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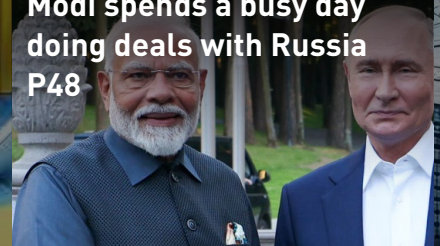


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DTEK is Ukraine's biggest power producer and is scrambling to repair its facilities, 90% of which have been damaged by a relentless Russian barrage of missiles. / DTEK

# Ukraine's biggest private power producer races to recover as winter looms

Timothy Spence in Vienna

**A** top DTEK Group executive says companies desperately need access to finance and capital to cope with the devastating destruction Russia has inflicted on Ukraine's energy infrastructure with repeated missile strikes.

Energy is one of the three Ms – the lack of men, money and materiel – that could force Ukrainian President Volodymyr Zelenskiy into early ceasefire talks. Ukraine is facing its biggest energy challenge of the war and a long dark and freezing cold winter as electricity providers struggle to restore production following after Russia has destroyed almost half the country's thermal generating capacity and continues to hit it even as repairs get under way. Already the country is struggling to cope with rolling blackouts, with some areas in Kyiv getting only a few hours of electricity each day. And the outlook is even bleaker.

Russian missile strikes on major energy facilities over the past four months have created a production deficit of as much as

30% and this is likely to persist beyond the summer, according to DTEK, Ukraine's largest private energy company.

Dmytro Sakharuk, executive director of DTEK Group, said at least eight attacks on the firm's thermal power plants (TPPs) knocked out 90% of its installed capacity of 5 GW and caused damages of between \$350-\$400mn. DTEK supplies one-quarter of the country's electricity and runs six of the nine TPPs in Ukraine, though one exposed to front-line combat is not operational.

DTEK is working to restore 35 of its own power units in the worst attacks it has suffered since a series of strikes between October 2022 and February 2023, when ten DTEK generating units were damaged at cost of \$110mn. This time around, the company has been forced to mobilise workers from other group units and "concentrate all available financial resources" to restore the damaged TPPs, Sakharuk told *bne IntelliNews* in an exclusive interview. The situation has taken a heavy toll on the firm's 50,000-strong workforce.

“Even if we do everything we plan and there is no new damage, we may have a maximum of up to 3 GW of generation capacity by the end of the year”, Sakharuk said in an interview from Kyiv. “That is the best-case scenario.”

During the height of the March to June barrage, half of Ukraine’s pre-attack capacity of 18 GW was lost, according to government estimates, with thermal, hydro and transmission assets damaged. There were no reported hits on the three nuclear power stations under Ukrainian control, but the recent attack wave coincided with planned annual reactor maintenance.

Despite the race to restore production, Sakharuk sees the current shortfalls of between 20% and 30% continuing beyond summer. “More units will go online and in theory the deficit should decline, but at the same time consumption will grow. The curve – the difference between consumption and production – will be more or less aligned.”

### Finance challenges for private sector

The wartime targeting of Ukraine’s energy infrastructure has so far failed to dent the sector’s ability to gradually restore power. But the attacks have exposed other vulnerabilities.

Sakharuk says private energy firms like his are struggling to raise the capital needed for repairs as well as to refinance debt. In a double blow for the sector, international financial institutions tend to favour state institutions, while the military targeting of civilian energy facilities has made private lenders – both within and outside the country – more risk-averse.

“The lending rules are not adjusted to this emergency situation... That is why the banking institutions are reluctant to finance because they don’t know what to do if our assets are



DTEK executive director Dmytro Sakharuk says that Russian attacks have knocked out 90% of the firm’s generation capacity and it is racing to repair the damage before the heating season starts in November.

destroyed”, the DTEK Group executive said. Current war insurance schemes are insufficient, providing “only a few million but the need is millions of dollars, including for the restoration of old equipment and construction of new decentralised sources of energy, such as solar, wind and gas turbines.”

“Ukraine needs to win the competition for investments and for capital”, Sakharuk said. “For this, private capital should be the front-runner because the private sector is much more flexible and results-oriented than the state sector. For that you need to create large-scale war insurance coverage, and the conditions should be the same as the state-owned companies in terms of servicing debt.”

DTEK has entered into talks with the EU-backed Energy Community, which administers a €500mn Ukraine Energy Support Fund. It has also secured \$46mn in US development assistance. Still, around 80% of the repair and reconstruction costs are being borne by the company, according to Sakharuk. And some industry officials say that the procurement procedures attached to donor-backed funds are too cumbersome for wartime contingencies.

The war has inflicted damages of more than \$16bn on the Ukrainian energy sector, with damage to electricity generation alone at \$8.5bn, according to the Kyiv School of Economics (KSE). The figures, released in May, are almost certain to rise as the war wears on. Of the \$50.5bn the KSE says is needed to restore the country’s energy sector, \$2bn is required “to address the liquidity needs of energy companies caused by war-related revenue losses”.

In the scramble to keep the lights on, the Ukrainian energy ministry is working with power companies to acquire used equipment from EU countries, including fellow former Soviet bloc states that have common parts and supplies. “This is the quickest way of getting the equipment,” said Sakharuk. “For them it may be metal scrap but in our case, we can reuse it. It is not a big part of what we need, maybe 5% to 7%. But it is still something.”

Ukraine’s miraculous synchronisation with the European Network of Transmission System Operators for Electricity (ENTSO-E), completed only one day before the Russian invasion, was a feat achieved after Ukraine severed ties to Russia’s power grid in March 2022. It has also helped in the current crisis. Ukraine can import up to 1.7 GW of electricity from its allies and “right now the Ukrainian government is trying to negotiate the increase from 1.7 GW to at least 2.2 GW,” Sakharuk said. More imported power could ease the current crunch but still not erase the supply-demand gap. It also marks a reversal of fortunes for Ukraine, which until earlier this year was exporting electricity to the west.

### Deadly price for power

Since its founding in 2005, DTEK has become one of Ukraine’s leading private energy firms and today provides electricity to 5.5mn households, or more than 12mn users. It produces

three-quarters of the country's thermal power and also has wind and solar installations.

Besides power generation, the DTEK Group is involved in power distribution, coal, oil and gas extraction, renewables and trading. CEO Maxim Timchenko has been a vocal advocate of stronger energy cooperation with the EU and the transition to renewables.

Beyond the damage to DTEK's physical assets, the company's more than 50,000-strong workforce has paid a dear price during the war. Currently 5,000 DTEK workers are serving in the military, of whom more than 290 have been killed and nearly 900 wounded, with many others missing or held as prisoners. Four DTEK employees have died on the job and 68 others have been wounded in attacks on company facilities.

"It is not easy to keep morale high," Sakharuk said. "During the last three months the majority of our plants were attacked three, four, sometimes five times. And after each attack, our employees tried as quickly as possible to bring units back online. They tried to use all their resources and will." Without their persistence, the energy outlook for the next few months could be even more uncertain than it is today. ●

*This article first appeared at Newsbase.com, a global energy publication that covers the major oil, gas, LNG, power and renewables developments from around the world on a daily basis. Contact sales@intellinews.com if you would like a free two-week trial to Newsbase.*

## Increasingly isolated by sanctions, Russia's metal producers are being pushed into China's arms

### bne IntelliNews

**I**solated by Western sanctions, Russian metals producers are increasingly turning to China, which has gone from being a primary competitor to a principal client.

The EU's fourteenth sanctions package adopted in April included bans on imports of Russian aluminium, copper and nickel, all critical inputs for producing a wide range of goods from drinks cans to semiconductors and electric vehicles (EV).

Since the full-scale invasion of Ukraine in February 2022 and the subsequent sanctions, Russia has increasingly been forced to redirect its metal exports from Europe to China. Rusal, Russia's top aluminium producer, reported that its revenues from exports to China almost doubled in 2023 despite China's substantial domestic aluminium production and international competition. Nornickel, Russia's leading producer of nickel and copper, saw its revenue from exports to China grow by 74.2% in 2023, while revenue from exports to North America fell by 30%. Nornickel head sanctioned oligarch Vladimir Potanin said that China will soon account for over half of the company's sales, Vita Spivak reported in a recent paper for Carnegie Endowment for International Peace.

Like oil exports that were successfully redirected from Europe to Asia, Chinese customer data confirms a similar thing is now happening with metals. Russia's share of Chinese copper imports rose from 1.8% in 2022 to 10.4% in 2023, making Beijing one of the top three importers of Russian copper. Russia accounted for 25.7% of China's aluminium imports

in 2023, up from 12% in 2021. Although Russia's share of Chinese nickel imports was modest at 3% in 2023, this was a significant increase on just 0.56% in 2021.

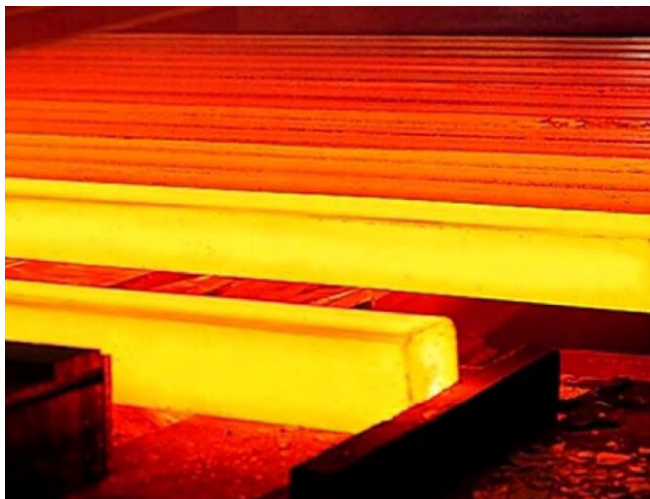
Simultaneously, Russian metals producers have been integrating with Chinese value chains. In 2023, Rusal bought a 30% stake in Chinese alumina producer Hebei Wenfeng New Materials for \$267mn. Rusal, heavily hit by the war in

"Although Russia's share of Chinese nickel imports was modest at 3% in 2023, this was a significant increase on just 0.56% in 2021"

Ukraine, lost access to about 40% of its alumina supplies due to an Australian ban and the shutdown of its Ukrainian refinery in Mykolaiv, which was nationalised by Kyiv in 2023.

In April 2024, Potanin announced plans to relocate copper production to China by 2027 and form a local joint venture, though he did not specify partners. This likely aims to leverage Chinese lithium-ion battery technologies, crucial after Nornickel's cooperation with German firm BASF fell through in 2022. Potanin commented: "It is better to be inside the





China used to be Russia's biggest competitor in the metallurgy business. Now it is both its biggest partner and market. / bne IntelliNews

system than to watch from the outside as you get, so to speak, squeezed out.”

Despite lacking expertise in battery production, Nornickel and Russian nuclear giant Rosatom plan to develop one of Russia's largest lithium deposits through their joint venture, Polar Lithium, expected to launch by 2026. With China holding 72% of global lithium refining capacity, Polar Lithium will likely supply the Chinese market predominantly.

“As Beijing's competition with Washington over critical minerals intensifies, China and Russia are partnering on global metals exploration,” said Spivak.

In mid-2023, Rosatom and the Chinese investment group CITIC Guoan won a tender to develop lithium deposits in Bolivia (home to the world's largest lithium reserves), beating a US bid backed by billionaire Bill Gates's Breakthrough Energy Ventures. Rosatom and CITIC Guoan plan to invest

over \$1.4bn in the project, which envisages the construction of two lithium carbonate technology plants. Despite the concerns of US officials, this development marks another milestone in the integration of Bolivia's mineral resources into China's battery production supply chains.

The US and UK bans on Russian metals imports may enhance the role of the Shanghai Futures Exchange (SHFE) in setting international benchmarks and promoting yuan-denominated metals trading. As the London Metal Exchange and the Chicago Mercantile Exchange are barred from accepting Russian metals, SHFE remains the only major exchange accessible. This is a significant loss for London, which, as of April 2024, held substantial Russian-origin stocks: 50% of copper, 33% of nickel and 89% of primary aluminium.

While London and Washington have refrained from directly sanctioning Russia's main metals producers, such a step could limit further integration of China and Russia's metals supply chains, as Chinese firms would fear Western secondary sanctions.

Rusal experienced the direct impact of US sanctions in 2018 when its then-majority shareholder Oleg Deripaska was targeted, causing global aluminium market volatility and driving prices up 30%. The sanctions were lifted ten months later after Deripaska reduced his stake in Rusal. To hedge against new sanctions, Potanin's plan to relocate Nornickel's copper production to China aims to mitigate potential Western sanctions impacts.

“Amid the war in Ukraine and the intensifying US-Chinese technological competition, China and Russia have been developing a more economically interdependent relationship, albeit an asymmetrical one that largely favours Beijing. Moscow's deeper integration into China's metals value chain is yet another sign of growing Chinese influence over Russian industries that extends from consumer electronics and appliances to metals and hydrocarbons,” says Spivak. ●

## Russian exports of diamonds to Hong Kong up 18-fold in 5M24

bne IntelliNews

In the first five months of the year, imports of Russian diamonds to Hong Kong increased 18-fold year on year, according to data from Hong Kong's Statistics Bureau published on its official website on June 30.

Hong Kong has dramatically stepped its imports of diamonds from Russia, purchasing \$657.3mn worth of Russian diamonds in the first five months of 2024.

In the period from January to May 2024, Hong Kong's imports of Russian diamonds soared from \$36.5mn a year earlier to \$657.3mn. As a result, Russia has become the third-largest supplier of diamonds to Hong Kong, with its share of total diamond imports rising to 12% from just 1% in 2023.

India remains the leading supplier of diamonds to Hong Kong, with imports valued at \$2.9bn, followed by Israel with



Diamond exports to Hong Kong are up 18-fold to over \$600mn in 5M24 as sanctions on Russia's trade with Belgium bite. / Ben Aris for bne IntelliNews

\$716.6mn. Notably, both India and Israel, unlike Russia, do not mine diamonds themselves.

The substantial increase in Hong Kong's diamond imports from Russia highlights a significant shift in the global diamond market. Dubai has also become a major market for the trade in Russian diamonds.

As *bne IntelliNews* reported, the EU included sanctions on Russian diamond exports as part of the twelfth sanctions package, but due to intensive lobbying by Belgium, where Antwerp is the leading European diamond market and the number-one destination for rough diamonds from Russian miner Alrosa, the sanctions were watered down and will be phased in gradually.

### Russian diamond sanctions watered down again

Afraid of losing the diamond business completely to the growing rival markets in Asia and the Middle East, the EU has watered down the restrictions on trading Russian diamonds again last week.

The EU has extended the "sunrise period" for sanctions on Russian diamonds by six months and included an important concession for goods that predate the new rules, according to a statement released by the EU on June 24.

The EU also said the update "fine-tunes" the import ban on Russian diamonds included in the twelfth package and is included as part of the fourteenth sanctions package. Earlier in June, De Beers called for a one-year extension to the sunrise period for the G7 sanctions on Russian diamonds, but it is up to the individual countries to rule on the implementation of the ban.

The mandatory traceability programme for imports of rough and polished natural diamonds will now take effect on March 1, 2025 instead of September 1, 2024. This extension is intended "to allow more time to set up the G7 traceability scheme," the EU explained reports Rapport.

This decision comes in response to calls from diamond trading powerhouse De Beers and other industry leaders to extend the interim period during which importers can use alternative documentation to prove that diamonds are not of Russian origin. Once this period ends, importers into the EU must use a traceability-based certification scheme to verify imports of diamonds over 0.50 carats.

Additionally, the EU has introduced a "grandfathering" clause to exempt diamonds that were already located in the EU or a third country other than Russia – or were manufactured in a third country – before the new rules were implemented. The EU ban on direct imports of diamonds from Russia began on January 1, 2024, while the ban on goods processed outside Russia started on March 1, 2024.

The EU said that these pre-existing diamonds no longer provide revenue to Russia.

"We are extremely pleased that, after months of intense negotiations, we have succeeded in pushing the needle to allow regularisation of so-called 'grandfathered stock,'" said the Antwerp World Diamond Centre (AWDC). "Sanctioning these goods and prohibiting their trade would impose an unfair and severe financial burden on diamond companies without significantly impacting Russia's revenues."

The extension and concession aim to balance the need for stringent sanctions with the "practical realities of the diamond industry," providing additional time and clarity for businesses to adapt to the new regulations.

Moreover, temporary imports or exports of jewellery, for example for trade fairs or repairs, will not fall under the ban. In addition, the EU has delayed the prohibition on jewellery incorporating Russian diamonds processed in third countries until the European Council, the EU's executive arm, "decides to activate" it, the EU statement said.

The US currently has the strictest limits on Russian trade, requiring self-certification for diamonds of 1 carat or lower, falling to 0.50 carats on September 1. Larger diamonds are not covered by the sanctions. ●

"The substantial increase in Hong Kong's diamond imports from Russia highlights a significant shift in the global diamond market. Dubai has also become a major market for the trade in Russian diamonds"



# Uzbekistan's AGMK announces \$15bn expansion to drive up copper cathode output

Mokhi Sultanova in Tashkent

Uzbekistan's state-controlled Almalyk Mining and Metals Combine (AGMK) on June 27 announced it will implement a \$15bn expansion programme to raise copper cathode output to 400,000 tonnes/year from its current 148,000 tonnes/year.

At the same time, Uzbekistan's Cabinet of Ministers said the government plans to create a copper industry cluster over coming years.

AGMK, a copper, zinc, silver and gold producer, said it would borrow most of the funds it would require for the expansion from local and foreign banks, while it would also receive \$1bn from a state development fund.

Copper is vital to the global energy transition. It is used in both the power and construction industries. Prices for the commodity this week hit record highs as speculative buying focused on possible tight supply in the future.

The AGMK programme would include upgrading and expanding the company's mining and ore processing facilities, as well as the construction of a new smelter, the company said.

AGMK inked a deal last year with Germany's KfW IPEX-Bank to arrange \$2.55bn in loans, *Reuters* noted.

"The development of the copper industry cluster represents a pivotal step in Uzbekistan's industrial strategy," the Minister of Industry and Infrastructure Development said. "By enhancing our processing capabilities and fostering a conducive environment for investors, we aim to position Uzbekistan as a regional hub for high-value copper products."

Key objectives in the document include raising the copper raw material processing rate to 80% to boost exports of finished and semi-finished copper products. ●

"By enhancing our processing capabilities and fostering a conducive environment for investors, we aim to position Uzbekistan as a regional hub for high-value copper products"



Markets are speculating copper could be in short supply as the energy transition gathers pace.

# Eurasian Development Bank moves into Central Asia's Islamic finance sector

Clare Nuttall in Almaty

**T**he Eurasian Development Bank (EDB) is moving into Central Asia's small but growing Islamic finance sector, with plans to open an Islamic banking window in 2025.

The regional development bank's chairman Nikolai Podguzov told journalists during the EDB annual meeting and business forum in Almaty on June 27 that the bank sees "great demand" for Islamic finance in Central Asia, where its members include Kazakhstan, Kyrgyzstan and Tajikistan.

"Our focus is to establish an Islamic window in the Eurasian Development Bank. This is not an easy process, but I hope all the preparations will be finished by the end of the year and next year we will be able to start producing our first instruments," he said.

He anticipates that the bank could deploy as much as \$100mn of Islamic finance in 2025, though admits "this is a bumpy road".

EDB deputy chairman Ruslan Dalenov told journalists that as an international development bank, the EDB can open up Islamic banking access, while commercial banks cannot currently do this under Kazakh law.

The bank also announced its first pilot project in the area – a \$5mn murabaha project – on June 27. It plans to launch several additional pilot projects, after which it will embark on larger investment projects.

To finance the larger Islamic finance projects, the bank will issue a sukuk (Islamic bond).

Dalenov told *bne IntelliNews* that the location for the bond issue has yet to be decided – it could opt either for one of Kazakhstan's stock markets, the Astana International Exchange (AIX) or the Kazakhstan Stock Exchange (KASE), or use an international stock exchange such as Dubai or Malaysia.

## Cooperation agreements

The EDB will work alongside the Islamic Development Bank (IsDB) to support the development of Islamic finance in its countries of operation in Central Asia.



Eurasian Development Bank chairman Nikolai Podguzov (left) and Dr. Sami Al-Suwailem, acting director general of the Islamic Development Bank Institute, signed a memorandum on cooperation in Almaty on June 27. / bne IntelliNews

The two development banks signed a memorandum on cooperation on Islamic finance development in Central Asia in Almaty on June 27.

"The memorandum extends our cooperation, and promotes our activity and our plans to open an Islamic window in Central Asia for our bank," said Podguzov at the signing ceremony.

"We need to build trust and a new environment for Islamic finance to be spread across Central Asia for the benefit of all people which live in the region," he added.

"We need to build trust and a new environment for Islamic finance to be spread across Central Asia for the benefit of all people which live in the region"

"It is our honour and delight to sign this agreement on cooperation between the Islamic Development Bank Group institute and the Eurasian Development Bank," said Dr. Sami Al-Suwailem, acting director general of the Islamic Development Bank Institute.

"We share our commitment to serve our member countries to create prosperity for communities – both Muslim and other faiths. Islamic finance is for everyone."

A separate agreement was signed between the EDB and Ammar Ahmed, CEO of Dar Al Sharia, which Podguzov described as an important practical step enabling the two organisations' work together.

Ahmed said Dar Al Sharia is proud to be working with the EDB, initially to set up its Islamic window.

"We all know Kazakhstan is the leader in Islamic finance in Central Asia, and we believe this relationship will form the anchor for the Eurasian Development Bank to act as a catalyst to spread Islamic banking and Islamic finance across various [parts of] Central Asia and beyond."

### Gradual development

While the IDB first became active in Central Asia in the 1990s, national governments in the region only started development of their banks in the late 2000s and 2010s.

Dalenov commented at a panel on Islamic finance at the bank's business forum on the rapid growth expected in the global Islamic finance sector.

"Only electric cars has better development prospects," he said.

However, he acknowledged that Islamic finance is still relatively small in Central Asia, where it accounts for less than 1% of the banking sector by assets. He noted the small number of banks and non-bank financial institutions, as well as the low awareness of the population, especially in rural areas.

Expanding Islamic finance in Central Asia would bring "new

investments, greater strength of the financial system and mobilisation of financial resources", he added.

Kazakhstan's Vice-Minister of Finance Dauren Kenbeil welcomed the EDB's plans to open an Islamic window, telling the panel "it is very nice to see this sector is developing".

Olzhas Kizatov, deputy chairman of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, said Kazakhstan is currently reviewing legislation in cooperation with foreign partners, specifically with plans to enable conventional banks to open Islamic windows.

"Islamic banking is one of the priorities of the agency along with the government. That is why we will continue the work to develop Islamic banking," he said.

Al Hilal bank was the first Islamic bank to launch in Kazakhstan back in 2009. Its deputy chairman Aidyn Tairov told the panel that after a slow start the bank is growing and has shown good profit lately.

Al Hilal's entry to Kazakhstan was followed by the conversion of long-established Zaman-Bank to an Islamic bank in 2017. ●

## Local, international and regional chains vie for Balkans' expanding food retail market

### Clare Nuttall in Almaty

**L**ocal, international and regional chains are vying for market share in the Balkans' fast-growing food retail market.

As *bne IntelliNews* has reported, consumer markets in Southeast Europe are booming, in what is largely a catch-up story. As their populations gradually become more affluent, they are driving the kind of growth in retail and other consumer-oriented sectors seen in Central Europe a decade or so ago.

Romania, as the biggest country by far in terms of population and GDP, has long been home to international food retail chains. German retailers Lidl and Kaufland are the largest by market share, but other such as Delhaize Group's Mega Image and France's Auchan and Carrefour also have a presence.

Among the other countries in the region, the next in size by population are Bulgaria and Serbia. Slovenia has a tiny population of just over 2mn but is the most affluent country in the region. At the other end of the scale, there are the relatively poor and very small markets such as Kosovo (1.8mn) and Montenegro (617,000).

However, spending power is steadily growing leading retailers to seek opportunities even in smaller markets.

Retailers in some countries also benefit from a bump in the summer months when millions of tourists descend on the Adriatic and Black Sea coasts. In both Croatia and Albania, tourism accounts, directly and indirectly, for around a quarter of GDP.

After pan-European players initially came to Romania, they are now making inroads elsewhere.

Already established in larger markets, Lidl in particular is now targeting the smaller markets in the region.

There is clearly an appetite for the German retailer; a *bne IntelliNews* story reported that day trips to the Lidl store in Serbia's Vranje had become popular in neighbouring North Macedonia.

Now North Macedonia is getting its own Lidl stores. Lidl started its expansion back in February 2021 with the establishment of its corporate entity in the country. The retail giant later confirmed its plans for a flagship store in Skopje.



It was also reported earlier this year that Lidl started construction of its first store in Bosnia & Herzegovina in March. The store will be located in the capital Sarajevo.

### Local champions

There are also successful home grown chains in the region, some of which have attracted the interest of private equity investors.

In October 2023, Ahold Delhaize announced it agreed to buy Romania's Profi chain from private equity firm MidEuropa for €1.3bn. The deal was the largest exit by a private equity fund in the food segment in Central and Eastern Europe.

At the time, Profi operated the most extensive retail chain in Romania in terms of outlets and was the third-largest retailer in the country by turnover after Lidl and Kaufland. Its network numbered more than 1,650 stores.

Delhaize's existing chain Mega Image was the sixth-largest player by turnover. Delhaize said it will add Profi to its family of brands, meaning there will be no integration of the two chains. "Romania is an attractive market, with a development supported by solid investments," the company said on announcing the deal.

Also in Romania, as reported by *bne IntelliNews'* Romanian correspondent, hypermarket chain La Cocos is expanding in a market dominated by foreign players.

Earlier this year, La Cocos has announced the opening of its fourth store, in the central Romanian city of Brasov, in the first step of an expansion plan that includes the launch of five more units in 2024 and 2025.

La Cocos is a new concept in the Romanian market, a retail format which offers three price levels to its customers, depending on the quantity purchased. Before opening the store in Brasov, La Cocos was operating three hypermarkets – two in Ploiesti and one in Bucharest.

Another significant regional player in the area is Slovenia-based Mercator, owned by Croatia's Fortenova Group. Mercator operates not only in Slovenia but also in Bosnia, Croatia, Montenegro and Serbia.

In 2023, Mercator signed a deal to acquire the shares of Engrotus, which operates about 260 Tus stores nationwide. The acquisition did not include the 43 Tus drugstores. Fortenova said at the time that the deal would create a major retail force in Slovenia.

Croatian retailer Studenac – like Profi with private equity backing – has been on an acquisition spree, growing from a local player in the coastal region of Dalmatia to a nationwide chain in just a few years after being acquired by Enterprise Investors in 2018.

Today the company is Croatia's largest retailer by number of



Croatian food store chain Studenac is expanding rapidly, backed by private equity investor Enterprise Investors. / Studenac

stores with a total of 1,265 across the country as of the end of 2023. It aims to become one of the top three Croatian retail networks by sales within the next three years, and grow its market share to over 12% through a combination of organic growth and more acquisitions.

Studenac stands out from other Croatian grocery retail chains because of its proximity format; the company predominantly services a small basket of everyday shopping. Around 60% of Studenac's stores have a sales area of between 60 and 180 square metres, and the average network size is around 120 square metres.

Croatia's retail market has followed a similar path to others in the region. Currently somewhat fragmented, there is a visible trend of consolidation in the sector. "The Croatian retail market is still quite fragmented. It is ripe for consolidation, but the process is only just getting under way, and it will continue for years to come," Michał Seńczuk, CEO of Studenac, told *bne IntelliNews* in an interview.

In the latest development, Studenac said in a press release on June 26 that it to acquire 36 Decentia stores as its continues its strategy of expanding through acquisitions. The transaction requires regulatory approval from the Croatian Competition Agency (AZTN).

"If completed, the acquisition will strengthen Studenac's position in continental Croatia, particularly Zagreb, where it will reach more than 130 stores," the company said.

Earlier in June Studenac announced plans to open a new distribution centre near Zagreb next year, a move set to create around 500 jobs, the company said in a press release on June 18.

A loan from the European Bank for Reconstruction and Development (EBRD) is supporting Student's expansion. The EBRD has also backed other retailers in the region including Proex, operator of the Interex branded stores in Kosovo and Bosnian retailer Bingo.

### Regional players

As well as the pan-European retailers and their local competitors, chains from the southeast and eastern part of Europe are also eyeing the Balkans.

Greek retail group Veropoulos is expanding its presence in North Macedonia with future plans including the opening a combined Vero Market and Jumbo store in the city of Strumica in 2024, the Skopje branch announced in November 2023.

The company, which is celebrating its 25th anniversary in North Macedonia this year plans to further expand to other cities across the country in the coming years.

It is also active in Serbia, where it opened its new Super Vero and hypermarket and big box Jumbo family and home store in Novi Sad in December 2023.

Another Greek company, Retail & More AE, which holds the Balkan franchise for Carrefour Group, also plans to expand and acquire businesses in the Balkans, according to Retail Serbia.

Sources quoted by Retail Serbia indicate that the company is looking at acquisitions across the Balkans, with a particular focus on small and medium-sized retailers.

Russian retail chain Mere is planning to open its first megamarket in Serbia, according to a report by local news portal Resetka in May 2024. This move marks Mere's latest

"We need to build trust and a new environment for Islamic finance to be spread across Central Asia for the benefit of all people which live in the region"

expansion in Serbia, where it has already established a presence with over 60 retail outlets since entering the market about 3.5 years ago.

The initial megamarket in Leskovac will span 1,120 square metres, making it the first mega Mere store in Serbia.

Meanwhile, German grocery chain Mix Markt has expanded into Serbia with three stores, two located in Belgrade and one in Novi Sad, European Supermarket Magazine (ESM) reported in May.

Mix Markt specialises in Eastern European products sourced from countries like Russia, Ukraine, Georgia, the Baltics, Poland, Turkey and the Balkans.

Mix Markt already operates in Montenegro, Bulgaria and Slovenia, and has a total of 181 stores across Germany and Europe.

Poland's Zabka Group, the operator of the country's largest chain of convenience shops, bought the majority stake in Romanian food products distributor DRIM Daniel Distributie in March 2024 as part of its strategy for international expansion.

It said the prospects of the Romanian market and the profile of the Romanian consumer – which is similar to the Polish shopper, Zabka says – make Romania a natural geographical direction for expansion. ●

# Chinese electric vehicle maker BYD signs agreement to build \$1bn production plant in Turkey

Ben Aris in Berlin

Chinese carmaker BYD (Build Your Dreams/Shenzhen/002594) has signed an agreement with Turkey's Ministry of Industry to build a production plant in the country's Manisa province, the ministry said on July 8.

Turkey's President Recep Tayyip Erdogan, as well as Turkey's Industry Minister Fatih Kacir and BYD Chairman Wang Chuanfu, were present at the signing ceremony held in Erdogan's Dolmabahce office in Istanbul.

Turkey's Ministry of Industry expects BYD to invest a total of \$1bn in the plant, which will have an annual electric vehicle (EV) and plug-in hybrid vehicle production capacity of 150,000 units.

The ministry also expects the plant to come online in 2026 and to employ 5,000 personnel.

BYD is the world leader in EV production, with an annual output of 3mn vehicles.

Turkey is the third largest vehicle producer in Europe, hosting production plants of leading auto manufacturers in the world. A total of 13 brands, including eight global brands, are produced in Turkey.

The country annually posts \$35bn worth of auto exports. In 2024, a total of 1.4mn vehicles were produced in Turkey.

In June, Turkey imposed a 40% additional tariff on imports of vehicles from China.

Later on, an exemption was provided to the Chinese companies that have a production plant in Turkey.

## GDP Distribution by Sector in Selected Countries

	Firm	Sector	Amount
2026	BYD (China)	Automotive	\$1bn
Feb-2024	Astor Enerji (ASTOR)	Automotive	€11mn
Oct-2023	Dogus Sarj/D-Charge (DOASO), Egesarj, Akkoprulu, D Rect (D-Rect) Charge, AEG Madencilik, EMEA Energy Teknoloji, Obisarj, Beytturk, Maksem, 2M Elektrikli, Sarj-matik, Yigit Aku, Siyam, Charge Teknoloji	Automotive	-
Jul-2023	Borenco (Borusan EnBW) - Petrol Ofisi (E-POwer)	Automotive	TRY1bn
Q1-2024	Skywell (Skyworth/China), Ulu Motor (Ulubaslar)	Automotive	€50mn
Apr-2023	Tesla (Nasdaq/TSLA)	Automotive	-
Mar-2023	Enom, Minus Energy, Incharge, Art In Systems	Automotive	-
Mar-2023	Arcona, RST Teknoloji (RST Charge), Gersan (GEREL) Sarj (G-Sarj), Interdata, FZY Enerji (FZY Energy), Siha Enerji (Royco), Fotec, Blue Akaryakit (Petrodem), Lum-house, Manas Iplik (Mycharge), Eskisehir Endustriyel (EEE), Atay Guc (Ecobox), Sarj-plus, Bolgem Muhendislik (Bolgem Plus), Bladeco, Volnet (Volti), Promaster (Tech Care), TT/E4 Sarj (Turk Telekom/TTKOM) Ventures Proje (The Giftad), Voltgo (Voltpo)	Automotive	-
Mar-2023	Tesla (Nasdaq/TSLA), Zebra (Voltrun), Verdepunto Enerji (Ar Armaksis Ar Verdepunto), Evtech Sarj, Spur Enerji (Carbonage), Anttech (Petroo), Evcil Muhendislik, Karakuslar (Halica), Gioev (DBE Holding), Antkem, K Yatirim (K Otomotiv), Istasyon Sarj (Estasyon), ERC Sistem, RDS Gayrimenkul (Bibutton), Vitalen, Solarpark (Acikel Autosarj), Monokon, Efamoda (Cazador), Form Elektrik (Epsis), Prosarj (Getasolar), Pirim Gida, Solarsarjet (Clixelar), 360 Enerji, MCZ Teknoloji (Alaska), Tuncmatik, Bakirci E-Mobility (B-Charge)	Automotive	-



On July 4, Erdogan met with his Chinese counterpart Xi Jinping on the sidelines of a Shanghai Cooperation Organization summit in Kazakh capital Astana.

In H1, EV sales in Turkey leapt 176% y/y to 39,405 units. Turkey's government-run Togg, known as the Erdogan regime's 'native and national' car project initiative, delivered 13,021 cars in the period, while Tesla Inc (Nasdaq/TSLA) sales amounted to 3,082 and BYD sold 1,426 vehicles.

Additionally, Germany-based Audi AG, Germany-based BMW (Frankfurt/BMW), Mini Cooper SE, Citroen (Stellantis/Milan/STLA), Peugeot (Stellantis/Milan/STLA), Hyundai (Seoul/005380), Jaguar Land Rover, Kia (Seoul/000270), Germany-based Mercedes-Benz (Frankfurt/DAI), Porsche (Frankfurt/P911) Taycan, Renault (Paris/RNO) Zoe, Seres (Shanghai/601127) 3, Skywell (China) ET5, Subaru (Tokyo/7270) Solterra and Volvo (Stockholm/VOLV-B) offer EV sales in Turkey.

A total of 577,981 vehicles were sold in Turkey, marking a 3.7% y/y increase, in the first six months of the year.

In 2023, the local EV market expanded by 833% y/y, with sales amounting to 72,179, accounting for 7.5% of all vehicle sales in the country. ●



A signing ceremony was held in Istanbul for the plant, which will have an annual capacity of 150,000 units. / bne IntelliNews

“A total of 577,981 vehicles were sold in Turkey, marking a 3.7% y/y increase, in the first six months of the year.”

Investment	Capacity	Location
Electric vehicle (EV)	0.15mn/year	Manisa
Electric vehicle (EV) charging stations	200 stations (Siemens/Frankfurt/SIE)	Turkey
Electric vehicle (EV) charging stations	-	Turkey
Electric vehicle (EV) charging stations	2,000 stations	Turkey
Electric vehicle (EV) battery plant	-	-
Electric vehicle (EV) sales services	-	Istanbul
Electric vehicle (EV) charging stations	Network	Turkey
Electric vehicle (EV) charging stations	Network	Turkey
Electric vehicle (EV) charging stations	Network	Turkey

	Firm	Sector	Amount
Mar-2023	Ispirli Sarj, Imaj Dizayn (Design & Network Imaj), Tripy Mobility (Waygo), Artas Enerji (Avrupakent Enerji), Arenya, Solar Arac (Solarsarj), Aydem (AYDEM) Plus (OtoWatt), Zeplin Turizm, Arsima, Konya Elektrikli (Karbon Notr Konya), Gosarj (Dynopower), Ayhan Teknoloji (Aotechnology), Forsel, Arti Kurumsal (KRNenerji), Mionti (Toger), Fortis Enerji, Green Sarj, Alfamet (Adze), Dicle Kok (Otopriz), Magicline (Magic Line), GS Mar (GSM Charge), Filoport (Onlife), ASM Dekorasyon (Onizsarj), Ultrametrik Enerji (Vale), Eteo Elektrik (Kingpower), Kofteci Yusuf, Energy Sarj (Energy Enerjik), OTP Ogulturk Pano, Dogus Dijital Enerji (dgdogusgida), Logo Rental (Ak Altun), Ronisans Sarj (Ronesans Holding), Power Elektronik, Enerjiturk (Turksarj), Mir Solar Enerji (Mirsolar), Ekos Mobilite, Meis Charge, Tuvturk, Tunalar Otomotiv	Automotive	-
Sep-2022	Migen (Everstart/Migros/MGROS), Neva, Dumanoglu Enerji (Swapp), Green Watt Enerji (Greenwatt), Ozguney Elektrik (Aykon), Turuncu Muhendislik, White Rose Motor, STL Solar (Samuray), Isomer Isitma, Beefull Enerji, Meta Mobilite (BinBin Scooters), Vizyoneks Bilgi, Tora Teknik, Aksa Musteri Cozumleri, Mithra Pod Elektrik, Ozka Enerji (Plego Advertise Charge)	Automotive	-
Sep-2022	Belka (Ankara Municipality)	Automotive	-
Sep-2022	Otokar (OTKAR)	Automotive	-
Sep-2022	Anadolu Isuzu (ASUZU)	Automotive	-
Sep-2022	Temsa	Automotive	-
2024	Ford Otosan (FROTO)	Automotive	-
2022	ZES (Zorlu Enerji/ZOREN)	Automotive	-
Sep-2022	Karsan (KARSN)	Automotive	-
CANCELLED	Ford Otosan (FROTO)	Automotive	
2024	Ford Otosan (FROTO)	Automotive	€715mn
2022	TOGG	Automotive	TRY3.5bn
2026	Ford Otosan (FROTO)	Automotive	TRY22bn (€2bn)
2022	Ford Otosan (FROTO)	Automotive	€4mn
Jul-2022	Wat Mobilite (Koc/KCHOL), Sharz (EVS), Smart (SMRTG) Gunes (Smart Solargize), Kontrolmatik (KONTR), Sarjon, Armatec, RHG, FCTR, En Yakit, Miram Enerji, Meta Mobilite, RG Enerji, Egesa Elektrik, Dicle Kok, Yeni Model Yapay Zeka (FastGo), Avos Grup, Full Elektrikli Araclar (FullCharger/Multi Force), Jetco Elektrik, Yeldegirmeni Enerji, Zey Enerji (Green Science), RST Teknoloji, Sun Ulasim, Yeni Basak	Automotive	-
Jul-2022	Trugo (Togg), ZES (Zorlu Enerji/ZOREN), Aksa Sarj (Aksa Elektrik/AKSAE), Sarjet (Oyak, Otojet, Guzel Enerji), Kalyon, CW	Automotive	-
Jul-2022	Enerjisa (ENJSA/Esarj)	Automotive	-
May-2022	Nuh Cimento (NUHCM)	Cement	ABB (Zurich/ABBN)
Nov-2021	Kalyon Electrical Vehicle	Automotive	-
Nov-2021	Farasis(China)-TOGG	Automotive	-
Aug-2021	Eldor (Italy)	Automotive	\$100mn

Investment	Capacity	Location
Electric vehicle (EV) charging stations	Network	Turkey
Electric vehicle (EV) charging stations	-	-
Electric vehicle (EV)	Diesel-to-electric conversion	Ankara
Electric vehicle (EV) bus	-	Sakarya
Electric vehicle (EV) bus and minibus	Big.e, NovoCiti Volt	Kocaeli
Electric vehicle (EV) bus	LD SB E	Adana
Electric vehicle (EV) trucks	-	Eskisehir
Electric vehicle (EV) charging stations	Launched subsidiaries	Northern Cyprus, Montenegro, Romania, Albania, Macedonia, Germany, USA, Netherlands, UK, Poland, Greece
Electric vehicle (EV) bus, hydrogen bus	-	Bursa
Electric vehicle (EV) battery plant	30-45 GWh / year	Ankara
Electric vehicles (EV) (Puma (SUV), Transit Courier (Van), Tourneo Courier (Kombi))	250,000 units/year	Romania
Electric vehicle (EV) plant	-	Bursa
Electric vehicle (EV) battery plant/Capacity expansion	0.13mn/0.21mn	Kocaeli
Electric scooter (EV) production	Engines by Arcelik (ARCLK)	Eskisehir
Electric vehicle (EV) charging stations	Network	Turkey
Electric vehicle (EV) charging stations	Network	Turkey
Electric vehicle (EV) charging stations	Network	Turkey
Electric vehicle (EV) (Diesel-to-electric conversion)	10 trucks	Ankara
Electric vehicle (EV) battery development	Company launch	Istanbul
Electric vehicle (EV) battery plant	20 GW	Bursa
Electric vehicle (EV) parts plant	0.55mn unit/year	Izmir





# IPO boom gathers momentum in Russia

Ben Aris in Berlin

An IPO boom is underway in Russia. If in 2022 there was only one placement of the Whoosh company for RUB2.1bn, last year there were already eight IPOs collectively worth RUB45bn. And this year the number of IPOs will double again, according to local investment bank forecasts.

As *bne IntelliNews* reported, Russia's stock market has come back to life fuelled by domestic investment. Russia's leading MOEX index regained its pre-war level after crossing 3,500 on May 18. (chart)

"As of the end of April, the MOEX Russia Index gained 4.1%, hitting a new record high over the past two years," the Central Bank of Russia (CBR) said in an update.

The authorities are keen to see the domestic market develop to provide another source of investment capital. Russian President Vladimir Putin said in a speech earlier this year that as part of his revised National Projects 2.1 he wanted to see the capitalisation of the equity market double in the coming years.

And with the economy running hot, many companies are reporting record profits and have resumed paying dividends.

As reported by *bne IntelliNews*, Russia's domestic stock market was booming just before the Ukraine invasion as Russian retail investors piled into equities in the autumn of 2020 as they looked for better returns than they were earning from the traditional store of wealth: bank deposits.

Banks and brokers are now actively promoting equity investments and retail investors are predominately making investments via smartphone apps.

To attract clients to investments in the stock market they have launched a number of schemes and promotions. For example, Russia's biggest bank and one of the most popular stocks on the market, Sber gives from three to 100 bonus shares to any customer that opens a "Best Percent" deposit account with a rate of up to 18% per annum and a brokerage account with Sberbank investment services.

Russia's economy surprised everyone by growing 3.6% last year, despite the extreme sanctions regime, and is on course to turn in a similar result this year. Fresh inflows of capital and strong growth have sparked an IPO boom as companies look to raise more money to expand. The preference for using equity to raise money is also helped by the high interest rates on bank loans. Thanks to high inflation, the Central Bank of Russia (CBR) hiked the prime rate to 16% and is expected to hike it again to 17%, making bank loans an expensive source of capital.

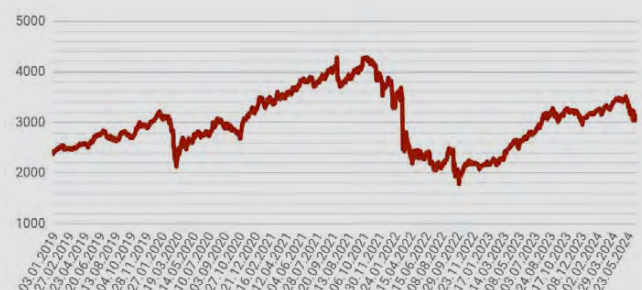
Companies from a variety of industries are launching IPO plans: information technology, fintech, gas stations, light industry and retail, which will allow investors to diversify away from the traditional oil, gas and banks that have been the mainstay of Russian portfolio investing for years.

What is new is that it is not the industry leaders and blue chips that are offering their shares for sale, but, as a rule, companies with high business development dynamics, who want to increase their market share. The growth of profits and the potential for more growth is what is making these companies interesting to investors.

"According to the Moscow Exchange, this year there will be



Russia MOEX index



Source: MOEX

about 20 IPOs – both primary and secondary, when investors are offered additional blocks of shares,” the head of the Sber broker, Aisha Kubezova, told *Vedomosti*. “We hope that the number of placements will grow, as will their volumes. Given the current market conditions, this is a win-win situation for all parties – on the one hand, investors receive new investment opportunities, which they are so in demand against the backdrop of problems with access to foreign markets, and companies have the opportunity to profitably locate at attractive levels and long-term money for business development.”

The peculiarity of the current placements, as well as the entire Russian stock market after February 2022, is the dominant role of retail investors, said Stanislav Sukhov, senior project leader at Frank RG. Institutional investors are not showing the same activity: demand from them is small, according to Sukhov.

Nevertheless, despite the sharp pick-up in listing activity, the overall volume of IPO in market capitalisation terms remains

low and the free floats thin. Often the free float is not more than 5%, according to Sukhov.

Eight listing have taken place this year: the alcohol group Kristall, the vendor Diasoft, Carsharing Russia (Delimobil), the leasing company Evroplan, the microfinance organisation Zaimer, MTS Bank, the microelectronics manufacturer Element, and the developer of the videoconferencing service IVA.

However, the value of the IPOs has been increasing steadily as more companies come to market; the larger IPOs included Evroplan which raised RUB13.1bn (\$152mn), and MTS Bank with RUB11.5bn. Both stocks have been stable since their listing and are trading at prices higher than their debut price.

While the majority of companies are listing on MOEX, two have chosen to list on the St Petersburg Currency Exchange (SPEB), which formerly specialised in foreign stocks but now focuses on sanctioned companies. These two were: the Element Group (created on the basis of the assets of Sistema and Rostec); and Svetofor Group (a driver training operator). ●



bne:FX

## Bulgaria is not ready for eurozone, say European Commission and ECB

bne IntelliNews

**B**ulgaria is not ready for entry to the eurozone in January 2025 as it does not meet the inflation criterion, the European Commission (EC) and the European Central Bank (ECB) said in convergence reports issued on June 26.

The decision was expected by the authorities in Sofia, which have said a new convergence report might be requested in the autumn when the country should meet the last criterion. However, given the political instability and the slim chances of a regular government being formed in the current parliament, Bulgaria has little chance of joining the eurozone any time next year.

“In May 2024 the 12-month average rate of HICP inflation in Bulgaria was 5.1%, i.e. well above the reference value of 3.3% for the criterion on price stability. This rate is expected to decrease gradually over the coming months, as pipeline



pressures and supply bottlenecks continue to ease,” the ECB noted in its report.

It expects core inflation to remain persistently high, mainly due to strong wage pressures in the country where labour market remains tight.

“There are concerns about the sustainability of inflation convergence in Bulgaria over the longer term. The catching-up process is likely to result in positive inflation differentials vis-à-vis the euro area, since GDP per capita and price levels are still significantly lower in Bulgaria than in the euro area,” the ECB noted.

Meanwhile, Sofia needs to complete policy commitment set in 2020 when the country was accepted in the eurozone’s waiting room, the ERM II.

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Meanwhile, Sofia needs to complete policy commitment set in 2020 when the country was accepted in the eurozone’s waiting room, the ERM II.

“Bulgaria is currently working towards completing these post-entry commitments and is encouraged to accelerate its efforts to fulfil the elements of the action plan that was adopted by the Financial Action Task Force (FATF) after Bulgaria was placed on the FATF’s “grey list” of jurisdictions under increased monitoring in October 2023,” the ECB said.

The EC also concluded that Bulgaria does not meet the criteria for eurozone entry.

“In light of its assessment on legal compatibility and on the fulfilment of the convergence criteria, and taking into account the additional factors relevant for economic integration and convergence, the Commission considers that

Bulgaria does not fulfil the conditions for the adoption of the euro,” the EC said.

Bulgaria’s 12-month inflation as of May this year was by 1% higher compared to the reference value and is projected to remain higher in the following months. Bulgaria can catch up at the end of 2024 or in the beginning of 2025, according to EC’s estimations.

Bulgaria’s central bank commented in a statement that the authorities will keep working on fulfilling all criteria for eurozone membership. Caretaker Prime Minister Dimitar Glavchev said the country still has a chance to become a member of the eurozone later in 2025. ●



bne:Tech

## Who consumes the most power to mine bitcoins?

### Vladimir Kozlov in Cyprus

For years, the Kremlin has wanted to block YouTube. However, Russian authorities have been dragging their heels, waiting for YouTube’s local rivals to mature. Now that point is fast approaching: the growth of “RuTube” has been slow, but steady.

YouTube streaming speeds will be slowed due to “technical problems” with Google’s equipment in the country, state-owned telecom giant Rostelecom announced July 12. Rostelecom said that “growth in traffic” had led to a “serious overload” that serve YouTube videos and other Google services. “This may affect the download speed and playback quality of YouTube videos for users of all Russian operators,” Rostelecom said, the Moscow Times reported.

### YouTube still on top

According to tech research firm Mediascope, watching videos accounts for 18% of Russians’ total time spent on the Internet. YouTube remains the largest platform in this category. In March and April 2024, the service’s monthly reach was 90mn people, and in May it grew to 96mn.

At last month’s St. Petersburg International Economic Forum, Russia’s digital development minister Maksut Shadaev announced that local service VK Video had outpaced YouTube in mobile traffic, albeit by a symbolic 1%.

Last year, the State Duma, Russian Parliament’s lower

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



chamber, ruled out blocking YouTube until the arrival of full-fledged local alternatives. Back then, Alexander Khinshtein, chairman of the State Duma’s committee on information policy, told Interfax that “there is no adequate Russian replacement for YouTube at the moment, but the key word is ‘at the moment’.”

### Window of opportunity

Several video streaming services are operating in Russia, which in one way or another can be considered YouTube’s competitors. All of them have been recently gaining momentum, also taking advantage of a situation when YouTube is blocking pro-war and pro-Kremlin content.

In early July, YouTube blocked the channels of several major Russian artists who support the country’s war in Ukraine, following an appeal from the Lithuanian Radio and Television Commission (LRTK). LRTK threatened the streaming giant with fines, insisting that hosting pro-war artists was in violation of the EU’s sanctions.

Among the artists banished from YouTube were Shaman and Polina Gagarina, who were included in the EU’s fourteenth package of sanctions against Russia last month over staging concerts in occupied regions of Ukraine and participating in state-sponsored propaganda events.

YouTube also suspended the channels of singers Oleg



Gazmanov, Grigory Lepsveridze and Yulia Chicherina, all of whom have actively supported Russia's invasion of Ukraine.

### Local competitors on the rise

The biggest Russian video streaming services are RuTube, owned by the state-run media giant Gazprom Media; VK Video, the video arm of the social networking website VK); Dzen, formerly owned by the tech giant Yandex and sold to VK in 2022, and Nuum, a new project launched by the mobile phone giant MTS.

In March-April 2024, RuTube's monthly audience increased by 161% compared with the beginning of the year, Mediascope calculated. The platform's monthly reach amounted to 48.9mn people. The core of the audience also grew younger. Instead of the 45-54 years-old, as it was a year ago, now the core is made up of 25-34 years-old and 35-44 years-old viewers.

In April 2024, the audience of VK Video reached 70.5mn users, according to Mediascope. VK claims that average daily views increased by 21% and reached 2.5bn in the first quarter. And cumulative time spent viewing on the platform increased by 95% compared to the same period in 2023.

Dzen does not separately count its audience for video, as the platform also offers text content. Still, video is the most popular format on Dzen, accounting for 40% of all time spent on the platform.

Nuum, which has been operating for less than a year, said that it has over 6mn users per month, MTS said.

### Growth strategies

RuTube says it does not aim to replace YouTube, rather intending to become a convenient and interesting environment for bloggers. "But if YouTube is really blocked in Russia, RuTube will be ready," the company said. "We conducted a number of trials and tests showing that the platform will be able to accommodate all users within a short time." Similarly, Nuum does not see its task as "replacing YouTube."

MTS says that the service is developing its own business model, which will be different from that of YouTube. This model includes direct interaction between the creator and the advertiser, combining offline and online events. These can be integrations into festivals, concerts, creating online content based on backstage footage, interviews etc.

VK Video says it has been focused on creating exclusive content. It hired popular Russian bloggers, such as Satyr, Kukoyaki or Ida Galich, to make their shows. The service has also launched VK Video Originals, featuring cooking and travel shows, as well as documentary projects.

The VK Video team will soon release an application for tablets with interactive formats enabling users to interact with the content.

Dzen is pursuing a similar strategy. Between June 2023 and June 2024, it launched 18 exclusive shows. Content is posted by popular figures, such as Slava Marlow, Dmitry Kuplinov and Sergey Minaev. Meanwhile, Dzen is planning to monetize the exclusives and introduce a paid subscription.

"We have already started testing this feature," the company said in a statement. "Bloggers will be able to publish videos, articles and clips behind a paywall – for the full version, the service will offer users to pay for monthly access. Also, authors will be able to specify the cost of a monthly subscription to their exclusive content in the range from RUB99 (\$1.1) to RUB100,000 (\$1,135)."

### Challenging task

Still, building and running a Russian video streaming service that could compete with YouTube is a major challenge.

One issue that the local companies operating in this segment are facing is a shortage of qualified IT personnel, as many IT professionals have left Russia over the last two years, although as *bne IntelliNews* reported, Russia's brain drain

"Still, building and running a Russian video streaming service that could compete with YouTube is a major challenge"

is has reversed recently thanks to the flourishing Russian economy according to the Central Bank of Russia (CBR) latest macroeconomic survey, and a multitude of well-paid job opportunities.

Another major issue is building recommendation algorithms for which substantial amounts of user data are needed. "YouTube has a huge audience that can be segmented however you want, and for the entire time of use there is accumulated information about each user, as it is a product of the Google ecosystem," Sergey Grebennikov, director of the Russian Association of Electronic Communications (RAEC), was quoted as saying by the Russian business daily *Kommersant*. "The entire Google database, including information from the search engine and browser is also available to YouTube. As a result, their recommendations are more personalized and meet the interests of users".

In addition, content offered by Russian video streaming services is limited, especially in certain areas.

According to Grebennikov, Russian video services are lagging behind in some genres, such as user-generated educational content, which is in high demand as many video platform users go there to learn new skills.

### Can they replace YouTube?

Meanwhile, observers admit that none of Russia's existing video streaming services could realistically replace YouTube in the near future.

"No matter how much I advocate domestic video services, so far I do not see any alternatives to YouTube in terms of the volume and variety of content," Alexei Byrdin, general director of the Internet Video Association, told Kommersant. "True, our largest services have come close to YouTube in terms of monthly audience, but the daily audience and, most importantly, the total volume of media consumption, expressed in viewing time, are simply not comparable." However, according to Byrdin, it is still technically possible to create a global competitor to YouTube and Instagram,

as the example of TikTok shows. "And I will be glad to see the development of VK, RuTube, Nuum and other Russian platforms," he said.

Still, the Russian video streaming segment continues to attract new players. Last month, a Russian organization called the regional public centre for internet technologies presented a new video streaming service, Platform.

"Since 2020, YouTube has removed the channels of all Russian state-run TV networks, and continues to remove patriotic bloggers," says Platform's presentation, stating it as the main reason for the new project's launch. Incidentally, Platform's interface is very similar to that of YouTube, "so users will not have to change their habits". ●

## Croatia struggles with surge in cyber attacks

Aida Kadyrzhanova in Prague

Croatian institutions are grappling with a surge in cyber attacks, Deputy Prime Minister and Defense Minister Tomo Medved said, highlighting efforts by the Security Intelligence Agency (SOA) and the SK@UT centre to protect state bodies and critical infrastructure.

"It is extremely difficult to completely prevent all such attacks. Yesterday at KBC Zagreb, we demonstrated our reaction capabilities," Medved stated regarding DDoS hacker attacks on Croatian institutions on June 26, rendering them inaccessible for several hours. In the past five days, several similar attacks occurred.

Medved pointed out that cyberattacks on Croatian institutions and businesses have escalated since the onset of the conflict in Ukraine. "We witness these attacks almost every day," he said.

The Russian hacker group NoName057(16) claimed responsibility for disabling numerous Croatian institution websites via its Telegram channel. It listed targeted sites including the Ministry of Finance, Tax Administration, CNB and the Zagreb Stock Exchange, but did not claim the attack on KBC Zagreb.

Minister of Justice, Administration and Digital Transformation Damir Habijan confirmed that services were quickly restored and are now functioning normally. Forensic investigations are underway to determine any potential impacts.

Croatia has adopted the European Union's NIS2 Directive on cybersecurity. This has enhanced the capabilities of the SOA and its SK@UT centre, which now protect all state bodies and critical infrastructure.

Despite these measures, Medved pointed out the challenges in completely repelling such attacks. He stressed the importance of fostering a strong security culture among all employees.

Gordan Akrap, an expert in information sciences, explained that DDoS attacks work by overwhelming websites by connecting numerous infected computers. He mentioned Cloudflare as a potential solution to prevent such disruptions.

Medved spoke to reporters after submitting his candidacy for deputy president of the ruling Croatian Democratic Union (HDZ) in the party's internal elections.

When asked about the re-election candidacy of President Zoran Milanovic – a rival to the HDZ – Medved criticised Milanovic's tenure for constitutional violations and inappropriate public communication. ●



Russian hacker group NoName057(16) has claimed responsibility for disabling numerous Croatian institution websites.

# Russia's war-driven brain drain reverses as up to 45% of emigres return home

## bne IntelliNews

**R**ecent studies indicate that 15% to 45% of Russian emigrants have returned to Russia, reversing the brain drain that began following Russia's invasion of Ukraine in 2022.

There have been two large waves of emigration. The first occurred immediately following the invasion in February 2022 as conscientious objectors left the country due to Russian President Vladimir Putin's unprovoked aggression.

The second wave occurred after the Kremlin announced a partial mobilisation in September 2022 to shore up the faltering military campaign that saw Russia's army routed in the Kharkiv offensive, where the Armed Forces of Ukraine (AFU) retook hundreds of square kilometres of territory from the Russian forces. Men of military service age fled the country to avoid conscription, although most of those press-ganged into the military came from Russia's poorest regions according to a study of banking deposits dynamics.

Up to one million Russian citizens have left the country since the war started. A substantial portion of those who left are highly educated, urbanised, and mobile, representing valuable long-term human capital for host communities, academics Emil Kamalov and Ivetta Sergeeva wrote in a recent paper for Carnegie Endowment for International Peace.

A large number of IT professionals are amongst the emigres as their work is portable and they continue to earn salaries in exile. That has caused a headache for the Kremlin as these are amongst the most productive Russian citizens and difficult to replace.

"The return of these individuals to Russia suggests a significant shift in the migration patterns observed over the past two years," Kamalov and Sergeeva conclude.

Western leaders were quick to comment on the trend, noting the potential benefits of the influx of skilled Russian migrants to their countries. However, the ongoing process of return migration may challenge these initial expectations, as Russia appears to be reclaiming its skilled workforce.



Up to 45% of Russia's professionals that fled the country following the start of the war in Ukraine have returned home, after they struggled to get residency permits or are simply attracted back by the booming Russian economy. / bne IntelliNews

The emigrants are returning for a number of reasons. The fear of conscription has faded after the Kremlin's campaign to replenish its manpower via a campaign to attract volunteers has been very successful and seen the army increase in size by some 15% since the start of the war – sufficient to cover the losses at the front. Russian President Vladimir Putin has ruled out calling a general mobilisation of the population.

Finding work in other countries and a growing hostility towards the Russian emigres has been another factor. While the arrival of tens of thousands of Russians, who arrive with income and significant savings, proved to be an economic boon for countries like Kazakhstan, Armenia and Georgia, as time passes these populations have failed to integrate into the local communities and have been met with rising resentment. While a Russian passport entitles Russians to enter many countries of the Former Soviet Union (FSU) visa-free and entitles them to work, some countries, like Kazakhstan, have limited the term of residency permits for political reasons, forcing emigrants to move on after a year.

Still, others have been drawn home thanks to the booming Russian economy. The general labour shortage is even worse in the IT and professional services sectors which has dramatically driven up wages and made finding a good job easy. The war has if anything improved the quality of life for the average Russian thanks to dramatically rising real wages, pulling more emigrants home again.

The inflow of returnees may be temporary, as many of these professionals remain unhappy with the Kremlin's permanent break with the West, say the analysts.

"Returning is often a temporary option in order to regroup and gather the resources for a new attempt at emigration. According to data from the OutRush research project, of the 16% of respondents who returned to Russia between March 2022 and September 2022, around 80% had emigrated once again by summer 2023. For some, organising a new attempt to leave may take years, not months," the analysts say. ●





Extreme heat, droughts and wildfires significantly combined to reduce plants and trees' ability to fix carbon dioxide last year, adding to the acceleration of the climate crisis. / bne IntelliNews



bne:Green

## Plants absorbing less carbon dioxide in 2023, accelerating global warming

Ben Aris in Berlin

**P**lants' and trees' ability to absorb carbon dioxide fell dramatically in 2023, due to increased heat stress in vegetation, a new study revealed.

A "low latency carbon budget analysis" reveals a large decline in the land carbon sink in 2023, according to a new academic paper.

A tree typically absorbs 25kg of CO<sub>2</sub> each year (although bamboo absorbs about a third more carbon than a tree) and globally trees absorb an estimated 7.6 gigatonnes of carbon, acting as a net carbon sink, removing greenhouse gases.

"In 2023, the CO<sub>2</sub> growth rate was 3.37 +/- 0.11 ppm at Mauna Loa [in Hawaii], 86% above the previous year, and hitting a record high since observations began in 1958, while global fossil fuel CO<sub>2</sub> emissions only increased by 0.6 +/- 0.5%. This implies an unprecedented weakening of land and ocean [carbon] sinks, and raises the question of where and why this reduction happened," the paper authored by Piyu Ke et al reported.

The study found that while ocean carbon sinks were working fine, the problem was on land, where multiple factors affect the amount of CO<sub>2</sub> plants can absorb, including droughts, fires and man-made factors like logging.

"Land regions exposed to extreme heat in 2023 contributed a gross carbon loss of 1.73 gigatonnes a year, indicating that record warming in 2023 had a strong negative impact on the capacity of terrestrial ecosystems to mitigate climate change," the paper found.

As *bne IntelliNews* reported, trees were already "coughing not breathing" due to climate crisis stress, according to another earlier study. Trees are struggling to trap carbon dioxide in warmer, drier climates, meaning that they may no longer serve as a solution for offsetting humanity's carbon footprint as global warming accelerates, a study by Penn State university found.

"If the land carbon sink is decreased, it will be even harder



(impossible?) to get CO<sub>2</sub> concentrations down,” says Lee Simons, a climatologist.

But the trees themselves are physically in danger as a result of the extreme temperatures. One of the consequences of global warming is more wildfires that run out of control.

Yakutia, a Republic in Russia’s Siberia, is currently dealing some of its worst wildfires ever, with over 350,000 hectares on fire forcing the regional authorities to declare a state of emergency. And last year’s extreme fires in Canada put 2.1 gigatonnes of CO<sub>2</sub> back in the atmosphere in 2023.

To put these numbers into context, the 2.1 gigatonnes added to the atmosphere by the Canadian wildfires is more CO<sub>2</sub> than is produced by any country in the world, other than the three biggest emitters of China (11.4 gigatonnes), US (5 gigatonnes) and Russia (2.8 gigatonnes). It is also about a third of all the carbon that is absorbed by all the trees on the planet each year. If the CO<sub>2</sub> emissions from the wildfires in the US, Russia and SE Asia that are currently burning are taken into account, then it appears a large proportion of the carbon dioxide that should be removed each year by trees is being returned to the atmosphere by burning trees.

This is before other factors are included. For example, the Amazon forest, the “lungs of the world”, suffered from a severe drought last year that also impeded plants’ ability to

fix CO<sub>2</sub> and also accounted for a large fall in the carbon sink effect in 2023, according to Philippe Ciais, a climatologist with Laboratory of Science, Climate and the Environment (LSCE) at the Versailles Saint-Quentin en Yvelines University in France, that has raised similar concerns.

“The regions with the hot temperatures are losing the most carbon in 2010-22,” says Ciais. “Those losses were even higher in 2023, especially in the Tropics... Even if 2023 was a transition from a La Niña (good for carbon sinks) to a moderate El Niño, we see a sudden drop of the land carbon sink from extreme warming and Amazon mega-drought.”

“The decline of the northern sink was masked by recent good conditions in the Tropics absorbing CO<sub>2</sub>, but in the coming years if this decline continues, we may see a rapid acceleration of CO<sub>2</sub> and global warming which was unforeseen in future climate models projections,” Ciais adds.

The findings of this research are worrying scientists as plants’ falling ability to fix carbon dioxide is not included in the models. It has already become clear that the climate models are wrong as global warming is already accelerating faster than the most pessimistic scenarios, partly due to their failure to take account of the warming affect owing to the removal of aerosols from the atmosphere in the last few years. Now burning tree and coughing tree factors will have to be added to the calculations. ●

## Earth records hottest year since records began

### bne IntelliNews

**S**unday, July 21 was the hottest day ever recorded globally in 100,000 years according to the EU climate monitoring service Copernicus, warning that the Climate Crisis is accelerating.

According to preliminary data from Copernicus’ ERA5 dataset, July 21 was the hottest day in Earth’s recorded history, with an average global surface air temperature of 17.09°C (62.76°F).

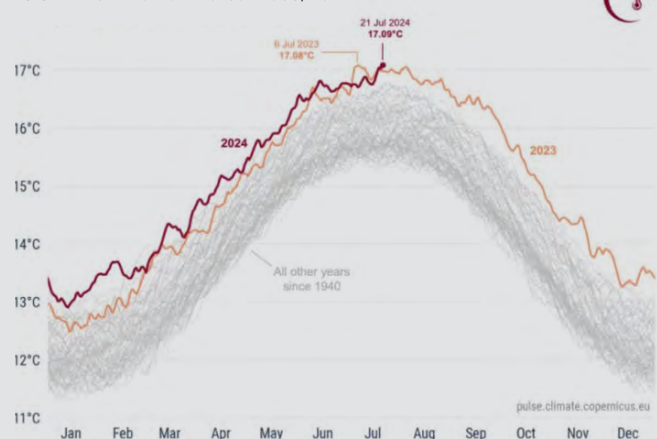
The temperatures were significantly higher than any temperature for millennia, according to paleoclimatologists, who study Earth’s natural environmental records recorded in sediments at the bottom of the oceans and preserved in the rings of trees, amongst other sources.

Last year was already the hottest on record as temperatures exceeded the long-term pre-industrial average benchmark by more than 1.5°C in every month of the year in 2023. However, July 21 sets a new all-time high for the mid-summer peak in temperatures, above last year’s peak.

However, 2023 didn’t breach the 1.5°C limit set by the Paris Agreement as when seasonal fluctuations, caused by weather phenomena such as El Niño, the adjusted average temperature was 1.3°C. The 1.5°C limit is considered breached

#### Daily global surface air temperature

Data: ERA5 1940-2024. Credit: C3S/ECMWF



only if the adjusted temperatures, taking out seasonal fluctuations, is above 1.5C for three years in a row.

And the world is rapidly moving towards that point. As *bne IntelliNews* reported, six of the nine planetary boundaries have already been breached, up from three in 2009, and the major developed countries like the EU and the US have already used up their carbon budget – the amount of emissions they are allowed to emit under the terms of the Paris Agreement and still leave a 50% possibility of staying under the 1.5C temperature rise threshold.

At the same time the retreat of the global ice caps has also accelerated, with the level of the ice's retreat exceeding five standard deviations from its normal fluctuations in the changing seasons.

In statistics, the standard deviation is a measure of the amount of variation of a random variable expected from its average value, which is usually described by the Gaussian, or “normal distribution”, curve. Typically, about half the events are within one standard deviation with up to 95% within two

deviations. An event that is five standard deviations from the mean value is a significant outlier and right at the very edge of the normal distribution curve – what could be described as “almost off the chart.”

“Last year was already the hottest on record as temperatures exceeded the long-term pre-industrial average benchmark by more than 1.5C in every month of the year in 2023”

“As if setting a global surface temperature record wasn't enough for one day, for the first time this year Antarctic sea-ice extent is more than 2 million km<sup>2</sup> below the 1991-2020 daily mean, now at -5.35 standard deviations,” climate observer Professor Eliot Jacobson said in a tweet. ●

## Investment into green energy to top \$2 trillion in 2024 for first time – IEA



Investment into green energy to top \$2 trillion in 2024 for first time, with a quarter of that going into solar power alone. / bne IntelliNews

### bne IntelliNews

**T**he world now invests almost twice as much in clean energy as it does in fossil fuels, according to a report by the International Energy Agency (IEA), but there are major imbalances in investment, and emerging markets (EM) outside China account for only around 15% of global clean energy spending.

The report found that investment in solar PV now surpasses all other generation technologies combined. Also the integration of renewables and upgrades to existing infrastructure have sparked a recovery in spending on grids and storage.

Global energy investment is set to exceed \$3 trillion for the first time in 2024, with \$2 trillion going to clean energy

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

technologies and infrastructure. Investment in clean energy has accelerated since 2020, and spending on renewable power, grids and storage is now higher than total spending on oil, gas and coal.

China is the world's green energy champion having produced more renewable energy in May alone than the rest of the world produced for the whole year in 2023. China is set to invest almost \$680bn in 2024, supported by its large domestic market and rapid growth in the so-called “new three” industries: solar cells, lithium battery production and EV manufacturing.

The EU is in second place with \$370bn invested into clean energy today, followed by the US investment in clean energy

increasing to more than \$300bn in 2024, 1.6 times the 2020 level and well ahead of the amount invested in fossil fuels. Given the size of the US economy, the level of investment is below par and much of the investment still goes into fossil fuels. Another large chunk of investment has gone into upgrading its grid as more renewable power comes online.

Power sector investment in solar photovoltaic (PV) technology is projected to exceed \$500bn in 2024, surpassing all other generation sources combined. Though growth may moderate slightly in 2024 due to falling PV module prices, solar remains central to the power sector's transformation.

"In 2015, the ratio of clean power to unabated fossil fuel power investments was roughly 2:1. In 2024, this ratio is set to reach 10:1," says IEA.

Nuclear power is also coming back in fashion. Investments in nuclear power are expected to pick up in 2024, with its share (9%) in clean power investments rising after two consecutive years of decline. Total investment in nuclear is projected to reach \$80bn in 2024, nearly double the 2018 level, which was the lowest point in a decade.

Grids have become a bottleneck for energy transitions, but investment is rising. After stagnating around \$300bn per year since 2015, spending is expected to hit \$400bn in 2024, driven by new policies and funding in Europe, the United States, China and parts of Latin America. Advanced economies and China account for 80% of global grid spending. Investment in Latin America has almost doubled since 2021 but from a low base, notably in Colombia, Chile and Brazil, where spending doubled in 2023 alone. However, investment remains worryingly low elsewhere.

Investments in battery storage are ramping up and are set to exceed \$50bn in 2024, but it is appeared almost exclusively in developed countries: in 2023, for every dollar invested in battery storage in advanced economies and China, only one cent was invested in other EMs.

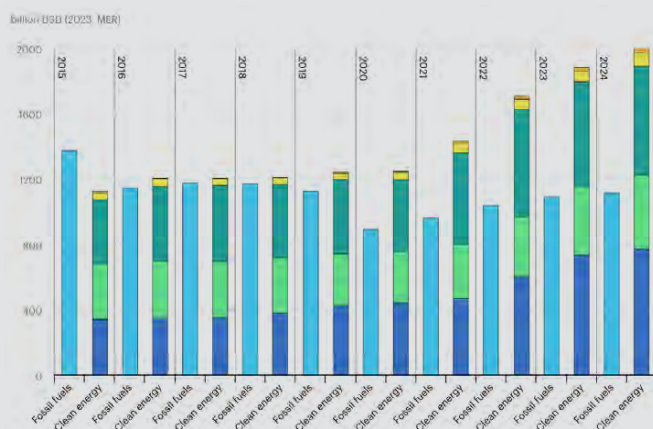
Rising interest rates has led to higher financing costs. However, that is offset by easing supply chain pressures and falling prices. Solar panel costs have decreased by 30% over the last two years, and prices for minerals and metals crucial for energy transitions have also sharply dropped, especially the metals required for batteries.

"The annual World Energy Investment report has consistently warned of energy investment flow imbalances, particularly insufficient clean energy investments in EM outside China. There are tentative signs of a pick-up in these investments: in our assessment, clean energy investments are set to approach \$320bn in 2024, up by more 50% since 2020. This is similar to the growth seen in advanced economies (+50%), although trailing China (+75%)," said the IEA.

The investment gains primarily come from higher investments in renewable power, now representing half of all power sector investments in these economies. Progress in India, Brazil, parts of Southeast Asia and Africa reflects new policy initiatives, well-managed public tenders and improved grid infrastructure. Africa's clean energy investments in 2024, at over \$40bn, are nearly double those in 2020.

"Yet much more needs to be done. In most cases, this growth comes from a very low base and many of the least-developed economies are being left behind," says the IEA. "In 2024, the share of global clean energy investment in EM outside China is expected to remain around 15% of the total. Both in terms of volume and share, this is far below the amounts that are required to ensure full access to modern energy and to meet rising energy demand in a sustainable way." ●

Global investment in clean and fossil fuels, 2015-2024

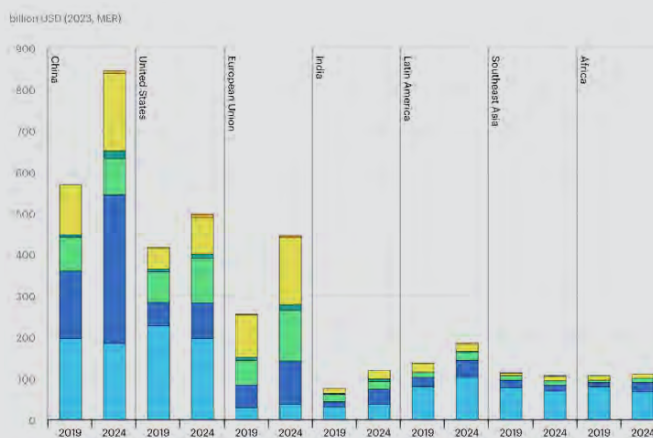


Source: IEA

IEA, License: CC BY

Legend: Fossil fuels, Renewable power, Grids and storage, Energy efficiency and end-use, Nuclear and other clean power, Low-emissions fuels

Annual investment in clean energy by selected country and region, 2019 and 2024



Source: IEA

IEA, License: CC BY 4.0

Legend: Fossil fuels, Renewable power, Power grids and storage, Nuclear and other clean power, Energy efficiency and end-use, Low-emissions fuels



# UKRAINE'S GOVERNMENT MULLS RAISING TAXES TO PLUG A \$12BN HOLE IN THE BUDGET

Ben Aris in Berlin





Ukraine's budget is short of UAH500bn (\$12bn) this year to finance its planned expenditures and it is not clear how the shortfall will be covered, other than by raising taxes and printing money.

Tax revenues in general have increased as the economy stabilises, according to the head of the Budget Committee, Roksolana Pidlas; the 2024 state budget lacks about UAH400-500bn (\$10bn-\$12bn), UBN reports.

The 2024 budget calls for \$43bn of spending, but international donors have only committed to \$38bn, and in the first half have already sent Kyiv \$16bn in assistance, of which an increasing share is loans, not grants.

The government has been working hard to improve its finances. An IMF team arrived in Kyiv on July 16 for the fourth review of the Extended Fund Facility, after which it will release the next \$2.2bn tranche. But it increasingly looks like the government will be forced to hike taxes – something the government has been loath to do until now.

“Ukraine has now reached the limit of its ability to finance its defence forces. All domestic resources are being allocated to the war effort – including taxes, dividends from state-owned companies, and proceeds from domestic borrowing. But it still isn't enough,” *Ukrayinska Pravda* reports.

The banking sector had a record year in 2023 and the government levied a special one-off 50% on profits to bring in extra cash; however, this year that rate will fall back to 25%. According to the Tax Service, companies in financial and insurance activities increased the payment of taxes, fees and payments to Ukraine's consolidated budget by UAH73bn in January-June, which is 170% more than in the same period last year.

The wholesale and retail trade and repair of cars and motorcycles segments raised their tax contributions by 23.4% (UAH24.7bn) and the processing industry by 18.4% (UAH20bn). The

largest tax payments came from wholesale and retail trade enterprises – 15.3% of all revenues.

The growing pressure on the budget means the government focus has switched from supporting the economy to raising money to pay for the military operation at all costs.

In March 2022, Ukraine's parliament, the Verkhovna Rada, passed a substantial package of tax breaks to support businesses and ensure the availability of essential goods during the initial shock of the full-scale invasion. However, two years later priorities have shifted, *Ukrayinska Pravda* reports.

The Cabinet of Ministers has delayed this unpopular decision, but with only a few weeks left to implement the necessary changes before the summer break, the defence forces risk losing funding during the war's active phase.

“The growing pressure on the budget means the government focus has switched from supporting the economy to raising money to pay for the military operation at all costs”

Ukraine is spending some 20% of GDP on defence, against Russia's 8%. Officials from Ukraine's financial and economic departments describe the defence forces' requirements as “urgent and substantial.” Despite upping defence spending for three consecutive years, the allocated funds barely cover a fraction of the military's needs. For the 2024 budget, the General Staff requested UAH17 trillion (\$420bn), but only UAH1.69 trillion (\$41.5bn) was approved.

The economy, battered by war, has contracted by nearly a third and growth slowed to 1.1% in June, and to 4.1% over six months, partly due to the impact of the destruction of half the country's generating capacity by Russian missile attacks. The slowdown

is now knocking on to affect the tax take, which is expected to fall further as major companies have lost production capacity and exports have also plummeted. Additionally, most international financial aid cannot be used for military expenditures.

Ukraine's government must raise an additional \$12bn to meet defence needs. The local bond market (OVDP) is another source of money, but it has largely been tapped out.

In June, the Ministry of Finance attracted more funds from OVDP auctions than it paid out to investors. In June, the Ministry of Finance raised UAH38.41bn (\$025mn) and \$407.33mn from the issuance of new domestic government bonds, of which UAH35.3bn of the total volume of OVDP issued in June were military bonds. However, much of the issue for the short maturity bonds has to be ploughed back into the market to refinance earlier issues.

And this is an expensive form of funding: the weighted average yield of OVDP bonds denominated in hryvnia was 15.58% in June, and 4.63% for those denominated in dollars. As of July 1, commercial banks (43.4%) and the NBU (41.3%) own the largest share of OVDP bonds, reports UBN. They are followed by legal entities (9.7%), and individuals (3.6%). Non-residents make up only 2% of the total.

Banks have been the biggest player on the OVDP market, but they are tapped out and do not have much capacity to increasing their bondholding, due to their own prudential limits, according to *Ekonomichna Pravda*. To boost bond sales, the National Bank of Ukraine (NBU) may loosen the rules.

### Tax hikes or printing

That leaves taxes and printing as the only other possible sources of fresh funding. The Rada is expected to vote on budget changes in the next few weeks.

One of the easiest and most effective tax hikes would be to increase value-added tax (VAT) and the military levy. Proposed changes include raising the VAT rate from 20% to 22-23% and the military levy from 1.5% to 5%, affecting all Ukrainians, including sole traders. These hikes could generate up to UAH190bn (\$4.6bn) annually, but still fall short of the required funds.

But even if the tax changes come into effect from early September, they will only bring in UAH 60-70bn (\$1.4-1.7bn) by the end of the year.

The other option is to simply print more. In the first six months of the war, the government was running a \$4bn a

month deficit and turned the printing presses on to fund it. However, that almost led to a financial meltdown, until Ukraine's international partners stepped in and launched their extensive financial aid packages.

Printing money looks like it is back on the agenda, as even the proposed tax hikes will still leave a hole of at least \$8bn in the budget. Agreements with the International Monetary Fund allow for limited monetary issuance as a last resort, but not on this scale.

Printing money obvious carries the danger of setting off a spiral in inflation rates. After miraculously bringing inflation down over the last two years, despite heavy spending to fight a war, inflation has started rising again more recently.

The government predicts an acceleration in inflation in the coming months. Consumer inflation fell to its

lowest level in recent years of 2%. But annual inflation rose in May to 3.3%, still below the NBU's target range of 5%, but inflation pressures are already building.

The sluggishness of prices rises have been the result of the economy's changed structure during the war; suppressed consumer demand did not match the gradual recovery of domestic supply, including the large harvest of 2023 and high imports that are outstripping exports. In addition, Ukraine's impaired power supply is also pushing prices down.

But turning on the printing presses again could outweigh all these factors and stoke fast inflation that will just make the budget shortfall problem worse.

As detailed by *bne IntelliNews* report on the lack of men, money and materiel, there are several new international aid





packages on the way, including a US \$61bn aid package approved on April 20, the EU's four-year €50bn support package passed in February, and most recently a G7 \$50bn loan backed by the profits from Russia's frozen that could be available soon.

The EU support is on the way, but it is spread out and this year's tranche will not cover the deficit and cannot be used for military spending anyway. Ukraine will receive €5.3bn in grants this year, says the Minister of Economy of Ukraine, Yulia Svyridenko, who signed the Financial Agreement between Ukraine and the EU that regulates the money that is part of the so-called four-year Ukraine Facility.

Of all the promised money, the most like to arrive soonest is the \$50bn G7 loan, but here too there are delays; developing a mechanism for fund transfer is complex, and these

resources are seen as a substitute for, not a supplement to, existing aid. The European Commission plans "very soon" to propose a \$50bn loan

**"But turning on the printing presses again could outweigh all these factors and stoke fast inflation that will just make the budget shortfall problem worse"**

to support Ukraine and finish all the necessary legislative work by the end of the year, said the European Commissioner for Economy, Paolo Gentiloni this week.

The aid plan based on the proceeds from frozen Russian assets will also be discussed by finance ministers and central bank governors of the

G7 countries in Rio de Janeiro on July 25-26. The problem is that the EU is looking for ways to circumvent resistance to support for Ukraine from

Hungary, the EU's most pro-Russia nation that currently holds the bloc's rotating presidency.

Even these packages will not be sufficient as the cost of the war is running at an estimated \$100bn a year or more, according to Timothy Ash, the senior sovereign strategist at BlueBay Asset Management in London. ●





The Dutch Freedom Party (PVV) of Geert Wilders (pictured left) has now joined the Patriots for Europe faction co-launched by Viktor Orbán (right). / bne IntelliNews

## Orbán's new right-wing alliance meets legal threshold to set up faction in EP

Tamas Csonka in Budapest

The Danish People's Party and the Flemish Vlaams Belang have joined the radical right-wing alliance launched by Hungarian Prime Minister Viktor Orbán, Patriots of Europe, which should enable the alliance to meet the legal threshold for the establishment of a new faction in EP, which requires drawing at least 23 MEPs from seven countries, local media wrote on July 6.

A day before Hungary's rotating EU presidency began on July 1, Orbán's party Fidesz announced that it would form a caucus in the European Parliament with the populist ANO party of former Czech prime minister Andrej Babiš and the far-right Freedom Party (FPÖ) of Austria's Herbert Kickl.

The Patriots for Europe group, as it has been named, challenges the radical-right European Conservatives and Reformists (ECR) and the far-right Identity and Democracy (ID), the latter of which was the erstwhile home of the FPÖ.

The creation of a third EP group to the right of the centre-right's European People's Party (EPP) demonstrates the fragmentation of the hard right and its

divisions, notably over Russia's invasion of Ukraine. But it also illustrates the way that Orbán, as the leader of only a middle-sized country in the EU, has become one of its most influential leaders on the right, reconstructing the party factions in a way that puts him at the centre.

As *bne IntelliNews* reported, the radical right-wing Hungarian prime minister has been in talks with ANO, Polish PiS,

"Hungary's nationalist leader has been trying to lure PiS from the ECR to join his alliance of Central European nationalists but was rebuffed by his ally, former Polish Prime Minister Mateusz Morawiecki"



Slovenian SDS and the Slovak Smer of populist Prime Minister Robert Fico.

Previously, he had expressed an intention to join ECR, but due to the opposition of some of its members over Hungary's pro-Moscow stance, ECR party leader and Italian premier Giorgia Meloni rejected his plea. To save face, Fidesz argued that they refused to join because ECR accepted "anti-Hungarian" Romanian far right party ARU to its ranks.

Hungary's nationalist leader has been trying to lure PiS from the ECR to join his alliance of Central European nationalists but was rebuffed by his ally, former Polish Prime Minister Mateusz Morawiecki.

Later the Dutch Freedom Party (PVV), which won the Dutch elections in November, the Portuguese Chega party and the Spanish Vox joined the Patriots for Europe, the latter leaving ECR. The

leader of Italy's La Liga Matteo Salvini signalled that his party could also join the new right-wing alliance, saying that "they are working on it".

Hungary's leader has toured European capitals in the past weeks to discuss the country's presidency priorities, but talks also evolved around gathering support for the new right-wing alliance.

The manifesto, signed on June 30 in Vienna, outlines the vision for a Europe consisting of strong, independent nations that reject further centralisation of power in Brussels and uphold national sovereignty, fighting illegal migration and pushing back EU measures to reduce climate change.

The Hungarian prime minister announced that the parties would convene on July 8 in Brussels for an inaugural meeting, but that will probably be rescheduled as Orban arrived

in China in the early hours of July 8.

Liberal hvg.hu, citing *Le Monde*, writes that the big question is whether France's National Rally would be ready to join the new alliance with its 30 MEPs. National Rally suffered an unexpected defeat in the runoff in the French general election at the weekend, falling to third place after leading in the first round the previous weekend.

In that case, Marine Le Pen's ID faction would be emptied and the Patriots of Europe would become the third-largest faction in the EP, which would bolster Orban's aspiration as a leader of Eurosceptic forces in the EU. He has campaigned with the slogan of taking back institutions from bureaucrats.

Individual factions are to file their names and deputies by July 15 before the opening session of the new European Parliament on July 16-19. ●

## Slovak PM's Smer party isolated in European Parliament after split from S&D group

Albin Sybera in Bratislava

**T**he leftist Smer party of the Slovak populist Prime Minister is set to remain isolated in the European Parliament after Fico slammed the European Socialists & Democrats as "having nothing in common" with left-wing politics and social democracy.

Fico made the comments in a YouTube video shortly after a veteran Smer politician and a leader of Smer's five MEPs, Monika Benova, told media that she "won't be talking to socialists any further" over Smer's joining of their European Parliament fraction, as *bne IntelliNews* reported last week.

The Party of European Socialists (PES), the umbrella group for Europe's Socialist parties, suspended Smer as well as its key coalition partner, the centre-left Hlas party, after Smer and

Hlas formed a ruling coalition with far-right SNS last October.

Fico said he conditions Smer's return to the Socialist grouping with what he terms a "sovereign" stance on the war in Ukraine, migration, EU veto and ethical issues.

The Smer-led coalition axed the state military aid for Ukraine shortly after making a comeback to power and the party leaders maintained aggressive anti-immigration rhetoric. Fico has repeatedly slammed Brussels for "gender ideology" and openly cosied up to the Hungarian radical right-wing strongman Viktor Orban a hardened political stance criticised by the opposition and liberal media for serving as a cover to pursue a power grab at home.

Speculations in the Czech and Slovak media have previously ensued that Smer

is on the way into the "Patriots for Europe" grouping set up by Orban, together with Austrian far-right leader of FPÖ party Herbert Kickl and Czech billionaire populist and ex-PM Andrej Babis.

Babis has been a staunch backer of Fico and his Smer party and is eyeing a return to power in Prague at next year's parliamentary elections, closely observing Fico's success in Bratislava last year.

Fico founded Smer in the early 2000s as initially a "third-way party" but gradually took over a large part of the traditionally strong socialist electorate in Slovakia while maintaining nationalist and conservative messages blended with nostalgia after the communist regime in the then Czechoslovakia which ended in 1989.

"Robert Fico has for long years relied



Slovakia's PM Robert Fico has axed state military aid for Ukraine and openly cosied up to Hungarian radical right-wing strongman Viktor Orban. / Smer

primarily on promising "certainties," social packages and nostalgic talks about the previous regime," commented editor at *DennikN* daily Vladimir Snidl, adding that after the 2018 murder of investigative journalist Jan Kuciak Fico abandoned attempts to appeal pro-EU voters.

"After the murder and mainly during the Covid, he [Fico] reoriented to a completely

different target [group]. One which listens to conspiracy theories and hate [narratives] – against media, the West, liberals, NGOs, minorities, etc.," Snidl said.

In a separate message, Fico also stated that "if the attacker on Donald Trump knew Slovak, he would just need to read [liberal outlets] *DennikN*, *SME* or *Aktuality.sk*, to get a taste 'to get things

in order' with disobedient former President of USA" in yet another one of Fico's attacks on media, which he has referred to as "enemy media."

Fico, who survived the assassination attempt in mid-May after being shot multiple times, called the shooting at the Trump rally in Pennsylvania, a "copy-paste scenario," adding that "political opponents of Donald Trump are trying to lock him [Trump] up and when this doesn't work out, then they whip up the public so much until some poor chap grabs a weapon."

Fico has faced criminal investigation himself in the recent past while other high-ranking Smer officials are still investigated.

After making several public appearances in the last two weeks Fico declared "I am back" with a renewed aggressive style of politics which many analysts and commentators have blamed for deepening the divisions cutting through Slovak politics and society, which is also proliferated by disinformation and pro-Russian propaganda. ●

## Slovakia's populist government tames the broadcasters

Albin Sybera in Bratislava

Slovak journalists fear the creeping "Orbanisation" of their country's media as Robert Fico's left-right populist government tightens state control over the main public broadcaster, and private television channels tone down critical coverage.

On June 30 incoming President Peter Pellegrini signed a bill to restructure the public broadcaster RTVS into STVR [Slovak Television and Radio], a proposal that has sparked domestic and international protests since it was introduced in March. The bill became law on July 1. Pellegrini stressed on his Facebook social media page that the bill

is "not in conflict with the Constitution of the Slovak Republic and it is not an infringement on the freedom of speech".

Pellegrini was slammed by liberal media for the speed with which he signed the bill, days after Fico's coalition pushed it through parliament in a shortened legislative process, relying on its narrow majority of 78 out of 150 seats.

Peter Bardy, editor-in-chief of online news outlet *Aktuality.sk*, wrote that the first steps of Pellegrini, who was backed by Fico during the presidential campaign, show that the former Hlas party leader is not going to be the

Thomas Becket of Slovak politics and turn on his former party boss Fico, who is an open admirer of Hungarian strongman Orban.

The broadcasting bill ejects the RTVS' long-term CEO Lubos Machaj and will give the Ministry of Culture four appointees on the new nine-member STVR governing body that will elect the new CEO. The other five members will be appointed by parliament. There will also be an ethical commission overseeing the STVR programming.

Opposition parties expect the new CEO, who has yet to be appointed, to trim the

public broadcaster's coverage to suit the ruling coalition. They will challenge the legislation at the Constitutional Court.

The European Commission is also likely to take action. Vera Jourova, outgoing European Commissioner for Values and Transparency, told *bne IntelliNews* last month that she would launch proceedings against Slovakia under the EU principle of sincere cooperation if the bill were passed.

Some of RTVS' top journalists are already leaving. Former RTVS host Miro Frindt, who announced he was leaving the public broadcaster last month, is to become one of the leading faces of the newly set up Slovak branch of the Czech online television DTVV. He said the new online television will "present also less acceptable views", leading daily SME reported.

RTVS "will become 'state television' – the term I've begun using in connection with the public broadcaster in Viktor Orban's Hungary," says Zsolt Gal, a Slovak-Hungarian political scientist at Bratislava's Comenius University.

The potential neutering of the public broadcaster comes as Slovak commercial television stations pledge their loyalty to the new regime by scaling back investigative reporting and political coverage.

Critics argue that private owners of media such as Czech financial group PPF (owner of broadcaster Markiza), J&T (owner of broadcaster Joj), Slovak financial group Penta (owner of the News and Media group of dailies) and Czech businessman Michal Voracek (owner of broadcaster TA3) are more concerned about the value of their investments and their other business interests in the country than standing up for independent journalism and democracy.

Journalists at Markiza, the largest commercial television, announced a strike alert in May after the suspension of the country's most popular political programme Na telo [To the bone], following an unauthorised address on air by host Michal Kovacic, who warned against the creeping "Orbanisation"

of the Slovak media. Kovacic also complained about editorial interference in the show by the management of the broadcaster.

Leading intellectuals and artists addressed an open letter to the Kellner family, owners of the PPF Group, urging it to prevent the "normalisation" of Markiza. The Czech branch of the International Press Institute (CZ IPI) also addressed an open letter to Renata Kellnerova and PPF Group's CEO Jiri Smejck at the end of May, calling for their "personal guarantees" to maintain Na telo and Kovacic in Markiza's programming.

Smejck told Czech media that the financial group is trying to re-establish objectivity at the broadcaster. "We just want, and we have some monitoring systems in place, for the news to be objective," he said.

The country's other main news broadcasters – Joj and TA3 – are much smaller than RTVS and Markiza and had already largely given up on in-depth political news coverage, meaning that the populist government is now unlikely to be put under scrutiny on television, still the main media for most Slovaks.

### Spreading disinformation

"The situation in Slovakia could in one year's time be even worse than the one in Hungary," says Gal, pointing out that at least Hungary still has the relatively objective RTL television of the Luxembourg-based RTL Group.

He expects the quality of the restructured public broadcaster to drop dramatically, pointing to Hungary, where the public media lost the respect of professional journalists as well as part of its viewership after the Orban regime's takeover. "Vulgarisation and Russian propaganda will become the norm," he warns.

The background of new Culture Minister Martina Simkovicova, who was nominated to the cabinet by the far-right SNS party, is a particular worry. She is a former presenter at TV Slovan, a channel spreading hoaxes about the COVID-19 pandemic, climate change and the war in Ukraine.

Other figures in the new government have also made a habit of appearing on disinformation channels or of spreading disinformation themselves on their social media. Fico himself has been accused of spreading disinformation about COVID-19, the Russian invasion of Ukraine, and climate change.

Minister of Environment Tomas Taraba (SNS nominee) has appeared regularly on disinformation channels such as Infovojna (Infowars). In March Minister of Interior Matus Sutaj Estok (Hlas) took part in an online debate together with Daniel Bombic, an extremist who faces extradition from the UK to face three warrants for his arrest in Slovakia, including over anti-semitism.

"We won't move forward when the government is one of the major spreaders of disinformation," says Eva Mihockova, an investigative journalist at Zastavme korupciu [Let's stop corruption] NGO.

Gal predicts that in Slovakia nothing apart from "liberal electronic media with their print versions" could remain of the independent news media.

Yet Slovakia's thriving independent newspapers such as Dennik N and Sme separate it from Hungary, where the Orban regime has destroyed the financial basis of the free press by withdrawing advertising by state bodies and companies, and then used friendly oligarchs to buy up the remaining titles and close them down or change their orientation.

Eva Mihockova told *bne IntelliNews* that the Slovak media "won't be in such a bad shape" as the Hungarian one. Mihockova pointed out "the traditionally strong third sector" in the country, which she added draws on the experience of countering Vladimir Meciar, the country's populist founder, in the 1990s.

Mihockova says that even though the electronic liberal online outlets and their print versions have "a relatively narrow circle of readers" who keep it going, these, nevertheless, are capable of "opening important themes" with their quality reporting, which even the openly pro-government outlets won't be able to ignore. ●



Viktor Orban (left) with Italian premier Georgia Meloni during his pre-presidential tour. / bne IntelliNews

## Hungary vows to use its EU presidency to "Make Europe Great Again"

**Tamas Csonka in Budapest**

**H**ungary assumed the rotating EU presidency on July 1 under the controversial slogan "Make Europe Great Again", echoing Donald Trump's campaign slogan, but has promised to be an honest broker and ready for compromise, something that Prime Minister Viktor Orban's government has not been famous for over the last 14 years.

Hungary's radical right-wing strongman has big plans for the six-month EU presidency, even though it falls into a transitional period following the European Parliament elections, which means that much of the next six months will be taken up with installing a new European Parliament and Commission.

Analysts note the presidency could serve Orban as a PR tool to portray himself at home as an influential leader, but at an EU level his reputation has been irretrievably tainted by the way he has torpedoed common EU policy with his blackmailing tactics in the past few

years, notably over Ukraine and Russia. Hungary's leader is often accused of being the Trojan horse of Vladimir Putin for fostering strong political and economic relations with the Russian president despite the war.

Orban was also the only leader to vote against an extension of Commission President Ursula von der Leyen's mandate, something which is unlikely to endear

**"Orban was also the only leader to vote against an extension of Commission President Ursula von der Leyen's mandate, something which is unlikely to endear him to the EU's most powerful executive"**

him to the EU's most powerful executive. The composition of the European Commission will not be influenced by the Hungarian presidency as the decision

had been made to split up the jobs between the top three EP factions, much to the dislike of the Hungarian premier. Hungary's illiberal leader called the deal by the three leading factions shameful. The EPP, the socialists, and the liberals had formed a coalition, "of lies and deception" to name the next leaders of EU institutions, he said.

He has also been in a longstanding conflict with the European Parliament, which opened Article 7 procedure in 2018 against Hungary for its breaches of the EU's rule of law values. The EP had even attempted to block Hungary from taking up the rotating presidency on the grounds that it was unfit to hold the role.

There is a fear, however, that at the helm of the European Council, Hungary could slow down accession talks with Ukraine and the ongoing Article 7 procedure against his own country, but according to diplomats, his room for maneuver will be limited.

Orban also received a sobering message ahead of assuming the presidency from Belgian Prime Minister Alexander De Croo. "The presidency does not mean you are the boss of Europe but that you are the one who has to make a compromise. That it is an interesting position to be in at least once in your lifetime, so I can recommend it to Mr. Orban," he said at his farewell press conference on June 28.

The political constellations are also unfavourable for the 60-year-old veteran, who is taking on the baton from Belgium

after a string of setbacks at home and on the international stage. He campaigned with the slogan of "capturing" Brussels, referring to a potential breakthrough



of radical right-wing forces in the EP election but this failed to materialise and his own party won fewer seats than five years ago.

Following the disappointing election result, Orban singled out EPP leader Manfred Weber as an old-new nemesis, calling him a 'Hungarophobe' a few days after Weber's trip to Budapest to welcome Orban's new rival, Peter Magyar's Tisza Party and its seven new members to the EPP.

The future of the 11 MEPs of Fidesz hangs in the balance. Orban was hoping for a resurgence of right-wing parties and that Marine Le Pen's ID party and the ECR led by Giorgia Meloni would cooperate. Instead, after Meloni turned down his request to join the ECR, Orban began to seek partners to set up his alliance with the support of his political allies in the V4 countries of Central Europe. Orban has reportedly tried to lure former Polish prime minister Mateusz Morawiecki to leave Meloni's party, but it remains unknown whether he will succeed.

In the meantime after a diplomatic marathon over the past few days, Hungary's nationalist leader on June 30, just a day before Hungary takes over at the helm of the Council, announced the formation of a new EU parliamentary alliance with Austria's far-right party FPÖ and the Czech populist group of ex-prime minister Andrej Babis. In the manifesto presented on Sunday, the Patriots for Europe outlined the vision for a Europe consisting of strong, independent nations that reject further centralisation of power in Brussels and upholds national sovereignty.

### Goals of the presidency

Permanent Representative of Hungary to the EU Balint Odor said the country's presidency will be like any other. "We will be honest mediators, we will try to cooperate sincerely with EU countries and institutions", he said.

EU Affairs Minister Janos Boka in mid-June presented seven priorities for the next six months: improving competitiveness, common defence, and

the defence of external borders, as well as advancing enlargement and promoting cohesion policies, agriculture, and addressing demographic problems.

Hungary, which itself ranks at the bottom end of the EU in competitiveness, aims to draft a new European competitiveness

**"In preparation for the presidency, Viktor Orban signalled that he wanted to make the issue of migration a focal point of the forthcoming presidency and seek to increase funding for this purpose"**

pact before the end of 2024, which would include giving incentives to the spread of EVs. It includes the development of a technology-neutral industrial strategy, support for SMEs, and promotion of green and digital transitions. Budapest could evaluate the need for targeted, European-level intervention to strengthen the common EU defence system.

The Hungarian presidency will likely oversee the adoption of the "VAT in the Digital Age" proposal package of the European Commission. Hungary has made headway in the fight against the black economy, bringing the VAT gap down significantly and introducing tools such as invoicing or cash registers, or electronic reporting of transport goods to combat fraud.

The enlargement of the EU will also be a top priority, with a focus on West Balkan countries and not Ukraine or Moldova.

According to Budapest, integrating Western Balkan countries is a vital economic interest as well as a political and security need. Hungary's diplomacy has slammed the EU for the delay in talks with these countries. The Hungarian presidency plans to organise an EU-Western Balkans Summit in the region and to hold intergovernmental conferences with candidate countries when appropriate.

Hungary, however, will not promote Ukraine's and Moldova's accession negotiations.

The decision to give Ukraine candidate status hence was brought forward by the Belgian presidency and the next aid package has also been cleared as EU

members feared that Budapest, which has obstructed the disbursement of EU funds to help arm Ukraine, would block Kyiv's accession talks.

Intergovernmental conferences with all five Western Balkan candidates are on the table, including opening new chapters with Serbia, closing at least seven chapters with Montenegro, opening initial chapters with Albania, establishing a negotiation framework with Bosnia and Herzegovina, and starting talks with North Macedonia's new pro-integration government.

In preparation for the presidency, Viktor Orban signalled that he wanted to make the issue of migration a focal point of the forthcoming presidency and seek to increase funding for this purpose.

The fight against illegal migration has been a cornerstone of Orban's policy since the 2015 migration crisis and a recurring theme of his campaigns against his opponents at home and in the EU.

To improve the resilience of the Common European Asylum System, the Hungarian Presidency will encourage member states to exchange views on innovative solutions in the field of asylum, the detailed plan of the presidency reads.

Demography has been an important talking point of Hungary's ruling

nationalist-conservative government, but it is unclear how this problem affecting most European countries could be addressed at a supranational level.

The Orban government has mainly used the issue as an argument against migration, while it is now facing an insurmountable challenge in addressing labour shortage at home which requires the inflow of foreign workers.

Promoting sustainable agriculture is a key priority to finding a rational balance regarding the strategic objectives of the European Green Deal, the stabilisation of agricultural markets, and a decent standard of living for farmers, according to the programme.

Hungary, which has been one of the biggest beneficiaries of the EU's cohesion policy, will aim for a high-level strategic debate on the future of the policy, which plays a key role in promoting competitiveness and employment, as well as in addressing demographic challenges.

According to comments by Hungarian government officials over the past few months, economic development and GDP per capita should remain an important criterion in the allocation of resources.

The reinforcement of the European Defence Policy is one of the few areas

where the Hungarian government's actions have aligned smoothly with the EU's goals and targets. Budapest has embarked on massive development of its armed forces and increased its GDP spending to over 2% of the GDP.

The European Union must play a greater role in guaranteeing its security by strengthening its resilience and capacity to act, the detailed document reads.

#### **Hungarian-China ties**

Hungary's EU presidency will also be a critical period for China's influence in Europe, according to observers.

Beijing views this period as a strategic window to reinforce its economic and political ties. Budapest has increasingly aligned itself with Beijing, raising questions about the future of EU-China relations.

The Orban government's inclination to support China is not solely based on ideological alignment but has major economic foundations as the country has become the top trading and investment partner of the Asian superpower in recent years.

Bilateral trade had exceeded \$17bn last year, while China accounted for the largest volume of FDI in the country. In 2023, Hungary received 44% of all

Chinese FDI in Europe, overtaking the "big three", France, Germany, and Italy, benefitting from the surge in electric vehicle (EV) investments. Over two-thirds (69%) of Chinese FDI was made in the EV sector in 2023, up from 41% in 2022.

The upsurge in Chinese economic activity in Hungary has coincided with the freezing of EU funds to Hungary.

The two countries elevated their strategic partnership during Chinese President Xi Jinping's visit to Budapest in May.

In a recent phone conversation, Hungarian Foreign Minister Peter Szijjarto assured his Chinese counterpart, Wang Yi, that Budapest would leverage its EU presidency to foster mutual understanding and cooperation between Europe and China. One of the immediate economic concerns is the EU's planned tariffs on Chinese electric vehicles, set to go into effect next month. Hungary as a key supplier of EV batteries to Western Europe has vehemently opposed the move, saying the protection measure could trigger a trade war.

Hungarian diplomacy has sought dialogue-based solutions to trade conflicts, but this stance is expected to conflict with efforts by Washington to build a united Western front. ●

## **Estonian Prime Minister Kaja Kallas resigns**

### **Linus Jegelevicius in Vilnius**

**A**fter securing the nomination as the European Union's high representative for foreign affairs and security policy, Estonian Prime Minister Kaja Kallas on July 15 submitted her resignation to President Alar Karis, a statement from the presidency said.

Kallas has been the country's prime minister since 2021, heading three consecutive governments. However, after winning re-election last March,

Kallas' popularity has swiftly tumbled after she belatedly announced she was planning tax rises to bring down the country's budget deficit, even though the economy was still struggling to emerge from recession.

Kallas has also appeared hypocritical in her hawkish stance on sanctions against Moscow after it was revealed that her husband's logistics company had continued to operate in Russia after the invasion.

Karis thanked Kallas, who led the government for three and a half years.

"It has been a time of crisis, with the coronavirus, the recession, and the war in Ukraine shattered our security picture," the president said, according to the statement from the presidency.

Attention now turns to the formation of a new government. The current coalition partners – Reform, SDE and Eesti 200

– are in talks over a new cabinet, with Kristen Michal, who has been nominated as the Reform Party's prime ministerial candidate, likely to become the country's new PM, reported ERR.ee.

"The Reform Party, the current prime minister's Party, which has the largest parliamentary group in the country with 37 members after the elections, has nominated a candidate for a possible head of government. I would now like to hear the views of all the parliamentary parties on who they think can form a workable majority government, given the strengths of the Riigikogu (the Estonian Parliament)," Karis said.

A new government is likely to take office at the start of August. Meanwhile, Kallas has said she will resign as Reform Party chairman later this summer.

Karis also commented on the economy after a disastrous streak under Kallas; the country has been in a recession for over two and a half years now.

"Estonia needs a government that governs and makes decisions that help to boost the economy, safeguard our security and thereby ensure the security and well-being of the Estonian people," the president said.

Before her appointment as the EU's new foreign policy chief, Kallas had expressed interest in the secretary-general position at Nato, but, with her chances diminishing, she endorsed Mark Rutte of the Netherlands. ●

"A new government is likely to take office at the start of August. Meanwhile, Kallas has said she will resign as Reform Party chairman later this summer"

## Tusk's coalition fails to deliver on abortion

### bne IntelliNews

Poland's ruling majority of centrists, conservatives and leftwingers, headed by Prime Minister Donald Tusk, failed to pass a law on July 12 aimed at easing some of the country's strict anti-abortion regulations.

Loosening Poland's draconian abortion laws – which result in almost no legally possible terminations, also impacting legitimate cases where doctors do nothing for fear of being prosecuted – was one of the key pledges by Tusk in the run-up to the election in October 2023.

But the four-party coalition Tusk is leading is made up of the strongly conservative Polish People's Party (PSL) as well as individual anti-abortion MPs from other parties – including Tusk's own Civic Coalition.

Those MPs voting against or not voting at all – despite some being present at the plenary – effectively sunk the proposal, with 215 votes in favour and 218 against, triggering a crisis of credibility in the coalition.

The rejected proposal sought the abolition of criminal liability for assisting in the termination of a pregnancy if helping a close person, and also the abolition of criminal liability for doctors in the case of termination of a pregnancy up to 12 weeks old.

After the vote, Tusk suspended two MPs from his party, also stripping them of their functions in the parliamentary caucus and the government.

"The proposal that had the potential to bring a semblance of normalcy to the lives of women in Poland was rejected today by PSL. These are the MPs who belong to the ruling coalition elected by women," Federal, a women's rights organisation, said in a statement following the vote.

"The rejection of the proposal is a slap in the face to each and every one of us," it also said.

The left is planning to submit the proposal again before the parliament's summer break that begins in August.

The failed attempt to pass the proposal also hits Tusk's strategy of passing laws that President Andrzej Duda, an ally of the formerly ruling Law and Justice (PiS), is likely to veto. As Duda is stepping down next year, his vetoing the government's laws would work in favour of a Tusk-endorsed candidate versus anyone fielded by PiS. ●





# Egypt and Serbia add their voices to the growing number of calls to end the fighting in Ukraine

## Ben Aris in Berlin

**T**he calls for a ceasefire in Ukraine continue as Egypt and Serbia add their voices to the growing number of calls to end the fighting in Ukraine.

As *bne IntelliNews* reported, Ukraine is inching towards a ceasefire as pressure grows on Kyiv. The governments of Egypt and Serbia called for a resolution to the Ukraine crisis “as soon as possible,” Egyptian President Abdel Fattah el-Sisi said at a joint news conference with his Serbian counterpart, Aleksandar Vucic, who is visiting the Egyptian capital, on July 13.

“In terms of international issues, our discussions dwelled on various aspects, first of all the Ukraine crisis,” el-Sisi told

reporters. “We emphasised the need to reach peace as soon as possible,” he added.

Egypt has emerged as one of Russia’s strongest supporters in Africa. El-Sisi was a guest of honour at the 2023 St Petersburg International Economic Forum (SPIEF), where he co-hosted the plenary session with Russian President Vladimir Putin. Egypt has turned to Russia to supply it with grain and nuclear power technology, amongst other things.

Serbian President Aleksander Vucic is also a close Russian ally, despite the country’s concurrent bid to join the EU. Belgrade has refused to impose sanctions on Russia and continues to

import significant amounts of Russian gas to power its economy.

Nevertheless, the *Financial Times* revealed that Serbia has indirectly provided Ukraine with armaments worth €800mn, which came as a surprise. Serbia reportedly sent arms to Ukraine with the Kremlin’s knowledge and commentators in Moscow failed to condemn Vucic.

The end of the Ukrainian conflict is impossible at the moment, even by means of using China’s latest initiative, Vucic said in a frank interview in July. “I don’t see a scenario of ending the war in Ukraine for now. I have studied the Chinese initiative. It is good. It is really good. I welcome this six-point proposal.



I believe that over 100 countries have already supported it, which is crucial, because it envisages an immediate ceasefire. Only when a ceasefire has been achieved and when no more people lose their lives the negotiations should begin, but I do not see a chance for this to happen," Vucic said.

The calls come as Hungarian Prime Minister Viktor Orban put the cat amongst the pigeons with a series of meetings after Hungary took over the six-month rotating presidency of the EU on July 1, visiting Ukrainian President Volodymyr Zelenskiy in Kyiv before travelling on to meet with Russian President Vladimir Putin in Moscow on July 5. Orban later met with Chinese President Xi Jinping in China and former US President Donald Trump in the US as part of what he dubbed a "peace mission." During the Nato summit he told delegates that "Ukraine should not join Nato."

The EU executives were outraged by what they called Orban's "fake diplomacy" and have promised to punish Budapest for undermining the unity of the EU's support for Ukraine.

However, with the military campaign in a stalemate and Western arm supplies unlikely to be increased dramatically

removed their names after coming under pressure from the Kremlin.

Likewise, the Nato summit held in Washington on July 11-13 was equally inconclusive. Nothing was added to Ukraine's aspiration to join the military alliance other than to say the path to Ukraine's accession was "irreversible", but no roadmap or timeline for its joining was given.

Likewise, Zelenskiy's strenuous calls for permission to use Western-supplied weapons to hit targets deep inside Russia were rebuffed. The main concrete results were the promise of a few more Patriot missile batteries and an extra \$40bn of funding for this year by Nato members. Promises of the delivery of badly needed F-16 were repeated, but again no concrete timeline was given, although the first four F-16s are expected to arrive this summer.

Ukraine will get fewer F-16 fighter jets this summer due to a language barrier between Ukrainian pilots and their foreign instructors as well as complex logistics of delivering spare parts, *Bloomberg* said citing sources on July 14. Ukraine will eventually be able to field a squadron of between 15 and 24 jets, according to one of the sources, far

### Peace brokers

China and Brazil have also called for talks. On May 23, following a meeting between Chinese Foreign Minister Wang Yi and Brazilian Presidential Special Representative for International Affairs Celso Amorim, the two sides issued a joint statement saying that the sole way of resolving the conflict in Ukraine was through a dialogue and negotiations. China and Brazil called for convening an international conference "at an appropriate time" with all parties enjoying equal representation.

The leaders of both Bulgaria and Turkey have also recently offered to mediate talks between Russia and Ukraine.

Bulgaria to advocate for peace talks between Ukraine and Russia at Nato summit and Bulgaria's interim Prime Minister Dimitar Glavchev said that Sofia was willing to act as a mediator. Turkish President Recep Tayyip Erdogan has made a similar offer, but so far the Kremlin has rebuffed the idea of starting talks.

However, Erdogan said that talks on restarting the Black Sea Grain Initiative, that was suspended last year, have resumed, in which Turkey played a key role. There have been no results yet, Erdogan told reporters after the return from the Nato summit.

"We suggest opening the grain corridor again and are now holding talks on that with Russia and with Ukraine. We have not yet received any results on this issue. My last meeting with Russian President Vladimir Putin was dedicated to that. We discussed these issues with President of Ukraine Vladimir Zelenskiy at the Nato summit. We want to work on the grain corridor with the Ukrainian side also. We hope we will start using this corridor again," Erdogan said, cited by the Anadolu agency.

Zelenskiy has called for a second peace summit to which both Russia and China will be invited to be held before the November presidential elections, as it looks increasingly likely that Trump will be re-elected and has threatened to end support for Ukraine. ●

**"With the military campaign in a stalemate and Western arm supplies unlikely to be increased dramatically before next year, a growing number of Ukraine's supporters are saying the time for talks has come"**

before next year, a growing number of Ukraine's supporters are saying the time for talks has come.

The recent Swiss peace summit held on June 16-17 was deemed a failure after Kyiv was unable to attract a significant number of countries from the Global South to participate and only 78 countries signed the final watered down communiqué, and even then several countries quietly

short of the 120 planes Zelenskiy has been calling for. Another source spoke about 20 F-16s that are supposed to be delivered by the end of this year.

In Kyiv the new delays will appear as more foot dragging, as the US has reportedly deliberately dragging its heels in training pilots to fly the desperately needed F-16 fighter jets, afraid of escalating tensions with Russia further.

# Parade of Serbian army troops in Bosnia sparks outrage among Muslims

Denitsa Koseva in Sofia

**S**erbian army troops held parades in Bosnia & Herzegovina's towns of Bratuncac and Prijedor as part of a commemoration of the martyrdom of Serbs in the Podrinje area, sparking fresh unrest in the highly unstable Balkan country.

The commemoration of the anniversary of the Battle of Kozara, a symbol of suffering and resistance of Serbs in the fight against the Nazis and Ustasas (Croatian fascists), is held every year ahead of that of the Srebrenica genocide anniversary, but had not been attended by the Serbian army up to now.

The march of soldiers was seen as a fresh provocation made by the secessionist leaders of Bosnia's Republika Srpska, following the landing of a Serbian police helicopter in the town of Trebinje a few weeks ago.

In Prijedor, the Bosnian Serb army committed some of the most violent crimes against Bosniaks (Bosnian Muslims) during the bloody 1992-1995 Bosnian war. The largest mass grave was also discovered there. In Bratunac, Bosnian Serbs also killed many Bosniaks.

According to Zeljko Komsic, the Bosniak member of Bosnia's state-level tripartite presidency, the stay of Serbian troops on Bosnian territory was not authorised. He called for an investigation into how the soldiers were allowed to enter the country.

Bosnia's state-level Defence Minister Zukan Helez also said that he did not issue a stay permit to the Serbian soldiers, nor there was any agreement through which they could enter the country.

"Immediately after learning about the stay of undocumented members of the Army of the Republic of Serbia on the territory of Bosnia and Herzegovina, I requested that an investigation be conducted in the Ministry of Defence of

Bosnia and Herzegovina to determine whether the ministry headed by me gave permission for this stay. I certainly did not. The investigation established that the Ministry of Defence of the Republic of Serbia did not request any permission for the stay of members of the Armed Forces of the Republic of Serbia in our country from the Ministry of Defense of BiH and that no one from the Ministry of Defense of BiH gave any permission or consent for this stay." Helez said, as quoted by N1.

"Also, today's event was not foreseen by the bilateral cooperation plan of the defence ministries of the two countries. Unofficially, some information says that these were cadets of the Army of the Republic of Serbia and that they could stay at the invitation of the Ministry of Labour and Veterans and Disability Protection of Republika Srpska. I repeat the Ministry of Defence of Bosnia & Herzegovina has not issued an invitation, nor has it been asked for a permit for the stay of undocumented members of the Armed Forces of the Republic of Serbia on the territory of Bosnia & Herzegovina," he added.

On the other hand, the Serbian embassy in Bosnia claims it had informed in a note the Ministry of Foreign Affairs of Bosnia about the arrival of its troops, according to Republika Srpska's public broadcaster RTRS.

Foreign Minister Elmedin Konakovic said that his ministry has only one obligation if such a notice is received, to forward it to the border police, the security ministry

and few other institutions. Konakovic said the ministry has immediately fulfilled its obligations and that the border police has subsequently followed the regulations.

Konakovic – a pro-Western Bosniak – also said it was not his responsibility to check what the purpose of the visit of Serbian cadets was, nor it was mentioned in the notice.

The border police confirmed it was informed about the visit.

The entry of Serbian soldiers was seen as a threat by the Mothers of Srebrenica – an association of women who have lost their husbands and sons during the Srebrenica genocide.

"The Serbian army is located on the territory of sovereign Bosnia & Herzegovina. Should we, like in 1995, wait on our doorsteps to be killed, chased and raped while the whole world is silent? We demand an urgent reaction from the competent institutions and the international community. We ask whether it would be normal for a foreign army to enter the territory of Germany, France or any other country without permission and whether it would be characterized as aggression. Are we safe in our houses and can we bury our loved ones?" the association said in a statement.

They urged international institutions to react on this provocation and prevent a possible escalation in the country. ●





Turks are hurting. Busy shopping afternoons in Istanbul and other cities are no longer an option for many as the government attempts a painful economic adjustment. / Zumrasha, public domain

## Economic shock therapy makes 2024 most trying in a generation for Turks

### bne IntelliNews

**T**he year of 2024 is emerging as the most trying in a generation in Turkey where the finance ministry and central bank are using shock therapy to try to fix chronic economic distortions widely regarded as caused by the wayward policies of the country's president of more than 20 years, Recep Tayyip Erdogan.

A report from Reuters told how poverty and obliterated living standards are testing the social fabric like never before.

"I may still be walking, but I am not really living," Fettah Deniz, 73, whose monthly pension of 13,000 lira (\$393) is three times below the ascribed poverty line of a person in his situation, told the news agency.

Deniz survives partly because his children help him out. He told how

at holiday gatherings he has even avoided his grandchild as he had no extra cash to give. That's "the plight of many honourable and traditional people in our society," remarked Deniz, who assists in the running of a retirees association in Istanbul's working class Bayrampasa neighbourhood.

Another retiree, Mustafa Yalcin, 69, reflected in comments to Reuters how he opted to stay overnight in a hospital during a trip to Gaziantep because he didn't have the means to pay for a hotel and wished not to prove a burden to relatives who would feel obliged to feed him.

The government this month hiked the average monthly pension to around 14,000 lira from 12,000, but as part of the fiscal and monetary tightening that it is using to fight Turkey's rampant inflation it opted not to provide Turks with a mid-year boost to the 17,002-lira minimum wage, which more than half of workers in the country of 85mn live on or around.

The minimum wage is dwarfed by the estimated poverty line, which stands at 61,820 lira (\$1,870) for a family of four in Ankara, according to a June report by union organisation Turk-Is.

At the end of the day, someone has to pay the price for Erdogan's economic missteps.

As *bne IntelliNews* wrote in May: "Officials are applying one of the harshest versions of an old-school programme, handing the bill to the masses. Even the IMF, afraid of social explosions over the booming inequalities across the globe, does not apply this kind of programme anymore."

Erdogan – who has in no way even come close to issuing a mea culpa over the consequences of his easy-money "Erdoganomics", but since his re-election last year has executed a complete U-turn to provide his new economic team with the scope to undo his handiwork – has urged patience. However, further expected job losses in the coming months that add to the "rock bottom" sentiments of sorely tested Turks – amounting to grinding poverty for tens of millions – could prove politically treacherous for him.

"Eating out and vacationing is entirely out of the question," financial firm worker Aynur, 58, told Reuters. "You don't want people to come over because you can't afford to host them. My social life has ended." ●

*"At the end of the day, someone has to pay the price for Erdogan's economic missteps"*





Putin and Modi have met 16 times and enjoy a warm relationship. / bne IntelliNews

# Modi spends a busy day doing deals with Russia

Ben Aris in Berlin

Prime Minister Narendra Modi spent a busy day with his Russian counterparts negotiating energy and business deals and hobnobbing with Russia's elite as India seeks to deepen an already friendly partnership with Russia to fuel its own rapid economic growth during the Russo-India summit in Moscow on July 9.

Modi is making a symbolic first foreign trip to Russia, following the recent election win for his Bharatiya Janata Party (BJP) party to deepen India's ties with Russia, which has emerged as a major trade partner following the start of the war in Ukraine.

The official Russian-Indian negotiations will be held both in a narrow and in an expanded format. The parties will discuss not only bilateral cooperation, but also the international situation, the Kremlin said in a statement.

Topics on the agenda were energy security, the rupee-ruble exchange mechanisms, investment and trade as well as the general international geopolitical tensions.

## Warming relations

India has become a core member of the expanded BRICS+ group, which is expected to take in more members at this October's annual summit hosted

by Russia in Kazan. And India took the lead at last year's G20 summit, which was also expanded with the inclusion of the African Union that contains all 55 countries in Africa.

Modi is emerging as a key player in the current East-West showdown, as Delhi is one of the few players that maintains cordial relations with all of Moscow, Beijing, Washington and Brussels.

Modi has met with Putin a total of 16 times since he took power, and relations between the two men are reportedly warm. Upon arrival in Moscow, Modi travelled in an Aurus to the residence

of the Russian President in Novo-Ogarovo. There he and Putin talked over a cup of tea and took a walk in the park "with a free agenda, one on one," the Kremlin reported.

India values its long-standing close ties that date back to Soviet times and shares Putin's objection to the "unipolar" world dominated by the US. It sees its close ties with Russia as being in its national interests and has refused to participate in the sanction's regime on Russia.

### Trade deficit

As *bne IntelliNews* has reported, the partners face several practical problems, including a massive, unbalanced trade regime: India exports just under \$5bn worth of goods to Russia a year, whereas currently its importing over \$40bn from Russia, primarily oil. Foreign Secretary of India Vinay Kwatra confirmed that bilateral economic issues, namely the "trade imbalance," will also be on the agenda.

During their meeting Modi and Putin set a new goal for mutual trade to grow from circa \$60bn a year now to \$100bn by 2030. Previously Russia set a similar goal for trade with China to top \$200bn by 2025 – a goal that was achieved in 2023. According to the Ministry of Commerce of India, in the 2023-24 financial year, bilateral trade between the countries reached a historical high of \$65.7bn. But more than 90% of trade turnover is imported from Russia, primarily oil and petroleum products and fertilisers.

Indian Prime Minister Narendra Modi arrived in Moscow the day before (and Vladimir Putin managed to show him the stables in Novo-Ogarevo), but serious negotiations will begin today. This is Modi's first trip to Moscow since 2019 and the first personal meeting of heads of state after a three-year break.

Both leaders are at the beginning of their next terms. Vladimir Putin was recently re-elected to his fifth presidential term, Narendra Modi's party won the last elections in India, but lost its majority in parliament. However, this did not stop Modi from seeking a third term as prime minister.

The war in Ukraine has largely changed the balance of Russian-Indian relations. Moscow, having broken with the West, began to rapidly turn towards China, with which India has difficult relations. At the same time, Moscow's leverage over New Delhi and Beijing is shrinking, since India and China have more of their own capabilities than before, and new partners have emerged that offer more than Russia.

Nevertheless, Modi decided to make his first visit to Moscow after his re-election. The reason is Moscow's growing dependence on Beijing, which New Delhi is watching with alarm, writes *Bloomberg*.

### Oil

The key issues for discussion are primarily economic; politically, Russia has little to offer India. According to the Ministry of Commerce of India, in the 2023-24 financial year, bilateral trade between the countries reached a historical high of \$65.7bn. But more than 90% of trade turnover is imported from Russia, primarily oil and petroleum products and fertilisers.

Unlike China, India managed almost without Russian oil before the war, and now has become the second buyer after China, sometimes taking first place (in June - 2.13 million bpd). Russia's share in Indian oil imports exceeds 40%.

The price ceiling on Russian oil introduced by the G7 countries had little effect on Indian imports. The Indian Express, citing sources, writes that the restrictions "have at best had a minor

month for rubles. Previously, New Delhi had to pay Moscow in UAE dirhams and Chinese yuan, which is not in India's national interests.

*The Economic Times* writes that a long-term agreement on discounted oil supplies is on the agenda of the leaders' negotiations.

### Rupees

The second topic is the organisation of foreign trade settlements, an official from the Russian financial and economic bloc explained to *The Bell*. "You can agree on projects and investments, but how to pay?" he said.

As of 2024, accumulated Russian investments in the Indian economy are estimated at \$12bn. This figure also includes investments by Rosneft in the purchase of a 49% stake in the oil company Essar Oil (\$3.9bn), a joint venture for the production of BrahMos rockets, and investments by Rosatom "in nuclear power plants and other projects."

Perhaps the amount will increase if the issue of limitedly convertible rupees stuck in India, which Russia receives for oil sales, is resolved. This money is not as much as it seems: two Russian officials told *The Bell* that "the amount is definitely less than \$10bn and continues to decline."

"Russian rupees" are accumulated in India using the international settlement mechanism invented in mid-2022 by the Reserve Bank of India. It works like this: foreign banks enter into a partner-

## "The war in Ukraine has largely changed the balance of Russian-Indian relations"

and short-term impact" on oil imports from Russia to India. According to the publication's interlocutors, Indian refineries avoid tankers subject to "explicit Western sanctions", but, for example, accept Sovcomflot tankers. Moreover, the Indian Reliance has just signed a one-year contract with Rosneft to purchase at least 3mn barrels of oil per

ship agreement with an Indian bank, which opens special vostro accounts (SRVA), from which it makes transactions with rupees in the interests of the foreign bank. Such rupees can be used to pay for goods and services from India, but it is almost impossible to withdraw them from the country. It is clear that permission to withdraw (for example, to

a Russian portfolio investor in India) can only be political, and Putin cannot help but talk about this with Modi.

Russia and India already settle some 70% of their mutual trade in national currencies, according to the Kremlin, as part of Russia and China's drive to de-dollarise the world of trade. However, the topic of the rupee-ruble exchange mechanism was high on the agenda and Modi was hoping to encourage Russians to use some of their trade surplus money to reinvest into the Indian economy to further accelerate its growth.

A step in that direction came with the announcement that the Russian Direct Investment Fund (RDIF) and its partners will invest up to RUB100bn (\$1.1bn) in Russian companies entering the Indian market. Russia's sovereign wealth fund has agreed on mutual support for busi-

infrastructure, interaction in general and not only trade in goods, and investment interaction," Deputy Head of the Presidential Administration Maxim Oreshkin told reporters.

#### Business deals

Modi was in Russia as he wants to recruit Russia's help to fuel India's accelerating growth. Russia is the source of many of the inputs that India needs including fertilisers, oil and nuclear power, and they also enjoy big mutual markets.

India is a heavily agricultural economy but relies heavily on Russia for fertilisers. Friendly ties with Russia helped India meet farmers' need for fertilisers in a time of crisis, Modi told Putin.

"The past five years were difficult for the whole world. There were various

to 2.1mn bpd in May and 2.13mn bpd in June, according to data from Kpler cited by RBC on July 9. Almost 41% of India's oil imports now come from Russia.

In June, the supply of Urals crude to India increased by 13% year on year and by 2.2% compared to May, setting a historical record.

Despite the significant rise in Urals shipments, total imports of Russian oil in June were slightly below the peak of 2.15mn bpd recorded in May 2023, marking the second-highest figure in the history of observations.

Imports of Far Eastern grades, such as ESPO (Eastern Siberia-Pacific Ocean) and Sokol, have declined compared to last year. ESPO imports averaged 103,000 bpd, down from 107,000 bpd in 2023, while Sokol imports averaged 51,000 bpd, compared to 152,000 bpd last year.

"Urals is more suitable for Indian refineries, which are among the deepest in terms of refining. In addition, of course, price plays a big role. ESPO is sold at a discount of one dollar to a barrel of Brent, and Urals is consistently two to three dollars cheaper per barrel. At the same time, Urals volumes are larger, and it is not being bought up by China as much as ESPO," explained Viktor Katona, head of oil market analysis at Kpler.

Modi was seeking to lock in long-term supplies of Russian oil to ensure the country's energy security, although details of the talks were not released and Indian companies are increasing their participation in Russian exploration and development projects.

"As regards long-term cooperation, Russia and India are interested in such relations. We already have the joint oil refinery project. We are also interested in long-term cooperation for supplies; such forms of the agreement are definitely considered," Novak said.

"As of today, our Indian partners participate in the implementation of a number of projects, on the Arctic shelf, in Sakhalin. We consider continuation of this cooperation in the future," Rus-

## "Modi was in Russia as he wants to recruit Russia's help to fuel India's accelerating growth"

nesses with the National Investment Promotion Agency of the Republic of India (Invest India).

"Joining efforts to implement investments with Invest India will facilitate the accelerated implementation of new bilateral investment projects in a wide range of industries," said RDIF CEO Kirill Dmitriev.

The lack of free convertibility of the rupee is a major problem for Russo-Indian trade relations, but more generally the two leaders will have almost certainly discuss how to sanction-proof their banking and settlement systems, which was also high on the agenda in Putin's talks with Chinese President Xi Jinping in May. The topic of cash payments with the use of cards of national payment systems was discussed as Russia seeks to build an alternative international payments to rival SWIFT.

"Certainly, [the use of national payment systems] was discussed. This is an important element of trade support

conflicts and crises. First, there was the coronavirus, and then conflicts and disagreements emerged. While the world was facing food, energy and fertiliser security crises, our friendship helped us prevent such difficulties for Indian farmers," he said ahead of formal talks between the Indian and Russian delegations at the Kremlin. "We fully met their need for fertilisers. Our friendship with you played a special role."

A source told TASS earlier that New Delhi saw food security and ways to ensure the interests of farmers as one of the key areas of Indian-Russian cooperation. Russia has been and remains an important fertiliser exporter to India. The country imported over 4.8mn tonnes of fertilisers from Russia last year.

#### Energy deals

India purchased almost no Russian oil before the war. Now, it is the second biggest buyer after China (in some months, it is biggest). In April, Indian exports of Russian oil reached a nine-month high of 1.96mn barrels per day, rising



sian Deputy Prime Minister Alexander Novak said, adding that India's national oil company ONGC is participating in the Sakhalin 1 gas project and is in the process of formalising the company's shareholding now, Novak added.

Russia and India are exploring the possibility of expanding cooperation in the gas sector, including through increase of gas supplies, Novak told reporters. Russia already delivers liquefied natural gas (LNG) in the volume of around 3mn tonnes per year (tpy) to India, and the volume may be increased in the future, according to Novak who took part in the Russian-Indian talks.

"First, LNG [amounting to] 3mn tpd is already supplied now. This is Russian gas, from Russian projects. Second, fundamentally, there are prospects of expanding cooperation in the gas sector and supplies of Russian gas," he said, adding that the issue is not only about increase of LNG supplies.

The share of natural gas in India's energy balance is to grow from 6.5% in 2020 to 15% by 2030. In absolute terms, this may mean growth from current 60bn cubic metres to 115 bcm in 2030.

Energy security is not limited to the oil trade; India has already put into operation the first and second power units of the Kudankulam nuclear power plant (NPP), which is being built with Russian assistance. Uranium is the new gas and the Kremlin has been using exports of its world-class nuclear technology, and the 60-year fuel and maintenance contracts, as a way to bind its partners more closely to Russia.

Russia has extended an offer to collaborate with India on the construction of small tropical NPPs, with a proposal for deep localisation that includes transferring the construction segment to New Delhi, according to Alexey Likhachev, chief executive officer of the state-run corporation Rosatom.

"We offer cooperation possibilities for construction of tropical stations," Likhachev said during a visit of Russian President Vladimir Putin and Indian

Prime Minister Narendra Modi to the Atom pavilion, "with very deep localisation," he added, stressing the potential for transferring the entire construction process to India. "We can transfer the whole construction part to you," he told Modi.

The nuclear sector has been a cornerstone of Russia-India relations. Power units No. 1 and No. 2 of the Kudankulam NPP, constructed with Russian assistance since 1998, are already operational. Construction of power units No. 3, No. 4, No. 5, and No. 6 is ongoing, with completion expected by 2027. Additionally, the Indian Ministry of External Affairs is exploring sites for further facilities. In December 2021, New Delhi committed to providing a location for the construction of a second Russia-designed NPP.

#### Ukraine war and weapons

The war in Ukraine did feature in the talks, with Modi offering his condolences to those that lost their lives in Russia's massive missile attack on Kyiv on July 8. In an embarrassing moment, Modi singled out the Okhmatdyt children's hospital in Kyiv that was hit during the attack, for which the Kremlin has denied responsibility.

"I know that war cannot solve problems, solutions and peace talks can't succeed among bombs, guns and bullets. And we need to find a way to peace through dialogue," Modi told Putin in televised remarks at the Kremlin.

However, Modi did not push hard on the Ukraine question and India has been holding a neutral position on Russia's special military operation. Indian experts told *bne IntelliNews* that any discussions of Ukraine will probably be low key, as Modi doesn't want to get dragged into that conflict, where overt support for Russia will damage his otherwise good relations with Washington.

One of the factors staying Modi's hand is India's ongoing dependence on Russia to equip its own army. Kwatra highlighted defence cooperation between the two states as "an important segment of the privileged strategic partnership." He

stressed that the countries remain in full contact on this issue.

India is in the process of buying Russia's advanced S-400 air defence system that it intends to deploy on both its eastern and western borders, where it has uneasy relations with China and Pakistan respectively. The S-400 is Russia's most advanced surface-to-air missile and considered to be world-class defensive weapons system.

Russia and India view military and military-technical cooperation as a cornerstone of their privileged partnership and will develop it further, according to a joint statement adopted after the results of the 22nd Russian-Indian annual summit on Tuesday, 9 July.

"In view of India's aspiration for self-sufficiency, the partnership will currently refocus on joint R&D and experimental design work, the joint development and production of advanced defence technologies and systems," the statement reads.

"The parties reaffirmed their intention to increase the number of joint measures in military cooperation and expand military delegation exchanges," it says.

India and Russia are also discussing cooperation in a space programme.

The last time Modi visited Russia was in 2019 to participate in the Eastern Economic Forum. In turn, Putin was in India on a visit in 2021. In total, the Russian leader visited India nine times during his tenure at the top post. In accordance with the Declaration of Strategic Partnership of 2000, the leaders of Russia and India must meet annually and this meeting will be the 22nd in the series.

Modi has stated he will come in Russia again in October to attend a BRICS summit in Kazan, Russian Foreign Minister Sergey Lavrov said.

"Narendra Modi said that he is glad to accept [Russian] President [Vladimir] Putin's invitation and will take part in the BRICS summit in Kazan this October," he said. ●



The US has directly accused China of supplying Russia with weapons for the first time has tension between Washington and Beijing ratchet up another notch / bne IntelliNews

## Nato directly accuses China of supplying Russia with arms for the first time

Ben Aris in Berlin

**N**ato directly accused China of supplying Russia with arms and ammunition for the war in Ukraine for the first time in a declaration released during the Nato summit in Washington, *The New York Times* (NYT) reported on July 10.

Nato Secretary General Jens Stoltenberg told reporters it was the first time the 32 allies had jointly labelled China a decisive enabler of Russia's war and called it an important message.

The tone has taken a sharp turn for the worse, since the Nato summit that got underway in Washington on July 9 as Nato members for the first time accused Beijing of becoming a "decisive enabler of Russia's war against Ukraine," demanding an immediate halt to shipments of "weapons components" and other critical technology to the Russian military.

"The declaration demonstrates that Nato allies now collectively understand this challenge and are calling on the P.R.C. to cease this activity," said Jake Sullivan,

Biden's national security adviser, the NYT reports. "If this P.R.C. support continues, it will degrade its relations across Europe, and the United States will continue to impose sanctions on P.R.C. entities involved in this activity, in coordination with our European allies."

Specifically, amongst the allegations is evidence that Beijing was developing an attack drone for the conflict with Ukraine, according to US intelligence. The US briefed its Nato allies on China's support in the run-up to the summit, according to reports. The declaration says that China poses "systemic challenges to Euro-Atlantic security", including through cyber activities and disinformation as well as its development of counter-space capabilities. But US officials have said that China is still holding off directly providing weapons and artillery.

Tensions between Beijing and Washington have been growing thanks to China's increasing aggression in the South China Sea, but the new declarations suggests that the West increasingly sees China as a

threat to European security, thanks to its support of Russia's war in Ukraine.

So far, Washington has shied away from escalating those tensions by saying Beijing is directly supplying Russia with weapons. For its part, China has also been openly supplying Russia with dual-use goods, but refrained, publicly, from overtly selling Russia military supplies.

Now relations between China and Nato have taken another step down the ladder. The US provided intelligence evidence to Nato countries to overcome scepticism about China's involvement during the Nato summit, in which the US Treasury Department published the names of Chinese front companies and manufacturers funnelling technology to Russia. Hong Kong in particular, has become a major conduit for the flow of technology into Russia.

The Nato declaration also accused China of engaging in "malicious cyber and hybrid activities, including disinformation" targeting the US and Europe. In response, China has denied being a significant factor in the war and has accused Washington of hypocrisy, highlighting the substantial military aid the US provides to Ukraine.

Chinese Foreign Ministry spokesman Wang Wenbin called the US accusations "hypocritical and highly irresponsible" in May, without denying the specifics of the claims, according to NYT.

As *bne IntelliNews* reported, technology sanctions have failed to stem the flow of machinery and microchips to Russia, with imports of technology in 2023 totalling only 2% less than pre-war in monetary terms.

The accusation was contained in a declaration approved by the 32 Nato leaders before a dinner at the White House and will take tension up a notch. The declaration warned that China's growing support for Russia will have "negative repercussions."

"China cannot enable the largest war in Europe in recent history without

this negatively impacting its interests and reputation,” the declaration stated, specifically pointing to China’s “large-scale support for Russia’s defence industrial base,” the *NYT* reports.

While the declaration did not detail any specific repercussions, the threat of economic sanctions has long hung over Beijing, which has been careful to avoid bringing down sanctions on its banks and companies that could harm its \$1 trillion of annual exports to the collective West. China is much more exposed to trade with the West than Russia, which was easily able to reorientate its commodity-dominated exports to new markets in Asia after extreme sanctions were imposed in 2022.

However, imposing trade sanctions on China is likely to have an even more extreme boomerang effect on Europe than those imposed on Russia has had as China is a major export market for European goods in particular. For example, Germany is heavily dependent on the Chinese market for high-end cars and luxury goods exports.

China has joined Russian President Vladimir Putin in opposing what they call the “unipolar hegemony of the US” and called for a multipolar global set up that could be overseen by bodies like the UN. Putin and Chinese President Xi Jinping declared a “partnership without limits” during a three-day trip to Moscow in March 2023 that was an open act of defiance of Western criticism of Russia’s invasion of Ukraine and openly positioned China as in conflict with the West for the first time.

Putin followed that visit up with his own trip to Beijing in May where he held in-depth wide-ranging talks with Xi on their joint response to sanctions and the US-led attempts to limit their partnership. In a sign of Russia’s growing closeness to China, Xi gave Putin a bear hug at their first meeting, a very unusual gesture in Chinese diplomacy.

In another sign of the growing multinational dimension to the BRICS countries’ cooperation and defiance of

## US and Germany foil Russian assassination plot targeting Rheinmetall CEO

### bne IntelliNews

The United States and Germany have successfully thwarted a Russian plot to assassinate Armin Papperger, the CEO of Rheinmetall, a prominent German arms manufacturer, CNN has reported.

Rheinmetall is one of the world’s leading producers of artillery and tank shells. Since Moscow’s invasion of Ukraine in February 2022, Rheinmetall has been instrumental in supplying shells and vehicles to Ukraine, greatly enhancing Kyiv’s capabilities to defend itself against Russian aggression. The company also plans to open an armoured vehicle plant in Ukraine.

American intelligence uncovered the assassination plot earlier in 2024, according to five unnamed sources described as “US and Western officials familiar with the episode.” According to CNN, the plan was not standalone; it was part of a broader Russian campaign targeting defence industry executives across Europe who support Ukraine. The American outlet reported that the plan to kill Papperger was the “most mature” among these schemes.

Upon learning of the assassination attempt, US intelligence alerted German authorities. In response, German security services swiftly implemented protective measures for Papperger, successfully neutralising the threat.

“A high-level German government official confirmed that Berlin was warned about the plot by the US,” the CNN report states.

This report is just the latest example of Russia’s campaign to undermine Europe through the use of local agents to carry out arson, vandalism and other disruptive activities aimed at hindering the delivery of Western arms to Ukraine and diminishing support for Kyiv.

Earlier in the week, CNN reported that Russia has been conducting a “bold” sabotage operation for over six months. According to a senior unnamed Nato official, these operations target both the weapon supply lines to Ukraine and the key decision-makers involved in the process. ●





the threat of sanctions, Indian Prime Minister Narendra Modi just completed a similar two-day visit to Moscow in defiance of Western pressure to cut business ties with Russia and signed off on a string of deals to bolster trade and investment. Modi likewise gave Putin a bear hug on their first meeting and defiantly said Western criticism would be ignored in the face of what is in India's own national interests.

The Biden administration has become increasingly aggressive in its meetings

with Xi this year. Both US Secretary of State Antony Blinken and US Treasury Secretary Janet Yellen travelled to Beijing early this year to meet Xi, and both threatened Xi with sanctions and trade tariffs if Beijing didn't reduce its cooperation with Moscow. Xi's entreaties to put relations back on a more consolatory and cooperative basis were ignored.

Blinken has been a Russia, China hawk since he took over as Secretary of State two years ago, calling Russia an "enemy"

and China the "leading US rival" in his first major foreign policy speech in March 2021.

The new escalation in tensions threatens to undo any progress made in US-China relations during the November meeting between US President Joe Biden and Xi in California. At that meeting, Biden had warned Xi about interfering in the 2024 presidential election, but evidence of China's substantial role in supporting Russia's war effort was not yet available. ●

## EU expands sanctions regime on Belarus

### bne IntelliNews

**T**he Council of the European Union adopted a new set of sanctions targeting the Belarusian economy, aiming to replicate some of the restrictive measures imposed on Russia and inhibit the republic's role as a transit route for sanctioned goods, reports *European Pravda*, citing the Council of Europe.

On June 30 the EU also hiked the tariffs on the import of grain from Russia and Belarus to Europe to 50% in an effort to limit Europe's dependence on grain and to free up space of more grain imports to Europe from Ukraine.

"The Council today adopted restrictive measures targeting the Belarusian economy, in view of the regime's involvement in Russia's illegal, unprovoked and unjustified war of aggression against Ukraine. These comprehensive measures aim at mirroring several of the restrictive measures already in place against Russia, and thereby address the issue of circumvention stemming from the high degree of integration existing between the Russian and Belarusian economies," the Council said in a statement.

Belarus has responded to the growing European pressure by rattling its nuclear sabre. Minsk is ready to use non-strategic nuclear weapons if its sovereignty and independence are

jeopardized, Belarusian First Deputy Defence Minister and Chief of the General Staff Pavel Muraveiko said on June 30.

"One of the last arguments and theses, which serve as a restraining factor is the re-deployment of non-strategic nuclear weapons in our country. We have learnt how to handle these weapons, we can use them confidently and we are capable of doing so. You can be sure, we will do this if our country's sovereignty and independence are at risk," he said in an interview with the ONT television channel.

On March 25, 2023, Russian President Vladimir Putin announced that at Minsk's request, Moscow would deploy its tactical nuclear weapons in Belarus,

The Council's decision extends the ban on exporting dual-use goods and technologies, as well as advanced technologies to Belarus. Additional restrictions have been introduced on the export of goods that could enhance Belarus' industrial potential, maritime navigation, and luxury items including top of the line European cars that are still reaching Moscow via Minsk.

The EU will also prohibit the direct or indirect import, purchase, or transfer

of gold, diamonds, helium, coal, and mineral products, including crude oil, from Belarus coming from Russia. This measure is complemented by a new ban on exporting goods and technologies suitable for use in oil refining and the liquefaction of natural gas to Belarus.

The Council of the EU also prohibits the provision of certain services to Belarus, its government, state agencies, corporations, or agents, as well as to any individual or legal entity acting on their behalf or under their direction. These services include accounting, architectural and engineering services, advertising, and market research services.

Additionally, the EU extends the ban on the transport of goods by road through EU territory with trailers and semi-trailers registered in Belarus, including when transported by trucks registered outside of Belarus.

The decision is part of the latest fourteenth sanctions package on Russia that is increasingly including Belarus as a Russian proxy. The sanctions mandates that EU exporters include a "no-Belarus clause" in their future contracts. This clause prohibits the re-export to Belarus or for use in Belarus of critical goods and technologies,

military goods, firearms, and ammunition.

Despite extreme sanctions, Western technology sanctions have largely failed to prevent Russia importing machines and electronics it cannot make itself. To minimise the risk of sanctions circumvention, the EU will ban the transit through Belarus of dual-use goods and technologies, items that could contribute to Belarus' military and technical enhancement, and goods that could strengthen its industrial capabilities. Additionally, to counter the re-export of military goods found in Ukraine or critical to the development of Russian military systems, EU operators selling such goods to third countries will need to implement due diligence mechanisms.

The EU Council adopted the fourteenth package of economic on June 24, that also include individual restrictive measures against Russia. For the first time since Russia's full-scale invasion of Ukraine, these measures include sanctions against Russian gas.

### Russian, Belarusian grain import tariff hiked

In a parallel development, sanctions on imports of grain from Russia and Belarus to the EU came into effect on June 30 that increase tariffs in an effort to promote more imports of grain to Europe. Tariffs were increased to 50% of the market price for certain grains, according to a May 30 European Council decree.

and Phytosanitary Supervision of Russia, told TASS that the decision will harm European food and port industries more than Russia, which will be able to diversify to other markets. "They have lost capacities on fertilizer, and they will lose port capacities on grain as well," Dankvert said, TASS reports.

The European Council asserted that the aim of the tariffs is to halt the

"The Council of the EU also prohibits the provision of certain services to Belarus, its government, state agencies, corporations, or agents, as well as to any individual or legal entity acting on their behalf or under their direction"

Russia remained unfazed by the new measures. Sergey Dankvert, head of Russia's Federal Service for Veterinary

"destabilization of European markets" by Russian grain and reduce Russia's agricultural income. The tariffs will



The Council of Europe has imposed new sanctions on Belarus designed to stop sanctioned goods from reaching Moscow via Minsk. The EU has also drastically hiked grain import tariffs from Russia and Belarus to make space on the market for more Ukrainian grain imports. / bne IntelliNews

also free up a portion of the European market for Ukrainian grain imports to replace Russian, which has already caused overstocking and sparked protests among European farmers.

The new tariffs, described by European Commission Vice President Valdis Dombrovskis as "prohibitively high," effectively ban the import of grain, sunflower seed, and fodder crops from Russia and Belarus by making their import economically unfeasible. The proposal for these tariffs was introduced on March 22.

The Council noted that these tariffs do not apply to the transit of grain to third countries through European ports.

While the EU's strategy aims to support Ukraine's agricultural exports and stabilize local markets, it also risks further straining port capacities and the broader food supply chain within Europe. The full impact of these tariffs on both the European and Russian agricultural sectors remains to be seen.

### **EU Belarusian sanctions in detail**

The Council of Europe details of the measures include:

#### Trade

The Council is extending the export ban on dual-use/advanced goods and technologies, as well as introducing further export restrictions on goods which could contribute to the enhancement of Belarusian industrial capacities.

Further restrictions are also introduced on exports to Belarus of maritime navigation goods and technologies, and luxury goods.

Regarding imports, it will be prohibited to import directly or indirectly, purchase or transfer namely of gold and diamonds from Belarus, as well as helium, coal and mineral products including crude oil. The latter measure will be complemented by a new export ban on goods and technologies suitable for use in oil refining and the liquefaction of natural gas.

#### Services

The Council is prohibiting the provision of certain services to Belarus, its government, public bodies, corporations or agencies and to any natural or legal person acting on behalf or at their direction:

- accounting services, auditing services, including statutory audit, bookkeeping services, tax consulting services, business and management consulting services, and public relations services;
- architectural and engineering services, as well as IT consultancy services and legal advisory services;
- advertising, market research and public opinion polling services, as well as product testing and technical inspection services.

## “Further restrictions are also introduced on exports to Belarus of maritime navigation goods and technologies, and luxury goods”

#### Transport

The Council is broadening the prohibition on the transport of goods by road within the territory of the EU, by trailers and semi-trailers registered in Belarus, including when hauled by trucks registered outside Belarus.

In order to minimise the risk of circumvention, EU operators which are owned for 25% or more by a Belarusian natural or legal person, should be prohibited from becoming a road transport undertaking or from transporting goods by road in the Union, including in transit.

#### Anti-circumvention

Today's decision requires that EU exporters insert in their future contract the so-called 'no-Belarus clause', through which they contractually prohibit the re-exportation to Belarus or re-exportation for use in Belarus of sensitive goods and technology, battlefield goods, firearms and ammunition.

In order to minimise the risk of circumvention, the EU will prohibit the transit via the territory of Belarus of dual-use goods and technologies, goods and technologies which might contribute to Belarus's military and technological enhancement or to the development of its defence and security sector, goods which could contribute to the enhancement of Belarusian industrial capacities, goods and technologies for use in the aviation or space industry, as well as arms exported from the EU.

In addition, in order to help counter the re-exportation of battlefield goods found in Ukraine or critical to the development of Russian military systems, it was decided that EU operators selling such battlefield goods to third countries will need to implement due diligence mechanisms

capable of identifying and assessing risks of re-exportation to Russia and mitigating them.

Lastly, EU parent companies will be required to undertake their best efforts to ensure that their third-country subsidiaries do not take part in any activities resulting in an outcome that the sanctions seek to prevent.

#### Protection of EU operators

The package also includes measures to allow EU operators to claim compensation from damages caused by Belarusian individuals and companies due to sanctions implementation and expropriation, provided that the member state national or company concerned does not have effective access to remedies, for example under the relevant bilateral investment treaty.

The relevant legal acts will be published in the Official Journal of the EU. ●



# US to develop cheap "ERAM" glide bombs for Ukraine

## bne IntelliNews

**T**he US is developing a new cheap, low-tech, long-range glide bomb to counter Russia's deployment of thousands of glide bombs to devastating effect in recent months.

The Extended-Range Attack Munition (ERAM) aims to be a low-cost, quick-to-produce air-launched missile with a range of around 460 km, according to a request for information (RFI) first released in January and updated on July 10.

Ukraine is on course to produce 1mn drones this year, which have become the backstay of both armies' military operations, but since the start of this year Russia has taken Soviet-era FAB gravity bombs and strapped wings on them so they can be aimed.

Regular drones can carry up to 50kg of explosives, but the largest Russian glide bombs can carry up to 1,400kg of explosives, able to destroy even the

strongest Ukrainian defences.

The new ERAM glide bombs will start at the lower end of the scale: a 225kg class munition equipped with a fragmentation warhead capable of destroying armoured targets.

"This munition is pivotal for accelerating Ukraine's capability to meet warfighter needs efficiently and effectively and provides an affordable mass weapon to be produced at scale," the update stated.

The criteria for the ERAM include a hit accuracy within 10 metres of a target and the ability to operate GPS effectively even under enemy electronic counter-measures.

This is not the first time that the US has sent Ukraine glide bombs, but as described in a *bne IntelliNews* feature on the drone war, Russia's superior electronic warfare counter measures

made high-tech US glide bombs useless and they were quickly retired.

The ERAM glide bombs disclosure invites US manufacturers to develop the munition and bids for the contract. The manufacture of the weapon is intended to begin no later than two years after the contract is awarded, with a production target of up to 1,000 units per year.

Like the Russian FAB glide bombs, the ERAM glide bombs have to be launched from planes as they fall as much as fly, and Ukraine's air force has been depleted during the two years of fighting. Ukraine currently has Soviet-era fighter jets but is waiting for Western-supplied F-16s that are expected to arrive on the battlefield this year.

Currently, the nearest equivalent to ERAM in Kyiv's arsenal is the British- and French-supplied Storm Shadow/SCALP missiles, but their numbers are limited. ●



The US is developing a ERAM glide bomb to counter Russia's FAB glide bombs that have been used to such devastating effect this year. / bne IntelliNews



Kazakhstan's President Kassym-Jomart Tokayev (right) welcomes China's Xi Jinping to Astana. / akorda.kz

## China's Xi uses SCO summit trip to further build Central Asia ties

### bne IntelliNews

Chinese President Xi Jinping arrived in Kazakhstan on July 2, at the start of a trip to Central Asia, where he will attend the 24th Shanghai Cooperation Organization (SCO) summit as well as bolstering bilateral ties during state visits to three countries in the region.

Due to its location, Central Asia plays a crucial role in China's Belt and Road Initiative (BRI), and Beijing has been building its influence in the region for years, securing access to raw materials and transport routes.

Upon arrival in Astana, Xi was warmly received by Kazakh President Kassym-Jomart Tokayev and other senior officials. This visit is Xi's fifth trip to Kazakhstan and his second in less than two years.

Alongside Tokayev, he spoke of the "unique permanent comprehensive strategic partnership" established by the two countries.

"I would like to confirm that China always views relations with Kazakhstan from a strategic height and with a long-term perspective, considering Kazakhstan a priority of its foreign policy in relations with neighbouring

countries and an important partner in Central Asia," Xi said. "Our will and determination to ensure Chinese-Kazakh relations remain unshakable."

Tokayev said the visit was "of exceptional importance". "The People's Republic of China is a friendly neighbouring state, an important strategic partner and one of our main allies," he said according to a statement from the presidency.

"Due to its location, Central Asia plays a crucial role in China's Belt and Road Initiative (BRI), and Beijing has been building its influence in the region for years, securing access to raw materials and transport routes"

"I note with satisfaction that Kazakh-Chinese relations, based on unbreakable friendship and mutual support, are developing at an unprecedented pace. I highly appreciate your significant contribution to strengthening the eternal comprehensive strategic partnership between Kazakhstan and China."

Kazakhstan is China's largest trading partner in the Central Asia region, with bilateral trade reaching \$41bn in 2023, a 32% increase from the previous year. Key Kazakh exports to China include oil, metals, grain and other agricultural products.

In recent years, significant progress has been made in enhancing connectivity and economic integration through various BRI projects. Major projects include the Zhanatas wind farm, the Turgusun hydropower station, and the modernisation of the Shymkent Oil Refinery.

In Astana, Xi is attending the summit of the SCO, a regional political and security alliance established in 2001 by China and Russia. As well as the two founders and four of the five Central Asian republics, it also includes India, Iran and Pakistan. Belarus is a prospective member.

The July 3-4 summit in Astana will focus on economic and energy issues while also addressing the geopolitical fallout from Russia's war on Ukraine. Russian President Vladimir Putin arrived in Astana for the summit on the morning of July 3.

China and Russia have grown closer since Russia's invasion of Ukraine in 2022, sharing a vision of a multipolar world order and reaching out to the Global South. However, the two nations vie for influence in Central Asia, a region historically under Moscow's sway but increasingly significant to Beijing's strategic interests.

Following the SCO summit, Xi will travel to Tajikistan to meet with President Emomali Rahmon, as well as to the Kyrgyz capital Bishkek. The visits are part of China's broader strategy to expand its influence in Central Asia.

In recent years, China has stepped up its investments in Central Asia, financing mega-projects such as the China-Kyrgyzstan-Uzbekistan highway, and is also keen to build a railway linking the three countries.

Central Asia's strategic importance to China has only increased as the region grapples with internal and external challenges. With Russia's focus diverted to Ukraine and the US reducing its presence following the withdrawal from Afghanistan, China is poised to fill the power vacuum and enhance its role as a key economic and security partner in the region. ●

## Uzbekistan parliament remains unreformed ahead of the October general election

Ben Aris in Berlin

**E**arlier this month, President Shavkat Mirziyoyev signed a legislative amendment increasing state funding for Uzbekistan's five legally registered political parties.

Under the current system, 40% of state funds for political parties are equally distributed among them, with the remaining 60% allocated based on the number of parliamentary seats held. This structure favours the ruling Uzbekistan Liberal Democratic Party (UzLiDeP), which is closely associated with President Mirziyoyev.

All five of the incumbent parties are closely associated with the executive and no opposition parties are represented in parliament. While Mirziyoyev economic reforms have been extensive and highly successful, as *bne*

*IntelliNews* reported in the special report Uzbekistan rising, the political reforms have until been largely ignored.

However, there have been a few improvements on human right issues. Child labour used to bring in the cotton harvest has been ended. After Mirziyoyev took office in 2016 hundreds of political prisoners were released. International media has been welcomed back into the country after almost a decade of exile.

The biggest gain to date has been changes to the constitution in April 2023 that improved labour and property rights guarantees, but most importantly enshrined a raft of women's rights. However, writing women's rights into the constitution is only the very first step in bolstering civil liberties that

eventually leads to things like gay marriage and Uzbekistan is only at the very start of that long journey.

And it should be noted that the changes to the constitution also reset the term-clock allowing Mirziyoyev to serve another two terms in office.

The new parliamentary party legislation only reinforces the existing system and will also benefit smaller parties, like the Ecological Party of Uzbekistan, which holds 15 seats in the 150-member lower chamber of the Oliy Majlis, the legislature. Despite UzLiDeP's dominance, the revised funding formula provides significant support to smaller parties.

UzLiDeP, the party of President Mirziyoyev, registered him as its candidate for the 2023 snap elections,





Uzbekistan's economy is booming thanks to sweeping liberalisation, but Uzbekistan's President Mirziyoyev has done very little to loosen his control over domestic politics. / bne IntelliNews

in which he secured almost 88% of the vote. UzLiDeP has similarly supported previous President Islam Karimov, who passed away in 2016. In the latest 2019-2020 elections, UzLiDeP increased its seat count by one, while the second-largest party, Milliy Tiklanish (National Revival), maintained its 36 seats.

Milliy Tiklanish appeals to more conservative voters, akin to Western culture war conservatives, while UzLiDeP targets youthful, reformist, and enterprise-focused demographics. The People's Democratic Party of Uzbekistan, catering to the poorer populace, saw a slight decline in support in the last election, reflecting Mirziyoyev's leadership's impact on reducing poverty.

Additionally, the new legislation bans foreign political parties' operations within Uzbekistan – the local equivalent of Russia's so-called foreign agents law. This move aims to limit the political activities of diaspora groups, particularly the sizeable Karakalpak community in Kazakhstan. The government has prioritised quelling any political mobilisation around Karakalpak autonomy issues since the unrest of July 2022.

As *bne IntelliNews* columnist Bruce Pannier recently wrote on the second

anniversary of the unrest, Uzbek authorities have been working to silence Karakalpaks inside and outside Uzbekistan who would seek to serve reminders about what happened that month. Violence erupted after it was announced a constitutional right to ask for succession from Uzbekistan was going to be nixed and officially 21 people were killed in the ensuing protests although witnesses claimed the figure was several times higher. Since then the authorities have worked hard to smooth the ground and Karakalpaks have been unable to raise their voice or seek restitution for their injuries.

**“Nevertheless, improvements in press freedoms and the president's call for more critical reporting have seen limited progress”**

Nevertheless, despite the legislative changes, President Mirziyoyev claims to support opposition movements. “As president, I am not against the opposition,” he said in 2019. “But we need to create the conditions for it to materialise here, [for it to be an opposition] that understands the problems of the people, for them to have experienced

the same things as the people, who have drunk water and eaten bread here.”

Most opposition figures, like Muhammad Salih, have lived in exile since the 1990s. Efforts to participate in domestic politics, such as Salih's attempted 2019 parliamentary bid, have failed. Similarly, Khidirnazar Allakulov faced threats and harassment for trying to register his Hakikat va Tarakkiyot (Truth and Progress) party. The unregistered Erk (Freedom) party also faced government pressure, leading singer Jahongir Otajonov to withdraw his 2021 presidential candidacy after threats and attacks.

In his July 2023 inauguration speech, Mirziyoyev vowed to uphold the right to “constructive opposition,” stating, “We guarantee the activities of the constructive opposition – I repeat, the constructive opposition – freedom of speech and the press, and the rights of citizens to receive, use and disseminate information.”

Nevertheless, improvements in press freedoms and the president's call for more critical reporting have seen limited progress. The upcoming October elections will likely see the same five parties competing on unchanged platforms, with the results determining their share of state funding and parliamentary seats for the next five-year term.

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## Gulnara Karimova getting special treatment in Tashkent prison, claims former inmate

### bne IntelliNews

Gulnara Karimova, the disgraced and imprisoned daughter of the late Uzbek president Islam Karimov, enjoys special treatment and privileges in a Tashkent prison, a former inmate has claimed in an interview with well-known Uzbek blogger Kirill Altman.

The 52-year-old, convicted of charges including embezzlement and money laundering that provided the corrupt means for luxury homes owned across Europe and Asia, does not eat with others in the prison canteen but instead has food delivered to her from outside of the prison, the former inmate was reported as saying. "She gets her food delivered...when there is nobody around," the woman added. "It's not an ordinary parcel of some 10 kilos, it's much bigger."

Karimova is serving a 13-year jail term she was handed in 2020 at a penitentiary in the Zangiota district of Tashkent region.

"She has four beds that she has separated with sheets from the others in the cell [to give her privacy]," the ex-prisoner, who spoke on condition of anonymity, added. She continued: "[Gulnara] wears a uniform that is similar to other inmates' uniforms, but hers are made from more breathable fabrics. She also wears shoes with laces, even though shoelaces are not allowed in prison."

The former inmate was also reported as saying that Karimova "doesn't obey the rules" but "is not punished".

She added: "There are some claims that she gets bullied [in prison] but... nobody bullies her. In fact, it's her who provokes [conflicts]. [Prison authorities] make a lot of concessions to her that others don't get."

Karimova, she asserted, often "gets whatever she wants".



Gulnara Karimova. Headache for prison officials? / Iman Karimova's Instagram

"Once she wanted to meet another inmate [from a different part of the prison compound]. She went to the guards and became hysterical. The guards then brought that inmate and the two women went for a walk for about an hour. It's a kind of VIP treatment. If anyone else would try that, she would be punished," the woman claimed.

While building up massive corrupt wealth in the world of business, Karimova also served as Tashkent's permanent representative to the UN in Geneva in 2008, and was made Uzbek ambassador to Spain in 2010.

She's also remembered for her attempts at making a name for herself in the worlds of glamour and celebrity. She released pop songs under the stage name Googoosha and designed jewellery.

At one point she was spoken of as the likely successor to her president father. But she vanished from public view in 2014. There were reports that she had fallen out with her father, who was president from 1989 until his death in 2016.

Karimova still faces a range of criminal charges in the United States, Switzerland and other countries in relation to alleged illegal business practices.

In the interview with the blogger, the former inmate also alleged that Karimova once began a "rebellion" in the prison, but did not specify what is meant to have happened.

RFE/RL's Uzbek Service, meanwhile, has reported one employee of the prison as claiming that Karimova and her "behaviour" and "provocations" have created a headache for prison officials.

"The prison administration has several times had to appeal to high-placed authorities about Gulnara Karimova's behaviour and the provocations she staged against other inmates," the employee was quoted as saying, adding: "On one hand, we are instructed to be cautious in handling her. On the other hand, we were told: 'Don't give her any special treatment.'"

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within Uzbekistan – the local equivalent of Russia's so-called foreign agents law. This move aims to limit the political activities of diaspora groups, particularly the sizeable Karakalpak community in Kazakhstan. The government has prioritised quelling any political mobilisation around Karakalpak autonomy issues since the unrest of July 2022.

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announced a constitutional right to ask for succession from Uzbekistan was going to be nixed and officially 21 people were killed in the ensuing protests although witnesses claimed the figure was several times higher. Since then the authorities have worked hard to smooth the ground and Karakalpaks have been unable to raise their voice or seek restitution for their injuries.

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Most opposition figures, like Muhammad Salih, have lived in exile since the 1990s. Efforts to participate in domestic politics, such as Salih's attempted 2019 parliamentary bid, have failed. Similarly, Khidirnazar Allakulov faced threats and harassment for trying to register his Hakikat va Tarakkiyot (Truth and Progress) party. The unregistered Erk (Freedom) party also faced government pressure, leading singer Jahongir Otajonov to withdraw his 2021 presidential candidacy after threats and attacks.

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# Georgia's president to challenge government's "Russian" law in constitutional court

## bne IntelliNews

Georgia's President Salome Zurbashvili has launched a constitutional challenge against a controversial "transparency of foreign influence" law introduced by the country's Georgian Dream government.

Passed in May, the law mandates stringent regulations on foreign-funded media and NGOs. It has sparked massive street protests and strained Georgia's relations with Western allies. The legislation is said to ape the Russian "foreign agents" law, heightening fears that its introduction means Tbilisi is moving ever closer to Kremlin-style suffocation of liberal democracy.

Presidential parliamentary secretary Giorgi Mskhiladze said that the lawsuit is the first instance of a Georgian president filing a case in the Constitutional Court. He criticised the law, labelling it unconstitutional and in violation of Article 78 of the Georgian Constitution, which commits Georgia to integrating into European and Euro-Atlantic structures.

"With this lawsuit, the president requests the suspension of the mentioned law and its final cancellation", Mskhiladze said.

The law's passage, despite a presidential veto, has deepened the rift between Zurbashvili and the ruling Georgian Dream party, which supported her election in 2018. The party has increasingly clashed with the president since her election, with tensions culminating in a dispute over her right to represent Georgia abroad and a failed impeachment attempt in 2023.

Various NGOs and civil society groups plan to file similar lawsuits against the validity of the "foreign influence" law. They also intend to appeal to the Euro-

pean Court of Human Rights (ECHR).

Georgia's Public Defender, Levan Ioseliani, who is seen by many as much less critical of the government, endorsed the president's appeal to the Constitutional Court and committed to participating in the court's proceedings.

Russia's "foreign agents" legislation is used to stifle dissent and suppress

"With this lawsuit, the president requests the suspension of the mentioned law and its final cancellation"

independent organisations. Critics argue that the Georgian law, like its Russian counterpart, targets media outlets and NGOs, hindering democratic processes.

The Georgian Dream party defends the law, citing the necessity for transparency in foreign funding. However, comparisons to similar laws

in the US and Europe are deemed inaccurate due to significant differences in scope and application.

In response to the introduction of the legislation, the United States announced sanctions against the Georgian government and warned of a comprehensive review of bilateral cooperation. The European Union suspended €30mn in aid to Georgia

and threatened further measures, highlighting the law's potential to distance Georgia from EU integration.

Georgia's civil society, striving for independence from Russian influence, continues to resist the law, reiterating its detrimental impact on NGOs, media organisations and broader democratic freedoms. ●



Georgia's President Salome Zurbashvili is heading for a constitutional showdown with the government.



Hungarian Prime Minister Viktor Orbán paid homage to former US president Donald Trump at Mar-a-Lago in March. / Viktor Orbán's X account

# Can Europe stand firm in its support for Ukraine as it struggles to contain Russian aggression?

Robert Anderson in Prague

**T**he doom merchants are back. After the far right advance in the European Parliament (EP) elections last month – particularly in France – pessimists are once again despairing of Europe holding firm in its support for Ukraine as it struggles to contain Russian aggression.

With the Netherlands, Belgium, France, Bulgaria and probably Austria this autumn lurching to the right in national elections, isn't it only a matter of time before the balance in Europe shifts in favour of pressuring Kyiv to accept "peace" on the Kremlin's terms, even before Donald Trump returns to the White House?

This argument can be broken down into two connected parts: the mood among European citizens, and the stance of their governments.

For the past almost two and a half years of the war, cynics have predicted that "Ukraine fatigue" would sap what they often fail to acknowledge is the West's surprisingly stalwart support for Kyiv.

Many Europeans are indeed afraid of drifting into another world war, and resent the cost of aiding Ukraine, looking after its refugees and ramping up domestic military spending at a time of budget austerity and high energy prices (largely caused by the war). These concerns may deepen this winter if Russia's decimation of Ukraine's electricity network triggers another wave of refugees.

Far-right parties have rushed to exploit these worries. Many were already sympathetic to Russian dictator Vladimir Putin because he is seen as an opponent of Western liberal "globalism",

and a supporter of conservative so-called Christian values. Now they vacuously claim to be backing “peace”, though it is never spelled out in detail what this actually entails.

In this drive they have been backed by massive Russian disinformation. German Minister for Europe Anna Luhman warned the Prague European Summit conference last month of the damage that this could do.

“If we don’t have public support for the war in Ukraine we will be in trouble, and Russia knows that and that is why we see a huge amount of disinformation,” she pointed out.

Vera Jourova, outgoing European Commissioner for Values and Transparency, told another summit panel that Moscow had first targeted disinformation at Slovakia, Bulgaria and Serbia, and then moved on to France, Poland and Germany before the EP elections. “Russia is the global champion of spreading propaganda and using these new [disinformation] tools,” she said.

Despite all this, a survey published by the European Council for Foreign Relations (ECFR) this week showed that most Europeans still support increasing the supply of weapons and ammunition to Ukraine. Only in Greece, Bulgaria, and Italy is there a majority against this, with respondents believing instead that Europe should push Ukraine towards negotiating a peace deal.

“The striking thing about the state of public opinion, vis-a-vis Ukraine, is its remarkable stability – while the conflict has not frozen, in many aspects public attitudes have,” commented Ivan Krastev, co-author of the ECFR report and chair of the Centre for Liberal Strategies.

Yet at the same time, apart from Estonia and Ukraine itself, citizens in all the 15 countries polled (which also included the UK) believe that the conflict will conclude with a compromise settlement.

A Czech pollster at the Prague European Summit confirmed this ambivalent stance. At an off-the-record panel, he pointed out that two thirds of Czechs say Russia is to blame for the war, with only 10-15% blaming Ukraine and the West. But only around 30% say Czechia should support Ukraine until it wins, while 70% say it should strive for a quick end to the war.

So there is little “Ukraine fatigue” as such among European citizens at the moment, but nor is there much enthusiasm for continuing to support Ukraine until the bitter end.

The EP elections themselves did not really tell us much about European views on the war as only in a few – mainly Eastern European countries – was it a big issue, and in several of those countries – notably Poland and the Baltic states – centrist Ukraine-supporting governments were able to successfully use the war against their populist opponents. Meanwhile, for

most of Western Europe, the war was far away and they had harboured few refugees.

Nor will the increase in the number of far-right MEPs in the elections have a big impact on Europe’s stance towards Ukraine, which is in any case mainly set by governments. There is still a strong majority in the parliament that supports Ukraine and the hard-right appears to be becoming more divided, rather than less, with the recent formation of a new third far-right party group. The war remains a divisive issue among the radical and extreme right.

Orban remains isolated but for how long?

If there is no big push from citizens to end support for Ukraine, what about from governments? Hungarian Prime Minister Viktor Orban currently remains isolated as Putin’s only true defender among EU leaders. As the holder of the

“If we don’t have public support for the war in Ukraine we will be in trouble, and Russia knows that and that is why we see a huge amount of disinformation”

rotating EU presidency for the next six months, he will therefore be powerless to redirect the bloc’s stance.

“The mainstream remains strong,” Peter Kreko, director of the Hungarian think-tank Political Capital told a CEU Democracy Insight webinar this week. “I think the support will hold.”

Nevertheless, he warns: “The longer the war goes on the more the pressure on politicians will grow.”

What is most worrying is that this balance in the EU could begin to change over the next six months, and this could encourage waverers – such as Slovakia’s Robert Fico – to join the “peace now” camp and back Orban both at home (as now) and in Brussels.

France will be the key test here. According to the ECFR, President Emmanuel Macron’s floating of the idea of sending Nato troops to Ukraine may have boosted the National Rally’s support in the election. If the far-right National Rally wins this weekend’s run-off elections, it will send reverberations across Europe. Whatever happens, Macron will continue to direct foreign policy, but his wings may be clipped.

“A divided public may constrain the president’s hawkishness and place a very large question mark over the sustainability of Paris’s support for Kyiv,” the ECFR report warns.



The National Rally has pledged to halt French deliveries of long-range missiles to Ukraine but it is unclear whether Marine Le Pen's party would really expend political capital on changing France's policy towards Ukraine, the invasion of which it condemned.

"When in opposition, parties criticise Ukraine; when they come into government it forces them to become more moderate," says Kreko, pointing to the example of Greece's Syriza and Italy's Five Star movement.

But France is not the only country to fall to the far right. Italy has already been taken over by Georgia Meloni's far-right (but Ukraine-supporting) Brothers of Italy, while pro-Moscow extremist parties look set to have big influence inside the new Dutch, Belgian and Bulgarian governments, and to do well in the upcoming Austrian elections. They could eventually constitute a blocking minority inside the European Council.

This is all happening at a time when Europe is lacking strong centrist leadership from other big states such as Germany and Spain, and thus this could transform the overall mood towards the war.

"The next five years [of the European Commission] will be much more complicated, not so much because of the results in the EP elections but because of the repercussions in the member states," Thu Nguyen, deputy director of the Jacques Delors Centre, told the CEU Democracy Insight webinar.

But the real challenge comes in November, she warned, with the potential election of Trump giving a boost to pro-Russian forces in Europe, and raising serious questions over whether Europe can continue to support Ukraine on its own.

"The US election is much more important," says Nguyen. "The real question is how we in Europe will prepare for Trump." ●

## Israel emerging as source of tension in Azerbaijan's special relationship with Turkey

**Bahrüz Samadov for Eurasianet**

**T**here is no strategic partnership in Eurasia stronger than Azerbaijan's ties with Turkey. But Baku's close relations with Israel are increasingly becoming a source of friction in the Azerbaijani-Turkish alliance.

Public sentiment in Turkey is decidedly pro-Palestinian in the ongoing conflict between the Israeli military and Hamas militants in the Gaza Strip. All major political parties in Turkey are likewise supportive of the Palestinian cause to one degree or another. At the same time, Azerbaijan remains a staunch friend of Israel. Baku's extensive economic and security ties with Israel played a key role in assisting the Azerbaijani military in retaking Nagorno-Karabakh territory from 2020-2023.

Given the discrepancy in views, it is not surprising that allegations of Azerbaijani oil sales to Israel, volumes of which reportedly transit Turkish territory, have prompted protests outside the Azerbaijani state oil company's (SOCAR's) offices in Istanbul. Protesters have tacitly accused Azerbaijani leaders of undermining the special relationship between Baku and Ankara, carrying banners with slogans such as "Two States, One Betrayal."

On June 20, SOCAR's Istanbul office experienced another bout of vandalism, as protesters waving a Palestinian flag threw rocks at the glass windows of the building.

Turkish President Recep Tayyip Erdogan's regime is not

known for its tolerance of protest or dissent, but authorities have shown an unusual level of forbearance for the pro-Palestinian demonstrations, although police did arrest 13 individuals for disorderly conduct on May 31.

Domestic political factors are pushing Erdogan to stake out an ardently pro-Palestinian stance. His ruling AKP party experienced a drubbing at the hands of the main opposition CHP in the late March local elections. A significant factor in the vote was a public perception, held by both conservative



Aliyev (left) and Erdogan during a one-on-one meeting on June 10. The simmering tension in Azerbaijani-Turkish relations could be seen in what was reported – and not reported – in official accounts of the meeting. / President.az

Islamists and oppositionists, that the AKP was not doing enough to support the Palestinian cause.

Since then, Erdogan has been a champion of Palestinian liberty. “We object to the oppression, massacre and injustice that has been going on for 76 years,” he said during one early June speech. “We stand with the Palestinian people with all our means.”

Azerbaijani officials have clearly been rattled by the criticism. President Ilham Aliyev, during his recent trip to Egypt, stressed that the “tragedy in Gaza must be stopped.” Meanwhile, SOCAR issued a statement that denied the company was making direct sales to Israel, citing the technicality that it is merely fulfilling contractual obligations to provide a certain volume of oil for the Baku-Ceyhan pipeline.

“We conduct all our activities within the framework of international business agreements,” the statement said.

Some pro-Baku commentators have pushed back, accusing the Turks of ingratitude. For example, Nigar Ibrahimova, a Turkish journalist of Azeri origin, pointed out that SOCAR, unlike “your oil-rich Arab brothers,” distributed oil free of charge to areas impacted by the devastating earthquake in southern Turkey in 2023.

Given the tight control Aliyev’s administration flexes over Azerbaijan’s domestic political environment, there have been

few expressions of public opinion concerning the warfare in Gaza. One notable exception was an under-the-radar, pro-Palestinian fundraiser held in Baku recently.

The simmering tension in Azerbaijani-Turkish relations could be seen in what was reported – and not reported – in official accounts of a one-on-one meeting between Erdogan and Aliyev on June 10.

A brief report of the meeting published by the Turkish Anadolu news agency noted that Erdogan raised the Israeli-Palestinian issue, highlighting “the need for international pressure on Israel to address” alleged atrocities in Gaza. The report went on to say Ergogan “reaffirmed that a lasting solution lies in the establishment of an independent Palestinian state with East Jerusalem as its capital.”

Meanwhile, a notably short account of the meeting published on Aliyev’s official presidential website did not contain any reference to the Israeli-Palestinian conflict, while hailing the “successful development of fraternal, friendly and allied relations between Azerbaijan and Turkey.” ●

*Bahruz Samadov is a PhD candidate in political science at Charles University in Prague.*

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HESS

## Georgia’s dreams dying as EU accession suspended

bne IntelliNews

**O**n June 9 the EU announced the suspension of Georgia’s accession talks and on June 11, the declaration that followed this year’s annual Nato Summit failed to include the phrase “Georgia will become a member of the Alliance with the Membership Action Plan as an integral part of the process” for the first time since it was adopted in 2008. Thus, the two leading pillars of Georgia’s foreign policy for the last twenty years – and the key aspirations of the overwhelming majority of Georgians – have been dashed.

It is not the first, but the second, time that the aspirations of the Georgian people have been dashed by the country’s two leading politicians.

Georgia today faces its deepest crisis under the leadership of the Georgian Dream Party and its ‘honorary chairman’ and

dominant leader, Bidzina Ivanishvili, a man whose wealth is nearly one-third of the country’s GDP. Ivanishvili and his Georgian Dream came to power in 2012 after then-president Mikheil Saakashvili disgraced himself and his government by seeking to consolidate power in the face of democratic opposition and were simultaneously caught up in a fatal scandal around the brutalisation of prisoners, caught on video. Then as now, the government’s fatal flaw has been to put the interests of its leadership over those of the Georgian people.

The current crisis was triggered by the Georgian Dream’s April decision to re-introduce a law on ‘foreign agents’ that it had previously scuppered last year in the face of mass protests. This year’s protests have been even larger than last year’s but the ruling party doubled-down on the measure, even overturning a veto by President Salome

Zourabichvili, elected in 2018 with Georgian Dream's backing and Ivanishvili's personal support. She has subsequently broken with Ivanishvili – as she once did with Saakashvili under whom she spent 18 months as foreign minister – and has since taken a leading role in calling for the creation of a united opposition ahead of Georgia's October 26 election.

Ivanishvili only served as one year as prime minister after leading his party to victory in 2012, but has dominated Georgian politics ever since. His wealth – estimated by Forbes at \$4.9bn – alone goes a long way to do so in a country with a GDP of roughly \$30bn but he has repeatedly reshuffled his governments, with five different prime ministers shuffling in and out of office since his term, and hand-picking numerous former employees for top level jobs.

Georgian Dream has also made little secret of the fact that the foreign agents law has been passed because Ivanishvili demanded it. The passage of a bill, also over Zourabichvili's veto, offering amnesty for repatriating offshore assets, also bears the imprimatur of Ivanishvili's desires.

When Ivanishvili refused to meet with US Assistant Secretary of State Jim O'Brien during his 14 May visit, Prime Minister Irakli Kobakhidze declared that the reason was because "Ivanishvili said that he was already under de facto sanctions because he had frozen 2bn [US] dollars that he had entrusted to the West, but which turned up in the hands of the Global War Party" – referring to a long-running dispute between Ivanishvili and the Swiss bank Credit Suisse over a former employee of the bank convicted of pilfering funds from Ivanishvili and other businessmen.

The 'Global War Party' reference on the other hand is a common trope of the increasingly conspiratorial language adapted by Georgian Dream leaders to claim they are still pursuing an agenda of allying with the West while disparaging its leading politicians, and claiming that they are seeking to pressure Georgia into becoming a second front in the Russian-Ukrainian war. Georgian Dream leaders have also adapted this legislation to disparage the opposition, which has consistently referred to the foreign agents law as the 'Russian law' and, more recently, labelled the government and Ivanishvili as Russian agents.

That label, however, captures more the deeply polarised nature of Georgian politics rather than the true nature of Ivanishvili and his party's actions.

Ivanishvili's motives are likely more rooted in the troubles of securing his assets, and additional damages from Credit Suisse ordered by a Bermuda court that the bank, taken over by erstwhile rival UBS in June 2023, is appealing, than in a move to embrace the Kremlin. Ironically the apparent ask that from Ivanishvili is that the West intervene to resolve these disputes in his favour, despite his government's rhetoric that the 'foreign agents law' is about protecting Georgian sovereignty.

But there are genuine reasons for concern. The Georgian Dream government has consistently refused to bring sanctions into its own legislation and in 2023 resumed direct flights with Russia despite Western allies raising sanctions concerns. Then in September 2023 after Washington sanctioned a former Georgian Dream-appointed attorney general, Otar Partskhaladze, for allegedly cooperating with the FSB, the government moved to minimize the fallout for Partskhaladze by pushing the central bank to briefly unfreeze his accounts, prompting three of its four governors to resign. If Georgia turns into a sanctions evasion hub, the risk of major political and macroeconomic damage is significant.

But Ivanishvili is clearly turning Georgia away from the West, despite his public pledge to lead Georgia into the EU by 2030. On May 30 the government announced awarded the contract for the repeatedly delayed, and twice cancelled, Anaklia Deep Sea Port project to a Chinese government consortium. That risks throwing a major spanner into the Western-backed plans for a 'Middle Corridor' through Eurasia to reroute trade from Russia. On 4 June the Georgian Dream introduced anti-LGBT legislation, an attempt to capitalise on social conservatism to bolster support ahead of the October election.

Georgia's Euro-Atlantic aspirations again risk being undermined by the whims of one man. More major protests are likely before the October vote, and the risk of further democratic backsliding by the Georgian Dream before then is high. But Georgian voters have repeatedly made clear their commitment to these aspirations. Whether the opposition can unify, and move away from the toxic legacy of the last Georgian politician to put himself above the national interest, will shape the country's future more than anything the West, or Russia, do. ●



The dream of the people of Georgia is to join the EU, but it seems to have been dashed by the increasingly authoritarian ruling Georgian Dream party. / bne IntelliNews



COMMENT

# Armenia needs a green light from Brussels to fulfil its European dream

**Robert Ananyan in Yerevan**

**U**nder threat from Russia and Azerbaijan, Armenia is seeking new partners and guarantees in the West. European integration or even joining the European Union has become one of the top issues on Armenia's political agenda.

The anti-government rallies of pro-Russian opposition forces that started in the spring have failed. Prime Minister Nikol Pashinyan remains in power, during whose tenure cooperation with the US and the EU has intensified unprecedentedly, peaking at a April 5 meeting in Brussels.

Now, the "Platform of Democratic Forces" uniting four pro-Western parties, is pressuring Pashinyan's government. They are demanding a referendum on EU membership, pointing to Ukraine and Moldova, which have already begun negotiations on membership.

Pashinyan has not dismissed these demands. Moreover, on October 17, 2023, he declared from the European Parliament's podium that "Armenia is ready to be as close to the EU as the EU considers possible". Theoretically, this should mean membership if the European Union deems it possible.

Recently, during the "Armenian Democracy Forum" held in Yerevan, Pashinyan was more candid, stating he wouldn't have made such a statement if he thought Armenians did not support the idea. Indeed, according to a poll conducted a few months ago by the International Republican Institute, Russia's rating has plummeted, and the country, once considered an ally, is now seen as one of three states posing political and economic threats. Meanwhile, the US, France, and the EU are perceived by Armenians as their leading security and economic partners. The West almost has no negative ratings.

Public opinion today is therefore favourable, and if Pashinyan calls for a referendum on EU membership, it will likely result in a positive outcome. However, he wants assurances that Brussels will also welcome Armenians' pro-European aspirations. Armenia needs to be confident that it will receive EU candidate status, like neighbouring Georgia.



Ursula von der Leyen (right) has positive experience working with Armenian premier Nikol Pashinyan (left). / Armenian PM's office

Pashinyan insists that he cannot say how ready the European Union is for Armenia's membership. Thus, Armenia's leader is publicly asking the newly elected leadership of the European Union and the European Parliament for an answer on whether they see Armenia in the EU. More specifically, is the EU ready to start negotiations with Armenia as it is doing with Ukraine and Moldova?

But the economic and geopolitical situation is difficult. If these problems are not overcome, Yerevan cannot be deemed a realistic candidate for the EU.

## EU intensifies its focus

After four years of negotiations, Armenia's third president, Serzh Sargsyan, refused to sign the Association Agreement with the EU in 2013 and decided to make Armenia part of the Russia-led Customs Union, later called the EEU. In 2017, Armenia and the EU signed the Comprehensive and Enhanced Partnership Agreement, which differs from the Association Agreement only by the absence of the free trade component.

Since 2020, the European Union has noticeably intensified its attention on the South Caucasus. Georgia has obtained candidate status for membership. Georgia's fate will be decided in the parliamentary elections in October.

Today, Yerevan and Brussels are trying to align Armenia's economic standards with European ones, opening the doors of European markets for Armenian producers. In 2021, the EU offered Armenia a new economic and investment plan, a €2.6 billion support package. So far, €550 million of this amount has been spent and invested in the economy, mostly consisting of preferential loans supporting small and medium-sized businesses. The rest mainly concerns capital expenditures.

The EU has also assumed a security role by deploying an observer mission in Armenia on the border with Azerbaijan. The EU also wants Armenia to participate in the Black Sea transmission cable project, contributing to the European continent's energy security.

This year, the partnership council agreed to start work on a new EU-Armenia partnership agenda. A document on high political commitment has been prepared, which should record the high level of political relations between Armenia and the European Union and agree on more concrete programmes. This is a higher-status document than the Comprehensive and Enhanced Partnership Agreement. Armenia should complete the implementation of the Comprehensive and Enhanced Partnership Agreement (CEPA) by 2027. Currently, the agreement is 80% implemented.

Thus, in two to three years, Armenia and the EU should summarize the implementation of the agreement and commit to raising relations to a new level. Theoretically, this could mean granting Armenia candidate status for EU membership.

Ursula von der Leyen, who is likely to continue presiding over the European Commission, has positive experience working with Armenia. The main issue at the April 5 meeting in Brussels with the participation of Pashinyan, US Secretary of State Antony Blinken, and von der Leyen, was increasing Armenia's resilience and economic resilience. The EU and the US intend to help Armenia mitigate risks, diversify trade, expand technological infrastructure, and strengthen economic and institutional resilience.

For its part, the United States is committed to enhancing Armenia's food security and facilitating the flow of agricultural products across Armenia's borders. The US and Armenia have a preliminary agreement on constructing an American nuclear power plant. The US has also included Armenia in the Middle Corridor project connecting Central Asia to Europe and Nato countries, but its implementation is tied to the Armenian-Azerbaijani settlement.

The document agreed upon at the April 5 meeting lays serious groundwork for preparing Armenia's economy to shift toward Europe. Armenia has significant homework to cut off its economic dependence on Russia and move closer to the EU. This is a challenging task. Armenian businesses do not exert much effort to sell goods in the Russian market, as low-quality and cheap goods are easily sold. Armenian exports to Russia amounted to \$7-8 billion in 2023. This is a significant share of Armenia's economy but has also created an unhealthy dependence on the Russian economy.

On April 5, the US and the EU essentially committed to supporting Armenia in raising its economic standards and entering European markets. Yerevan and Brussels are currently working to establish laboratories in Armenia to allow certified Armenian products to be exported to Europe without hindrance. Economic sector officials promise to ensure a positive outcome in trade route diversification in the next 1-2 years, as 3,000 Armenian companies have already modernized their equipment.

### Economic risks

However, it will not be easy to sever Armenia's economic dependence on Russia, especially since Armenia's economy has doubled since 2020, nearing the \$25 billion mark. A significant portion of this growth is due to exports to Russia. Armenia is one of the world's leaders in economic growth, but if Yerevan wants to join the European Union, it must take risks and leave the EEU. Armenia cannot be a member of two economic unions.

The Armenian government has indicated that it has calculated the economic and political sanctions Russia might impose in case of a sharp turn towards to the EU. To prevent Armenia's economy from collapsing due to Russian sanctions, the new EU leadership must be decisive in supporting Armenia. Only with economic guarantees will Pashinyan's government take the step of shaking up economic relations with Russia, knowing that it will create new security threats.

To reduce energy dependence, the American side is supporting the Armenian government in developing and implementing a diversification and liberalization strategy.

High-ranking Armenian officials candidly admit off the record that politically, Yerevan will easily decide to join the EU. The idea of EU membership is popular in Armenia. However, they want Armenia's economic resilience to increase and get closer to European standards. In the case of Russian sanctions, Armenian producers must be ready to transition to European markets. Today, Armenia's economy is preparing for such a scenario. However, the process's efficiency can only be assessed at a critical moment.

Pashinyan's government will likely take practical steps to apply for EU membership in 2026 during the parliamentary elections. It can be expected that the "Platform of Democratic Forces" and the "Civil Contract" will compete in 2026 to be the flagbearers of the European integration agenda.

The loss of Nagorno-Karabakh and the periodic military attacks planned by Azerbaijan and Russia have undermined the Pashinyan government's positions. He needs to give voters a new reason to vote for the Civil Contract party. He will likely announce before 2026 that if Armenians want to see concrete steps towards EU membership, they must choose his political team.

But if Brussels responds positively to Pashinyan's raising of the issue in the coming months, the process of obtaining candidate status for the EU could accelerate.

The escalation of security threats against Armenia may also prompt Pashinyan to speed up the process. There is a prevailing view among Armenia's political elite that Azerbaijan will not dare to start a war against a country with EU candidate status.

### Handling Russia

There is a perspective that Armenia is forced to maintain a balance or ambiguity between Russia and the West to

increase its leverage. This might have worked until February 24, 2022. Pashinyan's government is now convinced that Russia threatens Armenia's independence and sovereignty. Moreover, Pashinyan has accused two CSTO member states, Belarus and Russia, of supporting Azerbaijan in preparing for war against Armenia.

Today, Pashinyan's government is heading towards freezing relations with Moscow. Pashinyan understands that leaving the CSTO would also mean leaving the EEU. Yerevan has suspended its participation in the CSTO, and it is only a *de jure* member of this alliance. Armenian officials frequently express accusatory and critical remarks towards Moscow, freezing political contacts with Russian officials.

Receiving only threats and dangers to its independence instead of support from Russia, Armenia has made deepening cooperation with the EU and the US its main tool for protecting its statehood. Armenia is deepening its cooperation with the West at Russia's expense.

## “Pashinyan's government will likely take practical steps to apply for EU membership in 2026 during the parliamentary elections”

Yet the step of joining the EU will be a major earthquake in Armenian-Russian relations, and Yerevan must approach that day in good economic and security shape. Sharp anti-Russian steps can endanger the gradual distancing from Moscow.

Yerevan has chosen a subtle, smooth, and peaceful approach to disengagement, avoiding the noisy and dangerous experience of Georgia's former president Mikheil Saakashvili. Recently, Armenia and the USA have elevated their relations to the level of a strategic partnership commission. While postponing the exercise with Georgia, the USA is conducting an exercise with Armenia. The USA is involved in the reform of the Armenian Armed Forces.

Under the leadership of President Emmanuel Macron, France broke the taboo and is selling weapons to Armenia, which still holds CSTO membership. With France's support, the European Union very quickly deployed observers on the Armenia-Azerbaijan border. On April 5, crucial economic projects were agreed upon. All this might have seemed like fantasy a year ago, but today it is a reality.

However, Armenia may lose an important partner in its European integration efforts if Donald Trump is elected US president in November. Joe Biden's administration has elevated US-Armenia relations to a strategic level, which might be cancelled by Trump.

Armenia could also lose a powerful ally in France. If the right-wing populist forces continue their triumph in France and Macron loses his political support in parliament, French support might weaken. The likelihood of forming a right-wing populist government in France could not only end Paris's activity towards Armenia but also weaken the EU as a geopolitical actor. This could endanger the EU's enlargement policy and even cast doubt on Ukraine's membership.

Strengthening Macron's position in France and Biden's reelection would accelerate Armenia's European integration process and give more confidence to Pashinyan.

Today, it is not possible to unequivocally assert that Armenia will not apply for EU membership. This depends primarily on the policies adopted by the member states of the European Union and the newly elected leadership of the EU regarding enlargement. If the parties opposing EU enlargement continue to win at the national level, Yerevan's European course might be halted or complicated.

For a long time, Viktor Orbán's government in Hungary impeded the process of providing 10 million euros in support from the European Peace Facility to Armenia. But eventually, Hungary gave its consent. Armenia is currently negotiating with individual EU countries on visa liberalization. It is understood that Austria, with a centre-right political government, has also posed certain difficulties in negotiations with Armenia. In the next elections, the far-right Freedom Party may win in Austria. This could also jeopardize the EU's enlargement policy.

Unexpectedly positive news comes from Iran. The election of the reformist candidate Masoud Pezeshkian as president will be favourable for Armenia's European integration agenda. Pezeshkian is a supporter of improving relations with the West and could approach Armenia's aspiration to join the EU with understanding. For Iran, the establishment of a Western military base in Armenia is a red line, while EU membership is seen as a chance for economic cooperation with the West.

It will also be important that the Georgian Dream party of Bidzina Ivanishvili, whose pro-Russian stance threatens the country's EU membership, does not win in Georgia in October. By controlling Georgia, Russia could also close Armenia's path to Europe.

The referendum on EU membership is purely a technical process and not the most crucial. Armenia must become European in terms of economy, energy, security, democracy, human rights, and political system. Armenia needs to carry out internal procedures of European integration as efficiently as possible.

Theoretically, Armenia can adopt European standards without joining the EU if geopolitical conditions are unfavourable. However, if they improve Armenia will apply for candidate status for EU membership. ●



**GDP per capita, PPP (constant 2021 international \$) - Poland, Japan**

International Comparison Program, World Bank | World Development Indicators database, World Bank | Eurostat-OECD PPP Programme.



**Poland's adjusted income to overtake Japan's by 2026**

New GDP per capita PPP data from the World Bank suggest that Poland's GDP-adjusted income is likely to overtake that of Japan by 2026.

Based on the current growth projections from the International Monetary Fund (IMF) World Economic Outlook (WEO) in April 2024, Poland is fast catching up with Japan in per capita income terms.

**ROMANIA: 12-month rolling Export, Import and Balance (€mn)**

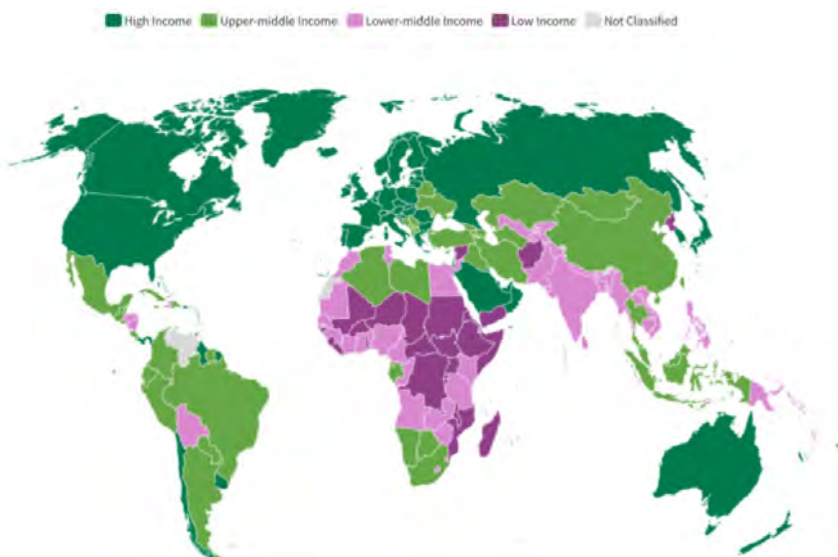


**Romania's trade gap widens by one-third y/y in April-May**

Romania's trade deficit (goods only, chart) widened by nearly 33% y/y in April-May, as exports contracted by 2.1% y/y while imports increased by 5.3% y/y according to data published by the statistics office.

The short-term dynamics reflect the industry's modest performance and the robust private consumption (retail sales), while from a broader perspective the country's external balance is slightly improving after the energy (natural gas, crude oil) price shock in 2022/2023, while remaining deep in the deficit area.

**World Bank Group country classification by income level**



**World Bank upgrades Russia to "high-income" country due to war-spending boost**

The positive economic news keeps coming for Russia after the World Bank upgraded it from an "upper-middle-income" to a "high-income" country, putting it in the same group as the leading G7 nations, the bank said on July 1.

Bulgaria and Palau were also upgraded to "high-income" in the World Bank's ranking.

Russia's economy has defied expectations by outperforming all expectations following the imposition of harsh economic sanctions that have been offset by heavy spending on the military industrial complex.

# wiiw sees brighter growth prospects for 'resilient' Emerging Europe

## bne IntelliNews

Growth is gaining momentum across most of Central, Eastern and Southeast Europe, despite a challenging international environment, according to the latest Summer Forecast from the Vienna Institute for International Economic Studies (wiiw).

This growth is mainly driven by a strong rise in real wages, leading to higher private consumption, while EU members are showing resilience in the face of Germany's economic downturn.

"The main driver of growth is the sharp rise in real wages, which is stimulating private consumption, even if a not inconsiderable proportion of the additional disposable income is being saved," says Vasily Astrov, economist at wiiw and lead author of the Summer Forecast.

The industrial sector in the region's EU member countries remains in recession, primarily due to the deep crisis in German industry. "This limits the growth prospects of all those countries that are part of the industrial cluster around Germany," said Astrov.

wiiw forecasts average growth of 2.6% for the EU members of the region in 2024, increasing to 3% in 2025, outpacing the euro area, which is projected to grow by 0.6% this year and 1.6% next year.

Slovenia and the Visegrád states — Poland, Czechia, Slovakia, and Hungary — are expected to grow by an average of 2.6% this year, accelerating to 3.1% in 2025. Poland leads growth among the Eastern EU members, with expected growth rates of 3.3% this year and 3.6% next year.

Particularly, slow growth is expected in the Baltic states and Czechia, with Estonia's economy expected to expand by a mere 0.2% in 2024.

The Southeast European EU members

are also forecast to see robust growth of 3.0% in 2024, bolstered by NextGenerationEU coronavirus recovery funds and, in Croatia's case, a thriving tourism sector.

The Western Balkans are projected to grow by an average of 3.2% this year, with Turkey expected to expand by 3.4%.

Some of the strongest growth is in the small Western Balkan economies; Montenegro, Albania, Kosovo and Serbia are projected to be among the five fastest-growing countries this year, along with Kazakhstan, the only Eurasian economy included in the report.

Ukraine's recovery is anticipated to slow down, with a revised growth forecast of 2.7% for 2024, down by 0.5 percentage points from the Spring Forecast. "Half of Ukraine's energy infrastructure has already been destroyed in Russian missile attacks, and the destruction is continuing. Without electricity, however, the Ukrainian economy will struggle to recover," said Olga Pindyuk, Ukraine expert at wiiw.

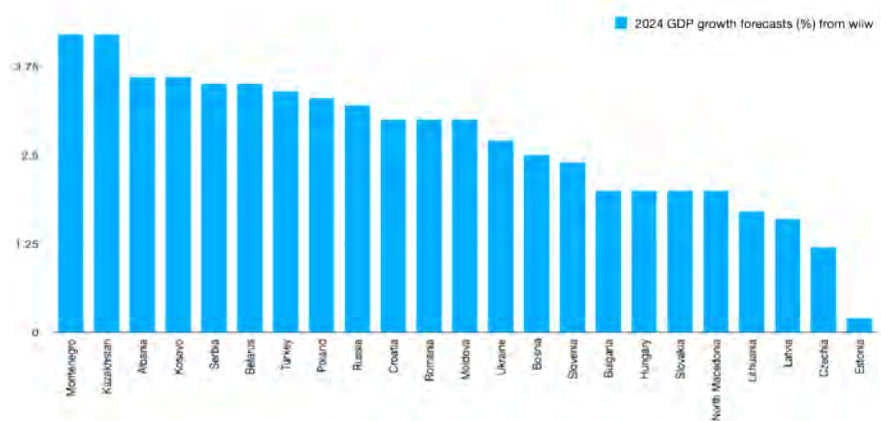
Conversely, Russia's growth forecast has been revised upward by 0.4 percentage points to 3.2% for 2024, driven by substantial government spending on the war, which amounts to around a third of the federal budget. "This is leading to a redistribution

from the top to the bottom, which unfortunately also fosters sympathy for the war among the population," said Astrov, who is also wiiw's Russia expert.

The prospect of US sanctions against third-country banks aiding Russia in circumventing Western sanctions is beginning to impact Russian imports, particularly for dual-use goods like microchips. "Ultimately, ways will be found to circumvent these sanctions, but they will make it more expensive and difficult for Russia to procure such important high-tech components from the West," Astrov said.

Geopolitical risks remain a significant concern. "A Donald Trump victory in the US presidential election in November could intensify the trade war between the US and China, and possibly also start one with the EU. This would hit the small, open economies of Central Eastern Europe particularly hard," warned Astrov. Additionally, a potential far-right government in France led by Marine Le Pen's National Rally could complicate Western support for Ukraine.

"That concern is particularly relevant for Ukraine, since a new government in Paris led by the right-wing populists could — at the very least — make it extremely difficult for the country to receive the Western support it so urgently needs," says the report. ●



Newsletter

# Invest Uzbekistan

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