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 **INTELLINEWS**

September 2023

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Ruble's fall creates currency risk in Central Asia and the Caucasus

Ukraine war erodes Russia's economic clout in Western Balkans

BRICS adds six new members, including Iran and Saudi Arabia

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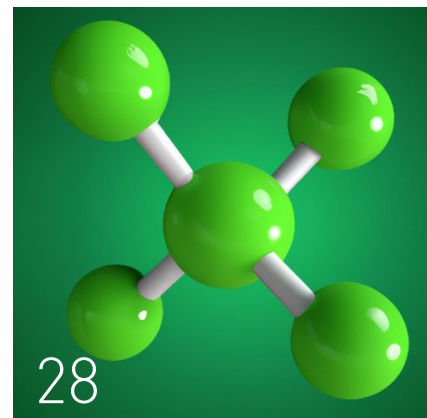
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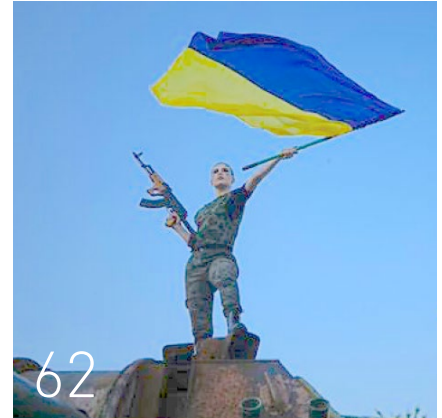
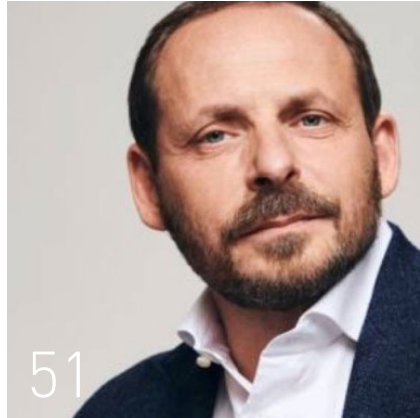
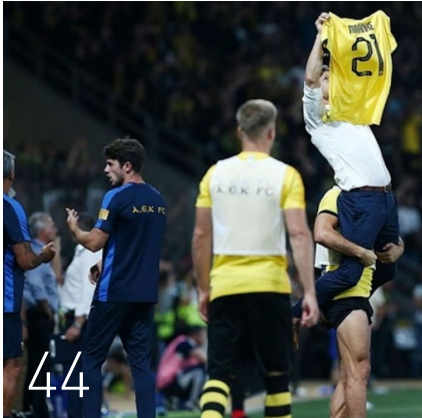
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Inflation rates are falling across CEE, leading economists to predict rate cuts in the coming months. / bne IntelliNews

# CEE easing cycles around the corner

Ben Aris in Berlin

**W**ith inflation passing its peak in most of the countries of Central and Eastern Europe (CEE) (chart), central bankers are switching gears from aggressively tightening rates to curb price rises to starting to cut rates in the hopes of avoiding a tightening overshoot that could cause recessions across the region.

It's a delicate balance, as while growth is already slowing nearly everywhere, inflation remains persistently high. Economists warn that the band between inflation curbing hikes and growth promoting cuts is very narrow and easy to get wrong. Nevertheless, some central banks in CEE have already started to cut rates.

Expectations for monetary easing cycles in Poland and Czechia have strengthened last week, Capital Economics reports, driven by weaker-than-expected Polish inflation figures for July and a shift in language at the Czech central bank's MPC meeting. It is now anticipated that both central

banks will deliver interest rate cuts in the fourth quarter.

"The flash estimate of Polish inflation for July came in at 10.8% year on year, its lowest level since early 2022. Core inflation probably eased further last month too. The pace of disinflation this year has been much faster than we had expected and there's now a possibility that inflation falls to single digits as soon as August, meeting the criteria outlined by some MPC members as the trigger to start an easing cycle," Liam Peach, an emerging market economist with Capital Economics, said in a note.

The Czech central bank (CNB) made a clear shift in language at its recent monetary policy meeting, dropping its previous guidance on further interest rate hikes and stating that policy decisions will be based on incoming data. This opens the door for an easing cycle to start soon. While a rate cut in September is a possibility, the CNB maintained a somewhat hawkish tone, and Governor Michl tried to temper



expectations for easing this year. Nonetheless, monetary easing is on the horizon, says Peach.

"The debate in Poland and Czechia now is whether or not interest rate cuts start at the next meeting in September. Inflation data for August will be key. In our view, we think September is just a little early for the first rate cuts. But the big picture is that monetary easing is around the corner. Investors are pricing in 100-125bp of easing over the next six months. This is possible, particularly in Czechia, but inflation pressures are a lot stronger in Poland and we think the bulk of easing there is unlikely until the second half of next year," Peach said.

In general, the pressure on Europe's households' real incomes from high inflation appears to be easing in Central Europe, and there are encouraging signs that the downturn in retail sales may have bottomed out in the second quarter, Peach says.

"Data released this week for June showed that retail sales increased in Czechia (by 0.3% month on month) and in Hungary (by 0.8% m/m). In Czechia, this was the first consecutive monthly expansion in two years and in both countries followed large declines in sales earlier this year. Inflation is falling so quickly across CEE that real private sector wage growth could turn positive in y/y terms in all major economies in Q3. We think this will support a recovery in consumer spending in the second half of the year, although any rebound is likely to be gradual while consumer confidence remains so depressed and interest rates stay high," says Peach.

"More generally, we don't expect a marked recovery in GDP growth for some time. Manufacturing PMIs released for July this week were weak and support our view that the recent resilience of exports will fade. We expect weaker external demand to weigh on exports and keep GDP growth soft until 2024," Peach concluded.

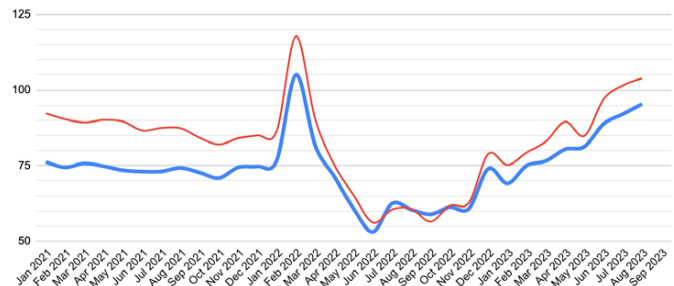
In related news, the National Bank of Ukraine (NBU) cut the key policy rate from 25% to 22%, effective from July 28, the NBU stated

in a press release on July 27 (chart). The cut was forced on the NBU due to the rapid fall in inflation, as the central bank had not intended to cut rates this year, while the war continues to rage.

On the flip side, the Central Bank of Russia (CBR) was forced to hike rates by 100bp at the policy meeting on July 21 from 7.5% to 8.5% per annum, the regulator said in a statement. Prior to that, the rate had remained unchanged since September 2022. (chart) Although inflation remained at an extremely low 3.2% in June – by far the lowest rate in the region – the central bank seems to be deliberately devaluing the ruble in an effort to support the budget and reduce the deficit. (chart)

Russia's budget is based on a calculation of oil tax revenues calculated in dollars, but the spending is in rubles. That means a devaluation of the ruble creates more rubles for expenditures even if they are worth less in dollar terms – a cheap and easy way to close the budget deficit that does not involve borrowing or printing money.

**Russia RUB vs USD**



Source: CBR

However, the sharp devaluation of the ruble is fuelling inflation, which is now expected to climb to around 6% by the end of this year, before falling back to the CBR's target rate of 4% next year, the regulator says. The need to devalue the ruble to close the deficit hole may be temporary after budget revenues surged in June as oil exports completed their switch from Europe to Asia, as reported by *bne IntelliNews*. ●

## Black Sea war zone threatens to knock out Kazakh oil

Nizom Khodjayev in Astana

**T**he safe passage of around 80% of Kazakhstan's oil exports is now potentially imperilled by the Russia-Ukraine War.

When a Ukrainian sea drone struck and disabled Russian landing ship Olenegorsky Gorniyak in an August 4 night attack on the vessel in Russia's Black Sea port of Novorossiysk, the calculations completely changed for those charged with

ensuring Kazakhstan can continue to securely ship its crude, despite the conflict raging to the country's west. And those calculations grew even more worrying on August 5, when a Russia oil products tanker, the Sig, took a Ukrainian sea drone hit to its engine room while sailing close to the Crimean peninsula. By August 8, Ukraine was leaving no room for doubt – in Kyiv's eyes, any tankers shipping oil from Russian Black Sea terminals can be justifiably attacked.



Screenshot from sea drone video footage purporting to show a successful attack on Russian landing ship Olenegorsky Gornyyak. / Screenshot

"Everything the Russians are moving back and forth on the Black Sea are our valid military targets," Oleg Ustenko, an economic adviser to Ukrainian President Volodymyr Zelenskiy, told Politico, saying the move should be seen as retaliation for Russia withdrawing from the UN-brokered Black Sea grain deal and staging a series of missile attacks on Ukrainian agricultural stores and ports.

"This story started with Russia blocking the grain corridor, threatening to attack our vessels, destroying our ports," Ustenko added. "Our maritime infrastructure is under constant attack."

Most Kazakh oil is necessarily exported via Novorossiysk after reaching the port via the 1,500-km Caspian Pipeline Consortium (CPC) route that traverses southern Russia. As things stand, only limited volumes can take the pipeline option offered by Azerbaijan in the South Caucasus due to a shortage of tankers that traverse the inland Caspian Sea.

With insurance policies threatening to become non-existent for the tankers that ship up to 1.3mn barrels per day (bpd) of Kazakh oil from Novorossiysk, it's clear Kazakh officials are feeling the heat, and are so far offering only vague notions of finding a political answer to the endangerment of Black Sea shipping.

The Kazakh government was intending to put forward a political initiative for supporting the stable operation of the CPC port terminus in Novorossiysk, TASS quoted Kazakh Energy Minister Almassadam Satkaliyev as saying.

"As regards the provision of safety for port operations, Kazakhstan will certainly come forward with an initiative at the political level to ensure stable operations at the port, given that major oil consumers, including those from the European Union, benefit from the operations of the marine terminal," said the minister.

Such an effort "must be organised along the lines of the intergovernmental dialogue, via diplomatic channels, and the relevant directives of the Prime Minister of Kazakhstan [Alikhan Smailov] have already been issued," he added.

Kazakhstan's best hope might lie in the pressure that could be exerted on Ukraine by its allies, who fear high oil prices.

Timothy Ash, a strategist at BlueBay Asset Management, commented in a blog for the Kyiv Post: "Kyiv has warned herein that Russian ports on the Black Sea are now fair game, and I think this is something of a quid pro quo for Russian attacks on Ukrainian ports and particularly grain infrastructure. But I think Ukraine would be wary of launching all-out attacks on Russian oil vessels in the Black Sea for fear of playing into Russian hands by driving international oil prices higher and then weakening support in both the West and the Global South for its defence against Russia."

"Rather, this was a proverbial shot across Russia's bow that Ukraine has lots more options. It is a push to get Russia to back off from attacking Ukrainian Black Sea ports, and also those along the Danube and return to the Black Sea Grain Initiative."

Looking at what pressure Kazakhstan might direct at Ukraine's allies to arrange protection for oil shipments out of Novorossiysk, Oleg Chervinsky, a publisher of Kazakh oil industry magazine Petroleum, argued that the Kazakh government, while scoping out wider diplomatic moves, may first seek "consultations with the US and European shareholders" invested in Kazakh oil and gas projects.

"Shareholders are no less interested in the stable operation of the port of Novorossiysk than Kazakhstan. The government may anticipate that stakeholders will use their levers of influence to ensure that the Caspian Pipeline's terminal is excluded from hostilities," Chervinsky said, as quoted by Upstream on August 8.

Kazakh oil shipped from Novorossiysk comes from the huge Tengiz, Karachaganak and Kashagan fields, where major Western oil companies such as Chevron, ExxonMobil, Shell and Eni are heavy investors. The stakes are high.

Since the outbreak of the war in February last year Kazakhstan has not sat on its hands when it comes to securing alternative westward transit routes for its oil, but given squeezed tanker capacities, and also limited capacities within the pipelines stretching to Turkey and Europe from Azerbaijan via Georgia, there's a limit to how fast it can go in developing a plan B fit for purpose.

Nevertheless, Kazakhstan made some progress in expanding its transit of oil on routes bypassing Russia in the first quarter of this year, according to Reuters reporting that cites industry sources and Refinitiv data.

Oil shipments sent from the Caspian Sea port of Aktau in Kazakhstan to Baku in Azerbaijan reportedly rose to 163,436 tonnes in 1Q23 from 28,875 tonnes in 1Q22.

Looking in the other direction, Kazakhstan's oil exports to China are modest, presently running at around 80,000 tonnes of oil per month. ●

# Boom in UK exports to Kyrgyzstan sparks fresh war sanctions evasion concerns

bne IntelliNews

**B**ritish goods exports to Russia's ally Kyrgyzstan boomed more than 4,000% in the 12 months to March, with the trade explosion coming in the wake of the Kremlin's invasion of Ukraine. The sheer scale of the trade expansion has triggered fresh concerns that Moscow is comfortably circumventing sanctions to obtain Western goods.

UK government trade data shows the extraordinary rise in shipments to Kyrgyzstan occurred roughly in the same period that Kyrgyz exports to Russia also doubled. The obvious conclusion for analysts is that British goods are exported to

“UK government trade data shows the extraordinary rise in shipments to Kyrgyzstan occurred roughly in the same period that Kyrgyz exports to Russia also doubled”

Kyrgyzstan, from where they are re-exported to Russia. Similar conclusions have been drawn about EU goods following the publication of figures showing a trade expansion in the same ball park. On July 20, concerned by such trade flows, the US Treasury Department listed 18 individuals and more than 120 entities based across Kyrgyzstan and Russia it has made subject to Ukraine war sanctions.

A big concern for Western officials are dual-use goods that can be ordered by civilian contractors who can then divert them for defence industry purposes.

Exports of machinery from the UK to Kyrgyzstan, including power generators and road vehicles – but not including cars – expanded significantly in the reported period. Other exported items included “office machinery” and “general industrial machinery”.

After the newspaper *i* reported the data, a UK official told the publication: “We have introduced the largest and most severe economic sanctions ever imposed on a major economy and have wholly or partially sanctioned over 96 percent of goods traded with Russia in 2021.

“We assess all credible allegations of breaches of sanctions law, and we have a range of enforcement options available – those breaking the law could face a heavy fine or imprisonment.”

In the data, total UK exports to Kyrgyzstan in the 12 months to March, including services, are shown up 264% to £51m, with goods shipments leaping 4,100% to £42m, up from £1m in the previous 12-month period.

Robin Brooks, chief economist at the Institute for International Finance, told *i* the leap in exports had “all the telltale signs of sanction evasion”, adding: “While UK exports to Kyrgyzstan are very small compared to the UK's overall international trade, UK exports have the telltale signature of trade diversion: a rise in exports that begins with Russia's invasion of Ukraine and persists”.

Following the imposition of the US sanctions, Kyrgyz officials denied that Bishkek was helping Moscow circumvent goods and services sanctions but did not rule out the possibility that private companies in Kyrgyzstan have become involved in shipping “dual-use” items to Russia.

Kyrgyzstan's security agency said that “neither the Kyrgyz state itself nor any state structures and companies are involved in the violation of the regime of compliance with sanctions imposed by the United States and Western countries on Russia.” But it admitted the “possible involvement of private companies”. ●

“Kyrgyzstan's security agency said that neither the Kyrgyz state itself nor any state structures and companies are involved in the violation of the regime of compliance with sanctions”



British goods that reach Russia via Kyrgyz 'middlemen' operations are another concern for Western sanctions enforcers. / bne IntelliNews

# How Fozzy Group's supermarkets have weathered the storm of Russian aggression in Ukraine

Dominic Culverwell in Kyiv

Ukrainian supermarkets are a sight to behold. Even in the midst of Russian aggression, shelves are stacked with products and fresh vegetables are piled high, whilst live fish and oysters are packed into tanks. If one wants to forget the grim realities of wartime Ukraine, supermarkets offer a mirage of normality.

It was a different story at the start of Russia's full-scale invasion. Chaos erupted as desperate civilians hurriedly purchased supplies and withdrew cash, preparing for the worst. Dmytro Tsygankov, the executive director of Fozzy Group, a group of companies that owns the major Silpo supermarket and Fora convenience stores, witnessed the panic first hand.

"In many places, including the Kyiv region, stores were shelled, destroyed and cut off from supplies. It was a hugely complex problem, both on the logistics side and on the human side," Tsygankov told *bne IntelliNews* in an exclusive interview via his home in the Kyiv region.

Terrified store employees disappeared and drivers were afraid to deliver products from the distribution centres. But in their place, customers and former employees came to the rescue, undertaking odd jobs such as stacking shelves whilst Tsygankov and his wife worked at a supermarket in Irpin. As the crisis unfurled, humanitarian organisations swooped into Ukraine, utilising Fozzy Group's logistics routes and facilities to distribute over 1,404.1 tonnes of aid.

Faced with the realities of Russia's brutal war, Fozzy Group has suffered both physically and financially. Silpo lost UAH7.6bn (\$205.78mn) last year, while damages to the company are estimated to be UAH3bn (\$81.23mn) including lost stock and destroyed facilities, with one warehouse completely razed to the ground and 31 Silpo supermarkets damaged. Other retail companies suffered a similar fate and the whole retail sector lost around UAH300bn in turnover last year.

Nevertheless, Tsygankov and his team have found ways to overcome the barriers thrust in their path, and almost retained pre-war revenue with turnover recorded at UAH 62.4bn (\$1.69bn) last year. "We cannot stop, we are part of



A Silpo supermarket in Truskavets / Fozzy Group

critical infrastructure," Tsygankov explained.

With no truck drivers, distribution posed one of the major challenges. The company co-operated with Ukraine's national rail company, Ukrainian Railways, and began an experimental delivery operation to transfer goods from Western Ukraine to the rest of the country amidst the heavy fighting. Although not as effective as road transport, trains were a magic wand that ensured safe deliveries under immense pressure.

Delivery routes gradually returned to normal and truck deliveries have resumed, navigating Ukraine's extensive road network to find accessible routes undamaged by shelling or mines. Delivery time may take longer than pre-war, but Tsygankov mentioned that at some point "you have to get back to basics", regardless of efficiency.

Fozzy Group's results are not to be sneered at. Although stock has not yet returned to pre-invasion levels, it has recovered from the first month to 80-90% of availability with assistance from willing partners. Suppliers responded quickly and even foreign partners took the gamble to maintain ties with the company.

"Most of them understood the situation and the difficulty with logistics. They were eager to help us find products," Tsygankov said.

Russia's occupation of fertile land in southern and eastern Ukraine has resulted in a drop of locally sourced products, including the famous Kherson watermelons. Fozzy Group has remained flexible, seeking imports from other countries such as Turkey or the European Union, but the cost has noticeably increased and many citizens are still left hankering for locally grown watermelon instead of Azerbaijani imports.

At the same time, 19 Silpo supermarkets remain inaccessible in the occupied zones. But once Ukrainian troops liberate a region, it doesn't take long for the Fozzy Group to kick into action. In the case of Kherson, it only took a week after its liberation on 11 November, 2022 to resume work, Tsygankov explained.



"The store was more or less intact, so we could start operations soon," the businessman said.

The group has managed to reopen 17 stores in total, with 308 Silpo supermarkets currently operating, although reopening times depend on conditions such as damage, electricity accessibility and Internet connection. Nevertheless, the company has managed to get a handle on the difficult process and restorations have become smoother and faster, helping to retain a significant number of employees, currently at 33,390, with only a 2% vacancy at the store level.

Yet filling shops with customers is proving to be a herculean task. The prodigious migration of Ukrainians abroad, estimated to be 6-8mn, as well as food prices increasing by 38% last year, has cut the number of shoppers by 10-15% compared to pre-invasion, and the challenge is particularly pertinent in newly liberated territories, where a vast number of remaining residents are pensioners struggling with food poverty.

Tsygankov is hopeful that reopening stores will encourage residents to return home, as stocked shelves and cashiers at the registers imbue a psychological reassurance on war-torn towns. "When people see supermarkets opening they think

that things are returning to normal, so they come back," he explains.

The company also managed to open new stores across Ukraine, despite the challenges the construction industry faced last year after suffering an economic decline of 65.1%. Plans were completed not only in Western Ukraine, where the situation was calmer, but also in regions close to hostilities such as the Odesa and Dnipro Oblasts.

"The war didn't really change our strategy to open stores, except for the obvious that we lost a couple of regions for now," Tsygankov stated. "We are not limited to western Ukraine and we continue our expansion elsewhere," he added.

For now, new expansion plans are, for the most part, not being discussed, as years of planning and evaluation are needed. All the stores that opened during the full-scale invasion were already in the works but Tsygankov stressed that the company's strategy has not changed.

The company is also looking into the EU market, particularly in Eastern Europe, and conducting research into the market and scouting locations. There is nothing on the horizon yet, but Tsygankov is optimistic for the future. ●

## India to buy a record 9mn tonnes of discounted Russian wheat to head off domestic price spike

Ben Aris in Berlin

India is reportedly in confidential talks with Russia for the biggest ever grain deal between the two countries, the supply of some 8-9mn tonnes of wheat worth \$2bn, even though India is reportedly demanding a very deep discount, Reuters reported on August 17. The discussions are anticipated to continue for several more weeks.

"The government is exploring the possibility of imports through private trade and government-to-government deals. The decision will be made cautiously," an Indian government source told Reuters, when asked about wheat imports from Russia.

Indian wheat stocks at government warehouses were at 28.3mn tons on August 1, some 20% below the 10-year average, Reuters reports.

India has not imported wheat for years as it is usually self-sufficient, but extreme weather in the last two years has hurt domestic production. The talks come as India is trying to manage food inflation ahead of the upcoming 2024 national

and regional elections under Prime Minister Narendra Modi's government. The ruling Bharatiya Janata Party faces a united opposition in the elections, with polls currently favouring the incumbent party.



India is in talks with Russia for a record-breaking 9mn tonnes of grain import deal following two years of extreme weather reduced its own production forcing it to look for imports for first time in six years. / bne IntelliNews

India has been suffering from a bad agricultural season that has pushed prices for staples up that are hurting the poor the most in an election season.

As *bne IntelliNews* reported, wheat, rice and a negative impact on agriculture from El Niño this year have food security warning lights flashing red.

In July the Indian government banned the export of white rice in an effort to contain domestic food prices by administrative means. The effect of the Indian rice ban has rippled out around Asia, driving rice prices high across SE Asia and leading to governments across the region scrambling to shore up reserves of rice in anticipation of reduced yields this year in their own markets thanks to El Niño. That has pushed food inflation up globally. India also banned wheat exports last year and again this year after yields are expected to fall 10% this year, leading to domestic prices for wheat taking off at the end of May.

India's annual retail inflation has surged to its highest level in 15 months in July, propelled by soaring prices of vegetables and cereals. July witnessed a sharp uptick in India's annual retail inflation, reaching 7.44%, a significant rise from the previous month's 4.87%, catching analysts by surprise.

Things have gotten so bad that both the Burger King and McDonald's franchises in India have taken tomatoes off the menu following a poor harvest that made prices prohibitively expensive.

That has left Russia in pole position to help, as it is one of the world's five agricultural superpowers and following an all-time high record harvest of 153mn-155mn tonnes of grain last year, its silos are full to bursting. Russia is expected to export a record 60mn tonnes of grain this – almost double its average exports from the last five years.

A deal for 9mn tonnes of wheat would be significant and a big increase on deliveries to India which is not one of Russia's biggest customers as it is a major producer of wheat in its own right and has not imported large amounts of grain since 2017, when it bought 5.3mn tonnes on the open market. But wheat production has been in decline in the last few seasons due to a series of extreme heat waves in summers.

Wheat production declined to 107.74 million tonnes due to heat waves in key growing states during the 2021-22 agricultural year, down from the previous record of 109.59 million tonnes set a year earlier. The harvest is expected to fall again this season to 105mn tonnes of wheat putting domestic supplies under pressure and driving the government to look to imports to shore up its strategic reserve.

If the 9mn tonne deal with India goes ahead it would be 15-times more than India normally imports from Russia and

represent about a fifth of Russia's entire export capacity in the current agricultural year. It is also double Egypt's annual purchases from Russia, currently Russia's biggest client and one of the biggest importers of grain in the world.

India's trade reliance on Russia has grown rapidly in the last two years. Indian oil imports from Russia have grown from about 2% pre-war in Ukraine to top 46% in the first half of this year and mutual trade turnover has increased to just under \$50bn a year.

The 9mn tonnes is also more than twice the size of the Indian government's projection for this year's grain deficit, estimating it needs 3-4mn tonnes to cover a potential shortfall. If the deal goes ahead, it would shore up the domestic reserve, ensuring price stability for wheat on the Indian market after prices rose by 10% in the last two months.

Russia is desperate to export more grain as an estimated \$3.4bn worth of grain is in danger of rotting this year if more room cannot be freed up in its silos. India is reportedly asking for a deep discount of \$25-40 per tonne of wheat to market prices, which Russia is reportedly willing to offer. The current FOB Novorossiysk price stands at approximately \$250 per ton, Reuters reports.

Unlike oil exports, Russia's agricultural product exports are not subject to sanctions, therefore, payment for the wheat purchase will likely be made in dollars, similar to transactions involving Russian sunflower oil. The total cost of the discounted wheat deal should be slightly less than \$2bn, *The Bell* reports.

The deal would have the added benefit of offering a degree of protection against potential disruptions at Russian Black Sea grain ports. Following Russia's withdrawal from the Black Sea Grain Initiative on July 17, guarantees for the safety of sea routes were revoked. This resulted in Russia imposing suspicions on ships bound for Ukraine of transporting weapons. Despite this, Ukraine has redirected its grain exports to Danube ports and has been actively seeking alternative routes. A really big deal with India would encourage Russia to re-establish the grain deal, something that Russian President Vladimir Putin's allies in Africa, Turkey and China all want to see him do.

Ukraine has increased military tensions in the Black Sea after an unmanned naval drone attack on the Russian port of Novorossiysk this month and a recent declaration of the waters around the Russian ports of Anapa, Novorossiysk, Gelendzhik, Tuapse, Sochi, and Taman are a military threat zone further complicates the situation.

The Russian Ministry of Defence also reported that a Ukrainian naval drone had attempted to attack two Black Sea Fleet patrol ships on August 17, but they destroyed the drones with their onboard defence systems. Tensions in the Black Sea remain high. ●

INTERVIEW:

# The Austrian troubleshooter cleaning up the Moldovan 'laundromat' bank

Jason Corcoran in Dublin

**W**hen Herbert Stepic, one of Central Europe's most famous bankers, was looking for a CEO to rebuild the shady bank once at the centre of Moldova's notorious 'Russian Laundromat' scheme, Alexander Picker was likely to have been at the top of his list.

Stepic, the former chairman at Raiffeisen Bank International and now the chairman of Moldindconbank, turned to his fellow Austrian because of Picker's expertise at crisis management built up over the past 30 years during a number of high-profile banking jobs across Central and Eastern Europe and Eurasia.

But transforming the image of the Chisinau-based Moldindconbank, the main conduit of the \$22bn brazen Russian money-laundering scheme, hasn't been Picker's toughest assignment.

"Yes, I do like difficult things," Picker told *bne IntelliNews* in an interview. "Stepic asked me to get my hands dirty again but it's not the toughest job I have ever had."

Picker, who was approved by regulators for the Moldinconbank role in March, maintains that running ATF Bank in Kazakhstan in the aftermath of the 2008 global credit crisis was a much more challenging gig.

The Austrian arrived in Kazakhstan after the Italian lender UniCredit acquired Almaty Trade Finance (ATF) bank in June 2007.

"I could see before the deal closed that there was a problem looming, but I didn't dare go to the boss Mr [Alessandro] Profumo and tell him not to close because it will never work out," recalled Picker.

The international credit crisis hit Kazakhstan hard, laying waste to its financial sector by exposing an era of over-zealous borrowing and lending as well as overt mismanagement. UniCredit ended up paying \$2.3bn for ATF bank before offloading it in 2013 to a local Kazakh firm for just \$500mn.



Alexander Picker: "It's not the toughest job I have ever had." / Alexander Picker

Picker stayed at the Kazakh lender until 2010 before moving to Hypo-Alpe-Adria International Group in Slovenia as chief executive to clean up its operations after the Austrian government was forced to take it over in 2009.

His career has included stints running banks in Bosnia & Herzegovina, Slovenia, Serbia, Uzbekistan and Russia, while he still shuttles occasionally to Mongolia in his capacity as a board member of Golomt Bank.

## Tarnished reputation

But right now, most of his time is spent on trying to scour and scrub Moldinconbank's tarnished reputation. Probes in 2014 by the Organised Crime and Corruption Reporting

"OCCRP revealed how at least \$21bn was wired from Russia to accounts held by offshore shell companies at Moldindconbank"

Project (OCCRP), the Eastern European-based investigative journalism group, revealed how at least \$21bn was wired from Russia to accounts held by offshore shell companies at Moldindconbank.

OCCRP found that Ilan Mironovich Shor, the Israeli-Moldovan politician, headed a group of 39 mostly shell companies that were allegedly involved in the theft and laundering schemes.

The money came from fraudulent court decisions, in which bribed Moldovan judges ruled that Russian companies and Moldovan citizens must pay debts to the offshore corporations. In reality, the debts were phony, and the ruse simply allowed Russian criminals to launder and move stolen money out of their country.

Shor runs a now banned political party called the Shor Party



in Moldova, although he was stripped of his parliamentary seat last April, and organises anti-government protests in the country, despite fleeing the country, which has sentenced him to 15 years in jail for bank fraud. His party campaigns against the EU and follows pro-Kremlin narratives.

The alleged architect of the scheme was a Moldovan businessman Vyacheslav Platon, a former MP and shareholder of the bank. Platon has been sentenced in absentia to 25 years' jail in Moldova but has fought successfully to avoid extradition from Ukraine. Platon calls the accusations "drivel". The

**"The biggest problem for Picker and his team has been to clean out all of the legacy problem loans – many of which have been written off"**

OCCRP also alleged that Igor Putin, a cousin of the Russian president, was also a key figure in the laundromat.

Shor and Vladimir Plahotniuc, an influential politician and business associate who has also fled Moldova, were recently sanctioned by the EU, while Platon has so far escaped any punitive measures by the West.

Picker claims Moldindconbank has made significant progress cleaning up its act but admits there is more to be done.

"Our reputation is not good yet, but we are working on it," he says. "In 2014, the central bank came in, cleaned everything up in terms of the problem loans, threw out the former majority owner Platon and sold the shares to the Bulgarian investment fund."

There is a board member exclusively for compliance and the bank has undergone a compliance review by auditors KPMG.

The biggest problem for Picker and his team has been to clean out all of the legacy problem loans – many of which have been written off. An army of 50 lawyers are working exclusively on the loan book, according to Picker. "We are selling properties and getting some assets back but it's an incredibly long legal process because everyone in the process is submitting counterclaims and claiming there was some kind of mistake made," he says.

Picker's main remit "is to polish up the [bank's] reputation", work with the international finance organisations and secure correspondent accounts in dollars where they still have some problems.

Moldindconbank has closed all Russian accounts and is closely monitoring all the sanctions regimes to the letter.

### **Russian destabilisation**

The bank employs a lot of Russian expatriate employees who are facing problems with travelling and obtaining work permits, but Picker agrees that the Moldovan government is justified in being paranoid about Moscow's efforts to destabilise the country.

Moldova last month ordered 45 Russian diplomats and embassy staff to leave, sharply reducing the number of officials Russia can have in its capital Chişinău, while citing years of "hostile actions" by Moscow. Russian-backed separatists control a breakaway territory in Moldova – Transnistria – in a frozen conflict that has festered since the 1990s.

"We have the backing of the National Bank of Moldova and we have the backing of the government, which is very pro-EU and anti-Russia," says Picker. "They left the CIS organisation and now they have kicked out half of the diplomatic corps of Russia over allegations of spying."

With a population of just 2.6mn Moldova is one of Europe's poorest economies and has been heavily exposed to the war in neighbouring Ukraine. The country has faced a major energy crisis because its power infrastructure dates back to the Soviet era. Not only did Russia restrict its gas supplies but its attacks on Ukraine's power grid have also caused sporadic power cuts in Moldova. The invasion also triggered an influx of Ukrainian refugees, putting a strain on Moldova's public services.

### **Name recognition**

Management considered changing the lender's name but decided against it due to its household name status in Moldova.

"We do not do business abroad and we don't want to spread to any other country," explained Picker. "Visa just did a review, and we have a 99% recognition factor in Moldova and more than 90% have a positive impression of the bank."

Moldindconbank was started in 1959, as a branch of the Soviet-lender Stroibank from the USSR. The lender was reorganised in October 1991 and was meant to primarily finance the country's industries and construction businesses. After the laundromat scandal until February 2020 Moldindconbank was under the supervision and the early intervention regime of the National Bank of Moldova.

The bank is still Moldova's second largest by assets, but now the lender is more focused on the retail segment, with just one third of its book oriented to corporate clients. In 2022, Moldindconbank grew its assets by 5.8% on the year to MDL25.8bn, while its credit portfolio increased by 9.6% to MDL12.6bn.

At MDL3.5bn, the lender's mortgage portfolio is the largest in Moldova's banking system, with a market share of 28%. It also has largest portfolio of payment cards – more than 1mn cards and a market share of 37.1%, and 34.1% in the money transfer segment, with a transaction volume of \$582mn.

Overall non-performing loans stand at 6%, which Picker says is below average for the industry. The bank is also the market leader in mortgage lending with a book worth MDL3bn.

"The bank is highly profitable, and we have plenty of capital available," added Picker.

### Ukraine fallout

While the lender is slowly emerging from the laundromat scandal, the wider financial sector is having to deal with the fallout from the war in nearby Ukraine and the country's bid to reduce its energy dependency on Russia. Inflation was very high at over 30% but now it has come down to less than 13%.

"People were blaming the government for inflation and high prices and the opposition were arguing that the country should not have broken up with our only friend Russia," explains Picker. "In reality, I think very few people would go with Russia and about 90% are in favour of the EU."

Last year, the bank's shareholders decided to skip the distribution of dividends and retain the net profit of MDL716.4mn (\$37.6mn) as undistributed profit to ease the negative economic impact from the war in Ukraine.

Moldova's central bank had been insistent that Moldindconbank be sold to a foreign investor as part of a clean-up of the financial system backed by the International Monetary Fund (IMF) and other donors. Bulgarian fund Doverie United Holding stepped in and acquired an initial 64% stake in 2019 before raising its share to 78% in late 2021.

Doverie are primarily involved in Bulgaria's soft pharma sector. They had previously been blocked in Bulgaria from acquiring a

bank in their home market before they started to look overseas.

"They are a good shareholder," said Picker. "The owners are involved in mainly pharma and were interested in entering financial markets, but they are not influencing anything, which is one of the reasons that I decided to come here. I don't want to work for a pocket bank for someone because that usually ends badly for the management."

### Last rodeo?

A student of Polish and Russian as well as law in Salzburg, Picker's father-in-law thought he was a communist due his interest in Slavic languages. A polyglot who speaks 10 languages, Picker instinctively makes a big effort to understand the local customs and cultures of wherever he is posted.

Picker began his career in finance at Bank Austria in before moving to rival Erste Bank. In 1994, he was working for Austrian lender Creditanstalt, later acquired by Italy's UniCredit, when he was seconded to its Russian operation, where he weathered the 1998 ruble default as its chief risk officer.

After five years in Russia, he was seconded as chief operating officer to the Polish subsidiary BPK before being appointed as chief executive of the Serbian lender HVB Serbia & Montenegro, which later became Unicreditbank Serbia.

Now aged 62, Picker is not sure whether Moldindconbank will be his last rodeo after more than 30 years working as a senior banker across of kaleidoscope of countries.

"Our kids are now grown up, working and earning their own money but my wife always say she didn't read the small print when we first moved abroad," he said. ●

## Banana crates from Ecuador now 'usual suspect' for Turkey's cocaine police

### Akin Nazli in Belgrade

**T**urkish drug squad police officers have seized 11 kilograms of cocaine found in banana containers shipped from Ecuador to Turkey's Mediterranean coast.

The find was made at Turkey's Mersin Port, the provincial directorate of security in Mersin said on July 26. It was not the first such find announced this year. In April, the directorate said that its forces seized 98kg of cocaine in banana crates. On that occasion also, the drugs were said to have come from Ecuador.

In January, the directorate said that its officers found 45kg of cocaine in potato containers. This time the shipment was from Egypt.



"Exhibit Q503, Your Honour." / Sandra Fauconnier, cc-by-sa 1.0

Turkey regularly seizes cocaine at Mersin port in banana containers shipped from Ecuador.

Separately, Italian police said on July 21 that they seized five tonnes of cocaine in a ship destined for Turkey.

Analysts assessing the drug trade roughly apply a one-to-10 rule to estimate the actual drug flow based on seizures, with the great majority of drugs making it through to illicit markets. Banana shipments are seen as "a usual suspect" in the cocaine trade. Cheese shipments are also popular with cocaine dispatchers.

Ecuador annually exports around 3mn tonnes of bananas.

Turkish port operator Yilport Holding, a unit of Yildirim Group Holding, bought 50-year port concession rights at Puerto Bolivar in 2016.

According to the Global Report on Cocaine 2023 issued by the United Nations Office on Drugs and Crime (UNODC), Turkey seized a record three tonnes of cocaine in 2021. UNODC's conclusion is that Turkey's role as a cocaine transit country has grown hugely in the past 10 years.

Turkey's drug-running underground has evolved quickly in recent years. Turkish criminal networks involved in the

cocaine trade between the Middle East and Latin America lately merged with fentanyl traffickers, according to an April report published by Homeland Security Today.

The article takes a look at Turkey's history of drug trafficking, including its role as a bridge between source and destination countries for heroin in the 1970s and 1980s.

Politicians, bureaucrats and criminal groups in Turkey are involved in the cocaine trade, which has flourished under the Erdogan administration's authoritarian regime, the report suggests. Anti-drug trafficking teams in Turkey were almost entirely purged after corruption scandals in 2013 and a coup attempt in 2016. That is thought to have helped drug trafficking to boom in the country.

A recent seizure of 480 barrels of fentanyl in Guatemala, found in containers of a Turkish-flagged vessel, is said to have highlighted Turkey's involvement in drug trafficking.

There are reportedly indications that Turkey's Grey Wolves, a far-right paramilitary organisation affiliated with the Nationalist Movement Party (MHP), the junior partner in Turkey's ruling coalition, may be involved in cocaine trafficking with links to the Sinaloa Cartel in Latin America. ●

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## Romanian route for Ukrainian grain under increasing pressure

**Iulian Ernst in Bucharest**

**T**he closure of the Black Sea corridor for Ukraine's grains and the more recent bombing of Ukraine's Danube ports have put increasing pressure on Romania's grain route: the land transportation (road and railway) and Constanta Port.

Constanta Port is already preparing to handle more Ukrainian grain, but the investments made so far in expanding the port's capacity might not be sufficient.

It is estimated that Romania will need to transfer 27mn tonnes of grain and agricultural products from Ukraine in the coming marketing year, up from 18mn tonnes in the previous year.

We are ready for a larger quantity of Ukrainian grain," Dan Dolghin, a director at Comvex, a company that uses Constanta, told *AFP* his company had invested €3mn last summer to speed up its barge unloading capacity.

Constanta Port's nameplate capacity is 25mn tonnes per year. The weak point, according to port operators, is the slow uploading speed.

However, the port might not be the bottleneck after the Russians signalled intentions to bomb Ukraine's Danube ports where the barges were until recently loaded for Constanta.

Most of the merchandise might have to be sent to Constanta, under the new circumstances, by road or railway. Romania has launched projects to strengthen the land transport connectivity with Ukraine but it's not clear whether the capacity increased dramatically.

Moldova, which harvested a wheat crop twice as large as last year (1.2mn tonnes) and will start harvesting sunflower soon, faces problems as well although its exports are comparatively smaller.

Its only port on the Danube, Giurgiulesti, is built on Ukrainian land under an arrangement with its neighbour and is located close to Reni port – already being bombed by Russian forces.

*Moldavskie Vedomosti* quoted by G4media writes that large traffic jams are forming at checkpoints in the south of Moldova, near Giurgiulesti. ●





# Czech cyanide maker Draslovka in talks on potential IPO

## bne IntelliNews

**T**he world's largest producer of sodium cyanide, Czech Draslovka, is talking to banks about a possible stock market entry, seeking an underwriter for an initial public offering (IPO), Reuters reported citing three anonymous sources familiar with the developments.

The IPO venue has yet to be decided, with London being one of the possibilities. Draslovka's CEO Pavel Bruzek Jr. told Reuters in June that the company is working with JPMorgan to secure additional funds.

"As has been previously disclosed, Draslovka's international growth strategy requires capital, and an IPO is being considered as one of our options," a company spokesperson was quoted as saying by Reuters, adding that an ongoing "dialogue with financial advisors" is taking place.

The company's evaluation could be in the billions of dollars by the time it lists, which could be early next year if any of the plans go ahead.

Sodium cyanide is used to extract metals from ores. The site where Draslovka has its factory, has been home to chemical factories since before WWII. Previously a German-run factory at the same location produced other chemicals used in mining and agriculture, including the notorious Zyklon B. The gas was widely used as a rat poison and to delouse clothes, but was used in Nazi-era concentration camps to murder mostly Jewish prisoners.

A spokesman for Draslovka told *bne IntelliNews* that the German factory was destroyed in the war by Allied bombs and later rebuilt on the same site during Czech communist times. However, there is no legal connection between the German run factory and Draslovka, which are entirely different entities. Moreover, there is no documentary evidence that any Zyklon B from the former German-run factory was used in the Nazi death camps, but there is plenty of evidence that shows other German-run factories supplied Zyklon B to the concentration camps.

Based in Kolin, Central Bohemia, the factory was privatised in the 1990s after a period of nationalisation during the communist era in then Czechoslovakia and acquired by the Bruzek family in 1996. Draslovka Holding BV became a 100% shareholder.

Reuters noted that last year the company sold \$150mn (€136mn) of preferred stock to American fund Oaktree Capital Management and embarked on an acquisition spree, boosting the company's revenue by 286% to \$468mn, but recorded a 13% drop in Ebitda to \$77mn in 2022.

The company is targeting an Ebitda of around \$400mn within the next five years. ●

*Addendum: a previous version of this story said that Draslovka was making Zyklon B at the same site before and during WWII, which was incorrect. Draslovka has no connection to the pre-war German-run factory whatsoever.*



Photo: [www.ctk.cz](http://www.ctk.cz)

# BRICS bank raises \$78mn in first South African bond auction

Thulani Mpofu

**A** bank established by the BRICS group of emerging economies raised about \$78mn at the close of the auction of its first South African bonds on August 15, according to reports.

The Shanghai-headquartered New Development Bank (NDB) is jointly owned by the BRICS members (Brazil, Russia, India, China and South Africa).

Reuters wrote on August 15 that the two bonds, a ZAR 1bn (\$52.3mn) five-year note and ZAR 500mn (\$26mn) three-year note, attracted ZAR 2.67bn (\$140mn) of bids in total, according to auction results shared by two investors.

Standard Bank and Absa Bank arranged the sale.

The sale "had... 94% of bids being within or lower than price guidance and the issuance rates representing the tightest spreads achieved by a non-government issuer in 2023," Kumeshen Naidoo, head of debt capital markets at South African bank, Absa told the news agency.

The NDB allocated 71% to institutional investors and the rest to local banks, *Bloomberg* said.

"NDB is seeking to increase its presence in the local capital markets of its member countries, to fund its robust portfolio of local currency loans," said Leslie Maasdorp, NDB's chief financial officer. "The proceeds will be used to fund infrastructure and sustainable development projects in South Africa."

The BRICS group, which will hold a summit in the African nation on August 24, formed the NDB in 2014 to give the member states greater control of development financing.

NDB's three-year bond was priced at a floating rate of 95 basis points (bps) above the three-month Johannesburg Interbank Average Rate (Jibar), while the five-year was priced at Jibar +105 bps.

The most recent comparable South African government bonds were a 4.5-year bond at Jibar +90 bps and a seven-year instrument priced at Jibar +120 bps, said Raphi Rootshtain, a portfolio manager at Sasfin Wealth.

"It is interesting to note that most of the underlying lending activities in South Africa are to state-owned companies (SOEs)," Rootshtain told *Reuters*. "So effectively the NDB will become the new proxy funding vehicle for SOEs which should come with additional risk." ●



bne:Deal

## PPF announces cooperation with Emirates' Etisalat

bne IntelliNews

**C**zech-based PPF has announced the signing of an agreement with Emirates Telecommunication Group Company (e& or Etisalat) under which e& will acquire a stake of 50% plus one share in PPF Telecom assets in Bulgaria, Hungary, Serbia and Slovakia.

The deal will have e& pay €2.15bn for the stake in PPF Telecom assets. It is subject to additional earn-out payments of up to €350mn or clawback of up to €75mn depending on meeting financial targets set out by the involved parties.

PPF Telecom will retain its CEO Balesh Sharma and its existing Czech assets – operator O2 Czech Republic and

infrastructure company CETIN – will be moved out of PPF Telecom, keeping PPF alone in control.

"The purchase price of up to €2.5bn represents one of the largest ever deals for PPF," the group's CEO Jiri Smejck commented in a press release. "I believe that the know-how and experience that PPF has in the region, combined with the global scale of our partner, will enable us to jointly share ambitions for synergies and further growth," Smejck added.

Smejck also highlighted that PPF retained its Czech telco assets because of the specificities of the home market and PPF's plans there.

PPF is a dominant player in Czechia, given the combination of controlling telecommunication infrastructure and being one of the three largest operators. EU authorities and local media have repeatedly pointed out that Czechs pay the most for data due to a lack of competition in the domestic market.

Etisalat is 60% owned by the United Arab Emirates government, and the remaining 40% is traded publicly. The company was founded in 1976 and currently provides services to 155.4mn customers across 16 countries in the Middle East, Asia and Africa.

CEO Hatem Dowidar stated: “e& continues on its path to be a leading global technology group” focusing on “expanding our customer base”, and added that “by combining PPF Telecom’s expertise with our own innovative capabilities, we are poised

to establish a major telecommunications presence in Central and Eastern Europe.”

PPF also noted that the “partnership allows PPF Telecom to leverage e&’s expertise in other markets for rolling out top digital, IoT & B2B services.” The transaction is expected to close before or during the first quarter of 2024 and is subject to regulatory approvals.

Talks on the cooperation were first reported by Bulgarian weekly Kapital. Last week, PPF released an annual report in which Balesh Sharma described PPF’s plans to focus on “the new ways our network is used”, listing “security products, content and TV products, insurance products, and tomorrow perhaps financial services products.” ●

## French IT company Atos close to finalising talks with Czech oligarch Kretinsky

### bne IntelliNews

**F**rench multinational IT company Atos is in the “final stage” of talks with EP Equity Investment (EPEI), an investment vehicle controlled by Czech energy and media oligarch Daniel Kretinsky.

The deal, valued at €2bn, involves the sale of 100% of Atos’ Tech Foundations. EPEI also commits “to subscribe to the reserved capital increase of Eviden”, Atos’ unit owning cybersecurity and application modernisation, a press release distributed by a spokesperson for Kretinsky’s and Patrik Tkac’s VESA Equity Investment states.

“Acquiring Tech Foundations represents a great opportunity for us to invest in large-scale European IT infrastructure and services and provide our support for Tech Foundations business line to continue providing reliable and valuable services,” commented Kretinsky.

CEO of Atos Nouridine Bihame said he is “very pleased with the envisioned transaction, which demonstrates EPEI’s full confidence in the capabilities and potential of Tech Foundations and Eviden.”

Czech and French media pointed out that this would be Kretinsky’s first venture into the IT sector.



CEO of Atos Nouridine Bihame said he is “very pleased with the envisioned transaction”. / Atos

“The fact that critical data storing infrastructure for European clients is located in the EU and operated by the EU company is and will be an essential cyber security prerequisite and the key differentiating factor,” Kretinsky also said, adding that he believes in the “growth potential of Eviden” and “will continue to develop the Atos brand”.

Kretinsky and Tkac have been on an extraordinary shopping spree across the continent in recent months, which involves key infrastructure sectors such as energy or media, but EPEI has also ventured into UK’s Royal Mail and Dutch PostNL. Kretinsky also became the major shareholder in football side West Ham.

EPEI said it has agreed with Marc Ladreit Lacharriere’s FIMALAC to hold discussions about the “potential minority participation of FIMALAC in the acquisition of Tech Foundations and the increase of registered capital of Eviden”. FIMALAC also formed a consortium with Kretinsky in the recent takeover of the French debt-stricken retail chain Casino.

Atos employs over 120,000 people and handles 111 data centres in 43 countries. It also operates building hardware for the French military. ●





# How exposed is the Uzbek soum to the collapse of the Russian ruble?

Ben Aris in Berlin

**T**he Uzbek soum has started to lose value in the last few days and the country's international reserves have fallen for the fourth straight month as it appears the National Bank of Uzbekistan has tried to protect the currency, which is being dragged down by the collapse of the Russian ruble.

Uzbekistan's official international reserves as of August 1 amounted to \$33.64bn, slightly down by \$71.8mn since July 1, according to central bank data. The reserves have dropped for the fourth straight month in a row. The budget is also under pressure, as the state budget deficit neared UZ\$30 trillion (\$2.6bn) in 1H23, Deputy Prime Minister and Minister of Economy and Finance Jamshid Kuchkarov said on August 4. The NBU could hike rates to support the soum, but with inflation falling it has been reluctant to curtail growth, and left the rates on hold at the last meeting on July 27.

“Uzbekistan is stuck between a rock and hard place as it tries to manage its own economic recovery from the polycrisis of recent years, but at the same time deal with the external shock of Russia’s currency woes”

Uzbekistan is stuck between a rock and hard place as it tries to manage its own economic recovery from the polycrisis of recent years, but at the same time deal with the external shock of Russia’s currency woes.

The Russian ruble has lost a quarter of its value since the start of this year and half its value since its last peak of RUB53 to the dollar last March. As the economies of the Commonwealth of Independent States (CIS) are so interlinked, how exposed is Uzbekistan's soum to the collapse of the ruble?

All of the CIS currencies reacted quickly to the dramatic fall in the value of the Russian currency immediately after the invasion of Ukraine at the end of February 2022, but both the ruble and the CIS currencies quickly recovered after the Central

Bank of Russia (CBR) put through an emergency 10% rate hike in the first week of the war.

Now the ruble has been sliding since June 2022, with the decline in its value accelerating since January this year, about the same time as the twin Western oil sanctions came into effect on December 5 and February 5.

Uzbekistan is exposed to the Russian economy in several ways, according to consulting firm Macro Advisory. First of all, it is a significant recipient of migrant remittances from Russia, where over a million Uzbeks work, constituting the largest inflow of funds in monetary terms. In the first half of 2023 these remittances were estimated to comprise around 21% of Uzbekistan's GDP.

Secondly, Russia stands as Uzbekistan's second-largest trading partner and a vital market for its vegetable exports, says Macro Advisory.

The Uzbekistani government is faced with a delicate balance concerning its currency, the soum, against the Russian ruble. A stronger soum could potentially erode the country's trade competitiveness and negatively affect the economy by reducing the value of remittances when converted to local currency.

The Central Bank reports highlight that the influx of remittances demonstrated a positive trend in the first quarter, with monthly transfers exceeding the previous year's figures. From January to April remittance inflow surged by 21% to



So far the currencies of Central Asia have been relatively unaffected by the collapse in value of the Russian ruble, but the soum has started to fall. Just how exposed is Uzbekistan to Russia's currency woes? / bne IntelliNews

reach \$3.1bn. An overwhelming 87% of this total amount originated from Russia. This upswing can be attributed to a substantial 72% increase in the number of migrant workers relocating to Russia, resulting in a compensatory rise in ruble volumes despite currency weaknesses.

However, the second quarter painted a different picture, with remittance volumes nearly halving in comparison to the previous year. Between April and June remittances dwindled from \$5.06bn to \$2.85bn. The situation exacerbated in June, with transfers plummeting by a staggering 2.26 times compared to the same month in 2022.

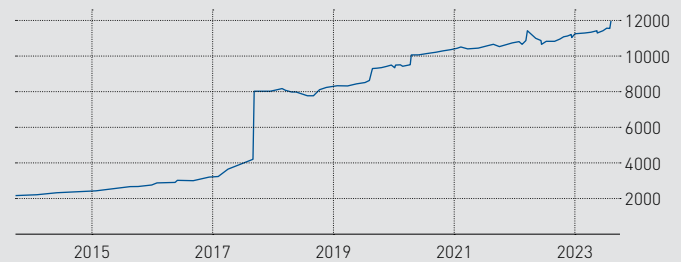
Russia remains the primary source of remittances, contributing around 80% of the total revenue during the first six months of the year. The head of the Central Bank, Mamarizo Nurmuratov, anticipates a continuation of this downward trajectory. He forecasts remittance volumes to hover around \$11-11.5bn by year-end, reflecting a substantial decline of 32-35% compared to 2022. Nurmuratov attributes the anticipated drop in revenues from Russia to the devaluation of the ruble, further exacerbating the economic challenges for Uzbekistan.

### Starting to feel the pinch

After the violent swings of last spring, central banks across the region are taking a little more time to wait and see whether the collapse of the ruble is a longer-term trend or simply a short-term reaction to the oil sanctions that will wear off in the second half of this year.

However, the soum has started to slide in recent days as a reaction to the ruble devaluation. The country is the largest recipient of remittances from Russia, in monetary terms, and, according to latest data, the value of remittances accounted for 21% of GDP in 2022, up from 13% in 2021.

Uzbekistan Som - US Dollar Exchange Rate (Since Reforms Started)



Source: Trading Economics

The issue is expected to become an even bigger consideration, as the number of Uzbek workers moving to Russia is growing fast, up 72% year on year in Q1, as Russia tries to attract more Central Asian workers, thanks to the extremely tight Russian labour market, and has made the procedure easier and localised.

The government has been reluctant to devalue the currency too much this year (until recently) because it has steadily devalued since the ending of the dual-currency system in 2017 and because of reforms to make the economy more competitive.

The problem is that the currency devaluation is one of the main drivers of the persistently high inflation rate (since 2017) and part of the government's programme to cut the rate to below 10% is (or was) to maintain a stable currency. Now the monetary authorities have to reflect on the reality of the impact on remittances and because Russia is the country's second-largest trade partner, to which it sells food and textile products.

Cross-border remittances transferred to Uzbekistan grew 2.1 times y/y to \$16.9bn in 2022, according to the World Bank. Remittances as a percentage of GDP grew from 13% to 21%. Around 87% of that total came from Russia, Macro Advisory said. ●

## Ruble's fall creates currency risk in Central Asia and the Caucasus

Chris Weafer CEO of Macro-Advisory

*"The best way to destroy the capitalist system is to debauch the currency."* – Lenin.

**T**he Russian ruble has fallen by 28.5% in value vs. the US dollar since the start of this year and is down 39% since the start of the devaluation phase in early December last year. The exchange rate passed the psychologically important RUB100 to the dollar mark on August 14.

The trigger for the devaluation was the start of the EU's ban on imported crude from Russia, from December 5, and the ban on imported oil products, starting February 5 this year.

So far, there has been almost no impact on the currencies in Central Asia and the Caucasus, although the Uzbek som has started to slide over the past week.

In their recent communications, the Central Bank (CBR) and the Ministry of Finance (MinFin) stressed that the main reason for the ruble's weakness is linked to a deterioration of Russia's trade balance as exports have slumped due to lower dollar prices for Russian oil while imports have shown a fairly quick recovery.

The weaker external accounts did play a role in determining the FX trend along with a shift in foreign trade away from \$ and

€ along with a seasonal rise in demand for foreign cash from Russians heading to Turkey and other tourist destinations. But following a big squeeze in volumes of FX traded locally (the combined result of sanctions and capital controls imposed by the central bank), the Russian forex market has become extremely thin and very easy to manipulate.

Under these circumstances, the prime factor behind the ruble's weakness is linked to an attempt by the monetary authorities to offer support to the country's deteriorated fiscal position. This is particularly so since the ruble did not react to a significant improvement in Russia's external position: it was reported that in July the price of Russian oil exports had exceeded \$60 per barrel for the first time since November 2022, while the size of the Urals discount to Brent narrowed to its lowest level since the introduction of the Western oil price cap. These developments mean that the volume of Russia's exports is set to rise while the country's imports could start to shrink as a weak currency, rising inflation and more stringent fiscal policy put pressure on domestic demand.

The rebound in Russia's oil export price in July has made it possible for the return of the MinFin to the local FX market as a buyer. The last time the government purchased FX for its reserves (NWF) was in January 2022. Then, after a brief period in late February 2022 when Minfin was selling FX to support the budget, the government withdrew from the FX market. It was only in January 2023 that the MinFin returned to the market with FX sales. Its cumulative FX sales this year have reached \$7.2bn.

With Urals oil currently settling at levels above \$60 per barrel, the MinFin has to switch from selling FX to buying it if it maintains its adherence to the 'budget rule'. Given the ruble weakness, there were some speculations in the Russian press that the ministry might choose not to enact FX purchases, as these are likely to result in further downward pressure on the ruble. The possibility of such a scenario has forced the central bank to announce on July 21 that it will match any possible FX purchases by the Minfin with sales of FX from its own reserves. Such a move is aimed at neutralising any negative effects that MinFin purchases could have on the ruble rate.

Despite the ruble's misfortunes, on August 3 the MinFin announced that starting from August 7 it will shift from selling FX from the National Welfare Fund to buying FX for the fund. During early July and early August daily FX sales from the NWF amounted to RUB1.7bn, or less than \$19mn. From August 7 to September 6 the MinFin has announced that it will buy FX with daily purchases totalling RUB1.8bn.

A new wave of ruble devaluation along with the MinFin's plans to resume purchases of FX prompted the CBR to sell FX, in line with the bank's earlier announcement.

On August 2, when MinFin was still a seller of FX, the CBR topped its RUB1.7bn in FX sales with an additional RUB2.3bn. This was also another factor that helped to halt a further slide in the ruble rate: closer to the evening of August 2 the ruble

regained some of the lost ground, closing at RUB93.5/\$ after hitting the RUB94.2/\$ mark a few hours earlier.

Our view on the future FX trend remains unchanged: despite increased volatility and a new wave of weakness, we expect the ruble to trade close to RUB90/\$ at least until end-2023. A weak ruble should help to strengthen the fiscal position of the government in 2H23 and also offer strong support to Russian exporters, especially to oil and gas companies, which remain the largest payers of taxes to the Russian budget. We forecast that in 2023 the ruble rate will average RUB83.4/\$ and its rate at YE23 could be at RUB90.6/\$.

### Knock-on effects

When the Russian ruble devalued steeply in March last year, there was an almost immediate knee-jerk decline in the other currencies; not so far this time. However, some currencies are expected to devalue vs. the US dollar in the coming months so as to be competitive against the ruble (Russia is a major trade partner for most countries) and to try to mitigate the impact on remittances from workers in Russia.

**Some regional currencies will follow the ruble.** The Kazakh tenge, the Uzbekistan Som, the Kyrgyz Som and the Tajikistan Somoni are all expected to fall (versus the US Dollar) because of ruble contagion. The Uzbeki som is the most exposed, but weakness is not expected to as much as for the ruble.

**The ruble has lost 40% vs. the \$ since early December.** The ruble has started this week at RUB100/\$, a loss of 29% since the start of the year and a near 40% drop since early December.

**The lesser of the options to protect the budget.** The ruble is now a managed currency and the reason the Central Bank has allowed the devaluation is because of the need to boost budget export taxes (in ruble terms). The ruble is expected to rally (towards RUB90/\$) by year end, as the oil export receipts are recovering, but unlikely to rally more than this level.

**The reaction from regional currencies has been very muted.** So far, the currencies in Central Asia and the Caucasus, which have previously been closely correlated with the ruble movement, have shown little reaction, although in recent days the Uzbeki som has started to slide vs. the US dollar.

**Inflation is a major concern.** Partly this is because their relatively stronger currencies (vs. the ruble) help bring inflation lower while a steep devaluation would add to inflation pressures.

**Central banks are waiting to see what Russia does.** Also, the Monetary Authorities across the region are mindful of how quickly the ruble rallied in May-June last year and are being cautious until there is greater certainty in the ruble trend.

**Some currencies will have to follow.** Some countries are very exposed to the ruble and while they have delayed following the devaluation, will be under increasing pressure to do so from now:

**Remittances.** Uzbekistan, the Kyrgyz Republic, and Tajikistan are the most exposed to worker remittances and are seeing a big decline in local currency terms this year. They are under growing pressure to devalue to protect vulnerable household incomes.

**Trade.** Kazakhstan, Uzbekistan, and Armenia are most exposed in terms of trade and their relatively stronger currencies are hurting competitiveness. They will have to adjust “soon.”

**Impact on growth expectations.** The reduction in remittances is impacting consumer spending and financial sectors in Uzbekistan, the Kyrgyz Republic and Tajikistan. All three have seen growth expectations cut for 2023 because of the stronger-for-longer currencies.

The currencies most likely to see some devaluation, from the current level, are:

**Kazakhstan tenge:** Kazakhstan shares an open trade border with Russia and is a major trade partner. In 2015, the Kazakhs had to devalue steeply to stay in line with the weaker ruble because consumers crossed the border to buy durable goods in particular. But the devaluation will not be as steep as seen with the ruble because the government is struggling to bring inflation lower and is targeting inward investment from countries in the US, Europe, the Gulf and China, so a more stable currency is an advantage.

Kazakhstan does not have a major exposure to remittances from workers in Russia, so this is much less of a consideration than for other “stans”. The bulk of the money coming from Russia in 2022 and 1H23 is capital brought by Russians escaping the military draft.

**Kyrgyz som:** Also part of the Eurasian Economic Union (EEU) but imports food and energy from Russia, so the stronger som also helps the Kyrgyz Republic with inflation management. It is expected to devalue but also only slowly. The major issue is the negative impact on remittances, which account for between 30% and 33% of GDP.

In 1H23, the remittances from Kyrgyz workers in Russia fell by 32% year on year (\$871mn versus \$1.28bn in 1H22).

**Uzbekistan som:** Uzbekistan is the recipient of the largest flow of migrant remittances from Russia in monetary terms, and in 1H23 the volume is estimated to have accounted for 21% of GDP. Russia is also Uzbekistan's second-largest trade partner and a major market for vegetable exports.

The government cannot afford to have the som strengthen too much vs. the ruble because of the loss of trade competitiveness and because of the impact on the economy from the drop in the value of remittances, in local currency terms.

According to the report of the Central Bank, in the first quarter, the monthly dynamics of transfers was higher y/y. From January to April, the inflow of remittances increased

by 21% to \$3.1bn. About 87% of the amount received during this period came from Russia. The increase was because of a 72% increase in the number of migrant workers moving to Russia (an additional 630,000 people), so the additional ruble volume compensated for the currency weakness.

However, in the second quarter, the volume of transfers almost halved compared to the previous year, from \$5.06bn to \$2.85bn. In June, the dynamics of receipts worsened even more – the volume of transfers is 2.26 times lower than it was in this month of 2022.

Russia remains the main source of remittances. It accounted for about 80% of the total revenue for the six months.

The head of the Central Bank, Mamarizo Nurmuratov, predicts that by the end of the year, the volume of transfers will be in the region of \$11-11.5bn, which is 32-35% lower than in 2022. The decline in revenues from Russia will also be associated with the devaluation of the ruble, he said.

**Tajikistan somoni:** Remittances from Russia account for 32% of GDP (n 2022) – although some estimates say this could be as high as 51% – so the strengthening of the somoni relative to the ruble hurts overall growth and the consumer sectors and household incomes.

The Institute for Demographic Research (Russia) reported the number of Tajik migrants in Russia by mid-year was 3mn. The entire population of Tajikistan is 10mn people, that is, a third of the country's population has already moved to Russia.

**Armenian dram:** Remittances account for 19% of GDP (2022), with the bulk from Russia. Last year the total was higher because of capital brought into the country by Russians escaping the military draft risk.

Russia is a major trade partner for Armenia, buying agricultural produce and machinery, so while the government will try to maintain dram stability to control inflation and attract foreign investment, it will have to manage a devaluation in the autumn for competitiveness reasons.

**Georgian lari:** Total remittances account for 16.3% of GDP (2022) and with a significant amount from Russians coming to Georgia to escape the draft risk. Trade with Russia has been muted for the past ten years so this is less of an issue. ●



The ruble has lost about half its value since last March's peak but it has yet to have a serious impact on the other currencies of the CIS, but it could.





bne:Tech

# Russian investors launch action after being stung in \$100mn crypto heist

Jason Corcoran in Dublin

A group of about 50 Russian and CIS high-net worth clients are launching a class action against the crypto platform Atomic Wallet after their money was caught up in a \$100mn heist, *bne IntelliNews* can reveal.

The class action is being co-ordinated by the German lawyer Max Gutbrod and Boris Feldman, a co-founder of Moscow firm Destra Legal.

Gutbrod, a former partner of over two decades at Baker & McKenzie in Moscow, told *bne IntelliNews* that they are representing about 50 clients who each lost overall \$12mn by investing anything from \$150,000-\$200,000 or \$1-\$2mn.

"We are working on recovering the assets for our clients and we will be filing a class action against Atomic Wallet," said Gutbrod. "They didn't give our clients any information about the hack or go to the police to report it."

The North Korean criminal gang Lazarus Group was initially blamed for the attack on Atomic Wallet in June that drained millions in cryptocurrency from private accounts.

However, Feldman maintains it is much more likely that a Ukrainian group had orchestrated the heist.

Destra is working on the case with blockchain analysis experts Match Systems, who are conducting their own investigation on behalf of the investors.

"They have found traces of involvement of Ukrainian hacker groups," added Feldman.

A spokesman for Atomic Wallet did not immediately respond to a request for comment.

Atomic Wallet is an app for managing cryptocurrency on Windows, macOS and some Linux distributions, as well as Android and iOS devices. On Google Play, Atomic's wallet had over 1mn downloads.

In early June, an unknown number of Estonia-headquartered Atomic Wallet's 5mn users found that some or all of the crypto



Russian investors have been stung in a cryptocurrency heist, and have launched a class action in an attempt to recover their money.

in their wallets had been removed. Some said that they had lost their entire savings.

Atomic Wallet chief executive Konstantin Gladych told CoinDesk that his firm is co-operating with law enforcement agencies in Estonia and Kazakhstan, where they received a request from police.

Clients of the firm lost over \$100mn worth of crypto in bitcoin (BTC), ether (ETH), tether (USDT), dogecoin (DOGE), litecoin (LTC), BNB and polygon (MATIC) over the first weekend of June, according to blockchain intelligence firm Elliptic. Over 5,500 wallets had been compromised in the hack.

The reason for the breach is unclear, as Atomics has not yet disclosed the specifics of its technical investigation. Atomic, a non-custodial mobile wallet, empowers users by allowing them to retain their crypto private keys on their personal devices, eliminating the need for reliance on a custodian.

Dyma Budorin, the chief executive of a blockchain security firm Hacken, told CoinDesk earlier this month that the wallet may have inherent flaws in its design.

"We are working on recovering the assets for our clients and we will be filing a class action against Atomic Wallet. They didn't give our clients any information about the hack or go to the police to report it"

Budorin suggested that Atomic's generation of recovery phrases for its wallet lacked sufficient randomness, potentially enabling hackers to "brute-force" their way into the wallets.

"This hack is very vocal, highlighting the core problems in crypto wallets," explained Budorin. "The wallets don't pay enough attention to building a strong architecture with security best practices implemented."

Budorin also mentioned the possibility of hackers deriving keys from the transaction data of Atomic's users or exploiting vulnerabilities in the wallet manufacturer's infrastructure.

In a June 20 blogpost, Atomic Wallet finally provided an update to its clients and reiterated its claim that "less than 0.1%" of app users had been affected by the heist – a claim ridiculed by many clients online.

In the post, the firm didn't say what had caused the breach but laid out four of the most "probable" causes, including a virus on user devices, an infrastructure breach, a man-in-the-middle attack or malware code injection.

The use by Russians of cryptocurrencies has exploded since the war with Ukraine started.

Crypto is being used by many ordinary Russian citizens who

are desperate to hang on to their savings inside a financial sector which is being choked by sanctions and the collapse of the ruble.

Russian financiers and ordinary Muscovites familiar to this journalist have been using cryptocurrency exchanges, such as Binance and Yobit, since the invasion began in order to circumvent sanctions and move their money overseas.

While the \$1 trillion cryptocurrency market is simply not big enough to provide relief to the embattled Russian state, it has proven an effective mechanism to fund raise for pro-Russian groups and for individuals to store money.

"There has been a significant increase in crypto usage since the war," added Feldman. "A lot of people left the country and are using cryptocurrencies to transfer and store funds." ●

## Kazakhstan's tech success shows way out of raw resources addiction

**Almaz Kumenov for Eurasianet**

**A**laqan, an IT company based in Kazakhstan's capital, Astana, is imagining a whole new way to pay for goods and services.

No more cards or smartphones, company founder Berik Nurymbetov told Eurasianet.

Alaqan's brainchild is a piece of tech that will be able to recognise the pattern of veins in the palms of payers' hands. By passing their hands over a special sensor, users of the system will be able to gain access to buildings or pay for goods in stores.

"This could be the future universal form of biometric identification," Nurymbetov said.

Nurymbetov, 38, who worked for many years as the head of IT in several large companies, said this technology is a major improvement over existing biometric recognition systems. Fingerprints, for example, can be difficult to read if a person's hands are dirty or wet. Low lighting or makeup hinder



In its advertising, Alaqan asks "Which biometrics are right for you?" Its payment technology recognises the unique pattern of veins in a buyer's hand. / alaqan.com

facial recognition. The pattern of a person's palm, while also unique, does not change throughout life, even when they have sustained an injury, Nurymbetov said.

Alaqan, whose name is derived from the Kazakh word for palm, began selling its product in 2021. Medical clinics, airports, and educational institutions are among its first clients.

"For example, students at a school where our system works pay for their lunch with a wave of their hand. The money is debited from their father or mother's card," Nurymbetov said.

Nurymbetov is eager to note that all the data handled by Alaqan is safely encrypted and stored in servers inside Kazakhstan and that his company has passed information security audits required by the government.

Alaqan is far from alone in leading Kazakhstan's innovative embrace of tech. Digital solutions to daily problems are increasingly becoming the norm rather than the exception.

The government's drive to make all its services available online, for example, is generally deemed a major success. Registering an apartment purchase, fixing a doctor's appointment, or ordering a vanity car licence plate – all this can now be done with relative ease over the internet.

According to official estimates, around 95% of public services can currently be effected online. Fully 11mn such transactions were carried out in Kazakhstan in 2022. That figure translates to 81% of all public services rendered.

Beneficiaries of this state of affairs are effusive.

Almaty resident Dmitry Pak said he spent just half an hour updating his driver's licence through Kaspi Bank's ubiquitous mobile app.

"I sent my application, and before I could even have lunch, I received a notification that my licence was ready," he told *Eurasianet*. "I can't believe that just a few years ago we lived in a bureaucratic country where every little thing meant waiting in lines."

The private sector is likewise increasingly relying on modern technology in search of a competitive edge. The goal is always to provide the public with frictionless ways to perform everyday tasks, be it ordering groceries from home or renting e-scooters on the street.

"Our consumers are already accustomed to 'couch comfort' and are less and less willing to put up with any difficulties, as they were until recently," Pak said.

If there is a point zero for this technological turn in Kazakhstan, it is likely to be found in former president Nursultan Nazarbayev's visit to China in 2016. During that trip, Nazarbayev met with Jack Ma, a founder of the colossal e-commerce company Alibaba Group, who advised the Kazakh leader to focus more on his country's IT sector. By all accounts, this exchange appears to have left an impression on Nazarbayev and his people.

"Prior to this, the authorities in Kazakhstan provided support only to traditional small and medium sized businesses, and there was virtually no IT sector," Magzhan Madiyev, chief executive of Astana Hub, Central Asia's largest technopark, told *Eurasianet*. "But then the situation began to change rapidly."

The government under Nazarbayev designated the development and implementation of modern technologies in all spheres of public life a key strategic goal. In 2017, a national programme under the title Digital Kazakhstan was adopted. This included more than 20 projects aimed at the "digital transformation" of the economy and public services.

A year later, the government created Astana Hub, Kazakhstan's answer to Silicon Valley. The point of this self-styled technopark is to provide free-of-charge infrastructure to

startups, while also providing them with training and business development skills from both domestic and foreign mentors. Residents of the IT park further benefit from tax breaks.

"We are engaged in the education and development of promising startups at all stages, in all areas," said Madiyev. "I don't know of any other IT platform in the world that applies such a systematic approach."

The figures appear to vindicate the approach. Where in 2020 there were 300 companies registered at Astana Hub, that number has since quadrupled. Total sales revenue increased from 55bn tenge (\$134mn at the rate of the time) to 220bn tenge (\$495mn) in 2022.

Things are slicker now than they were at the outset. To begin with, many novice Kazakh startup founders were unable to even produce a proper Powerpoint presentation, Madiyev said. Now they are totally different people, he added.

One Astana Hub resident, CTOgram, has brought an ease-enhancing edge to the business of sourcing automotive parts. The company's mobile app helps car owners quickly find components directly from warehouses. CTOgram's database comprises 250,000 car owners, more than 70 parts suppliers and 2,000 car servicing points.

"The component market in Kazakhstan is large, but unsystematised and disordered, and there is also a lack of quality service stations: you have a choice between a lot of garages with poor service and a dealer with high prices," said Tursumbayev. "We are solving this problem."

Because Kazakhstan's market is limited – the country has a relatively small population of 19mn – local startups are focusing much of their energy on scalability potential and training their eyes on foreign countries.

Astana Hub's CEO estimates that by the end of this year, about 40% of the revenue generated by his technopark will come from selling products to foreign markets. The plan is to make \$500mn in revenue from exports by 2025.

Madiyev thinks that target could even be hit as early as next year. It helps that numerous Russian and Belarusian IT companies have relocated to Astana Hub since the start of the invasion of Ukraine.

Seizing opportunities in the tech sector feels particularly important for Kazakhstan, whose economy continues to rely heavily – too heavily, almost everybody agrees – on the export of raw natural resources, such as crude oil. The way Madiyev sees it, Kazakhstan has no choice but to completely change its economy and the way people think with it.

"In the future, everything will be about technology," he said. "And it is up to us to decide whether we will be active players or also-rans." ●

# New research reveals surge in AI startups in Southeast Europe

## bne IntelliNews

**A**lmost half of the AI startups from Southeast Europe that want to attract funding in the next two years aim for amounts of over €1mn, mainly to expand internationally, to increase the team and to launch new services and products, according to the second edition of the "RO AI MAP 2022/2023" report, conducted by Techcelerator and Google for Startups to promote artificial intelligence (AI) start-ups in Romania and Southeast Europe.

"Starting with this year, in Eastern Europe, and particularly in Romania, we are witnessing a massive increase of AI startup ecosystem that is drawing significant international attention, thanks to a combination of factors including a regional talented workforce and access to resources," said Cristian Dascalu, managing partner at Techcelerator, in his foreword to the report.

"The latest trends indicate a surge in AI startups focusing on specific sectors such as healthcare, fintech, agriculture, manufacturing, logistics, retail and the sustainability sector," Dascalu added.

In the latest edition of the AI map, more than 150 startups using AI from Romania were identified, the number increasing from



New research reveals a surge in AI startups focusing on specific sectors such as healthcare, fintech, agriculture, manufacturing, logistics, retail and sustainability.

100 to 150 compared to last year, and 100 start-ups from the SEE.

More than half of the identified startups were launched after 2020. Also, 10% of the startups in the previous edition of the report exited the market, more precisely, under ten entities.

The report also found that Slovenia had the largest share of enterprises using AI technology across the Central and Eastern European (CEE) region, at 12% in 2021. This figure was more than twice as high as the second-ranked country, Slovakia, where only 5% of businesses used any AI technology. In Romania the share was just 1%.

A third of survey respondents said their main goal for this year is to attract more customers. Other important objectives of founders are to attract a new round of investment, to increase their team, to enter new markets or to launch services and products.

The report had two objectives: the first was to identify and map artificial intelligence startups in the region, and the second objective was to collect information about their evolution starting from 2022 (development stage, attracted or targeted funding rounds and future goals). ●

# Russian e-commerce major Ozon floats on Kazakh AIX

## bne IntelliNews

**R**ussian e-commerce major Ozon Holdings said on July 28 its American Depositary Shares (ADS) have been admitted to trading on Kazakhstan's Astana International Exchange (AIX), in a bid to maintain liquidity as Ozon struggles to keep its primary Nasdaq listing, *Reuters* reported.

"Admission of the ADSs to trading on AIX could potentially increase liquidity of the ADSs and provide investors,

including international investors, with an opportunity to trade the ADSs," Ozon said as cited by *Reuters*.

To remind, in March 2023 NASDAQ Stock Exchange has announced that it will delist Ozon along with other Russian tech majors such as internet giant Yandex, classifieds portal Cian, e-payment operator Qiwi and online recruitment platform HeadHunter (HHR). Ozon is contesting the decision.



“Ozon's business has been thriving in Kazakhstan, and the new logistics complex aims to meet increasing demand from sellers and buyers for the platform's services”

Trading in all the names has been suspended since February 28, 2022 following Russia's full-scale military invasion of Ukraine, which triggered default clauses on the exchange bonds issued by Yandex and Ozon.

Now AIX said 81,782,028 shares would be tradable and the issue price would be provided prior to the start of trading. Ozon also previously said it intended to keep its listing on Moscow Exchange.

To remind, Ozon has recently boosted its presence in

Kazakhstan. The company started the construction of a logistics complex in Kazakhstan with an investment of approximately KZT15bn (\$33.7mn). The project is expected to be completed within 12 months and will span an area of 42,000 square metres, creating around 2,000 new job opportunities.

Ozon's business has been thriving in Kazakhstan, and the new logistics complex aims to meet increasing demand from sellers and buyers for the platform's services. Located in Almaty, near the Chinese border, the facility will serve as a fulfilment centre, providing comprehensive services for online orders from local sellers.

Ozon Holdings and its peer Wildberries are leading the Russian market in the ongoing e-commerce consolidation, and both have strengthened their supply chain capabilities. Apart from expanding its operations to Kazakhstan and Kyrgyzstan, Ozon snapped up logistics assets from Aliexpress, and closed a major distribution deal with Russian Post. ●

## Czech-based PPF buys 6.3% stake in Scandinavian Viaplay Group

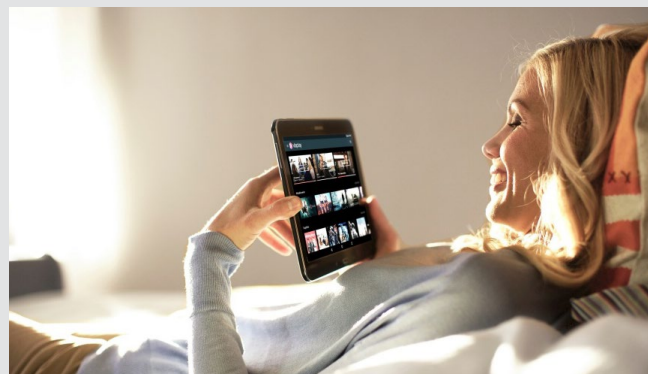
**Albin Sybera in Prague**

**P**PF Group has bought a 6.3% stake in the popular Scandinavian streaming broadcaster Viaplay Group, according to an announcement on the Stockholm Stock Exchange.

Viaplay announced grim second-quarter results, with a loss of SEK5.8bn (€0.5) earlier in July and significant cuts, including exiting the US, Canada, UK, Poland and the Baltic countries. French Canal+, part of the Vivendi media house, also bought a 12% stake in Viaplay just a week ago.

PPF controls the Central European Media Enterprises, including streaming service Voyo, making it a significant media actor in Central and Southeastern Europe. Recently it raised its shares in German media house ProSiebenSat1 to over 15%, becoming its second-largest shareholder, and obtained a seat on the supervisory board.

The company also has significant assets in the telecommunications sector, which it has identified as



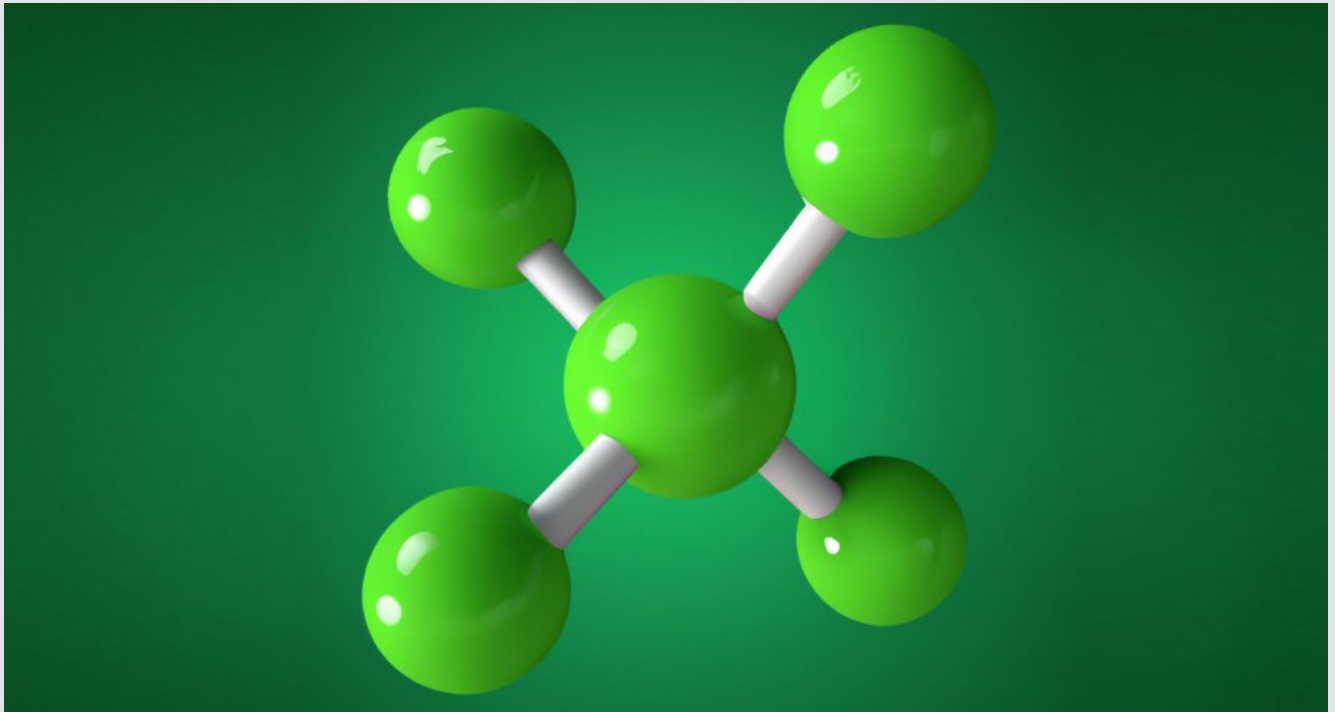
Popular Scandinavian streaming broadcaster Viaplay Group. / Viaplay Group

an area of possible synergy with its media assets. On August 1, PPF announced cooperation with the Emirates Telecommunication Group Company (e& or Etisalat), which is to get 50% of the shares in PPF Telecom's assets in Bulgaria, Hungary, and Slovakia.

In April, Czech Media Invest, whose main shareholder is Czech energy and media oligarch Daniel Kretinsky, and who also has a seat on an advisory body to the PPF's owners, the Kellner family, agreed with Vivendi on acquiring its leading publishing group Editis.

Kretinsky also decreased his involvement in ProSiebenSat1 prior to PPF's rise in the shareholding structure of the leading German media company.

Kretinsky and Anna Kellnerova, daughter of late Petr Kellner and his second wife Renata Kellnerova, have become a couple in recent years. ●



Carbon capture has been a fashionable solution to reducing CO<sub>2</sub> levels, but the truth is that it doesn't work and its main purpose is to make people feel comfortable with continuing to use fossil fuels and plastics. / bne IntelliNews



bne:Green

# Carbon capture is only a way to make people feel good about continuing emissions

## bne IntelliNews

In recent weeks, the United States has witnessed a surge in carbon capture investment, with major players in the energy sector making significant moves. ExxonMobil Corp. made headlines by acquiring the nation's largest network of carbon dioxide pipelines for \$4.9bn. The Department of Energy (DoE) also joined the fray, allocating \$1.2bn to fund projects aimed at extracting CO<sub>2</sub> from the atmosphere. Additionally, Occidental Petroleum Corp. struck a deal worth \$1.1bn to purchase a Canadian direct air capture (DAC) startup, Bloomberg reported on August 17.

However, as a technology it remains ineffective. As the US makes strides in carbon capture and sequestration (CCS), questions linger about its efficacy in combating climate change. While the technology holds the promise of retaining the benefits of fossil fuels without the harmful emissions, critics contend that it merely serves to assuage guilt over fossil fuel usage while offering limited environmental benefits.

Historically, the fossil fuel industry has faced similar scrutiny. The industry's advocacy for recycling, for instance,

aimed to extend the life of plastic, a material derived from petrochemicals. Yet despite substantial taxpayer funding and decades of awareness campaigns, the US recycles less than 10% of plastic waste.

Over the past 15 years, CCS has encountered challenges in translating potential into reality, despite substantial financial support. Many projects struggled to overcome the economic reality that releasing CO<sub>2</sub> into the atmosphere is cheaper than the costs associated with cleanup efforts. The Inflation Reduction Act (IRA) introduced by President Joe Biden, which offers generous tax incentives for CCS, aims to bridge this economic gap while aligning with the growing carbon offset market.

Nonetheless, the recent funding of two projects by the DoE, in collaboration with investors including Occidental and Climeworks AG, highlights the uphill battle ahead. These projects, despite their significance, are projected to remove only 2mn tonnes per year (tpy) of CO<sub>2</sub>, a fraction of the total energy-related emissions in the US. The primary objective is

to advance technology and reduce costs, underscoring the monumental challenges in achieving any substantial impact.

To meet President Biden's ambitious target of achieving a net-zero economy by 2050, the US must scale up carbon capture efforts by a factor of 20 to 90, according to the DoE's projections. Such a scale-up is estimated to cost \$100bn by 2030 and a staggering \$600bn by 2050.

The DoE characterises this as a "massive investment opportunity," recognising the potential of carbon capture. However, for this vision to become reality, the fossil fuel industry must grapple with the long-term financial commitments required. As carbon capture continues to evolve, stakeholders must address the complex economic and environmental balance to truly effect change in the fight against climate change. ●

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## We're 'landlocked but not mindlocked' Mongolian PM tells US on visit to Washington DC

Antonio Graceffo in Washington DC

"**M**ongolia is landlocked but not mindlocked," remarked Mongolian Prime Minister L.Oyun-Erdene as he visited Washington DC this week and met with US Vice President Kamala Harris.

Oyun-Erdene appeared very eager to work with the Americans on a wide range of issues and expressed gratitude for the expansion of educational exchanges and the sending of additional US teachers to Mongolia as part of the Strategic Third Neighbour Partnership between the two nations.

Speaking at the White House stood alongside Harris, he said: "In the 1990s, the people of Mongolia voted for democracy and the market economy and we are very proud that the Americans regard us as an oasis of democracy. For us, the United States is not only our strategic third neighbour, but also the guiding North Star for our democratic journey."

During the visit, the US and Mongolia pledged closer economic engagement and the strengthening of cooperation in the areas of security, outer space and critical minerals, including rare earth elements (REEs). Amongst various other agreements, they entered into an "Open Skies" civil aviation accord, with direct Mongolia-US flights to commence next year.

Oyun-Erdene was set to follow up his visit to Washington with a tour of Nasa, while he also mentioned that he was planning another trip to the US, during which he intended to hold discussions with business magnate and investor Elon Musk in California. The discussions would likely focus on potential investment and collaboration opportunities with Tesla in the realm of electric vehicles (EVs) and Space X in space exploration.

Ulaanbaatar has already authorised Space X to provide internet services in Mongolia. Musk, meanwhile, has expressed an interest in facilitating a manned mission to Mars, and Mongolia wants to help.

Mongolia's Gobi Desert has an environment very similar to that of Mars, with its ferrous, reddish soil and big temperature swings, from +45C during the day to -45C at night. Mars V, a Mongolian company, headed by Erdenebold Sukhbaatar, plans to build a Mars analogue training centre in the desert. It is hoped that cooperation with the Americans could make Mongolia an integral player in the space travel industry. The Mars analogue would be open to space programmes from around the world.

US Secretary of Defense Lloyd J. Austin III also met with the Mongolian PM for a discussion on security cooperation between the United States Army Pacific Command (USARPAC) and the Mongolian Armed Forces (MAF).

"In the 1990s, the people of Mongolia voted for democracy and the market economy and we are very proud that the Americans regard us as an oasis of democracy"

Last month, Mongolia hosted the Americans in a joint training exercise dubbed Khaan Quest. The MAF have also sent soldiers to international peacekeeping operations, in which they served alongside American soldiers in Iraq and Afghanistan. More military education and training, as well as equipment, will now be provided to MAF by the US.

Mongolia's relationship with the United States is critical to Ulaanbaatar, given that the country is encircled by two big power neighbours, Russia and China. Generally, Mongolian people distrust China, while the older generation has a bit of nostalgia for the days of closer ties with Russia.

Economically, Mongolia is extremely dependent on China. That often makes it difficult for Mongolia to resist Beijing's influence.

Historically, Mongolian leaders have managed to balance relations with Moscow with closeness to China, and vice versa, preserving their nation's integrity. At the same time, Mongolia is always looking to strengthen relations with "third neighbours" such as the US, Japan, South Korea and India, as a way of offsetting Chinese and Russian influence.

Ulaanbaatar often refers to the US as an "important strategic third neighbour". It signed a strategic partnership with Washington back in 2019.

The war in Ukraine has put Mongolia in a difficult position. With respect to relations with Beijing and Moscow, Mongolia and the Central Asian republics have not condemned the war. But the conflict has caused a marked shift across the region, away from Russia and towards China, as the former Soviet satellites do not wish to in anyway become regarded as a possible next point of Russian expansion.

While toeing the line between China and Moscow, Mongolia is also being careful not to damage its relationship with the US or other third neighbours. The meeting between Harris and Oyun-Erdene comes at a time when Mongolia wants and needs to intensify its third-neighbour relations, particularly with the United States.

On the US side, the meeting is fortuitous because Washington does not want China's growing influence to squeeze the US out of Mongolia and the wider region. Furthermore, Mongolia is the perfect geographic location from which to monitor both Beijing and Moscow.

In June, the two countries signed a memorandum of understanding on securing reliable mineral supply chains. On the agenda this time was cooperation on rare earth minerals, which play a vital role in national security. Such critical raw materials (CRM) are required for the manufacturing of advanced weaponry, space applications and computer chips. They are also crucial to achieving climate goals as they are needed for the production of electric cars, wind turbines and solar panels.

Currently, China, which possesses 36% of the world's rare earth minerals, controls over 70% of the world's REE extractive capacity, as well as 90% of processing capacity. Mongolia has 61.4mn tonnes of copper and 3.1mn tonnes of rare-earth minerals, access to which could decrease US rare-earth dependence on China.

Given that Mongolia is landlocked, it is difficult for the country to export anything by rail or road without Russia or China's agreement. Seeking a mitigation strategy, a source at the US State Department told Reuters that the US was exploring "very creative ways" that would enable Mongolia to get its extracted rare earth minerals to world markets beyond Russia and China.

Oyun-Erdene also met with US Secretary of State Antony Blinken to discuss enhancing democratic values. Mongolia is often talked of as an island of democracy as Russia and China are, effectively, single-party autocracies, while the nearby Central Asian "Stans" have low-quality democracies.

Supporting democracy is talked of by diplomats as the essential path via which the US can forge closer ties to Mongolia. And for that democracy to be free and meaningful, the US must help Mongolia develop economically, so that it will be less beholden to Russia and China. ●



Mongolian PM L. Oyun-Erdene and US Vice President Kamala Harris giving a White House press briefing. / White House live feed, screenshot.



A blue vest with the word "PRESS" in white capital letters is draped over a surface. A silver microphone is positioned in the foreground, partially obscuring the vest. The background features a Russian flag with its characteristic white, blue, and red horizontal stripes.

# HOW DO RUSSIAN JOURNALISTS WORK IN A TIME OF WAR?

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Ben Aris in Berlin

Kommersant editor: "It's not a question of pushing press freedoms outwards, but of preventing them from shrinking inwards."

Since the war in Ukraine began, it is hard to envy Russia's independent media. Some editorial offices were forced to leave the country, while others continued to operate from home, but have faced numerous difficulties. If a newspaper raises the Kremlin's ire its reporters can wind up in jail, but if they are not critical enough they can be sanctioned by the West. The leading Russian newspaper *Kommersant* found itself exactly in this place after it came under pressure from both the Kremlin and ... the EU.

When the EU imposed sanctions on Russian oligarch Alisher Usmanov in February 2022, it cited his ownership of the newspaper *Kommersant* as one of the reasons, claiming that the outlet served as a mouthpiece for Kremlin propaganda.

"When Mr Usmanov took control of business daily *Kommersant*, the freedom of the editorial staff was curtailed and the newspaper took a manifestly pro-Kremlin stance. The *Kommersant* under Mr Usmanov's ownership published a propagandist anti-Ukrainian article by Dmitry Medvedev, in which the former president of Russia argued that it was meaningless to engage in talks with the current Ukrainian authorities, who in his opinion were under direct foreign control," the EU said in its reasoning for sanctioning the billionaire.

On the other hand, *Kommersant*, founded in 1989 as Russia's first private business media outlet, is one of Russia's best known and trusted newspapers. At one point, US government officials even worried that sanctioning Usmanov could have adverse effects on the newspaper, which they described as "one of Russia's most independent remaining publishing companies" in a March 2022 report by the *Wall Street Journal*.

In an exclusive interview, *Kommersant*'s editor-in-chief Vladimir Zhelonkin told

bne *IntelliNews* that he was surprised to see the newspaper in the EU sanctions readout.

"To be frank, I don't know why we are even mentioned in this document. We have always done decent journalistic work," Zhelonkin said by video call from his Moscow office, noting that *Kommersant* was the only one of Usmanov's assets to receive an unconditional sanctions waiver from the United States. "Of course, the EU logic is not correct. In private talks with the EU ambassador, he expressed surprise at seeing us in the reasoning."

The controversial article referred to in the EU rationale was an op-ed by the deputy head of Russia's Security Council, former president and prime minister Dmitry Medvedev, which was published by the newspaper in 2021.

"To be frank, I don't know why we are even mentioned in this document. We have always done decent journalistic work"

In it, Medvedev spoke out against Russian negotiations with the current Ukrainian government, which he called "not independent," and said the dialogue could be resumed when the country had a "sane leadership" that was ready to "build equal and mutually beneficial relations with Russia." The article was slammed by Western observers at the time for being virulently anti-Ukrainian.

"Our duty as media is not to decide what can be said, but to be a platform for discussion," says Zhelonkin about Medvedev's article, adding that publishing opinion pieces by current or former officials is common practice among media outlets globally. "He is in high office and is an obvious public figure, and therefore he has the right to talk about generally discussed topics. But all opinions differ; we can't interfere."

In 2013, *The New York Times* published an op-ed by Vladimir Putin in which

the Russian president warned about the dangers of "American exceptionalism" and called for dialogue with the US on the war in Syria. The newspaper received domestic criticism for running the article. At the time, the paper's editorial editor, Andrew Rosenthal, said the text "was well written, well argued. I don't agree with many of the points in it, but that is irrelevant. Syria is a huge story and Putin is a central figure in it."

*Kommersant* has a long tradition of running pieces authored by politicians and high-ranking officials, including international ones. These include the former secretary-general for the Organization for Security and Co-operation in Europe (OSCE) Thomas Greminger, President of Turkey Recep Tayyip Erdogan, EU Council Commissioner for Human Rights Dunja Mijatovic, as well as a slew of European

ambassadors that regularly feature in the paper's pages.

The newspaper is also known to regularly give voice to individuals branded as "foreign agents" by the Russian government, something that carries political risk today. Introduced over a decade ago, the "foreign agent" law has been used by the Russian government to discredit or shut down organisations and individuals that did not support the Kremlin's policies on the grounds that they received foreign funding or support. In the last few months, *Kommersant* has published more than three dozen such interviews, Zhelonkin told bne *IntelliNews*, with each one forced to be accompanied by the legal disclaimer that the source has been "recognised as a foreign agent in Russia."

*Kommersant* has also cited foreign NGOs that have been shut down by the Russian authorities for alleged violation of Russian laws, including



Amnesty International and Human Rights Watch. The clampdown on these NGOs has been criticised by *Kommersant's* writers.

Now the newspaper has found itself under pressure from two sides: on the one hand it is pressed by the rapidly shrinking press freedoms in Russia, and on the other by restrictions from the West.

The paper's owner, Alisher Usmanov, has been in the EU's crosshairs from the start of the war and was added to the sanctions list for being "close to Putin", a charge he denies. Usmanov bought the paper in 2006, beating major businessman Roman Abramovich, the state company Russian Railways and the government-owned holding Gazprom-Media in the bidding. "I've always been interested in the media business, so I decided to give it a try," was how Usmanov explained his decision at the time. Since then, the newspaper has remained one of the most successful titles in Russia and one of the few that is in profit.

"Sanctions against our shareholder have no direct effect on us, but they do have an indirect effect," says Zhelonkin. "They make it more difficult to access foreign sources directly for comments or attend international events, or receive subscriptions from partners like *Reuters* and *Bloomberg*. Now all these relations are suspended."

Reporting is also made harder by Russia's pariah status; *Kommersant* could not get any of its journalists accredited to the recent Nato summit in Vilnius in July and had to write up that story remotely. "But we still have reporters covering the whole globe," Zhelonkin says.

### The sunset of Russian press freedom

The press flourished in Yeltsin's Russia in the 1990s, when the independent television channel NTV was established as the "CNN of the East." NTV reported freely on the first Chechen war, but pressure on it began to grow soon after Vladimir Putin assumed the presidency in 2000 in the midst of the second Chechen conflict.

The first thing Putin did upon taking office was to reclaim control over TV stations such as NTV and evict oligarch Boris Berezovsky from the leading public broadcaster, then called ORT and now known as The First Channel. But for years afterwards the Kremlin largely left the press alone.

Companies like Dutch national Dirk Sauer's Independent Media flourished, the founder of *The Moscow Times* that then expanded and produced the Russian version of *Cosmopolitan* and a raft of lifestyle magazines. Independent Media reached its apogee with the launch of the newspaper *Vedomosti* in 1999, a joint venture between Independent Media, the *Wall Street Journal* and The Financial Times that overnight became the paper of record. Oligarch Vladimir Potanin launched the rival *Russky Telegraph* around the same time, which was also modelled on the leading international financial press.

After ignoring the press for almost two decades, the Kremlin became increasingly aggressive as relations with the West soured. It introduced a 20% cap on foreign ownership of the press in September 2014, five months after the annexation of Crimea and the beginning of the sanctions era.

A now-former employee of leading Russian business paper RBC – which used to belong to oligarch Mikhail Prokhorov – told this correspondent that in the period after the annexation of Crimea top editors would regularly get calls from the Kremlin complaining about their editorial content.

"On one occasion tensions became so inflamed that we came to work and there was a small demonstration outside the office of what were obviously pensioners who had been paid to come and make a scene," the employee said at the time. Prokhorov eventually sold RBC in June 2017 and began liquidating many of his other Russian holdings. Some media claimed he was forced to sell the media outlet. In 2020, the business newspaper *Vedomosti* was acquired by a new owner with close commercial ties to the

state. Senior staff began to complain of editorial interference and employees began leaving in droves, either emigrating or setting up their own independent titles.

However, the situation changed dramatically when opposition politician Alexei Navalny returned to Russia in January 2021, following months of medical treatment in Germany after he was poisoned with Novichok. When his arrest at the airport caused an international uproar, the Kremlin took the gloves off and "repression-lite", as analyst Mark Galeotti dubbed it, became naked repression. Scores of publications were labelled as "foreign agents" under a law that was first introduced in 2012 and was used to target NGOs. This law was radically beefed up in 2017, 2019, 2020 and again in 2021, when an amendment was introduced saying that publications in receipt of foreign money could be branded as "foreign agents". Informal organisations were also added to the designation and driven underground or into exile. Dozens of titles were driven out of business, shuttered or fled abroad, often to Latvia.

### Journalism in a time of war

In 2022, the Kremlin adopted new wartime censorship laws that are by far the most repressive interference with the press in the last three decades. Under the current legislation, papers have to refer to the fighting in Ukraine as a "special military operation" (SVO) and are banned from using the word "war". The legislation also renders any "discreditation" of the Russian armed forces punishable by up to five years in prison, while spreading "unreliable information" about the army and its activities could be punished by up to 15 years. This effectively makes any criticism of the war illegal. Overall, working as a journalist in Putin's Russia has become extremely difficult.

*Bloomberg* reported in March last year that as the media law is retroactive, many media responded by removing materials about the invasion from their archives; some, like *The Bell*, informed their readers that they were dropping coverage of the "military operation" completely.

"Others, like liberal opposition paper *Novaya Gazeta* led by Nobel Peace Prize laureate Dmitry Muratov, and *Kommersant* are trying to follow the letter of the law, stubbornly avoiding the word 'war,' although their discomfort with it and with the war itself is quite apparent if you read between the lines," Bloomberg reported.

Zhelonkin claims that he follows the same journalistic ethics as before the war, but the series of new media laws pose a significant challenge.

Still, the word "war" frequently appears in *Kommersant's* texts. This primarily has to do with its use in interviews with celebrities, politicians and public figures, who are always quoted verbatim, Zhelonkin says. This includes interviews with so-called "foreign agents" whom the paper is required by law to identify as such.

*Kommersant* continues to provide its readers with objective information about the war and presents a variety of views, Zhelonkin added. For example, in May 2023 alone, the newspaper published 150 articles presenting the Ukrainian point of view on the conflict. Nearly half of these cited Ukrainian President Volodymyr Zelenskyy and representatives of Ukrainian government bodies as the main source.

"There is no censorship on our pages. It's not a question of pushing the boundaries outwards, but of preventing them from shrinking inwards. But we can't violate the law. Beyond that, we don't practise self-censorship – the same as in other countries," says Zhelonkin.

At a July 2023 press conference with the Russian president following the Russia-Africa summit, *Kommersant's* special correspondent Andrei Kolesnikov was the only journalist to pose a direct question to Putin about the recent arrests of individuals who had spoken out about the war. "People are being arrested for words spoken or written. Is that normal? Thank God, we're not in the year 1937...or maybe, as some people think, it is 1937?" Kolesnikov asked, referring to the year that marked

the height of Stalin's Terror, when hundreds of thousands of people were arbitrarily executed or imprisoned for being domestic "saboteurs."

"We are in 2023, and the Russian Federation is in a state of armed conflict with a neighbour. I think there should be a certain attitude towards those people who cause us damage inside the country," Putin responded.

### Between a rock and a hard place

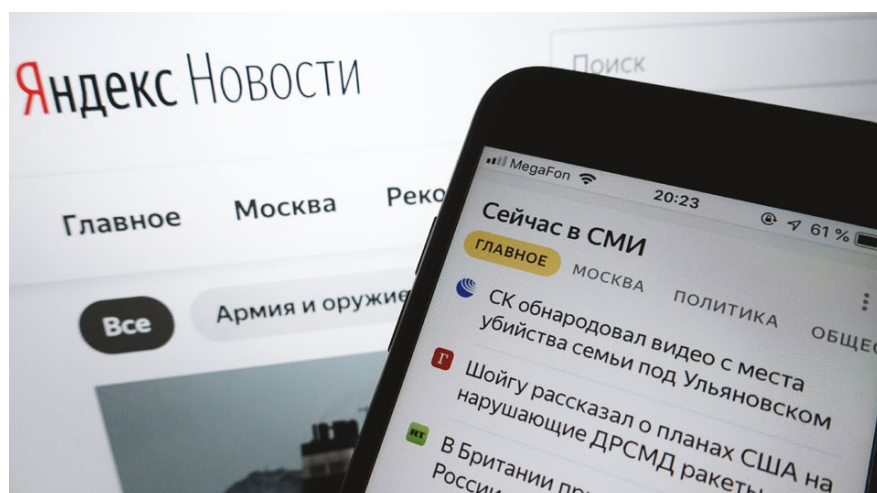
As Russian media has sought to not fall foul of the Kremlin's legislation, a number of outlets and companies have garnered criticism from the West for appearing to cater to the Kremlin's censorship.

Russian internet giant Yandex was accused of "promoting Kremlin propaganda" after it was found that the top headlines in its news search, Yandex. News, featured only state-approved media. The EU sanctioned the company's founder, and Yandex has since sold off its news aggregator. The problem was the news aggregator was only linking to media officially registered in Russia – it is illegal to pull up anything other than Russian sources. As time went on, there were fewer and fewer such sources registered in the country. In the end, it turned out that the selection did indeed include mostly the official state-owned media, most of which are rabidly supportive of the war in Ukraine. Effectively Yandex.News was not

favouring these sources out of any sense of duty; it was precluded from linking to almost anything else.

*Kommersant* was also accused of doing the Kremlin's bidding in 2011, when it terminated its contract with the editor-in-chief of *Kommersant Vlast* (*Kommersant Power*, the political division of *Kommersant*) Maxim Kovalsky after the magazine printed an article with a photo of a tainted voting ballot on which a swear word against the Russian president, deemed offensive, was written. The photo caption read: "A correctly filled-out ballot that has been invalidated." This caption, according to *Kommersant's* management team, misled the reader and was an important reason for Kovalsky's dismissal.

"At that time, I was not yet working at the publishing house, but I'm familiar with the story," Zhelonkin says. "As far as I know, the contract with Kovalsky was terminated by *Kommersant's* CEO and editor-in-chief, not because of criticising the authorities or due to Kremlin pressure, but simply over a violation of the publishing house's professional standards and ethics. Firing employees in these kinds of cases is actually a global common practice." Kovalsky ultimately left the newspaper on the terms of a mutual agreement, but later returned and continued to work at *Kommersant* until his death from cancer in 2019. The article that



Yandex news website homepage. Shutterstock.com



caused the stir is still available online, but without the photo.

Around the same time, during the 2011 Russian parliamentary elections, a number of independent news websites experienced outages on election day, including *Kommersant*. The OSCE's election monitoring mission noted this incident in a report, writing that "*Kommersant* provided a wider variety of views, while devoting most of its predominantly neutral and negative coverage to the current administration and ER" [Putin's political party, United Russia – *bne IntelliNews*].

The discrepancy between the EU's recent statements about *Kommersant* and the other positive assessments of its work underscores the contradictory nature of some of the sanctions, which were arguably imposed on the basis of little more than hearsay or unconfirmed media reports. However, a tacit confirmation that no one seriously considers *Kommersant* to be "pro-Kremlin" is the fact that, unlike a number of blatantly propagandistic Russian media outlets, the newspaper itself is still not on either US or EU sanctions lists.

The most authoritative attempt to lay out the web of connections between big Russian businessmen and the Kremlin was Catherine Belton's book *Putin People*, but half a dozen oligarchs sued the publisher HarperCollins, including Usmanov (who didn't go to court, but got the publisher to retract the most salacious accusations). A number of passages had to be rewritten or cut

as the courts ruled that some of the accusations were unfounded. As *bne IntelliNews* reported, dozens of English-language newspapers have also found themselves in the same position after being sued by oligarchs whom they accused of being "close to Putin" and lost their cases in British libel courts.

### Calls and the law

Russia's leading newspapers have not been afraid to occasionally take on the Kremlin and openly criticise the state. After the well-known investigative reporter Ivan Golunov was arrested on trumped up drug charges in June 2019, Russia's three leading newspapers – *Vedomosti*, *RBC* and *Kommersant* – took the provocative decision to run identical front pages saying "I/We are Ivan Golunov" to protest against the arrest and show solidarity. The charges were dropped. Golunov was released and the arresting officers were investigated.

Being a journalist in Russia has always been a dangerous job, but in the last two years since the repression went up a gear those dangers have escalated dramatically.

Ivan Safronov was a highly respected *Kommersant* defence reporter who in 2020, after moving on to become an advisor to the head of Roscosmos Dmitry Rogozin, was arrested and charged with espionage for reporting on what he claims had been public information. Last September, he was sentenced to 22 years in a maximum security prison. Within days of his sentencing, the *Kommersant* editorial

team took the bold action to post a letter of protest in support of their former colleague, themselves risking the opprobrium of the Kremlin.

This July, *Novaya Gazeta* investigative reporter and human rights defender Elena Milashina was attacked on her way to a Chechen court hearing. Images of her in the wake of a brutal beating, with her head shaved and covered in antiseptic green dye, caused widespread outrage.

In the three decades this correspondent has been covering Russia, foreign correspondents have largely been left alone to do their job. But in March 2023, *Wall Street Journal* correspondent Evan Gershkovich was arrested on espionage charges and has already spent more than 100 days in jail awaiting the start of his trial that could see him given a life sentence. US President Joe Biden said in the middle of July that the White House is actively working on a prisoner swap deal. Prior to Gershkovich's arrest, the only high-profile incident involving a foreign correspondent was the murder of American correspondent Paul Klebnikov in July 2004 that was widely seen as linked to a book he wrote, *The Godfather of the Kremlin*, about the 1990s oligarch Berezovsky, a former owner of *Kommersant*.

How are Russian journalists able to work in such a toxic environment? The knee-jerk assumption is that the Kremlin micromanages the media. While it has full control over the TV stations where the bulk of the population get their information, Russia's private newspapers continue to have a great deal of freedom and many, but not all, try to report the story straight, though this can still get them into deep trouble.

Russian journalists interviewed for this article from a variety of top outlets, who remain nameless due to the sensitive nature of the topic, told *bne IntelliNews* that it is very rare for an article to be retracted or heavily amended once it was released – and if then only because there was some factual error, not for political reasons. If the Kremlin has an issue with an article, the journalist, not the article, is targeted.



"I/We are Ivan Golunov" front pages.

"Yes, it is scary, as you can spend life in jail, but we don't self-censor," says a senior editor at one of Russia's top business papers. "The problems are specifically for those writing about the war, and it's related to politics. Reporting on the war or saying it is bad is not the main thing. The main problem is the laws are so vague, you never know what is going to happen. You don't know what constitutes a state secret or when you are revealing

figure complaining they have been misrepresented. In these cases, Zhelonkin says he listens to the complaints and occasionally, if they are justified, may make some small changes. "But these are opinions or clarifications. Otherwise we stick to the fourth estate values, or at least we try to," says Zhelonkin.

Another senior editor of a top business paper adds that for those not working on the war, the biggest change has been

propaganda talk shows and the news reporting is biased to match the Kremlin's agenda, reporting by the broader press remains much more objective. The difference is that TV reporting reaches tens of millions of viewers, whereas newspapers cater collectively to a few percent of Russia's population. The Kremlin feels confident in largely ignoring the press reporting.

Still, Zhelonkin is walking a thin red line. With the denuding of *Vedomosti*, which was one of the most authoritative Russian newspapers until its ownership change in 2020, *Kommersant* today has arguably remained in pole position in Russia's newspaper landscape.

The paper's cautious and balanced approach to old school journalism has earned it respect. When the new US Ambassador to Russia Lynne Tracy was appointed in April this year, the first and only interview she gave to the Russian press was to *Kommersant*. In the interview, Tracy presented an unvarnished US view on hot-button issues in current relations between the two countries. The text caught a lot of flak from Russian government officials, while Russia's Foreign Ministry published a lengthy and emotional response on its website.

Since the war started, Ukrainian President Volodymyr Zelenskyy has given one single interview to the Russian press in March last year. The press pool that talked to him included *Kommersant*'s special correspondent Vladimir Solovyov (not connected to the Russian propagandist from state TV The First Channel of the same name). The interview was highly controversial with Russia's media watchdog Roskomnadzor, which demanded that the interview not be published in Russia. Roskomnadzor and the Prosecutor General's Office announced their intention to investigate the outlets that participated in the interview, but nothing happened in the end. Although the interview was not published in *Kommersant*, the newspaper and Usmanov personally were criticised by pro-Kremlin journalists like Sergey Mardan of *Komsomolskaya Pravda*, who called for shutting down the paper. ●

"The main problem is the laws are so vague, you never know what is going to happen. You don't know what constitutes a state secret or when you are revealing 'counter-sanctions information' until after you have published a story"

'counter-sanctions information' until after you have published a story."

Even when the vague laws do not lead to the prosecution of a journalist, there are other ways of putting pressure on them. For example, after *Kommersant* special correspondent Elena Chernenko organised and signed an open letter opposing the Kremlin's so-called "special military operation" in Ukraine, she was expelled from the Russian Foreign Ministry's pool of journalists and barred from attending Ministry events. She continues to write for *Kommersant* to this day.

Zhelonkin says the paper's editorial decisions are based on the same principles of free speech, objectivity and the duties of the "fourth estate", where the press' role is to provide citizens with the information and ideas they need to exercise their democratic power. However, he admits the situation in Russia is more complicated than in the West. "We do take calls, including political calls. I get them from time to time. But we almost never change anything, and when we do, it is to clarify a position," he says.

According to Zhelonkin, the Kremlin is not micromanaging the press. More often, it's a politician or other public

the reduction in the amount of official information released into the public realm, although many of the main metrics are still being published.

For example, on July 12 the Russian central bank released its current account results, which showed Russia's trade balance has gone negative to the tune of \$1.4bn – news that was welcomed by Ukraine's supporters as evidence that sanctions are working.

The currency account embarrassment came on the back of January's news about the budget deficit, which hit the full-year target after the first ten days of March after the Russian finance ministry reported a whopping RUB1.7 trillion hole in the state's balance sheet.

Russia's business press reported on these embarrassing results without problem.

"Anything that is officially released by the authorities – the central bank, the ministry of finance or economy – are fine to report. They are in the public realm and so are fair game," the editor said.

#### **Flying below the radar**

While Russia's state-dominated TV programmes constantly run pro-regime



Slovak President Zuzana Caputova has asked interim Prime Minister Ludovit Odor to call a meeting of the state's Security Council. / bne IntelliNews

# Slovak president asks PM to summon Security Council after wave of arrests

Albin Sybera

**S**lovak President Zuzana Caputova has asked interim Prime Minister Ludovit Odor to call a meeting of the state's Security Council following another round of arrests of police and security officials on August 17. Odor called the Security Council for August 18.

The police operation included a raid on the house of the head of the Slovak Intelligence Service (SIS) Michal Alac, who now faces charges of involvement in a criminal ring.

Odor, who heads the technocratic cabinet steering the country to September 30 snap elections, urged calm and stressed that there should be no intervention in police work.

Several Slovak media reported the presence of masked units from the

National Criminal Agency (NAKA) of the Police Presidium – which deals with the most serious instances of organised crime – in the SIS building and in the building of the National Security Authority (NBU), the central government body for protection of classified information, cryptographic services, trust services and cyber security.

As part of the “Rozuzlieni” (Resolution) raid, five persons were charged with being part of a criminal group, including Alac and his predecessor Vladimir Pcolinsky, who is also charged in another investigation already. NBU boss Roman Konecny and two ex-members of NAKA's now-defunct investigation team Obluk were also put under investigation. Ex-policeman Jan Kalavsky, who is in Bosnia and Herzegovina, where he asked for asylum, is also charged.

A unit completely separated from the Bratislava branch of NAKA is in charge of the investigation.

At a press conference held in the afternoon of the same day, police chief Stefan Hamran said the raid was aimed at cracking a criminal ring, which has been under investigation since last April, though not all the main suspects were apprehended. Hamran and NAKA's head Lubomir Danko pointed to businessman Peter Kosc who was supposed to have exercised influence over SIS through the intelligence agency's current and previous chiefs.

Slovak police have launched a wave of investigations and arrests of policemen, prosecutors and judges to clean up the security and justice systems following fears that they had come under the influence of businessmen and

criminals during the previous populist government of Robert Fico.

“Corruption was present in the highest circles,” Harman stated at a press conference, adding that “the police was captured”. Charges brought up include establishing a criminal group, abuse of power, and obstruction of justice. The group is accused of derailing and sabotaging criminal investigations.

Fico, leader of the populist Smer party, which now leads the pre-election

polls, held a press conference in Presov, eastern Slovakia, where he was campaigning, and said that a “police coup attempt” is taking place “with the full support of the premier and President Caputova”.

Fico claimed that the “coup aims to get full control over SIS,” and he invoked paragraph 32 of the Slovak constitution, saying Slovaks have the right to confront anyone dismantling democracy in the country.

One of the country’s leading dailies, *SME*, noted that the last time Fico made claims about a coup was when he faced mass demonstrations following the murder of investigative journalist Jan Kuciak and his fiancé Martina Kusnirova in 2018, which eventually led to his downfall from power.

Several high-profile officials and policemen from Smer’s 2010s era in power are under investigation, including former police head Tibor Gaspar, who is also on Smer’s candidate list. ●

## Karins to step down as Latvian prime minister

**Linas Jegelevicius in Vilnius**

**L**ong-serving Latvian Prime Minister Krisjanis Karins has unexpectedly announced that he will resign after failing to persuade his current coalition partners to welcome new parties into the government. He blamed coalition partners “blocking the work for prosperity and economic growth” for his decision, according to a social media post.

Karins, chairman of the ruling centre-right New Unity party, had been trying for two months to widen his governing coalition, which also contains the radical rightwing National Alliance and the centre-right United List, but talks broke down.

He said that he intended to begin talks with the centrist Union of Greens and Farmers (ZZS) and the social democratic Progressives party, but this coalition would only hold 52 parliamentary seats in Latvia’s 100-strong legislature.

Karins had also said he did not intend to resign but he then announced unexpectedly in the afternoon of August 14 that he would step down and hand his resignation to President Edgars Rinkevics during their meeting on August 17, *LETA*, a Latvian newswire, announced.

According to the country’s constitution, with Karins’ resignation, the entire

cabinet of ministers will resign, paving the way for formation of a new government.

The premier said that his New Unity party now plans to select another candidate for prime minister.

Karins appears to have lost the confidence of his original partners, who argued that his decision to stay on as the prime minister after he announced a new round of coalition talks was against the constitution.

Prior to the PM’s announcement, the

United List and National Alliance said they were sceptical about working in a new government led by Karins.

The coalition’s unity had earlier been shattered by its failure to agree on a joint candidate for president. The New Unity party’s decision to push through its candidate, Rinkevics, at the election at the end of May helped worsen divisions, with the United List and National Alliance angered that New Unity now held both the premiership and the presidency.

In an interview with TV3 on August



Karins, chairman of the ruling centre-right New Unity party, had been trying for two months to widen his governing coalition. / bne IntelliNews



14, Latvian Parliament Saeima Speaker Edvards Smiltens (United List) claimed that Karins was violating the constitution by starting to form a new government while the current government had not stepped down.

"We need clarity as now there are several parallels in the government's work. There are very important reforms that have to be presented as soon as possible. Important issues must not be discarded in an attempt to form a new government," emphasised Smiltens.

He said that the ministers in the current government were ready to continue

their work, but Karins had announced new coalition talks, "which is a flagrant violation of the constitution".

Smiltens admitted that it had become very difficult to work with Karins as the prime minister, therefore it would be very complicated for National Alliance and United List to work in a new government headed by Karins.

After the resignation announcement, Karins said he still believes that a broad coalition is in the best interest of the whole of society.

"In order for us to develop better, politics

must find a way to put aside petty disagreements and create a broader, stronger and more dynamic government. I think it can be done. I hope it will work and that other political forces in the Saeima will take the opportunity to look at things a little differently than before," the prime minister said.

Karins' centre-right New Unity party was the largest party in the October 2022 general election, but it only holds 26 seats in a parliament where seven parties are represented. Karins was the second-longest serving (Valdis Dombrovskis was the longest at 1,778 days) premier in the country's history at 1,664 days. ●

## Poland now says it will deploy 10,000 troops to Belarus border

Linas Jegelevicius in Vilnius

**P**oland will station 10,000 troops at the border with Belarus to back up the border guard, Defence Minister Mariusz Błaszczak said, PAP, a Polish news agency, reported on August 10.

He revealed the plan in an interview with public broadcaster Polish Radio on August 10.

The defence minister said: "About 10,000 soldiers will be on the border, of which 4,000 will directly support the Border Guard and 6,000 will be in the reserve."

According to him, the Polish army moves closer to the border with Belarus to scare away the aggressor so that it does not dare to attack Poland.

As reported by *bne IntelliNews*, on August 9, Deputy Interior Minister Maciej Wąsik said that Poland would deploy 2,000 extra troops to bolster its border with Belarus.

It came after hundreds of Russia's Wagner Group mercenaries had relocated to Belarus in July, at the

invitation of Belarusian dictator Alexander Lukashenko.

Poland's Deputy Prime Minister Jarosław Kaczyński has described the Wagner Group as "an extremely dangerous armed force" and "a Russian tool".

Meanwhile, Belarus continues its military exercises near the border, and Lukashenko has said several times that he was restraining Wagner fighters who want to attack Poland.

Moreover, Poland has seen an increase in attempts to illegally cross into the country from Belarus, mainly by migrants from the Middle East and Africa.

Tomasz Praga, the head of the Border Guard agency, said that there had been 19,000 attempts to cross illegally into Poland from Belarus this year, compared with less than 16,000 in the whole of 2022, PAP said. ●



Soldiers will also support border guard cope with influx of refugees. There were 19,000 attempts to cross illegally into Poland from Belarus this year, compared with less than 16,000 in the whole of 2022. / *bne IntelliNews*



The ACF has highlighted the way that the family of a Russian oligarch so closely connected with the Russian war effort has been able to live in Europe.

## Czechia adds three more Russians to national sanctions list

Albin Sybera

**C**zechia added Boris Obnosov, Russian weapons oligarch, and his two relatives to the country's national sanctions list. The move follows a public outcry over reports of the luxurious lifestyle Obnosov and his family enjoy in Prague.

"The Russian oligarch responsible for the production of missiles that kill innocent Ukrainians must face the consequences. Just like those who enjoy a life of luxury in Czechia with money from the merchants of death," Czech Minister of Foreign Affairs Jan Lipavsky stated in the ministry's press release.

Obnosov is the CEO of the Russian state-owned KTRV holding company, a manufacturer and supplier of weapons systems, including missiles, to the Russian army.

In May, the head of jailed Russian dissident Alexei Navalny's Anti-

corruption Foundation, Maria Pevchich, documented in the foundation's investigation that Obnosov's son-in-law Rostislav Zorikov owns an apartment building in the Zizkov neighbourhood as well as two more apartments and several luxurious cars that he drives around Prague, including a Rolls-Royce with Czech licence plate RRR 44444.

Obnosov's daughter has a minority share in a company with a record of business transactions with KTRV. Zorikov also owns the company Riomax and has a 30% share in another one called Altera. In Russia, Zorikov declares only a modest income. Zorikov's parents and brother also live in Prague.

Boris Obnosov has been on the sanction lists of several countries, including the US, UK and Canada.

Pevchich has been campaigning with Czech authorities after the

investigation was released. Shortly afterwards, she referred to Czechia as a "European base of corrupt Russians" who "use Czech banks and infrastructure for their investments, mainly into real estate" in an interview for the Czech news outlet Seznam Zpravy from May 17.

In July, Pevchich released a video of confronting Zorikov in Prague and complained about the leniency of Czech authorities. "This is the definition of impunity", she commented on inconclusive talks to Czech authorities and presenting them with evidence on her X/Twitter account

Russia's full-scale invasion of Ukraine prompted a surge of investigations into Russian ownership of luxurious real estate and other assets in Prague.

Some of the most high-profile ones include Slovansky dum [Slavonic house], a historical complex hosting shops, cinema, restaurants and offices, which had been controlled by a former vice president of Transneft Mikhail Arustamov through a sham rent concluded in 1997 for 77 years. Arustamov shifted ownership of his Prague assets earlier this year.

Recently, Czech authorities seized the property of an associate of Arkadiy Rotenberg, an oligarch and a former judo partner of Russian dictator Vladimir Putin, whose company is behind constructing the Kerch bridge connecting mainland Russia and Russian-seized Crimea.

In June, authorities confiscated assets linked to Yekaterinburg oligarch Andrei Kozitsyn, founder of the zinc and copper giant Ural Mining Metallurgical Company (UMMC).

Other Russians on the Czech sanctions list are Patriarch Kirill, another oligarch Vladimir Yevtushenko, and his son Felix. Yevtushenko is also documented to control assets in Czechia. ●



The Russia House in Belgrade; Russia's influence is most effective through media and disinformation channels. / Clare Nuttall

# Ukraine war erodes Russia's economic clout in Western Balkans

bne IntelliNews

**T**he war in Ukraine has led to a reduction in Russia's economic presence in Bosnia & Herzegovina, Montenegro and Serbia – the three Western Balkan countries where it historically has had the greatest influence, according to a new report from Clingendael, the Netherlands Institute of International Relations.

While Russia still has economic clout in the three countries, notably as an energy exporter and the owner of crucial energy infrastructure, overall its role in their economies has been far outstripped by the EU's, both before and after the February 2022 invasion, says the report, titled "Little substance, considerable impact", which looks at Russia's goals and influence in the three countries.

Overall, the report's authors find, there has been only a small impact from Russia's invasion of Ukraine on its stance concerning Bosnia, Montenegro and Serbia, with its fundamental approach largely unchanged.

"While the invasion has led to sharper dividing lines between Russia and the West and decreases in Russian financial and diplomatic capacities, we observe continuity in terms of Russian strategies and objectives," says the report.

"Russia's sources of influence in the three countries have been moderately strained, among other causes as a result of BiH and Serbia's first steps to diversify energy sources and Western pressure to diminish their political

and security links with the Russian Federation. For the time being, this has not yet affected Moscow's ability to act as a spoiler to the Euro-Atlantic integration of the three countries."

Russia's hopes of using the Balkan region as a route to supply its oil and gas to Europe were already dashed back in 2014, when the South Stream project was abandoned. The 2022 Ukraine invasion only confirmed this, with reduced Russian gas supply, lower European demand, and EU sanctions on Russian oil imports cementing the shift.

Russia is, however, still working to maintain its energy-based economic influence in the region. In the energy sector, Russia maintains influence by



supplying almost all gas imports to Serbia and Bosnia, where it also owns energy infrastructure.

“Russia maintains economic clout especially in the energy sector in Serbia and Bosnia and Herzegovina, as it provides nearly 100% of both countries’ gas imports and its energy giant Gazprom owns crucial energy infrastructure in these countries. Russia makes active use of the energy ties to politically influence the region,” says the report.

However, it points out that the share of gas in each country’s energy mix remains low. Meanwhile, Russia has so far persuaded only Serbia to sign a free trade agreement (FTA) with the Russia-led Eurasian Economic Union (EAEU).

### **Moscow’s Balkan strategy**

In the Western Balkans, Russia pursues three key objectives. First of all, it aims to assert global power. Secondly, it hampers Euro-Atlantic integration by opposing Nato and EU involvement and fostering instability. Thirdly, the region, particularly Kosovo, becomes leverage for Russia’s broader foreign policy, defending its influence in neighbouring areas.

Its approach to achieving these goals is largely opportunistic. “The Kremlin displays moderate ambitions for building positive relationships with the three countries, which is reflected also in the instruments it uses to influence the region,” the report explains. “It nurtures contacts with, and influence through, a wide range of individual politicians, the Orthodox Church, the media and malign proxy groups, making use of energy links as well as local tensions and historical memories. Moscow pursues this approach deliberately, and it has proved relatively successful.”

Although after the invasion of Ukraine Western concerns about Moscow’s influence in the Western Balkans have grown, the report’s authors argue that the region is not a foreign policy priority for Russia.

“Russian attention on the Western Balkans as part of its broader foreign

policy has faded away over the past few years. Russia is now primarily interested in obstructing EU and Nato integration and projecting its great power status and mostly takes up a spoiler role in the region with attempts at destabilisation,” they explain. This

“Russia is now primarily interested in obstructing EU and Nato integration and projecting its great power status and mostly takes up a spoiler role in the Balkans with attempts at destabilisation”

contrasts with the stronger Russian objections to what Moscow sees as Western meddling in the post-Soviet states of Ukraine, Moldova and Georgia.

“In short, Russia sees the region as a tool that can be used to project its great power status on the one hand, while obstructing the West and sowing the seeds of unrest on the other; however, Russia does not seem to be willing to invest in institutionalised and broader relations with the three countries in the region. The policy that follows Russian goals in the Western Balkans comes across as largely devoid of substance,” the report says.

### **Multiple approaches**

Aside from its economic leverage, Russia also seeks to influence the region through political, military and media channels.

Politically, Russia’s influence is most notable among Serb politicians, who employ similar narratives to Russia’s and leverage Russian support. Russia’s support for Belgrade over the Kosovo issue is particularly important. However, the report notes, while portraying itself as a partner, Russia also exploits effective malign tactics to shape the Western Balkan political landscape. “Lacking a military presence in the region, Russia supports far-right nationalist figures and organisations, which generally better resemble organised crime groups than paramilitary organisations, to attain

its goal of destabilisation by stirring up polarisation and anti-Western sentiment.”

In the military sphere, Russia aims to sustain collaboration with Serbia while backing the militarisation of Bosnia’s

Republika Srpska. Russia also has no military presence in the region, instead resorting to “other, hybrid, methods to stir up unresolved conflicts and instability”. These efforts have largely failed; most countries in the region, including Montenegro, have become Nato members.

Russia has, however, been more successful in its media and disinformation efforts. Through Russian-backed portals, local media, and social platforms, Russian propaganda infiltrates Bosnia & Herzegovina, Montenegro and Serbia. This pervasive disinformation has led significant portions of society to hold favourable views of Russia and its leadership.

“Russia employs various narratives in its approach towards Bosnia and Herzegovina, Montenegro and Serbia that resonate well with substantial sections of their populations,” says the report. Among these narratives are presenting Russia as the protector of Serbia’s interests vis-a-vis Kosovo and as the defender of Christian-Orthodox traditional values.

Thanks partly to the success of these strategies, Russia’s spoiler role in the region’s Euro-Atlantic integration remains unhampered for now. Overall, as detailed by the report, the Russian invasion of Ukraine has moderately influenced, yet not fundamentally reshaped, Moscow’s stance toward Bosnia, Montenegro and Serbia. ●



# Cost of damage from catastrophic flooding in Slovenia to exceed €500mn

Valentina Dimitrievska in Skopje

**T**he extensive damage caused by devastating flooding in Slovenia is projected to surpass €500mn, Slovenia's PM Robert Golob said on August 5 following a meeting of the National Security Council.

Slovenian authorities have underscored that this stands as the worst flooding crisis in the nation's recent memory. Aside from the human casualties, numerous residents have been compelled to evacuate their homes to escape the surging floods.

The total number of fatalities has now risen to six as four more victims were discovered in the wake of the catastrophic weather onslaught.

In the latest discovery reported on August 6 to a Ljubljana police station, a lifeless body was found in a cesspit in the vicinity of Moste pri Komendi, STA agency reported.

Another body was located on August 6 in the swollen Temenica river in the Dolenjska region in the south-eastern part of the country. On August 5 another body was discovered along the Sava embankment in the capital Ljubljana.

In the face of the crisis, Slovenia has activated the European Civil Protection

Mechanism to bolster its response capabilities, the European Commission said on August 7.

Following Slovenia's appeal for aid, France has mobilised two engineering units along with excavators, while Germany has committed to providing two prefabricated bridges, accompanied by two excavators and dedicated personnel.

The EU's Copernicus satellite mapping initiative has generated multiple maps of the afflicted regions, and a liaison officer from the EU's Emergency Response Coordination Centre is already present in Slovenia.

Additionally, the country has turned to its neighbours Austria, Croatia and Hungary for assistance, with Golob expressing gratitude for the support offered. The prime minister, during his visit to flood-ravaged areas in Skofja Loka, spoke of the need for collaboration, including the engagement of neighbouring countries' armed forces for tasks such as helicopter transportation.

In a phone conversation on August 7, Golob and Nato's Secretary General Jens Stoltenberg discussed Nato support for Slovenia in the wake of the catastrophic floods. As part of the aid effort, Nato

has committed to dispatch helicopters, excavators, and various other resources, Nato said.

"Upon Slovenia's request for assistance, Nato's disaster response coordination centre immediately notified all 31 Allies and 35 partners of your needs," Stoltenberg said.

In response to Slovenia's appeal for aid through Nato's Euro-Atlantic Disaster Response Coordination Centre (EADRCC), Spain has extended assistance in the form of a CH-47 helicopter, accompanied by a contingent of up to 25 individuals, including both crew members and support personnel.

Fellow Nato allies are joining forces to offer support both via the EU and bilaterally. Bulgaria, Croatia, Germany and France have collectively stepped forward with offers of aid, including helicopters, excavators, prefabricated bridges and engineering teams.

The US has also taken proactive measures by deploying personnel to Ljubljana to conduct an on-site assessment of the situation and ascertain pressing humanitarian requirements.

Amidst the ongoing catastrophe, initial assessments from the Chamber of Commerce and Industry of Slovenia suggest that small businesses and craftsmen have suffered losses amounting to at least €250mn, with expectations of the final damage tally exceeding this preliminary figure. Further exacerbating the economic impact, the Chamber of Commerce estimates that nearly every business facility in the worst-hit regions has incurred damage, RTV Slovenia reported.

The magnitude of this disaster has led prominent figures within the Slovenian business community to call for a state of natural disaster to be declared. ●



Surging floods as seen from a bridge over the Sava river. / Albin Sybera



Albanian Prime Minister Edi Rama (left) with his Greek counterpart Kyriakos Mitsotakis (centre) at an exhibition of Rama's works in Athens, two months before Himara mayor Fredi Beleri's arrest. / kryeministria.al

## Detention of ethnic Greek mayor puts Albania's EU accession progress at risk

bne IntelliNews

**G**reek politicians have stepped up their rhetoric over the months-long detention of Fredi Beleri, the ethnic Greek mayor of Himara in Albania, warning Tirana that the country's EU accession progress may be at risk if the case is not resolved.

Beleri was arrested ahead of the May 14 local elections in Albania, accused of buying votes, and has been in police custody ever since. Despite his detention, he won the mayoral election in Himara, which has a large Greek minority, though he risks losing the position if he remains in prison.

The case has caused a rift between Albania and its southern neighbour Greece, where top officials, including Prime Minister Kyriakos Mitsotakis, current Foreign Minister George Gerapetritis and his predecessor Nikos Dendias have called for Beleri's release. Ordinary Greeks have mobilised on social media under the #freebeleri hashtag. Albanian

officials, meanwhile, insist his arrest was not politically motivated and say justice must take its course.

The latest to comment on the case was Gerapetritis. During an appearance on a Hellenic Broadcasting Corporation (ERT) programme on August 8, he warned that if Albania's authorities fail to take the necessary steps to release Beleri and allow

**"Beleri was arrested ahead of the May 14 local elections in Albania, accused of buying votes, and has been in police custody ever since"**

him to assume his duties, there could be a severe deterioration in the diplomatic relationship between Albania and Greece.

"[T]he Albanian side is probably shooting itself in the foot," said Gerapetritis. The minister told ERT that there is

"no way" that Albania's EU accession process will proceed when there is "such a violation of the rule of law".

The minister disclosed that he had engaged in two "challenging phone conversations" with his Albanian counterpart Olta Xhacka about this issue, yielding no tangible results. As a result, he recently sent a letter to fellow EU foreign ministers and EU foreign policy chief Josep Borrell outlining Greece's stance and the impediments that Albania's actions presented to its EU integration progress.

This is not the first time the case has been raised at the level of the EU, an organisation of which Greece is a long-standing member, whereas Albania has only been a candidate country since 2014.

MEP Kostas Papadakis submitted a question to Borrell on the issue back in June, when he claimed that Beleri was "being detained at the behest of the Albanian government in an attempt to hinder the political activities of the Greek minority [in Albania]" and asked what was being done in response to calls for his immediate release.

Borrell's written response was that the European Commission "does not comment on ongoing investigations and recalls the need to ensure that due process is upheld".

On July 12, the European Parliament plenary approved an amendment to the 2022 European Commission

report on Albania put forward by the centre-right European People's Party (EPP) on the request of Greece's ruling centre-right New Democracy. "[A] clear, resounding message was sent today from Brussels, that the tactics of the Albanian authorities against the Greek

minority are not tolerated, not by the Greek government, nor by the European Parliament, and that the European path for Albania passes through the observance of the rules of the rule of law and the respect of the human rights of all its citizens," said a statement from New Democracy.

At the end of July, Albania's Higher Court rejected a request for Beleri to be released from police detention, which his lawyer had argued was disproportionate.

This prompted a response from European Commission Vice President Margaritis Schinas, also of New Democracy, who argued in a letter to EU Enlargement Commissioner Oliver Varhelyi that Albania, as an aspiring EU member, must face repercussions if Beleri continues to be barred from assuming office.

Schinas wrote that Beleri's continued incarceration raises serious doubts about the due process and could be interpreted as an effort to intimidate voters. He emphasised that the European Union cannot remain passive in the face of such transgressions and must respond appropriately.

Greece has previous form on using its position as an EU member in its relations with its neighbours. The country formerly known as Macedonia had its attempts to

start EU accession negotiations repeatedly vetoed by Athens, which objected to the use of the name "Macedonia", which is also the name of a Greek province. The issue was eventually resolved when the government in Skopje changed the country's name to "North Macedonia" in 2019 following the signing of the Prespa Accord in June 2018.

Prior to Beleri's arrest, Albania and Greece enjoyed relatively good relations thanks to their historic and cultural links, and shared membership of Nato and other international institutions. While thwarting Skopje's ambitions, Greece has long advocated Albania's EU candidacy, and Albania eventually secured candidate status during Greece's presidency of the EU Council in 2014.

Despite their geographic proximity, however, trade between Albania and Greece is relatively low. Albanian Prime Minister Edi Rama recently described the two countries' trade exchange as being "less than the value of [footballer] Cristiano Ronaldo".

There are also some outstanding political issues between the two states – including that they are still formally at war, never having declared an end to the war that started when the Italian occupiers of Albania attacked Greece in 1940.

The rights of the Greek minority within Albania are an issue that even before

Beleri's arrest had strained Greek-Albanian relations. Issues of conflict include property rights, Greek language education and sporadic violence against the Greek minority.

The so-called "trial of the five" back in 1994 dragged relations between the two countries to their lowest point since the end of the Cold War, when five prominent figures from Albania's ethnic Greek community were tried for espionage and illegal possession of weapons.

Tensions re-erupted in 2010 when a group of Albanian youths beat Greek shopkeeper Aristotelis Goumas to death, and again six years later when Albanian nationalists attacked local ethnic Greeks and their property following a UEFA Euro 2016 qualifying match between Albania and Serbia, during which Serb supporters raised a Greek flag.

This time there have been no apparent moves to back down by Tirana in the face of increasing Greek warnings that Albania's EU accession process could be affected by Beleri's continued detention; both Rama and Xhaka have argued that vote-buying is a serious breach of the law. The next likely step is that Beleri may lose his position as mayor, as his detention has prevented him from carrying out his official duties. That would only worsen the growing crisis between the neighbouring countries. ●

## Top Croatian officials seek to heal relations with Greece after football riots

bne IntelliNews

Croatian Prime Minister Andrej Plenkovic is seeking to mend relations with Athens during a visit to Greece for an informal meeting with regional leaders after mass football riots raised tensions between the two countries.

One Greek football fan was killed in violent clashes between supporters of

AEK Athens and Dinamo Zagreb on August 7 ahead of a Champions League qualifying match in Athens. More than 100 fans, most of them Croatians, have been charged in connection to the violence.

The case has become politicised as Croatian politicians face pressure from

relatives of those detained in Greece to support them.

Plenkovic is due to attend an informal meeting in Greece to discuss the European integration of Southeast European countries and security amid the war in nearby Ukraine on August 21. He is expected to meet with his Greek



AEK players celebrate making it through to the Champions League qualifying play off stage after a draw against GNK Dinamo Zagreb. / AEK

counterpart Kyriakos Mitsotakis during the visit to resolve issues relating to the violence.

Separate meetings between Croatian Justice Minister Ivan Malenica and Minister of Foreign and European Affairs Gordan Grlić Radman with their Greek counterparts are also planned.

### Riots in Athens

An Athens court mandated pre-trial detention for all 105 arrested individuals linked to the violent clashes outside AEK stadium on August 7. The clashes resulted in the death of AEK supporter Michalis Katsouris.

Of the detained individuals, 102 are Croatian nationals, two are Greeks and one is an individual of Albanian descent born in Greece.

The charges include allegations of setting up a criminal organisation and involvement in premeditated murder.

The violence unfolded on the night of August 7, before the scheduled UEFA Champions League third-qualifying-round match between AEK Athens and Dinamo Zagreb.

A confrontation between football fans escalated, ultimately leading to

Katsouris' death. Video footage from the riots showed youths carrying weapons running past the stadium in Athens. Greek Public Order Minister Giannis Oikonomou acknowledged police errors and suspended seven officers.

### Violence condemned

Croatian officials have condemned the violence. However, they also face pressure from the families of those detained to ensure they are not treated harshly while in detention, and receive fair trials.

Around 20 parents of those arrested protested outside the foreign ministry in Zagreb on August 14 to ask for their children to be protected.

Croatian President Zoran Milanovic fanned the flames on August 15, when he claimed that the Croatians arrested in Athens were being detained "as if there was a war going on" and "treated like criminals".

Plenkovic said on August 15 that the Croatian authorities and diplomats are making the "greatest possible efforts" to help the detained Croatian fans.

At the same time, he accused Milanovic of "sending messages that are not well received" in Athens.

"It would be good if, as the parents of our citizens wrote to me to help them, and I ... am helping, he [Milanovic] might be asked not to help them anymore. The more he helps them like this, the longer their sons will probably be in Greek custody," said Plenkovic.

Justice Minister Ivan Malenica complained on August 16 that Milanovic's statements were hindering efforts to support the fans.

Greece rejected Milanovic's claim that the country does not abide by the rule of law.

In response to a journalist's question about Milanovic's statement, Ministry of Foreign Affairs spokesperson Stratos Efthymiou said: "The independent Greek judiciary will judge the case impartially and objectively, respecting the fundamental rights of all those remanded into custody ... Under the current circumstances, any statements that distort reality are not helpful."

Further conflict emerged when a Greek web portal published the personal data of some Dinamo supporters. Hina reports that the Croatian Personal Data Protection Agency (AZOP) has sent a request to the Greek regulator to take action.

### Calming tensions

As well as the upcoming meeting between Plenkovic and Mitsotakis, Croatian Football Federation (HNS) president Marijan Kustić and Hellenic Football Federation (EPO) president Panagiotis Baltakos said on August 18 that they want to work together to defuse tensions, the HNS announced on Facebook.

UEFA president Aleksander Ceferin also met with Mitsotakis on August 16. At a press conference afterwards, Ceferin called for the "cancer of hooliganism" to be removed from football.

UEFA announced on August 19 that fans of GNK Dinamo will not be allowed to attend any away matches for the remainder of the 2023/24 season of UEFA club competitions. ●





Ukraine's counter-offensive has been going on for several months, but with little progress and a mounting death toll, fatigue amongst Ukraine's allies is growing as the conflict looks increasingly unwinnable. / bne IntelliNews

# Ukraine war fatigue is growing

Ben Aris in Berlin

**F**atigue with the war in Ukraine is growing louder as the war in Ukraine drags on with no end in sight.

Western elites are still committed to supporting Kyiv until the bitter end. Nato Secretary General Jens Stoltenberg said on August 18 that Nato will support Ukraine "until it wins". European Commission President Ursula von der Leyen, a Russia hawk, has repeatedly said that the EU will do "whatever it takes" to support Ukraine, and she has been instrumental in pushing through numerous large financial support packages. And US President Joe Biden repeated that the US will "never give up" its support for Ukraine.

However, both the public and some Western politicians are becoming increasingly uncertain of the wisdom of continuing what is beginning to look more like another "forever war" and

pouring more billions into the insatiable Ukrainian military black hole.

And a possible ceasefire deal that includes Ukraine conceding some territory to Russia is clearly being discussed amongst Nato allies. Stian Jenssen, chief of staff to Nato Secretary General Stoltenberg, put the cat amongst the pigeons by suggesting that Ukraine could consider ceding part of its territory to Russia in exchange for Nato membership, a statement he quickly walked back after an outcry from Kyiv.

A number of negative reports have recently appeared in the Western mainstream press. *The New York Times* (NYT) reported on August 18 the total number of dead and injured in the war has topped 500,000, according to US intelligence services – more than the Vietnam and Afghan wars combined. The number of war deaths is usually

a taboo subject as Kyiv has made the casualty figures a state secret.

US General Mark Milley, chairman of the US Joint Chiefs of Staff, has been publicly sceptical on the chances of Ukraine winning the war and repeated his scepticism again recently.

"I had said a couple of months ago that this offensive was going to be long, it's going to be bloody it's going to be slow," he told *The Post*. "And that's exactly what it is: long, bloody and slow, and it's a very, very difficult fight."

Milley said that there might be a diplomatic solution that would completely expel Russia from Ukraine, but implied that he didn't believe there was a military solution.

Since the war, Ukraine has received a record \$66.2bn in aid from the US, but some in Congress are becoming tired

of the endless appropriations. Biden asked Congress for another \$20bn in aid for Ukraine but the call was met with resistance and Republicans in the House have voiced opposition to additional money for Ukraine, reported the *Washington Post*.

"The bleak outlook [for the counter-offensive], briefed to some Republicans and Democrats on Capitol Hill, has already prompted a blame game inside closed-door meetings. Some Republicans are now baulking at President Biden's request for an additional \$20.6bn in Ukraine aid given the offensive's modest result," the *Washington Post* reports.

Enthusiasm amongst the general public is also fading. A recent CNN poll found the majority of Americans are against continuing to fund Ukraine, although the majority of Democrats are for it, while the majority of Republicans are against it. Overall, 55% say the US Congress should not authorise additional funding to support Ukraine vs. 45% who say Congress should.

In Germany, where support for Ukraine has been strong amongst the population, the right-wing AfD (*Alternative für Deutschland*) party has become the second largest party in the country and has a strong anti-war platform.

Ukrainian Foreign Minister Dmytro Kuleba on August 17 acknowledged the slow pace of Ukraine's counteroffensive but said Kyiv would not stop fighting until all its land is retaken. "We don't care how long it takes," he told the news agency Agence France-Presse.

More people and politicians are coming round to the idea that the war is unwinnable and are starting to ask why the West should keep funding it. As the next US presidential election heaves into sight, the war in Ukraine is already becoming a political issue in the campaign – one that the Kremlin will watch closely.

### Counteroffensive going slowly

Part of the problem is the much vaunted Ukrainian counter-offensive has failed

to provide the spectacular successes that were achieved with the Kharkiv assault last September.

Having provided Kyiv with significant new and powerful weapons following the Ramstein meeting in February last year, including a commitment to send modern Leopard 2 tanks and long-range missiles, the West was hoping for another hammer blow that would smash through Russian lines and pave the way for ceasefire talks.

However, that has failed to happen. According to reports, the UK and the US were advising Kyiv to commit a large amount of reserves to a frontal assault and accept the high casualty rate that entails.

"Joint war games conducted by the US, British and Ukrainian militaries anticipated such losses but envisioned Kyiv accepting the casualties as the cost of piercing through Russia's main defensive line," according to US and Western officials talking to the *Washington Post*.

"But Ukraine chose to stem the losses on the battlefield and switch to a tactic of relying on smaller units to push forward across different areas of the front. That resulted in Ukraine making incremental gains in different pockets over the summer," the paper reports, adding that the outlook for the counteroffensive is "bleak", according to Western officials' assessment.

Well aware that a big counter-attack was on its way, Russia did not waste those eight months, while Kyiv tried to

cross and have up to five or six mines per square metre in some places, according to reports. The Ukrainian advance has been slowed to a crawl as a result.

Hopes were still alive in the first month of the counter-offensive of a big push after probing the Russian lines and "shaping" Russia's defences with feinted attacks on the line in one place to weaken it in another. But if this was the strategy it has failed to create an obvious weakness.

Ukraine's commanders are also now coming in for criticism for committing too many resources for the assault around Bakhmut, the epicentre of the war for the last eight months, which has reduced resources in the south where Ukraine was hoping to cut through the Russian-held land bridge that connects Crimea to the Russian mainland along the coast.

In the south the town of Melitopol is key as two major highways and a rail line meet at the town, which are used to supply Russian troops from Crimea in the land bridge. But despite some progress, the AFU are still no way near taking the town, the *Washington Post* reports.

"That means Kyiv won't fulfil its principal objective of severing Russia's land bridge to Crimea in this year's push," an intelligence report said, cited by the *Washington Post*. That is because Russia has shown "brutal proficiency in defending occupied territory through a phalanx of minefields and trenches", the report said.

And that is after all the AFU reserves, including the elite 82nd Air Assault brigade, a Western-trained and entirely

**"Enthusiasm amongst the general public is also fading. A recent CNN poll found the majority Americans are against continuing to fund Ukraine"**

assemble sufficient Western materiel and train troops in their use, Russia built very extensive defences including hundreds of kilometres of minefields. Those minefields have proven impossible to

Western-armed unit, have now all been committed to the fight with no visible effect.

The prospects of even more, even

more powerful weapons, remains controversial. The “fighter jet coalition” of Ukraine’s supporters like Poland, have been pushing for the US to send F-16s to Ukraine, but a mere eight pilots (recently reduced to six) are still waiting for a six-month training programme to begin. Ukrainian military analyst Valery Romanenko said that even a squadron of 24 planes will not have a material impact on the outcome of the war.

After months of procrastinating, Ukrainian President Volodymyr Zelenskiy has been promised 42 US-made F-16 jet fighters by the Dutch government during an unannounced visit to the Netherlands on August 20. Denmark has promised to send 19 of its F-16 fighters as well, six of them before Christmas.

Washington gave Denmark and the Netherlands official “assurances” that the United States will “expedite approval” of the transfer requests for F-16s to go to Ukraine, but only when the pilots have completed their training. That is not expected to happen for at least six months. There is still a strong possibility that Washington will delay granting the re-export permission after the pilot training is completed.

“F-16s can be used both for air defence and in traditional engagements with enemy aircraft,” Romanenko said in an interview. “It is not at all clear to us how we can win without any aviation at all or without long-range weapons. This is just nonsense... It’s all political,” he added, speaking of the delays to the programme.

### Peace deals

Bankova has said repeatedly that it will not cede land nor even start peace talks until Russian forces have been entirely expelled from Ukrainian territory. Poll after poll shows that the vast majority of the Ukrainian people are of the same opinion. That leaves the diplomatic process in a stalemate.

A deal that included territorial concessions, in that Zelenskiy suggested that he was prepared to kick the Crimea and Donbas issues down the road, was nearly done last April, as *bne IntelliNews* reported, but since then the positions of

the two sides has moved so far apart as to be irreconcilable.

While it is widely assumed that the Western powers can bring the conflict to a halt at a whim, simply by cutting off supplies of weapons and ammo, the White House has painted itself into a corner by repeatedly saying that the decision to start talks lies with Kyiv alone, which is also responsible for the tactics used in the war.

As for the Kremlin, it has indicated that it is open to talks, however, Russian President Vladimir Putin has made it explicitly clear that Russia will not even discuss the return of the four regions it annexed last September, which include the Donbas, as they are now considered to be Russian sovereign territory. By extension, returning Crimea is also off the table, as that has been considered Russian since 2014.

For the Nato allies, the war goal so far has been clearly “don’t let Ukraine lose.” However, “Ukraine must win the war” is not a Western war goal, irrespective of what Stoltenberg, a hawk in the war, may say. At the end of the day, Nato is a military alliance and it is the member countries that have the final say; the Nato body, headed by Stoltenberg, has no formal power to set any political agenda.

As *bne IntelliNews* has observed elsewhere, without sufficient guns and ammo, Ukraine has no hope of defeating Russia on the battlefield. And as Nato’s number one war goal is “don’t start WWII by provoking Russia too far,” it is highly unlikely the allies will change their policy and arm Ukraine to win, rather than just not lose.

A frozen conflict is the most likely outcome from the war in Ukraine, not a Russian defeat. Indeed, the White House has said on multiple occasions that its plan is to deliver a crushing military blow so that Ukraine is “in the best possible position when it eventually goes to the negotiating table”.

In parallel to the military campaign has been the economic war being waged against Russia in the form of the extreme sanctions regime. But as *bne IntelliNews*

has extensively reported that campaign is also failing. While sanctions have certainly hobbled the Russian economy and caused considerable pain, the Fiscal Fortress that Putin has built has proven to be remarkably robust. For example, Russia’s economy is expected to grow by 2-2.5% this year, while Germany and the UK go into recession and the rest of the EU puts in anaemic growth. Sanctions will permanently reduce Russia’s growth potential so that it stagnates over the long-term, but in the short-term it has more than enough in reserves to continue the war for at least two more years before the Ministry of Finance has to begin to think about more radical measures like raising taxes.

Ceasefire talks can only begin when the Western allies concede this war is unwinnable. Kyiv has clearly taken the line that the war must be won, at any cost, and will keep doggedly fighting until that happens, even if it never happens.

Several peace plans have already been put on the table: the Chinese 12-point peace plan that was released on the anniversary of the start of the war; South African president Cyril Ramaphosa offered another plan during a trip to Kyiv in June; and the Kingdom of Saudi Arabia (KSA) said that Ukraine’s sovereign integrity must be respected in any peace deal during an Arab-led peace summit in Jeddah in August that broke up without result. A third peace summit is scheduled for later this year.

However, with the counteroffensive still under way and several months of summer and autumn left, it seems unlikely that any serious talks will start soon. Zelenskiy has politely rejected all these plans out of hand, saying Kyiv has its own 10-point peace plan and is sticking to that, which starts with all the Russians must leave the country before anything else can happen.

But as winter settles in and the killed in action roll call mounts, unless the counteroffensive has delivered something more substantial in the way of progress than it has so far, it seems likely that the calls for an end to the war may grow louder. No one, not even the Russians, will relish the idea of another



year of death and destruction, with no hope for an end to the conflict in sight.

However, with the US presidential elections looming and with a return of Donald Trump a possibility, it may be Putin will wait to see what happens in the US presidential elections.

“Problem with starting talks now is that

Putin has no incentive to compromise. As [former US ambassador to Moscow, Michael McFaul] points out, there is zero reason for the Kremlin to make any kind of deal until they know the results of the next US Presidential election. So another 15 months of stalemate, minimum,” journalist Owen Matthews said in a tweet.

Unlikely as a frozen conflict is, they

litter the world and once established they can exist for decades: Korea's DMZ, Turkey's occupation of northern Cyprus, the Berlin wall, Palestine and Kashmir to name a few. Another one in Eastern Ukraine would be the second frozen conflict in Europe since the end of WWII, but would probably be soon forgotten, although the sanctions on Russia would become permanent. ●

## Ukraine ready to build back better, says reconstruction agency head

Dominic Culverwell in Kyiv

**A**tired Soviet-era office block in downtown Kyiv may not look like the most exciting place in the Ukrainian capital but inside it the future face of Ukraine is being moulded. It's home to the Agency for Reconstruction and Development of Infrastructure, headed by former EuroMaidan revolutionary turned politician Mustafa Nayyem. He will be responsible for rebuilding Ukraine when the war comes to an end.

The reconstruction of Ukraine will be the biggest building project Europe has seen since the end of WWII. The devastation wreaked by Russia on Ukraine is catastrophic, but it also presents an unprecedented opportunity. Not since the great war has a country had to rebuild from the ground up and modernise the entire post-Soviet economy almost from scratch. Ukraine could potentially become one of the most modern and greenest countries in the world – if the money to pay for it can be found.

The former Deputy Minister of Infrastructure is in charge of leading the prodigious effort to rebuild and redesign Ukraine as well as interactions with donors to fund the immense costs of redevelopment, estimated in April to be \$411bn by the World Bank in April. But as Nayyem points out, this figure is only going up, as Russia's brutal invasion of Ukraine shows no sign of stopping.

“It is too early to estimate because we do not know what is going on in the occupied territories. It is obvious they will have [far] more problems than the de-occupied and liberated territories or the peace side,” Nayyem tells *bne IntelliNews* in an exclusive interview.

Pointing to Kherson as an example, Nayyem explains that Russian troops have destroyed everything in the occupied zones, including municipal transportation, bridges, roads and administrative buildings. All will have to be rebuilt, likely from scratch. Repairing damaged roads and bridges is one of the Agency's key priorities and crucial

for the delivery of goods, ammunition and aid to soldiers on the front line and civilians living in affected territories.

In addition, the Agency is focusing on energy infrastructure in preparation for the heating season as well as utilities, such as water. Following the destruction of the Kakhovka hydroelectric power plant (HPP) last month, the Agency is building a pipeline to provide water to 1.5mn people in southern Ukraine.

Accommodation is another major issue. 8.6% of Ukraine's total housing stock is damaged or destroyed, amounting to \$54bn in damages, according to a



Ukraine's economy has been devastated by Russia's war of aggression, but by building back better it could emerge as one of the most modern and greenest countries in the world. / Mustafa Nayyem Twitter



June report from the Kyiv School of Economics (KSE). The Agency has received over 400,000 inquiries from liberated territories, 40% of which concern housing.

“For us, it’s important now to hear what the regions need and to help them to cover this gap in financing or expertise,” Nanyem says.

Reconstruction is now at the forefront of discussions about Ukraine and Nanyem wears a look of exhaustion from working non-stop since the creation of the Agency in January. Nevertheless, optimism shines through as he explains that Ukraine will have no problem with funding the process.

“There are a huge number of partners who want to help, and they are now defining the process of delivering this money. I think this year will be the first to have a big amount of money,” he says.

Currently funding from allies and institutions is simply filling the holes in the state budget, whilst the Ukrainian government is in the process of restructuring loans from institutions. But the Agency has small projects with the UK, World Bank, European Investment Bank and the European Bank for Reconstruction and Development (EBRD) for rebuilding, although not at the level that Ukraine needs. Additionally, countries like Poland, Lithuania and Estonia are implementing their own projects on the ground, with Warsaw funding temporary accommodation for IDPs in the de-occupied towns outside Kyiv.

Ukraine also launched the Fund for Liquidation of the Consequences of Russian Aggression in January 2023, which consists of seized funds and assets belonging to the Russian Federation and Russian citizens which will be used in the reconstruction process. The 2023 state budget allotted UAH35.5bn (\$965mn) to the fund, with priority on rebuilding destroyed housing and critical infrastructure facilities, and the government confiscated \$462mn from Russian banks at the start of the year.

“Regarding all support of our partners, we understand that we will not have

problems with financing. The problem for all of us is to do it as fast as possible,” Nanyem explains.

Bureaucracy is holding back the delivery of urgent funding and Nanyem believes the process needs to be better co-ordinated to urgently help those in need. One of the ways to speed up the flow of money is through partnerships with the private sector, with Ukraine offering attractive opportunities. The government is currently in the process of creating insurance for hesitant companies concerned about the war and the Agency has signed several non-

“There are a huge number of partners who want to help, and they are now defining the process of delivering this money. I think this year will be the first to have a big amount of money”

disclosure agreements with enterprises who have expressed interest in public-private partnerships.

The private sector was pinpointed at the Ukraine Recovery Conference in London last month. However, many expressed concerns about Ukraine’s corrupt reputation. Kyiv has taken this to heart and Nanyem points to the recently launched DREAM platform, which aims to make the reconstruction process as transparent as possible.

“DREAM collects, organises and publishes open data across all stages of reconstruction projects in real time, implementing the highest standards of transparency and accountability. Anyone, anywhere, can monitor the effectiveness and efficiency of project delivery, and use these insights to mitigate risks, conduct accurate reporting and improve overall project performance,” the website states.

Nanyem believes implementing transparency and corruption prevention measures in all agencies will help change the approach for procurement and other issues and build trust with partners. However, unlike many Ukrainian citizens,

he doesn’t believe in implementing harsher punishments for guilty parties.

“Punishment is when everything has happened, when you cannot bring back money in time. So, the main tool should be prevention and deterrence,” he said.

However, a recent report from Transparency International found that 24% of Ukrainian citizens and 18% of Ukrainian businesses were in favour of increasing criminal liability for corruption. The overwhelming majority of Ukrainian citizens and businesses (73% and 80% respectively) listed the resumption of

corruption schemes as their top fear post-war. But Nanyem is confident that the government will tackle these issues head-on as part of Ukraine’s rebranding.

### Build back better

The physical reconstruction process will begin in August with the experimental “build back better” project. It will be trialled in six settlements in the Kherson, Kyiv, Sumy, Kharkiv and Chernihiv regions, which should become fully habitable within a year, according to Nanyem.

Currently, only Ukrainian construction firms are involved in the rebuilding process due to fears of foreign companies over hostilities. Nevertheless, Nanyem welcomes international companies to register in Ukraine in order to make the market more competitive and ensure the highest quality.

“But everything should be done in Ukraine. It’s very important, because Ukraine has its own big capacity to produce materials and enough experts and specialists and labour who can work on this project,” he stresses.

Reconstruction will play a crucial role in boosting Ukraine’s depleted workforce, which has suffered a 30% drop since the

start of Russia's full-scale invasion. The Agency is ready to offer construction jobs to soldiers returning from the war as well as returning refugees.

"It will be one of the biggest triggers for the economy next year," Nanyem states.

He excitedly explains the project as not about building back Soviet-style, but about building unique and "people friendly" settlements for different communities' needs and requirements. Nanyem and his team have planned a visit to Posad Pokrovske in Kherson Oblast the day after the interview where the proposals will be presented to residents. "Even the renders look beautiful," he claims.

It's a radical project that will be unlike anything the country has seen before and in stark contrast to Russia's reconstruction projects in Mariupol, which Nanyem dismisses as a "ghetto". Citizens have a direct say in how their settlements will look and 2,000 members of the Agency are in communication with locals on the ground. Whilst the Agency discusses the project's needs with the government and the Ministries of Energy, Infrastructure, Education and Healthcare, the final decision is up to local authorities and residents.

"We can't dictate to them," Nanyem said. "Of course, we will suggest to people the best solution, because in some areas we understand that infrastructure is overloaded. In some facilities in some areas, there is not the possibility to

rebuild everything as before the war and it's not necessary."

Healthcare institutions, for example, should be diminished in amount but increased in capacity to deliver different services, he claims. At the same time, "safety centres" will be modernised to combine police, firefighters and ambulances to work more efficiently and also reduce electricity usage. Nanyem explains that facilities will also be fully accessible for disabled people, an urgent need for Ukraine considering the high number of injured fighters returning from the front line.

A standardised approach and modern technologies are being implemented in the rebuilding process, with plans for the first 3D printed school in Europe to open in Lviv next year. Prefab and modern materials for housing will help speed up the process and keep costs down as well as provide work for production factories. Modernisation also means green designs and the Agency is in discussion with European colleagues, international communities and experts to adopt environmental standards.

"In the future, to attract more money and involve partners, we should be green. It's important," Nanyem emphasises.

However, one of the main problems is the lack of residents in territories close to hostilities, as many have left the country or moved to other cities. In order to bring people back, the government needs to offer opportunities and stability, as well as rebuild key infrastructure.

Nanyem references examples of recovery processes after catastrophes in Japan, the USA, Pakistan and Malaysia as a blueprint for what needs to be done.

"First of all, people think about security; if it's secure they will come back. Secondly, it's to survive and earn money and they should have jobs. We should be focused on the economic side of this issue, and I think restoration itself will be part of economic development and part of job creation. Next is housing, which is the responsibility of the government, because housing is something that people cannot bring back fast enough [themselves] so the government should help them," he explains.

Once these issues have been addressed, then he is convinced people will return to their home towns. Despite the challenges facing the Agency, Nanyem is confident and describes the project with pride. For him, it's not just about rebuilding war-torn villages and cities, it's about a revolutionary change, directing Ukraine away from its Soviet past and building a modern, exciting future that is designed to take into account the needs of different communities.

"It's a very different approach to make this research: speaking to people, doing all these polls, showing these projects at public hearings, community gatherings and discussing these issues. That's a big part of our work," Nanyem states.

"I think that we will really show how it will be done and this final project for us is crucial." ●

## Russian tech titan Yandex CEO Volozh slams Putin's "barbaric" war in Ukraine

Ben Aris in Berlin

**A**rkady Volozh, the former CEO of Russia's internet giant Yandex, issued a statement on August 10 that slams Putin's "barbaric" war in Ukraine, a statement that will almost

certainly see him lose control of any assets or money he still has in Russia.

"Russia's invasion of Ukraine is barbaric and I am categorically against it. I am

horrified about the fate of people in Ukraine – many of them my personal friends and relatives – whose houses are being bombed every day," Volozh wrote in a statement emailed to *bne*



The CEO of Russia's internet giant Yandex has publically slammed Putin's war in Ukraine, in a statement that will likely see him stripped of all his wealth in Russia. / bne IntelliNews

*IntelliNews.* "Although I moved to Israel in 2014, I have to take my share of responsibility for the country's actions."

Most of Russia's leading businessmen have issued very guarded statements on the war, afraid of being dispossessed. One exemption was Oleg Tinkov, the owner of Tinkoff Credit Systems (TCS) that owns Russia's only purely online bank that is listed in London and was worth more than \$1bn before the war broke out. After unabashedly criticising Russia's decision to invade Ukraine last year, he was forced to sell his bank to fellow tycoon Vladimir Potanin for "pennies on the dollar" and fled into exile in Mexico.

A similar fate now almost certainly awaits Volozh, who still owns some 8% of the New York-listed Yandex, known as "the Russian Google", and formerly the most valuable tech company in Europe with a market capitalisation of around \$30bn pre-war.

The Russian part of Yandex is still making money and posted 55% year-on-year growth in top line revenues to RUB183bn (\$2bn) in 2Q23 in July, expanding by 55% for 1H23 overall as well to RUB346bn.

Volozh stepped down as Yandex CEO and left the board of directors in summer 2022 when he wrote a farewell message to his staff. The EU left the market guessing on Yandex's fate after designating him in

its sixth package of sanctions for Russia's invasion of Ukraine.

Yandex's parent company recently announced that it would divest its Russian business, but was planning to keep hold of four technology startups which it hopes to grow outside Russia.

The process of breaking Yandex up into its Russia and international businesses is ongoing. Trading in Yandex shares was halted shortly after the war started, but in June Nasdaq said that it would not delist the company if it sold off its Russian assets, leaving Volozh and his international shareholders with the international assets that would remain in the US listed entity.

Former Finance Minister Alexei Kudrin has been advising the Yandex Board on the restructuring, including the plan for Yandex's parent company to divest all Russia-based assets. Several of Russia's leading businessmen, including Potanin, have expressed an interest in buying, although no concrete deal has been reached yet.

If Volozh was hoping to get paid something for his remaining stake in the company as part of the deal, those hopes will have died now. But he will have certainly understood he took this risk when he condemned the war.

"He won't be destitute, but he is no longer a wealthy man," a source close to the company told *bne IntelliNews*.

The Kremlin has become increasingly aggressive in grabbing assets of those that oppose it. Initially foreign companies were told they would be permitted to exit the Russian market, but only if they agreed to offer a 50% discount on the valuation as well as make a "voluntary" 10% payment to the government.

More recently the Kremlin has turned to outright nationalisation, taking over the businesses Finnish and German energy majors Fortum and Uniper in June, and food producers Danone and Carlsberg in July, which will be handed to Russian President Vladimir Putin's cronies.

In the same month Putin has instructed the government to make it even harder for "naughty" (*nekhorooshi*) Western companies to work in Russia and those that do not want to play by the Kremlin's rules to exit.

Over the last year, while the board worked on restructuring the company to reflect new political realities, Volozh has been working to support the company's engineers that wanted to leave Russia. Since the war started there have been two big emigration waves – one immediately after the war started and another in September last year during a partial mobilisation that began on September 21 – where an estimated half of the 1mn that left the country are believed to have worked in the IT sector.

According to *bne IntelliNews* sources, Volozh has been agonising about the decision to speak out against the war. As he said in his statement, "I am known as one of the founders of Yandex. In our minds, when we founded it, we weren't only creating a technology company. We were helping to create a new Russia – open, progressive, integrated into the global economy, and able to bring value to the world beyond natural resources," Volozh said in the statement.

"Yandex was made possible thanks to the unbelievable engineering and tech talent that we were able to attract, retain and cultivate... Since the start of the war, I have been focused on trying to support the talented Russian engineers who took a decision to leave the country.

It has been an extraordinarily complex process, helping these engineers to start a new life. It has required focus, care and discretion. These people are now out, and in a position to start something new, continuing to drive technological innovation. They will be a tremendous asset to the countries in which they land."

Volozh went on to say that he expects some to criticise him for staying silent for more than a year and half but added there should be no questions about his stance: "I am against the war," he said boldly.

Several high-profile western-based Kremlin critics, such as the former investment banker Bill Browder and one-

time oligarch Mikhail Khodorkovsky, have called on Russia's business elite to speak out against the war.

"Public figures cannot leave quietly and then sit quietly. If you have left, then you should publicly dissociate yourself or we should be forced to suspect that you are acting on [the Kremlin's] behalf," Khodorkovsky said in an interview last year in his London office. "You should step up to the microphone and say that Putin is a war criminal and that what he is doing is a crime, that the war against Ukraine is a crime. Say this, and then we'll understand that Putin doesn't have a hold over you." Very few of Russia's business elite have met the call, as most of them are too

concerned with hanging on to their significant Russian assets that are still worth billions of dollars, even if valuations have been halved by the international sanctions on Russia.

Tinkov is one of the few exceptions and did speak out. As an oligarch he was included in the Western sanctions list, but in acknowledgement of his courage to speak out the UK rescinded those sanctions in July.

Volozh has now come out as a leading example of a top Russian businessman who is prepared to give up his fortune for the sake of his conscience. ●

## BRICS adds six new members, including Iran and Saudi Arabia

Ben Aris in Berlin

**T**he five-nation BRICS club of leading developing economies announced on August 24 that it is to add six new members, effective from the start of next year. The new member nations will be: Argentina, Egypt, Ethiopia, Iran, the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE).

At its summit in Johannesburg, the five biggest emerging markets in the BRICS group – Brazil, Russia, India, China and South Africa – represented a quarter of the world's economy and the larger part of global GDP on a purchasing power parity (PPP) basis. The group seeks to be a counterweight to the dominance of Western-led geopolitics and provide a forum where developing markets can have their interests better represented on the international geopolitical stage.

Currently emerging markets complain that while they make up nearly half the world's population and a larger part of its productive power, the countries are under represented in the infrastructure of geopolitics, in institutions like the

IMF and World Bank and particularly on the UN Security Council where there are no permanent members from Africa or the Middle East.

China and Russia have been leading the process of creating a BRICS bloc as both nations are in conflict with the West and have been calling for a transition from the unipolar world led by the US to a multipolar world based on the principle of the equality of all countries.

Both Moscow and Beijing see the UN as the proper forum for overseeing this multipolar world, but they are also actively promoting other organisations

such as the G20, Shanghai Cooperation Organization (SCO), Asean (Association of Southeast Asian Nations), Eurasian Economic Union (Euu) and other multilateral organisations not dominated by the West.

However, the BRICS members are divided on the nature of what an expanded BRICS+ group should do. Russia and China see the BRICS+ as a political entity that will actively challenge groups like the G7, whereas India and South America see the group as a way to promote commercial ties and accelerate their economic development in cooperation with the West. Brazil remains the most sceptical when





it comes to expanding the group. Brazilian President Luiz Inácio Lula da Silva says it would undermine BRICS' authority.

After the expansion announcement, South Africa sought to play down fears of an aggressive BRICS+, especially in the light of the inclusion of Iran, emphasising the grouping was not hostile to the West.

Anil Sooklal, South Africa's BRICS sherpa, told reporters the group needs to change with the times. "This is what BRICS is saying, let's be more inclusive. BRICS is not anti-West," he said.

At the summit, the five BRICS leaders thrashed out a middle group and emphasised that the group wants to bring "diversity" to the world's power

than 40 countries have expressed a desire to join BRICS, according to South Africa, which is hosting the BRICS summit. However, their names have not been released. Amongst those that have declared publicly that they want to join and have submitted a formal request are Algeria, Bangladesh, Egypt and Ethiopia.

#### **From BRIC to BRICS to BRICS+**

The original criteria for being a "BRIC" country, a term coined by legendary analyst Jim O'Neill in 2001, were very simple: be a big country, have a big population and have a lot of economic potential.

The BRIC group became a political organisation at its inaugural meeting in 2009 in Yekaterinburg in Russia. South Africa joined in 2010, adding the "S",

However, things changed in 2016, when Russia, along with other neutral oil producers, joined an expanded OPEC+ group to better control international oil prices. Since then relations between Riyadh and Moscow have improved dramatically.

Including Iran together with UAE in the new BRICS+ bloc adds a permanent political dimension to the commercial institution that is OPEC+ and increases the control the emerging geopolitical challenger has over crucial raw materials, as *bne IntelliNews* has followed in a series of "BRICS MATERIALS" articles.

Russia has invested a lot of effort in building on the Soviet-era good relations held with the Middle East, and as one of the few countries that is on friendly terms with both Iraq and Iran, as well as Syria, Russia is seen as an honest broker in the region.

China has also invested heavily in the region. In April, China, to a lot of surprise, successfully brokered a rapprochement between KSA and Iran. They had broken off diplomatic relations eight months earlier. Likewise, Syria returned to the Arab League in May after years of isolation.

Egypt is also an obvious choice for BRICS. It compliments South Africa well as together these two nations are the most prosperous in Africa. Cairo also has one foot in the Arab world, in addition to technically being an African country.

Egypt is heavily dependent on Moscow for oil, grain and other commodities and Egyptian President Abdel Fattah el-Sisi has long since thrown his lot in with Putin. Sisi was co-host of Russia's first Russia-Africa summit in Sochi in 2019 and was on stage with Putin at last year's St Petersburg International Economic Forum (SPIEF), as one of the few heads of state to make the effort to attend Russia's big event in the wake of the start of the war in Ukraine.

Ethiopia fits the same mould. It is the second most populous country in Africa after Nigeria and is also a close ally

## **"This is what BRICS is saying, let's be more inclusive. BRICS is not anti-West"**

structure "amid increasing polarisation." That polarisation existed before Russia's invasion of Ukraine last year, as was seen in the trade war between the US under former president Donald Trump and Beijing, but the war in Ukraine has catalysed a fracture between the West and the Global South. China's growing assertiveness in Southeast Asia and the South China Sea has also rubbed relations between East and West raw.

While Brazil, South Africa and India would like to stay in the middle ground, Russia and China are attempting to bind them into a group that can oppose the West. Most smaller developing countries find themselves caught in an even more unpleasant position between the world's powerful nations and are under pressure to pick sides, which they resist as best they can, trying to get the best deal they can from the competing nations.

Nevertheless, at least 23 other countries have applied for BRICS membership; many of them, like Russia and China, having been on the receiving end of US ire. As *bne IntelliNews* has reported, more

although by O'Neill's criteria it should not have been able to as it is too small.

Looking at the new members, it is notable that the Middle East, which plays a smaller role in the Western-led institutions, is well represented, with the Kingdom of Saudi Arabia (KSA) being *primus inter pares*. The UAE, meanwhile, has built up excellent relations with Russia in the past year and a half. It is home to a substantial number of rich Russians and their businesses that have left the motherland to escape sanctions.

Longstanding close ties between the US and KSA have soured in recent years since the shale revolution in America made the US self-dependent in oil and a rival to the KSA as it became a net exporter.

At the same time, Riyadh's relations with Russia have warmed; Moscow long resisted joining the OPEC cartel, led by KSA, happy to piggyback on OPEC production cuts to drive up prices. The US has stayed outside of the cartel for the same reasons.

of Russia, depending on Moscow for commodities and for arms in its wars with neighbouring Eritrea.

"Ethiopia will become the third largest economy in sub-Saharan Africa, with GDP expected to reach \$156.1 billion in 2023. At the same time, Ethiopia owes a debt of 13.7 billion dollars to China, which has invested 4.5 billion dollars in the construction of the Addis Ababa-Djibouti railway. This infrastructure is part of China's BRI supply chain. Thus, China was very much in favour of Ethiopia's membership in the BRICS," says political analysts and *bne IntelliNews* columnist Denis Cenusă.

Argentina was admitted at Brazil's insistence. The country is Brazil's largest trade partner and Brazilian President Luiz Inácio Lula da Silva has championed its cause as he sees it as a natural partner in South America. Argentina is important for both Brazil and Russia. In addition, there is an economic entanglement involving China. Brazil agreed to use the yuan as a payment currency for Brazilian exports to Argentina, its third trading partner, according to Cenusă.

"It is very important for Argentina to be in BRICS," Lula said in a live broadcast on social media from Johannesburg. That was the case despite the economic crisis the country is facing, Lula made

clear. The IMF recently struck a \$44bn rescue deal with Argentina. Lula has criticised it as "suffocating". He would like to see the New Development Bank (NDB, formerly known as the BRICS Bank) take up Argentina's cause.

Iran is an important player for Russia which has pledged to invest in building transport infrastructure across the Caspian Sea to reduce the costs of trade in Russia's pivoting to Asia due to decoupling from the West. Iran is also on good terms with China, according to Cenusă.

Saudi Arabia and the United Arab Emirates are key players in the energy sector and having them on board will benefit all the BRICS, whether they are energy-hungry or willing to have an additional geopolitical platform to coordinate energy production policies.

"China, India and Russia are close to Saudi Arabia for very different reasons. Separately, UAE companies are also suspected of helping Russia circumvent sanctions by exporting banned products and becoming a safe place for the Russian capital fleeing the country," according to Cenusă.

Egypt's imports from China amounted to \$14.4bn in 2022, twice as much as in 2017; it runs a huge trade deficit with exports of just \$1.8bn. Egypt also has

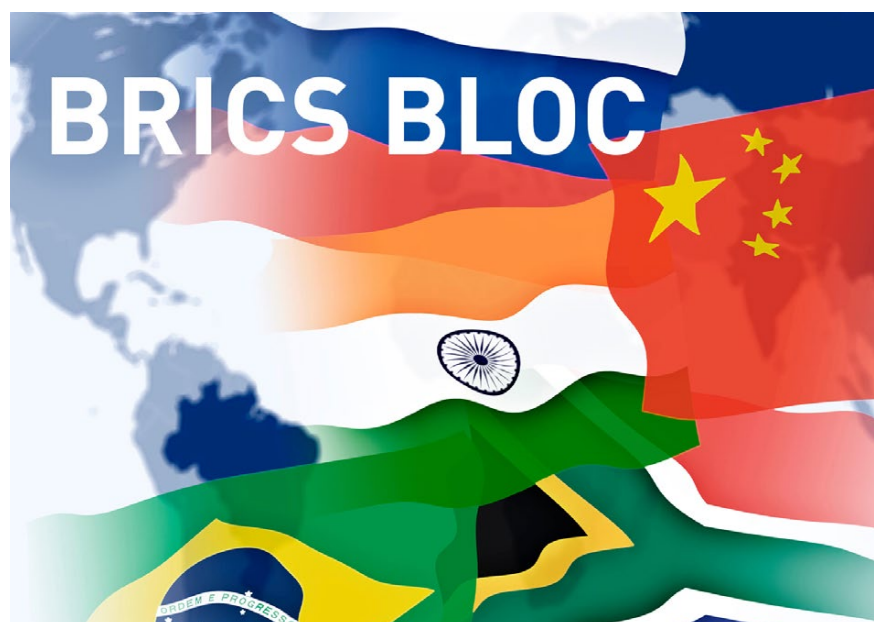
deep ties to Russia: Russians make up 40% of all tourists; the wheat Egypt imports is almost entirely Russian.

Notable absences from the short list of new members include Indonesia, by far the most populous country in SE Asia after China, and Vietnam, with both countries close allies of Moscow in the region.

Algeria and Bangladesh were also obvious candidates for inclusion in the group. Bangladesh is already a member of the NDB. What was dubbed "the bottomless basket" by Henry Kissinger is now the bull economy of the Pacific Rim, where per capita incomes recently overtook those of India.

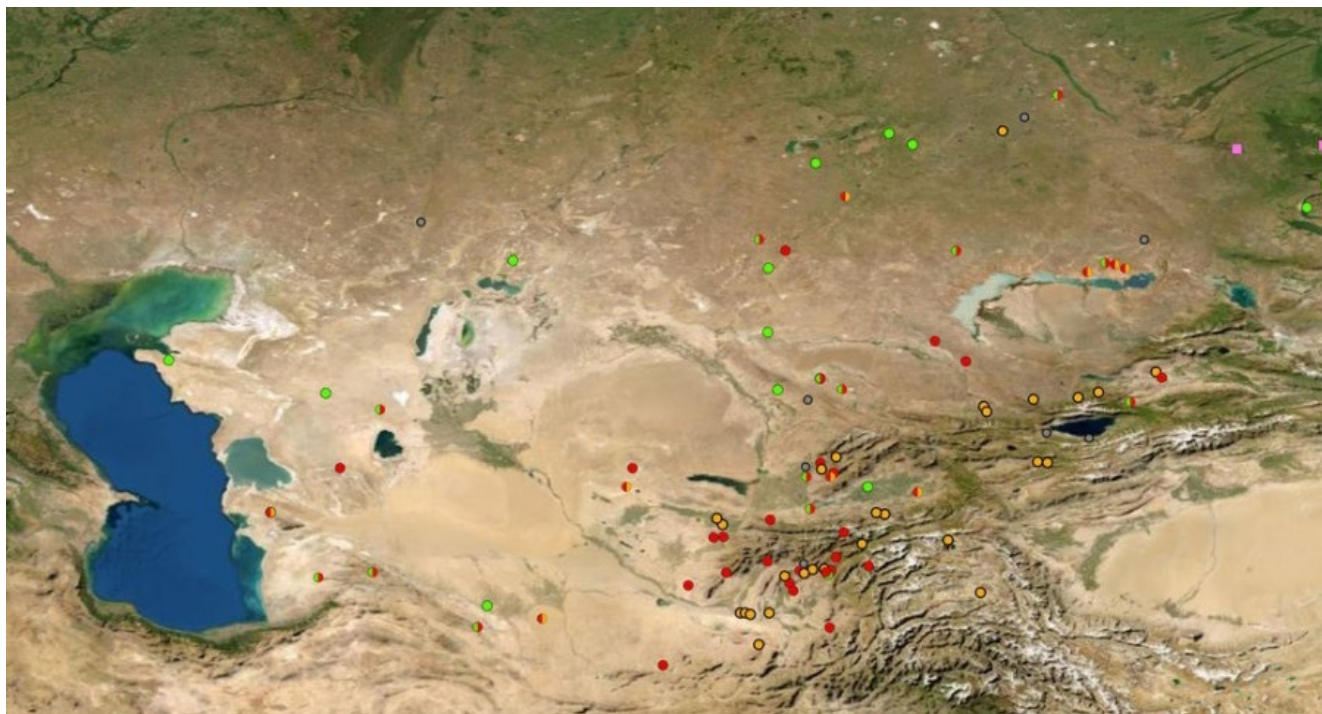
The US has sought to play down the growth of the BRICS group as a supposed rival to its power. Jake Sullivan, the White House national security adviser, told reporters that the Biden administration is "not looking at the BRICS as evolving into some kind of geopolitical rival to the United States or anyone else".

He said that the United States had "strong positive" relations with Brazil, India and South Africa, adding that "we will continue to manage our relationship with China; and we will continue to push back on Russia's aggression," *The New York Times* reported. ●



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Russia has been able to avoid many sanctions by routing banned good imports via Central Asia / bne IntelliNews

# Exports from the West to Central Asia boom as sanctions on Russia remake global trade routes

bne IntelliNews

**E**xtrême sanctions on Russia have dramatically remade global trade flows. Russia turns to its friends to act as transit countries for banned goods. And most have cooperated, both because of pressure placed on them by Moscow, their predominant trade and security partner, and partly because of the large amounts of money they can earn.

A comprehensive analysis of export data from 24 advanced nations and key emerging markets reveals a significant upsurge in exports to Central Asian countries, according to a deep dive into international trade by the Institute of International Finance (IIF).

“We find a widespread surge in exports to Central Asia, which is most pronounced for countries where direct

exports to Russia have fallen sharply or where there is geographic proximity to Russia, as in the cases of Poland or Lithuania,” says Robin Brooks, chief economist with Institute of International Finance (IIF) in the report.

“Our results should not be read as indicating an obvious violation of export controls, as we only look at aggregate level export data, which do not shed light on what goods are being exported. However, the unprecedented boom in trade with Central Asia raises important questions. After all, why incur the added transportation cost of shipping goods to landlocked countries with often limited cargo capacity, unless shipments in question are at the very least questionable under current export controls,” says Brooks.

Much of this diversion trade is happening at the level of corporates and it is not clear if it is local companies owned by locals, or Russian-owned front companies set up in third countries that are behind the boom in trade.

According to a recent investigation by IIF, it appears the boom in semiconductor exports from Estonia to Russia was due to two companies registered in Estonia by Russian businessmen.

In another investigation, the soaring trade between Russia and the United Arab Emirates (UAE) was largely being conducted by local UAE companies that simply ignored sanctions and boosted trade.

Government’s are now increasingly trying to crackdown on their own



companies that are ignoring trade. The Swedish government instructed the country's Chamber of Commerce to check the reasons for the sharp increase in exports to countries neighbouring the Russian Federation.

According to the Swedish Statistics Bureau, in 2023 the volume of exports from Sweden to Kazakhstan increased by 140% compared to the previous year and to Kyrgyzstan and Turkmenistan by 200%. The Embassy of Kazakhstan in Sweden reported that the trade turnover between these two countries in January–November 2022 amounted to \$282mn, almost 40% higher than the previous year's period. At the same time, exports from Sweden to Kazakhstan increased by 22.3%, amounting to \$189.3mn.

The central issue revolves around the challenge of effectively monitoring export controls within the highly dispersed and decentralized nature of global trade. In contrast, Russia's oil exports, primarily transported by Western-owned oil tankers, are highly concentrated. This difference underscores the significance of the G7 oil price cap in limiting Russia's purchasing power and ultimately influencing the redirection of trade.

Brooks has been an ardent advocate for lowering the oil price cap sanctions price of oil from \$60 per barrel to \$35 as he says that is the most effective way of cutting the Kremlin off from its main source of income. Beefing up the sanctions on the rest of Russia's trade, he admits is more difficult due to the difficulties of, in effect, monitoring the entire global trade network and specifically following every type of good being traded.

Examining the data across 24 countries, including direct exports to Russia and exports to Central Asian nations such as Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, provides insights into this shift says IIF. Although Belarus is not situated in Central Asia, it is included in the "trade diversion" category due to its surge in trade activity, mirroring the pattern seen in several other countries.

"We show monthly dollar-denominated export values for the US and for Germany. Both are good representations of what's been happening in most western countries: (i) direct exports to Russia have fallen sharply; and (ii) there is a boom in exports to Central Asia, which in part offsets the drop in direct exports to Russia. Trade diversion is especially pronounced for countries in geographic proximity to Russia, including Poland and Lithuania. In the latter case, the rise in exports to Central Asia is so big that it more than offsets the fall in direct trade with Russia," says Brooks.

Calculating the growth rate in trade from the first half of 2019 to the first half of 2023 for exports to Russia and Central Asia gives some more detail on the changes in trade flow. Notably, Turkey, China, and India exhibit a unique pattern, featuring both a rise in direct exports to Russia and substantial increases in exports to Central Asia, IIF found.

In Western countries, there was strong overall growth in exports in Latvia, Estonia, Switzerland, and Lithuania. Conversely, most Western nations show predominantly negative export growth,

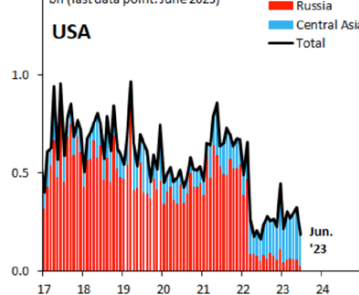
with trade diversion flows providing only partial offsets.

"[The data] shows that trade diversion flows are most pronounced for countries where direct exports to Russia have fallen most, including Denmark, Finland, Great Britain, and the US. Overall, our results underscore how difficult it is to police global trade effectively, given how dispersed and decentralized it is," Brooks says.

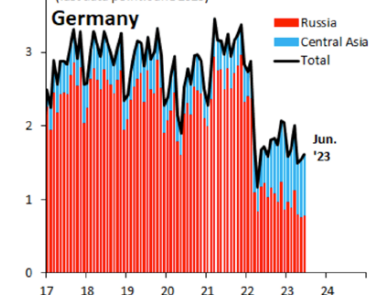
Trade data shows that Russia has largely managed to avoid sanctions by rerouting trade through multiple geographies making it exceedingly difficult to track as it is impossible to determine the ultimate end-destination at the origin of the trade.

Since the start of the sanctions regimes the West has been increasingly involved in a game of whack-a-mole. Western and Russian diplomats have been travelling the world recently trying to shore up support and the US in particular has been imposing second sanctions on abusers, or threatening to impose them, but with little effect. Technology sanctions, for example, have had little to no effect as Russia continues to have access to western technology via intermediaries, according to various reports. ●

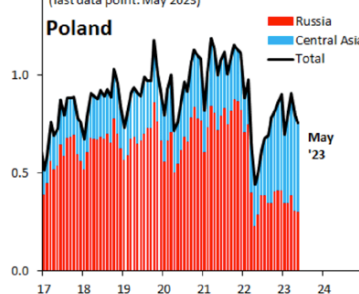
**Exhibit 1: US direct exports to Russia have fallen sharply, ...**  
United States exports to Russia and central Asia, in \$ bn (last data point: June 2023)



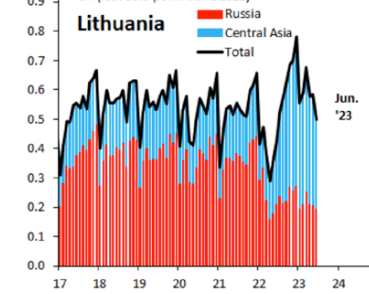
**Exhibit 2: ... and direct exports are also down for Germany.**  
Germany's exports to Russia and central Asia, in \$ bn (last data point: June 2023)



**Exhibit 3: Trade diversion flows are substantial for Poland, ...**  
Poland's exports to Russia and central Asia, in \$ bn (last data point: May 2023)



**Exhibit 4: ... as well as for Lithuania and other Baltic states.**  
Lithuania's exports to Russia and central Asia, in \$ bn (last data point: June 2023)



Source: Haver, IIF



# Turkmenistan claims population jump but compelling evidence points to slump

**Bruce Pannier**

**O**ver the years, Turkmen authorities have made many claims that have stretched credibility, to put it mildly.

The official assertion that there have never been any Covid cases in Turkmenistan is one of the cruder examples.

The latest highly dubious claim from the Turkmen authorities is that the results of the national census show that there are more than 7mn people living in the country.

The announcement amounts to the first time that Turkmenistan has released a population figure in almost 17 years, and it appears the authorities are once again fabricating information.

On July 14, the state released its count for the census conducted last year between December 7-17. It gave Turkmenistan's population as 7,057,841.

When the Soviet Union conducted its last ever census in 1989, the population of the Turkmen Soviet Socialist Republic was put at just over 3.5mn people.

After the Soviet Union collapsed in late 1991, the governments of the new countries in Central Asia faced many problems in establishing claims to sovereignty. Small populations were among the problems for the five states, with the exception of the region's most populous country, Uzbekistan (its current population stands at more than 36mn).

Laying claim to land meant having people on the land.

The governments have therefore encouraged population growth in their countries. Kazakhstan took the biggest step by offering citizenship to any ethnic Kazakh outside Kazakhstan willing to return to their historic homeland.

In terms of territory, Turkmenistan is a bit smaller than Spain, but nearly 90% of Turkmenistan is covered by desert.

The results of a census that Turkmenistan released in April 1995 showed that there were just over 4mn people in the country. Subsequently, the Turkmen government started reporting huge population increases. In early 1996, the authorities

said the population was now 4.5mn; by the start of 2001, it was said to be near 5.37mn; in April 2003, the government announced the figure of 6mn.

In March 2006, the Turkmen National Statistics Institute reported the population as 6.786mn.

That was the last time Turkmen officials provided a population figure. The results of the census conducted between 15-26 December 2012 were never released.

Few believed the official reports of rapid population growth between 1995 and 2006, and few seem to believe the Turkmen government's claim that the country now boasts more than 7mn citizens.

RFE/RL's Turkmen Service has previously spoken with sources in the Turkmen government, including people in the Population and Housing Department that conducts the census.

In a June 2021 report, the media outlet said that those sources indicated that the population had dwindled to just 2.7-2.8mn people.

Lack of employment opportunities and a general worsening in Turkmenistan's socio-economic conditions in the last eight years caused hundreds of thousands of people, at least, to leave Turkmenistan in search of a better life. They usually headed to Turkey or Russia.

Turkmen.news and Hronika Turkmenistana, both independent media outlets operating outside Turkmenistan, reported in May last year that the number of young people finishing mandatory education in the country steadily dropped from 115,000 in 2009 to 82,000 in 2022, marking a 30% decrease.

However, both publications also reported that the number of children enrolling in



Three cheers for the census bureau. / Kerri-Jo Stewart (Vancouver, Canada), cc-by-sa 2.0

the first year of school increased from 100,000 in 2011 to 161,739 by 2022.

Turkmen authorities have done all they can to isolate the country from the rest of the world, so independently verifying the size of the population is impossible.

RFE/RL's Turkmen Service, however, did some random polling of towns and villages. Each location showed a population decrease of between 20% and 40%, or more, since the year 2000.

The problem with Turkmen government figures is that they have been inaccurate so often that few believe any official Turkmen data. The World Bank stopped using the government's economic figures after 2020 "owing to a lack of reliable data of adequate quality."

Back to that claim about the apparent failure of the covid pandemic to arrive in Turkmenistan. The believability of the assertion that there are 7mn people in the country is further undercut by the government's astonishing denial that the country has ever logged a covid case.

Numerous reports during the height of the pandemic indicated that Turkmen hospitals were so crowded that people were being turned away.

The bodies of those suspected of having died from the coronavirus in hospitals were wrapped in plastic and were often quickly buried without any funeral ceremony.

Many burials were performed at night and in such a way as to not leave any

signs of the unusually high numbers of new graves in the given cemetery.

Anecdotal evidence suggests tens of thousands of people in Turkmenistan did in fact perish from covid. That alone should have lowered the final census tally.

Suspiciously, the Turkmen population figure is very close to that of Kyrgyzstan.

Kyrgyzstan's National Statistics Committee said at the start of 2023 that the Kyrgyz population was 7,037,590. That makes one wonder if Turkmenistan's figure was contrived so as to make it appear that the country does not have the smallest population in Central Asia. ●

## US pressuring Iran to end drone sales to Russia

bne IntelliNews

**T**he US is pressuring Iran to cease its sale of armed drones to Russia in exchange for easing sanctions on Tehran, sources familiar with the matter have told the *Financial Times*.

The US move is part of a broader, unwritten understanding between Washington and Tehran aimed at de-escalating tensions and addressing the longstanding nuclear issue between them. For the US this would also strike a blow to Russia's military campaign in Ukraine.

The Biden administration, led by its specific "Iran team", has reportedly broached the topic with the clerical leadership in Tehran during ongoing indirect talks in Qatar and Oman.

These talks have occurred concurrently with negotiations on a prisoner exchange deal. As a result, Tehran transitioned four Iranian-US citizens from prison to the Espinas Palace Hotel in the north of city.

"The move of our detainees out of prison and to home detention is not linked to

any other aspect of our Iran policy," US Secretary of State Antony Blinken stated on August 15.

He emphasised the US' strategy of "deterrence, pressure, and diplomacy" to prevent Iran from acquiring nuclear weapons and to hold them accountable for human rights violations and supplying drones to Russia for use in Ukraine.

According to an unnamed Iranian official and another individual briefed on the matter, the US is concerned about Iran's provision of drones and spare parts to Russia, which are being utilised in the ongoing conflict in Ukraine.

While Iran has officially denied its drones' involvement in Ukraine, Tehran has reportedly urged Moscow to refrain from using them. However, the US is seeking more definitive actions in the form of incentives.

The indirect talks aim to achieve mutual de-escalatory measures. For Iran, this would involve commitments such as not enriching uranium beyond 60% purity,

enhancing cooperation with the International Atomic Energy Agency (IAEA), and ensuring Americans are not targeted. In exchange, the US would potentially ease certain sanctions, especially those related to oil sales, while maintaining strictures related to human rights.

The Islamic Republic is also urging the US to persuade European allies to reduce pressures, given the economic strain from US sanctions implemented after the 2015 nuclear accord was abandoned by former US President Donald Trump.

Despite reaching a consensus on several issues, the talks facilitated through intermediaries will continue, especially concerning Russia, the Iranian official noted.

A Western diplomat expressed caution, highlighting the challenges of ensuring the entire Iranian system's compliance with any agreed-upon measures.

As part of the discussed exchange, Iran would release five US prisoners, while the US would free five Iranians. ●



CBR Governor Elvira Nabiullina is famous for being the "most conservative central banker in the world" but did she really drop the ball and drag her heels on hikes that caused the ruble to crash? More likely, she just had an unorthodox adventure that went badly wrong. / bne IntelliNews

MOSCOW BLOG

# Nabiullina's unorthodox adventure

Ben Aris in Berlin

**T**he Central Bank of Russia (CBR) came in with a much bigger rate hike than I, or most commentators, were expecting. After the ruble slid below RUB100 to the dollar – one ruble is worth one cent now – the CBR announced it would hold an emergency meeting and put in a big rate hike.

Most people were expecting a 150bp hike, as that should have been enough to stem the bleeding, but CBR Governor Elvira Nabiullina, as ever, acted decisively and killed the problem dead, in the same way that she did in March 2022 when the ruble last tanked, putting in a 1,000bp rate hike that turned the FX dynamics on a dime and saw the ruble strengthen to an extraordinary RUB53 in a week.

As you are probably aware, I have taken the line that she was weakening the ruble on purpose, as that generates extra rules

for the budget to close the hole – and that worked; the deficit has come down from 2.4% of GDP to 1.8% and inside the 2% target. But this comes at a cost: higher inflation. According to the weekly figures, annualised core inflation is now 7.1%, way up on the historically low 2.4% in May, and still rising.

Others have cheered the collapse of the ruble as evidence that sanctions are working, as both oil revenues and the current account surplus have shrunk, putting pressure on the ruble.

Digging into it over the last 24 hours and the truth is, predictably enough, more complicated. Presidential economic advisor Maxim Oreshkin wrote an op-ed for Tass that came out yesterday just as the ruble hit RUB100 to the dollar, slating the CBR for "soft monetary policy" – ie not raising rates fast enough. Nabiullina defended herself, saying the problem was the "large public sector demand"



(i.e. military spending) that was made worse this year by growing private sector demand (i.e. rising wages, consumer borrowing and spending as the economy returns to normal). Moreover, things have been made worse by the fact that the amount of cash in circulation has soared, as it seems Russians don't trust either the banking sector or the currency.

It's hard to judge who is right in this argument between soft money policy and rising public demand, as they are of course both correct. It's a question of degree. (And it is interesting to see the very public debate within the Kremlin's liberal elite over real macroeconomic issues. That's healthy and encouraging.) Plus there are a bunch of other factors that go into the FX dynamics: a serious one is the rise of capital flight as the CBR eases some of the capital controls, and my favourite one is its holiday season, and Russians typically export about \$5bn in August while on holiday in Turkey, which is happening now.

But step back a bit and a striking point jumps out. Nabiullina is famous for being "the most conservative central banker in the world" and she has done something very unorthodox. No slouch on fighting inflation, she has even been warning about mounting inflation pressure all year, yet she has not put through rate hikes fast enough. On that score Oreshkin is right.

This is actually pretty shocking. She was the second (after Ukraine) to end easing at the start of 2021 and warned of rising global inflation at a time when no one took her or inflation seriously. She was way ahead of the curve, and as a result Russia coped with the subsequent global inflation wave far better than nearly anyone else. Plus the extraordinary 10% rate hike she put in the first week of the war also shows she is a battle-hardened and a bold warrior in the war against inflation.

And now, suddenly, she has dropped the ball and was slow to hike rates to tackle rising inflation that was in plain sight???

This was the unorthodox bit: she knew inflation pressures were up but was attempting to effectively allow the ruble to weaken for the sake of the budget by dragging her heels on rate hikes. She broke with her rigid orthodoxy of rigorously controlling inflation with the appropriate rate hikes, usually slightly ahead of time, presumably in the hope that there was enough wiggle room to simultaneously manage two contradictory targets: weaken the ruble to get more budget cash AND control inflation.

This was manifest in the surprise 100bp hike in July, as inflation was getting so strong it needed a slap. And everyone was expecting another 100bp in September. (August is normally a holiday month with no CBR meeting.)

The trouble is, she lost control of the situation. The ruble has been falling consistently all year since January, but

as it approached RUB100 people started to get nervous. Last week I watched top Kremlin propagandist Vladimir Solovyov deliver a rant against the CBR as the ruble got close to RUB100 to the dollar. Others in the liberal elite have also vocally condemned the CBR for not controlling the exchange rate. (Maybe their homes in France are becoming prohibitively expensive to run?)

These were forces that Nabiullina could not control. Last week she suspended the budget rule, which forces her to buy dollars if there are extra oil tax dollars, which in normal times would have strengthened the ruble, but it had no impact at all in the current climate. Suddenly Nabiullina had run out of tools and the next monetary policy meeting was too far away. If bad things happen in Russia, they always happen in August, remember?

I'm sure that the last thing that Nabiullina wanted to do was put in a big rate hike, as they can take years to unwind once they are in place. And given the budget deficit is down and oil revenues are widely expected to pick up in the second half of the year, it shouldn't have really been necessary, which is why I, and many others, thought she could get away with a 150bp hike. But Nabiullina being Nabiullina did what she always does: act decisively and take full control of the situation.

Of course, there is a chance that even this hike won't work, and the ruble will continue to collapse. But I doubt it. If it does continue to fall, the CBR will come up with more actions. She still has the option of intervening in the market, which is another thing she is desperately trying to avoid.

**"Nabiullina being Nabiullina did what she always does: act decisively and take full control of the situation"**

Looking at the exchange rate this morning, the ruble trading actively and is at RUB98 to the dollar now, so it seems the rate hike has not had an immediate dramatic effect, but according to Capital Economics, after a big fall it typically takes a currency around five days to find its new equilibrium value. ●

*This article originally appeared in Editor's Picks, a free daily email digest of bne IntelliNews' best stories from the last 24 hours. [Sign up for free here.](#)*



# Is Ukraine worth the trouble? The West's resolve may be fraying

Alexander Kabanovsky in Berlin

*"The future belongs to those who believe in the beauty of their dreams."* Eleanor Roosevelt

In my recent articles, I focused on Russia in an attempt to provide an alternative perspective on the realities of a country ruled by an incompetent autocrat for the past 23 years and the reasons why I believe the current regime is doomed. I would like to shift my attention to Ukraine for this article to share my perspective on why its fight against Putin is worthy of continued support. I recognise that my views on the speed of the regime's collapse are optimistic, but my certainty of its inevitability remains unshaken. It is based on my personal experience of working in Moscow, dealing with some of the largest companies, and traveling extensively to every corner of the country. I have a deep appreciation for the nihilistic view of life and the dim view of the future held by a vast segment of the Russian public.

Whether the conflict will end more quickly or drag on for another year depends solely on how much punishment the Russian people are willing to endure. Yes, Moscow and St. Petersburg and one or two other cities may be bathing in the largesse of the current spending spree lavished on the war, but this is not the entirety of the country nor of the population. Inflation, devaluation, stagnating economy, increasing poverty and declining birthrates are not issues easily addressed, nor can they be overlooked as cursory factors, especially in a time of war.

The Russian people's capacity and willingness to suffer is legendary, allowing the ruling class to hang on to power longer than their cynicism or incompetence warrants. Putin is prepared to sacrifice the entire populace for the sake of power. Whether the people will be willing to send their men and children to the charnel house of war indefinitely is the great joker in the deck. The fact is that Russia is fighting this war not on quality but on quantity, the quantity of money and lives. The Russian leadership is intellectually and morally bankrupt, its economy one-dimensional, and its military outdated. The only resource the war effort relies upon is the common man's willingness to die for no higher cause than Putin's folly.

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Ukraine's hapless counteroffensive is failing to produce the successes many had hoped for. Signs of Western "Ukraine fatigue" are growing stronger. Is it worth continuing support for Ukraine in its war with Russia? / bne IntelliNews

The Russian people have not been reared in aspiration but, rather, in desperation, the celebration of the virtue of a life of suffering ingrained in them from birth. Classical Russian literature revels in the virtue of suffering for a greater cause and deeper enlightenment.

*"Suffering is a part of life, but it doesn't have to define us. We can choose to rise above our suffering and find meaning in it."*  
Fyodor Dostoevsky, *The Brothers Karamazov*

The problem is that Russia is great at meting out suffering, not so much at providing meaning for it, and that is the crux of this conflict. Russian propaganda is working overtime to manufacture meaning for this war and, in the process, unabashedly conjuring false threats and enemies envious of Russia's wealth. The narrative and justification shift time and again to accommodate the recurring setbacks both at the frontlines and in civilian life. No fig leaf is left unplucked in the effort to cover up the ruinous policies of the regime. No lie is left unspun in an effort to build up the fighting spirit of the nation for a war without meaning. Calls for nuclear strikes on London, Berlin and Washington are uttered so often as to have become banal.

Ukraine's counteroffensive is progressing more slowly than everyone hoped, but it is progressing and yielding results. Nevertheless, the mood in the West on the war is shifting. In an August 4 CNN poll of Americans, 55% now oppose additional support for Ukraine. People like Donald Trump, David Sacks, Elon Musk and Robert Kennedy Jr., among others, are shilling the Russian propaganda narrative. They are peddling false facts to a population with only a cursory grasp of the complexity of this war and the relationship between the two countries. The anti-Ukraine advocates may have perfectly legitimate reasons for opposing continued support based on their preference to focus on domestic issues, of which the US has plenty, rather than international conflicts, but their line of argument serves the destructive purpose of giving legitimacy to Putin's imperial and dictatorial aspirations.

In pushing their agenda, they deal in false facts taken right out of the Kremlin disinformation narrative. Their argumentation

ranges from the tiresome misrepresentation of Nato expansion as overt aggression by the US rather than a desperate desire by nations long oppressed by Russia to secure their freedom, to secret bioweapons labs allegedly built on Ukrainian soil, to highly overstated Ukrainian casualty figures and complaints about the amount of US military aid which, in reality, is a drop in the country's overall military budget.

Most destructive, however, is that they trivialise the very profound moral component of this war. In undertaking every effort to legitimise Putin's grievances for the start of this conflict, they try to instill complexity where none exists, obfuscating the fact that, actually, it is simply a miscalculated act of naked aggression against a country that did not seek war. Putin launched an unprovoked attack against a neighboring country whose population, time and again, refused to mimic the slavishness of their Russian cousins. Full stop! Everything else is just window dressing.

Ukraine is problematic in that it has a long history of corruption and economic underperformance, and a rife kleptocracy. These deficiencies can not and should not be whitewashed, and they are not. The government's current anti-corruption campaign has its detractors, and there is reason to believe that it is driven in equal parts by a desire to curb corruption and a play to "redistribute" assets left dangling in the uncertainty of war. The politicians and oligarchs play their games in all circumstances, good or bad, but that is the nature of the beast. But this war is not about the politicians and the oligarchs, it is about the people. The politicians and the oligarchs may be rotten, but the Ukrainian people, en masse, are not.

The Ukrainians have historically been an unruly lot. An amalgamation of clans, they are infamous for their propensity to squabble and notoriously difficult to unite. Ukraine has a historical penchant for individual freedom, making its politics nasty and combative. Scenes from the Rada of deputies going at each other, sometimes with fists, are a testament to both the

difficulty and the beauty of the Ukrainian spirit. It may not be pretty or genteel, but it is never slavish.

They have time and again chosen the chaos of democracy over a comfortable kleptocracy, Western ideals over autocratic oppression, and freedom over slavery. 89% of the population identify corruption as the number one problem facing their country. Soldiers fighting on the front lines are not dying to preserve a society that perpetuates a cozy relationship between the oligarchs and the state. They and the Ukrainian people are fighting for a chance to create a society that will be better than what it was before. They are fighting for a future different than the bleak nihilism offered by Putin. They are fighting for democracy, the rule of law, and economic prosperity. Because they are unified in that vision, they remain undaunted in their determination to fight until the end. When I speak to friends and relatives in Ukraine, the message is clear: "We are exhausted by the war, by the nightly air attacks, by the lives sacrificed by our soldiers, but we will never give up."

This is not meant to be a soliloquy to the exceptionalism or ubiquitous goodness of the Ukrainian people. They are people, like everyone else, with their faults and weaknesses, good qualities and bad. But the one quality they have in spades is a dream to build a country upon the ideals of Western liberalism. Unlike Iraq, Afghanistan, Libya, or the many other attempts to impose Western ideals on societies where they were neither wanted nor needed, Ukraine is a society striving for the freedom to implement our shared principles as a foundation for its future. As I have written before, there are not many moral wars being fought in the world, but this happens to be one, and for that reason alone, it is a cause worth supporting regardless of the cynical bylines being peddled with increasing fervor. ●

*Alexander Kabanovsky is formerly a Russia-based banker and entrepreneur. This article first appeared on his substack "Thinking Out Loud"*

NEMETHY

## Why is Hungary the EU inflation leader?

Les Nemethy, Dr Peter Akos Bod

**A**ccording to Eurostat's release dated July 19, Hungary had roughly triple the EU average inflation and almost double the next highest countries (Poland, Czechia and Slovakia).

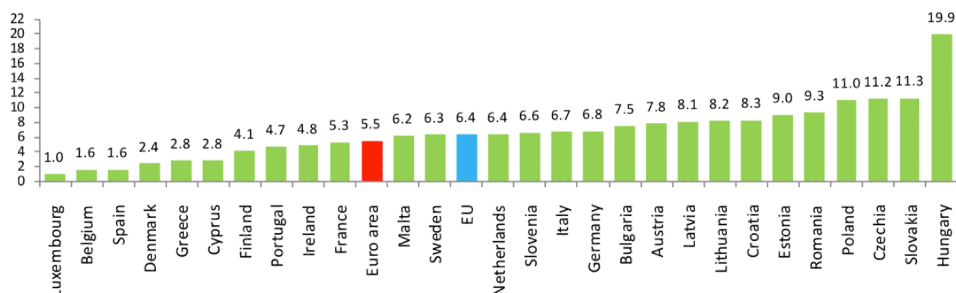
Chart on the next page shows Hungary as such a massive outlier, that the analysis should be of interest also to non-Hungarian readers.

In this article, we don't look at general reasons for inflation,

only at factors that make exceptionally high inflation a "Hungaricum", (e.g. uniquely Hungarian feature). We outline six factors which are either unique to Hungary, or where Hungary has been a category "winner":

1. Devaluation as a strategy for competitiveness. Hungary is an open, export-driven economy, exporting primarily to the EU. Hungarian productivity growth (at about 0.8% per annum between 2010 and 2022) was roughly half the EU average. Hungary's competitiveness rankings (according

Annual inflation rates (%) in June 2023



Source: Eurostat

to IMD) plummeted last year from 39th to 46th place. The Hungarian government has done little in the form of long-term investment into competitiveness, with severe underinvestment in education and healthcare. Hence the government seems compelled to allow a continuous downward drift of the forint to maintain competitiveness. Rather than declare a target exchange rate, the forint is subject to unexpected market forces and speculation.

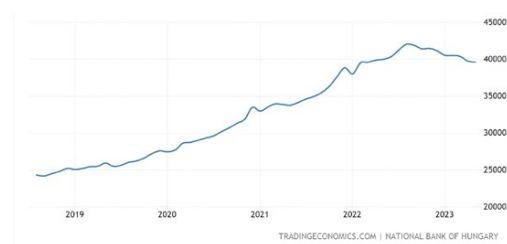
EUR to HUF Exchange Rate, 2019-2023



Given that the forint fell by about a quarter over the past five years, quite a few percentage points of inflation were imported every year.

2. Deficit spending. In 2020 a high deficit was arguably justified by COVID-19. The 2021 continuation of high deficit spending, tax decreases and generous subsidies is best explained as electioneering for the 2022 elections. In 2022 the budgetary deficit remained unjustifiably high, at 6.2% of GDP.
3. Money supply has been growing rapidly over the past five years (except for a dip over the past year):

Money supply (M2) in Hungary, (HUF Billion)



4. Malinvestment. While investment usually has the effect of improving productivity, this does not apply where resources have been misallocated:
  - a. Government “prestige” investments such as soccer stadia, or acquisitions of banks or telcos.
  - b. Private sector investments that have been distorted by grant criteria or cheap loans.
5. The Hungarian central bank recently announced massive losses (HUF400bn in 2022, with HUF2,000bn forecast for 2023) stemming from its balance sheet. There are a myriad programmes with heavily subsidised loans, while debt service costs have risen inexorably. The government recently declared its intention to rewrite central banking law to ensure losses are not borne by the central budget, allowing the central bank several years to reverse these losses. A central bank may function with losses or even negative capital, but this may erode trust in monetary authorities, particularly in a country with a 'BBB/BBB-' risk rating.
6. Corruption is inflationary. Transparency International has just ranked Hungary the most corrupt country in the European Union. The government pays a corruption-inflated price for much of its procurement.

The government's three main explanations for inflation are disingenuous:

- **The Ukrainian war.** This affects all V4 countries. It cannot possibly serve to explain why inflation in Hungary is higher!
- **High energy prices.** At close to recent peak energy prices, Hungary is locked into long-term energy contracts with Russia (the contracts themselves are confidential). While wholesale energy prices have tumbled throughout Europe over the past 6-9 months, retail natural gas and electricity prices have remained distressingly high in Hungary.
- **Multinationals' price gouging.** Once again, multinationals are also present in other V4 and EU countries, hence this cannot explain why inflation is

so high in Hungary. (Hungarian multinational food retailers and energy firms do, however, pay punitive sector taxes that contribute to inflation).

The government seems to have one foot on the accelerator (e.g. continuously high deficit spending), another foot on the brakes (the central bank's interest rates rising to over 15%), and no clarity as to who is driving the vehicle. High uncertainty contributes to inflation.

Meanwhile, core inflation (e.g. excluding the most volatile prices such as energy and food) remains at 20.8% as of June 2023, meaning that inflation is becoming "baked in". Wage growth was at 17.9% as of May, meaning that real wages declined in the first half of the year – a socially painful component of ongoing slow disinflation.

The poor, who by definition spend a high percentage of income on foodstuffs and energy prices, are seeing their

paychecks decimated by 29% food inflation and record energy prices. Retirees see their savings destroyed. As in most instances, it is the proverbial man in the street who pays the price for poor governance.

We do not see a reversal of any of the above factors in the foreseeable future. Hence inflation in Hungary is likely to trend at a considerable premium to the EU. Nor does the government's objective of reaching a single digit inflation rate this year seem realistic. ●

*Les Nemethy is the CEO and founder of Euro-Phoenix Financial Advisors Ltd and a former official at the World Bank.*

*Dr. Peter Akos Bod is an economics professor and former governor of the Hungarian National Bank.*

## BALKAN BLOG

# Violence against women becomes a mobilising force in Southeast Europe

Clare Nuttall in Glasgow

**T**housands of people took to the streets in towns and cities across Bulgaria on July 31 to protest against a knife attack on a young woman and the poor handling of the case by a local court in Stara Zagora.

The events of July 31 were the latest protests in the Southeast Europe region sparked by violent attacks on women, following protests in several countries in the Western Balkans in recent years urging the authorities to do more to tackle violence against women and femicides.

As well as challenging cultural norms that fail to take violence against women sufficiently seriously, there has also been strong criticism from protesters against official corruption and the inadequacies of the local justice systems.

The incident that sparked widespread anger in Bulgaria occurred on June 26, when a 26-year-old man named Georgi Georgiev allegedly assaulted 18-year-old Debora Mihaylova with a knife, inflicting multiple wounds that were severe enough to require over 400 stitches.

Georgiev was taken into custody but released on July 5 when the Stara Zagora court controversially dismissed Mihaylova's injuries as only minor. He was then detained

again on July 30 and charged with making a death threat to the same woman by text message. Georgiev has denied the accusations against him.

On July 31, protests in support of the 18-year-old were held in front of the courthouses in Sofia, Stara Zagora and dozens of other towns and cities across the country. The demonstration in Sofia was organised by Feminist Mobilisations with the



Thousands of people demonstrated across Bulgaria on July 31. / Feminist Mobilisation



slogan "We will not be silent. Stop the genocide against women!". It drew thousands of people outraged by both the attack and by the court's decision.

The organisers had a list of demands including tougher penalties for such crimes and an end to what they called "heartless" justice. They also called for changes to the law to treat an intimate partner on an equal footing with a spouse so that the victims can be protected under the Domestic Violence Protection Act.

### **Demonstrations across the Balkans**

The protests in Bulgaria follow similar demonstrations in countries including Albania, Bosnia & Herzegovina, Kosovo and Serbia.

The murder of another 18-year-old, Marigona Osmani, in August 2021 sparked protests in Kosovo.

Osmani was found outside a hospital in Ferizaj with multiple injuries that later claimed her life. Her husband and another man were caught on security cameras leaving her in front of the hospital; both men had extensive criminal records.

As well as shocking crime, the police's perceived failure to prevent the tragedy despite the perpetrators' past records led to protests.

But the violence continued. Another murder, the killing of pregnant Hamide Magashi sparked a further protest in November 2022 when demonstrators called for an end to femicides and for women's treatment by men to be declared a national emergency. Again, the protesters criticised the lack of action by the state to prevent such crimes. Magashi, who was killed in front of the hospital where she planned to give birth, was the second woman murdered in the small country within a week.

In neighbouring Albania, protesters gathered outside the Ministry of Justice in March 2023 after a man with a history of rape, domestic violence and femicide killed three more people. Outraged protesters asked why the murderer had been released to kill again, and questioned the judges' integrity and accused them of corruption and negligence in their duty.

Human rights and civil society groups organised marches in the cities of Vlora, Shkodra and Tirana, demanding accountability from the relevant institutions for failing to protect victims of gender-based violence.

There were more protests in 19 cities across Bosnia in autumn 2022, after a woman was strangled in the city of Bihac. Their demands included introducing a legal definition of femicide as a criminal offence, implementing the Istanbul Convention to combat violence against women and harsher and more consistent sentences for perpetrators.

Also in autumn 2022, protests were sparked in Serbia by a pro-government tabloid's interview with an unrepentant serial rapist.

The protesters demanded comprehensive changes to Serbia's social and institutional systems. They called for a legal registry of rapists and abusers, removal of the offensive interview from all platforms, and an end to public funding of unethical tabloids. Additionally, they call for media adherence to guidelines on responsible reporting of violence against women.

The protests preceded the larger demonstrations that started in May 2023 following two mass shootings within days of each other.

Just like in the earlier women's protests, the anti-violence demonstrations of 2023 sought to call the authorities and state media to account for allowing a culture of violence to flourish in the country.

### **Tackling gender-based violence**

Tackling gender-based violence is broadly perceived in the region as a step that needs to be taken as states advance towards EU accession, along with other reforms.

However, while there has been some progress, this has been patchy. There has, for example, been strong resistance to adoption of the Istanbul Convention on preventing violence against women.

"In recent years, Western Balkan countries have made considerable progress in adapting legislative measures against DV [domestic violence] and some other aspects of GBV [gender based violence], changes catalysed by the initiatives and efforts of women's rights CSOs," said women's rights organisation the Kvinna till Kvinna Foundation in a November 2022 report.

However, it added, "Despite any level of progress or legislative amendments, DV and GBV law enforcement and implementation remains a concern ... law enforcement continues to not be victim/survivor-centred, contrary to the Istanbul Convention requirements, and no significant progress can be noticed since the last report."

The foundation also points out that the "political instability in the Western Balkans may have negative impacts on women's participation in decision-making, and women's rights continue to be classified as a "lower priority". It cites a warning from the Office of the UN High Commissioner for Human Rights that "with political instability often comes the exacerbation of pre-existing patterns of gender-based discrimination.").

# So what did happen to that claimed Turkish aspiration to join BRICS?

bne IntelliNews

**F**ive years ago, Turkish President Recep Tayyip Erdogan called on the leadership of BRICS to admit Turkey as a member of the association. However, subsequently, in the following years Turkish officials were not seen at any BRICS meetings.

So given the big BRICS announcement made at the group's South Africa summit on August 25 – namely that the existing members (Brazil, Russia, India, China and South Africa) have invited six more leading emerging economies (Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the United Arab Emirates) to join their club from January 2024 – the question of whether Turkey ever had any real interest, and, if yes, still retains such an interest, is newly pertinent.

Perhaps Russian leader Vladimir Putin, who appears to have good personal relations with Turkish counterpart Recep Tayyip Erdogan, is in the know, but the situation is far from clear.

South Africa's BRICS ambassador, Anil Sooklal, told journalists in Johannesburg last week that as many as "22 countries have formally approached BRICS countries to become full members" of "BRICS+". He also claimed that there were more than 40 countries that want to join the group.

However, while officials from many non-BRICS countries attended the BRICS national security advisors meeting in

Johannesburg back on July 25, Turkey's representation was, observed Turkish Minute, limited to a single deputy from Erdogan's ruling Justice and Development Party (AKP), Arif Demirkiran. He reportedly turned up upon the advice of Russian diplomat Andrey Klimov.

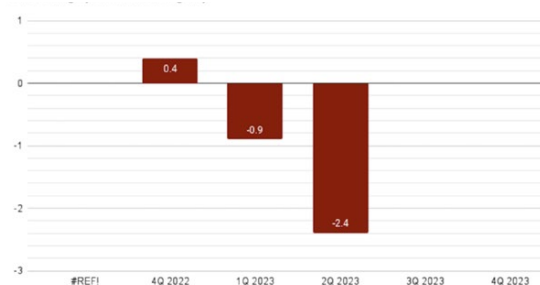
Klimov, who serves as deputy chair of the Russian Federation Council Committee on Foreign Affairs, confirmed during a press conference at the BRICS Political Parties Plus Dialogue in Johannesburg on July 18 that he and other Russian officials were in Turkey a few days prior to arriving in South Africa. They were there, he said, to talk about the failed Black Sea grain export deal, and during their visit invited Demirkiran to the South Africa gathering of national security advisers.

So what about an eventual Turkish membership of BRICS? There's not a squeak out of Ankara. If any membership application has gone in, formally or otherwise, it is being kept mighty confidential. It does, though, seem rather improbable. As a Nato member, Turkey would likely face an irate West if it made a big noise about desiring to join the expanding BRICS club. And Erdogan doesn't generally like to sign up too closely with any one side in international affairs. Given Turkey's fortune in having such a crucial geostrategic "crossroads" position on the map, he can usually afford to sit back and play one side off the other. ●



Look, no Erdogan. / brics2023.gov.za

## Hungary GDP growth y/y



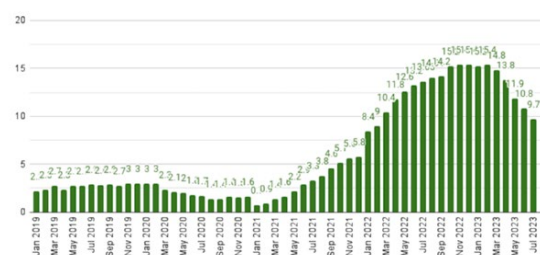
Source: Hungary state statistics agency

### Hungary's economic problems mount as GDP falls for fourth straight quarter

Hungary's economy remained in recession in Q2, as GDP fell 0.3% q/q and 2.4% (chart) on an annual basis, the statistics office KSH said in a preliminary reading on August 16. The fourth consecutive quarterly contraction is the longest since KSH began using its current methodology in 1995.

The annualised data was the weakest since the end of 2020. The workday-adjusted GDP fell 2.3% y/y. The data significantly missed projections, as analysts predicted a 1.3% y/y decline and a 0.3% growth on a quarterly basis. In the first half, GDP fell 1.7% y/y.

## Slovak inflation y/y



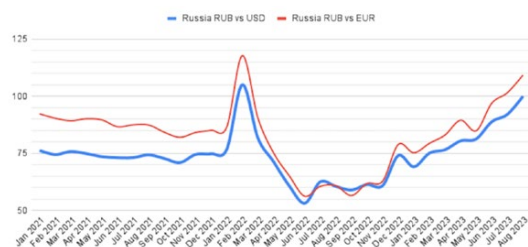
Source: Central bank of Slovakia

### Slovak inflation is in single digits after nearly a year and a half

Slovak inflation fell to 9.7% year-on-year in July, the country's Statistical Office reported.

It fell below the 10% y-o-y growth for the first time since February 2022. In month-on-month terms, inflation decreased by 0.3%, which is the second m-o-m decrease this year. Slovakia is a eurozone country, and its inflation still remains nearly twice as high as the eurozone average of some 5%.

## Russia RUB vs USD



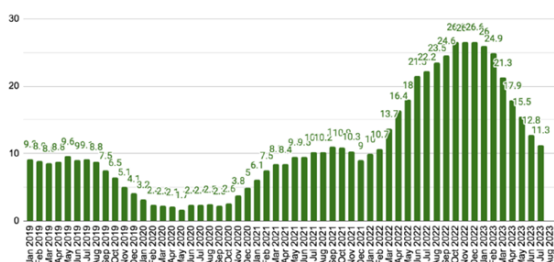
Source: CBR

### Ruble drops to below RUB100 to the dollar for the first time since the start of the Ukraine war

The Russian ruble dropped below RUB100 to the dollar on August 14 for the first time since the war in Ukraine began. The fall comes despite the Central Bank of Russia (CBR) announcement last week that it would suspend the so-called budget rule and would not purchase foreign currency again for the rest of this year in an effort to shore up the battered currency.

Russia's currency has lost a quarter of its value this year against the dollar this year, making it one of the worst-performing emerging-market currencies in the world, on a par with the Turkish lira and the Argentine peso.

## Ukraine inflation y/y



Source: UAH

### Ukraine's inflation rate dropped to 11.3% in July

Inflation in Ukraine decreased to 11.3% in July, down from 12.8% in June and 15.3% in May, the State Statistics Service reported on August 9.

The biggest improvements were seen in restaurants and hotels at 18.5%, compared with 19.1% in June, miscellaneous goods at 15.7% against 18.8%, housing and utilities at 14.7% compared with 15.2%, as well as food and non-alcoholic beverages at 13.3% compared with 16.5%.

The consumer price index (CPI) decreased by 0.6%, easing from a 0.8% increase in June. Underlying inflation was recorded at zero, following deflation of 0.1% in June and 0.3% in May.

# EU gas tanks close to full, traders switch to Ukraine storage

Clare Nuttall in Glasgow

European gas storage tanks were 87.7% full as of August 6, well ahead of the schedule that demands they reach 90% by November 1, according to GIE, leading traders to switch to storing more gas in Ukraine's underused tanks.

Prices of gas are determined by the immediate demand for gas and the amount of physical storage space available. As the EU gas tanks fill up early and the weather is still mild, future prices on the TTF hub fell by 1.7% to €29.97 per MWh, or \$350 per thousand cubic metre, according to data from the ICE exchange UBN reports.

Prices have fallen from last year's all-time highs but remain some two- to three-times above the five-year pre-war historical averages that has led to a deindustrialisation in some European countries.

Despite the war risks, European gas traders have started storing natural gas in Ukraine to take advantage of lower prices and Ukraine's vast underused gas storage facilities. While Germany's gas tanks, at 23bcm the

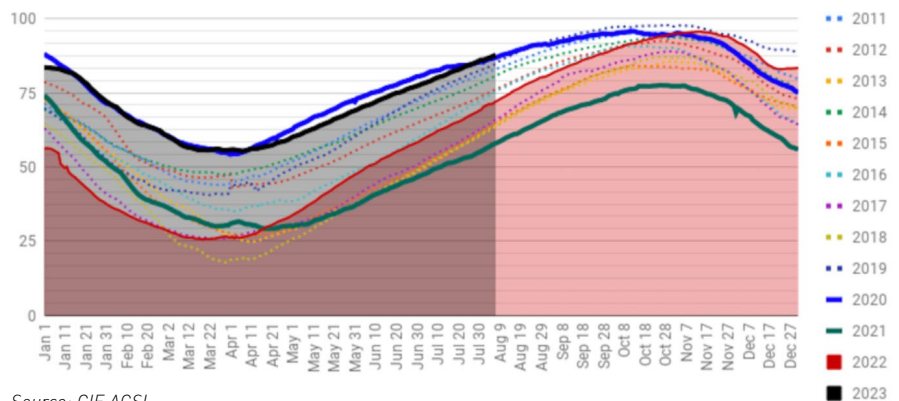
largest in the EU, are 89.6% full as of August 6, Ukraine's tanks are only 26.6% full, according to GIE.

Ukraine's storage facilities, which are owned by the state gas company Naftogaz, have a total capacity of 31bn cubic metres (bcm) in 11 underground storage facilities, the biggest of which is Bilche-Volytsko-Uherske on the Polish and Slovakian borders far from the fighting and can hold 17bcm by itself. Ukraine's large gas storage capacity is surpassed only by the US

and Russia and is due to its former role as a major transit country for Russian gas to Europe.

The Czech EPH group told Reuters that its decision to use Ukrainian storage was also a sign of confidence in the country. In turn, Ukrtransgaz stated the positive dynamics of gas injection by foreign traders into Ukraine gas storage. Slovakia's state-owned SPP said it is considering using Ukrainian storage facilities, as Slovakian storage facilities are already 90% full. ●

European gas storage % full



Source: GIE AGSI



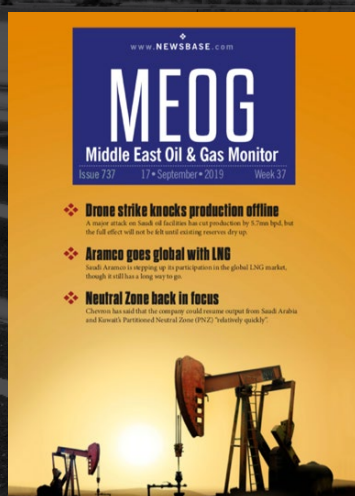


## COVERING THE WORLD OF ENERGY

Someone bombed Saudi Arabia's biggest oil production facility knocking out 5.7mbpd of production – the biggest oil supply outage ever. Oil prices in Asia opened 20% higher the following day – the largest single increase ever. Investors had to scramble to keep up.

Was a return to \$100 oil on the cards? Was a supply-side squeeze coming? Would the US bomb Iran, who was being blamed for the attack?

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