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bne Intellinews is published by Emerging Markets Direct OU

Print issue:  
£4.50 /$6.75 /€5.90  •  €499 / year

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The Czech government has seized unused gas storage capacity in a facility part-owned by Gazprom, the Russian gas giant, in order to boost the country’s gas reserves before the coming winter.

Under an amendment made to the country’s Energy Act, signed into law in June, the state can seize unused gas capacities in gas storage facilities across the country.

EU member states have agreed to raise the usage of their gas storage facilities to 80% before the start of November. Czechia has currently filled 81% of its storage capacity but only 35.9% of the capacity in the Damborice gas storage facility part owned by Gazprom is currently full.

Damborice is operated by Moravian Gas Storage (MGS), a joint venture (JV) owned by Gazprom and MND (Moravske naftove doly), which is part of the KKCG holding of companies of Czech billionaire Karel Komarek. Almost the entire capacity in the facility was leased to Gazprom.

The facility is one of the most modern underground gas storage facilities in Europe and its construction was commenced in 2013 following the establishment of the Moravian Gas Storage JV. Its overall capacity is 448mn cubic meters, and according to Czech TV the government has seized half its capacity, or 242mn cubic meters.

The new legislation stipulates that unused gas capacities need to be auctioned or the operators risk losing it. The Ministry of Finance said that no buyer took part in a recent auction organised by Moravian Gas Storage, according to Czech TV.

Gazprom has warned European consumers that they face further gas price pain this winter as its own supplies to the continent remain heavily constrained and soaring summer temperatures continue to drive up energy demand.

Following the Russian invasion of Ukraine, KKCG has been in talks over the transfer of its shares in Moravian Gas Storage to the Czech state in attempt to improve its image.

Besides energy, KKCG is active in the lottery business, which includes the takeover of once bankrupted Czech lottery behemoth Sazka or the recent successful bid in the UK National Lottery tender. Komarek’s close links with Russia have become an embarrassment to the gambling tycoon, and were raised by Camelot, the losing bidder in the UK National Lottery tender, in its failed attempt to keep the license. Komarek has written an open letter criticising Russia’s invasion.

According to KKCG’s website, MND is the fastest growing independent energy supplying company in Czechia.
China’s CATL to build €7.34bn battery plant in Hungary

bne IntelliNews

China’s Contemporary Amperex Technology Co Limited (CATL) will invest €7.34bn to build a 100 GWh battery plant in the eastern industrial hub of Debrecen, in close proximity to the car plants of Mercedes-Benz, BMW, Stellantis and Volkswagen.

The greenfield project on a 221-hectare site, the biggest ever to date, will create 9,000 new jobs. Rumours of the investment were first reported by bne IntelliNews in June.

“CATL’s Debrecen plant will enable it to better cope with the battery demands of the European market, improve its global production network development, and help accelerate e-mobility and energy transition in Europe,” the company said.

CATL’s second plant in Europe after one in Germany, will supply cells and modules to European carmakers. Construction will start before the end of the year. The government will disclose the amount of subsidies after shareholders approve the project.

The Chinese battery maker said it will use electricity from renewable resources to reduce the carbon footprint of the manufacturing facility, and is considering developing solar power with local partners in Hungary.

CATL is also weighing the possibility of establishing facilities for battery materials in Europe with local partners, the company added. “There is no doubt that our plant in Debrecen will enable us to further sharpen our competitive edge, better respond to our European customers, and accelerate the transition to e-mobility in Europe,” CATL founder and chairman Robin Zeng said, calling the greenfield project in Hungary a “giant leap” in CATL’s global expansion.

The investment shows the government took the right decision when it announced its strategy of opening up to China and made the electric vehicle industry a key part of economic development policy, Ministry of Foreign Affairs and Trade state secretary Levente Magyar said.

The Hungarian government has sought to attract the world’s leading EV battery producers and suppliers to diversify dependence on traditional vehicle manufacturing.

Two of the three largest South Korean EV makers are already present and are expanding production to meet soaring demand. Hungary’s proximity to European markets makes it an attractive investment destination.

“Hungary has the third-biggest electric battery production capacity in the world”

Hungary has the third-biggest electric battery production capacity in the world, after China and the United States. Capacities are set to triple from 50GWh a year to 150GWh by 2025, according to the government’s estimates.

Recent investments in the battery field have included Chinese automotive industry company NIO, which plans to build a HUF5.5bn (€13.4mn) battery swap station plant, and South Korea’s W-Scope, which will build a €720mn battery separator film plant in eastern Hungary.

CATL’s second plant in Europe, after one in Germany, will supply cells and modules to European carmakers. www.catl.com
Estonia and Latvia pull out of China-CEEC cooperation format

Linas Jegelevicius in Vilnius

Estonia and Latvia have followed Lithuania’s lead and will withdraw from the Beijing-led CEEC format for cooperation platform between Central and Eastern European countries and China. The platform, which was once called the 17+1, now has 14 members plus China.

The move comes amid Western criticism of China over escalating military pressure on democratically ruled Taiwan, which China claims as its own territory, and Beijing’s strengthening of ties with Russia during the invasion of Ukraine.

As reported by bne IntelliNews, relations between Lithuania and China worsened after the former allowed Taiwan to open a de facto embassy late last year.

Latvia’s foreign ministry said the country’s continued participation in the China group was “no longer in line with our strategic objectives in the current international environment”.

Estonia will continue to work towards constructive and pragmatic relations with China, which includes advancing EU-China relations in line with the rules-based international order and values such as human rights, spokespeople for the Estonian Ministry of Foreign Affairs told BNS, a Baltic newswire, on August 12.

Both countries said they would continue to work towards “constructive and pragmatic relations with China” while respecting the rules-based international order and human rights.

The Chinese embassies in Riga, Latvia and Tallinn, Estonia did not immediately respond to requests for comment.

The EU members of the now 14+1 format are Bulgaria, Croatia, the Czech Republic, Greece, Hungary, Poland, Romania, Slovakia and Slovenia are among countries that remain in the cooperation format. The West Balkan members are Serbia, Albania, North Macedonia, Montenegro and Bosnia and Herzegovina.

The Czech Republic’s foreign ministry said in May the promise of large Chinese investments and mutually beneficial trade were not being fulfilled, following calls within the country’s parliament to quit the group.

The Czech Republic’s foreign ministry said in May the promise of large Chinese investments and mutually beneficial trade were not being fulfilled, following calls within the country’s parliament to quit the group.

The Baltic states participated in the cooperation format of Central and Eastern Europe and China from 2012. Estonia has not attended any of the meetings of the format after the summit last February.

Lithuania pulled out of the format in May 2021. The country is now embroiled in a rolling trade and diplomatic spat with China.●

Estonia and Latvia have followed Lithuania’s lead and will withdraw from the Beijing-led CEEC format for cooperation platform between Central and Eastern European countries and China. / bne IntelliNews
The birth of a Kazakh banking empire: ATF Bank

Timur Isataev can still remember when Almaty Trade Finance (ATF) Bank reached a valuation of $500mn. The main accountant came to inform him of the milestone, and they even cracked open a bottle of champagne to celebrate.

ATF was a scrappy eight-year-old bank at the time. It specialised in financing foreign trade, which was relatively unexplored territory among Kazakhstan’s financial institutions. As one of the first non-state financial institutions in Kazakhstan, it was a pioneer in post-Soviet banking too.

The thirty-four-year-old Isataev had been working at the up-and-coming Temirbank, where his hopes of promotion were slim, when he was invited to become the new head of ATF Bank by its main shareholder Bulat Utemuratov. Isataev concedes that he was not bowled over by ATF Bank’s credentials at the time, describing it as a “small, sleepy but fairly established bank”, but he jumped at the opportunity nonetheless.

Installed at ATF, Isataev set himself and his team the ambitious target of turning it into a systemically significant bank. The accounting firm EY calculated that this would require the bank to own at least 8% of Kazakhstan’s banking assets – a spectacularly aspirational goal for a bank which was still significantly trailing Kazakhstan’s top 10 financial institutions.

The boom
The banking sector in Kazakhstan was a thriving but ruthless environment in the early 2000s. In 2002, Kazakhstan became one of the first countries in the Commonwealth of Independent States (CIS) to obtain investment grade ratings from international ratings agencies. Buoyed by a relatively successful series of reforms in the financial sector, banking assets were skyrocketing, and banks were touting new products like mortgages, leasing and consumer financing.

At the same time, the explosive growth of banks after the collapse of the Soviet Union gave birth to a host of poorly managed and undercapitalised banks which could not keep pace with tightening legal requirements and were slowly being acquired by bigger rivals. It was a case of eat or be eaten.

In order to go on the offensive and grow its assets, ATF Bank decided that it needed to expand in areas where it was poorly represented. That included a big push to attract more retail investors and develop a package of non-banking services, including an insurance arm and a leasing and investment company.

To stay ahead of the curve, however, ATF Bank needed to start acquiring other financial institutions. With this in mind, it looked abroad, buying three “daughter” banks in neighbouring countries: Kyrgyzstan’s Energobank, Russia’s Sibir and Tajikistan’s tiny Sokhibkorbank.

By 2006, ATF’s network comprised 150 branches in Kazakhstan and Central Asia, with assets worth over $8bn, their total value having risen by over 178% in just a year. According to the Financial Times, this gave the bank 11.8% of the country’s market share. To the great surprise of many observers, ATF Bank had turned itself into the second largest financial institution in Kazakhstan.

The bust
But the financial landscape changed dramatically after 2006. S&P downgraded Kazakhstan’s rating to a minimum investment grade level of BBB as private debt piled up and banks turned to increasingly risky lending. A financial crisis was looming not only for Kazakhstan but for the global economy too as housing markets teetered, trade declined and businesses collapsed.

On top of this, Kazakh banks were struggling to increase their capitalisation, and competition for new customers was heating up.
ATF Bank had two obvious options for attracting fresh capital: to go public or sell to a strategic investor. Having settled on exploring both options, the bank commissioned JP Morgan to assist with finding a strategic investor.

It received serious interest from six western banking giants, including HSBC, ING, BNP Paribas and Italy’s UniCredit. After painstaking rounds of whittling and presenting the bank to potential buyers, ATF Bank received two offers. The most attractive proposition came from UniCredit, which wanted to buy 100% of the bank’s shares for around three times the bank’s book value (total assets minus liabilities).

“AtF Bank had two obvious options for attracting fresh capital: to go public or sell to a strategic investor”

At this point, Isataev told Forbes how the main shareholder Bulat Utemuratov persuaded the CEO of UniCredit Bank Alessandro Profumo to fly to Astana for a single day to close the deal. After hours of negotiations which lasted until four in the morning and caused the planned celebration dinner to be cancelled, UniCredit agreed to increase its offer to five times the book value of ATF – around $2.3bn. The Financial Times hailed the deal as “the first big investment in Central Asia by a top Western financial services group”.

2007 was a big year for banking deals. Across Eastern Europe and Central Asia, established banks were looking for strategic investors and public shareholders to give them the edge over their peers. But ATF Bank’s deal with UniCredit was historic. At five times the book value, a bank which had been founded as a small outsider only 12 years ago secured the best-valued M&A in the region.

Déjà vu
As ATF’s new owners were learning the ropes in Kazakhstan, another bank was coming into existence. Banking mogul Bulat Utemuratov turned his attention to consolidating other Kazakh financial assets using the money and reputation he had gained in the UniCredit deal. He acquired Metrokombank in 2010, a bank which specialised in small business and corporates.

In 2014, Utemuratov went on to buy 80% of Temirbank – the same bank from which he poached Isataev – and 16% of Alliance Bank, later acquiring a controlling stake in the latter too.

“Signing these sales contracts is merely the first step on the path to reviving these two banks,” Utemuratov told Forbes after completing the purchases. “The process of reviving Temirbank will begin as soon as the deal is closed. As for Alliance Bank, there is still some joint work to be done with the Samruk Kazyna Fund and with creditors in order to ascertain the path to revival of the bank’s economic capital, liquidity and profitability. My team has considerable experience in Kazakhstan’s banking sector, and I am certain that, together with the Fund, we can bring both banks to a whole new level,” he added. Then in 2015, the three banks were combined under the name of ForteBank, which is listed on the Kazakhstan Stock Exchange. Like ATF Bank when Isataev took over, ForteBank is majority owned by Utemuratov. Also like ATF when its growth spurt began, Forte has surpassed its $500mn valuation.

“The market is now ripe for expansion in the banking sector, as large credit institutions are busy solving old problems. I want to build the best credit institution in Kazakhstan, which will be able to bring new standards of service to our country and spur the current competitive environment,” Utemuratov told TengriNews.

In July 2022, S&P Global Ratings upgraded ForteBank’s long-term credit rating from “B+” to “BB-”, with a stable outlook. S&P said that ForteBank’s capital reserves appeared to be increasing and predicted that the bank would go on to become one of the five biggest in Kazakhstan by assets.

ForteBank’s strategy involves growing all its business segments, but with a particular focus on digital solutions. “At the heart [of our strategy] lies a considered, conservative credit policy, digital products and services, and the creation of ecosystems for retail investors and business clients,” said ForteBank’s new chairman of the board, Bekzhan Pirmatov, when he was appointed in July 2022. “Continuity is very important to us, as is the continuation of an effective universal bank strategy aimed at growth in all business segments, with a focus on digital solutions,” Pirmatov said.

Just as in the early 2000s, Kazakhstan’s economy is growing dynamically relative to the rest of the world. GDP is set to increase by as much as 3.6% this year even as other countries face stagnation. With banking inextricably tied to the national economy, now seems a propitious time to build a second banking giant.
Chinese cars conquer Kazakhstan as Russian imports end

Almaz Kumenov for Eurasianet

Chinese carmakers are seizing market share in Kazakhstan amid shortages of cars and parts from Russia due to sanctions.

Astana Motors, a dealer with outlets across the country, announced last week it would soon begin importing units from Chongqing-based manufacturer Changan. Under the August 11 distribution agreement, Changan cars will start arriving in Kazakhstan directly from Chinese factories as early as September.

“It is an honour for us to represent China’s oldest and at the same time one of its most progressive automobile brands,” Astana Motors said in a press release.

Chinese brands have been making steady inroads in Kazakhstan.

Budget automaker Chery entered the Kazakh market late last year. By July, with its attractive financing plans, it had become one of the top 10 most popular cars on the market, according to the Association of Kazakhstan Automobile Business (AKAB), a lobby group. The more expensive Haval arrived in April 2021. Jac and Lifan have already been on the local market for a few years, with Jac being assembled in Kazakhstan’s northern Kostanai region.

According to AKAB, Chinese brands accounted for 3.4% of new cars sold in Kazakhstan in 2021, or more than 4,000 units, doubling the figure from the previous year. In the first seven months of 2022, four Chinese makes have already sold the same number of units as they had in all of 2021.

The growth appears driven not only by competitive prices, but also by advertising campaigns designed to combat widespread scepticism about the quality and safety of Chinese goods.

Kazakh customers also face little choice these days. Popular Japanese and European brands are simply not available. Many models were manufactured in Russia, where factories have been forced to suspend production due to international sanctions over Moscow’s war in Ukraine. That has caused an acute shortage of cars and spare parts in Kazakhstan.

Toyota Center Jetysu, an Almaty dealer of one of the most popular brands in Kazakhstan, told Eurasianet that it had suspended sales indefinitely due to a factory shutdown in St Petersburg.

In addition, Russian authorities have banned the export of many types of spare parts, causing prices to soar.

Kostanai-based SaryArkaProm – which assembles Chevrolet and Kia vehicles with parts imported from Uzbekistan and Russia and the Chinese Jac with parts imported from China – enjoys the largest market share in Kazakhstan. The share was at about 60% before the Ukraine war. The company said it is continuing to manufacture cars, but it refused to answer questions. It is unlikely that production has not been impacted.

Alexei Alexeyev, editor-in-chief of the Almaty-based automobile magazine Za Rulem, told Eurasianet that manufacturers from Europe have rerouted cargoes through Turkey, bypassing Russia, which has significantly increased shipping times and costs.

“Scheduled maintenance, which involves a simple change of oil, filters and spark plugs on my Volkswagen Tiguan has risen [in price] by 2.5 times this year to 192,000 tenge [$400], which is incredibly expensive,” Alexeyev said. “The crisis is unlikely to end soon, we can only hope for a supply of parts from China.”

Chinese firms appear eager to fill the vacuum. Delivery of cars takes no more than 18 days; spare parts arrive in about a week, according to a Chery distributor.

Alexeyev believes that, if the war-related shortages persist, Chinese producers will continue to increase sales in Kazakhstan, eating away at the share long enjoyed by Russia.

Local dealers are preparing for that eventuality. Nurlan Shamgonov, director of First Motor Group, the official distributor of Chery in Kazakhstan, said at an August 15 press conference in Almaty that in the next five years Chinese brands will take a leading position on the domestic market.

Almaz Kumenov is an Almaty-based journalist. This article originally appeared on www.Eurasianet.org
Russia to shut down Nord Stream completely for three days from August 31

Russia plans to close down the Nord Stream gas pipeline for three days between August 31 and September 2, in a move that will put further strain on the European gas market.

The only working compressor unit at the Portovaya compressor station on the Baltic Sea shore that handles Nord Stream’s gas flow will be closed so that joint maintenance can be carried out by specialists from Gazprom and Germany’s Siemens, the unit’s manufacturer. Once the maintenance has been completed, gas flow will be restored to the current level of 33mn cubic metres per day, representing just above a mere 20% of Nord Stream’s 55bn cubic metre per year overall capacity.

Nord Stream’s capacity has been constrained since mid-June, when Gazprom initially cut flow to 67 mcm per year, citing Siemens’ failure gas turbine equipment as a result of Western sanctions. One turbine in particular was stuck for some time in Canada, where it was undergoing repair, until Canadian authorities provided an exemption to enable its return to Russia. However, the turbine remains stuck in a German port, with Gazprom claiming it needs further assurances concerning Western sanctions to enable it to be delivered to Russia and reinstalled at Portovaya. The German government contests this, however, claiming Gazprom is deliberately stalling on its return.

Germany’s government has vowed to close down the Nord Stream gas pipeline for three days between August 31 and September 2, in a move that will put further strain on the European gas market.

Faced with the risk of serious gas shortages this winter, however, some German politicians are once again calling for the Nord Stream 2 project to be unfrozen. The latest to do so was Wolfgang Kubicki, vice president of the Bundestag, on August 19, who said the project should go ahead so that the pipeline should be allowed to operate so “people do not have to freeze in winter and that our industry does not suffer serious damage.”

“Faced with the risk of serious gas shortages this winter some German politicians are once again calling for the Nord Stream 2 project to be unfrozen”

Nord Stream 2 is physically ready to operate, but it requires certification in order to flow gas commercially. German Chancellor Olaf Scholz called for the certification process to be halted on February 22, after Russia formally recognised the
Companies & Markets

breakaway east Ukrainian regions of Donetsk and Luhansk as independent, and just two days before Moscow launched its all-out assault on Ukraine.

Kubicki, a member of Finance Minister Christian Lindner’s Free Democrats Party (FDP), one of the three parties in Germany’s ruling coalition, said the pipeline should be activated “as soon as possible” to fill gas storage facilities ahead of winter. He said there was “no sound reason not to open Nord Stream 2”, as Germany was already getting Russian gas supply from Nord Stream, and that getting “gas from Nord Stream 2 is no more immoral than from Nord Stream. It’s just a different pipe.”

His comments drew criticism from several other FDP members, however, including Marie-Agnes Strack Zimmermann, the chair of the Bundestag’s defence committee, who responded by saying “Nord Stream 2 is dead.” Ukrainian Foreign Minister Dmytro Kuleba also hit back, warning that “addiction to Russian gas kills.” However, his views are apparently not shared by much of the German electorate. According to a Forsa survey, reported by Der Spiegel last week, two thirds of Germans would have no problem with the country receiving gas from Nord Stream 2.

German gas storage facilities are now fairly full, at 78.9% of capacity as of August 20, but the high cost of energy imports is pushing a number of German energy utilities to the brink of bankruptcy, meaning the government may have to step in and offer further bailouts as it did with Uniper earlier this year.

Samsonite packs its bags and sells its Russian business to the 'suitcase king'

Ben Aris in Berlin

In the latest exit of an international brand, the Russian division of the US suitcase manufacturer Samsonite has been sold to its local management for an undisclosed sum, Vedomosti reported on August 23.

The company suspended its operations in Russia in March shortly after the invasion of Ukraine. Samsonite International sold 30% of Samsonite LLC to CEO Andrey Yazykov and 70% to the local company’s president Vyacheslav Shikulov.

The deal was closed on July 8, at the same time Samsonite was renamed Chemodan Pro (“Suitcase Pro” in Russian), according to SPARK-Interfax. The amount was not disclosed but Vedomosti reports that analysts estimate the value of the brand in Russia at around $100mn, although this could have been greatly reduced by the effect of the sanctions and the deal may have closed for only a token sum.

Luxury luggage brands are surprisingly aggressive in opening up emerging markets very quickly as there is always a rich elite of “new money” in these markets and people tend to buy their luggage for life, making it important to get into new markets quickly.

Since its entry Samsonite has built up a retail network and Infoline Analytics estimates it is losing RUB2.5mn ($41,800) per day after it closed its 37 stores from which it earned RUB3bn ($50mn) in 2021, according to SPARK-Interfax. According to Infoline-analytics, the share of Samsonite in the Russian luggage market last year was more than 14%.

It is not clear what Chemodan Pro intends to do with the retail chain, but one of the options open it is to continue to sell Samsonite luggage, but as a parallel import where the new owners do not deal with the parent company directly any more, but source the product via an intermediate based in a “friendly” country like Turkey, ignoring Samsonite’s intellectual property rights and forgoing Samsonite LLC’s exclusive distribution deal with the US company.

The deal is interesting as a management buyout of Russian subsidiaries is an obvious and easy exit for most international companies. The oil service companies like Schlumberger mostly entered the Russian market by buying a local company in the same sector and retaining their management. Now they are leaving again and forced to sell at a deep discount. These managers are an obvious exit. Moreover, as
many of the departing international companies will leave the majority of their equipment and locally hired staff behind as part of the deal, it is relatively easy for the new owners to continue the company’s business.

A controversial Yale report estimated that some 1,000 international companies have shuttered their businesses, or at least are suspending operations for the meantime, with a combined value of 40% of Russian GDP. As the Samsonite deal illustrates, the departure of the company will not reduce the Russian economy’s value by $50mn as the company will continue to operate and in this case will possibly continue to sell Samsonite suitcases as before, having little impact on the economy other than causing Samsonite a large one-time write-off from the forced sale.

Those losses are painful and as by far the largest consumer market in Europe in terms of population, many international companies are reluctant to abandon Russia completely. “It looks bad from the outside, but it’s a gold mine” the French head of Russian subsidiary of DIY chain Leroy Merlin told bne IntelliNews in an interview a few years ago.

**IKEA will make a comeback**

This explains why on August 24 Sweden’s IKEA announced it will not sell its Russian business and will reopen its stores in two years’ time.

The Swedish furniture store is arguably one of the most committed of all international brands to the Russian market, and was trying to get into the market in the 1970s during Soviet times. The 2000 opening of its flagship Khimki store is widely seen as a landmark in Russia’s retail history and the starting point for the Putin boom years that transformed so many Russian lives. Since then the iconic furniture store has invested heavily in Russia and throughout the region as bne IntelliNews detailed in a feature on the IKEA Empire.

The company told Russian newswire Tass that is not looking for a buyer of its business in Russia and plans to reopen stores and warehouses within two years.

IKEA has just finished a sell-off of its stock via its website and mothballed its stores. Warehouses and stores will remain closed until the retailer’s return, and plants in case of their sale will provide IKEA with a right to produce goods in future at contractual prices, a source told Tass.

“IKEA is not going to sell its business in Russia, what it has never done in other countries also. The retailer plans to return to Russia independently within a year or two, after the change of the economic situation and sanction pressure softening. Stores, the so-called ‘blue boxes,’ will remain closed until the return of IKEA and will probably be let on lease since the next year. The company at the same time keeps about 700 employees that will continue working in offices and do the job for Swedish colleagues,” the source added.

“Keeping the corporate culture and working standards for IKEA” was the decision in principle when accepting the scenario of operations suspension in Russia, the source noted.

“The company is selling plants in view of pressure from Sweden but with the option that these plants will later produce furniture and other merchandise under its orders at an acceptable cost. The strategy is to vacate warehouses and retain stores not yet closed so far,” the source added.

**MBOs**

The transfer of business to local franchisees or management is one of the options for maintaining a presence in the Russian market for many companies, since leaving the country is unprofitable for most of them.

Experts speculate that Samsonite’s MBO deal may include an option for returning the company to Samsonite International should the political landscape change in the future, as has been included in other deals. For example, McDonald’s agreement with businessman Alexander Govor, who is now the owner of the Russian clone Vkusna i Tochka (Delicious. Period.) contains a buy-back clause at any time within the next 15 years, reports Vedomosti.

And Chemodan is likely to flourish, reports Vedomosti, calling its president Shikulov “Russia’s suitcase king”. A pioneer of the market, he was the one that facilitated that aggressive early entry into Russia that luxury luggage companies are prone to. In addition to Samsonite, Shikulov actively brought several other leading brands to Russia, as was typical in those days. Russia was such a difficult market to operate in during the wild 90s, international companies were happy to give exclusivity to any local distributor that was prepared to pay cash up front and take on the onerous task of clearing the goods through customs. Traders that could manage this quickly became millionaires and with their resources expanded fast to sign up other producers of related goods, building little empires in the process.

According to SPARK-Interfax, Shikulov is also the CEO of Accessorize Rus (selling bags, gloves, shawls, jewellery, etc. under the British Accessorize brand) and Bozhzhi Rus (selling the Italian clothing brand Boggi Milano), as well as a board member of Guess CIS. His Robinson Logistics also represents the Italian underwear Calzedonia franchise network in Russia.

Under the terms of the deal, Samsonite stores will start to reopen this month under the new brand “Suitcase Pro”, Vedomosti reports. Some of the biggest outlets in Moscow in the flagship stores in the Metropolis mall, Atrium and Europa shopping centres in Moscow have already been rebranded and reopened, as well as at the Greenwich mall in Yekaterinburg.

The company’s website says that it is a network of premium multi-brand luggage and travel stores selling Samsonite, American Tourister, Lipault, Tumi brands (all owned by Samsonite International).
What's the current outlook for Belarus' export sector?

In early February, before Russia began its full scale invasion of Ukraine, bne IntelliNews reported on the expectations for Belarus' foreign trade in 2022. Only 15 days later, the situation changed immensely, as sanctions piled up against Belarus and its most important trading partner Russia.

Throughout the year, Belarusian officials have admitted that the sanctions are taking a heavy toll on the foreign trade-dependent Belarusian economy. Belarusian strongman Alexander Lukashenko has nevertheless repeatedly stated that the Belarusian economy should perform just as well as last year. However, that Belarus will be able to maintain the same level of growth as last year is more than doubtful.

Blocked transit routes
As Lithuania implemented a transit ban on the transit of Belarusian fertilisers on February 1, Belarus was deprived of one of its most important transit routes.

Shortly after, Estonian journalists revealed that Belarus had most likely been circumventing EU sanctions on its refined petroleum products through Estonian ports, which led to the Estonian government cutting off Belarus from another transit route. As it stands today, Belarus has no chance of exporting over 30% of its yearly exports through the Baltic ports as it usually does.

Following the war in Ukraine, Belarus was also deprived of access to the Odesa port; and despite Lukashenko's suggestion to UN General Secretary Antonio Guterres, no deal was struck to allow Belarusian fertilisers to go through the Baltic ports in exchange for Ukrainian grain being let through Belarus.

Moreover, having invested in railway transit through Ukraine, a lot of Belarusian assets remained in Ukraine after February 24. As of July 28, Ukrainian media reported that UAH39bn (approx. $1bn) of Russian and Belarusian assets had been seized in Ukraine.

Last year, Ukraine received 3% of Belarus' exports. Today, Ukraine has more or less terminated all economic ties to Belarus as its National Bank has even prohibited the trading of the Belarusian ruble (BYN).

To make matters worse, many of the seized Belarusian assets in Ukraine are freight railway carts specifically needed to transport fertilisers and petroleum products. Therefore, Belarus will need to buy new ones even if it manages to use Russian ports, a cost which the Belarusian state budget most likely can't bear at the moment.

In the short term, the negative outcomes of this transit problem are obvious – Belarus exports will fall tremendously. Last year's GDP growth of 2.5% was mostly driven by high commodity prices on foreign markets, and while prices of fertilisers and petroleum products remain high, Belarus simply cannot access these markets today.

"Belarus has no chance of exporting over 30% of its yearly exports through the Baltic ports as it usually does"

The long and medium term effects are a little more unclear. However, as some of Belarus' largest potash buyers (Brazil and India) are currently looking to broaden their potash supplies to new trading partners, Belarus risks losing long-term potash deals.

Other industries suffering under sanctions
Belarus' military-industrial complex has also been hard-hit by western sanctions due to the sanctions against certain dual-use machinery.

According to Belarusian PM Roman Golovchenko, Belarusian defence companies today engage in both import substitution as well as joint R&D projects with Russian companies to counteract the effects of these sanctions.
However, the sanctions on machinery exports to Belarus have long-reaching effects on the economy.

An official from the state development bank recently admitted in an interview on state TV that Belarus’ tractor production, a flagship industry for the regime, is facing major delays in production due to problems with payments, supply lines and finding buyers. While a tractor was previously assembled in 90 days it now takes up to six months according to the official.

Due to this, the state development bank had begun lending money to the country’s mechanical engineering industry to support its production.

At the same time, Belarus’ only promising sector, the IT sector, is stagnating as Belarusian IT companies are unable to close new deals for several reasons: Belarusian banks disconnected from SWIFT; Western companies don’t want to get involved with Belarusian companies; and, the qualified workforce is leaving the country due to political repressions. bne IntelliNews reported on this problem in July in two separate articles (Part I and Part II).

**Trade balance**

After February 24, the Belarusian ruble plummeted against the US dollar. On June 11 it reached its lowest point against the US dollar, having decreased by 26% compared to its exchange rate on February 19.

On July 7, the Belarusian ruble bounced back, and currently has a higher exchange rate to the US dollar than it did before February 24. While this increase could be the result of undisclosed financial operations conducted by the Belarusian National Bank, a large part of it most likely pertains to Belarus’ managing to redirect its supply chains during this year.

Belarus’ response to the Western sanctions was the rapid implementation of an import substitution programme, which is coordinated with Russia. It also implemented a number of lending and forced rehabilitation programmes for companies facing bankruptcy.

As a result of being disconnected from SWIFT, lower domestic demand due to economic stagnation and this import substitution programme, Belarus is also decreasing its imports, which improves the country’s trade balance.

According to a recent report by the Eurasian Development Bank, Belarus’ exports decreased by 30% in the first half of 2022. The decrease peaked in April with a 22.9% year-on-year decrease, before slowly recovering in June, when exports decreased by only 0.4% y/y.

However, imports are decreasing faster than exports. While Belarus’ trade deficit was $1.1bn in January-June 2021, it was estimated to be $0.05bn in January-June 2022.

It’s worth keeping in mind that large and fast changes in the structure of imports also have other effects besides improving the trade balance.

The import substitution programme’s aim to source more components and products domestically means that many small and medium sized companies will need to rapidly scale up their production to meet the demand from large state owned manufacturers.

This will not only mean production delays (such as in the case of the tractors) but it also means that many more people rapidly need to be employed in these industries. While decreasing unemployment is also good, such fast changes will certainly push up salaries and the inflationary pressure in the economy.

Belarus’ inflation in June has been estimated at 15.9% y/y, and the rapid scale-up of domestic production accompanied by the high demand for domestic products can be expected to push up the inflationary pressure even more.

**Expectations**

So, what is the current outlook for Belarus’ export sector? Firstly, a few things must be presupposed: current Western sanctions remain, are increased and/or tightened while Belarus continues to implement its import-substitution programme with Russia, while at the same time the IT sector stagnates, and qualified workforce continues to leave the country.

All this considered, Belarus’ import-substitution programme will dampen some of the negative effects from the Western sanctions regime. As a result of increased trade with Russia, the Belarusian ruble may remain on a stable level against western currencies but fall against the Russian ruble as the trade balance will most likely be tilted in Russia’s favour.

Many more Belarusian companies will have to take loans from the state or be transferred to state control so as not to declare bankruptcy. Belarus’ mechanical engineering industry, potash producers, petroleum refineries and most recently the Miory Steel Rolling Mill are all standing in line for massive state subsidies or state takeovers.

Belarus needs to find new business partners that can sell its companies the components they need for their production. Belarus needs to find new transit routes for its commodities to increase the inflow of foreign currency to its state coffers. Qualified workforce needs to stop leaving Belarus so that its IT sector doesn’t stagnate.

Unless Belarus manages to fix these problems, the economy will merely stagnate while inflation levels continue to rise.
Kyrgyzstan’s mining sector wilts as authorities seek total control

Alisher Khamidov for Eurasianet

In the government of Kyrgyzstan’s relations with the mining industry, appetite comes with eating. In May 2021, the authorities moved to finally put an end to a decades-long saga of legal tussling with Canada-based investors by simply seizing the Kumtor gold mine that they were developing.

Officials said at the time that the takeover would only be temporary; that Kumtor, which has at times in its history accounted for more than one-tenth of the country’s economy, was being placed under a temporary period of state stewardship. But the following April, the government announced it had reached a settlement to take permanent control over Kumtor Gold Company.

Industry observers worry that Kyrgyz authorities are itching to drive out yet more private mining companies so that they can place the bulk of the industry into the hands of a single state-run enterprise.

A lot is at stake.

As Askar Sydykov, the head of the International Business Council, or IBC, a Bishkek-based lobbying group, told Eurasianet, the mining sector accounts for 20% of government revenues and provides employment to more than 20,000 people.

People like Sydykov worry this could all be threatened by the government’s intrusive and regulatory approach, which reached its apogee last year.

In August, the government adopted a decree enabling state-controlled companies to obtain subsoil-use licences without needing to take part in public tenders. Legislation typically requires that any company aspiring to develop natural resources, such as a gold or silver mine, need to compete for the privilege.

One month later, private investors were dealt another blow when the government introduced more onerous mining licence renewal fees. State companies, meanwhile, would be exempt from such fees under the new rules.

And then, in October, the authorities mandated a tenfold increase in fees for the use of water drawn from rivers and lakes by mining companies. State companies, sure enough, are exempt from fees for doing the same thing.

In laying out the logic behind all this to the country’s security leadership in November, President Sadyr Japarov made it clear that the new rules were intended to expel what he considers to be shady operators from the industry.

“Industry observers worry that Kyrgyz authorities are itching to drive out yet more private mining companies so that they can place the bulk of the industry into the hands of a single state-run enterprise”

“We conducted an audit of all previously issued licences. Strong elements of corruption were found. There are cases when the same people bought 20 or 30 licences within a five- to 10-year period,” he said. “And what do they do with [those licences]? They sit on them while discreetly looking for potential buyers to whom they can resell those licences for one or five million som [$12,500-$63,000].”

New rulers, new rules: Bolturuk and Japarov at Kumtor. / president.kg.
The regulatory fever, which mining insiders complained happened without them being consulted, had the requisite result.

As of mid-July, around 100 companies or individuals had relinquished their claim to a mining licence, citing high renewal fees. Last year, the IBC estimated that anywhere up to 90% of licence-holders might go down the same path. The end-game started to look a little more clear when the head of the Cabinet, Akylbek Japarov (no relation to the president), in December approved the creation of a new, fully state-owned mining holding company called Heritage of the Great Nomads. As described in an official press release, Great Nomads is intended to serve as a “large integrated structure that can optimise the deployment of state resources in the implementation of subsoil projects.”

Kumtor was placed under the tutelage of the holding company, as were dozens of other sites. Great Nomads was also given control over several hydropower generation facilities and holiday resorts in the Issyk-Kul region.

In February, Tengiz Bolturuk, the man who had been put in charge of Kumtor when it was wrested from the control of Toronto-listed Centerra Gold, was appointed chief executive of this new behemoth.

Bolturuk has not endeared himself to Kyrgyz mining insiders or lawmakers.

President Japarov’s trust in him has ensured him a smooth ascent right to the top, however.

Like the president, Bolturuk was born in the Issyk-Kul region. He obtained a mining degree at the Moscow Steel and Alloy Institute in 1987 and returned to Kyrgyzstan after working for a brief period as a mining engineer in Russia. His story is that he was involved in early operations at the Kumtor mine in the mid-1990s. By the end of that decade, he had moved to Germany to continue his studies. In 2002, he emigrated to Canada and eventually obtained Canadian citizenship, which he continues to hold along with Kyrgyz citizenship – a fact that has inspired much disdain among lawmakers. Again according to Bolturuk’s own personal history, he has racked up experience working on 18 separate mining projects in 13 countries.

The call to return home came from President Japarov himself. Newly sprung from prison, where he was serving a sentence on abduction charges, Japarov in late 2020 turned to Bolturuk to implement a root-and-branch revamp of the mining industry.

Bolturuk’s high-handed manner has grated, however. While in charge of Kumtor, he angered members of parliament by declining to brief them on progress in negotiations with Centerra or on how revenues from Kumtor were being spent.

There was more exasperation in June when it emerged that Great Nomads had installed itself in a central Bishkek office costing $50,000 a month. Lawmakers complained this was too high a price.

Jenishbek Toktorbayev, one of the liveliest critics of Great Nomads in parliament, accused Bolturuk of trying to fashion himself into a latter-day khan.

“My dear Tengiz Bolturuk, everyone is equal before the law. Come to your senses while you still have the time. Who gave you the right to waste people’s money like this?” Toktorbayev said in parliament.

The complaints appeared to have an effect. On June 21, the president’s spokesman, Erbol Sultanbayev, said the office relocation had not been approved by the country’s leadership and that Bolturuk had been reprimanded.

In another attempt to mollify Bolturuk’s critics, the government said it had launched an investigation into how Great Nomads was managing revenues from Kumtor.

Important people have Bolturuk’s back, though. Speaking to lawmakers, the head of the security services, Kamchybek Tashiyev, dismissed criticism of the mining chief as unfounded. As long as Bolturuk’s powerful supporters are around, the nationalisation agenda will likely remain in place.

For Sydykov, the head of the IBC lobbying group, the drift toward state control portends little good.

“We and the government need to settle on which road to take. Should we follow the market economy with minimal state interference in the economy, as they do in developed countries?” he said. “Or should we go with a command economy, a planned system, which has proven to be unsustainable in practice. We are seeing that the [Kyrgyz] authorities are settling on the second path, not only in the mining sector, but also in other areas.”

Alisher Khamidov is a writer based in Bishkek.

This article originally appeared on Eurasianet.org
Afghanistan pays electricity debts to Uzbekistan but still owes Tajikistan

Joanna Lillis for Eurasianet

Afghanistan has settled its multimillion-dollar outstanding debts owed to Uzbekistan for electric power supplies, the Uzbek Energy Ministry has announced.

The Da Afghanistan Breshna Sherkat, or DABS, power company has fully settled what it owed Uzbekistan for the 2,151.3 kilowatt hours of electricity supplied in 2021, the ministry reported on August 1.

DABS is also paying on time for this year’s supplies, it said.

The Energy Ministry did not specify the size of the debt that had been owed. However, in May the Afghan government said it owed Uzbekistan and Tajikistan $100 million for electricity, the bulk of it, in the region of $70 million, due to Uzbekistan.

It had been unable to pay because of problems with the country’s sanctioned Taliban rulers transferring funds via the international banking system.

Now it has found a solution of some sort, although neither side explained what that was.

Tajikistan, by contrast, says it remains unable to receive the funds it is owed.

Makhmadumar Asozoda, the director of the national power supplier Barqi Tojik, said on August 2 that the company had been unable to resolve the problem of outstanding debts since the Taliban seized power a year ago.

“Owing to the geopolitical situation in the region and in the world, when some banks financing the purchase of electricity came under sanctions, it has become complicated to transfer funds from the Breshna [DABS] company to Barqi Tojik,” Radio Ozodi quoted him as saying.

The Afghan company “is working on the matter,” he added.

In July Tajikistan received $2 million from Afghanistan toward the debt, which now stands at $28 million, Asozoda said.

The debt has increased since February, when Afghanistan had owed $27 million, though it is down from $33 million at the start of the year.

Afghanistan imports over 80 percent of its electricity, at an annual cost of some $220 million, according to the Special Inspector General for Afghanistan Reconstruction (SIGAR), a watchdog created by the U.S. Congress.

Uzbekistan is its biggest electricity supplier. This year, around half of Afghanistan’s imported power is coming from Uzbekistan, and most of the rest from Tajikistan.

Both have long-duration electricity supply agreements signed before the Taliban returned to power, which are adjusted annually.

Uzbekistan is contracted to supply Afghanistan with 2.2 billion kilowatt hours of power this year, of which it has already supplied 770 million, the Energy Ministry said.

Last month the ministry said it had reached an agreement with Afghanistan to restart a project to build a new power supply line from Uzbekistan which had stalled after the Taliban takeover.

Construction inside Uzbekistan is complete, and it has now been agreed that building will resume in Afghanistan by the end of August.

Tajikistan is committed to supplying 1.5 billion kilowatt hours of electricity to Afghanistan this year, of which Asozoda said it had already sent 734 million.

The Afghans are contracted to pay Uzbekistan $100 million and Tajikistan $69 million for the power supplies.

Neither Uzbekistan, which enjoys cordial relations with the Taliban, nor Tajikistan, which does not, have turned off the lights over the unpaid debts, luckily for their neighbors over the border.

Any halt to electricity supplies from Central Asia risks leaving over 10 million Afghans in the dark, the United Nations Development Program, or UNDP, has previously warned.

Joanna Lillis is a journalist based in Almaty and author of Dark Shadows: Inside the Secret World of Kazakhstan.

This article originally appeared on Eurasianet.org.

www.bne.eu
Russia's largest provider of foreign ETFs (Exchange Traded Funds) FinEx plans to appeal to the Belgian Finance Ministry and the Central Bank of Russia (CBR) to gain permission to buy back shares in its funds from Russian clients, according to Kommersant daily.

The funds remain blocked in the National Settlement Depository's (NSD) accounts of Euroclear due to the EU's sanctions for Russia's military invasion of Ukraine. Previously Clearstream and Eurostream depositories issued explanations on the EU sixth sanction package, stating that any operations with the Russian NSD will be considered as sanction-busting.

However, as reported by bne IntelliNews, the EU permitted transactions with the NSD by EU counterparties under two conditions. First, the NSD must not receive any profit from the transactions. Second, the transactions must be approved by the counterparties’ respective national regulators.

For example, in the case of Euroclear, it would be necessary to obtain approval from the Belgian Treasury Administration.

FinEx will now have to obtain a favourable opinion from the Belgian regulator that such transactions do not violate sanctions restrictions. Eventually down the long regulatory road, FinEx could be able to redeem its ETF shares from non-sanctioned Russian investors into accounts of another foreign broker.

According to the Moscow Exchange, FinEx had 22 ETFs listed on it at the end of 2021 with a total net asset value of RUB99bn, which is 98.5% of all funds of this type on the exchange.

FinEx has resumed the net asset value (NAV) calculations for 21 of the 22 remaining ETFs with combined assets of $1bn (RUB60.5bn), but the actual operations have been suspended due to a Euroclear ban.

Previously Tinkoff Bank (TCS banking group) said it would buy back blocked ETF Tinkoff Perpetual Portfolio USD for RUB500mn, according to Kommersant.

Some analysts surveyed by Kommersant doubt that the Belgian Ministry of Finance will dare to set a precedent in unfreezing toxic Russian assets. Others believe that a positive outcome is possible, but note that there are not many qualified lawyers in Russia able to deal with such a complex sanction case.

FinEx will also have to perform its own due diligence to identify sanctioned clients in the client base. Finally, the company would have to convince the CBR to waive the ban on transactions with “unfriendly” countries.

It was previously estimated that over 1mn Russian retail investors have seen their investment in foreign stocks and other securities worth over RUB2 trillion blocked due to the fallout of Russia’s military invasion of Ukraine.

NSD is a subsidiary of the Moscow Exchange and Russia's central securities depository, which is the main registry of the property rights for securities. The NSD also holds depository receipts of the Russian issuers that were listed abroad prior to the invasion, but are now delisted abroad apart from a dozen government-approved exceptions.

“Over 1mn Russian retail investors have seen their investment in foreign stocks and other securities worth over RUB2 trillion blocked”
Russian equity brokers have started offering unqualified retail investors investment opportunities at the pre-IPO (initial public offering) stage, The Bell and Kommersant daily reported citing a new product by Alfa Investments, part of the sanctioned Alfa Group of billionaire Mikhail Friedman and Peter Aven.

As followed by bne IntelliNews, prior to the military invasion of Ukraine the Russian equity market was going through an IPO boom, in part fuelled by the retail investment revolution. But as the barrage of Western sanctions has Russian issuers cut off from the global financial markets, the investment bankers need to get creative to raise equity for their clients.

Reportedly, now Alfa Investments is the first to raise retail funds for pre-IPO equity investment through a mobile app with the minimum lot size of only RUB10,000 versus pre-invasion threshold of tens of thousands of US dollars.

The crowdfunding is being organised through Alfa Bank’s partner, the investment platform company Rounds (formerly StartTrack), according to Kommersant. The first company on the platform will be foodtech startup Mealjoy, with whose shares can be purchased until August 30.

The crowdfunding market previously grew actively: in 2021 it stood at RUB4.7bn (36% of total equity raised from retail clients), but dropped to RUB1bn in 1Q22.

Previously pre-IPO products have been provided by other brokers, such as BCS, Renaissance Capital, Tinkoff Investments, Finam, but only for qualified investors and with a much higher entry threshold (from $1mn for large investors and from $50,000 and above for medium-sized investors).

Only 550,000 Russians, or less than 1% of the economically active population, had qualified investor status as of August 1, 2022. And out of about 27mn individual brokerage accounts in Russia, 65% remain inactive and contain no funds.

Analysts surveyed by Kommersant and The Bell believe that pre-IPO projects could be interesting to a certain narrow circle of retail investors, but such investment format is not widespread in Russia due to the numerous barriers to start-ups.

Pre-IPO products that do not involve direct distribution of shares to the investors could be more complex for unqualified investors to grasp, and ultimately much riskier. This is why such products are very likely to be shut down by the Central Bank of Russia (CBR). As followed by bne IntelliNews, the regulator is now concerned that unqualified individual investors will find it hard to navigate the heavily sanctioned financial market.

Moody’s downgrades Turkey to six notches below investment grade

Moody’s Investors Service has downgraded Turkey’s sovereign rating by one notch to B3 with a stable outlook, taking it to six notches below investment grade, the rating agency said on August 12.

Pressure on the balance of payments has risen and the increasingly unorthodox policies from the Erdogan administration are unlikely to restore macroeconomic stability, Moody’s said.

Looking at other credit rating agencies’ assessments on Turkey, Fitch Ratings rates Turkey at B/Negative, five notches below investment grade, while Standard & Poor’s has Turkey at B+/Negative, four notches below investment grade.

More downgrades are on the way.

Prior to the Moody’s hit, speculation on President Recep Tayyip Erdogan’s search for a way out of Turkey’s economic mess (by now a most pressing matter for Erdogan with...
The Czech National Bank (CNB) board kept its key interest rate at 7% – putting an end to a series of nine rises – when it met on August 4 for the first time following the changes in the board membership and the appointment of new Governor Ales Michl.

The move makes the CNB the first bank in Emerging Europe to halt the tightening cycle, according to UK-based forecaster Capital Economics. Meanwhile, the US Fed and the ECB are just beginning their own tightening cycles.

“The interest rate is at a level that halts demand, slows down the growth of bank loans for enterprises and households, and halts the growth of money supply in the economy”, Michl told a press conference. Many forecasters predict that the Czech economy will slip into recession around the turn of the year, as, like many countries, it struggles with stagflation.

While a board member, Michl always voted against rises in the interest rate, arguing that the causes of inflation were elections due by June 2023 at the latest) was again rife. Some media coverage in the wake of Erdogan's recent Sochi summit with Vladimir Putin focused on incoming capital from Russia. Analysis suggesting Turkey's credit default swaps (CDS) were recovering thanks to the Russian money followed. Such articles did not mention the fact that emerging markets CDS were simultaneously in recovery in general.

The month of August usually brings about shaky markets as liquidity dries up during the vacation period. However, for the financial industry, August this year has so far proceeded in an extremely positive fashion (as positive as possible amid the global tightening).

There is no guarantee, however, that the second half of August will continue in the same fashion. The mood could change. On September 21, the Fed's open market committee is currently expected to deliver another 50bp rate hike.

Since 2016, Qatar has been seen coming to the rescue amid Turkey's economic collapse. Since last November, the United Arab Emirates (UAE) has joined Qatar in the mission. Saudi Arabia, last month, and Vladimir Vladimirovich Putin are now said to have signed up to provide economic assistance. Current press coverage suggests Putin is supposed to send $15bn and Saudi Arabia $20bn. Previously, the word was that the UAE was poised to send hundreds of billions of dollars (No joke. This was written. Some reports referred to “hundreds of billions of dollars”). Qatar has occasionally been said to be willing to send billions and billions.

On August 3, Erdogan's finance minister Nurettin Nebati, said that some FDI was incoming and that the central bank would release its reserve figures in the upcoming week.

Prior to Nebati’s comments, some “unnamed sources” told Bloomberg that Russia would send $15bn in instalments. Amid the stories of Russian capital, the Turkish central bank’s gross international reserves rose from $98bn as of July 22 to $101bn as of July 29 and to $109bn as of August 5.

In the same period, the gross FX reserves rose from $60bn to $61bn to $68bn while the gross gold reserves rose from $39bn to $40bn and $41bn.

Some more stories on financial rescues will definitely go into circulation in the coming days, but there is no certainty that the figures on the reserves will go up in line with said events.●

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### Czech central bank ends cycle of increasing interest rates

**Albin Sybera**

The Czech National Bank (CNB) board kept its key interest rate at 7% – putting an end to a series of nine rises – when it met on August 4 for the first time following the changes in the board membership and the appointment of new Governor Ales Michl.

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Companies & Markets

The CNB is the first bank in Emerging Europe to halt the tightening cycle, according to UK-based forecaster Capital Economics.

a temporary external cost-push, and could not be tackled by raising rates, which would just damage industry.

“Today’s decision to keep rates on hold demonstrates the stark contrast between the new board and the previous one, which had been the most hawkish central bank in the region over the last few years”, wrote Joseph Marlow, Assistant Emerging Europe Economist at Capital Economics.

The Czech crown initially fell on the news but later recovered to around 24.57 to the euro, up 0.5%, according to Reuters.

The CNB was, with Hungary’s central bank, the first to raise interest rates in June last year, ahead of the current surge in inflation, and has continued to do so to try to change inflationary expectations. The June inflation level in Czechia of 17.2% is one of the highest in Europe, pushed by rises in energy and food prices. “We expect inflation to reach levels around 20% in the autumn”, said Michl.

The CNB worsened its inflation outlook, as the inflation projection was upgraded from 13.1% to 16.5% in 2022, and from 4.1% to 9.5% in 2023.

The Czech economy is one of the few globally that has yet to return to its pre-pandemic size, said Capital Economics in a note last month. Persistent issues in the industrial sector have weighed on exports and investment has been sluggish.

Czech PMI figures released this week showed that rising inflation has dampened domestic and export demand, while putting up companies’ input costs as they continue to grapple with supply chain problems.

The CNB forecasts a 4Q recession equal to 1.3% peak-to-trough, but it expects overall GDP growth of 3.6% for this year, better than its previous forecast, and downgrades growth next year to 1.1%.

The CNB’s prognosis for the CZK currency is an average annual currency rate of CZK24.80 to the euro this year. The bank said it would continue preventing excessive fluctuations of the crown, a policy that has helped the Czech crown to be the best performer in CEE so far this year, according to Reuters.

Michl was appointed the governor of the CNB by President Milos Zeman – who also appoints the CNB’s board members – in May, effective of July 1, sparking an immediate sell off in the Czech crown. Michl has vowed to keep CNB a conservative institution under his watch.

Many analysts pointed out Michl’s proximity to populist former premier Andrej Babis – Michl worked as Babis’ advisor and after Babis’ ANO made it to the Czech parliament for the first time in 2013 Michl was seen as ANO’s top choice for finance minister before Babis took the job himself. Babis also openly welcomed the appointment of Michl as the CNB’s governor.

Kyrgyzstan: Where have all the dollars gone?

Ayzirek Imanaliyeva for Eurasianet

For the past month, Kyrgyzstan has been experiencing a severe shortage of dollars. Banks are rationing how many greenbacks they give customers – when they have any to give out in the first place.

As with many other problems these days, this one has its roots in Russia’s war against Ukraine.

In an attempt to maintain the stability of the foreign exchange market in Russia, the government there banned the export of anything more than $10,000 in hard currency.

As Aida Karabayeva, an official representative of the National Bank in Bishkek, told reporters earlier this month, Kyrgyzstan has customarily received most of its dollars from Russia or Kazakhstan.

Now, something else is happening. Russian nationals have been transferring or bringing large amounts of rubles to Kyrgyzstan and then cashing them out as dollars.

The National Bank in March banned companies from taking dollars out of the country, but no such prohibition is in place for individuals.
The outflow of dollars has left the country running at a roughly 7-10% deficit of the currency to requirements, Karabayeva said.

While the lack of dollars may be causing headaches for people who need them to conduct business transactions, at least one set of businesses is profiting. Namely, banks and exchange offices doing the currency trades. Some are wondering if speculators might not just be shipping their dollars out of the country in bulk for a quick buck.

The Kyrgyz som is particularly strong at the moment – around 83 to the dollar, higher than it was before and around the start of the Ukraine war. In mid-March, the som was trading at more than 100 to the dollar.

The National Bank’s explanation for this is that the rate is reliant to a strong extent on the volume of cash in circulation. With a limited amount of hard currency banknotes to be had, people are simply keeping their money in their bank accounts.

This is not to say people are not trying to cash out into dollars, which retain strong appeal. Many make daily trips to the bank to withdraw whatever they can.

Erika Isayeva, a 24-year-old Bishkek resident, says she regularly calls banks in advance to check whether they have stocked their ATMs with dollars. At times, she has to zig-zag around the city to get banknotes.

“One time I wanted to withdraw dollars and I asked at which ATM I could get them. They told me that they only had them at the Avangard business centre. By the time I got there, within 40 minutes, they [the dollars] were already gone,” Isayeva said.

The hard currency shortage has been looming for some time. In April, the banking regulator mandated that cash transfers to Kyrgyzstan be received or cashed out in som. Anybody wishing to hold foreign currency, even if only in virtual form on foreign money-denominated accounts, have since that time had to perform an exchange operation.

That has been a boon for banks. According to figures collated by 24.kg news agency, domestic banks performed 10.8bn som ($130mn) worth of currency exchanges in the period from January to June this year. That is seven times more than in the same period in 2021.

Economist Marat Musuraliyev told Eurasianet that this demand for currency exchange is generating record profits for local banks.

“Bank revenues have increased, but interest rates on loans and deposits have not changed radically,” Musuraliyev said.

Musuraliyev said he believes banks will probably up the size of commissions for cashing out dollars due to the difficulty they are experiencing getting hold of the currency.

One measure for easing the problem, said Musuraliyev, would be to restrict the amount of dollars that can be taken abroad – as Kazakhstan did in March. The downside of that solution would be that it would increase the likelihood of corruption at customs control points, he said.

Ayzirek Imanaliyeva is a journalist based in Bishkek. This article originally appeared on Eurasianet.org.

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**TikTok trending Albania heads for record summer tourist season**

**Clare Nuttall in Saranda**

On City Beach in Saranda it’s hard to find a space to lay down a towel among all the others on the stony beach, whose owners are either stretched out soaking up the sun or bobbing about in the clear sea water. Alongside local people who head down to the beach for a quick swim after work, are many tourists from nearby Greece, Albania’s former Yugoslav neighbours and, these days, from other parts of Europe.

Long a popular destination among East European seeking a cheap beach holiday, Albania is increasingly on the radar of travellers from further afield. With holidaymakers squeezed like everyone else by inflation and the rising cost of living across Europe, its reputation as a budget destination has become a major selling point.

Social media video site TikTok has recently been flooded by videos extolling the benefits of Albania as a holiday destination – with a focus on its beaches, cheap but stylish bars and Unesco heritage sites, a trend first picked up on by The Times. One tour guide’s video of Ksamil, a popular seaside village close to Saranda, has received over 60mn views on TikTok.
With the coronavirus (COVID-19) restrictions on international travel finally lifted this summer, Albania was already expecting a revival in tourism to lift its economy this summer. However, the scale of the rebound has taken people by surprise.

Albania now expects to receive over 4mn tourists this year, compared to the 2.9mn arrivals previously forecast, Prime Minister Edi Rama said recently.

“This year is surprising, because we have an unexpected number of tourists … Our forecast was 2.9mn entries in Albania, and in fact by the end of the year we will have exceeded 4mn,” Rama said in a Q&A published on the government website on August 15.

“I think there are still some things missing, but we are on the right track. The place is small, beautiful and welcoming. The food is good and you can eat well everywhere, both in big restaurants and on the street. Many Albanians have returned to the country after working in Italy in the food industry, and this has had a very positive effect,” he added.

Data already released by statistics office Instat for June showed foreign citizens’ arrivals in Albania were up by 45% year on year, reaching 876,056. In January-June, foreign arrivals reached almost 2.6mn, up by 51.3% y/y.

The top source country for visitors was neighbouring Kosovo, accounting for 394,327 of the total in June, followed by North Macedonia (76,373). Visitors from both countries increased compared to the same month of 2021.

However, much stronger growth was seen in tourist arrivals from several other countries, with the number of visitors from Greece, Spain and the UK more than doubling compared to June 2021.

Many of those on the beach and seaside cafes in Saranda are members of Albania’s huge diaspora, returning to their home country for the summer holidays. One family said they had flown over from London after two years staying away due to the pandemic.

Efforts to develop tourism infrastructure and bring even more visitors to Albania are ongoing.

Until recently, there was only one international airport in operation, Mother Teresa International Airport in the capital Tirana. Last summer, however, the revamped Kukës International Airport was opened, and plans to build new airports in tourism hotspots Saranda and Vlora are underway – despite strong opposition to the planned Vlora airport from environmental groups who want the location moved from a protected wetland area.

The Albanian government aims to create the country’s first ski resort at Korça, Prime Minister Edi Rama said during a visit to the city in 2021. The city has already experienced continuous development of its tourism offering in recent years, with the opening of many new hotels.

Another project is the new Durres Tourist Port, one of the largest tourism-related industry investments in Albania, that will replace the old industrial port in front of the city, which will be moved further away.

On a smaller scale, there have been many local investments to make tourist destinations more appealing. Saranda, for example, now has a smart new boulevard along the shore, complete with shady trees, benches and children’s play equipment, a project funded by the World Bank. This is where local families and tourists alike promenade when the temperature falls in the evenings.

However, there is still a lot to be done, as the influx of hundreds of thousands of tourists strains the infrastructure of the Albanian coastal towns and villages. Overall, Albania has a pressing need to invest into infrastructure, from transport to energy to municipal infrastructure.

Waste management is another issue. As in other Western Balkan countries waste generation has increased sharply in recent decades, but waste management infrastructure has in general failed to keep up. Littering is a major problem, so bad that the army is typically brought in to clean up the country’s beaches ahead of the summer tourist season. Recent efforts to tackle the issue include a ban on single-use plastic bags.

Safety is another concern. This summer, three beachgoers were killed when they were hit by speedboats or jetskis, which veer dangerously close to swimmers on many of Albania’s beaches. The death of a seven-year-old girl, who was fatally hit by a speedboat in August, sparked protests, with people blaming the state authorities for failing to ensure such accidents do not happen.

Yet even with those challenges, those in the industry have long believed there is huge potential to broaden the types of tourism on offer away from the traditional package holidays. Aside from Albania’s Unesco World Heritage sites at Berat, Butrint and Gjirokastra, there is also potential for adventure tourism, nature destination, rafting, hiking, riding and other types of holiday, tourism professionals have told bne IntelliNews.●
Russian e-commerce turnover up 1.5-fold in 1H22

The volume of sales by Russian e-commerce expanded 1.5-fold y/y in the first half of 2022 to RUB2.2 trillion ($36.4bn), the Association of Internet Commerce Companies said on August 11, reports TASS.

“Total online commerce amounted to 2.3 trillion rubles ($38.1bn) (an increase of 43% y/y) – this was the sum spent by Russians on Russian and foreign online platforms. The domestic market accounts for 2.2 trillion [rubles] from this amount, which is 50% more than in the like period of the last year,” the association said as cited by the Russian state-owned newswire.

E-commerce transactions in Serbia up 29% y/y in 2Q22

The number of online transactions to buy goods and services in Serbia in all currencies totalled over 9.8mn in the second quarter of 2022, which is nearly 29% more year on year, the central bank said on August 16.

The growth shows the increasing popularity of e-commerce in Serbia.

The number of purchases via internet sites in the local currency, the dinar, was 6.9mn or 26.1% more than in the second quarter of 2021.

The value of these transactions amounted to RSD18.4bn (€156.7mn) or 40% more than in the same period in 2021.

Transactions made in euros recorded a similar trend as in the previous quarter, while compared to a year ago, the growth in the number of transactions was 56.2% to over 1.6mn, and their value soared by 86.24% to €95.1mn.

Payments in US dollars recorded somewhat weaker growth dynamics. Compared to the same period last year dollar payments were 14.7% higher for the number of transactions (1.05mn) and 19% when it comes to their value ($33.8mn).
EVs in Uzbekistan bring problems and prospects

Muzaffar Ismailov in Tashkent

Uzbekistan’s electric vehicle (EV) market has enjoyed a boom over the past two years. The number of imported EVs has expanded dramatically. In the first half of this year, marking growth of 4.5-times year on year, more EVs, namely 1,125, were imported into the Central Asian country than in the entirety of the previous four years. Back in 2018, only 18 were imported, almost all coming from China.

To stimulate demand, the government introduced various benefits. EVs, for example, are exempted from customs duties, excise taxes and motor vehicle charges.

However, competition on the Uzbek EV market is changing for the worse, representatives of Megawatt Motors, one of the suppliers of EVs in Uzbekistan, said.

In Megawatt’s opinion, market players are showing no appetite for investing in EV service and infrastructure development. In most cases, it says, they are engaged only in buying and selling, although this is in no way sufficient, since EVs are goods that make demands over the long term; they require servicing, they must deliver compliance with the rules of operation and they must meet warranty conditions, while coming with insurance opportunities.

The founders of Megawatt, Ulugek Khojamberdiev, Alexandr Abdullaev and Vadim Sutepin, described to Spot how the market was changing, what it lacked and what changes to expect in the future.

A couple of years ago, only wealthy people in Uzbekistan bought EVs, and in most cases, they considered their asset as a ‘trophy’ toy or as a second car. But the situation has changed. More and more people have lost their fear of switching to an EV, with the consequent positive effect on demand and market development as a whole.

A significant role in this is played by the fact that consumers rarely solely study the question of a purchase using their own initiative, they instead show a lot of trust in the choices made by others: they are bolder in making a decision to buy if a friend, relative or neighbour has already made such a purchase.

However, the market still faces a number of stereotypes and idiosyncrasies of consumer choice. For example, EV consumers buy brands that look like the Chevrolet Malibu or Captiva that they are familiar with. For the same reason, there are almost no hatchbacks on the roads: people simply do not perceive of them; they are not used to the fact that the rear of the car may not have a trunk, but a fifth door.

Another stereotype is that the technology has not been tested over a long enough period of time. There is a widely-held opinion that new car technology should justify itself over 10, 20 or 30 years.

The technology of EVs to meet popular demand has existed since 2010. That year saw the launch of the first Nissan Leaf model. Many of these cars are still taking to the road. Since then, progress has moved forward in every sense, and now one Chinese manufacturer can produce a new car model each year. Previously, automakers spent from three to seven years to come up with a model.

Moreover, people are already witnessing the destruction of the myth that everything produced in China is a priori of poor quality. The Chinese EV industry has brought the quality of its cars to a high level.

Also, many unnecessarily fear the noiselessness of electric transport.

EVs are manufactured according to safety standards that mean some cars emit sound from speakers in a certain speed range. Pedestrians can thus hear at least some sound from the approach of an electric car.

When the car reaches a speed of more than 25 km/h, it is already audible from the noise of air resistance and tyres that a car is moving nearby. Therefore, the sound issue is then not problematic.

Most Uzbek buyers, meanwhile, in buying an EV, have no regard at all for the issue of ecology. They are not convinced that buying an EV can have any measurable global impact. When making a decision, they are fixed on other criteria; first of all, price.

Sellers of EVs in Uzbekistan need to show more interest in required infrastructure to develop the market. / boboroshi, cc-by-sa 2.0.
Therefore, dealers have changed their approach: they have stopped talking about ecology and are focused on cost savings.

Due to the increased demand for EVs, the number of importers is growing. But not all of them provide car maintenance. In fact, rarely do they provide guarantees at all. They convince buyers that EVs do not break down. And few market participants want to invest in infrastructure development. Because not everyone has plans to “play for a long time”.

This approach of some players has a negative effect on the entire market, causing negative consequences from subsequent EV operation and false beliefs among potential buyers of electric cars.

One of the “newcomers” working on infrastructure development in this direction is ZTY Car Energy. The CEO of ZTY told bne IntelliNews that the company was intending to provide the full cycle of services to EV drivers.

“We are intending to become the first company in Uzbekistan able to provide the full cycle of services. Our prices start from $9,000 and rise depending on the EV class and demand. The first dealership will soon open in Tashkent. Those consumers who buy our EVs will enjoy one-year of technical service for free. If necessary, our technicians are ready to provide services on spot. Moreover, our consumers will be able to charge their cars for free for three months,” said Shabboz Hudoyberdiev, ZTY’s CEO.

Companies engaged in the EV sphere are urging the government to introduce legislation prohibiting or restricting the sale of EVs if the seller does not have a specialised and authorised service centre and a staff of specialised repair specialists who can ensure the fulfilment of warranty obligations to the customer in the event of technical problems, as well as ensuring normal operation and maintenance after the expiration of the warranty period.

Very much worth taking account of is how gasoline prices have surged in recent months. One litre of AI-80 gasoline in Uzbekistan at the time of writing this article was around $0.68. Some users of social networks have responded that “the government is pushing prices up to force drivers to switch to EVs.”

Earlier this year, Uzavtosanoat signed a memorandum of understanding with China’s BYD. Aziz Shukurov, deputy head of Uzavtosanoat, said that “this is the first step towards the future in EVs”.

Moreover, Uzbekistan’s President Shavkat Mirziyoyev gave instructions to strengthen EV transport development in the country. Uzbekistan, he said, should find an EV strategic partner by the end of the year.

Romania’s SeedBlink crowdfunding platform acquires Dutch peer

bne IntelliNews

Romania-based SeedBlink, the European co-investment platform in tech startups, announced that it has completed the acquisition of Symbid, one of the world’s first investment crowdfunding platforms, in a European consolidation move.

The deal is set to accelerate SeedBlink’s coverage as a pan-European player, broadening its geographic footprint in CEE and Benelux, and its mission to consolidate and build the equity investment infrastructure for European tech companies at all stages.

With Symbid’s addition, the platforms have contributed over €110mn investments in 250 startups, with a combined network of 62,000 individual investors.

In the future, the Symbid team will continue to lead the investment efforts in Benelux.

www.bne.eu

Symbid investors will benefit from new opportunities and gain access to pan-European investment opportunities through greater coverage and resources.

The acquisition significantly expands SeedBlink’s investor pool by increasing the high-net-worth individuals’ community and includes a professional funding partner network Symbid is already connected with, such as banks, venture capital funds and angel investors.

Symbid was founded in 2011 by a team of Dutch entrepreneurs as one of the first investment crowdfunding platforms in the world and has since built a community of 50,000 investors in startups mainly from the Benelux. In its first 10 years of operation (until the end of 2021), Symbid has facilitated investments totalling €35mn for more than 180 startups with equity and convertible notes, 67 of which were from the technology sector.
Support for nuclear power has surged in Germany as the government ponders how to keep the lights and heating on this winter while meeting demand from industry, despite likely vastly reduced imports of Russian gas.

Up to 82% of Germans do not want the government to shut down the country’s three remaining reactors at Emsland, Isar 2 and Neckarwestheim 2 at the end of 2022, with 41% saying they want to keep nuclear power in the long-term, according to a poll commissioned by ARD-DeutschlandTrend. Only 15% were in favour of the remaining reactors being shut down at the end of this year, as it is currently planned.

Also, 61% of people supporting the anti-nuclear Greens, which are part of the governing coalition, said they now supported keeping atomic energy online at least temporarily. Just 31% of Green supporters want to close the reactors in December.

Crucially, 71% of those polled said they approved of the government’s policy of making Germany independent of Russian energy imports.

In another poll, conducted by the online survey institute Civey on behalf of Der Spiegel, 78% of respondents backed the continued operation of the last three German reactors until the summer of 2023. Even among the supporters of the Greens, there was a narrow majority for this.

German Chancellor Olaf Scholz in early August suggested that it could make sense to keep the reactors open beyond 2022 and to extend their working life.

The opposition Christian Democrats are calling for an extension of the three reactors. That could be done even without buying new fuel rods, with existing supplies sufficient in the short-term.

Nuclear power accounted for 13.3% of German electricity supply in 2021. This was generated by six reactors, of which three were switched off at the end of 2021. The remaining three – Emsland, Isar and Neckarwestheim – were due to cease operation at the end of 2022.

The country now faces gas shortages as its supplies from Russian have fallen. Nord Stream 1 supplied gas fell to 20% of capacity at the end of July, because Russia claims it cannot import a turbine from Germany due to sanctions, while Nord Stream 2 is still lying idle.

Germany’s gas reserves are currently about 65% full, and the government wants to raise this to 95%, alongside other EU members, by November 1. Berlin is not sure how it will meet

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**Electricity mix in Germany 2022**

- **Renewable Energy**: 51%
- **Fossil Energy**: 42%

**Average values from January to June 2022**

- Wind: 28%
- Lignite (brown coal): 21%
- Anthracite (hard coal): 10%
- Solar: 12%
- Natural gas: 11%
- Biomass: 8%
- Nuclear power: 6%
- Hydropower: 3%

Total: 252 billion kWh

Source: Fraunhofer ISE 2022 | *on the electricity grid | Figures rounded
this target and has urged the country to use less gas as part of a package of gas-saving measures. The European Union has agreed a plan to reduce gas consumption by 15%.

In July, the environment ministry, which oversees regulation, said it would look again at the possibility of keeping the reactors open after dismissing the idea in March shortly after the start of the war in Ukraine. It aims to carry out a stress test to see if the reactors would be needed.

Ministry spokeswoman Christiane Hoffmann said that any decision to keep the reactors open would be technical, rather than ideological.

Germany had planned to replace nuclear with renewables, imports and possibly fossil fuels.

However, the gas crisis has led to the possibility of coal making a return. The Mehrum power plant has moved from cold reserve to active generation and is now feeding power to the grid after the government on July 14 allowed the re-opening of the coal plant.

Any return of coal would have a significant effect on the country’s CO2 emissions, whose effects on climate change have been vividly shown by the current record temperatures in Germany.

If coal is used in the short term to replace nuclear, this could discharge an extra 70mn tonnes of CO2 into the atmosphere in 2022 alone, warned Berlin University of Applied Sciences HTW Professor Volker Quaschning. For comparison: Germany’s total 2021 emissions were 762mn tonnes of CO2-equivalent.

Germany’s decision to restart coal plants and, perhaps, not shut down its nuclear plants, are politically painful, but might be needed in light of Europe’s gas and energy crisis. Living without Russian gas will still not be possible, however.

The Green Party, which runs the federal environment and economy ministries, emerged from the anti-nuclear power movement, and has a long-held opposition to atomic energy. However, the need to maintain the governing coalition means that the Greens have to examine the issue closely.

Making the issue a technical and scientific problem to be recommended by experts, rather than as a political choice, could take the edge of any decision to keep open the nuclear plants.

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Europe must double wind and solar deployment

Richard Lockhart in Edinburgh

EU countries need to double the rate of annual wind and solar capacity additions to reach the volumes required to meet the 1.5°C aligned 2030 green capacities, think-tank Ember said in a recent report.

While the EU has raised its green targets through the REPowerEU programme, part of the wider Green Deal package, Ember warned that there was an implementation gap, whereby solar and wind projects are being held back by permitting delays and a lack of supportive legislation.

These slow rates of wind and solar deployment will only exacerbate the current cost and security crisis the EU’s energy sector is facing.

Need to double

Ember said its modelling showed that 76 GW of new wind and solar capacity per year needed to be built by 2026 if global warming is to be limited to 1.5°C by 2050. This means that the EU must double wind and solar deployment from 34 GW in 2021, and also rapidly increase annual additions from the forecast 2026 figure of 38 GW.

This warning comes as the EU has raised its green energy targets as energy security has shot to the top of the its agenda in order to combat the global gas crisis and to deal with the impact of Russia’s war on Ukraine.

The European Commission’s REPowerEU proposal has raised the EU’s targets to 1,236 GW of renewable capacity by 2030, compared with a target of 1,067 GW under previous plans, and up from 513 GW of installed capacity in 2021.

Ember also said that many national governments have also committed to expanding renewables as a way to address spiking fossil gas prices and energy security concerns.

Ember warned that although the EU’s new targets are welcome, it is member state governments themselves that have to most to do if any of the targets are to be met.

Ember called for actual delivery of these targets through national legislation, the removal of administrative barriers, effective support schemes and increased investment.

Harriet Fox, energy & climate data analyst at Ember, said: “Europe no longer lacks renewables ambition, but it is now facing an implementation gap. Higher targets have not yet
Ember was especially worried that while solar deployment rates from the previous three years seem promising, predictions for the next four years paint a different picture.

**Permitting**

Only four out of 27 EU countries – Finland, Croatia, Lithuania and Sweden – will achieve sufficiently high annual wind capacity increases to align with 1.5C, Ember said, while the EU as a whole is also not on track for required solar deployment rates.

A crucial issue is that deadlines for granting wind and solar permits are being exceeded by up to 5 times. EU legislation says that permit granting for renewable projects should not exceed two years.

Across 18 countries analysed by Ember for onshore wind projects, the average permitting time exceeded the two-year mark in all cases, in some by up to five times. For solar, the two-year limit was exceeded in nine of 12 analysed countries, with delays up to four years.

Predictions for France, Spain and the Netherlands show flat or decreasing installation rates to 2026. The later these countries pick up their deployment pace, the faster they will have to accelerate in the lead-up to 2030.

The German Easter Package lays out an ambitious deployment schedule which plans to add 10 GW per year onshore wind capacity from 2025 onwards and 19 GW of offshore wind between 2026 and 2030. This would put German deployment rates far above current predictions and on track to reach a total of 145 GW wind capacity by 2030 and aligned with 1.5C benchmarks.

In Poland, the government reached preliminary agreement to update a problematic wind law which has blocked investment in onshore wind since 2016, and the first offshore wind farm is expected to start operating in 2026.

Ember was especially worried that while solar deployment rates from the previous three years seem promising, predictions for the next four years paint a different picture.

Poland and the Netherlands are set to keep up with 1.5C aligned solar capacity additions out to 2026. However, it is important to note the worrying downward trend in anticipated solar capacity additions, due to issues such as the lack of available grid connection.

**Looking ahead**

To keep up with REPowerEU and 1.5C-aligned ambition, attention must now turn to removing barriers to installation, Ember concluded.

To begin tackling barriers to deployment, the existing two-year permitting limit, stated in the Renewable Energy Directive (RED), needs to be enforced by the European Commission. To align with REPowerEU and 1.5C, it is equally important that the amendment to the RED is passed this autumn, raising the EU’s 2030 renewable energy target to 45%.
Furthermore, the 1.5C-aligned capacity expansion pathways should also be transposed into the updated National Energy and Climate Plans (NECPs) during the formal review process in 2023.

At a national level, auction volumes should be significantly increased to capacities in line with 2030 targets.

Renewable energy ‘go-to’ areas, taking into account environmental and social concerns, should be designated as suggested in REPowerEU where permit granting should not exceed one year. Finally, permitting processes should be streamlined through investments in personnel and digitalisation to ensure they are compliant with the two-year limit.

Slow wind and solar deployment will only exacerbate the current cost and security crisis the EU’s energy sector is facing.

Rapid expansion of these technologies will help the EU to replace expensive and uncertain fossil fuel imports with clean and secure sources of energy, whilst also reducing electricity prices.

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Czech government remains colour blind on green issues

Robert Anderson in Prague, and Albin Sybera

The Czech government has a huge blindspot on green issues – one that could hamper its current presidency of the European Union, as well as prevent it from tackling some of the country’s biggest problems, such as its dependency on Russian energy, soaring energy bills, worsening environmental problems, and its stuttering economic model.

Since taking over the rotating presidency on July 1, Czech Prime Minister Petr Fiala has been presiding over two key EU goals – to move towards a sustainable economic model and to cut off Russian energy imports following its invasion of Ukraine.

In theory, the two goals should reinforce each other: the drive to cut dependence on Russian fossil fuels should help the goal of moving towards green energy in order to mitigate climate change, but there is also pressure from some member states to relax the EU’s green policies because of the surge in energy prices, sparked by Russia’s invasion.

The Czech government, which only took office just before Christmas, will struggle to play an honest broker in this debate because the neoliberal Civic Democrats (ODS), who hold both the posts of prime minister and finance minister, remain highly sceptical of efforts to mitigate climate change by promoting green energy and e-mobility – as well of the EU itself.

Fiala even recently campaigned to reopen the debate on the EU Green Deal, telling a TV debate before the November general election that the next government “needs to reject” the EU’s plan to stop the production of cars with combustion engines.

But the ODS’ worst instincts are restrained by the other four parties in the centre-right coalition, with the liberal Pirate party in particular having a very different stance on green issues.

The coalition agreement is a compromise that gives with one hand while taking away with the other. “We are taking seriously upcoming energy transformation to renewable sources, but we refuse to give up on energy security, self-sustainability and independence,” the programme states.

On the Green Deal it warns: “In negotiating concrete measures the Czech cabinet will take into account the possible social impact and specific conditions in the Czech Republic.”

Recently Fiala has taken a more pragmatic approach, posting on Facebook in May: “The Green Deal is a reality now. There is no point in discussing what could have been done differently. Now we have to use the opportunity to modernise the Czech economy through investments into renewables, the circular economy and to raise the quality of life in Czechia.”

In Brussels, the government appears to want to refocus its presidency on energy security rather than green energy, a shift made more credible by the urgency of the task of reducing the bloc’s dependence on Moscow.

The Czech government has little freedom of movement in the green debate but it could effect a change of emphasis or maybe even a change of timetable, Zdenek Beranek, foreign policy advisor for Marketa Pekarova, speaker of the lower house and leader of the coalition TOPO9 party, told bne IntelliNews. "It’s not realistic for the Czech Republic to oppose the process but we will open the debate on what to do with the regions that are very dependent on the auto industry [such as the Czech Republic],” he says.
Ideological blinkers
More worrying perhaps is that the ODS’ ideological blinkers on green issues could prevent it solving some of the Czech Republic’s biggest domestic challenges.

The first challenge is the need to reduce the country’s damaging dependency on Russian oil, gas and nuclear fuel and technology, a goal that should in theory reinforce the shift away from fossil fuels but could conflict with it in the short term because of the risk of energy shortages.

Czechia depends on Russia for 87% of its gas and virtually all its oil. This week rating agency Moody’s changed its outlook for the country’s credit rating to negative because of this dependence.

Here the government is united – all the coalition parties are strongly anti-Putin – even if there is still some debate on what energy sources the country should prioritise as substitutes, with the Pirates less keen on the nuclear option preferred by the other parties.

Neighbouring Poland has used the crisis over Russian fuel sources to try to increase coal production again and to temporarily slow down the green transition – a talking point that billionaire populist and former premier Andrej Babiš has also begun to toy with, along with ambivalence on confronting Russia.

But so far the Czech government, like Viktor Orban’s régime in Hungary, has instead used the crisis to double down on its bet on nuclear energy, rather than pursue green options. It strongly supported the EU compromise pursued by the previous Babiš government on including nuclear power as a sustainable energy source.

The Babiš government had also already excluded Russia from the tender to build new reactors at the Dukovany nuclear power plant and the current cabinet has taken steps to switch completely to using non-Russian fuel.

Oil and gas remain more problematic because previous governments did little to reduce this dependency. A previous ODS government began sourcing Norwegian gas supplies but Babiš’ government had allowed this to lapse. Babiš was also recently accused by Bohuslav Sobotka, a former Social Democrat PM, of deliberately derailing the project of building a gas pipeline connecting Czech eastern regions in Moravia with the recently built Polish LNG terminal.

“Czechia depends on Russia for 87% of its gas and virtually all its oil. This week rating agency Moody’s changed its outlook for the country’s credit rating to negative because of this dependence”

So far the government, through its majority state-owned energy company CEZ, has secured 3bn cubic metres of annual gas capacity via an LNG terminal in the Netherlands. It is also moving swiftly to fill the country’s gas storage facilities (currently they are at 77% capacity). Nevertheless, the government has said that a full embargo on Russian gas would be extremely damaging.

On oil, the government is also in a very weak position, though it successfully managed to win an exception from the EU sanctions for oil pipeline supplies, putting off the threat of a shortfall for now.
The second major challenge related to energy that the government faces is how to manage the cost of living crisis caused by rising fuel bills. Unlike its neighbours, it believes in neoliberal shibboleths about not interfering in the market and keeping budget expenditures low. This has meant that it has been reluctant to impose price caps (as in Hungary) or to throw money at energy customers (as in Poland).

It is still working out what kind of aid to give to consumers, though it is likely to be a one-size-fits-all payment, rather than a progressive one linked to need, as international financial institutions have recommended.

The government’s hesitation on splashing the cash is due to its concerns over the ballooning deficit. After ripping up the 2022 budget passed by Babiš’ outgoing government, it made a huge fanfare of announcing one with nearly a CZK100bn lower deficit. Now it has been forced to widen the deficit by CZK50bn again, blaming the Ukraine war, though in reality it is its refusal to raise taxes that has made the deficit bulge again.

At the same time it has left itself wide open to charges from Babiš – who is likely to announce his candidacy for president this autumn – that it is being niggardly about helping consumers, while at the same time being overly generous in helping Ukrainian refugees. This is a trope that populists across the region are now beginning to rehearse.

**Taking away the blindfolds**

But there are also even more fundamental challenges the country faces. Recent Czech governments have taken a very half-hearted attitude towards fighting climate change, and the country remains one of the worst greenhouse gas polluters per capita in the EU.

Public opinion is still ambivalent about climate change compared to Western Europe, encouraged by the fact that several political parties – notably the ODS – continue to downplay the problem. This is slowly changing: From 42% of Czechs not worried about climate change in 2016, now 28% are not worried, but this still makes Czechs among the most relaxed about climate change in Europe.

A succession of droughts and floods and now a devastating fire in the beautiful Bohemian Switzerland region are now gradually opening Czechs eyes to the fact that climate change is a very real threat.

Even Fiala admitted as much to CNN this week: “I would have to have blindfolds on my eyes and not to think with reason – which would not be right wing at all – if I did not see that climate is changing in a certain way and that all of Europe copes with fires caused by extraordinary heat.”

Popular blogger Karel Patak (known as Visegrad rider) told *bne IntelliNews* that with the ongoing blaze “climate change has for a little while made it to the top of the interest list of the Czech electorate”, and that normally it would have been there for a long time had not the “populist, extremists as well as some coalition parties turned denying the impact of climate change” into an ideology.

“Hopefully Fiala’s awakening will last and won’t disappear with the containment of the last flames in the Bohemian Switzerland. There has been too much fossil hypocrisy already,” added Patak.

Fourthly, there is also a need to seize the opportunity of the EU’s Green Deal to shift Czechia from an old assembly line model of development, based on energy-intensive heavy industry – especially petrol engine cars – and attracting foreign investment through low wages and taxes and generous incentives.

“Hopefully Fiala’s awakening will last and won’t disappear with the containment of the last flames in the Bohemian Switzerland. There has been too much fossil hypocrisy already.”

Over the past 25 years this model has helped bring the country close to the EU’s average GDP per capita on a purchasing power basis but convergence has now virtually halted and has actually gone backwards because of the coronacrisis. Czechia’s GDP per capita (at purchasing power standard) as a percentage of the EU average fell from 93% in 2020 to 91% last year.

The old model has reached its limits and is now challenged by rising energy prices, climate change, competition from lower-cost developing countries, as well as automation and the digital revolution – where Czechia ranks well below the EU average in the EU’s Digital Economy and Society Index.

The country needs to move into more higher value-added industries, such as green technologies and e-mobility solutions. However, until now politicians have just given lip service to this idea. The government’s targets for renewable energy and reducing greenhouse gases have been regularly criticised by the EU for lacking ambition. Incentives for green energy investments and electric vehicles are also very low compared to the EU average.

Fiala’s ODS seems to have an ideological block on this subject, stemming from the continuing influence of its founder, Vaclav Klaus, who has subsequently come out as a climate change denier and now openly supports Germany’s...
neo-fascist Alternative für Deutschland. Czech MEPs Alexandr Vondra and Jan Zaharadil – who opposed the EU goal to end the sale of new cars with combustion engines by 2035 – often parrot Klaus’s comments, as do ODS members of parliament and Fiala himself.

The party’s stance is also a result of its links to the country’s energy oligarchs, notably Daniel Kretinsky, owner of EPH, and Pavel Tykač, owner of Sev-en Energy. EPH is now the country’s no. 1 energy business through its foreign investments – notably importing Russian gas – and Kretinsky also has significant media power, particularly through his ownership of Blesk, the best-selling daily.

Former ODS Prime Minister Mirek Topolanek, who was brought down by a corruption scandal, moved swiftly from the Prime Minister’s Office, where he followed policies beneficial to the oligarchs, to actually working for Kretinsky. Topolanek frequently targets the EU and its green policies, referring to the EU as the “green Taliban”.

EPH and Tykač’s Sev-en Energy want a slow transition to a carbon-neutral future, with EPH setting a company target of as late as 2050 for going carbon-neutral, while Šev-en Energy has yet to commit to a date. Tykač has recently made several media appearances arguing that if Czechia is to cut its reliance on the Russian energy supplies it will result in a dramatic fall of living standards and popular unrest unseen in the country up to now.

But the Czech government failure is much wider than just the ODS, with Social Democrat (CSSD) governments and Babiš’ populist ANO party continuing to defend heavy industry, including coal mines and coal-burning power plants, while giving only niggardly incentives for green energy or e-mobility. As premier, Babiš tried to block the EU’s target of going carbon-neutral by 2050 and in the election campaign he attacked what he called the “green madness” the EU was imposing on the country.

The CEZ Republic

This cross-party consensus is epitomised by the way CEZ, the majority state-owned power utility, has remained so dominant in forming the country’s energy policy.

Czech has recently burnished its green credentials by publishing its Vision 2030, according to which the company plans to become carbon neutral by 2040. It aims to reduce the share of coal-fired electricity generation from 39% in 2019 to 25% by 2025 and to 12.5% by 2030, partly by building 1.5 GW of renewable energy by 2025 and 6 GW of RES by 2030. But it remains focussed on nuclear power and particularly the expansion of Dukovany.

CEZ’s Chief Executive Daniel Benes has remained in charge since 2011, through ODS, CSSD, ANO and then again ODS-led administrations, despite a series of scandals as well as threats by political leaders to remove him once they win power. He is said to have the backing of current President Milos Zeman (a former CSSD leader), as well as Klaus, his ODS predecessor.

In the past CEZ was rumoured to have also been used as a piggy bank by both the CSSD and ODS, allegations it has always denied.

Czech governments have continued to defend CEZ’s strong market position against EU probes – it now faces a new challenge from Brussels over the funding of its massive investment at Dukovany – while media reports about cosy deals with Kretinsky’s and Tykač’s energy companies have not been properly investigated by the Czech competition office.

“If, after the new cabinet assumed office, we expected to see the breaking of influence the CEZ management has had on the state’s decision making, and which has been nourished for many long years, then we were simply wrong.” Edvard Sequens, environmental NGO Calla lead economy analyst, told bne IntelliNews, adding that this influence is perhaps even bigger than ever.

“We can see this now when the state provided CEZ with an exclusive loan of CZK74bn to secure CEZ’s electricity trading at a mere 3% interest rate, and the investment into the new nuclear reactor will involve a further loan of more than CZK200bn.”

Despite its previous criticism, the new ODS-led government has followed its predecessor by backing the company’s plan to build new units at Dukovany and to do so by nationalising its nuclear division – as minority shareholders would probably sue CEZ for investing in such a costly and financially risky project.

The government still seems some way from detailing its plans, but if it follows precedent, it is likely to choose an option put together by CEZ management itself. Any buyout of the nuclear division, as well as the investment in Dukovany, is of course set to make it very difficult for the government to slash the budget deficit, let alone offer tax cuts, as the ODS still dreams about.

Similarly, CEZ management seems to be winning its campaign against a special windfall tax on the energy sector in order to pay for a scheme to compensate customers for the soaring prices. Instead CEZ is offering to pay a super dividend from its bumper profits, which would also conveniently boost the share price and management bonus scheme payouts.

The Czech government will need to face down CEZ and the country’s energy oligarchs if it is to have any chance of meeting the challenges of cutting the country’s dependence on Russian energy, mitigating the cost of living crisis, keeping the budget deficit under control, as well as the longer-term tasks of tackling climate change and moving to a new sustainable growth model.
IRAN AND RUSSIA SAVE EACH OTHER’S CAR INDUSTRIES

Ben Aris and Daniel Rad
Russia is turning to Iran to help rescue its car industry. Extreme sanctions imposed on Russia in March have seen its car production come to a screeching halt as essential imported parts are now unavailable. Iran has been under sanctions for decades, but has managed to develop a large automotive sector that caters to its domestic demand, and it is only too happy to help.

Russia’s war has seen hundreds of foreign companies leave the country, but no sector has been harder hit than the automotive. AutoVaz, maker of the Lada, has seen its production come to a virtual standstill as the company, formerly run by Renault until its exit last month, set up a “spoke and wheel” model that means most of the more sophisticated parts were imported from Western Europe. Those imports have stopped now and the company has few alternative options to replace them.

Sixteen European car manufacturers (including four of the top 10 by market share) sold close to half a million units of Russia’s total sales of 1.67mn in 2021, making the country the eighth-largest car market in the world in terms of global sales volumes, and Russia accounted for a fifth (18%) of market leader Renault’s total sales worldwide. Now overnight, almost all those foreign firms have packed their bags and left. Car sales were down by 84% in May and production has come to a virtual standstill, with only 3,000 cars produced in June, according to reports.

Iran has always been on Moscow’s radar as a possible ally in a showdown with the West. Russia has been preparing for economic warfare since at least 2014, when the sanctions regime was first introduced with the creation of the International North South Transport Corridor (INSTC). This long land and sea corridor traverses southern Russia, through the Caspian Sea to Iran and across the vast Iranian plateau to connect with the port of Chabahar and the Persian Gulf. This southern route was often seen as a back-up for Russia if its Western trade routes were cut off. When they came the sanctions were more extreme than anything the Kremlin was expecting. They have been made worse by “self-sanctioning”, as companies in sectors that have not been sanctioned, including automotive, pulled out anyway for reputational reasons. The Putin administration has been forced to work extra quickly to help revive its faltering economy. As bne IntelliNews reported, sanctions remained a largely Western affair, with most of the rest of the world sitting on the fence, refusing to impose sanctions themselves and maintaining trade ties, even if they are not actively supporting Moscow.

Iran, China and a slew of other secondary countries have said they would pick up the slack where Western firms departed from. China has already seen exports to Russia recover and is Moscow’s biggest trade partner; Iranian brands are largely unknown in Russia, but Iran’s expertise in operating under sanctions has caught Russia’s attention. In particular, the Russians were surprised to see how quickly Iranian car manufacturers were able to reverse engineer parts from Peugeot, Citroen and Renault for their own auto part markets.

Iranian forays into Russia’s auto market
In recent weeks there has been growing talk of the carmaker Iran Khodro Company, branded as IKCO, and its rival SAIPA, as well as a raft of smaller players, once again sending their models to the Russian market, suitably adapted to the colder climes of Moscow.

Iran Khodro and SAIPA have previously exported their vehicles to northern markets, but with varying degrees of success. According to data from Russia’s Autostat agency, as of July 1, 2022, there were 10,400 Iran Khodro cars in Russia, which are represented by the Samand model (class C sedan), produced in 2006-2008. However, that is a tiny number when set against the circa 100,000 car sales a month in Russia pre-war.

The Samand is set to be discontinued in the Iranian market, as it has been on the production line for over two decades, but sanctions on Iran have forced the carmaker to keep producing the old stock due to a lack of research and investment into new models and the absence of outside support.

A third (34%) of Iranian cars are registered in Russia’s Central Federal District (3,500 units). Another 26% in the Volga (2,700 units) and 18% in the Urals (1,900). Accordingly, these three districts account for 78% of Iran Khodro cars located in Russia, according to Auto Novostidnya.

Russians tend to keep their cars for longer than in western Europe, as bne IntelliNews reported in a deep dive into car ownership and age, but the car market is one of the most vibrant of those in the Former Soviet Union (FSU), supported by a large domestic industry, albeit almost exclusively run by international companies until recently. That means the longevity of the Samand bodes well for the engineers of IKCO in Tehran, who were often criticised for not making sure their models were suitable for the colder climes.

Now with new Iranian models on the verge of launching, in part due to the cannibalisation of Peugeot’s pre-sanctions joint venture with IKCO, and Iran’s penchant for ignoring intellectual property rights because of sanctions – a policy Russia has now adopted through laws allowing for parallel imports – a tie-up between the Iranian and Russian automotive sectors is an obvious move: a partnership with AutoVaz is on the horizon to keep both domestically produced

“Iran has always been on Moscow’s radar as a possible ally in a showdown with the West”
According to Iranian automotive professional Amir-Abbas Farnoudi, since the Russian auto industry has been sanctioned by the West, this exhibition is “a great opportunity for Iranian auto part manufacturers to introduce their capacities and capabilities to the Russian market”, IRIB reported.

Farnoudi added that the main goal of attending the exhibition is to form long-term co-operation with Russian car and auto part manufacturers, adding: “Companies were selected to participate in this exhibition that have the necessary technology for producing auto parts or to offer up-to-date technical engineering services so that they can operate directly in the Russian market.” According to Farnoudi, IKCO has also showcased one of the latest automobiles manufactured by the company called Tara in this exhibition in order to test the taste of Russian consumers.

“Iran Khodro’s goal to re-enter the Russian market is completely strategic and planned,” he said.

“Russia is the fifth-largest car consumption market in the world and is one of the most attractive markets, with complexity and intense competition in the region. For this reason, for the last two years, studies, planning and negotiations have been carried out for Iran Khodro to re-enter this market. And we are in the process of reaching good agreements, which will be announced as soon as the results are obtained,” Farnoudi added.

**New models**

Iran Khodro is placing its bets on the first Iranian-made crossover. Named the Rira, it is based on a Peugeot 2008, Asbe Bokhar reported on June 28. The car is reminiscent of Russia’s own classic Lada Riva, made in Soviet times, that was a rip-off of the Fiat 124 born out of a joint venture between the Soviet Union and Fiat signed in 1966. A giant new factory was built at Togliatti, named in honour of the chairman of the Italian Communist Party at the time, Palmiro Togliatti. This is the same factory that was taken over by Renault which was sold back to the Russian state for one ruble in April.

The development of Iran’s Rira model has been stymied by US sanctions imposed on the Islamic Republic over Tehran’s nuclear programme. The US placed specific automotive sanctions on the country in 2018 as part of former US president Donald Trump’s so-called maximum pressure campaign. Iran Khodro partner PSA Group pulled out of Iran under sanctions pressure, following its merger with other companies including US automakers to create automotive giant Stellantis.

The Rira is equipped with an EF7 Plus turbocharged engine, or TC7 Plus. The 1.7-litre 16-valve turbocharged four-cylinder engine is capable of producing 160 horsepower at 5,000 rpm and 240 Nm of torque at 1,600 to 4,500 rpm. Iran Khodro’s head of development and manufacturing Kianoush Pourmojib said the company would start mass production of the Rira before September 2023.

Like Iran Khodro, AvtoVaz’s production is also based on Renault’s technology, making the tie up between the two countries even more appealing, and the co-operation is not all one-way. AvtoVaz is now offering Renault engine parts to Iran Khodro’s biggest rival, SAIPA. Iran’s second-largest car producer SAIPA Corp. has agreed to purchase Lada engine blocks from Russia’s largest carmaker AvtoVaz to restart production of a Renault model, Mag Auto reported on August 16.

As part of the announced deal, the SAIPA-produced Renault Logan, a rebadged car known as the L90 Tondar, will be made with a Lada Largus engine. The Lada Largus is also essentially rebadged, sold as a version of the Renault-developed first-generation Dacia Logan MCV.

Renault officially departed Iran following the re-imposition of sanctions on the country by the US Trump administration in 2018. The company no longer featured in the supply chain from the following year. SAIPA is considering several options for the engine of its locally made Logan. These are 1.6-litre engines with capacities of 90 and 106 horsepower, while there is also a 122-horsepower, 1.8-litre engine version.

**Chinese-Iranian JVs could come to Russia**

The Iranian deals are part of a larger push by Russia to revive its auto industry with help from its friends. Iran’s long history of Chinese automotive manufacturing joint ventures is also of interest to the Russians, who have also turned to the increasingly sophisticated Chinese automotive producers for help.

China has already set up two car plants in Russia, and Chinese car manufacturer Chery is in talks with Russian manufacturers about producing more cars in Russian plants, Tass reported last week. Chery already sold 40,874 cars in Russia in 2021, according to Association of European Business, but says that now it needs to localise production of parts in Russia if output is to expand.

Russia has also approached Chinese companies for help re-launching the historic “Moskvitch” brand at the AvtoVaz factory in Togliatti that was supposed to be based on technology supplied by Russia’s famous truck-maker Kamaz. However, the US has also sanctioned Kamaz and according to bne IntelliNews industry sources, no progress has been made on the widely reported project. No CEO has been appointed and a chief designer has also yet to be hired.

China, despite having generally unheard-of brands to many western buyers, has more than 200 car manufacturers producing every type of car imaginable and its share of the Russian market is bound to expand rapidly as it steps into the shoes of the departed foreign brands.

In recent years, Chinese car producers have also set up in Iran, like the case of Chery, which created a $370mn plant in Babol in northern Iran. It remains to be seen if the Chinese will use their Iranian base of operations to export cars to Russia, but co-operation between the three countries is now on a set upward trajectory at the expense of foreign luxury marques missing out on the Russian market.
Russia's Asian oil and gas pivot will take too long

Russia is looking to fast-track its pivot to Asia in order to offset the loss of revenues that its energy divorce with the EU is bringing about. But according to the International Energy Agency (IEA), in the best-case scenario it would take the country at least a decade to ramp up gas supplies to Asia to a level close to its 2021 exports to the EU, which amounted to 155bn cubic metres per year. Diverting oil supplies eastwards will be easier, but will similarly take time.

Russia has already accounted for 18.4% of Chinese oil imports over the past year, even though policymakers in Beijing have informally limited reliance on any one country for more than 15% of the total. Within this frame, China could expand purchases of Russian gas, which still only account for 7% of the overall volume, but Shagina noted that even optimistic scenarios for Russian

Russia's mostly Soviet-era gas export pipelines are largely geared to send supplies from large fields in Western Siberia to Europe. Its only other options are expanded LNG exports, primarily from the Arctic, and an expansion in gas trade with China, through the development of the Power of Siberia 2 pipeline, and additional links. The IEA’s scenario assumes that Russia will successfully build and expand its gas infrastructure. But as Dr Maria Shagina, at the University of Zurich, notes in a recent article for IISS’ Survival: Global Politics and Strategy, “that would require substantial capital and access to energy technology at a time when sanctions prohibit it.”

“On top of infrastructure bottlenecks and logistical challenges, uncertainty surrounds Asia’s demand and energy security concerns,” Shagina writes. “Russia has become China’s largest oil supplier, surpassing Saudi Arabia. China has been quietly replenishing its strategic reserves, but Beijing would be wary of abandoning its careful energy-diversification policy and inordinately relying on Russia.”
energy diversification to China are highly contingent."

Russia has already reached a deal to sell an extra 10 bcm per year of gas to China via a new Far East route, building on the 38 bcm per year it is already contracted to deliver at peak via the Power of Siberia pipeline. But sanctions have hindered the development of the offshore fields that would be needed to supply this gas.

Moscow and Beijing have also discussed sending an additional 6 bcm per year of gas via Power of Siberia, but James Henderson, an expert at the Oxford Institute for Energy Studies (OIES), notes that it would take until the second half of this decade for the pipeline to increase flow to the full 44 bcm per year.

Russia’s largest project in the works is Power of Siberia 2, which would pump 50 bcm per year of gas to China via Mongolia, from fields that currently serve the European market. But a gas deal for these supplies is not yet in place, and Henderson doubts that deliveries could begin before 2027 at the earliest, with 2030 a more likely start date.

Russia also has aspirations to rapidly expand its LNG export capacity prior to the invasion of Ukraine, but with Western financiers, contractors and suppliers largely barred from participating in these projects, there are significant obstacles.

If Russian gas exports to Europe drop to 50 bcm per year in the next couple of years, Russia will be unable to replace volumes with additional Asian sales, Henderson notes. But Russia might be able to achieve a rebalancing of its export flows by the early 2030s, if it can deliver on its project pipeline.

“China’s oil demand is forecast to peak in 2027, and its commitment to net-zero emissions by 2060 could well diminish the need for Russian gas supply,” Shagina says.

India has also been expanding Russian oil purchases in recent months, taking advantage of their discounted prices as a result of sanctions. Over the past few months Russia has emerged as India’s biggest oil supplier, expanding its share of the country’s import mix from only 1.3% to 25%. But Shagina notes that any further increase would run into technical and logistical challenges.

“Rerouting Russian oil to India would have to be done via sea routes,” she writes. “This will be harder after the EU and UK’s insurance bans become effective, as European and British insurance companies control over 90% of the insurance market for oil tankers.”

Western allies are looking to impose a global price cap on Russian oil, by threatening to deny importers access to insurance for tankers unless they agree to pay no more than a certain price.

“This would mean that Indian buyers would have to take more risks and rely on a less developed insurance market,” Shagina notes. “From a political standpoint, China and Russia’s tightening strategic partnership, and Moscow’s expanding relationship with Pakistan, would make India’s increasing energy reliance on Russia difficult to sustain.”

With the EU committing to end its reliance on Russian energy by 2027, and the bloc accelerating its energy transition, it is clear that Russia’s dominance as an energy supplier to the continent will wane, even if some of Brussels’ targets prove overly ambitious. Russia has already helped realise EU’s goals through its own actions, having substantially reduced its gas exports to the bloc in recent years, forcing countries to push on with LNG import projects as fast as possible, and irrevocably tarnishing Russia’s reputation as a reliable supplier. Just a year ago, Moscow was touting its potential to become a major blue hydrogen exporter to Europe, securing it a place in the energy transition even as demand for hydrocarbons starts to recede over the coming decades. That aspiration is now truly dead.

“Furthermore, without access to foreign technology and capital, it will be a tall order for Russia to launch its own green transformation,” Shagina writes. “Russia’s best chance to achieve this, again, with China. Given Beijing’s slow phase-out of gas, its decarbonisation plan is compatible with Moscow’s own resistance to an aggressively green agenda. China might also be the only source available to Russia of clean investments and green technology in exchange for Russian hydrogen.

“This,” she continues, “leaves Russia at China’s mercy. Moscow will become ever more reliant on Beijing, intensifying the imbalance in their already strongly asymmetrical relationship. Beijing is likely to capitalise on Moscow’s isolation, much as it did after sanctions were imposed over its illegal annexation of Crimea in 2014, dictating the conditions on energy deals and extracting maximum benefits while avoiding exposure to sanctions.

“Russia, for its part, has little leeway for hedging given the breadth of the post-invasion sanction coalitions, which include Asian countries such as Japan and South Korea,” Shagina concludes. “Russia’s days as an energy superpower appear to be over.”
Putin indeed has a gas turbine problem, but it is not the one he thinks. His more serious problem is that advanced gas turbines are at the heart of the Russian electricity sector, which drives the Russian economy. These depend on Western companies and Western technology, and the sanctions are already having a disruptive impact.

A modern gas turbine is one of the unsung wonders of the engineering world. The idea of a gas turbine seems pretty straightforward. A compressor generates a high-pressure stream of hot air; an injection of fuel sets the mixture alight; and the burning mixture turns a bladed turbine, which then generates electricity or provides thrust. What could be simpler? Indeed, gas turbines have been around for over a century, and they are used everywhere, in jet engines, gas pipelines, power plants, and even tanks.

The Russians are perfectly capable of making gas turbines. But these are only the smaller turbines that power

**“A modern gas turbine is one of the unsung wonders of the engineering world”**

Much has been said about Russia’s car sector, which has completely collapsed due to sanctions, but the power sector is in danger of going the same way without Western-made gas turbines. / bne IntelliNews
gas pipelines or airplane engines. Russia has been unable to make the much larger turbines that are used in gas-fired power plants, which provide 80% of the power for the core of the Russian economy. The system still consists largely of backward Soviet-era equipment, which urgently needs modernisation. For this, Russia depends almost entirely on Western technology. How did this happen? Over the past twenty years, in Europe and the US, there has been a revolution in the design and fabrication of large gas turbines for power generation. Today’s turbines are far more powerful than their predecessors. They use more advanced materials, such as single-crystal turbine blades made of heat-resistant nickel-steel alloys, and as a result they operate at much higher temperatures and pressures, with correspondingly greater efficiency and reliability.

The greatest single breakthrough in the industry is the development of so-called “combined-cycle gas turbines,” or CCGTs, in which a gas turbine is coupled with a steam turbine, resulting in efficiencies of 60% or more, by far the highest of any power-generating technology. CCGT’s are the gold standard in the industry today.

But Russia largely missed out on this revolution. In the chaos that followed the Soviet collapse, little attention was paid to the modernisation of the power system. The network of research and engineering institutions that had supported turbine development in the Soviet Union dissolved, as funding disappeared, and they were sold off for their land and assets. But in the 1990s, this decay went largely unnoticed: natural gas was plentiful and cheap, and demand for power was stagnant.

Compounding the problem was that no one paid their power bills. Russia had degenerated into a barter economy; cash was scarce; and there was no way to shut off non-paying customers, who were allied with powerful regional governors. In this situation, there was no incentive to invest in new technology, and investors kept their distance, while the power system continued to decay.

But in 1998 Anatoly Chubais – famous (or notorious, take your pick) for being the “father of Russian privatization” – was named chairman of the Russian power monopoly, YeES Rossii. He tackled the broken system, and over the next ten years he brought about a revolution. His approach was taken straight out of the classic neoliberal playbook: He split the power monopoly into separate generating and distribution companies; he raised power tariffs; and he laid down strict new rules to force power consumers to pay their bills. In the newly-privatised “energos,” as they were called, a new generation of professional managers purged the Soviet-era electrical engineers. The new managers looked to their bottom line, and the energos became solvent.

In 1999-2000, thanks to rising oil prices, the Russian economy started growing again, and power demand abruptly turned around. But the capacity of the power system was continuing to decline, for lack of investment. Chubais went on a one-man campaign, warning that rising demand would soon exceed capacity, and that disaster lay ahead if the sector didn’t modernise. He became famous for a graphic, which came to be called “Chubais’s cross,” showing the curve of demand intersecting the curve of declining capacity, and which he showed to anyone who would listen. Chubais then used his power as head of RAO YeES to institute a bidding system to kick-start investment. An energo whose modernisation project was approved by RAO YeES could recover all of its capital costs and pass them on to consumers in the form of higher tariffs.

Initially the response was modest, until events came to Chubais’s rescue. In May 2005, a power outage left large parts of central Moscow in the dark, together with several cities in nearby provinces. Tens of thousands of people were trapped in the Moscow metro and in elevators, and parts of the government were put out of action. Over 2mn people were affected.

The blackout suddenly dramatised the decrepit condition of the power sector. The incident caught Putin’s attention, and overnight the message to the energos was: “Submit your investment project, and do it now. Money is no object, and order where you can.” In 2008 Chubais announced vast plans to invest $56bn by 2010 in new power systems, featuring 133 gas turbines and 146 steam turbines.

Western companies come in to the power sector
It was a situation made to order for foreign suppliers. For the next decade and a half – right up to the time of the invasion of Ukraine – a handful of Western companies, led by General Electric of the US and Siemens of Germany, led the modernisation of the Russian electricity sector, especially focusing on the gas-fired power plants.

By the time of the Russian invasion, there were over 100 foreign gas turbines operating in Russian power stations. Most of these came from General Electric, which opened an office in Moscow as early as 2004. In 2014, it formed a joint venture with the Russian company InterRAO and was producing 14 gas turbines a year. By the end of 2021 General Electric had over 1,000 employees in Russia, and had sold over 1,000 gas turbines of all kinds, and over 800 aircraft engines.

GE’s only rival in Russia was Siemens. Its power subsidiary, Siemens Energy, formed a 65% joint venture with a Russian turbine manufacturer, “Silovye Mashiny,” part of a large conglomerate owned by a Russian oligarch, Alexey Mordashov. By 2018 two-thirds of the new gas-turbine capacity installed over that decade consisted of imported models from the two companies, while the remaining one-third came from production under licence, mainly from the joint venture between Siemens and “Silovye Mashiny.”
But the going soon gets tougher

Unfortunately, after the first five years or so, the Russian market turned sour – for three reasons: First, the global financial crisis of 2008-9 caused oil prices to collapse, and suddenly the Russian economic boom of 2000-2008 came to an end. Second, in the slowdown that followed, the expected tripling of electric demand never materialised. Suddenly there was little call for new generators, halting the modernisation of the gas-fired fleet. Third, as Russian-Western relations deteriorated, official pressure for “import substitution,” that is, sourcing from Russian manufacturers, increased. In 2017, the Ministry of Energy adopted a new tender system, which made Russian content mandatory.

Yet the Western turbine suppliers continued to make good money, right up to the time of the invasion, partly by servicing the existing foreign stock, and partly by supplying advanced components, such as turbine blades, which were all imported. And for the handful of new projects that remained, the foreign companies retained the inside track, since the Russian manufacturers did not have a large model to offer.

Russian companies made two attempts fight back. First, an alliance of three state companies developed an all-Russian model of a 110-MW gas turbine – Russia’s first, with the ambitious goal of delivering 40 MW of new installed capacity by 2031. But their first prototype in 2017 was an embarrassing failure, and since the invasion there has been no further mention of the 110-MW machine. The second attempt, by Mordashov’s “Silovye Mashiny”, successfully developed a 170-MW gas turbine, licensed from Siemens under the two companies’ joint venture. It successfully passed all tests and was due to start assembly in 2023. It had even lined up its first customer, in Tatarstan, after the Tatar president appealed personally to Putin to grant an exemption from import-substitution rules. However, after the invasion the agreement collapsed, as both sides backed away out of fear of sanctions.

In the weeks following the Russian invasion, General Electric and Siemens both suspended all new investments and announced their intention to leave Russia by the end of the year. Two other Western companies, Enel and Fortum/Uniper, which had taken majority positions in two Russian energies, likewise headed for the exit, as did Mitsubishi, which had set up a joint venture in eastern Russia. Thus overnight, two decades of the presence of Western companies in the Russian power sector came to an abrupt end.

Putin’s gas-turbine problem and the power of western sanctions

The key point of this story is that after 30 years of reform Russia ends up standing still in a key branch of industry. The lights won’t go out, but what those lights will continue to illuminate will be a technologically backward sector. The lack of advanced gas turbines will affect not only power generation, but also other applications, such as the large gas turbines needed for LNG projects and turbines needed for wind generation. It will take Russia a decade or more to catch up, by which time world gas-turbine technology will have moved on the next level of efficiency.

But this result is only partly due to the Western sanctions. As in other sectors of Russian industry, it is also due to two other factors – the inherited weakness of the Russian engineering sector (a legacy of the Soviet collapse and the chaos of the 1990s), plus the effect of misguided policies. The Russian government in the mid-2000s launched into a rushed modernisation programme, resulting in an extreme reliance on foreign technology, which in turn made the power sector vulnerable once the Western suppliers and partners withdrew. Then, starting in the mid-2010s, an overhasty reaction in the opposite direction, mandating all-Russian content, has locked the power sector into continued dependence on the backward Russian models. The result will be a “modernisation” that will be anything but modern.

But this is very far from a “collapse of the Russian economy,” as some studies of the impact of sanctions have claimed. That is because, at the same time, demand for electricity in the Russian economy is declining, and is likely to continue doing so for another decade. Moreover, natural gas will remain abundant and cheap, as declining gas exports are re-allocated to the domestic economy, especially the power sector. Thus the gas-fired generating sector will remain backward and inefficient, but it will be adequate to supply a diminished Russian economy. Putin’s “turbine problem” turns out to be manageable – Putin-style.

Thane Gustafson, a professor at Georgetown University, is the author and co-author of eight books on Russian affairs, including most recently Wheel of Fortune: the Battle for Oil and Power in Russia (2012), The Bridge: Natural Gas in a Redivided Europe (2020), and Klimat: Russia in the Age of Climate Change (2021), all with Harvard University Press.

This article first appeared on Gustafson’s substack “Devil’s Dance.”
The economic war with Russia has already cost the West $380bn

Ben Aris in Berlin

The economic war that the West launched against Russia in the days following the invasion of Ukraine has already cost developing nations $379bn, analysts estimate. The figure is based on an assumption that Western governments are collectively burning through $2bn a week to cope with elevated commodity prices and losses caused by slowing economies during the six months the war has been going on, reports the Japan Times.

Reserves exhausted this year in crisis fighting represent less than 6% of total holdings, according to data from the International Monetary Fund for 65 developing nations, but that is the fastest drop since a 2015 currency meltdown led by China’s surprise devaluation. Ghana, Pakistan, Egypt, Mongolia, Bulgaria and Turkey are in the front line, having all lost a third of their reserves this year, according to the IMF, and all are having currency crises as a result.

Soaring bond yields and a $215bn wall of global debt payments due by the end of 2023 are set to worsen the situation over the next year, especially if interest rates continue to rise. Governments were already in a difficult position after balance sheets everywhere were strained by heavy social spending during the global pandemic that started in 2020. Now all that has been made worse by problems created by the escalating economic war between Russia and the West.

Within days of the invasion, EU Commission President Ursula von der Leyen said Europe will hit Russia with a “massive package” of sanctions following its attack on Ukraine on February 24, which are designed to “undermine Russia’s economic base”. “The sanctions will target strategic sectors of Russia’s economy. We will freeze Russian assets in the EU and stop access of Russian banks to our financial market. This is designed to take a heavy toll on the Kremlin’s ability to finance war,” von der Leyen said at the time.

Sanctions are usually a tool of diplomacy used to try to cajole a wayward government to change its ways. Von der Leyen made it clear these sanctions
were different: they were designed to damage Russia’s economy as much as possible. She in effect launched an economic war against Russia.

Cost of war
This war is already looking like it will be one of the most expensive ever. The total cost of the war to the Ukrainian economy is estimated to have risen to $660bn by the Kyiv School of Economics (KSE), of which just the physical damage is $108bn, with $186bn needed to repair the essential housing and infrastructure should peace come. Others, such as former Ukrainian finance minister Natalie Jaresko, say the cost to rebuild Ukraine could easily run to $1 trillion or more.

But the cost to the West will be immeasurably higher. Donors have already committed $86bn in aid to Ukraine, with the US bearing the lion’s share of some $40bn in arms, including over $8bn in weapons.

Just this cost is starting to tell, as in July for the first time since the war started Ukraine’s allies made no new commitments to arms or aid at all, according to Kiel Institute of World Economy (KIWE) that has been tracking the promises.

And Ukraine is running out of money, as it is running a monthly deficit of some $5bn.

The EU has also been sitting on a mirror €8bn loan to Ukraine to match the US money but said it could not send it in July or August as it didn’t have the ready resources. It has since said the money will be transferred in September.

Extreme sanctions
Until now the West has attempted to impose “one-way” sanctions – those that hurt Russia but do little damage to Western economies. However, with the failure to adopt the mooted oil price cap sanctions as part of the seventh package of sanctions introduced on July 21, the only option going forward is to use “two-way” sanctions that do as much damage, or more, to Western economies as they do to Russia.

As bne IntelliNews wrote in its first take of the damage the conflict will cause: “Russia loses from its war in Ukraine, even if it wins. China wins from Russia’s war in Ukraine irrespective of whether Russia wins or loses. The US also wins from both a Russian victory and a defeat, but its win is less if Russia wins. And everyone else, especially Ukraine, has already lost regardless of the outcome.” The economic consequences of the war were visible in the first month, but it is only now that they are starting to be felt in earnest.

In the first week, the West imposed the CBR sanctions that froze access to over $300bn of Russia’s gross international reserves (GIR) held in foreign banks that was totally unexpected and caused the Russian financial system a massive shock. Of all the possible sanctions discussed prior to the attack, freezing the CBR money was never even mentioned.

Then the SWIFT sanctions cut off seven banks – including giants Sber and VTB that between them account for half of Russia’s banking assets – from the international messaging system on March 2, effectively making it impossible for Russian banks to send dollars abroad. SWIFT sanctions were discussed only as a nuclear last-resort option, yet they were imposed in the first week.

And in a series of seven packages, sanction was piled on sanction targeting most of Russia’s dependence on Western markets, including the debilitating sanctions on technology and equipment that is Russia’s sanctions soft underbelly, as bne IntelliNews detailed in a feature a year before the war started.

Even more devastating than the official sanctions was the self-sanctioning by major international companies that started to shutter their Russian businesses within weeks of the start of the war. In a widely quoted list, Yale claims over 1,000 companies with turnover equivalent to 40% of GDP have left the market, although a bne IntelliNews deep dive into the Yale report has since argued the pain from the multinationals exit will be a lot less dramatic.

Worse to come
These are the immediate calls on Western cash to prop Ukraine up while it fights tooth and nail on the battlefield. However, there is more to come as Russia brings its economic weapons into the fray. The fight so far has been concentrated in the kinetic war in Ukraine’s fields and forests, but as the autumn approaches it will be increasingly fought in bankers’ boardrooms and at the checkout of the local supermarket.

Gazprom threw Europe’s energy markets into a tizz after it reduced flows of gas to Europe by 60% in June and then...
followed up in July by reducing them further to only 20% of total capacity flowing through the Nord Stream 1 gas pipeline. The Kremlin is threatening all of Europe with a huge energy crisis this winter if Russia chooses to cut off all gas supplies even if Europe’s gas tanks are full at the start of the winter. Only Slovenia and Austria have gas storage tanks big enough to last the whole winter if imports of gas from Russia stop.

Europe has been racing to fill its tanks on time, which reached 75% of capacity on August 17, well ahead of schedule and on track to hit the 80% full deadline before the October 1 deadline set by Brussels. It has managed this by importing a record amount of expensive LNG and also by ramping up the production of European gas produced in the Netherlands and Norway.

But it has done this at enormous cost. Usually the EU spends a total of $12bn a year on LNG imports, but this year it has already spent $70bn on just LNG, according to estimates by Bruegel, and the winter has not even started.

Despite the comfortable levels of gas in the tanks, gas prices soared again this week to fresh highs above $2,700 per thousand cubic metres on August 16 – ten times their regular levels – on the back of energy crisis fears. Electricity prices are soaring in parallel, even though Europe is not particularly dependent on gas-fired power stations. Power prices are linked to the price of gas as gas-fired power stations cover peak demand while other fuels cover the baseload demand. That means power prices are coupled to the price of gas when demand is high, and with a scorching summer and the prospects of a cold winter, power prices are currently closely coupled to gas prices.

Germany has already announced there is likely to be a €1,000 power surcharge for residential homes this winter and in the UK the surcharge could be an even more extreme GBP4,000-5,000 per household. In July it was estimated that just the cost of this winter’s energy crisis could run to €200bn – more than the cost of reconstruction of the physical damage in Ukraine. And given that the energy crisis is likely to repeat itself for at least one more year as Europe looks for new sources of energy, plus it will have to invest into extensive new energy infrastructure, including new pipelines and retooling refineries, the costs could rise to over €1 trillion in the next three years, according to some estimates.

**Commodity prices**

Spiking oil prices is another vulnerability for Europe. After an initial spike in the first months of the war when oil rose to over $140 per barrel, but still short of its all-time high of $168 set in June 2008, it has since fallen back to just under $100 as Russia has found alternative buyers in India, China and Kingdom of Saudi Arabia (KSA) to take up the slack created by Europe’s reduction in demand and the self-sanctioning.

However, on December 5 the EU plans to halt Russian crude deliveries entirely, followed by refined products by February 5. No one is sure what will happen then. JP Morgan issued a warning saying that the disruptions to the oil market could send prices sky-rocketing to over $380 per barrel, although other analysts are more sanguine, which would cause a new shock to the global economy.

Putin controls the marginal markets in a number of key commodities. Russia is also the biggest producer of fertilisers in the world and while fertilisers have specifically not been targeted in the seven sanctions packages, he is in a position to squeeze this market too. Indeed, Russia has already banned the export of some fertilisers in order to “preserve stocks for domestic use” that has also sent prices to record highs.

If fertiliser exports are halted, not only will that raise costs for farmers around the world, but they will also inevitably reduce the use of fertilisers and that will reduce food production and feed more food-inflation.

Eurostat reports that annual inflation in the EU reached a record 8.9% in July – the highest level it has ever been since the euro was introduced in 1999. Consumer prices in the 19 countries that use the euro rose by 0.1% in July compared to the previous month and by 8.9% year on year, way ahead of the European Central Bank’s inflation target of 2%.

Power and food are almost entirely responsible for the increases, says Eurostat. Electricity prices rose by 4.02% and alcohol and tobacco prices by 2.08%. According to Reuters, even if these most volatile components are excluded, prices were still 5.1% higher in July.

Russia also has the power to send wheat prices back up through the roof.
Sterling has been deeply devalued and the first time in 20 years in July, pound plunged to parity with the greenback for the pain of the strong dollar. The euro emerging markets that are feeling them more than 20%. And it's not just at least 10% of their value and ten of it. Worldwide, 36 currencies have lost plunged to record lows against and currencies from Ghana to Chile.

A strong dollar hurts emerging markets, amongst other things. The currency collapses have exacerbated a global spike in inflation, impoverishing already poor populations and fanning simmering unrest that had been stoked by two years of economic malaise brought on by the pandemic.

Sri Lanka has gone into full-scale meltdown after crowds drove the president out of the country on the back of a fuel crisis. In Africa half a dozen countries have been driven into the arms of the International Monetary Fund (IMF) for emergency relief after it became impossible to cover their budget expenditure. Ghana in particular has been trying to go to the IMF for years, but in August put in a desperate plea for help and doubled its request for an immediate bailout to $3bn. Egypt has also become the IMF's largest single debtor and together with Ghana is in the front line for possible defaults.

Across Africa millions of people have already been pushed below the poverty line and several countries have reported their first food riots. Europe has also seen its first protests in Albania in July demonstrating against the rising cost of living. Tensions there remain high, with fresh protests threatened this week.

Observers have already drawn parallels between the current ropey state of the global economy and the Latin America debt debacle in the 1980s or the currency crisis in Asia in 1997 that triggered a global economic crisis and caused Russia to collapse a year later in its first really big post-Soviet crisis that wiped out the top tier of the banking sector, amongst other things.

The naval blockade of Ukraine that prevented its export of grain sent wheat futures to ten-year highs but as soon as Russia agreed to the Istanbul grain deal on July 22 under pressure from Russia's African friends and uncorked Ukraine's ports, the price of wheat in Chicago fell back to pre-war levels. Since then grain ships have been leaving Ukrainian ports unhindered, but it would take little to halt that flow again.

Russia has similar market power in the metals’ markets, as a major supplier of a range of key metals used across industry. Like wheat and fertilisers, Russian metals have also been exempted from sanctions, but if the West continues to escalate its economic war against Russia then that also could change.

In 2018 the US Office of Foreign Assets Control (OFAC) that runs the sanctions regime hit Oleg Deripaska, the owner of aluminium producer major Rusal, with a broad set of extensive sanctions. The result was to send the price of aluminium up 40% the next day on the London Metal Exchange (LME). When industry representatives explained that this could add 15 cents to the cost of a can of coke it quickly backed off. The sanctions were never imposed and eventually rescinded – the only sanctions to be withdrawn since the regime was introduced in 2014.

FX

Putin has plenty of weapons in his arsenal to fight an economic war. But maybe the most nefarious is to simply disrupt the global economy.

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The stage is set for more FX pain for everyone. In June the World Bank issued a gloomy report downgrading its global growth forecast yet again and issuing a stringent warning of possible stagflation for the world in the rest of this year.

US inflation hit a decades-long high of 9.1% in July that is putting pressure on the Fed to jack up rates that will inevitably send more global currencies tumbling and could trigger a global crisis. With reserves already dropping, if a country looks like it is running out of dollars, that could shut the weaker countries out of capital markets and trigger a full-scale and contagious meltdown, similar to the Asian crisis in 1997. Dollar capital flows into emerging markets have fallen this year to their lowest level since the period following the onset of the pandemic, a Bloomberg gauge shows.

There is still hope that stagflation can be avoided after US inflation fell to 8.5% in August. As bne IntelliNews reported, the tightening cycle in Europe also appears to be coming to an end after central banks across the region acted fast and aggressively. However, the economic war with Russia is still escalating and that could have unforeseen consequences for the global economy, as it is in Putin's power to fuel more inflation via restricting more commodities.

The Central Bank of Russia is certainly planning for the worst. CBR governor Elvia Nabiullina included in a much talked about macroeconomic outlook released last week a “global crisis” scenario, so Russia at least will be ready.
Population decline to take Emerging Europe back to the early 20th century

Clare Nuttall in Glasgow

Population decline across almost all of Emerging Europe will result in the populations of many countries dropping to levels not seen since the early 20th century.

UN data shows that the total population of the post-socialist countries in Central, Southeast and Eastern Europe, the South Caucasus and Central Asia will drop from 418mn in 2021 to an expected 362mn by the end of the century, according to the median projection in the World Population Prospects 2022 report.

Taking out the countries of Central Asia – the only region where countries have rapidly growing populations – the slump is even deeper, from 339mn to 231mn, or a decline of 32%, according to bne IntelliNews calculations.

For the emerging Europe region excluding Central Asia, the population will fall below 249mn – the 2050 level – in 2084.

By 2021, three Southeast European countries are set to see the steepest population decline compared to 2021. Albania’s population will slump by almost two thirds (61%), while Bulgaria’s population will drop by 57% and Serbia’s by 55%.

Bulgaria’s population is thus forecast to drop to the level it was at around 1880, following the re-establishment of the Bulgarian state after the Russo-Turkish War of 1877-1878.

For Albania the level was similar to that around the start of the Second World War, when the last king of Albania, Zog I, fled into exile after Italy’s invasion in 1939.

Serbia’s population is also expected to fall to levels last seen in the early 20th century.

Ukraine is the fourth country expected to lose more than half of its population by 2100, with a projected decline of 53%.

The UN projections for 2022 factor in the impact of the war, with Ukraine’s population expected to drop from 43mn at the beginning of this year to 36mn in 2023. While a gradual recovery is expected in the coming years, assuming Ukrainian refugees return to their homeland when the war ends, Ukraine’s population is never again expected to pass the 40mn mark.

Latvia, Croatia, Bosnia, Lithuania, Kosovo, Armenia, North Macedonia and Poland are all expected to lose between 40% and 50% of their populations by the end of the century.
Russia's population decline is expected to be less severe than many other states in emerging Europe because of immigration from poorer ex-Soviet states. However, the region's most populated country by far is still expected to see a population decline from 145mn in 2021 to just 114mn by 2100.

Emerging Europe is experiencing the steepest population decline globally, according to the UN report. “Among countries with at least half a million people, the largest relative reductions in population size until 2050, with losses of 20 per cent or more, are expected to occur in Bulgaria, Latvia, Lithuania, Serbia and Ukraine,” it says.

This is due to a combination of the sharp falls in life expectancy and birth rates after the collapse of communism plus mass emigration.

“Life expectancy at birth actually declined during the late 1980s and 1990s due primarily to ... the health crisis in Eastern Europe following the dissolution of the Soviet Union. These setbacks have long-lasting effects on life expectancy at birth,” said the UN report.

“The slow recovery in life expectancy at birth in the countries of the former Soviet Union explains the large and continuing differences across European countries. In 2021, life expectancy at birth ranged from less than 70 years in the Republic of Moldova and the Russian Federation to 84 years in Switzerland.” This continues to have negative consequences for the region, which is characterised by tight labour markets, a brain drain and ageing populations, which act as constraints on economic growth.

It remains unclear to what extent immigration may make up for this. As well as Russia, the richer countries in Central and Southeast Europe, notably Slovenia and Czechia, are experiencing inward migration that is balancing natural population decline.

There have been efforts to recruit from growing populations in a region where climate change is already a serious problem.

These countries aside, the rest of the region with its steady population decline contrasts with the global forecast of population growth for much of this century.

The world's population is projected to reach 8bn on November 15 this year, and could grow to 9.7bn in 2050 and 10.4bn in 2100.

The UN reports that population growth is caused in part by declining levels of mortality, with life expectancy reaching 72.8 years in 2019, up by almost nine years since 1990.

Geographically, more than half of the projected increase in global population up to 2050 will be concentrated in just eight countries: the Democratic Republic of the Congo, Egypt, Ethiopia, India, Nigeria, Pakistan, the Philippines and Tanzania.

Like Kyrgyzstan and Tajikistan, the countries of sub-Saharan Africa are expected to continue growing until the end of the century. Sub-Saharan Africa will contribute more than half of the global population increase expected by 2050.
Row over Babiš' conflicts of interest set to spice up Czech presidential race

Czech Minister of Agriculture Zdenek Nekula has told Czech Radio that former premier Andrej Babiš’ Agrofert holding will have to return agricultural subsidies worth of up to CZK4.5 billion (approx. €183mn), and he indicated that more aid could be demanded back by other ministries.

Nekula’s comments follow the European Commission officially concluding the probe into the billionaire’s conflicts of interest, sparked already by Babiš’ first ministerial stint in the cabinet of Social Democratic PM Bohuslav Sobotka (2014-2017) and then his own 2017-21 government.

During his time in government Babiš’ agro-chemicals holding continued to claim subsidies for projects, despite the fact that, according to the EU, he still exercised effective control of the holding and was therefore in a conflict of interest. The EU has refused to reimburse the Czech government for money paid out to Babiš while he was in a conflict of interest, leaving it to the government to recoup the misspent subsidies from Agrofert, the largest private recipient of subsidies in the country.

Nekula expects Agrofert to object to his ministry’s move and braces for legal battles ahead. Agrofert is likely to build its case around the looser standards of ownership and consequently conflict of interests under the then existing Czech legislation. Current opposition leader Babiš and his fellow politicians from ANO have in the past dismissed the probes into ANO’s leader’s conflicts of interest as politicised.

Babiš’ ties to the Agrofert holding could well become one of the headlines in the Czech presidential campaign, with the election scheduled for January 13-14.

Babiš’ trial on fraud charges in the Stork’s Nest case is also set to begin this autumn.

Babiš has been touring Czech regions as part of his “Times were better when Babiš was in power” contact campaign for several weeks, though he has thus far not confirmed his presidential bid, possibly in an effort not to have expenses of the touring campaign count towards the presidential campaign caps.

Readers of ANO’s website are invited to set up a meeting with Andrej Babiš at one of the upcoming stops across the country.

According to a Median poll published on August 1, if the election were held now, Babiš would win the first round with 25.5% of the vote, with former Czech Army Chief of Staff Petr Pavel in second place with 21%, with trade union chief Josef Stredula trailing far behind in third place.

According to the IPSOS polling data, analyzed by Czech DeníkN, Babiš is the favourite of the campaign with 31.7% support, trailed by Pavel with 23.8% support and former Masaryk University Chancellor Danuse Nerudova with 10.8% support.

Data from the same poll suggest that Babiš would benefit from being the candidate for his populist ANO and from being acceptable to the far-right SPD electorate, which together elected 92 deputies in the Czech parliament of 200 legislators, whereas Pavel and Nerudova as well as other liberal candidates are often fighting for the same largely urban-centered electoral base. The campaign is expected to hit full swing later in the autumn.

“Babiš has been touring Czech regions as part of his “Times were better when Babiš was in power” contact campaign”
Calls for Czech spy chief and interior minister to resign as STAN corruption scandal widens

bne IntelliNews

Opposition parties are calling for Czech Interior Minister Vit Rakusan and newly appointed head of the foreign intelligence service Petr Mlejnek to resign as the Mayors and Independents party (STAN) corruption scandal widens.

In June, STAN, the second strongest ruling coalition party, led by Rakusan, was rocked by a kickback scandal at the Prague Transportation Company involving the then Deputy Mayor of Prague Petr Hlubucek, who has since resigned his posts with the Prague municipality and the party. Police raided the offices of the Prague municipality, the Prague Transportation Company, and the Czech General Health Insurance Company, taking into custody and pressing charges against more than 10 people so far, including STAN party sponsor Michal Redl. Redl is a former business partner of the fugitive gangster Radovan Krejcir, who is currently in jail in South Africa for attempted murder.

The scandal has now widened to embroil Mlejnek, who was formally appointed the head of the Czech Office for Foreign Relations and Information (UZSI) by Rakusan on July 8. Last week Czech online outlet Seznam Zpravy reported that Mlejnek had been in regular contact with Redl since 2012.

Mlejnek has confirmed he knows Redl from his past engagement with private technological company Techniserv. “The Czech Security Agency examines these contacts, and I have been probed twice”, said Mlejnek. Seznam Zpravy points out that it is unclear whether Mlejnek informed the Czech Security Agency in charge of the clearance of his contacts with Redl.

ANO, the opposition party of populist ex-premier Andrej Babis, and the far right SPD party have mounted calls for Rakusan to resign. On Saturday Babis posted on his Facebook profile that ANO will instigate a vote of confidence in the parliament “unless premier [Petr] Fiala will find the courage and decides to call off Vit Rakusan himself”, saying Mlejnek has been installed to the post by “Redl’s mafia”.

Babis reiterated the point in an article published in the daily Mlada fronta DNES, which belongs to Babis’ agro-chemical conglomerate Agrofert.

Fiala told local media he thinks that Babis wants to divert attention away from his own scandals. Babis is facing fraud charges and in the latest round of allegations, French police are probing whether he committed money laundering and tax evasion by purchasing a luxury property in the south of France through a complex offshore transaction.

“The balance of power in the parliament is quite clear”, said Fiala, pointing at the 108-strong majority of his coalition in the parliament of 200 deputies.

Rakusan said he knew of Mlejnek’s contacts with Redl but that these were strictly professional, and more importantly that Mlejnek has received security clearance from the Czech National Security Agency and Nato.

Fiala is scheduled to meet with Rakusan and discuss the situation on Tuesday. “I would have to eject him [Mlejnek] only if he did not receive the highest security clearance as stipulated by law”, Rakusan told Seznam Zpravy ahead of the meeting.

If Rakusan were to resign it would be a big blow to the STAN party, as he is its most prominent and popular figure. The scandal has severely damaged the party, a loose grouping of local mayors and others, who shot to power partly based on their campaign against corruption, which they associated with Babis. Czechia will hold Senate and municipal elections next month.

Some commentators believe it is only a matter of time before Rakusan has to sacrifice Mlejnek, otherwise he will have to resign himself.

“The decision to appoint to a key security position a man with any, even if only casual, business ties to Redl is incomprehensible. By doing so, Rakusan has nevertheless given the opposition its first real argument to support the suspicion that the Redl wing still has influence in STAN,” wrote Jan Molacek in a commentary for daily Denik N.
Nightmare scenarios haunt Turks as Syrian Kurds carry out military assaults on Turkish soil

Akin Nazli in Belgrade

The Syrian Democratic Forces (SDF) have carried out military operations in the Turkish provinces of Sanliurfa, Gaziantep and Mardin, the SDF said on August 18 (map).

On August 16, Turkey’s defence ministry announced reported mortalities caused by mortar fire on the town of Birecik in Sanliurfa province.

The SDF statement asserted that it, an alliance of forces formed during the Syrian Civil War, was the perpetrator.

Turkey has lately escalated its aggression in the region of Syria where the SDF operates (yellow part on the map), the SDF added.

The escalation of clashes in the region coincided with Turkish President Recep Tayyip Erdogan’s early August meeting with Russian counterpart Vladimir Putin in the Russian Black Sea resort city of Sochi.

Reportedly, Erdogan asked for Putin’s backing for a Turkish attack on Kurds in Syria. Putin responded that Turkey had already carried out limited operations against the Kurdish forces and advised Erdogan to work with Syrian President Bashar al-Assad. The operations have included shelling, armed drone attacks, assassinations and bombings.

Since the meeting with Putin, Erdogan has been preparing Turks for another dizzying U-turn when it comes to foe Assad.

Jihadists in northern Syria (light green and grey parts along the Turkish border on the map) have, meanwhile, held protests in reaction to Turkish officials’ comments on arbitrating matters between the Assad regime and the jihadists.

The SDF was formed by the Kurdish People’s Defence Units (YPG), an armed Syrian offshoot of the Kurdistan Workers’ Party (PKK). The US has depended on the YPG to fight Islamic State for around eight years.

In April, Turkey launched an offensive against the PKK in northern Iraq. Since
then, the press release section of the Turkish defence ministry’s website has once again been full of cases of “martyrdom”.

In the spring, when the snow melts in the mountainous Iraqi region where the PKK is based, the Turkish state and the PKK traditionally launch a season of bloody attacks. They have been fighting for more than four decades.

Meanwhile, growing anti-migrant tension is boiling over in Turkey. Since the US exit from Afghanistan in August last year, Turkey’s problem with uncontrolled migration has shifted up a few places on the long list of Turkish woes that have got beyond the point where they can be solved.

“Turkey’s southern border area is essentially a battlefield running from one end to the other”

How many migrants have entered Turkey is widely regarded as completely unknown.

Estimates suggest that there are at least 10mn migrants in the country with an official population of around 85mn. The calculations include members of all jihadist organisations formed around the world. Rights organisations are concerned at just how many Turks descend into insulting ordinary Syrian and other migrants who work in unregistered jobs. Indeed, there seems to be some determination in Turkey to create some serious violence over migrants in the country. By now, almost every day, there are clashes across various neighbourhoods.

The establishment and middle class in Turkey, ranging from the political sphere to the media, do not seem to be aware just how grave the situation is in the country.

Turkey’s southern border area is essentially a battlefield running from one end to the other. In addition to the threat posed by hostile Kurds, pro-Turkey jihadists could at any time turn on Turkey.

What’s more, there are some al-Qaeda offshoots (dark green on the map, across Idlib region) present on the border with Turkey’s Hatay province. Nobody has any idea what the distinguished politicians engaged in this great bog of enmity will do with them.

All the subjects in question have their own networks and ability to strike within Turkey.

There are analysts who conclude that there is no need to think for too long to work out what could happen when the chaotic balance of power in question gets out of control. Iraq and Syria offer salutary lessons.

Speculation can also take you to the conclusion that such a situation might present Erdogan – Turkey’s leader of two decades who must stand for re-election by next June at the latest, having led the country into economic turmoil that could turn out to be its worst in living memory – with his only path to remaining in power. After all, Syria has been destroyed by its multi-faceted war, but Bashar Assad remains at the helm.

Turkey’s port warehouses reportedly packed full with goods bound for Russia

bne IntelliNews

Warehouses at ports in Turkey are packed full with goods bound for Russia, Dunya daily reported on August 4, citing people in the logistics industry.

Turkey has become a busy transit hub for Russia’s imports as Moscow attempts to work around sanctions imposed by the US and Europe in response to its invasion of Ukraine, the Turkish newspaper reported. Ankara has not imposed any war sanctions on Moscow. The Erdogan administration argues that it must stay on good terms with both Ukraine and Russia in order to serve as a trusted intermediary in peace talks when the call comes, while it also baulks at the economic damage that would be caused to Turkey by the introduction of Turkish sanctions on its big Black Sea maritime neighbour to the north. However, the speculation in Washington is that the Biden administration was considerably irked by Turkish President Recep Tayyip Erdogan’s appearance alongside Russian counterpart Vladimir Putin and Iranian counterpart Ebrahim Raisi in Tehran just over two weeks ago and is also wary of Nato member Turkey turning into an anything-goes bolthole for Russians looking to shield business and assets from Western sanctions.

On August 2, the US Department of the Treasury, imposing a new round of sanctions targeting Kremlin-connected elites who provide substantial revenue to the Russia, hit Turkey’s MMK Metalurji with sanctions. The company owns two steel facilities in Turkey, as well as a seaport in Hatay, Dortyol. “MMK Metalurji was designated pursuant to E.O. 14024 for being owned or controlled by, or having acted or
purported to act for or on behalf of, directly or indirectly, [Russian parent company] MMK, a person whose property and interests in property are blocked pursuant to E.O. 14024,” the US Treasury said.

Cargoes arriving from around the world are unloaded at Turkish ports and switched to Turkish ships heading for Russia after “embargo screening,” according to the Dunya article. The goods are sent on without being registered as imports to Turkey, it added.

The newspaper article comes as Erdogan prepares to meet Putin once more, on August 5 in the Russian Black Sea resort of Sochi.

Also according to the publication, to smooth goods flows to Russia, some Russian firms are opening offices in Turkey and entering into partnerships to carry out trade. It is possible for Russian business people can buy real estate and create a local company to obtain Turkish citizenship. They can then send products to Russia from the European Union and Far East via their new Turkey office address.

The shipments to Russia are often made by Turkish container companies, mostly by sea, with global giants such as Maersk, Hapag Lloyd and Hamburg Sud having ceased transporting goods to Russia. Land, air and rail routes are also reportedly used.

“I was in [the southern port of] Mersin last week. Due to the loads coming from all over the world and to be transferred to Russia, the warehouses in Mersin are full to the brim,” Mehmet Serkan Erdem, Turkey general manager of Rif Line, was quoted as saying, adding: “In some instances, these cargoes are sent to Russia with the ships of Turkish ship owners, and in others many Russian trucks are coming to Turkey to transport these goods.”

Erdem claimed many EU companies have been buying goods from countries such as China and Indonesia and sending them on to Russia via Turkey.

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**Drought damage to European grain harvest piles on top of Ukraine war impact**

**bne IntelliNews**

Extreme heat and droughts across several European countries have led to forecasts for this year’s harvests being reduced.

Coming on top of the disruption to global grain markets caused by the war in Ukraine – the war disrupted the spring sowing season and Ukrainian Black Sea ports have been blockaded by Russia – this adds to fears of shortages in import-dependent countries and is expected to further push up prices.

The July 2022 edition of the JRC MARS Bulletin published by the EU’s Joint Research Centre said its yield outlook for EU summer crops has been “substantially reduced”, citing the “hot and/or dry weather conditions in large parts of Europe”.

This includes the crops in some eastern EU members, specifically northern Romania, eastern Hungary and western and southern Ukraine, which have suffered from drought and very high temperatures with a “strong negative impact” on summer crops.

Romanian farmers, meanwhile, estimated that the country’s wheat crop will drop this year by 25% year on year to 9mn tonnes as a result of the drought, as reported by Ziarul Financiar. Romania is typically responsible for around 10% of the EU’s wheat output and a quarter of its exports.

Croatia, Slovenia and eastern Slovakia also experienced precipitation deficits, which together with the heatwaves in July shortened the grain filling of winter crops and spring barley, with negative impacts on expected yields.

Other problem areas were parts of Spain, southern France, central and northern Italy – all affected by a long...
drought – and central Germany. More recently, large parts of Czechia have been ravaged by wildfires.

Altogether this has led to the JRC cutting its forecast for total cereal yields by 2.2% compared to its June 2022 forecast, to 2.1% below the five-year average. Compared to June, the yield forecasts for grain maize, sunflowers and soybeans showed the biggest reductions – in the range of 8% to 9% – to now well below the five-year average.

On the other hand, the JRC reported particularly favourable conditions in the Baltic Sea region as well as Ireland and Scandinavia.

The lower-than-expected sunflower production is an additional problem, as again, Ukraine is a major producer. Some states had already introduced curbs on exports of sunflower oil following the invasion.

**Grain market squeeze**

The Russian invasion of Ukraine in February immediately sent grain prices soaring, adding to already rising inflation as the global economy recovered from the coronavirus.

Both Russia and Ukraine are among the world’s top exporters of grain. Ukraine’s grain exports have been severely disrupted despite efforts by neighbours Poland, Romania and a number of other countries to help it get grain to international markets by opening up their ports and building new infrastructure.

On top of this, there is the threat – not carried out so far – that Russia could decide to restrict its exports to punish Western countries for their sanctions.

On July 22, Ukraine signed the Black Sea Initiative, enabling it to resume grain exports by unblocking several key Black Sea ports.

The deal was signed in Istanbul after lengthy talks between Russia, Ukraine, Turkey and the UN, and will unblock up to 25mn tonnes of grain trapped in Ukraine since the start of the war by a Russian Black Sea naval blockade.

With all three ports open, Ukraine is expected to transport up to 3mn tonnes of grain per month, resuming exports to the same countries as prior to the Russian invasion. Many of Ukraine’s major importers are developing countries which have been hit hard by the global food crisis caused by skyrocketing grain prices, including Lebanon, Egypt and Tunisia.

Ukraine typically exports some 6mn tonnes of wheat a month during the high season, which is about to begin, but this year exports have fallen to around 1mn tonnes a month as Ukraine’s ports have been closed and it has been forced to export grain via truck and rail, which has insufficient capacity to cope with the volumes of grain waiting to leave.

As reported by bne IntelliNews, future prices have fallen in recent weeks as the talks progressed on resuming exports from Ukraine’s ports, locked up by a Russian Black Sea naval blockade. The prices of wheat futures dropped by 6% on July 21 to their lowest level since the start of the war as it became increasingly clear that a deal was imminent.

However, the day after the deal was signed, Russia launched a missile attack on the Ukrainian port of Odesa, causing wheat prices to spike.

On a more positive note, Kazakhstan, another of emerging Europe’s major grain producers, now expects to produce 13mn-13.5mn tonnes of wheat this year, as announced by Agriculture Minister Yerlan Karasheutyev on July 26. That would be an increase of 15-20% compared to 2021. Kazakhstan’s top wheat export markets are Uzbekistan, Afghanistan and Iran.

Serbia also said in June that it expects to produce 3mn tonnes of wheat this year, which is twice as much as the country needs, Deputy Prime Minister and Agriculture Minister Branislav Nedimovic said on June 19. Nedimovic noted that Serbia produces 2 to 2.5 times more wheat than it needs and that this production is sufficient for the entire Balkan region, according to the statement.

**Food crisis fears**

Russian President Vladimir Putin is reported to have agreed to permit exports to leave due to pressure on him by “friendly” nations in Middle East and North Africa (MENA), where governments fear social unrest caused by the looming food crisis. Memories of the price hikes that precipitated the Arab Spring more than a decade ago are still strong.

This comes on top of a contraction in agricultural output in Morocco due to severe drought. This is likely to compound restraints on growth, ratings agency Fitch said, slowing the rise in GDP from 7.5% in 2021 to just 2% in the current year. Morocco has responded by increasing its grain stockpiles, while also turning to other suppliers such as Brazil.

Several Southeast European states, which also rely on grain imports, slapped restrictions on exports earlier this year. Rising food and fuel prices led to several protests in Albania. In North Macedonia, the record-high food prices and shortages of cooking oil, wheat and flour forced the government to consider restructuring their farm policy with the aim of boosting domestic food production.
Bosnia's Republika Srpska seeks stronger economic ties with Russia

Iulian Ernst in Bucharest

A visit by the delegation of the Investment and Development Bank (IRB) of Republika Srpska, one of the two entities of Bosnia & Herzegovina, to Russia was “very successful,” stated the acting director of the IRB, a 100% state-owned financial institution, Drazen Vrhovac.

While Bosniak and Croat leaders in Bosnia have condemned Russia’s invasion of Ukraine, Bosnian Serb leaders have continued to seek closer ties with Moscow.

Following the IRB delegation’s visit to Russia, Vrhovac said in an interview with Srna news agency that the cooperation might result in bilateral trade worth $200mn, compared to the current $17.5mn.

“What was particularly highlighted during our stay in Russia was the affection and respect for [Serb member of Bosnia’s tripartite presidency] Milorad Dodik, due to the non-introduction of sanctions against Russia, and his friendship with the president of Russia, Vladimir Putin,” said Vrhovac.

The delegation received a list of 734 types of raw materials that Russia needs at the moment, he disclosed.

“There are numerous areas in which we can cooperate, from wood processing, food, to medicine. Now it’s all up to us and I believe we will use the chance,” says Vrhovac.

“The importance of the visit will be seen in the coming period, and the arrival of Russian businessmen in Republika Srpska will be extremely significant. Russian businessmen are interested in cooperation with Republika Srpska, and that is why we are preparing for their arrival in September at the second Invest Srpska 2022 investment conference, which will be held in Prijedor,” said Vrhovac.

Vrhovac is preparing for meetings with the president and prime minister of Republika Srpska, Zeljko Cvijanovic and Radovan Viskovic, as well as with Dodik.

The delegation from Republika Srpska was joined by Bosnian ambassador in Moscow Zeljko Samardzija.

Samardzija said in a statement to Radio Free Europe that he does not support any sanctions against Russia and that they can only be “the result of an agreed foreign policy at the level of BiH”.

In a comment on the visit paid by the IRB delegation to Russia, the public relations office of the US embassy in Bosnia told Radio Free Europe that Bosnia is part of the Euro-Atlantic community of countries and that its political and economic future lies in the West.

Since the beginning of the invasion of Ukraine, on February 24, Bosnia, through its mission in Brussels, has voted in favour of several packages of sanctions introduced by the European Union (EU) to Russia, according to Radio Free Europe.

Bosnia’s tripartite presidency has not adopted a common stance on the war in Ukraine but its Bosniak and Croat members have strongly condemned the Russian invasion and supported all EU decisions.

A publication by the European Council says that Bosnia aligned with the EU in sanctioning several hundred people and companies from Russia.

Among the restrictive measures is a ban on the import and export of coal, steel and other metals, as well as jet fuel to Russia. The sanctions also include several Russian banks, and individuals close to Putin.

However, the sanctions have not been implemented internally by the Bosnian government, due to the opposition from ministers from Republika Srpska.

The parliament of Republika Srpska passed a set of conclusions in June, one of them reaffirming a neutral stance on what was called “the Russia-Ukraine conflict” and another one on rejecting sanctions against Russia.
John Malkovich to turn Skopje into Hollywood of the Balkans

Valentina Dimitrievska in Skopje

Film and music studios will be set up in North Macedonia’s capital Skopje, where Hollywood-calibre movies will be shot as soon as the government approves the project, US movie star John Malkovich told Skopje-based broadcaster TV21 on August 9.

The studios are planned to be created within the Skopje Technology Park project and will be the first of this type in the Balkans.

Malkovich, born in Illinois in 1953, is an Academy Award winning actor who has appeared in dozens of films. He is best known for starring in Dangerous Liaisons, In the Line of Fire, The Killing Fields and of course the 1999 Being John Malkovich.

Malkovich said that he is looking forward to visiting Skopje, and hopes the government approves the project.

“We are excited to get to work and create not just Hollywood films in Macedonia, but also to help amplify the already ascending Balkan film, music and art communities in every way possible,” Malkovich said.

Sasha Grujevski, state counselor at the prime minister’s office and coordinator of the project, told TV21 that the government in Skopje is seriously considering these proposals.

“We hope that it will come out with a position soon,” Grujevski said.

The Macedonian history of filmography started in early years of 20th century, when the Manaki brothers from the city of Bitola brought the first camera to the Balkans. They were the first filmmakers in the region. In honour of the brothers, North Macedonia holds the Manaki Brothers international cinematographer’s film festival each year in Bitola. This year the festival will be held on August 19-26.

The Macedonian film industry cannot brag about large production, but there are still significant achievements. One of the most known directors is New-York-based Milco Mancevski with his acclaimed movie Before the Rain (1994).

In 2019, Macedonian documentary film Honeyland, which portrays a loner beekeeper in a remote mountain village and directed by Tamara Kotevska and Ljubomir Stefanov, got two Oscar nominations.
Russian gas has been remarkably popular in Europe over the past decade, with its share of demand rising as high as 39% (including sales of both pipeline gas and LNG). However, it has been clear to the Kremlin for some time that this would be unsustainable over the long term due to the impact of the Energy Transition, with the EU leading the world in announcing aggressive decarbonisation objectives, as seen most recently in its “Fit for 55” package.

Although gas demand is expected to remain fairly robust to 2030 in Europe, beyond that time it must go into sharp decline if the region’s net zero target is to be met. With this in mind, the Kremlin and Gazprom had already been thinking about how to diversify to new markets, with the growing economies in Asia the obvious target not just because of their expanding need for energy but also because gas offers a cleaner alternative to the huge amount of coal that is burnt in many countries in the region.

Some historical context is useful in understanding how this strategy has evolved and could evolve further in light of the impact of the war in Ukraine. A gas export pipeline to China was first conceived in the Soviet era and was discussed on a regular basis through the 1990s by state gas company Gazprom as well as by private companies such as TNK-BP through the 2000s. However, China didn’t need the gas at that point and so nothing happened. It was not until 2006 that China’s gas import needs started to rise significantly and the prospects for Russian exports improved. However, it took another 8 years before a major export deal could be signed, and interestingly it happened shortly after sanctions had been imposed on Russia following the annexation of Crimea. Not surprisingly, the Chinese parties negotiated from a position of strength and got a very good deal on the price.

Can Russia replace lost European sales in Asia? In the short-term this is unlikely, but by the early 2030 Russia could be sending an extra 116-126 bcm of gas to non-European markets. / bne IntelliNews

Can Russia pivot its European gas sales to Asia?

James Henderson of the Oxford Institute for Energy Studies

Moving forward to 2022 and the situation in Europe with regards to Russian gas has deteriorated dramatically for obvious reasons. Although it is unclear how rapidly Europe can fully diversify away from buying gas from Gazprom, and indeed if imports from Russia will ever actually reach zero given the different attitudes to it across the European continent, nevertheless it is obvious that Russian
gas export volumes will decline sharply over the next few years – indeed they are likely to be down by around 45% in 2022. Having sold 150bcm to the EU in the form of pipeline gas and LNG in 2021, current projections see this figure falling to around 80bcm in 2022, with the 35bcm sold to other European countries also likely to decline sharply.

In revenue terms this decline in sales volumes has been more than compensated for by the ten-fold increase in gas prices in Europe, and Gazprom will make record export revenues in 2022. Nevertheless, the search for alternative markets is being stepped up to secure the long-term future of the Russian gas industry. Asia remains the obvious target, with China to the fore, but the process will not be instantaneous. Whereas oil can be loaded onto tankers and transported anywhere in the world, the vast majority of Russian gas is transported by pipeline and for historical and geographic reasons these are mainly pointed towards the west. Indeed, in terms of available capacity, Russia’s export pipelines to Europe could be carrying well over 250bcm per annum if fully utilised.

As mentioned above, Gazprom has struck one deal with China already as in 2014 a long-term contract was signed with CNPC to supply up to 38bcm per annum through the newly constructed Power of Siberia pipeline running from East Siberia to NE China. The political nature of the deal was underlined by the fact that President Putin’s presence in Beijing was required to finalise the agreement, but with his help a contract was signed and pipeline construction began in 2014. It was completed 5 years later in 2019, when gas started flowing, and volumes are currently being ramped up towards their plateau level, which is expected to be reached in 2024 or 2025. Current volumes are around 16bcm per annum.

Gazprom had been making plans to expand its sales to China prior to 2022, and these have now been accelerated. The first option is relatively simple and involves the expansion of the existing contract from 38bcm to 44bcm per annum via Power of Siberia. Gazprom CEO Alexei Miller has already discussed this with his Chinese counterparts and it looks likely to be agreed, with the volumes being added in the second half of this decade.

A second option is to use an existing pipeline in the Far East of Russia, which runs from the island of Sakhalin to Vladivostok, to create a spur line into NE China for exports of gas from new fields offshore Sakhalin. The potential is for volumes to reach up to 10bcm per annum to China (adding to volumes already being used domestically in Russia), and President Putin announced that an agreement had been reached with China in February 2022. However, sanctions have hindered the development of the gas fields that will be needed to fulfil any future contract and as a result progress has stalled and timing is somewhat uncertain.

The largest, and most interesting project for Gazprom involves bringing gas from West Siberia that would otherwise have gone to Europe and re-directing it towards China. Originally called Power of Siberia 2, this line was conceived as flowing gas from Russia into western China at the border between the Amur region of Russia and Xinjiang in China. However, this would have put it into direct competition with gas from Central Asia and would have necessitated significant upgrading of pipeline infrastructure inside China, and as a result negotiations have never reached a conclusion on the proposed 30bcm per annum contract.

Instead, a larger 50bcm per annum deal has been proposed by Gazprom which would essentially involve the re-direction of Power of Siberia 2 to the Mongolian border, from where a new transit pipeline named Soyuz-Vostok would take the gas across Mongolia and into Northern China. Gazprom has apparently agreed the terms of a transit contract with the Mongolian authorities, but it remains unclear what the Chinese reaction is to this new route and the volumes of gas involved. In theory the gas, if priced competitively, should be welcome in an expanding Chinese gas market by the end of this decade, but as yet there has been no official word from the Chinese authorities. With that in mind and considering the length of negotiations over Power of Siberia, it seems unlikely that gas could flow before 2027 at the earliest, with the end of the decade a more likely start date.

Russia also had major plans for growing its LNG business prior to February 2022, and although these are still theoretically in place it is likely that the impact of sanctions will delay progress as much of the liquefaction technology comes from the West. Two main projects, Sakhalin 2 and Yamal LNG, are currently in operation with a combined capacity of 35bcm. Around two thirds of this is already being sold in Asia, but the remaining 14bcm that was sold in Europe in 2021 could easily be re-directed. However, plans for a new project (Arctic LNG-2) have been somewhat stalled, as although the first train is almost complete and is likely to start up in 2023/24, the remaining two trains have been delayed. As a result, another 9bcm could be sold to Asia by 2025, but beyond that it remains unclear whether further expansion will be possible. Novatek has developed its own Arctic Cascade liquefaction process, which can work at smaller scale, but plans for 100bcm of export

“The largest, and most interesting project for Gazprom involves bringing gas from West Siberia that would otherwise have gone to Europe and re-directing it towards China”
capacity by 2030 are unlikely to be reached, with 60-70bcm perhaps a more attainable goal.

To conclude, can Russia replace lost European sales in Asia? In the short-term this is unlikely, although it depends how fast and how far exports to Europe fall. If they decline to, say, 50bcm in the next couple of years (a decline of 100bcm from 2021 levels) then this will not be replaceable on a similar timescale as the only real options will be the redirection of current LNG flows and the addition of Arctic LNG 2 train 1 – in total 23bcm – plus the continued ramp up of Power of Siberia flows to 38bcm (22bcm higher than today). However, by the late 2020s the current Power of Siberia contract could have expanded by 6bcm and we could see the Far East pipeline onstream with a further 10bcm, and if contracts can be signed quickly for Power if Siberia 2/Soyuz-Vostok then initial sales from a 50bcm contract could also have started. Extra LNG projects could also have started, albeit more slowly than hoped, adding another possible 15-25bcm, meaning that by the early 2030 Russia could be sending an extra 116-126bcm of gas to non-European markets. If some gas is still flowing to Europe at that stage, then a re-balancing could have occurred, after a likely dip in export volumes in the 2020s.

James Henderson is the chairman of the Gas Programme at the Oxford Institute for Energy Studies.

CEPR's action plan for Ukraine's wartime economy

Ben Aris in Berlin

The war in Ukraine is starting to look like it might last a long time and that means putting the economy onto a war footing. For the first six months of fighting, running the economy has been little more than crisis management, but if Ukraine is going to fight for another six months, or longer, it needs a plan. Simply printing money to pay soldiers’ salaries and buy more ammo is not going to work for much longer.

A team of very distinguished economists from the Centre for Economic Policy Research (CEPR) that includes Kenneth Rogoff, the author of the much-mocked “Eight centuries of financial folly”, have released a paper outlining policy recommendations for putting Kyiv’s financial house in order to be able to pay for the defence of its country. That is not going to be easy.

“The government is mobilising as many resources and as much revenue as it can, having reinstated import taxes suspended at the outset of the full-scale invasion. It has cut non-military spending to the bone. Yet independent estimates, such as that of Moody’s, project a budget deficit of 22% of GDP, or $50bn, for this year,” the CEPR team said in its report.

Ukraine needs money, but the authors of the report say that expecting the West to provide enough cash to support the budget is “wishful thinking”.

Approximately one-third of government spending is covered by tax revenue, loans and grants from international organisations. Ukraine’s allies cover another third, and the central bank prints money to cover the rest.

“In short, with limited reserves, the central bank cannot at the same time print money, defend the hryvnia and maintain macroeconomic stability. Continuation of the current policy will result in a crisis (high inflation, a currency crisis or a banking crisis),” the authors wrote.

As bne IntelliNews has reported, Ukraine is running out of money and the stress is beginning to show. Timothy Ash, the senior sovereign strategist at BlueBay Asset Management in London, wrote in a recent opinion piece that the West has been complacent in its financial support of Ukraine, which is not “in sufficient scale and in a timely enough manner.”

Since the start of the war international donors have given Ukraine a total of $12.7bn, or about $2.5bn-$3bn a month. As things get increasingly desperate the US has promised another $4.5bn in financial aid (and another $1bn in military aid) to arrive in August and the EU will match this with €8bn in September. The US money is welcome, but it is still only half of the $9bn Washington promised to send, and even the $4.5bn will only cover the shortfall for a single month. The Western financial aid has been dogged by bureaucratic delays and fears of corruption.

“To avert economic calamity, Ukraine’s allies should disburse larger amounts immediately. Given debt sustainability concerns, grants are strongly preferred, but if the choice is a loan versus no money, then a loan should be given and taken,” the CEPR team writes.

Ash complains that because most of the money being given to Ukraine is in the form of interest-bearing loans, Ukraine is “being charged to fight this war for us” and calls for more of the aid to be given as grants that don’t have to be paid back. According to the Kiel Institute for the World Economy, the share of grants in the EU aid
programme is only 1%, whereas the corresponding share for the US is 87%, according to CEPR.

Sovereign and private investors have also pitched in, recently giving Kyiv a 1- to 2-year debt repayment holiday and the resulting $6bn in savings for the government and state-owned enterprises over 2022-2023 will be helpful, but this will go only a small way towards closing the fiscal gap, the CEPR authors said.

Things are coming to a head as the government starts reversing one policy after the next as it increasingly focuses on husbanding what dwindling resources it has.

The government was adamant since the Russian onslaught began that it would honour all its obligations and pay its bonds off on time in the hope that the international markets would reopen for Ukraine and it could raise some of the money it needs with Eurobonds.

But those hopes are dead now. The state-owned gas company Naftogaz was forced into default on a $335mn redemption on July 26 after the government ordered the company not to pay in order to “preserve cash”, despite the fact that the company had the money and the management were willing to pay.

The NBU also did an about-turn and abandoned its efforts to defend the currency. It spent $3.4bn and $4bn of its foreign exchange reserves in May and June respectively to defend the exchange rate to retain the public’s confidence in the currency. Faced with the realisation it was going to burn through all its cash very quickly, the regulator abandoned that policy in July and devalued the hryvnia by 25% on July 21 to align the official exchange rate with the cash rate in the market. The currency has since slipped further and the NBU may have to devalue again, as there is still a gap between the official rate of UAH36.6 to the dollar and the cash rate of about UAH40, although the rate seems to have stabilised in the last few weeks.

Both the international and domestic bond markets remain unavailable for raising funds. The banking system is actually saturated with liquidity, but government bonds offer below-inflation interest rates, which makes domestic bonds impossible to sell.

With little access to international funding and almost no access to bond markets, that leaves the government with a handful of alternatives: raise taxes, print money or tap into domestic savings.

**Policy recommendations**

The situation is bad, but not impossible, says the CEPR team. There are several things the government needs to do to be able to raise the resources it needs from within its own resources.

First, the government must mobilise more resources to improve its fiscal position so that the country can fund huge military expenditures and maintain basic public services in an economy ravaged by the war.

Raising tax revenues involves three basic elements. First, a stronger, larger economy provides more resources for taxation. High military spending already gives a powerful demand-side stimulus and CEPR recommends exploring more supply-side policies. Second, the government can broaden the tax base, by introducing new (ideally, easy to administer) taxes but also eliminating exemptions. For example, with zero import duties in April-June 2022, Ukraine imported light vehicles worth about $1bn, which cost the government budget approximately UAH25bn in lost tax revenue – a loophole that has been closed in the meantime.

One obvious change is the government should introduce progressive income taxes, as Ukraine has a flat personal income tax with a rate set at 18% and the existing military levy (introduced in 2015) is also a flat 1.5% of income. The story is the same for corporate profit taxes.

“The aim should be to increase the collection of tax revenues and for remaining shortfalls to be financed primarily through non-monetary means: preferably through external aid, but if not, through domestic debt issuance, with much less reliance on seigniorage (printing money),” says CEPR.

The way you can do that is to restore some credibility to the government, and that means first and foremost bringing inflation down.

“There is an urgent need for a durable nominal anchor. Heavy reliance on money printing to finance government deficits has been unavoidable in the first months of the war but if the current reliance on money finance is sustained, inflation, already over 20%, could easily drift much higher,” says CEPR.
Classically the way to kill inflation is to hike interest rates, but the NBU has already tried that, more than doubling rates to an extraordinary 25% on June 2, with little effect. Annual inflation in Ukraine accelerated to 22.2% in July, according to the State Statistics Service of Ukraine. Earlier in July, the National Bank of Ukraine said that inflation in Ukraine will reach over 30% in 2022, despite the rate hike.

**Ukraine inflation y/y**

![Graph showing annual inflation in Ukraine from 2019 to 2022](graph.png)

The government is currently printing roughly UAH30bn per month, while a sustainable level of printing would be less than 2% of GDP, says CEPR. “This is a relatively small sum that is extracted at the price of a high and accelerating inflation as well as regressive taxation and greater misallocation.”

Increasing interest rates further will not have any effect. The other way you can bring inflation down in times of crisis is to float the currency. The NBU took several emergency measures to stabilise the financial system and cushion it from the shock.

- **Banks:** To protect domestic credit and payments, the central bank introduced capital controls and eased macroprudential regulations.
- **The government raised the maximum insurance limit threefold and, for the duration of the war, insured all retail deposits.**
- **Social support:** The government suspended some taxes (or substituted existing taxes with alternative taxes; for example, smaller businesses were allowed to switch from VAT to a sales tax) and introduced holidays for various payments (e.g. mortgages, utility bills) to provide households and businesses with liquidity to sustain their operations.

- **Funding:** The law was changed to allow NBU to print money and directly fund the government, by buying Ministry of Finance bonds on the domestic market.
- **FX:** The NBU fixed the exchange rate at the pre-war level to forestall panic and provide a nominal and temporary anchor.

“External imbalances should be addressed through a combination of strict capital outflow controls, restrictions on imports, and some flexibility in the exchange rate to avoid jeopardising internal macroeconomic stability in the face of huge fiscal needs. A comprehensive standstill on external debt payments is essential,” recommends the CEPR team. “There is a need for a durable nominal anchor. The aim should be for relatively low inflation and low seigniorage (money printing).”

CEPR suggests a managed float of the hryvnia that strikes a balance between the costs and benefits of these polar cases of floating and fixing. Market forces will guide the exchange rate, but the central bank can limit daily fluctuations to something small like plus/minus 0.1% in a day. The NBU could also limit participants to just importers and exporters and let the market set the demand for FX trades.

“Although wartime governments usually take over the allocation of resources, Ukrainian circumstances call for more market-based allocation mechanisms to ensure cost-effective solutions that do not overburden the state capacity, exacerbate existing problems (such as corruption) or encourage (untaxed) black market activities,” CEPR wrote. “To this end, the aim should be to pursue extensive radical deregulation of economic activity, avoid price controls, and facilitate a productive reallocation of resources.”

Central Bank of Russia (CBR) Governor Elvia Nabiullina did the same thing in the 2014 crisis when oil prices collapsed, leading to a very sharp fall in the ruble, which dropped from around RUB36 to the dollar to RUB80 in a matter of weeks. The CBR was already moving towards freeing the ruble by gradually expanding the trading band for the ruble, but she accelerated the process and freed the ruble completely. The exchange plummeted but acted as a brake on the crisis and absorbed the shock, as well as allowing the central bank to preserve its reserves.

Today, despite the problems caused by the war, the situation is not as volatile or panicked as it was in Moscow in November 2014 and so the NBU has the luxury of being able to move more cautiously.

CEPR seems to harbour the same mistrust of the government that the US and EU do, which is reportedly holding up their disbursements of more fiscal support. CEPR recommends that much of the spending of government resources should be done by the private sector.

Although wartime governments usually take over the allocation of resources, Ukrainian circumstances call for more market-based allocation mechanisms to ensure cost-effective solutions that do not overburden the state capacity, exacerbate existing problems (such as corruption) or encourage (untaxed) black market activities,” CEPR wrote. “To this end, the aim should be to pursue extensive radical deregulation of economic activity, avoid price controls, and facilitate a productive reallocation of resources.”

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Envoy says start made on construction of Turkish attack drone factory in Ukraine

Turkish defence company Baykar, the producer of the Bayraktar TB2 attack drone, is already in the process of building a factory at an undisclosed location on Ukrainian territory to make the unmanned aerial vehicles (UAVs), Ukraine’s ambassador to Turkey has said.

Baykar has established a company in Ukraine and the intended plant, previously rumoured to be under construction even before the start of the Russian invasion of its neighbour in late February, was in development, Newsweek quoted Vasyl Bodnar as saying, citing an interview given by the envoy to RBC Ukraine.

“The factory will be built. Just a week ago, the [Ukraine] government approved the bilateral agreement and sent it to the parliament for ratification, the agreement on the construction of the plant itself,” the diplomat said.

Kremlin spokesman Dmitry Peskov was reported by Sputnik as saying that if the plant was built it would clearly be a military target for Russia, adding: “The very fact of creating such a facility, which, of course, will immediately fall under [the Russian aim for Ukrainian] demilitarisation – this must be understood – this will probably only prolong the suffering of Ukrainians, but will not help to avoid what is the goal of the special military operation.” Russia continues to refer to its waging of war in Ukraine as a “special military operation”.

Although Turkey, within its complex ‘competitive cooperation’ relationship with Russia, attempts to maintain strong relations with both Moscow and Kyiv, Baykar appears to have ruled out any suggestion that it could treat the Russians equally by also selling attack drones to the Kremlin. August 9 also brought speculation that Turkish Kirpi 4x4 armoured vehicles may have been delivered lately to Ukraine. Like the Turkish drone supplies to the Ukrainians, the deliveries, if confirmed, could be an irritant for Moscow. Rumours continue to abound, on the other hand, that Iran will not live up to assurances given to Kyiv to not deliver surveillance and attack drones to Russia that could be used in the war in Ukraine.

According to Bodnar, Baykar purchased a plot of land in Ukraine for its intended drone plant. He added that Baykar was moving ahead in building the factory as “it was almost a personal commitment of the company owners to bring this production to Ukraine.”

The decision to build the plant in Ukraine was not just political, it was “also practical since a significant part of the models that will be produced at this plant will have components of Ukrainian production,” Bodnar added.

“It can be engines, other spare parts, wheels, many different things that are high-tech in our country and can be used for these aircraft,” the ambassador said, adding that the field of defence technology was “one of the drivers” of the Turkey-Ukraine relationship.

“Despite the war, our companies continue to fulfil their obligations,” he said, adding that the Turkish drones were “already a legend of our resistance.”

“A significant part of the models that will be produced at this plant will have components of Ukrainian production”
Tajikistan’s unprecedented GBAO crackdown threatens a centuries-old culture

Bruce Pannier in Prague

In the more than 30 years that the Central Asian states have been independent there have been dozens of crackdowns on perceived opponents of their governments, but none reached the level of repression the Tajik administration is currently meting out to the Pamiri peoples of the eastern Gorno-Badakhshan Autonomous Oblast (GBAO).

Most of the influential local figures in GBAO have been either arrested or killed since mid-May when government forces initiated a so-called anti-terrorism operation in response to peaceful protests in the regional capital Khorog.

And the crackdown is continuing.

GBAO is different from the rest of Tajikistan and that is the reason for the unprecedented repressive campaign still underway there.

The region accounts for more than 40% of the territory of Tajikistan, but nearly all of it is mountainous, with some peaks reaching altitudes of more than 7,000 metres. Of the 10mn citizens of Tajikistan, only around 250,000 live in GBAO and most of them are Pamiris who are ethnically, culturally and linguistically distinct from Tajiks.

Most Tajiks are Sunni Muslims, but Pamiris are Shiites of the Ismaili sect, followers of the Aga Khan, the 49th imam in the unbroken line that started with Ali.

The territory of modern-day GBAO has always been a remote area. Before the arrival of Russians at the end of the 19th century, few outsiders ever made their way into the mountain fastness of the region. People have been living there for thousands of years. The ruins of the Yamchun and Khakha fortresses in GBAO date back to the 3rd century BC.

Only one road connects GBAO with the Tajik capital Dushanbe and that road is often closed by snow and avalanches. There is a small airport at Khorog, but unpredictable mountain weather often prevents planes from travelling there for weeks at a time.

Tajik President Emomali Rahmon, in
power since 1992, has gradually consolidated his grip over Tajikistan in the years since the 1992-1997 Tajik civil war, but Tajik authorities have only ever had a tenuous hold over GBAO and that was only possible by working with influential local figures, who came to be known as “informal leaders”.

The protests that happened in May could not happen anywhere else in Tajikistan. The government has been firmly in control of the rest of Tajikistan for years and any attempt at a public demonstration of dissatisfaction is quickly neutralised.

But in GBAO protests have happened several times since the end of the civil war and the violence in May, while the worst seen since the days of the conflict, was not the first incident of unrest in the 25 years since the Tajik peace accord was signed.

Most of GBAO was opposition territory during the civil war. The Pamiri group Lali Badakhshan, the Ruby of Badakhshan, was part of an interesting coalition of Islamic and democratic groups that formed the United Tajik Opposition (UTO) and fought against government forces. The rugged terrain of GBAO made the region ideal for UTO bases.

Rahmon’s government has never forgotten the role that GBAO and its people played during the civil war.

The central government has never allocated much money for GBAO. The Aga Khan Foundation has played the lead role in developing the region, building schools, including the University of Central Asia in Khorog, small hydropower plants and bridges connecting the region with Afghanistan. It has also developed hybrid crops that can grow at high altitudes.

But unemployment remains high in GBAO, something which has fuelled the illegal trafficking of many items, from narcotics to precious and semi-precious stones.

Tensions became high in GBAO from November 25, 2021, when 29-year-old GBAO resident Gulbuddin Ziyobekov was killed by security forces. Months earlier Ziyobekov had beaten and humiliated a local security official who had lecherous designs on a local woman. Police said Ziyobekov offered armed resistance in November when they came to detain him, but many in the Khorog area thought Ziyobekov was hunted down and murdered.

Ziyobekov’s body was brought to the Khorog administration building and a protest involving several thousand people started. There was also a protest outside the Tajik Embassy in Moscow and briefly a small protest outside the UN office in Dushanbe.

Two more people were killed in Khorog before the protest ended. The internet connection to the region was cut and remained so until late March when it was partially restored.

Government officials negotiated with local leaders, as they had done several times in the past, and a truce was reached, and the government promised to investigate the causes of the violence.

Local activists formed a group called Commission 44 to work with state investigators, but by January, members of Commission 44 were already critical of the state investigation. Commission 44 spokesman Khujamri Pirmamadov said state investigators were only interested in finding protesters, not the people responsible for killing Ziyobekov or those who ordered troops to fire on the protesters who assembled in Khorog the day he was killed.

Tajik authorities were also working on eliminating criticism from outside Tajikistan about the November violence in Khorog.

From Russia, Mixed Martial Arts fighter and GBAO native Chorshanbe Chorshanbiyev and GBAO local leader Amriddin Alovatshoyev posted criticisms of the government’s November actions in Khorog. Chorshanbiyev was then detained in Moscow in December for a speeding violation and deported to Tajikistan, where he was taken into custody, tried on spurious charges of calling for the violent overthrow of the Tajik government and, on May 13, sentenced
to eight and a half years in prison.

Amriddin Alovatshoyev disappeared in the Russian city of Beograd in January and reappeared in Tajikistan in February. Tajik state television aired footage of Alovatshoyev confessing to unspecified crimes on February 12. Alovatshoyev’s friends and relatives said the confession was made under duress. On April 29, at a trial that lasted only several hours, Alovatshoyev was convicted of hostage-taking and other crimes and sentenced to 18 years in prison.

On May 14, local activists told officials about plans to hold a rally on May 16 to demand changes in the GBAO leadership and the release of all those still held in connection with the November unrest. When people started to gather on May 16 and make their way to the Khorog city centre they were met with tear gas and rubber bullets. Soon after, troops started using live ammunition in Khorog and in Rushan district to the west, where unarmed residents had blocked the road to prevent reinforcements from reaching Khorog.

The incident in Rushan provided the pretext for starting the “anti-terrorism” operation and using armoured vehicles, helicopters, drones and snipers.

During this operation in GBAO, several informal leaders were killed, including Mamadbokir Mamadbokirov, Zoir Rajabov and Khursand Mazarov. Journalist Ulfathonim Mamadshoyeva, a native of GBAO who had covered Tajik politics going back to the civil war days, was arrested in May along with her former husband Kholbash Kholbashov. Both were shown on television confessing to organising the violence in GBAO. Details of their cases were declared secret and their lawyers were made to sign a non-disclosure agreement.

In August the state prosecutor called for Mamadshoyeva to be imprisoned for 25 years and Kholbashov for life for organising the violence in GBAO.

On June 29, two members of Commission 44, Khujamri Pirnazarov and Shaftolu Bekdavlatov, were sentenced to 18 years in prison for organising an unsanctioned meeting. At the start of July, GBAO poet and camera operator Muyassar Sadonshoyev was sentenced to 11 years in prison and Khorog resident Iftihor Saidbekov to 10 years for cooperating with Commission 44.

“Muyassar Sadonshoyev was sentenced to 11 years in prison and Khorog resident Iftihor Saidbekov to 10 years for cooperating with Commission 44”

As of August 18, there were some 90 members of Commission 44 or GBAO civil activists in custody. Among them are Manuchehr Kholiknazarov, head of the Association of Pamir Lawyers, and attorney Faromuz Irgashev, two of only four registered lawyers for all of GBAO.

Several more GBAO activists from Russia have this year been detained and sent back to Tajikistan, including the Vazirbekov brothers who posted
criticisms of the government’s security operation in GBAO. Both have Russian citizenship. The two flew from Yekaterinburg to Moscow on July 29 and vanished at Moscow’s Domodedovo Airport, reappearing in Tajikistan shortly after where they were shown in a video saying they had returned voluntarily.

Another GBAO activist and blogger, Maksud Guyosov, was detained in Moscow on August 17.

On May 18, the Aga Khan released a statement calling on Pamiris to “remain calm, abide by the laws of the land, and reject any form of violence.

In late July there were reports that the government was looking to seize the schools the Aga Khan Development Fund (AKDN) has built and funded in GBAO and there was a surprise audit of the microfinance bank that the AKDN supported.

In August, the Khorog city park that was built by and belonged to the AKDN was confiscated and given to the state.

The president of the Ismaili Shiite Council of Tajikistan and former consul of the Aga Khan, Sharofat Mamadambarova, was questioned by Tajikistan’s security service on August 13 and 14.

Human Rights Watch, the European Union, the International Commission of Jurists, and others have called for the Tajik authorities to cease their campaign against the Pamiris, but to no avail.

A culture that has existed for centuries is now on the verge of extinction as the Tajik authorities purge Pamiri leaders and cut off the region from outside help.

End of Vienna talks means US, Iran political approvals now needed to revive nuclear deal

Will Conroy in Prague

The Vienna talks are at long last over – but that doesn’t mean an agreement to relaunch the nuclear deal is done. For that to happen, the Biden administration in the US and Iran’s ultimate authority, its supreme leader, must approve the “final text” drafted by Iranian and European representatives at the negotiations in the Austrian capital over the past five days. And that’s far from a certainty, especially perhaps where US leader Joe Biden is concerned, given the volatile American political environment that will exist in the run-up to the November midterm elections.

“We worked for four days and today the text is on the table,” an EU official at the talks told reporters. “The negotiation is finished, it’s the final text... and it will not be renegotiated.”

Further outlining the situation as it now stands, EU foreign policy chief Josep Borrell said on Twitter that everything that could be negotiated had been negotiated. He added that behind every part of the drafted proposals “lies a political decision that needs to be taken” in the capitals of the countries involved.

Responding to the announcement of the final drafted text, a US State Department spokesman said the US was ready to “quickly conclude a deal” to revive the nuclear deal, or JCPOA, on the basis of proposals put forward by the European Union. Tehran, he added, had repeatedly said it was ready for a return to mutual implementation of the agreement and Washington would now wait to see if “their actions match their words”.

And therein lies the rub. For in Tehran, Iranian officials were saying much the same thing about the US. The line was that Iran would await whether Washington would show enough “flexibility” to get the deal over the line.

If it returns, the JCPOA – designed to curb Iran’s nuclear development programme to guarantee it is kept entirely civilian in return for the lifting of economic sanctions on Iran – would come back at a time that the Iranians are thought to have reached the point where they could stockpile enough highly enriched uranium to make at least one crude nuclear device.

Preventing a nuclear arms race in the Middle East is clearly a priority for Biden, but the final provisions in the deal that must be accepted by the US and Iran to seal the return of the JCPOA are troublesome given the political constituencies that must be persuaded of the merits of a restored agreement.

One final issue is to what extent the US will guarantee that sanctions are lifted not just in name but in effect, by providing credit guarantees. Tehran is wary that Biden’s successor could...
Apart from Iran, the other remaining signatories to the 2015 nuclear deal are France, Germany, the UK, Russia and China, but all eyes will be on Tehran and Washington, which under Trump four years ago defied international diplomatic convention by walking out of the JCPOA.

An Iranian Foreign Ministry official was quoted by official news agency IRNA as saying that Tehran had given its preliminary response to the EU’s text. It was “not at a stage to talk about finalising the deal,” he said, as “more comprehensive discussions were needed in Tehran”.

“Preventing a nuclear arms race in the Middle East is clearly a priority for Biden”

Russian lead negotiator at the talks Mikhail Ulyanov on August 7 said of the latest efforts to bring back the JCPOA that “we stand five minutes or five seconds from the finish line.”

Speaking to reporters outside Vienna’s Palais Coburg hotel where the talks were being held, he added: “They are sensitive [issues that are involved], especially for Iranians and Americans. I cannot guarantee, but the impression is that we are moving in the right direction.”

Analysts say Kremlin’s launch of Iranian satellite may be leverage move to obtain drones

Analysts say the Kremlin is likely providing a launch for an Iranian satellite as part of continuing efforts to leverage its relationship with Tehran in order to receive drones for use in Ukraine.

Russian state-owned space agency Roscosmos announced on August 3 that Russia, using a Soyuz rocket, would launch a remote-sensing satellite, named Khayyam, into orbit on behalf of Iran on August 9.

In an assessment, the Washington, DC-based non-partisan Institute for the Study of War (ISW) said: “The Kremlin may intend this launch to encourage or repay Tehran for the provision of Iranian drones that would be employed in operations in Ukraine, and possibly other military equipment or support.”

It added: “Iran has a huge ballistic missile arsenal and domestic missile manufacturing capabilities that it could provide to Russia in exchange for economic and military cooperation. Iran has prioritized the development of its military space program in recent years and launched one satellite in April 2020 and one in April 2022. US and Middle Eastern officials stated as early as June 2021 that Russian officials were preparing to send a Russian-made Kanopus-V satellite to Iran, which would expand Tehran’s overall surveillance capabilities in the Middle East and beyond.”

The Pentagon on May 20 issued a rare warning to Tehran against a potential transfer to Russia of hundreds of drones that Moscow could put to use in Ukraine. In relation to the likelihood of Iran shipping drones to Russia, when asked about the prospect by reporters, US Defense Secretary Lloyd Austin said: “We would advise Iran not to do that. We think it’s a really, really bad idea. And I’ll leave it at that.”

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Russia and Iran, meanwhile, also lately signed aviation cooperation agreements that could help both countries with sanctions mitigation in both the civilian and defence spheres. The sourcing of aircraft components, maintenance and repairs, the provision of commercial flights and even the acquisition of Russian fighter planes by Iran could eventuate if the aviation understanding is pushed to its fullest extent.

Most sanctioned
Since the West responded to the Kremlin’s late February invasion of Ukraine, Russia has replaced Iran as the most sanctioned country in the world. Hardly a day goes by now without the announcement of some form of new or expanded Iranian-Russian trade or investment deal. A difficulty for the relationship, though, is that Iran and Russia are competitors when it comes to selling oil to markets around the world that are not supportive of Western sanctions policy, with China a particularly big prize in this area.

Iran was top for imports of Russian wheat in July, while Kazakhstan fears losing Iran to Russia as its main barley customer.

Russia, meanwhile, is increasingly turning to transit routes via Iran, which provides access to the Persian Gulf and Indian Ocean, for import and export shipping needs.

Moscow and Tehran have also recently signed some major oil and gas investment agreements. For instance, Iran intends to bring Russia into a $60bn project to build gas export pipelines to Oman and Pakistan.

The West, meanwhile, might hope that if a new phase of talks aimed at reinstating the 2015 nuclear deal, or JCPOA – under which in return for curbing its nuclear development programme, Iran is boosted by the lifting of sanctions on its economy – proves successful, Iran’s increasing closeness with Moscow might be restrained. The Vienna talks on reviving the JCPOA were due to restart on August 4, with representatives of Iran, France, Germany, the UK, Russia, China and the US due in the Austrian capital.

Fighting resumes in Nagorno-Karabakh

Ani Mejlumyan in Yerevan, Cavid Aga in Baku

During clashes on August 3 on the Nagorno-Karabakh contact line, one Azerbaijani and two Armenian soldiers were killed, with each side blaming the other for the escalation of hostilities.

Karabakh’s Defence Army, the Armenian enclave’s military, said that the soldiers were killed by Azerbaijani drone attacks, which also left 14 other Karabakh servicemen wounded. According to Karabakh authorities, Azerbaijani forces also used mortars and grenade launchers to strike its frontline positions and one of its bases two days after trying unsuccessfully to advance into western Karabakh. Arayik Harutyunyan, the de facto president, has ordered a “partial mobilisation” of the disputed enclave.

Russian peacekeeping forces are “taking measures to stabilise the situation,” a Karabakh defence ministry statement read.

The Russian peacekeeping leadership also released a statement, accusing Azerbaijan of violation of the ceasefire regime around Saribaba. “The command of the Russian peacekeeping contingent, together with representatives of the Azerbaijani and Armenian sides, are taking measures to stabilise the situation,” the report said.

Armenian Foreign Minister Ararat Mirzoyan blamed the Azerbaijani side during a meeting with Andrzej Kasprzyk, head of a small OSCE mission monitoring the ceasefire regime in Karabakh. Mirzoyan said Baku attempts to “destabilise the situation”.

The Karabakh foreign ministry condemned the “new wave of Azerbaijan’s aggressive actions against Artsakh [the Armenian name for Karabakh]”.

Karabakh’s leadership conveyed that Azerbaijan has demanded the closure of the Lachin corridor, which is the only overland link between Armenia and Karabakh, saying that “traffic must be organised along a new route shortly”.

Armenia’s Security Council secretary, Armen Grigoryan, dismissed the issue “It’s not legitimate.” He argued that under the agreement, Azerbaijan and Armenia must work out the new road by 2024.

The Azerbaijani Defence Ministry reported that an 18-year-old soldier was killed in the morning when its positions in the Lachin district west of Karabakh came under “intensive” fire. At the same time, Karabakh denied any clashes in Lachin and claimed that the road was open and safe.

Azerbaijan’s Foreign Ministry afterwards blamed Armenia for the fighting, saying that Yerevan has not withdrawn its troops from Karabakh and is in breach of the ceasefire agreement reached after the 2020 Armenian-Azerbaijani war. However, since September, Armenia has pledged to withdraw forces and not send fresh recruits.

The country’s Ministry of Defence blamed Armenian authorities in Karabakh for reigniting the clashes and trying to seize the Girkhgiz high ground amongst other things.
Turkey moves closer to Russia, but is immune to Western sanctions

Denis Cenusa in Germany

Since the Russian military aggression has plagued Ukraine's territorial integrity, stability and security, Turkey has been adjusting its interests and position towards each side accordingly. Ukraine apparently found a reliable partner in Turkey, which provided military support and a diplomatic platform for negotiations with the Russians. Even more pronounced due to the ongoing war in Ukraine, Turkey's balanced foreign policy proved helpful in maintaining engagement with both Ukraine and Russia.

Ankara is fully aware that a balanced position generates a wide range of geopolitical and geoeconomic privileges. First, Turkey refreshes its international reputation damaged by frequent episodes of repression against the opposition, critical media, disloyal civil society organisations and secessionist ethnic minorities.

Second, given Russia's isolation from Western markets through sanctions, Ankara is able to take advantage of Russia's domestic market from which more than 1,000 Western companies have fully or partially exited. Turkey's export-oriented economy needs new markets to stabilise the national currency and ease social tensions, and with the popularity of the regime.

Third, its non-alignment with the sanction's regime opens the door for the Kremlin, which needs allies in the region and is willing to make mutually beneficial concessions. This also includes Russia's willingness to contribute to Turkey's increased geopolitical role in the emerging international order.

Last but not least, as it draws closer to Russia, Turkey has several levers at its disposal to protect itself against Western "secondary sanctions". Ankara is currently blocking Finland and Sweden from becoming Nato members. In addition, it can open its doors to the 3.7mn Syrian refugees who aspire to reach Europe and who have been welcomed by Turkey since the 2015 migration crisis. In these circumstances, at least in
the short term, Turkish President Recep Tayyip Erdogan has an advantage in relations with Russia, which is struggling to adjust to limited access to foreign markets. The Turkish position became a challenge in the western field, playing a determining role in the enlargement of Nato and the “Istanbul grain deal” on July 22 that makes possible Ukraine’s grain shipments by sea.

**Turkey – a useful partner for Ukraine and its allies**

Turkey’s prompt assistance to Ukraine was instrumental in the early victories of the Ukrainian side against the Russian invasion. From a military point of view, the delivery of the Turkish Bayraktar UAV to Ukraine helped to slow down the Russian advance, generating incalculable losses in both weapons and human resources. In August, Ukraine signed an agreement with Turkey to allow local production of hardware and software components for Bayraktar.

In the political sphere, Recep Erdogan has offered Turkey as a mediator between Moscow and Kyiv for a military ceasefire agreement. Negotiation attempts were unsuccessful due to Ukraine’s justified mistrust of Russia, which seeks to dismantle its smaller neighbour. Negotiations have reached an impasse after Ukrainian forces revealed egregious violations by Russian soldiers against civilians in Bucha and other parts of Ukraine that closely resemble war crimes.

Ukraine’s success on the battlefield and access to Western military weapons made Turkish diplomatic efforts to reach a ceasefire truce irrelevant. In any case, Turkey managed to negotiate a global grain agreement between Ukraine and Russia on a UN platform. It made possible a safe export of grain from Ukraine to foreign markets. The maritime unblocking of the shipment of wheat, corn, sunflower seeds, etc. traditionally exported by Ukrainian producers has a positive impact on the humanitarian situation in the Global South.

Assisting Ukrainian ships to depart with commercial food from three (Odesa, Chernomorsk and Yuzhny) of the six ports on the Black Sea coast that remained under Kyiv’s control increased Turkey’s geopolitical weight, at least during the Russian war against Ukraine. The monitoring of the implementation of Ukrainian grain shipments, carried out by the Istanbul-based Joint Coordination Centre, will maintain Turkey’s strategic relevance. The EU and Ukraine understand that Turkish contributions to the restoration of any semblance of past normality are crucial.

**“Autocratic solidarity”**

Parallel to supporting Ukraine, Turkey has also been showing a circumstantial alliance with Russia. Turkey’s no-sanctions policy provoked immediate sympathy in Moscow. Despite not aligning itself with Western sanctions, Ankara did not gain any bold negative fame as did, say, Serbia. Nato and the EU refute the neutral position on sanctioning Russia expressed by a member state and an aspiring country to join the EU, respectively. By opting out from sanctions, the Turks did not face any massive public or political pressure from either from Western or Ukrainian politicians and the public.

Unafraid of consequences due to unique levers in Russia’s confrontation with Ukraine, Erdogan sided with Putin at least one time. He shamed German Foreign Minister Annalena Baerbock for disrespecting the Russian president. However, no massive backlash came from the West against Erdogan’s situation comparable to the blame received by Emmanuel Macron, who expressed concern about “humiliating” Putin. Perhaps, Erdogan is showing a critical attitude against those who condemn Putin not only because of a kind of personal intolerance. This also seems like a sign of “autocratic solidarity” as the West joins forces to protect the international liberal order.

**Circumstantial alliance with commercial interest**

In addition to the political closeness, what stands out are the burgeoning economic ties between the two countries. While Russia needs technologically advanced markets that can substitute restricted exports from the West, Turkey is in a strategic position to seize the economic opportunities. In fact, it can choose how extensive it wants economic ties with Russia to develop, avoiding risky interdependencies. The reality is of such nature that Turkish exports are badly needed to mitigate scarce Russian imports and buy some time to develop localised production and import substitution capabilities. By investing in greater Turkish geopolitical prominence, Moscow is increasing its southern neighbour’s immunity from secondary Western sanctions. Consequently, Turkey is taking higher risks by using more individualistic approaches towards Russia, without consulting them with the West.

The Sochi meeting between Erdogan and Putin in early August showed the readiness for some fundamental changes.

First, Turkey agreed to pay for Russian gas partly in rubles. This favours a higher demand for rubles and accelerates de-dollarization, which would reduce Russia’s vulnerabilities under the sanction’s regime.

Second, the two allies want to increase bilateral trade to $100bn, putting Turkish trade turnover on a par with that of

**“While Russia needs technologically advanced markets that can substitute restricted exports from the West, Turkey is in a strategic position to seize the economic opportunities”**

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China, Russia’s biggest single trade partner. It could lead to a boom in Turkish goods and services on the Russian market and an increase in energy resources sold by Russia at a political discount. Still, oil is what can be shipped in larger volumes because the capacities of the existing pipelines, “Turkish Stream” and “Blue Stream”, are limited to 31.5bn and 16bn cubic meters respectively. No intention to develop new pipelines on the bottom of the Black Sea has been announced so far.

Third, their central banks are in close coordination, suggesting that Russia could try to convince Ankara to set up an integrated payment system to replace the need for SWIFT, from which most Russian banks were cut off due to sanctions. The integration of national payment systems remains a difficult goal to achieve and even Russia’s main partners decided to stay out – China and India.

Russia, for its part, rejoices in minor successes in the banking field. Five Turkish banks are making regulatory adjustments preparing the ground for the use of the Russian international bank payment card “MIR”. Such a measure will simplify Russian tourism affected by the withdrawal of Visa and MasterCard. It may also facilitate the relocation of Russian elites from Europe to Turkey, which has become one of the most attractive destinations available to Russian citizens “fleeing” Europe due to the application of sanctions.

As long as Russia’s war against Ukraine continues, Turkey wants to play a central role in the negotiations between the two warring parties. In the traditions of realpolitik, Erdogan understands that the West has refrained from even pointing out the risks of imposing sanctions on Turkey. This incentivizes the Turkish leader to confidently provide Russia with avenues to ease the pressure of trade restrictions and gain access to some of the necessary technology. Turkey is taking every opportunity to increase its geopolitical relevance. By becoming indispensable to the West on various Ukraine-related issues, Turkey gains a kind of immunity to absorb the risks of sanctions. Moscow relies on the partnership with Turkey to adapt to the international isolation with which the West punishes it for the aggression against Ukraine.

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BALKAN BLOG

Southeast Europe’s ties to Russia prove hard to sever

Clare Nuttall in Glasgow

When Russia invaded Ukraine in February, both EU members and most candidate countries were quick to condemn the invasion and sign up to sanctions packages. Even in previously sympathetic countries like Bulgaria, an overwhelming tide of political and public opinion turned against Moscow. However, as war drags on, it’s clear that the ties that have long bound certain Southeast European counties to Russia – such as shared culture and religion, or energy dependence – are proving harder to loosen than it initially appeared.

After Bulgaria’s Western-oriented government was toppled in June, the new caretaker government appears committed to undoing many of the steps taken by Sofia earlier this year to distance the country from Moscow, notably with the news that ministers are considering a new gas deal with Gazprom. Montenegro’s government, also pro-Western, faces a similar fate and it’s uncertain who will take over in Podgorica after the anticipated no-confidence vote.

That could result in more countries from the region being
ranged alongside Serbia, which has refused to join sanctions all along, as well as Bosnia, where the Bosnian Serb leaders have blocked efforts to take tougher action on Russia.

**Turning back to Russia**
The reformist government led by Kiril Petkov, appointed after Bulgaria's third general election of 2021, condemned the invasion and announced sanctions on Russia. Bulgarian public opinion also turned against Russia; pre-war polls put approval for Russian President Vladimir Putin among the Bulgarian population at around 60%, while it collapsed to only 16% in the weeks after Russia invaded Ukraine. Around 80% of Bulgarian disapprove of the war, and they are increasingly critical of politicians including President Rumen Radev, who have taken a more ambiguous stance on relations with Moscow.

However, with the war adding to existing tensions, the differences between the four parties in Pektov's coalition eventually led to its collapse. Radev then appointed an interim government headed by caretaker Prime Minister Gulub Donev, seen by many as picked by the president with the task of bringing Bulgaria back into the Russian orbit, including by agreeing to pay for Russian natural gas in rubles in violation of EU sanctions.

Radev was initially seen as a reforming influence, backing anti-corruption protesters in the summer of unrest in 2020, and, as reported by bne IntelliNews, he was also regarded as the informal godfather of Petkov's cabinet. Yet the war in Ukraine divided the cabinet and president, with the former being openly pro-Western and pro-Ukrainian, while Radev turned into the protector of Russian interests – much to the dismay of many of his former supporters.

**Moscow approves**
The steps already taken since the new cabinet was appointed on August 1 to reverse some of the actions taken by Petkov and his ministers – who took a stand against Russia and continued work to root out corruption – have clearly pleased Moscow. After the fall of Petkov's government, the Russian ambassador to Bulgaria Eleonora Mitrofanova said Moscow is no longer considering ending diplomatic relations with Bulgaria, and added that Russia is now hoping for a “more pragmatic” regime that would not adopt an anti-Russian policy. Mitrofanova is a high-profile figure whose controversial comments have several times sparked complaints from Sofia.

During Petkov’s time in power he and his ministers revealed several scandals that shed light on the scale of Russian influence within Bulgaria – eventually prompting Sofia to take the unprecedented step of expelling 70 Russian diplomats.

Russia has been paying money directly to Bulgarian politicians, public figures, famous journalists, analysts and other public figures to shape public opinion in favour of

Moscow, Lena Borislavova, head of the political cabinet of outgoing Prime Minister Kiril Petkov, said in an interview for Darik radio on July 2. Borislavova said that the Bulgarian security services have information on monthly payments of BGN4,000 (€2,045) to these public figures.

Maria Simeonova, programme coordinator of the European Council on Foreign Relations (ECFR) Sofia and wider Europe programme, linked together corruption and Russian influence in Bulgaria in a recent comment. “[Pektov] learned a hard lesson while trying to deliver on his election promise of ‘zero tolerance of corruption’: the fights against graft and Russian influence in Bulgaria are two sides of the same coin. Engaging in either battle comes at a high political cost, tending to topple anyone who makes the attempt,” Simeonova wrote.

“The outgoing government might have underestimated both the extent of Russian influence in the country and the power of Bulgarian institutional traditions as legacies of its monarchist, communist, and democratic past … the government was undone by resistance to its attempts to expose the toxic links between corruption and Russian influence, which have caused Bulgaria to lag behind many other EU countries for years,” she added.

**Beyond Bulgaria**
Russian agents in Bulgaria are also believed to have contributed to the deterioration in the country’s relations with North Macedonia. Sofia blocked the start of EU membership talks with North Macedonia during the previous government, led by Boyko Borissov, stalling the progress towards EU accession of both North Macedonia and Albania, which are coupled in the process. In March, Petkov said a network of Russian spies had been working to hinder the EU membership of the Western Balkan countries and was behind the worsened relations between Bulgaria and North Macedonia.

“The Russian interest has been focused on preventing a European future for the Western Balkans. Someone is trying to replace the Bulgarian interest,” Petkov said as quoted by Dnevnik news outlet.

North Macedonia finally secured its launch of accession talks in July. However, the story of the dispute with Bulgaria is not over. Skopje had to make further concessions, as set out in the so-called ‘French proposal’ to end the deadlock. That left the country poised to start the long-awaited talks but it is also internally divided and racked by protests.

**Confidence vote looms in Montenegro**
Montenegro’s government is also poised to fall, with a confidence vote in Prime Minister Dritan Abazovic’s government imminent. Ironically, it was a party of Western-oriented politicians, President Milo Djukanovic’s Democratic Party of Socialists (DPS), that precipitated the situation when they
Indeed it is Russia's support over the Kosovo issue, and the overwhelming public sentiment this creates in favour of Russia, that is the prime factor in keeping Serbia locked into Moscow's orbit.

The often tense situation in northern Kosovo, populated mainly by ethnic Serbs, escalated at the end of July, parking fears of a potential renewal of the conflict, though the crisis has now been averted with the leaders of the two countries agreeing to meet later this month. Kosovo's Prime Minister Albin Kurti said in an interview with Italian daily La Repubblica published on August 7 that following Russia's invasion of Ukraine, the risk of a new conflict between Kosovo and Serbia is high.

Bosnia, meanwhile, remains unable to take a stand against the invasion of Ukraine as long as the staunchly pro-Putin Bosnian Serb leader, Miload Dodik, continues to veto any attempt to do so.

The persistent pull towards the Russian sphere of influence is unsurprising given the years of pro-Russian propaganda and Moscow's exercise of soft power in the region.

Capucine May, Europe analyst at risk intelligence company Verisk Maplecroft, said in a note emailed to bne IntelliNews that while the situation between Kosovo and Serbia is “unlikely to tip into all-out war”, “Russia's invasion of Ukraine is adding fuel to the fire of tensions in the Balkans. Moscow's propaganda disseminated throughout the Balkans by Russian media and disinformation proxies are fanning the flames”. Warnings about Russian propaganda and disinformation in the region have also been repeatedly made by EU officials, among others.

On top of that, there is a high level of energy dependency on Russia across many countries in the region, which is also home to some of the poorest countries in Europe. Before Gazprom's supplies were cut off, Bulgaria had long stalled on completing infrastructure to enable alternative imports from Azerbaijan, and under Petkov was scrambling to complete it in time; the new government may take the option of asking Gazprom to renew its supplies. Serbia recently signed a new long-term contract with Gazprom. Bosnia & Herzegovina, Moldova and North Macedonia are also highly dependent on Russian gas.

As the weeks of war in Ukraine turn into months, it has become apparent that after the initial unity among the EU members and most candidate countries, the long-running internal debates in many states over how to position themselves vis-a-vis Russia and the West are now reasserting themselves. ●

“Adding to the tensions n the tiny county of just over 620,000 people, there have been multiple reports of death threats against politicians”

Immediately after the invasion of Ukraine in February, the Democratic Front organised protests and road blockades across Montenegro, with protesters waving the flag of the People's Republic of Donetsk.

Adding to the tensions in the tiny county of just over 620,000 people, there have been multiple reports of death threats against politicians, including Abazovic. Also targeted were the leader of the Social Democratic Party (SDP), Defence Minister Rasko Konjevic, and fellow SDP MP Draginja Vuksanovic Stankovic. The two, who had opposed the deal with the Serbian Orthodox Church, were the targets of threats on social media to “smash heads” by the Night Wolves – a biker gang linked to Russian President Vladimir Putin.

Years of soft power
Meanwhile, Serbian President Aleksandar Vucic has consistently made it clear that he will continue with the increasingly difficult job of balancing relations between Russia and the West.

Vucic’s multi-vector foreign policy, under which Serbia seeks good relations with the EU, the US, Russia and China, served it well until 2022, allowing it to pursue the goal of EU accession while at the same time benefitting from Chinese infrastructure and industry investment, as well as from Russian political support in keeping Kosovo out of the UN and other international organisations.
Perspectives

Beijing and Moscow clash over Kazakhstan’s oil

Joe Webster & Paddy Ryan for Eurasianet

Since its invasion of Ukraine, Moscow has twice blocked Kazakh oil exports crossing its territory. Is this revenge for Kazakhstan’s refusal to endorse the war? An attempt to push up the value of its own crude?

Either way, Beijing does not like it. The Chinese government has signalled that it will not accept Russian meddling in Kazakh oil exports, quietly rebuking Moscow for the blockades.

Kazakhstan pumps just under 2mn barrels per day (bpd), about 2% of global oil production. Almost 80% is exported to world markets via the Caspian Pipeline Consortium (CPC) pipeline that connects the country’s major oil fields with Russia’s Black Sea port of Novorossiysk.

This gives Moscow leverage.

On March 22, Russian authorities claimed that two of three loading facilities at Novorossiysk had been damaged by a storm. In reality, Moscow almost certainly invented a pretext to reduce global supply, raise oil prices to pressure the West into easing sanctions, and aid the Kremlin’s preferred candidate in the French presidential election. The CPC restored full exports after a month.

Then, on July 6, a Russian court ordered the CPC to suspend operations for 30 days, citing environmental concerns. This disruption was limited, however, as a higher court ruled on July 11 to restore operations and issued a nominal fine.

Both times, oil prices jumped.

While the Kremlin does not fear Kazakhstan, it needs Beijing. And China has significant economic interests in Kazakhstan, the gateway to its Belt and Road Initiative of global transportation infrastructure. Chinese companies are important players in Kazakhstan’s oil and gas industries. Although little Kazakh crude is physically shipped to China, China has an interest in seeing it reach global markets; without these shipments, oil prices would rise, global consumer demand for goods would weaken, and China’s export-oriented growth would take a hit. Finally, all three existing legs of the Central Asia-China gas pipeline transit Kazakhstan, delivering critical energy supplies. With the Chinese economy slowing, in part thanks to higher energy prices, Beijing needs Kazakhstan to export every molecule possible.

Though Beijing is loathe to publicly break with Moscow, the PRC has subtly warned Moscow about intruding too deeply in world oil markets. Three days after the CPC was first closed, Sinopec halted a major investment in Russia. That same day, Bloomberg reported that Chinese companies and government officials were “rushing” to learn how to comply with Western sanctions on Russia, while the Chinese Foreign Ministry reportedly warned state-owned energy firms to avoid any “hasty” purchases that could present secondary sanctions risk. Additionally, the China National Petroleum Corporation reposted a history of natural gas in Beijing, detailing the Central Asia-China Gas Pipeline network but conspicuously omitting the $55bn, Russia-to-China Power of Siberia pipeline that opened in 2019.

As the global economy contends with inflation and slowing growth, and China deals with the consequences of rolling COVID lockdowns, Beijing has little tolerance for further economic disruptions. Additional Russian restrictions on CPC exports would be an unwelcome distraction for President Xi Jinping as he seeks an unprecedented third term at the upcoming Communist Party Congress later this year.

Beijing is not on the West’s side in the Ukraine conflict. Yet even as tensions over Taiwan threaten cooperation, policymakers in China and the West should see that they have a shared interest in preserving Kazakh oil flows should Russia block exports again.

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This article originally appeared on www.Eurasianet.org

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July opinion poll conducted by the Levada Centre (listed as a ‘foreign agent’ in Russia) revealed that, despite the ongoing ‘special military operation’ in Ukraine and sanctions imposed on Russia, more than two-thirds of Russians (68%) believe that ‘the country is on track’, while 22% of respondents (one-third as many) think otherwise. To compare, in February, before the invasion, two-thirds of Russians (68%) believe that ‘the country is on track’, while 22% of respondents (one-third as many) think otherwise. To compare, in February, before the invasion, 22% of respondents (one-third as many) think otherwise. To compare, in February, before the invasion, 22% of respondents (one-third as many) think otherwise.

Many of our readers may be experiencing painful emotions at the moment. Unfortunately, we have to disappoint them, in that they are in the minority in Russia. This minority group is shrinking as the military actions unfold. In February, they accounted for a total of 27%, and by July this figure had fallen to 21%, while the majority, who claim to feel ‘fine’ and ‘positive’, has increased.

The underrepresented minority might be wondering whether the majority feel similar emotions. They do, somewhere deep down. However, euphoria, or at least satisfaction, which is alien to the minority, is more important to them. (Besides, it is appealing to be ‘like everyone else’.)

We know that those who continue to experience anxiety, shame, indignation and similar feelings have spoken many bitter words about those who have ‘come to terms’ with the situation, who consider it ‘normalised’. With all due respect to their pain, we will attempt to answer their question: why, at a time that should be considered tragic, positive feelings and sentiments prevail and are spreading among the majority of Russians.

The above responses about ‘being on track’ and ‘feeling fine’ correspond with a growing number of positive replies provided by respondents to a question about the country’s economic situation. While, at the end of 2021, the year before the war, 48% of respondents evaluated Russia’s economic situation as ‘average’; 41% as ‘bad’, and as few as 9% as ‘good’, four months after the special operation started and all kinds of sanctions were launched, the proportion of negative answers decreased and the share of positive responses rose. The majority (57%) are now moderate in their assessment: they perceive the country’s economic situation as ‘average’. Most importantly, 40% of Russians believe that in a year life in Russia will be ‘better than now’. Fewer respondents (27%) think it will remain ‘as it is now’, and even fewer sceptics (18%) expect life to be ‘worse than now’. Russian exports are shrinking, while 55% expect ‘improvements in the economy’ in a year. Despite the negative attitude of many countries to Russian policy, 47% are convinced that Russia will see ‘some improvement in political life’ in a year, while another 13% believe in ‘significant improvement’. (Among both groups, an overwhelming majority approve of Putin’s adventurism.)

One cannot assume that these people hold such views because they know nothing about what is going on in Ukraine. Fifty-six percent of respondents claim that they are following the situation in Ukraine ‘closely’. Eighty-one percent of respondents are ‘concerned about the current events there [in Ukraine]’. Nor can the optimism of the majority be linked to expectations that the special operation will end soon. Not more than half of respondents think that it will end within a year or sooner, while the rest expect it to take more than a year or find it difficult to name an end date at all.

Opinion polls contain a great deal of other evidence of this exceptional state of the Russian mass consciousness. One can draw parallels to what was observed in 2008 and 2014. In both cases Putin’s popularity rating soared to 88%. It has been at 83% for five months in a row now, which is also well above average for Putin. However, both in the case of the peace enforcement in Georgia and in the case of Crimea, most Russians perceived the events as a victory, and Putin was seen as its mastermind. Regarding the outcome of the current special operation, 73% believe in a Russian victory, but none of those surveyed think that this outcome has already been achieved. The difference is that those conflicts were resolved within days, while the special operation has dragged on for months.

One should also be sceptical about the widespread justification that this state of Russian consciousness is solely the result of propaganda. Propaganda can do a lot, but it has its limits. Propaganda only formalises and articulates the configurations of meaning which are formed in mass consciousness due to internal and external factors; propaganda is only one of them. These mass perceptions are long-entrenched. They represent the complex outcome of the transformation of ideas about Russia’s mission which have developed over several centuries in the Russian ruling class, and which have outlived that class. The ideas were unconsciously embraced.

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by Russia’s victorious new elites, who imagined Russia leading the liberation of mankind. Then the goal of liberation was forgotten, but the idea of standing at the helm of half the world, if not the whole world, remained. As it seems to many present-day Russians, Stalin succeeded in achieving this; this was the outcome of the Second World War. And it was this outcome that, as it seems to many present-day Russians, was ruined, zeroed out by Gorbachev.

In the minds of some Russians, the idea of Russia as the paramount leader of half of the planet exists as a romantic national myth, nothing more, but there are those who thought the idea could be materialised right now when force is combined with slick politics. Regardless of the objective of the special operation voiced by propaganda, they believed the cause launched on 24 February 2022 (or even earlier, in the spring of 2014) to be the accomplishment of this historical mission.

It is noteworthy that in March, when Russian respondents described their feelings about the military action in Ukraine, the most frequent answer (51%) was that of a feeling of ‘pride in Russia’. There were no reports about victories at that point. What were Russian compatriots proud of?

According to polls, respondents felt proud that on 24 February Russia challenged its main rival and adversary (the US, Nato and the West are synonyms in this case). Once again, this is the same collective response that we saw in 2008 and in 2014. Russians were proud then and are proud now that their country is acting in defiance of international rules and laws (established, as they believe, by the West). And they are proud because, in their eyes, it means that Russia is once again behaving as a great power. The fact that it is a great power that can flout international law with impunity is deduced from the ‘America bombed Yugoslavia’ case. And America is clearly a great power, Russians believe.

Again, the special operation is considered, in essence, not a conflict with Ukraine but with the great power of the United States. This confrontation is not about defeating America and then conquering or destroying it. The goal, as many Russians believe, is different. In this clash, America needs to feel and recognise that Russia is its equal. Equal in military strength, but, most importantly, equal in its status as a major world power. Russians further envision a beautiful new world, divided forever in two by America and Russia. (China is left out of this picture.)

The way America is behaving is in line with Russians’ expectations. It has picked up the gauntlet, which is good; it is behaving with restraint in this conflict because it fears ‘us’ (Russia, Putin); hence it respects us, sees us as equals. The self-perception of Russians as subjects of a great power headed by an internationally recognised leader has been reinforced.

We must bear in mind that we are not discussing the whole mass consciousness of Russians in its entirety but rather the state of it which has been activated and mobilised by participation in a situation such as an interview with a representative of a sociological agency. Let us say straight away that the point is not that people are afraid that the interviewer is a possible informant or provocateur. Nor is the interviewer perceived as a representative of the authorities. An interview is a situation in which an ordinary person does not feel at ease, responding to questions as a citizen/subject of the state, a great power. This is why respondents’ reactions to symbolic events belonging to this sublime category affect their reactions to mundane aspects of everyday life, of ordinary life with its economic, everyday problems. In such a situation, a paradoxical mechanism is triggered: the worse the situation on the ground, the greater the desire to console oneself with successes up there. As we have noted, the main thing here is not military success but the very fact that Russia stepped up, threw down the gauntlet, and the gauntlet was picked up. It is possible, of course, that in the future the cited figures will soar even more if the propagandists claim outstanding victories on the part of Russia, or they will go down if some discouraging news is widely disseminated. But for now, Russians are collectively experiencing a feeling of satisfaction that the world has been put into the order that they have long desired. In such a euphoric mood, no one thinks about the way the country or their family will survive, about their job or salary. People are happy and positive: everything will somehow work out, since Russia is such a tough cookie that the whole world trembles before it.

We cannot predict whether such a mental frame will last long. It seems very shaky despite its grandiosity. But let us not forget that a similar frame has ensured an approval rating of at least 60% for Putin’s actions as President of the Russian Federation for more than two decades. Over time, he has discovered how to effectively engage with Russians’ mass consciousness and has been building his foreign policy in line with certain mass perceptions and stereotypes. There are other semantic units in the mass consciousness which could serve as fundamentals for a very different policy. But Putin has used those which are also in line with the interests of the elites he has surrounded himself with.

Readers who are already aware of or have suspected all that has been said here will not find our story comforting. Well, Russian intellectuals have more than once had to grieve when they discovered that they were a ‘far cry from the people’. But we know for sure – both from history and from our research – that the time will come when the mass consciousness will turn to those ideals which these underrepresented readers are now struggling to preserve.

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This article first appeared in Riddle. Riddle is an independent media outlet focusing on independent analysis of Russia and a bne IntelliNews media partner. Follow on Twitter @RiddleRussia

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Russia GDP growth & forecasts

Russia’s EconMin seen as overly optimistic with another GDP upgrade

Russia’s Ministry of Economic Development is preparing a revised macroeconomic forecast for 2022, revising the GDP decline to 4.2% from the previously forecast 7.8% contraction, RBC business portal and Kommersant daily reported citing an unpublished draft of the document.

The 2022 outlook of the ministry is in line with the most optimistic baseline scenario of the recently released strategy and outlook for the near term by the Central Bank of Russia (CBR).

Romanian stock exchange reaches new record as BET-TR rises 5.7% ytd

The BET-TR index, which reflects the evolution of the 20 most liquid securities from the Bucharest Stock Exchange (BVB) plus the dividends disbursed by companies, reached a new historical high of 24,433 points on August 11, exceeding the previous record of 24,212 points established in mid-January, Bursa daily reported.

Since the beginning of the year, BET-TR has grown by 5.71% ytd, recovering entirely from the fall that occurred in the context of the deterioration of economic prospects, the increase in interest rates by the central banks and the war started by Russia in Ukraine.

Dollarisation in Turkey smashing records

The share of FX-linked deposits placed with Turkish banks stood at 54.5% of deposits as of July 29 while deposits under the state’s FX-protected scheme (KKM) accounted for 16.5%, Bloomberg HT has reported.

Overall dollarisation stood at a fresh record high of 71%. In 2021, indicators on the ongoing economic, political, social and, let’s say, overall turmoil in Turkey exceeded the historic financial tumult seen during the country’s economic crisis of 2001, regarded as an extremely dark hour.

Moldova: Consumer Price Inflation (y/y)

CPI inflation in Moldova hits 33.6% y/y in July

Consumer prices in Moldova increased by 1.4% in July, the slowest rate in the past year, but the annual inflation rate edged up to 33.6% y/y from 31.8% y/y in June, the statistics bureau announced.

Food prices increased by 36.4% y/y as of July, non-food goods by 24.1% y/y and services (including gas and electricity) by 43.5% y/y, while the price of natural gas quadrupled, that of electricity increased by 59% and heating was up by 80–90% y/y. Further hikes of the end-user electricity price are likely as Moldovagaz claims that it cannot pay its bills to Gazprom without more price hikes.
Russian industrial production falls only 0.5 in July, grows in seasonally adjusted terms, inflation continues to ease

bne IntelliNews

Russia’s economy continues to do better than expected with industrial production falling only 0.5% y/y in July as after six months of war business adapted to the new conditions and put in a small gain in seasonally adjusted terms, Rosstat reported on August 24. Inflation also continues to fall thanks to traditional summer deflation.

Industrial production’s slight decrease was far less than the forecast contraction of -2.3% from analysts and since the beginning of the year industrial output is up 1% compared to the same period a year earlier.

Seasonally adjusted and in monthly comparison, industrial production increased for the first time since the beginning of the year by 1.2% versus June. In June, industrial production fell by 2.4%.

This stands in stark contrast to the controversial Yale report that claims Russia’s economy has come to a standstill.

“It is noteworthy that Rosstat improved its estimate of industrial production growth in 2021 from 5.3% to 6.4%, and the high base effect forced it to worsen its assessment of dynamics in the first half of 2022: growth by 1.3% instead of 2.0% due to “pre-war” January and February,” The Bell reports.

Surprisingly, even the auto industry rebounded, showing a decline in dollar terms of 58% after 66% in May, nevertheless the volume of cars being produced and sold remains at about a tenth of pre-war levels. In mid-August, AvtoVaz announced the restoration of a five-day working week, and on the eve of the return to the Vesta conveyor with airbags.

“The figures suggest that the fall in Russia’s GDP will not be as deep as it seemed in March-April. In the first half of the year, the economy contracted by 4%, the Central Bank predicts 4-6% for the year,” The Bell reports. Alexander Isakov, an economist at Bloomberg Economics for Russia, says the data confirms the forecast for a 3.5% fall in GDP – one of the mildest predictions from all observers that range between 4% and 6% contraction.

At the same time Rosstat also reported that deflation continues that will fuel growing fears that Russia might get trapped in a deflationary spiral.

Deflation takes hold in Russia. After runaway inflation this spring, the Russian economy is lurching toward the opposite extreme. For the second month running, the country has recorded deflation. Prices are falling due to a strong ruble and a sharp decline in demand: Russians are apparently anxious about another crisis and are starting to save. For the economy, falling prices are an alarming sign, but after the traditional summer depression of food prices passes in the autumn, others argue that inflation will rise again.

The population’s expectation for inflation is for it to fall from the current 14.6% to 12%. (chart) There was no change in the population’s expectations, except for the very poorest groups that believe it might increase in the autumn.

Russians’ median inflationary expectations for the next 12 months increased by 1.2 percentage points to 12% in August getting close to the figures of June-August 2021, the central bank said on August 24.

Amongst the sectors the extractive industries and oil refining put in noticeable gains as metals are largely not sanctioned and oil exports have managed to find new markets to take up nearly all the slack. There was also a rebound in pharmaceuticals, microelectronics and the textile industry, due to the outflow of foreign competitors, The Bell reports.

The surprising industrial production report comes on top of good results from S&P manufacturing and services PMI indices, which both showed accelerating expansion in June and July and the panellist in the survey are increasingly optimistic about the prospects for the full year. The services PMI in particular expanded by 54.7%, the fastest pace in a year.

Source: Rosstat

Russia industrial production y/y

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