The IMF has also swallowed its fears and loosened the purse string because of the demands of keeping Ukraine Inc. running during the war, but those fears remain. Ukraine is back on an EEF and the IMF just signed off on its second assessment of Ukraine's compliance with the terms of the deal, but like the EU, the many of the strings attached to the facility are related to judicial reform, corporate governance and transparency.

One of the issues that caused the previous downgrade was former President Petro Poroshenko's reluctance to set up an independent Anti-Corruption Court (ACC), part of the anti-corruption triumvirate composed of the National Anti-Corruption Bureau of Ukraine (NABU) that was independent of the government and could investigate wrongdoing; Specialised Anti-Corruption Prosecutor's Office (SAPO), that is also independent of the regular police and could arrest wrongdoers; and the ACC that is also independent of the judicial system where the wrongdoers could be prosecuted and jailed.

According to *RBK-Ukraine*, there was an informal condition for allocating US money proposed in September; preparing a draft law to strengthen

institutional independence and operational efficiency of the SAPO. The law's adoption by the end of 2023 is one of the conditions for allocating macro-financial assistance from the EU and lending from the IMF, RBK reports.

The main problem lies in the powers of the head of the SAPO, which was created as an independent unit of the Prosecutor General's Office to investigate corruption cases involving high-ranking officials. However, the SAPO still has no separate legal status and remains administratively and procedurally dependent on the Prosecutor General Office, the US complained.

NABU made its first attempt to hook its first big fish, when it arrested Roman Nasirov, the government's financial controller and former President Petro Poroshenko's right-hand man, and charged him with embezzling millions of dollars in March 2017.

Despite damning evidence, the case went nowhere. Nasirov's wife turned up at the courthouse the next day with a million dollars in cash and bailed him out. The charges were eventually dropped and Nasirov was not only reinstated in his old job, but went on to stand against Zelenskiy for the job of president in the 2019 elections.

The ACC was finally created on April 11, 2019, only ten days before Poroshenko

lost his job in the presidential elections that year. One of the issues that Zelenskiy campaigned on was to end the endemic corruption and the rule of the oligarchs.

And Zelenskiy has been true to his word. After dithering for the first year, and maintaining a worrying close relationship with oligarch Ihor Kolomoisky, whose media empire backed Zelenskiy election campaign, the former comedian has ratcheted up his attacks on the oligarchs.

It began with Kolomoisky's aggressive campaign to try to retake control over PrivatBank, which was nationalised in 2016 after *bne IntelliNews* reported that its former owners had looted the bank of its deposits and left a \$5.5bn hole in the balance sheet.

After Zelenskiy's election, Kolomoisky began what the National Bank of Ukraine (NBU) dubbed a campaign of terror, physically threatening the central bank's staff and launching 200 legal cases in one of Ukraine's most notoriously corrupt courts. Worried that the state would hand the bank back, the IMF made it clear that any more aid was linked to heading Kolomoisky off.

In a dramatic vote, Zelenskiy persuaded the Rada to push through the so-called Anti-Kolomoisky law in May 2020 that made it impossible for the former owner of a bank that has been nationalised to retake control of it.

That story finally came to a head when Kolomoisky was arrested on September 2 this year by the Ukrainian Security Service (SBU), which is wholly under the president's direct control, not NABU, which has been investigating him for years. However, shortly afterwards more charges were brought against Kolomoisky of embezzling \$250mn from his bank PrivatBank on September 8. Those charges were brought by NABU and Kolomoisky is still in pre-trial detention at the time of writing. His trial, if it happens, will be a landmark event.

### Campaign broadening

It is becoming increasingly clear to Zelenskiy that he has to fulfil his promise



One of Ukraine's biggest and most powerful oligarchs, Ihor Kolomoisky has been taken into custody and charged with embezzling \$250mn from his former PrivatBank in what should be Ukraine's biggest ever corruption case. / *bne IntelliNews*



to stamp out corruption, as it has become an existential issue for Ukraine.

Now it is fairly clear that the West will not authorise handing the roughly \$300bn of Central Bank of Russia (CBR) reserves frozen by the West in the first days of the war to Ukraine to pay for its reconstruction.

At the Recovery conference held in London in June Ukraine it became clear that the plan is now to have the private sector come up with the hundreds of billions of dollars that Ukraine needs, not the international

government to court after it reneged on its obligation to pay for the nearly \$1bn of power it bought from the new firms. The risks associated with investing into Ukraine remain extremely high. Attracting the more than \$414bn of investment needed to rebuild, according to the World Bank, already looks like an impossible task.

European Commission President Ursula von der Leyen put her finger on the issue during her speech at the event, appealing to the assembled captains of Western industry in London: "Total predictability, clarity and transparency are needed."

## "Ukraine has an abysmal foreign direct investment (FDI) record because of the lack of the rule of law and weak property rights"

financial institutions (IFIs) and not the international community.

That is not going to work unless corruption is defeated. Despite the strength of its investment story – Ukraine remains one of the last unreformed countries of the Former Soviet Union (FSU) with most of its "catch up" growth ahead of it – the country has an abysmal foreign direct investment (FDI) record because of the lack of the rule of law and weak property rights. In several years since the Maidan revolution, Ukraine took in no FDI at all.

In a recent interview, the chairman of the board of Deutsch-Ukrainische Industrie- und Handelskammer (AHK Ukraine), Reiner Perau, said many German companies are interested in the Ukrainian market, but "active and widespread corruption in Ukraine stops them." According to Perau, very often officials in local administrations demand a bribe of €500 and more for one or another permit. There are also problems in relation with the Tax Service, Perau said.

In the renewable energy sector, the only sector to attract any significant investment since 2014, the companies that invested had to threaten to take the

Ukraine is still a long way from that benchmark, but Zelenskiy has ramped up his anti-corruption campaign, which is looking increasingly creditable.

After the specific fight to reign Kolomoisky in, Zelenskiy broadened the campaign with his oligarch speech in March 2021 highlighting the businessmen as a problem.

He followed that up with the oligarch law in September 2021 which effectively created a registrar of oligarchs and banned government officials from talking to them.

Ukraine's businesses are also starting to react. They have created a register of "raiders and corrupt officers" among law enforcement staff, the *Kyiv Independent* reports. Investment bank Concorde Capital's founder Ihor Mazepa announced the creation of a new platform to track and rate law enforcement officers and judges who use their authority for illegal purposes and called on the president to legislate a ban on using state law enforcement agencies in corporate disputes that do not concern national security.

"If the government cannot end this

madness, then the united business community is ready to do it," Mazepa said.

Judicial reforms have also started to appear. The Ukrainian parliament adopted a draft law on changes to the procedure for appointing judges of the Constitutional Court of Ukraine (CCU) in September, which is necessary to meet the European Commission's EU membership criteria. A key element here is that two of the Advisory Group of Experts that recommend judges have to be proposed by international organisations, something that Poroshenko also resisted.

The reform of the judge selection system for the notoriously corrupt Constitutional Court is one of the seven criteria from the European Commission, the implementation of which are necessary for further EU accession progress.

Zelenskiy also enacted a decision of the National Security and Defence Council of Ukraine "On accelerating judicial reform and overcoming corruption in the justice system" on July 1 that increases the penalties for court corruption.

Most significantly of all, following the failure to jail Nasirov for blatant corruption, officials are starting to be arrested and jailed. In the most high-profile case to date, Zelenskiy sacked Ukraine's defence minister, Oleksii Reznikov, in September, who was widely seen as competent, but was linked to multiple large-scale corruption scandals such as buying overpriced eggs and winter jackets.

While Reznikov himself was not accused of corruption, his ministry is riddled with it. In a parallel move, Zelenskiy also fired most of Reznikov's deputies and in a move reminiscing of former Georgian president Mikheil Saakashvili's decision to fire all of the corrupt traffic cops in Tbilisi, Zelenskiy sacked all of the regional recruitment officers.

He also removed several medical conditions from the list that exempted men from serving in the army to get rid of some of the favoured dodges for getting out of serving in the army.



However, all that happened was the cost of buying a medical exemption jumped from a few thousand dollars to \$20,000, according to one recent report.

Zelenskiy's reforms are not going perfectly. Despite objections from anti-corruption activists, the Ukrainian government appointed Olena Duma as the new head of the Asset Recovery and Management Agency (ARMA) at the end of June, which has a bad reputation for corruption. ARMA is a special governmental body, authorised to formulate and implement state policy in the sphere of tracing, finding of assets that are subject to seizure.

Likewise, the nominally independent NABU has been accused of drifting

into the president's orbit under the newly appointed head, Semen Kryvonos, as Zelenskiy has clearly been concentrating more power in his own hands in the last year.

But Zelenskiy is clearly trying to break the "corruption is the system" mould and to start holding bureaucrats accountable. His anti-corruption campaign is broadening. In the most recent example, he vetoed a law in September that would have reinstated the e-declaration requirement on all public servants, but which had an amendment that the information submitted remains secret.

The IMF-sponsored law was one of the few really effective anti-corruption measures pushed through by Poroshenko,

but was suspended after martial law was imposed at the start of the war. Now it is being brought back, but Zelenskiy wouldn't let it pass until the public disclosure clauses were included that allow the press and the public to check the sources of a public servant's wealth.

On September 22 the Rada passed a new version of the law with the disclosure requirements reinstated. In a televised interview on August 27, Zelenskiy proposed equating corruption with treason during wartime.

"I set a task. Legislators will be asked to equate corruption with treason in wartime," Zelensky said. "I understand that it cannot work permanently, but for wartime, I think it will help. ●

## Cost of damage to Ukraine from Russia's war up to \$150bn

### Kyiv School of Economics

As of September 2023, marking the 16th month of the full-scale war, the documented damages to Ukraine's infrastructure caused by Russia's invasion have reached \$150.5bn (at replacement cost), Kyiv School of Economics (KSE) reported on October 8.

The growth amounted to \$0.7bn, which is modest considering that the previous update was three months ago. The largest part of the increase is attributed to the education assessment's updates (plus \$0.4bn).

Residential buildings account for the largest share of damages, totalling 37% or \$55.9bn, followed by infrastructure at 24.3% or \$36.8bn.

The damages to business assets currently amount to a minimum of \$11.4bn and are still increasing. Additionally, the education sector has incurred direct damages of

\$10.1bn, the energy sector has incurred direct damages of \$8.8bn and the agricultural sector has incurred direct damages of \$8.7bn due to the war.

The cumulative damages to public sector facilities, including social objects, educational and scientific institutions, healthcare facilities, cultural structures, sports facilities and administrative buildings, are approximately \$16.1bn.

Comprehensive and up-to-date reports, along with interim releases, of the damage assessments are always available on the KSE website ([www.kse.ua](http://www.kse.ua)).

*The Kyiv School of Economics (KSE) is a bne IntelliNews media partner and a leading source of economic analysis and information on Ukraine. This content originally appeared on the KSE website ([www.kse.ua](http://www.kse.ua)).*

Figure 1. Damages growth dynamics as of July 2023, USD bn

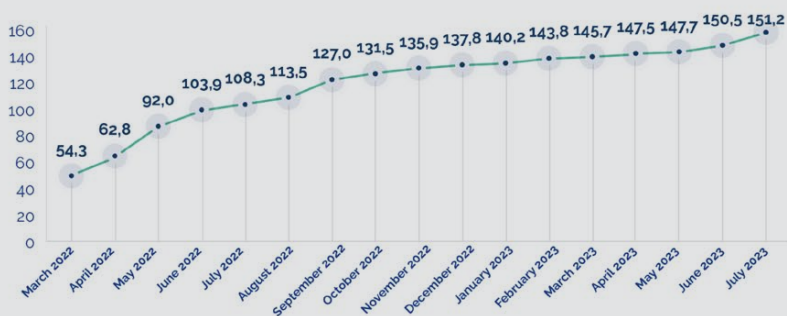
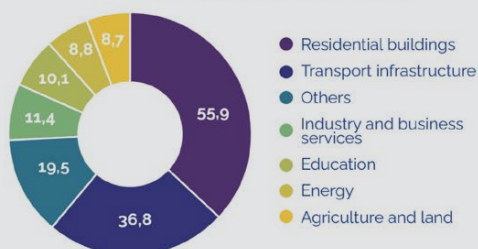


Figure 2. Damages breakdown by sectors as of September 2023, USD bn





Some of the assailants are said to have carried a "half-dead" Muhammed Mammedov to his apartment and put him to bed. / Instagram

# Turkmen stand-up comic beaten to death in Ashgabat after returning home from Turkey

**Nizom Khodjayeve in Almaty**

**A** noted Turkmen blogger and stand-up comic has reportedly been beaten to death in Turkmenistan's capital Ashgabat after returning from a long stay in Turkey.

The killing comes at a time when many Turkmen who were long-term resident in Turkey have been forced to return to Turkmenistan after the Turkmen and Turkish regimes agreed on a cancellation of Turkey's visa-free arrangements for Turkmen migrants, though whether this development was a factor in this case is not known.

Thirty-year-old Muhammed Mammedov and his friend were late at night on October 4 attacked by unknown assailants, according to *Turkmen.news*. The blogger's friend was

said to have sustained minor injuries, but Mammedov himself was severely beaten and died hours later.

The news website reported a source as saying that after the attack, some of the assailants carried "half-dead" Mammedov to his apartment and put him to bed, where he was discovered by his father and young son the next morning.

*Turkmen.news* wrote: "Colleagues of the deceased, as well as commentators on social networks, point out several incomprehensible moments in this tragic story. Firstly, how could ordinary hooligans or just passers-by beat a man half to death, and then carry him into his own house?"

It added: "Secondly, in Ashgabat there are police booths... at literally every step,

where officers are on duty around the clock. How did no one notice anything during such a fight?"

Whether law enforcement agencies have opened a criminal case into the incident is not known because the internal affairs department in Turkmenistan – one of the most closed and repressive nations in the world – does not publish data on crimes, *Current Time* reported.

October has brought reports of thousands of Turkmen being forced to leave Turkey amid a renewed crackdown by the Turkish authorities on illegal migrants employed as undocumented workers and the Turkish government's ending, at the request of the Turkmen dictatorship, of visa-free travel for Turkmen citizens.

The strictly authoritarian Berdimuhamedov regime, notorious for restricting freedom of movement and other basic civil rights, asked Ankara to scrap the provision that allowed Turkmen citizens to stay in Turkey without a visa for up to 30 days. One big concern for the Turkmen authorities are opposition activities that can take root in Turkmen migrant communities abroad.

The visa-free status that has been withdrawn allowed Turkmen citizens to apply for visa extensions and residency permits or seek political asylum.

Many of the Turkmen deportees from Turkey were contemplating going to Russia, home to millions of migrants from neighbouring Central Asian countries, according to a report by RFE/RL's *Turkmen Service*. It quoted several Turkmen as saying some people were borrowing money at high interest rates to pay for a Russian visa and plane

**"Many of the Turkmen deportees from Turkey were contemplating going to Russia, home to millions of migrants from neighbouring Central Asian countries"**

tickets, on the hope that they will be able to find work in Russia and repay their debts.

"Most women migrants from Mary [in Turkmenistan who have been expelled from Turkey] have gone to the [Russian resort city of] Sochi, where they work in restaurants and hotels," one was cited as saying.

"There is no point of staying in Turkey anymore, it's impossible to get an official work permit there," another Turkmen was reported as saying, adding: "You can work illegally, but the [police] will eventually track you down and deport you."

About 2,500 Turkmen in Turkish deportation facilities were flown home in August and September, sources in Ashgabat told the RFE/RL news service.

Turkey's Migration Agency figures show 198,000 Turkmen citizens lived in Turkey legally as of mid-September. In September last year, when the visa-free scheme was scrapped, the figure stood at more than 230,000 Turkmen.

The real number of Turkmen citizens living in Turkey and other countries is certainly much higher than the official figures show. Many stay abroad with expired visas and other documents. ●

## Moscow calls Armenia a "Ukraine 3" after Pashinyan's speech at European Parliament

Ani Avetisyan

**T**he war of words between Armenia and Russia appears to be worsening as Yerevan becomes more and more vocal about its disappointment with Russia and Moscow reacts fiercely. The latest incident took place after Armenian Prime Minister Nikol Pashinyan's speech in the European Parliament, where he, once again, complained about Armenia's "allies" that abandoned the country in its conflict with Azerbaijan.

"When hundreds of thousands of Armenians were fleeing from Nagorno Karabakh to the Republic of Armenia, not only did our allies in the security sector refuse to help us, but they also made public calls for a change of power in Armenia to overthrow the democratic government", Pashinyan said, adding

that the "conspiracy" against Armenia failed thanks to the unity in the country.

An anonymous high-ranking source told Russian state news agency TASS that Pashinyan was following Ukraine's President Volodymyr Zelenskyy's footsteps by "quantum leaps".

"We consider Armenian Prime Minister Nikol Pashinyan's speech at the European Parliament on October 17 as absolutely irresponsible and provocative, especially as far as Russia and Russian-Armenian relations are concerned," the source told TASS, adding that "Armenia is trying to turn



Armenian premier Nikol Pashinyan (bottom left) at Moscow's traditional May Day parade this year.

into Ukraine No. 3", calling Moldova a "Ukraine No. 2".

Armenia has been voicing criticism about Russia and the Russia-led Collective Security Treaty organisation (CSTO) since 2021, when Azerbaijan captured lands inside Armenia, but it became more vocal following the 2022 September attack when Azerbaijan captured a number of military positions inside Armenia, leaving hundreds dead. Armenia's requests to Russia and CSTO for military assistance remained unanswered, making Armenia reconsider its strategic allies.

In a September 24 speech, Pashinyan stated that the "security systems" – meaning CSTO and the alliance with Russia – of which Armenia was part were not effective and that Armenia was seeking to diversify its security architecture.

Armenia has recently been more eager for Western-led initiatives and peace negotiations with Azerbaijan. Refusing a number of events with the CSTO and the Commonwealth of Independent States (CIS), Armenia hosted a short-term military training with US troops days before Azerbaijan's September 19 attack on Nagorno-Karabakh.

Armenia has been looking for new possible partners, among them, India and France. India and Armenia already have a number of contracts on arms supplies, while with France Armenia has just agreed to co-operate militarily, which includes delivery of weapons. Russia is still the main supplier of weapons, but with its war in Ukraine, the country struggled to send promised weapons to Armenia, nor has it returned the \$400mn Armenia pre-paid for the weapons.

Along with security issues, Yerevan faced a test of loyalty when initiating the ratification of the Rome Statute of International Criminal Court. Armenia decided to join the court despite Russia's warnings and threats that the ratification could affect the two country's relations.

The West has also become one of the leading facilitators of talks between Armenia and Azerbaijan. While the talks are facing a standoff over the situation in Nagorno-Karabakh, Armenian and Azerbaijani leaders keep repeating that the peace agreement between the two countries is within reach.

Pashinyan stated in Strasbourg that Armenia is ready to sign the peace treaty with Azerbaijan by the end of the year. " ●

## Russia plans permanent naval base in Abkhazia, raising alarm bells in Georgia

**Tornike Mandaria in Tbilisi**

**R**ussia plans to establish a permanent naval base on the Black Sea coast in Abkhazia, a breakaway region of Georgia, as its fleet in Crimea faces ongoing threats from Ukraine. Moscow's move has raised concerns and criticism from Tbilisi, which views the move as a severe violation of its sovereignty.

Georgia's Ministry of Foreign Affairs has strongly criticised Russia's actions, labeling them as "another provocative attempt" to legitimise Russia's occupation of Abkhazia and South Ossetia. Georgia calls on Russia to respect its international obligations and adhere to the ceasefire agreement reached in 2008 through EU mediation.

Georgian PM Irakli Garibashvili said "this is a direct consequence of the occupation, and it's undoubtedly a continuation of that unlawful course."

Abkhazia's leader, Aslan Bzhania, confirmed the signing of the agreement, stating that a modern missile ship had arrived as part of the deal. This naval base is expected to be located in the Ochamchire region of Abkhazia.

Bzhania also reaffirmed his backing for Abkhazia's engagement in the "Union State of Belarus and Russia", while also expressing hopes for "international recognition".

Russia already maintains a significant military presence in Abkhazia, including the 7th military base and a Federal Security Service border department. The existing Russian military base in Gali, along with others in nearby villages, has been a source of ongoing concern for Georgia.

In 2008, Russia recognized Abkhazia as an "independent republic" following the Russian-Georgian war, which began in

the Tskhinvali region (South Ossetia). Russia also recognised South Ossetia as an independent entity. Most of the international community, however, continues to recognize Abkhazia as part of Georgia, excluding a handful of countries like Venezuela, Nicaragua, Nauru, and Syria.

Reports of Russia's intention to establish a base in Ochamchire first surfaced in 2009, raising concerns among Nato members. This move is seen as a potentially significant part of Russia's efforts to diversify its military presence beyond Sevastopol in Crimea, which has been a contentious issue since Russia's annexation of Crimea from Ukraine in 2014.

There have been recent reports that Russia is withdrawing most of its Black Sea fleet from its primary base in annexed Crimea due to Ukraine's military actions there. ●





Rahmon and Japarov meeting in Bishkek. / Kyrgyz presidential administration

## Cautious hopes mounting for Kyrgyzstan, Tajikistan border deal

Eurasianet

**T**he presidents of Kyrgyzstan and Tajikistan met on October 13 for talks on the demarcation and delimitation of their shared border amid indications that some differences have been resolved.

The offices of the leaders issued similarly worded statements on the encounter in Bishkek, noting in both cases that unspecified agreements are in the works.

A breakthrough in the border delimitation would be eagerly welcomed by communities in the areas of north Tajikistan and south Kyrgyzstan, where flareups of fighting over recent years have left many dozens dead and caused significant destruction.

A press release on the October 13 talks from Tajik President Emomali Rahmon's office asserted that "special attention was paid to the issues of determining the state border line" and that "agreements were reached on this matter some time ago." A readout from Kyrgyz President Sadyr Japarov's office, meanwhile, was more circumspect, noting only that the leaders discussed "delimitation and demarcation of the Kyrgyz-Tajik state border."

The Kyrgyz-Tajik border stretches for approximately 980 kilometres. Fraught negotiations on establishing the exact

contours of that line have been ongoing since December 2002. At present, around one-third of the border remains undefined.

There may latterly have been some breakthrough, however.

Kyrgyz government sources have said that the border issue was discussed on October 2 by the heads of the powerful security services of both countries during a meeting in the Kyrgyz city of Batken.

Kamchybek Tashiyev, the head of Kyrgyzstan's State Committee for National Security, or GKNB, said in a joint press conference with his Tajik counterpart, Saimumin Yatimov, that their meeting had produced a "protocol" that would provide the basis for resolving all border issues.

"God willing, we will soon adopt final decision so as to complete the demarcation of the entire state border," Tashiyev said.

No details were provided, but at least one journalist said to be close to Tashiyev has characterized the talks as having produced "historic" results.

"The Tajik side has been trying to resolve this problem in its favour by breaking us through various means, including by use of force," the journalist, Nurgazy

Anarkulov, wrote on his Facebook page. "Following the commission on the Kyrgyz-Tajik border headed by Kamchybek Tashiyev, the ice began to shift. Sometimes we [Kyrgyzstan] had to speak in soft and diplomatic language, most of the time in [the language of] sharp ultimatums. When patience ran out, we were forced to make demands by relying on historical documents."

Anarkulov offered no details on what the protocol contains, but he claimed that Tajikistan had relinquished territorial claims dating back three decades.

Neither Kyrgyz nor Tajik officials have responded to these specific claims.

The reference to unnamed historical documents was a callback to contentious remarks made by Tashiyev in mid-September. Speaking to reporters, Tashiyev demanded in notably aggressive terms that Tajikistan relinquish its territorial claims to sections of the contested border. He was speaking on the eve of the first anniversary of a border conflict that claimed dozens of lives.

"Until now, we have tried to resolve this issue peacefully, and we will continue to do so. Our head of state has directed us to resolve issues through negotiations. But at the same time, it must be said that an act of aggression was committed against our state last year. We will not allow such aggression in future," Tashiyev said. He added that Kyrgyzstan's demands were supported by historic documents.

His remarks sparked a tetchy response from Tajikistan's Foreign Ministry, which summoned the Kyrgyz ambassador in Dushanbe for an explanation.

"It [is] stressed that such comments could cause serious damage to any progress in the negotiation process on the delimitation and demarcation of the Tajik-Kyrgyz border," the ministry said in a statement on September 16.

While tempers have flared lower in the two countries' respective hierarchies, Japarov and Rahmon have sought to strike conciliatory notes on the multiple times they have met in recent weeks. ●

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TEHRAN BLOG

# Non-Western tankers carry most of Russian crude exports, G7 oil price cap fails

bne IntelliNews

**T**hree-fifths of Russia's seaborne crude exports are now being shipped by tankers not required to comply with the G7 oil price cap, according to S&P Global data, as the oil price cap sanctions are increasingly seen to have failed.

Nearly 2mn barrels per day (bpd), or 60%, of Russian crude exports were shipped on tankers owned by companies registered outside the G7 in September and not insured by Western P&I Clubs, the main mechanism for enforcing the oil price cap rule that bars tankers from carrying Russian oil that costs more than \$60, introduced on December 5, according to S&P Global Commodities at Sea and Maritime Intelligence Risk Suite.

In order to avoid the sanctions Russia has expanded its "ghost fleet" of tankers that operate outside Western insurance

schemes, which allows them to ignore the sanctions. Many of these ships were bought from Greek shipping companies and are typically well past their "sell-by date," causing some to raise the spectre of an environmental disaster waiting to happen, should one of Russia's ageing tankers sink.

Peterson Institute for International Economics (PIIE) and Kyiv School of Economics (KSE) have also documented widespread cases of EU-flagged tankers simply ignoring the sanctions, especially in the Pacific Ocean, where the ships, many of which are Greek, do not sail through EU-controlled waters.

S&P Global's analysis shows the total share of non-Western tankers moving Russian crude already stood at 48% of total exports by November 2022, a month before the price cap came into effect, but since then the share has risen to 60%.

[www.bne.eu](http://www.bne.eu)

Pre-war Western P&I Clubs covered about 95% of all tanker insurance, suggesting cutting companies off from Western insurance would be an effective enforcement tool. The reality is that Russian insurance companies have stepped in to insure non-Western tankers that have vastly expanded those ships that can operate outside the sanctions regime but still have the obligatory insurance to enter ports.

The US-led price cap was designed both to limit revenue for Moscow and to keep Russian oil flowing to the global market. While Russia's oil revenues fell sharply in the first quarter of this year, they have rapidly recovered in the second half of this year, as predicted by Russian Finance Minister Anton Siluanov, and Russia is on track to easily meet its 2% of GDP budget deficit target this year, "or less," Siluanov said at a conference last week. "The worst is over," Prime Minister Mikhail Mishustin told the same conference.

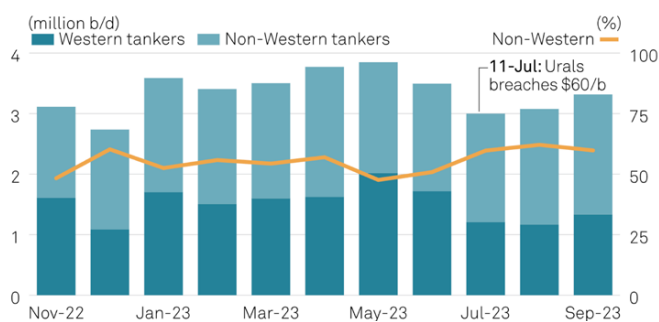
"All along we had expected Russia to take countermeasures to try to circumvent the price gap," said Ben Harris, vice president and director of the Economic Studies programme at the Brookings Institution, adding that amassing grey tonnage would be one of the measures, S&P Global reports.

Based on risk consultancy Windward's estimates, 2,452 tankers were confirmed to be or potentially involved in sanctioned trades and could operate outside the price cap as of early October, up from 855 tankers in January 2022, S&P Global said in a note.

"The price cap does not directly target grey tankers but G7-based shipping insurance and marine service providers, alongside coalition members, have come under increasing political pressure in recent months as Russia's main export crudes continue to trade above the \$60 per barrel threshold set by them last year," S&P Global reports.

As most of Russia's oil exports now operate outside the sanctions regime that means rather than reducing the Kremlin's income, it is benefiting from the full economic benefits of the rising cost of crude. Both Russia and OPEC have instituted voluntary production cuts that have pushed the cost of Brent up over \$90, and those cuts were extended at the start of October until at least the start of next year.

**Majority of Russian crude exports outside the oil price cap**



Source: S&P Global Commodities at Sea and Maritime Intelligence Risk Suite

"Russian Urals crude oil prices on an FOB Primorsk basis have been above \$60/bbl since July 11, according to Platts assessments by S&P Global Commodity Insights, but nearly half of the grade's exports were still facilitated by companies with Western links last month," S&P Global said.

For Russia's ESPO grade from the Pacific coast, which has generally traded above the threshold since last December, Western tankers' share still reached 24% in September.

"There must be a large-scale violation of the oil price cap," said Isaac Levi, an analyst at the think-tank Centre for Research on Energy and Clean Air, as cited by S&P Global. "There is a low perceived risk of being found guilty of violating measures ... The enforcement agencies perhaps do not have the capacity."

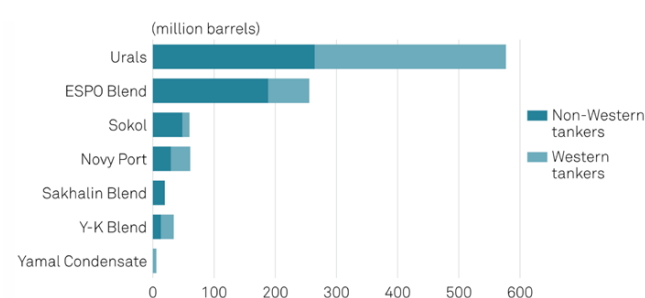
**"Russian Urals crude oil prices on an FOB Primorsk basis have been above \$60/bbl since July 11, but nearly half of the grade's exports were still facilitated by companies with Western links last month"**

Currently, tanker firms and insurers must obtain attestations from their clients that the barrels are sold within the threshold, but they do not need to verify them.

"Russian sellers ... affiliated with Russian oil majors [and] traders likely provide attestations to shipping and insurance companies that do not reflect the actual price, which may be defined as attestations fraud," Kyiv School of Economics said in a research note last month.

American rhetoric holds that the oil price cap is working, but its efficacy is increasingly being questioned in public. US Treasury Secretary Janet Yellen recently told the *Wall Street*

**ESPO, Sokol crude exports dominated by non-price cap trade**



\*Data for December 2022-September 2023



*Journal* that the US would "very likely" start enforcement on Western companies failing to comply with the rules.

"My guess is that over the next three to six months, you'll see tougher enforcement," Harris told S&P Global. "You'll start to see at least a handful of regulatory enforcement actions for outright fraud."

The EU is currently debating a twelfth sanctions package that will focus on better enforcing existing sanctions rather than on imposing new ones, with the exception of possibly sanctioning Russia's diamond trade for the first time.

However, some analysts have said that the US is nervous about enforcing the oil price sanctions too vigorously for

fear of constraining supplies of crude too much and pushing the price of oil even higher – especially ahead of the US presidential elections next year. Moreover, many players have called for the cap to be reduced from \$60 to \$30, which again is largely currently being ignored for the same reasons.

Aside from preventing Western firms from violating the price cap, coalition members also need to constrain the grey fleet's growth to limit Russian oil exports, according to some analysts.

"The price cap has been unenforced to date," said Jim Burkhard, head of research for oil markets at S&P Global. "We do not expect meaningful enforcement to take place if the war in Israel is seen as pushing oil prices higher." ●

## COMMENT

# The new Iran – Azerbaijan transit route reflects shifting geopolitical realities

**Fuad Shahbazov**

**A**zerbaijan and Iran laid the foundation on October 6 for a transit route connecting western Azerbaijan to its exclave of Nakhchivan through Iran. The road bridge is being built in line with the memorandum of mutual understanding between the governments of Azerbaijan and Iran on developing new transport links. According to the Azerbaijani media, the bridge will span the Aras River to connect to the Iranian province of Eastern Azerbaijan.

The new transit project announcement came amid the ongoing normalisation of ties between Azerbaijan and Iran after months of harsh diplomatic confrontation. From the Iranian perspective, there are several reasons behind the shift in diplomatic relations, but the most important is the changed regional balance of power in the South Caucasus following the war in 2020 between Azerbaijan and Armenia. Among the broader impacts of the war were the declining influence of Iran and the strengthening axis of Baku-Ankara and Baku-Tel Aviv in the region.

The turning point was the Azerbaijani government's ambitious plans to establish a land route with Turkey from Nakhchivan through Armenia's Syunik province shortly after the Russia-brokered ceasefire agreement was signed between Baku and Yerevan in November 2020. Given the bilateral strategic partnership between the two countries, Azerbaijan has long sought to be linked directly to Turkey via a land route. However, such plans provoked an immediate

reaction from Iran, the strategic partner of Armenia, accusing Azerbaijan and Turkey of attempting to redraw the borders in the South Caucasus.

The proposed corridor project comprises transit networks, such as highways, bridges, tunnels and railway connections. The initial route was supposed to run through Armenia's Syunik province, which triggered fears in Yerevan about Azerbaijan's possible "invasion of Syunik" and became



The new transit route between Azerbaijan and Iran means the Zangezur Corridor project will shortly be implemented without Armenia's Syunik province. / bne IntelliNews



the main point of discontent during the peace talks with Armenia in the last two years. Armenia saw such plans as part of the rising ambitions of Azerbaijan following its military victory in the 2020 war as well as Turkey's ongoing geopolitical expansion.

Although Azerbaijan rejected all allegations regarding a possible takeover of Syunik for implementing the Zangezur Corridor, and recognised Armenia's sovereignty over these territories, this did not reassure Armenia. Yerevan is closely aligned with Tehran as one of the potent deterrent forces against Azerbaijan.

However, the steady diplomatic reconciliation between Azerbaijan and Iran generated a renewed approach to the Zangezur Corridor project. Iran made the first step by sending

“The initial route was supposed to run through Armenia's Syunik province, which triggered fears in Yerevan about Azerbaijan's possible “invasion of Syunik””

Foreign Minister Hossain Amir Abdollahian to Baku to attend the ministerial meeting of the Non-Alignment Movement, where he held a face-to-face meeting with President Ilham Aliyev. During the visit, Abdollahian expressed Iran's interest to be a part of the land corridor project between Azerbaijan-Nakhchivan-Turkey.

Although the minister's statement did not cause an immediate reaction from Baku, later, the idea seemed acceptable as President Aliyev's aide, Hikmat Hajiyev, stressed that there was an alternative route for the Zangezur Corridor if Armenia refused to participate. In line with this statement, the Turkish Minister of Transport Abdulkadir Uraloglu also pointed to Iran as a potential transit country within the Zangezur Corridor.

As such, by laying the foundation of a new transit route, Azerbaijan answered Armenian and, to some extent, Western allegations that it planned to establish a land corridor in Syunik by using military force.

Moreover, the alternative route through Iran will enable Azerbaijan to restore diplomatic relations and facilitate trade with its big neighbour, while Armenia will remain in play as a future partner for regional transport connections.

Nevertheless, it will remain an arduous task for Azerbaijan and Armenia to reach a final peace, particularly after the military operation carried out by Azerbaijan against the

unrecognised Nagorno-Karabakh Republic on September 19. As a result, Azerbaijan ensured full control over Nagorno-Karabakh, which is internationally recognised as part of its territory, and dismissed the separatist government. The dramatic events caused a mass flight of ethnic Armenians from the region.

The Azerbaijani authorities are keen to maintain regional stability by keeping Iran at a close distance and preventing it from allying with Armenia. Undoubtedly, the pragmatic economic partnership with Azerbaijan suits Iran's interests well, mainly due to the economic dividends of transit projects. The stable economic relations with Baku will enable Iran to get direct access to the Russian market within the North-South Corridor (INSTC), as Azerbaijan is the key part of the Iran-Russian (Rasht-Astara) railway connection.

Under the current geopolitical realities, Azerbaijan is willing to become a regional transit and energy hub by investing a lot in various connectivity projects in the Nakhchivan region, which will also weaken Iran's leverage. For example, on September 25, Azerbaijan and Turkey laid the foundation of the Nakhchivan-Ighdir natural gas pipeline, which is expected to be completed in 2024. Once complete, the line will enable Azerbaijan to supply Nakhchivan with its own gas delivered via Turkey, ending the enclave's dependence on Iranian gas imported directly through a separate pipeline from Iran.

With the new transit route between Azerbaijan and Iran, the Zangezur Corridor project will shortly be implemented without Armenia's Syunik province. In this regard, such a scenario matches the interests of the Armenian government, currently grappling with domestic unrest and growing opposition after it failed to provide the de-facto government in Karabakh with military support against Azerbaijan. ●

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“Under the current geopolitical realities, Azerbaijan is willing to become a regional transit and energy hub by investing a lot in various connectivity projects in the Nakhchivan region, which will also weaken Iran's leverage”

KSE

# Russia's macroeconomic situation shows signs of improvement, sanctions need to be tightened

bne IntelliNews

**K**SE Institute released its October Russia Chartbook, "Macroeconomic Situation Shows Signs of Improvement, Sanctions Need to Be Tightened" providing an overview of Russia's economy, foreign trade, fiscal and monetary policies.

"The effectiveness and credibility of energy sanctions [on Russia are] on the line. The key mechanism through which embargoes on Russian oil and the G7/EU price cap regime have weighed on export earnings and budget revenues – the discount on Russian supplies vs. global prices – is showing signs of trouble," says KSE. "For Urals grade crude oil, for instance, it declined from \$40 per barrel in January to below \$14 per barrel in September. Reduced volumes play a role but so does Russia's growing ability to rely on a sanctions-proof fleet of vessels. These issues need to be addressed urgently to maintain pressure on Russia and ensure that the sanctions regime remains credible."

KSE stresses that the Russian economy is recovering after the initial shock caused by the war and sanctions.

"It is critical, therefore, to strengthen sanctions, especially in the energy sector – to reduce access to foreign currency and Russia's ability to increase military spending," KSE said in the report.

"To safeguard the credibility of the sanctions policy, immediate action must be taken to address the issue of price cap compliance. Furthermore, the key mechanism through which oil sanctions work – the discount of Russian exports vs. global prices – is under threat," KSE said.

In September 2023, Russian oil export earnings reached \$18.8bn, the highest since July 2022, and the current account surplus in the third quarter rose to \$16.6bn (compared with \$9.6bn in the second quarter of 2023).

"Should foreign exchange inflows rebound further and budget revenues continue to rise, the Kremlin will be able to pursue a more flexible monetary and fiscal policy in the face of war and sanctions," KSE said.

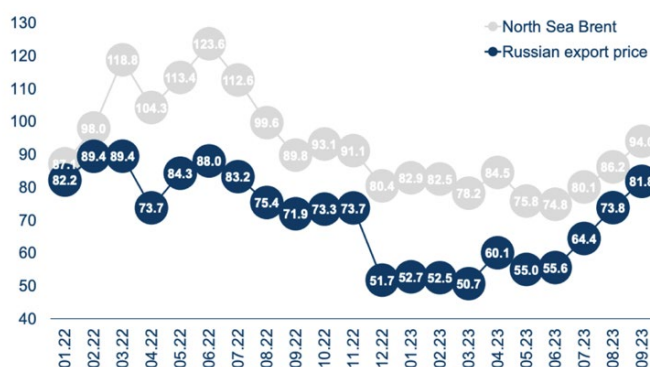
While a 50% drop in the ruble's value since last autumn is indicative of a less supportive external environment, it helped to reduce the federal budget deficit to RUB1.7 trillion during January-September this year, which is broadly in line with the original target.

"This improvement will enable the Kremlin to significantly increase defence spending next year – by 68% growth vs. the estimated 2023 outturn," KSE said.

Overall, the Russian economy is gradually recovering. According to Russia's central bank, the International Monetary Fund (IMF) and the World Bank, Russia's real GDP is projected to increase by 1.6-2.2% this year. In 2024, growth is expected to reach 1-1.5%. However, the recovery of business activity may be hampered if the ruble depreciates further, prompting the CBR to raise interest rates again. ●

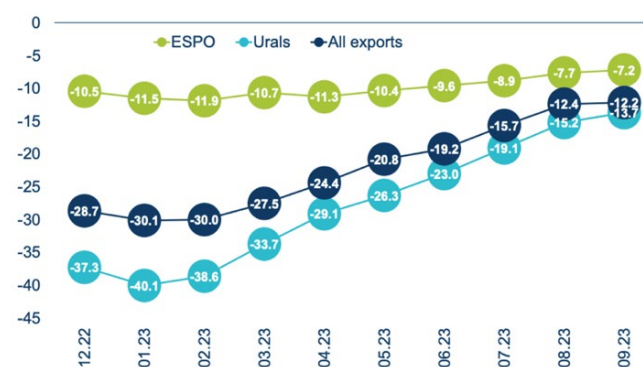
*The Kyiv School of Economics (KSE) is a bne IntelliNews media partner and a leading source of economic analysis and information on Ukraine. This content originally appeared on the KSE website.*

Crude oil prices, in U.S. dollar/barrel\*



Source: Federal Customs Service, International Energy Agency, KSE Institute  
\*export price until November 2022 from Russian customs, all other numbers from IEA

Discount of Russian export prices vs. Brent, in U.S. dollar/barrel\*



Source: International Energy Agency, KSE Institute

ING

# Change of power in Poland should unlock investment potential of the economy

Rafal Benecki of ING

**E**xit polls suggest an opposition coalition is set for an overall majority. But forming a new government could take more than two months as the incumbents are likely to try to form a cabinet first. Restoring institutional order could unlock the potential of the economy and EU funds. And that, along with more foreign investment, is positive for the Polish zloty (PLN).

Exit polls suggest the Law and Justice (PiS) party got the most votes in Poland's elections, but at 36.6% support, it's failed to gain a majority in the lower house of parliament. With 198 MPs out of 460, they're expected now to be in opposition. Their rivals, the Civic Coalition, came second with 31% (161 MPs), but they should be able to form a government with their declared coalition partners, the Third Way (which got 13.5% and 57 MPs), and the Left (which polled 8.6%, gaining 30 MPs). The far-right Confederation party received just 6.4% and 14 MPs.

The biggest positive surprise of the elections is the record-high turnout of 72.9%, the highest since the Polish political and economic transition started in 1989. Support for the Third Way surprised to the upside, as it likely took over centrist votes from the Law and Justice party, while the Confederation received much weaker backing than had been expected.

## The next steps are not without concerns

The constitution provides for three steps in forming a new government. According to the president's declaration and outgoing Prime Minister Mateusz Morawiecki's statement, the incumbent Law and Justice party will attempt to form a government despite lacking a majority in parliament and having little to no chance of forming a government. This step should last maximum two months.

In the second step, the mission of forming a government will be transferred to parliament. The Civic Coalition, the Third Way and the Left can potentially count on 248 votes in the lower house, so they are almost certain to form a government.

However, it will take about two months for the first scenario to materialise and another two weeks for the second. Concerns are being raised as to whether the transfer of power



The opposition coalition could improve the economic outlook. / bne IntelliNews

will be peaceful and in accordance with the rules. We think it should be. The proximity of three other elections: local, European and the most important presidential elections means that if Law and Justice were to hinder the process, it could reduce its chances in those other polls.

The new balance of power in the lower chamber means a stronger role for President Andrzej Duda. Today's opposition failed to win a majority of the 278 seats required to overturn the president's veto. In addition, the Law and Justice Party, with its 200 seats, will be a very strong opposition; don't forget it also has its representatives in the National Bank of Poland, the Constitutional Court, the National Media Council, and so on.

However, our expectation is that the transfer of power will be a rather smooth but lengthy process. And the first prime minister, at least for a couple of quarters, will likely be Donald Tusk. Restoring institutional order, improving relations with the European Union, and unlocking funds from the EU's Recovery Fund are likely to be the new government's priorities.

## Conclusions for financial markets

Markets are breathing a sigh of relief that the threat of a stalled parliament and further snap elections has declined.

The opposition's advantage, at least according to the exit polls, is big enough that instability is unlikely. Prime Minister Morawiecki has announced that he will attempt to form a government, but the arithmetic indicates that an opposition government is likely to be formed in the second step, and that will be the one who'll be in power.

The outcome of the elections suggests that it will be easier to finance the budget's high borrowing needs next year. Financial markets assumed that an opposition win would mean a rapid unlocking of the EU funds, and all opposition parties agree that this is a priority.

We assume a return of foreign investors to the Polish debt market (after many years of underweighting POLGBs), which has been bypassed by foreign capital in recent years. The possibility of an opposition government also means a potential

increase in foreign direct investment (FDI) on top of the already significant inflows (over 4% of GDP in 2022) we have seen recently. These factors point to a strengthening of the zloty.

We expect fiscal policy to remain expansionary, given a series of three more elections – local, EU and presidential – still to come. The incumbent government planned 2024 net borrowing needs at PLN225bn vs PLN143bn in 2023. We estimate that local savings may cover a third of them in 2024, down from two-thirds in 2023. We expect those spending plans to remain in place after any change of power.

We see potential additional PLN20bn-30bn new spending from the opposition programmes, which may be implemented in the coming year, but they could be offset by lower defence spending. Given that many EM bond investors have remained underweight in POLGBs for many years, and there's now a more optimistic PLN picture, we expect covering these borrowing needs should be easier.

In the near term, the results of the country's parliamentary elections will be decisive for the zloty's behaviour. If the exit polls are confirmed, the strengthening of the PLN should prove to be permanent. This is because investors are counting on the new coalition to resolve the conflict with the EU, which will allow for the rapid unblocking of funds from

the Recovery Fund; a larger FDI inflow than already solid is possible. We see a return of the €/PLN closer to 4.40.

There will still be a few risks towards the end of the year, but we assume they will be less significant than the election result, given the expected inflow of portfolio capital into the debt market and increased foreign direct investment.

That said, it's worth noting a few risks for PLN. These include high 2024 borrowing needs and the continuation of expansionary fiscal policy expected by the rating agencies, and any deterioration in the domestic balance of payments, which has recently been improving.

At the end of the year, we see €/PLN between 4.40-4.50. ●

*Rafal Benecki is ING's chief economist for Poland. This note first appeared on ING's THINK.ING portal here.*

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HESS

## Nagorno-Karabakh shows up the myth of a “rules-based international order”

Maximilian Hess in London

**T**he tragic situation in Nagorno-Karabakh – where, at the time of writing, more than 93,000 of the region's estimated 120,000 ethnic Armenian residents have fled for Armenia proper – is the latest evidence that there is no such thing as a “rules-based international order.”

Although the United States and European Union – who frequently cite defending that order in explaining their foreign policy priorities and decisions – have attempted to mediate talks since the Second Nagorno-Karabakh War in 2020, they have not applied their commitment to this order in the latest war in the South Caucasus whatsoever.

There were previous clashes between Azerbaijan's Armed Forces and both the forces of the Nagorno-Karabakh Republic and Armenia in 2021 and 2022, which left Baku also occupying heights in Armenia proper. That leverage has helped ensure that the Armenian military, far smaller and without the major

international arms partners to whom Azerbaijan has directed so much of its hydrocarbon wealth, would be unable to respond effectively if Azerbaijan did launch a third Nagorno-Karabakh War as it ultimately did on September 19.

The situation is awfully reminiscent of that in Ukraine, whose defence has been rightly backed to the hilt by the US, EU, and wider West in the face of Russian President Vladimir Putin's wanton invasion. Western officials made clear that if Russia launched its full-scale invasion in 2022 that crippling sanctions would follow, and they duly did just three days later – with the targeting of Russia's central bank and wider economy the most significant sanctions act against a major power since the Second World War. Such threats have been entirely absent from attempts to avoid conflict in Nagorno-Karabakh. Western officials have even refused to make such threats publicly after officials from the breakaway government Nagorno-Karabakh put up the white flag after



24 hours of devastating Azerbaijani attacks. Ukraine's ardent backer, European Commission President Ursula von der Leyen, has yet to comment on Nagorno-Karabakh.

But the Nagorno-Karabakh conflict does demonstrate that there is an "international economic order", even if there is no "rules-based" one, and Baku has capitalised on this to ensure it can act with impunity.

Despite continued clashes on the dividing lines outside Nagorno-Karabakh and in Armenia, von der Leyen last July travelled to Baku and agreed a deal that would see the European Union agreed to purchase up to 20 billion cubic metres of Azerbaijani natural gas within five years, doubling its purchases in the previous year as Europe shifted rapidly away from its long dependence on Russian natural gas imports. Doubts that Baku would be able to deliver such supplies were quickly realised after Baku agreed later that year to begin importing some Russian gas to free up more of its own domestically produced gas for exports, but had little effect.

Azerbaijan has understood this true structure of the international order far better than the West has, despite the fact that the West, and in particular, the United States through the globally dominant role of the dollar, leads that order.

It is that very position that has made sanctions against Russia effective. With the Kremlin cut off from most international capital markets and subject to trade restrictions, it has had to shift its efforts to attempts to circumvent the restrictions even in its own backyard. Although the importance of Russia's commodity base for the world economy means that it has continued to find willing partners to help it mitigate the sanctions, it has no partner willing to openly defy the sanctions except tiny Belarus and similarly sanctions-afflicted North Korea and Iran. Even Beijing, which offers Russia rhetorical support, has ensured that its bite is far weaker than its bark, with the development bans that it leads to suspending loans in Russia in the aftermath of the sanctions for fear they too will come under such restrictions.

Another tragedy is that Azerbaijan would likely be a far more susceptible target for such sanctions in terms of pushing it to pursue an alternate strategy. The more a country is integrated into the Western-led international economic order, the more likely it is to pay sanctions and sanctions threats heed. Hence why Kazakh President Kassym-Jomart Tokayev has just this week again declared that Kazakhstan will support the sanctions regime whereas President Sadyr Japarov of Kyrgyzstan – whose sole major link with the international markets was severed last year with a deal to take over the share of the Kumtor Gold Mine held by a Canadian-list miner – is unlikely to make such a declaration. Azerbaijan's key hydrocarbons partner is British Petroleum and the country's primary economic partner, not just for arms sales, is the West, where its companies have long banked and sought investment.

And although they do not have the renown that some of the more prominent Russian oligarchs did before the full-scale invasion in 2022, its elite at least is, if not more so, keen on keeping their Western treasures – and more likely to have influence in Baku's halls of power than Russian oligarchs have in Putin's Russia.

Compare the daughters of the two country's respective presidents: Vladimir Putin's are understood to reside in Moscow and have never sought a platform in the West, whereas Aliyev's daughters have not only been linked to a multi-million dollar London property portfolio in investigations led by the Organised Crime and Corruption Reporting Project (OCCRP) but even launched their own glossy fashion magazine in the city in 2012.

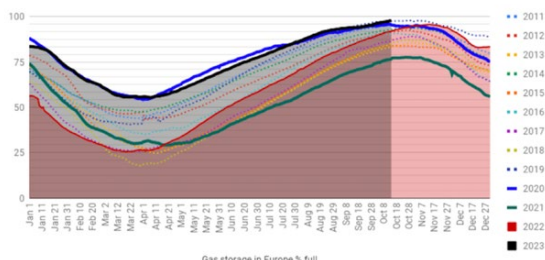
Azerbaijan has long recognised that it could take advantage of this misunderstanding, spending millions on lobbying to advance its claim to be a key Western energy supplier, including hiring former British Prime Minister Tony Blair to push its cause. Even today some of its advocates can be found on social media cheering on the ethnic cleansing of Nagorno-Karabakh. And when European officials are pressed on why they are unwilling to act, they invoke the same. Baku is also aware that the West's values grow increasingly unimportant the further they get away from Europe; the South Caucasus is on the wrong side of the Black Sea compared to Ukraine. When ethnic Armenian forces were in the more powerful position before the 2020 war, there was also no action to try and pressure them into concessions such as giving up the districts around the Nagorno-Karabakh Republic in exchange for peace.

The punch of political ongoing in the South Caucasus simply lacks the same currency in the West as do those in Europe, where the West has been willing to use sanctions threats not just around the conflict in Ukraine but also in relation to spiking tensions between Serbia and Kosovo. This extends beyond the conflict in Nagorno-Karabakh or between Armenia and Azerbaijan. When Azerbaijan detained one of its own, academic Gubad Ibadoghlu, earlier this year after he investigated potential corruption in funds intended for Nagorno-Karabakh's reconstruction, there was also no serious action, despite the fact he has held posts at the London School of Economics, New York University, and other top-tier institutions across the West.

There is only a rules-based order if the West uses its leading position in the international economic order to uphold it. But because the West fails to understand, or at least acknowledge, that is the international economic order rather than the rules-based order on which its leading position is based, there can be no hope that a genuine rules-based order will ever materialise. ●

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## European gas storage % full



Source: GIE AGSI

## Europe's gas tank storage reaches an all-time high just before the winter heating season starts

Total gas reserves in the European Union have surged to an all-time high just as the heating season begins, according to Gas Infrastructure Europe (GIE), an industry group representing European gas operators.

European underground gas storage (UGS) facilities are 97.89% full as of October 14, surpassing the average for this time of year over the past five years by 8.54 percentage points.

## Russia monetary policy rate vs CPI inflation y/y



Source: CBR

## Russia's inflation breaches 6% target, banks prepare for next interest rate hike

Annual inflation in Russia reached 6.3% as of October 9, accelerating further from 6% seen in September, according to the latest data by the Central Bank of Russia (CBR). Separate estimates by the Ministry of Economic Development showed that based on weekly data, annual inflation accelerated to 6.38% as of October 16.

Annual inflation has thus effectively breached the 6%-7% full-year inflation guidance previously provided by the CBR in September.

## Poland CPI v core inflation, annual change in %



Source: NBP

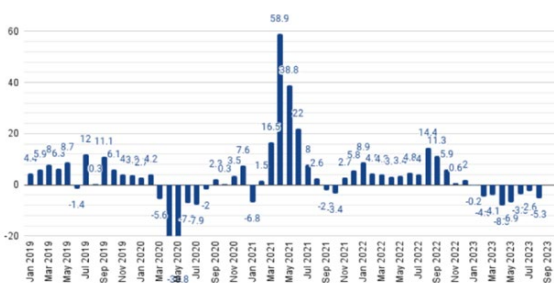
## Polish core inflation eases to 8.4% y/y in September

Poland's core inflation, which measures price growth without food and energy, came in at 8.4% y/y in September, the rate easing 1.6pp versus August, the National Bank of Poland (NBP) said on October 16.

It was the sixth successive fall in core inflation's y/y growth rate after a growth series that lasted nearly two years. Core inflation easing is in line with other price growth indicators. CPI growth eased 1.9pp to 8.2% y/y in September, the statistical office GUS said last week.

Prices growing less sharply and the ongoing economic slowdown prompted the National Bank of Poland to cut its reference interest rate by a combined 100bp to 5.75% in September and October.

## Hungary industrial production y/y



Source: Hungary State Statistics agency

## Hungary's vehicle sector dents decline of industry in August

Industrial output fell 5.3% year on year (chart) in August and by 6.1% y/y when adjusted to working days, the Central Statistics Office (KSH) confirmed on October 13 in a detailed reading. The disappointing data came after a positive surprise in output in July.

The monthly 2.4% decline from July was the steepest among EU countries, according to data from Eurostat.

The breakdown by sector showed that the vehicle sector, which accounted for 23% of manufacturing output, dented the decline with a 4.6% annualised growth during the period, a slowdown from the 14.4% in July. This may be due to the effects of summer shutdowns, according to analysts.

# IMF expects subdued growth as 'tightening starts to bite'

Felix Richter of Statista

The International Monetary Fund (IMF) published its latest update on the state of the world economy on Tuesday, predicting sluggish growth for 2023 and 2024, as many challenges persist and policy tightening is taking effect. According to its World Economic Outlook, the organization now expects global GDP to grow by 3.0% this year, down from 3.5% in 2022. For next year, the IMF predicts 2.9% growth, a slight downward correction from its April 2023 forecast of 3.0%, reports Statista.

"Economic activity still falls short of its pre-pandemic path, especially in emerging market and developing economies and there are widening divergences among regions," the report finds. "Several forces are holding back the recovery. Some reflect the long-term consequences of the pandemic, the war in Ukraine and increasing geoeconomic fragmentation. Others are more cyclical in nature, including the effects of monetary policy tightening necessary to reduce inflation, withdrawal of fiscal support amid high debt and extreme weather events."

Aside from inflation, which is expected to remain elevated across advanced economies until 2025, many of the problems that weighed on the global economy in 2022 – high debt levels, the war in Ukraine and rising geopolitical tensions – have carried over into 2023, resulting in continued uncertainty and muted growth prospects. And while China's reopening boosted global growth prospects earlier this year, the country's property crisis now poses yet another

downside risk, not only to domestic growth as a deepening of the crisis could have global spillover effects.

All things considered, the IMF finds that risks to its latest outlook are slightly more balanced compared to six months ago, when the US and Swiss banking crises as well as the specter of a potentially disastrous US debt default cast large shadows over the global economy. ●

## IMF expects subdued growth as 'Tightening starts to bite'

Real GDP growth estimates/projections for G7 countries, China and India



Source: IMF World Economic Outlook October 2023





## COVERING THE WORLD OF ENERGY

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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