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Pellegrini pledges to unite deeply divided Slovakia

Turkish intelligence reportedly foiled terrorist plot to attack Moscow mall after Crocus City massacre

78 countries sign limited communique at Ukraine summit in Switzerland

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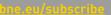
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The Commission suspended the EDP during the COVID-19 pandemic, but this suspension was lifted at the end of last year. / CC/Wikipedia

# Poland, Hungary and Slovakia set to enter EU's Excessive Deficit Procedure

#### **Robert Anderson in Prague**

oland, Hungary and Slovakia are set to be put under the European Union's Excessive Deficit Procedure (EDP), following a European Commission analysis of their budget deficits published on June 19.

The Commission move could open a new front in the battle between Central Europe's populist governments and the EU. Hungary's and Slovakia's populist governments have thumbed their noses at the Commission's advice over their budgets – notably by prolonging energy subsidies long after the price shock following the Russian invasion of Ukraine – while Poland's new centrist government is wrestling with the legacy left by its populist predecessor.

"At a time when Europe and national governments are facing increasing support for populist parties, with often highly expensive economic policy proposals, the EDP announcements could add to political tensions," ING said in a note. "Eventually, it could also lead to tensions within the monetary union if one or more member states do not comply with the proposed correction path."

From Central and Eastern Europe (CEE), Czechia and Estonia also breached the Stability and Growth Pact's threshold of a budget deficit of 3% of gross domestic product (GDP) 3% in 2023, and Slovenia may do so this year, but they escaped sanction because their excessive deficits are viewed as either temporary or caused by extraordinary one-off factors.

Slovenia was excused partly because floods earlier this year cost 1.7% of GDP, according to government estimates, and its deficit will return under 3% of GDP next year.

Czechia's deficit is viewed as only temporary as it is forecast to fall below 3% this year after an austerity package passed last year worth an estimated 1.5% of GDP.

Estonia was forgiven, even though its deficit will still be above the threshold next year, because it is still struggling to emerge from a three-year recession.

Romania, whose deficit is expected to be above the 3% limit in 2023 and in 2024, is already under the EDP. The Commission said that Romania had taken no effective action in response to the Council recommendation on its deficit of 18 June 2021.

Three CEE states – Hungary, Croatia and Slovenia – also breached the secondary threshold of having public debt of more than 60% of GDP.

According to the report – which did not cover Romania – Hungary, Poland and Slovakia breached the 3% budget deficit threshold in 2023 and are expected to continue to do so in 2024 and 2025.

The Polish budget deficit hit 5.1% of GDP in 2023 and the Commission expects it to widen still further to 5.4% in 2024 before going down slightly to 4.6% in 2025.

Poland tried to claim exceptional reasons for this because of the ramp-up in its defence spending – a new factor that can be taken into account in the Stability and Growth Pact – though the Commission decided it should nevertheless still enter the EDP.

Polish defence spending is set to become the highest in terms of GDP in the EU. It was 2.1% of GDP in 2023 and the government expects it to reach 2.8% in 2024, 3.2% in 2025, 3.7% in 2026, 4.3% in 2027 and 4.1% of GDP in 2028.

Hungary has long had one of the worst deficit and debt records among the CEE member states. Hungary was previously under the EDP from 2004 to 2013 for continuously overshooting the deficit. It is now set to re-enter the EDP after Hungarian strongman Viktor Orban splurged to win the April 2022 election and his government failed to subsequently rein in spending sufficiently.

Hungary's 2023 budget gap of 6.7% exceeded the government's original target by some 3pp and in the absence of further measures, the Commission projects it to remain elevated

at 5.4% of GDP in 2024 and decelerate to 4.5% in 2025, both figures above the government's latest forecasts. Public debt fell 0.5pp in 2023 to 73.5% of GDP.

Slovakia was singled out as an "aggravated" case because the new left-right populist government has failed to take adequate steps to correct the deficit since it took power last October.

The government deficit spiked to 4.9% of GDP in 2023 as energy-support measures were implemented amid the energy crisis. The EC projected the public deficit to increase to 5.9% of GDP this year and to decrease a bit next year to 5.4% as the energy aid is expected to wind down.

The European Commission also recommended that Belgium, France, Italy, and Malta enter the EDP.

The EDP had been suspended during the COVID-19 pandemic, but this suspension was lifted at the end of last year.

The Commission recommendation is due to be endorsed by the European Council in mid-July, and then the countries under the procedure will have to set out how they plan to reduce the deficits by September 20.

If countries do not comply with the agreed path of correction, they could be liable for half-yearly fines amounting to 0.05% of GDP until they are compliant – although, as ING Bank points out, this famously has not happened so far.  $\bullet$ 

## Czech minister says two investors are interested in taking over Liberty Steel's insolvent local unit

#### Albin Sybera

wo investors are reportedly interested in taking over Liberty Ostrava, the largest Czech steel mill, which entered insolvency proceedings last week.

Czech Minister of Labour and Social Affairs Marian Jurecka said he knows of two "very seriously interested" investors, adding that "it cannot be ruled out that next week or the week after another will appear".

Online news outlet Seznam Zpravy (SZ), reported earlier that defence and heavy industry conglomerate Czechoslovak Group (CSG), financial group Creditas and local regional metals company Trinecke zelezarny are among the potential investors into Liberty Ostrava.

The steelworks, owned by struggling British-based Liberty Steel, part of industrialist Sanjeev Gupta's GFG Alliance, has shuttered most of its production since the end of last year when its key energy provider Tameh Czech stopped supplies to the plant over missing payments.

Employees have been on paid leave since then and the company management pursued a reorganisation plan which was backed by the majority of creditors under a court moratorium protecting Liberty Ostrava against creditors.

However, without any warning, last Friday Liberty Ostrava appeared in the insolvency registry, with stated liabilities exceeding CZK5bn.

Liberty Steel later said that, "given the ongoing material risks and uncertainties facing Ostrava, Liberty has decided the right course of action is to initiate a sale of Ostrava's operations and withdraw the preventative restructuring plan in order to enter into a judicial reorganisation under the Insolvency Act".



Liberty Ostrava entered insolvency proceedings last week. / bne IntelliNews

The company said the reorganisation would "provide the time and protection to undertake the sales process and further restructuring measures to stem losses".

The company blamed market conditions – namely global oversupply and historically high imports into Europe from countries which face much lower regulatory and decarbonisation costs. Soaring energy and coal prices and falling steel demand and prices following Russia's invasion of Ukraine have hurt a sector already struggling to adapt to European Union environmental rules that reduced competitiveness compared to Asian rivals.

It also pointed to the Czech goverment's failure to transfer emission permits to Liberty Ostrava. Relations between the British-based group and the Czech government have all but broken down, with Czech ministers accusing the indebted group of failing to communicate and of moving money out of the company to other operations. The government has refused to run to the aid of Liberty Ostrava and now appears determined to transfer its operations to a domestic investor.

SZ's commentator Petr Holub and editor-on-chief of *Reporter* magazine, pointed out that for a potential takeover, the insolvency court would first have to turn down Liberty Steel's proposed reorganisation, which could take "weeks or months".

Jurecka made his comments after a meeting with Liberty Ostrava's labour unions and representatives of the labour office on Tuesday, June 18, where state aid to Liberty Ostrava's employees was discussed. "If the plant is to re-start again then we need to keep the people, and not have them quit en masse," Jurecka told the media.

"We view positively that strategic investors are appearing. I firmly believe that we will maintain as many workplaces as possible," head of the labour union KOVO Roman Druco was quoted as saying by Czech Television (CT), which also cited the general director of the country's Labour Office, Daniel Kristof, as saying that 437 employees had filed a request for salary remuneration as of Monday. Under Czech law the state can cover missed salary payments in the event of company insolvency.

Kristof said that his office could start with the salary payments next week and estimated the costs to be around CZK1bn (€40mn). Before entering insolvency, Liberty Ostrava had around 5,000 employees, according to the reports in the Czech public media. Unions say up to 30,000 jobs in total are dependent on the plant in what is one of Czechia's poorest regions. ●

## Rail Baltica could require an extra €19bn in funding, say audit offices

#### Linas Jegelevicius in Vilnius

he Baltic states' premier infrastructure project, Rail Baltica, is at risk because its estimated cost has soared 400% over the last seven years, potentially leading to a budget shortfall of €10bn-19 bn, according to a joint report by the state audit offices of Estonia, Latvia and Lithuania, ERR.ee, the website of Estonia's national broadcaster ERR, reported on June 12.

The state audit offices of Estonia, Latvia and Lithuania have estimated that up to an additional €19 billion is needed to complete the Rail Baltica project in full. Taking into account the latest project budgets and already allocated funds, Estonia requires an additional €2.7 billion, Latvia needs €7.6 billion and Lithuania requires €8.7 billion to finish the project. To cope with the increased budget and the strict deadline of 2030 for the railway's completion, the governments of Estonia, Latvia and Lithuania are preparing to scale back the work to be completed by 2030, focusing on constructing the main railway line. This reduction in the project's scope means that local stops will be built later or with minimal functionality, and some sections of the railway will have only a single track instead of two.

Reducing the originally planned scope of the project is expected to nearly halve the anticipated budget shortfall for the three countries by 2030. Under the first-phase scenario, the estimated shortfall for the three countries combined would be

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Rail Baltica's costs have soared 400% over the last seven years. / Wikipedia

€10.1 billion – €1.8 billion in Estonia, €4.4 billion in Latvia and €3.9 billion in Lithuania.

The state audit offices highlighted the uncertainty surrounding whether, and how much, funding will be allocated to the Rail Baltica project from its main source of funding, the Connecting Europe Facility (CEF), in the next EU funding period starting in 2028, or what the co-financing rate would be.

The timely acquisition of funding is in doubt not only because of the estimated cost increase but also because the current EU funding period ends in 2027. Since the next funding period starts in 2028, there is likely to be a funding gap between 2027 and 2028, as grants are usually not disbursed in the first year of a new multi-annual financial framework. Given the project's strict deadline, with railway infrastructure needing to be completed by 2030 and intensive construction planned for 2027-2028, this funding gap will need to be addressed.

The state audit offices noted that even with a reduced scope, the project is at least five years behind the schedule approved in 2017. Construction was supposed to be completed, and the railway operational by the end of 2025. The overall delay is primarily due to successive setbacks in the design and planning processes, which also affect the pace of land acquisition.

According to the responsible ministries, the second phase of the project will begin after the trains start operating and freight volumes increase. However, the timeline for the second phase has not yet been established.

Delays could also lead to the Baltic states missing the deadline

for using funds allocated from the Connecting Europe Facility (CEF), resulting in a potential loss of these funds. National implementation agencies and RB Rail AS estimate that Estonia risks losing €8 million, Latvia €4 million and Lithuania €71.5 million if these amounts are not invested within the eligibility period. In Latvia, there is also a risk that funds already spent

## "The state audit offices noted that even with a reduced scope, the project is at least five years behind the schedule approved in 2017"

on design work may need to be returned, as these projects are expected to be completed later than the allowed timeframe.

Several crucial decisions necessary to start train operations on the new railway by 2031 are still pending. The only decision made so far by the three Baltic states regarding infrastructure management is that each country will have a separate, independent management agency. However, Latvia still only has a temporary infrastructure management agency.

The Rail Baltica project, an 870-kilometre railway line from Tallinn to the Lithuanian-Polish border, is the largest infrastructure project in the history of the Baltic states since their independence. To date, the primary source of funding for the project has been the European Union's Connecting Europe Facility, with an EU co-financing rate of up to 85%, ERR.ee said.

# Forget oil, forget gas. Kyrgyzstan has plans to power Central Asia with water



1.8-GW Kambarata-1 will raise Kyrgyzstan's electricity generating capacity by half and provide the energy to maintain the fast pace of growth. / National Energy Holding, Kyrgyzstan

periodically beset various geographies for the past two years.

Kambarata-1 would go a long way to meeting the growing thirst for power. The plan is similar to the long-held ambition for Tajikistan's giant (though substantially incomplete) Rogun HPP – export copious amounts of electricity to larger neighbours via the Central Asian power ring that was built in Soviet times and is currently being upgraded to better connect the five Stans.

Kambarata-1 will also help in tackling another tricky problem: water management. Both the Kyrgyz Republic and Tajikistan are mountainous upstream countries that serve as the source of the main rivers of Central Asia. Kambarata-1's dam will allow for better control of the water that flows to the benefit of irrigation in Uzbekistan and Kazakhstan, as well as being able to provide these countries with power.

"According to experts, by 2050 the population in Central Asia will increase by 27%, the demand for food will grow by 35%, and consumption of drinking water will leap by 50%," Japarov noted. He highlighted the importance of overcoming challenges such as the region's landlocked location, resource dependence, low financial development and climate change impacts on the region, with water already in short supply.

"Water is the lifeblood of Central Asia," said Japarov, adding that 80.7% of the region's watercourses originate in the two upstream countries. "In some places, the system is unable to meet electricity needs at certain times of the year, while in other places, people do not have enough water for drinking and irrigation," Japarov said.

Competing demands for water use have historically given rise to tensions.

"Kazakhstan and Uzbekistan want to use water for irrigation in summer, while the Kyrgyz Republic and Tajikistan need water for energy in winter. This situation affects energy and food security in the region," Japarov continued. "Kambarata-1 is located at the source of the glaciers. Effective operation

#### Ben Aris in Vienna

ther countries of Central Asia may have plentiful reserves of oil and gas, but Kyrgyzstan has huge resources of something even more valuable: water.

As the climate crisis unfolds and the world seeks to cut emissions, hydropower has come into its own. The five "Stans" of Central Asia are growing fast and are power hungry. Kyrgyzstan sees an opportunity: if it can become a regional electricity generation hub, it can deal with its own power deficit while also boosting its economy with a permanent source of income drawn from energy exports.

The country's government has launched a drive to raise the \$5bn it needs to realise its flagship 1.8-GW Kambarata-1 hydropower plant (Kambarata-1 HPP). The mega infrastructure would increase Kyrgyzstan's installed capacity by half. The funding campaign began in earnest at the Kyrgyz Republic Energy Forum (KGEF) held in Vienna on June 10.

Kyrgyz Chairman of the Cabinet of Ministers Akylbek Japarov presented the ambitious Kambarata-1 project on the Naryn river to representatives of the leading international financial Institutions (IFIs) and international investors.

"Kambarata-1 will revolutionise the energy sector of the Kyrgyz Republic. It is not just an important project for our country, but for the whole world and part of our collective green future," Japarov said.

The Naryn River is fed by the glaciers and snows of the Tian Shan mountains ("Mountains of Heaven"), where it rises. It flows into the Syr Darya river in Uzbekistan, merging with the Kara Darya in the Fergana Valley.

Kazakhstan and Turkmenistan boast massive oil and gas deposits that can potentially meet all their needs. Uzbekistan, meanwhile, signed off on a 12-billion cubic metre (bcm) gas import deal with Russia in February, but it still expects power shortages in the coming years thanks to its annual GDP growth running at around 6% and expanding population. Central Asia as a whole is growing fast. Critical energy deficits have

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of this hydropower plant will allow the accumulation and rational use of water resources of the Toktogul reservoir."

It's no surprise that Kyrgyzstan's Central Asian neighbours are taking a keen interest in the Kambarata-1 project. And the project is actually so big, it will have to be a pan-regional endeavour.

The nominal GDP of the Kyrgyz Republic in 2023 was only \$14bn, but with the additional dozen small HPPs the government wants to build on other rivers in the country, the total price tag for the infrastructure rollout is around \$16bn. This only becomes economically viable if the needs of the Kyrgyz Republic's neighbours are taken into account, with the combined GDP of all five of the Central Asian countries some \$450bn.

The government's national energy plan was launched in 2021 shortly after Kyrgyzstan's President Sadyr Japarov took over. The 12 clean energy projects that Akylbek Japarov showcased in Vienna, worth a total \$16bn, have been made the government's top priority. The hunt for investors and partners has been redoubled.

The World Bank has committed to the \$500mn investment tag of the first construction phase, but Akylbek Japarov is now looking for long-term private investors to supplement the World Bank's funding to provide two thirds of that money.

"I firmly declare that our side will provide full support and protection of the interests of the investor. In addition, 100% use of the generated electricity will be ensured," he stated.

The height of the Kambarata-1 dam is designed at 256 metres. The volume of the reservoir will be 5.4bn cubic metres. Preparatory work has started, and construction is expected to take around 10 years.

With an installed capacity of 1,860 MW and an average annual production of 5.6bn kWh of electricity, Kambarata-1 will prove

crucial in meeting the region's growing energy demand. "The useful volume of the reservoir is 2,870mn cubic metres, and the preliminary construction estimate is more than \$4bn," Japarov said. The project includes a rockfill dam, a plant building with four hydraulic units, spillways, tunnels, a work camp and water treatment facilities.

A five-year plan was approved last October 31by the World Bank board of executive directors. On the same day, the board approved technical assistance of \$5mn for updating the Kambarata-1 feasibility study.

The World Bank in June allocated \$13.6mn to Kyrgyzstan in additional technical support funding.

With the preparatory work divided into two stages with a total cost of Kyrgyzstani som (KGS) 44.1bn (\$500mn), backed by the World Bank, Japarov announced the government would commit an additional \$500mn from the state budget for 2024-2030.

Of the \$500mn investment into the initial construction, between \$150mn to \$200mn will be provided by the World Bank in the first phase, and other financiers will come in and meet the balance.

Japarov called on international financial institutions, investors and companies to participate in energy projects aligned with modern climate challenges.

"Together we can realise this ambitious vision and make a significant contribution to both the energy stability and environmental sustainability of our region," Japarov concluded.

You can find all the KGEF presentations here.

# Hungary's MVM Group acquires 5% stake in Shah Deniz gasfield in Azerbaijan

#### Tamas Csonka in Budapest, Cavid Aga in Baku

ungary's state-owned energy giant MVM Group has signed an agreement with Azerbaijan to acquire a 5% stake in the Shah Deniz field. The transaction is expected to close in Q3.

The acquisition, a milestone for Hungary, will put the security of the country's gas supply "in a new dimension", Hungarian Foreign Affairs and Trade Peter Szijjarto said in Baku at a joint press conference with his Azerbaijani counterpart Jeyhun Bayramov. Hungary has predominantly imported natural gas from Russia, even following Russia's invasion of Ukraine in 2022, which prompted other European countries to seek alternative energy sources. Hungary has been receiving 4.5 bcm of gas per year from Russia under a 15-year agreement signed in 2021.

Acquiring a stake in this gas field "provides us [Hungary] with protection against significant energy price fluctuations", Szijjarto said. "As Azerbaijan becomes a new player in our



Hungarian Foreign Minister Peter Szijjarto with his Azerbaijani counterpart Jeyhun Bayramov. / bne IntelliNews

energy supply, this development ensures a much more stable and secure energy supply."

Shah Deniz, operated by BP, is one of the world's largest deepwater natural gas fields with annual production of 29bn cubic metres. The 5% stake would translate into an annual supply of 1.5 bcm of natural gas for Hungary.

The biggest investment in MVM's history will be covered from the company's own resources and will not burden the budget, Hungarian Energy Minister Csaba Lantos said. The agreement sets production volumes for stakeholders until 2050 and paves the way for production at new fields, too, he added.

In an announcement posted on the website of the Budapest Stock Exchange, MVM Group said it had agreed to acquire a 5% stake in the production sharing agreement for the Shah Deniz field and a 4% stake in Azerbaijan Gas Supply Company, the special purpose vehicle for the sale of the gas from the field.

Under an earlier agreement, Hungary is getting 50mn cubic metres of Azeri gas this year. Hungary is also partnering with Azerbaijan, Georgia and Romania on a project to bring energy from the Caucasus to Europe through a submarine cable.

The Southern Gas Corridor project aims to increase and diversify European energy supply by bringing gas resources from the Caspian Sea to markets in Europe.

Hungarian oil and gas company MOL was the third-biggest stakeholder in the largest offshore oil field in Azerbaijan and the value of its investments in the country had reached \$2bn. Last year, MOL's production at the field was over 5mn barrels, 15% of the group-level total.

Other stakeholders in the Shah Deniz field are BP (29.99%), Lukoil (19.99%), TPAO (19%) and NICO (10%). BP is the field's operator.

The transaction aligns with EU diversification efforts, national energy strategy and MVM's growth strategy, the company said.

MVM Group is the second-largest company in Hungary and is in the top five in the region. It is present in 23 countries with more than 120 member companies, employing more than 18,000 people. It booked HUF5.1 trillion (€13bn) revenue last year, down from HUF7.6 trillion in 2022, but profits surged to HUF369bn from HUF73bn in the same period. ●

## Telegram founder Pavel Durov's appearance in Kyrgyzstan sparks hopes of ski resort investment

#### bne IntelliNews

S peculation that Russian billionaire Telegram founder Pavel Durov will invest in Kyrgyzstan's initiative to create Central Asia's largest ski resort – Three Peaks, to be designed by Societe Des Trois Vallees (S3V), the operator of the elite Courchevel ski resort in France – has been triggered by local reports that the entrepreneur arrived in the country's mountainous Issyk-Kul region at the end of last week.

After social media users in Issyk-Kul reported encounters with the often elusive businessman – who fled Russia in 2013, saying he was under pressure from the Kremlin to share personal data of Ukrainian pro-democracy protesters – suggestions quickly mounted that his visit to Kyrgyzstan was linked with the creation of the "Kyrgyz Courchevel" resort in the mountains of Issyk-Kul. Durov, founder of both the Telegram messenger service and social network VKontakte, with a fortune estimated at \$15.5bn by Forbes, recently posted on social media that he planned to visit Central Asia, although he made no mention of involvement in Three Peaks.

He said: "I keep working, meeting with our [social network] users from unusual places. This summer I decided to visit Central Asia to see life there and study how people use Telegram and what are their digital needs."

A user of social media platform X, wrote that her mother encountered Durov in Petroglyphs Park in Cholpon-Ata. Durov was described by another social media user as in the company of Russian blogger Gasan Guseinov, who

shared photos from the Issyk-Kul mountain lake on his social media accounts.

On June 10, the head of Kyrgyzstan's Cabinet of Ministers, Akylbek Japarov, told an investment forum in Vienna how the country will sell itself as a top eco-tourism destination, capitalising on the legendary Tian Shan Mountains ("Mountains of Heaven") and the steppes of the Ancient Silk Road.

Said Japarov: "We are starting the construction of the 'Kyrgyz Courchevel'. The French company S3V, one of the first operators of the world-famous resort in France, is implementing Three Peaks ski cluster in Kyrgyzstan. The plan is to lay about 200 kilometres [124 miles] of ski trails. The resort will operate all year round and will be able to receive up to 850,000 tourists annually."

Japarov last week signed a decree on the creation of a Kyrgyz Courchevel state enterprise under the Department of Presidential Affairs. The first phase of investment in the project is expected to cost \$165mn.

In France, S3V operates seven resorts in the "Three valleys", namely Courchevel, Meribel and Val Thorens. They are all popular with the world's jet set.

Kazakhstan and Uzbekistan have also developed skiing resorts on their territories in the Tian Shan, part of a Himalayan belt.

In preparation for his ultimately successful attempt at becoming the first man to climb Everest in 1953, legendary mountaineer Sir Edmund Hillary scaled some Tian Shan peaks.

Kyrgyzstan also has plans to launch a second resort near Bishkek. It will boast a 20-kilometre funicular, which will



In a rare interview, Telegram founder Pavel Durov in April opened up about his decision to flee Russia in 2013 due to Kremlin pressure. / The Tucker Carlson Interview, screenshot

operate in both winter and summer.

"In winter, this will be a unique opportunity to ski literally a 20-minute drive from the capital Bishkek. All technical structures will be built by Austrian company Doppelmayr," Japarov told delegates at the Vienna gathering.

Kyrgyzstan's hopes for a headline-catching expansion of tourism also depend on developing facilities around Issyk-Kul lake, the second largest mountain lake in the world behind Lake Titicaca on the border of Bolivia and Peru.

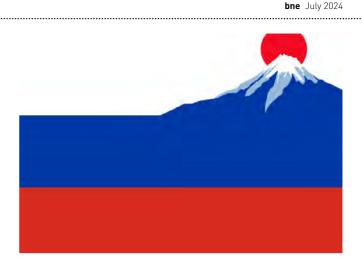
Also within easy reach of Bishkek, the lake has long been a popular tourist draw for hikers and campers with its trekking, horse-riding and sailing holidays.

Kazakhstan's city of Almaty is a three day trek away through pristine mountains. ●



The Tian Shan mountains have a legendary status among mountaineers (Credit: Chen Zhao, cc-by-sa 2.0).

# Russia overtakes Japan to become the fourth largest economy in the world in PPP terms



Russia has overtaken Japan to become the fourth largest economy in the world in PPP adjusted terms, worth \$6.5 trillion. / bne IntelliNews

slots in the global ranking in PPP terms but both are expected to become the leaders in nominal terms as well over the next three or four decades. Most of the fastest growing economies from lower down the list are also from the Global South.

As bne IntelliNews has extensively reported, Russia has changed its economic model and after decades of austerity began to invest heavily, spurring growth in a new Putinomics. At the same time as investment is pouring into the military industrial complex, Putin has also launched the National Projects 2.1 programme to invest into the civilian economy as well and improve the quality of life for the average Russian, as he made clear in his recent guns and butter speech. And the war is proving to be a boon for Russians, as Russia's poorest regions have been the biggest winners and as *bne IntelliNews* recently reported, the country's despair index has fallen to its lowest level ever this year – the sum of inflation, unemployment and poverty.

As a result of these changes, economists estimate that Russia's growth potential has increased from 1-1.5% pre-war to around 3.5% now. Last year, Russia's economic growth caught analysts off guard with a 3.6% expansion. This year the World Bank has already almost trebled its forecast for growth from 1.1% to 3.2%. Russia's Economic Ministry is similarly bullish.

Even the World Bank's PPP adjusted size of the economy may be an underestimate. The World Bank also estimates that 39% of Russia's economy is in the shadows, while the shadow economy only makes up 10% of Japan's economy, which would add an additional \$2.5 trillion to Russia's \$6.4 trillion PPP adjusted economic size – still not enough to overtake India's \$14.6 trillion PPP adjusted GDP value, but widening the gap with Japan further.

"Before the war in Ukraine started, Russia's economic growth was well behind that of the global average and close to stagnation"

#### Ben Aris in Berlin

he Russian economy has overtaken Japan to become the fourth largest in the world in PPP terms (purchase power parity), according to revised data from the World Bank released at the start of June.

As bne IntelliNews reported in August, Russia had already overtook Germany to become the fifth biggest economy in adjusted terms. Hit by multiple shocks recently and cut off from cheap Russian gas, Germany is now stagnating and has fallen to sixth place in the World Bank's ranking.

PPP GDP measurement is preferred by many economists, as it takes into account the difference between local prices and nominal prices, similar to The Economist's famous Big Mac index: a burger in Moscow costs about half as much as the same burger in New York.

The World Bank has improved Russia's ranking after revising its data and says that Russia actually overtook Japan in 2021 and has maintained its position at number four since then. Its previous calculations were based on 2017 data but these have now been updated to reflect the 2021 figures.

Previously, Russian President Vladimir Putin set his government the goal of producing economic growth ahead of the global average. Before the war in Ukraine started, Russia's economic growth was well behind that of the global average and close to stagnation. However, following the invasion of Ukraine in 2022, the economy has been enjoying a military Keynesianism boost and is currently the fastest growing major economy in the world.

And Russia has overtaken Japan ahead of schedule. Putin explicitly set his government the goal of attaining fourth place among the world's largest economies in terms of PPP earlier this year, and the Cabinet was instructed to prepare measures to achieve this goal by March 31, 2025.

By breaking off relations with the West Putin has made a big bet on the Global South Century, where most of the developing countries are growing much faster than the West. Currently China and India are in the number one and three

# EU to target LNG and helium in 14th sanctions package against Russia

#### bne IntelliNews

n June 24 the EU will adopt a 14th sanctions package to punish Russia for its full-scale military invasion of Ukraine, with the main focus of the sanctions reportedly to be the liquefied natural gas (LNG), Reuters reports citing diplomatic sources and confirming previous reports.

Reportedly, the 14th EU sanction package will target transshipment of Russian LNG in European ports, which will also make it more difficult to deliver LNG from Russia to Asia (about 10% of total shipments to Asia). In addition, any investment, supply of goods and services to Russian LNG projects will be reportedly banned.

Western sanctions are thwarting Russia's planned expansion in the global LNG market. As previously suggested by *bne IntelliNews*, US sanctions will make it difficult for Novatek to obtain ice tankers for the Arctic LNG-2 project and will potentially delay the launch of LNG shipments.

The package will also target Russia's shadow fleet of oil tankers with more than a dozen vessels. EU companies operating outside Russia will be banned from connecting to the Russian analogue of SWIFT, the National Payment System, and from working with public companies that use the system to circumvent sanctions. The 14th sanction package will also impose a ban on imports of Russian helium. Russia had previously planned to rank among the top three producers of this gas, *The Bell* recalls.

EU companies will also be reportedly banned from transacting with banks that provide Russia with goods and technology directly or indirectly used in the production of weapons.

The package will include 47 companies and 60 individuals. Reportedly, among them will be Taimuraz Bolloyev, president of the nationalised Baltika of Danish brewer Carlsberg, Igor Altushkin, owner of the Russian Copper Company, and Roman Trotsenko, a former adviser to Rosneft's CEO Igor Sechin and owner of the Aeon investment group.

Despite the EU's determination to implement these new measures, the package still requires approval from all member states. A decision is anticipated before the upcoming meeting of EU foreign ministers on June 24.

The *EUobserver* reported that while Hungary has agreed to the new sanctions, Germany remains cautious about the potential impact on European subsidiaries operating within the Russian Federation.



Western sanctions are thwarting Russia's planned expansion in the global LNG market. / bne IntelliNews

# EBRD to invest €1.5bn into Ukraine until the war ends



he European Bank for Reconstruction and Development (EBRD) will invest €1.5bn into Ukraine until the war ends making the development bank the country's biggest investor, the bank said on May 28.

Since the onset of the full-scale invasion of Ukraine, the EBRD has provided €4bn of funding for projects across all sectors of the Ukrainian economy, according to Anna Lebedynets, Associate Director and Senior Agribusiness Banker at the EBRD, Ukrayinska Pravda reports.

This support will continue until military actions cease, says Lebedynets, after which additional funds will be raised to aid in the country's reconstruction.

"Since the commencement of the full-scale invasion, we have sponsored projects worth €4bn, I mean all sectors of the economy. There is a belief that we should assist the economy in roughly the same proportion during the conflict, till the situation changes. [The sum is] approximately €1.5bn annually," Lebedynets stated at the Grain Storage Forum conference in Kyiv, as reported by Interfax-Ukraine.

Lebedynets said that post-conflict, businesses will require increased financing to rebuild destroyed infrastructure. Estimates for the cost of the reconstruction range from around \$150bn to repair physical damage through to circa \$450bn estimated by the World Bank and up to \$1 trillion for a complete recovery and compensation for lost business.

How these enormous funds will be raised remains a topic of debate. Much of the focus has been on confiscating the frozen \$300bn of Central Bank of Russia (CBR) reserve assets, but that option looks increasingly distant as the EU remains nervous about the reputational damage and financial consequences it would have for the EU banking system and trust in the euro.

Analysts estimate that the total funds already earmarked for Ukraine's assistance from governments and development banks totals around \$75bn, which is half of the minimum needed to just repair the physical damage wrought by Russian attacks.

The EBRD is the biggest investor into Ukraine and plans to commit €1.5bn a year until the war ends / Photo: Wikimedia Commons

In the meantime, the EBRD has already started work and played a key role in keeping Ukraine's economy functioning. The bank's agricultural clients frequently seek to develop crop and livestock output, and there is growing interest in bioenergy projects, said Lebedynets.

"Companies seriously consider and calculate the development of biogas and bioethanol. We have previously seen examples of funded projects in Ukraine. In addition, many people consider how they might process more in Ukraine and bring value to the country," Lebedynets added.

"Analysts estimate that the total funds already earmarked for Ukraine's assistance from governments and development banks totals around \$75bn, which is half of the minimum needed to just repair the physical damage wrought by Russian attacks"

The EBRD has already devised several procedures to cover military risks for enterprises and investments. Starting from late 2024, the bank will offer methods for insuring objects held or moved within Ukraine, where the risks are significantly higher.

"This is not a simple process. I think that by the end of the year it should start working," she concluded.

The EBRD plans to invest up to  $\in$ 10bn in Ukraine over the next five years, reinforcing its commitment to supporting the country through the conflict and subsequent rebuilding phase.

# Turkey hits Chinese cars with additional 40% tariff

#### bne IntelliNews

urkey is to impose a 40% additional tariff on imports of vehicles from China. The move will defend domestic automakers and help to prevent a potential deterioration of the Turkish current account balance, Turkey's trade ministry said on June 8.

Chinese electric vehicle (EV) imports have been subject to the extra tariff, as well as onerous regulations on EV maintenance and services, since March last year. This latest announcement addresses conventional and hybrid passenger vehicles.

It comes ahead of an expected similar move by the European Union – the bloc is expected to notify China this week that it will apply tariffs on Chinese EV imports. The decision could trigger a summer trade war with Beijing.

The additional Turkish tariff will be set at a minimum of \$7,000 per vehicle, with effect from July 7, according to a presidential decision published in the country's *Official Gazette*.

While paying an official visit to China, Turkish foreign minister Hakan Fidan on June 5 reportedly addressed Turkey's gaping trade deficit with the Chinese economy – the country's imports from China stood at \$44.9bn in 2023, while exports totalled \$3.3bn, according to official data.

China is coming under growing pressure from multiple countries around the world over its fast-growing EV exports. Many nations claim they are being heavily subsidised by Beijing to support the troubled Chinese economy.

"An additional tariff will be imposed on import of conventional and hybrid passenger vehicles from China

in order to increase and protect the decreasing share of domestic production," the Turkish trade ministry said.

The decision explained that if the 40% tariff calculated from an imported vehicle's price is under \$7,000 then the minimum tariff of \$7,000 will be charged.

China, the world's second-largest economy, sold \$184mn worth of EVs to Turkey in 10M23, almost double the figure for full-year 2022.

Ankara needs to secure more exports to cut Turkey's chronic current account deficit. It officially stood at \$45.2bn last year.

Turkey, meanwhile, hopes to build up strong domestic and export sales of its state-backed domestically assembled Togg EV.

In mid-May, Turkey was reported as in advanced discussions with major Chinese EV makers BYD and Chery Automobile for factory investments in the country. ●



There are suspicions that Chinese car exports are heavily subsidised by Beijing as part of its efforts to support the troubled Chinese economy. / Jengtingchen, cc-by-sa 4.0

# Serbia set to approve Rio Tinto's lithium project with new environmental guarantees

#### Tatyana Kekic in Belgrade

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Rio Tinto, the Anglo-Australian mining giant, released preliminary drafts of the Environmental Impact Assessment (EIA) on June 13, claiming to demonstrate the safety of the Jadar project. The move has prompted Belgrade to express renewed backing for the project, after revoking its licenses in January 2022 amidst widespread environmental protests.

In an interview with the Financial Times published on June 16, Vucic indicated that the Jadar project would proceed and potentially commence operations as early as 2028. "If we fulfil everything, [the mine] could be opened in 2028," Vucic

said, noting the project's capacity to produce 58,000 tonnes of lithium annually, sufficient for 17% of Europe's electric vehicle production.

The anticipated approval of the Jadar project, projected to become Europe's largest lithium mine, marks a significant policy shift for Belgrade. The government had previously been forced to U-turn on the project following nationwide protests.

Recent elections in December 2023, won by the ruling Serbian Progressive Party (SNS), seem to have paved the way for the project's revival. In January 2024, Vucic announced that further discussions with Rio Tinto would go ahead, but emphasised the need for greater public discourse on the project's future.

But despite draft studies indicating the project's safety, it remains highly controversial. Environmentalists and local residents warn of increased pollution in a country already facing severe environmental issues. If the government goes ahead with the project, it risks provoking another public backlash and a return of political instability.

On the other hand, the exploitation of Serbia's lithium reserves, which constitute 1.3% of the world's known deposits,

could be highly lucrative. Valued at approximately €4bn, the extraction process would generate significant revenue for the government and create hundreds of jobs over the next decade.

The project would also further Serbia's EU accession talks. Lithium is deemed essential by the EU for its green transition. With Europe currently lacking domestic lithium production, the project is expected to meet 13% of the continent's projected demand by 2030, according to Fastmarkets research cited by the *Financial Times*.

In September 2023, Serbia's government signed a letter of intent with the European Commission on a strategic partnership in batteries and critical raw materials, including lithium. The involvement of the EU in the renewed agreement is seen by Western officials as a signal of Serbia's geopolitical alignment, especially amid economic and political overtures from China, Russia, and Gulf states.

The official presentation of the project, along with detailed environmental guarantees, is expected in Belgrade next month, where business and political leaders will gather to discuss the future of the Jadar project and its implications for Serbia and Europe. ●

# Russian engineers to switch on Turkey's first nuclear plant within a year

#### bne IntelliNews

he delayed commissioning of the first unit at Turkey's first nuclear power plant (NPP), built by Russia's Rosatom, is reportedly expected in April 2025.

Ankara originally sought an Akkuyu NPP launch that would coincide with last October's celebrations of the 100th anniversary of the founding of the Republic of Turkey, but the construction of the \$20bn facility by the Russian state nuclear corporation fell behind schedule. A successful Akkuyu start-up is important to Rosatom's marketing of its prowess to an expanding client list – only this week, Uzbekistan signed up for a 330-MW NPP, based on six small modular reactors (SMRs), expected to be Central Asia's first nuclear power facility.

Anticipating that the first of four units of the plant on Turkey's southern Mediterranean coast in Mersin province will go live just under a year from now, Denis Sezemin, director for construction & organisation of production at project company Akkuyu Nukleer, was on May 29 cited by Nuclear Engineering International as saying that commissioning processes were under way. "According to the inter-governmental agreement [between Turkey and Russia], we have seven years [before the start of commercial operation]. We received a construction licence for unit 1 in April 2018, so the date of its commissioning is presumably April 2025," Sezemin was reported as saying. "At unit 1, most of the main construction and installation



Model of Akkuyu NPP (Credit: Akkuyu Nukleer A.S., VOA, public domain).

works have been completed, commissioning of all equipment and systems is under way."

He added: "We are currently testing the start-up and adjustment of all equipment, systems, so that the plant can produce electricity for 60 years and the life of the plant can be extended safely for a further 20 years."

Akkuyu is to eventually host four 1,200-MW Russiandesigned VVER-1200 reactors that will provide around 10% of Turkey's electricity.

Russia and Turkey signed the agreement for the NPP in 2010. First concrete was poured for unit 1 in April 2018, for unit 2 in June 2020, for unit 3 in March 2021 and for unit 4 in July 2022.

Critics of the Akkuyu project have warned the NPP is being built in an earthquake zone.

Rosatom is constructing the reactors in line with a build-ownoperate model that is the first in the world in an NPP deal. Some 93% of project financing is coming from a Rosatom unit. Turkey has been calculated to have an overall payment obligation of \$35bn for the plant, making it the largest single project payment obligation in Turkish history.

Sezemin was also quoted as explaining that "an operation is being carried out to tension special steel cables for the reactor containment" and installation of the fuel loading machine was taking place.

All work on the NPP is checked by the Turkish Nuclear Regulatory Council and other organisations.

The fact that the first reactor of Akkuyu NPP was not ready for Turkey's centennial celebrations was something of an embarrassment for the country's Erdogan administration.

In April 2023, a couple of weeks ahead of presidential elections, Turkish President Recep Tayyip Erdogan and Russian counterpart Vladimir Putin celebrated, via video link, an Akkuyu "inauguration" ceremony – subsequently there were multiple media reports, including in international press, saying that the NPP had been launched, whereas in reality, the only development was the arrival of a first shipment of nuclear fuel at the construction site." ●

# Rising internal political tensions put Bosnia's economic growth at risk, IMF warns

#### bne IntelliNews

osnia & Herzegovina's economy is expected to accelerate growth this year but the rising internal political tensions put that forecast at risk, the International Monetary Fund (IMF) said in a statement upon completion of Article IV consultations with the country.

The IMF has projected Bosnia's 2024 economic growth at 2.5%, up from 1.7% in 2023.

"Risks remain elevated, including from an intensification of regional conflicts and an abrupt slowdown in Europe, and domestically, from rising political tensions and more expansionary macroeconomic policies," the IMF noted.

On the other hand, opening of EU accession talks could speed up reforms in the country.

Bosnia's fiscal policy should focus on curbing current spending while preserving growth-enhancing investment expenditures, the IMF noted.

"The authorities should move to contain deficits by containing the public sector wage bill, avoiding discretionary increases in social benefits and new support measures, and revisiting other current spending. They should preserve growth-enhancing public investment outlays. Fiscal risks from minimum wage increases and capped electricity prices should be mitigated," the statement noted.

At the same time, Bosnia should reduce financing needs and prepare contingency plans in case financing cannot be secured. The country's fiscal buffers have been eroded due to increased budget deficits, large debt repayments, and drawdown of government deposits.

Bosnia's two entities – the Muslim-Croat Federation and Republika Srpska – face large financing needs this year that are unlikely to be met solely in the domestic market and have planned large debt issuances to meet these needs.

"The authorities should reduce deficits to contain financing needs, firm up borrowing plans, and identify additional cuts to current spending to prepare for potential financing shortfalls," the IMF noted.

Bosnia should also implement reforms to rebuild fiscal buffers while improving spending quality.  $\bullet$ 



# Russian bond investors increasingly unwilling to buy OFZ treasury bills as macroeconomic concerns rise

#### **Ben Aris in Berlin**

Russia's budget is in robust health, considering the economy is overheating and the war in Ukraine is consuming vast amounts of money, but investors into the Russian Finance Ministry's OFZ treasury bills, the workhorse of the Russian budget, are getting squeamish. Despite a radical rate hike to 16% at the end of last year, the Central Bank of Russia (CBR) has not tamed inflation, which continues to creep upwards.

"Sovereign bond yields in Russia have surged to multi-year highs this year as markets have increasingly questioned the trade-off between the war effort on the one hand and policymakers' ability to maintain fiscal stability and control inflation on the other. Further aggressive interest rate hikes from the central bank appear baked in and there is a growing risk of a hard landing in the economy further down the line, Liam Peach, the senior emerging market economist with Capital Economics, said in a note on May 29.

Russia has been cut off from the international capital markets and the share of foreign investors in the domestic debt market has shrunk significantly from around a third at its peak pre-war to only 7.2% of the total outstanding now. Yet the Ministry of Finance (MinFin) is increasingly turning to its own debt to fund the budget deficit increasing borrowing from around RUB2.5 trillion to an anticipated RUB4 trillion this year.

"Russia's bond market is under strain. The benchmark two-year local currency bond yield has risen by 300bp since the start of the year and now stands at 18.00%. This is the highest it



Source: CBR

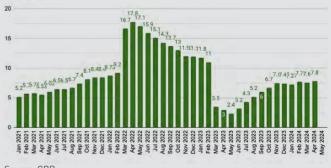
has been since the peak during the market panic in late 2014. Yields have shifted up across the curve," says Peach.

The key driver of this surge appears to be a recognition of a shift towards permanently looser fiscal policy to support the war effort. Markets were notably unsettled by the 2024 draft budget presented by Finance Minister Anton Siluanov in October, which included a "huge stimulus" with a 20% increase in spending. This marked a departure from Siluanov's reputation for fiscal discipline and was followed by a sharp increase in the finance ministry's gross bond issuance plan to RUB4.1 trillion.

As bne IntelliNews reported, there has been a big change in the Putinomics model since the war started with a shift from hoarding cash and paying down debt, to spending freely and modestly increasing the economic leverage by borrowing more on the domestic market. The result has been unexpectedly strong economic growth, but that is accompanied with tenacious inflation.

In its last macroeconomic survey in April, the CBR predicted that inflation will fall from the current 7.8% to 5.4% by the end of the year, but with inflationary pressures rising, analysts say that inflation is more likely to rise to over 8% by the end of this year. Compounding the issue, Russian banks, the only buyer of OFZ after the foreigners left, are showing increasing reluctance to hold more sovereign debt. There is still plenty of liquidity in the banking system to buy more OFZ that taps a pool of around RUB19 trillion of banking liquidity, but enthusiasm for the bonds is fading, says Capital Economics.

#### Russia inflation y/y



Source: CBR

"Siluanov called out Sberbank and VTB last year for failing to bid in OFZ bond auctions and on three occasions this quarter auctions ended unsuccessfully due to a lack of bids. Bond issuance this quarter has fallen sharply and an auction this week was called off amid "market volatility". Lower appetite to hold sovereign debt likely reflects the growing share of bonds issued at fixed rather than floating rate this year as well as banks ramping up private sector lending. These shifts in the supply of and demand for OFZs have raised the term premium embedded in Russia's sovereign bond yields," says Peach.

Corporate lending continued to grow quickly in April, up 1.9% y/y with developers accounting for around a third of the increase as project financing for residential construction, the CBR said in its latest banking sector update. The feel-good rising real incomes coupled with a state subsidies mortgage programme have been fuelling the apartment buying boom in Russia's real estate sector. Around three quarters of mortgage loans issued in April were issued as part of the government programmes, the CBR said.

The feel-good real income rise is also driving a surge in consumer borrowing, mostly by using credit cards, that is also worrying the CBR, which has increased the macroprudential limits on retail loans to try and head off a credit bubble forming.

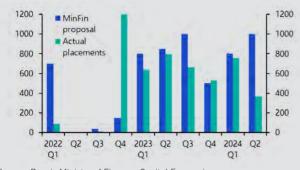
However, both these trends are a growing vulnerability which will be very painful if the military Keynesianism growth music stops playing and Russia's economy contracts sharply.

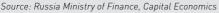
In the meantime, falling demand for bonds has forced MinFin to hike yields from around 7% per-war to around 18% now, making domestic borrowing increasingly expensive.

The government's looser fiscal stance has also heightened inflation and interest rate expectations. Core inflation strengthened in April, and the central bank announced that the "disinflation trend came to an end" last month. Policymakers have hinted at further interest rate hikes, with the latest weekly inflation figures pointing to month-on-month annualised inflation exceeding 6% this month, against the central bank's 4% target.

The central bank argues that Russia's economy can handle high interest rates and that the surge in yields should not threaten financial stability. And as the prime rate is some nine

#### Russia Ministry of Finance Bond Placements & Proposals (RUBbn per Quarter)





percentage points higher than inflation, real wages are growing strongly fuelling a consumption boom that is further heating the economy but pleasing the population.

Debt securities account for 11% of banks' assets, according to Capital Economics, with a significant portion being floating rate OFZs, whose prices have increased this year. The central bank estimates unrealised losses as of April at 0.8% of bank capital, a manageable level.

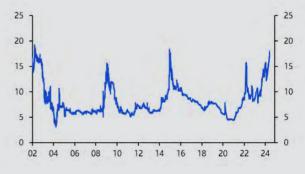
Despite the broader financial system's resilience, higher private sector debt servicing costs may adversely affect highly leveraged households and corporates with weak balance sheets. Nevertheless, the risks to financial stability appear limited, with good lending quality, low household debt ratios, and a large share of corporate and mortgage borrowing under preferential government programmes.

## "Around three quarters of mortgage loans issued in April were issued as part of the government programmes"

"The broader and perhaps more important point is that the situation in Russia – in which the government ramps up state spending and the central bank is forced to tighten monetary policy ever further in response – is becoming unsustainable. We argued that this was likely in a Focus in mid-2023. Large debt issuance will put further upward pressure on government bond yields and we now think another central bank interest rate hike looks likely next week, with a 200bp increase to 18.00% not out of the question," says Peach.

The growing risk is that loose fiscal policy could lead to tighter monetary conditions, potentially causing a sharp economic slowdown. Interest rates might become prohibitively expensive for the private sector, and financial repression policies may force state banks to reduce private sector lending to absorb higher bond issuance.

#### Russia 2y LCU Bond Yield (%)



Source: Refinitiv, Capital Economics



# Business as usual? US sanctions against Russia's financial market fail to incite panic

#### bne IntelliNews

ew US sanctions against Russia that forced the country's main financial marketplace to immediately cease trading in dollars and euros have not caused any panic on the streets, despite fears of a weakening ruble.

On June 12, the United States announced sanctions against the Moscow Exchange, Russia's primary stock market and foreign currency clearinghouse, to hinder Russia's ability to fund its invasion of Ukraine. As a result, banks will no longer be able to trade dollars and euros through a central exchange. Instead, banks must now engage in direct bank-to-bank agreements or trade in less liquid markets, leading to increased volatility and higher transaction costs.

However, on the streets of Moscow, the sanctions have not caused any significant reaction. Initially, many banks raised their exchange rates to as high as 200 rubles per dollar, sparking fears of a new currency crisis on social media. However, rates quickly stabilised. By late June 13, most banks and bureaux de change had spreads of less than ten rubles, similar to those before the new sanctions were imposed.

"To be honest with you, I don't really care about the exchange rate much nowadays," Ivan, a 29-year-old software developer, told *bne IntelliNews*. "Given the difficulty of foreign travel since the start of the war, I don't travel as much as I used to. That's the only time I was really affected by the rate, and that is a thing of the past."

For many ordinary Russians, the ruble-dollar exchange rate is regarded as the primary indicator of the economy's health. As a result, any changes affecting their ability to buy and trade dollars have in the past incited panic and fear, often seen as harbingers of economic collapse. However, following two years of stringent sanctions and economic isolation, the response this time has been notably subdued.

"In the 1990s I kept quite a lot of my money in dollars. Times were uncertain and I was scared after the ruble was



Exchange rates in Moscow, June 13 / bne IntelliNews

devalued," Anton, a 60-year-old retired factory worker, told bne IntelliNews. "But now, all my money is in rubles. Why do I need dollars? I made the mistake of changing a lot of my money in February 2022, when the war started. I thought the ruble would become very very weak. I got a bad rate then. And since that moment I've decided not to make any quick decisions with buying dollars or euros. Panic just causes bad decisions." In contrast to reports seen online, bne IntelliNews reporter in Moscow saw no long lines at any banks in the centre of the city.

"Yesterday, when the new sanctions were imposed, was a national holiday, so the reaction was slower than usual. I think this was the cause of much of the confusion." one bank employee at a branch near Moscow's Kursk Train Station told *bne IntelliNews* on June 13. "This morning when we opened, the spread was unusually large, but this was corrected when the Central Bank set its official rate. I think everything is back to normal now."

But now, all my money is in rubles. Why do I need dollars? I made the mistake of changing a lot of my money in February 2022, when the war started. I thought the ruble would become very very weak. I got a bad rate then. And since that moment I've decided not to make any quick decisions with buying dollars or euros. Panic just causes bad decisions"



# Hungarian state buys back Budapest Airport in deal worth €4.3bn

#### Tamas Csonka in Budapest

ungary and its partner, France's Vinci, have acquired Budapest airport in a deal worth €4.3bn, finally achieving Prime Minister Viktor Orban's dream of returning the country's main airport to state ownership.

The Hungarian state has acquired an 80% stake through stateowned Corvinus International Investment, the National Economy Ministry said on June 6. Vinci will hold the remaining 20% stake.

Hungary and Vinci will pay €3.1bn to the institutional investor owners and have agreed to take over €1.2bn in loans. The sellers were AviAlliance, a German-based airport management company owned by Canada's Public Sector Pension Investment Board, which held 55.44% of the shares, as well as Malton, a subsidiary of Singapore's GIC Special Investments, which controlled 23.33%, and Canada's Caisse de depot et placement du Quebec pension fund, which held the remaining 21.23%.

Hungary is partnering with a professional investor, as Vinci operates world-class airports at more than 70 locations across continents, the Ministry of National Economy said, adding that the business plan by the new owners will be revealed next month.

Government officials have talked about eventually drawing in Qatari investors for the project. Minister of National Economy Marton Nagy recently said that Hungary's stakes could be reduced to 51% with the involvement of the Qatar Investment Authority (QIA). At Thursday's announcement, the government did not specify its plans regarding the possible sale of some 29% of the shares to a third investor.

To finance the deal the cash-strapped state has raised over €700mn from the recent sale of assets, including stakes in Erste Bank Hungary, Yettel Magyarorszag and the local businesses of Vienna Insurance Group. The rest of the purchase price was covered by a development loan from Magyar Eximbank and from the budget.

The government and its French investment partner, which will operate the airport, will work together to make Liszt Ferenc International a world-class airport, the ministry said. Through its tourism and cargo activities, the airport will further strengthen Hungary's role as a meeting point for capital and cutting-edge technology from East and West, it added.

Since radical rightwing Prime Minister Viktor Orban first swept to power in 2010, his government has boosted

Hungarian ownership in energy, banking, telecoms and the media. It has been planning to buy the airport for years.

Hungary's largest international airport was acquired by BAA Internacional Ltd at the end of 2005 for HUF465bn, or €1.85bn at the time (HUF/€ rate of 246.6) and a year later sold to a consortium led by Germany's Hochtief (now AviAlliance), which operates several airport hubs in Europe for around the same price, €1.9bn.

After sweeping to power in 2010, the Orban government sold the remaining a 25%-plus-one-vote stake in the airport operator company to Hochtief for just HUF37bn, or just €132mn at 2011 rates to raise cash, after claiming that minority ownership did not ensure a meaningful role in strategic operation.

In October 2020, a Hungarian consortium signalled interest in buying the airport. The sale procedure had advanced to a due diligence stage and the Hungarian consortium reportedly offered €4.4bn for the airport, but the project

## "Hungary and Vinci will pay €3.1bn to the institutional investor owners and have agreed to take over €1.2bn in loans"

was unexpectedly put on ice in December 2021 when French President Emmanuel Macron travelled to Budapest for a summit of V4 countries. At that time, the prime minister said the buyback would be postponed until after the 2022 spring elections.

Budapest Airport was the fastest-growing hub in the region before the pandemic, posting double-digit traffic growth that reached a record 16.2mn in 2019. Traffic rose 20% to 14.7mn last year, or 91% of the pre-pandemic record.

COVID-19 and the collapse of international tourism hit the airport hard, leading to huge losses. The company reversed to a profitable operation in 2022, posting a net profit of €76.6mn, which fell to €74mn last year, of which €43mn was paid to shareholders. ●

# Energean cashes in €883mn from Croatia, Egypt and Italy asset sale

#### Aida Kadyrzhanova in Prague

il and gas company Energean has finalised a major deal to sell its assets in Egypt, Italy and Croatia to Carlyle International Energy Partners for up to €883mn, the company announced on June 20.

The transaction marks a threefold return on investment for Energean, which snapped up the portfolio for a mere €265mn in 2020. With €766mn firmly secured, the deal is set to conclude by the end of 2024, subject to regulatory nods and antitrust clearances.

Energean's decision to offload these assets is part of a strategy to put its focus on core gas development projects. This includes prioritising assets like the Karish Field in Israel and the Anchois field in Morocco. By concentrating on gas development, Energean aims to make its assets more profitable, increase cash flow and provide stronger returns to shareholders.

Beyond the financial gains, the sale optimises Energean's portfolio by shedding older assets and reducing over 60% of its decommissioning liabilities, the company said. The move is expected to improve short to medium-term cash flow, providing Energean with greater financial flexibility to pursue future growth opportunities.

Post-sale, the company intends to maintain and expand its presence in the Mediterranean region and explore opportunities

in Europe, the Middle East and Africa (EMEA). Energean is eyeing territories where there is robust policy support for gas and initiatives to phase out coal. The company is also committed to creating a carbon storage hub in Greece and the broader Mediterranean region via its EnEarth subsidiary.

Mathios Rigas, the CEO of Energean, stated: "This transaction unlocks management capacity and financial flexibility to drive future growth. Our focus will now be on creating enhanced value from our Israeli assets and scouting for new opportunities that align with Energean's core objectives: reliable dividends, deleveraging, growth, and our pledge to Net Zero."

Rigas praised Carlyle International Energy Partners as the right steward for the acquired assets and thanked Energean's teams in Egypt, Italy, and Croatia for their dedication over the years.

Bob Maguire, co-head of Carlyle International Energy Partners, said: "We are thrilled to acquire this portfolio of top-tier assets in Italy, Egypt, and Croatia. These countries are at the forefront of encouraging new gas development, which we believe will play a pivotal role in the energy transition."

Maguire plans to develop these assets into a scalable exploration and production platform in the Mediterranean. This strategy includes immediate developments, growth opportunities, mergers and acquisitions, and advancing existing decarbonisation plans.



Energean will offload assets in Croatia, Egypt and Italy as part of a strategy to focus on core gas development projects. / Energean

# Russian e-commerce major Wildberries to buy billboard company Russ Group

#### bne IntelliNews

Russia's largest e-commerce platform Wildberries will acquire the country's largest outdoor advertising operator Russ Group for an undisclosed amount in order to build its digital shopping platform, *RBC* business portal reports citing a joint statement from the companies on Telegram.

As followed by *bne IntelliNews*, the founder, main shareholder (99%) and CEO of Wildberries is Russia's richest woman, Tatyana Bakalchuk, with Forbes estimating her fortune at \$7bn in the latest rating of the 20 richest women in Russia.

Even prior to Russia's full-scale military invasion of Ukraine, bne IntelliNews reported that the Russian e-commerce space is expected to consolidate around the two to three largest players, similarly to developed markets.

The consolidation intensified in 2022, with Wildberries and Ozon Holdings taking the lead, and some players, such as AliExpress Russia, falling far behind. Both Wildberries and Ozon have strengthened their supply chain capabilities.

Separate follow-up reports by *Forbes* and *RBC* citing unnamed sources claimed that the deal has been approved all the way at the top in the Kremlin, with the Minister of Economic Development Maxim Oreshkin informally appointed to curate the merger between Wildberries and Russ Group, with the ambition of creating a "Russian Alibaba or Amazon".

However, it is unclear what are the potential synergies between the largest e-commerce operator in the country and the largest owner of offline outdoor advertising space. The deal pledges to "create a modern high-tech digital shopping platform" and "a new player in the financial, media, trade and industrial sectors of the economy, as well as in the areas of internet technology, logistics, retail and advertising".

It is also unclear whether the merger with Russ Group will change the shareholder structure of Wildberries, owned by Bakalchuk. The shareholders of Russ Group are linked by *RBC* and *The Bell* to billionaire Suleiman Kerimov of Polyus Gold and the veteran technocrat Igor Shuvalov.



The founder, main shareholder (99%) and CEO of Wildberries is Russia's richest woman, Tatyana Bakalchuk, with Forbes estimating her fortune at \$7bn

Unnamed sources told *RBC* business portal that Bakalchuk and the CEO of Russ Group Robert Mirzoyan will both head the merged company.

The Bell reminds that Russia's largest outdoor advertising operator was founded in the early 1990s under the name APR-City. In 2000, the company was bought by Rupert Murdoch's holding company News Corp. and renamed News Outdoor.

In 2008, Murdoch said he wanted to sell his Russian business, famously claiming that "the more success we have, the more chance of it being stolen from us. We'd rather sell it now". In 2011, News Outdoor was sold to a consortium of Russian investors led by VTB Capital and renamed Russ Outdoor. VTB Capital later sold 25% of its stake to the French group JCDecaux.

In 2019, a controlling stake in Russ Outdoor was bought by rival operator Vera-Olympus, which was buying up assets in the outdoor advertising market. According to *RBC* sources, the company was backed by the financing from the family of Kerimov. The official owners of Vera-Olympus are brothers Levan and Robert Mirzoyan and State Duma deputy Berkhan Barakhoyev.

In January 2022, a month before the start of the full-scale military invasion of Ukraine, 30% in Russ Group was reportedly transferred to the structure of a former employee of the government staff, Sergey Kotlyarenko, who manages the assets of former First Deputy Prime Minister Igor Shuvalov, himself a long-time and close friend and business partner of Kerimov.

However, in September 2022 this stake was transferred back to the formal owner of Russ Outdoors Grigory Sadoyan.

The outdoor advertising market in Russia grew by 45% in 2023 to reach RUB48.8bn, according to a report by research company Admetrix cited by *RBC*. The digital segment is growing most actively in outdoor advertising: over the past five years it has increased more than three-fold and reached RUB26.8bn in 2023.



# Who consumes the most power to mine bitcoins?

#### bne IntelliNews

s the global Climate Crisis gathers pace, Bitcoin miners are increasing their consumption of power, adding to the problems. The team at BestBrokers has calculated the average yearly power consumption for Bitcoin mining in each country, ranking the biggest consumers of power to mine coins as of May 2024.

Following the recent halving of the Bitcoin block reward from 6.25 to 3.125 bitcoin, the electricity required to produce just 1 bitcoin doubled to a staggering 854,403.71 kWh, given the current Hashrate and mining hardware specifications.

BestBrokers also checked the cost of this power consumption at each country's local average business electricity rate per kWh as of April/May 2024 for the ten largest BTC mining nations.

Unsurprisingly, the US consumes the most power mining bitcoins, gobbling up 145.6 GWh and accounting for well over a third (37.9%) of the global power consumption. China comes in second with 81.2 GWh (21.1%) and surprisingly Kazakhstan is third with 50.9 GWh (13.2%). Together just these three

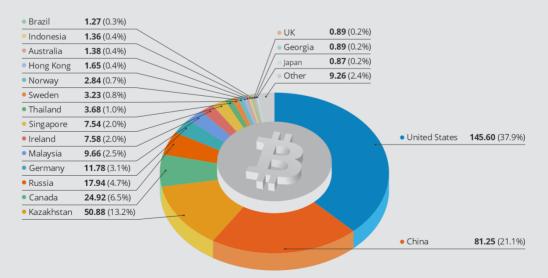
#### Daily Power Consumption mining Bitcoin by Country (GWh)



countries account for just under three quarters (72%) of all the power consumed in the world used to mine bitcoins.

The main conclusions from the report included:

- Currently, 450 bitcoins are mined daily worldwide, consuming 384,481,670 kWh of power. This amounts to 140,336 GWh annually, exceeding the annual electricity consumption of most countries, including Ukraine, the UAE and Argentina.
- US Bitcoin farms account for 37.84% of this global production, mining 170.41 BTC per 24 hours and consuming 145.6mn kWh daily. This totals 53,143.78 GWh annually and is about 1.34% of the country's entire power consumption, costing \$6,749,259,557 at \$0.127 per kWh.
- China, the second-largest Bitcoin mining country, produces 95.09 BTC per day, using 29,654.65 GWh annually, which is 0.38% of its total power usage. At \$0.087 per kWh, this results in yearly electricity costs of \$2,579,954,383.66.



### Total Daily Power Consumption mining Bitcoin: 384.48 GWh

- Kazakhstan ranks third in Bitcoin mining, producing 59.56 BTC per day and consuming 18,572.91 GWh annually, 19.15% of the country's entire power usage. At \$0.073 per kWh, this equates to \$1,355,822,170.70.
- Bitcoin mining operations in Canada consume 9,097 GWh annually, which is enough to charge every EV in the country 360 times or almost once every 24 hours. At the country's average business rate of \$0.077 per kWh, this amounts to an expenditure of \$697,497,089.26.
- In sixth place, Germany is the first European representative in the top 10 Bitcoin mining countries, with 13.79 BTC per day, consuming 4,300.83 GWh annually at \$821,797,147.79.
- The graphics below illustrate the global electricity consumption and costs of Bitcoin mining by country in 2024. ●

More detailed information can be found in the <u>full report</u>, which also includes the full data and methodology used in these calculations.



#### Electricity Consumption of Bitcoin Mining And its Cost in 2024 Data for the 10 largest BTC mining countries in the world

## Azerbaijan's first generation of startups paves the way for technological lift-off

#### Adrien Henni in Baku

ould Azerbaijan, whose economy remains highly dependent on oil and gas exports, become a regional technology hub one day?

A number of government officials, business leaders, and a first generation of technology entrepreneurs are sharing this vision. "Azerbaijan is now going through a transformational period, creating an environment for startups to access funding, markets, infrastructure, talent and promoting a certain culture," says Igor Ovcharenko, Head of Innovations at the state-owned Innovation and Digital Development Agency (IDDA).

"Combined with state and social involvement, local incubation and acceleration programs have led to the emergence of approximately 400 startup companies or projects over the past few years," concurs Mammad Karim, General Partner at Caucasus Ventures.

Startups are indeed burgeoning in Baku. But with fewer than 30 venture deals per year reported in recent years and an average deal amount of \$163,000 in 2023, according to IDDA, the numbers are still modest. Azerbaijan lags behind Georgia and Kazakhstan, which embarked on the path to tech innovation nearly a decade ago, but is ahead of some other post-Soviet countries in the region, where startup development has barely begun.

#### First startup successes

Push30 stands out as one of Azerbaijan's largest startups. Its award-winning fitness club membership app generates over \$6 million in annual recurring revenue, according to co-founder and CEO Adil Gasimov. After Azerbaijan and Uzbekistan, the company is now expanding to Kazakhstan and eyeing Middle Eastern markets. Push30 is currently in the process of raising a \$3 million Series A round, "embarking on the road to becoming a unicorn," says Gasimov.

Many Azerbaijani startups develop enterprise software, edtech and fintech solutions. One of them is Recepta, which has developed a digital receipt automation app, garnering support from Visa and the EBRD.

Designed as a haven for entrepreneurs from Russia, Ukraine and Belarus amidst war and political repression, New Zeon hosts a variety of creative and technology projects. Internationally-oriented startups based there include



Azerbaijan wants to become a regional leader in digital excellence and innovation and the first startups are starting to appear. / bne IntelliNews

Fibrum, a gaming software developer, and e-gree, an app that enables users to draft and sign binding contracts outside any jurisdiction.

Yet the most advanced startups operate far from Baku. Founded in Azerbaijan but now established in the UK, WeTravel – a pre-departure app for trip organisers – has raised \$29 million since its inception in 2016, according to CrunchBase. GuavaPay, a global payments enabler with more than 300 employees, and HalalBooking, "the world's No1 search website for halal-conscious travellers," also have Azerbaijani founders and London headquarters. Berkm, MagicPort and Turan operate from the USA, Singapore and Türkiye, respectively.

#### Cheap startups for pioneering investors

Azerbaijan's inaugural classic venture fund, Caucasus Ventures, was created in 2023 by IDDA and Pasha Holding. With \$6.6 million to invest across the region, from Central Asia to Türkiye, it already boasts a portfolio of a dozen startups.

The launch of another regional fund of up to \$30 million, with support from an international finance institution, will be announced in the upcoming months, tells us a market insider.

Foreign investors in Azerbaijani startups include accelerators 500 Global and Startup Wise Guys. Some other players, like Turkish Domino Ventures, are exploring the market but have not completed any deal yet.

Azerbaijan's appeal partially lies in its low costs. "You can create an MVP in three months with just \$15,000. This creates strong investment opportunities in terms of valuation when the startup goes abroad," says Mubariz Shahbazli.

Heading a startup incubator at UNEC, a leading economics university in Baku, Shahbazli plans to launch a venture studio and an angel club, supplementing the two existing ones.

"In the US, a pre-seed round can amount to \$1 million. Here, with the same amount, you can buy stakes in 30 pre-seed

startups," concurs Anar Alizamanli, Program Advisor at LTC, an affiliate of AGA Group. With interests in finance, real estate, agriculture, and manufacturing, this major holding is now launching a venture studio.

#### Corporations in the game

Since the late 2010s, several major corporations have entered the innovation arena. One of the largest banks in the region, ABB has established an in-house 'Tech Academy' to address the local IT workforce shortage. It has also launched several startup support programs, tells us Elnul Isazade of ABB Innovation Center.

While its traditional assets span banking, insurance, real estate, hospitality, agriculture and retail, Pasha Holding has developed a data centre, an online retail ecosystem, and a popular e-wallet business called Pasha Pay. The holding also sponsors hackathons, educational programs and an international tech conference called InMerge.

Sabah.hub, an incubator and accelerator backed by a consortium of local corporations, has funded and supported a dozen startups since 2022, including Push30. It has also held several educational programs and established a venture studio. Sabah.hub organises Baku ID, one of the country's premier industry events, with its next edition on June 27-28.

"Rather than aim for unicorns, our goal is to grow ten \$100 million companies with a significant impact on the ecosystem," says Sabah.hub board member Orkhan Abbasov.

#### Far from the Valley

Azerbaijan's journey to becoming "a regional leader in digital excellence and innovation," as IDDA puts it, is just beginning. The agency sees potential in several emerging sectors, including cybersecurity, defence tech, agritech, travel tech and greentech, which align with the country's current needs and opportunities.

However, for tech entrepreneurship to truly take off, "the startup mindset has yet to reach larger population groups, including among the youth," says Eljan Guluyev, a 17-year-old tech entrepreneur who is an exception rather than the rule. His latest venture, OpenConnect, helps startups connect with investors and industry professionals.

Another obstacle to industry development is the limited size of the domestic market. "Only a minority of startup founders have the knowledge, self-confidence and resources to develop abroad," notes an industry insider.

These internationally-minded entrepreneurs often turn to countries of Central Asia, the Middle East and North Africa. Geographically and culturally close to Azerbaijan, these markets are less saturated with competition than large Western tech hubs, and may offer more accessible opportunities.

Adrien Henni is the founder of International Digital News.

# Central Asia's first 3D-printed house built in Almaty

#### Kanat Shaku in Almaty

entral Asia's first 3D-printed house has been constructed in Almaty, Kazakhstan. The city is earthquake-prone, thus the construction design company, BM Partners 3D Print, used extra strong concrete and other seismic precautions to build a property that can withstand tremors of up to seven on the Richter scale. The chosen concrete is normally used for highly loaded structures like skyscrapers and bridges, according to a press release from COBOD, a supplier of 3D printers to the construction sector.

The entire 100-square-metre (1,076-square-feet) building, was constructed in less than two months, with the walls printed in just five days.

To cope with the extreme temperature variations of Kazakhstan, the building also contains expanded polystyrene concrete for insulation.

Marat Oshakhtiev, CEO of BM Partners, said: "Embracing modern technologies is essential in today's world. Our company is committed to staying at the forefront of technological advancements with 3D construction printing within our country. With this project, our company has confidently stepped into the future, addressing Kazakhstan's urgent need for earthquake resistant modernized, efficient and resilient housing solutions." The total cost of the home is around \$21,800, making it significantly cheaper than an average local new house.

Henrik Lund-Nielsen, founder and general manager of COBOD International, commented: "This project once again demonstrates that 3D printed buildings are built to last, also when made in earthquake high-risk areas. We are proud to have developed the solution that enabled BM Partners to complete this project fully within just two months and using extra strong 3D printable concrete made from locally sourced materials."

"The total cost of the home is around \$21,800, making it significantly cheaper than an average local new house"

The special concrete mix used in the construction has a compression strength of nearly 60 megapascals (MPa), or 8,500 pounds per square inch (PSI).

Following the 3D printing of the walls, human workers added doors, windows and furniture.  $\bullet$ 



The walls were extruded in five days flat. / COBOD



Water flow reductions caused by the canal could severely impact Uzbek agriculture. / @FDPM\_AFG



# Uzbekistan "will suffer" as Taliban canal diverts fifth of Amu Darya river, warns expert

#### Mokhi Sultanova in Tashkent

osh Tepa canal, under construction in Afghanistan, looks set to divert 20% of the Amu Darya river's water, raising concerns about potential water shortages in Uzbekistan, according to an international expert on natural resources and economics.

Rieks Bosch, cited by Kun.uz, said the exacerbation of water scarcity could have detrimental effects on Uzbek agriculture. Turkmenistan, further downstream than Uzbekistan, is also set to suffer from the realisation of the "thirsty" Qosh Tepa.

"In any case, it's clear that Uzbekistan will suffer," Bosch was reported as saying.

From May 27-29, an international conference on climate change was held in Almaty, Kazakhstan. It drew official representatives from Central Asian countries, journalists and international experts. Among them was Bosch, who discussed the likely impacts of the canal project pursued by Afghanistan's Taliban administration during a panel session. Bosch emphasised that the negative impacts of the project on Uzbekistan would far outweigh any potential benefits.

"The realisation of this project could result in significant water wastage and intensify water scarcity, as well as increase water prices in agricultural sectors," he was reported as warning.

The concept of the Qosh Tepa canal has a long history. The idea was explored by the British as far back as 1950. It was later looked at by the Russians, and finally the Americans.

However, Afghanistan, determined to boost its agriculture, decided to launch the construction project despite not tying down the necessary funds.

The Taliban plans to divert one fifth of the Amu Darya's water into the canal, a move that would necessitate a 50% reduction in water use by the Uzbek regions of Khorezm and Karakalpakstan, Bosch explained.

"Building the canal is easy, but establishing an irrigation system is 10 times more difficult," Bosch noted.

He pointed out the complexities involved in ensuring an efficient irrigation scheme, predicting that the Taliban would face substantial challenges. He estimated that without a well developed system, 30-40% of water diverted could be wasted.

Water prices are a major concern. In Uzbekistan and Turkmenistan, the cost of water provided by state utilities is between \$1.20 and \$1.60 per cubic metre, but its real value is around \$16.

Bosch indicated that the canal project could sharply increase the prices. While measures are being taken to conserve water, there is no effective bridge between price development and resource management.

"The government of Uzbekistan is trying to establish relations with Afghanistan, but the Taliban is very tough. Afghanistan does not intend to make any agreements with Central Asia on this matter," Bosch was also reported as stating.

Bosch pointed out the lack of a cooperative platform, which hampers effective negotiations.

Bosch mentioned that Uzbekistan has systems in place for efficient water use and profitability, and the focus should now be on maintaining efficient water supply.

The Qosh Tepa canal project was officially presented by the

Taliban government in March 2022. It starts from a point on the Amu Darya river in the Balkh region of northern Afghanistan.

Recent satellite images have shown the creation of an artificial reservoir along the canal, with Uzbekcosmos noting that the canal bank had not been eroded by the Amu Darya's flow, but rather due to rising groundwater levels.

In October last year, the Taliban assured Uzbekistan that the canal project would not cause it harm.

Nikolai Podguzov, chairman of the board of the Eurasian Development Bank (EDB), last year highlighted severe upcoming water shortages in Central Asia. These would be exacerbated by the construction of the canal, he said.

Speaking at a CIS meeting in Bishkek, Podguzov noted that Central Asia, already highly vulnerable to climate change, relies heavily on the Amu Darya and Syr Darya rivers for water, with 92% used for irrigation.

The Qosh Tepa is expected to reduce water flow to downstream countries like Uzbekistan and Turkmenistan partly due to its low technological standards, causing substantial water losses through leakage.

Even without the canal, Central Asia was projected to face a water deficit of five to 12 cubic kilometres annually by 2028-2029, threatening food, drinking water and energy supplies.

# The Caspian Sea to shrink by a third due to global warming

#### Seymur Mammadov in Baku

he Aral Sea has gone. The Caspian Sea may be next. Global warming will see its level fall by up to 18 metres and reduce its surface area by a third thanks to global warming. Azerbaijan's capital will no longer be a port if that happens and the Northern Caspian will disappear entirely.

The sea level in the Caspian has been falling at an alarming rate. Shippers are concerned as ports are already having to be dredged as they become shallower each year. Although fluctuations in the level of the largest inland body of water on the planet are quite natural, many scientists say that the recent drop in the Caspian Sea level is unprecedented.

In ancient times, the Caspian Sea splashed at the foot of the iconic Maiden Tower, which still stands on the seafront in Baku. For the last two hundred years it hasn't returned to that level.

According to several European scientists, by the end of the 21st century, the Caspian Sea level may drop by 9-18 metres. As a result, Baku will no longer be a port, the Kara-Bogaz-Gol Bay in Turkmenistan will disappear. In the northern part of the sea water will recede to expose vast new fields of land.

In a study published by the scientific journal Communications Earth & Environment, scientists attempted to determine how global warming will affect all major lakes and continental seas of the world, including the Caspian Sea. Based on data from recent years, scientists have created a computer model of the Caspian and other large lakes worldwide. According to their calculations, the Caspian Sea will suffer the most. This is because the water from its surface will evaporate faster, and in the northern part of the reservoir, the ice cover will disappear in winter. The level of the Caspian Sea is heavily dependent on changes in the average annual

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surface temperatures and the amount of water flowing into it from rivers like the Volga, Ural and others. Over the past few years scientists have observed a slow but constant decrease in its level, caused by global warming. Thus, if global warming stops, the Caspian will drop by only 9 metres; otherwise, it will drop by 18 metres or more, reducing its area by a third.

Since 2005, the Caspian Sea level has been decreasing by about 20 centimetres per year. The situation is particularly serious in the northern part of the sea. Photos taken from space are alarming, showing significant areas of the seabed have already been exposed in the Russia and Kazakhstan sectors.

Over the past 120 years the sea level has fluctuated from minus 25 metres (according to the Baltic system) to minus 29 metres. Currently, the Caspian Sea level is at minus 28.6 metres. Note that the Baltic Height System (BHS) is a geodetic coordinate system used to determine height relative to sea level in the Baltic region and neighbouring countries.

Almost 90% of Caspian water comes from the Volga River. According to experts, the restoration of the Caspian level after the next drop does not occur due to the nine reservoirs built on the Volga during Soviet times. The Upper Volga, Ivankovo, Uglich, Rybinsk, Gorky, Cheboksary, Saratov, Volgograd reservoirs and one of the world's largest, Kuybyshev, are filled with river water for irrigation purposes, which has noticeably affected the Caspian level in recent decades.

Russian scientists are sounding the alarm, noting that over the past 20 years, the water surface area has shrunk by more than 23,000 square kilometres. The Institute of Water Problems at the Russian Academy of Sciences believes that the continuation of the current situation will lead to the disappearance of the Northern Caspian. Experts from the institute suggest negotiating with Turkmenistan to build a structure that regulates water flow into the Kara-Bogaz-Gol Bay.

Kazakhstan has proposed establishing an Institute for the Study of Caspian Sea Problems, involving representatives from all Caspian states. Kazakh experts believe that the Volga River has the most significant impact on the problem and that negotiations and problem-solving need to happen at the international level.



The Aral Sea has almost entirely disappeared.

The most negative forecasts also come from Kazakhstan. The Caspian is predicted to face the same fate as the Aral Sea if the Caspian countries do not urgently address the problem. In the 1960s, the Aral was the fourth-largest lake on the planet, but due to active water withdrawal from the Amu Darya and Syr Darya rivers, the sea began to rapidly dry up.

"Experts believe that the main cause of the problems of the Caspian is the mismanagement of water in Russia, which leads to reduced runoff"

The drying of the Aral inflicted irreparable damage on the flora and fauna of the reservoir and surrounding areas. One can imagine the enormous damage the drying of the Caspian will cause to the coastal countries in terms of both the natural environment and the economy. It will affect the ecological balance of the entire region with the coastal zone becoming swampy, and many species of marine flora and fauna will die out. Russia's legendary beluga caviar comes from sturgeon fish that largely live in the shallow northern part of the Caspian Sea, where stocks of the fish are already in crisis.

Meanwhile, Azerbaijan is taking a calmer approach to the problem. According to the Institute of Geography at the National Academy of Sciences of Azerbaijan, over the last 4,000 years, the Caspian Sea level has decreased every 250 years, then increased over the same period. Since 1837, there have been three sharp changes in the Caspian level. From 1837 to 1930 the level dropped by about 1 metre, from 1930 to 1977 by 3 metres, and from 1978 to 1995 it rose by 2.5 metres. Then the sea began to recede again. Since 1995 the Caspian Sea level has dropped by 2 metres. This decline will continue until 2040, according to the Institute of Geography.

Some Russian specialists do not consider the situation critical and suggest leaving the Caspian alone and focusing on limiting destructive human activities and the squandering of water resources instead of measuring the water level.

As we mentioned earlier, the main problem that reduces the flow of water into the sea is the numerous reservoirs along the Volga River. Additionally, large industrial enterprises also draw water from this artery. Even before the sea level began to fall, the river itself started to shallow. This also creates problems for river navigation. According to Russian media, the riverbeds of the Volga and Ural are polluted, and no one is engaged in cleaning and deepening them.

Experts believe that the main cause of the problems of the Caspian is the mismanagement of water in Russia, which leads to reduced runoff.

If this is the case, the Russian side must urgently address this problem and stop draining the sea. It is clear that Russia has many other problems, and it is a vast country surrounded by many seas and oceans. However, for the other four countries in the region, the Caspian is, one might say, a source of life. The lives of the people in these territories have always been connected to the Caspian Sea. Russia's Caspian neighbours need to move from simple discussions and measurements to active measures.

When the Caspian level seriously fell in the 1960s-70s, Soviet

authorities considered diverting Siberian rivers south to fill the sea. It was a crazy project, fortunately not implemented. To save the Caspian Sea, there is no need to reinvent the wheel. The Caspian is a unique body of water. Even its ability to cyclically rise and fall is of great scientific interest. But in this situation, leaving everything to the whims of nature is unlikely to be wise because, in addition to natural factors affecting sea level fluctuations, human activity has also contributed.

The time has come for humans, not nature, to rectify the situation.  ${\bullet}$ 

# Extreme wildfires have doubled in two decades, due to climate crisis

#### Roberta Harrington

new study, in "Nature Ecology & Evolution", reveals that the frequency and intensity of severe wildfires worldwide have doubled over the last two decades due to climate change.

The analysis highlights significant fires like those in Australia in 2019 and 2020, unprecedented in their size and intensity.

Since 2017, the six most extreme fire years have occurred, indicating a clear trend exacerbated by climate change.

Lead researcher Calum Cunningham, from the University of Tasmania, noted that climate change amplifies fire weather globally, increasing both the frequency and extremity of wildfires in many regions. While earlier studies showed a decline in burned areas by wildfires since the turn of the century globally, this new research underscores a 2.2-fold rise in extreme wildfire events since 2003.

The ecological and societal impacts of these extreme wildfires are severe, causing deaths, biomass loss and releasing substantial amounts of carbon. Burn severity, a measure of these impacts, has risen in more regions than it has decreased, according to the study.

Cunningham said that the research initially aimed to counter scepticism about a growing fire crisis. Despite reduced overall burning, the study reveals a paradox where wildfires are becoming more intense and damaging.

Analysing data from NASA satellites spanning 21 years, the researchers observed alarming increases in extreme fires.



The frequency and intensity of severe wildfires worldwide have doubled over the last 20 years due to climate change. / John McColgan

This trend is particularly concerning as hotter, more energetic fires become more and more difficult to control and suppress.

The study also highlights a troubling trend where nighttime temperatures, crucial for firefighting efforts, no longer provide the usual respite as fire intensity persists through the night. This shift poses challenges for firefighters, complicating containment strategies.

Jennifer Balch from the University of Colorado emphasised the growing burden on firefighters, exacerbated by a warming climate and increasing wildfire risks faced by millions of homes in the US.

The researchers plan to delve deeper into the scientific underpinnings of these trends. Cunningham stressed that climate change has created hotter and drier fire weather conditions, fostering environments where wildfires can ignite and spread, even in regions historically less prone to such events.

The study identifies regions such as North America, Australia, Oceania and the Mediterranean as experiencing disproportionate increases in extreme wildfires. Forests, especially conifer and boreal types in North America and Russia, have seen significant spikes in wildfire intensity, reflecting broader global trends driven by climate change.

Cunningham said that climate change is not a distant future concern but a present reality reshaping our environment. The escalation in extreme wildfires is a visible manifestation of this climate transformation happening before our eyes, he said.

# THE WAR IN UKRAINE IS INCHING TOWARDS A CEASEFIRE AS PRESSURES MOUNT

Ben Aris in Berlin

uring a visit to Kyiv just after taking over the presidency of the European Council on July 1, Hungarian Prime Minister Viktor Orban met with Ukrainian President Volodymyr Zelenskiy and asked him to call a ceasefire. Zelenskiy flatly refused.

"As for a ceasefire, I have been very clear: we are at war and we cannot talk about a ceasefire just like that," he later clarified in an interview with *Bloomberg* on July 3. Zelenskiy claimed that Russia could use the truce to accumulate forces and resume military operations.

"This is why it [a ceasefire agreement] can only be reached on a transparent international platform in the presence of countries with trusted leaders," he went on to say, adding that it's not enough to stop the fighting; a clear plan for what comes next needs to be worked out. And that means bilateral security guarantees for Ukraine. Zelenskiy clearly doesn't trust Russian President Vladimir Putin as far as he can throw him but, sotto voce, he also doesn't trust his Western partners to give Kyiv the full support it needs to win and provide for its security.

Orban then outraged the EU elite by flying to Moscow on July 5 to meet with Russian President Vladimir Putin on what he described on social media as: "peace mission continues, second stop – Moscow."

The recently appointed EU foreign policy chief and Estonian Prime Minister Kaja Kallas angrily tweeted:" In Moscow, Viktor Orban in no way represents the EU or the EU's positions. He is exploiting the EU presidency position to sow confusion. The EU is united, clearly behind Ukraine and against Russian aggression," she said, clearly highlighting how the European unity is cracking.

Zelenskiy may not have a choice. Bankova (Ukraine's equivalent to the Kremlin buildings) is under mounting pressure and is finding it increasingly difficult to fight this war. Zelenskiy may be forced into talks as soon as December. "By the end of the year it will become clear whether Ukraine is able to survive the winter with the largely destroyed power grid and whether it has managed to stabilise the front line. The last few "silver bullets" at its disposal – F16s, longer-range strikes, harder sanctions – may or may not help it make it through," says Leonid Ragozin, a *bne IntelliNews* columnist and independent journalist. "On top of that, [Donald] Trump's election win will likely become reality. He will have his own peace plan, like it or not."

Russia's position is much stronger. Sanctions have comprehensively failed to bring Russia to its knees and the economy is now the fastest growing of all the major developed markets in the world. Rather than collapsing, Russia just overtook Japan to become the fourth largest economy in the world, according to the World Bank, and is also now classed as a high-income country. Moreover, the military Keynesianism bump that has boosted Russia's growth to 3.6% last year has primed the pump and kicked off a virtuous circle of investment, wage rises, spending and growth. The changes are going from a spending bump and are becoming structural, according to an opinion piece in the Financial Times by Elina Ribakova, non-resident senior fellow at the Peterson Institute for International Economics.

The nature of Putinomics has fundamentally changed from pay down debt and hoard cash to releasing a wave of pent up investment that is aimed not only at the military industrial complex but civilian production too, as Putin laid out in his recent guns and butter speech. Despite Russia's economic problems like high inflation, a shortage of labour and falling productivity, it has enough money and production capacity to fight this war for years. And Russia has three times the population of Ukraine, giving it a deep pool of potential recruits to draw from.

Long-time critics of the war in Ukraine like Jeffery Sachs and John Mearsheimer have said the war was unwinnable from the start and question US motivations for supporting Ukraine. While these views have been unpopular they are slowly starting to resonate more, *The Hill* recently reported as the conflict drags into its third year.

Things are not going Ukraine's way. The fighting is locked into a destructive stalemate, and Ukraine is short of men, money and materiel – all problems that are likely to get worse as the year wears on.

Russia is also under pressure despite having the upper hand on the battlefield. The Kremlin seems prepared to draw a line under the conflict, as despite taking the initiative following



Pressures are mounting on Ukrainian President Zelenskiy that could force him into a ceasefire deal with Russia, but don't hold your breath. / bne IntelliNews

the fall of Avdiivka on February 17 and a six-month hiatus in US fiscal and military support, Moscow has been unable to deliver a coup de grace that its superior man- and firepower should afford it. The "cargo 200", as soldiers' coffins are known, continue to stream back home in large numbers from the blood-soaked wheatfields of the Donbas.

The West has also made it clear that now supplies have resumed, it will never give Kyiv the most powerful weapons its needs to defeat Russia; Germany has ruled out the transfer of Taurus long-range missiles and the US is reportedly deliberately dragging its heels in training pilots to fly the desperately needed F-16 fighter jets. Permission is also being withheld to use Western weapons to strike targets inside Russia proper. This policy is unlikely to change.

Other frustrations niggle Zelenskiy. It has also been made abundantly clear to Bankova that Ukraine will not be invited to join Nato and that even its EU accession is at least a decade away. Moreover, after Polish imports of Ukrainian grain collapsed the local market last April, restrictions and duties have been reintroduced on Ukrainian agricultural exports to the EU, cutting heavily into Ukraine's only source of foreign exchange earnings at a time when it is desperate for money.

Dozens of foreign policy experts on Wednesday, 3 July called on Nato members to avoid advancing towards Ukrainian membership at the summit, according to a letter sent to the Whitehouse, seen by Politico. "The closer Nato comes to promising that Ukraine will join the alliance once the war ends, the greater the incentive for Russia to keep fighting the war," reads the letter. "The challenges Russia poses can be managed without bringing Ukraine into Nato."

"US doesn't see Ukraine in Nato today," Zelenskiy said in a recent interview. "It is so-called 'one step forward, two steps back' policy. I do not think that this is the policy of world leaders." The sword of Damocles that hangs over the conflict is the increasingly likely return of Donald Trump as president in November; he has promised to "end the war on my first day in office."

Two key Trump advisers presented a plan to end the war in June that boiled down to telling Zelenskiy to negotiate or else the White House would cut off all support, and telling Putin to negotiate or the US would arm Ukraine to the teeth.

Analysts say this is an asymmetrical dilemma, as to cut Ukraine off would almost certainly lead to Ukraine's rapid collapse and probably a change in government, whereas to increase arms supplies to Ukraine would see Putin respond in kind with a general mobilisation and it could even bring China into the conflict as Russia's defeat is as big a problem for Beijing as Ukraine's defeat is for Europe.

Nato is also likely to be weakened under Trump as his team is suggesting a two-tier Nato system where the US will withhold the Article 5 support for aid will fall from around \$38bn this year to only \$19bn in 2027, giving Ukraine a two-year window to resolve the conflict before it goes bust.

Still, starting talks will be extremely difficult, as Ukrainian legislation, sponsored by Zelenskiy, explicitly prohibits negotiations with Russia, and Zelenskiy signed a decree prohibiting any direct talks between himself with Putin personally. The Russians have also ruled out Zelenskiy as a counterparty, as they claim he has no legitimacy since his five-year term in office expired on May 20, and that actually the speaker of parliament Ruslan Stefanchuk is now the legitimate head of state.

#### Talk of talks

Hard as it seems, the talk of possible talks is growing louder. Zelenskiy has come closest to admitting that talks need to start in an interview last weekend with the *Philadelphia Inquirer*, where he said that the war "can't go on for years." Zelenskiy said there can't be direct negotiations between Ukraine and Russia but floated the idea for the first time that there could be indirect

"The sword of Damocles that hangs over the conflict is the increasingly likely return of Donald Trump as president in November; he has promised to "end the war on my first day in office"

an attacked country if they haven't met the spending 2% of GDP on defence requirement, which defangs to some extent the threat to increase Nato support for Ukraine.

And Ukraine is going to run out of money soon. There is already a \$5bn hole in Ukraine's budget funding plans for this year that is forcing some cuts and tax hikes, and analysts widely believe that the most recent US and EU multibillion dollar support packages could the last. The Rada budget committee is also forecasting that essential Western negotiations through a third party similar to the Istanbul talks and the negotiations to thrash out the tripartite Black Sea Grain Initiative in the first year of the war.

In particular, he said, Kyiv is preparing "three detailed plans" in the fields of energy, food security and prisoner exchange that will be ready "by the end of the year" and will be presented to partners and also Russia. These are parts of Zelenskiy's own 10-point peace plan that he presented to the G20 summit in November 2022 that was also discussed at the recent Swiss peace summit held on June 16-17.

Putin has also offered to revive talks on the basis of the Istanbul peace deal on several occasions that could have ended the war in April 2022, but was shot down after former UK British Prime Minister Boris Johnson refused to extend Western security guarantees that are a core part of the agreement.

On the day before the Swiss peace summit Putin again offered a ceasefire that freezes the conflict along the current lines but on the harshest of terms that take into account "the realities on the ground." In effect, the called for Ukraine's capitulation and to concede of all the territory Russia has taken in the last two years and more.

His terms include pulling out Ukrainian troops from the four regions Russian annexed last year, which it doesn't even completely control. He also demanded that Kyiv drop its bid for Nato membership reaffirm its commitment to neutrality, a non-aligned and non-nuclear status that should be enshrined in the Constitution.

Putin repeated the suggestion during the Shanghai Cooperation Organization (SCO) in Almaty on July 4. "The Istanbul agreements remain on the table and can be used as a basis for the continuation of these [ceasefire] negotiations."

But the two men are probably talking at cross-purposes. Zelenskiy is referring to the fact that Ukraine didn't negotiate directly with Russia in Istanbul, but via intermediaries such as Turkey and the UN, whereas Putin is simply demanding Ukraine's surrender.

The timing is important, as it appears that Zelenskiy is buying time to see where Ukraine stands by the autumn. A freezing cold and dark winter looms for the Ukrainian population and it is still waiting for the weapons promised by the new US \$61bn aid package to arrive; and of course for the wild card of a Trump presidency to be played. If any or all of these go wrong Zelenskiy's hand may be forced. In addition to Trump's animus towards Ukraine is now the growing pro-Russia block forming in the EU that is also pushing for an end to the conflict.

The anti-Russia EU elite was bolstered by the re-appointment of Ursula von der Leyen as European Commission President for another five years and Estonian president and ultra Russiahawk Kaja Kallas as the head of EU foreign policy, but the lurch to the right in the European Parliament has boosted the Russia-appeasers block.

Orban is famously friendly with Putin, being the only EU leader to have met him personally since the war started over two years ago. But this month he has created a more formal block by allying with leaders in Czechia, Slovakia and Austria, and the new right-wing MEPs about to join parliament are also typically softer on Moscow.

The pro-Putin block in the EU is on course to gain another advocate that will further undermine European support for Ukraine after the French overwhelming voted for far-right politician Marine Le Pen's National Rally in the first round of the French general elections on June 31, which Putin must see as a victory for Russia.

Le Pen's political career has been part funded by Russian money and her party only paid back a €6mn 2014 Kremlin loan last autumn ahead of the European elections. Le Pen had advocated for close ties with Russia, although she has distanced herself from Putin since the invasion of Ukraine in 2022.

#### The lack of materiel

The politics are starting to stack up against Zelenskiy, but he has serious practical problems too. Ukraine faces the problem of three Ms: the chronic lack of men, money and material. None of these problems can be easily solved.

On the battlefield the fighting has reached a stalemate again, despite Russia taking the initiative this spring after it intensified its missile barrage in March, when Ukraine ran out of air defence ammunition. Ammunition is starting arrive again, but a huge amount of damage has been done in the meantime, raising the question of whether Ukraine can get through the coming winter.

The World Bank said this month that Ukraine can expect dark and freezing winters for at least the next two years, as it will be impossible to repair enough power stations before the heating season starts in November. The country is already blighted with rolling blackouts and could face up to 20 hours of power outages a day this winter, according to the most pessimistic forecasts.

On the battlefield Russia has innovated and taken the lead in the drone war, but more recently has gone a step further with the introduction of massive FAB glide bombs that are wreaking havoc on Ukraine's defences.

Drones typically carry between 5-50kg of explosive and can take out tanks and troops, but the first FAB glide bombs were essentially large Sovietera gravity bombs with wings strapped onto them carrying 250kg of explosive. Only a few months later and Russia has just introduced massive 3,000kg of explosive glide bombs that are almost impossible to shoot down. Zelenskiy said on July 1 that Russia has fired over 800 of the FAB glide bombs in just the last month, which fortunately only have a 50-100km range and so their use is limited to the front line. The bombs are a low-tech solution, but they give Russia a decisive advantage, as it has thousands of them in Soviet-era stockpiles.

During the pause between Ukraine's highly successful Kharkiv counteroffensive in the autumn of 2022 and Kyiv's failed counter-offensive in the summer of 2023, Russia invested heavily in building strong defences. However, in the last nine months Ukraine has failed to follow suit and has constructed weak defences, say experts, that offer little protection against the FAB glide bombs.

The only reason Russia has made such slow progress on the battlefield is because Ukraine has been mass producing the deadly First Person View (FPV) drones that have made the no-man's land on the front line a killzone that prevents Russian troops from infantry assaults and which have gone a long way to make up for Ukraine's lack of artillery shells.

The only effective defence against the glide bombs is to shoot down the Russian jets that launch them, but without the promised F-16 jet fighters Ukraine has lost control of the skies. And despite repeated promises the F-16s are only expected to arrive in 2025 in any numbers, if then.

Ukraine's biggest challenge is that the West doesn't have any concrete war goals. Zelenskiy has very clear war goals: to defeat Russia and expel it from all Ukraine's territory – including the Crimea. But despite the oft repeated nebulous rhetoric of a Ukrainian "victory", the only concrete comment the Biden administration has made is to "put Ukraine into the strongest possible position for the inevitable negotiations."

That point has already passed. The successful Kharkiv counter-offensive in 2022 was an opportunity to start talks that was not taken. Since then, Ukraine's position has deteriorated and since the start of this year that deterioration has accelerated. Western support for Ukraine has gone from putting Ukraine into a stronger position to simply avoiding a humiliating defeat.

Part of Zelenskiy's calculation for his new peace plan this autumn must be an assessment of how far the energy sector repairs have progressed before the first snows fall.

And the efforts to rebuild the destroyed power generation capacity – which remains under constant attack by Russia – have already become snarled up in bureaucracy that is preventing allocation of funding for important projects, *Ekonomichna Pravda* reported on July 4, citing sources familiar with the situation. Ukraine's government has not distributed €150mn worth of funding for four months due to snafus and its building only 20% of the declared 1 GW of energy capacity needed for the winter. Currently, about 150 cogeneration plants are being constructed, which generate a mere 1.5 MW each. Another 100 projects are sitting idle.

And Zelenskiy's course of action also depends on how Ukraine's AFU is holding up against the FAB glide bombs from ongoing Russian onslaught. The good news that might keep him in the game is that the outlook for Ukraine's resupply of arms and ammo in 2025 is already considerably brighter. As bne IntelliNews reported at the start of this year, 2024 was always going to be extremely difficult thanks to the growing ammo crisis, but Europe and America has finally started to invest into beefing up their arms production capacities and these new facilities are expected to start coming online next year. The caveat is whether the West will agree to send Ukraine the more powerful weapons it has been calling for or continue to follow its de facto policy of arming Ukraine not to lose, not arming it to win.

Nevertheless, that must be set against Russia's rapidly and extensively expanding its own arms production. putting Ukraine at a serious and evergrowing munitions disadvantage. Russia is currently producing more arms than all of Europe combined after Moscow managed to ramp up the production of key weapons – artillery rounds, cruise missiles, ballistic missiles and drones - to fuel its war against Ukraine, according to a new report by a London-based thinktank, with just the key artillery shell production having gone from 1.7mn a year pre-war to 2.2mn last year. It will be over 4mn at the end of this year, according to Putin.

#### The lack of men

Zelenskiy said during a trip to Lunenburg to celebrate the formal start of the EU accession negotiations that the Armed Forces of Ukraine (AFU) was killing six Russians for every dead Ukrainian solder. If this is true – and casualty figures are a closely guarded But even if Ukraine's kill-ratio is that high, the other factor in this calculus of death is how many new recruits each side can raise to replenish losses at the front. Putin said in a speech earlier this year that Russia now has 700,000 servicemen and has creditably claimed it is raising some 30,000 new recruits a month as volunteers by offering sky-high wages – a claim backed up by an independent study into the rapidly rising retail banking deposits, statistics of which are still reported by the Central Bank of Russia (CBR).

Russian mortality data suggest over 64,000 troops killed fighting in Ukraine, according to a report by independent Russian media outlets Meduza and Mediazona on June 28, but this estimate is based on published official mortality data and the true number must be at least two or three times higher. Nevertheless, the size of Russia's army appears to be stable, or even growing slowly. However, there is no clarity on how Ukraine's push to recruit more men is going, but the AFU is clearly desperate for new personnel.

Kyiv needs to call up about 200,000 people to address troop shortages, Germany's *Die Welt* newspaper reported in July. According to the paper, hundreds of thousands of Ukrainian servicemen have been killed or wounded since February 2022; however, *Die Welt* does not provide the exact figure.

To keep the army's size stable, Kyiv needs to recruit at least 50,000 people per quarter, but is missing this target, Western intelligence agencies told the newspaper. A new mobilisation bill passed on May 18 saw 2,800 convicts being sent to the combat zone in the past two months, but that is far short of what is needed.

From the estimated 6mn Ukrainian refugees that fled to EU countries, approximately 600,000 are men of military age. However, Kyiv's efforts to exert pressure on EU countries to rescind their temporary residency permits and send them home have been rebuffed by the EU member states, who are keen to retain this pool of cheap labour that has in many cases boosted economic growth. Kyiv even ordered its consulates in EU countries to stop renewing expired passports in an effort to force the men to go home, but countries such as Poland ruled that these men could remain without valid documents.

Anecdotal evidence of press gangs operating all around Ukraine, snatching military-aged men from the streets, suggests that the campaign is not going well. While Russia has enough fresh meat for the grinder to sustain a kill ratio of six to one, if Ukraine's recruitment is failing to add many new soldiers than that one soldier it loses, according to Zelenskiy, it will see the size of its army slowly shrink.

The strength of the AFU and the outlook for replenishing the ranks in 2025 will be another important factor going into Zelenskiy's autumn calculation.

#### The lack of money

The final factor is money. The war is costing about \$100bn a year to perpetrate, the bulk of which is supplied by Ukraine's donors, who are becoming increasingly reluctant to underwrite the bill.

There are four major funding packages in place – US' \$61bn support package, EU's four-year €50bn support package, \$50bn loan deal serviced by the profits from the CBR's frozen assets and a \$40bn Nato-backed facility – but all of them have some problems.

Ukraine remains desperately short of money and the last two support tranches from the US and EU are widely seen as the last two big packages Ukraine will receive.

**Funding the budget:** The talk of "stand with Ukraine" is big, but when it comes to transferring money to Kyiv, the West walks slowly. Ukraine received "minimal military assistance" from its partners in the first quarter of this year, receiving only 10% of what was planned, according to Kyiv School of Economics (KSE) latest macroeconomic digest.

That left the budget with a \$5.2bn deficit as international grants received in the period fell to \$0.9bn compared to \$3.7bn received in the first quarter a year earlier. That left MinFin rooting around for extra money and tapping both the banking sector's profits and the National Bank of Ukraine (NBU) for cash, as well as making some cuts or delaying payments.

The state budget has received \$20.2bn in revenue so far this year, mostly from international partners (\$13.8bn) and domestic state loan bond (OVDP) issuance (\$6.4bn). The largest donors were: EU with \$8.5bn, Japan with \$2.1bn, Canada with \$1.5bn and the IMF with \$881mn. Since the beginning of the full-scale invasion Ukraine has received more than \$87.4bn in international aid and generated more than \$29bn from the issuance of high-yielding OVDPs.

But even with all these billions in aid, MinFin is struggling to cover its budgetary needs – and that aid is almost bound to fall after this year.

For the second year in a row, the country's government faces a record deficit of a whopping \$43.9bn and is counting on covering the bulk of it with help from Western partners. However, this year it is only expecting just under \$38bn in funding from its international partners. The difference is going to be made up through tax hikes and spending cuts.

Ukraine is burning through around \$40bn a year to fight Russia. In the first five months of this year the country spent \$18bn on military needs, which amounted to almost 60% of all budget expenditures. The international support packages look big, but most of the \$61bn US package will go to replenishing its own arsenal or arms makers at home to make more weapons for Ukraine's use. Only \$8bn of America's recent package will go directly to Kyiv to fund Ukraine's budget. The same is true of the EU €50bn money, which is spread over four years, and a lot of that is earmarked for weapons.

And the amount coming from donors is expected to fall drastically in the next few years. According to Rada budget committee member Yaroslav Zheleznyak's Telegram channel, the



Other

Source: Ministry of Finance of Ukraine, Openbudget.

#### www.bne.eu

### Structure of budget revenues in Q1 2023-2024, \$bn

### Structure of budget expenditures in 2023-2024, \$bn

Ukraine expects to receive from the West \$37.8bn in 2025 as grants and credits, \$25.7bn in 2026, but only \$19.4bn in 2027.

If Trump wins re-election in November, he will very likely end the US support for Ukraine. Pledges already made are probably enough to get through 2024 and cover most of 2025, but after that where the funding will come from remains very unclear.

Ukraine can muddle through for the meantime. The international reserves were a healthy \$42.4bn at the end of April – more than the minimum three months of import cover needed to keep the currency stable – but had fallen to \$39bn at the end of May, after the volume of international aid decreased compared to March.

The IMF published in July a pessimistic scenario for Ukraine's economy as the war becomes protracted. It assumes a shock will start in the third quarter of 2024 that will affect business and household sentiment and the pace of migrant returns, accelerated by further damage to energy infrastructure from Russian attacks.

These factors would lead to a sharp decline in real GDP of 1.7% in 2024 in the pessimistic scenario against 2.5-3.5% in the baseline scenario, and a 1% drop in 2025.

High defence spending needs and a decrease in economic activity will increase the budget deficit. Foreign exchange imbalances will resurface and persist for longer, given the deterioration in export performance, leading to higher devaluation in the coming years. The subsequent recovery will be more subdued than in the baseline scenario, given even greater damage to fixed assets, and output will remain below pre-war levels.

### Funding package problems: the

West has promised a lot of money, but there are problems with almost all the packages. The most obvious example was the difficulty in getting the US \$61bn package through Congress earlier this year, but the more recent EU four-year €50bn aid package that was approved in February has also faced problems, as Hungary, for one, refuses to participate, and now the pro-Russia block in the EU is growing, this package could encounter further difficulties.

Another \$50bn loan deal, agreed on June 13, where the interest payments will be serviced by the profits made on the CBR's frozen assets, was a landmark agreement, but the deal is being dogged by the details.

At the moment the loan is backed by the US, Canada and Japan, but Europe is refusing to participate, as it objects that most of the money will be spent on US-made arms, so benefiting the US economy, whereas the obligation to repay the loan if Ukraine defaults will fall on Europe, as that is where the bulk of the frozen CBR assets are housed. Washington still has not decided on how much it will contribute to this \$50bn loan deal as the allies bicker over how to divide the burden up.

The US authorities must also obtain Congressional approval for such a big loan, which is also hesitant about throwing good money after bad. Opposition from both Republicans and Democrats in the US Congress could drag out the process until the end of 2024.

The EU candidates are also hesitating over approving the loan. European Council President Charles Michel told a EC conference on June 28 that only five of the eight EU candidate countries had signed off on the deal. Serbia, Georgia and, surprisingly, Moldova, all refused to sign. The EC insists that all candidate countries approve all EC sanctions measures. Serbia has been refusing to support sanctions on Russia from the start, and Georgia has rapidly drifted towards Russia in the last few years, thanks to booming mutual trade. But Moldova was a surprise, as it usually supports the EC; however, Moldova signed a new gas supply deal with Russia last year and may have its hands tied.

Finally, in the most recent sign that funding will get harder in the future,

Nato members were wrangling over who should contribute how much to a multi-year €40bn funding deal on July 3 proposed by Nato Secretary General Jens Stoltenberg earlier this year.

The deal was already a cut down version of the original €100bn proposal put forward by Stoltenberg to "Trumpproof" Ukraine's funding, but that was too rich and was immediately reduced to the less ambitious €40bn. But even that amount seems to be too much for the members. DPA reported that Nato members only agreed to provide approximately €40mn in aid to Kyiv for 2025 alone and want to reassess it each vear. Nato members concurred that GDP would be factored into the calculations. but a consensus on individual contributions was also not reached at the July 3 meeting.

Trade deficit problems: Most of the money Ukraine is spending is coming from donors or domestic bond issues, but there is a third source: the export of grain and metals.

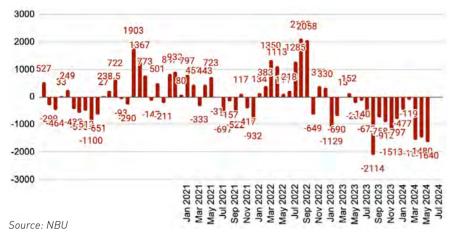
Ukraine is an agricultural powerhouse and a major metals producer, but Russia's naval blockade has hobbled exports, and it is also cut off from the Russian market, formerly its biggest trade partner.

The export problems have been made worse by an acrimonious dispute with Poland, which accused Ukraine of dumping grain and wrecking the Polish grain market last April. Warsaw responded by banning the transit of all Ukrainian agriculture goods, thus cutting Kyiv off from one of its major sources of foreign exchange.

Since then, a deal has been thrashed out that introduces an "emergency brake" mechanism that will limit trade if the volumes get too big, but the reduction in trade is a major blow to Ukraine's budget.

That dispute was only made worse when Polish truckers took it on themselves to block the border and prevent Ukrainian trucks from transiting Poland to EU market, saying the Ukrainian haulers

#### Ukraine current account (\$mn)



were undercutting them and driving small and medium-sized Polish truck companies out of business.

Ukraine's exports to the EU plunged by almost 10% in January-June this year. Ukraine exported \$10.97bn worth of goods to the EU, which is 9.7% less than the same period last year, according to the Ministry of Economy. Trade with Ukraine's immediate neighbours and biggest trade partners has fallen even more precipitously: Poland, by 25.7%; Slovakia, by 21.3%; Hungary, by 67.2%, and Romania, by 50.2% in the same period.

Ukraine has been running a current account deficit of anything between \$100mn and \$2bn a month for most of 2023 that has to be funded somehow.

By contrast, Russia's exports are booming. It posted a \$260bn current account surplus in 2022, twice more than its previous all-time high of \$120bn set in 2021. That fell to \$51bn in 2023 when the oil sanctions kicked in, but this year it is on course to top the \$120bn pre-war record again, thanks to booming grain and oil exports.

Debt and default problems: Ukraine's finances could take a sharp turn for the worse in just the next few weeks. The state debt is mounting slowly as increasingly the money it is given is in the form of repayable loans, but more worryingly, its bond restructuring deal is about to expire and it is looking default in the face.

Only a quarter of the money Ukraine received last year was in the form of grants that don't need to be repaid, down from three quarters before. Increasingly, fresh money is loans that do. The state debt-to-GDP ratio was a healthy 49% before the war, but has crept up to 94% of GDP now and could breach 100% of GDP before the end of this year. The state debt of Ukraine grew by almost \$2.6bn in May alone, to a total of \$151bn.

For the past two years Ukraine's private bondholders have agreed to suspend debt-service payments, but that deal ends on August 1. Institutional bondholders have agreed to suspend payments until 2027. The let-off – from both government and private lenders – is worth 15% of GDP a year.

If these payments had still been in force, they would have been the state's secondbiggest expenditure, behind defence.

MinFin is in talks with its creditors and has asked for a 60% write-off, but the Eurobond holders committee is digging its heels in and will not agree to more than a 25% write-off. Last week, MinFin dropped its offer to a 40% haircut, but no agreement has been reached and the clock is ticking.

The last thing that MinFin wants to do is ruin its credit profile through a default that would mean it can't raise money post-war, but resumption of coupon payments will only put added pressure on the state's finances. MinFin would struggle to make the coupon payments even with a 40% write-down, say experts. An agreement on the terms of the restructuring is anticipated by August 1 but a default is looking increasingly likely.

In the face of all these problems, the government is already planning to cut crucial spending on the war, Yaroslav Zheleznyak, member of the Ukrainian parliament, said on his Telegram channel. Military spending in 2025 will amount to UAH2.2 trillion (\$54.5bn). However, in 2026 and 2027 military spending will decrease to UAH1.6 trillion (\$39.6bn) and UAH1.5 trillion (\$37.2bn) respectively.

A funding crunch is coming that will change the calculus on seizing the CBR's circa \$300bn of frozen assets.

"Seizing the CBR's money is off the table for the moment, as everyone worries that will undermine the euro and the Western banking system," a senior advisor to the German government told *bne IntelliNews* on the condition of anonymity, as they were not authorised to speak about sensitive topics. "However, when the money runs out, probably in 2025, that will change the calculus completely and the attitude to confiscating that money. There aren't any other options."

### Polls show support is fading

Ukraine fatigue is growing amongst countries' populations as well, but the sentiment is very varied depending on the country and political proclivities.

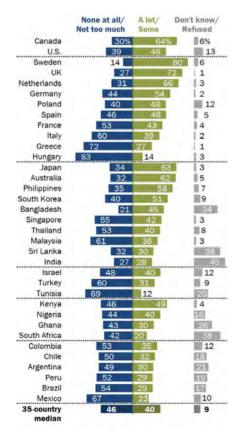
**Russia:** Unsurprisingly, support for the war remains strongest in Russia. Patriotism is at an all-time high and Putin's propaganda has been effective. He has also managed to shield the average Russian from any effects of the war and rising incomes and a booming economy have helped.

Still, a June poll by the independent pollster Levada found that 71% of Russian respondents would back ending the war if Putin called it off, although only 30% would support ending the war if that included returning the annexed territories. <u>Ukraine</u>: That contrasts sharply with 33% of Ukrainians that think Ukraine moving in the "right direction". 47% disagree and say it's going in the "wrong direction", according to a survey by the Razumkov Center published on June 26.

More tellingly, a new poll from the Carnegie Endowment for International Peace suggests that the share of Ukrainians open to a negotiated settlement has dramatically risen over the past year to June, and, if present trends hold, will become a majorityheld view before the end of this year.

Polls from the earliest days of the war showed nearly unanimous Ukrainian support for the government and its handling of the war effort in the first year, but are starting to weaken now.

**The views of Zelenskiy are mixed globally** % who have \_ (of) confidence in Ukrainian President Volodymyr Zelenskiy to do the right thing regrding world affair



Note: In the U.S. and Austria "Don't know/Refused" includes those who say "Never heard of this person". *Source: Spring 2024 Global Attitudes Survey.* "NATO" Seen Favourably in Member States; Confidence in Zelenskiy down in Europe, U.S. Support has fallen from a 2022 high of 70% following a successful counteroffensive to 48% in the summer of 2023 following the failure of the second counter-offensive, according to Gallup. The share of Ukrainians that say ceasefire talks should start now has also risen to 44% as of June.

The majority of respondents still believe Zelenskiy should stay on as president and he retains the people's trust, but his popularity ratings are also falling slowly as the war and destruction drag on.

Bankova watches the mood of the people closely and in the last week Ukrainian Political analyst Volodymyr Fesenko is said to have been sounding out public reaction to talks on behalf of Zelenskiy's administration. He floated a trial balloon, a new "formula of victory," which accepts that Ukraine would agree to losing territory, at least temporarily, in exchange for strong security guarantees. "If taken on board, this formula would replace Zelenskiy's maximalist 'formula of peace'," says Ragozin.

Picking up on the recent softening in Bankova's rhetoric, Fesenko told Politika Strany: "The change in the government's rhetoric reflects a change in public opinion, which the presidential office has always researched very thoroughly. With their toolbox, they observed that the preparedness of Ukrainians to accept talks with Russia is higher than one could observe in the polls that have been publicised."

**Europe:** Europeans are clearly tiring of the war, although they continue side with Ukraine. A negotiated outcome with Russia, as opposed to an outright Ukrainian military victory, is now also seen as the most likely outcome by most Europeans, according to a poll of 15 countries by the European Council of Foreign Relations (ECFR) think-tank in the first half of May.

ECRF found support for war and victory is strong amongst Ukrainians, despite weakening morale. A total of 34% of Ukrainians currently say they trust the Ukrainian president, Zelenskiy, "a great deal" and 31% trust him "quite a lot". More than half (58%) of Ukrainians foresee a Ukrainian victory, 30% say it will end in a settlement, and only 1% expect Russia to emerge victorious. But tellingly, a majority preferred ceding territory rather than abandoning sovereignty, defined by the right to join Nato and the EU.

Inside 14 European countries ECFR surveyed, only in Estonia was there a prevailing view (38%) that Ukraine would win the war outright.

Majorities in Sweden and Poland wanted Europe to help Ukraine fight until all its territory is regained. Majorities in Italy, Greece and Bulgaria opposed this, saying it was a bad idea to increase the supply of weapons to Ukraine further.

Italy emerged as the largest major European power that is least supportive of Ukraine. But in most European countries, large majorities still back sending more arms to Ukraine, even if it is just to strengthen Ukraine's negotiating hand.

A middle group of countries, including Czech Republic, France, Germany, the Netherlands, Spain and Switzerland, lack a national consensus on the war and the EU's role.

In no country, even the most hawkish, was there any support for sending European troops to Ukraine.

A second recent poll from the US pollster Pew found that confidence in Ukrainian President Zelenskiy has also faded and is now mixed across the 35 countries surveyed, and is falling slowly.

A median of 40% have confidence in him to do the right thing regarding world affairs, while 46% do not, Pew reports. "Confidence in Zelenskiy has declined significantly over the past year in some countries where trend data is available."

The share of people with confidence in Zelenskiy differs considerably across countries in Europe and North America. Confidence is highest in Sweden, where eight in ten have confidence in him. About two-thirds or more in Canada, the Netherlands and the UK also express confidence. However, six in ten or more in Greece, Hungary and Italy do not have confidence in Ukraine's president.

Poland showed the most drastic decline in opinion towards Zelenskiy and Ukraine. Poles are torn between their antipathy towards Russia and its growing economic rivalry with Ukrainian goods transiting to the EU markets.

"Among Poles, 48% have confidence in Zelenskiy, down from 70% in 2023 (-22 points)," Pew said.

Confidence in him has also decreased by double digits in South Korea (-15) and South Africa (-12). Decreases are smaller but still statistically significant in Australia, France, Germany, the Netherlands, Spain, Sweden and the US.

Ironically, in Germany, which has led the European support for Ukraine, confidence in Putin is on the rise, up by 9 points, and favourable views towards Russia have increased by 5 points since 2023, according to Pew.

This may be connected to the rise of the right in Europe, as right-wingers are more likely to support Putin and dismiss Zelenskiy, the survey found. In Germany, supporters of Alternative for Germany (AfD) are about half as likely as those who do not support AfD to express confidence in the Ukrainian leader (31% vs. 61%).

<u>US</u>: Nearly a quarter of Americans believe that the United States is not providing enough military assistance to Ukraine, a sentiment that has grown since late last year, according to Pew.

A quarter (24%) of Americans now think that US support for Ukraine is insufficient, up from 18% in November 2023. However, nearly a third (31%) of Americans feel that the US is providing too much assistance to Ukraine, while 25% believe the current level of aid is adequate. The United States stands out as the only country with significant ideological divides on this issue. Among right-wing Americans, 51% believe the US provides too much support to Ukraine, compared to just 13% of left-wing respondents.

Global South: At a country level support is faltering too and Putin has made big inroads in selling his cause to the Global South. The Swiss peace summit was a failure, as not only did few from the Global South attend, but out of the 100 participants only 78 signed off on a very vague final communiqué. And several countries quietly removed their signatures later after coming under pressure from Russia.

That contrasts sharply with the first March 2, 2022 United Nations General Assembly (UNGA) vote following the invasion, when fully 141 countries voted to condemn Russia, 34 abstained and only five voted against the motion. Subsequent votes saw the number of condemnations fall somewhat, but this time one that would include Russia, but most remain sceptical that the meeting will happen.

In another sign of Bankova's softening stance, on July 4 Zelenskiy said that he was not against attending another peace summit together with Putin. However, in his opinion, Putin is unlikely to come, as he is "too scared" to sit at the negotiating table, but the participation of the US and China "as joint mediators" might make a difference, he said.

Turkish President Recep Tayyip Erdogan has also put himself up as a potential mediator in peace talks with Ukraine. Putin and Erdogan discussed the war issue at the Shanghai Cooperation Organization (SCO) summit in Kazakhstan on July 3, but the Kremlin has said it has rejected the offer for now.

Putin and Zelenskiy maximalist positions mean currently there is no common ground for talks to begin, making the chances for an early end of the war low.

"Turkish President Recep Tayyip Erdogan has also put himself up as a potential mediator in peace talks with Ukraine."

if the Swiss summit was designed to set a new benchmark of international support for Ukraine and isolate Russia further it had the opposite effect: it only highlighted the increasingly polarity of the West and Global South divide.

### Getting to the table

The pressure on Zelenskiy to do some sort of deal with Russia is mounting but getting everyone around a table will be extremely difficult. On balance the decision falls squarely on Zelenskiy's shoulders.

Both Putin and Zelenskiy have backed themselves into a corner with their maximalist positions. Beijing has put forward an alternative Chinese peace plan and proposed, jointly with Brazil, a second peace summit this autumn, Serbian President and Russia supporter Aleksandar Vucic summed up the scepticism that a deal could be done in the near future in an interview at the end of June: "The termination of the Ukrainian conflict is impossible at the moment, even by means of using China's latest initiative. 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 recent European Parliament elections resulted in gains for far-right and rightwing parties across Europe. / European Parliament

## Far-right gains in Europe pose challenge for EU enlargement

#### **Clare Nuttall in Glasgow**

he recent European Parliament elections resulted in gains for far-right and rightwing parties across Europe, sparking concerns about the future of EU enlargement. While centrist groups retain a majority in the new European Parliament, the growing influence of populist, nationalist and Eurosceptic parties could complicate efforts to integrate new member states in the bloc, analysts have warned.

The elections followed a reinvigoration of the enlargement process sparked by Russia's invasion of Ukraine, which prompted EU leaders to renewed efforts to integrate the countries on the periphery of the 27-member bloc. Previously the enlargement process had stagnated, with Croatia being the last country to join more than a decade ago.

In the June European Parliament elections, far-right parties came first in five countries and second or third in another five, primarily at the expense of liberal and green parties.

In France, the far-right's victory led President Emmanuel Macron to call for snap elections. Similarly, in Germany, the governing coalition trailed behind conservatives and the far-right, further weakening Chancellor Olaf Scholz. These shifts in the EU's two largest countries are likely to impact the union's functioning significantly. There was also a strong showing for rightwing parties in countries such as Bulgaria, Croatia and Romania, even though centrist parties prevailed.

At European level, the European People's Party (EPP), Socialists and Democrats (S&D) and Renew Europe have maintained their dominance in the parliament.

Despite this, the long-term trend indicates increasing support for

rightwing and far-right parties. At the same time, parties closer to the centre have helped to normalise far-right parties by adopting their ideas and rhetoric, as pointed out by London-based think-tank Chatham House on June 11.

At national level, the far right is already part of governing coalitions in Finland, Sweden, the Netherlands, Italy and Croatia, while Austria's far right leads in polls ahead of national elections. This trend is evident in Portugal and Slovakia as well, where far-right parties have gained significant support. The outcome of France's snap general election remains to be seen, but the European Parliament vote shows a weakened position for Macron's Renew coalition.

These developments at national level in turn will have an impact on policy-making at EU level, says Chatham House: "This trend affects the composition and working of the European Council and the Council of Ministers, the bodies where member states' heads of government ministers and national ministers respectively come together and set the high-level policy agenda and adopts EU laws."

### Enlargement at risk

There are also implications beyond the borders of the EU. The report by Chatham House highlights the long-term threat to EU enlargement posed by the rise of far-right parties. "Enlargement may not be a main campaign issue, but the surge in votes for these [rightwing and far-right] parties points to ambivalence at best – opposition at worst – to EU enlargement," the report states.

Public support for Ukraine, one of the new EU candidate countries since 2022, joining the EU is lowest in countries where far-right parties hold significant sway, including Austria, France, Hungary and Slovakia.

More broadly, parties like the Dutch Freedom Party (PVV), France's National Rally (RN), Austria's Freedom Party (FPO) and Germany's AfD remain sceptical about EU enlargement.

This may be a problem in particular for Ukraine, with the strong performance for parties linked to Russia, notably France's RN, says the European Policy Centre (EPC) in a new paper published after the European Parliament elections.

"An RN victory, not least due to Le Pens' ties to the Kremlin, would underline Ukraine's war effort, at a time when Kyiv is struggling on the battlefield and unpredictable US elections loom. Furthermore, it also risks derailing efforts to reinvigorate EU Enlargement Policy. With the EU's role in the world weakening, getting it right on Ukraine remains crucial for Ukraine's very survival as a state, and the EU's security," wrote Amanda Paul, deputy head of EPC's Europe in the World Programme and senior policy analyst, and Lev Zinchenko, programme assistant, Europe in the World Programme.

There are some exceptions, as pointed out in the Chatham House report, among them Poland's Law and Justice (PiS) party, which views Ukraine's membership as crucial for its national security. Meanwhile, Hungary's ruling Fidesz party advocates for the accession of Serbia and Bosnia & Herzegovina, a policy linked to its close ties with Serbian President Aleksandar Vucic and Milorad Dodik, president of Bosnia's Republika Srpska. However, neither Fidesz nor PiS performed well in the European Parliament elections.

The composition of the European Parliament is not an urgent issue for enlargement, however. "Accession to the EU is a multi-year process, and it is unlikely that any of the candidate countries will be ready to join the EU in the next five years. For enlargementrelated issues that do require a vote in the European Parliament, it is unlikely that far-right MEPs would be able to rally a majority to swing a vote especially given the divisions among far right groupings on this issue ... But it might make debates about issues like financial assistance for enlargementrelated reforms more difficult," says the Chatham House report.

Opposition to enlargement is concentrated among the extreme right Identity and Democracy (I&D). Its MEPs have voted against or abstained on new paper published after the European Parliament elections.

"The previous European Parliament (2019-2024) adopted a series of reports advocating for the democratic reform of the Union ... But the 2024 election results risk stalling this momentum; EU reform has been largely overlooked in nationally focused campaigns, and a more fragmented Parliament with a stronger far-right will struggle to drive the necessary changes," said Johannes Greubel, head of the EPC's Transnationalisation Programme and Connecting Europe project leader.

Further concerns are raised about whether a shift to the right within the EU could lead to the bloc no longer acting as a force for democratisation within would-be members. Berta López Domènech, a junior policy analyst at the EPC, warns that the European Parliament's "ability to advocate for democracy at the heart of the EU accession process will be weakened".

She adds: "The growth at the EU and member states' level of the reactionary right-wing forces that reject democracy as the cornerstone of the EU accession process can shift its direction."

There have already been frequent clashes between some of the eastern EU members, most notably Hungary, with

"The growth at the EU and member states' level of the reactionary right-wing forces that reject democracy as the cornerstone of the EU accession process can shift its direction"

enlargement-related resolutions in the European Parliament, while MEPs from the more moderate rightwing European Conservatives and Reformists (ECR) tend to vote in favour.

An important issue for enlargement, namely internal reforms to the EU, could also be held up, as pointed out by the European Policy Centre (EPC) in a fellow EU leaders over the bloc's liberal values. This now risks being repeated on a larger scale.

As the EU grapples with internal fragmentation and growing polarisation, highlighted by the recent European Parliament election results, the path to enlargement remains fraught with challenges.



Minister for European Union Affairs Janos Boka presenting Hungary's priorities for its EU presidency. / bne IntelliNews

### Hungary wants to 'Make Europe Great Again' during its EU presidency

### Tamas Csonka in Budapest

ungary unveiled "Make Europe Great Again" as the slogan for its upcoming six-month presidency of the Council of the EU from July 1, mirroring the famous campaign catchphrase of former US president Donald Trump.

The motto points to a proactive presidency and symbolises the notion that "we are stronger together than apart", Minister for European Union Affairs Janos Boka said at a press conference presenting the official priorities of the presidency.

When asked about the slogan, Boka downplayed the evident connection, saying he was not aware that the former US president has ever wanted to make Europe great.

Hungary's radical rightwing leader forged friendly relations with Trump during his term in the White House and Orban is the only EU head of state who has openly endorsed the Republican presidential nominee again. The former president had praised the hardline stance of the Hungarian premier on immigration and national sovereignty and compared Orban to having a twin brother during his visit to Washington in May 2019.

This alignment with Trump contrasts sharply with the more critical approach of the Joe Biden administration over the Orban's illiberal shift and the country's democratic backsliding.

Hungary is also seen as a potential weak link in the transatlantic alliance, highlighted by the delay in the ratification of Sweden's Nato membership. Washington has also voiced concern about the country's engagement with Russia in areas like energy and technology.

"As a president of the Council, we will be honest brokers who will work loyally with all member states and institutions," Boka said in the press conference.

He also recalled that Hungary has been a member of the EU for 20 years and chaired the EU Council 13 years ago for the first time since joining the EU in 2024.

Hungary has determined seven priorities for the presidency. It plans to adopt a new competitiveness agreement, support the strengthening of the European defence industry and innovation, and member states' cooperation in procurement, he said. Hungary is also aiming to sign partnership agreements to protect the EU's external borders and to handle the root causes of migration, as well as to further the integration of membership candidates, he added.

Hungary will launch a "strategic debate on the future of cohesion policy" and support a pro-farmer agricultural policy. Demographic issues will also be tabled at every council formation, he added.

Hungary plans to hold 37 formal council meetings and 1,500 meetings of various council working groups, as well as 16 informal meetings, an informal meeting of the European Council, and a summit of the European Political Community, he said.

The presidency also unveiled the Rubik's Cube as its logo, which Boka described as "the essence of Hungarian genius". Hungary is celebrating the 50th anniversary of the famous 3x3 colour cube, initially designed as a teaching tool, becoming the world's best-selling puzzle or toy.

"Hungary is also seen as a potential weak link in the transatlantic alliance, highlighted by the delay in the ratification of Sweden's Nato membership"

### **Eurosceptics sweep Czech EP elections**

### Albin Sybera

cechia is sending mostly Eurosceptic or even Czexit supporters as their representatives to the European Parliament in a disastrous result for the ruling centreright government.

The populist Eurosceptic ANO party of billionaire Andrej Babis came first with 26.14%, ahead of the ruling SPOLU coalition list with 22.27%. ANO will have seven seats, SPOLU will have six, three of which are Eurosceptic members of the ruling rightwing ODS party.

The voter turnout was 36.45%, the Czech Statistical Office reported.

The biggest surprise of the night was the strong result for two anti-system coalitions of the far right and far left, who have converged in the views.

The joint list of Motorists and the far-right-leaning Prisaha [The Pledge] is sending two MEPs, including its leader Filip Turek, a former seller of dubious homemade products against COVID-19, whose campaign against the Green Deal was marred by the reports of his home collections of neo-Nazi and fascist items.

The joint list of the Czech Communist Party and hard nationalist parties STACILO! [It was enough!] will also send two deputies, including sitting veteran MEP Katerina Konecna and anti-COVID-19 measures lawyer Ondrej Dostal, who campaigned for keeping the Czech currency and against the EU's migration pact.

Tomio Okamura's far-right and anti-EU SPD, which formed a joint list with the nationalist far-right Tricolour, will have just one representative, former Social Democrat Ivan David.

The only two fully pro-EU lists in the mix – the Czech Pirate Party and the Mayors and Independents (STAN) – will combine for a mere three MEPs, which is especially painful for the socially liberal Pirate Party, whose MEPs shrank from three to a lone MEP, Marketa Gregorova.

STAN's leader and former presidential candidate Danuse Nerudova might have to forget about the EC commissioner job after the party's disappointing performance. Only Ondrej Kovarik, Charanzova's aide is left of ANO's pro-EU strand, while most of the other six ANO's MEPs campaigned to keep the Czech currency, which the country agreed to replace with the euro back in 2004 when it joined the EU. Former manager of the Agrofert conglomerate, Jana Nagyova, known from

"The result comes as a warning to the centre-right five-party coalition of Prime Minister Petr Fiala, whose government is one of the least popular in Czechia's history"

The result comes as a warning to the centre-right five-party coalition of Prime Minister Petr Fiala, whose government is one of the least popular in Czechia's history.

ANO outperforms SPOLU by more than double in the national polls, with its popularity regularly projected above 30%. National elections are scheduled for autumn next year.

ANO's candidate list was led by former minister Klara Dostalova, who replaced outgoing pro-EU MEP Dita Charanzova, marking ANO's clear turn into Eurosceptic waters on a campaign against the Green Deal and EU's antimigration pact. the trial with Andrej Babis, in which both were acquitted of EU funds embezzlement, will also be one of ANO's seven MEPs.

The ruling SPOLU list, comprised of the neoliberal ODS, liberal-conservative TOP 09 and Christian Democratic KDU-CSL, will send six MEPs, but only two – TOP 09's Ludek Niedermayer and Ondrej Kolar – are clearly pro-EU politicians.

The SPOLU leader, Eurosceptic and fierce Green Deal opponent Alexandr Vondra, his ex-partner and MEP Veronika Vrecionova and his aide Ondrej Krutilek, will also be joined by Christian Democratic MEP Tomas Zdechovsky, known for his scandal with undeclared visits to Bahrain.



Andrej Babis' ANO will have seven seats, SPOLU will have six. / bne IntelliNews



President Peter Pellegrini: "I have been pointing out for several years that Slovakia is divided by a high mental wall, from behind which two divided groups of society are shouting at each other." / Presidential Office Slovakia

# Pellegrini pledges to unite deeply divided Slovakia

### Albin Sybera

ew Slovak President Peter Pellegrini, who has stepped down as leader of the ruling coalition's centre-left Hlas party, pledged to unite the deeply divided country in his inauguration speech.

Pellegrini's inauguration came a month after populist Prime Minister Robert Fico, Pellegrini's coalition partner and former colleague, was shot in an assassination attempt which was condemned by parties from across the divided political spectrum. Fears abound that the shooting will worsen divisions within politics and society.

Fico's left-right cabinet has faced regular protests since it assumed power last autumn after it pursued several controversial bills, including one on the dismantling of the Special Prosecutor Office overseeing high-profile corruption cases and others proposing to restructure public broadcaster RTVS and label NGOs with foreign funding foreign agents.

Pellegrini also beat his rival, the conservative pro-Western diplomat Ivan Korcok, in the presidential election in early April after an aggressive secondround campaign in which he made baseless accusations against Korcok of allegedly planning to deploy Slovak troops in Ukraine.

"I am speaking to everyone in Slovakia with faith that they feel a firm part of the community of citizens of the Slovak Republic. I am speaking to everyone so they know that I want to be also their president," Pellegrini declared in the opening lines of his inauguration speech, describing it as "the most important day of his life" and "an exceptional moment which is not just about me".

"I have been pointing out for several years that Slovakia is divided by a high mental wall, from behind which two divided groups of society are shouting at each other," Pellegrini described the state of Slovak society.

Pellegrini expressed conviction that what makes Slovaks, including the numerous Slovaks living abroad, "remain Slovaks in their heart" is what for him are "simple values" – "state, nation, family and humanity". "The president is a symbol of the land, representative of the people at home and in the world," he said, recalling that the reason why he entered the presidential palace in Bratislava is that "two months ago historically the second-highest number of voters sent me to office".

Pellegrini recalled that Ukrainians, who are sheltered in Slovakia and "in the spirit of our traditional hospitality were offered dinner, bed and assistance", remind Slovaks that the "certainty of peace" is gone.

Local commentators described Pellegrini's speech as "conservative," lacking acknowledgement of Roma and sexual Slovak minorities, despite Pellegrini's leftist pledges, which he reiterated several times, including recalling the "idea of socialism with a human face, whose death under the tracks of foreign tanks" in the Soviet-led invasion in 1968 Slovaks and Czechs rejected.

Pellegrini also acknowledged the way digitalisation has contributed to the divisions within Slovak society and between generations.

He also said the wall dividing the Slovak society "is now sprinkled with blood" in a clear allusion to Fico's assassination attempt, though he avoided mentioning other shootings in recent years that rocked society and politics, including the murder of investigative journalist Jan Kuciak and his fiancé in 2018 and the gunning down of two young men in from the LGBTQ friendly bar in Bratislava in 2022 by a far right teen.

Pellegrini also recalled the 1944 Slovak National Uprising against Nazi and fascist authorities in which "side by side old and young, men and women, communists with civic and social democrats, Slovaks with many other nations, fought against occupiers". He also referenced several figures in Slovak history, including the 9th-century saints Cyril and Methodius, 19th-century evangelical and catholic writers who contributed to formulating modern Slovak grammar, and one of the founders of 20th-century Czechoslovakia, Milan Rastislav Stefanik.

### Slovak parliament approves dismantling of public broadcaster

### Albin Sybera

S lovakia's parliament approved the controversial law to dismantle the public broadcaster RTVS after all 78 legislators of the ruling left-right coalition in the 150-member parliament backed the legislation.

The law will enable the government to exercise tighter control of the broadcaster and appoint a new directorgeneral.

The move could land the populist government in trouble with the European Commission. Vera Jourova, outgoing European Commission for Values and Transparency, said in an answer to a question from *bne IntelliNews* at the Prague European Summit last week that the Commission would take action if the legislation was passed, though she said the law had been softened since it was initially proposed.

Opposition legislators left the parliament in protest accompanied by the applause of the ruling coalition legislators and an ironic comment, "what a sweet life it would be without opposition, made by Roman Michelko, chair of the parliamentary culture committee and a conspiracy writer elected to the parliament on the far-right SNS list. The opposition also vowed to challenge the bill at the country's Constitutional Court.

The cabinet of populist Prime Minister Robert Fico, comprised of his leftist Smer party, the centre-left Hlas and the SNS, has been criticised by international press and media organisations for the law, and the opposition has argued that it breaches EU public media standards.

"I assure you that all the content makers, who are interested in working in the public space and maintain the principle of objectivity and plurality, can really work freely and independently," Minister of Culture Martina Simkovicova, nominated by SNS, said ahead of the vote.

Simkovicova – a former presenter at TV Slovan, a channel spreading hoaxes about the COVID-19 pandemic and the war in Ukraine – filed the legislation in April, but the parliamentary approval got delayed after Fico suffered an assassination attempt in mid-May and parliamentary sessions were temporarily suspended.

RTVS employees have been on strike and part of them marched through Bratislava with taped mouths in protest at the law, which is viewed by liberal media as increasing the government's grip on the media landscape in the country and paving the way for the end of public TV and the creation of a state television.

The legislation was also approved in a shortened legislative procedure and becomes valid on July 1, when RTVS will cease to exist and will be replaced by the new STVR. Its immediate effect will also be the dissolving of the current management headed by the CEO Lubos Machaj.

The statutory body, which could be led by the vice chairman of the parliament Peter Ziga of Hlas, will preside over cal commission overseeing the STVR programme.

The opposition has also criticised the unclear running of the future STVR in the months ahead. "There is a month-long period for the selection procedure and only then the candidates can be submitted to the parliament. The September session begins on September 10," Zora Jaurova, vice chair of the parliamentary committee for culture and media of the oppositionleading Progressive Slovakia, was quoted as saying.

"It looks as though in the half of October, at the end of October STVR will have state management," Michelko said.

The bill will now go to the Presidential Palace to be signed and could be a litmus test of impartiality for new President Peter Pellegrini, the former Hlas leader whose candidacy was backed by Fico's government. Pellegrini's predecessor, liberal Zuzana Caputova, opposed the bill.

Editor-in-chief of the country's leading daily SME, Beata Balogova, wrote on her Facebook social media profile that "in the past governments have tried to penetrate the RTVS and influence the activities of this institution. But never

### "The law will enable the government to exercise tighter control of the broadcaster and appoint a new director-general"

STVR before new management will be elected. The new CEO will be elected by a new STVR nine-member body, where four members will be delegated by the Ministry of Culture and five by the parliament. There will also be an ethibefore has this been done in such a blatant way and as part of the main agenda of the minister of culture," noting that Simkovicova was yachting in Croatia when the legislation was presented in parliament.



## Turkish intelligence reportedly foiled terrorist plot to attack Moscow mall after Crocus City massacre

### bne IntelliNews

slamist jihadist terrorists planned to attack a bustling shopping mall in central Moscow following the Crocus City Hall concert venue massacre on the outskirts of the Russian capital in late March, but Turkey's intelligence service foiled the plot, according to a June 18 report published by Turkish daily *Hurriyet*.

Afghanistan-based Islamic State affiliate, Islamic State-Khorasan Province (ISKP, or ISIS-K), claimed the Crocus City Hall attack, which authorities say took the lives of 145 people and allege was committed by four Tajik gunmen, who were migrant workers in Russia. Two months prior to that atrocity, Islamic State claimed responsibility for an attack on Santa Maria Catholic Church in Istanbul, which left one man dead and also led to the rounding up of Tajik citizens accused of committing the crime. Hurriyet reported that as part of the investigation into the attack on churchgoers, captured militants disclosed plans for what was intended to be an assault on the Moscow shopping centre. This intelligence, it said, was shared with Russian authorities, who then ensured the attack could not take place.

In April, amid fears that ISKP has recruited substantial numbers of radicalised Tajik citizens for terrorist operations, Turkey abolished its visa-free entry arrangements for Tajik nationals. Two days after the Crocus City Hall attack, Russian newspaper *Izvestia* reported sources as saying that two of the four Tajik gunmen alleged to committed the terrorist assault on concertgoers probably received instructions for the armed attack when they travelled to Turkey.

It's important to note that the hierarchy of ISKP is loosely arranged. The group is known to have told militants sympathetic to it that it will claim responsibility for any attack carried out on its behalf. ISKP

"Since the Crocus City Hall attack, Turkey has detained hundreds of individuals on suspicions that they have ties to Islamic State" has also encouraged sympathisers, who are not trained terrorists, to carry out attacks based on their own evaluations and decision-making. Such a reality can make it impossible to identify the instigator of an atrocity.

bne IntelliNews has observed that when looking more closely at how Turkey is used by jihadists, it can be seen that the country has, since 2011 when the Syria and Libya conflicts ignited, turned into a "jihadist hub". And some jihadist groups, backed by the Turkish government, have fought Russia's proxies in Syria and Libya.

"Turkey is a three-ring circus for all jihadist organisations from around the world," wrote this publication's correspondent. Just like all of the other international jihadist organisations, ISKP has networks in Turkey and has in fact carried out two headline attacks in Istanbul.

Since the Crocus City Hall attack, Turkey has detained hundreds of individuals on suspicions that they have ties to Islamic State.

Also following the attack, there was a spike in xenophobic behaviour from Russians towards Central Asian migrants in Russia. In many cases that backlash has not abated, as indicated by a June 19 report from Tajikistan's Asia-Plus.

Russia's State Duma has passed a bill in its first reading that grants police the authority to decide on the expulsion of a foreign citizen from the country, according to the report.

In Moscow, internal affairs ministry officials were preparing to deport 1,500 migrants following the conducting of "Operation Illegal", targeted at more than 6,000 locations, it added.

The publication also referred to continuing reports of Tajik citizens arriving from Dushanbe at Moscow's Vnukovo Airport being denied entry and placed in a border control zone for several days.

### Bulgaria's Gerb wins snap general election amid record-low turnout

### Denitsa Koseva in Sofia

he Gerb party, led by former prime minister Boyko Borissov, won the June 9 snap general election and European Parliament election in Bulgaria, amid the lowest-ever turnout of slightly over 30%.

Gerb now seems to be in a position to form a coalition government with the Movement for Rights and Freedoms (DPS) and populist There Are Such People (ITN).

Exit polls show that the race for the second place is tight between reformist pro-Western Change Continues-Democratic Bulgaria (CC-DB), the DPS and the far-right pro-Russian Vazrazhdane party.

Gerb won between 26 and 28% of the votes, while CC-DB – its former partner in the previous parliament – got between 15.4% and 15.7%, while the DPS has between 14.3% and 15.6%. Vazrazhdane is close with between 13% and 14.7%.

Two more parties are passing the 4% threshold – the pro-Russian Bulgarian Socialist Party (BSP) with between 8% and 9.8% and ITN with 5.8-6.7%.

There is a possibility that another far-right pro-Russian formation could also pass the threshold and make it into parliament. According the partial vote count, Greatness will enter the parliament and will have 11 MPs, despite being under investigation for illegal paramilitary training and frauds related to acquisition of property.

The biggest loser of the sixth general election since April 2021 is CC-DB, which lost the most votes compared to the previous election held in April last year.

CC-DB lost nearly 10% of its voters compared to April 2023, while Gerb lost just 0.6%. Support for Vazrazhdane has increased by 0.5% and that for DPS increased by 1.5%. The BSP and ITN also got more support compared to the previous election.

"We heard you. We shall be a constructive opposition in parliament to the plans of Borissov and [DPS co-leader, the Magnitsky sanctioned Delyan] Peevski to drag us back to the times of the lean pizza and the



Boyko Borissov / www.shutterstock.com

racketeering," Kiril Petkov, co-leader of CC, wrote on Facebook.

CC-DB has already said it would no longer work together with Gerb and DPS after its bad experience in the previous parliament.

Peevski, on the other hand, thanked voters and said he personally will take on the responsibility given to the party by its voters.

While a three-party coalition is highly likely after the June 9 vote despite the low turnout, President Rumen Radev said that if the country continues to be governed by "unprincipled coalitions, a political alternative will appear sooner or later", indicating that he could develop his own political project.

Radev has been associated with the possible creation of political project after his closest associates established the Third March national movement. Radev did not confirm directly that he intends to form his own party but that is widely expected by analysts and politicians. He also accused politicians of "ruthlessly stripping off their coverups" to show their true faces. He accused all parties of putting their own interests ahead of the public interest.

Although Radev's rating decreased significantly after the Russian invasion of Ukraine and his u-turn towards Russia, he still is the politician with the highest rating in the country – around 35%. If he launches his own project, it could significantly change the political landscape and bring Bulgaria firmly back into Russia's orbit.

Bulgarian parties gained similar results in the vote for European Parliament on June 9 with Gerb leading with around a quarter of the votes followed by CC-DB, the DPS and Vazrazhdane. The turnout was also low.

"Not a single second since 1879 has the majority of Bulgarians wanted to live like Europeans. They wanted to live like animals: the strong man to decide what the life of the weak should be," prominent political analyst Evgenii Dainov wrote on Facebook. "Bulgarians who want to be Europeans have always been a minority. From time to time, they became a large minority, and even received electoral support. But then always, always, the notorious second mind of the Bulgarian worked. And he has kicked his pro-European representatives out of power in order to put power back in the hands of those who treat him like an animal. Today we saw another episode," he added.

PR expert Lubomir Alamanov commented that all political formations contributed to the low turnout with their actions. He called on CC-DB to carry out a profound analysis of its poor result and what led to it, saying that the coalition made significant mistakes, especially in its communications with voters.

Although a Gerb-DPS-ITN coalition seems highly possible, multiple analysts noted that a new snap vote in autumn is not excluded as Borissov might not want to enter into an official coalition with the DPS.

# EU to officially begin accession negotiations with Moldova on June 25

#### **Iulian Ernst in Bucharest**

uropean Union ambassadors agreed on June 15 to start accession negotiations with Ukraine and Moldova, the Belgian EU presidency said quoted by Reuters, adding this would take place at intergovernmental conferences on June 25.

The Commission said a week ago that both countries met all the criteria for accession negotiations formally to begin.

"It is a significant step on Moldova's path to the European Union," President Maia Sandu commented.

While the accession negotiations are

complicated and will probably take longer than expected, the beginning of the process is an important political message of support for Moldova's pro-EU President Sandu, who seeks to gain another term on October 20. As a counter-reaction, Russia is expected to step up the support provided to its allies in Moldova.

A public referendum on adding the pro-EU orientation of the country to the

constitution will be held on the same day as the presidential elections.

Pressures from pro-Russian political forces are likely to increase in the coming months. Fugitive oligarch Ilan Shor, condemned in Moldova to 15 years of prison for financial crimes related to billion-dollar frauds, is organising the Pobeda (Victory) political bloc in Moscow with the support from members of his banned Shor Party

"It is a significant step on Moldova's path to the European Union"



Moldova received candidate status for EU membership in June 2022.

and from the governor of autonomous region Gagauzia, Evghenia Gutul.

Former president Igor Dodon's Socialist party is less radical, and targets the moderate pro-Russian electorate. Notably, the separatist Transnistria region has kept a low profile since Russia invaded Ukraine in 2022, avoiding direct conflicts with Chisinau. This complicates the efforts of the radical pro-Russian faction controlled by Shor, who could use the financial system of the separatist region to bring in Moldova the money needed to finance his political vehicles.

The pro-EU parties in their turn have signed a political agreement with no binding provisions but the political effect of boosting Sandu's odds in the October 20 presidential elections in exchange for participation in a potential pro-EU parliamentary majority after the general elections next year.

On March 3, 2022, Moldova submitted an application for membership in the EU.

On June 23, 2022, Moldova received candidate status for EU membership.

Less than a year and a half later, on November 8, 2023, the European Commission recommended that the European Council begin negotiations on the accession of Moldova and Ukraine to the EU. •

### North Macedonia elects new prime minister after flooding temporarily halts proceedings

### bne IntelliNews

he parliament of North Macedonia elected Hristijan Mickoski as the country's new prime minister late on June 23, after a two-day heated debate and a halt to the session due to a power outage caused by heavy rains.

77 MPs backed Mickoski's government and 22 voted against. The European Front left the session before the vote, saying this government would not be legitimate as it does not represent ethnic minorities.

Following his victory in the May elections over the Social Democrats, Mickoski received the mandate to form the new government from President Gordana Siljanovska Davkova on June 6.

The Your Macedonia coalition led by

VMRO-DPMNE will have 15 ministerial positions, including three vice prime ministers, as reported by *bne IntelliNews* earlier this week. The ethnic Albanian Vlen coalition will oversee five ministries and have one vice prime minister, while the ZNAM party, led by Maksim Dimitrievski, will have two ministerial portfolios.

The new government has a total of 20 ministries and the government has 24 members. Mickoski has five deputy prime ministers, one of whom will be first deputy prime minister.

Key appointments include Pance Toskovski for minister of internal affairs, Timco Mucunski for foreign affairs and foreign trade, and Gordana Dimitrieska Kocoska for finance. Aleksandar Nikolovski is proposed as deputy prime minister and minister of transport, while Vlado Misajlovski will oversee the ministry of defence.

Other significant appointments include Zlatko Pirinski for minister of local self-government, Sanja Bozinovska for energy, mining and mineral resources, and Cvetan Tripunovski for agriculture, forestry and water management. VMRO-DPMNE's coalition partners, the Socialist Party and the Democratic Party of the Serbs, will hold vice prime minister positions responsible for political systems and community relations, to be held by Ljupco Dimovski and Ivan Stoilkovic, respectively.

Other ministers include Stefan Andonovski for information society and



North Macedonia's new government headed by VMRO-DPMNE leader Hristijan Mickoski. / sobranie.mk

digital transformation, Borko Ristovski for sports, Zoran Ljutkov for culture and tourism, and Vesna Janevska for education.

Mickoski has pledged to use the constitutional name of the country,

North Macedonia, internationally, but he has said that domestically he will continue to refer to the country as Macedonia, as has been customary.

Greek officials have issued multiple warnings against the use of the old

name "Macedonia" after Siljanovska Davkova omitted the word "North" from the country's official oath in parliament.

Despite the controversy over the country's name, changed to end a dispute with Greece that had blocked North Macedonia's EU access progress, Mickoski said that securing EU membership would be the primary focus of the government.

Highlighting the priorities of his incoming government, Mickoski stressed a strong stance against crime and corruption as a top agenda item.

Mickoski announced plans for a substantial foreign investment in renewable energy within the first few days of his government's tenure, aimed at achieving energy independence for North Macedonia. The investment is valued at €400mn-€450mn. ●

### New Croatian MEP arrives in Ferrari to "represent the little man" in Brussels

### bne IntelliNews

fippo Bartulica, the first MEP elected from the rightwing Homeland Movement, caused a furore when he arrived at his party's headquarters in a red Ferrari, before pledging to "represent the little man" in the European Parliament.

Photos widely published in the Croatian media show the politician's red sports car parked outside the Homeland Movement's campaign headquarters in the International Hotel on the evening of June 9.

Addressing party members gathered to celebrate the party's first MEP seat, Bartulica said that he will represent "the little man" in the European Parliament, not European bureaucrats.

Expanding on his agenda, Bartulica said his motto will be "Croatia first", and he plans to focus on migration. "My big topic will be borders. Every country is sovereign and must be able to decide who to let in. We know that the asylum system is abused, that must change," said the politician, as quoted by Jutarni List. He also referenced the victories for rightwing and far right parties in the elections which saw French President Emmanuel Macron's Renaissance party humiliated by a victorious far-right National Rally.



Photos of Stjepo Bartulica's red Ferrari have been posted widely on social media. Croatia's 24Sata reported that the car in question cost €348,000. Source: 24Sata via Twitter.

"Sovereignist movements are growing all over Europe, we see, and the Homeland Movement is growing on that wave," said Bartulica.

He did not comment on his choice of vehicle.

Minister of Agriculture Josip Dabro of Homeland Movement told RTL: "I don't understand that gesture, at first I thought it was a joke, a mockery, but I don't know what the message is ... you should ask him."

Days before the election, Bartulica was embroiled in a scandal when Index.hr revealed that he had purchased a €300,000 villa on the island of Prvic. According to his declaration he and his wife earn €3,600 euros a month, which with loan repayments of €3,562 would leave them with just €38 a month to live on.

As reported by Index, Bartulica then announced on June 6 that he pays his daily living expenses with money his mother gives him.

Bartulica did refer to the revelations during his speech, claiming he had been the victim of a "dirty campaign".

"Everything I have acquired, I have acquired in an honest way, I have nothing to apologise for," he said.

President of Homeland Movement Ivan Penava also talked of a dirty campaign.

Despite this he said, "We confirmed our status as the third force in Croatia."

Final results for the election put Homeland Movement in third place with 8.82% of the vote, after the senior ruling Croatian Democratic Union (HDZ) and the Social Democratic Party (SDP).

In Croatia, Homeland Movement is the junior partner of the HDZ, but is positioned further to the right of its partner. It is not yet known whether Homeland Movement will opt to join the rightwing European Conservatives and Reformists (ECR) or the more extreme Identity & Democracy (I&D) group in the European Parliament.

## Kosovo's new Tony Blair statue mocked for likeness to ex-Neighbours actor

### Valentina Dimitrievska in Skopje

As Kosovo commemorated the 25th anniversary of its liberation from former Yugoslavia on June 12, a statue of former British prime minister Tony Blair, a key figure during the Nato operation that ended the 1998-99 war, was unveiled in the city of Ferizaj.

The statue was intended to honour Blair, but in the days since its unveiling pictures have been widely shared on social media with users commenting on its uncanny likeness to Australian actor Jason Donovan, best known for his role in the soap Neighbours.

One wrote on social networks, "That's Jason Donovan..."

The statue, crafted by sculptor Agon Qosa, stands in Blair's eponymous square adjacent to Martyrs' Square, symbolising his legacy intertwined with Kosovo's liberation history.

"Among foreigners he [Tony Blair] is the most welcomed person among us. With this joy, we decided to erect this statue," Qosa said.

During the unveiling ceremony, Agim Aliu, the mayor of Ferizaj, described the newly erected statue of Blair as a symbol of Kosovo's enduring freedom and pride, Kosova Press reported.

Former British press secretary Alastair Campbell took to X network to comment on the unveiling of Blair's statue in Kosovo. He remarked: "Statue of Tony Blair unveiled in Kosovo ... not sure where if anywhere statues will be raised to any of the five PMs who have taken our country backwards in the last 14 years."

Kosovo President Vjosa Osmani, during a meeting with Blair on June 10, acknowledged his pivotal role in Kosovo's history.

Blair visited Pristina on June 10, just two days before the unveiling ceremony, the day marking the 25th anniversary of the withdrawal of Serbian forces, which occurred after a 78-day Nato bombing campaign that concluded the conflict between Serbian forces and fighters from the Kosovo Liberation Army (KLA).

"His legacy echoes through time and generations. Sir Tony Blair, a champion of our freedom," Osmani stated on X network.

During the visit, Osmani gifted a crystal stone to Blair. "A crystal stone for the great friend of Kosovo Tony Blair, in continuation of the tradition of the Historic President Dr. Ibrahim Rugova," she said.

During a speech delivered at the parliament of Kosovo on June 10, Blair expressed his pride in advocating for the small country's liberation.

"It's a great honour to be here today, and I'm deeply grateful for your hospitality. On this day, an agreement was reached to free Kosovo from invading forces. Kosovo finally regained its freedom. Its people could once again dare to dream and hope," Blair remarked.

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At least 15 policemen are dead and over 20have been wounded in a terrorist attack in Russia's southern region of Dagestan. / bne IntelliNews

## Dagestan rocked by a series of terrorist attacks

### bne IntelliNews

he Russian region of Dagestan has been rocked by a series of shooting incidents that have left more than 15 policemen and two assailants dead, the region's interior ministry said, as well as a Russian orthodox priest who had his throat cut according to several reports. Attacks were mounted on sites including a synagogue and two churches.

"According to the information I received, Father Nikolai was killed in a church in Derbent, his throat was cut. He was 66 years old and very ill. Security guard Mikhail in the Makhachkala-1 church, armed only with a gas pistol, was shot. The priests locked themselves in the church, waiting for help," the chairman of the Public Monitoring Commission of Dagestan, Shamil Khadulaev, said in a post on social media. A second shooting incident reportedly broke out at 8pm local time and all roads into and out of the seaside town of Derbent where the shootings happened have been closed as the Rosgvardia national internal security troops arrive in the city to bring order.

"Six gunmen were killed. Further operative and search and investigative action will continue until detecting all the participants of sleeper cells, which were definitely prepared in particular from abroad," head of the region Sergey Melikov said.

The governor said a total of six "bandits" had been "liquidated."

Video posted on social media by the authorities show several men clad in black and bullet proof vests firing machine guns at police at 6pm local time. Another video showed at least two of the assailants apparently dead on the road, while separate video showed

"Dagestan has seen occasional violence, but it never suffered from the full-scale Islamic revolt that led to two secessionist wars in neighbouring Chechnya in the 1990s." at least two more attackers detained by police on the nearby Beryozka beach. Other attackers reportedly fled in a car after the attack on the synagogue.

"Unidentified people fired at a synagogue and a church with automatic weapons," the interior ministry said according to local media. "One police officer was killed and one injured." Reports say two of the assailants shot two policemen guarding the local synagogue in Derbent before throwing Molotov cocktails inside and setting the building ablaze.

As far as is known, there were no worshippers in the synagogues at the time of the attack, and there are no known casualties among the Jewish community, the Jerusalem Post reports.

A total of 13 people were wounded in the first attack, the interior ministry was quoted as saying by Russian news agencies. A third police officer was killed in a shootout following an attack on a police station in the regional capital of Makhachkala, 125km away from Derbent, where more fighting is reported.

Unknown assailants attacked a traffic police post, killing one police officer and injuring six others, according to TASS.

According to a source from Telegram channel 112, the death toll was higher: nine people died, of which seven were police officers, and another 25 people were injured, RFE/RL Russian service reports. There is no official confirmation of this information.

A second attack reportedly broke out at about 8pm local time. A major antiterrorist operation in the enclave on September 19 has been declared by the authorities in the region.

Dagestan is predominantly Muslim, but Derbent is home to an ancient South Caucasus Jewish community and a UNESCO world heritage site.

Russia has long suffered from a terrorism problem, but there have been no major attacks until the Crocus

City Hall attack mall on March 22 this year when terrorists from Tajikistan in Central Asia under the banner of the Islamic State – Khorasan Province (ISIS-K) that left over 140 dead.

State news agency TASS cited a law enforcement source as saying the "gunmen who carried out attacks in Makhachkala and Derbent are supporters of an international terrorist organization," without naming it. Militants from Dagestan are known to have travelled to join the Islamic State group in Syria. ISIS declared it had established a "franchise" in the North Caucasus in 2015.

The allegiance of the attackers in Dagestan has not been determined, however, according to N12 and Jewish community reports the attack was carried out by ISIS, the Jerusalem Post reports.

In Makhachkala, the attackers of the synagogue left writings on the door, one of them is "2:120". This is a reference to the second Surah of the Qur'an: "Never will the Jews be pleased with thee. nor yet the Christians, unless thou follow their own creeds. Say, "God's guidance is the true guidance". If you were to follow their desires after what has come to you of knowledge, you would have against Allah no protector or helper". One of the terrorists who was killed by the Russian National Guard in a shootout is believed to be Gadzhimurad Kagirov; a 28-year-old MMA fighter from Makhachkala and a member of Eagles MMA, an organization and fighting gym established by former UFC lightweight champion, Khabib Nurmagomedov.

Two of the sons of Magomed Omarov, the head of Dagestan's Sergokalinsky district were reportedly amongst the attackers. Omarov was detained by police, state news agencies reported, citing law enforcement agencies.

Dagestan has seen occasional violence, but it never suffered from the full-scale Islamic revolt that led to two secessionist wars in neighbouring Chechnya in the 1990s.

Dagestan last made the headlines in 2023 after a crowd stormed the local airport in an attempted pogrom against Jewish travellers landing from Israel. No one was hurt in that incident.

Dagestan regional governor Sergei Melikov called the shooting an attempt to destabilise Russian society, according to RIA Novosti.

A three-day period of mourning was announced in Dagestan. ●



The attackers of the synagogue left writings on the door, Makhachkala.

# 78 countries sign limited communique at Ukraine summit in Switzerland

bne IntelliNews

two-day summit in Switzerland, dedicated to forging a path to end the war in Ukraine, concluded with key powers rejecting a limited joint communique that was agreed upon by more than 80 other countries and international organisations.

India, Saudi Arabia, South Africa and the United Arab Emirates, all of whom have significant trading relationships with Russia as members of the BRICS economic group, attended the weekend meeting but did not agree to sign the joint statement.

On June 16, over 80 parties signed the final joint communique of the peace summit, including EU institutions as well as the 78 country signatories.

The document reaffirmed the signatories' commitment to "refraining from the threat or use of force against the territorial integrity or political independence of any state, the principles of sovereignty, independence, and territorial integrity of all states, including Ukraine, within their internationally recognised borders".

However, the summit, held on June 15-16, narrowed its focus to three areas

from Ukrainian President Volodymyr Zelenskiy's original 10-point peace plan deemed to have broad international appeal: nuclear safety, food security and the complete return of prisoners of war and civilians held by Russia. None of the major issues concerning actual fighting made it into the final communique.

Zelenskiy stressed the importance of supporting Ukraine's territorial

"It is important that all participants of this summit support Ukraine's territorial integrity because there will be no lasting peace without territorial integrity"



Over 100 countries attended the Ukraine summit in Switzerland, but major emerging markets refused to sign even the watered-down version of the final communique. / European Union

#### www.bne.eu

integrity at a news conference held alongside leaders from the EU, Ghana, Canada, Chile and Switzerland. "It is important that all participants of this summit support Ukraine's territorial integrity because there will be no lasting peace without territorial integrity," Zelenskiy said.

More than 100 countries and organisations, predominantly from Western nations, gathered at the lakeside resort near Lucerne to garner support for the 10-point peace plan Zelenskiy first outlined in late 2022. The conditions include the complete withdrawal of Russian troops from Ukrainian territory, ensuring nuclear security, securing food supplies, the return of all prisoners of war, justice for war crimes, and environmental protection and prevention of escalation.

High-level dignitaries in attendance included leaders from Argentina, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Poland, Sweden and the United Kingdom. Vice President Kamala Harris represented the United States as President Joe Biden was busy with a fundraiser in the US ahead of national elections in November.

Ministers and advisors from various countries will convene further meetings to discuss the three focal points of Ukraine's peace plan deliberated at the Burgenstock summit, the Ukrainian Presidential Office announced.

"The next steps are to hold thematic talks on each item at the level of ministers and advisors. We already have the appropriate readiness for their organisation from a number of countries," deputy head of President Volodymyr Zelenskiy's office Ihor Zhovka wrote on Facebook.

According to Zhovka, Canada, Chile, Czechia, Finland, France, Germany, Kenya, the Netherlands, Norway, Poland, Qatar, Saudi Arabia, Turkey, the UK and the US have all expressed willingness to participate in these discussions. Following the thematic meetings, "we go out to the second summit that should lay the foundations of lasting and just peace," he added.

Notably absent from the list of signatories were Armenia, Bahrain, Colombia, India, Indonesia, Libya, Mexico, Saudi Arabia, South Africa, Thailand and the UAE.

Critically, none of the BRICS countries signed the communique, with China pitching its own 12-point alternative peace plan. China has been actively lobbying countries behind the scenes to sign up to its plan. Somewhat ironically, the three points agreed upon in Switzerland are also among the 12 points of China's plan.

There was also criticism of the peace summit from politicians that did not attend. "The so-called Switzerland 'Peace Conference', in quotation marks, is basically an alignment for war. And we do not agree with that," stated Colombian President Gustavo Petro.

Swiss President Viola Amherd stated that Russian President Vladimir Putin might be allowed to attend a potential negotiations on peace in Ukraine with Russia, this can be such an exception," Amherd told reporters following the summit's conclusion, adding that the Swiss government would need to adopt a decision on this matter.

The summit took place just days after the G7 countries agreed on a loan structure based on the size of their economies to provide about \$50bn in new aid to Ukraine, which may start to arrive by the end of this year. The deal is backed by the profits earned from the investments of \$280bn of frozen Central Bank of Russia (CBR) money in Europe.

The complete list of summit attendees consisted of: Albania, Andorra, Argentina, Australia, Austria, Belgium, Benin, Bosnia & Herzegovina, Bulgaria, Cabo Verde, Canada, Chile, Comoros, Costa Rica, Côte d'Ivoire, the Council of Europe, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Estonia, the European Commission, the European Council, the European Parliament, Fiji, Finland, France, Gambia, Georgia, Germany, Ghana, Greece, Guatemala, Hungary, Iceland, Iraq, Ireland, Israel,

"Notably absent from the list of signatories were Armenia, Bahrain, Colombia, India, Indonesia, Libya, Mexico, Saudi Arabia, South Africa, Thailand and the UAE"

second global peace summit despite an International Criminal Court (ICC) arrest warrant issued against him.

When asked if Switzerland would be obliged to arrest Putin, given its status as a signatory of the Rome Statute of the ICC, Amherd mentioned that exceptions could be made for him to appear in person.

"If the presence of [Putin] is necessary for holding the conference, then an exception can be made. In case of the Italy, Japan, Jordan, Kenya, Kosovo, Latvia, Liberia, Lichtenstein, Lithuania, Luxembourg, Malta, Moldova, Monaco, Montenegro, Netherlands, New Zealand, North Macedonia, Norway, Palau, Peru, Philippines, Poland, Portugal, Qatar, Republic of South Korea, Romania, Rwanda, San Marino, Sao Tome and Principe, Serbia, Singapore, Slovak Republic, Slovenia, Somalia, Spain, Suriname, Sweden, Switzerland, Timor Leste, Turkey, Ukraine, the UK, the US and Uruguay.



Russian President Vladimir Putin is welcomed to North Korea by its supreme leader Kim Jong Un. / Kremlin

# Putin visits North Korea to boost military ties

### bne IntelliNews

he Russian President Vladimir Putin is visiting North Korea and its supreme leader Kim Jong Un for the first time in 24 years, arriving in the capital Pyongyang on June 18.

bne IntelliNews already reported that Putin is set to strengthen diplomatic ties with North Korea and Vietnam the second stop on his trip that has been strongly criticised by the US — after he intensified war efforts in Ukraine and shook up his domestic defence establishment.

The Russian army has already used North Korean shells and ballistic missiles extensively in the full-scale military invasion of Ukraine, the quality of the former and the accuracy of the ammunition supplied were questionable, according to The Bell.

However, North Korea still possesses some of the largest global stock of artillery shells that can be used in Soviet-era systems.

Bloomberg also pointed to the most recent North Korean tests of

large-calibre guided missiles as a demonstration of new offence capabilities ahead of Putin's visit.

In an article published by the Kremlin and North Korean media, Putin said Russia "highly appreciates the DPRK's [Democratic People's Republic of Korea] unwavering support for Russia's special military operation in Ukraine, their solidarity with us on key international matters and willingness to defend our common priorities and views within the United Nations."

Russia is expected to provide North Korea with advanced military technology such as spy satellites and possibly even conventional arms such as tanks and aircraft, observers told *Bloomberg*.

In a sign that cooperation with North Korea will deepen, Putin is accompanied by the newly appointed Defense Minister Andrey Belousov, First Deputy Prime Minister Denis Manturov (responsible for economic policy and import substitution), Deputy Prime Minister Alexander Novak (responsible for energy policy), Foreign Minister Sergei Lavrov, as well as Russian space agency chief Yury Borisov and the head of Russian Railways, Oleg Belozerov, among other high profile officials.

Putin's visit to North Korea takes place less than a year after Kim visited Russia in September 2023. Previously, Putin visited Kim's father Kim Jong-il back in 2000, shortly after he became president of Russia for the first time.

"Russia has always supported and will continue to support the DPRK and the heroic Korean people in their opposition to the insidious, dangerous and aggressive enemy," Putin wrote in his article, referring to the US.

On arrival in North Korea, Putin pledged to Kim that the two will strike a new strategic partnership agreement.

"Last year, as a result of your visit to Russia, we made significant progress in building our interstate ties. Today, a new fundamental document has been prepared, which will form the basis of our relations for the long term," Putin told Kim, as cited by Tass and RBC business portal.

Notably, Putin seemed to confirm that the main goal of such an agreement would be to boost military ties. "The comprehensive partnership treaty signed today provides, among other things, for mutual assistance in case of aggression versus one of the parties to this treaty," Putin said.

Theoretically, any attack against Russian military in the ongoing fullscale military invasion of Ukraine, or attacks on the annexed Ukrainian regions, or strikes against infrastructure inside Russia, could thus be used by Putin as a formal reason for receiving North Korean military aid.

Indeed, Putin drew attention to recent statements by the US, European, and NATO officials supporting the use of Westernsupplied arms to be used for strikes on Russian territory. According to him, "this is a gross violation of the restrictions taken by Western countries within the framework of various kinds of international commitments," as cited by Tass.

### Russian warships dock in Cuba for Caribbean drills amid Ukraine tensions

### Marco Cacciati

fleet of Russian warships entered Cuban waters on June 12, setting the stage for upcoming military exercises in the Caribbean amidst heightened international tensions linked to the war in Ukraine. The arrival, marked by a ceremonial passage through Havana Bay with a flagship frigate adorned in Russian and Cuban flags, was greeted with 21 cannon salutes and a display of military honour.

The Admiral Gorshkov frigate led the procession, followed by the nuclearpowered submarine Kazan, partially submerged with its crew visible on deck. Accompanying them were a tugboat and a fuel ship that arrived earlier in the morning.

The warships' presence indicates Moscow's intent to assert strength in the region, amid escalating friction over increased Western support for Ukraine. The deployment, which includes a nuclear-powered submarine expected to follow, is seen as a strategic move by Russia to maintain influence in its longstanding allies, Cuba and Venezuela.

"The warships are a reminder to Washington that it is unpleasant when an adversary meddles in your near abroad," Benjamin Gedan, director of the Latin America Programme at the Washington-based Wilson Center think tank, told *The Associated Press*. "It also reminds Russia's friends in the region, including US antagonists Cuba and Venezuela, that Moscow is on their side."

While US officials have confirmed the fleet's presence poses no immediate threat to the United States, it underscores Russia's capability to project power into the Western hemisphere. The timing of the deployment, coinciding with diplomatic talks between Russian and Cuban officials in Moscow, further underscores the Kremlin's diplomatic manoeuvrers in the face of mounting Western pressures.

The fleet's visit also raises questions about potential implications for Venezuela's upcoming elections, as President Maduro – a close Russia ally – faces domestic challenges and historically low popularity ratings. Analysts speculate the fleet's presence could be leveraged to influence regional world to the brink of nuclear conflict.

The relationship between the two nations has strengthened in recent times. Cuban President Miguel Diaz-Canel's frequent visits to Russia, including his attendance at a military parade in May, underscore the deepening ties.

In March, Russia delivered 90,000 metric tonnes of oil to Cuba to alleviate

"The timing of the deployment, coinciding with diplomatic talks between Russian and Cuban officials in Moscow, further underscores the Kremlin's diplomatic manoeuvrers in the face of mounting Western pressures"

dynamics, intervening in Venezuela's long-running border dispute with Guyana in a bid to shore up support for Maduro and delay electoral processes.

The historical significance of Russia-Cuba relations, especially stemming from the Cuban missile crisis of 1962, looms large. This standoff erupted when the Soviet Union responded to US missile deployments in Turkey by stationing ballistic missiles in Cuba, bringing the shortages, while pledging support in various sectors from sugar production to infrastructure and renewable energy. In return, Cuba has consistently supported Russia on the international stage after Moscow launched its full-scale invasion of Ukraine in February 2022.

The Russian ships are scheduled to remain in Havana until June 17, gracing the port with their mighty presence amid tense geopolitical dynamics.



Russian warship Admiral Gorshkov frigate led the procession, followed by the nuclear-powered submarine Kazan, partially submerged with its crew visible on deck. / bne IntelliNews



President Yoon Suk Yeol (right) on June 13 speaks at a talk with young entrepreneurs at the U-ENTER Entrepreneurship Innovation Center in Tashkent. / Korea.net

## Uzbekistan, Korea prepare to take "special" relations to next level as presidents meet

#### bne IntelliNews

t is five years since relations between Uzbekistan and South Korea were elevated to a special strategic partnership, the only one that Seoul has in Central Asia.

South Korean President Yoon Suk Yeol was on June 14 preparing for a summit with Uzbek counterpart Shavkat Mirziyoyev that he said would attempt to build on those special relations with enhanced cooperation in critical minerals, supply chains and cutting-edge technologies.

In an exclusive written interview with Uzbek news outlet Dunya, he highlighted Uzbekistan's growth potential and underscored its importance as a strategic location helping to connect the continents of Asia and Europe. He also pointed to its abundant resources.

"Despite the global crises, I believe this is an opportunity to deepen economic cooperation between our countries, including in key minerals and supply chains," said Yoon, who is in Uzbekistan on the final leg of a three-nation Central Asia tour that first took him to Turkmenistan and then to Kazakhstan.

He added: "During this visit, we plan to discuss ways to substantively develop

bilateral relations in various fields, such as energy and infrastructure, health care, climate and environment, science and technology, and education.

"Korea hopes to build a Central Asian hub for advanced science and technology with Uzbekistan."

Yoon also reflected on Mirziyoyev's commendable record as a reformer and bridge builder, saying: "The Republic of Korea, which was once a country of absolute poverty, achieved

"Korea hopes to build a Central Asian hub for advanced science and technology with Uzbekistan"

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economic and social development by opening up to the outside world, liberalising its economy, and fighting corruption in close cooperation with the international community. Building on this experience, the Republic of Korea supports Uzbekistan's efforts in implementing reforms and, being a special strategic partner, will continue to collaborate closely in the social, economic, and democratic development of Uzbekistan."

He also noted: "Although geographically we are far from each other, nevertheless, we are connected by a long and friendly history of exchanging advanced scientific achievements and technologies."

Uzbekistan-South Korea trade moved up from \$1.9bn in 2021 to \$2.3bn in 2022 and 2023. South Korean investments in Uzbekistan have exceeded \$7bn. Around 170,000 Koreans live in the country, Central Asia's most populous with a population of more than 35mn, while over 500 Korean companies operate there, including household names such as Samsung, LG and Hyundai. The two countries have also established several free economic zones, such as in Navoi and Angren.

Accompanied by First Lady Kim Keon Hee and representatives from over 60 Korean companies, Yoon will on his visit attend a bilateral business forum. The visit is important to the launch of the Korea-Central Asia Initiative, also known as the K-Silk Road. Its programme includes efforts to secure the development of a trans-Korean railway (TKR) that would connect South Korea to the broader Eurasian Land Bridge, reducing overland shipping costs and boosting South Korea's export capabilities.

On the eve of the summit of the two presidents, Uzbekistan Railways signed an agreement with Hyundai Rotem for the purchase of electric trains.

Also on June 13, Uzbek Prime Minister Abdulla Aripov met with the heads of a number of leading Korean companies who will participate in the business forum. One of those was Shin Dong Ba, chairman of major conglomerate Lotte Group. Discussions centred on expanding joint projects.

At the meeting with the president of Exim Bank of Korea, Hee-sung Yoon, promising projects to expand cooperation in transport, green energy, mineral resources, education and medicine were discussed.

Aripov also held a meeting with the CEO of the Korea District Heating Corporation, Jeong Yongki. On the agenda were introducing cogeneration technologies and improving district heating systems, modernising existing plant and managing facilities according to the principles of publicprivate partnership (PPP).

On June 15, Yoon will visit the historic town of Samarkand on the ancient Silk Road. •

# Armenia is poised to exit Russian-led CSTO, says Pashinyan

### Ani Avetisyan

rmenian Prime Minister Nikol Pashinyan has signalled that Armenia plans to exit the Russian-led Collective Security Treaty Organisation (CSTO) defence pact. During a parliamentary Q&A session, Pashinyan, responding to opposition heckling, confirmed that leaving the CSTO was inevitable but the timing has still to be decided.

Pashinyan accused CSTO members of aiding Azerbaijan in its attacks against Armenia and Nagorno-Karabakh.

Opposition MP Tadevos Avetisyan questioned the government's role, prompting Pashinyan to assert that Armenian statehood was endangered due to its reliance on Russia and its CSTO ties. An opposition MP shouted, "then leave it [the CSTO]!" to which Pashinyan replied: "We will leave", stressing the need for a sovereign, safe Armenia with defined borders.

Foreign Minister Ararat Mirzoyan later clarified that the exact timing of the exit remains undecided.

Even though Armenia is a member of CSTO and Azerbaijan is not, members of the defence pact did not come to Armenia's aid during Azerbaijan's invasion in 2020 or in subsequent attacks, and nor did they even criticise Baku.

Armenia has downgraded its military links with Russia, asking Russian troops to leave Yerevan airport. It has also refused to take part in CSTO activities.

According to Article 19 of the CSTO Charter, members can withdraw after a six-month notice period. Despite Pashinyan's threats, the country has not yet initiated withdrawal procedures.



Prime Minister Nikol Pashinyan at his last CSTO meeting in 2022. / bne IntelliNews



Chinese, Kyrgyz and Uzbek experts discuss the details of the CKU railroad project during a field trip to Kyrgyzstan's Jalal-Abad Province in April 2023. More than a year later, many details remain unclear. / Kyrgyz Railways

### Kyrgyzstan, Uzbekistan & China: When is a done deal really done?

#### Eurasianet

he more officials from China, Kyrgyzstan and Uzbekistan try to provide clarity about a multibillion-dollar railway project, the more it appears to be a case of putting the train before the track.

Construction of the China-Kyrgyzstan-Uzbekistan (CKU) railway had long been planned, but little was done, mainly due to questions about financing. But in early June, the three countries' leaders unveiled a construction consortium to build the route, asserting that all the pesky details had finally been hammered out. There was one problem, however: none of the three countries immediately published the document that provided specifics on the consortium's operations.

China's State Council information service published a commentary by a former Kyrgyz prime minister, Djoomart Otorbaev, touting the project as capable of turning Central Asia into a trade hub. "The new railway [is] a beacon of hope and optimism," Otorbaev trumpeted. Days after the initial announcement, Kyrgyzstan's parliament published the agreement, which contains 13 provisions. The document portrayed the railway project as an outgrowth of the "long-term interests of the sides to develop strategic cooperation." While it shed light on the composition of the Kyrgyz territory, with Kyrgyzstan granting Beijing a degree of extraterritoriality, waiving visa requirements and taxation rules for Chinese workers and equipment engaged in the project.

According to a local media report, China had to upgrade Kyrgyzstan's debt rating to medium-risk from high-risk to open the way for financing the deal.

On June 18, the head of Kyrgyz railways, Azamat Sakiev, appeared at a Kyrgyz parliamentary hearing to answer MPs' questions about the project, which President Sadyr Japarov has described as a vital link connecting landlocked Kyrgyzstan to world markets.

Sakiev's responses during the twohour session resolved some questions but raised others. He did address the financing issue, but the numbers didn't seem to square. He pegged the overall construction cost at \$4.7bn, adding that the Chinese government had pledged to give the consortium a \$2.35bn lowinterest loan, covering about half the project's final bill. That loan, given the consortium's financing responsibility framework, would cover just about all of China's financing share.

Sakiev proceeded to say Kyrgyzstan would need to find \$700mn to cover its construction costs, a number that doesn't align with the country's 24.5% financing share. A quarter of the remaining estimated construction cost

### "While the start of the project seems set, the railway route remains uncertain"

construction consortium, it did not directly address the main issues of financing and construction timeline.

To no one's surprise, the document shows that China enjoys a controlling interest in the project, responsible for 51% of construction costs. Kyrgyzstan and Uzbekistan each have a 24.5% share. Chinese entities are given responsibility for the actual construction of the railway on comes to about \$576mn. An MP during the session said Kyrgyzstan might be responsible for contributing up to \$1bn to the project, a number that Sakiev did not challenge. He also revealed that Kyrgyzstan was negotiating with two Chinese banks to obtain a construction loan for an unspecified amount.

To muddle matters, an Uzbek media outlet, Spot.uz, reported on June 19

that the Uzbek and Kyrgyz obligations were each \$573mn, a figure more in line with the agreement's framework. While amounts have been floated, there have been no reports of any financing arrangements being finalised.

Sakiev reasserted what other Kyrgyz officials have said earlier, stating that railway construction would commence in October and would take six years to complete. Uzbek officials have also mentioned October as the start date.

While the start of the project seems set, the railway route remains uncertain. Most of the uncertainty concerns the Kyrgyz section of the railway, which will commence in the western Chinese city of Kashgar, cross into Kyrgyzstan and terminate in the Uzbek city of Andijan. The gauge of the rails will widen at Makmal, in Kyrgyzstan, requiring cargo to be reloaded from one train to another.

The route through Kyrgyzstan will require the construction of dozens of bridges and tunnels, the exact number of which is apparently a matter of contention. The official Kabar news agency reported that the Kyrgyz sector will have 81 bridges and 41 tunnels. But the Tazarbek news service pegged the numbers at 95 bridges and 48 tunnels. Sakiev said construction will consider the potential impact on local environments, stressing the Kyrgyz section will not traverse any nature reserves. Kyrgyz MPs were highly critical of the agreement provision allowing for Chinese contractors to build the entire route. One MP, Baktybek Sadykov, insisted both Kyrgyz and Uzbek companies were capable of doing the work, saying it was "deeply offensive" that they are precluded from gaining contracts. •

This article first appeared on Eurasianet.

### "Recruiting ground" for jihadist terrorists Tajikistan bans hijab

### bne IntelliNews

a jikistan's parliament has passed a bill banning the hijab. In stark contrast to fellow Persian-speaking nation Iran, where theocratic hardliners notoriously enforce the wearing of the Islamic headscarf by women in public places, Tajikistan's regime has moved against the hijab – as well as other traditional items of Islamic clothing that officials associate with "extremists" – with legislation that takes aim at "alien garments".

The bill, which is focused on "national traditions", will become law once signed by Tajik strongman Emomali Rahmon, who appears intent on counteracting the country's growing image as a font of Islamic militantism. Following a series of terrorist attacks in countries including Russia, Iran and Turkey that appear to have involved radicalised Tajik nationals striking targets on behalf of Islamic State affiliates, many Western media outlets and politicians have taken to describing Tajikistan as a fertile recruitment territory for jihadist terrorists.

The legislation, voted through by the upper house on June 19 following

lower house approval given on May 8, also bans traditional children's doorknocking and other children's activities associated with two major Islamic holidays, Eid al-Fitr and Eid Al-Adha, known as idgardak.

For those in public sector jobs, trading at the bazaar or in higher education, informal bans have long existed in Tajikistan on the wearing of hijabs by women and the wearing of bushy beards by men. The move to make the hijab ban formal will be seen in the context of the Rahmon adminstration's floundering attempts to convince the outside world that it has Islamic radicalism under control.

Those efforts were dealt a massive blow in late March when more than 140 people were slaughtered in a terrorist attack on the Crocus City Hall concert venue in outer Moscow. Four Tajik work migrants, accused of being the gunmen who committed the atrocity in the name of Afghanistan-based Islamic State Khorasan-Province (ISKP, or ISIS-K), are in pre-trial detention. Rahmon is renowned for tightening the screws of repression in the face of phenomena that threaten his authority.

All forms of religious expression have to conform with beliefs explicitly endorsed by the state. However, some analysts conclude that it is the lack of political pluralism and economic opportunity in what is Central Asia's poorest state that typically drive Tajik citizens into the radicalising arms of terrorist and militant groups, rather than crackdowns on religion.

Writing for Foreign Affairs, Central Asia scholar George Washington University professor Marlene Lauruelle, lately contended that "social marginalisation" is a stronger driver of militantism among Tajiks than "religious fervour."

A continuing crackdown on Islam in Tajikistan "will not end rural poverty, the humiliating lives that migrants lead, the lack of economic opportunities, the dissatisfaction of young people, or the difficulties migrants face integrating into host societies," Lauruelle cautioned.



It is time for Ukraine's partners and allies to provide Ukraine with "all the weapons necessary for the Ukrainian defence forces need to win", said Zelenskiy at the Berlin Recovery Conference, but compared to last year's conference, this one was more about surviving. / bne IntelliNews

## A downbeat Berlin Recovery Conference highlights that Ukraine is increasingly in survival mode

### **Ben Aris in Berlin**

Opinior

t is time for Ukraine's partners and allies to provide Ukraine with "all the weapons necessary for the Ukrainian defence forces to carry out the full de-occupation of the country's territory", President of Ukraine Volodymyr Zelenskiy said at the Berlin Recovery Conference on June 11.

"Hasn't the moment come for the partners to provide us with all the weapons needed to throw the Russian forces away? It has come," he said at a joint press conference with Chancellor of Germany Olaf Scholz.

The annual event is a chance for Zelenskiy to address the international community in a forward looking event, but Ukraine has been bogged down in an increasingly difficult position as Ukraine runs low on men, money and

materiel and is losing ground to an intensified assault by Russian forces.

As bne IntelliNews reported, the Western strategy has to make sure Ukraine does not lose the war but it has not given it the support to win. Zelenskiy has clearly become increasingly frustrated and continues to demand "Israeli levels of support," an appeal that has been falling on deaf ears. The deteriorating situation Kyiv finds itself in was reflected in the agenda of the conference, which focused more on Ukraine's survival than gathering resources for the eventual rebuild that was the theme at the London Recovery conference last June.

Zelenskiy told delegates that he was confident that the country can restore energy facilities that have been damaged

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and destroyed by Russia since the start of this year before the winter sets in.

As bne IntelliNews reported, 35 GW of Ukraine's 55 GW of installed capacity of power generation has been destroyed or put out of action since the start of this year, raising fears over how the country can get through the coming winter. As many of the facilities cannot be fixed by the start of the heating season in November, Ukraine will be forced to increase imports of power from the EU, but the size of the energy deficit is such that even with preparations before the winter, the most the EU can do is halve the number of blackout hours in the high demand period of the day.

Thanks to tardy US financial support that ended with a new \$61bn aid package on April 20, Ukraine has almost run out of air defence ammunition that has left its power sector unprotected and vulnerable to attack. Russia launched a barrage in March that has destroyed half of Ukraine's power sector and rolling blackouts have already been introduced in a dozen regions.

Zelenskiy emphasised the urgent need for more air defences to protect Ukraine's power infrastructure, but according to battlefield reports, the new ammunition is only arriving slowly. In particular, Bankova has called for fresh batteries of Patriot missiles, but rather than taking replacements from its stockpile, the US has simply ordered more from manufacturers that are working to fulfil those orders now, but will take months to fulfil.

Scholz said that Germany will soon provide Ukraine with a third Patriot system, IRIS-T installations, Gepard (Cheetahs), missiles and ammunition.

"Ukraine's most important need right now is ammunition and weapons, especially air defence. Therefore, over the coming weeks and months, we will supply Ukraine with the third Patriot system, IRIS-T installations, Cheetahs, missiles and ammunition," he said at a conference on the reconstruction of Ukraine. Since February 24, 2022, Germany has provided Ukraine with €30bn of military aid, as well as billions in humanitarian aid.

Zelenskiy highlighted Russia's air superiority as its "greatest strategic advantage" in the ongoing conflict and reiterated his appeal for at least seven Patriot defence systems. German Chancellor Olaf Scholz announced that Berlin would send its third Patriot air defence system to Ukraine, alongside IRIS-T and Gepard anti-aircraft systems, missiles and ammunition in the coming weeks and months. However, these fresh supplies will not be enough.

Zelenskiy repeated earlier comments saying that Ukraine needs at least seven Patriot air defence installations in order to close the main cities in the near future, but Ukraine's Foreign Minister Dmytro Kuleba said earlier this year that Ukraine actually needs a total of 22 to provide adequate protection. The contrast between the two numbers was another confirmation of the survival mode thinking that marred the Berlin conference discussions.

"80% of thermal generation in Ukraine, and one-third of hydroelectric generation, have been destroyed by Putin. And this is not the limit of his terror," Zelenskiy told delegates, adding that Russian missile and drone attacks have destroyed 9 GW of Ukraine's energy capacity. Last winter, peak energy consumption reached 18 GW, meaning "half of that is gone now," according to Zelenskiy.

Zelenskiy said that Ukraine, with the help of partners, intends to build up to 1 GW of gas-fired flexible generation in 2024 and another 4 GW in the coming years, which will only partially close the gap Russia has created.

More recently Russia has started to target Ukraine large underground gas storage tanks that link Ukraine's energy system with Europe's. However, as these tanks are underground they are almost impervious to attack, although the pipeline links and compressor stations have been damaged.

"We must also implement a quick and inexpensive restoration of all energy facilities that can be restored before winter... We know how to ensure this," Zelenskiy said. He asked allies for equipment from decommissioned power plants and direct financial support to "preserve normal life." Kyiv plans to sign hundreds of agreements worth billions of euros with partners in the defence and energy sectors, Zelenskiy added. European Commission President Ursula von der Leyen

### "The new agreements consist of €1bn in credit guarantees and €400mn in mixed financial grants"

announced at the conference that Kyiv would receive €1.5bn from Russian frozen assets revenue in July, and €1.9bn under the Ukraine Facility this month. "About €1.5bn of windfall revenue will be available as early as July – 90% of them will go to defence, 10% to restoration," she said.

"The new agreements consist of €1bn in credit guarantees and €400mn in mixed financial grants," the Ministry of Economy of Ukraine said.

### Change of tone

This year's Recovery conference was a lot more downbeat when compared to the London recovery conference held in London last June. At that event several prominent international leaders attended including US Secretary of State Antony Blinken in a show of solidarity. This year's attendance was much thinner.

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The disappointing muted tone of the Berlin conference of the Berlin Recovery conference is a prelude to the Swiss international Ukraine peace conference to be held next month, that is already considered to be a flop after key players like China and the Kingdom of Saudi Arabia (KSA) have said they won't attend and India has downgrade its presence to sending some low level diplomats. Even US President Joe Biden has skipped the event, preferring to do an election fundraising event in California instead and sending vice president Kamila Harris in his stead.

The theme of last year's London Recovery conference was to persuade the private sector to step up and provide the hundreds of billions of dollars required to rebuild the country that has suffered around \$450bn worth of damage. That effort appears to have been abandoned completely as unworkable and there was little emphasis on attracting the captains of industry to this event. Instead of talking about the hundreds of billions needed, the EU's European Commission President Ursula von der Leyen offered a token €1.4bn that is less than the circa €5bn a month needed to cover the monthly budget deficits that Ukraine is currently running.

The parties also discussed Ukraine's expectations from the results of the Peace Summit in Switzerland, Zelenskiy said on X on Tuesday.

In separate conversations, fund managers and multinationals have told *bne IntelliNews* that while they agree that Ukraine has massive potential and many attractive sectors, investors require predictability and worry about the risk of renewed war.

"I would love to invest into Ukraine, but if there is a ceasefire than I think most investors will wait at least five years before committing, as they need to be sure that the war won't break out again in six months' time," one leading international fund manager told *bne IntelliNews* on the condition of anonymity.

Ukraine's international partners also remain very reluctant to seize the \$300bn of frozen Central Bank of Russia (CBR) reserve money, and earlier this year said that possibility was now off the table.

The US also seems to have accepted this decision and has proposed to use the profits earned by the frozen reserve money to back a bond issue of some \$40bn – a scheme that seems to be moving ahead. Nevertheless, while \$40bn is a significant amount, it remains well short of the hundreds of billions Ukraine will need to completely recover from the damage the war has inflicted on the economy.

Zelenskiy also said the shift to the right in the recent European elections was a problem for support for Ukraine as many of the right-wing parties are less keen to support Ukraine's struggle against Russia. "I think the most important thing is that when making their choice people do not just vote for some pro-Russian populist slogans. I think this is dangerous. Because this is dangerous not for Ukraine. We are already in the most dangerous situation: we are at war. The radical pro-Russian slogans also pose a threat to your own countries," Zelenskiy said.

### EU accession

The one positive development to have surfaced in recent weeks is the EU seems keen to accelerate the start of Ukraine's EU accession talks.

Zelenskiy said that Ukraine has fulfilled all the conditions for the start of negotiations on membership in the European Union and formal negotiations should begin in June.

"No matter how the political mood in Europe changes, the fact of our reality is that all Europeans, without exception, and every nation that shares the common values of the whole of Europe and wants to live like us, live in peace," he said during the opening ceremony of the Berlin conference. "Ukrainians are a nation like our neighbours in Moldova, like the people of Georgia, like the Balkan states and other states that respect Europe, freedom and the rule of law."

Zelenskiy also expressed confidence that "the time will surely come for a free Belarus. Belarus in Europe."

### Short-term needs

The Berlin recovery conference has produced nothing concrete that will materially improve Ukraine's position. The government is still living hand to mouth.

For the second year in a row, Ukraine is drawing up a budget with a record deficit, hoping to cover the bulk of this deficit with help from Western partners. This year it will amount to \$43.9bn, which is becoming increasingly difficult to raise in the face of growing and palpable Ukraine fatigue; the IMF mission to Ukraine, Gavin Gray, noted, over time, international support for Kyiv will diminish and the country's authorities need to "develop internal resources for selffinancing."

Ukraine's recovery will require external investments in the amount of \$10bn to \$30bn per year over the next ten years, the country's Prime Minister Denis Shmyhal said on social media following a Berlin meeting at the ministerial level for the first time.

"It is important for us that the support of partners is predictable, rhythmic and stable. We need restoration, access to foreign markets and improved logistics. We need external investment and technology transfer from our partners. Ukraine will need from \$10bn to \$30bn of annual investment in the next 10 years," he wrote in his Telegram channel following his participation in the donor session in Berlin. •

### COMMENT



### Azerbaijan's new strategy is to become a green energy hub

### Fuad Shahbazov in Durham

wo agreements signed at the end of May advanced Azerbaijan's efforts to establish itself as a key energy provider in Southeast Europe, going beyond its role as a producer of hydrocarbons to enter the electricity markets in the region as well.

On May 29, Azerbaijan, Georgia, Romania and Hungary signed a memorandum to create a joint venture as part of the implementation of the Black Sea Energy Caspian-Black Sea-Europe Green Energy Corridor project. The first agreement regarding the submarine cable was signed in 2022 and it is supposed to be fully operational in 2029. The Black Sea submarine cable will be 1,195 km long and is set to be an important pillar of the transition to green energy, with the plan to integrate it into the EU's internal electricity market. As an attempt to diversify energy supplies in response to Russia's war in Ukraine in February 2022, the Black Sea cable is of particular importance.

In this vein, Romanian power grid operator Transelectrica has signed a memorandum of understanding with Azerbaijan's energy operator Azerenerji, Georgia's State Electricity System, and Hungary's MVM to establish a joint venture for green energy located in central Romania overseen by Italian consulting company CESI S.p.A. Hence, the establishment of a new joint venture will facilitate trade in decarbonised energy, in the form of electricity and hydrogen, between the South Caucasus and the EU within the submarine cable project.

The project is of strategic importance for Azerbaijan as Baku puts enormous efforts into boosting its influence in the Eastern and Southern European energy markets, with an emphasis on its potential to produce and export green energy to Europe in addition to oil and natural gas. In 2024, the Azerbaijani government revealed plans to turn regions like Karabakh and Nakhchivan Autonomous Republic into a net zero emission zone by 2050. The plans were outlined ahead of the COP29, the largest climate event, in Baku in November 2024.

The promotion of a green energy strategy required Azerbaijan to demonstrate more commitment to switching to untraditional energy sources. Therefore, Baku opted to boost the role of local energy companies other than SOCAR in order to create a new brand for the future exports of electricity. As such, in the case of a recent agreement on the joint venture, Azerenerji, the largest electrical power producer in Azerbaijan, is set to be the main stakeholder. Such a decision enables Azerbaijan to decrease the role of SOCAR in the green energy transition while expanding the role of local energy bodies and organisations.

Azerbaijan is keen on obtaining a new role as an electricity exporter in addition to the long-term oil/gas exporter image. Indeed, the role of the green energy producer will be an additional asset for Baku, thus giving it more space for diplomatic manoeuvres, considering its uneasy partnership with the EU. Unlike the EU institutions, some individual member states like Bulgaria, Greece, Hungary and Romania, as well as non-EU member states, developed pragmatic partnership formats with Azerbaijan for additional volumes of gas and green energy imports.

"Azerbaijan is keen on obtaining a new role as an electricity exporter in addition to the long-term oil/gas exporter image"

For example, Romania has long been a leading energy partner of Azerbaijan through SOCAR Trading, a subsidiary company of SOCAR. As a result, In May 2024, Romania repeatedly expressed its willingness to import green energy from Azerbaijan within the framework of the long-term energy partnership. In addition to green energy produce and exports, Azerbaijan actively attracts foreign investments, mainly from



The electricity transmission system operators of Azerbaijan, Georgia, Hungary and Romania signed a memorandum of cooperation in May. / gse.com.ge



the wealthy Gulf states. Given the recent positive dynamics in this field, it is safe to note that Azerbaijan's Ministry of Energy became an influential governmental body in charge of green energy strategy, particularly intensive negotiations with foreign stakeholders.

In this vein, on June 4, the Minister of Energy Parviz Shahbazov, alongside the AzerEnerji Open Joint Stock Company, announced the laying of the foundations of the 445 MW Bilasuvar solar power plant, 315 MW Neftchala solar power plant, and 240 MW Absheron-Garadagh wind power plant in partnership with the United Arab Emirates (UAE). Consequently, unlike previous years, when SOCAR was the only state-owned company with unlimited influence and power in all energy-related projects, the Azerbaijani authorities have gradually enabled the emergence of relatively new state bodies to oversee the country's renewed energy strategy.

The strategy of diversification of energy management would pay off well as it significantly cut down SOCAR's duties, allowing it to focus more on gas exports to Europe. This seems to be a rational choice as Azerbaijan revealed plans to increase the transit of volume of natural gas up to 12bn cubic metres (bcm) by the end of 2024. ●

**Fuad Shahbazov** is a Chevening FCDO scholar at the University of Durham School of Government and International Affairs (SGIA).

### MACRO ADVISORY

### Moscow is playing a long gas game

### Chris Weafer CEO of Macro-Advisory

ighteen months have passed since the EU banned the import of Russian crude oil and refined products and Moscow has successfully managed to replace what was its biggest export market, Europe, with new customers in Asia and elsewhere. Having overcome obstacles such as the price cap sanctions and the need to make bi-lateral payment mechanisms more efficient, Russia is again exporting maximum oil volumes and while earning less from these exports, it is enough to support the budget and the economy.

The Kremlin has now switched its attention to the gas market. It wants to replace the almost lost European market with new customers in Asia and to diversify the export infrastructure with both new pipeline routes and with a much bigger content of more valuable LNG and LPG.

The reason why the focus has been mostly on the oil market since late 2022 is because that was a relatively easier fix. It required hundreds of small and mostly independent, or more accurate, opaquely owned oil tankers, the so-called "ghost tanker fleet," and flexible price setting. Achieving the same result with gas will not be so easy, or so quick. It will take between five and ten years, even assuming all goes as hoped, to replace the lost European volumes. But this is what President Putin wants to do before the end of what may be his last term as President in 2036.

The scale of the task is clear when one considers that while in 2021 Russia exported 167bn cubic meters (bcm) of natural gas to Europe, last year that volume had collapsed to 45bcm of which 28.3bcm went to EU member states.

In total, Russia exported 203.5bcm of natural gas in 2021

(18.7bcm to Belarus, 8.4bcm to other CIS states and 9.1bcm to Turkey). Last year that total was less than 100bcm. Deputy Prime Minister (DPM) Alexander Novak, who is also Putin's point man for OPEC+ and on geo-energy policy, said that the aim is to rebuild, and expand, gas export volumes steadily over the next decade to a target of 314bcm of natural gas, and close to 100mn tonnes of LNG (equivalent to 135bcm), by 2050, up from 34mn tonnes last year.

The main challenges to achieve these ambitious targets are a combination of sanctions and geography. The more immediate target is to sell more gas to neighbouring China and to the countries in Central Asia which are connected to the Soviet-era pipeline network, and which can be repaired and expanded relatively easily. The big new prize for the Kremlin is the Indian market which Putin has several times referred to as having much greater gas export potential for Russia than Europe had at the peak.

Unlike oil, Russia's gas exports to Europe are not affected by direct sanctions. It was a Russian initiative to shut off the Nord Stream 1 (NS1) pipelines before the newly constructed, but not yet in use, Nord Stream 2 (NS2) pipelines and one of the NS1 pipes were blown up. Russian gas to Europe now transits via the Turkish Stream 2 (TS2) pipeline snaking up the Balkans from the Black Sea-Turkey (Turkish Stream 1 – TS1) route and also uses the remaining Ukraine pipeline transit to customers in Slovakia, Czechia, Hungary and Moldova. TS2 carried just over 20bcm and the Ukraine route carried just under 15bcm last year.

Exports to Europe are expected to stay around the 45bcm level for the foreseeable future. The contract between

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Gazprom and Ukraine's Naftogaz to transit Russian gas will end this year and Naftogaz has made clear it will not be renewed. But the company has said it will carry Russian gas on behalf of customers in neighbouring Slovakia, etc, so a similar volume to last year (circa 14.65bcm) should continue.

Longer term, and completely depending on whether relations between Russia and the EU return to some form of pragmatism after the conflict ends, it is possible that the undamaged NS1 pipe could be used to carry approximately 20bcm of gas to Germany. But there is no realistic prospect of the three damaged pipes ever being used. The gas flow to Belarus and the Caucasus (approx. 27bcm) should also continue with Belarus taking most of it. Turkey has said it intends to diversify future gas imports, e.g. using more US LNG, but it should continue to take approximately 25bcm from Russia, via Blue Stream and Turkish Stream 1 (TS1).

China is the biggest medium-term target for Moscow. Last year, Russia exported approximately 25bcm to China via the Power of Siberia 1 (PoS1) pipeline. DPM Novak said that the full capacity of the route – 38bcm – should be reached by mid next year.

Therefore, for 2024 and 2025 Russia's natural gas exports to Europe should be 45bcm; to CIS states the volume should be 27bcm; to Turkey it should be 25bcm; and to China, a total of 38bcm. That is a total of 135bcm exported by pipeline and well below the almost 204bcm exported in 2021. More importantly, there is now a much higher percentage of exports sold to countries at a significant price discount to the previous exports to Germany and other EU states. Sales to Belarus and the other CIS states are at less than half the EU price and the sales to China will be at 75% of the EU export price in 2025. It means the monetary value of exports will be hit much harder than the volume decline.

### New markets

So, where does Moscow hope to find the new export markets? Some are known and others are in the "hoped-for" category. In the former category are additional routes to China and sales to Kazakhstan and Uzbekistan. In the latter is India.

In November 2023 Gazprom and the Chinese energy company CPNC signed a contract to build new, and a relatively short gas pipeline in the Far East. It will have a capacity of 10bcm and is planned to be operational by late 2027. In addition, it has recently been announced that Russia and China are exploring the possibility of upgrading the existing network in Kazakhstan to carry an additional 35bcm of Russian gas to China.

If the Kazakh transit route is agreed, then the Power of Siberia 2 (PoS2) will, at least, be further delayed. The 2,600km project, which has been under discussion between Moscow and Beijing for many years, has a planned capacity of 55bcm. Russian officials continue to say that a deal to commence the project is close but Chinese officials conspicuously remain quiet. Very likely the sticking points are the gas price (China will hold out for a big multi-year discount) and the construction costs.

Russia is also now focusing on both Kazakhstan and Uzbekistan as both countries are short of power generating capacity and



Moscow is on the hunt for new gas markets since it lost Europe. China and Central Asia are in easy reach and deals are already being done, but in the long-term India is the big prize. / bne IntelliNews

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both suffered from a shortage of gas for heating during the last two winters. Uzbekistan has now agreed to buy 12bcm of gas from Russia and is busy upgrading the pipeline network to accommodate this. Kazakhstan is yet to sign a long-term import deal but is also expected to purchase approximately 10bcm from Gazprom to cover its domestic deficit and to provide gas for President Kassym-Jomart Tokayev's promise to expand urban gasification across the country.

The new Central Asian contracts, along with the Far East pipeline, will bring Russian total exports up to just over 165bcm annually in three years. The proposed 35bcm Kazakh transit exports to China, or the PoS2 volume if that is greenlighted in preference, would get the total back over the 2021 export volume of over 203bcm. But the monetary value of such exports would still be a long way below the lost EU export earnings because of the need to offer discounts to achieve these new exports.

This is why the big prize for the Kremlin is direct access to the Indian market. There are two possible routes, either a pipeline via the proposed Iranian hub or via LNG exports, or a combination of both.

DPM Novak confirmed that Russia and Iran are working on a feasibility study to build a gas hub in the Gulf, offshore Iran and close to the South Pars gas field. The "provisional plan" under discussion is to swap Russian gas, piped to Northern Iran, with gas from South Pars to then either feed a direct sub-sea pipeline to Mumbai or to feed into a new LNG plant, possibly built in Oman to avoid sanctions both for the construction and for the buyers of the gas. Some refer to the project as an unlikely "pipedream" but President Putin wants it and medium-term commercial considerations will not be a decisive factor.

### LNG

The other part of the Russian gas recovery program is LNG. Partly in response to the sanctions threat, which became to the Kremlin from spring 2014, Yamal LNG was built. Managed by Novatek, it exported its first cargo in December 2017 – ironically this cargo was diverted to the UK to prevent a gas shortage crisis at Christmas in the country. Last year approximately half of Russia's total 33mn tonnes of LNG came from Yamal in the west of the country and the remainder from Sakhalin 1 and Sakhalin 2 on the east coast. Approximately 50% of the total LNG output was sold to the EU and the rest to Asian buyers.

Russia has previously set out a very ambitious plan to grow LNG exports to 100mn tonnes by 2030 and to 140mn tonnes by 2025. It had planned to add new projects in the Arctic (the LNG-2 project), in Murmansk and in Ust-Luga. However, the US imposed severe sanctions against LNG-2 last September aimed at blocking equipment supply, engineering support and foreign investment. In February this year those sanctions were expanded to include a ban on the building of new LNG tankers for any Russian project. The stated aim of the US is to cap Russian LNG production at close to last year's volumes.

Because the first (of three) train of LNG-2 is complete, it is expected that this will come into production and add 6mn tonnes of LNG this year. Officials say that the second train is almost ready and can be completed with equipment sourced from China. That should add another 6mn tonnes of LNG production, possibly by end this year or early in 2025. Beyond that, the sanctions will, at best, significantly slow new LNG projects at least until new LNG tankers can be built in Russian shipyards.

The bottom line is that Russia should be able to increase LNG exports from last year's 33mn tonnes to 38mn tonnes this year and to 44mn tonnes for 2025. But then production and exports are likely to be capped for several years. It is possible

"The new Central Asian contracts, along with the Far East pipeline, will bring Russian total exports up to just over 165bcm annually in three years"

that a slow delivery of new tankers and equipment may allow exports to growth to 55-60mn tonnes by 2030 but, with the current sanctions regime, even that seems optimistic.

There is no doubt that sanctions targeting the oil sector and Moscow's initiatives in the gas sector, have cost the Russian budget dozens of billions of dollars in lost export receipts. The transition in the oil sector is now over as volumes have recovered and the price discounting is at moderate levels. The gas sector transition has now started. It will be a lot slower and more expensive in terms of construction costs and price discounting than has been the case for oil. But the Kremlin is playing the long game and appears to accept that it will take a further decade to achieve its ambition of balancing the major gas export destinations, as is now the case with oil, between China and India.

Both are eager buyers and willing to side-step western sanctions because Russian oil and gas not only improves energy supply security – especially for China given the risk of sanctions or a trade blockade in the event of a conflict with the US over Taiwan – but adds to their respective global economic competitiveness as the oil and gas, which used to go to Europe and is now replaced with more expensive alternatives, is now heading their way and at a cheaper price. Given that gas will play an important role in global energy for a lot longer than oil, or coal, Moscow's gas strategy is a potential game-changer. •

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### PANNIER



### **Russia is pushing Turkmenistan out** of the natural gas market

#### **Bruce Pannier**

hy is it that Turkmenistan has been unusually active in recent months trying to find buyers for its natural gas? Close observation suggests that it is a somewhat anxious response to Russia's search to find new markets to replace lost gas revenues from European Union markets.

In the decades since ex-Soviet Turkmenistan became independent in 1991, the country has been rather passive in marketing and selling its gas. Turkmen officials became known for reminding potential customers that the country boasted trillions of cubic metres (tcm) of gas reserves, but then leaving it up to interested parties to initiate talks and make proposals.

All that has changed in 2024.

Since the start of March, Turkmen officials have been very actively and publicly advertising Turkmenistan as a gas supplier, naming Azerbaijan, Turkey, Afghanistan, Pakistan, India, Kazakhstan and the European Union as possible customers in the process.

Turkmenistan now appears so intent on selling more gas that when chairman of the country's Halk Maslahaty, or People's Council, Gurbanguly Berdimuhamedov, visited Tajikistan in early April, he readily offered to sell it volumes. Yet cash-strapped Tajikistan has not even imported 1bn cubic metres (bcm) of gas annually in more than three decades of independence.

Let's dig deeper. What exactly is underpinning the apparent desperation?

### Losing revenues

Turkmenistan is faced with losing nearly half of its current natural gas sales revenues - and those sales account for more than 80% of state revenues.

Endowed with the world's fourth or fifth largest gas reserves (estimates range from 18 to 27 tcm), Turkmenistan's potential as a gas supplier is well known. However, landlocked Turkmenistan's terms for exporting its gas have essentially been, "You build a pipeline to the Turkmen border, and we'll hook you up to our gas."



If over the years Turkmenistan had more strenuously committed to some of the proposed pipelines, its gas sales prospects would look far rosier (Note: the CAC is here referred to as the Trans-Asia Gas Pipeline, or TAGP). / thepeoplesmap.net, S. Hedlund, GIS, CC BY-NC-ND 4.0

#### Turkmenistan's gas network



Yet in more than 30 years of Turkmenistan's post-Soviet existence, the only pipelines built for Turkmen gas flows are two that connect to Iran (combined capacity 20 bcm) and three that run to China (combined capacity 55 bcm).

In early 2017, Turkmenistan suspended gas exports to northern Iran in an argument over Iranian payment arrears. Nowadays, Turkmenistan only pipes small gas volumes to the Iranians as part of a swap deal, whereby the gas is sent in return for Iran supplying a like amount to its neighbour Azerbaijan, with Azerbaijan then paying Turkmenistan for the gas.

In 2023, Turkmenistan sold 1.5 bcm to Azerbaijan.

Looking back to less than 20 years ago, Turkmenistan was exporting anywhere from 40-50 bcm of gas to Russia annually via the Soviet-era Central Asia-Center five-pipeline network.

At the start of 2009, Turkmenistan looked set to see its gas sales soar. Talks with Russian gas giant Gazprom were held on boosting shipments to Russia to 80-90 bcm annually and a construction project for a fourth pipeline to China, that would potentially lift deliveries to the Chinese market to 85 bcm, was fast advancing.

In April of 2009, amidst a pricing dispute with Russia, a mysterious pipeline explosion halted Turkmen gas exports on Central Asia-Center-4. When the pipeline was repaired in 2010, Moscow stated that it would import no more than 10-12 bcm of Turkmen gas annually.

In February 2015, Gazprom announced that it would reduce yearly imports of Turkmen gas from 10 bcm to 4 bcm, and at the start of 2016, it said it was suspending Turkmen gas imports entirely.

### "Russia looked east to help offset the loss in gas revenues from Europe and quickly found buyers in Central Asia"

By that time, Turkmenistan was descending into an economic crisis that still lingers today. After Russia cancelled its gas deal, Turkmenistan was left with China as its sole customer. The bilateral long-term gas contract with the Chinese was set out with a fixed price, believed to be \$187 per 1,000 cubic metres.

Russia in 2019 finally agreed to resume some imports of Turkmen gas. It signed up for up to 5.5 bcm annually, but at the meagre price of \$110 per 1,000 cubic metres. Also, in late 2022, neighbour Uzbekistan, experiencing winter gas shortages, reached a deal for up to 2 bcm per year.

So for the past 15 years, China has been Turkmenistan's only major, and at times only, gas customer. From December 2009 to December 2023, Turkmenistan shipped more than 380 bcm to China.

With Lines A and B of the Central Asia-China (CAC) pipeline, (each with 15 bcm of capacity), as well as Line C (25 bcm), all operating in recent years, Turkmenistan has been exporting 35-38 bcm to China annually. Beijing paid Turkmenistan \$9.6bn for delivered gas in 2023.

As for the fourth CAC pipeline, namely Line D (30 bcm) – to take a route through Uzbekistan, Tajikistan and Kyrgyzstan to China's western Xinjiang province – there has been almost no construction progress in nearly 10 years.

### New gas race

When Russia launched its full-scale war on Ukraine in February 2022, it lost its primary gas customer, the EU.

Prior to 2022, the EU was purchasing as much as 150-160 bcm of Russian gas annually, paying top prices (nearly \$2,000 per 1,000 cubic metres in November 2021). By the end of 2023, Russian pipeline gas exports to the EU were down by 80%.

Russia looked east to help offset the loss in gas revenues from Europe and quickly found buyers in Central Asia. Kazakhstan and Uzbekistan have both experienced severe power shortages in recent winters caused, in part, by a lack of domesticallyproduced natural gas.

In 2023, Russia struck deals to export gas to both of these countries. By the year's end, it supplied 7.25 bcm to Kazakhstan and 1.22 bcm to Uzbekistan.

In March of this year, Uzbekistan agreed to start importing up to 11 bcm of Russian gas annually by 2026.

Somehow, Turkmenistan had missed out on an opportunity to sell nearly 20 bcm of gas to its immediate neighbours, and there is the question of what Russia does with the Turkmen gas it buys. Since Russia does not need the 5.5 bcm of Turkmen gas it purchases, where does this gas go?

Turkmen gas, as noted, flows to Russia via the Central Asia-Center system, the same network Russia has earmarked for gas deliveries to Uzbekistan. That raises the question of whether some of the "Russian" gas Uzbekistan is buying is originally Turkmen gas.

There might be worse to come for Turkmenistan.

The three Turkmenistan-to-China pipelines traverse Uzbek and Kazakh territory, with both Kazakhstan and Uzbekistan

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allocated 10 bcm of capacity across the pipelines for their own gas exports. Therefore, since the Uzbeks and Kazakhs now need their domestically-produced gas for their own consumption, the 20 bcm of capacity has become available.

"There are several agreements in the right direction and many good intentions but, so far, no physical infrastructure for bringing Turkmen gas westwards"

Kazakhstan's Ambassador to Russia, Dauren Abayev, gave a wide-ranging interview to Russia's TASS news agency ahead of the May 9 Victory Day celebrations.

Asked about the transit of Russian gas to China via Kazakhstan, Abayev responded that a "road map" was already agreed, adding: "We are talking about 35 billion cubic metres of gas that will be supplied to China."

The only gas pipelines in Kazakhstan leading to China are Lines A, B, and C of the CAC network. Let's remind ourselves: the lines have a total capacity of 55 bcm, of which around 35 bcm is currently used by Turkmenistan.

The Russian moves could explain Turkmenistan's recent unprecedented marketing blitz to sell its gas.

There have been frequent meetings, in various combinations of Turkmen, Turkish, Azerbaijani and EU officials on the possibilities for shipping Turkmen gas to Europe for more than two years. And Pakistani officials talked of piping Turkmen gas to the Arabian Sea coast for shipping to European markets.

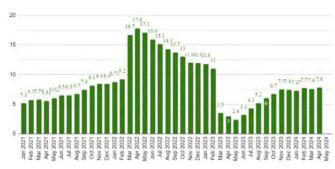
There are several agreements in the right direction and many good intentions but, so far, no physical infrastructure for bringing Turkmen gas westwards.

Turkmenistan could find itself in a very precarious situation, very soon.  ${\bullet}$ 



The proposed Line D of the CAC has remained a "pipe dream" / etemadonline.com

#### Russia inflation, y/y



Source: CBR

#### Moldova: GDP: 2015RON mn, y/y



### Russia's CBR warns of steep key rate hike as inflation worsens

Weekly consumer price inflation in Russia as of June 17 accelerated to 0.17% week on week (0.12% w/w a week earlier), according to RosStat, which would imply annual inflation growth of 8.5% year on year (after 8.3% seen in May).

At the same time in June, one-year inflation expectations of the population increased further by 0.2 percentage points to 11.9%, demonstrating upward dynamics for the second month in a row.

As covered by *bne IntelliNews*, the board of the Central Bank of Russia (CBR) at the June 7 policy meeting resolved to keep the key interest rate unchanged at 16%, making a neutral rate decision for the fourth consecutive time.

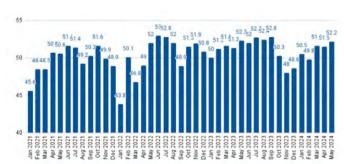
### Romania's CA balance flat y/y at €3.95bn in Q1

Despite weaker overall domestic demand caused by subdued consumption and de-stocking only partly compensated for by stronger investments, Moldova's GDP increased by 1.9% y/y and by 1.1% m/m in Q1, the sharpest quarterly advance since Q4 2022, according to data published by the statistics bureau.

In absolute terms, the GDP reached MDL67.4bn (€3.5bn) in Q1 and €15.4bn in the 12 months to March 2024.

In seasonally adjusted terms, the quarterly GDP in Q1 was (marginally) the highest in more than two years. However, the country's economy has remained around the same level over the past five years since before COVID-19.

#### Kazakhstan PMI Index



Source: IHS Markit

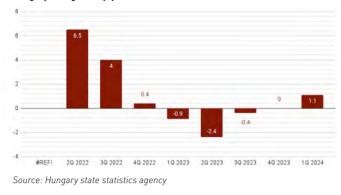
### Kazakhstan PMI shows 8-month high in manufacturing sector output in May

Kazakhstan's manufacturing sector in May recorded an eight-month high in output on expanding new orders, according to the monthly S&P Global Kazakhstan Manufacturing Purchasing Managers' Index (PMI).

The PMI was recorded at 52.2, above the 50.0 no-change mark, up from April's 51.5.

"An improving demand environment supported a strengthening of growth in the Kazakhstan manufacturing sector during May. A solid expansion of new orders fed through to a faster rise in output. In turn, firms increased their employment and purchasing activity," an accompanying statement issued with the PMI results said. "Although input costs and output prices continued to rise, the respective rates of inflation were softer than the series averages," the statement added.

#### Hungary GDP growth y/y



#### Hungary confirmed to have finally emerged from recession

Rising consumer demand for services and positive net exports helped Hungary's economy to rebound in the first quarter, after a year in recession, while industry was a negative contributor to growth.

Hungary's statistics office, KSH, on June 4 confirmed the preliminary reading that the economy grew 0.8% compared to Q4 and 1.1% in annual terms, or 1.7%, when adjusted to working days, above the analysts' consensus.

### Serbia's grey economy turns over nearly €15bn annually

### bne IntelliNews

Over a fifth of Serbia's economic activity remains unregistered, representing 21.1% of GDP, or approximately €14.7bn, according to a recent study reported by Bloomberg Adria on June 19.

Despite a gradual decrease over the past decade, unregistered economic activities continue to have a significant impact on the country's financial landscape. The state's approach to consumption tax collection has significantly influenced these trends.

The study, "Assessment of the Height and Dynamics of the Grey Economy in Serbia", conducted by professors from the Faculty of Economics in Belgrade, reveals a fluctuating trend in the grey economy. From 2009 to 2023, the grey economy averaged 23.6% of GDP, peaking at 29.1% in 2013 and hitting a low of 17.9% in 2021.

Recent years have seen a resurgence in the grey economy, but it remains a third smaller in the consumption domain in 2023 compared to its peak in 2013. In the income domain, unreported earnings comprised about 6.8% of GDP, or  $\in$ 4.7bn, in 2023. This figure represents one of the lowest levels in the past fifteen years.

The growth of the shadow economy until 2013 was the result of the state's leniency during the economic crisis and subsequent political changes, alongside inefficiencies in tax collection systems. However, post-2013, the implementation of digitalised inspection systems, penal policy reforms, and labour market flexibility led to a noticeable decline in unregistered activities.

Despite these improvements, the persistence of the grey economy poses challenges to public finances and equitable business conditions. The report underscores the need for further strengthening the capacity and efficiency of inspection services. Reducing the fiscal burden, regulatory reforms, encouraging cashless transactions, and boosting tax morale would further suppress the grey economy.



Over a fifth of Serbia's economic activity remains unregistered, according to a report from professors at the Faculty of Economics in Belgrade. / www.shutterstock.com

## Newsletter Invest Uzbekistan

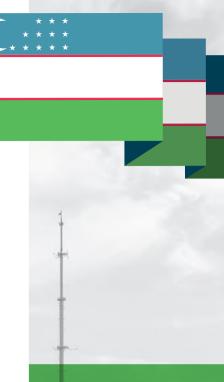
### Fortnightly newsletter covering businesss and reforms in Uzbekistan

One of the fastest growing countries in the world and one of only two countries that didn't go into recession during the coronavirus pandemic, Uzbekistan is coming into its own.

The most populous country in Central Asia and third biggest country in the Former Soviet Union, president Shavkat Mirziyoyev unleashed a wave of economic reforms after taking office in 2016 that are starting to bear fruit.

The entire cotton and textile sector has already been privatised and banking, mining and the major state-owned industrial enterprises are up next. With a young and growing population, sectors like retail, IT and automotive are already flourishing as growth gathers momentum.

Follow the fast moving developments in business, economics, finance, energy and politics in this dynamic and ancient Silk Road country with bne IntelliNews' **Invest Uzbekistan** newsletter, carrying the best stories from the last two weeks.



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