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July 2021

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Turkey, China in firing line as Biden holds summit with Nato allies

Russia hits herd hostility to vaccines as COVID rages

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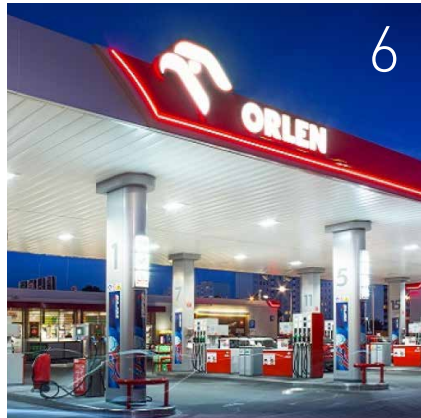
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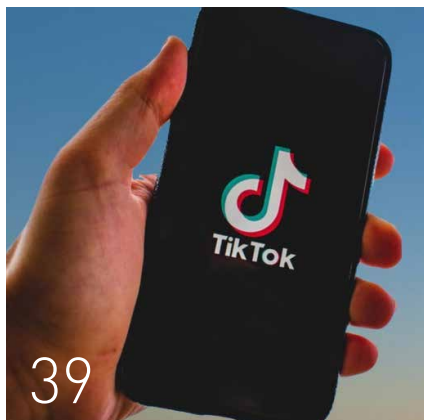
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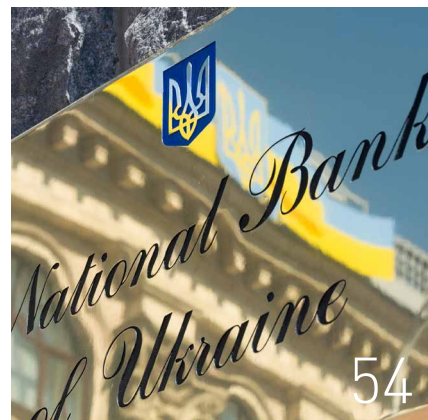
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# International banking groups look to expand in Central and Southeast Europe despite pandemic

Clare Nuttall in Glasgow

**T**he latest CESEE Bank Lending Survey from the European Investment Bank (EIB) shows that international banking groups remain committed to the Central, Eastern and Southeast Europe region, with their strategies tilted “towards expansion or stability” despite the coronavirus (COVID-19) pandemic.

The survey, carried out in spring 2021, showed that around 60% of the banking groups intend to maintain operations in the region, while 30% intend to expand operations selectively. This is a more positive picture than in previous surveys.

More than 80% of banking groups surveyed expect their profitability in the region to be equal to or higher than their group’s total profitability over the next six months.

“Following the large negative COVID-19 shock, banking exposures in net balances to the region started to expand over the past six months,” says the report. The survey showed that the number of banks declaring a reduction in their exposures to the region was lower than those declaring an increase in exposures.

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“Our latest survey shows that the policy responses to the COVID-19 shock have been instrumental in limiting the most abrupt and negative effects for the banking sector in Central, Eastern and Southeastern Europe in 2020 and early 2021,” said the EIB vice-president responsible for economic studies, Ricardo Mourinho Félix.

Only a few banking groups signalled a contraction, and this was only in terms of intra-group funding. Meanwhile, banking groups expect an increase in cross-border exposures. However, there are different views across countries in the

“More than 80% of banking groups surveyed expect their profitability in the region to be equal to or higher than their group’s total profitability over the next six months”

region, with banks singling out Bosnia and Herzegovina and Kosovo as having signs of somewhat increasing lower market potential, while in other countries they see medium to reasonable market potential.

However, the report added: “Prior to the COVID-19 pandemic, exposures had been oscillating, reflecting an increased level of global uncertainty and volatility. This calls for a cautious approach when interpreting the current outcomes.”

Demand for loans and credit lines rose in the six months before the survey was compiled, recovering from the sharp contraction recorded in the second and third quarter of 2020. This was the first contraction in aggregate demand in six years.

“The increase in demand was primarily supported by working capital needs, debt restructuring but also positive housing market prospects,” according to the report.

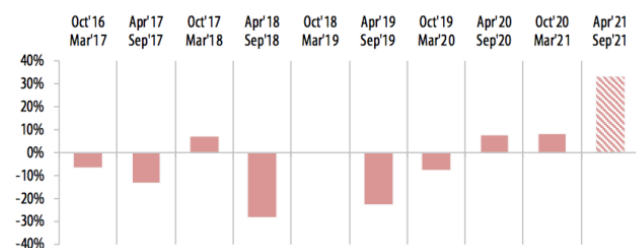
“Debt restructuring started to be a positive contributing element since March 2020, whilst its contribution was close to zero in pre-pandemic years. On the other hand, the contribution from investment continued to be negative, as already detected in spring and autumn 2020 waves of the survey. This is a significant turnaround, because fixed investments were among the highest positive contributors prior to the COVID-19 pandemic.”

On the supply side, the report said that credit standards tightened – the tightening was observed across the client spectrum, but in particular for small and medium-sized enterprise (SME) and corporate lending. Looking forward, banks anticipate that aggregate supply conditions will gradually move towards a neutral stance but not ease in the next six months.

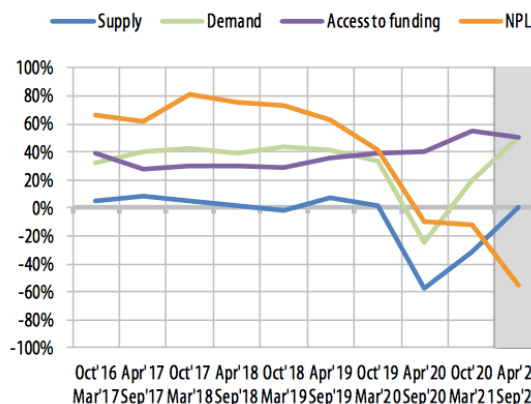
“The financial system in Central, Eastern and Southeastern Europe is showing a remarkable resilience in [the] face of one of the largest economic shocks it has ever faced. International banks continue to show their commitment to the region,” said EIB chief economist Debora Revoltella.

However, Revoltella added, “Nonetheless, our survey shows weak investment demand and still tightening conditions on loans to smaller business and corporates. A continued joint effort by the public and private sector as well as multilateral

**Groups' total exposure to CESEE**



Source: EIB – CESEE Bank Lending Survey.



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages.

Supply/Demand: Positive figures refer to increasing (easing) demand (supply).

Access to funding: Positive values indicate increased access to funding.

NPL: Negative

partners is needed to boost investment activities, to help the region not only recover but to further prosper and meet the challenges of the green and digital transition.”

The survey showed uneven expectations across client portfolios. The household segment is anticipated to benefit from easing standards, while SMEs and large corporates are still expected to face tightening credit standards, the survey revealed.

However, the report added: “Despite a tightening in supply conditions, approval rates have increased in the past six months compared to the significant drop recorded from April to September 2020. The terms and conditions of loan supply tightened in terms of size of the loans and only slightly in terms of maturity.”

Meanwhile, collateral requirements have tightened, especially for SMEs. When it comes to the reasons for tightening conditions, the survey reveals local market outlooks and non-performing loans (NPLs) as limiting factors, along with some international factors, specifically the global market outlook and EU regulation. Meanwhile, changes in the domestic regulatory environment and local bank funding played an easing role.

“Access to funding has continued to ease in the CESEE region over the past six months backed by almost all sources of funding,” said the report. It added, however, “Easy access to retail and corporate deposits supports a positive outlook. In addition, CESEE subsidiaries report that easier access to short-term funding is making a positive contribution to overall funding activities. IFI funding contributed positively.”

On the other hand, it added: “Longer-term funding conditions have only marginally eased. Subsidiaries did not indicate a positive contribution from access to international and intra-group funding over the past six months.”

NPL ratios had been falling in the years since economies in the region began to recover from the international economic

crisis more than a decade ago. With the pandemic, however, NPL ratios deteriorated in the autumn 2020 wave, though as the report said, the impact was smaller than anticipated. The report's authors forecast that the current negative trend will continue over the next six months.

"The COVID-19 crisis has brought about a significant change to the asset quality in portfolios. The fall in NPLs recorded until early 2020 came to an end," said the report.

"Banks' expectation[s] both in spring 2020 and in autumn 2020 were more negative regarding NPL developments compared to what the very same banks actually recorded over the same period ex-post. This suggests that the policy and banks' strategic responses may have played a mitigating role." NPL ratios are expected to deteriorate further across the board over the next six months.

Of the bank subsidiaries surveyed, around 43% said their NPL ratios had risen, while 32% said they had continued to decrease over the past six months. 65% of banks expect an increase in NPL ratios over the next six months, while just 10% anticipate a decrease.

Banks reported a "significant positive role" from regulatory and policy measures to support lending. It cites banks that took advantage of public guarantee schemes as saying that these were "very effective" in supporting loan extensions. Meanwhile, a smaller number of banks took advantage of central bank long-term refinancing operations, which most said were supportive to credit conditions. Commenting on which measures were most effective in supporting lending to the economy, banks singled out flexibility on NPL treatment and capital relief measures such as the release of regulatory buffers.

As the study notes, many countries and banks in the region have adopted moratoria measures for loans. According to the report, this covers between 0% and 20% of the total outstanding loan portfolio for around 70% of the banks surveyed, and between 20% and up to 60-70% for the remainder.

Another impact of the pandemic has been to spur on digitalisation. According to the study, banks have continued to speed up their propensity to digitalise, in particular in client outreach and risk management. ●

## Poland's PKN Orlen bulks up to play in the big league

Wojciech Kosciuszko in Warsaw

**O**il and gas giant PKN Orlen, already Poland's biggest company by revenues, is being built up by the country's radical rightwing government to be a national champion fit to play in the same league as Austria's OMV and Spain's Repsol.

At the same time, Orlen will have to play a major role in the country's belated and protracted drive to meet the European Union's goal to be carbon-neutral by 2050.

"We are creating an integrated and diversified fuel and energy company based on the strengths of each [participating] company that will be capable of facing the challenges of energy transformation and international competition," PKN Orlen's CEO Daniel Obajtek has said.

Typically for an integrated oil and gas company, PKN Orlen does pretty much everything along the hydrocarbons' value



chain: from exploration and production to refining and retailing fuels and other oil-based products. PKN Orlen's revenue in 2020 came in at PLN86.2bn (€19.33bn) – down 22.3% versus 2019, its net profit PLN3.4bn, a reduction of 20.9%.

The Warsaw-listed refiner is 27.52% controlled by the Polish Treasury, which gives the Polish state control over the company – with all side effects that come with it and which have become glaring since the rightwing coalition government, led by the Law and Justice (PiS) party took over power in 2015.

The PiS-led government has handpicked the company to be the core around which other state companies are being integrated. The end goal is the creation of a state-controlled energy giant, which Orlen will lead after taking over Poland's other, smaller, refiner, Lotos, and oil and gas exploration

and production company PGNiG. Orlen had earlier also taken over the power company Enea.

Once the integration of Lotos and PGNiG is completed, which is expected late this year, Fitch Ratings said that this would be credit positive for Orlen, as it will benefit from “larger scale, stronger business diversification and expansion into the more stable utility sector.”

Like other companies in the global field of oil and gas, Orlen, too, is aware of the challenges that the decarbonisation of the energy sector is to bring about. Global majors are already feeling the heat, with a group of dissident directors recently

“The overall strategic direction will prioritize investments in the petrochemical, renewable electricity generation and retail segments”

voted through to sit on ExxonMobil’s board or Royal Dutch Shell being told in no vague terms by a court it had to almost halve its emissions in just under a decade.

Orlen’s strategy does encompass novelties that the drive to mitigate climate change is enforcing on the company. As part of the company’s PLN140bn investment drive by 2030 – which includes PLN85bn for renewable energy and new petrochemical projects, two of the company’s three growth engines (the third being retail) – Orlen plans getting into offshore and onshore wind, solar energy, as well as energy storage.

The company is also investing in hydrogen with first two hydrogen refuelling stations for buses and passenger cars in major cities Poznan and Katowice. The stations, as well as a hydrogen fuel production hub in Trzebinia – which is under construction and will go online by the end of the year – mark Orlen’s growing interest in alternative fuels, as burning climate-warming fossil fuels is coming under increasing pressure from regulators and financiers.

Orlen plans to announce the strategy for the combined grouping with Lotos and PGNiG in the second half of 2021.

“The overall strategic direction will prioritize investments in the petrochemical, renewable electricity generation and retail segments. We view the broad strategic targets as positive in light of long-term challenges related to energy transition,” Fitch Ratings wrote.

“While the all-share merger is in line with the financial

policy, the updated strategy will still be an important factor driving Orlen’s rating. In particular capex and shareholder remuneration plans will be assessed in light of Orlen’s planned focus on retail, petrochemical and renewables assets amid energy transition as well as the potential for the merged entity to play a significant role in Poland’s bid to reduce reliance on coal for electricity,” Fitch Ratings added.

The positive reception of the consolidation plans – with the stock rising 43% so far this year – eclipses the company being the darling of the government and the quite un-business-like controversies that have come with that status.

Orlen has been accused of serving the government’s agenda of stifling criticism in the media after it took over Polska Press, a publisher of several national and local media last year.

The takeover – and Orlen’s weak justifications for it – provoked questions about whether the United Right government was thus laying ground to secure positive coverage in numerous local media in the run-up to general and local elections, both due in 2023.

The company’s CEO, Daniel Obajtek, has not escaped controversy, either. Unknown prior to PiS’s taking over power, Obajtek rose to the top spot in Poland’s business from being an elected official in the rural community of Pcim in southern Poland. Recently, the opposition-aligned media have been all over Obajtek for alleged shenanigans while he was still an official in Pcim and for his allegedly pot-holed financial statements, especially with regard to real estate he owns.

So far the company’s net take has only diminished under Obajtek, from PLN5.6bn in 2018 – the year he took over at the company’s helm – to PLN4.3bn in 2019 and PLN3.4bn last year, latterly due to the pandemic. The company’s debt was PLN12bn in 2020, nearly five times the figure for 2019 and twice the 2018 level – an effect of taking over Enea’s debt.

Nevertheless, analysts tip Orlen’s share price to continue rising, at least until there are any wider oil industry shifts such as in Opec production quotas or shale oil production. “The refining industry was hit hard during the pandemic and any event that promises the containment [of the virus] will be immediately discounted by the market,” BOS Bank analyst Lukasz Prokopiuk recently told the newspaper *Puls Biznesu*. ●

“Analysts tip Orlen’s share price to continue rising, at least until there are any wider oil industry shifts such as in Opec production quotas or shale oil production”

# Merger between Moneta Money Bank and Air Bank in trouble after proxy firms come out against

bne IntelliNews

**C**zech investment group PPF's planned merger between Moneta Money Bank, the sixth largest Czech bank by assets, and Air Bank, ranked eighth, is in deep trouble after proxy voting firms came out against the deal and amid rumours that a large part of Moneta's shares are now in the hands of hedge funds and other speculative investors who are holding out for a higher buy-out price.

Proxy voting firms Glass Lewis and Institutional Shareholder Services have recommended Moneta Money Bank shareholders vote against the acquisition of PPF's Air Bank, Czech and Slovak Home Credit and Benxy. The share-based acquisition would lead to the de facto reverse takeover of Moneta by PPF, because of PPF's existing 30 per cent stake in Moneta.

The shareholders are to vote on the deal on June 22. To succeed, half of the shareholders present have to vote in favour and 75% have to approve the issue of new shares to PPF.

The merger will now be opposed by the California State Teachers' Retirement System which owns 0.25% of the shares, following Glass Lewis' recommendation that the price is too high compared to its competitors in the sector.

"PPF firmly believes in the rationale to combine at contracted terms its banking and consumer finance assets with Moneta to form the Czech Republic's retail banking champion and create a value for all Moneta shareholders," spokesman Leos Roucek told *bne IntelliNews* in an emailed statement.

PPF has continued to pursue the deal despite the death of its founder Petr Kellner in March.

In May, Moneta Money Bank management signed a framework agreement on the acquisition. Moneta should acquire 100% of the shares of Air Bank Group for CZK25.9bn (€1bn) through the issue of new shares, giving PPF Group an estimated 55.38% of Moneta, including its existing shareholding.

PPF argues that the combination of the internet bank Air Bank and Moneta will create a strong new banking group, ranked



PPF argues Air Bank's chunky valuation is justified by the internet bank's greater profitability and growth potential.

third in terms of customers (with 2.5 million) and second in consumer finance. It says it aims to double Moneta's value and follow a dividend payout ratio of 80% of profits.

However, critics, such as the hedge fund Petrus Advisers, say the deal overvalues Air Bank, with Moneta is buying at 2.4 times book value (higher than the 2.2x book in PPF's previous offer in 2018), and undervalues Moneta, which, at CZK41bn, is valued at 1.5 times book under the deal. PPF argues the relative valuations derive from the internet bank's greater profitability and growth potential.

After the merger, PPF will also be obliged to launch a mandatory tender offer to acquire up to 100% of Moneta shares at a minimum price of CZK80 per share, unless the central bank mandates a different price. This price was a 19% premium over the share price when PPF launched the offer in March and a 34% premium to the average share price over the six months prior to the announcement. Petrus Advisers argues that a fair price would be CZK93 a share.

Petrus Advisers says it owns more than 5% of Moneta Money Bank. It accuses PPF of pursuing a takeover strategy that deliberately avoids normal restrictions on voting its own shares during a takeover and the need for an independent valuation. PPF originally tried to buy Moneta and merge it with Air Bank in 2018. In this attempt, it launched a public offer, which for CZK11.3bn gave it a 30% shareholding that it is now using to push through the merger.

In a presentation last month, as well as the pricing, Petrus voiced concerns over Air Bank's reliance on lending to the rest of the PPF group (which it says is around 50%), over what it argues is a lack of fit with Moneta, and the "unrealistic assumptions" of CZK1.9bn synergies by 2026. It says the merger will expose Moneta to PPF's "high-risk declining" business, that Air Bank has very low risk provisions, and that the deal will be very complex and cost much more than the CZK2.2bn forecast. "The transaction involves four different stagnating companies... making a successful integration very complex and unlikely," Petrus said. ●



# Russian stocks Geneva summit rally comes to an end after 36 weeks of straight inflows

bne IntelliNews

**A** pre-Geneva summit rally saw a record 36 weeks straight of inflows that came to an end on June 17. Russia-dedicated funds reported net outflows of c\$20mn in the week ending June 17 as investors took profits after a strong rally.

Russia's equity market rallies are very seasonal. Traditionally the market rallies in the spring, gaining some 20%, but then goes quiet over the summer months until the autumn rally starts again in around September in the so-called "Santa Rally".

The dividend season is also underway, with many Russian companies recording record payouts that will run through to August, after which there is also usually a lull before the cycle repeats. As Russian companies are currently earning their strongest profits in five years and most of those profits will be paid out next summer, analysts are speculating that the Russian market will rally again in a second cycle beginning in the autumn and running through to next spring based on this year's strong earnings.

In the meantime, traditional funds continue to weigh as two active Russia funds managed by Pictet and BNP Paribas reported combined outflows of \$40mn. Net of those two funds that have shown particular volatility in fund flows data recently, the number would read as a comfortable net inflow.

GEM equity funds posted their first net outflow since September 2020, of \$177mn. Thus the longest streak of inflows into GEM equity funds in history that lasted 36 consecutive weeks and resulted in a combined money intake of \$70bn has officially ended.

The Russian market gained 19% YTD in the rally as of June 18, with the banking sector stocks up over 50% in the first five months of the year, although those pulled back by 3pp in the last week as investors took some profits.

Likewise, oil and gas stocks have rallied by 24% this year as of June 18 and gained another 1pp as oil prices continued to rise to top \$73 by the end of the week. Metals and mining stocks were up 23% as of the end of last week on

"The Russian market gained 19% YTD in the rally as of June 18, with the banking sector stocks up over 50% in the first five months of the year"

the back of a commodity price boom, but the sector fell back by 5pp in the last week, as this was the sector where investors took the most profits, and it had returned 16% YTD as of June 18.

"The Summit rally is behind us, and what's more important the global EM sentiment shows first signs of reversal – downside risks prevail now, negative," says Slava Smolyaninov, head of strategy at BSC GM. ●

Russia RTS index 2019-2021



After 36 weeks of straight inflows, a pre-Geneva summit rally came to an end on June 17 as investors took profits. The RTS index has gained some 22% YTD, with banking stocks up more than 50%.

Source: MOEX

# Russian government tweaks 50% dividend payout rule for state companies

bne IntelliNews

**R**ussia's Prime Minister Mikhail Mishustin signed a new order on dividend payments for state companies, which brings clarifications to adjusted net income calculations for paying at least 50% of IFRS net profit, *Izvestia* reports.

This was expected, as in 2020 the Finance Ministry reiterated that it would continue to maintain strict dividend discipline for state-owned enterprises (SOEs), keeping the 50% of IFRS net profit rule and switching to adjusted net profit as the basis of the calculation.

As followed by *bne IntelliNews*, in 2019 the ministry succeeded in forcing the 50% payout ratio on almost all the country's largest corporations, such as Rosneft, Transneft, state-controlled banks Sberbank and VTB, and others.

The new changes to the rule touch upon correcting for primary paper gains and losses, as well as for the changes in the fair value of fixed assets and on foreign currency gains and losses.

Although this has not been confirmed, BCS Global Markets analysts believe that the new rules would likely affect Russia's largest oil producer Rosneft more than other Russian oil & gas companies.

"Rosneft currently pays 50% of book net income as reported under its IFRS accounts, but makes no adjustments for non-cash items such as FX gains and losses," BCS GM reminds, noting that this causes significant volatility in Rosneft's reported net income each year, removing \$4.4bn from net income in 2020, for example. BCS GM see the news as positive for Rosneft's shares and maintain a Buy rating on the name.

Sova Capital on June 17 note that Russian oil pipeline operator Transneft could have a slightly positive effect on dividends from new rules, as it will have to count in the contribution of associates to dividends.

Russia's gas giant Gazprom has already been adjusting for FX, impairments and profit from associates. However, while the companies of its utility arm Gazprom Energoholding are already paying out at least 50% of IFRS net income, it remains "somewhat unclear... what impact associates will have on



Russia's Prime Minister Mikhail Mishustin signed a new order on dividend payments for state companies, which tweaks the 50% of IFRS net profit payout rule

Gazprom's total dividends going forward given the vague language in the new order," Sova analysts note.

Russian utility major InterRAO currently has to pay out no less than 25% of IFRS net income. "However, the government indirectly controls InterRAO via Rosneftegaz (28%), Federal Grid Company (9%) and treasury stock (30%)," Sova notes, which could give InterRAO's dividend policy more flexibility compared to entities directly controlled by the state.

At the same time, Inter RAO is also preparing to execute large investment projects for Vostok Oil, as well as a potential project to replace steam turbines with gas turbines.

Sova Capital analysts believe that the company could increase its dividend payout to 50% if InterRAO is the only developer in building Vostok Oil's infrastructure and does not have to take heavy capex on its balance sheet. Should the payout ratio increase, InterRAO's dividend yield forecast for 2021 could double from 3.7% to 7.4%.

Hydropower holding RusHydro currently pays out 50% of unadjusted IFRS net income, and previously already mitigated the impact of potential one-offs by introducing a dividend floor of the average dividend payout for the previous three years. Sova Capital expects RusHydro's dividend yield to rise from 6.3% in 2020 to 8.9% in 2021, mainly thanks to an impairment-free 2021.

As for Russian Grids (Rosseti), its "dividend solutions are not transparent, and the company's precise dividend calculation has never been disclosed," Sova writes, reminding that the official dividend policy is to calculate the first 50% of adjusted IFRS and RAS net income and to pay out the larger of the two.

"We think the probability that Rosseti will pay in line with a recent government decree is very low, as the parent company's actual cash proceeds for 2020 (dividend flows from subsidiaries) accounted for 48% of consolidated IFRS net income in 2020," the analysts believe.

The grid operator also unexpectedly lowered its dividends for 2020 by 72%, with a current DY of only 1.8%. Moreover, Rosseti

and the Finance Ministry have already confirmed that it will have a special dividend calculation, according to Interfax.

The subsidiary of Rosseti, the Federal Grid Company (FSK), dividend policy also stipulates calculating 50% of adjusted IFRS and RAS net income and paying out the larger of the two. FSK has an effective payout ratio that is below 50%, in particular 35% of IFRS net income for 2020.

"The company is preparing to increase its capex for BAM

and Transsib, and it could protect its current conservative dividend policy," Sovia Capital believes. Assuming a dividend payout for 2021 of 50% of IFRS net income that does not include the depreciation adjustment, the expected dividend yield for 2021 could increase from the anticipated 7.1% to 13.1%, the analysts estimate.

Sovia Capital maintained Buy ratings on shares of Gazprom, Transneft, InterRAO, RusHydro and FSK, a Hold rating on RosSeti ordinary and a Sell rating on Rosseti's preferred shares. ●

## European commissioner confirms €30bn EU investment plan for Western Balkans

bne IntelliNews

**E**U Enlargement Commissioner Oliver Varhelyi announced on June 10 that the European Commission will extend an IPA-III economic and investment plan amounting to nearly €30bn, or a third of the region's GDP, to the Western Balkans.

Speaking after the Western Balkans leaders meeting in Tirana, Varhelyi said the project would mobilise nearly €9bn and had the potential to raise investment of up to €2bn between 2021 and 2027.

However, Varhelyi added that the plan would not be effective unless the six countries that make up the EU-aspiring region work together.

"We are ready to reconfirm our commitment and commitment that we have put on the table with the economic and investment plan, a plan which we have shown since the autumn that mobilises one third of the region's GDP, i.e. almost €30bn in the form of investments to come to the region," said the commissioner, according to a transcript on the Albanian government website. According to Varhelyi, an agreement was reached at the beginning of June to fund the plan.

"But this plan is not going to work if the region itself does not function as a whole," Varhelyi added. If we do not have a regional market, it makes no sense to build highways in case all the big vehicles stop at ... borders every 100 kilometres. It does not make sense to work more for these railways if the trains also encounter difficulties, or new trade routes if there will have to be six different types of freight certificates or different taxes for these types of freight.



EU Enlargement Commissioner Oliver Varhelyi (left) with Albanian Prime Minister Edi Rama at the Western Balkans summit in Tirana.

"This economic plan and investment plan will give its results only if this region itself works for this regional market and this is also the environment where this regional market will function," he concluded.

The plan was welcomed by political leaders from the region, with Albanian Prime Minister Edi Rama saying it will all result in "fundamental improvement" of the region's road, railway and port infrastructure, as well as interconnectivity, energy sector and digitalisation.

Rama, who hosted the meeting, also talked of steps towards regional co-operation, including the so-called "mini Schengen" area launched by Albania, North Macedonia and Serbia.

Another achievement is the agreement on free mobile roaming among countries in the region, due to come into force on July 1.

"This is really a great achievement and there will still be great things, such as citizens being able to move around with ID cards, identity cards, recognition of diplomas, revocation of work permits, so all these things together will make co-operation in the Western Balkans offer many things to the citizens of the Western Balkans, including online commerce," said Varhelyi.

The commissioner called June a "crucial month" for the region, and said the EC wishes to hold intergovernmental conferences with Serbia and Montenegro, as well as with Albania and North Macedonia; the latter two states failed to progress to the start of

accession negotiations at an EU summit in late 2020.

But while the emphasis from Varhelyi was on regional co-operation, it emerged that the prime ministers of Serbia and Kosovo had clashed during the summit.

Serbian Prime Minister Ana Brnabic told reporters after the summit that it was "more difficult than she expected" and that "she tried to focus on good results and co-operation in the region, but that someone else [Kosovan Prime Minister Albin Kurti] moved the conversation to the field of politics", a statement on the Serbian government website said.

"In today's #WB6 summit in #Tirana I said that we need to upgrade and accelerate membership into #EU. To this end we need to change the current framework of co-operation where Kosova is continuously treated unjustly & unfairly. I proposed we establish a new agreement called SEFTA," Kurti tweeted after the meeting.

"SEFTA (South East European Free Trade Agreement) would be modelled on the current EFTA-EEA Agreement with similar structure but with direct involvement of EU to ensure that all members comply with the agreement to have a common market that works fairly and justly." ●

## Romexpo real estate project exposes divisions within Romania's ruling coalition

Iulian Ernst in Bucharest

**T**ensions are rising within the Romanian ruling coalition as its members fail to find common grounds on an increasing number of topics.

The coalition was formed after the general elections last December by the National Liberal Party (PNL) with junior members USR Plus, a party set up relatively recently and advocating for radical reforms, and the Democratic Alliance of Hungarians in Romania (UDMR).

The latest issue to publicly divide the parties is the €3bn Romexpo development in Bucharest. PNL president and speaker of the Chamber of Deputies Ludovic Orban, admitted on June 17, that "there is no consensus among the ruling coalition's members" regarding the Romexpo real estate project in Bucharest CBD. This includes deal under which 46ha of land worth €300mn-500mn would be handed over for free to the Chamber of Commerce and Industry (CCIR) for the development.

The deal, initially approved by the PNL and the opposition Social Democratic Party (PSD) in the past legislature, passed unnoticed until it was close to being promulgated, when USR Plus first brought the issue to the media.

CCIR, an NGO defined as "of public interest", has the right to use the land for another 32 years and claims that unless it is given full ownership rights the land will remain unused. It already announced a partnership with major local developer Iulius Group, but promised to use "for the benefit of Romanian



business community" the dividends derived from the new mixed-use project to be built on the land.

USR Plus has spoken out strongly against the "fraudulent" deal, while the PNL, according to Agerpres, is now considering its position.

"The PNL has not made any decision on this project. Also, no decision has yet been made in the coalition on this project. We discussed once in the coalition, it remains that we will discuss again," Orban stated in the parliament.

Asked why the decision is so difficult, Orban explained: "We still don't have a common point of view in the coalition and if we can harmonise the points of view so that we can support a certain form of law together, that's better, since we are a ruling coalition."

The narrative of those criticising the land transfer is that it represents an unjustified transfer of wealth to the CCIR, which wants to put the land at the disposal of major real estate developer and investor Iulius Group for a €3bn mixed-use project.

The party referred the bill to the Constitutional Court, saying it which did not believe in the public benefits of granting a plot of land evaluated at over €300mn free of charge to a private entity like the CCIR (the beneficiary of the land is Romexpo, controlled by the CCIR). The court didn't see any constitutional issue and cleared the draft. ●



# Romanian developer One United Properties to launch IPO

## Iulian Ernst in Bucharest

**R**omanian developer One United Properties will embark on a 10% IPO between June 22 and July 2, with its shares to be listed on the Bucharest Stock Exchange. The company expects raise RON263mn (€54mn), pricing the company at up to RON2.63bn (€540mn).

The Romanian Financial Supervision Authority (ASF) approved the prospectus for the company's IPO at a meeting on June 16.

130,007,085 shares, accounting for 10% of the final number of shares, will be issued at a price ranging between RON1.93 and RON2.12 per share.

60% of the public offer is addressed to a tranche of institutional investors, and the remaining 40% to retail investors.

The company has hired BRK Financial Group to manage the IPO, while Swiss Capital will be part of the distribution group.

One United took out several loans ahead of the IPO. Most recently it was revealed that it secured more financing ahead of its imminent 10% IPO by approving last month syndicated loans with a cumulative value of €78mn for its subsidiaries, Economica.net reported quoting the Official Gazette.

Recently, the developer also announced that it had raised €50mn from Swiss and international investors through a Swiss-registered vehicle, and the money will be used for real estate developments locally.

As regards the €78mn syndicated loan, it is the largest syndicated loan that a Romanian developer has accessed on the real estate market in recent years.

One United Properties will soon access the financing extended by BRD – Groupe Societe Benerale, Erste Bank (Austria) and Banca Comerciala Romana (BCR) to two companies through which the Cotroceni Park project in Bucharest is being developed. One United Properties holds 72% in each of the two subsidiaries.



One Cotroceni Park Office (one of One United properties' subsidiaries) will contract a loan of up to €40mn for financing and refinancing the development of two office buildings (A&B) with a gross leasable area of 46,643 sqm, as well as a credit facility of up to €6mn for the partial financing of VAT during the construction phase.

One Cotroceni Park Office Phase 2 (the other subsidiary) will contract a loan of up to €29mn for financing and refinancing the development of an office building (C) with a gross leasable

“The €78mn syndicated loan is the largest syndicated loan that a Romanian developer has accessed on the real estate market in recent years”

area of 34,688 sqm, but also a credit facility of up to €3mn for the partial financing of VAT during the construction phase.

It also raised €50mn from the Black Sea Trade and Development Bank (BSTDB) in February to cover the development costs of the One Tower green office building.

Earlier in June, One United announced that an investment company controlled by UiPath co-founder Daniel Dines acquired 5% of the shares of the company. The terms of the deal were not disclosed.

Last November, the developer announced a €70mn capital increase giving it a €450 post-money valuation.

Romania's construction sector has been growing strongly, with the volume of construction works increasing by 5.7% y/y in January-April, pushed up by the volume of construction works on residential buildings projects.

However, a report from international real estate services

company JLL forecasts an increase in vacancy rates in the Bucharest office market as new properties come onto the market, though the sustainability of the work from home drive, prompted by the pandemic, may be overrated which would see workers eventually returning to offices in larger numbers.

The latest market report from JLL shows that after 155,200 sqm of new offices were delivered in Bucharest in 2020, the pipeline for 2021, including properties already delivered

during Q1, totals almost 256,000 sqm. This is a year-on-year increase of 65%.

The vacancy rate continued to increase in Q1, from around 11.3% during the previous quarter, to 13.4%. Considering that the vaccination campaign against COVID-19 is likely to take the whole year, the return of workers to offices is expected to be gradual. This, combined with significant new deliveries, will probably further increase the vacancy rate, JLL report concluded. ●

## Citigroup winding up brokerage in Turkey

### Akin Nazli in Belgrade

**C**itigroup has decided to shut down its brokerage house in Turkey, namely Citi Menkul Degerler, BloombergHT reported on June 7.

The US-based financial services group has opted to instead serve the customers of Citi Menkul via its London unit. Its banking unit in Turkey, Citibank A.S., will, however, continue to operate.

Citibank Turkey launched in 1981. It is the 27th largest bank among the 48 lenders in Turkey, with total assets of Turkish lira (TRY) 19bn (\$2.21bn), amounting to 0.3% of the TRY6 trillion of banking assets in the country as of at end-March.

In February last year, Reuters quoted an unnamed source as saying that Citigroup had transferred at least two foreign exchange and rates traders to London.

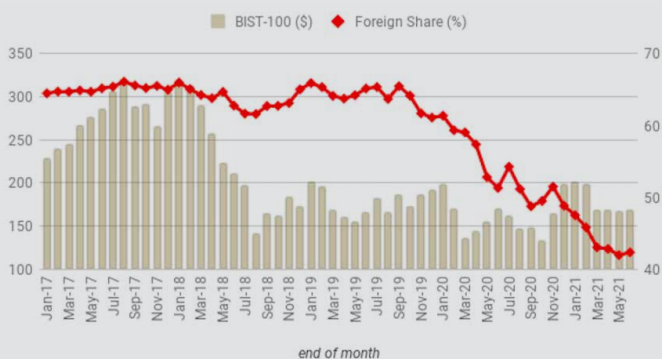
As of May 17, Citi Menkul was the fourth largest net seller on the Borsa Istanbul with TRY1.6bn in 2021 net sales.

In July 2020, Deutsche Bank's local brokerage unit Deutsche Securities Menkul Degerler ceased operations in Turkey.

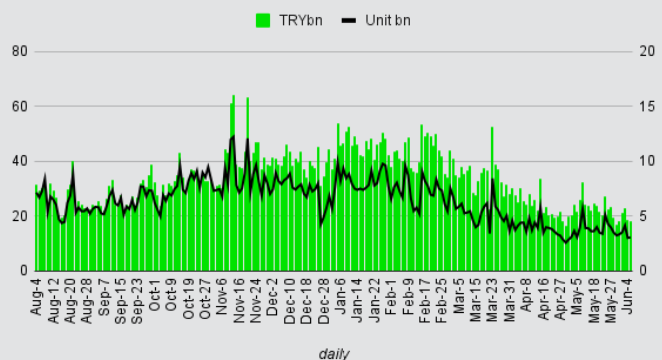
In August 2020, Bloomberg reported that Citigroup Inc and Fidelity International were considering Turkey separately from the rest of the EM asset class. ●

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BIST-100 vs Foreigners' Share in Free-Float



Borsa Istanbul Transaction Volume



MSCI Turkey vs MSCI EM





# Russia to reduce its dollar holdings in its NWF rainy day fund to zero

## bne IntelliNews

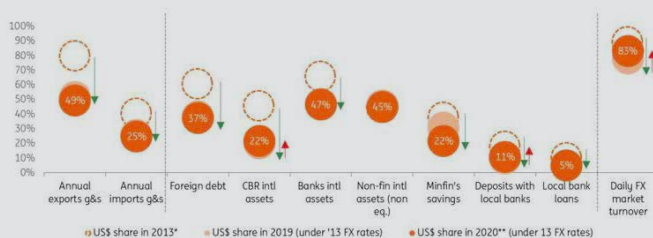
Russia will entirely remove the dollar from the basket of currencies in its National Welfare Fund (NWF) as the Kremlin's drive to de-dollarise continues to gather momentum.

“We, like the Central Bank, have made a decision to reduce the NWF’s investments in dollar-denominated assets. If today, in terms of structure, we have about 35% of the NWF’s investments in dollars, 35% in euros, then we [have] decided to get out of dollar assets completely, replacing investments in dollars with an increase in euros, an increase in gold. Dollars [will be] 0%, euros 40%, yuan 30%, gold 20%, pounds and yen 5% each,” Finance Minister Anton Siluanov said, speaking at St Petersburg International Economic Forum (SPIEF) on June 3, as cited by RBC.

The rainy day fund was set up to support the budget in years where the government runs a budget deficit. But the fund has also become a strategic weapon in Russia’s sanctions battle with the US, as the size of the fund makes sanctions largely ineffective.

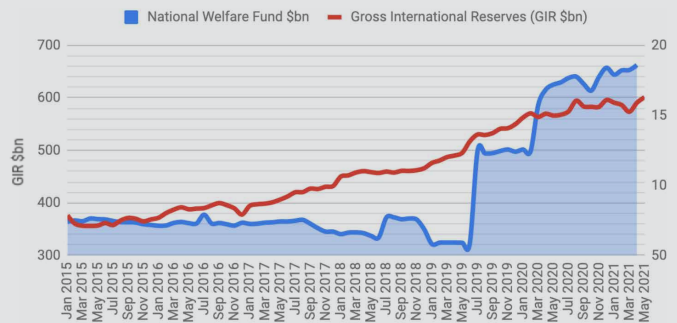
Last year the government ran a budget deficit for the first time in years, but rather than take the money from the NWF, the Ministry of Finance chose to partly fund the deficit by issuing more Russian Ministry of Finance ruble-denominated OFZ

### Role of USD in Russia: evolution as a share, 2013, 2019 and 2020, adjusted for the FX moves



Source: Bank of Russia, Russian Customs, Finance Ministry, ING

### Russia National Welfare Fund vs Gross International Reserves \$bn



Source: CBR, MinFin

treasury bills and increase Russia’s debt slightly in order to preserve the fund.

The NWF held a total of \$185.87bn as of May 1, or RUB13.825 trillion, of which 12% is monetary gold and a total of \$119bn (RUB8.66 trillion) are liquid assets – about 20% of Russia’s total GIR. The difference is money in the fund that is committed to guarantee various programmes, such

“The rainy day fund was set up to support the budget in years where the government runs a budget deficit. But the fund has also become a strategic weapon in Russia’s sanctions battle with the US”

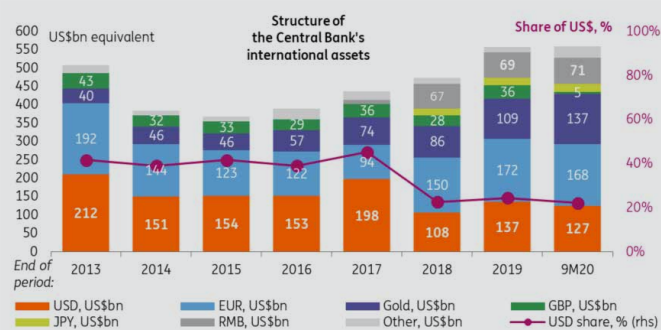
as VEB.RF’s (formerly Vnesheconombank) large-scale infrastructure projects. Under current rules the Duma can only tap the liquid assets in the fund above 7% of GDP.

The wealth fund currently holds 35% of its liquid assets in dollars, worth about \$41.5bn, with the same amount in euros and the rest spread across yuan, gold, yen and pounds, Bloomberg reports.

The change in the make-up of the fund will take place within the central bank’s huge reserves, which topped \$600bn this month for the first time ever.

The change to the make-up of the NWF doesn't mean that billions of dollars will be dumped on the open market. The Ministry of Finance confirmed later the same day that it had sold the money to the Central Bank of Russia (CBR) and so the

Structure of Russian central bank assets, \$ bn



Source: Bank of Russia, ING

change is little more than an accounting change, with the CBR increasing the number of dollars counted as the central bank's hard currency reserves while the MinFin reduces the share of dollars counted in the NWF.

“The de-dollarisation is unlikely to involve any open market transactions. With the NWF essentially being an FX deposit with the central bank, the entire deal can be covered by the central bank's international reserves, which are larger and more diversified than the NWF's. In order to reach the targeted FX structure, the Ministry of Finance has to sell \$40bn and GBP4bn, exchanging them for \$23bn equivalent of gold, \$18bn equivalent of CNY and \$5bn equivalent of euros. As of the end of 3Q20 (latest available disclosure date) the Central Bank of Russia had €143bn, \$71bn equivalent of CNY and \$137bn equivalent of gold,” Dmitry Dolgin, chief economist, Russia, at ING, said in a note.

“We do not believe that MinFin's move to ditch the dollar (apparently done in order to reduce exposure to foreign policy risks) will necessarily trigger de-dollarisation of

“The de-dollarisation is unlikely to involve any open market transactions. With the NWF essentially being an FX deposit with the central bank, the entire deal can be covered by the central bank's international reserves”

CBR reserves (which would require external open market transaction). As of the latest available disclosure date, the CBR had \$127bn in USD, or 22% of the total. First, according to international agreements, central banks are less exposed to sanction risks than governments, lowering the urgency to fully de-dollarise. Second, compared to other macro

parameters, the share of dollars in the Russian central bank's international assets already appears low vs. around 60% in Russian exports, 40% in Russian imports, 60% in Russian foreign debt, 45-65% in Russian international private assets, and 60% in global international reserves,” Dolgin added.

The CBR has also been running down its exposure to the dollar in its wider gross international reserves (GIR) and sold off over \$100bn worth of US T-bills last year. At the same time, Russia has been pushing its trade partners to settle trade deals in national currencies rather than dollars, which is the usual currency of choice to settle payments in international trade.

After the change, the fund's assets will be held 40% in euros, 30% in yuan, 20% in gold and 5% each in yen and pounds, Siluanov said as cited by Bloomberg.

The central bank reports the currency distribution of its reserves with a six-month lag, refusing to provide information on its current holdings.

When it was set up the NWF held only dollars, euros and pounds sterling, but more recently yuan, Chinese government bonds and gold were added to the mix last April. Then in February this year the Japanese yen was also added to the basket. At the time of the last report of the composition of the fund yen was 5% and the yuan was 15%. The share of dollar and euro assets in the NWF was reduced from 45 to 35% to make room for the new currencies, but the level of investments in sterling was left unchanged.

In 2018, President Vladimir Putin supported a plan to de-dollarise the Russian economy, developed by the government in response to tougher US sanctions (in particular, the blocking of assets of Oleg Deripaska's Rusal and Viktor Vekselberg's Renova).

In 2014–2019, the share of the dollar in trade and financial flows of Russia fell by an average of 15–20 percentage points, ING bank wrote as cited by RBC, including up to 49% in the export of goods and services, 25% in imports, 37% in external debt, etc. ●

FX structure of daily FX market turnover in Russia



Source: Bank of Russia, ING





bne:Tech

## Russian e-commerce recorded one of the world's highest growth rates in 2020

Adrien Henni in Moscow for East West Digital News

**S**pecialised research agency Data Insight has just released the international version of its Russian e-commerce report for 2020. Domestic sales of physical goods amounted to RUB2.7 trillion (some \$37bn at the average exchange rate of the year), up 58% from 2019 – placing Russia among the world's fastest-growing e-commerce markets, reports East-West Digital News (EWDN).

Several segments recorded explosive growth as the pandemic drove millions of consumers to online shopping, accelerating pre-existing market expansion.

The most spectacular example is e-grocery, with sales volumes reaching RUB13bn (\$180mn), up 250% from 2019. Illustrating this trend, market leader X5 Retail Group posted a 347% GMV jump, becoming Russia's largest digital company in food retail.

Data Insight also ranks Russian e-commerce sites by sales volume, number of orders and average order value. The 2020 ranking identifies the following leaders:

Wildberries.ru maintained its leadership in 2020 as its sales revenues reached RUB413bn (\$5.7bn), nearly doubling year

“The most spectacular example is e-grocery, with sales volumes reaching RUB13bn (\$180mn), up 250% from 2019”

on year. However, the company posted a net profit of only RUB2.11bn (\$29.1mn), half that in 2019. Meanwhile, the company launched sales in Poland, Slovakia, Ukraine and Israel – prior to Western Europe and the USA in early 2021.

With a whopping 144% y/y revenue growth, Ozon.ru ranked second in 2020. It was #7 in 2017, #4 in 2018 and #3 in



Russian e-commerce had domestic sales in physical goods of \$37bn, up 58% y/y.

2019. Last year was extremely favourable to Ozon on the financial front, too: after a \$150mn pre-IPO funding round in March, the company made a triumphant debut on the NASDAQ in November, raising more than \$1.2bn instead of the expected \$500mn.

“Wildberries.ru maintained its leadership in 2020 as its sales revenues reached RUB413bn (\$5.7bn), nearly doubling year-on-year”

Selling electronic appliances and a variety of other products, Citilink.ru fell from second place in 2019 to third in 2020, with a relatively modest 47% y/y growth. The Merlion group, which owns the site, has engaged in talks with Sber for a potential acquisition.

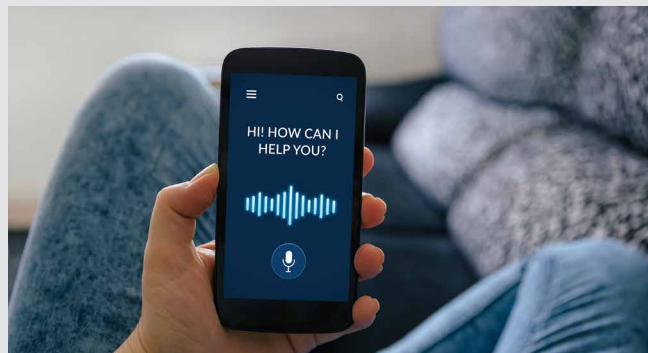
Online fashion leader Lamoda – a property of Global Fashion Group – held the seventh place among Russian e-commerce sites. It underperformed the market with a mere 32% sales growth y/y.

Meanwhile, the performance of Western omnichannel retailers Ikea and Leroy Merlin is striking. According to Data Insight's analysts, the Swedish DIY giant generated almost \$566mn in online sales revenues last year (up 175% from 2019), while its French competitor made around \$524mn (up 217%).

Amazon is absent from this ranking. The US giant's sales to Russian consumers are modest, based only on a cross-border offer. ●

*This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.*

# Tinkoff offers virtual phone secretary to all Russian mobile phone users



The digital assistant "Oleg" will talk to fraudsters and spammers for you, says Tinkoff Bank.

## East West Digital News in Moscow

In early June Tinkoff, the Russian digital banking giant, announced the beta version of its free voice assistant 'Oleg,' making it available to all mobile users in Russia, reports East-West Digital News (EWDN).

'Oleg' is also unique in the world in that "it can be easily activated both in the Tinkoff super app and via popular messengers such as Telegram and VKontakte," the company claims.

Tinkoff touts its AI-powered creature not just a personal assistant but also a "secretary" and a "defender," with "special functions aimed [at protecting] people from dangerous, undesirable or annoying calls from spammers and fraudsters."

As reported by Russia Beyond, here is the kind of dialogue Oleg can sustain:

- "Vika, hi, can I borrow 500 rubles?"
- "Hi, Victoria is not there, the assistant Oleg on the phone, how can I help you?"
- "Oleg, hi."
- "Okay, I'll pass it on, anything else to add?"
- "You're f\*\*king stupid, Oleg."
- "Hmm. I'll certainly pass on your words, but I'll replace some letters with asterisks."

## From number recognition to anti-fraud scripts

'Oleg' is powered by advanced technologies in the fields of machine learning, voice recognition and synthesis. Its abilities include:

- Number recognition – to determine in advance who is calling: a bank, clinic or other useful organisation; a friend; a spammer or scammer;
- Recording of calls;
- Speech recognition;
- Conversion of audio into text (transcription of calls);
- Activation of different conversation scripts for different categories of incoming calls if a subscriber does not answer them.

Trained on the recordings of 110mn calls in Russia, 'Oleg' can respond to more than 100 different call scenarios – including those involving spammers and potential fraudsters.

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

"While 'Oleg' responds politely to the contacts from its owner's address book, he may start joking and trolling spammers and other fraudsters," says Tinkoff.

"Today people in Russia have two big problems while making and receiving calls on mobile phones: spammers who inundate them with calls and fraudsters who try to deceive them. This is why we decided to train 'Oleg' to turn it into a 'wall' between mobile subscribers and undesirable calls, and open it to subscribers of all mobile operators," stated Stanislav Bliznyuk, chairman of the Tinkoff management board.

'Oleg' was unveiled by Tinkoff founder Oleg Tinkov in 2018. In January 2021, Tinkoff Mobile launched a 2.0 version of the voice assistant, enabling customers to create their own mobile concierge with custom features. Two months later, 'Oleg' was integrated into Clubhouse – a move presented as a world first.

Another Russian-made, cutting-edge voice assistance is Alice, launched by Yandex in 2017. The search leader also offers a professional version of its service, 'SpeechKit Pro,' to recognise or voice texts in several languages. ●

*This article first appeared in East-West Digital News (EWDN), a bne IntelliNews partner publication.*

"Tinkoff touts its AI-powered creature not just a personal assistant but also a "secretary" and a "defender," with "special functions aimed at protecting people from dangerous, undesirable or annoying calls from spammers"

# Turkey's Getir online rapid groceries business raises \$555mn in new funding round

Akin Nazli in Belgrade

**T**urkish online rapid groceries delivery company Getir has raised \$555mn in a funding round that valued the company at over \$7.5bn, Reuters reported on June 4.

The deal was led by existing investors including Tiger Global and Sequoia Capital along with Silicon Valley-based Silver Lake, and the United Arab Emirates (UAE) sovereign wealth fund's DisruptAD and Abu Dhabi sovereign wealth fund's Mubadala Investment Company.

The company is reportedly planning to come online in Berlin and Paris in June, and in several cities in the US in Q4.

In March, Getir raised \$300mn of funding in a financing round, making the enterprise Turkey's second tech unicorn thanks to its updated valuation at that point of \$2.6bn.

In May, Getir went online in Amsterdam. In January, Getir launched operations in London. It plans to go online in Sao Paolo in H2 2021.

Getir, launched in 2015, is also aiming to set up operations in Mexico City.

In April, the Turkish competition board launched a probe looking at 32 companies, including Getir, in relation to the signing of a "gentlemen's agreement" to prevent workers from moving between companies. ●



Getir arrived in Amsterdam in late May.

# Albanian fintech Rubicon raises pre-seed funding round

bne IntelliNews

**A**lbanian fintech company Rubicon announced the closing of its pre-seed round worth ALL55mn (€450,000) on June 2.

The funding will be used to accelerate Rubicon's business plan in Albania, where it provides financial solutions and is developing a payment processing network.

The funding was secured from a group of local Angel Investors, US Venture Capital firm Navy Yard Capital LLC and APC Integrated.

On approval of its license application Pago will be licensed as an electronic money institution by the Bank of Albania, the company said.

"Considering the digital revolution of the last 20 years and following the ever-increasing traction of the challenger banks and fintechs, like Revolut, Number 26, Monzo but

also e-payment solutions such as WePay, Venmo throughout the world, it is time for Albania and the wider region to also benefit from similar innovation," said Dr Armand Brahaj, founder of Rubicon.

Brahaj noted that around 60% of Albania's population is un-banked and the total number of cashless payment transactions per inhabitant in Albania is among the lowest in Europe.

However, he added, "the central bank of Albania is strategically focused to increase the banked population to 70% by the end of 2022. In April 2020 Albania harmonised its legislation with the introduction of the Payment Services Directive, known as PSD2. The foundation stones are in place to allow us to exploit these anomalies through the creation of a range of payment services never witnessed in the Albanian market."

Rubicon was advised on the fundraising by Deloitte Legal Shpk and Oficina Incubator. ●



## Coal bandits

### bne IntelliNews

**T**he International Energy Agency (IEA) has said that the road to net zero by 2050 is “narrow but still achievable,” with a key requirement being no more investment in new coal projects.

The agency said that “from today” only no new investment in all fossil fuel supply projects, and no further final investment decisions (FIDs) for new unabated coal plants, would enable the world to limit global warming to 1.5 degrees.

Indeed, the agency warned a total coal phase-out in the power generation sector would be needed by 2040, with an earlier target date of 2030 for advanced economies.

In terms of coal demand, this net-zero target would see global coal demand fall by 90% from 5.25bn tonnes of coal equivalent in 2020 to 2.5bn tonnes in 2030 and to less than 600mn tonnes, an average annual decline of 7% each year from 2020 to 2050.

In other words, coal’s share of total energy supply would have to fall from 26% today to 4% by 2050, of which 1% would be unabated coal and 3% would be coal with carbon capture and underground storage (CCUS).

Put simply, any new investment in coal would be a major risk, as demand is set to plummet in order to meet the 2050 net-zero targets.

Meanwhile, global investment in fossil fuel supply should fall from \$575bn on average over the past five years to \$110bn in 2050. Upstream fossil fuel investment should be restricted to maintaining production at existing oil and natural gas fields.

#### Tussle between HC and renewables

The existing energy lobby is not happy about giving up their crown when there is still so much hydrocarbon fuel still in the ground. Countries like Russia are ramping up production of things like coal to be able to cash in on their mineral wealth while there are still buyers. Ironically Russia is planning to significantly increase its coal production in the next few years because in 20 years’ time there will be no buyers left, the government says.

Likewise, Russia’s Gazprom is also investing heavily in production, and forecasts gas demand will grow, contrary to



Coal’s days are numbered, but not yet everywhere.

a world trend for an energy transition from fossil fuels to the employment of environment-friendly renewable sources of energy.

Gazprom deputy chief executive Oleg Aksyutin told a web briefing that the corporate was still considering a carbon-neutrality scenario as a part of its 2050 low-carbon development strategy. The plan is to finish work on the strategy by May 2022.

Russian leaders and senior management have consistently described natural gas as a climate-friendly energy source, despite the fact that it is largely made up of methane and is not carbon-free. According to Aksyutin, natural gas is expected to account for nearly 40% of Russia’s additional electricity production in 2020-2040, compared with 34% from renewables.

Gazprom’s presentation revealed that combined gas demand in Europe and China, the company’s major supply markets, is forecast to reach nearly 1 trillion cubic metres per year by 2030, up from 865bn cubic metres in 2020.

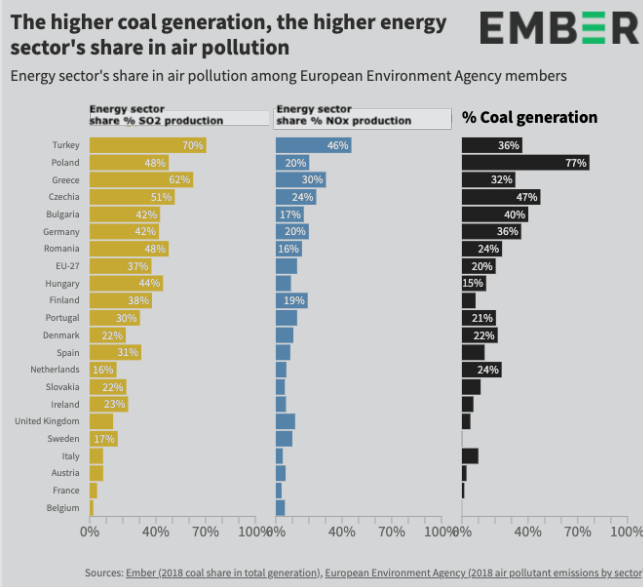
#### Europe

The dirtiest power producers in Europe are Ukraine, Turkey and the Western Balkans, who continue to make extensive use of coal-fuelled power stations to produce the electricity they need, as it remains the cheapest option for these poorer countries.

At the same time, EU countries like Germany and Poland are also among the worst for NOx emissions, a GHG that is as bad as CO2 emissions, according to the Ember Analytical Centre.

“When coal is burned for generating electricity, pollutants are released into the air which pose a threat to human health, and are responsible for high numbers of premature deaths. With pollutants sometimes travelling thousands of kilometres, air pollution from coal power is a problem for the whole of Europe, no matter the source,” a recent report by the Ember Analytical Centre says.

Burning coal produces several dangerous gases in addition to the global-warming CO2.



**SO2**

Sulphur dioxide (SO2) is another GHG released from burning coal that amongst other things causes “acid rain” as the SO2 reacts with the water in the atmosphere to make sulphuric acid that can devastate the surrounding flora.

In high concentrations it also directly affects the health of local residents through causing a life-threatening accumulation of fluid in the lungs. Even a single exposure to a high concentration can cause a long-lasting condition such as asthma.

In the region the top 10 SO2 emitters can be found in three coal plants each from Turkey and Serbia, two from Bosnia, and one each Ukraine and North Macedonia.

Emissions of these plants in the top ten account for 44% of total SO2 emissions in Europe from coal power.

Among the thirty most SO2 polluting coal power plants, there are 12 from Ukraine, with the Burshtynska plant in the number one spot, followed by Turkey with six plants and four power plants belong to Serbia and Bosnia.

**PM10**

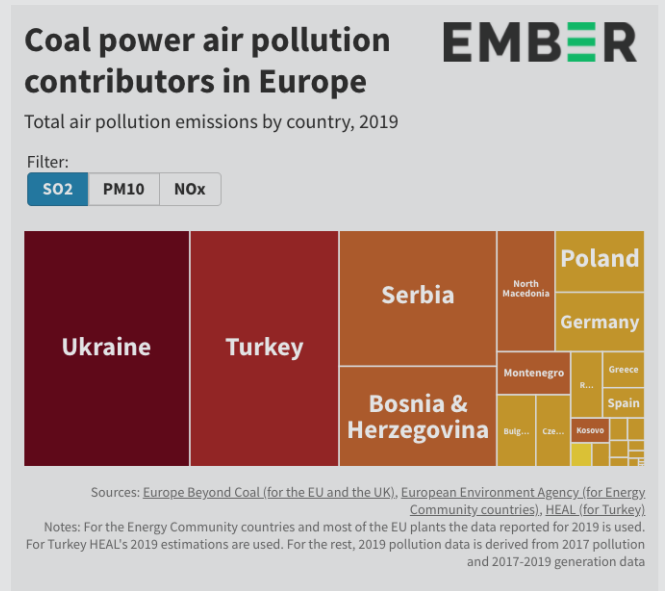
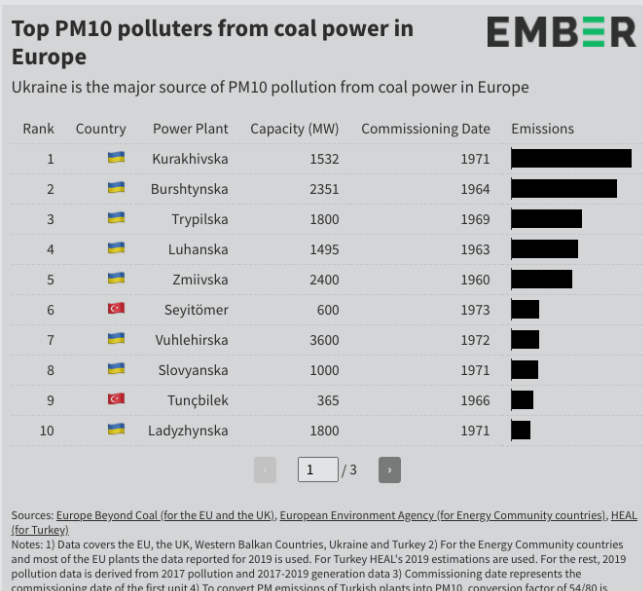
In addition to their greenhouse effect, one of the other problems with burning coal is it produces relatively large particles that can have mechanical detrimental effects on health. The so-called PM10 (particulate matter with a diameter of 10 microns) is a standard measure of this type of undesirable emission. If inhaled, the particles can travel into the bloodstream, harm lungs and heart, cause a stroke and lead to premature death.

In terms of PM10 emissions from coal power plants, Ukraine is almost unrivalled. In the top ten positions, Seyitömer (600 MW) and Tunçbilek (365 MW) from Turkey compete alongside plants with at least twice the capacity from Ukraine. The top 10 list for PM10 hosts even older power plants than those on the SO2 list, with the plant ages varying between 48 and 61 years.

**NOx**

Another dangerous gas is the nitrogen oxide family (NOx), which are gases that cause inflammation of the airways and disrupt normal cell mechanisms, damaging tissues and reducing the immune abilities of the body, the Ember Analytical Centre says.

Ukraine has nine plants in the top thirty ranking for NOx. Among the top thirty, Turkey and Germany have six plants from each, three from Poland, and two each Serbia and Kosovo. Turkey is also represented by its young imported hard



coal power plants together with its notorious lignite in the top positions. ZETES III (28th) and ZETES III (32nd) were commissioned in 2016 and 2010 respectively.

Eight power plants from Ukraine exist in all of the top thirty rankings: Kurakhivska, Burshtynska, Trypilska, Luhanska, Vuhlehirska, Slovyanska, Ladyzhynska and Zaporizka. Soma B and Çayırhan from Turkey find a place in all top 30 plant-based pollution rankings, likewise Nikola Tesla A and Nikola Tesla B from Serbia.

### Ukraine

Ukraine remains heavily dependent on coal to power the country, although in the last few years it has been working hard to switch to renewable energy sources.

The country produces 34% of its electricity consumption from 20 coal power plants built before 1976, none of which have desulphurisation equipment other than the second unit of Trypilska (300 MW of the 1,800-MW power plant) which was installed with FGD as a pilot project in the country.

The coal plants have become even more important thanks to the de facto war with Russia that has seen the country cease Russian imports of cleaner-burning natural gas for more than three years. With abundant supplies of coal in the Donbas coal basin the government has little alternative to burning coal in the short term, but under former President Petro Poroshenko Ukraine introduced extremely generous green tariffs that led to a boom in investment into renewable energy sources.

More than \$5bn has been invested into thousands of projects, big and small, by domestic and international investors. The oligarch-controlled power companies, with DTEK Energy owned by Ukraine's richest man Rinat Akhmetov leading the pack, have also invested heavily in the business, but still only control about 20% of the total green capacity.

Ukraine has enormous solar (55 GW) and wind (319 GW) power potential, which could allow for coal to be phased out by 2030. Ukraine could generate its total energy demand from solar by using less than 5% of its land.

However, the boom in renewables ran into problems as Poroshenko's government promised more than it could afford, and the Zelenskiy administration reneged on the promises and has changed the tariffs retroactively. As bne IntelliNews reported in August 2020, the law cut tariffs by 15% for solar and 7.5% for wind.

Currently the government owes renewable power companies around \$1.1bn in unpaid fees and has been talking about issuing a green bond to pay off its debt, but several of the companies are unhappy and have started arbitration actions against the government. What should have been a welcome transformation of Ukraine's power generating profile has turned into an imbroglio that has hurt what little investor confidence there was.

Ukraine also has extensive gas resources in two sizable gas basins in the east and west of the country and currently produces about 20 bcm a year that covers just over half of its domestic needs. More could be produced, but the process of awarding exploration and production tenders has only just got going and although Ukraine could become entirely self-sufficient in natural gas, it is still many years away from increasing production to that level.

The companies are also responding to the changes.

Ukraine's leading utility DTEK announced a new corporate strategy on December 22 that will dramatically increase the share of green energy it produces and puts environmental, social and governance (ESG) principles at the core of its business operations, the company said in an emailed press release.

"For the first time in DTEK's history, CEO Maxim Timchenko yesterday presented the company's 2030 corporate strategy at its partly public annual senior management conference. DTEK has committed itself to transforming into a greener, more efficient and technologically advanced business. Implementing the strategy will contribute significantly to the decarbonisation of both the Ukrainian and European economy," DTEK said in the press release.

### Turkey

Turkey was responsible for 33% of annual SO<sub>2</sub> emissions originating from the energy sector among OECD countries in 2018, placing Turkey on the top of the list. It is likely this is due to many coal power plants in Turkey still lacking proper flue gas desulphurisation (FGD) systems. The old lignite plants commissioned without any desulphurisation continued to run until the end of 2019 without any challenge.

In Turkey it is difficult to determine which coal power plants comply with the emission standards. The Turkish government does not provide plant-level emissions data, as this is deemed to be commercially sensitive information. It is also unknown if emissions are monitored at all. From old studies by the state-owned energy company, it is known that unfiltered SO<sub>2</sub> emission concentrations of old Turkish coal plants are between 25-60 times higher than the current limits; even the ones with desulphurisation do not comply with the new emission concentration limits. This gap between regulation and practice is reflected in total SO<sub>2</sub> emission statistics of the country.

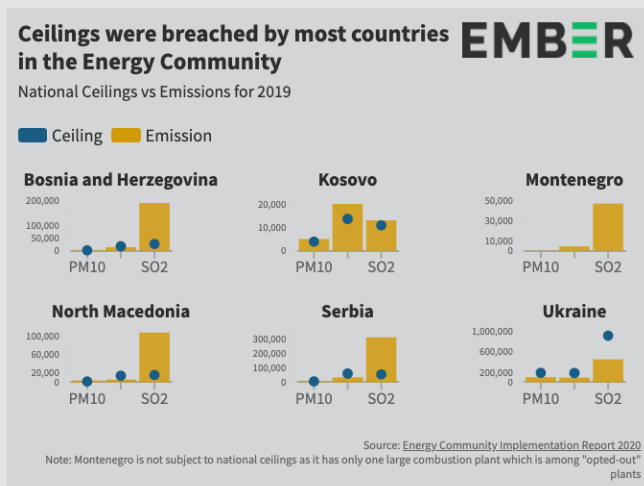
Turkey closed down some of its coal power plants at the beginning of 2020 due to being non-compliant with the emission limits. However, just a couple of months after this decision, these power plants received temporary permission to operate following the Ministry of Environment and Urbanisation announcement. Currently they are all operational and included in the official installed capacity statistics.

Recently in Turkey only the Çan 18 Mart lignite power plant was upgraded with a proper FGD. The 300-MW lignite power plant paid for desulphurisation.

## Balkans

Bosnia, Kosovo, North Macedonia and Serbia did not comply with the ceilings both in 2018 and 2019. The Secretariat launched a dispute settlement procedure in March. Ukraine, although being on the top of all polluter lists, interestingly met all emission ceilings for all three pollutants by a large margin.

Another implementation alternative under the LCPD, known as “opt-out”, provides an exemption to national NERCP ceiling calculations if plants commit to operate less than 20,000 operational hours between 2018-2023.



Serbia says it targets 40% renewables in its energy mix, but for the moment remains heavily dependent on coal and it has been building new coal capacity. Minister of Energy and Mining Zorana Mihajlovic has put increased emphasis on the energy transition since her appointment in 2020, though this is a politically sensitive issue. Major new coal power stations Kolubara 2 and Kostolac B3 have been under construction, but in May 2021 the government announced that work on Kolubara 2 has been suspended for reasons that are as yet unclear. Kostolac B3 has also run into difficulties as Mihajlovi criticised both the speed and the quality of work by China Machinery Engineering Corporation.

Bosnia faces similar issues, and the Bosnian Federation is currently embroiled in a dispute with the Energy Community secretariat over alleged state aid for the construction of the Tuzla 7 coal-fired power plant. There are several projects to build coal power plants in Bosnia, at various stages of development, but it is not clear how many are economically viable.

Montenegro dropped plans for a new unit at the Pljevlja thermal power plant (TPP), opting instead to extend the life of the existing unit. Power company EPCG says it needs to continue operating Pljevlja, as shutting down the power plant will be too costly.

Kosovo planned to add a major new coal power plant, to be built by US company ContourGlobal. However, last year ContourGlobal announced its decision to cancel the 500-MW

Kosovo e Re coal-fired power plant project, estimated to cost €1.3bn. ContourGlobal said it planned to sue Kosovo because as a result of the political situation in the country, the power plant project was incapable of reaching its required milestones by the required project completion date in May 2020, so the project could not proceed.

Aside from Albania, which produces almost all its energy from hydropower, according to the Energy Community, North Macedonia is the only country in the Western Balkans that has expressed its intent to gradually phase out coal. “Bosnia & Herzegovina, Kosovo, Montenegro and Serbia are moving on with their plans to refurbish existing coal-fired capacities or even commission new capacities before 2030,” the Energy Community said in February, adding that if these plans are realised the level of coal-fired generation capacities will expand by 1.5 GW by 2030.

## Russia

Russia ratified the Paris Climate Accord on September 23, committing itself to reducing CO2 emissions to 70% of the 1990 levels. But that is an easy goal, as Russia’s CO2 emissions peaked in the last year of the Soviet Union and the following year emissions collapsed along with the Soviet economy. Russia’s commitment means it can actually increase its emissions from the current 1.8Gt of CO2 emissions per year and still meet its commitments to the accord, as bne IntelliNews reported in “The cost of carbon in Russia” in September 2019.

Thanks to the legacy of central planning it is also one of the biggest polluters in the world. With a territory that stretches half way around the globe, the Soviet government acted as if Russia’s ecology was an infinite resource. But global warming has caught up even with Russia, as the permafrost is melting that could cause as much as \$1 trillion of damage to cities and infrastructure in the interior. In the last year the Kremlin has done a sharp about-face from scoffing at the problem to acting.

In April the Kremlin launched a pilot carbon pricing project on the Far East island of Sakhalin and proposed imposing fines of RUB150-2,000 (\$2-25) per tonne on companies that exceed proposed new GHG emissions quotas.

Coal-fired power plants will be replaced with somewhat cleaner natural gas and hydrogen-fuelled passenger train lines developed in the region the size of Ireland, Sakhalin officials said, after their net-zero carbon by 2025 roadmap was approved by Moscow in February. About 97% of all coal mined there is currently exported, and coal could remain a reserve fuel for Sakhalin, if technologies were introduced to make the industry cleaner, according to the regional governor.

Russia has the second-largest coal reserves in the world, equalling 19% of the world’s total. The total coal reserves in Russia amount to 173bn tonnes. This puts Russia behind the United States in total coal reserves, which has 263bn tonnes.

Most of Russia's coal reserves are in the Kuznetsk and Kansk-Achinsk basins. Russia is the fifth-largest consumer of coal in the world and is the sixth-largest producer of coal. Over two-thirds of coal produced in Russia is used domestically.

The percentage of coal in Russian power generation has been declining since 1990, when it was 20.7%, due to rising gas consumption as well as increasing nuclear and hydroelectric energy output. Currently only 14.4% of Russia's power is produced from coal.

However, coal remains a major fuel in the power industry and in the new energy strategy to 2035 the use of coal could increase by half.

Last summer, the Russian government approved an energy strategy that would see coal output rise from 441mn tpy in 2019 to 485mn-668mn tpy by 2035.

Private and state firms are working to expand coal ports and rail transport capacity. Last year, Russia saw the launch of its biggest underground coal mine, Inaglinskiy. "There hasn't been a construction project like this since Soviet times," its backers said.

"Now we understand that we have a lot of coal that, very soon, no one is going to need," he said. "If we don't sell it in the next 10-20 years, there won't be any point in mining it."

Russia's government is confident that coal use in Asia will continue to grow for some time. "Growth prospects are primarily related to the growing market of the Asia-Pacific region," Deputy Prime Minister Alexander Novak said in a coal report last year.

However, most of the progress so far as been made by the companies, which have been putting ESG policies into place in the last year, with the focus on the environmental element only expected to become more relevant for investors.

Russia remains a big producer of coal from the coal-mining heartland of Kuzbass, most of which is using in power stations, which in turn cause just over half (53%) of Russia's GHG emissions.

Russia has reduced emissions dramatically since the Soviet era, not because utilities' management went green, but more because they simply invested into more efficient and profitable equipment that reduces emissions as a side-effect.

But that changed in October 2019 when the Italian-owned Enel Russia power company sold its coal-burning power station and got out of carbon completely, promising to invest the proceeds into renewable power. It was a dramatic decision, as the Reftinskaya coal-powered station accounted for a third of the company's entire revenue but was its only exposure to GHG-emitting power generation. Investors loved it. Although the company reduced its revenues and will have to increase

its debt, the company's stock price soared as Enel became the leading green power producer in Russia at the stroke of a pen.

The rest of Russia's energy-intense industrials have been moving more slowly, but the looming EU Green Deal has spurred them into action more recently.

Major Russian aluminium producer RusAl – the biggest single consumer of power in the country – is already switching from coal-burning power supplies to hydro in an effort to reduce its carbon footprint, reports VTBC, and is considering completely ditching its coal-fired power plants and coal mines. More recently RusAl announced that it was breaking the company into two separate pieces – the clean from the dirty – that is supposed to facilitate its reduction of GHG emissions.

But investment is still going into coal mega-projects.

A-Property plans to invest a further \$1.7bn on Elga's development and sees it as part of a far eastern industrial cluster, together with the gas producer, another coal mine and a coal-loading port on the Sea of Japan.

Mechel, a mining firm controlled by Igor Zyuzin, bought the licence to develop Elga in 2007, spending \$2.3bn to acquire it as part of a regional coal complex. It invested a further \$1bn on developing Elga.

Founded in 2003, Mechel spent its early years aggressively buying up metals plants and the coking coal mines that could supply them. By the time the 2008 financial crisis hit, Mechel had taken on \$5bn in debt.

In 2020, Zyuzin decided to sell. Enter Elga's unlikely new owner, Albert Avdolyan, who made his money in telecommunications. His investment firm, A-Property, bought Elga for \$1.9bn.

The scale of Avdolyan's vision is huge: Elga's new managers have been tasked with lifting output from 4mn tonnes of coal in 2019 to a staggering 45mn tonnes by 2023.

Moreover, the coking coal that Elga produces is used primarily in the production of steel. It has no ready replacement, and so demand remains strong. According to the International Energy Agency (IEA), "substitution of steel production from iron ore at scale without coal is not expected in the near term."

## Asia

China is by far the world's largest consumer of coal for power generation, accounting for 53% of total global coal generation in 2020, according to the think-tank Ember.

The government says that 72% of China's power came from coal in 2005, falling to 56.8% in 2020, with a target of 56% for 2021.

However, in absolute terms, Chinese coal generation acutely grew by 18% between 2015 and 2020, and by 1.7% between



2019 and 2020, the only country in the world to see growth in coal generation in 2020.

However, although this share is falling, principally to meet Beijing's target of net zero by 2060, the country is still a major builder of new power plants

It commissioned 38.4 GW of new coal-fired power in 2020, compared with 11.9 GW turned on in the rest of the world, according to Global Energy Monitor (GEM). Meanwhile, the country currently has 247 GW of coal power capacity under development.

Indeed, President Xi Jinping recently announced at US President Joe Biden's Virtual Climate Summit that China's carbon emissions would peak before 2030 and the country should attain carbon neutrality by 2060.

Xi said that Beijing would follow a policy of strictly controlling, while still increasing, coal use until 2026, when consumption would begin to fall.

China's policy is to wind down its coal consumption during this slow transition to net zero. Coal would no longer be the major source of power, but would provide grid flexibility, reliability and a major source of employment.

India is even more coal-reliant than China, the fuel accounting for 71% of the country's generation in 2020, Ember said. Then came China with 61%, slightly more than Beijing's own figures, with Indonesia next on 60%, Australia on 54%, South Korea on 38% and Japan on 29%.

In a nutshell, Asia is perhaps the most exposed global region to coal, and is well behind such regions as the EU in pushing to reduce their reliance on it.

### Africa

Finally, the other major coal economy is South Africa, where coal accounted for 86% of power supply in 2020, making it the most coal-reliant power sector in the G20. Renewables currently accounts for just 6%.

This is an inheritance from the apartheid era, when the government could invest in cheap domestic coal production in order to fuel industrial expansion. However, the country's energy sector has failed to modernise since the end of apartheid in the early 1990s.

This has left an investment-starved and virtually bankrupt Eskom, the state-owned monopoly, running a power sector that cannot adapt to new renewable technology or even maintain reliable supplies to industrial and domestic customers.

A lack of maintenance at older coal plants has led to rolling power cuts. This has acutely affected industry in South Africa, and slowed growth and socio-economic development.

Power consumption has actually fallen by 5.4% since 2015, unique for a developing economy,

Eskom now had debts totalling ZAR450bn (\$25bn), and the company's power purchase agreements (PPAs) with a range of private mining companies have recently been the focus of legal cases highlighting corruption dating back to the presidency of Jacob Zuma.

When South African President Cyril Ramaphosa took office, he overhauled Eskom's management and board, as well as putting in a stronger regime of oversight.

As well rooting out corruption and cutting the influence of Zuma-influenced ANC figures, Ramaphosa has spearheaded Eskom's plans to split up the company into generation, transmission and distribution entities. This aims to cut debt, improve operational efficiency and reduce corruption.

South African has also set a 2050 net-zero target, but this will require both massive deployment of wind and solar and a major reorganisation of the national grid away from coal.

### Poland

Poland reduced coal and lignite share in its energy mix from over 90% to 70% in 2020 (Ember's 2018 data say 77%), with some "help" from the pandemic-reduced recession but also thanks to falling demand for coal as renewable energy – photovoltaics (PV) in particular – takes hold.

In future, Poland's emissions from the power sector are expected to fall to 11%-28% in 2040 thanks to offshore wind, further development of onshore wind and photovoltaics, gas, as well as nuclear power.

Central and Eastern Europe (CEE) is "brimming with opportunities for investment into renewable energy, airports and infrastructure," a study by international law firm CMS found.

This year's report "confirms that a crucial point has been reached in the global transition into greener, smarter and more sustainable investments and assets," a press release emailed to bne IntelliNews said.

Among the seven CEE countries included in the 2019 index, Poland has the top spot across the region for investment attractiveness, rising three points since the 2017 index.

According to the report, Poland – which still relies heavily on coal power – is making "huge strides" in the clean energy sector.

"Poland's strong position in the index is gratifying and reflects the strength of the primary infrastructure market and the government's support for investment in sustainable assets," Marcin Bejm, head of infrastructure and project finance at CMS Poland, said in the report. ●

# Gazprom confesses to several big methane leaks this year

bne IntelliNews

**R**ussia's gas giant Gazprom has admitted to several large methane leaks this year, the company said. Methane is one of the most environmentally harmful gases.

Gazprom has taken responsibility for the leaks from its pipelines that include one of 2.7mn cubic metres on June 4 due to an emergency pipeline shutdown in Tatarstan, the biggest methane leak in two years. That has roughly the same short-term planet-warming impact of 40,000 internal combustion engines driving for a year, according to the Environmental Defence Fund.

Gazprom said the gas was released after it detected a problem with its Urengoy-Centre 1 pipeline in Russia's Tatarstan region. The company said that "given the urgency", it wasn't able to use a mobile compressor station to reduce the methane released by the repairs, though it claimed still to have cut 22% of potential emissions.

The company also admitted to several smaller leaks around planned pipeline maintenance. The climate warming effect of methane is judged to be 86-times more powerful than carbon dioxide.

The satellite detected another giant methane plume on May 24 with an estimated emissions rate of 214 tonnes per hour. Gazprom said this leak had resulted from two days of planned maintenance on the Urengoy-Petrovsk pipeline in Russia's Bashkortostan region. The emissions amounted to about 900,000 cubic metres, it said, which the company described as "in line with the industrial safety regulations."

The leaks were detected by a new international satellite capable of detecting emissions from individual sites. The same satellite uncovered similarly large methane leaks earlier this year from gas pipelines in Turkmenistan, another major gas producer.

A satellite reportedly looked down on central Turkmenistan in early February and detected methane leaks from at least eight natural gas pipelines and unlit flares in the Galkynysh gas field, releasing as much as 10,000 kilograms per hour of the supercharged greenhouse gas (GHG).



Russian gas company Gazprom admitted to releasing 1,800 tonnes of methane into the atmosphere this year, in the biggest leakage in two years and the equivalent of driving 40,000 cars around for a year.

That amount of methane would have a planet-warming impact equivalent to driving 250,000 cars around in circles for a similar amount of time.

Turkmenistan was also caught with leaky pipelines in 2019 and has remained a headache in the global fight against climate change.

Gazprom, along with most of Russia's blue chip companies, has been striving to improve its environmental, social and governance (ESG) scores; however, analysts say while the leaks are a smudge on its reputation the leak is unlikely to cause much damage to its business or stock price, even though the company will incur a fine in line with Russia's environmental regulations.

"While gas companies generally score better on environmental issues than do oil companies, they are still closely watched by activists as producers of hydrocarbons," analysts with BCS GM said in a note. "The issue here for Gazprom is twofold.

"The leak has roughly the same short-term planet-warming impact of 40,000 internal combustion engines driving for a year"

First, methane is a very powerful – if relatively short-lived – greenhouse gas. Second, ESG (environmental, social and governance) issues have become a key investment screen for institutional investors, especially for funds based in Europe, while methane emissions by the oil & gas industry have come under increased scrutiny by environmentalists worried about global warming. In the end, this particular event will prove transitory for Gazprom, but we would expect the company to boost maintenance capex at least somewhat in the coming years to address pipeline leaks."

Under Russian regulations, methane is a pollutant; hence its release into the atmosphere is regulated. Every gas

transportation asset has a permitted amount of methane that it is allowed to emit in the normal course of its business. Emitting more methane than permitted leads to a fine of RUB4,069 per tonne (\$37 per 1,000 cubic metres). All methane emissions (including within permitted limits) are subject to a payment of some RUB117/tonne (\$1.06/kcm) to the government budget.

In its Ecological Report for 2019, the company disclosed releasing 1,401kt of methane and other hydrocarbon-pollutants into the air (excluding Gazprom Neft). The current episode translates into a release of 1.8kt of methane, which is 0.1% of the 2019 total.

“Given the company’s statement that this methane release happened in the normal course of its business, which is somewhat confirmed by the numbers stated above, we do not expect any substantial financial or operational consequences.

However, we think that the situation might be quite negative for sentiment on Gazprom’s shares,” VTBC said.

The leak comes on the back of a string of environmental disasters in the last two years.

A power unit belonging to Norilsk Nickel spilled over 20,000 tonnes of oil into Arctic rivers in the Pyasino region in June 2020; this was declared a federal emergency by the Kremlin and cost Norilsk \$2bn in fines. Also in June 2020, a once-in-a-1,000-year snow melt flooded the TGK1 power station near Murmansk, putting two of its hydropower units out of action after snow suddenly melted. A few months later an unusual algae bloom off the coast of Kamchatka killed all sea life along several kilometres of coastline in October 2020. And most recently Russian oil major Lukoil spilled 100 tonnes of oil in the Komi Peninsula, although very little of that got into the local rivers that run into the Barents Sea. ●

## IEA calls for \$1 trillion of annual investment into clean energy in developing economies

Richard Lockhart in Edinburgh

**W**hat? Emerging economies need \$1 trillion per year of investment into clean energy. Why? Without this, the developed world will account for the bulk of emissions by 2030. What next? New investment vehicles are needed to attract private investment and loans to the developing world.

The cost of reaching net zero will require significantly more expenditures by emerging and developing economies (EMDEs), the International Energy Agency (IEA) has warned, potentially reducing the whole world’s chances of decarbonising the global economy.

Without a seven-fold increase in green investment in EMDEs, up from \$150bn per year to \$1 trillion per year by 2030, developing economies could be emitting the majority of the world’s greenhouse gas (GHG) emissions in future, a report from the IEA, called Financing Clean Energy Transitions in EMDEs, found.

The report forecasts that emissions from EMDEs are projected to grow by 5bn tonnes per year (tpy) by 2040, compared with a projected 2bn tonne fall in advanced economies and a levelling off in China.

The report warned that urgent action was needed to kick-start investment in EMDEs.

“Clean energy investment in emerging and developing

economies declined by 8% to less than \$150bn in 2020, with only a slight rebound expected in 2021,” the IEA said.

“The race to net zero is one that nobody wins unless everyone finishes,” said IEA Executive Director Fatih Birol, who is calling on governments to create a “strategic imperative” for international financial institutions (IFIs), including the IMF and the European Bank for Reconstruction and Development (EBRD), to play a key role in reducing investment risk and unlocking finance.

Emerging and developing economies currently account for two-thirds of the world’s population, but only one-fifth of global investment in clean energy, and one-tenth of global financial wealth, the IEA said.

Annual investments across all parts of the energy sector in emerging and developing markets have fallen by around 20% since 2016, and they face debt and equity costs that are up to seven times higher than those in the United States or Europe.

The report covers developing economies in Africa, Europe, Latin America, the Middle East and Asia, although it excludes China.

### Sources of finance

The report stressed that avoiding a tonne of CO2 emissions in emerging and developing economies costs about half as much on average as in advanced economies.

That is partly because developing economies can often jump straight to cleaner and more efficient technologies without having to phase out or refit polluting energy projects that are already underway.

But emerging market and developing economies seeking to increase clean energy investment face a range of difficulties, which can undermine risk-adjusted returns for investors and the availability of bankable projects.

Challenges involve the availability of commercial arrangements that support predictable revenues for capital-intensive investments, the creditworthiness of counterparties and the availability of enabling infrastructure, among other project-level factors.

Broader issues, including depleted public finances, currency instability and weaknesses in local banking and capital markets, also raise challenges to attracting investment.

The report calls for a major increase in private investment in clean energy in emerging economies, but only if it is supported and leveraged by the public sector.

“There is no shortage of money worldwide, but it is not finding its way to the countries, sectors and projects where it is most needed,” Birol said. “Governments need to give international public finance institutions a strong strategic mandate to finance clean energy transitions in the developing world.”

Put simply, while more cash from the private sector is needed, the public sector, in the form of multinational development banks (MDBs) and DFIs, has to reduce risk and create new innovative financing instruments.

While today EMDEs rely heavily on public sources of finance, the IEA found that if the 2050 global net-zero target is to

be met, then 70% of clean energy investments, mostly renewables and efficiency, must be privately financed.

Public actors have a role in developing less attractive areas such as transmission grids and emissions-intensive industries.

For emerging economies alone, the IEA calls for the private sector to account for 59% of energy investments. Meanwhile, domestic sources of financing must account for 75% of total investment, while 54% should be equity investment and 46% debt.

DFIs’ ability to act as catalysts, for example through blended finance, will be critical to attracting capital to emerging markets and sectors at early stages of readiness, or with hard-to-mitigate risks.

For the moment, capital is significantly more expensive in emerging and developing economies than in advanced economies. Nominal financing costs are up to seven times higher than in the United States and Europe, with higher levels in riskier segments. This points to a relatively high bar for projects to raise debt finance and offer sufficient returns on equity, the IEA said.

### Electrification

The best way to decarbonise the energy sector in EDMEs is to push forward electrification.

The report forecasts that electricity consumption in EDMEs will grow at three times the rate of advanced economies, although of course starting at a far lower level.

Here the falling cost of renewable technology, such as solar panels, battery storage capacity and wind turbines, will play a crucial role.



The falling cost of renewable technology, such as solar panels, battery storage capacity and wind turbines, will play a crucial role.

The report also calls for innovative technology to retrofit and indeed replace ageing fossil fuels plants across the developing world, especially carbon capture and underground storage (CCUS) and hydrogen.

"Societies can reap multiple benefits from investment in clean power and modern digitalised electricity networks, as well as spending on energy efficiency and electrification via greener buildings, appliances and electric vehicles [EVs]," the report said.

In order to meet the Paris 1.5 °C climate change temperature target, investment in power must increase in EMDEs in the 2020s five times from \$45 per person today to \$240 per person by 2030.

This spending would cover clean power and electricity networks, as well as spending on energy efficiency and electrification via greener buildings, appliances and EVs.

This would equate to at least 1,600 GW of renewable capacity being added by 2030, increasing the share of renewables in total installed capacity to well above half by 2030, from 30% today.

The report follows on from the IEA's May report that called for an immediate end to the financing of new coal-fired power plants.

The report also gave a date of 2040 for a total phase-out of coal generation in developing economies, 10 years later than a target date of 2030 for advanced economies.

### Conclusion

The report warns that while aligning capital markets with net-zero goals is possible for developed economies, such a development risks excluding EMDEs, leaving them with higher-carbon footprints or a more challenging road towards cleaner energy.

The call for more clean energy in developing markets comes as the cost of renewables is falling, and, for example, solar prices are at their lowest ever level. At recent auctions, the cost of solar has fallen to \$0.035 or even \$0.015 per kWh.

While there is plenty of solar, wind and distributed energy capacity in emerging markets in Asia and Africa, what is lagging behind the falling cost of renewables is government support, often in the form of support for investment and risk mitigation, and the lack of appropriate finance.

Across the developing world, the European model of universal grid access, guaranteed power supplies for major industrial customers, regular maintenance, cross-border trading and more competition, especially in the generating and retail ends of the market, is not an immediately usable solution. It is also not attractive to investors.

The IEA stressed that time is of the essence and that current trends in investment volumes must be reversed quickly. ●

## Central bank says 50% of Romanian bank loans bear climate change risk

bne IntelliNews

Over 50% of the Romanian financial sector's exposures are to companies that are "at climate change risk" and 25.4% of total non-government credits finance polluting businesses, Florian Neagu, deputy director of the National Bank of Romania (BNR) and coordinator of the National Committee for Macropprudential Surveillance (CNSM) working group set up to support green financing, told Economica.net.

Only 3% of the bank assets (about RON5bn or €1bn) are green loans, more precisely loans extended by banks for projects aimed at reducing debtors' exposure to climate change, he added.

The figures are as of the end of 2020 and the RON1.25bn loan extended by BRD Societe Generale to hydropower company Hidroelectrica has improved the figures a bit, he admitted.

The CNSM study shows that, on average, each bank is exposed by at least 10% to credited companies that are "brown", and the top five banks in the system have accumulated a total risk of 55% of assets. Agricultural firms are the most exposed.

BNR has developed a framework for monitoring economic sectors that may be affected by climate (transitional) risk and their importance to the banking sector, using the information collected at a sectoral level, combined with individual data on bank exposures. Each Romanian bank has a minimum exposure of 10% of assets on companies that may be severely affected by climate risk. ●

"The top five banks in the system have accumulated a total risk of 55% of assets"



THE CLIMBING

COST OF  
CARBON

Richard Lockhart

**T**he cost of joining the global movement towards net zero is not yet fully known, and both governments and corporations with the highest levels of both greenhouse gas (GHG) emissions and energy intensity face the highest costs for carbon.

This threatens to put them at a competitive disadvantage, as they have to include the cost of carbon in both their budgets and in their environmental, social and government (ESG) reputation.

However, not all governments have set carbon prices, while the EU has proposed putting a carbon price on imports of the most carbon-intensive products, such as steel, cement and aluminium, not just on domestic production.

#### Prices

The International High-Level Commission on Carbon Prices, a coalition of governments and experts supported by the World Bank, recommends that the price of emissions should be between

and aluminium that export to the EU pay for carbon credits through its proposed Carbon Border Adjustment Mechanism (CBAM).

The CBAM aims to make exporters to the EU pay a similar price for carbon as domestic producers.

Leaked drafts of the CBAM rules state that the price EU importers must pay for imported goods, such as Russian steel, would be the same as the price of EU ETS allowances. Importers would need report the carbon content on their imports to a new CBAM Authority.

The CBAM could be introduced in a transitional phase from 2023, with a full roll-out from 2026.

#### Russia

Russia is especially exposed to new carbon costs in the EU, as it is one of the biggest energy-intensive exporters to the EU, with exports of fertiliser, aluminium, steel, electricity and cement worth \$9.5bn in 2019, according to Deloitte.

“The International High-Level Commission on Carbon Prices recommends that the price of emissions should be between \$40 and \$80 per tonne by 2020, and \$50 to \$100 per tonne by 2030”

\$40 and \$80 per tonne by 2020, and \$50 to \$100 per tonne by 2030. Meanwhile, carbon prices on the EU ETS currently stand at around €52.

Meanwhile, the IMF said recently that carbon prices should rise to \$75, \$50 and \$25 respectively for advanced, high and low-income emerging markets.

It claimed that this would achieve a 23% reduction in global emissions by 2030, enough to bring emissions in line with keeping global warming below 2°C, as called for by the Paris Agreement.

The EU's Green Deal is set to make producers of steel, cement, fertiliser

and aluminium that export to the EU pay for carbon credits through its proposed Carbon Border Adjustment Mechanism (CBAM).

Early estimates of the cost of CBAM credits range from \$3bn per year, from the Russian Natural Resources Ministry, to a total of \$60bn between 2022 and 2030 from KPMG.

The highest estimate puts the cost to Russian exporters at €6bn (\$7.2bn) per year, Platts reported on April 22.

For just steel, a tax of €60 per tonne would cost \$780-800mn per year for Russia's steel exports to Europe, which stand at 13mn tonnes per year (tpy) and are worth \$7bn, Russian Industry and Trade Deputy Minister Viktor Evtukhov said in November.

As such, the playing field for Russian exporters seems to be sloping towards them as they lose any competitive advantage with EU producers, which must pay for carbon through the EU ETS.

### Ukraine

Meanwhile, Ukraine has put in place a carbon tax, although at just UAH10.0 (\$0.40) per tonne it is derisory and is one of the lowest in the world.

Ukraine has a 2050 Green Energy Transition Concept, which aims to meet the objectives of the European Green Deal. However, it admits that the country could only become climate neutral by 2070.

The country's GDP to energy and carbon consumption ratios are still extremely high compared with not only those of OECD members (three times greater) but also neighbouring Eastern European countries, the concept says.

### Turkey

For Turkey, iron, steel and cement production could be affected, with the CBAM costing Turkey's manufacturing sector an additional €1.08bn per year, according to the Turkish Industry and Business Association (TUSIAD).

The country currently does not have a carbon price, although there are voluntary schemes.

However, a recent briefing from the European Council on Foreign Relations highlighted how the Green Deal could foster better relations between Brussels and Ankara.

Relations could improve if the EU helps Turkey to adjust to the European Green Deal and the climate challenge more broadly.

The briefing highlighted how the EU and Turkey are at different levels of

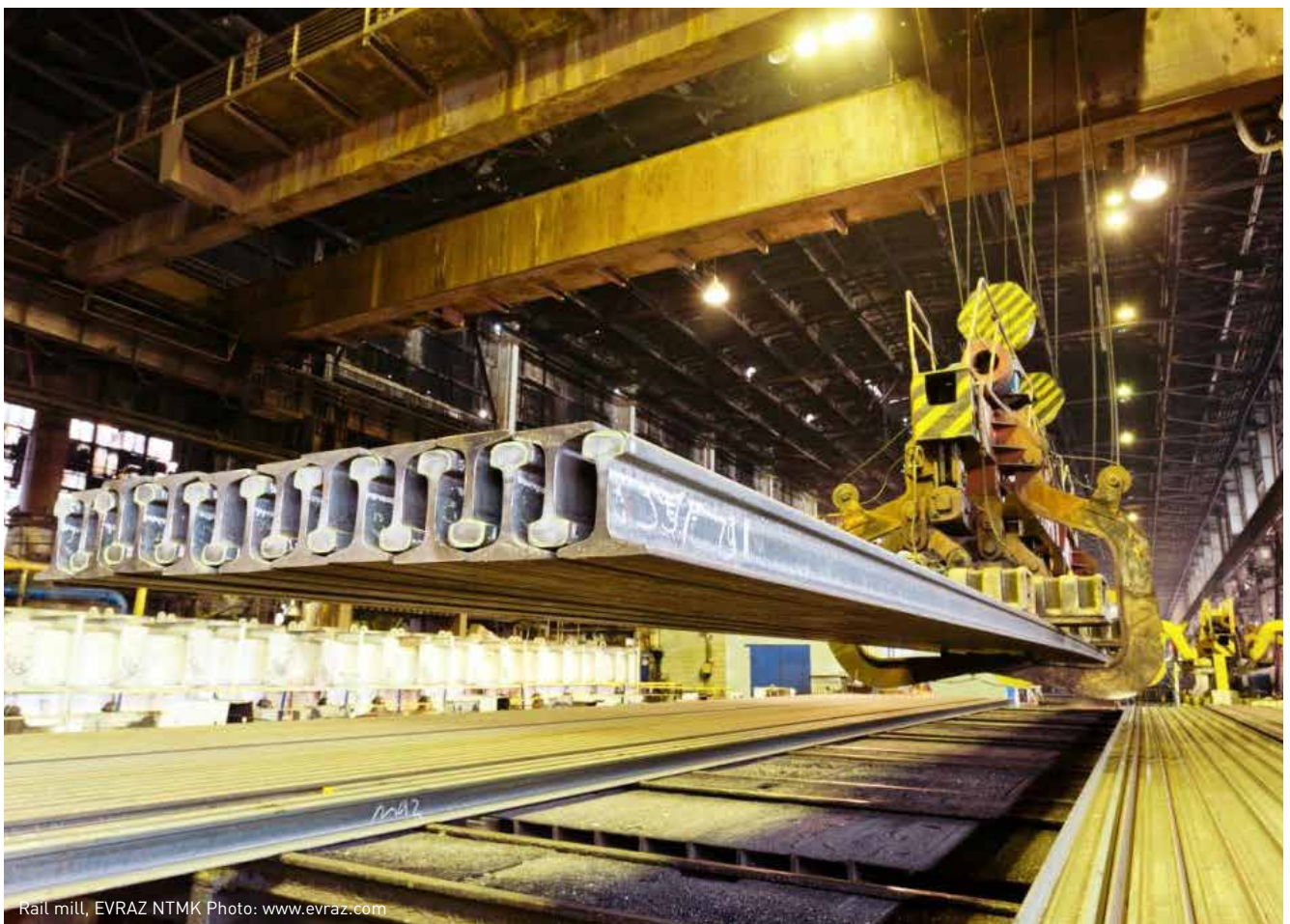
preparedness for the transition away from a carbon-based economy. Yet a new agreement on climate change could develop a better framework of rules governing relations between the two while also maintaining Turkish industry's competitive advantage in the European marketplace.

### Steel

The threat of carbon prices is spurring corporations to invest in green production, such as using green hydrogen as a fuel to manufacture steel, or green ammonia to produce fertiliser.

Green here means using electricity from solar and wind to power new methods of production, such as electrolysis for hydrogen, rather than more traditional sources of power such as fossil fuels.

One option to avoiding paying for carbon credits is to use green fuel such as hydrogen.



Rail mill, EVRAZ NTMK Photo: www.evraz.com



Thyssenkrupp recently said it aimed to produce 3mn tonnes of green steel by 2030 to curb CO2 emissions by 30% and aimed to invest €2bn in green steel.

However, this could only be done if it received free CO2 certificates from the EU's Emissions Trading Scheme (ETS).

start now," said Thyssenkrupp chairman Bernhard Osburg.

#### Cement

EU cement producers are keen that the CBAM makes their non-EU competitors face similar carbon costs.

non-EU cement suppliers so that carbon leakage protection is not weakened.

It also wants current allocations of free EU ETS credits to stay in place until 2030.

#### Conclusion

Put simply, the EU is looking to put a carbon price on imports into the bloc.

While Brussels says it is pursuing environmental aims, it is being careful to make it WTO compatible, which means avoiding any trade war with the likes of Russia and Turkey.

Russia has already complained that the launch of the CBAM in July effectively amounts to a trade war.

The CBAM is vulnerable to being tested at the WTO, as exporters to the EU have dubbed it an unfair tariff, rather than any kind of pricing mechanism trying to reduce CO2 emissions. ●

"With every tonne of hydrogen that is used in steel production, we avoid 26 tonnes of CO2. But our investment cycles are long. 2030 basically means for us tomorrow"

"With every tonne of hydrogen that is used in steel production, we avoid 26 tonnes of CO2. But our investment cycles are long. 2030 basically means for us tomorrow, that's why we need to

Trade body CEMBUREAU said that the scheme, which is labelled "complex and untested," must ensure a fully comparable CO2 cost basis, covering both direct and indirect emissions, between EU and



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Lorinc Meszaros (right), the former gas fitter from Felcsut, has become Hungary's richest man in five years, with a fortune estimated at €1.3bn, thanks to his friendship with PM Viktor Orban (left).

## Hungary's most powerful oligarch says he is just a lightning rod for attacks on Orban

bne IntelliNews

**H**ungary's richest man Lorinc Meszaros has defended his rise to the top and fended off criticism that his wealth comes from his friendship with Prime Minister Viktor Orban.

In a rare interview to Index.hu, the former gas fitter from Felcsut, the home village of the prime minister, said the opposition was using him to attack the radical rightwing government. Seen as the symbol of a corrupt regime, Hungary's opposition is putting Meszaros at the centre of its campaign in what promises to be the closest elections since 2002.

The 100 richest Hungarians list by business site Napi.hu showed that

Meszaros has amassed HUF455bn (€1.3bn) in wealth, dethroning Sandor Csanyi, chairman-CEO of CEE's leading lender OTP Bank, who topped the ranking for the past 10 years.

Meszaros' worth jumped from HUF7bn in 2014 to HUF270bn before the pandemic. Last year alone his net worth grew by HUF185bn, more than Rafael Nadal earned in his entire career, independent media points out.

The contrast is even more shocking when going back before 2010, when the radical rightwing party of Viktor Orban was still in opposition and Meszaros was running his gas fitting business with a few employees.

Meszaros claimed that his business success has little to do with the ruling Fidesz government in place since 2010. "The opposition is using me as a tool to attack the government", he claimed. "I have managed to do well under other governments as well", he said.

However, the numbers show otherwise, according to fact-checking of the interview by liberal HVG. In 2008, he made just €19,200 at a time when the average EUR/HUF rate was 260.

It is mostly public contracts that have catapulted the 55-year-old to the top of the business elite, as the most powerful businessman in Hungary, yet he tries to downplay the importance of this.

"We have won less than 10% of public contracts, either exclusively or in partnership with others", he says.

Behind the attacks, he sees leftwing forces in Hungary that are interested in promoting the interests of multinational companies, a common allegation of the rightwing. He recalls that many construction companies were privatised during the change of regime and local players had no chance of winning public tenders, the playing field was uneven to favour foreign groups. "It was a very sad period", he recalls.

#### Opus planning further expansions

Meszaros owns directly or indirectly 62.5% of Opus, the BSE-listed holding company, which has expanded aggressively over the last five years. Consolidated net assets jumped 20-fold to HUF635bn in 2020. Opus has a rapidly growing business portfolio spanning hotels, agriculture, industrials, and energy in 40 companies.

With almost 30,000 employees working in almost every segment of the economy, we are the largest private-sector employer, he stressed.

Meszaros unveiled plans for Opus to expand its flagship construction business further in the region in Croatia, Slovakia and Romania. The company is eyeing the purchase of power plant maintenance companies in Libya as well.

Construction is one of the fastest-growing units of Opus. Meszaros' companies are involved in the €2.1bn reconstruction and expansion of the Hungarian section of the Budapest-Belgrade rail line financed by Chinese-loans.

When asked about the share price of Opus, he said it is undervalued, as markets have not priced in acquisitions in the energy sector. Opus has used proceeds from a recent HUF30bn bond issue for the acquisition of electricity distributor Titasz from the local unit of Germany's E.ON and a 49.57% stake in regional gas distributor Tigaz from MET Holding, based in Switzerland.

"The share price is low compared to the all-time high of HUF760 in 2017, but is two-fold higher after the bottoming out in the spring of last year", he noted.

Meszaros said the share price should be around HUF350, a target set by brokerage Equilor. His comments lifted the Opus stocks by 7% to HUF245 on Friday.

#### Lavish state subsidies

Nicknamed as the cashier or the bagman of Viktor Orban by his critics, Meszaros was in defensive mode when asked about state subsidies given to his companies during the crisis at

"Nicknamed as the cashier or the bagman of Viktor Orban by his critics, Meszaros was in defensive mode when asked about state subsidies given to his companies"

a time when many SMEs and private entrepreneurs in entire sectors were left stranded without any help.

Tourism had suffered the most during the pandemic, but the government was quick to throw a lifeline to Orban's cronies, including the Opus leader, local media adds. One of the largest hotel chains, Hungest Hotel, received a HUF17bn grant last year provided that it maintains staff. Yet the company laid off more than 500 people, a breach of the agreement with the government without any consequences.

Overall Opus reported a 10% rise in revenues to HUF227bn in 2020 and the hotel sector only managed to incur a loss of only HUF0.4bn.

Meszaros has also become a big player in banking. He called the merger of three Hungarian-owned banks the most important milestone in the banking sector since the late 1980s when the first commercial banks appeared on the market. Hungary's second-largest bank will be completed with the merger of Takarekbank, MKB

Bank, and state-owned Budapest Bank by 2023-2024 creating competition for market leader OTP.

"We are trying to create a new financial institution that is trendy, flexible and moves comfortably in the digital world," he said.

Meszaros confirmed that he will have less than a 50% stake in the new bank.

#### Meszaros tax and the Felcsut trial

Corruption will be a central issue in the 2022 elections. Budapest liberal mayor Gergely Karacsony a potential prime ministerial candidate, is

campaigning with the "Meszaros tax", an extra levy on companies that have gained extra wealth during the pandemic.

Calculations by local media show that businessmen close to the government have won a total HUF800bn in state tenders during the year of the pandemic.

Head of the liberal Momentum party, Andras Gyor-Fekete went even further, saying that the political and economic architects of the regime should be indicted in what he called a Felcsut trial.

Comments like these reminded Meszaros of the dark chapters of Hungarian history.

"It is regrettable that three decades after taking our freedom back, this is what a young political generation has in mind", he said.

These threats attack the more than 30,000 people working for the Meszaros group, he concluded. ●



The strong quarterly based GDP growth in the first quarter of 2021 was more than surprising and that growth is now expected to continue all year

## Hungary seems all set for a record year in 2021

Peter Virovacz is a Senior Economist with ING in Hungary

The Statistical Office revised up the first-quarter GDP growth for Hungary to 2.0% quarter on quarter. The strong start and details suggest we are likely to see the economy growing by around 7.4% this year.

### Surprises everywhere

The strong quarterly based GDP growth in the first quarter of 2021 was more than surprising – almost shocking in a positive way. The Hungarian Central Statistical Office was able to raise that with an upward revision to the first-quarter performance, and now we know the details behind the surprise.

We cannot point to one single sector being responsible for the strong activity on the production side. Industry had a rollercoaster-like first quarter based on high-frequency data, suggesting moderated growth. In contrast, industry grew by 3.1% q/q from a value-added perspective, mainly driven by manufacturing. The construction sector was expected to show a mild deceleration based on monthly output data. But the value-added data showed us a 6% q/q rise in this sector.

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

Even though we forecasted a significant deteriorating of services activity due to the stricter lockdowns during the third wave, we were wrong. Compared to the fourth quarter of last year, services rose by 2.2% q/q, fuelled by information, communication, logistics and scientific activity. Last but not least, despite weather issues, agriculture was also able to grow.

On the expenditure side, the q/q growth profile mimics the above-mentioned

widespread growth, maybe except for one thing.

Investment activity, which we thought would be behind the significant upside surprise in GDP growth, disappointed. It registered a 0.6% q/q drop in 1Q21. All other sectors improved. Household consumption slowed but produced a 0.9% q/q growth, while government consumption remained strong at a 2.6% q/q pace of increase. The strong consumption was supplied from inventories, as it had a significant negative contribution to GDP growth. This means a considerable upside potential for the re-opening of activity.

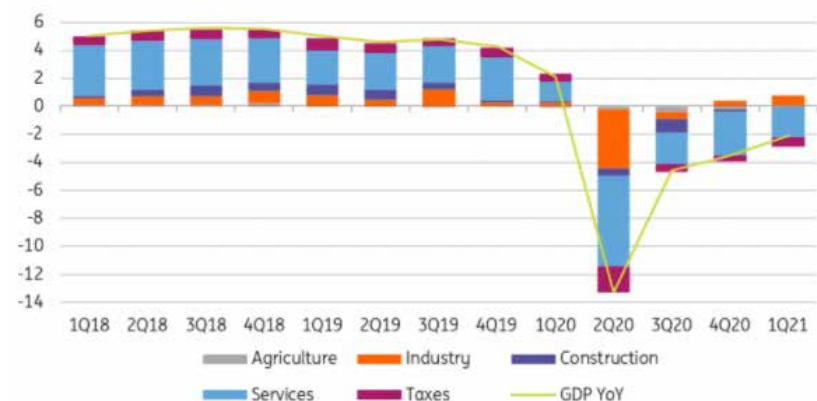
To round out the set of positive surprises, we need to talk about Hungary's export activity. Exports of goods and services increased by 2% q/q and 2.2% q/q respectively, despite the travel ban and shipping and supply chain problems. Imports, on the other hand, were significantly weaker for both goods and services. This translated into a significant positive contribution to GDP growth from net exports.

### What's next?

The growth profile of the first quarter showed remarkable resilience and flexibility regarding the economic actors. This provides us with a sneak peek of what we can expect in the second quarter, where we see a set of positive impulses pushing GDP.

The most obvious one is the strengthening of the services sector

Contributions to GDP growth – production side (% YoY)



Source: HCSO, ING

alongside consumption on the final use side. With life getting back to normal, people will use their savings to buy experiences (and maybe goods too). Recreation services, travelling, arts and

sudden stop of the economy during spring 2020, the year-on-year GDP growth will show us an extreme number, maybe around 17%. With such a first half of 2021, it is almost impossible for

“The strong quarterly based GDP growth in the first quarter of 2021 was more than surprising – almost shocking in a positive way”

entertainments are all open now (with only minor restrictions) along with bars, restaurants and cafés.

As the past two quarters of consumption depleted inventories, we expect companies to stock up on inventories during the re-opening phase, boosting economic activity. Housing market programmes and infrastructural developments will fuel the construction sector. Industry remains an enigma, but all in all, we can't see a collapse here. Last but not least, there is investment activity. Again, government projects will support this, but the upcoming turnaround from the monetary policy (i.e. rate hikes and a possible scaling back of lending programmes providing cheap money) might encourage companies to take loans before rates become higher.

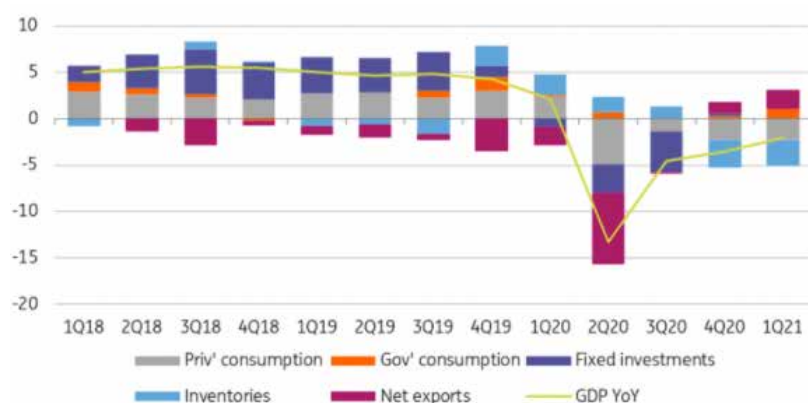
All of these can translate into another 2%-ish q/q GDP rise (or even more). With the low base provided by the

the Hungarian economy not to register record-high GDP growth for the full year. With the possibility of EU transfers coming during the second half and the general election approaching, we see additional booming economic factors during the second half of 2021. With all that said, we see the Hungarian economy registering a 7.4% GDP growth this year. ●

*Peter Virovacz is ING's chief economist for Hungary. This note first appeared on ING's THINK.ING portal.*

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Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

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**bne INTELLINEWS**



US President Joe Biden continued his European tour, arriving in Brussels to meet with EU leaders and Nato.

## Turkey, China in firing line as Biden holds summit with Nato allies

bne IntelliNews

**N**ato leaders designated China as presenting “systemic challenges” in a communiqué issued after a one-day summit in Brussels on June 14, as US President Joe Biden continued his tour through Europe to meet with other Western leaders to put the US back on the map following the lack of engagement during the Trump years.

Biden arrived from the G7 summit in the UK and is due to meet with Russian President Vladimir Putin on June 16. He is attempting to enter that meeting with the solid backing of Western nations to bring about an end to the instability that has marred international relations in recent years.

Biden also had a one-on-one meeting with Turkish President Recep Tayyip Erdoğan, for whom Biden's defeat of

Donald Trump in the US election was a blow. Erdoğan, forced to recognise the reality that the Oval Office is now occupied by a man who has referred to him as an "autocrat", has been reaching out to Washington in an effort to remake relations between Turkey and the US. Turkey's economy is in a debilitated state, thus Erdoğan badly needed a 'win'

Erdoğan or Biden after their exchange. The Turkish lira slid 1% against the dollar even as Erdoğan, addressing reporters, tried to put a positive spin on the outcome of the head to head.

The summit between Putin and Biden was another item on the agenda during the Brussels summit. Biden said that

“Turkey's economy is in a debilitated state, thus Erdoğan badly needed a 'win' from his meeting with Biden to secure a shot in the arm for Turkish markets”

from his meeting with Biden to secure a shot in the arm for Turkish markets. But nothing telling was uttered by either

he had overwhelming support from the other western leaders for his early meeting with Putin.

"I've met him. In the areas we don't agree to make it clear where the red lines are. I've met him. He is bright. He is tough. And he is what they call a worthy adversary," Biden said at a press conference.

### China overshadows summit

But the Russia problem has been thrown into the shadow of the China difficulties as Biden seems to be refocusing US policy to counter China's rise rather than grapple with the Kremlin. Biden urged his fellow Nato leaders to stand up to China's authoritarianism and growing military might.

Nato Secretary-General Jens Stoltenberg also met with Biden and took up the baton. He said China's growing military presence from the Baltics to Africa meant nuclear-armed Nato had to be prepared.

Stoltenberg said that the meeting would be a pivotal moment for the Alliance and a time to "open a new chapter in our transatlantic relations." Stoltenberg laid out a full agenda for the meeting, including Nato's relations with Russia, which he said were "at [their] lowest point since the Cold War because of Russia's pattern of aggressive behaviour", as well as China, which offers opportunities but "also poses some challenges to our security".

"China is coming closer to us. We see them in cyberspace, we see China in Africa, but we also see China investing heavily in our own critical infrastructure," he said, in a reference to ports and telecoms networks. "We need to respond together as an alliance."

China was not happy about being the focus of the summit, although Putin was probably somewhat relieved that the opprobrium has shifted from Moscow to Beijing somewhat.

China's embassy in London said it was resolutely opposed to mentions of Xinjiang, Hong Kong and Taiwan that it said distorted the facts and exposed the "sinister intentions of a few countries such as the United States".

## Albanian judge who appeared in designer clothes on TikTok suspended

### bne IntelliNews

A high-ranking Albanian judge who appeared in videos posted on TikTok wearing designer clothes was suspended from her post by the High Judicial Council on June 7.

Albania has been carrying out reforms to the justice system, including the vetting of hundreds of judges and prosecutors, dozens of whom have already been dismissed from their posts for offences such as failure to accurately declare their assets and abuse of office.

A media storm erupted in Albania when the videos on the Chinese video-sharing social network showed Enkeleda Kapedani, chief justice in the city of Elbasan, posing in designer clothes in her office and driving a BMW.

Kapedani said when the videos emerged that they had been stolen from her phone and she didn't have a TikTok account. However, they inevitably raised questions about her personal wealth.

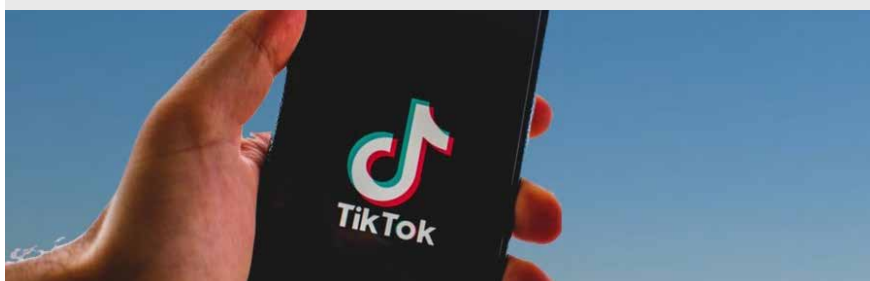
Albania's Minister of Justice Etilda Gjonaj called for the videos to be investigated, saying that she had been urging the High Judicial Council to check up on Kapedani, as she considered her to be responsible for the early release of gang member Viktor Ymeri from prison.

"Now I wish that not only the appropriate measure be taken, but also that the financial situation of this judge be thoroughly investigated. Typical for some who have not yet passed the Vetting and continue to erode justice from within!" Gjonaj wrote on Twitter on May 31.

Meanwhile, Albania's high justice inspector Artur Metani asked the High Judicial Council to suspend Kapedani. "In this case, there are legal conditions for imposing on ... Enkeleda Kapedani the provisional measure of suspension from acting until the end of disciplinary proceedings, because the continuation of the magistrate in office seriously discredits the figure and position of the magistrate," Metani told the council, as reported by local broadcaster Top News.

The council decided at its plenary session on June 7 to suspend Kapedani until the case is investigated and disciplinary proceedings are completed.

Kapedani is a former Miss Albania, who won the title in 2003 before going on to study law between 2005 and 2009. She was appointed a judge in 2013, initially working in Tirana, before moving to Elbasan. She was elected head of the Elbasan court in 2020.



## Two jail terms amounting to 3,576 years handed down for conspiracy to frame Turkey's Fenerbahce football club

### **bne IntelliNews**

A Turkish court has sentenced a media executive and an ex-police chief to more than 1,000 years each in prison for conspiring to bring match-fixing charges against top Istanbul football club Fenerbahce.

A decade ago, Fenerbahce's former president Aziz Yildirim was jailed for six years for match-fixing and the club – supported by Turkey's president, Recep Tayyip Erdogan – was excluded from European competitions for two seasons. However, Yildirim only spent a year in prison and the case was reopened after prosecutors alleged that it was founded on a conspiracy.

The 2011 match-fixing charges were pressed by prosecutors linked to Fethullah Gulen, the self-exiled, US-based preacher whom the Erdogan administration claims orchestrated the attempted coup in 2016 – something Gulen strenuously denies. Since the attempted toppling of Erdogan, a massive crackdown on Turks alleged to have links with Gulen has seen the courts hand out more than 2,500 life sentences. Some 292,000 people have been detained, with trials pending for nearly 100,000 of them. Around 150,000 civil servants were sacked or suspended after the coup attempt, with 20,000 expelled from the military. The purge is still going strong.

### **'Judiciary, police infiltrated'**

In the Fenerbahce case, in 2016 an Istanbul prosecutor's indictment alleged the 2011 match-fixing charges stemmed from a plot by Gulen supporters said to have infiltrated the Turkish judiciary and police. They were accused of attempting to frame the club, targeting the removal of its executives, according to a Reuters report.

The court on June 4 sentenced Hidayet Karaca, who was head of Samanyolu media group (it has since been shut down by the government) to 1,406 years in jail. Karaca was accused of instigating the tapping of phone calls and forging of documents.

Former police chief Nazmi Ardic was sentenced to 2,170 years on charges including forging documents and conspiring against the club. The court handed down jail sentences to at least 25 other defendants, state-owned news service Anadolu Agency reported.

Fenerbahce chairman Ali Koc told reporters that the court decision proved the club had been the innocent victim of a plot against it by Gulen's network. The club, he added, would now pursue legal avenues for "financial and moral" compensation.

The prosecutors and judges who opened and ruled on the original case fled the country following the coup attempt.

"China's reputation must not be slandered," the embassy said on June 14.

Biden also told European allies that the alliance's mutual defence pact was a "sacred obligation" for the US. Biden went out of his way to reaffirm the US commitment to Nato's Article V that guarantees the mutual protection of all the bloc's members – something that his predecessor Trump was reluctant to do.

"I want all Europe to know that the United States is there," said Biden. "Nato is critically important to us."

### **Turkey is tricky**

Apart from the US, Turkey has the largest standing army signed up to Nato, but what Ankara's role in Nato will be moving ahead is yet to be ascertained. Biden will almost certainly have advised Erdogan that Turkey's acquisition of Russian S-400 missile defence systems that pose a threat to the security and performance data of Nato military hardware such as the world's most advanced fighter plane, the F-35, remains intolerable to Washington, but there is no indication that Erdogan would risk upsetting Putin by attempting to return or sideline the systems, even though his air force, in need of an upgrade, has taken a bad hit with the US cancellation of Turkish orders for scores of the F-35s.

Some analysts have even speculated that Erdogan, faced with getting little from Biden, who like Europe is also dismayed by his abysmal human rights record, might give up on the US and EU relationships and attempt to move much closer to the Kremlin. But Turkey is at a critical juncture of Europe, the Middle East, the Caucasus and Central Asia and serves as a buffer against migrants who would otherwise arrive in Europe in their hundreds of thousands, and the Biden administration and the European bloc would think very hard before choosing not to accommodate Erdogan in some way.

After his encounter with Erdogan, a leader whom he chose not to place a call to in the first months of his





administration, Biden said he had a “positive and productive meeting”. He expressed confidence that his administration would make “real progress” in improving US-Turkish relations.

For his part, Erdogan said that Turkey and the US have no bilateral problems that cannot be solved, even while he gave no indication of progress on the biggest stalemate, Turkey’s purchase of the Russian missile systems. Calling the

the Nato summit, as he continues his campaign to get the allies to commit to a definite schedule for Ukraine’s ambition to join the military alliance.

Ukraine was explicitly mentioned in the G7 communiqué that ended on June 14 with many of the same attendees, with the collected leaders reiterating their support for the country and its sovereignty.

Ukraine was almost certainly discussed at the Nato summit, although there is

it meets the “criteria” and specifically deals with its corruption problem.

However, these “criteria” are not spelled out or defined in any way other than “deal with the outstanding problems.” Zelenskiy has been calling for something more specific: the country’s inclusion in the Nato Membership Action Plan (MAP), where the criteria to join the alliance are spelled out in detail and monitored.

Zelenskiy welcomed Biden’s comments but read more into them than they offered.

“Commend @Nato partners' understanding of all the risks and challenges we face. Nato leaders confirmed that will become a member of the Alliance & the #MAP is an integral part of the membership process. Deserves due appreciation of its role in ensuring Euro-Atlantic security,” Zelenskiy said in a tweet.

Previously, following a call between Biden and Zelenskiy last week, the White House had to ask Bankova to tone down a similar tweet that suggested Biden had promised Ukraine membership in Nato during the call.

Biden then said at a press conference following the conversation that Nato would stand behind Ukraine's "sovereignty and territorial integrity," but didn't mention the country joining the alliance. It quickly became clear that Ukraine had overstated what happened by not including when the country might be admitted.

Nevertheless, Biden has thrown his weight behind Ukraine’s struggle against Russia, albeit on more informal terms and with caveats.

"We will do all that we can to put Ukraine in the position to be able to continue to resist Russian physical aggression," he said during the June 14 press conference. "And it will not just depend on me, whether or not we conclude that Ukraine can become part of Nato, it will depend on the alliance and how they vote." ●

## “If you look at the cyber threats and the hybrid threats, if you look at the co-operation between Russia and China, you cannot simply ignore China”

meeting “productive and sincere” and emphasising his long years of friendship with the US leader, Erdogan said the discussion stressed the need for better dialogue, set a positive tone for the future and covered co-operation in areas such as Syria.

“We see that there is a strong will to start an efficient co-operation period based on mutual respect in every area,” he added.

Germany's Chancellor Angela Merkel, at her last summit of the alliance before she steps down in September, described Biden's arrival as the opening of a new chapter. She also said that it was important to deal with China as a potential threat, while keeping things in perspective.

"If you look at the cyber threats and the hybrid threats, if you look at the co-operation between Russia and China, you cannot simply ignore China," Merkel told reporters. "But one must not overrate it, either – we need to find the right balance."

Biden said both Russia and China were not acting "in a way that is consistent with what we had hoped".

### Ukrainian shout-out

Ukrainian President Volodymyr Zelenskiy was unhappy that he was not invited to

still no commitment to allowing it to join the alliance, a move that remains a red line for Russia.

Zelenskiy said on June 14 that he wanted a clear “yes” or “no” from Biden on giving Ukraine a plan to join Nato.

In a joint interview with Reuters, the Associated Press and Agence France-Presse, Zelenskiy said he had received assurances that Biden would not use Ukraine as a bargaining tool in his meeting with Putin this week.

But Biden has already thrown Ukraine under the bus to an extent by conceding to Germany's demands that the controversial Nord Stream 2 gas pipeline be completed. It will allow the Russian gas transit business directed west to entirely bypass Ukraine and cost it some \$2bn in transit revenues a year as a result.

Biden was asked if Ukraine will be allowed to join Nato in future at the press conference and fudged the answer. "Depends on whether they meet the criteria. The fact is, they still have to clean up corruption...school's out on that question," Biden replied.

The same line was floated by German lawmakers two weeks ago: Ukraine will be allowed to apply for membership once



Albanian Prime Minister Edi Rama addresses an extraordinary session of parliament on June 9.

## Albanian MPs impeach President Ilir Meta

bne IntelliNews

**T**he Albanian parliament voted to impeach President Ilir Meta for violating the constitution at an extraordinary session on June 9.

MPs voted by an overwhelming majority of 104 to seven with three abstentions to dismiss the president for violating the constitution.

The impeachment is not effective immediately as the final decision will be made by the Constitutional Court within three months.

MPs from Albania's ruling Socialist Party announced immediately after the April 25 general election, that delivered the party an unprecedented third consecutive mandate, that they would seek to dismiss Meta.

Meta, the former leader of the opposition Socialist Movement for Integration (LSI), was one of the most vocal critics of Prime Minister Edi Rama, leader of the Socialist Party, during the election campaign.

Socialist MPs say the president failed to guarantee national unity, as required under the constitution, by supporting

the opposition in its attempt to unseat the Socialists.

The president has a largely ceremonial role, but has some authority over the judiciary and the armed forces.

Meta has claimed that the impeachment plan is intended to distract from abuses in the April general election, and refused to appear before the committee. On the day of the vote, he continued with his usual presidential duties and has not commented on the impeachment.

However, presidential spokesman Tedi Blushi issued a strongly worded statement on Facebook, referring to the "parliamentary landfill" that will serve as a "case study in the world history of parliamentarism, how an assembly without opposition, which, although dismissed by the people, votes for the dismissal of another institution!"

The vote took place after an Albanian parliament committee issued a report recommending the impeachment of Meta on May 28. The report said that Meta had violated 16 articles of the constitution ahead of the April 25 general election, a parliament statement said at the time.

The report, quoted by committee chair Alket Hyseni, says that "with his activity and statements during the election campaign and the day of the election silence, the president of the republic violated the constitution."

"The constitutional violations consumed by the president have had a negative impact on the functioning of the state and the social, political and economic spheres of the country," it added.

Impeachment requires a two-thirds majority in Albania's 140-seat parliament, which the Socialists do not have. However, in the current parliament many of the opposition MPs are "reserves" appointed after members of the two main opposition parties decided to relinquish their mandates, and many of them backed the impeachment.

Once the new MPs elected on April 25 take office, the Socialists will still have a majority, but the opposition will be composed of newly elected members of the Democratic Party and the LSI, both fierce opponents of the Socialists.

Meta is a former member of the Socialist Party, who left to set up the LSI in 2004. The LSI was a junior partner in Democratic Party governments before switching to support the Socialists when Rama first became prime minister in 2013. Socialist MPs then backed Meta to become president in 2017 (in Albania the president is elected by the parliament).

However, relations between Rama and Meta later deteriorated. The Socialists won a majority in the 2017 general election that allowed them to dispense with the LSI's support and form a government alone, and ahead of the 2021 general election the LSI – now headed by Meta's wife Monika Kyremadhi – struck an alliance with the Democrats.

Meta, meanwhile, indicated after the election that he would serve his full term as president, and talked of a return to the LSI after his term comes to an end in 2022. ●



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Bulgaria's caretaker Health Minister Stoycho Katsarov announces he is sacking the management of the VIP Lozenets University Hospital.

## Illegal organ transplant scandal revealed at Bulgarian VIP hospital

Denitsa Koseva in Sofia

**B**ulgaria's caretaker Health Minister Stoycho Katsarov said on June 3 he is dismissing the management of the VIP Lozenets University Hospital, formerly named Governmental Hospital, over illegal transplants carried out between 2019 and 2021, as well as financial abuses.

Katsarov said at a press conference that between 2019 and 2021 the hospital has made 14 transplants of kidneys from living donors with all of the donors being young people from Ukraine and Moldova, while recipients were citizens of Oman, Israel and other countries. According to Bulgarian law, transplants from living donors are only allowed if the donor and the recipient are relatives.

The new scandal adds to mounting revelations of the caretaker government of widespread corruption and abuse of offices during the third government of former prime minister Boyko Borissov.

The hospital previously treated top politicians and officials, but is supposed to admit any patients currently.

Documents about the suspected illegal transplants will be provided to the police for fact checking as there were reasons to believe the donors and recipients were not relatives, Katsarov said.

Moreover, the Medical Supervision Agency has carried out checks and received information from the respective countries that the identities of the patients were false.

The hospital also broke the law when carrying out a transplant from a deceased donor in April. Instead



of transplanting the organ to the first patient on the waiting list, it was given to the fourth in line, who held a very high position in a state administration, Katsarov said but gave no further details.

In addition to the illegal transplants, the health minister said his decision to fire the hospital's management was based on evidence of several types of abuse, including evidence that the hospital's management took money from the Health Insurance Fund (NZOK) for the treatment of 60 patients within a month that were never admitted to the hospital.

"At the day when an order for investigation [by me] was issued the money was returned to NZOK, explaining the incident as a technical error," Katsarov said.

He added that the executive director of the hospital has not provided reasonable explanation on the alleged error and that 60 technical errors within a month are unlikely.

"For me, this is not a technical error but draining of the health fund," the minister said. The information has been passed on to prosecutors.

Meanwhile, Katsarov said he investigated the hospital's operations following a reported loss of BGN21mn (€10.7mn) for 2020. Katsarov said that over the year just 23% of beds at the hospital were occupied, including during the peaks of the coronavirus (COVID-19) pandemic when Bulgarian hospitals were overwhelmed and didn't have enough beds for all the patients who needed them. ●

# Montenegro's ruling coalition in question after justice minister sacked over genocide denial

Denitsa Koseva in Sofia

**M**ontenegro's ruling coalition is once again in question with one of the biggest parties, the Democratic Front (DF), saying it will boycott parliament after pro-Serbian justice minister Vladimir Leposavic was sacked over his denial of the Srebrenica genocide.

The dispute has been ongoing for months. In March, Leposavic said he would recognise that the massacre in Srebrenica where over 8,000 Bosniak men and boys were killed by Bosnian Serb forces in 1995 was genocide only after it is "proven undoubtedly".

He also claimed that the UN war crimes tribunal in The Hague, which classified the massacres of Bosniaks from Srebrenica as genocide, had no legitimacy. Leposavic claimed that the court lost its legitimacy after destroying evidence about the trafficking of the organs of Serb civilians in Kosovo.

The DF has strongly opposed the demand of Prime Minister Zdravko Krivokapic for the removal of Leposavic since the beginning.

Eventually, Krivokapic said he decided to seek Leposavic's removal after the justice minister declined to resign.

However, as the DF refused to back Krivokapic, Leposavic was dismissed with

the support of the opposition Democratic Party of Socialists (DPS), which ruled Montenegro for three decades before being ousted by a broad coalition of opposition parties last year.

The vote took place shortly after Krivokapic's government finally managed to get the 2021 budget through parliament after a long standoff with the DF. However, several members of the ruling coalition were outraged that the

"Leposavic said he would recognise that the massacre in Srebrenica was genocide only after it is "proven undoubtedly"

government received support from the DPS to remove Leposavic.

"I call for getting rid of the DPS so that we do not build Montenegro with them anymore, to gather as soon as possible and decide what to do next," Slaven Radunovic, one of the leaders of the DF, said in parliament after the vote as quoted by public broadcaster RTCG.

"Until then, we shall not participate in the plenary sessions anymore, if you have a new majority, just go with them. Whoever wants to be with the DF can

agree with us. This also applies to the leadership of the parliament, because now we are resetting the situation to zero and looking for a new agreement," Radunovic added.

The parliament also adopted a resolution on the Srebrenica genocide, which was not backed by the DF.

Meanwhile, the Socialist People's Party (SNP) will seek an emergency meeting

of the ruling coalition. Its leader Vladimir Jokic said that Leposavic was replaced in coordination with the DPS.

"I insist on new agreement and on respect of all other agreements achieved so far. If this does not happen, we shall respond adequately to everyone who want to disrespect people's will," he said.

Jokovic also said that the ruling coalition will first hold a meeting and then decide whether to initiate a no-confidence motion against Krivokapic. ●





In the first retail race the game was to open as many stores as fast as you could to win market share. A new race has started where the game is to get as many people into your app as possible, and this race has pitted the bricks and mortar stores against the e-commerce upstarts.

## M.Video-Eldorado Russia's retail lion

Ben Aris in Berlin

**"T**he winner is the lion and takes most of the business. You cannot do things halfway," said M.Video-Eldorado Group CEO Alexander Izosimov in an exclusive interview with *bne IntelliNews*.

The merger between Russian consumer electronics giants M.Video and Eldorado in March 2018 was a big success. It created not just one of the biggest electronics retailers in Europe, but a top-10 global player.

It was already the bricks and mortar consumer electronics market leader, but thanks to the pandemic's catalysing effect on e-commerce the ground is shifting. M.Video-Eldorado Group will have to be the nimble giant if it is going to hang on to its lead and double gross merchandise value (GMV), which retailers increasing use to measure sales, in the next five years, as the company intends to do.

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

Most focus on Russia's huge raw material resources but it has another extremely valuable resource that can make businesses billions of dollars a year: its people. With a population of some 146mn and income levels on a par with the lower echelons of the EU in

**"We already had a head start of several years – which means we can focus on our transformation strategy while the others are trying to catch up"**

real terms, Russia is head and shoulders above its emerging European peers as the largest consumer market in Europe.

"The merger worked. We successfully brought two strong brands together and we were ready for the speeding-

up transition to online brought on by the pandemic," M.Video-Eldorado's new CEO Alexander Izosimov told *bne IntelliNews* in an exclusive interview. "The market had been developing quickly in the first half of 2020, but as it changed it was not clear how

the pieces would fall. The pandemic accelerated the emergence of new e-commerce players and ecosystems, but as the leading consumer electronics retailer in Russia, we already had [a] head start of several years – which means we can focus on our

transformation strategy while the others are trying to catch up.”

The noughties saw the end of the Yeltsin-era chaos and wages grew 10% a year for a decade, creating a middle class that went out to get all the gizmos and widgets that are the hallmark of a capitalist society. As the leading player on the consumer electronics and white goods market, the combined M.Video and Eldorado retailer firm has boomed.

The company was hurt by the coronacrisis in 2020 but Izosimov says sales bounced back fast in the early part of 2020 and have been rising strongly in the first quarter of this year too. There was a one-off boost last March when the oil prices collapsed, and Russians resorted to one of their classic wealth protection ruses: buy a nice washing machine to lock up savings in an easy-to-sell asset. Russians have been doing this since 1991, and it led to a spike in sales at M.Video-Eldorado stores that month.

Another reason for the uptick in sales, says Izosimov, is that not only were Russians happy to sink some of their savings into devaluation-proof washing machines, but Russians also took some of the money they normally spend on foreign travel and invested it into upgrading home entertainment systems and new phones due to the long periods stuck at home under the quarantine restrictions.

But the pandemic has catalysed and accelerated a major change that Russian retail was already going through. Russia's e-commerce is booming and that has fundamentally altered the nature of the game. Being the biggest bricks and mortar retailer in your category group does not make you as unassailable as it used to.

Traditional bricks and mortar outlets have suddenly found themselves in direct competition with several big tech companies that are all trying to become the Russian answer to Amazon and are growing at between five and twenty times faster than the rest of the economy.

“There are now five well capitalised pure online players, and they have good technological base. The way it could go for all Russian e-commerce is that the winner is the lion and takes most of the business. The number two gets some of the meat as well and players 3-5 probably will not make any money ever,” said Izosimov. “This is now a high stakes game. You cannot do things halfway.”

#### **Doubling GMV in five years**

At a capital markets day in February M.Video-Eldorado set the guidance to double its gross merchandise volume (GMV) in five years, from RUB0.5 trillion (\$6.92bn) in 2020 to RUB1 trillion by 2025.

“If we play our cards right we can double the business in five years, earn a good return with a decent margin,” said Izosimov. “We are already working on expanding or deploying a number of technology solutions and choosing which categories to stay in.”

The race is on and it's already clear that not everyone will survive it. Russia has already been through this in the 90s and 00s, when the game was to open as many stores as possible as fast as possible to capture as much market share as you could. That race came to an end a few years ago, but now a new race has started: to bring in as many users into your app or ecosystem as possible as fast as possible and again capture as much market share as you can.

The new e-commerce rivals have powerful technological systems and millions of registered users, but what they don't have is M.Video-Eldorado's store network that spans the country. It may be old school, but it's also the company's secret weapon.

“The in-store experience remains a key part of the selling process,” said Izosimov. “And we also use stores as fulfilment centres. Russia is so huge that logistics and distribution are big problems for any retailer. Delivering in Moscow or St Petersburg is easy, but not in a country with 11 time zones with relatively underdeveloped logistics.”

M.Video-Eldorado has about half of its stock in its stores scattered across more than 100 cities and towns, and it often has several stores in a single city which can also deliver stock missing in one to another.

“We believe that our store network gives us a couple of years head start in which time we can develop our system,” said Izosimov. “For the marketplace the logistic costs could be about 15% of the average check. For us they are about 3%... The new competitors will grow, but we can limit their growth. No one is going to become an Amazon here with a 60% market share.”

Izosimov said that M.Video-Eldorado currently has a 26.5% market share, whereas the marketplace e-vendors have about a 5% market share but they are growing very fast and are aggressive.

“At the moment in Russian consumer electronics, sales are about 60% bricks and mortar, 40% online. In five years, that will flip to 40% bricks and mortar and 60% online,” said Izosimov. “The question is: who will own what share?”

Izosimov said it is inevitable that the e-commerce rivals will continue to increase their market share and says they will probably double it to 10% or 12% in the next five years. But M.Video-Eldorado's strategy is to maintain its leading position thanks to its mobile platform development, store network and its grip on the premium product categories with high service levels, where pure online players will struggle to compete. “They will grow. But they are likely to retain a relatively small part of the Consumer Electronics market,” said Izosimov.

#### **OneRetail and the customer journey**

Selling consumer electronics is a little more complicated than selling groceries or plane tickets, which have become retail commodities: the only decision to be made is whether you want a loaf of bread or a weekend in Tbilisi. Once that decision has been made there is nothing else to think about except ordering online.



Buying a new stereo or washing machine is a lot more involved, as there are many factors that go into the decision: price, functions, service contract, reliability, reputation and the opinion of the rest of the family.

M.Video-Eldorado only holds part of its stock in the store, and a customer visiting the store is encouraged to download a mobile app where they can explore and compare all the options and functions associated with each product.

There are also sales staff who also have a “consultant” version of the same app that not only allows them to showcase the product variants but also feeds them data such as what the customer has searched for and their previous purchase history. Artificial intelligence predictive technology then gives the sales assistant a good idea of what the customer is looking for.

“Two thirds of the customers start the journey online where they check out the options and at the same time, over 80% of our customers use stores, so they switch from online to offline spontaneously and it can take around two weeks to complete the transaction,” said Izosimov. To win the market and keep customers throughout their ‘shopping journey’ you have to provide a seamless customer experience, which is why our focus is on what we call OneRetail, our mobile-centric platform

that lets us provide a more personal experience no matter where the customer is shopping, even in stores.”

“The touch and feel experience is an important part of the sales process, and the sales assistant can help the customer find the product that suits them best,” said Izosimov. “The purely online companies can’t offer this service. And it makes a big difference, especially when selling the premium end of the product range.”

Izosimov said that even this in-store service can be considered online sales,

as while the customer can look at a real fridge, the version they actually buy is via the app and can be very different, with a lot more bells and whistles. Moreover, the completion of the deal is when they press the “buy” button and that can happen anywhere, in the store at your mother-in-law’s.

The vendors and producers of the goods also value M.Video-Eldorado’s added service and sales as the premium products are also the most profitable. Selling via online marketplaces boosts volumes, but the goods most suited to this anonymous approach are commoditised electronic goods such as toothbrushes or headphones. Moreover, while the marketplaces have large volumes of sales, the share of the producer in the overall sale is small. With M.Video-Eldorado their share is large and producers value the extra attention to sales details that this more intimate relationship brings, said Izosimov.

#### So far, so good

The plan is working so far. M.Video-Eldorado posted 14% year-on-year growth in GMV to RUB138bn (\$1.8bn) in 1Q21. Notably, online sales of jumped by 63% y/y, accounting for 67% of the total top line in the reporting quarter. In the same period the average monthly number of active users of the customer





mobile apps increased by more than 5-fold y/y to 3.2mn.

M.Video plans to open 500 new stores and enter 100 cities this year from the 1,098 stores it was running at the end of March. However, that is only a 5%

“M.Video plans to open 500 new stores and enter 100 cities this year from the 1,098 stores it was running at the end of March”

space expansion annually, as half of the new stores will be in a small format (250-square metre Eldorados). This is a trend in Russia seen across the retail gamut, where stores are getting smaller and moving to locations that are physically closer to the customers.

“The consumer electronics market is expected to grow at just 5-6% CAGR, reaching RUB2.7 trillion in 2025 (RUB3.1 trillion including services),” Sberbank CIB forecasts. However, most of the growth will come from the online channel and the premium segment, where M.Video is strong. “The company should continue to dominate in the market, and sees its share of marketplaces at 10% over the long term,” analysts said in a recent report.

M.Video-Eldorado technology strategy is going to play a key role in the plan, as the really strong sales growth is already coming from online, which doubled in 2020, growing five times faster than the traditional sales.

“The retailer is also going to focus on retaining existing clients in the OneRetail model. The share of registered customers making purchases through the web/mobile platform is now 42%, and they generate a higher purchase frequency and larger tickets. As the company promotes and enhances OneRetail, the ratio is anticipated to grow to 84%,” Sberbank said in a recent research note.

Getting customers to download the app is a key goal, as the company has already

found that once a customer has bought one product using the app they are much more likely to buy a second.

“We are moving from anonymous sales to a loyal customer base. So we use our OneRetail tech to identify the customer

in store at an early stage, when they are just thinking about a purchase. Our customers are more likely to stay with us if we can provide best selection of models and personalised prices,” said Izosimov.

Switching to online has caught analysts’ attention and BCM GM has marked the company up to a Buy, calling it a growth story.

“The bright outlook stems from its 27.6% share of the Russia market via >1,000 branded stores, continued store expansion and innovation (e.g., introduction of the ONE RETAIL

“Getting customers to download the app is a key goal, a once a customer has bought one product using the app they are much more likely to buy a second”

concept) to meet changing customer behaviour amid the increasingly online era, accelerated by COVID,” BCS GM said in a recent note, adding that retailer’s financials are stable, with a comfortable debt repayment schedule.

VTB Capital (VTBC) did the same in May, adding the company to its “most liked” stock recommendations with a Buy recommendation and a target price for the stock of RUB8,800 per share and an estimated total return of 32%.

The stock came into focus in June after Russian tycoon Mikhail Gutseriev, the founder of Safmar Group was added to the EU sanction list. Safmar Group owned 60% of M.Video-Eldorado shares before control was passed to Gutseriev’s son, Said Gutseriev, and the father no longer owns or is involved in the business. Moreover, the minority shareholders, including MediaMarkt that gave up its Russian business to M.Video-Eldorado in exchange for a 15% stake in the merged company, told Russian press the same week it had no intention of quitting its holding.

“Ceconomy, which owns a 15% stake in M.Video PJSC, does not intend to withdraw from the company’s capital due to Mikhail Gutseriyev’s inclusion on EU sanctions list” the company told Interfax.

The sanctions on Gutseriev senior are extremely unlikely to have any material impact on M.Video.

The company says that it will invest into capex to continue growing its network but only 20% will go into new openings, whereas 60% will go into IT, and the rest into maintenance. From the cash that is left over 100% of profits will be

paid out as dividends. And as promised, the board recommended a dividend of RUB38 per share for 2H20, making a total payment of RUB6.8bn (\$89mn) of 100% of net adjusted income.

“The results so far in 2021 have been strong and we are confident that we are on track to reach our strategic plans to double GMV to 1 trillion by 2025,” said Izosimov. “The capex will remain less than 2% of the GMV.” ●



High-quality machine tools are at the core of a modern economy, but not only did Russia fall behind when the industry took off in the 1980s; following the collapse of the Soviet Union it simply missed out on two more technological revolutions. The Kremlin now wants to revive the industry.

## Russia's sanctions soft underbelly: precision machine tools

Ben Aris in Berlin

The West has been struggling to change the Kremlin's behaviour and hold it to account for the annexation of the Crimea in 2014 and a host of other misdemeanours with a sanctions regime that has proved to be almost entirely ineffective. Oligarchs have been targeted; visa bans and asset freezes doled out; Russia's debt made out of bounds for international investors. Yet thanks to President Vladimir Putin's fiscal fortress, all these measures have slid off the Kremlin's back like water off a duck's back.

However, there is one place that Russia is truly vulnerable. It imports almost all of its precision machine tools and the majority of them come from Western Europe and the US, as its own once legendary machine tool sector was destroyed in 1991 and never rebuilt.

Machinery and tools remains by far Russia's largest import category, but precision tools are more important than just the money they cost. High-quality machine tools lie at the heart of Russia's efforts to modernise itself. It can't build

an autonomous competitive economy without precise machine tools and they are also the wellspring of innovation. Without access to quality machine tools Russia would still earn money from oil, gas and metal exports, but all the Kremlin's ambitions to develop a modern highly competitive economy would be badly hobbled and nigh on impossible.

### Collapse of the machine tool industry

At the start of the coronavirus (COVID-19) pandemic Russia covered itself in glory. The development of the Sputnik V vaccine, which appears to be one of the safest and most effective in the world, was developed with amazing speed. The rollout of a mass inoculation programme began in December 2020 when most other vaccine candidates were still in trials.

Russia is good at the science. It put the first man into space under a totalitarian regime. Where it has always fallen down is on high-quality production. The vaccine's development was fast, but the construction of the factories to

make Sputnik V in large amounts has been painfully slow. By the end of May Russia had met only 8% of its export orders despite the vaccine having been approved in over 60 countries and orders for hundreds of millions of doses worth billions of dollars.

Since then the production bottlenecks are slowly being circumnavigated. As of the middle of June Russian factories have been cranking out 30mn doses a month and are beginning to be able to meet the demand. But it has taken longer to build the factories than it has taken to develop the drug in the first place.

There are two problems that have held back a faster rollout of mass production: the lack of qualified staff and the lack of the basic machine building technology to manufacture the intricate machines needed to produce a complicated drug like Sputnik V.

Russia is famously bad at making anything other than space rockets and fighter jets. The Soviet Union had exploding tellies and opaque sunglasses. Quality consumer goods didn't exist.

The irony is the Russia revolution was built on the back of an industrial revolution powered by a huge machine tool industry under Stalin that embraced mechanisation and transformed the Russian empire from a bucolic backwater to an industrial superpower by the outbreak of the Second World War.

Machine building and the revolution were synonymous. "Communism is Soviet power plus the electrification of the whole country!" went the famous slogan. Soviet machine building exploded in the 1980s, but the USSR quickly fell behind after the advent of more precise "numerical" machine engineering – pioneered by the Japanese and Germans. Even the US struggled to keep up with this first innovation.

Since then machine tool production has taken several more technological leaps upwards, thanks to the advent of the computer and now the internet. Today it's all about "mechatronics" – a marriage

between machines, electronics and the internet. As most of these huge changes happened in the 1990s when Russia was flat on its economic back, it simply missed out on all of it.

“After decades of neglect and weak demand for its products, the Russian machine tool industry is in a deep crisis,” says Tomas Malmjöf of the Swedish Defence Research Agency (FOI) in a recent report. “The great demand for machine tools that nevertheless exists in the Russian industry, not least within the defence industry, is now mostly covered by imports, and Russia has become the fourth-largest importer of machine tools in the world.”

That’s a big problem. While tool-making contributes only a tiny share of GDP – in Japan, a world leader, machine tool making accounts for 1.9% of GDP – the machine tool industry provides the principal industrial equipment base for all other manufacturing industries.

Everything is affected by the quality of the tools used to make things: heavy industry, the machinery industry, the car industry, power engineering business, shipbuilding, the aircraft industry and the entire defence sector. Being entirely reliant on imported tools is not a good place to be for a country like Russia that aspires to become autonomous in industry and defence.

Russian machine tool industry was already falling behind in the 1980s,

but following the collapse of the Soviet Union in 1991, it simply disappeared. In 1990, production of metal-cutting machine tools amounted to 74,000 pieces. In the next five years, output fell to 18,000 components, according to official statistics. In 2009, this figure had shrunk to 2,000. Since then, the situation has somewhat stabilised, and in 2016 production of metal-cutting machine tools reached almost 4,400

“The crisis in the Russian machine tool *industry* was not a crisis for the Russian machine tool *market*”

components – a 16-fold decline. But just because Russia wasn't making tools any more didn't mean it wasn't using tools.

“The crisis in the Russian machine tool *industry* was not a crisis for the Russian machine tool *market*, as such. What happened was that the domestic machine-building industries increasingly turned to foreign machine tool providers,” says Malmjöf.

**Today Russia**

During the noughties Russia’s economy boomed, doubling in size, funded by a torrent of inbound petro-dollars. The government invested heavily in rebuilding infrastructure but things like the new high-speed rail link between

Moscow and St Petersburg was built by Siemens, as was nearly every new gas turbine in every new power station in the country.

In a more recent high-tech example, the head of Roscosmos Dmitry Rogozin complained that while Russia has plenty of rockets, and may build its own version of the International Space Station if the rows with the

US continue, it can’t launch any new satellites, as they are missing a high-tech chip that is only produced in the West. Although there are no official sanctions on the chip, Western manufacturers are refusing to sell it to Russia. Roscosmos has tried sourcing analogues from markets like India and Brazil, but the quality is simply not good enough.

Even in the car industry Russia is now home to five big car companies with extensive manufacturing plants, but despite energetic programmes to force foreign carmakers to increase the share of locally made parts to at least 60%, the car plants in Russia are still heavily dependent on imports. Part of the problem here is the foreign manufacturers are reluctant to share their technology for fear of creating a rival, but local part-makers are not good enough to offer a viable alternative.

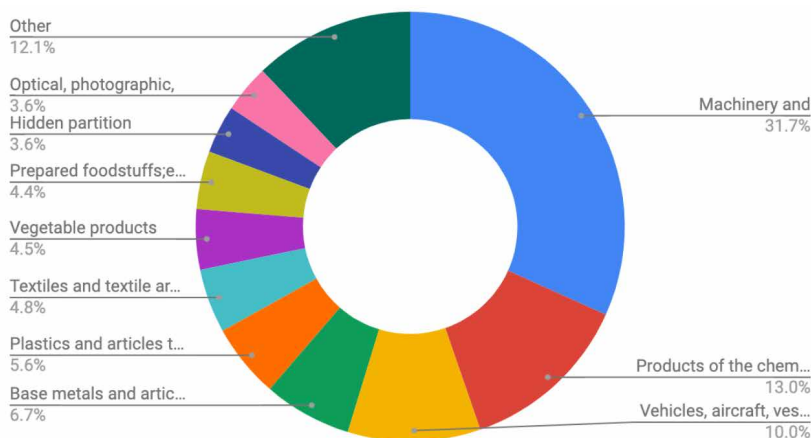
The dearth of the domestic production of high-quality machine tools is both a strategic and economic threat to the country. And yet little has been done to address the problem.

**Mechatronics**

Russia now has a lot of catching up to do, but developing the tech will be very hard.

One example is the “five axis grinders”: special grinders that can cut and

Russia major import products April 2021 y/y



shape metal into complicated shapes. These machines are core to dozens of industries, including weapons manufacture, and the dual-use implications mean the manufacturers routinely build in special controls that disable the machine if it is moved from its original location.

The recent integration of digital control technology and computers into machine tools hit the industry in three waves of technology shocks that lasted about ten years each and all of them simply washed over Russia.

“The introduction of numerical controls (NC) for machine tools in the 1950s and 1960s enabled some degree of automation of production processes. The second wave, in the 1970s and 1980s, entailed the use of microcomputers for numerical control (CNC). CNC machines offered new features, were more flexible and led to a substantial drop in price,” says MalmLöf.

“The present, third wave is comprised of the PC-based CNC machine and began around 1990.... The introduction of digital controls had a disruptive market impact. Numerical control enabled fundamental changes in product architecture as several processes [that] converged into multi-purpose machines. Flexibility in design, development and production increased, which resulted in shorter product cycles, faster product development and a push for speedier order delivery... The core competence of manufacturing therefore shifted from accurate mechanics to electrical engineering and programming.”

What used to be tools are now mechatronics, a whole new class of tools – the combination of mechanical engineering and electronics that is wrapped up in the “Internet of Things” to come.

In terms of output by value and consumption then Japan and Germany are still the giants in the business. China is also high in the list, but its tools tend to be at the low-end of the

sophistication spectrum, although the government has been investing massively in R&D in an effort to catch up. America is a huge consumer and a big producer, but even the US imports about 60% of its tool needs, while China imports about a third of its tools. By contrast, Russia produces a tiny amount of tools and imports almost 100% of its requirements.

### Machine Tools trade & sanctions

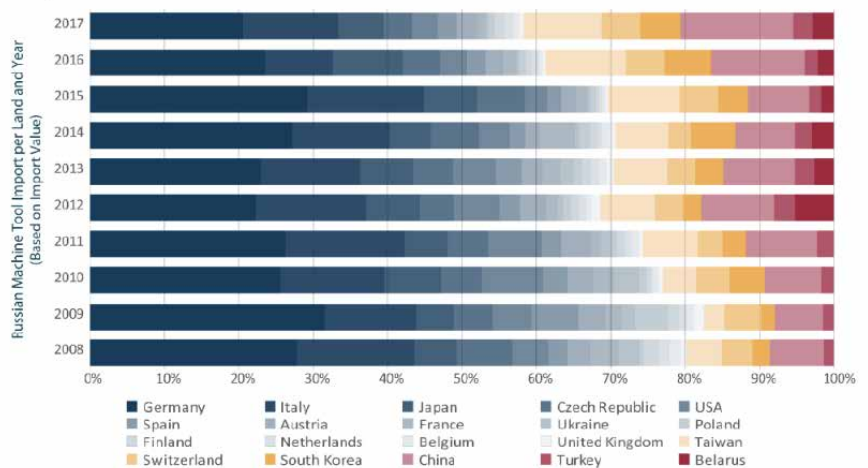
Russia’s total dependence on imports makes specialised machine tools a candidate for sanctions that would be highly effective, as they would bring Russian economic development to a standstill, or at least severely slow the pace of growth. A blanket ban on any exports of any precision

machine tools to Russia would have devastating effects.

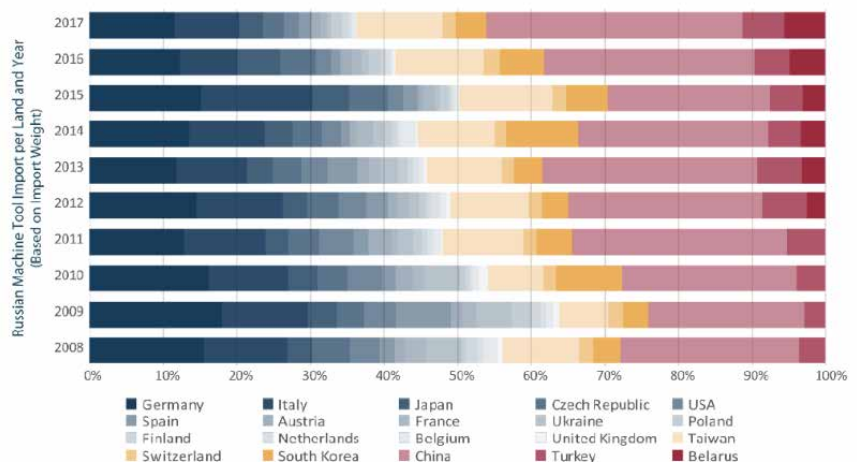
The trouble is sanctions on tool exports to Russia would also have devastating effects on the European and US industries. As the machine tool-making business is not particularly capital intensive the business is dominated by specialist small and medium-sized enterprises (SMEs). There are a few large corporates with deep pockets that can ride out swings in demand, but most are not. Moreover, as machine tools are in effect investment capital, the industry is very sensitive to the vagrancies of the economic cycle.

“An important feature of the machine tool industry is its highly volatile

Russia's providers of machine tools 2008-2017, imported value in current dollars, 100% stacked bar chart



Russia's providers of machine tools 2008-2017, imported quantities in metric tons, 100% stacked bar chart



cyclicality. This is because machine tools are not just another primary input in the production process, but are used to produce other investment goods,” says Malmlöf. “It therefore suffers a double effect of the accelerator principle: when demand in final products decreases, demand for investment goods falls even more, and demand for machine tools falls the most.”

Given that a country like Germany has so many SMEs in this sector, cutting them off from the huge lucrative Russian market would be politically very difficult indeed.

For its part Russia has already been trying to actively break its dependence on EU and US machine tools. Now it now imports from over 70 countries, but all that has happened is Russia increasingly buys the low tech tools from developing markets while the share of the most sophisticated and most expensive tools from countries like Germany, Italy, Japan and the US has actually increased.

“From the late 2000s, Russia has diversified its imports of machine tools, either voluntarily or as a necessity, due to its deteriorating relationships with the [liberal Western countries],” says Malmlöf. “Yet in 2017, this group still provided 57% of Russian machine tool imports in the sample based on import value... The quantity of Russian import from potentially unfriendly countries has diminished significantly during the ten years in the sample, at the same time as friendly countries have increased their market share... Russia has substituted a noticeable share of its import of high-end machine tools from the most advanced machine tool-producing countries for less expensive Chinese, Turkish and Belarusian machine tools.”

#### Point of no return?

What’s left of Russia’s machine tool business is mostly focused on the defence sector, as some military production is considered so sensitive that it is inconceivable that any foreign-tech would be allowed on the premises.

There have been a couple of attempts to revive the machine tool industry but it simply didn't get much attention during the first two decades following the fall of the Soviet Union. After comprehensive military modernisation programme was launched in 2011 that has changed, and a more serious attempt to revive the business is underway.

In the late 2010s, Russia’s machine tool industry accounted for 0.02% of GDP. This is a low figure compared to some of the leading producing countries: China (0.2%), Japan (0.33%) and Germany (0.37%).

According to the Russian Ministry of Industry and Trade, there were 80 domestic machine tool firms in total, and 29 tool companies, in 2017. The output of its top six companies accounted for 54% of Russia’s domestic production.

In June 2017, the Ministry of Industry and Trade, under Minister Denis Manturov, proposed a new comprehensive development strategy for the machine tool and tool

## “The trouble is sanctions on tool exports to Russia would also have devastating effects on the European and US industries”

industries 2018-2030 that was based on a much more thorough study of the international business.

“The primary goal of the proposed strategy is to increase the competitiveness of the Russian machine tool industry and to restore their position on the home market,” says Malmlöf. “By 2030, the share of Russian machine tools on the domestic market should increase to 50% and the yearly growth rate should be 15%, on average, according to the proposed target indicators.”

According to the Ministry proposal, the strategy should be implemented in two stages. During the first stage, up to 2021, all state policies for the

machine tool industry ought to focus on strengthening the position of a few strong market actors among current companies and turn them into national champions.

The state should also stimulate the emergence of new market participants in those market niches where the current companies are not active.

The purpose of state policy during this stage is thus to bring about intensive economic growth within the industry, to empower existing companies to fully exploit their potential, to develop new technologies and to seize broad market niches.

During the second stage, 2022-2030, the industry should be capable of shifting towards extensive growth. Production volumes would increase as a result of the active state support during the previous stage.

The Ministry expects new actors to enter those market segments for final products, sub-components and

instruments that the national champions have not already seized. Among them will be technology owners, modernised defence firms and companies from the nuclear industry.

The jury remains out on whether this programme will be a success. The Chinese have been pouring money into its R&D sector and actively hiring “turtles” – Chinese workers that cut their teeth in foreign R&D departments, but have been lured home to develop Chinese tech. The Russian government has earmarked RUB63.5bn (\$910mn) for the programme, with most of the spending frontloaded to be spent in the next two years. Added to that, Russia has never been a slouch when it comes to science. ●



When Kyrylo Shevchenko took over as Governor of the National Bank of Ukraine last year he walked straight into a major crisis. However, progress already made in cleaning up the sector meant the financial sector has weathered the storm comfortably and is now back in profit.

INTERVIEW:

## Kyrylo Shevchenko, Governor of the National Bank of Ukraine

Ben Aris in Berlin

**T**he National Bank of Ukraine's (NBU) clean-up of the banking sector and prudent monetary policy, have been some of the outstanding success of Ukraine's battle to drive through comprehensive reforms and put the country on track for sustainable growth and prosperity.

But Ukraine being Ukraine, the path is not straight and making changes is hard. Since the Revolution of Dignity in 2014 there have been three central bank governors and *bne IntelliNews* met with the latest, Kyrylo Shevchenko, who was appointed last summer, for his first interview with the international press.

Since Shevchenko arrived on the job he went straight into crisis mode as Ukraine faced the double whammy of an oil price shock and the coronavirus (COVID-19) pandemic sweeping through the

under-resourced country. At the same time, he needed to maintain the reform momentum built up by his predecessor.

"Despite the heavy impact of the first lockdown, Ukraine weathered the crisis better than expected. The Ukrainian economy will return to steady growth starting in the second quarter. NBU expects that in 2021-2023 the economy will grow by about 4% annually," Shevchenko said, speaking to *bne IntelliNews* by video link from the NBU headquarters on Instytutska Street in central Kyiv.

A boom in commodity prices that started in about November brought much needed cash into the economy and has assuaged the impact of the 2020 crisis. Metal prices, a major export product, are at multi-year highs. And while Ukraine's exports of grain last marketing year,

just ended, were down by 22% year on year to 43.4mn tonnes, global food prices were up 40% y/y, more than compensating for the weaker harvest. This year the grain harvest is predicted to be a good one.

In general, trade is going well and switched from perennial current account deficits to regular surpluses in the last year that are extending into this year as well, making the NBU's life easier. The exports of goods were up by 16.7% y/y over the first four months of this year. Mining exports were up 85.4% y/y and metallurgical products up by 38.8% y/y, leading to a positive current account surplus and growing gross international reserves that has caused the hryvnia to strengthen. Shevchenko has an economy on an upswing to work with.

### The rate hike that didn't happen

The main problem the economy faces is a return of inflation. The NBU covered itself in glory in 2019 by not only controlling inflation, but crushing it completely. Inflation fell to 1.7% in 2019 – a post-Soviet low. That allowed the NBU to rapidly cut rates month after month, sometimes by full percentage points.

That has changed recently thanks to the multiple economic shocks in the last year, and inflation soared to 9.5% in May from an already elevated 8.4% in April.

Prime central bank interest rates for Emerging Europe (click on the region legend to include/exclude a region.)

The NBU was the first to act of all the central banks in emerging Europe by ending the easing policy and hiking rates in March (50bp) and April (100bp), but surprised the market by leaving them flat in June, when many analysts were expecting another 100bp hike due to the high rate of inflation the month before.

"May inflation was driven by gas prices, food and especially sunflower oil price rises. But we are optimistic that we can hold these price increases in check," Shevchenko said.

The governor argues that inflation pressures have already peaked and there

is no need to hike again. He wanted to keep some powder dry in case it is needed later. May's high inflation was due to rising food prices, the feed-through from a devaluation effect from last year and a low base effect. All these factors are now fading: with the arrival of summer food prices are expected to start falling; the hryvnia has been appreciating strongly in recent months thanks to booming exports, and the low base effect will also wear off in the coming months. Still, Shevchenko says he is taking a wait-and-see approach.

"In one month we will have more information and data. We still have the low base effect from May 2020 but those effects will fade as the year wears on," Shevchenko says.

Nevertheless, inflation will remain a problem for the rest of this year and into the next one.

The NBU's monetary policy is aimed at reducing underlying inflationary pressures caused by worsening inflation expectations and robust consumer demand, says Shevchenko. As a result, headline inflation is anticipated to be 8% y/y at the end of 2021, returning to the target range of 5% ± 1 pp in the first half of 2022. Thereafter it is forecast to hover at around 5%.

The FX exchange rate has been helped a lot by the popularity of the local debt market amongst international investors. Inflows into Ukraine's Ministry of Finance hryvnia-denominated OVDP treasury bills (OVDP) have strengthened the hryvnia and also helped to keep inflation down.

"The FX channel is one of the most important for bring inflation down and

[in the] last weeks we have seen strong inflows into the bond market from non-residential investors,"

Indeed, the appreciation of hryvnia has been so strong that the NBU has intervened recently to keep the currency in check and bought \$700mn to date, of which \$500mn was in just the last month.

#### Plenty in reserve

The positive trade balance has also helped ease another of Ukraine's big headaches: the low level of foreign exchange reserves.

Ukraine was scraping along the bottom with enough reserves to cover barely three months of imports, regarded by economists as the minimum necessary to ensure the stability of the currency. But as the trade balance has been positive for most of the last year the reserves have increased to \$27.8bn in May, or 4.4 months of import cover.

There is still problems ahead, as Ukraine has a heavy debt redemption schedule this year of some \$16bn, which peaks with \$11bn coming due in September. But Ukraine has had some luck here too as the International Monetary Fund (IMF) is due to give the country the equivalent of \$2.7bn as part of its SDR transfer programme to boost the post-coronacrisis growth of weaker economies around the world. Shevchenko says that all that money will be sent to the reserves and that the continuation of the currently frozen IMF \$5bn stand-by agreement (SBA) is the NBU's basic assumption.

"We haven't considered another scenario. There is the \$700mn tranche

outstanding, but it's not just about the money; it's also about trust," says Shevchenko. "Co-operation with the IMF brings much more than money. It brings confidence and much cheaper rates on the international capital markets."

Shevchenko says that one of the major benchmarks to be met to restart the SBA is to pass a new set of banking laws that will bring the sector into line with international norms. The draft bill has already passed two out of its three readings.

"The law passed the first reading in November and it wasn't easy," says Shevchenko. "Between the first and second reading there were 1,252 new amendments added to the bill. It was a huge battle but we expect the third and final reading to happen by July."

#### Oligarchs and staff rows

While the NBU is dealing well with a regulator's nuts and bolts issues, there is a big red question mark floating over the bank: Ukraine's Oligarch Problem, and the former owner of PrivatBank Ihor Kolomoisky in particular. The IMF has raised the issue of the NBU's independence repeatedly in its statements and has said it is a red line issue.

The bank and the staff have come under repeated attack in what former governor Yakov Smolii described as a campaign of terror. Kolomoisky and his partners have brought hundreds of lawsuits against the NBU, and the staff of the national bank have been physically attacked, including ex-governor Valeriya Gontareva, whose house was burnt down in an arson attack.

The question of the bank's independence was reinforced by the sacking of former



"Co-operation with the IMF brings much more than money. It brings confidence and much cheaper rates on the international capital markets"

**Kyrylo Shevchenko**  
Governor of the National Bank of Ukraine.

governor Yakiv Smolii last summer, who claims he was pushed out under “intense political pressure.”

“My role at the NBU is to ensure the bank operates on an independent basis,” says Shevchenko, who ran the state-owned Ukrgasbank and worked in banking for 27 years before appointed governor of the central bank.

“There has been friction and there [is] political pressure to undermine the independence of the central bank but the continued independence of the NBU is no longer one of the IMF’s concerns,” says Shevchenko.

“My priorities are to ensure the independence of the NBU as an institution and operationally. Also to ensure its financial standing and from the personal ambitions of the personnel,” the governor added.

The change at the helm has not gone smoothly, as Shevchenko got into an ugly public fight with two of his deputies, as he took personal control over the bank sector clean-up process.

“To have personal control is important but the decisions made are not personal decisions but the decisions of the NBU made on a collegial basis. What conflicts there have been are behind us,” Shevchenko said. “Ukraine is a democratic country and we are proud of it. It is represented in the authority of our president and Rada. The independence of the NBU is also an aspect of this democracy. The difference is we have clear rules on how to operate. We are a technocratic organisation and so we try and keep away from politics.”

The two deputy governors – Kateryna Rozhkova and Dmytro Sologub – conducted much of the bank sector clean-up work under the previous governors, Gontareva and Smolii, but have been sidelined by Shevchenko, who also caused a scandal by publically rebuking them.

“Some members of the NBU had personal political agendas that was

incompatible with the NBU’s work. It doesn’t help the Ukrainian financial system,” says Shevchenko.

The NBU’s Council decided not to prolong Sologub’s five-year contract on June 24, which caused consternation amongst analysts, as he was well respected. Rozhkova remains in place for now, but there is little love lost between her and her new boss.

However, Shevchenko says these rivalries are a distraction from the task of cleaning up the non-bank sector, which will not be any easier than cleaning up the banks.

#### **Bank reforms back on track**

The banking clean-up that was carried out over the last six years has been one

“My priorities are to ensure the independence of the NBU as an institution and operationally. Also to ensure its financial standing and from the personal ambitions of the personnel”

of the greatest reform successes of the post-Maidan revolution and allowed the banking sector to get through the pandemic shock with little damage.

“Despite the heavy impact of the lockdown the crisis went well for the banks. In 2020 the NBU released an anti-crisis package of things like long-term refinancing of debt and interest rate swaps. It was a success,” says Shevchenko. “This year we have an exit strategy from these anti-crisis measures and will do it soon, but if the COVID problem returns or another threat appears we can immediately roll these measures out again.”

Nearly a hundred dodgy banks were closed down and the looting of depositors’ account via related-party loan scams largely ended. Bad debt and problem loans have all been provisioned for and regulatory control and inspection of the sector beefed up and made effective.

Today the banking sector is sufficiently capitalised and profitable. As *bne IntelliNews* has reported, the banking sector’s profits in April have returned to their 2019 level – the first year of strong growth post-revolution – but are still behind the first quarter of 2020, when banking sector growth was accelerating again. The banking system today has high liquidity – about \$7bn. In 2020, banks’ profits amounted to over UAH41bn (\$1.4bn), the NBU reports.

“The banking sector is sufficiently capitalised. The regulatory capital adequacy of the sector for the second half of 2021 remained significantly higher – about 23% against 10% of the minimum required level. This allows banks to maintain their ability to absorb losses and continue lending to

households, SMEs and large businesses during the crisis,” says Shevchenko.

Now the clean-up of banks is largely finished, the focus is shifting to the non-bank entities.

“A lot of work has been done but there is still a lot of work to do. Before the focus was on cleaning up the banking sector,” says Shevchenko. “Since the start of this year we have started to focus on the non-banking sector, where there are over 2,000 entities. It will not be less difficult than cleaning up the bank sector.”

“Now we are starting on cleaning the non-banking sector we are facing pressures and there are a lot of players here that have vested interests,” added Shevchenko.

#### **NPLs**

But there is still a long way to go before Ukraine’s banking sector can get a clean bill of health. Despite all the progress



non-performing loans (NPLs) remain a huge problem. When the reforms started in 2014 Ukraine's banks had the highest share of bad debt in the world. And it is still high, but falling steadily.

Today the aggregate level of NPLs in the sector is 40%, down from over 50% at the start of last year. But the spread is uneven. The privately owned banks have NPLs of 13%, the foreign-owned banks have 27%, but the state-owned banks have 43% and Kolomoisky's former bank PrivatBank has a massive 72.5% of its loan book as bad debt – the legacy of the related-party loans the bank made to companies affiliated with Kolomoisky and his partners that have never been repaid.

It will probably take years to clean up the balance sheets of the state-owned banks, but Shevchenko says the plan is to get these banks into a state where they can be sold as fast as possible.

“For me the priority is the future privatisation of the state-owned banks. Today the state-owned banks hold some 55% of banking assets. It is a huge risk for the banking system and the country has been the world leader in the number of NPLs – over 50% of all loans,” says Shevchenko. “To privatise we should concentrate on two aspects: corporate governance and NPLs. There is no doubt good corporate governance: an independent board of directors and the best practices are needed for a successful privatisation. At the same time, no private investor will buy a bank loaded down with NPLs, even if all those loans are provisioned for.”

The first steps in banking privatisation have already been taken. In February the IFC provided a convertible loan to Ukrzazbank, which Shevchenko ran for over 20 years before becoming NBU governor, as a first step to privatising the bank. The NPLs at the bank are a manageable 12% of the book and Shevchenko says it is a “positive first step” towards the eventual privatisation of the bank.

But the big fish is PrivatBank. Now the largest and most profitable bank in the country, the management has

been changed and a new CEO recently appointed, but with an NPL level of over 70% it will need a lot more work to get it into a state where it can be sold.

“It would be better to sell this bank as soon as possible. We have submitted a strategy to the Cabinet of Ministers and we have to wait for the decision by the shareholders,” says Shevchenko.

#### **Gorilla in the room**

But Kolomoisky remains an issue for most onlookers. Ukrainian President Volodymyr Zelenskiy launched an anti-oligarch campaign with his oligarch speech in March and the IMF insisted on a new banking law that bans returning banks to their former owners if they have been nationalised last year – dubbed the “anti-Kolomoisky banking law.”

In addition, the US broke new ground by imposing sanctions on Kolomoisky in March and opening a Grand Jury investigation into alleged money laundering operations in the US. But at home the legal fight with Kolomoisky is difficult, and made harder by the venal state of Ukraine's courts.

“There are over 100 court cases that have been brought against the NBU by the former owners of PrivatBank that are attacking the nationalisation of PrivatBank. We are fighting these cases in the high courts of London and the US,” says Shevchenko.

Three years ago there was a case to recognise the legitimacy of the nationalisation of the bank that was finally confirmed on May 14 and is a major step forward, as it clears the way for international arbitration courts to rule on the Kolomoisky case and the allegations that he whisked some \$5bn

of PrivatBank's money offshore.

“Ukraine has no chance of losing this fight. But the question is, how do we avoid these fights in the future?” says Shevchenko.

The governor points to the NPLs as the main issue and highlights the progress that has already been made in cleaning out the bad debt from existing banks and changes to the regulation of the banks to prevent their build-up again in the future.

“It is outside the mandate of the NBU, but we need strong anti-corruption framework. That is crucial. Without this, the battle against NPLs will be very hard,” says Shevchenko.

Shevchenko has called for the creation of a special court for the financial sector, similar to the anti-corruption court (ACC) that has already been set up at the IMF's insistence.

“Why do we need this special court? The judicial system is unreformed. So how can we prevent NPLs? With a special court focused on the financial sector,” says Shevchenko.

The bank has sent its concept of the court to the Cabinet of Ministers, the European Bank for Reconstruction and Development (EBRD) and European Commission for consultations, and work on the idea is ongoing.

“We have a good and clean bank system. Fighting corruption is outside the NBU's mandate but we cannot wait for the whole judicial system to be reformed. We have to have strong creditor rights protection to ensure the health of the sector in the future,” Shevchenko said. ●

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Pashinyan celebrated his re-election with an evening victory rally in Yerevan's Republic Square.

# Armenia's Pashinyan wins re-election in landslide

Joshua Kucera & Ani Mejlumyan for Eurasianet

**A**rmenian Prime Minister Nikol Pashinyan has won reelection in a landslide, gaining a renewed mandate despite leading the country to a disastrous defeat in last year's war with Azerbaijan.

Pashinyan's Civil Contract party won just under 54 percent of the vote in the June 20 election. The "Armenia" alliance led by former president Robert Kocharyan was a distant second at just under 21 percent.

According to an analysis of the results by elections expert Harout Manougian, Civil Contract was slated to get 71 seats in parliament, Armenia 29, and the I Have Honor bloc seven seats. That would allow Civil Contract to maintain the decisive two-thirds majority it currently enjoys in parliament (along with other partners in a bloc called

My Step, though that bloc is being disbanded for the next parliament).

The result was a far more decisive win than any public polls had predicted, though it did track with Civil Contract's own internal projections. Pashinyan won in every region of the country, even the far southern district of Syunik,

"I voted for Pashinyan even though I have no hopes for him. I just don't want Kocharyan to come back"

where the government was thought to be especially vulnerable due to security concerns that have proliferated there.

Even in Shurnukh, the newly divided

Syunik village that has exemplified that instability – part of it fell under control of Azerbaijan as a result of the war – Pashinyan won 51-40 over Kocharyan.

Immediately after the first preliminary results came out past midnight, Pashinyan announced a victory rally for the evening of June 21 in Yerevan, where he promised

a "solemn ceremony of handing over the steel mandate to the newly elected Prime Minister." That was a reference to a campaign trope in which Pashinyan, who came to power in 2018 protests that

became known as the “Velvet Revolution,” said he would be taking a harder line in a new administration. He called on voters to “replace our velvet mandate with a steel one.”

But the victory was likely less a strong mandate for Pashinyan than a repudiation of his would-be replacements, dominated by figures from the widely hated former regime. Ahead of the vote Kocharyan emerged as Pashinyan’s strongest challenger, as his air of competence contrasted favorably with the prime minister’s erratic behavior and perceived incompetence dealing with the country’s many post-war challenges. But the former president remained deeply unpopular among Armenians who remembered his corrupt and authoritarian rule from 1998-2008.

For many in heavily polarized Armenia, the vote represented less a choice of their candidate than a rejection of the one they feared more.

“I voted for Pashinyan even though I have no hopes for him. I just don’t want Kocharyan to come back,” said 30-something Maria Yegiazaryan, as she voted at a polling station on the outskirts of Yerevan. “I was so nervous to not damage my ballot paper when I put it inside the envelope, it was like I was taking a big exam back in university,” she told Eurasianet.

“Pashinyan isn’t the one that we need, but the other one is a step backwards,” said another voter, 60-something Samvel Poghosyan, who cast his ballot at the House of Culture in the village of Oshakan in Aragatsotn province.

Despite the high stakes of these elections, turnout was only 49 percent, virtually the same as it was in the last parliamentary elections when the outcome was a foregone conclusion.

An election monitoring mission from the OSCE gave a largely positive assessment of the vote, calling them “competitive and generally well-managed” in its preliminary post-election report. Its observers found “very few significant procedural errors or serious violations,”

## MPP's Khurelsukh wins landslide victory in Mongolia's presidential election

### bne IntelliNews

Securing a landslide victory, former Mongolian prime minister Khurelsukh Ukhnaa became his country’s sixth democratically elected president late on June 9, further consolidating the power of the ruling Mongolian People’s Party (MPP), which boasts a supermajority in the parliament. The result was widely anticipated with the main opposition party in disarray.

Warning that the MPP would exert excessive power should it command both the government and the presidency, the main opposition Democratic Party (DP) campaigned under the slogan “Mongolia without Dictatorship”, but most voters were clearly not worried by the dire warnings of a “one-party state” and were prepared to give the MPP a chance at securing a clearer direction for their country by having its hands on both levers of power (though Khurelsukh must constitutionally relinquish his party affiliation as soon as he takes office). The DPP, which splintered into two factions in recent months, struggled at the ballot box, having not overcome its divided state.

Khurelsukh (pictured above) comfortably defeated Sodnomzundui Erdene of the DP and Enkhbat Dangaasuren of the Right Person Electorate Coalition (RPEC), the General Election Committee said.

With 99.7% of votes counted overnight, Khurelsukh’s tally had reached 821,136, or 68% of the total. That marked the largest share of the vote since the democratic era began in 1990. Enkhbat was second with 242,805 votes, or 20.1%, while Erdene came in third, with just 72,569 votes, equivalent to 6% of the total.

“I understand that all of the Mongolian people who voted in this election are expressing hope that we will complete the work we have started ... and that we will do more for our country,” Khurelsukh said, as reported by Reuters. The presidency, he said, was “a huge responsibility”.

Khurelsukh will replace incumbent Battulga Khaltmaa, who was denied an opportunity to seek re-election following controversial changes to Mongolia’s constitution that restricted presidents to one term in office, lasting six years.

The presidential campaign was in many ways necessarily low-key given COVID-19 restrictions. Most weekend outdoor events were cancelled after outsider candidate Enkhbat of the National Labor Party tested positive for the coronavirus.

Mongolia’s president has the power to veto legislation, and until the recent constitutional changes could also hire and fire judges.



though it did note that the election was “characterized by intense polarization and marred by increasingly inflammatory rhetoric among key contestants.”

The Armenia alliance claimed that it had observed a large number of violations in favor of Civil Contract, and said that it did not accept the results. The big numbers for Pashinyan contradict “the results of polls, including international polls, as well as common sense,” the alliance said in a statement issued to local media as results were coming in. It did not give further indications about its next steps.

Kocharyan did not make any public comments as of late afternoon June 21, but speculation mounted that the Armenia and I Have Honor alliances may refuse to take up their mandates in parliament. At a press conference, journalists asked the head of the Central Election Commission what would happen if the opposition parties refused

to take their seats. He suggested it would be uncharted territory: “At this stage, we do not have a specified institution of renouncing the mandates,” he said.

But Manougian, the election expert, suggested that parliament could function normally with only Civil Contract MPs showing up, and that a similar situation prevailed for much of the post-war period, when the opposition parties often refused to attend sessions.

On election day, many Pashinyan critics appeared unwilling to go public with their vote and suggested a fear of intimidation by the authorities.

“Pashinyan is a psychopath, incompetent, little man who gave 70 percent of our country away,” said one pensioner in Yerevan, referring to the loss in the war of formerly Armenian-controlled territory in and around Nagorno-Karabakh. “He shouldn’t be allowed to continue to

breathe but you will see how many votes he will get.” He asked not to be identified: “I don’t want to give my name, because I voted for Kocharyan.”

“People don’t trust the current government, our borders aren’t secure,” said Lilita Grigoryan, a Russian teacher in Oshakan who declined to say who she voted for. “We came to vote but we don’t know if it will get any better.”

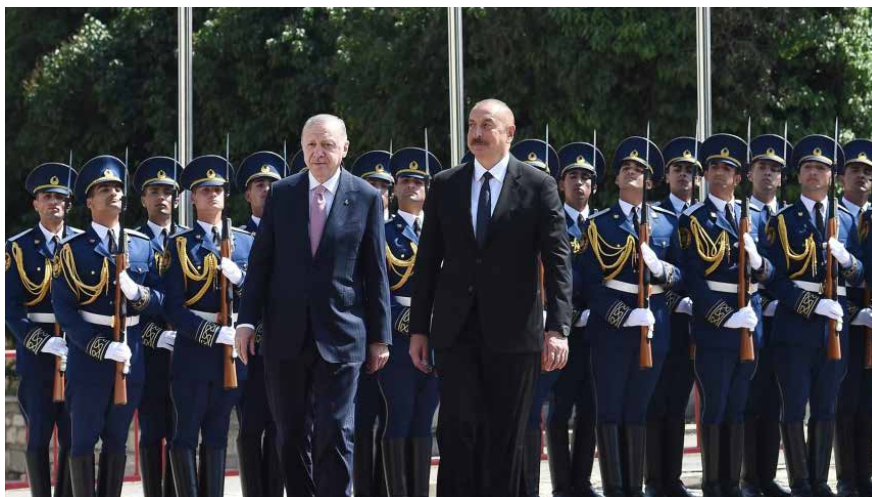
This piece has been updated to include updated results and comments from the Central Election Commission and the OSCE. ●

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Nikol Pashinyan, Prime Minister of Armenia, votes in his polling station for the parliamentary elections of Armenia. Photograph: Celestino Arce Lavin/ZUMA Wire/REX/Shutterstock



Erdogan, left, was treated to a guard of honour on his arrival in Azerbaijan. He is seen accompanied by Azerbaijani counterpart Aliyev.

## Erdogan pays historic visit to post-war Nagorno-Karabakh

bne IntelliNews

**T**urkish President Recep Tayyip Erdogan on June 15 became the first high-ranking foreign leader to visit Nagorno-Karabakh since it was recaptured by Azerbaijani forces during last year's Second Nagorno-Karabakh War. Erdogan's visit was to Shusha, a culturally symbolic city for foes Azerbaijan and Armenia.

The visit will not go down well with Armenia, which during the six-week war that ended last November with a clear Azerbaijani victory and a Moscow-brokered ceasefire that surrendered swathes of territory to Baku, protested that a bellicose Turkey had deployed military advisers in the field to direct Azerbaijani offensives as well as Syrian mercenaries. Both Turkey and Azerbaijan denied that that was the case, but Turkish, as well as Israeli, combat drones, including "kamikaze" drones, acquired by Azerbaijan were widely seen as decisive in bringing about Armenia's stinging defeat in the world's first "drone war". While the conflict was under way, Erdogan dismissed Western calls for a halt to the fighting, but since Donald Trump departed the White House and Joe Biden arrived in the Oval Office,

there has been a noticeable adjustment in Turkey's foreign policy that has seen less aggression expressed towards Armenia and attempts to rebuild ties with regional rivals including Saudi Arabia and Egypt. Erdogan's political and economic difficulties in

"Since Joe Biden arrived in the Oval Office, there has been a noticeable adjustment in Turkey's foreign policy that has seen less aggression expressed towards Armenia"

Turkey have reached dire straits and upsetting the Biden administration with a continuation of the aggressive foreign policy Erdogan deployed throughout the Trump years – Trump remained almost entirely disengaged from the Karabakh war – would risk a potentially perilous worsening of the situation.

### Greeted by Aliyev

On his visit to Shusha, Erdogan was greeted by Azerbaijan's strongman president Ilham Aliyev. He was accompanied by First Lady Emine

Erdogan, Turkish Defence Minister Hulusi Akar and several other top officials during a tour of the city, which suffered severe damage in the conflict that claimed over 6,000 lives.

Turkish companies are expected to play a major role in post-war reconstruction efforts.

Shusha, sometimes referred to as the "pearl" of Nagorno-Karabakh, has strategic military value as it is located on high ground above Nagorno-Karabakh's capital Stepanakert and the road linking the disputed territory with Armenia.

Following the Shusha visit, Erdogan, who met Biden on the sidelines of a Brussels Nato summit on June 14, was set to deliver a speech to the Azerbaijani parliament and attend the Euro 2020 football match at the Baku Olympic Stadium between Turkey and Wales. The alliance between Azerbaijan and Turkey is so close that the match has been described as a "Turkey home game". AFP reported that during the Shusha visit, Erdogan pledged that Turkey would support Azerbaijan if it was attacked.

Erdogan loyalist newspaper *Daily Sabah* on June 15 reported that Erdogan and Aliyev signed a memorandum of alliance

"to carry relations further in several fields" during the historic Shusha visit.

At a joint press conference, Aliyev reportedly said that the memorandum included political and commercial issues while "our cooperation in the defence industry as well as mutual military aid are especially underlined in this document".

It was also reported that Erdogan for his part said that "Karabakh has returned to its owners", while once again congratulating Azerbaijan on its victory in the war. ●



President-elect Ebrahim Raisi.

## No sign election of Raisi as Iran's president will derail efforts to restore nuclear deal

bne IntelliNews

As millions of politically moderate Iranians on June 19 came to terms with how a “sham election” has made religious hardliner Ebrahim Raisi president-elect, attention turned to whether the regime will continue with the willingness shown by incumbent moderate President Hassan Rouhani to formulate an agreement with the US to revive the 2015 nuclear deal.

The gloom that has descended on Iranians who in vain cried foul when a vetting body removed prominent moderates from the June 18 poll – thereby paving the way for an easy Raisi victory and creating an Iran in which all the main centres of power are now under the control of the hardliners – may be broken to a certain extent if, post-election, Supreme Leader Ali Khamenei permits the government to come to an arrangement with the US to relaunch the nuclear deal, otherwise known as the JCPOA. And the omens don't look too bad.

Iran's conservatives clearly didn't want to give the reformists a boost by allowing the ongoing Vienna talks to restore the JCPOA to successfully conclude before the

“Iran's conservatives clearly didn't want to give the reformists a boost by allowing the ongoing Vienna talks to restore the JCPOA to successfully conclude before the Election”

election, but now that Raisi has delivered the presidency, the talks may soon pick up pace. Iranian officials insisted throughout the election campaign that despite the conservatives' deep suspicions of the West – reinforced in May 2018 when then US president Donald Trump unilaterally pulled the US out of the multilateral JCPOA – there was an internal consensus subscribed to by both the moderates and the hardliners that a restoration of the nuclear deal is desirable.

### Shot in the arm

In return for restoring compliance with the JCPOA, Iran will have to return to comprehensive and verifiable inspections of its nuclear development programme designed to enable a UN watchdog to ensure that its work remains entirely civilian in nature, but the prize would be a lifting of heavy US sanctions, including on oil exports, that would give Iran a big economic shot in the arm. And Raisi, who will be inaugurated in 45 days, badly needs a win with the millions of disillusioned Iranians who stayed away from the polling stations to the point that turnout on election day fell to an all-time low. The record low was given by officials as 48.8% (compared to the 73% turnout at the last presidential election in 2017), though there were immediately speculative debates on social media that the percentage of those who voted must have been lower given anecdotal evidence of empty polling stations.

Iran's foreign minister, Mohammad Javad Zarif, has, meanwhile, been suggesting in recent days that the JCPOA could be salvaged even before the end of Rouhani's administration.

“Negotiations on the JCPOA are under way [in Vienna]. There is a good chance that an agreement will be made before the

end of our administration. We will leave office in mid-August and I think that it is highly likely that we will be able to reach an agreement long before this date,” Zarif said in an interview on the sidelines of the Antalya Diplomacy Forum in Turkey on June 19, Iran's Fars News Agency reported.

### Black turban

Sixty-year-old Raisi, who wears a black turban identifying him in Shia tradition as a descendant of the Prophet

Muhammad and who was 19 years-old at the time of the 1979 Islamic Revolution that brought down the Last Shah, said in a victory statement that he will form a “hard-working, anti-corruption and revolutionary” cabinet. He added that he would be president for all those who voted for him, for those who didn’t and for those who didn’t vote at all.

Preliminary results showed Raisi secured 17.8m votes. The conservative Mohsen Rezaei attracted 3.3m votes and the former head of the central bank and little-known moderate Abdolnaser Hemmati 2.4m. Raisi drew 15.8m votes when he lost to a Rouhani landslide in 2017.

Asked about the disqualifications of candidates, Zarif said: “Many of us were surprised and disappointed but at the end of the day Ebrahim Raisi is the president of all Iranians.”

#### “Closes the door”

Speaking to CNN on the eve of the election, Sanam Vakil, deputy director at the Middle East programme at the London thinktank Chatham House, said: “Western policy makers have long hoped and tried to nurture the reform or transformation of the Islamic Republic hoping that, through elections, moderation or reform would come from within. This election... and the selection of Ebrahim Raisi really closes the door on any hope of reform and that’s going to be a real challenge for the international community and for the Biden administration.

“Iran’s population is young and their hopes for the future are being dashed without economic opportunity so it is going to fall to the Raisi government to try and forge a new path and try and rebuild some bonds with the people. It is unclear to me how that is necessarily going to happen because a lot of his policies remain rather vague and undefined and, of course, the political system has become significantly more repressive, and relying on coercive power to maintain authority is always dangerous.” ●

## Khamenei given Iran made coronavirus vaccine shot

### bne IntelliNews

Iranian Supreme Leader Ayatollah Ali Khamenei on June 25 received his first dose of a COVID-19 vaccine made in Iran, state TV reported.

TV footage showed Khamenei, 82, receiving the COVIran Barekat vaccine, developed by a state-affiliated company and sanctioned for public use in June.

With an efficacy of around 80%, COV-Iran Barekat has a greater efficacy than China’s Sinopharm vaccine, a senior member of Iran’s National Task Force for Fighting COVID-19, Minou Mohraz, was cited as saying by Fars News Agency on June 16.

Iran, with a population of 83mn, has officially recorded 83,588 deaths from coronavirus. Neighbouring Turkey, with the same population, has officially registered 49,417 deaths related to the virus. Serious concerns about the reliability of the coronavirus data produced by the health ministries of both countries have been raised by both in-country and external experts but the criticism of Turkey’s statistical releases has been louder and more sustained. Notably, even though Turkey has a much lower death rate, its number of officially logged coronavirus cases stands at 5.39mn, compared to Iran’s 3.15mn. The Middle East country with the third worst coronavirus outbreak is Iraq with an official 1.32mn cases. The Iraqi population numbers 39mn.

Iran is attempting to accelerate its coronavirus vaccination programme. Tehran has several times complained that US sanctions, which Washington says are not meant to hamper humanitarian deliveries to the Islamic Republic, are in fact slowing the sourcing and delivery of vaccines.

In January, Khamenei banned health officials from importing vaccines made in the US and UK, claiming they were unreliable and might be used to spread coronavirus infections to other nations.

Iran is also using Russia’s Sputnik V vaccine in its inoculation drive. It is being made locally. A vaccine jointly produced by Iran and Cuba also looks set to come into the picture.

Iran launched human trials of COVIran in December. Other home-made vaccines are in the pipeline. Iran is also participating in the COVAX scheme, run by the GAVI vaccine alliance and the World Health Organization (WHO). Its objective is to secure fair access to vaccines for poorer countries.





The Navoi Mining Company is one of the biggest gold and uranium mines in the world and is slated along with other valuable companies to be sold to investors.

## More speed, less haste – finding the right balance in preparation for Uzbekistan’s SOE privatisation

Fiezullah Saidov director of Uzbekistan Equities in Tashkent

In May 2021, Uzbekistan's State Asset Management Agency (UzSAMA) and the World Bank arranged a high-level international forum held in the Hyatt Regency Tashkent to lay out the roadmap for Uzbekistan’s privatisation of some of its most valuable companies.

The quality of the audience was a sign of the government’s commitment to making privatisation a success. Amongst the attendees from the Uzbek government were: Jamshid Kuchkarov, Deputy Prime Minister and Minister of Economy and Poverty Reduction; Timur Ishmetov, the Minister of Finance; Omonulla Nasretdinhojaev, first Deputy Minister of Finance; Adham Ikramov, the chairman of the Chamber of Commerce and Industry, and the chairman of UzSAMA, Akmalhon Ortikov.

High-level international participants were also well represented, including the World Bank’s Central Asian vice-president Anna Bjerde, the EBRD’s managing director for Central Asia Zsuzhanna Hargitai, and Sir Suma Chakrabarti, ex-chairman of EBRD who is now working as an advisor to

the President of the Republic of Uzbekistan on Economic Development, among many others.

The keynote speaker of the event was HE Deputy Prime Minister Jamshid Kuchkarov, who set the tone to the forum by declaring the goal of the government in the mid-term: the government wants to increase GDP per capita from the current \$1,700 to \$2,500 in 2025 and \$4,200 in 2030 and this would require GDP growth of 6 to 7% per annum.

As *bne IntelliNews* reported in the feature “The Growers,” in 2020 Uzbekistan was one of a handful of countries in the world not to go into recession despite the coronavirus (COVID-19) pandemic, due to economic reforms that were launched prior to the pandemic and timely funding from international financial institutions (IFIs) to soften the economic blow of the pandemic.

The government sees the path to achieving this growth by attracting more private funding to the economy; hence the government needs to sell assets. To obtain better prices for the



assets, they would like to transform the largest state-owned enterprises (SOEs) in the country and improve their efficiency.

This work has been spearheaded by the Ministry of Finance jointly with UzSAMA and this forum was more of a status check on the progress of this work.

The event was co-arranged with the World Bank to show the commitment of the IFI community's active involvement in the process and their support of the Uzbek government campaign.

The IMF Head of Mission pointed out that Uzbekistan is running a current account deficit and it is currently being financed from international borrowings, and these should be replaced or complimented by equity investments. In the case of Uzbekistan, where most important sectors are state-dominated, transformation of SOEs and privatisation of these assets seem to be the most natural next steps to alleviate the debt burden.

But despite the upbeat talks and serious attitude of the delegates, the proof of the pudding will be in the eating. The Big Four consultants and investment banks, such as Rothschild's, which is particularly active, are already deeply involved in the transformation, valuation and in sell side advisory roles.

Minister of Finance Ishmetov during his speech noted that one large bank will be sold by the end of this year, the regional flagship Coca Cola bottler based in Tashkent is in the process of a sale and Navoi Mining (one of the largest gold and uranium producers in the world, bringing in 30% of the budget of Uzbekistan) is undergoing corporate governance actions and transformation as well.

Ishmetov pointed out that the government was a bit hesitant after deciding to bring in independent directors to fully state-owned banks, but now they see the positive results and are considering appointing another 100 senior managers to state-owned companies. The plan is to sell some 550 state-owned companies by the end of this year and several auctions for large real estate assets have already started.

Ortikov, the chairman of UzSAMA, showed a list of top 10 most profitable companies and bottom 10 largest loss-making companies in the country. The solution to the issue seems to be further reforms of the sectors, attracting the private sector as better managers of these assets and increasing profitability, at the same time dealing with social issues related to large layoffs.

The issue of transparency and public accountability came up during the event several times, raised by both by Uzbek government and the international community participants. UzSAMA is committed to transparency with the open declaration of potential buyers and their history, and where the privatisation proceeds will go to. The IFIs involved in the process, working with the Uzbek Government and UzSAMA, should help to address these issues.

Another key issue raised during the forum was underdeveloped legislation. The privatisation law was adopted in 1991, and this year the government is working on new law that should be adopted by the end of the year.

The question of fair valuation was also raised, where the local valuation standard tends to value assets higher than the market value. The government has already nixed a mandatory requirement of adopting the local valuation as the auction

“The biggest challenge facing the Uzbek government is going fast to maintain the momentum of the reforms to show successful privatisations are possible, and taking enough time to prepare the privatisations properly”

minimum starting bid to throw the process open to greater competition. But that means local standards will have to be brought up to international levels and it will take time.

Overall, the event was phenomenally successful due to the large attendance and very senior government officials present from the beginning till the end of the event. That allowed them to listen to all sides of the issue. This was a good case of a dialogue and co-operation with the international community.

The biggest challenge facing the Uzbek government seems to be to maintain the balance between going fast to maintain the momentum of the reforms to show successful privatisations are possible, and taking enough time to prepare the privatisations properly.

To take a concrete example, the privatisation of a chemical company is difficult until natural gas prices, distribution network regulation and electricity market de-regulation have all taken place.

The question of if the government go fast and perhaps sell at a lower price to leave the transformation to the strategic investor that acquires the asset or take all the measures (legislative, transformation, corporate governance, transparent reporting) first in order to command a higher asking price remains open.

As the event showed, the IFIs are on board with the government to help find the right balance to this tricky question. ●

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ECFR:

## Biden meets Putin: America, Russia, and the return of diplomacy

Kadri Liik an ECFR Senior Policy Fellow

**J**oe Biden is the fifth American president to hold a bilateral summit with Vladimir Putin. But he is likely the first post-cold war US president to have a realistic understanding of what Russia is and what it wants – and what the United States can or cannot do about it, or with it. This is evident from the way he has positioned himself on Russia since elected – signalling to Moscow that he fundamentally disagrees on many issues but still sees a need to talk and work with it on other issues where necessary.

And this positioning culminated in what can only be called a good summit.

What made this so was less the concrete deliverables, but the basis from which they arose: the participants holding clear perceptions of themselves, of each other, and of the state of the world; a proper assessment of the leverage they may or not may have; and a correct understanding of the things they can change and those they cannot. Encounters that are based on an adequate comprehension of oneself and others are always ultimately healthy and good, even if they are hard to have or produce little in terms of immediate results.

But on this occasion the results were above expectations, even if those expectations were modest. The US and Russia agreed to start talks on strategic stability – which is good news for everyone, after the devastation that the Trump administration wreaked on international arms control agreements. The two sides also agreed to start talks on cyber-security, potentially extending arms control into the realm of cyber, which would be a historic first. Still, the most important outcome might yet be that they found the start of a *modus vivendi* for managing their mutual relationship. The US-Russia relationship in the years to come is bound to be replete with disagreements and divergences. They will doubtless find themselves at loggerheads on various issues rather than engaged in partnership. But Geneva may have laid the foundation for managing that relationship in ways that are shorn of excessive expectations and ambitions, but hopefully also of paranoia and misreadings.

### Hopes and fears

Many in the West may have wanted more from the summit – for Biden to confront Putin and make him change his



The Geneva summit recalled the power of old-fashioned diplomacy and working patiently at difficult problems.

behaviour in Ukraine, Belarus and towards Alexey Navalny. Such wishes are noble but unrealistic – and such an approach would likely have been counter-productive.

Biden has become president at a time when the world order is in flux and doubts are mounting over the future extent of US power. This means that Russia no longer feels the need to fit into the US-led world as it did for much of the past 30 years. The sort of leverage that former presidents could always draw on is now gone.

Maybe paradoxically, the relative decline of US power has not caused Russia to relax. On the contrary, lately it has viewed the US with increased paranoia and defiance. Moscow does not believe in an imminent renaissance of Western power. But it has spent the months since November suspecting that the West – reunited under Biden – might use its disagreements with Moscow to try to imitate such a renaissance; that by teaming up against Russia it will seek to create an illusion of its former hegemony, and thus to compensate for, and obscure, its actual lack of hegemony.

These concerns have been magnified by Moscow's acute awareness that the Kremlin's domestic political legitimacy is waning, which fuels fears that the West will exploit that weakness and try to return to the relationship model of a bygone era: lecturing Russia about democracy and trying to expand the reach of Western institutions.

Such a combination of vulnerability, fear and defiance is what lies behind many recent actions by Moscow – from its treatment of Navalny, whom Moscow now erroneously seems to view as a political agent of the West, to military escalation on the border with Ukraine – where Moscow, again erroneously, seems to have worried that Kyiv, emboldened by the US and Europe, might walk away from the Minsk agreements or even draw inspiration from Azerbaijan's military success in Nagorno-Karabakh and try to retake Donbas by force.

### Diplomacy returns?

Such pre-emptive defence is likely to remain Moscow's *modus operandi* for the coming years. This is a dangerous fact: if incidents continue to pile up the way they did this past spring,

and if one another's intentions are not well understood, then defence can easily become offence; clashes can occur with no one having intended them.

The best remedy, and the best way to handle the situation and Russia's nervousness, is some good old-fashioned diplomacy.

Importantly, diplomacy here does not mean that the conflicts inherent within the Russia-West relationship can somehow be resolved by means of a diplomatic breakthrough; they cannot, at least not right now. Moscow's domestic vulnerability will last until the Kremlin has managed to renew its political system by arranging a transfer of power from Putin (or, failing that, until the system has been replaced with something new). Moscow's attitude towards the West will become more amenable once the West shows that it has managed to adapt and stay a force to be reckoned with in a world where its relative size and weight are not what they used to be.

The way to get there is for the West to do its homework and manage its global relationships, rather than confronting Russia head on. Disagreements about Europe's eastern neighbourhood will be resolved when Russia understands that what it desires from, say, Ukraine is not possible in principle – and that this is because Ukrainians do not want what Russia wants, not because the evil West is controlling them.

But meanwhile, the relationship is best attended to through diplomatic means. Unlike modern diplomacy, which relies ever more on personal contacts among leaders, photo-ops and sloganeering on Twitter, the art of diplomacy is quieter and more serious. It focuses on reading the calculus of the other side and devising multi-step strategies of one's own, on signalling and reading the other side's signals in turn; on communicating one's red lines and understanding those of the other side, on giving reassurances when needed, or showing doubt about one's own intentions when the occasion calls for it – and, on some happy occasion, concluding agreements or charting common ways forward.

### Why less is more

When it comes to pressure on Moscow, less might be more. These days, Russian politics resembles a knot that tightens when pulled but loosens with a lighter touch. Excessive pressure about its domestic arrangements will only cause Moscow to crack down even harder; excessive pressure about its neighbourhood will push the Kremlin to cling on even harder. A more relaxed approach, though, may help things change. It will not make Russia more democratic at home, or more like-minded in international affairs – that is not what one should expect. But it will allow space for domestic discussions in Russia about the necessity and nature of domestic transformation, and the means and ends in its relations with neighbours. Both of these processes have in fact already been under way already for a while. But the Russia-West relationship has the potential either to catalyse further debate – or to lock it into suspended animation.

In these circumstances, it would be unwise of Biden to enter into a frontal confrontation with Russia. Such a move would be a misallocation of political capital and diplomatic energy, leading him to focus on things where little can be achieved by force but where more can be sought through the gift of time and space – and all at a time when the rising global challenger is China, and the real vulnerabilities that need to be addressed are domestic.

Biden seems to understand this. This, in turn, has already been noticed in Moscow. It was evident from the morning-after commentaries in Russia that Biden's reputation there went up overnight – and not because he 'confronted' Putin or was 'tough' on Russia, but because he showed that he chooses his fights wisely and keeps a sober mind as well as honesty while conducting them.

"Biden showed himself in a new quality," read one article. "Yes, he is old, and might have health issues ... But as a politician, he held on to his principles, approach and to what is called integrity. ... In general, we should not underestimate him." This was said not in the context of Biden being an adversary – though there was an element of this too – but more in the sense of Biden being a statesman with both ethics and professionalism. Given how cynical the Russians' view of politics, politicians, their motives and the West has become, given how rarely they endow anyone with true respect, such honest appreciation is quite something. And this is no bad thing – for Biden, the US or the US-Russia relationship.

### Full circle

In a way, Russia and the US have now gone full circle. From the rivalry between the US and the Soviet Union during Brezhnev, the relationship moved to hopes of co-operation during Gorbachev; hopes of democratisation – of Russia and globally – during Yeltsin; hopes of shared interests during early Putin, Medvedev, Bush and Obama; chaos and paranoia during Trump; and with re-acknowledged antagonism comes Biden.

The realities today are in some ways reminiscent of the 1970s. Again, we have a Russia that is domestically weak but defiant in its international relations; again, we have a US that is not the sort of hegemonic power it once was; and again, the two sides disagree but are unable to change each other. This means the relationship cannot be improved by through big-bang successes, but needs patient management. The time has come for low expectations and slow diplomacy. Dramatic breakthroughs and tales of the power of personal chemistry can put on the shelf for the time being, along with name-calling on Twitter and bold but empty moralising.

This outcome might seem bleak, if compared to hopes one may have had. But it is decent enough if compared to the alternatives that would be realistically available. ●

*This article first appeared on the European Council on Foreign Relations website. ECFR does not take collective positions. ECFR publications only represent the views of its individual authors. Kadri Liik is an ECFR Senior Policy Fellow. Follow her @ KadriLiik on Twitter.*

STOLYPIN:

## The challenges of targeting Minsk and doing more harm than good

Mark Galeotti

**W**ill the West end up saving Alexander Lukashenko by its eagerness to target Vladimir Putin? Will it force a Belarus-Russian Anschluss that no one – not Europe, not Moscow, not Minsk – really wants? The crisis over Belarus following the Ryanair incident highlights the dilemmas of modern policy-making, and the sometimes confused motivations in play.

### Putindunnit

Unsurprisingly, from the first many have sought to roll Lukashenko's latest outrage into the wider Russia crisis. Yale historian Timothy Snyder flatly asserted on Twitter that "Belarus would not have hijacked an EU plane without Russian approval" and so sanctions for the act should hit Russia (although he walked that back in a subsequent blog post, adding an all-important caveat that "Perhaps Russian authorities had prior knowledge that the hijacking would take place"). However, by then the hare was running.

There were the initial claims that the men who disembarked in Minsk alongside Roman Protasevich were Russians, so clearly this was at least an operation jointly run by the Belarusian KGB and their Russian FSB counterparts. Except that it turned out they were Belarusians (and one Greek, who had been heading to Minsk anyway). Then there was the claim that the KGB had no track record of running such operations without the Russians holding their hands; they have actually been aggressively tracking, spying on and harassing opposition figures in the West on their own account for over a decade.

The fact that Russian and Belarusian air defence is integrated meant that Lukashenko could not have ordered a MiG-29 fighter into the skies to escort the plane to Minsk without Moscow's approval. Except that this 'integration' doesn't actually deprive the Belarusian commander-in-chief of his command – at most it means Moscow would have known when it happened.

Above all, though, there was the underlying contention, foreshadowed by Snyder, that Lukashenko is just a Russian puppet who, in the words of Republican Senator – and



member of the Select Committee on Intelligence – Ben Sasse, "doesn't use the bathroom without asking for Moscow's permission."

Of course, this is wildly inaccurate, mischaracterising the relationship between two men who – for all the awkward congeniality on display at their recent meeting in Sochi – dislike and mistrust each other, but find themselves in a mutually inconvenient co-dependency.

As Franak Viacorka, one of opposition leader Svetlana Tikhonovskaya's advisers, more accurately put it: "Lukashenko doesn't listen to anyone... He's an absolutely unpredictable, rather impulsive person." He is also jealous of his autonomy. Until recently he had ensured that by playing Putin off against the West, but he now finds himself with no ally but Russia in light of his virtual declaration of war against his own people. Putin, unwilling to go down in history as the 'tsar responsible for the 'Ungathering of the Russian Lands,' cannot afford to see Belarus follow Ukraine as a popular rising replaces a Moscow-leaning regime and instead moves their country towards Europe.

### Putinfuriated

Of course, so long as Moscow supports the Lukashenko regime, it shares some of the moral culpability for Lukashenko's erratic and brutal measures. (Though at the risk of "whataboutism," we have to remember the degree to which the West often supports unpleasant authoritarians, believing them to be the least-worst or geopolitically necessary option.) However, contrary to the notion that Russia is backing Lukashenko to the hilt, it has actually done the least it can.

Blocking a few flights to Moscow which had planned to avoid Belarusian airspace "for technical reasons" – while letting others in – is at best a cosmetic and likely temporary gesture of solidarity in response to Europe's blanket ban. Likewise, the \$500mn loan announced at the Sochi summit is simply the next tranche of a \$1.5bn agreed last year rather than any new money.

More broadly, Lukashenko is trying to spin his brutal thuggery at home as a first line of defence for Moscow, claiming that the West is developing its techniques for “hybrid war” in Belarus before unleashing them on Russia. Although this undoubtedly fits the paranoid current mood in the Kremlin, it seems to have done little to endear him to Putin, who pointedly refrained from joining in with Lukashenko’s histrionics.

After all, Putin has good reasons to be furious. Russian support – financial, political, intelligence – is helping keep Lukashenko’s beleaguered regime alive, yet he continues not only to assert his independence, but also renege or backpedal on existing deals. A new constitution, which Moscow would like to see dilute the president’s powers, seems to be receding over the horizon, with Lukashenko now promising a draft ready for the end of 2021, but with little credibility or conviction. Belarus has not even recognised Russia’s annexation of Crimea, something Moscow might have hoped a billion dollars of credit might buy.

Meanwhile, a brazen gambit intended presumably not simply to arrest one admittedly significant figure within the opposition media but intimidate the rest of émigré political movement, has bounced Putin into supporting Lukashenko right before his summit with US President Joe Biden. At the very least, this becomes a distraction; at worst, it will overshadow what was meant to be a demonstration that Russia is a great power whose president is the equal of America’s.

#### **Putinthemiddle**

It also, of course, raises questions as to how Minsk can be punished most effectively in the modern, politically and economically interconnected world.

First of all, the habitual use of sectorial economic sanctions always risk unintended consequences. Indeed, the irony is that some would directly benefit Russia. Moves to block exports of Belarusian potash, for example, would open up new market opportunities for Russia’s industry (and potentially drive up

“The tragic irony would be if moves meant to punish Minsk actually forced Putin’s hand”

prices for European clients). In any case, the evidence that this would bring about positive change – and at less than glacial speed, at that – is distinctly unclear. Potash, for example, accounts for a substantial 20% of Belarus’s budget revenues, but at least part of the shortfall could be met by pivoting to other markets in Asia and Latin America. Nonetheless, this is the kind of measure that will undoubtedly affect ordinary Belarusians, which might make them more inclined to protest,

but will not have a quick or devastating impact on the security apparatus on which Lukashenko’s power now rests.

Secondly, there is the continuing disagreement about the fundamental intent. There are those who see Putin as the only source of meaningful pressure on Lukashenko, and who therefore argue that Russia needs to be sanctioned precisely to force the Kremlin to bring that pressure to bear. Then there are others who, to be blunt, simply see this as one engagement in a wider war with Russia. While they affect the same rhetoric as the former group, they are happy simply to use Minsk’s adventurism and brutality as an excuse to call for the usual measures against Russia – cancelling Nord Stream 2, suspending it from the SWIFT system and so on – not because they really think this will hit Minsk, but because they want to undermine the Kremlin.

The tragic irony would be if moves meant to punish Minsk actually forced Putin’s hand. For all Belarus and Russia have been in a ‘Union State’ since 1999, this does not really mean a merger. Putin’s goal, it appears, is to institutionalise Belarus’s status as a part of Russia’s sphere of influence through all the integration that suits the metropolis, from defence to the economy, but no more. Empires are expensive things, after all, and Moscow is already paying to greater or lesser extents for Chechnya, Crimea, South Ossetia, Abkhazia and the Donbas (and continuing troop deployments to Tajikistan, Transnistria, Nagorno-Karabakh, Syria and Libya). There is little if any appetite for actually taking on the full burden of a country with a GDP per capita less than two-thirds of Russia’s.

This is why Putin’s game plan appears to be to engineer, as soon as he can, a transfer of power, to try to maintain the regime but with a less toxic figure at its helm. Already potential replacements are apparently being auditioned. Lukashenko, as wilful as he is wily, is obviously going to do all he can to avert this. Indeed, part of his calculations when he ordered that Ryanair flight brought down – and there is also no evidence to suggest he was not behind, or at least wholly supportive of this move – may have been precisely to engineer a situation in which Putin, who never wants to look as if he can be influenced by Western rhetoric or pressure, feels he has to give Lukashenko his personal backing.

However, if Belarus is hit by wider economic sanctions and if it genuinely looks as if Russia will have to choose between letting the regime fall to the street, or accepting the costs of bankrolling it, then there may be those in Moscow who question the wisdom of open-ended sanctions but limited control. To be blunt, at what point would Putin feel that he owned what he was paying for? Thus, clumsy policies could actually force a reluctant merger or full Russian intervention. Those who suggest that Putin has gained from this crisis as it burns Belarus’s bridges with the West forget that not only were those bridges already well and truly destroyed by months of brutal repression, but that Russia actually

benefited from using it as a turntable, whether to sell 'laundered' coal from the Donbas pseudo-states to Ukraine and the West or allowing the elite to smuggle in their sanctioned luxury goods.

**Putinthebootin**

Does this mean doing nothing, though? Not at all. Rather, that any measures need to be smart, carefully targeted and above all imaginative. The evidence suggests that the old toolbox simply is not up to the job – claims that, for example, Western threats of sanctions forced Russia to abandon planned military intervention in Ukraine in March are based wholly on assumptions and wishful thinking. Instead, authoritarian regimes such as Lukashenko's and Putin's (and many more) have demonstrated depressingly strong capacities to resist sanctions that thus become, more than anything else, a way of comforting the West that it is good – rather than actually doing any good.

First of all, the Belarusian regime's capacity to oppress its enemies ought to be targeted. Not least, this should mean expelling known and suspected KGB officers in embassies across Europe, a co-ordinated cleaning of the stables that would not only be a powerful symbol of unity and will but also seriously degrade Minsk's capability to continue to hound the opposition. Given that, for example, former minister turned opposition figure Pavel Latushko was recently warned by a loyalist parliamentarian that he could be returned to Belarus "in the boot of a car", such moves matter.

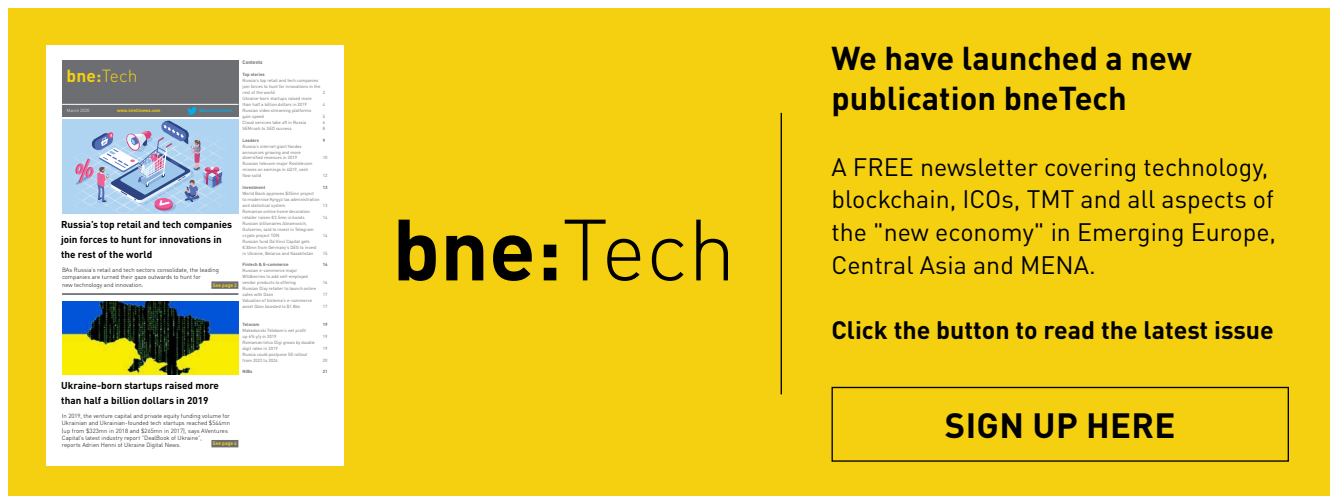
Secondly, given that the leadership of the opposition and the free media which undermines Lukashenko's propaganda is now based abroad, direct assistance to them would be a suitably asymmetric response. This may sound like it is playing into his claims that the protesters are dupes of the West, but so be it. Too much Western "support" is essentially rhetorical and for show – yet another photo op

with Tikhanovskaya – such that it is time to back that with money and genuine authority. Just to pluck a number from the air, €50mn is small change compared with the likely costs to Europe from any economic sanctions, but would have a transformative impact on the capacity of the opposition to spread their message, support the dependents of those in prison and otherwise act on the ground. Visas for those fleeing persecution, stepped-up efforts to monitor and record abuses and the identities of those involved, all these measures can help by supporting Belarusians themselves in their struggle against repression.

Finally, the right political signalling is crucial. It is probably too late to hope that Putin could be encouraged to do anything positive – but it is still worth trying to avoid pushing him into anything negative. Sanctioning Moscow directly or indirectly for its ties to Belarus will only make it more determined to resist what it will regard as gibridnaya voyna, the West's hybrid warfare aimed at marginalising and "house training" Russia. There is a wider crisis in Russo-Western relations, to be sure, but viewing this latest incident in that context betrays and belittles the Belarusians' own struggle with Lukashenko and will just exacerbate the situation.

In a perverse way, Lukashenko is right that today's Belarus is a proving ground for Western policy. Not as he means it, of course, but that it provides an opportunity not only to see if the EU can rise to the challenge – this is, after all, first and foremost a European issue – but also whether the West generally can demonstrate the finesse, imagination and nuance to be able to find ways of influencing this situation for the better, rather than relying on a discredited and indiscriminating old set of responses. ●

*Mark Galeotti is director of the consultancy Mayak Intelligence and also an honorary professor at UCL School of Slavonic & East European Studies.*



The image shows a promotional banner for the bne:Tech newsletter. On the left is a thumbnail of the newsletter cover, which features a blue and white color scheme with icons representing technology and data. The cover includes headlines such as "Russia's top retail and tech companies join forces to hunt for innovations in the rest of the world" and "Ukraine-born startups raised more than half a billion dollars in 2019". In the center, the text "bne:Tech" is displayed in a large, bold, black font. To the right, there is a yellow box with the text "We have launched a new publication bneTech" in bold black font. Below this, it says "A FREE newsletter covering technology, blockchain, ICOs, TMT and all aspects of the 'new economy' in Emerging Europe, Central Asia and MENA." At the bottom right, there is a yellow button with the text "SIGN UP HERE" in bold black font.

COMMENT:

## Russia hits herd hostility to vaccines as COVID rages

Jason Corcoran in Moscow

**R**ussia has hit herd hostility to vaccination against coronavirus (COVID-19), with a majority of people dead set against taking any of its available jabs – even as the country grapples with a third wave of the pandemic.

After arriving back in Moscow last month from an enforced one-year exile in Ireland, I assumed most of my friends, relatives and contacts would already have been vaccinated. After all, Russia has endured almost 18 months of the coronavirus with nearly 5.1mn officially confirmed cases and more than 120,000 deaths. The country's total excess fatality count, regarded as a much more reliable indicator of the human cost, stands at a staggering total of 460,000 deaths.

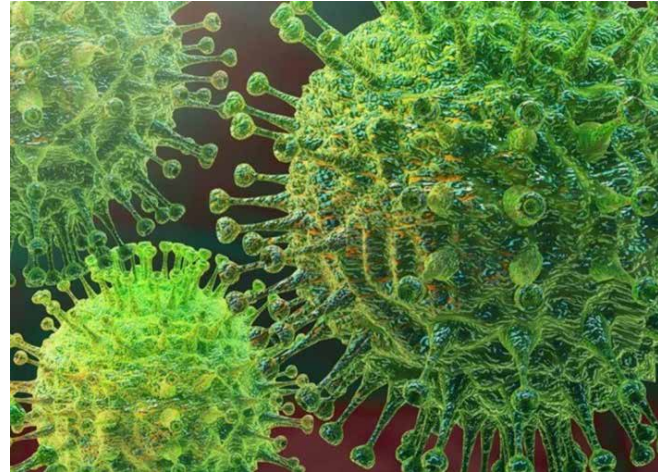
However, distrust of Russia's vaccines has mutated wildly in the zeitgeist by people regurgitating half-baked conspiracy theories. A survey by independent pollsters the Levada Centre in May indicated 62% of Russians are unwilling to get vaccinated, while 55% are not afraid of contracting the virus.

Vaccination in Moscow has now come to a near standstill, slowing to 2,500-3,500 a day against 10,000 previously, according to data compiled by the Russian-language news site Meduza.

The city is now back on lockdown and dedicated coronavirus hospitals have reopened as the number of daily cases rose to 13,510 on June 11, up from a recent low of 8,000. Half of those cases are in Moscow alone (6,701) – the highest daily number since January.

Given the spike in infection rates, Moscow Mayor Sergey Sobyenin ordered a curfew for bars and restaurants from 11pm, closed playgrounds and parks and ordered stricter compliance with mask and glove rules. He has also imposed a week of paid non-work starting on June 12 to try to reverse the climb of the infection rates.

To reach 60% of the population by September, it needs to be closer to 50,000. Overall, 12% of the country has now received



Russia produced the first vaccine and started the mass immunisation programme well ahead of any other country, yet Moscow has the lowest levels of vaccinations of any major European capital. The Russians don't want Sputnik V.

at least one shot and, at that rate, Russia won't hit herd immunity until the end of 2022.

Back home in Dublin, people have been falling over themselves to take any injection. Ireland this week finally emerged from Europe's longest and harshest lockdown with pubs, restaurants and hotels finally re-opening after a six-month hiatus. With 53% of the country having received at least one shot, the hospitals have emptied, and the death rate has almost disappeared.

"Vaccination in Moscow has now come to a near standstill, slowing to 2,500-3,500 a day against 10,000 previously"

The influential British medical journal The Lancet confirmed the Russian drug was safe and had an efficacy rate of over 91% in February but that didn't move the dial at home in Russia. Elsewhere, it triggered a global clamour for the Russian vaccine. Leo Varadkar, Ireland's Deputy Prime Minister and a former doctor, said in February he was in favour of adding Sputnik V to the nation's jabs programme, joining a chorus of other European leaders seeking to acquire the vaccine.

After arriving back in Russia in early May, my family and I were anxious to get the Russian vaccine in to resume a normal life. In Ireland, we had endured a strict lockdown and were amazed by the almost bacchanalian openness of Moscow society and the disregard for social distancing, mask wearing – as well as the low take-up of vaccines.

Vaccine phobia is rife in Russia across age and socio-economic groups and the authorities only have themselves to blame.

Bankers, barbers, physicists, taxi drivers, students and pensioners have told me they are all steadfastly refusing to take a COVID-19 vaccine. Even many of my friends in Moscow and my wife's parents, who suffered with the virus, refuse to take Sputnik V or any of the other Russian vaccines.

Eyebrows were raised by a headline in the *Irish Independent* on May 24 that one in ten people aged 25-34 years old are going to refuse the vaccine. Meanwhile in Russia, a Levada poll two weeks prior indicated that just 12% of Russians aged 18-24 years of age were ready to be vaccinated.

“Some friends assume they have contracted coronavirus and have antibodies – even though they have never been tested for either”

Some friends assume they have contracted coronavirus and have antibodies – even though they have never been tested for either. Others claim Sputnik V isn't safe and they want to wait for Russia's Chumakov vaccine to become available or until they get their hands on Pfizer. Several acquaintances, who really should know better, cited links between 5G and the virus and a theory that the vaccine contains a microchip, which harvests biometric data.

Unlike in many other countries, conspiracy theorists are not

confined to the margins of the media. In fact, they are afforded the biggest platforms to air their dangerous nonsense.

Turn on your TV last year and you could have heard the celebrated Russian filmmaker Nikita Mikhalkov on state-controlled Russia-24 channel accusing the Microsoft founder Bill Gates of seeking to insert microchips into people under the guise of coronavirus vaccines in a bid to control humanity.

Mikhalkov told his audience that the technology for this grandiose plan is being patented under the number 666 – the number of the Antichrist. A similar conspiracy about Gates being behind the pandemic as an effort to prepare the world for mass micro-chipping, was also aired on Russia's main Perviy Kanal station on its Man and Law programme.

Social media is even worse. TV doctor Elena Malysheva has popped up on her Instagram account to advise her many followers to eat oysters to prevent coronavirus.

Malysheva, who hosts *Zdoroviye* (Health) on Perviy Kanal, also claimed in January that it was not necessary to take a vaccine if you have suffered from COVID.

President Vladimir Putin has been conspicuously absent from any publicity drive to convince the nation to get vaccinated. The Kremlin announced in March that Putin, who normally craves a good publicity shot, announced in late March that Putin had received its first dose but the circumstances and the details of which vaccine he took were shrouded in secrecy.



Moscow, Russia. Billboard: "I was vaccinated against Covid-19. I advise you too." Denis Protsenko. Chief physician of Kommunarka hospital. Photo: Shutterstock.



Apart from Moscow Mayor Sergey Sobyanin, the most visible person agitating for Russians to get injected is the famous actor Vladimir Mashkov, whose poster can be seen on bus-stops and huge billboards on highways around the city. Mashkov, who appeared in *Mission Impossible 4*: tells Muscovites: “I have taken the vaccine for coronavirus. And you?”

The Kremlin has been actively involved in disseminating conspiracy theories for years. Conspiracy theories are used to obfuscate the truth or to provide cover for the Kremlin’s actions – be it the poisoning of opposition politician Alexey Navalny, the landing of “little green men” in Crimea or the downing of the MH17 airliner over Ukraine.

But the mad-capped conspiracy theories are typically superficial excuses for dodging the injection. When you dig deeper with Russian people, it’s down to deep institutional distrust of the authorities after decades of having to consume barefaced lies and propaganda.

Ultimately, some form of compulsion is inevitable if Russia has any hope of shaking off the pandemic.

On May 26, President Vladimir Putin publicly ruled out mandatory vaccination as “impractical and impossible”, but it looks like the way is being paved for a difficult decision.

His predecessor, Dmitry Medvedev, recently expressed support for mandatory vaccines, while the far-eastern Sakha Republic in Yakutia became the first Russian region on May 25 to make vaccinations compulsory, only to reverse the order within days.

Raising Russia’s pension age was similarly a controversial issue and Putin also pledged never to do it – until he did in October 2018 as his government sought ways to relieve pressure on the federal budget.

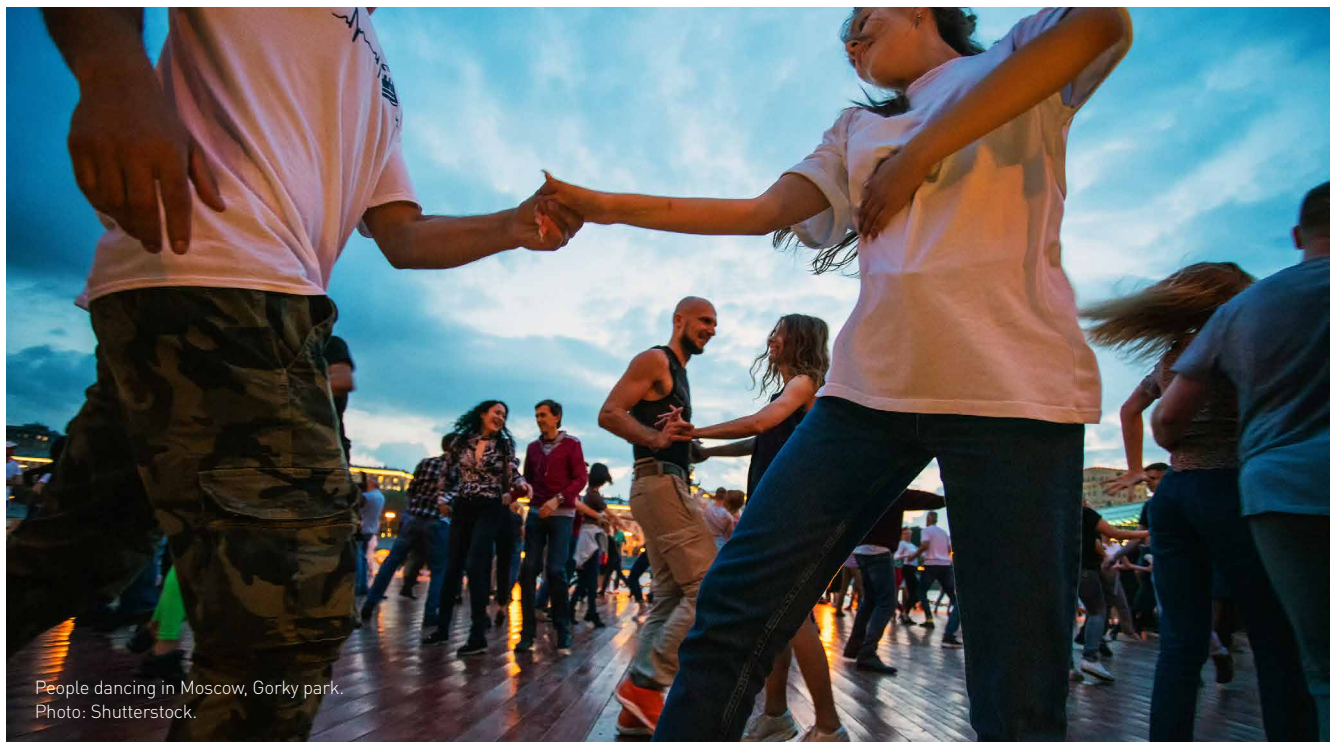
Rumours abound now among policymakers that the Duma will vote on making vaccination compulsory or by making it an obligation for domestic and international travel.

The Kremlin needs to adopt a carrot-and-stick approach. Trying to entice people to take a vaccine by offering ice cream, free circus tickets or a miserly gratuity of 1,000 rubles (\$14) hasn’t worked. The authorities may need to threaten public and private sector employees with suspension and their employers with fines for non-enforcement. Pensioners without the job can be blocked from accessing public transport – like they were during last year’s lockdown.

A recent study of 1,400 people by RANEPa suggested many Russians are indeed ready to be vaccinated if it does become a pre-requisite for travel abroad and if pressure were to be exerted by their employer.

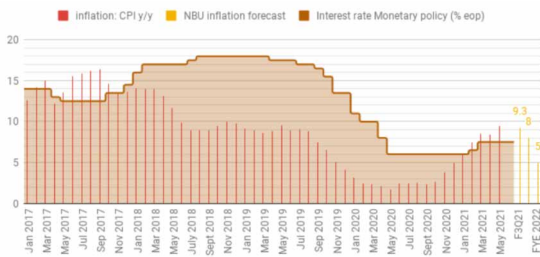
Russians will have overcome their vaccine phobia if they want to travel overseas and help the global fight to suppress the pandemic. A spoonful of sugar, as well as a forceful bedside manner, may make the medicine go down. ●

*Jason Corcoran is a journalist and Russia macroeconomics strategist who has lived and worked in Moscow for 15 years.*



People dancing in Moscow, Gorky park.  
Photo: Shutterstock.

**Ukraine inflation vs monetary policy rates %**



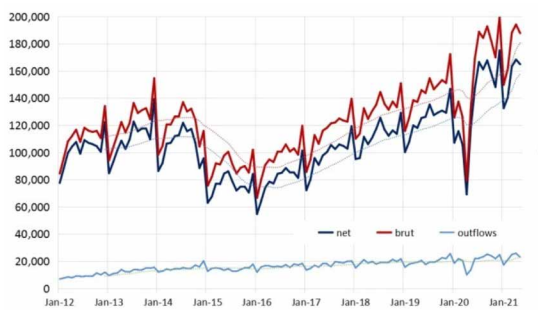
Source: NBU

**Ukraine's NBU unexpectedly keeps rates on hold, defying market expectations of a 100bp hike as inflation soars**

The National Bank of Ukraine (NBU) defied market expectations for a 100bp rate hike by keeping its prime lending rate on hold at 7.5% during its monetary policy meeting on June 17, despite inflation topping 9.5% in May.

"The Board of the National Bank of Ukraine has decided to keep its key policy rate at 7.5% per annum. At the same time, the regulator is gradually phasing out the use of its anti-crisis monetary tools, which will enhance the effect of previous key policy rate hikes and contribute to lower inflation," the bank said in a statement.

**Georgia: Net and Gross Money Transfers from abroad (USD thous)**



**Net money transfers to Georgia up 31% during crisis**

Aggregated net transfers of money to Georgia in the 12-month period ending May increased to \$1.89bn. That's 31%, or over \$450mn more, compared to the previous 12-month period.

The comparison is skewed by the lockdown period in April last year when the volume of transfers plunged amid mobility constraints. Comparing the transfers in Q1 this year with the same period a year ago avoids that issue - and the robust 33% y/y advance confirms a genuine upward trend in the volume of money transfers.

**Romania: Industrial Production Index (2015=100, y/y)**

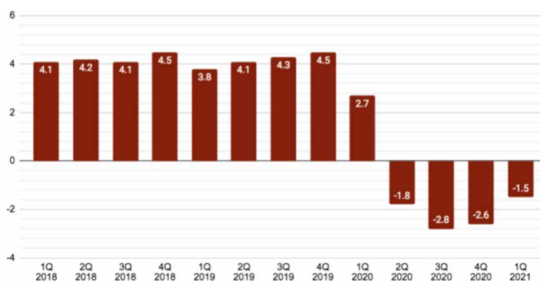


**Romania's industry returns to pre-crisis maximum, but some sectors may never recover**

Romania's industrial production index soared by 68% on an annual basis in April, an expected correction after one-third of the industrial sector stopped operating in April 2020 during the initial lockdown.

The correction brought the overall industrial output this April 3.1% above that of April 2019, the equivalent of a tiny 1.5% annual advance. But Romania's industry entered the coronavirus crisis in decreasing mode: the sector shrank by 4.4% y/y in the last quarter of 2019 after negative growth rates during the whole second half of the year. The 24-month recovery seen this April is therefore significant.

**Kazakhstan GDP growth % y/y**

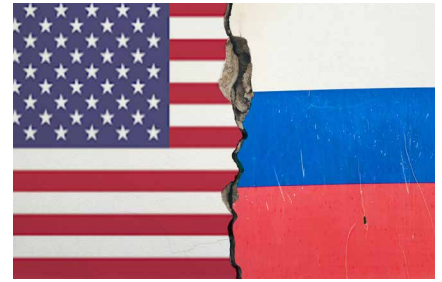


**Kazakh GDP contracts 1.5% y/y in Q1 updated figures show**

Kazakhstan's GDP contracted by 1.5% y/y in the first quarter, according to latest official figures provided by the national statistics office.

The figure is very slightly different from the preliminary results published earlier, which showed that GDP contracted by 1.6%. The first quarter's GDP contraction was shallower than the 4.5% drop posted in January and the 2.9% decline seen in January-February. Kazakhstan's GDP shrank by 2.6% y/y in 2020. The contraction was driven by a 5.6% y/y drop in the services sector, which was hit by lockdowns brought in to stem the spread of the coronavirus (COVID-19) imposed in March-May and July-August. The economy was also likely hit by global impacts of the pandemic, including falling demand for energy and reduced world oil prices.

# Russians consider the US to be the number one “unfriendly country”



## bne IntelliNews

Russians consider the United States to be the number one “unfriendly country” and that feeling is on the rise again, according to the latest poll by the independent pollster the Levada Center.

Separately, Russian President Vladimir Putin maintains a much lower level of global trust than his Western counterparts, according to a Pew Research Center poll published June 14.

Russians had a generally positive view of the US for most of the years following the fall of the Soviet Union in 1991, hoping that America would come to Russia’s aid after the economic collapse following the fall of communism.

That changed dramatically following the annexation of the Crimea in 2014 when Russian President Vladimir Putin played on the “enemy at the gate” sentiments and Russian nationalism as the US led the West in imposing sanctions on Russia.

In recent years the feelings towards the US, while remaining negative, were improving, but most recently they have turned negative again, with those that believe the US is an “unfriendly country” rising by 6pp to 54% in May,

with another 31% seeing it as a friend, according to a Levada survey released on June 15. That is up from 42% that saw the US as unfriendly and 40% that saw it as a friend in March.

Still, the current attitude is well down from the peak 81% that saw the US as unfriendly in January 2015, as the first sanctions were imposed. It is also very different from the 80% that thought the US was a friend in November 1991 and only 6% that saw the US as an unfriendly country in November 1991 shortly after the collapse of the USSR.

The attitude of Russians towards the European Union is also continuing to deteriorate. In January 2021, 45% of respondents had a positive attitude towards the EU against 37% with a negative attitude. In March, these indicators were 38% and 45% respectively. The last time that these levels of approval were seen was in late 2018 and early 2019, according to Levada.

Amongst the other countries Russians believe are unfriendly, Ukraine takes second place, where 40% of Russians see it as an unfriendly country, up 5pp since last year.

In third place is the UK, followed by the Baltic states, Poland, Germany, Georgia and the Czech Republic, which are all in the top ten.

From its friends, Belarus continues to rank as number one; 58% of respondents see Belarus as a friendly country. This attitude has been strengthening since 2013 and has stabilised at 58-62% over the past three years, says Levada.

The second amongst Russia’s perceived friends is China (38%), which has retained the same level that only fluctuated within the statistical margin of error over the past few years.

In third place as a friend is Kazakhstan (34%) which has seen a slight decrease since 2019.

The top ten for friends also includes Armenia, India, Azerbaijan, Kyrgyzstan, Syria, Germany (the only European country in the TOP10) and Cuba.

In general, 83% of Russians are sure that Russia has enemies, 13% believe that it does not. Compared to 2020, the changes are insignificant. ●

### Attitude towards the USA



Following the fall of the Soviet Union 80% of Russians saw the US as a friendly country, but following the annexation of Crimea and the imposition of sanctions today 54% see it as an unfriendly country

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