SPB Exchange driving Russia's retail equity investment revolution p.35

How a V-shaped market and ageing pipes and fields sent gas prices soaring p.42

Benjamin Roll, Czech protest leader p.48

Hungarian opposition accuses Fidesz of sabotaging first round of primary election

Romania’s anti-corruption struggle still inspiring its neighbours

European Medical Centre, 32 years of caring for Muscovites

Iran cements ties with East as it becomes full member of SCO
COMPANIES & MARKETS

4 Metinvest reports record results, but expects the market to cool from here

6 EV market may create copper deficit

7 Car production in Czechia falls by 39% during summer

8 Hungarian central bank sees little chance of government slashing 5.9% deficit target despite stellar growth

9 State managers of Kyrgyzstan’s seized Kumtor gold mine ‘risk flooding catastro-phe’

10 Low-cost airline Uzbekistan Express takes wing

10 Romania’s leading insurer City Insurance heads towards bankruptcy after losing licence

11 Serbia makes a strong recovery from a modest crisis

14 Romania’s Fondul Proprietatea says state may deprive it of 19% stake in Bucharest Airports

15 Three major companies traded on Bucharest stock exchange doubled investors’ money over the past year

16 Croatia, Serbia and Ukraine were emerging markets with biggest upgrades from Fitch over last five years

17 The Kremlin takes control of the internet in Russia’s Duma elections

20 Russian ultra-convenience shopping’s future isn’t just online

21 Russia’s Yandex beats off the largest DDoS attack in history

21 E-commerce in Russia is booming, but the race has only just begun

23 Russian tech exports up threefold since 2018

24 Fertiliser, electricity producers count the cost of the EU’s CBAM

26 Global coal plans collapse by 76%

27 Green push comes to steel

29 Turkey’s lakes and rivers drying up amid drought and climate change

COVER FEATURE

31 Russia’s IPO boom

35 SPB Exchange driving Russia’s retail equity investment revolution

37 2011 capital market revolution

39 Russia’s Renaissance Insurance hopes to raise $290mn with IPO
SPECIAL FOCUS
42 How a V-shaped market and ageing pipes and fields sent gas prices soaring
47 Nord Stream 2 completed as last pipe section welded into place

CENTRAL EUROPE
48 Benjamin Roll, Czech protest leader
51 Hungarian opposition accuses Fidesz of sabotaging first round of primary election
52 Poland declares state of emergency along border with Belarus to stem migration
53 Hungary and Russia reach long-term gas supply agreement

SOUTHEAST EUROPE
54 Romania’s anti-corruption struggle still inspiring its neighbours
56 World Bank drops Doing Business report after alleged pressure from Bulgaria-born IMF chief to favour China
57 Bulgaria’s Harvard-educated saviours-in-waiting

58 Merkel says EU should “keep its word” in relations with accession candidates

EASTERN EUROPE
60 European Medical Centre, 32 years of caring for Muscovites
64 Novatek deputy chairman arrested over allegedly hiding $93mn from IRS
65 Belarusian opposition leaders Maria Kolesnikova and Maksim Znak were sentenced to over a decade in jail
66 Assassination attempt made against Ukrainian president’s top adviser
67 Ukraine passes anti-oligarch law

EURASIA
68 Iran cements ties with East as it becomes full member of SCO
69 SCO leaders tell West to bite the bullet and hand billions to Taliban
71 Tens of millions of wealth fund dollars have “flowed to corporation linked to relative of Uzbekistan’s Mirziyoyev”

OPINION
72 Hungary’s surprise debt issuance demonstrates the EU’s financial whip is not working
74 No debt ratio is safe for small EU countries
75 Turkey’s official inflation – nothing if not a head-scratcher

NEW EUROPE IN NUMBERS
79 Russia’s Duma elections statistics: the comet effect and the Moscow blob
Ukraine’s biggest company, the iron and steel producer Metinvest, just reported its best results in 13 years. High profits and strong revenues were due to the buoyant market that has seen iron prices rise to nine-year highs, but Metinvest’s CEO Yuriy Ryzhenkov told bne IntelliNews in an exclusive interview that the company had also added $370mn of gains from rationalisation in the first six months of this year, productivity increases and management improvements.

“A good market lifts all boats and there is a very nice rally on the metals market at the moment that started at the end of last year, but we have also added $368mn in financial gains as the result purely internal improvements,” Ryzhenkov told bne IntelliNews by phone from Kyiv.

Metinvest invested over $1bn in 2020 into improving its production, which resulted in a 5% increase in productivity, and plans to keep its capex at $1.5bn each year over the next three years to continue its modernisation programme going, says Ryzhenkov. At the same time, the investments have seen a reduction in the consumption of inputs like coking coal that has also improved the productivity of operations.

INTERVIEW:

Metinvest reports record results, but expects the market to cool from here

Ben Aris in Berlin

Ukraine’s biggest company, the iron and steel producer Metinvest, just reported its best results in 13 years, but the market for metals is starting to cool now and the CEO is focused on building a long-term sustainable business.

Market to cool off

The rally in commodity prices began around last November at the same time as the first coronavirus (COVID-19) vaccines appeared. As bne IntelliNews reported at the time, it seems that not only did populations start going back to eating out in restaurants and getting their hair cut again, but industrialists also anticipated re-opening their factories and began ordering commodities again in anticipation of a return to normality, driving up prices in the process.

However, Ryzhenkov believes that the commodities market has already passed its peak as economies start to find a new equilibrium after the shock and correction phase of the coronacrisis has passed.

“Next month we will probably pass peak and prices will begin their downward slope,” says Ryzhenko. “Iron prices have already fallen from $220 per tonne to $150 and there is a similar trend in steel that is down 20%. There is a normalisation of the market, as the previous high prices were not sustainable. There is no unusual financial crisis like in 2008 so there will be a price reduction but it will be more gradual as the market rebalances. However, there is still a risk of a fourth wave of the COVID virus
that could impact the economy in the second half of this year.”

Ryzhenkov doesn’t think the risk is too great and expects Metinvest to turn in the same sort of results it produced in the second quarter – very good.

**M&A**

In addition to the modernising and efficiency programme the company has been remaking its profile to become more self-sufficient in inputs through a couple of large M&A deals.

In August Metinvest bought the Dniprovskyy Steel mill in a privatisation of the bankrupt company that has added 2.4-2.5mn tonnes per year (tpy) of steel production capacity to the company’s output, paying UAH9.17bn ($339mn) for the assets via its subsidiary Dniprovskyy Coke, the only company that decided to participate in the July 26 auction.

Metinvest also bought Ukraine’s biggest Pokrovske coking coal producer in March, which mines and processes coal to make coking coal and completely satisfy Metinvest’s needs for the essential input into the steel-making business. As bne IntelliNews reported this month, the company is in the process of squeezing out the minority shareholders to take complete control of the business. Metinvest intends to invest into these assets too and production at Pokrovske was already up 20% in the first half of this year.

**Dividends and debt**

After several years of coping with the aftermath of various crises the company has also been taking advantage of the opportunity to clean up the company’s loan portfolio. That means that Metinvest will be able to return more in the way of dividends to shareholders as a result, says Ryzhenko.

The company is paying generous dividends to its shareholders, the biggest of which is Ukraine’s richest man, Rinat Akhmetov. After the Dniprovsky Metallurgical Plan deal Akhmetov’s holding company System Capital Management (SCM) owns 70% of Ukraine’s steel production,

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Yuriy Ryzhenkov, CEO at Metinvest
Companies & Markets

Ryzhenko says that the coronacrisis has been fairly benign and in particular was not accompanied by any sort of financial crisis. Indeed, as bne IntelliNews has reported, the banking sector was already cleaned up and in robust health going into the pandemic and after.

Having lived through multiple crises in 2008, 2014 and now again in 2020, Ukraine’s top managers have learned to be cautious as they have to keep in the back of their minds that the chances of yet another crisis is more than likely.

Nevertheless, there are internal changes that are also lifting the economy. Construction and the real estate sector has taken off and is now growing strongly, although it is still early days. Incomes are rising and the government has started to spend on infrastructure, says Ryzhenko.

“Are all these factors enough to sustain growth? The problem is the reforms that the government are doing, or [rather], not doing,” says Ryzhenko. “There are still too many complex regulations that are holding back growth: regulations to establish a new business are too complex, the tax system is unpredictable, a new law going through the Rada now would make it that the tax man’s decisions are never wrong. There are many issues. What we need is a consistent and understandable system built with a long-term approach.”

Outlook
Ukraine’s economy has been recovering and the leading companies like Metinvest continue to invest and improve their operations, but Ukraine remains in transition and fragile. Growing from a low base is easy, says Ryzhenko, but he remains cautious on the future, which remains uncertain.

“The growth in the first half of this year was 3%, which is not bad, and 5.4% in the second quarter, but that is compared to a 7% contraction in the second quarter of 2020, so it’s not as impressive as it sounds,” says Ryzhenko. “There is also a good commodity cycle – iron, steel, grain are all up. That helps the government and gives them more taxes and improves the balance of payments. But these are several unusual things that depend on the world’s economy. They are all external factors and those tend to change. They are not driven by internal changes.”

And those dividends will increase now that Metinvest has used some of the extra cash it earned to pay down debt.

In March Metinvest repaid $150mn of its pre-export loan facility ahead of schedule, according to the company’s March 26 investor release. And then in June it repurchased around $150mn of its 2023 Eurobonds from investors.

“We are deleveraging,” says Ryzhenko. “We have already reduced the debt by $1bn and in the third quarter we will pay more, bringing the reduction this year to about $1.3bn. That will leave a total of $2.2bn but the next big payment will only be in 2023 and for only less than $200mn.”

EV market may create copper deficit

Dimitri Frolovskii of Neo

Auto fleets’ shift to electric vehicles (EVs) in a global drive to cut carbon emissions will involve a drawdown on copper that could transform markets, and spur additional supply.

Cars powered by electricity are able to push a greener agenda by eliminating petrol emissions and creating a market for renewable energy. Renewable sources, such as wind and solar, are increasingly replacing coal in power generation. The key commodity for EVs will be copper. For that the world is currently looking at developing new projects.

According to the IEA, copper will remain the most broadly used metal in renewable energy technologies. For instance, a battery EV uses 83kg of copper, compared with the 23kg of copper in an internal combustion engine vehicle. Additionally, batteries and chargers require a lot of copper, while renewables, such as wind and solar power generation, require tonnes of copper.

The world’s two largest economies are headed along this (copper-based) greener path. China’s will continue to grow amid a pledge to shift to greener practices. US President Joe

www.bne.eu
Biden’s infrastructure plans and schemes to cut emissions are already bringing batteries to the forefront.

Goldman Sachs predicts that by 2030, copper demand will grow nearly 600% to 5.4mn tonnes. In North America, the EV market will have a value of $2.7bn by 2021 and $18.6bn by 2030. And by 2040, passenger EVs alone will consume more than 3.7mn tonnes of copper annually.

According to the US Geological Survey (USGS), in 2019 global copper reserves were estimated at 830mn tonnes, with annual demand totalling 28mn tonnes. Additionally, discovered and undiscovered deposits amounted to over 5bn tonnes.

At the same time, of the 224 copper deposits that were found between 1990 and 2019, only 16 were discovered in the past 10 years, meaning that discovering and developing new mines should be a critical priority to meet the growing demand for the green energy transition.

Growing demand and largely stagnant output have turned investors’ attention to projects that seemed very complex in realisation in the near past. One recent example is the development of the Udokan deposit located in Russia’s Far East, where low temperatures are accompanied by very long distances that require very serious investment in infrastructure. But the deposit has reserves of over 26mn tonnes and is considered the largest untapped copper deposit in Russia and the third-largest in the world. The project, owned by Russian billionaire Alisher Usmanov, is expected to go operational next year.

Another example is China’s Molybdenum, which announced plans to invest $2.51bn to double copper and cobalt production at Tenke Fungurume mine in the Democratic Republic of Congo (DRC). The project should be completed in 2023. It includes building three ore production lines that would increase the average annual copper output at the mine by 200,000 tonnes.

There are plenty of other examples in the pipeline as well.

Increased investments going into copper mining will likely emerge as a response to price rises as higher demand kicks in. Copper is a necessary companion to delivering batteries that will lower emissions in EVs and transport and elsewhere globally. The supply of the metal will follow suit with growth.

This article first appeared in New Economy Observer (NEO), a digital publication covering the intersection between finance and social responsibility, with a special focus on emerging markets. It offers news and analysis on major issues shaping the new global economy, including climate change and renewable energy, sustainable development, e-commerce and tech innovation, and the future of work.

Car production in Czechia falls by 39% during summer

Car production in Czechia slowed down during the summer months (July and August), down by 39% year-on-year to 112,481 cars produced, mainly due to the ongoing crisis in the semiconductor market, shows data released by the Association of the Automotive Industry.

The semiconductor shortage has held back Central Europe’s recovery from the worst of the pandemic because the region is extremely dependent on the automotive industry. Car plants in Hungary, Slovakia and Poland have all been affected. Daimler and Suzuki’s plants in Hungary have also recently announced shutdowns.

“In July and August, car production dropped by 39.2% compared to the summer months last year, when the entire industry was catching up on the production missed in the spring months,” commented Zdenek Petzl, Executive Director of the Association of the Automotive Industry.

In the first eight months of the year, carmakers produced a total of 775,496 cars, increasing their production by 12.6% y/y, while going down in production by 17.7% (166,000 cars) compared to the pre-crisis level in 2019.

"The situation in the automotive industry is not improving, quite the opposite. In Malaysia, production at key chip suppliers has been temporarily suspended due to measures against the spread of coronavirus. Supply has also been affected by logistics problems, for example due to the closure of some major Chinese ports,” Petzl added.

Both car producers Skoda Auto and Toyota had to extend their traditional summer shutdowns due to lack of chips. So far, only Hyundai in Nosovice has been able to successfully face the crisis. The company produced 182,400 cars in 8M21, up by 33.1% y/y.
Hungarian central bank sees little chance of government slashing 5.9% deficit target despite stellar growth

bne IntelliNews

The Hungarian National Bank (MNB) expects the government to use additional proceeds from better-than-expected growth to boost expenditures this year, thus reducing the chances of reducing the budget gap at a faster pace, according to its biannual fiscal report on September 3.

"On the basis of favourable macroeconomic projections, a more ambitious reduction of the general government deficit and state debt than the one at present would be a realistic goal, which is why it would pay off to save surplus resources from economic growth in 2022," the MNB said in the report.

Instead, the central bankers presume that additional room for manoeuvre resulting from stellar growth in 2021 will be used by the government.

MNB Governor Gyorgy Matolcsy has repeatedly warned of the risk of overheating and said the government's 5.9% deficit target could set the country up for persistently high inflation.

He argued that the economic recovery would allow Hungary to return to a path of fiscal balance sooner after the pandemic stimulus widened the budget gap in 2020 and 2021.

Finance Minister Mihaly Varga has shrugged off these criticisms, saying that "if we want to overtake in the curve" – borrowing one of Matolcsy's signature phrases – "we have to press the gas pedal harder".

Analysts expect the expansionary fiscal policy to remain until the first half of 2022 as the government will continue to unleash a spending binge before the election.

Hungary’s gross debt surged 15pp to 80.4% at end-2020 as the economy contracted by 5% and the budget deficit widened to 9%. The MNB forecasts the debt ratio to decline to 76.8% by end-2021 and to 75% a year later thanks to nominal GDP growth above 10% combined in 2021 and 2022.

Matolcsy has formulated sharp criticisms of the government’s economic policies in recent months. In his latest op-ed piece, he said that significant institutional changes will be required in the structure and functioning of government to avoid getting stuck in a middle-income trap.

A week earlier, he blamed "institutional weaknesses of economic policy" for Hungary's "mediocre" performance compared to regional peers in the region. Matolcsy has also chided the government for the lack of investment in knowledge-intensive industries and focusing rather on "steel and concrete" investments, a criticism widely shared by opposition parties.

In related news, London-based analysts see Hungary’s economic outlook as rosy. Morgan Stanley raised its growth forecast in 2021 to 7%, well above the 6.1% consensus based on stronger-than-expected Q2 GDP and above the 6.2% target by the MNB. Due to the high base, economic growth could decelerate to 3.6% in 2022, which is closer to Hungary's long-term growth trajectory trends seen before the pandemic.

Standard & Poor's global financial services group, which has recently affirmed its 'BBB/A-2' investment-grade outlook on Hungary's long- and short-term sovereign debt with an unchanged stable outlook, forecasts 6.1% growth in 2021 provided that infections remain low.

Fitch Ratings has also retained its 'BBB' stable outlook on Hungary and forecasts a 6.5% growth in 2021 to slow to 4.8% from 2022-2023.

"If we want to overtake in the curve" – borrowing one of Matolcsy's signature phrases – “we have to press the gas pedal harder""
State managers of Kyrgyzstan’s seized Kumtor gold mine ‘risk flooding catastrophe’

Kanat Shaku in Almaty

Canadian miner Centerra Gold has warned that Kyrgyzstan’s Kumtor gold mine is at risk of potentially catastrophic events because the central pit of the mine – seized from the company by the Kyrgyz government in May – has become flooded with irregular amounts of water that have run down the pit walls.

Centerra claimed to have seen photographic evidence of the dire situation that it said now existed at the mine high up in the Tian Shan mountains near the Chinese border, but the government-appointed management responded with the claim that the water has always been there, while alleging that an effort was under way to “undermine the reputation” of the mine’s management.

Further outlining its allegations, Toronto-headquartered Centerra said that it believed at least 40 metres of water may be at the bottom of the central pit, posing a threat to both workers and the environment. It added: “This is far more water than we ever saw collect at the bottom of the pit in the more than 25 years of the mine’s operation under Centerra’s control.”

Centerra COO Dan Desjardins, who managed the Kumtor mine for five years as president of Kumtor Gold Company (KGC) until January, told Mining Weekly: “As any experienced miner would know, water in an openpit mine decreases stability and increases the risk of a wall failure. For Kumtor, pumping water out of the mine and treating it properly to remove contaminants has always been critically important to the safe operation of the mine given its proximity to glaciers. When we operated the mine, nearly all of the glacial melt water was intercepted before it reached the pit. Under the government-appointed management, this glacial water is flowing uncontrolled into the pit. This is dangerous and we are worried about the safety of workers at the mine.”

Centerra said the evidence of the flooding includes a video posted on August 15 on the KGC social media page.

Desjardins has urged the Kyrgyz administrator of the mine to rely on independent mining experts to analyse the mine’s condition and publish their findings.

“Doesn’t correspond with reality”

Kumtor’s administrator said in a September 1 statement that the scenario as described by Centerra “doesn’t correspond with reality”.

However, in another report on the claims made by Centerra, Bloomberg cited Gavin Wendt, a senior resource analyst at MineLife, as saying that a buildup of water at Kumtor could penetrate pit slopes, causing potential contamination of nearby waterways. Wendt also noted a risk of subsidence that would be severely time-consuming and costly to tackle along with being potentially fatal for any mine workers.

“The primary issue of water residing in an operating mine is the danger presented by instability to the pit itself,” Wendt was quoted as saying. “Typically, water and mines don’t mix.”

Units of Canada’s Centerra Gold on August 25 filed a motion in a US Bankruptcy Court seeking penalties of $1mn a day against the Kyrgyz government in relation to the seizure of Kumtor mine. Centerra has previously stated that it considers the seizure of the mine as unjustified and illegal, while dismissing allegations by Kyrgyzstan’s Japarov administration of corruption as false.

The company, which has posted a Kumtor “Myth vs. Fact” section on its website, said this week that it has recognised a $926mn loss on the change of control of the mine. Kumtor was included in Centerra’s discontinued operations.

International arbitration

The Kyrgyz government, which came to power following political upheaval in Kyrgyzstan seen late last year, is facing international arbitration hearings pursued by Centerra over ownership of the mine, the second highest gold mining operation in the world and the largest taxpayer in the country. The authorities resurrected several previously settled alleged tax and environmental complaints in relation to the gold mine prior to the seizure.

Since the takeover of the mine, Centerra’s Kyrgyz subsidiaries have filed for Chapter 11 protection. Centerra has also sued the new external manager of the mine, alleging that while he served as a director, he conspired to steal the asset from the company. The director has denied the claims.

The miner said at the time of lodging its lawsuit that KGC and Kumtor Operating Company were solvent, with total assets above $1.1bn and no external bank debts.
Low-cost airline Uzbekistan Express takes wing

Muzaffar Ismailov in Tashkent

Low-cost airline Uzbekistan Express has carried out its first flight. An Airbus A320ceo flown from Tashkent touched down at Moscow Domodedovo Airport on August 30 as Uzbekistan Airways advanced its plan to transition into a “hybrid model” carrier by offering budget flights laid on by Uzbekistan Express.

As things stand, Uzbekistan Express operates two Airbus A320ceos, reconfigured with single economy-class cabins for 174 passengers. In Uzbekistan Airways’ standard configurations these aircraft are equipped with 12 business class and 138 economy seats. Two more aircraft will have their cabins reconfigured in the coming months, the parent airline said.

Uzbekistan Express will particularly focus on domestic routes, but will also operate a number of routes to Russia and Kazakhstan (Aktau and Aktobe).

“All flights are part of Uzbekistan Airways’ existing route network but will be offered at 20% discount compared to the parent airline’s standard rates. The reduction is possible due to increased aircraft capacity,” Uzbekistan Airways said.

Uzbekistan Express will face competition not only from foreign operators but from the recently launched private Uzbek carrier Qanot Sharq. It also operates two A320ceos.

Simpleflying.com posed some questions, asking: “Will it [Uzbekistan Express] be willing or given the freedom to have meaningfully lower labor costs and higher labor productivity? Much greater aircraft productivity? Much lower ticket distribution costs? A real focus on unbundling? And many more things. This remains unclear.”

Uzbekistan Express is Central Asia’s third budget airline after Kyrgyzstan’s Air Manas and Kazakhstan’s FlyArystan.

In the non-coronavirus-hit year of 2019, over 1.3mn passengers flew between Uzbekistan and Russia, booking data shows.

Romania’s leading insurer City Insurance heads towards bankruptcy after losing licence

Iulian Ernst in Bucharest

The Council of Romania’s Financial Supervisory Authority (ASF) on September 17 withdrew the operating license of City Insurance, the country’s biggest insurer that owes its position to the massive portfolio of mandatory car insurances. The ASF will now initiate bankruptcy procedures against City.

The Romanian insurer, set up and controlled until June by Romanian businessman Dan Odobescu, the brother-in-law of former prime minister Adrian Nastase, failed to observe the recovery strategies required by the ASF in June.

Under the strategies, the insurer was supposed to increase its capital by €150mn before September 6.

A Swiss-registered investment vehicle, I3CP, promised to buy new shares issued by the insurer but it failed to come up with the money by the deadline.

The ASF announced that Romania’s biggest insurer failed to demonstrate it is capable of increasing its own resources such as to meet the minimum and solvency capital requirements.
Serbia was one of the best performers in the entire Emerging Europe region in 2020, with its economy contracting by a mere 1% during the pandemic year, in stark contrast to some of its neighbours. The economy is now on track for rapid growth this year – provided the latest wave of the pandemic doesn’t prove to be too much of a setback.

In the depths of the crisis in Q2 of last year, Serbia’s economy contracted by only 6.3%. By the first quarter of 2021, the economy returned to year-on-year growth. Serbia’s real GDP growth in the second quarter was 13.7%, exceeding the flash estimate of 13.4%.

The reasons behind this are a combination of the structure of its economy and Serbia’s fiscal strength at the start of the pandemic that allowed it to offer a series of big stimulus packages.

Five years before the crisis, back in February 2015, Serbia embarked on a fiscal consolidation programme with the support of the International Monetary Fund (IMF). In 2017, the country reported its first consolidated budget surplus since 2005 after significantly improving its public finances. By the end of the precautionary €1.2bn three-year IMF stand-by City Insurance has paid €18mn to its main shareholder, Vivendi International (Odobescu’s investment vehicle), for fictitious loans since 2017, disclosed Ionescu.

Specifically, City Insurance declared that it borrowed €50mn, €25mn, and another €50mn this year from Vivendi – but the accounts in the Swiss banks indicated by the insurance company do not exist and Vivendi extended no loan to City while cashing interest rates of 10-12%.

Ionescu was appointed at ASF earlier this year, specifically to investigate the situation on the insurance market.

Nicu Marcu, the current ASF president who was appointed in 2020, has launched extensive controls on insurance companies, including overseas operations. Before Marcu, in 2017-2020, the president of ASF was Leonardo Badea, the current vice-governor of the National Bank of Romania (BNR).

In an interview given to Radio Free Europe, Ionescu disclosed other irregularities at City Insurance such as understating the cost generated by the green cards issued, which had the effect of understating the capital requirements.

The authority also concluded that the company is already insolvent and its solvency keeps deteriorating.

Under existing regulations, the claims generated by the insurance policies issued by City will be processed from now on by the Insurance Guarantee Fund (FGA) but the payments will be disbursed only after City’s bankruptcy.

The government is reportedly drafting an emergency decree that would allow the FGA to disburse the money within 60 days after the insurer loses its operating licence.

According to sources familiar with the market, City’s portfolio will generate total claims in the amount of around €100mn.

City Insurance is 85% controlled, through Swiss-registered Vivendi International, by Odobescu.

ASF officials reported massive frauds at City Insurance, particularly after it took over the management of the company in June. Among the frauds spotted, City Insurance’s main owner reportedly siphoned off €18mn since 2017, according to ASF director Valentin Ionescu, who has investigated the case.

Serbia makes a strong recovery from a modest crisis

Clare Nuttall in Glasgow

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Serbia makes a strong recovery from a modest crisis

Clare Nuttall in Glasgow

Serbia was one of the best performers in the entire Emerging Europe region in 2020, with its economy contracting by a mere 1% during the pandemic year, in stark contrast to some of its neighbours. The economy is now on track for rapid growth this year – provided the latest wave of the pandemic doesn’t prove to be too much of a setback.

In the depths of the crisis in Q2 of last year, Serbia’s economy contracted by only 6.3%. By the first quarter of 2021, the economy returned to year-on-year growth. Serbia’s real GDP growth in the second quarter was 13.7%, exceeding the flash estimate of 13.4%.

The reasons behind this are a combination of the structure of its economy and Serbia’s fiscal strength at the start of the pandemic that allowed it to offer a series of big stimulus packages.

Five years before the crisis, back in February 2015, Serbia embarked on a fiscal consolidation programme with the support of the International Monetary Fund (IMF). In 2017, the country reported its first consolidated budget surplus since 2005 after significantly improving its public finances. By the end of the precautionary €1.2bn three-year IMF stand-by City Insurance has paid €18mn to its main shareholder, Vivendi International (Odobescu’s investment vehicle), for fictitious loans since 2017, disclosed Ionescu.

Specifically, City Insurance declared that it borrowed €50mn, €25mn, and another €50mn this year from Vivendi – but the accounts in the Swiss banks indicated by the insurance company do not exist and Vivendi extended no loan to City while cashing interest rates of 10-12%.

Ionescu was appointed at ASF earlier this year, specifically to investigate the situation on the insurance market.

Nicu Marcu, the current ASF president who was appointed in 2020, has launched extensive controls on insurance companies, including overseas operations. Before Marcu, in 2017-2020, the president of ASF was Leonardo Badea, the current vice-governor of the National Bank of Romania (BNR).

In an interview given to Radio Free Europe, Ionescu disclosed other irregularities at City Insurance such as understating the cost generated by the green cards issued, which had the effect of understating the capital requirements.

The authority also concluded that the company is already insolvent and its solvency keeps deteriorating.

Under existing regulations, the claims generated by the insurance policies issued by City will be processed from now on by the Insurance Guarantee Fund (FGA) but the payments will be disbursed only after City’s bankruptcy.

The government is reportedly drafting an emergency decree that would allow the FGA to disburse the money within 60 days after the insurer loses its operating licence.

According to sources familiar with the market, City’s portfolio will generate total claims in the amount of around €100mn.

City Insurance is 85% controlled, through Swiss-registered Vivendi International, by Odobescu.

ASF officials reported massive frauds at City Insurance, particularly after it took over the management of the company in June. Among the frauds spotted, City Insurance’s main owner reportedly siphoned off €18mn since 2017, according to ASF director Valentin Ionescu, who has investigated the case.
arrangement (SBA), Serbia had significantly outperformed the targets. There followed two years of growth of over 4%, rising as high as 5.2% y/y in 1Q21.

“Serbia has coped relatively well with the COVID-19 pandemic. The hard-won macroeconomic stability that was achieved prior to the crisis, and the large policy support package that was deployed as the crisis hit, helped mitigate the adverse impact of the pandemic on economic activity. Nonetheless, with the uncertain future course of the pandemic, sustaining a solid economic recovery should be a policy priority,” commented Tao Zhang, deputy managing director and acting chair of the IMF, in June, at the conclusion of the latest Article IV consultation with Serbia.

Secondly, in contrast to some of its tourism-dependent neighbours like Croatia and Montenegro, which suffered some of the deepest recessions in emerging Europe, Serbia has a diversified economy, with a relatively large industrial sector.

The European Bank for Reconstruction and Development (EBRD) wrote in its latest Regional Economic Prospects report: “The effects of the COVID-19 pandemic on the economy were moderate in 2020. The structure of the economy – limited reliance on tourism and a relatively high share of basic goods such as food and some chemicals in manufacturing – combined with large government aid packages and less restrictive lockdown measures for most of the year, contributed to a GDP contraction of only 1%.”

Finally, while Serbia introduced a strict initial lockdown last spring, this lifted earlier than in most European countries to prepare for the June 2020 general election, allowing the economy to return to normal by the beginning of the summer.

Fiscal stimulus
Serbia provided the Western Balkans region’s biggest stimulus packages since the start of the crisis, and continued to do so in 2021. Stimulus measures in 2020 amounted to close to 13% of GDP, including fiscal revenue and spending measures of 8% of GDP. The successive packages announced during 2020 included wage subsidies, cash transfers, support for the healthcare sector, tax deferrals and liquidity support to small and medium sized enterprises through credit guarantee schemes.

This pushed Serbia’s estimated 2020 fiscal deficit to a record 8.1% of GDP. Meanwhile, public debt increased by around 5 percentage points (pp) in 2020, to reach 58% of GDP at year-end, according to the EBRD. However, this figure is well below the debt levels in other regional economies such as Albania, Croatia and Montenegro.

“Serbia’s fiscal consolidation efforts in recent years meant that it entered the COVID-19 crisis in a strong fiscal position that allowed it to implement a large support program. The large stimulus package introduced early on helped to limit the negative impact of the crisis on growth,” commented the World Bank in a regional report earlier this year.

Belgrade adopted a supplementary budget for 2021 in April, in which it increased capital expenditure and extended policy support to households and companies.

“Expansionary fiscal policy is continuing as the government has adopted additional fiscal stimulus measures to the tune of 4.5% of GDP (€2.0bn) for 2021, consisting of increased expenditures in healthcare, wage subsidies and one-off payments to pensioners and some adults. The budget for 2021 also includes a significant increase in public investment,” according to the EBRD.

The IMF has urged Serbia to rebuild policy buffers once the recovery gains momentum. Spending isn’t expected to be reined in until well into 2022, however, as Serbia will hold both general and presidential elections in the spring.

Unemployment
The World Bank calculates that in 2020 around 69,900 jobs were lost in the Western Balkans; 144,000 jobs disappeared during the initial strict lockdowns in Q2 2020 – most of them in tourism, and concentrated in Albania and Montenegro – but almost half were later recovered. Other sectors with heavy (temporary) job losses were construction, manufacturing, trade and transport.

Serbia escaped lightly, thanks to the economic stimulus from the government and – after the initial lockdown – less stringent pandemic restrictions, as well as the structure of its economy. Unemployment reached a record low of 9% in 2020, although youth unemployment had risen to 32.4% by the end of the year. Despite the low unemployment figures, however, the World Bank points out to a rise in inactivity, with some unemployed people temporarily giving up their job searches, while others retired or moved abroad to work. Now, as the initial impact of the 2020 stimulus programmes wanes, unemployment is creeping back up.

On the other hand, according to the World Bank the ICT industry weathered the crisis well and became an important employer in Serbia, while public sector employment grew. This had the effect of “cushioning the pandemic’s impact but increasing the size of the already relatively large public sector in the Western Balkans.”

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Future growth

Growth in Q1 2021 of 1.7% y/y was “underpinned by a strong recovery in the construction sector, but also by growth of industrial output and an increase in trade, transport and tourism activities,” the EBRD said. Y/y growth then accelerated sharply in Q2 as Serbia recovered from the low base the same time last year.

In June 2021, turnover in industry in Serbia increased by 31.8%, compared with June 2020, and by 32.9% relative to the 2020 average, the statistics office said.

Retail trade in Serbia increased by 24.2% y/y in the second quarter of 2020, according to the Statistical Office of the Republic of Serbia. There was also a 20.4% jump compared to the previous quarter.

Growth forecasts for Serbia this year are around the 6% mark. In mid-August, the National Bank of Serbia (NBS) raised its projection for the country’s GDP growth this year to 6.5%, from the 6% it projected in May. Serbian Prime Minister Ana Brnabic told Prva TV in June that Serbia will end 2021 with the “best economic results in Europe”, forecasting the country’s economic growth could be as high as 7%.

The IMF is somewhat more pessimistic, expecting growth of around 6%, but it warned of high uncertainty about the path of the COVID-19 pandemic, and the need for accelerated structural and institutional reforms to ensure inclusive and sustainable growth in the medium term.

Fitch Ratings has revised upwards its 2021 growth forecast to 6.3%, citing the strong rebound in domestic demand in 1H21. “There has been a fast Covid-19 vaccination rollout, at 86 doses per 100 people, but recent progress has stalled due to vaccination scepticism, and the potential for economic restrictions to contain a new wave represents a risk to our forecast,” the rating agency said in September.

Looking further ahead, the World Bank says: “Over the medium term the economy is expected to grow steadily at 3.5-4% annually, similar to levels before the pandemic, as the economies of main trading and investment partners recover fully from the pandemic.”

The IMF forecasts that in the medium-term growth will gradually converge to its potential of 4%. This will be “supported by strong FDI, continued high public investment, and an assumed recovery in trading partner countries”, the fund said.

Fitch anticipates GDP growth will moderate to 4.4% in 2022 and 3.9% in 2023. The rating agency says the forecast is “slightly above our assessment of the trend rate, which is constrained by unfavourable demographics and weak total factor productivity growth”.

The NBS has revised the medium-term economic growth projection from 4% to the range of 4-5% – again more

optimistic than the international financial institutions – a move it said was based on an analysis of planned capital projects in road, railway, energy and utility infrastructure in the next ten years and their direct and indirect effects on other parts of the economy. The bank’s central projection for GDP growth over the medium term now stands at 4.5%, while overall risks to the projection are judged to be symmetric.

The IMF argues that further structural and institutional reforms are needed in Serbia. This would underpin high, inclusive, and greener growth, as well as accelerate income convergence with the EU. On top of this, developing the local capital market would support medium-term growth.

One politically sensitive issue that Belgrade has been trying to tackle for some time is the reform – and potential privatisation – of state-owned enterprises (SOEs). As they are some of the country’s major employers, this has happened in fits and starts. The IMF stressed the importance of strengthening the governance and management of SOEs and implementing structural reforms.

The World Bank noted a deterioration in the performance of some state-owned enterprises such as Telekom Srbija and Air Serbia – the latter being hit particularly hard by the coronavirus – on top of other SOEs that were already financially troubled.

Inflation

Inflation is rising as in other emerging Europe economies. Annual inflation in August in Serbia was 4.3%, nearly triple the low of 1.1% in January.

At its latest rate-setting meeting in August, the NBS kept the key policy rate at 1.0%. The central bank noted that inflation has moved around the target midpoint (3±1.5%) since April. As in other countries in the region, higher y/y inflation relative to the previous quarter is mainly attributable to the low base for petroleum product prices from the same period last year, as well as to the higher cost-push pressures fuelled by the surge in the global prices of oil and other primary commodities in the previous months, the NBS stated.

However, many people believe that Serbia’s real inflation rate is higher than the official statistics show due to the increase in the price of foodstuffs, as reported by the eKapija portal.
Romania's Fondul Proprietatea says state may deprive it of 19% stake in Bucharest Airports

Iulian Ernst in Bucharest

The biggest investment fund in Romania, Fondul Proprietatea (FP), warned in a statement that the management of Bucharest Airports National Company (CNAB) might dilute its stake from 20% to 0.7% through the capitalisation of what it says is an overvalued plot of land used by its secondary airport Baneasa.

The management might shortly call a general shareholders meeting for the approval of a share capital increase based on an “excessive and disputed value” of RON3.8bn for the land inside the Baneasa airport, brought as a contribution in kind to the company's capital, FP said. The fund is a minority shareholder in the company alongside the Romanian state.

This is the third time the process to increase the share capital has been initiated since 2001 when Baneasa Airport, the smaller of Bucharest's two airports, received the land ownership certificates.

Based on this latest disputed valuation, Fondul Proprietatea might be required to make a contribution of RON953.7mn in a potential share capital increase, or, otherwise, its 20% participation would be diluted to 0.7% resulting in an equivalent of RON570mn value destruction for FP shareholders.

Johan Meyer, CEO of Franklin Templeton Bucharest and portfolio manager of Fondul Proprietatea, objected to the land valuation and warned that such actions are “destroying the value” of CNAB.

"It's these types of actions that create severely negative perceptions among existing and potential investors and should be avoided at all costs," he said.

Fondul Proprietatea strongly disputes the “fundamentally flawed” land valuation report, carried out in 2021, which attributes the value of RON3.8bn to the land, in spite of a previously approved valuation report from 2017, which had set the value of the same land at RON336mn.

This huge discrepancy in valuation, which is over 11 times more than the previous amount, was created by the use of “unrealistic and inaccurate commercial indicators” in the disputed valuation report, FP said.

In order to protect its shareholder rights, Fondul Proprietatea has challenged the 2021 land valuation report with the National Association of Authorized Valuators (ANEVAR) and in addition commissioned a verification report of the disputed valuation report, which was carried out by a reputable independent valuator.

The verification report identified numerous fundamental flaws in the land valuation report, having a significant impact on the outcome of the valuation, according to the statement.

Fondul Proprietatea and the Romanian state represented by the Ministry of Transport as shareholders approved the previous land valuation of RON336mn from 2017 on November 6, 2018. The fund contributed RON63.7mn to the share capital increase, transferring the cash to Bucharest Airports on January 18, 2019.

Almost a year later, the company's management proposed, and the majority shareholder decided on September 24, 2019 to stop the entire share capital increase procedure, with no challenges to the validity of that valuation report and returned the cash to the fund.

Fondul Proprietatea noted that the 2021 valuation came more than 20 years after the company received the land ownership certificates.

According to the law at that time, the share capital increase should have been done immediately after the certificates were received, and long before the Romanian State transferred 20% of the shares in Aeroporturi Bucuresti to Fondul Proprietatea.
Romanian online retailer Elefant reportedly plans November IPO

Iulian Ernst in Bucharest

Online retailer Elefant.ro, the company that operates the elefant.ro online store, is believed to be preparing for an IPO on the Bucharest Stock Exchange (BVB) in November this year, Ziarul Financiar reported, quoting sources familiar with the plans.

Elefant.ro is one of Romania’s bigger online retailers, but failed to capitalise on the e-commerce rally prompted by the coronavirus lockdowns. While online sales soared when Romanians were unable to visit bricks and mortar shops, the market is dominated by eMAG.ro. Aside from Altex.ro, the market lacks other big players.

Elefant.ro was set up and is controlled (60.7%) by Moldova’s former prime minister Ion Sturza through Millennium Gold Resources Limited. Axxess Capital private equity fund managed by Horia Manda (through the OLIF investment vehicle registered in the Netherlands), has been a significant shareholder with 29.4% of the capital, since 2016. Catalyst Romania Sca Sicar holds 9.92%, according to Confidas.ro data.

Wood & Company Financial Services, a top 10 intermediary on the Bucharest Stock Exchange (BVB), is reportedly preparing the listing.

Elefant Online has already issued bonds worth RON7.6mn (€1.5mn) on the BVB that are due to mature on September 27, 2021. The company attached a 9% coupon payable twice a year to its bonds issued in February 2019.

The company reported a modest increase in revenues and deep RON3.79mn losses in January-June this year, compared to the thin RON0.47mn net profit in the same period of the year before, according to a statement filed to BVB.

Three major companies traded on Bucharest stock exchange doubled investors’ money over the past year

Iulian Ernst in Bucharest

Two blue chips, Medlife and TeraPlast, and major real estate developer Impact were among the 15 companies traded on the Bucharest Stock Exchange (BVB) that have boasted price increases in excess of 100% over the past 12 months, according to calculations by Ziarul Financiar daily.

In total, 28 Romanian companies reported increases of over 100% over the past year, but 13 of them, all listed on the AeRO market of the Bucharest Stock Exchange, posted turnover of under RON1mn (€0.2mn).

Over the same 12-month period, the BET index, which includes the most liquid 17 shares, registered an advance of 35.5%.

Ziarul Financiar calculated the price gains over the past year as of September 9 and filtered out the stocks with a total turnover of under RON1mn that typically feature high volatility.

The shares of the construction materials manufacturer TeraPlast Bistrita, with a capitalisation of RON2.27bn, brought investors a yield of 265.2% in the last 12 months. Shares worth RON579mn were traded.

TeraPlast is part of the BET index and is 46.83% owned by entrepreneur Dorel Goia, while the Pillar II pension fund managed by NN Pensii holds 12% of the company’s share capital.

The shares of MedLife, an integrator of private medical services with a RON2.26bn capitalisation, rose by 173.5% in the last 12 months, amid transactions worth RON289mn.

Among the largest shareholders are chairman of the board and CEO Mihail Marcu (15.8%), Nicolae Marcu (10.7%), Mihaela Gabriela Cristescu (14%) and NN Pensii (12.8%).

The shares of real estate developer Impact Developer & Contractor, listed on the main market of the stock exchange with a RON977mn capitalisation, also brought a significant return to investors of 151.3%.
In its latest action on Ukraine, Fitch upgraded the country’s outlook from stable to positive on August 6. Fitch currently has a B rating on Ukraine, as does fellow international ratings agency Standard & Poor’s (S&P), while Moody’s rates Ukraine as B3.

Ukraine’s economy has bounced back sharply from last year’s crisis, although it is still struggling to contain inflation that jumped back into double digits in June, reaching 10.2%. Other indicators are performing much better, with industrial production climbing, real incomes rising and the construction sector gathering momentum – all major economic drivers.

“Economic resilience to the pandemic shock, a limited increase in public debt and the agency’s confidence in Serbia’s fiscal consolidation prospects are also supportive of the rating and the stable outlook”

Fitch expects Ukraine’s state debt to GDP ratio will decrease to 50% in 2021, which would be below the ‘B’ median of 67.8%. The recent issue of state international Eurobonds for total $1.75bn and International Monetary Fund’s (IMF’s) SDR allocation for $2.7bn “provide more financing space to meet higher budget needs in the remainder of 2021,” the agency reported. Fitch forecasts Ukraine’s GDP growth will reach 4.1% this year.

Ukraine had previously struggled to move past a stable rating for years as it struggled to implement reforms, curb government debt and protect the economy from external shocks during the coronavirus (COVID-19) pandemic.

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For Croatia, in May Fitch affirmed the BBB- rating and the stable outlook, which were backed by stable GDP per capita and human development. On the other hand, Croatia faces large short-term downside risks related to the coronavirus (COVID-19) pandemic.

Fitch projects that Croatia’s economy will expand by 5.5% in 2021 thanks to the resilience of sectors such as construction and goods exports, and a gradual recovery in consumption.

“Our forecasts rest on an improved tourism sector outlook (at around two-thirds of 2019 levels), assuming a pick-up in summer tourism as the health crisis in Europe continues to abate,” the rating agency noted.

Over the last decade, the average emerging market Long-Term Foreign-Currency Issuer Default Rating declined by 1.3 notches to ‘BB’.

However, eight EM sovereigns gained net upgrades of two notches during the 10-year period. They include Georgia and Serbia from the emerging Europe region, as well as the Dominican Republic, Indonesia, Jamaica, Peru, the Philippines and Vietnam.

“Of these, only Jamaica (both notches), Georgia (one notch) and Vietnam (one notch) reflected reversal of downgrades in the prior five years,” Fitch pointed out.

The emerging markets that have experienced the greatest net upgrades since Fitch initiated its rating coverage also include several from the region.

Bulgaria, Estonia and Lithuania have all been upgraded by a total of five notches; Kazakhstan, Poland, Peru and Slovakia by four notches; and Azerbaijan, the Czech Republic, Kuwait, Romania and Thailand by three notches. However, Fitch added that “the pace of improvement has slowed markedly since around 2008”.

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**The Kremlin takes control of the internet in Russia’s Duma elections**

Ben Aris in Berlin

Russian Duma elections are under way but the election is not about re-electing the ruling United Russia Party but more about making sure that jailed anti-corruption activist and opposition politician Alexei Navalny’s smart voting project is a total failure. The key to achieving that goal has been the Kremlin’s largely successful efforts to cut the opposition off from its main weapon: the internet.

The result of the election is a foregone conclusion. As of late afternoon on the second day of voting on September 18, 90% of the online votes offered in seven regions had been cast and a reported 17% of the physical votes, and preliminary official exit polls give United Russia 48% of the vote, enough to win a clear majority of seats.

Online voting is almost totally opaque and can be used to adjust the results to any outcome the Kremlin wants. It is a more elegant resource than was used in the 2011 vote – the dirtiest election to date that resulted in hundreds of thousands gathering to protest in Bolotnaya Square in Moscow. As bne IntelliNews reported, in that election the Kremlin massively falsified the results in eight key regions, mostly in the Caucasus, to give United Russia up to 100% of the vote so the cumulative nationwide tally was a clear majority for United Russia. The use of online voting means such crude methods as ballot stuffing can be avoided and the final result more elegantly massaged and spread across more regions, making such interference less obvious.

Given it is almost certain that United Russia will be swept to victory, the Kremlin’s goal appears to be to make sure smart voting doesn’t overturn a single district and the candidates of the powers that be win every race where there is a smart voting contestant, in an effort to delegitimise the tactic.

“If the Kremlin does have a central focus in this election, it’s making sure the @navalny/@leonidvolkov #SmartVoting project fails. And for the most part, the Kremlin is getting its way,” Sam Greene, a professor of politics at King’s College London and the director of King’s College Russia Institute, said in a tweet. “But everything we’ve seen thus far points to an equally important priority for Team Putin: Making

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sure Team Navalny fails. Losing even a single "safe" seat to a #SmartVoting candidates would feel unthinkable. The Kremlin needs SmartVoting to be an abject failure.”

**Blocking the Navalny App**
The Kremlin has pulled out all the stops to crush the smart voting initiative and the state information and media regulator Roskomnadzor has made frantic efforts to close Navalny’s operation down.

The campaign started with declaring Navalny’s organisation extremist in June, so anyone co-operating with the project would face criminal charges and a long jail sentence.

The next step was to block Navalny’s smart voting site on September 6 and then remove the Navalny app from both Google and Apple app stores.

At the same time, VPN networks that allow users to sidestep Kremlin blocks on sites were also largely disabled, starting in June. The result is that while much of the content was still accessible in Russia it has become increasingly difficult to reach. The technology that enabled Roskomnadzor to block VPNs was first rolled out in the spring, when it was added to operators’ servers as part of the new “sovereign RuNet” legislation that forces companies to bring their user information onshore.

The regulator conducted the first high-profile tests of this technology in the spring, when it decided to successfully slow Twitter down, but did not block it completely.

The final step has been to try to kill the list of smart candidates to vote for, which Team Navalny released on social media 48 hours ahead of the vote – a point where the Kremlin can no longer remove any of the names from the election roll – which was hosted on Google Docs.

Both Google and Apple rolled over and complied with the order and removed the Navalny app. Reportedly, rather than threatening the company with legal action, Google’s local staff in Russia were instead threatened with arrest to get their company to comply.

Late into the game on the second day of voting tech wunderkind Pavel Durov also agreed to disable bots on the Telegram message service that provide information to subscribers about who to vote for in the elections.

Justifying the decision, Durov explained in a post on his Telegram channel that the network will observe Russia’s “election silence” during the voting process. “We consider this practice to be legitimate and call on Telegram users to respect it. Beginning at midnight, Moscow time [September 18], we plan to restrict the functionality of bots associated with election campaigning.”

The opposition leaders must be very disappointed, as Telegram has been the backbone of protests against many authoritarian regimes like Belarus and Iran, and in those countries it defied government orders to turn off the service, which is widely used by protest organisers.

Unlike these other protests, the Kremlin has been highly successful at muzzling the online resources that have so successfully been used against regimes elsewhere.

Part of this is due to the Kremlin specifically targeting the Navalny app and its lists. There was speculation that the Kremlin would simply attempt to turn the internet off, as happened in the Minsk mass demonstrations last summer, or close sites like Twitter and Facebook.

“We don’t seem – yet – to be seeing what many observers most feared: a massive, Belarus-style internet blackout. Of course, a lot of the censorship was done well before the elections kicked off. But there could have been more,” says Greene. “There had also been at least some expectation that access to Facebook, Twitter and YouTube would be severely limited or blocked altogether. Thus far (and there’s two days to go), none of that has happened. The Kremlin seems satisfied that its combination of centralised anti-Navalny disruption and decentralised "proactive compliance" by local election managers will do the trick.”

**Apple and Google under pressure**
Late in the evening of September 8 Roskomnadzor began testing blocking of public DNS services Google and Cloudflare, which protect web portals, The Bell reports.

“The tests lasted only an hour, and we learned about them only thanks to the vigilance of IT experts. After that, it was reported that Roskomnadzor recommended state-owned companies to switch to Russian DNS servers or NSDI (National Domain Name System) rather than use foreign ones,” The Bell said in a report. “Why all this is needed is anyone’s guess, but most likely the matter is in the services for encrypting DNS queries, including the DoH service mentioned in the regulator’s reports. With its help, you can hide from the provider the address of the site to which the user is trying to enter. This is exactly what Roskomnadzor is now trying to fight: encryption prevents operators from seeing the user’s request and, if necessary, blocking it. The problem is that blocking public DNS will inevitably lead to the disabling of an unpredictable set of different services and, importantly, IoT devices, so Roskomnadzor will probably use this tool only in emergency cases.”

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Roskomnadzor also took out the VPN services in June, including the popular VyprVPN and Opera VPN, which were banned. The last six, which included ExpressVPN, NordVPN and IPVanish VPN, all ranked among the world’s best VPNs, were banned in Russia in early September, reports The Bell.

While taking down websites and preventing Russian users by-passing the bans by going overseas via a VPN proved relatively easy to organise; taking out the Navalny app was a lot more difficult.

On August 19 Roskomnadzor demanded that Apple and Google remove the application from their stores due to the fact that it is associated with Navalny’s Anti-Corruption Foundation (FBK) that was declared an extremist organisation, on a par with a terrorist group.

The representatives of both companies were summoned to the Federation Council and after resisting both finally caved in as voting got underway on September 17. The Navalny application with built-in Smart Voting was in both the tech companies’ stores, but was removed as the polls opened. Those that had already downloaded it can keep it and it still works, but it is no longer available to anyone else.

The last challenge was to get the smart voting lists hosted on Google Docs deleted. The Kremlin has been using its commercial leverage over the international internet giants to bully them into compliance. Internet penetration has exploded as Russians have embraced the new economy technology and as bne IntelliNews has reported, e-commerce is booming, given a boost last by the coronavirus (COVID-19) pandemic. Russia is now the largest online market and long since has had more people online than Germany, the most populous country in Europe after Russia. Even though Google is trailing behind Russia’s own Yandex, the most valuable tech company on the Continent, Russia is already too big a market to ignore. For Apple, Russia is already the biggest market in Europe too.

On the eve of the elections, reports started coming in that Google Docs was no longer accessible to some Russian users as Roskomnadzor began testing its ability to shut the service down just after Team Navalny released the smart voting lists. Roskomnadzor quickly denied blocking the service, saying questions about the failure of the service should go to Google. It is not clear what happened but industry sources talking to The Bell report that Roskomnadzor was testing its ability to block the service. But rather than carry out a damaging and indiscriminate shutdown of the widely used service, Roskomnadzor managed to persuade Google to cut access to the lists on the grounds they are associated with an “extremist” organisation and that refusing carries severe criminal penalties for non-compliance.

**Will smart voting fail?**

With another day of voting ahead it appears that the Kremlin has the upper hand. Belarus’ President Alexander Lukashenko was made to look a fool for attacking social media services that were used so effectively against him. As bne IntelliNews reported in the feature “Nexta: Belarus’ revolution by committee”, the informal leaders of the opposition could control crowds in real time using the Nexta Telegram channel and the authorities were powerless to prevent it. In Russia the Kremlin seems to have been largely successful in locking down Team Navalny’s best effort to disseminate the crucial smart voting lists to the Russian electorate. The lists have been published and read by millions of people but by the first day of voting it was already difficult to find the lists online.

“The underlying data for the system has now made its way to various servers – including Wikipedia – but centralised, easy to find and read distribution of Smart Voting guidance has effectively been disrupted,” Greene tweeted.

Team Navalny has presented alternative candidates for the State Duma elections in all 225 single-mandate constituencies, conceding that the Kremlin has control over the remaining 225 party list constituencies that will mostly be won by United Russia. Usually United Russia does not field a candidate in some of these constituencies to allow the parties from the systemic opposition to win enough seats to clear the 5% threshold and get into the Duma, although as a sign of the Kremlin’s nervousness it has conceded fewer of these seats this year than in the last elections.

Nearly two thirds of the smart voting recommendations are from the Communist Party of the Russian Federation (KPRF), which ironically has been the big winner from the Team Navalny campaign, despite the fact that the KPRF itself rejects Navalny and his initiative.

However, while smart voting has become a major headache for the Kremlin, it is estimated to change the course of voting by about 5% in each race and that is not enough to deliver more than a minority of upsets. In 2020, the tactic was most successful in the regional elections, where 19 candidates out of 27 supported by smart voting entered the Tomsk City Duma, and 14 out of 50 in Novosibirsk. However, the main effect of the tactic is to de-legitimise the Kremlin further and force it to cheat more blatantly, which will undermine the Kremlin’s authority further. If the Kremlin pushes its efforts to fix the election too far and ignores the protest vote completely, it runs the risk of sparking mass demonstrations again, like those that followed the 2011 elections.
While well-known names such as X5 and Magnit remain Russia’s leading food retailers with their traditional and discounter formats, in ultra-convenience the emerging powerhouse is Mercury Retail Holding, which identified the promise of the ultra-convenience segment early and is becoming a strong competitor with its Red & White and Bristol chains. Mercury’s two brands have a combined market share in the ultra-convenience segment of 43%, according to InfoLine, and about 4.6% of the total food retail market.

Red & White and Bristol, the leaders in the ultra-convenience segment in Russia both by market share and on price, have been the key drivers of the segment’s growth in the first six months of 2021, according to InfoLine. The two chains’ like-for-like sales rose 20% in the period while total sales jumped 27% to RUB330bn in the first half of the year, the researcher estimates, compared to RUB580bn for the whole of 2020.

Red & White was founded by Sergei Studennikov in Russia’s Chelyabinsk in 2006. Mercury Retail was created in June 2019 after the merger of Red & White with the Bristol and Dixy supermarket chains, controlled by Sergei Katsiev and Igor Kesaev. This year, the three partners agreed to sell Dixy, which operates larger stores, to Magnit in order to focus on the ultra-convenience format and accelerate the store-network’s expansion. Even without Dixy, though, Mercury has some 13,500 stores across its two brands – one of the biggest networks in Russia.

Online shopping is also rising and also certainly a trend. The two may not be mutually exclusive. Rising demand for convenience helped online food sales in Russia, yet Moscow and St. Petersburg account for more than two thirds (more than 70%) of the segment’s sales, which make up just 1.8% of total food retail sales in the country, InfoLine data shows.

Food-delivery services such as the ones run by X5, Yandex and Sberbank have been helped by the lockdowns introduced to help fight coronavirus. The segment’s sales surged by 2.5 times in the first half of the year to more than RUB150bn (about $2bn), InfoLine’s Burmistrov wrote.

Yet local ultra-convenience stores will be the most dynamically rising food-store format in the mid-term in Russia, with annual sales forecast to increase by as much as three times to more than RUB5 trillion by 2025, according to the analyst.

This article first appeared in New Economy Observer (NEO), a digital publication covering the intersection between finance and social responsibility, with a special focus on emerging markets. IT offer news and analysis on major issues shaping the new global economy, including climate change and renewable energy, sustainable development, e-commerce and tech innovation, and the future of work.
Russia’s Yandex beats off the largest DDoS attack in history

Stephen Bierman in Moscow

The international listed Russian tech giant Yandex said it beat off the largest distributed denial-of-service (DDoS) hacker attack in the history of the internet, Reuters reported on September 10.

Hackers tried to flood its servers with messages and crash the system in August and September, the company said.

The assault started in August and reached a record level on September 5.

"Our experts did manage to repel a record attack of nearly 22mn requests per second (RPS). This is the biggest known attack in the history of the internet," Yandex said in a statement as cited by Reuters.

Yandex said it had seen 5.2mn RPS on August 7, 6.5mn RPS on August 9, 9.6mn RPS on August 29, 10.9mn RPS on August 31 and finally 21.8mn RPS on September 5.

US cybersecurity firm Cloudflare, which is widely used by businesses and other organisations to help defend against DDoS attacks, said in August the largest DDoS attack it was aware of reached 17.2mn RPS earlier this year.

E-commerce in Russia is booming, but the race has only just begun

Ben Aris in Berlin

E-commerce in Russia is booming and only accelerating. Several factors are driving the business that is growing five times faster than the real economy. But online retailing is still at a very early stage, Mikhail Burmistrov, the CEO of Russia’s leading e-commerce analytical company INFOLine-Analytics told bne IntelliNews in an exclusive interview. The potential for growth remains enormous, and the leading companies are throwing themselves into expanding as fast as they can to capture a slice of what is already a multi-billion-dollar business while it is still up for grabs.

Most important is that real incomes have begun to rise again after about seven years of stagnation, thanks to the economic bounce-back following the coronacrisis of last year.

Nominal wages increased by 11.7% in July and despite the current high rate of inflation of 6.5% that still translates into a gain in real wages of 4.3%. Indeed, real wage growth has been in the black since the start of this year; nominal wages rose to RUB58,782 in June, or $758 per month in dollar terms, up from $666 in January.

The lockdowns of last year have also catalysed e-commerce as millions of Russians were forced to shop online for the first time, but having got the habit are unlikely to stop now the shops are open again. Most of the leading retailers have reported that sales were not badly affected by the pandemic and reported double-digit growth in online sales, with the market leaders like Ozon, Wildberries and the top supermarket changes reporting sales growth breaking into the triple digits. Online sales of food products in Russia in particular tripled in 1H21 to RUB149bn ($2bn).
And the business has received large injections of cash as the top e-commerce plays start to IPO to raise fresh investment capital. The biggest so far was Ozon that IPO’d in December and from the original $500mn it was asking for ended up raising $1.2bn, despite the fact the company was not making a profit. However, with its gross merchandise volume (GMV) growing by 140% in the 4Q20 to RUB74bn ($1bn) the game at the moment is capture market share and the profits will come later.

The other e-commerce ventures are also well funded and like the expansion of the supermarket chains in the 1990s, the race is on to stake out as much territory in the retail market as possible before the e-commerce offerings become saturated and the consolidation of the sector begins.

“The growth in e-commerce is early-stage for sure, as the penetration of e-commerce in all Russian retail in the first half of 2021 grew to 9%, which is still low even after the pandemic has sped this up a great deal (from just 6% in 2019). The share of e-commerce in Russian retail, however, speaks only to its enormous potential; to make it a reality, a lot of investment is still needed,” says Burmistrov.

Russia is characterised by very uneven penetration of online shopping between regions, Burmistrov adds: while the penetration of e-commerce is most likely about 15% in Moscow, it’s in the single digits in many other regions of the country, according to INFOLine’s numbers, the go-to consultant for e-commerce statistics.

“The leading players are going to be able to unlock the potential of Russia’s regions, with online penetration in sales of non-food products reaching 27.3% by 2025, according to our estimates,” says Burmistrov.

But there is a lot of work to do. Russia’s sheer size is the main challenge: how to get the goods to the customers quickly and cheaply; but Russia’s sheer size is also one of the factors driving the fast growth, as e-commerce solutions are far cheaper and easier than going to the expense of building traditional bricks and mortar store networks across 11 time zones in 85 regions.

“The key challenge is distance and underdeveloped infrastructure – both in terms of the warehouses where goods are stored and in the last mile, where customers receive their orders. All of this affects the speed and cost of delivery, as well as convenience for the customer,” says Burmistrov.

In the last two to three years, the biggest players – Ozon and Wildberries – have invested a lot in these areas; they have already opened large logistics hubs in key regions, with Ozon coming to Khabarovsk in Russia’s Far East most recently. Yandex.Market, another of the big players in the e-commerce business, is following them, but most expansion for them is planned for later periods.

“Russia is, of course, very different from many Western countries, where, for example, infrastructure is much more uniform regardless of the size of their cities. As a clear recent example, imagine the village of Gorny Altai, which is home to 3,000 people. Only Russian Post, Wildberries and Ozon deliver parcels there. At the same time, the choice of items in offline stores there is extremely limited, because of the complex logistics involved in operating there, so online shopping has great potential to become a key channel for buying a whole range of non-food product categories in that area,” says Burmistrov.

In the 1990s and the start of the race to become Russia’s leading supermarket chain there were over a dozen players that spent the next two years slugging it out. But the winners eventually established themselves and as bne IntelliNews has reported already, a few years ago the emphasis changed from rolling out more stories and growing revenue to consolidating the networks and focusing on improving profitability.

Things in e-commerce are going much more quickly as the biggest players already dominate the business, while the leading supermarket chains – Magnit and X5 Retail Group – are also rapidly building up their online offering, although they are focused more specifically on e-groceries, which is the fastest growing of all the sub-categories.

“The market share of the top three players – Wildberries, Ozon and AliExpress – is now around 35%, compared with the top three players accounting for more than 80% of the market in India and more than 75% in China,” says Burmistrov. “This is Russia’s major difference – there is not one clear leader, the market is at the very early stage of development and it is very fragmented. For now, the biggest players are contributing to digital adoption and pushing online penetration upwards, so competition is yet to become more and more pronounced in the coming years.”

Ozon and Wildberries are the largest players of the Russian e-commerce market. Wildberries is larger in terms of turnover, while Ozon is growing much faster. AliExpress, which for a long time was seen as only representing cross-border trade, is now taking steps to develop its local business as well, although its pace of growth is much slower than Ozon’s, says Burmistrov.

The e-commerce division of Russia’s listed Yandex internet powerhouse, Yandex.Market, is showing fast growth, but still from a low base, and its warehouse capacity and last-mile brand network are still a long way behind other major e-commerce players. In addition, the e-commerce division of Russia’s retail bank behemoth Sber has recently rolled out an e-commerce player, part of the Sber ecosystem called SberMegaMarket; it has ambitious plans, and although it is only taking its first steps, it’s probably worth watching this space, Burmistrov believes.

“By 2025, the e-commerce market will grow on average by 25% per year; and sales of food products by 68%, i.e., a growth rate that is more than 2.5x higher than now. The share of food in the e-commerce market is now only about
Russian tech exports up threefold since 2018

East West Digital News in Moscow

Russia’s earnings from tech exports have jumped more than threefold over the last two years, according to a new report from Moscow’s Higher School of Economics (HSE), reports East-West Digital News (EWDN).

The export sales of scientific and technology services and IP-protected products reached $4.5bn in 2020 – up 30% from 2019, three times more than in 2018, and fifteen to twenty times more than in the early 2000s.

Stucture of Russian technology imports and exports by contract categories (in %, 2020)

Despite the jump in exports, the global competitiveness of Russian-made technology is difficult to assess. The largest market for Russia’s technology exports in 2020, accounting for almost $1bn or a quarter of all sales, was the Netherlands – a low-tax jurisdiction where a number of Russia’s top digital companies, including Yandex and X5 Retail Group, are registered.

“Samokat, one of the leading players in this market, has more dark stores than Germany’s Delivery Hero based in Berlin, and it’s second only to Asian players in terms of the number of dark stores,” says Burmistrov. “Dark stores are located within the city and often in the centre – and this means high rents. This segment of the market is now very investment-intensive, including due to the low average ticket, which forces e-commerce market players to subsidise delivery to customers, but it’s enjoying triple-digit growth, which is why there’s a lot of interest in it, including from traditional offline retailers.”

Russian companies are pioneering this ultra-fast service and have recently started to launch operations overseas in New York and Paris amongst other destinations.

“Russians generally like faster delivery and have gotten more used to it than perhaps people in many other countries. In Russia’s larger cities, 24-hour delivery is already considered the norm. If an online platform doesn’t offer it, that’s a reason to switch to a competitor, and for food products, same-day delivery is already a market norm,” says Burmistrov.

And e-commerce is being helped along by the fact that Russia leads the world in many fintech applications and services. It was the Russian banks that pioneered the idea of sending an SMS message to your phone every time you make a withdrawal from an ATM, and the banks have continued to innovate to the point where Russian fintech provides a better and wider range of services than are available in the US or UK, says Burmistrov.

The US, Germany, Switzerland, China and Belarus also accounted for more than $250mn of Russian exports each.

Imports of foreign-made technology were stagnant in 2020 at $4.6bn, bringing the technology trade deficit – the difference between Russian exports and imports of tech goods and services – to its lowest level since 2001.

Russia fears its reliance on Western technology – ranging from payment cards to computer operating systems – is a potential vulnerability should the West decide to levy more penalties on the country. It is also concerned foreign intelligence services could gain access to crucial Russian systems running on foreign software.

The Russian government on Wednesday introduced new rules banning the purchase of foreign-made laptops, tablets, servers and circuit boards in government contracts.

www.bne.eu
Fertiliser, electricity producers count the cost of the EU’s CBAM

Richard Lockhart in Edinburgh

The EU’s Carbon Border Adjustment Mechanism was unveiled in July with the express aim of preventing carbon leakage and applying a price to the CO2 embedded in a variety of industrial goods exported into the EU.

Two major industrial areas it will target are chemical fertilisers and electricity, with Russia, Turkey and Ukraine being major exporters into the EU.

The EU is framing the scheme as a way to reduce emissions, especially carbon leakage, and to meet the climate change targets of the 2016 Paris Agreement.

“If there is a serious risk of carbon leakage, if we take the measures to comply with [the 2016 Paris Agreement on climate change] and others don’t, and it leads to a disadvantage to our industries, [the EU] will have no hesitation whatsoever to introduce a carbon border adjustment mechanism,” said Frans Timmermans, the EU’s Executive Vice-President for the European Green Deal.

More technically, the CBAM aims to protect industrial activity in the EU from imports from other countries with lower emissions regimes by raising the costs of those imports by imposing a carbon price based on the existing EU ETS system.

It also aims to reduce the incentive to move industrial activity, and therefore CO2 production, to countries outside the EU by reducing the emissions-related cost savings on offer by such a move.

How does it work?
The CBAM fees will be calculated according to the carbon intensity of the product, the volumes of exports into the EU, and most importantly, the price of allowances on the EU ETS. This means that the prices will effectively mirror the current ETS.

However, the biggest change is that the current free allowances granted by the ETS to many dirty industries such as steel, chemicals and power will gradually be withdrawn over a 10-year period from 2026, meaning that these exporters into the EU in these sectors industries will gradually become more and more exposed to the carbon price.

Chemicals
For the chemicals sector, energy-intensive nitrogen-based fertilisers are most vulnerable to the CBAM, ICIS noted recently.

This contrasts with organic chemicals, which for the time being are “not targeted (by the EU) due to technical limitations.”

The embedded emissions organic chemicals exported into the EU from third countries such as Russia and Turkey are not yet clearly defined, and the Commission said that data and analysis are required to target the current EU ETS allocations to these materials.

However, as the CBAM system is set to gradually replace the EU ETS over a 10-year period from 2026, it cannot be ruled out that organic chemicals will also be brought into the scheme.

Russia is particularly vulnerable, as it provided 31% of the 5.4bn tonnes of fertiliser exported to the EU in 2018-19, which themselves account for 29.5% of EU consumption, according to the EBRD’s Round Table on Climate Change and Sustainable Transition.

The EU’s other import sources are Egypt, Belarus, Algeria and Morocco, which provide 7-9% of such imports each.

The CBAM would target the emissions produced during the manufacturing of ammonia and nitric acid, which produce the most CO2 and NO2.
Power generation
Russia’s and Ukraine’s power exports are also vulnerable, especially as they generate power that is dirtier than more carbon-intensive than the EU average.

In Russia and Ukraine, which are the largest sources of extra-EU electricity imports not covered by EU ETS or equivalent obligations, the average emission intensity in the electricity sector fell only by 7% and 8% respectively, according to IEA data. Meanwhile, the average carbon emission intensity of EU electricity generation decreased by 31% between 2000 and 2018.

Russia mainly exports to Finland, while Ukraine exports to Hungary and Romania.

Russia’s Inter RAO exported 2.6 GWh to Finland in 2020, and 3.1 GWh to Lithuania, although this was unusually low because of the coronavirus (COVID-19) pandemic reducing import demand in those countries by 62% and 50% respectively.

The company said in its recent annual report that it fully anticipated having to pay a carbon price in future because of the CBAM, but has not been able to estimate any costs.

Other Russian power generators are vulnerable, with Inter RAO, OGK-2, TGK-1, Mosenergo, Enel Russia and Unipro all facing a 16% drop in EBITDA if the new tax is levied, worth RUB187bn ($2.6bn) per year, according to VTB Capital (VTBC).

Russia is so worried about the costs of the CBAM that Rosneft CEO Igor Sechin has called on the Kremlin to ensure that the EU acknowledges Russia’s own CO2 emissions quota system when calculating how much carbon tax Russian exporters must pay on their supplies to the bloc.

Sechin said that CBAM taxes could inflict far greater damage to the Russian economy than international sanctions.

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Russia is introducing its own, voluntary carbon trading system, partly in response to the EU’s decision to apply a carbon tax to imports starting in 2026.

Turkey, meanwhile, exported an average of 3 GWh per year of electricity into the EU between 2017 and 2019, according to the EBRD’s Round Table on Climate Change and Sustainable Transition.

Put simply, Russian, Ukrainian and Turkish carbon producers are at risk, and need to take action now.

In Russia, decarbonisation options currently vary greatly and can be as cheap as $2/tonne of CO2 or as high as $40-150/tCO2 (in the case of outright CCS installation), warned VTB in a recent research note.

Depending on how ambitious the future CO2 targets in Russia are, we believe an impactful CO2 price in Russia is unlikely to emerge until 2030, and would settle at some $25/t by the end of the decade.

At a such price, on average 140% of Russian utilities’ EBITDA would be at risk, depending on the ability of the generators to pass through the additional costs to end-consumers.

Lower impact
However, the impact of the CBAM on chemical and power exports to the EU might be less than at first feared by exporters in Russia and Ukraine.

A new report from Sandbag and E3G, two pro-green think-tanks, warned that the CBAM could be just a “storm in a tea-cup”, as the new scheme would be applied to only 3.2% of total EU imports, and would replace only 47% of the free emission allowances currently given to industry.

But the overall impact is likely to be small, as the current proposal only covers a small share of exports to the EU, and importers will recover most of the additional costs through higher prices in EU markets.

For Russia, Sandbag estimates that CBAM fees will reach €1.885bn in 2036, with iron and steel accounting for €1.1bn and fertiliser €580mn.

For Ukraine, the total CBAM fees will reach €870mn in 2036, with iron and steel accounting for the vast majority with €780mn and fertiliser only about €50mn.

Turkey faces total CBAM costs of €824mn by 2036, again dominated by iron and steel, with fertiliser even less at about €40mn.

However, a key point of the report is that rising prices for these products will reduce the net cost of the CBAM to way below the current fee estimates. Hence the net cost would virtually halve to €602mn in 2036 for Russia, €410mn for Ukraine and €274mn for Turkey.

Thus the new cost to EU and foreign industries will likely be passed on to the direct consumers of the products covered in the CBAM, so that part of the cost will be recovered by importers in the form of higher selling prices for their products. The overall net effect on importers is likely to be very small, the report concluded.

Therefore the initial fears of polluting industries in Russia, Turkey and Ukraine could turn out to be partially misplaced, especially if they invest over the next 15 years in less-energy intensive technology.
Global coal plans collapse by 76%

Richard Lockhart in Edinburgh

The global pipeline of proposed coal power plants has collapsed by 76% since the Paris Agreement in 2015, bringing the end of new coal power construction into sight, new research by green think-tank E3G finds.

Around the world, a total of 1,175 GW of planned coal-fired power projects have been cancelled since 2015, while 44 governments – 27 in the OECD and EU, 17 elsewhere – have already committed to no new coal.

A further 40 countries – eight in the OECD and EU, 32 elsewhere – are without any projects in the pre-construction pipeline and are in a position where they could readily commit to “no new coal.”

E3G’s No New Coal Report found that new government policies and sustained civil society opposition to coal has accelerated market trends away from the fuel.

“The collapse of the global coal pipeline and the rise of commitments to ‘no new coal’ are progressing hand in hand. Ahead of COP26, governments can collectively confirm their intention to move from coal to clean energy. The economics of coal have become increasingly uncompetitive in comparison to renewable energy, while the risk of stranded assets has increased. Governments can now act with confidence to commit to ‘no new coal’,” said report author Chris Littlecott, associate director at E3G.

Asia

Indeed, any current keenness for coal is confined to Asia, with the study naming China, India, Vietnam, Indonesia, Turkey and Bangladesh as accounting for over 80% of the world’s coal pipeline.

The remaining pre-construction pipeline is spread across a further 31 countries, 16 of which have just one project.

With the OECD and EU, 56% of operating capacity has either closed since 2010 or is scheduled to shut by 2030, while the pipeline of proposed coal power plants in these countries has collapsed by 85% since 2015.

In this group, only Australia, Colombia, Mexico, Poland and Turkey still have coal projects, and are under pressure to follow their OECD and EU peers.

Among non-OECD countries (excluding China), the pre-construction pipeline has collapsed by 77% since 2015, with a cancellation ratio of over 5:1.

27 countries have ended the development of new coal power generation through project cancellations and/or policy commitments since 2015.

Southeast Asia (42%), South Asia (32%) and sub-Saharan Africa (13%) collectively account for 87% of the non-OECD pipeline.

This shift away from coal is being reflected in governments’ political commitments, policy frameworks and NDC submissions, for example in Pakistan, Malaysia and Sri Lanka. They are serving as regional pathfinders that other countries can follow.

China

China alone is home to almost 53% of the capacity under construction and 55% of the pre-construction pipeline.

China has, however, seen a 74% reduction in the scale of its project pipeline, with 484 GW of cancellations since Paris in 2016.

President Xi has announced an intention that China will ‘strictly control’ new coal growth as part of long-term plans to achieve net zero by 2060.

However, this has yet to be reflected in sectoral Five-Year Plan (FYP) policies, the E3G report said.

China is also isolated as the last remaining major provider of public finance for overseas coal projects, following Japan and South Korea’s recent commitments to end coal finance.

An end to Chinese finance would facilitate the cancellation of over 40 GW of pipeline projects in 20 countries.

While welcome, the report identified Asian countries as maintaining their support for coal.
Global Energy Monitor said in June that the global coal industry was in fact chasing expansion, with 2.277bn tonnes per year (tpy) of new coal mining capacity currently under development, the equivalent of 30% of 2019 global output of 8.135bn tonnes.

The report said that China, Australia, India and Russia were the key drivers of coal expansion, accounting for 77% (1,750mn tpy) of development.

**Africa**
Sub-Saharan Africa has a pipeline of 15 GW (5% of the global total), down 47% since 2015. Over this period seven countries have fully scrapped their pipeline. This leaves 13 countries still considering coal, but with only South Africa and Zimbabwe currently constructing new plants.

Crucially, Chinese financial institutions are involved in 13 projects in eight countries, totalling 11.4 GW of planned capacity (76% of the total pipeline in the region).

“This report must sound a death knell for coal and fossil fuels, before they destroy our planet. There must be no new coal plants built after 2021.”

However, cancelling such projects would help African countries to avoid locking themselves into an expensive and polluting energy source, and the risk of costly asset stranding.

For example, Kenya had abandoned the Chinese-backed 1,050-MW Lamu coal project after environmental campaigners fought the matter in court.

The Lamu project had originally been promoted as an alternative to expensive diesel-fired power. However, with falling costs for new wind and solar plants, coal can no longer undercut renewables in Africa and elsewhere.

Multilateral development banks (MDBs) such as the African Development Bank (AfDB) have also walked away from coal in the developing world.

**COP is coming**
Looking ahead, the E3G report stressed that coal expansion is now concentrated in just a handful of countries, meaning that action by just six of them could remove 82% of the remaining global pipeline of pre-construction projects.

China, because of its sheer size and because of its role as the last major source of coal financing, has a pivotal role to play in reducing coal's importance in the global power industry.

If China followed its East Asian neighbours Japan and South Korea in ending overseas coal finance, it would facilitate the cancellation of over 40 GW of pipeline projects across 20 countries.

UN Secretary-General António Guterres said in August that there must be no new coal plants if the world is to meet its climate targets.

“This report must sound a death knell for coal and fossil fuels, before they destroy our planet. There must be no new coal plants built after 2021. OECD countries must phase out existing coal by 2030, with all others following suit by 2040. Countries should also end all new fossil fuel exploration and production, and shift fossil-fuel subsidies into renewable energy,” he said.

With Africa, Europe and much of Asia now moving away from coal, only China and parts of developing Asia are left promoting the fuel, while the science and political support is increasingly becoming against coal.

“The world’s leading scientific bodies are clear: coal power needs to be essentially phased out in the next two decades to prevent dangerous climate change,” said the report's co-author Christine Shearer, programme director at Global Energy Monitor.

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**Green push comes to steel**

Stephen Bierman of NEO

The world got its first pilot delivery of carbon-free steel last month, setting a pair of green goalposts for the industry’s future. Progress for the moment and future, all the same, will require changes in production processes, feed stock and fuels.

The first delivery of totally carbon-free steel was still very much in pilot mode in the global context. Costs remain steep, which is the quite legitimate reason all this hasn’t been done previously. Yet Swedish Steelmaker SSAB, Swedish Vattenfall and state-owned Swedish miner LKAB announced the delivery of the hydrogen-reduced sponge iron to the Volvo Group, according to their statement. The clean-burning hydrogen was produced using electricity from renewable energy.

The group seeks to deliver fossil-free steel to the market on an industrial scale as early as 2026.
Steel is produced using two methods: the blast furnace-basic oxygen furnace method (BF-BOF) or the electric arc furnace (EAF) method. The BF-BOF method, using coking coal, is the primary process to convert iron ore into processed iron and then into steel. EAF, much less emissive, is mainly used in turning scrap, basic pig iron (BPI) or hot-briquetted iron (HBI) / direct reduced iron (DRI) into steel. Now, EAF mini-mills produce around 28% of world steel, though they account for only 8% of the CO2 generated by the steel industry. At the same time, direct reduction used in the production of HBI/DRI is considered one of the most promising areas to for the development of cleaner metallurgy.

Switching to greater EAF processing will, by itself, be a big step on the route to greener output as emissions are about 1.5 tonnes per tonne of steel, while those from the conventional blast furnace-converter cycle are 2.3 tonnes.

The demand is there for the shift. Steel customers seek cleaner supply chains. Investors are setting standards for cleaner portfolios, something which could, or should, shift a share price premium to cleaner producers if all other things are equal. And finally, the political will to force greener production is evident as the European Union considers border carbon taxes.

The world’s largest iron ore players such as Vale, Rio Tinto, BHP and Fortescue Metals produce iron ore concentrate, which is suitable for the BF-BOF method, consistent with current production. These companies have just announced plans to develop projects to produce feedstock for the EAF method, yet this requires time to get to full-scale production. Shifts in this area may imply greater costs.

Currently, the leading supplier of HBI is Metalloinvest (controls around 50% of global market), a Russian metals and mining company that is heavily investing in the expansion of HBI production facilities. In 2024, it plans to launch two such plants that are already designed to use 100% hydrogen instead of natural gas. The company aims to sell its shares in an IPO in 2022 and analysts anticipate a valuation of over $20bn, as Bloomberg reported last month.

Steel is the most commonly used metal in the world. It’s in everything from cars and construction products, to refrigerators and washing machines, to cargo ships. The industry is responsible for about 8% of global greenhouse gas (GHG) emissions. It will remain front and centre as a target for reduction in global net-zero scenarios.

“Steel customers seek cleaner supply chains. Investors are setting standards for cleaner portfolios, something which could, or should, shift a share price premium to cleaner producers if all other things are equal.”

The first delivery of carbon-free steel shows leadership. At the same time, steel production is a process involving multiple inputs and steps. Cutting emissions is a work in progress. Greater use of EAF and HBI feedstock will do a lot of work towards lower emissions. The demand for cleaner steel is there and taxes on carbon emissions through the production cycle are very likely, so look for the industry to change.●
Turkey’s lakes and rivers drying up amid drought and climate change

Hurriyet Daily News on September 10 reported on how the shoreline of the lake, located in the eastern region of Anatolia near the border with Iran, “has begun a steady retreat and replenishing precipitation seems to no longer maintain the basin’s water levels”.

“The lack of rainfall earlier this year left the dam reservoirs that supply Istanbul with water dangerously low.”

In another worrying development, lack of rainfall earlier this year left the dam reservoirs that supply Istanbul with water dangerously low.

The consequences of the drought and climate change in Eurasia are of course not confined to Turkey. In mid-August, for instance, bne IntelliNews told how Kazakhstan looked set to lose a quarter of its anticipated grain crop this year, while in July water stress protests broke out in Iran’s southwest.

Across Central Asia, drought has caused mass livestock die-offs and irrigation water shortages. Studies point to shifts in precipitation patterns in the Tian Shan mountains that supply the region with much of its freshwater for irrigation and pasture.

The consequences of drought and climate change in Turkey appear to have become so severe that by now hardly a day goes by without a report in the country’s press about the drying up of a substantial lake or river.

Hurriyet Daily News, for instance, recently reported on how Lake Aksehir in the southwestern province of Konya, once Turkey’s fifth largest lake, has almost dried up, while on September 14, the newspaper published a report on how Lake Uluabat in the northwestern province of Bursa is about to become a “dead pond”. Apart from the impact of climate change, the former is said to be suffering from the misuse of its waters for agricultural purposes, while the latter is reportedly heavily polluted with manure and industrial and household wastes.

“If we do not change our current water use system, we need to think that this lake is saying goodbye to us from now on,” said Tahir Nalbantcilar, an academic from Konya Technical University, in remarks on the fate of Lake Aksehir reported by Demiroren News Agency.

Konya is a province also threatened by hundreds of sinkholes, a phenomenon attributed to depleted underground water. Illegal irrigation has, meanwhile, been blamed for the drying up of other lakes in the Konya Plain, known as Turkey’s breadbasket. This year has seen Turkey increasingly stepping up the import of wheat and animal feed amid its prolonged drought.

Longest river threatened
On September 12, Daily Sabah reported on how Turkey’s longest river, the Kizilirmak, was threatened by drought. The publication said parts of the river had dried up in the central province of Sivas, where its source is located. “Once roaring waters of the river now merely amount to small streams,” wrote Daily Sabah.

Turkey’s largest lake, Lake Van, also appears to be in danger.

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RUSSIA'S IPO BOOM

Ben Aris in Berlin
Russian IPOs are back and billions of dollars have already been raised and billions more of listings are in the pipeline in the coming year. The Russian corporate story is hot again for the first time in about a decade.

International portfolio investors are currently overweight Russia not because they have been buying the household names, but because they have been snapping up all the new issues coming to market in the last year.

Six Russian companies IPO’d in the last year just as investor sentiment was hit by the coronavirus (COVID-19) pandemic and the risk of possible new Western sanctions on Russia following the poisoning of Kremlin critic Alexei Navalny. But the pandemic is fading and a détente was reached with US president Joe Biden in Geneva on June 16 that reduced perceived risks. Now there is some $10bn in potential new IPOs in the pipeline according to analysts.

Growth stocks have been the favourite, many of them from the new economy like Russian e-commerce powerhouse Ozon, which raised $1.2bn last year. But increasingly new names are catching the headlines such as the hard discounter Fix Price which raised $2bn in March, residential developer OB group (Obuv Rossii) which raised $105mn in October, private healthcare company EMC that raised $450mn in July and forestry group Segezha that raised $414mn in April all listing shares this year in the country’s biggest listings spree since 2008. Other industries represented by companies planning to go public soon include retail, insurance, car-sharing and automotive leasing, and financial services.

The most recent addition to the IPO family is Renaissance Insurance, one of Russia’s leading commercial insurance companies, that announced on September 27 it intends to list in the near future and hopes to raise $290mn with a $1bn-plus valuation. The company has invested heavily in its digital presence and wants to raise capital to invest more, as well as some of the shareholders hope to take some cash off the table.

The IPO bonanza has seen exchanges wooing Russian companies hoping to go public. NYSE, Nasdaq and the London Stock Exchange are trying to attract new Russian members after Ozon listed shares on Nasdaq in November successfully tapping into the deep US pool of tech investors.

Fix Price went for dual listing in London and Moscow in March as Russian firms increasingly favour their home market after it was hooked into the international settlements and payment system Clearstream. Now foodtech company VkusVill and SPB Exchange are among many considering selling shares in the US, while information technology solutions provider Softline may opt for a dual listing in the UK and Russia.

New York has not seen such a flurry of Russian share offerings since the initial wave of IPOs in the 1990s. The LSE aggressively marketed itself to prospective clients in the noughties, but activity almost completely died off following Russia’s annexation of Crimea in 2014.

The market was dead until Russian children’s good retailer Detsky Mir floated in 2017 in a highly anticipated IPO, followed by Russian shoe retailer OB group (Obuv Rossii) which raised $105mn with an IPO in Moscow in October 2017. But then the listing action died completely and was only revived last year. Now the listings frenzy is gathering momentum.

New York has been out of favour as a listing venue, but Ozon seems to have triggered a comeback. Four Russian companies are targeting New York deals in the coming months.

London, long the go-to international exchange for issuers that wanted to supplement Moscow, is now feeling the heat as it has been challenged by both Moscow and New York. The Moscow Exchange (MOEX) has also been aggressively marking its services to Russian would-be PLCs and invested heavily to significantly improve its services. Increasingly major Russian companies have chosen to do Moscow-only listings.

The sudden appearance of a large and growing pool of retail investors has proven to be increasingly enticing for Russian corporates to list at home. Falling bank deposit rates have caused millions of Russian retail investors to cast about for something with a better return and they have been flooding into equities to now account for some 40% of the turnover on MOEX.

At the same time some internationally traded Russian entities have returned home as MOEX actively pursued a programme to unwind ADR proxy that are listed on international exchanges and bring their investors to Moscow to hold the underlying Russian traded shares directly, cashing in on the traditional spread between the ADR proxy and the locally listed shares in the process. Other Russian companies, such as supermarket chain X5 Retail Group and banking group TCS Group, have chosen to add to their international listing with a second Moscow-based listing. Russia’s most successful real estate developer PIK has chosen to delist from its overseas exchange entirely and move its shares back to Moscow.

Further out there are some very big potential IPOs in the pipeline. Russia’s petrochemical behemoth Sibur has been talking about an IPO for years in one of the most highly anticipated listings from the Russian market. While the company told bne IntelliNews in an exclusive interview it is committed to an IPO, it is the question of timing that has not been decided yet. Likewise, metal and mining giant Metalloinvest may sell shares to the public as early as in 2022. Both companies may be valued at least $20bn each in their respective offerings.

Below is the breakdown of Russian companies planning IPOs by potential listing location and of those that recently completed IPOs by location.
NEW YORK (NASDAQ OR NYSE)

Complet ed

Ozon

Russia’s leading multi-category e-commerce platform, often referred to as “the Amazon of Russia”, went public on Nasdaq and MoEx in November, raising almost $1.3bn in an offering that valued the company at about $6.2bn. Its infrastructure and delivery network have some of the widest coverage among e-commerce players in the country, enabling Ozon to provide the Russian population with fast and convenient delivery via couriers, pick-up points, and parcel lockers. Its extensive logistics footprint and fast-developing marketplace platform allow thousands of entrepreneurs to sell their products across Russia’s 11 time zones and offer millions of customers one of the widest selections of goods across multiple product categories.

Planned

VkusVill

Russia’s largest foodtech player runs a chain of healthy food retail shops unique for the Russian market – they work with local producers and sell the majority of assortment under their own brand. The company is considering an IPO in the US in the beginning of 2022 with a valuation of as much as $5bn, the Wall Street Journal reported September 7. VkusVill has a unique distribution model operating both offline and online. The company boosted online sales to almost 25% of total at the end of 2020 from a year earlier and became an absolute leader in Russia in the express food delivery market. On top of this the business is managed via a patented management model with minimal hierarchy and deep effective horizontal relationships.

SPB Exchange

Dual listing in New York and Moscow

Russia’s leading exchange for international securities’ trading provides access to share-trading of such companies as Apple and Amazon. The exchange’s total trading volume jumped more than four-fold in the first half of 2021 to about $206bn from about $45bn a year earlier. The bourse may sell shares both on the Nasdaq and on its own platform this year and may be valued at $1.8bn - $2.5bn, Kommersant reported on August 5.

Familia

Familia is a fast-growing and sustainably profitable off-price retailer, specializing in apparel and home goods. The company, whose investors include TJX, Goldman Sachs and Baring Vostok Capital Partners, is preparing for an IPO in New York as early as the start of 2022, Bloomberg reported June 4. Founded in 2000, it became a pioneer in the Russian off-price market, largely following the business model and best practices of the US off-price retailers TJX and Ross, and adapting those to the Russian market. Familia currently manages a network of over 360 stores in more than 110 cities and adds new shops every month.

On top of this the business is managed via a patented management model with minimal hierarchy and deep effective horizontal relationships.
<table>
<thead>
<tr>
<th><strong>LONDON</strong></th>
<th><strong>MOSCOW</strong></th>
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<tr>
<td><strong>Completed</strong></td>
<td><strong>Completed</strong></td>
</tr>
<tr>
<td><strong>Fix Price</strong> &lt;br&gt;Dual listing in London and Moscow</td>
<td><strong>European Medical Center</strong> &lt;br&gt;A Russian network of premium healthcare clinics in July raised $500mn in an IPO, the first one in the Russian private medical services industry in almost 10 years. Despite the industry’s low visibility to investors and traditionally slow business activity during the summer season, the offering saw high demand, including from retail investors, valuing the company at about $1.13bn and giving it a free float of 44%. EMC boasts one of the highest Ebitda margins among publicly traded companies in the industry globally, with adjusted Ebitda jumping 52% to EU56.1mn in the first six months of this year, on Ebitda margin of 42%, up from 32% a year earlier, the parent company United Medical Group CY Plc reported August 30.</td>
</tr>
<tr>
<td>The biggest player in the Russian discount retail market in March conducted the largest retail IPO in Russia, raising $1.8bn and listing shares in Moscow and London. The offering valued the company at about $8.3bn and resulted in a free float of 21%. The company is the dominant player in the so-called dollar-store market with a share of about 93% and plans to further expand its retail network three-fold by 2025. Fix Price has 4,700 own and franchise outlets throughout Russia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Latvia and Uzbekistan, according to its website. The company in August said first-half revenue surged 28% to RUB106.1bn ($1.5bn), with like-for-like sales rising 12% over the period. The business model’s resilience and flexibility helped to achieve strong results amid a complex trading environment caused by macroeconomic headwinds, CEO Dmitry Kirsanov said in the earnings statement on August 12.</td>
<td></td>
</tr>
<tr>
<td><strong>Planned</strong></td>
<td><strong>Segezha</strong> &lt;br&gt;Tapping Russia’s Green Gold, wood products company Segezha Group completed its IPO on MOEX in April, raising slightly over $400mn. The deal, which gave Segezha a free float of 24%, valued the company at around $1.7b. Its current freefloat is 31% and it remains majority-owned by Sistema, Vladimir Yevtushenko’s London-listed conglomerate. Unlike many of its peers in the paper and wood products sector, the company controls its own forest resources and holds long-term leases on Russian forest land the size of Austria. It also benefits from a cost base in rubles, while the majority of its sales are in euros and US dollars.</td>
</tr>
<tr>
<td><strong>Softline Group</strong> &lt;br&gt;Dual listing in London and Moscow</td>
<td></td>
</tr>
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### MOSCOW

#### Planned

**Renaissance Insurance**

Renaissance is a digital disruptor on the Russian insurance market with about 70% of claims processed exclusively through online channels and new partners – from online retailers to pet shops – connected in 1-2 days versus more than a month with traditional peers. The company, whose main shareholders include its founder Boris Jordan, Baring Vostok Capital Partners, Millhouse and Invest, AG may announce an IPO in Moscow as soon as this month, offering new shares for $250mn, according to Interfax, while Bloomberg reported the company is seeking valuation of $1bn. Independent status helps Renaissance increase sales efficiency and grow twice as fast and twice as profitable as its main competitors. While insurance remains its main focus, Renaissance is also developing telemedicine project, which started to grow exponentially amid the coronavirus pandemic.

**Europlan**

Europlan ranks among 15 largest auto leasing companies in Europe. The company is a long-established leader in Russia, providing a full range of leasing and operational services covering cars, trucks, commercial vehicles and special equipment to individuals and legal entities across Russia’s key towns and cities. Europlan’s owner Safmar Financial Investments is planning the company’s IPO in Moscow and seeks to raise at least $300mn, Reuters reported May 17.

**Otkritie**

One of Russia’s largest state-run lenders plans to hold an IPO by the middle of next year as part of the bank’s privatization, Financial Times reported June 21. The lender, which has a book value of about $7.4bn and assets exceeding $50bn, may offer between 15% and 20% of its shares on a Russian and possibly an international exchange next year, according to the newspaper. The offering would be the first Russian banking IPO since Credit Bank of Moscow’s placement in 2015. Russia’s central bank which became Otkritie’s owner in 2017 to get it through financial rehabilitation, is also considering an option to sell controlling stake to a strategic investor.

### UNDETERMINED LOCATION

**Mercury Retail**

Mercury Retail pioneered the ultra-convenience store concept in Russia and is now the country’s largest player with 13,500 neighbourhood stores nationwide under Red & White and Bristol brands. The company said it may IPO this year or in early 2022 with a valuation of as much as $20bn. Its stores offer an assortment of daily essential goods within a short walking distance of customers’ homes at among the lowest prices on the market. Ultra-convenience is the fastest-growing channel in the Russian food retail market. Sales are expected to more than triple by 2025 to over RUB5 trillion. Mercury’s two brands have a combined market share in the ultra-convenience segment of 43% and about 4.6% of the total food retail market, according to InfoLine. The two chains’ like-for-like sales rose 20% in the first half of the year, while total sales jumped 27% to RUB330bn.

### FUTURE IPOS POST 2021

**Sibur**

Russia’s largest petrochemical company recently announced a merger with its rival TAIF, a deal that postponed Sibur’s plan for an IPO. The company is currently implementing a plan to further expand its petrochemicals business and enter new export markets as it capitalizes on synergies from the merger with TAIF. Sibur may go back to the IPO plan in a couple of years and the value of the company may exceed $20bn.

**Metalloinvest**

The world’s largest producer and supplier of merchant hot briquetted iron, or HBI, products, a low-carbon raw material to produce “green” steel, plans to double its HBI capacities to meet growing demand for environmentally friendly feedstock. The company plans an IPO as early as in 2022 amid investors’ pressure to accelerate the transition to “green” metallurgy, according to Bloomberg. Metalloinvest expects a capitalization of about $20bn, industry analysts say.
Russia is going through a retail investment revolution. Plunging interest rates at bank deposits – long the favoured store of wealth for the average person – have led to a boom in Russians investing into equities. And tired of seeing their savings regularly hammered by the volatile ruble, investing in foreign stocks, denominated in dollars, has ballooned in the last two years.

All this is possible thanks to a confluence of factors. Russia’s leading banks have begun to focus on retail investments, made easy by the burgeoning fintech explosion where Russia is a world trendsetter. The financial market reforms a decade ago mean Russia’s capital markets are hooked seamlessly into the international capital markets. And most importantly, the St Petersburg-based SPB Exchange has built a unique system that allows punters to register an account in a minute and immediately buy and sell US, and other international stock, even when those markets are closed for trading.

Trading on SPB Exchange has ballooned in the last two years and equity daily trade volumes are now bigger than those on the better-known rival the Moscow Exchange (MOEX), which also since last summer has offered retail investors access to internationally listed stocks. There are many differences between the two exchanges, but the key one is that investors can buy these stocks on SPB Exchange using dollars, but MOEX only accepts rubles, adding another layer of FX risk to investments.

Volumes balloon

The explosion of investments into equities in general, not just foreign listed shares, has been brought about by nearly seven years of consecutive rate cuts by the Central Bank of Russia (CBR) that have brought interest rates down to post-Soviet record lows. The CBR hiked rates to 17% in 2014 during an oil price shock that caused a deep devaluation in the ruble, but since then it has cut rates several times, bringing them down to 4.25% at the start of this year. Inflation also fell to record lows of 2.3% in 2019, before starting to rise again more recently, but that meant the real rate of returns on bank deposits fell from whole percentage points into mere tens of basis points and Russian savers began to look around for almost the first time for a better investment that paid a bigger return.

The coronavirus (COVID-19) pandemic has been a catalyst to growth of the business but also did not lead to a sell-off during the worst of last year’s crisis in April.

Trading volumes continued to rise this year even as daily life returned to normal post-COVID in Russia. Total trading volume reached approximately $206bn in 1H21, an increase of 356% from approximately $45bn in the six months ending June 30, 2020.

Almost all of the turnover on SPB Exchange is in foreign listed stocks and as a result it works long hours to overlap with the international markets: trading is possible 19 hours a day from 7:00am in the morning to 1:45 am at night Moscow time. Between 7am and 2:30pm, when the US markets are closed, the trading on the exchange relies on its own pool of
investors, but after that trades can be settled on the US changes if needed.

“People can trade when they want to,” SPB Exchange’s founder and CEO Roman Goryunov told bne IntelliNews in an exclusive interview in July. “The time difference means that the US markets only open in the late afternoon in Russia, and people don’t want to trade only at the end of the day.” SPB Exchange’s tech backbone processed 1.5mn transactions a day with a daily average turnover of over $1.6bn in H121, and has the capacity to support a volume increase.

Origins
The building of the SPB Exchange platform has been a long time in the making. Founded in 1997, SPB Exchange first focused on the derivatives market, but subsequently sold that business and shifted its focus to organising trading in international securities. By 2014, it became possible to purchase 55 shares of the S&P 500 on the exchange and since then, the number constantly increased to the 1,800-plus stocks available today.

“SPB Exchange system makes buying stocks listed in the US for a Russian national simple. The whole process of registering an account on a brokerage side can be done with a phone and takes only a few minutes,” says Goryunov. “It’s like the Robinhood phenomena. Direct retail investment is exploding around the world as people gain the tools to do it,” says Goryunov. “They invest into simple strategies linked to life around them. And the lockdown catalysed that. They buy Apple as they use the phone, Zoom because that’s how they talk to the family, and Tesla as they understand the Climate Crisis is a problem. They are buying into the real things that affect people’s daily lives. It’s a simple and understandable strategy. You don’t need a huge body of knowledge for this.”

And the growth potential is huge. At the moment, about 7.6% of Russia’s adult population has a brokerage account, but only 1.6% actively use this account — far less than in other countries like the US, China and most EU countries. Bank deposits still account for about half of all savings, and investment into Russian stocks has grown to 31% in recent years, with another 7% invested into government bonds and 3% into mutual funds (known as PIFs in Russian). But investment into foreign stocks is the fastest growing segment and already accounts for more than 13% of the average retail portfolio, says Goryunov.

The financial literacy of the Russian retail investors has grown fast. The CBR has long complained about the low level of the average Russians’ financial literacy that never really got past “bank deposit” as a wealth store. Goryunov says that things like social media have created a global trend that is driving individuals to actively play markets.

“The difficulties a Russian passport holder needs to go through to register a brokerage account based in the US, even a retail account [are] Byzantine, to the point it is almost impossible,” adding the exchange now sees more than 25,000 accounts being opened daily. “It’s snowballing,” explains Goryunov simply.

One of the big appeals of SPB Exchange is that Russian investors can buy and sell US listed blue chips when the US market is closed. Goryunov emphasises repeatedly that the goal of the exchange has been to create a large liquid pool to sustain trading so that if an investor wants to fix profits or add to position there is always a counterparty with whom to trade. That could be another Russian investor trading on SPB Exchange, or it could be buying from the US markets directly, depending on the price and the time of day.

The growing pool of retail investors solves the exchanges’ main problems: despite being open until well into the night in Russia, it is still in the wrong time zone. The US markets open late in the afternoon Russian time and close when most people have already gone to bed.

At the same time, the Exchange has discouraged high frequency traders (HFT), so the market makers add to the pool of liquidity rather than drive up the prices.

“SPB Exchange system makes buying stocks listed in the US for a Russian national simple. The whole process of registering an account on a brokerage side can be done with a phone and takes only a few minutes”
Thus we have created an environment where market makers can set thin bid-offer spreads, and therefore provide better prices for investors and traders,” says Goryunov. “We determine whether a participant on our platform qualifies as a liquidity provider. Market makers on our platform are not compelled to place orders with large spreads to prevent their spreads from being affected by a large number of trades in a short period of time, due to HFT activity.”

The fact that most of the trading is small orders of typically around $1,000 means that the fine-grain nature of these small trades also gives the market makers a more visible view of prices and allows them to offer deals with narrower spreads to boost the volumes of the trading: everyone’s a winner.

“It’s a way for SPB Exchange to ensure deep liquidity, as well as push market players to compete on price rather than on speed,” says Goryunov. The liquidity pool has been further enhanced by tying up with almost all the leading banks and brokerages working in Russia: SPB Exchange is partners with 46 leading brokerages, including all the top names, and 13 of Russia’s largest banks that between them have millions of customers. Most of these have been investing heavily into fintech solutions that include stock investments and none more than Tinkoff Bank, Russia’s only purely online bank. Its investment arm, Tinkoff Investments, is the biggest player in Russia’s retail equity business.

“We have developed fintech solutions that provide new services to our customers that are part of our focus on creating liquidity,” says Goryunov.

The attitude of banks to the stock market has also changed as interest rates come down. In the past they saw the capital market as a competitor that was trying to steal their deposits – most banks’ main source of funding – but now the leading banks see stock investments as a new source of revenues.

There is no stopping the outflows now interest rates are falling, but equity

2011 capital market revolution

It is hard to overestimate the size of the revolution that was Russia’s 2011 capital market reforms. Goryunov was head of RTS at the time and intimately involved in the merger with MICEX to unite Russia’s two biggest platforms, which were then hooked directly into the international capital market system by tying up with Clearstream. At the stroke of a pen the new system allowed international investors to buy and sell Russian stocks and bonds directly from their terminals in London and New York.

The whole structure of the market was transformed: the two main exchanges – the ruble-denominated Moscow Interbank Currency Exchange (MICEX) and the dollar-denominated Russia Trading System (RTS) – were merged and a central depository (CSD) was set up in the form of the National Depository Company (NDC) to clear and settle the trades. That was then linked to the international markets via ClearStream to do the international settlement and clearing of trades. These changes opened Russia’s capital markets to the global pool of capital and brought in an extra $20bn very rapidly, mostly into the local Russian Ministry of Finance rouble-denominated OFZ treasury bond market that became an important new source of funding for the Russian budget.

It also radically changed the shape of the market. The leading brokerages, household names that made buckets of money facilitating international investments into Russia’s booming and crashing stock market, were almost all killed off.

About half of investments into Russia’s equities are from foreign investors who had opened brokerage accounts with the likes of Renaissance Capital, Troika Dialog, Aton, UFG Capital and others, to transact their investments. In what turned out to be his swansong speech at Renaissance Capital’s annual investment summit that year, owner Stephen Jennings said that the reforms were going to create a “barbell” in the market: big state-owned banks at one fat end and small niche players at the other end. Everything in the middle would suffer or die.

Jennings was right, except he assumed that RenCap would be one of the survivors. It wasn’t. A one-time investment banking powerhouse, its business has atrophied dramatically and today it concentrates mostly on its African business. Troika Dialog was sold to Sberbank and forms the core of what is now Sberbank CIB, the retail giant’s investment banking arm. Deutsche Bank’s investment bank business was sold lock, stock and barrel to the state-owned VTB in 2008 to create VTB Capital (VTBC), its investment banking arm. The state banks survived because they have access to billions in cash of the biggest state-owned companies that also need the capital markets.

Exchange activity

<table>
<thead>
<tr>
<th>Stock Market</th>
<th>SPB Exchange</th>
<th>Moscow Exchange</th>
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<tbody>
<tr>
<td>Trading volume 2020</td>
<td>$167.29bn</td>
<td>$64bn</td>
</tr>
<tr>
<td>Change</td>
<td>999.94%</td>
<td>34.70%</td>
</tr>
<tr>
<td>July volume</td>
<td>$31.38bn</td>
<td>$27.08bn</td>
</tr>
<tr>
<td>Daily average July volume</td>
<td>$1.43bn</td>
<td>$1.23bn</td>
</tr>
<tr>
<td>Change</td>
<td>111.81%</td>
<td>31.10%</td>
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</table>

Source: Seeking Alpha
investments are now pulling in money that was not previously in the banking system at all: typically, Russians keep some of their savings at home in cash, usually in dollars, for emergencies – the so-called “mattress money.” “Last year the volume of money that went into stocks was greater than the amount of money withdrawn from bank deposits,” says Goryunov. “That means not only are the people changing the way they invest their wealth, but stocks are also tapping into a new pool of money that has never been in the banking system.”

Part of SPB Exchange’s success has been fuelled by the explosion of online business and in particular the use of fintech solutions by Russia, which has in many respects led the West in the use of financial services provided online.

Russia’s banks are rolling out more and more services as the banking business is being transformed, led by Tinkoff Invest, which is already bigger than Russia’s retail banking behemoth Sber (formerly known as Sberbank) that holds half of all the retail deposits in the entire country.

“SPB Exchange utilises a B2B2C model,” says Goryunov. “Main clients of most banks come to us including all the major financial institutions that service retail investors. SPB Exchange’s direct customers are brokerages working with retail investors. SPB Exchange is focusing on targeting brokerages that cater to retail investors, including the industry’s top names such as Tinkoff Investments, and demand for their services is growing. For the Russian market overall, net purchases of securities by retail investors reached RUB491bn ($6.7bn) in the first quarter, more than double the volume of net purchases for 2020, according to CBR data,” Goryunov adds.

**IPO and results**

Until 2020 SPB Exchange was not making any profit, ploughing everything that came in since 2014 years back into development. But that has all changed now as the retail investor revolution gets underway.

“The past few years the revenue has been rising, but it has not happened overnight,” says Goryunov. “We have been building the system and it has been a lengthy process, but now we are realising the potential of all the work we have put in.”

The exchange plans to IPO in the near future, according to local press reports, and will come to market with dramatically improving results. It makes two thirds of its money from fees associated with clearing and settlement and then another quarter from stock market business fees, but part of the business model is to keep the cost of fees down and make a profit on the volumes. Total revenue increased 4.6x in 2020, driven by growth in SPB Exchange’s customer base and trading volumes. Similar dynamics will continue this year, with revenue expanding 4.5x in 1Q 2021 year on year vs 1Q 2020, the exchange said when reporting its first results.

SPB Exchange also makes a little money from its subsidiary company that provides depository brokerage activities, Best Efforts Bank.

That is another reason for tapping the retail pool, and as Russian retail investors switch out of bank deposits and into stocks SPB Exchange’s business has been flourishing.

Even with “smart order routing” in place, over 77% of all trades were completed internally (without tapping into external liquidity pools like the Nasdaq) in the six months ended June 30, 2021.

Exchange is open 7:00am to 1:45 am Moscow time five days a week, providing longer trading hours than MOEX while US markets are closed, and covering its premarket and postmarket slots. In the medium term, SPB Exchange aims to extend its trading hours even further.

<table>
<thead>
<tr>
<th>SPB Exchange results</th>
<th>2020</th>
<th>2019</th>
</tr>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>360.40%</td>
<td>13.70%</td>
</tr>
<tr>
<td><strong>Operational Profit</strong></td>
<td>545.30%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>EBT</strong></td>
<td>163581.30%</td>
<td>-96.40%</td>
</tr>
<tr>
<td><strong>Net Profit</strong></td>
<td>21278.50%</td>
<td>-84.40%</td>
</tr>
<tr>
<td><strong>FCF</strong></td>
<td>1319.00%</td>
<td>-165.40%</td>
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Source: Seeking Alpha

www.bne.eu
Leading Russian insurer Renaissance Insurance Group announces an IPO with $1bn valuation as Russia’s listing boom continues.

Russia's Renaissance Insurance hopes to raise $290mn with IPO

Ben Aris in Berlin

One of Russia’s leading privately owned insurance companies, Renaissance Insurance Group, has announced that it will IPO on Moscow Exchange (MOEX), the company said on September 27.

“Renaissance Insurance Group JSC, a Russian diversified independent insurance company, today announces its intention to conduct an initial public offering of ordinary shares and to list on Moscow Exchange,” the company said in a statement. “The Offering is expected to comprise an offering of the Ordinary Shares (i) in the Russian Federation, (ii) otherwise outside the United States in reliance on Regulation S (“Regulation S”) under the US Securities Act of 1933, as amended (the “Securities Act”), and (iii) within the United States to certain qualified institutional buyers (“QIBs”) as defined in, and in reliance on, Rule 144A (“Rule 144A”) under the Securities Act.”

The company said it hopes to raise RUB21bn ($290mn) with the primary offering and a secondary offering where some of the shareholders will cash out. “Proceeds from the primary component of the Offering will be used to accelerate the Group’s development by financing organic growth, investments in further digital initiatives, potential value-accretive acquisitions and the possible repurchase of shares following the results of stabilisation in connection with the Offering,” the company said.

Previously a source close to the company told Reuters that it hopes to raise $250mn and achieve a valuation of $1bn. The IPO will be led by JP Morgan, Credit Suisse and VTB Capital (VTBC) as global coordinators to work on the deal.

Renaissance Insurance is one of the oldest privately owned companies on the market, having been set up in 1997 by famous financier Boris Jordan, a US banker who made a fortune during the privatisation process in the early 1990s while at Credit Suisse. He went on to found the investment bank Renaissance Capital (Rencap), a doyen in the early days of Russia’s capital markets.

However, Jordan left Rencap, selling his interests to his partner Stephen Jennings, but retained ownership of Renaissance Insurance in the deal, which is now owned by Jordan’s Sputnik Group. Jordan remains the company’s president and board chairman. Oligarch Roman Abramovich’s Millhouse Capital is also an investor in the company.

“Today’s announcement represents a landmark for Renaissance Insurance and a watershed moment in the history of the Russian insurance market. Becoming the first publicly-listed Russian insurer would be entirely fitting for a company that has always sought to be ahead of the curve ever since we established it almost three decades ago,” Jordan said in the statement. “We were the first in our industry to recognise the potential of digital transformation and have disrupted the market with a business model that is high-tech, highly efficient and highly profitable. Digitalisation has been the core driver behind Renaissance Insurance delivering faster and more profitable growth than the overall market for the past several years, including during the coronavirus [COVID-19] pandemic.”

Boris Jordan’s Sputnik Group and partners own a 59% stake in Renaissance Insurance, and a group of investors linked to Abramovich and some of his business partners bought almost 30% in the company in May of this year. Other shareholders include US fund manager Michael Calvey’s Baring Vostok Capital Partners.

The Renaissance companies together had 4.5% of the Russian insurance market in the first quarter, according to Expert RA ratings agency, as cited by Bloomberg.

Russian IPOs have come thick and fast in the last 12 months as investors look to tap into the country’s bounce-back and buy into the rapidly growing e-commerce and finance sector. Russia’s leading RTS index is up around 30% year to date, but the banking sector stocks are up 60% in the same period.
Renaissance Insurance

Jordan became a billionaire earlier in 2019 following the float of his medical cannabis company Curaleaf, the biggest cannabis producer in the US, but he has been investing in Russia and continues to spend half his time in the country.

In a recent interview with Vedomosti Jordan said that the insurance business is rapidly being digitised and that part of the motive for listing it is to raise investment capital, as he considers the other players in the market to be relatively weak players.

“I have been investing in the Russian economy for almost 30 years and I believe that during this time it has passed from the wild economy of the Communist system to capitalism. Now it is a very attractive country for technology and innovation. Mobile payment systems in Russia are much better developed than in the States: few people pay by phone, people still use a lot of cash,” Jordan told Vedomosti.

Renaissance Insurance is one of Jordan’s biggest investments and has been a focus of the Sputnik Group since it was established. Today the company says it is disrupting the domestic insurance market with its leading digital platform that “offers efficiency and agility” that the other more traditional players lack.

The company has launched an AI-powered app that includes automated document and handwriting recognition software as well as photo recognition to make a strong customer experience.

And business is booming. Russia’s financial sector has come roaring back to life in the last year as the economy bounces back from the coronacrisis. Investors are particularly interested in financial sector stocks, as they are considered to be a proxy play on the economic recovery. Banks are currently making their best profits in the last five years and the size of the total insurance market has tripled in the last ten years, and up a third in the second quarter of this year alone.

Insurance premiums totalled RUB434.4bn ($6bn) in the second quarter year on year, exceeding last year’s and pre-coronavirus levels, the regulator reported in September.

“The number, coming as a result of low activity in 2020 when most restrictive measures were in place, was further helped by the accelerated growth of premiums in core types of insurance. The trends are reported in the Review of Key Indicators of Insurers,” the CBR said on its website.

As demand for household loans rose, life insurance premiums were up 2.2 times in the second quarter to RUB35.2bn, and health and accident insurance premiums grew 1.8 times to RUB69.8bn. Expanding car loans and higher prices of vehicles drove 34.3% growth in the car insurance market that totalled RUB48.6bn.

As bne IntelliNews has written elsewhere, the time horizon of the average Russian has been growing steadily over the last three decades. In the early 1990s following the collapse of the Soviet Union and the Russian economy, personal time horizons came down to a matter of days as the future became totally unforeseeable. However, as the country recovered and began to grow, time horizons extended to months and then years, and products like consumer loans took off in the early noughties. As that decade wore on, time horizons extended into decades and mortgages appeared as Russians felt confident about committing themselves to a decade-long investment. But it has been only recently that the time horizon has extended to old age and death, and Russians are starting to invest into pensions and life insurance to protect their families.

The life insurance segment has been growing even faster than the general insurance business, expanding 19-fold in the last ten years, according to Renaissance Insurance, driven by consumer lending and continuously falling bank deposit interest rates that have driven retail investors into the stock market as bne IntelliNews recently reported in a profile of SPB Exchange, the market leader in that business.

“The direct insurance sector led by [Renaissance Insurance Group] remains significantly underpenetrated and supported by growing online adoption, especially post-COVID,” according to the company.

The offering should appeal to investors thanks to the group’s strong profitability and big upside growth potential. Motor insurance made up 57% of the revenues of RUB37bn ($510mn) in 2020, with voluntary medical insurance accounting for another 17% and other products for the remaining 26% in the non-life segment.

The bigger business is life insurance, where “investment” products – these have become a proxy for bank deposits – account for 54% of the RUB46bn of revenues in 2020 and endowments another 17%, with others making up the remaining 29%.

Revenues have been growing at a compound rate (CAGR) of 9% in the last two years from RUB70.3bn in 2018 to RUB82.8bn in 2020 and the net income growth was up from RUB3.4bn to RUB4.7bn over the same period, a CAGR of 18% over those two years.
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How a V-shaped market and ageing pipes and fields sent gas prices soaring

Ben Aris in Berlin

With the heating season officially due to start, gas prices have soared and Russia has been blamed for it, accused of cutting supplies to Europe as a way of putting political pressure on the EU and forcing it to rapidly certify Russia’s new Nord Stream 2 gas pipeline that cuts Ukraine out of the supply loop.

The reality is a lot more complicated. Nord Stream 2 does play a role but the main mechanism at work on the prices is a sharp V-shaped market where there was a gas glut in 2020 that depressed prices and led to record-high gas storage, exacerbated by the uncertainty of Russia and Ukraine renewing their gas transit deal in December 1999.

However, a long cold winter at the start of 2021, a hot summer (that drives up electricity usage and hence demand for gas) and various maintenance and accident outages in the main pipelines have all conspired to lead to extremely low storage. By the end of the summer when it became obvious that gas storage levels were going to be low going into the heating season prices took off as the scramble to secure supplies began.

The problems of gas supply have been exacerbated by the falling output at some of Europe’s biggest fields in the UK and the Netherlands, which have passed their sell-by date.

With its massive reserves Russia has become the main swing producer of gas for Europe, ramping up or cutting back supply as demand changes. But in Russia too, the main mega-fields that have supplied Europe for decades have passed maturity and are in slow decline, especially the Cenomanian gas fields in Western Siberia that feeds the central pipeline network that leads into the Ukrainian pipeline network. Massive investments have been made into Cenomanian simply to maintain production at current levels.

The falling output at Cenomanian has been replaced by the relatively young fields in Yamal that feed the northern system of pipelines that include Nord Stream 1 & 2 pipelines to Germany, but with Nord Stream 1 already working at full capacity and Nord Stream 2 yet to go into operation, the enormous reserves of gas in Yamal are unavailable during the current crisis.

And it is not possible to divert gas from Yamal and the northern pipeline system to the central pipeline system and on to Europe via Ukraine. There are interconnections, but the 40-year-old central pipeline network has already been slated for decommissioning and during the lead-up to the winter season the interconnectors are already at full capacity as Politics obviously play a role in the Kremlin’s Nord Stream 2 pipeline, but the dramatic changes in gas demand and Russia’s ageing gas fields and infrastructure have been the biggest price drivers.
Gazprom, like Europe, is rushing to fill Russia’s domestic storage facilities with enough gas to get through the winter: in September Gazprom had 25bn cubic metres in storage out of the total of 75 bcm it needs during the cold months.

Russia is suffering from the same supply and storage problems as Europe which has put added pressure on its ability to supply Europe with gas. Rather than cutting supplies, as bne IntelliNews has reported Gazprom is currently producing record amounts of gas and exporting record amounts.

Taken all together, the falling production at European and key Russian fields, the problems of switching gas from the northern pipeline system to the central one and the idle state of Nord Stream 2 have combined to limit Gazprom’s ability to act as the swing supplier, as it is running up against its practical ability to increase production or export volumes any further.

The bottom line is: all the governments say there will be enough gas for the winter. Naftogaz announced that it is ready for winter with just over 18 bcm in storage – sufficient for the winter and likewise Russia and the EU have also just about enough to get through; plus the EU has a fall back on LNG imports to make up any shortfall, although all the swing supply in LNG has been drawn off by Asia, where the prices are even higher than in Europe.

What everyone is afraid of is if there is another cold winter like last year’s, fuel supplies will be very tight and prices will remain at record highs.

Gas glut in 2020 pushed prices and production down
In 2020 gas prices crashed as both Russia and Ukraine built up as much stored gas as they could ahead of a potential energy crisis that could have been caused if their transit deal had not been renewed at the end of 1999.

“In 2020 the gas glut in Europe emerged even before the full extent of the COVID-19 threat became obvious. The global gas market had been oversupplied for some time due to the emergence of new LNG supply during 2018-2019

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The bounce-back started in the spring of this year as the market switched rapidly from overabundance to tightness. In Europe, a long cold spring extended the heating season, while the re-opening of business activity boosted economic growth. European gas demand rose robustly, by almost 25% y/y in the second quarter alone.

At the same time, indigenous European gas production declined more than 10% y/y in the first six months of this year, with Norway, the UK and the Nether-
lands all producing less gas than in the previous year. By the summer the supply problem became so obvious gas prices started setting new records on almost a daily basis.

Stored gas was drawn down but to add to the pressure Gazprom closed its Nord Stream 1 gas pipeline for annual maintenance in August, disrupting supplies, which were further disrupted after a fire at Gazprom’s Urenyog Condensate Treatment Plant in August closed part of the line.

“The record-high prices in Europe are driven by increased demand (due to the wider economic recovery and weather-related factors), competition with Asia for LNG, and a limited supply response from Gazprom, Europe’s largest supplier, providing about a third of Europe’s gas. Prices have also risen due to market fears of a gas deficit during the winter heating season due to low European storage utilisation compared to previous years,” said Vitaly Yermakov, senior research fellow the Oxford Institute for Energy Studies (OIES) in a paper entitled “Big Bounce: Russia’s gas amid market tightness.”

As bne IntelliNews reported, Gazprom has been exporting record amounts of gas to European clients, but has not taken up all of the capacity on offer from the Gas Transmission System Operator of Ukraine (GTSOU). With the controversial Nord Stream 2 gas pipeline completed but still missing the essential operating permits from Germany, that has led many to accuse Gazprom of artificially manipulating the supplies for both commercial gain and political reasons.

Yermakov argues that Russian gas production is maxed out and it is unable to supply more gas to Europe even if it wanted to.

“For Russian gas, 2021 has developed into a pivotal year, as the gas market pendulum has swung back from relative gas abundance and extremely low prices in 2020 to market tightness and very high gas prices so far in 2021. The past two years, therefore, have represented two slopes in a ‘V-shape’ trend for the gas market at large and for Russian gas in particular,” Yermakov said.

**LNG supplies disappear, Gazprom to the rescue**

Normally burgeoning LNG supplies could make up the shortfall, but prices for LNG in Asia have been even higher than those in Europe, sucking that supply away from European markets, leading to a triple whammy in gas supplies.

“With declining indigenous production in Europe and limited availability of LNG owing to the strong pull from premium markets in Asia, the European gas market is a case in point. Europe now demands greater flexibility from suppliers, in both price and the ability to swing gas deliveries,” says Yermakov, adding that Russia’s ability to add that extra flexibility may have been largely used up.

“Many European analysts and market watchers expected that Russia as the largest swing producer and exporter would value an opportunity to expand its market share, at least in the short term, and quickly respond to a higher call on gas in Europe in 2021,” Yermakov said.

And Russia did, with recent reports showing Russia’s gas exports to Europe (including Turkey) up almost 20% y/y in the first half of this year. “But this has proved to be insufficient to address a sudden void in Europe’s gas balance. Gas storage levels in Europe are at historical lows at the start of the heating season and gas prices have been testing record levels,” says Yermakov.

LNG could ease the pressure but Russia is still not producing enough to meet the demand. In 2020, Russia became one of the ‘Big Four’ global LNG producers, and production has increased from 10mn tonnes per year after the Sakhalin plant went online to 30mn tpy now. But that is still dwarfed by Qatar, the world’s biggest producer, with 125mn tpy.

The distribution of Russian LNG exports in 2020 was skewed in favour of Europe (18.35mn tonnes) at the expense of Asia (11.25tn tonnes) due to the disappearance of the usual Asian premium. Sakhalin LNG stayed in Asia but deliveries from Novatek’s Yamal LNG mostly ended up in Europe.

Overall Europe already has fairly diversified gas supplies. Gazprom’s share of European gas consumption peaked at 36.6% in 2018, and Russia’s overall share (for both pipeline and LNG) reached 39% that year. Russian pipeline gas market share returned to its more ‘normal’ 32.4% in 2020 as Gazprom had to accommodate the inflow of global LNG during the first half of 2020 as well.

Exports to the three largest purchasers of Gazprom gas in Western Europe were up in the first six months of 2021 compared to the same period of 2020: an increase of 8.7 bcm in Germany (up 43%), up 1.4 bcm in Italy (up 14%) and an increase of 9.9 bcm in Turkey (up 209%). Russian pipeline gas exports to China continued to ramp up according to plan and are set to amount to 10 bcm for the full year of 2021.

“Total exports to Western Europe and Turkey grew to 77.2 bcm, up 17.1bcm or 29% year-on-year. This was, in fact,
higher than in the pre-crisis first half of 2019," says Yermarkov.

**Pipeline switches**

Russia remains Europe’s swing supplier, in the strongest position to react to changes in demand. Previously the swing supplies would be sent via Ukraine, but Russia’s pipeline network is changing.

New pipelines have come online in the last two years – Nord Stream 1 and TurkStream – and it is not a coincidence that these two countries also took the biggest increases in Russian gas flows west this year. Germany would have taken even more – enough to avoid the current supply crisis – had Nord Stream 2 been completed as scheduled at the end of last year.

With the two new forks to Russia’s gas pipeline delivery trident to Europe – Nord Stream 2 in the north and Turk-Stream in the south – the biggest loser has already been the central prong that goes via Ukraine.

In 2018 Gazprom transited 86.8 bcm via Ukraine using about 65% of Ukraine’s available transit capacity to Europe that year. In 2019 Russian gas transit through Ukraine rose by 3%, to 89.2 bcm. But under the new deal with Ukraine the annual booked capacity for 2020 was 65 bcm in 2020, falling to 40 bcm a year until the deal expires in 2024. In 2020 the actual transit via Ukraine was 55.8 bcm, but Gazprom had to pay for the full 65 bcm anyway under the terms of the new deal.

The deal specifies equal daily bookings of 178.1 mm cubic metres per day in 2020 and 109.6 mcm per day in 2021-2024. The bonus for Ukraine is Gazprom agreed to take-or-pay terms: Russia has to pay for the capacity even if it doesn’t use it out to the end of 2024.

“So far in 2021 the daily average transit flows via Ukraine (excluding deliveries to Moldova) have been 107.3 mcm per day from 1 January to 31 August, equating to an annual equivalent of 39.2 bcm. Aside from January 2021 (when Gazprom booked around 41.6 mcm per day of extra capacity), Gazprom booked 15 mcm per day of firm monthly capacity via Ukraine – the exact amount offered by GTSOU, the Ukrainian gas pipeline operator. This was also the maximum amount covered by the Russia-Ukraine interconnection agreement on the Russia-Ukraine border,” says Yermakov.

Gazprom remains reluctant to book more export capacity – GTSOU is also offering “interruptible” capacity where space in the pipeline is not guaranteed – partly as transit via Ukraine is now by far the most expensive option and GTSOU has not been offering the usual 60% discount for interruptible capacity.

**Ageing fields**

Russia has a lot of gas, but some of its fields are getting very old. In a speech in September Gazprom CEO Alexei Miller said that Gazprom has “reserves for 100 years” but the geography from where it extracts its gas is changing, says Yermakov.

“For almost forty years, Russia’s gas output has been supported by the Soviet legacy of super-giant Cenomanian gas fields in the Nadym-Pur-Taz (NPT) region in Western Siberia, but these fields are now in irreversible decline,” says Yermakov.

“Gazprom has been trying to manage the output decline by developing wet gas from deeper layers of the NPT super-

![Gazprom daily gas production by main fields in 1H 2021/2020 (million m3 per day)](chart)

Source: OIES research, data from Gazprom
Gazprom has already announced that it will be decommissioning the older pipelines in the Central corridor in line with the reduction of flows from NPT caused by production declines there. Some of these pipelines have been in operation for over forty years and have passed the limits of their economic life, imposing high repair and maintenance costs on Gazprom,” Yermakov said. “This means that the capacity of Russian pipelines leading towards the Ukrainian transit corridor is going to decline substantially in the future, limiting the volumes of gas available for the Ukrainian route.”

The Yamal project is about tapping new super-fields and building new pipelines to service them that can supply Europe for decades to come. Moreover, the Nord Stream 2 gas pipeline is not only shorter; it is much cheaper to use, improving the profitability for the development of the Yamal fields and those beyond it in Russia’s part of the Arctic, where some 75% of Russia’s untapped gas deposits are thought to lie.

All these assumptions are built into Gazprom’s long-term investment strategy for the development of its fields to 2035. All of the falling output at NPT will be taken up with new production from the Yamal complex.

The long-term demand from Europe may be limited after the EU launched its Green Deal this year. German Chancellor Angela Merkel was in Moscow in September to meet with Putin and talk gas but during her visit she said that gas imports from Russia could fall to nothing in the next 25 years as the EU moves increasingly to renewables and tries to become carbon neutral by 2050.

For Gazprom the future is in the east, supplying China, where demand is expected to decouple in the next few decades from the paltry 10 bcm China is currently importing from Russia, via the Power of Siberia pipeline.

“The Asian market – the market of Asia-Pacific – has an exceptionally large capacity. According to forecasts up to 2040, consumption in this region will grow by 1.5 trillion cubic metres of gas, of which 60% will be imported,” Miller said at a conference in September.

“There is no doubt that the Chinese market is the most dynamic and fast-growing one, and it shows simply unbelievable consumption growth rates every year. The year 2021 is no exception. In the first half of the year, natural gas consumption in China grew by 15.5%. The volume of imports increased by 23.8%. This means that China’s projected consumption based on the results of 2021 will amount to 360 bcm, and the volume of imports will total 160 bcm. Moreover, the annual volume of gas imports is expected to reach 300 bcm as early as by 2023, in just 15 years. The figure is just staggering,” Miller told delegates.

Gazprom can easily increase deliveries via the Power of Siberia route but also from Sakhalin by a spur to China from the Sakhalin-Khabarovsk-Vladivostok line. But a real game-changer could be a mooted pipeline to China from Western Siberia via Mongolia that could for the first time create an alternative to supplies to Europe for Russian gas in Western Siberia.

“The [Chinese] contract is a unique one. It is the world’s largest contract for gas supplies: 38 bcm of gas for 30 years. Having signed this contract, China has become one of our biggest consumers in a flash. In fact, today we can say that the co-operation between Russia and China is the co-operation between the largest producer and the largest importer,” Miller told the conference delegates. Gazprom plans to increase exports to China to 80 bcm a year by 2035, according to its long-term strategy.

The Eastern and Northern pipeline systems are being expanded, while those in the Central corridor are due to be phased out. Standing behind Nord Stream 2 is another new set of pipelines to feed into this important export route. The new Bovanenkovo-Ukhta and Ukhta-Torzhok pipelines were completed in 2018 with a capacity of 115 bcm per year and were built to evacuate new gas from the super-giant Bovanenkovskoye field, which is part of the Yamal complex, and send it on to Germany via Nord Stream 1 and 2.

There may well be a lot of politics involved in the decision to build Nord Stream 2 and cut Ukraine out of the gas delivery loop to Europe. However, there are a lot of business reasons too. The falling production at the traditional gas fields in West Siberia, the ageing pipeline system that supports it and most importantly, the anticipated shrinking demand for gas in the EU all make Europe a less interesting market. The future for Russian gas lies in the east and in the meantime Gazprom is trying to sell what gas it can to the west as profitably as it can.

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Nord Stream 2 completed as last pipe section welded into place

bne IntelliNews

The last piece of pipe was welded into place on September 7, completing the construction of the controversial Nord Stream 2 gas pipeline connecting Russia’s vast Yamal gas fields directly to Germany and bypassing Ukraine, the operating company said in a statement.

“On September 6, 2021, specialists on the lay-barge Fortuna welded the last pipe of the two strings of the Nord Stream 2 pipeline. The pipe number 200,858 will be lowered onto the seabed in German waters. As the next step, the section of the pipe coming from the German shore will be connected to the section coming from the Danish waters in a so-called above water tie-in,” the operating company said.

Reports that the completion means gas will begin flowing within days were later corrected as misleading, as a series of tests and inspections still need to be carried out. The operating company remains vague on the timing for the commencement of gas flow, but said it would start before the end of the year.

Gas prices initially fell by €1.9 on the announcement of the completion of the pipeline but remained at unseasonal highs of over $650 per thousand cubic metres.

“Afterwards, the required pre-commissioning activities are carried out with the goal to put the pipeline into operation before the end of this year. Nord Stream 2 will contribute to meeting long-term needs of the European energy market for gas imports, improving supply security and reliability, and providing gas under sensible economic conditions,” the operating company said.

Russian Foreign Minister Sergei Lavrov said the same day that the Nord Stream 2 gas pipeline will be completed in the next few days, but remained vague on the start of operations.

The $11bn Nord Stream 2 project is expected to double the capacity of the existing Nord Stream pipeline across the Baltic Sea and allow Russia to bypass Ukraine when piping gas to Europe.
The Czech pro-democracy movement Million Moments would have to consider “more radical ways of protesting” if Prime Minister Andrej Babis retains power in what will be crucial elections next month, Chairman Benjamin Roll told bne IntelliNews in an interview.

Million Moments brought a quarter of a million people out to peacefully protest against the billionaire populist premier in June 2019 – the biggest Czech demonstration since the fall of Communism 30 years before – but has struggled to maintain momentum during the COVID-19 pandemic. Now Roll believes its moment will come again at the October 8-9 general election.

After some ambivalence in the past about working with the opposition parties and an abortive attempt by its former leader to form his own party, the protest movement has now thrown in its lot with the two opposition coalitions.

“I think it is very important to co-operate with the opposition,” Roll says, adding that Million Moments had pushed for the opposition to unite and had played a part in making it happen.

The protest movement has endorsed both opposition coalitions – the Pirate party together with the STAN mayors’ party, as well as the SPOLU centre-right grouping – and its thousand volunteers are campaigning to raise voter awareness of the importance of the election, which Roll says will have wider regional repercussions.

Roll fears that if Babis is able to stay in power, perhaps with the support of ally President Milos Zeman and extreme left and rightwing parties, this would severely damage Czech democracy and could drive many voters to lose interest in politics. “I’m afraid a lot of people will be resigned if Andrej Babis wins. I’m afraid of this,” Roll says.

Current opinion polls show that Babis’ ANO party has regained a clear lead, though he would not be able to form a majority government unless he can break up the SPOLU coalition, probably by luring away the rightwing ODS party.

“The worst scenario would be that despite all the scandals there is not a political reaction,” the beaming 26-year-old theology student told bne IntelliNews at his movement’s office in Prague’s gritty Zizkov neighbourhood. “The politicians will see they can do whatever they want. If those parties win a majority in parliament we can be sure the process of state capture would get even faster and the extremists will gain.”
For his part, Babis has always written Million Moments off as opposition supporters who are sore losers. Both he and President Zeman paint them as Prague liberals who want to ignore the votes of poorer, less well educated voters in the provinces (who tend to vote for them).

Agrofertisation
Million Moments launched its campaign in February 2018 shortly after Babis—who had been finance minister in the previous Social Democrat-led government—won the 2017 election and ruled as caretaker premier with the backing of the president and extremist parties. Later he was able to persuade the Social Democrats to join him as junior partners in a minority government.

The protesters see Babis as a grave threat to Czech democracy not so much because of his ideology—he has none—but because of the way he has accumulated power, his alliance with President Zeman and extremist parties, and the clear conflict of interest between his political power and his continuing control of his Agrofert agro-chemical conglomerate.

Babis is supreme within his own party, which remains little more than his personal vehicle, and has filled the government and administration with personal appointees, including several from Agrofert.

“The connection of Andrej Babis and the state is really something unprecedented,” Roll says. “Agrofert is growing inside the state and state officials are starting to care more about the interests of Andrej Babis than about the public.”

“Institutions were strong but after eight years of Andrej Babis we can see they are getting weaker and weaker,” he adds. The step-by-step way this “Agrofertisation” of the state has proceeded has made it more difficult to mobilise people, he points out.

Babis’ power partly rests on pro-Russian President Zeman, who initially allowed him to rule without winning a vote of confidence in 2017 and has hinted that he will do so again if the October general election does not produce a clear majority.

Babis, together with Zeman, have also co-operated with extremist parties such as the Czech Communist party and the far-right SPD of Tomio Okamura, regularly consulting with them and relying on them in key votes.

“He is legitimising extremists. This is a really huge problem for the future,” says Roll. “[When] Andrej Babis is not a candidate, there will be new populists who will use the way he has built. We must be ready for this,” he adds.

Kicked into touch
Million Moments also argues Babis’ business empire constitutes an insurmountable conflict of interest, a view that has now been officially supported by the European Commission, which has threatened to stop reimbursing Czech spending on EU subsidies until the government clarifies its policy.

Babis is separately under investigation by Czech police for alleged fraud over his use of EU funds for building his Storks Nest conference centre, 60km south of Prague.

Babis dismisses both the EU and Czech probes as political attacks and has successfully kicked them into touch ahead of the elections.

Despite five years of police investigations, the new Supreme Prosecutor recently delayed a decision on whether to put Babis on trial over Storks Nest, and this is now conveniently likely to come after the election. His predecessor had resigned, complaining of interference by ANO’s justice minister, who had herself been appointed in place of an insufficiently loyal predecessor.

“The worst scenario would be that despite all the scandals there is not a political reaction“

“It’s really absurd and for ordinary people they don’t understand why something like that can take so much time—I don’t understand it either,” says Roll. “It questions our faith in justice.”

Meanwhile, repeated foot dragging and appeals by ANO-controlled ministries have also delayed any significant EU action until after the election. The government has recently asked the EU for another two months to respond on the conflict of interest issue, putting it conveniently beyond the election.

Despite the EU refusal to reimburse the Czech state for EU subsidies given to Agrofert, the government has continued to send money to the conglomerate, the largest private Czech recipient of EU money, and is pursuing legal action against the EU for not reimbursing them.

The Commission has painstakingly stuck to the rulebook and has not escalated the dispute in the way it has done with Poland and (belatedly) with Hungary. “The EU is afraid of making him another Viktor Orban,” says Roll. “They don’t want to push Andrej Babis too much or our society too much, it would be a disaster, so they are being careful.”

For Roll and his supporters, Babis’ use of the state to fight his own personal battles in Brussels, as well as the suspected interference of the justice ministry in his fraud charges, clearly demonstrate his conflicts of interest and the damage caused by his accumulation of power.

According to David Ondracka, a former head of the Czech branch of the anti-corruption NGO Transparency International, the way Babis has been able to marshal the state to defend his business empire is extraordinary.

“I did not expect such open collaboration of the Czech authorities against the EU,” he says. “They seem to play quite openly...
in favour of Babis and his interests, playing for time, making new excuses. It is a huge blow for the rule of law, and the officials responsible for this should be held accountable.”

Nevertheless, up till now Czech voters do not seem to have taken on board that, given the EU is refusing to reimburse the subsidies the state is giving Agrofert, that money is essentially coming out of their pockets.

The Czech CEO
If all that has been disappointing, the pandemic, while restricting Million Moments’ opportunities to protest, has at least shown that Babíš’s pretensions to be a technocratic manager are just hot air, says Roll.

The Czech death rate is the fifth highest in the world per capita, and the government’s policy has been poorly communicated and inconsistent, with too much attention paid to opinion polls rather than infection figures. As the country’s “CEO”, Babíš’s most decisive action has been to fire four health ministers as scapegoats.

“Andrej Babis as a manager failed during the COVID crisis. This was his story: I am the best manager, I know how to run things in the most efficient way. This was destroyed – or at least I hope so,” says Roll.

However, Babíš is still ahead in opinion polls, something that mystifies the protest leader, though he admits that opposition forces also failed to provide a clear message on whether the restrictions should be tighter or looser.

“It is very difficult for me to understand it,” he says, though he suggests: “People believe [the pandemic] is all behind us. And opposition politicians didn’t use the topic as they could – perhaps even us.”

Roll says that from talking to people across the country during his voter mobilisation campaign he feels that there is not much strong support for Babíš or satisfaction with the government. “They want change but a lot of people are resigned,” he says, a feeling that will even deepen if he wins again. Zeman has already said that he will nominate Babíš to make the first attempt to form a government, and he could be allowed many months to do so, given the way the president has controversially interpreted the constitution.

The nightmare scenario for the opposition is a coalition between Babíš and the far left Communist party and Okamura’s far right SPD and perhaps the new populist Oath party of former policeman Robert Slacha.

According to Roll, this would give the green light for further attacks on civil society and the media, and foster a climate of intolerance. Though the Czech constitution and institutions have been robust enough to withstand Babíš so far, this could push Czechia down the slippery slope to Viktor Orbán’s Hungary or at least Jaroslaw Kaczynski’s Poland.

Replacing the head of the Czech public television would likely be the first goal, something Million Moments argues that it has helped block up till now. “They can see they can do this and no-one will do anything about this,” Roll says.

Backseat driver
In the case of political deadlock, another scenario is that President Zeman creates his own government, as he did in 2013-14, though this government would likely only last until at most the next presidential election in January 2023, at which Zeman cannot stand (though Babíš might).

“This would be very hard for our constitutional system,” says Roll, adding: “[So long as] Milos Zeman is president, there is a huge danger for our state and we need to be ready to react.”

The threat of either of these possibilities would also put pressure on the rightwing ODS party and the Christian Democrats to abandon their pledges and form a coalition with ANO as the least worst option. Babíš has already hinted that he could take a back seat, solving his conflict of interest problems at a stroke.

“If something like that was possible after the election, this is another ‘moment’ for Million Moments to protest against,” Roll says. “ANO without Babíš is a nonsense.” However, he adds: “I’m afraid that if he will take a [backseat] Kaczynski role, it will be very difficult for us to say ‘ANO is the [real] problem.’”

Roll argues that any of these scenarios – an extremist coalition, a Zeman government or an ANO-ODS government – would force Million Moments to lead new huge demonstrations together with opposition parties.

Given how these have been ignored in the past, these protests may even include “more radical ways”, though he declined to spell out what these could be.

Onetime ally Ondracka says such radical protests would only include sit-ins or blockades – “remember this is the Czech Republic we’re talking about” he jokes – though he questions whether Million Moments is really the best movement to lead them.

“I’m quite sceptical that [Million Moments] could be the ones to run this,” he says. “They are very conciliatory and they are not street fighters.”

As the Hungarian opposition gears up for elections there in the spring, the success or otherwise of this opposition campaign in Czechia could have regional importance. It could build on the success of the Slovak protest movement that forced Prime Minister Robert Fico to resign in March 2018 and helped bring the opposition to power in March 2020, or it could mark another stage in the “democratic backsliding” of Central Europe.

“I hope it will show it is possible to change things,” Roll says. “If [not] it will ‘break’ active citizens in the Czech Republic and perhaps elsewhere.”

“I hope the Czech Republic will be a good example of how to do it before it’s too late,” he adds. “The lesson is to recognise the threat and mobilise at the right time, when you still have free elections.”
Hungarian opposition accuses Fidesz of sabotaging first round of primary election

Hungary's first-ever primary election to select opposition candidates for next year's general election had to be suspended on September 18 after a cyberattack. Opposition parties have accused the ruling Fidesz party of hacking the process.

Initially organisers suspected heavy interest behind the system slowdown early on Saturday, but then it became clear that the IT system had come under concentrated attack. IT experts confirmed that it was not simply an overload but a targeted attack, organisers said. Immediate resumption of the primary in its current form would entail technical risks, and the voting would resume on Monday, they added.

At the primaries, voters can choose between 253 candidates at 106 districts or 53% of the 199 mandates from September 18 until September 26.

There will be a second round of voting to pick the challenger to PM Viktor Orban. Five prime ministerial candidates have gathered enough signatures to run for the post. A run-off for the top three will take place between October 4-10.

Hungary's largest opposition party Democratic Coalition will have the most candidates, 60, followed by liberal Momentum (59), centre-right Jobbik (52), the socialist MSZP (39). Two conservative groups Hungary for all Movement and New World People's Party will field 22 and 15 politicians in the primaries respectively. Green party LMP has 17 and liberal Dialogue 11 in the race.

In 85 districts, voters can select between 2 or 3 aspirants. In 10, there are four or more running for the post. There will be no competition in 11 districts as rivals agreed to withdraw their own nominees.

Five candidates will run in the prime minister primary race: Budapest mayor Gergely Karacsony, Klara Dobrev, the MEP of Hungary's largest opposition party Democratic Coalition (DK) conservative candidate of Hungary for all Movement, Peter Marki-Zay, centre-right Jobbik president Peter Jakab and liberal Momentum's leader Andras Fekete-Gyor. Pollsters say the race will be decided between Karacsony and Dobrev.

At a recent televised primetime debate, candidates vowed to restore democracy and hold cronies of the regime responsible.

Fidesz did not react immediately to accusations that it was behind the cyberattack. The ruling party issued a short statement saying 'don't blame your failures on others'. Pro-government pundits began posting messages on social media with ironic posts saying that if opposition parties were unable to organise a "charade called the primaries", how could they be put in charge of running the country.

Hungary's state news media did not publish any releases during the day either on the primaries or the ensuing technical problems.

Opposition parties had no other choice after the Fidesz majority amended election rules last December. For parties to establish a national list, a party must run 71 individual candidates in at least 14 counties and the capital as opposed to 27 previously. Fidesz had also tweaked election rules after taking power in 2010, phasing out the two-round system, and has gerrymandered election districts.

In 2018, international organisations such as OSCE said the election was free, but the playing field was biased in favour of the ruling party due to "a pervasive overlap between state and ruling party resources, biased media coverage and opaque campaign financing regulations".

Budapest mayor Gergely Karacsony at a campaign event on September 17, a day before voting on primaries was set to begin.
Poland declares state of emergency along border with Belarus to stem migration

Wojciech Kosc in Warsaw

Poland’s President Andrzej Duda declared a state of emergency along the border with Belarus on September 2 in an attempt at stemming illegal migration from Belarus.

Poland is grappling with the rising number of migrants after Belarus’ president Alexander Lukashenko adopted a policy of actively pushing migrants and refugees across the boarder into his EU neighbours.

Minsk has been deliberately offering Iraqis flights to Belarus and help from security forces to cross the border into Lithuania. However, it has been reported that Belarus is sending people from Afghanistan, as well as other Middle Eastern countries, to its borders with Poland, Lithuania, and Latvia – which are the EU’s easternmost member states.

Lukashenko is retaliating against sanctions imposed on him and the country following a rigged presidential election on August 9 last year.

Poland paints the decision to impose the state of emergency as a pro-EU move.

“The situation on the border with Belarus is difficult and dangerous,” Duda’s spokesman Blazej Spychalski told a news conference.

“We, as Poland, being responsible for our own borders, but also for the borders of the European Union, must take measures to ensure the security of Poland and the European Union,” Spychalski said.

Details of the restrictions, which will cover 183 municipalities along the border, are still being worked out by the home affairs ministry but the general remit of the president’s order makes it clear that no media will be able to report on the government’s dealing with the migrants.

The state of emergency forbids people not living in the areas in question to travel there or stay there. Gatherings will also be banned.

Since August, Poland’s military and border guards have been sealing the border with barbed wire fence.

Uniformed servicemen, meanwhile, are keeping close watch on any migrants attempting to cross into Poland. In one case, a group of 32 migrants, reportedly from Afghanistan, has been stuck for over three weeks now in the village of Usnarz Gorny, as Poland is not letting them in, denying asylum requests.

That has earned criticism from human rights organisations for isolating the migrants from medical help or supplying food and water. The migrants are camped outside with no basic amenities while the temperature drops well below 10°C at night.

“The problem is not about the people staying near Usnarz Gorny. This is just the tip of the iceberg that Lukashenko would have liked to treat us with,” Home Minister Mariusz Kaminski told a news conference.

The minister also said that the state of emergency was due to the Zapad 21 quadrennial military drill by Russia and Belarus, involving tens of thousands of troops.

"We, as Poland, being responsible for our own borders, but also for the borders of the European Union, must take measures to ensure the security of Poland and the European Union"
The government fixed utility prices, leading to a 25% cut in electricity, gas and central heating prices for retail users just before the 2014 elections, which helped Viktor Orban's government secure a second landslide victory after sweeping into power with a two-thirds majority in 2010. Energy prices are now some 30% below 2014 levels.

Keeping utility prices low remains a top priority for the government ahead of the 2022 elections.

Hungary and Russia reach long-term gas supply agreement

Hungary has worked out all details and issues of a long-term gas delivery agreement with Russia that will replace one expiring in the autumn, Minister of Foreign Affairs and Trade Peter Szijjarto announced on August 30 after meeting with Gazprom’s CEO Alexey Miller.

Hungary signed its last long-term agreement on gas deliveries from Russia in 1995, which expired in 2016. This was extended on an annual basis.

The agreement, to be signed at the end of September and coming into force from October 1, will be in force for 10+5 years, with an option to modify delivery volume after the tenth year.

Under the agreement, Hungary will buy 4.5bcm of gas a year from Gazprom, including 3.5bcm delivered from the south, through Hungary’s interconnector with Serbia, and 1bcm via the pipeline running from Austria.

Construction on a gas pipeline linking the Hungary-Serbia border to Hungary’s gas pipeline network is set to be completed in October. The pipeline will connect Hungary to the TurkStream pipeline.

Russia for long has advocated the completion of the interconnector between Hungary and Serbia, allowing Russia to bypass Ukraine. Gas deliveries from Ukraine to Hungary were occasionally halted in recent years due to the Russian-Ukrainian conflict on gas prices.

Szijjarto said the price the sides agreed on is much better than the one in the delivery agreement expiring this year. This will allow keeping gas prices low, he added.

The new contract will replace the 9bcm annual contract between Gazprom and the Russian-Hungarian joint venture Panrusgaz, signed in 1996. Under this contract, the main supplies are transited through Ukraine, via Beregovo on the Ukrainian-Hungarian border, with the rest via Baumgarten in Austria.

Gazprom delivered 8.6bcm of gas to Hungary in 2020, down from 10.5bcm in 2019. In the first half of 2021, Gazprom’s deliveries amounted to 3.9bcm. Hungary’s domestic gas consumption in 2020 was 10.2bcm.

Gazprom declined to comment on the reason for the volume reduction under the contract with Panrusgaz, as well as the pricing principle. According to market participants, the pricing will be based on the quotations of the CEGH Baumgarten hub.

"Under the agreement, Hungary will buy 4.5bcm of gas a year from Gazprom, including 3.5bcm delivered from the south, through Hungary’s interconnector with Serbia, and 1bcm via the pipeline running from Austria"
Since coming to power in the July 2021 general election, Moldova’s Party of Action and Solidarity (PAS) has sought to make far-reaching anti-corruption reforms. To achieve this, the new guard in Chisinau are looking for inspiration from neighbouring Romania, where the National Anticorruption Directorate (DNA) embarked on a bold effort to bring top officials to justice under its former head, Laura Codruta Kovesi.

Even though Kovesi was removed from the helm of the DNA in 2018, with relatively few true success stories in the fight against corruption in emerging Europe the years during which the Romanian agency brought numerous current and former officials to justice under its former head, Laura Codruta Kovesi.

The month after she was elected in December 2020, Moldovan President Maia Sandu flew to Brussels for meetings with officials including Kovesi, now the first chief prosecutor of the European Prosecutor’s Office. Back in January, there was little Sandu could do to pursue her reform agenda, as the parliament remained dominated by former president Igor Dodon’s Socialists and other opponents of the PAS. As she noted at the time: “The EU wants to help us, to support the development of the Republic of Moldova, but it needs reliable partners here.”

That all changed in July, when the general election resulted in a landslide victory for the PAS, finally allowing Sandu and her colleagues to embark on the wide-ranging overhaul of judicial institutions, which had been captured to a large degree under Moldova’s former pre-eminent politician Vlad Plahotniuc, then staffed with some new political appointees under Dodon. As reported by bne IntelliNews, the chapter on justice reform in the ruling strategy document published by Moldova’s new Prime Minister Natalia Gavriliuta clearly incorporates the experience Romania gained in the fight against corruption.

In the two months since the election, legislation putting in place new procedures for the evaluation of the head prosecutors has already been promulgated with the aim of a quick replacement of general prosecutor Alexandr Stoianoglo, a Dodon-era appointee. A key step in the overhaul of the judiciary is replacing Stoianoglo and other top prosecutors. Both the General Prosecutor’s Office and the National Anticorruption Centre (NAC) have been strongly criticised by MPs for their lack of progress on recovering the money stolen in the so-called $1bn bank frauds.

Under previous regimes, corruption, both petty and on a grand scale, had been able to flourish in Moldova. The $1bn bank frauds involved the siphoning off of funds amounting to around 12%
of Moldova’s entire GDP, but this was just one example of many, albeit on a large scale. Corruption is a problem across almost all of the former socialist space and Romania too was notoriously corrupt until the DNA’s aggressive pursuit of justice made it a dangerous activity to engage in.

Under Kovesi, the DNA investigated numerous serving and former ministers and other high-level officials, and was credited with making a real difference in the fight against corruption in Romania. In 2017 alone, the DNA sent 997 defendants to trial, including three ministers, a former parliament speaker and six MPs. The number of cases completed by DNA prosecutors increased by 16.5% year on year to more than 3,800 the same year. Kovesi herself became an icon of the struggle against official corruption.

However, this brought the DNA chief into conflict with the leaders of the then ruling Social Democratic Party (PSD), who sought to discredit her and remove her from the position. Despite mass protests and criticism from Romania’s international partners, they eventually succeeded.

The DNA is still investigating but no longer with the vigour it had under Kovesi. The annual Cooperation and Verification Mechanism (CVM) reports issued by the European Commission on Romania’s process in fighting corruption reflect this. The 2018 report, issued after Kovesi’s dismissal, concluded that “developments had reversed or called into question the irreversibility of progress” in Romania. The October 2019 report welcomed the irreversibility of progress” in Romania.

Bulgaria needs you

More recently, Bulgaria, like Romania, was racked by mass anti-government and anti-corruption protests, first in autumn 2019 over the appointment of Ivan Geshev as chief prosecutor, and later for several months in the summer and autumn of 2020.

At a protest in October 2019, bne IntelliNews’ correspondent in Sofia reported seeing one old man holding a poster calling on Kovesi, then newly appointed as the European Union’s top prosecutor, to help the country.

“Prosecutor Kovesi, Bulgaria needs your immediate attention,” the poster read. It hadn’t always been like that. Back at the start of former prime minister Boyko Borissov’s third term in power, it was the government that was inspired by the Romanian experience to launch a new anti-corruption effort. Announcing the launch of a single authority to tackle corruption in 2015, then deputy prime minister Meglena Kuneva said the new agency would be responsible for investigations into over 7,600 senior government officials and magistrates.

Instead it has been the caretaker government, appointed after the failure to form a new government following this year’s April general election, that has been highly active in its efforts to bring members of previous administrations to book for corruption. Numerous suspected corruption schemes have been revealed, including that the former government led by Borissov signed contracts worth billions of levs without calling public tenders. Their efforts made the government the most popular in decades, and having built their reputations, two of the most high-profile ministers have now stepped down to run in the November general election.

Reforms reversed

Success stories in fighting corruption in the emerging Europe region are quite rare. In Southeast Europe almost every country has stagnated or dropped its score on Transparency International’s Corruption Perceptions Index (CPI) in recent years. Where there have been reforms, they often get reversed or undermined – just as Kovesi’s success at the head of the DNA in Romania ultimately led to her removal from the post.

One of the most notable examples is in the South Caucasus, where Georgia was once seen as the standout success story of the former Soviet space after the Baltic states. When he came to power after the Rose Revolution, ex-Georgian president Mikheil Saakashvili’s government embarked on far-reaching anti-corruption reforms, including the wholesale sacking of police officers and interior ministry employees, followed by the creation of a smaller police force virtually from scratch. This eradicated most of the visible signs of small-scale corruption affecting the person on the street.

However, by the end of Saakashvili’s second term, international observers including Transparency International warned that he had allowed high-level graft to re-emerge. Since then, according to the corruption watchdog, anti-corruption efforts in the country have stagnated. Under Georgian Dream, which ousted Saakashvilli’s United National Movement (UNM) from office, several high-ranking former officials from the Saakashvili era were convicted, but according to a recent report from the watchdog, aside from this “the anti-corruption efforts of Georgian Dream more or less ceased”. As bne IntelliNews has argued, “the track record for colour revolutions is actually very poor.”

"Under Kovesi, the DNA investigated numerous serving and former ministers and other high-level officials, and was credited with making a real difference in the fight against corruption in Romania"
World Bank drops Doing Business report after alleged pressure from Bulgaria-born IMF chief to favour China

Denitsa Koseva in Sofia

The World Bank has decided to stop issuing its Doing Business report after an investigation revealed that Bulgaria-born International Monetary Fund (IMF) chief Kristalina Georgieva and former Bulgarian finance minister Simeon Dyankov had put pressure on officials to improve China’s position in previous rankings.

Georgieva was the most popular EU commissioner from Bulgaria and was the European Commission’s vice-president under Jean-Claude Juncker from 2014 to 2016. Subsequently, Georgieva took high-ranking post at the World Bank Group, becoming first CEO of the International Bank for Reconstruction and Development and the International Development Association starting on January 2, 2017. Georgieva was also acting president of the World Bank Group when the then president Dr. Jim Yong Kim stepped down in early 2019.

Dyankov, who was finance minister in Bulgaria’s first Gerb government, was Georgieva’s advisor at the World Bank. He has been pointed out as one of the creators of the Doing Business ranking.

“The changes to China’s data in Doing Business 2018 appear to be the product of two distinct types of pressure applied by bank leadership on the Doing Business team,” the World Bank’s report on the investigation reads.

The probe was carried out by an independent external company, WilmerHale.

It added that Georgieva and Dyankov insisted to “make specific changes to China’s data points in an effort to increase its ranking at precisely the same time the country was expected to play a key role in the bank’s capital-increase campaign”.

At a later stage, Georgieva “became directly involved in efforts to improve China’s ranking”, urging the team to change its criteria for defining China’s place in the ranking. Moreover, she strongly criticised the team’s leader for “mishandling” the bank’s relations with China and failing to appreciate the importance of the Doing Business report to the country.

Subsequently, as the team insisted the ranking could not be revised as the new criteria were not reliable, Georgieva instructed Dyankov to personally oversee the completion of the report.

“Mr. Djankov worked with Doing Business management to identify changes to China’s data that would raise the country’s score and increase its ranking,” the report noted.

At that point, a small group within the team working on the Doing Business report found a technical solution allowing the improvement of China’s position in the ranking. Georgieva approved that and instructed the team to do the changes.

Georgieva denied the accusations.

“I disagree fundamentally with the findings and interpretations of the Investigation of Data Irregularities as it relates to my role in the World Bank’s Doing Business report of 2018. I have already had an initial briefing with the IMF’s executive board on this matter,” she said in a statement.

Reuters reported that the IMF will review the report.

In a probe into its report, the World Bank found that China’s position in the 2018 report should have been seven places lower than the 78th it was assigned position. According to the investigation, the country’s position was improved following pressure by Georgieva.

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Kiril Petkov and Assen Vassilev, two members of the caretaker government that was running the country until September 15, have formally announced they are entering politics and will run in the next general election on November 14.

Since two general elections, first in April and later in July, failed to produce a government, Bulgaria has been governed by a caretaker cabinet headed by Prime Minister Stefan Yanev for several months. His ministers have been working to root out corrupt schemes from under the previous administration, which ironically has turned the temporary government into the most popular to rule Bulgaria for decades. It had an unusually high rating of above 50% due to its decisive steps towards revealing high-level cases of corruption, abuse of office and misuse of funds by the latest cabinet of Boyko Borissov.

Petkov and Vassilev were among the most popular ministers in the former caretaker government and are widely expected to become a significant factor in Bulgaria’s political life. Some suggest they might be the new faces seen by Bulgarians as saviours of the country for the next two months in order to continue the work he has started.

“Today I say clearly that we are entering politics and we shall be part of the political life and we shall participate in the next election,” Petkov said while transferring the economy ministry to his successor, Daniela Vezieva.

Petkov said the two will look for a party to be a mandate holder for the election as they would not have time to register a new formation before the vote.

There were rumours in local media that Petkov and Vassilev could become the leaders of a new political party, which would be connected to Radev, but Petkov has denied that. “We support very much President Rumen Radev – based on principles, his views, our work in the caretaker government, but this in no way will be his party,” Petkov said.

He added that talks with several small political formations are being held but that he and Vassilev would insist on having freedom to make decisions.

According to unofficial information from Mediapool, Petkov and Vassilev are talking to former defence minister Nikolai Tsonev’s New Alternative, former Bulgarian Socialist Party (BSP) member Simeon Slavchev’s MIR and the Volt party launched by Nastimir Ananiev, a former MP from the right-wing Movement Bulgaria of Citizens (DBG) party. Talks were also held with the Ekoglasnost party but Petkov said they ended as this formation wants to dictate the politics.

Bulgaria’s Harvard-educated saviours-in-waiting

Denitsa Koseva in Sofia

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Kiril Petkov and Assen Vassilev, two members of the caretaker government that was running the country until September 15, have formally announced they are entering politics and will run in the next general election on November 14.

The announcement was made on September 16, when President Rumen Radev introduced the new caretaker government. As expected, Yanev is keeping his post along with all but three members of the former interim government.

They include Petkov and Vassilev, as well as former transport minister Georgi Todorov, who was involved in approving a controversial deal on the extension of a channel at the port of Varna. A third minister who was widely expected to join Petkov and Vassilev – Professor Nikolai Nankov – has decided to continue heading the education ministry for the next two months in order to continue the work he has started.

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Harvard-educated saviours?

Prior to becoming caretaker economy minister, Petkov was among the co-founders of Yes Bulgaria, one of the parties in the Democratic Bulgaria
coalition. He is also founder and CEO of the ProViotic company that produces probiotics. The company is among the successful ones in Bulgaria. Petkov was also active in environmentalist and anti-corruption protests.

His friend and colleague Vassilev is co-founder of the Centre for Economic Strategies and Competitiveness. He has worked as consultant for Monitor Group in the US, Canada, Europe and South Africa.

The two new political players have solid educations. Petkov has a degree in Economics and Finance at the University of Vancouver and an MBA from Harvard. Vassilev has a degree in Economics from Harvard, and went on to specialise in business administration and law at the Harvard Business School and Harvard Law School.

If the two enter the parliament, they are expected to work with reformist Democratic Bulgaria and with Stand up.BG! We Are Coming (ISBG), though it is not clear whether the groupings would manage to put together a stable majority.

Sceptics expect the next parliament to produce more of the same and yet another snap vote to follow.

**New-old government, same tasks**

Meanwhile, at the official ceremony to appoint the new caretaker government, Radev said its objectives remain unchanged: to continue strengthening the rule of law, a process that started in mid-May when Radev appointed the previous government, to prepare for the next snap vote and to take reasonable steps to overcome the coronacrisis and improve people’s lives.

Vezieva, who is replacing Petkov at the economy ministry, was a member of his team and is expected to continue implementing the same policies.

The finance ministry will be headed by yet another Harvard graduate, Valeri Belchev, who said when taking the post that his ministry will work towards the adoption of the euro, and to promote transparency among the institutions controlled by the ministry.

Hristo Aleksiev, who was heading the state railway infrastructure company until he was appointed as the new transport minister, said the ministry will work on improving rail transport.

**Merkel says EU should “keep its word” in relations with accession candidates**

**bne IntelliNew**

German Chancellor Angela Merkel talked of the need for the EU to keep its word in relations with the accession candidates from the Western Balkan states during her visit to the Albanian capital Tirana on September 14.

Merkel arrived in Tirana after her visit to Belgrade the previous day as she continued a farewell tour of the EU-aspiring region. She reiterated the point made on September 13 that the EU has a geostrategic interest in bringing the Western Balkan countries into the bloc, but acknowledged the difficulties in advancing Albania and North Macedonia towards accession.

“Albania and North Macedonia, both have reached a state where we can start accession negotiations and hold the accession conference,” the chancellor said. “Unfortunately, we did not succeed in doing this during the German Council Presidency because there was an objection from a member state, namely Bulgaria, with regard to North Macedonia. But we discussed that it is imperative that we hold on in order for the accession process to move forward. Because a lot of effort and effort has been put into this process.”

The hopes in both Albania and North Macedonia of moving forward to EU accession negotiations were dashed at the end of last year, when Bulgaria

**“Albania and North Macedonia, both have reached a state where we can start accession negotiations and hold the accession conference”**
blocked the start of talks with North Macedonia. This affected Albania too, as its progress is coupled with that of its neighbour.

At a joint press conference with Albanian Prime Minister Edi Rama, Merkel said that she had discussed the issue “very openly”.

Merkel added that the EU should stick to its word when dealing with the accession candidates. “If I take Albania as an example, we have said very clearly what needs to be changed in the legal system and what needs to be changed in other areas. But if the conditions are met, then the EU must keep its word and not always come up with new conditions because it has no desire – perhaps for domestic political reasons in some countries – to push ahead with the accession process. That creates disappointment, and I understand the disappointment because then national issues keep coming to the fore.”

Commenting on the prospects of future progress, she added: “I have good hope – we already worked very hard during the German presidency and discussions have now continued. Charles Michel, as President of the Council, is also trying to speak to Bulgaria. Bulgaria is currently in an electoral phase and there is no active government.”

Rama also commented on the issue, expressing some of the frustration governments from the region felt when the two countries were unable to progress.

“Today we are, so to speak, a hostage to the nationalism of the countries of Europe,” said Rama. “There is no nationalist government in Europe, but in some countries the nationalists and right-wing extremists influence the decisions of the governments. What is happening today is the integration process being taken hostage by the nationalist spirit in a particular country.”

The two politicians also talked of the progress made since the launch of the Berlin Process, initiated by Merkel in 2014 to encourage regional co-operation in the Western Balkans.

Talking of the impact of the process, Merkel pointed to her discussion over lunch with all six heads of government of the states of the Western Balkans as an example of how relations in the region have improved.

“Communication prevails. You talk to each other, you meet normally. That was not a special event today, but such events happen all the time. There was no such thing in the past … the overall co-operation has also been greatly increased, be it in civil society, in youth exchanges or in the field of science. We have just spoken again about the important transnational infrastructure projects, some of which are progressing very slowly, but where we can now see the first steps,” she commented.

“I think we should look at the whole process in a historical context. When the Federal Chancellor invited us to Berlin in 2014, it was the first time in the history of this region that we received such an invitation. All the heads of state in this region met and sat around a table to talk about the future – not to beat or butcher each other,” said Rama on the same theme.

“This process paved the way for communication between Serbia and Albania with the aim of regional development, and this against the historical background that the heads of state never met,” he added, though acknowledging that “the mechanisms that are being set in motion with regard to economic projects are running a little slowly”.

Rama also said he believed that while states from the region are waiting to join the EU they should pursue regional co-operation. “We cannot wait to join the EU first and then build our highways, our infrastructure or our digital infrastructure. No, we shouldn’t wait for that. We should also build our common regional market. We can start now.”

“Today we are, so to speak, a hostage to the nationalism of the countries of Europe”
Any expat that has lived in Moscow for an extended period knows the European Medical Centre. Set up in 1989 before the fall of the Soviet Union by a Frenchman with Russian roots to cater to the diplomatic community, the EMC, as it is universally known, has been the go-to clinic to treat any ailments that beset expats in Moscow.

With over three decades on the market, business has boomed and the EMC’s clientele has changed to add the capital’s elite and upper middle class in recent years, as the business is now largely Russians. The firm has expanded, opening its own hospital on Orlovsky Street just outside Moscow’s Garden Ring road and several specialist clinics that provide cradle-to-the-grave state-of-the-art treatment to any that can afford them.

Thanks to the rise of the middle class and rapidly growing interest amongst Russians with a healthy lifestyle, private healthcare has been a booming business in recent years. While many of the rich typically fly to foreign clinics for any major treatment – Berlin’s Charité is a favourite destination – for more mundane services the EMC has captured the market for those want to see a doctor quickly, or regularly, or simply need to get the kids inoculated and deal with their bumps and scratches.

In July the owners finally cashed in with the first IPO in the private health care sector in ten years, floating the company with a $1bn valuation. The EMC follows MD Medical Group (MDMG), Russia’s largest private provider of women and children’s healthcare, which has been growing in leaps and bounds since it was listed on London’s stock market in 2012. MDMG set up a chain of private hospitals in Moscow and the regions that provide gynaecology and obstetrics services, which make up just over half of its income, as well as polyclinics that mostly focus on medical services for women and children.

Another company in the health care business that is also a potential candidate for a listing is Medsi, controlled by multi-industry investment conglomerate AFK Sistema.

“This IPO is an important and logical step in the further development of EMC, which has demonstrated progressive growth over the course of many years,” chief executive Andrey Yanovsky said at a press conference at the Moscow Exchange on the day of its listing.
Pioneering healthcare

The Russian constitution obliges the state to provide any and all treatment that its citizens require free of charge. However, the chaos of the 1990s saw the system almost collapse. While the standard of the Russian medical system has recovered and provides a competent service, as Russians become wealthy they are paying more attention to health issues, looking for better and higher quality service.

The EMC’s first clinic was founded by the French entrepreneur Andre Kobyloff that originally comprised several offices of expatriate physicians, founded with the participation of Europ Assistance (a French medical assistance company) to provide medical services to Moscow’s expatriate community and to foreigners visiting Moscow.

As Western standard medical services were hard to come by in those days the business flourished from the start. In 2001 Kobolov opened its best-known location, a multi-disciplinary clinic on Spiridonievsky Pereulok in the centre of Moscow and at the heart of one of the most prestigious residential locations close to the Patriachsky Ponds. The staff of largely international professionals grew as more doctors were hired, but for many years the EMC maintained a very French flavour.

The investment in the Spiridonievsky Pereulok clinic was perfectly timed. Russian President Vladimir Putin took over the reins in 2000 and quickly stabilised the economy and oversaw an eight-year-long boom that saw the economy double in size and a middle class emerged from the chaos of the 1990s.

Change of guard

In 2006 Kobyloff and his minority investors cashed out and sold a 100% stake to the fast-growing Russian pharmaceutical chain 36.6 (named for the fact that a healthy person’s temperature should be 36.6°C) that saw its business mushroom on the back of the growing middle class.

“It was one of the platform of medical businesses that 36.6 was building,” says Yanovsky.

At this point the current majority shareholder Igor Shilov, a former fur trader, took over ownership and started to build the business up.

Shilov initially made his fortune as a fur trader in Siberia before moving on to import-export and producing juices which he founded and later sold to Coca-Cola, using the proceeds to buy EMC for around $106mn on the eve of the 2008 financial crisis.

He quickly added a privately owned hospital to the original Spiridonievsky Pereulok clinic and started to roll out a string of specialised clinics, including rehabilitation and paediatric clinics among other services that also includes cosmetic surgery. Today EMC has 57 specialisations, but remains entirely based in Moscow and has no ambitions to expand into the other big cities of Russia.

To fund further expansion, in 2012 Moscow fund manager legend Michael Calvey and his Baring Vostok Capital Partners bought a 27.8% stake in EMC to get an exposure to the burgeoning private medical services business. Calvey is famous for his almost unbroken string of savvy investments, taking early-stage stakes in companies that have gone on to become household names and earned the fund’s LPs hundreds of millions of dollars from their subsequent billion dollar-plus IPOs.

Yanovsky says that none of the major crises Russia has been through have made any real impact on the EMC’s business.

“In our 32-year history none of the major crises in 1998, 2008, 2014 and 2020 have ever caused the business significant stress”

Nevertheless, the EMC is a business and run as a business. Yanovsky himself is not a doctor and has no medical training, but cut his teeth working for Coca-Cola and other fast moving consumer goods (FMCG) companies where he learned the best-in-practice methods that he has brought to managing the EMC.

Muscovites elect to have this surgery done at the EMC simply because it has the best equipment in Russia run by a highly qualified specialist staff.

Nevertheless, the EMC is a business and run as a business. Yanovsky himself is not a doctor and has no medical training, but cut his teeth working for Coca-Cola and other fast moving consumer goods (FMCG) companies where he learned the best-in-practice methods that he has brought to managing the EMC.

“I try to get the doctors to see this. Their attitude is to look at us and treat us for conditions, but are not concerned with the rest. For me the patient is a client
"For me the patient is a client who has goals in life and our job is to help them get there and stay healthy on the way"

from treating illnesses to increasingly preventative and predictive medicine. For instance, during the coronavirus (COVID-19) lockdowns medical services necessarily became more distant, but one of the services the EMC offers is a smart box subscription that can perform some basic tests and measurements that links directly to the EMC over a wireless connection, and staff are available 24/7 to troubleshoot any questions or problems. Over the last year the EMC “tele-medicine treatments” grew by 3,000% and have affected what will probably be a permanent change to the relations between doctor and patient.

Over the next ten years the business continued to grow until 2018, when there was another change of ownership. After earning double-digit returns, Baring Vostok sold its entire stake to MedInvestGroup, who later sold its stake to Egor Kulkov, the owner of pharmaceutical chain Pharmstandard, and oligarch and Chelsea football club owner Roman Abramovich in 2020, who became minority shareholders. Shilov retained the remaining 71.2%.

The IPO was triggered by Baring Vostok’s decision to sell. Shilov asked Kulkov if he would like to buy the stake, with the promise either to buy it back later or organise an IPO. Abramovich came into the deal as a financial investor.

IPO and results
The EMC listed on the Moscow Exchange on June 16 with a $1bn valuation. No new investment capital was raised, as Kulkov and Abramovich both cashed out and Shilov also took some money off the table, reducing his stake to 55%. In total a 45% stake was sold which is now the free float.

The deal netted the firm’s owners almost $500mn in proceeds. Abramovich’s Millhouse Capital offloaded its 6.9% stake, worth some $77mn, while Shilov scooped up $180mn in the deal and catapulted him into Russia’s Billionaire club, according to Bloomberg.

“The key event in the first half of this year was the company’s IPO on the Moscow Exchange. The listing was significant for the whole of Russia’s private healthcare market, as it was the sector’s first IPO for almost 10 years. We were happy that investors showed such a keen interest in the EMC’s investment story, and that both internationally renowned institutional investors and a broad range of retail investors became shareholders.”

On August 30 the company released its first financial results following the IPO for the first six months of this year.

The company reported that adjusted revenues rose by 18.3% year on year to €134.3mn, driven by increases in both the number of visits and the average bill. The operating profit climbed by 63.7% y/y to €47.3mn on the back of higher revenues and ongoing selling, general & administrative expenses (SG&A) optimisation.

The Adjusted EBITDA increased by 52% y/y to €56.1mn. The adjusted EBITDA
margin was 41.8%, one of the highest among public healthcare companies globally. And net profit rose by more than 100% y/y to €39.37mn.

Last year’s crisis slid off EMC like water from a duck’s back, as crises in Russia rarely affect the well-off, who also refuse to scrimp on their health no matter how badly the economy is doing.

The profits were helped by the company’s investment programme coming to an end, as it has most of the modern equipment it was intending to buy. Over the first six months of this year capex fell by 37.6% y/y to €11.6mn as the company passed the peak of its investment cycle.

Net debt was also down to €100.9mn as of 30 June 2021 from €137.7mn at the end of 2020. The debt load fell below 1.0x, its lowest level for three and a half years.

With money coming in and investments and debt falling the board increased their dividend policy and has recommended a dividend payout of €76mn for 2020 – basically the company’s entire profit, minus sundries and working capital needs, will be paid out as dividends.

Expanding market
The EMC started life catering to diplomats and then began to treat the rich, but as incomes have risen over the last two decades it has worked its way down into the middle class.

“I have two types of clients,” says Yanovsky. “The first is a regular and comes to us for all their treatment and care. The second come when they have something important or major to deal with. Thanks to word of mouth they know EMC has the best care on offer and come to us when they need help.”

And the number of patients keeps rising every year. Outpatient visits rose by 22.2% y/y in the first six months of this year to 296,010, primarily for general treatment, physiotherapy, cardiology, neurology, and ophthalmology.

And the prices for these more occasional customers are affordable after two decades of wage rises, even if incomes have stagnated more recently. The average bill for outpatient services rose by 4.4% y/y in the first half to €259, a stable increase as compared to the same period a year earlier.

Inpatient admissions were down by 2.7% to 8,275 due to a change in the structure of services provided under compulsory health insurance schemes. For example, in cancer cases, the focus moved from day-patient chemotherapy to outpatient radiotherapy, with doctors making more house calls thanks to coronavirus (COVID-19) restrictions. The average bill for inpatient services rose by 14.8% to €6,266 due to a larger share of integrated and high-tech medical services.
Novatek deputy chairman arrested over allegedly hiding $93mn from IRS

bne IntelliNews

The deputy chairman of Russia’s second-largest gas producer Novatek, Florida businessman Mark Gyetvay, has been arrested in the US on tax charges relating to $93mn that was hidden in offshore accounts.

Gyetvay played a key role in arranging financing for Novatek’s ambitious $27bn Yamal LNG export project in the Russian Arctic, which came online in December 2017. His arrest comes as the Russian gas company continues its search for external financing for its next scheme, Arctic LNG-2, which is expected to start production in 2023.

The US Department of Justice (DoJ) said in a statement on September 23 that a federal grand jury in Fort Myers, Florida, was charging Gyetvay “with defrauding the US by not disclosing his substantial offshore assets, failing to report substantial income on his tax returns, failing to pay millions of dollars of taxes and submitting a false offshore compliance filing with the IRS in an attempt to avoid substantial penalties and criminal prosecution.”

The tax charges relate to Gyetvay’s activities between 2005, two years after he was appointed as Novatek’s CFO, and 2016. The DoJ said he had “allegedly received lucrative stock options and/or stock-based compensation” as part of his compensation for the role.

“Beginning in 2005, Gyetvay allegedly opened the first of two different Swiss bank accounts to hold these assets, which at one point had an aggregate value of over $93mn,” the DoJ said. “Over a period of several years, Gyetvay allegedly took steps to conceal his ownership and control over the foreign accounts and associated assets, such as removing himself and making his then-wife, a Russian citizen, the beneficial owner of the accounts.”

Despite being a certified public accountant, the department continued, the indictment states that Gyetvay did not file his US tax returns on time, or the required Reports of Foreign Bank and Financial Accounts (FBARs) forms that some US taxpayers have to submit to disclose control over assets maintained in foreign bank accounts. Those tax returns he did file were false, according to the indictment, and he also submitted a false offshore compliance filing with the IRS, in which he “attested that his prior failure to file FBARs and tax returns was non-wilful.”

Gyetvay was due to appear in court on September 23. If he is convicted, he faces up to 20 years in prison for each count of wire fraud, five years in prison for each failure to file FBAR count, five years in prison for tax evasion, five years in prison for making a false statement, three years in prison for each count of assisting in the preparation of a false tax return and one year in prison for each willful failure to file a tax return count, the DoJ said.

US prosecutors have requested a $80mn bail for Gyetvay’s release.

Novatek’s share price saw its biggest slump in 16 months when markets opened on September 24.

What is more, his arrest comes as a crucial time for Novatek, which along with its partners is seeking some $11bn in external financing from international investors for Arctic LNG-2. The group has reached out to financiers in China and Japan, as well as in Europe, though some European environmentalists have urged their governments not to support the project because of its climate impact.

Gyetvay acquired Russian citizenship in 2019, while retaining his US passport.

“We of course are interested in his fate,” Kremlin spokesman Dmitry Peskov said on September 24. “On the other hand, he is also a US citizen and as such, bears some tax obligations and we can’t intervene in these processes.”

Novatek issued its own statement on September 24, stressing that it "was not involved in the litigation and does not have any details of the court hearings. Novatek monitors the situation and will give all necessary support."

For many years, Mark Gyetvay is the main representative of Novatek for the professional and investment community, making an invaluable contribution to Novatek’s success…

“The situation has absolutely no effect on Novatek’s operational and financial activities.”

Mark Gyetvay.
Belarusian opposition leaders Maria Kolesnikova and Maksim Znak were sentenced to over a decade in jail

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elarusian opposition leaders Maria Kolesnikova, who campaigned with Svetlana Tikhanovskaya in last year’s presidential election, and lawyer Maksim Znak were sentenced to 11 years and 10 years respectively for allegedly plotting a coup.

Officially they were found guilty of “conspiracy to seize state power by unconstitutional means” on September 7 in a closed trial. No evidence of their guilt has every been released and the result of the case was widely considered to be a forgone conclusion.

Belarus’ president Alexander Lukashenko has cracked down on the opposition after mass protests broke out following the falsified August 9 presidential election last year.

Kolesnikova was one of the three women – including Svetlana Tikhanovskaya and Veronika Tsepkalo – that became the icon of the opposition to Lukashenko during their country wide tour of the country ahead of the election. Following the election the other two women, who both have small children, fled into exile, but Kolesnikova remained behind and

“Officially Kolesnikova and Znak were found guilty of conspiracy to seize state power by unconstitutional means but no evidence of their guilt has every been released”

Kolesnikova was detained two days after Kolenikova’s arrest on September 9 and charged on September 18. Human rights activists have also recognized him as a political prisoner.

Znak was detained two days after Kolenikova’s arrest on September 9 and charged on September 18. Human rights activists have also recognized him as a political prisoner.

Kolesnikova was formerly the campaign manager of Viktor Babariko, an ex-banker and the leading opposition candidate at the start of the race until he was jailed and has also been convicted of embezzlement and sentenced to 14 years in jail.

In mid-May, Kolesnikova was finally charged under three articles of the Criminal Code of Belarus: Part 3 of Art. 361 (calls to action against national security), part 1 of Art. 357 (conspiracy to seize state power by unconstitutional means), Part 1 of Art. 361-1 (creation and management of an extremist formation). Znak is accused under the same articles.

Kolesnikova and Znak are both founding members of the Coordinating Council, which was set up to represent the opposition in talks with Lukashenko to form a transitional government – talks that never began.

Kolesnikova has been recognized as a political prisoner and a prisoner of conscience. The European Parliament awarded her the Sakharov Prize for her significant contribution to the fight for human rights.

Eventually she was snatched from the streets by Belarusian security forces on September 7, who tired to force her to leave the country until she made that impossible by ripping up her passport. She was then returned to Minsk and put on trial for sedition.

Belarusian opposition leaders Maria Kolesnikova and Maksim Znak were sentenced to over a decade in jail
Serhiy Shefir, the top advisor to Ukrainian President Volodymyr Zelenskiy, was unharmed in an assassination attempt on the 22 September outside Kyiv. His car was sprayed with machine-gun fire, but left the aide unharmed. His driver, however, bore the brunt of the attack and was hit by three bullets and left hospitalised in critical condition.

The police released a statement including a picture of the driver’s side of Shefir’s black Audi riddled with bullets. Some have speculated that the would-be assassins were expecting Shefir to be driving.

“This is serious,” the deputy interior minister, Anton Gerashchenko, said in a brief interview. “It was a real assassination attempt.”

The attack occurred while Zelenskiy was in New York for the United Nations General Assembly meeting, where he had said he planned to speak out against Russia’s military intervention in eastern Ukraine and to rally diplomatic backing for Kyiv.

Shefir, 57, is considered Zelenskiy’s closest confidant. Together with his brother and Zelenskiy in 2003, they founded Kvartal 95, a television production company that produced numerous popular shows and propelled Zelenskiy to nationwide fame as a comedian before beginning his political career in 2019. Shefir was a producer on the comedy show “Servant of the People,” in which Zelenskiy played a schoolteacher who later won the presidency.

Who dunnit?

The attack occurred at 10am, from a gunman hidden in the woods by the road, according to investigators. Police said they had no suspects at this time and warned the public against speculating as to the identity of the assassin.

Three possibilities have already been suggested by pundits. Top of the list is Russian security forces, who have a track record of assassinations on foreign soil.

The Kyiv attack comes a day after the European Court of Human Rights (ECHR) ruled that Russian military secret agents were “probably” behind the assassination of ex-KGB officer Alexander Litvinenko, who died an agonising death in 2006 after being poisoned in London with Polonium 210.

On the same day British police said they had identified the “third man” involved in the poisoning of Russian double agent Sergei Skripal in Salisbury in 2018 with the Russian military grade nerve agent Novichok. The individual named was Denis Sergeev, a major-general in the GRU that appears to have supervised the failed murder attempt.

Another possibility is Ukrainian mafia groups. Despite years of reforms Ukrainian organised crime retains a powerful grip on the economy and runs multiple rackets, of which cigarette smuggling is one of the biggest. Regular assassinations and murders associated with their business deals are a fact of life and the rampant corruption in Ukraine’s law enforcement and security forces has stymied progress at stamping out the problem.

The other likely possibility is a pushback by the oligarchs who have been in the president’s focus since
Zelenskiy gave an oligarch speech in March where he launched a drive to limit their access to government and related money-making schemes. Mykhailo Podolyak, an adviser to Zelenskiy’s chief of staff, linked the attack to the president’s efforts to limit the influence of oligarchs on politics in Ukraine, the New York Times reports.

The oligarchs also have a history of open violence. Former NBU governor Valeriya Gontareva told bne IntelliNews in an exclusive interview that “I fear for my life,” and had been threatened by oligarch Ihor Kolomoisky after she nationalised his bank in 2016. She later quit her job after a coffin with her effigy was delivered to the doors of the National Bank of Ukraine (NBU) while she was still governor. Later her house was torched in an arson attack. The NBU issued a statement at the time calling for an end of the terror campaign against its current and former employees, blaming Kolomoisky by name for the attacks.

While Kolomoisky has been singled out and a special anti-Kolomoisky banking law was passed last year to prevent him from retaking control of PrivatBank, the other oligarchs are also under fire as Zelenskiy’s anti-oligarch campaign gathers momentum and closes down corrupt schemes, thereby affecting several of Ukraine’s top businessmen, costing them millions of dollars.

The news will come as a blow to those who believed that Ukraine had moved on from the “oligarch-on-oligarch” turf wars that plagued much of the former Soviet Union in the aftermath of the Soviet collapse in the 1990s. Zelenskiy’s “de-oligarchisation” push may have been the motive behind this attack.

Podolyak called the assassination attempt a “belligerent pushback” against Zelenskiy’s policy to “reduce the traditional influence of shadow oligarchs on social processes,” he told Interfax. “Indeed, we link this attack to the aggressive or even belligerent pushback on the active policy of the head of state,” he said.

Ukraine passes anti-oligarch law

**Cameron Jones in London**

Ukrainian MPs have voted to approve a bill to restrict the influence of oligarchs on Ukrainian political life. The bill forbids oligarchs to make contributions in support of political parties and to participate in large-scale privatisations, and forces them to disclose their assets.

The parliamentary vote demonstrates the belated determination of President Volodymyr Zelensky to take on the country’s most powerful businessmen, including his former patron Ihor Kolomoisky.

The overwhelming majority of votes for the bill was given by the presidential party Servant of the People, with 229; other votes came from For the Future, 18; Trust, 15; and Voice, 11. However, 23 MPs from the party Eurosolidarity and 20 from OPZZh were opposed.

The vote came the day after an assassination attempt against one of the president’s top aides, which some people claimed was a warning shot against the bill.

According to the adopted law, the oligarchs will be named by the National Security and Defence Council at the request of the Cabinet of Ministers, the security service, the national bank, a member of the National Security and Defence Council or the Antimonopoly Committee. The decision of the National Security and Defence Council is put into effect by the president. It enters into force after its official publication.

An oligarch is a person who has significant economic and political weight in public life. An oligarch will be a person who meets at least three of the criteria prescribed by law:

- participates in political life;
- has a significant impact on the media;
- is the ultimate beneficial owner of an entity that holds a monopoly position in the market and maintains or strengthens such a position for a consecutive year;
- the confirmed value of that person’s assets (and business entities of which he is a beneficiary) exceeds UAH2.3bn [$49mn]

The National Security and Defence Council, which in March “identified 13 oligarchs,” will also take care of the register of oligarchs. The register will indicate the data on the oligarch, his assets and the list of politicians in whose work he is involved.

If a person is designated an oligarch they are barred from standing for public office, make contributions to political parties or participating in large-scale privatisation. Also, persons from this register will have to submit a declaration of income. In addition, the law introduces the concept of “declaration of contacts” and they must name the civil servants they or their representative have been in contact with.
Iran cements ties with East as it becomes full member of SCO

bne IntelliNews

Russia, China and the other members of the Shanghai Cooperation Organisation (SCO) wasted no time in granting Iran de facto full membership of the Eurasian political, economic and security body on September 17.

Prior to the annual SCO summit, this year held in Tajikistan’s capital Dushanbe, there was speculation that granting the membership could prove a long-winded process, but Tehran was quick to step forward with a resounding announcement that it had been made part of the increasingly influential club, with only technicalities to be dealt with before formal admission.

Apart from Russia and China, Iran – which has held observer status at the intergovernmental organisation for 15 years – will now also sit alongside India, Pakistan, Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan in the SCO.

The body was formed in 2001 by Moscow, Beijing and ex-Soviet Central Asian states. By now it covers almost half of the world’s population.

Iran will see its SCO participation as one in the eye for the US. The summit brought the first appearance abroad of Iran’s new president, the hardline cleric Ebrahim Raisi who took office in August, and Raisi wasted no time in calling on the SCO members to help Tehran form a mechanism to avert sanctions imposed by the West.

Referring to sanctions in his summit speech as a form of “economic terrorism”, Raisi said Iran wanted closer ties with its regional neighbours and rejected Washington’s “unilateralism”.

The Raisi administration will now set out to use the recognition bestowed on Iran by the SCO in expanding political, economic and cultural ties with countries across the region. A key aim will be to strengthen the Islamic Republic’s resistance to Western sanctions and strategies aimed at...
curtailing its role in the Middle East (particularly with an eye on its nuclear and ballistic missile programmes, hostility to Israel and roles, usually via surrogates, in various military conflicts).

‘Meaningful momentum’

Raisi observed that Iran's geopolitical position, sizable population of 84mn, energy supplies (second largest gas reserves and fourth biggest oil reserves in the world), transit potential, workforce and culture could give “meaningful momentum” to major regional trade and investment masterplans, including China’s Belt and Road Initiative.

“The world has entered a new era,” Raisi said. “Hegemony and unilateralism are failing. The international balance is moving toward multilateralism and redistribution of power to the benefit of independent countries.”

“Unilateral sanctions are not against only one country as it has become evident in recent years that sanctions have targeted more independent countries, especially members of the [SCO] organisation,” he said. Iran itself has endured heavy US sanctions since mid-2018 when ex-US president Donald Trump unilaterally walked out of the 2015 multilateral nuclear deal, or JCPOA, agreed between Iran and six world powers. The sanctions put the country through a bitter recession lasting nearly three years from which it is only now emerging.

Despite Iran’s dissatisfaction that the Joe Biden administration has so far continued with the sanctions against Iran that it inherited from Trump, the Raisi government has said it will agree to restart the Vienna talks. The talks are aimed at finding a path on which both Iran and the US could return to full compliance and participation in the nuclear deal. The deal was devised to provide verifiable guarantees that Iran’s nuclear programme stays entirely civilian in return for the dropping of major sanctions against Tehran. As well as Iran, China, Russia, the UK, France and Germany remain signatories to the accord.

In a jab at those who want Iran’s nuclear development activities subjected to even more stringent curbs than the JCPOA achieves, Raisi cautioned that "nothing can stop Iran's peaceful nuclear activities that are within the framework of international regulations".

Separately, the Islamic Republic of Iran Customs Administration (IRICA) on September 17 detailed the level of trade that Iran and the SCO members saw in the last Persian year (ended March 20). IRICA said trade with China stood at $18.9bn, with India $3.4bn, Russia $1.6bn, Pakistan $1.2bn, Uzbekistan $256mn, Kazakhstan $205mn, Kyrgyzstan $51mn and Tajikistan $24mn. For SCO observer states, the figures were Afghanistan $2.3bn, Belarus $30mn and Mongolia $3mn.

SCO leaders tell West to bite bullet and hand billions to Taliban

bne IntelliNews

Leaders of the countries that surround Afghanistan on September 17 at the Shanghai Cooperation Organisation (SCO) annual summit offered plenty of advice on what should be done to prevent the Afghans from descending into a humanitarian disaster and falling into an economic hellhole, but offered next to nothing by way of action. Instead they made it plain that the US and other Nato countries that last month completed their hurried withdrawal from Afghanistan must now bear responsibility for providing the stricken nation a chance of securing an acceptable future.

The financial fortunes of the Islamist fundamentalists that have taken over the country, the Taliban, are of course built on the production of opium and heroin. The Taliban are known as the world’s biggest drugs cartel and it was largely the illicit proceeds from the global trafficking of narcotics that financed the jihadist group’s 20-year fight to force the US and its allies to leave Afghanistan. The major headache now is that the funding needed to stop Afghanistan potentially turning into an incurable narco-state that is a hive for terrorism has been frozen by Washington and international financial institutions. Handing billions of dollars to an organisation like the Taliban, even though presently they alone can offer the outside world a governmental structure to work with in Afghanistan, is a rather difficult prospect to swallow for Western capitals. Nevertheless, SCO member states, including Russia, China, Pakistan and, quite vocally, Uzbekistan, urged the Western powers to do just that.

“Gradual unfreezing”

Addressing the SCO summit via video link, Russian President Vladimir Putin said that he believed it “makes sense to work with the United States [and] other Western countries for a gradual unfreezing of Afghanistan’s reserves and restoring programmes through the World Bank and the International Monetary Fund”.

Blaming Washington in large part for the dire straits besetting Afghanistan, Putin added: "The main part of the expenses related to Afghanistan's post-conflict rebuilding should be borne by the United States and Nato countries..."
who are directly responsible for the grave consequences of their prolonged presence in the country."

Since Taliban militants swept into Kabul on August 15, around $9bn in foreign reserves of Afghanistan’s central bank have been placed out of reach, with most of the hard currency held in the US. The International Monetary Fund, the World Bank, foreign governments and other donors have, meanwhile, suspended payments to Kabul, and standard bank transfers to individuals in the country have been blocked, leaving ordinary Afghans reeling.

During the SCO summit, Putin’s Chinese counterpart, Xi Jinping, told a parallel summit of the Collective Security Treaty Organisation (CSTO) that without the necessary support, terrorism and drugs could flourish in Afghanistan, while the country could fall into a major humanitarian crisis.

That scenario is a big worry for the Central Asian nations bordering Afghanistan – Uzbekistan, Tajikistan and Turkmenistan – as well as Pakistan and Iran as it could raise the probability of a massive wave of Afghan refugees seeking to escape their country. All of these nations are SCO members (Iran announced it had won de facto membership on September 17), and given that the SCO was formed two decades ago partly to fight the threat of terrorism taking root in member states, the summit was a good opportunity to caution against neglect that could allow the worst-case scenario to become a reality.

**Assets could facilitate dialogue**

Uzbek President Shavkat Mirziyoyev also urged countries to unfreeze Afghanistan’s assets kept in foreign banks. Doing so, he said, could facilitate dialogue with the Taliban government in Kabul.

Mirziyoyev, calling for talks between the SCO bloc and the Taliban and for efforts to prevent the rise of extremism, said: "Considering the humanitarian situation, we propose looking into the possibility of lifting the freeze on Afghanistan’s accounts in foreign banks."

Imran Khan, the prime minister of Pakistan – often under fire for having supported the Taliban behind the scenes over the years, something Islamabad denies – added to the call for economic support for Afghanistan, a country that has observer status in the SCO.

"Urgent priorities are to prevent a humanitarian crisis and an economic meltdown. We must remember that the previous government depended heavily on foreign aid and its removal could lead to economic collapse," he said. "Going forward, we believe positive engagement of the international community with Afghanistan is extremely important."

The summit was held in Dushanbe, capital of Tajikistan, a country that, like Iran, is a Persian-speaking nation. The Tajiks and Iranians are thus particularly concerned over the fate of Afghan minorities with close linguistic and ethnic ties. They are threatened by the harsh rule of the Taliban, a force that emerged in 1994 in eastern and southern Pashtun areas of Afghanistan. Slightly more than a quarter of Afghanistan’s population of 38mn are Tajiks.

"Reliable security belt"

Tajik President Emomali Rahmon called for member countries of the SCO and the CSTO to create a "reliable security belt around Afghanistan to stop the possible expansion of terrorist groups" in the region.

"The current developments and the high risks of a catastrophic scenario confirm the necessity of helping countries bordering Afghanistan," Rahmon told the Dushanbe SCO gathering on September 17, as reported by Reuters. "There is no way to avoid them. Afghanistan is extremely important."

Rahmon also outlined his serious concerns over the situation in Panjshir Valley, where resistance forces hidden in the mountains form the last pocket of resistance to the Taliban takeover. He reiterated his call for the international community to provide emergency assistance to the province, which he said has been under a "complete [Taliban] blockade for about two months".

Khan added his voice to the calls for the Taliban to create an “inclusive political structure” representing all ethnic groups, while preventing Afghan soil from being used for international militancy, but such advice has so far fallen on deaf ears in Kabul.

Putin noted that the new government was only provisional, concluding: "One cannot call it representative or inclusive, as we do not see representatives of other ethnic groups there. But we believe we need to work with it."

The "entire burden of negative impacts" following the withdrawal of the international coalition from Afghanistan "will be placed on Afghanistan’s neighbouring countries," continued Rahmon, adding: "Contrary to their statements, the Taliban are following the path of creating an Islamic emirate with rules that are foreign to the modern era and the government they formed consists of their members only."

He urged a strengthening of the capabilities of the SCO’s regional anti-terrorist structure and of the interaction of its countries’ law enforcement agencies and special services in order to counter “challenges and threats” emanating from Taliban-led Afghanistan.

Putin noted that the new government was only provisional, concluding: "One cannot call it representative or inclusive, as we do not see representatives of other ethnic groups there. But we believe we need to work with it."
A corporation linked to a relative of Uzbek President Shavkat Mirziyoyev has received tens of millions of dollars from the country’s sovereign wealth fund, according to the findings of an investigation by RFE/RL’s Uzbek Service, published on September 15.

Orient Group, which is linked to a relative of Mirziyoyev, namely Oybek Umarov, is said to have received the funds via the Uzbek Oman Investment Company (UOIC). Umarov, a founder and shareholder of Orient Group, is the younger brother of Otabek Umarov, who is married to Mirziyoyev’s daughter, Shahnoza.

The Investment Authority of Oman holds 75% of the UOIC’s charter capital, with the remainder owned by Uzbekistan’s Fund for Reconstruction and Development. The latter maintains the country’s sovereign wealth fund.

According to the fund’s official website, its capital grew to $25bn last year. The money is earmarked for developing basic economic sectors and generating benefits for citizens.

But the investigation by RFE/RL, conducted in cooperation with the University of Ulster’s Kristian Lasslett, showed the Orient Group was a major recipient of state money in recent years.

$161mn question
Lasslett’s research into the UOIC’s investment portfolio in Uzbekistan between 2016 and 2020 reportedly showed that 86% – or around $161mn – of the UOIC’s total traceable investment in Uzbekistan during the period was made in companies, businesses and projects that belong to the Orient Group.

Among them are Gold Dried Fruit Export, said to have received $25mn, and Binokor Temir Beton Servis, said to have got nearly $20mn in investments from the UOIC.

The Orient Group consists of at least 58 companies involved in sectors including banking, construction, retail, real estate and a soccer club.

An outstanding question is why the majority of the UOIC’s investments focus only on the Orient Group.

RFE/RL said it contacted both the UOIC and the Orient Group for comment but received no response.

According to Uzbek law, any allocation of money or loans from the sovereign wealth fund must be signed off by the president.

In 2010, when just 24 years-old, Oybek Umarov was registered as one of four founders of a major private bank, Orient Finans. Some of his acquaintances from his childhood in Ferghana Province told RFE/RL they remember him as a little-known cattle trader whose fortunes changed after his brother joined the Mirziyoyev family.

Despite the business empire linked to Oybek Umarov, he is said to keep a low profile in public, with no presence on social media.

Otabek Umarov, who has 10mn followers on Instagram, does not mention his wealthy brother on social media or in public.

Since taking office, Mirziyoyev has pledged to end Uzbekistan’s reputation as a haven for corruption, while embarking on a reform programme in the hope of drawing new foreign investment to Central Asia’s most populous country.

“A relative of Uzbek president Shavkat Mirziyoyev has received hundreds of millions of dollars from the sovereign wealth fund that an investigation found is not illegal, but its not normal either”
Hungary's surprise debt issuance demonstrates the EU's financial whip is not working

Gunter Deuber and Stephan Imre of Raiffeisen Research in Vienna

Hungary was the surprise issuer on international markets this week. In contrast to earlier plans to not issue any hard currency government debt in 2021, Hungary suddenly rushed to international markets to place a multi-part dollar and euro deal.

A cumulative US$4.25bn (€3.6bn) was placed through a dollar double tranche (10-year and 30-year maturities), followed by €1bn of a seven-year euro-denominated sovereign eurobond the day after (15 September). According to the Hungarian debt management agency (ÁKK), the change in the funding strategy has been triggered mainly by a possible delay in the disbursement of the “pre-financing payment” in the framework of the EU Recovery and Resilience Fund (RRF).

The disbursement of the pre-financing payments to other EU members already started during the summer. This is aimed at kick-starting the implementation of the investment and reform measures outlined in the respective recovery and resilience plans (RRP). Yet while Hungary’s RRP is still subject to approval, we believe that Hungary’s rush to secure alternative funds was not solely triggered by a possible delay of this pre-payment.

In fact, the amounts that we are talking about are relatively small. In the case of Hungary, the pre-financing payment amounts to 13% of the requested total €7.2bn in grants for projects under the RRF, which would equal €0.94bn in case of full allotment. Needless to say, any new state debt is also not a good alternative to grants from the EU Recovery and Resilience Fund (RRF). The latter do not add to the public debt bill in accounting terms.

So why did Hungarian authorities then rush into this big issue?
We believe the reasons are more or less two-fold, political and market-based. Firstly, we assume that Hungarian policymakers wanted to send a political signal not only to Brussels but also to its electorate. This is nothing new, as ÁKK already once showed its muscles via its smooth access to international debt in a similar situation. Last year, it also lifted its eurobond issuance plans amidst an unfolding spat with the EU and a threat of delayed fund disbursements.

During Fidesz’s 10-year reign the occasional opposition to Brussels has become an efficient tool to impress/mobilise wide parts of the Fidesz electorate in the context of Hungary’s “(economic) fight for freedom”, i.e. the demonstration of its right of self-determination. Fidesz can now sweat out the conflict with the EU easily until the elections, which could bring them additional votes.

As also mentioned by the ÁKK, the fresh funds could be used also for “some government expenditure”, which could be interpreted as a buffer for additional campaign goodies.

Therefore the Hungarian administration seems to be gearing up for a prolonged dispute with the EU, at least until the general elections in spring 2022. The bond issues strengthen somewhat the bargaining position of the Hungarian government in the context of RRF fund disbursements.

Some skirmishes with the EU plus pre-election spending are definitely needed given the fact that we are possibly heading for the most competitive elections in Hungary over the last decade. According to current polls the opposition has a fair chance to win the elections.

**Victory for Hungary in the short term**

Nevertheless, Hungary’s recent quick-fix on international debt markets is by no means irrational from a market perspective, for the following reasons:

1. Eurobond funding costs are currently near all-time lows especially in well-established CEE markets, in both dollar and euro segments. In light of the growing prospects of some monetary policy normalisation by leading central banks, it definitely makes sense to lock in the current favourable funding conditions in terms of pre-financing. Regarding the latter Hungary enjoys the comfortable position of facing no eurobond redemption next year.

2. While this year’s funding progress in Hungary is well on track, its local debt market is getting increasingly expensive in light of an ongoing rate hiking cycle.

3. As many countries including Hungary are running extraordinarily high “crisis budget deficits” for the second year in a row, the local absorption capacity of its local debt market might be hitting its limits, especially when local currency stability could suffer in case of overstretchesing local funding sources.

4. Finally, Hungary’s dollar and euro eurobond markets showed a relatively stronger resilience / less volatility in the past two years when compared to the benchmark markets, not to speak about Hungary’s local currency debt market.

In terms of the composition of the recent deals, finally, the offer was cleverly constructed in our view. Regardless of the relative expensiveness of dollar Eurobond vs euro eurobond funding, to start with a USD dual-tranche ÁKK addressed an investor base that is supposedly not as sensitive to inner-EU political issues as the EUR-based investor base.

Moreover, the dollar EM investor base is much more broad-based and much more familiar with higher-yielding EM sovereigns compared to the international euro market. Therefore, Hungary is possibly here seen more as a high-quality credit and portfolio stabilising element. Moreover, the USD investor base is bigger than the EUR camp and the big international USD deal leaders have huge client bases at their disposal.

It’s also a litmus test to screen overall investor sentiment while flagging a potential second part denominated in EUR the day after incorporated a “first come, first serve” into the USD offers, given the €4.5bn self-imposed limit set by the ÁKK beforehand.

Finally, with Hungary not being in the USD eurobond issuance pipeline since 2014, the high allotments to USD investors definitely cultivates this for a long-time (neglected) client base. With cultivating this client base Hungary increases its re-financing flexibility.

“Any new state debt is not a good alternative to grants from the EU Recovery and Resilience Fund (RRF), which do not add to the public debt bill in accounting terms”

In this context it is worth stressing that since 2019 Hungarian debt management is led by a veteran banker, who is familiar with all the options to optimise the Hungarian market footprint in terms of maturity, market segment resilience and currency structures.

Nevertheless, the recent investor behaviour on the international capital market also leaves a somewhat bitter taste because it shows that the EU’s financial whip is not working as expected. So a victory for Hungary in the short term, though we still think that Hungary remains interested in receiving EU funds in the medium and long term and could act a bit more pragmatically after the 2022 elections.
Soon after the COVID-19 pandemic landed in Europe over a year ago, the European Union (EU) triggered the Stability and Growth Pact (SGP) escape clause, dumping the EU government debt and fiscal deficit ceilings. The SGP clause assumes a back to business-as-usual after the effects of the pandemic wear off. Nonetheless, there is a consensus among economic observers that the disruption caused by the pandemic offers a window of opportunity to reform these fiscal rules before they are reinstated, piggybacking on the joint fiscal response to the pandemic that was previously unimaginable.

The SGP rules – designed to ensure that EU members engage in sound public finances and coordinate their fiscal policies – cap countries’ budget deficits at 3% of GDP, and public debt at 60% of GDP. But the rule suspension afforded member states the liberty to pursue different macroeconomic policies – reigniting the debate around such targets.

One of the reasons why the SGP has been criticized is for imposing fiscal austerity during recessions. Its critics argue that it should more effectively balance debt sustainability with fiscal stabilization when shocks hit, but such an undertaking would require even more complex rules. Research suggests that the inherently pro-cyclical corrective arm of SGP is an important driver of euro area fiscal policy. It is the preventive arm – designed to avoid the need for such pro-cyclical policies – based on synthetic, hard-to-measure indicators such as the output gap – where reform efforts should concentrate.

No formal proposals by the European Fiscal Council or the European Commission have so far been submitted for consideration. But Olivier Blanchard and his colleagues have brought ideas on how to redesign EU fiscal rules, emphasizing a transition towards qualitative standards that leave room for judgment to replace the existing country and time-invariant rules. In that way, each member state would manage its own fiscal matters with an eye on debt sustainability, along the lines of New Zealand’s “principles of responsible fiscal management”.

The obvious benefit of such a standards-based approach is that it could address the measurement problems under the current framework. Instead, countries would basically target “debt sustainability with high probability”, accounting for the evolution of the primary budget balance, the cost of debt, the nominal growth rate, and existing policies.

But this brings with it the complications of monitoring, enforcement and adjudication, as well as the fact that significant political capital is needed to pass and effectively maintain such a fundamental reform. The moral hazard argument is key: Unless accompanied by an additional enforcement channel, the worry is that “relaxed” fiscal rules could be misused by creative politicians guided by short-term populist goals.

Moreover, negative interest growth differentials (the difference between the average (implicit) interest rate that governments pay on their debt and the (nominal) growth rate of the economy) have become prevalent since the global financial crisis and are expected to prevail for some time. The usual link between high persistent inflation and fiscal profligacy no longer seems to hold, as evidenced by Eurozone inflation hovering well below the ECB target in the past decade, despite the loose policy stance. That generally improves the outlook for debt sustainability but may also misguide policymakers to conclude that debt sustainability is not an issue at any given level of primary deficit.

From the perspective of small EU countries, particularly newer EU members, there are additional implications around relaxing fiscal standards. Newer, smaller EU members face greater risk and higher uncertainty with changing interest rates. Any possible increase of the sum of EU countries’ debt disproportionately affects them.”
rates. Any possible increase of the sum of EU countries’ debt disproportionately affects them, and their relatively greater dependence on foreign sovereign debt financing, which stems from the relatively small size of their national financial markets and the high degree of foreign ownership, gives them less freedom to manoeuvre in times of stress.

Indeed, we have been here before: the issue of dominant foreign ownership in small EU member states’ financial markets surfaced during the 2011 Eurozone sovereign debt crisis, when foreign owners resorted to the financing of domestic bonds in times of financial turbulence. All of this means that, when assessing debt sustainability in small countries, no debt ratio is absolutely safe for small countries, even if the interest-growth differential remains negative.

Nursing the euro area economy back to health after the pandemic will necessarily be by accompanied by further deficit spending. This would be followed by a period of fiscal rebalancing. EU states will ideally realise that negative interest-growth differentials will not last forever and try to do this before the ECB steers course towards monetary policy normalization.

At the same time, the broader context of the present European fiscal architecture will be revisited, and rightly so. While an overhaul towards a “standards-approach” may not be currently viable, a targeted reform is desirable, as well as instruments that emerged in SGP's aftermath, such as the more recent Recovery and Resilience Facility, which could be upgraded into a proper counter-cyclical fiscal instrument in times of shocks. But, when considering these reforms, we need to do so from the perspective of all member states, and bear in mind that even small economies have the potential to trigger much larger upsets.

Ivan Šramko is a former Chairman of the Council for Budget Responsibility, Governor of the National Bank of Slovakia, and OECD ambassador. Sona Muzikárova is Chief Economist at GLOBSEC, a leading Central European think-tank.

ISTANBUL BLOG:

Turkey’s official inflation – nothing if not a head-scratcher

Akin Nazli in Belgrade

Turkey's official annual inflation in August moved up to 19.25% from July’s 18.95%, despite market consensus expectations that it would fall very slightly and, more intriguingly, despite President Recep Tayyip Erdogan having stated that in the pursuit of low inflation “the month of August is the turning point”.

In Turkey, the official data on inflation, growth and other key indicators have a habit of being almost exactly in tune with what Erdogan predicts, so it is hard to fathom what is afoot this time round. Erdogan also anticipated that the central bank’s policy rate of 19% would be cut in August – the markets have come to regard Erdogan as at the helm of Turkish monetary policy – yet the rate was kept constant by the central bankers.

To recall, back in March the previous central bank governor was reportedly fired after he annoyed Erdogan by hiking the policy rate to where it stands now. But if that is correct, how is it that his successor still has his job despite not having cut the rate?

This blog has often noted that in Turkey when “unnamed Turkish officials” brief international news services on so-called behind-the-scenes thinking it is so very often only for manipulation. When the number of anonymous officials singing from the same song sheet rises to half a dozen or more, it is not the case that the information in question can be said to have been confirmed by many different sources; nope, this actually confirms that there is official discourse that has been quite deliberately put into circulation.

The pursuit for the logic behind occurrences in Turkish politics takes one on to treacherous ground. Thus, a move for revenge made by Berat Albayrak – Erdogan’s son-in-law and the previous finance minister, who fell on his sword late last year at a point when Turkey was in danger of another balance of payments crisis – might have been the real reason for the firing of the previous central bank chief rather than the explanation that went into circulation, namely that he failed to ease rates. But the Albayrak explanation is also just speculation. Finding reliable information on the workings of the Erdogan regime is a tough call.

Turkey’s official data releases can similarly take you into something of a maze. You may see the inflation figure
Nevertheless, we can calculate that the annual inflation rate for August this year implied by ENAG’s releases since August last year stands at around 49% y/y.

It would be nice if the only abnormality in Turkey’s inflation presentations was the consecutive record spreads between the official consumer price index (CPI) and producer price index (PPI) inflation figures.

To get a taste of the real price increases that the Turks are experiencing, take a look at what’s facing construction industry contractors, once celebrated for driving a Turkish growth boom. They have lately been up in arms over a 200% y/y increase in the cost of cement.

Then there is the serial price growth in gas. Turkey’s natural gas distributor Botas raised natural gas prices for industrial use and electricity production by 15% as of September 1. Previously, it hiked the residential natural gas price by 12% as of July 1. Also, in the first half of this year, Botas pushed up the residential natural gas price by 1% each month.

Moreover, Botas increased the natural gas price for power plants by 20.23% as of July 1 and prior to that, as of June 1, the gas price for power plants was hiked by 1% following a 12% hike as of May 1.

There’s a similar picture with electricity, while there is no disputing soaring prices in food and basic consumption

### Turkish Central Bank Policy Rates

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<tr>
<th>Month, %</th>
<th>ENAG</th>
<th>Official</th>
<th>ENAG/Official</th>
<th>USD/TRY</th>
<th>Brent oil ($</th>
<th>Commodities (BCOM)</th>
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<td>3.72</td>
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### Cumulative, % - August=100

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<th>Month, %</th>
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<th>ENAG/Official</th>
<th>USD/TRY</th>
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leaving scope for a story that could suggest a limited decline in official inflation in November and December.

November is indeed a critical juncture as the lira could get into some difficulties prior to the new year market rally that should begin in December.

On December 3, the official inflation data for November will be released.

The next inflation release is scheduled for October 4, when the official movement in September’s prices will be relayed.

As things stand, guidance put out by Haluk Burumcekci of Burumcekci Consulting still holds. On August 3, Burumcekci said: “Even without a loss in lira value [from the 8.25-8.65 band seen in the USD/TRY pair since July], inflation may rise to 19-20% in the next three months [August, September, October], with a fall coming only in the final two months [November, December] to end the year at 17-18% at best. If the value-added tax discount due to end in September was not extended, this could exert an upward impact of around 1 percentage point.”

Burumcekci anticipated that the policy rate will end the year at 19% although the market remains positive for limited 50bp cuts from the last two monetary policy meetings, set for November 18 and December 16.

To reiterate, the next stop for revising where we’re at comes with the September 23 rate-setting meeting, with the September inflation release due out on October 4.

On July 29, the central bank raised its end-2021 inflation forecast to 14.1% from the 12.2% it envisaged in April, while the upper limit on inflation was moved up from 14.4% to 16%, closer to the market’s assessment.

On October 28, the central bank will release its latest quarterly inflation report and updated inflation forecast.

Vehicle prices recently declined after a tax cut but they have doubled since last year. BloombergHT reported the TUIK’s official passenger car price declined by 3.4% m/m in August. It did not draw attention to the annual price change, but its chart showed that the TUIK price rose to TRY293,000 in August from about TRY150,000 a year ago.

The reality, you will gather, is far ruder than the official picture, but nevertheless we must return our focus to the policy rate, with the next rate-setting meeting scheduled for September 23.

Of late, the market has, interestingly, been going easy on Ankara’s monetary policy. It took a dose of Erdogan’s guidance to produce the consensus expectation for official August inflation of 18.75%, rather than weighing up basic logic and doing some elementary mathematics. But the TUIK’s released figure of 19.25% (the highest official inflation reading since April 2019) has thrown the market a curveball and the prevailing anticipation is that the September 23 central bank policy meeting will hold rates, even though official inflation is now above the policy rate.

Turkey’s lira, meanwhile, so often in the news for smashing through unfavourable records, remains on good behaviour,
Albania’s exports increased by 22.5% year on year in August to ALL24bn (€196mn), not only recovering to the pre-pandemic year, but exceeding their value in July 2019, statistics office Instat said. During the month, exports were 18.9% higher than the monthly average for August 2018-2020.

Imports also rebounded, growing by 26.2% y/y to ALL61bn, up 23.2% on the average figure for the previous three Augs.

Slovakia’s inflation level increased to the highest figure seen since October 2012, to 3.8% in August, driven by higher prices in transport, imputed rent affected by construction material prices and further increasing food prices, as stated in the Slovak Statistics Office report from September 14.

“While in the first few months of the year housing and energy prices dampened price growth, in 2H21 they are driving it up. Significant increases in prices of construction materials have already outdone the effect of a drop in energy prices from the beginning of the year,” the office said.

The trade deficit posted by Romania in July was the second-largest ever at €2.2bn and almost two-thirds (65%) wider compared to July 2020 — not exactly the best comparison, given the disruptions in foreign trade last year during the pandemic.

Exports increased by 15% y/y to €6.36bn, but imports advanced even more by 24% y/y to €8.55bn. The growth rates for both export and imports are still pushed up by the low base, but the wide differential is relevant for Romania’s structural foreign trade balance.

Russian inflation expectations remained very high in August, according to the latest Public Opinion Foundation (FOM) report commissioned by the Central Bank of Russia (CBR) and released in August.

The median estimate for price over the last 12 months amongst regular Russians polled by FOM was 16.5%, whereas the actual rate of inflation in July was 6.5%. Households’ expectation for price rises over the next 12 months is a slightly lower 12.5% in August, down slightly from 13.4% a month earlier, but still more than twice the actual rate of inflation.

The CBR’s official prediction for inflation this year will reach 5.7-6.2%, before falling again next year to 4.0-4.5% in 2022, and then it will remain close to the CBR’s target level of 4% after that.
Russia’s Duma elections statistics: the comet effect and the Moscow blob

The Russian physicist and election statistics expert Sergey Shpilkin released another two charts on the voting patterns in the recent Duma elections that show a “comet effect” and a “Moscow blob” that further testify to the scale of ballot stuffing.

The two charts published by Meduza are based on voting data released by the Central Election Commission (CEC) for both the 2016 and 2021 elections for the two most popular parties: United Russia and the Communist Party of the Russian Federation (KPRF).

Both show a “comet effect” of votes rising for United Russia as the share of votes it won in a district tends towards 100%. Normally the distribution of votes in a free election should be a circle with a solid centre, which represents the majority voting for a party, that gets fuzzier as you move out left and right. Up/down represents the turnout.

In both the 2016 and 2021 elections there is a distinctive “tail” to the core of the results that rises for United Russia and falls for the KPRF, which strongly suggests ballot stuffing. The charts also show that the higher the turnout the higher the share of voting for United Russia, tending towards 100% turnout resulting in 100% vote for United Russia and 0% share for the KPRF.

Even more incongruent is the yellow “blob” on the right of the chart for United Russia near the 100% mark that represents the voting in Moscow. This blob doesn’t fit at all with the random distribution that should describe voting patterns and is doubly suspicious as Moscow is a hotbed of liberal voters that are more likely to use their votes to protest against the government than in any other region of the country.

Indeed, as bne IntelliNews reported the initial exit polls based on the paper ballot count showed United Russia losing almost all the 15 seats in Moscow, but the final count after the e-votes were included resulted in United Russia winning all the available seats.

Some pundits have speculated the blatant nature of the Moscow fix was designed to be a message to Muscovites that it was useless to protest as the Kremlin is in charge of the system and there is nothing the liberals can do to loosen the Kremlin’s grip on power. The absence of any protests following the vote suggests the residents of Moscow have succumbed to the Kremlin’s lesson.

However, both charts show a solid core to the voting which represents the results in the districts where voting was reasonable free and fair. As bne IntelliNews reported Russia has a hybrid democracy where the Kremlin needs to earn as many genuine votes as possible to avoid mass protests that result if the fix to reach key thresholds like a majority for United Russia are too extreme.

These cores suggest what the two parties would have won in the absence of ballot stuffing: around 30% for United Russia and almost 40% for KPRF.

According to Sergey Shpilkin, United Russia won roughly 40% of all party-list votes in 2016 at polling stations with “normal turnout.” In 2021, this figure dropped to 30.98%, though “normal turnout” barely changed, rising from 36.5% to 37.94%. The official results from Russia’s Central Election Commission had United Russia’s share of party-list votes slipping only marginally between 2016 and 2021, falling from 54.2% to 49.8%.
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