

Two Turkish banks suspend use of Russian Mir cards amid US sanctions pressure

Junked American cars do a roaring business in Georgia

Kyrgyzstan: Kumtor, cloak and dagger

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Senior editorial board**Ben Aris**

editor-in-chief & publisher | Berlin
+49 17664016602 | baris@bne.eu

Clare Nuttall

news editor | Glasgow
+44 7766 513641 | cnuttall@bne.eu

William Conroy

editor Eurasia & SE Europe | Prague
+420 774 849 172 | wconroy@intellinews.com

Subscriptions**Stephen Vanson**

London | +44 753 529 6546
svanson@intellinews.com

Advertising**Elena Arbusova**

business development director | Moscow
+7 9160015510 | earbusova@bne.eu

Design**Olga Gusarova**

art director | London
+44 7738783240 | ogusarova@bne.eu

Please direct comments, letters, press releases and other editorial enquires to editor@bne.eu

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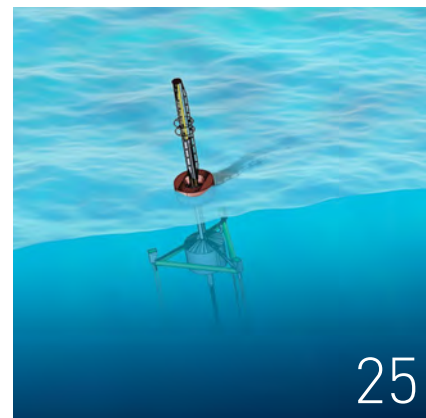
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St Petersburg, Russia - September 21 2022: Mass detentions by security forces of protesters against mobilization in Russia. www.shutterstock.com

Protests and sold out flights follow Putin's mobilisation

bne IntelliNews

Rallies against the partial mobilisation announced by Russian President Vladimir Putin on September 21 took place in 38 Russian cities, according to *Kommersant*, with over 1,300 people detained, including 490 in St Petersburg, 468 in Moscow and 40 in Yekaterinburg.

Putin escalated the war in Ukraine by announcing partial mobilisation amid a successful Ukrainian counter-offensive that swept Russian forces out of the Kharkiv region and retook villages in the Luhansk region, which had been fully occupied by Russia.

While Putin called the mobilisation "partial" and the Ministry of Defence clarified that about 300,000 people are ready for a military call up, lawyers surveyed by *The Bell* and *Meduza* warned that the law spearheaded to regulate the emergency draft is phrased in broad terms and allows for indiscriminate military recruitment.

Those eligible for the draft can also be banned from leaving their respective Russian regions. Draft dodging during the period of "mobilisation or martial law" is now punishable by five to 10 years in prison.

www.bne.eu

Spokeswoman of the Russian interior ministry Irina Volk described the rallies as unsanctioned and gathering an "extremely insignificant number of participants", as cited by *Kommersant*.

bne IntelliNews covered how shortly after the military invasion of Ukraine in February a barrage of repressive laws tightened the Kremlin's grip on the media landscape and penalised public protest.

But the amendments regulating the call-up, passed swiftly prior to Putin's speech, toughen the penalties for protests even more. One known criminal case has been reported, while videos of unconscious protesters being carried away by riot police circulated on social media.

Russians flee conscription

In less than a day after Putin's announcement, the prices of flights for the few remaining visa-free destinations such as Dubai, Yerevan, Astana and Istanbul have soared 10-15 fold and have been sold out, according to reports by *Kommersant* and *Vedomosti* dailies.

Sources in booking agencies told *Kommersant* that the demand for urgent departures to Kazakhstan, Armenia, Turkey, Uzbekistan and the United Arab Emirates, previously the go-to destinations for post-invasion Russian expats, have jumped at least three-fold.

On September 21 the cost of Moscow-Yerevan tickets reached \$2,400. For this Saturday, the price of a ticket reaches approximately \$4,800. Before Vladimir Putin's announcement the price was less than \$200.

Serbian media reported the arrival of a large group of Russians in Belgrade, with some telling Nova.rs they were fleeing to avoid mobilisation. Tickets on Moscow-Belgrade flights are reportedly changing hands for several thousand euros.

In the meantime, after weeks of deliberations Finland is

now rushing to shut its border to Russian tourists holding Schengen visas. This would make it the last EU state sharing a land border with Russia to do so, following the previous decisions by Poland, Lithuania, Latvia and Estonia. Latvian authorities have already stated that no exceptions will be made for Russian draft dodgers.

"Today we decided to start preparing a national decision on how we can limit or completely prevent this tourist flow, and this national decision could include a new law to be made very quickly, or an interpretation of existing rules," Foreign Minister Pekka Haavisto said on September 21.

"Finland does not want to be a transit country, even for Russians with Schengen visas issued by other countries, and now we want to take control of this traffic," he said. ●

Russian stores stocking up on Iranian Coca-Cola

Daniel Rad in Dublin

The White House might be tempted to describe it as another sign of Russia's dire economic straits in the face of the economic backlash to the invasion of Ukraine, but, hey, mocking what you don't know is uncool – Iran-made Coca-Cola, replete with Perso-Arabic script, has entered the Russian market, *bne IntelliNews* can report.

Photographs taken in stores in Russia show Iranian Coke, produced under licence in Iran, has made its way into Russian stores. Described by *bne's* Iran correspondent as "very sweet", the Iranian version of the beverage is taking up shelf space vacated by Russian-made Coca-Cola since The Coca-Cola Company suspended its business in Russia in March in response to Moscow's invasion of Ukraine.

The arrival of the Persian Coca-Cola brand came as a shock to Russians looking to quench their thirst with "The Real Thing".

One Russian social media account dubbed the drink "Aya-kola", while another quipped that after two sips of the Iranian Coke "you will be defending the Islamic Revolution, and with three sips you'll be off to fight in Yemen."

Soft drinks from several countries have turned up on the Russian market since sanctions and market boycotts disrupted Russia's economy, according to social media posts. Products from countries including China and Montenegro have been spotted, while a Dr Pepper from Poland is also now seen in Russian shopping baskets.

The Russian introduction of Iranian Coke – with the product retailing at around Russian ruble (RUB) 60 (\$0.99) per can – signifies that suppliers in the Islamic Republic are making

real headway in sending their products to Russia's disrupted consumer markets.

Russian media reports in recent months have described trade entrepreneurs trying to plug dozens of market gaps with Iranian alternatives. The US even fears Moscow is addressing a lack of manufacturing potential for the making of armed drones by acquiring hundreds of Iranian drones.

Iran's decades of international isolation since its 1979 Islamic Revolution have forced the country to perfect the emulation of a huge number of products unobtainable in sufficient volumes from abroad, or to evade sanctions in sourcing products. Russia is now on the same road and is turning to Iran for advice.

One thing's for sure, the sad events that led to the departure of Coke from Russia certainly don't jive with Coca-Cola's famous 1971 "I'd like to buy the world a Coke" advertising campaign.



Iranian Coca-Cola, dubbed "Ayakola" by one wag on social media. / *bne IntelliNews*

Belarus increases oil production and plans common oil market with Russia

bne IntelliNews

In late August, the Belarusian state oil concern Belneftekhimi's chairman Andrei Rybakov told Belarusian President Alexander Lukashenko that there's a deadline for creating a common oil market between Russia and Belarus within their Union State programme.

According to Rybakov, the two sides are looking to remove "all possible and impossible aspects, all controversial issues by the end of this year in order to have a fair copy of the treaty by the middle of next year."

Belarus and Russia's Union State programme was adopted in 1999 but few significant steps were taken until last year, when Lukashenko and Russian President Vladimir Putin "approved" all of the 28 union programmes.

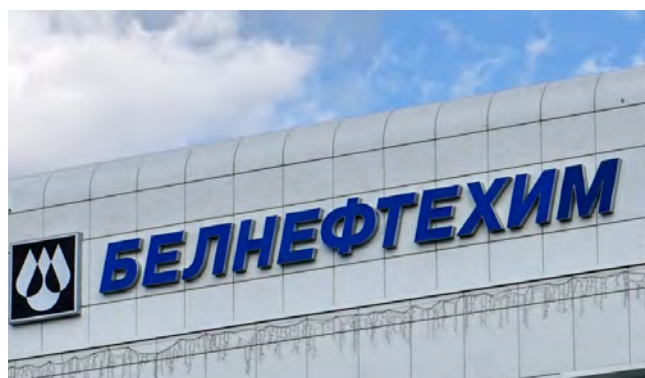
The drawn-out process has been assumed by analysts to be due to Lukashenko's unwillingness to accept certain Russian demands, such as an integration of the countries' tax systems, implementing a common payment system and using the same currency. Instead, Lukashenko has been content with making slow and sometimes insignificant progress on the matter in order to appear loyal to the Kremlin and use the process to bargain for more favourable oil and gas prices.

However, in his latest statement, Rybakov also added that "the task is to have an intergovernmental agreement by the middle of next year. Fair conditions – they have something in common not just in our programme but in the tax sphere. So all programmes should be adopted as a whole."

While Belarusian officials have made similar statements before, making analysts believe that they were in fact going to ratify and implement all of the union programmes, the political situation is very different this time.

The Belarusian regime has previously enjoyed a higher degree of independence from Russia and has for a long time performed a successful balancing act between the EU, Russia and the rest of the world.

But since 2020, Lukashenko has severed both his economic and diplomatic ties with the West and increased his dependency on Moscow to the point of no return. This was



The office of Belarus' state-owned oil company Belneftekhimi/ www.president.gov.by

especially apparent to everyone when he allowed Russian troops to invade Ukraine from Belarusian territory on February 24.

Since 2020 the EU has been continuously reinforcing its sanctions regime towards Belarus, and since 2021 it has also been increasing the sanctions pressure on some of the country's key industries, one of them being the oil sector.

Because Belarus' export industries are crippled due to the harsh Western sanctions, and since it has no one to lean on politically or economically but Russia, Rybakov's statement sounds more probable this time and a common oil market treaty could indeed be ready by the middle of next year, or at least his statement is this time more probable to be sincere.

Co-operation under sanctions

Belarus' oil sector has not had additional sanctions imposed on it by the West since the EU's 6th sanctions package. However, the Belarusian oil industry has seen its export routes closed or marginalised by Western sanctions to the extent that it's hard for it to deliver its output.

On February 9, Estonia closed what was assumed to have been a loophole in the existing sanctions on Belarus' oil sector. Since the Western sanctions on Belarus' oil sector last year, Estonia's ports had become even more important, and the decision shut off a large export route for Belarus.

Furthermore, Belarus has lost one of its largest buyers, Ukraine, due to its own involvement in Russia's invasion on February 24. Before the war, Belarus was Ukraine's largest source for oil product imports and Belarusian products accounted for 41.9% of Ukrainian oil imports.

To counteract Western sanctions, Belarus and Russia have initiated joint large-scale import substitution programmes aimed at boosting both countries' industrial production.

As *bne IntelliNews* reported on in July, Russia could increase its imports of Belarusian petrochemical products in the coming years, if it turns out to be profitable. However, the Belarusian refineries Naftan and Mozyr had both halved their processing already in April, most likely since there was

nowhere to export Belarus' refined oil products due to the Western sanctions.

Shortly after this announcement, Belarusian Deputy Prime Minister Yuri Nazarov told state Belarusian media that "In view of restrictions, including those based on sanctions, we've optimised oil refining at two oil refineries of ours in order to meet needs of the domestic market."

On August 30, an official from the state-owned Belarusneft company told state Belarusian media that Belarus was planning to extract 1.8mn tonnes of oil in 2022, an increase of 70,000 tonnes from last year. According to the official, this was a part of the gradual increase in extraction volumes that had been going on for the past six years, which also "produces virtually no waste."

One day later, Belarus reduced its export duties on oil and oil products in accordance with a resolution adopted by its Council of Ministers.

The resolution lowered the export duties on crude oil, furnace oil, oil bitumen, petroleum jelly, paraffin and waste oils to \$52/tonne (\$53), straight-run gasoline to \$28.6/tonne (\$29.1) and on commercial gasoline, diesel fuel, light and middle distillates, benzene, toluene, zylene and lubricants to \$15.6/tonne (\$15.9).

Considering the fact that Russia has more than enough of its own oil products, the halving of the Belarusian refineries' throughput and Yuri Nazarov's statement in April, this decision is interesting.

It suggests that Belarus could be counting on finding a new market to offset its oil products (such as the Russian market) relatively soon and is therefore increasing production early while planning to start up its refineries later. It could also be the case that this output increase is merely for show, and the produced oil could be stored for a longer time, awaiting a more favourable export climate. ●

Belarus' government looks for ways boost its domestic forestry market

bne IntelliNews

In spring this year, when the West's sanctions regime against Belarus was heavily intensified due to Belarus' participation in Russia's invasion of Ukraine, Belarusian strongman Alexander Lukashenko acted as if Western sanctions would barely affect Belarus. However, these sanctions are slowly but steadily having significant effects on all Belarusian industries and Belarus' import-substitution response to the sanctions has caused a major restructuring of the domestic market.

The Baltic ports have for a long time been of significant importance to landlocked Belarus. Lithuania's port of Klaipeda has handled significant amounts of Belarusian wood products. According to Belarus' PM Roman Golovchenko, "Lithuanian wood processing plants perform further processing and export the final product to other countries in the EU."

However, in 2022 EU countries have been prohibited from importing Belarusian wood products classified under HS chapter 44 (Wood and articles of wood; Wood charcoal) and the Forrest Stewardship Council (FSC) also chose to suspend all trading certificates for Belarus.



www.forest.by

Instead of making its way through the Baltic ports, Belarusian Deputy Minister of Forest Management Vladimir Krech said back in March that Belarusian wood would be exported through China. In the same statement, he also admitted that

"In 2022 EU countries have been prohibited from importing Belarusian wood products classified under HS chapter 44"

this detour would decrease the profitability by 80%. The lack of an FSC certificate stopped Belarusian furniture from being exported to the EU market, but it also negatively affected Belarus exports to China since some Chinese producers also require the certificate.

Belarusian officials prefer to play down the negative effects of Western sanctions and attempt to make out that the Minsk government's import-substitution programme is running smoothly. However, its reorientation towards the domestic market quite obviously requires a major restructuring of the market, with losses in profitability and heightened administrative costs hanging over the heads of regional governors.

On September 5, Belarusian Deputy Prime Minister Piotr Parkhomchik told state Belarusian media that Belarusian forest companies would attempt to exploit the EU's energy crisis by exporting pellets to the EU market.

Parkhomchik thought that "there will be private companies that will build bridges so that the products we produce could enter the European market," perhaps with the hope that the EU would reconsider its sanctions on Belarusian products classified under HS chapter 44 in light of its energy crisis. Compared to Belarus' First Deputy Prime Minister's statement on finding a new paying agent for Belarus' Eurobonds, Belarusian officials may also be hoping that Western companies will find ways to circumvent the existing sanctions to loosen the sanction's pressure on the country.

Simultaneously on September 5, Kerch also announced "updated rules for the sale of wood will simplify the mechanism for obtaining it for individuals" in accordance with Lukashenko's presidential decree on August 22, which simplified "the procedure for the sale of industrial timber for individuals."

The updated rules will allow individuals to purchase up to 70 cubic metres of roundwood for the construction,

reconstruction and overhaul of residential buildings provided that the individual has submitted an application confirming the start of construction and ownership of real estate which are subject or construction or repair. Moreover, the wood will be sold at below market prices.

In fact, state Belarusian media are encouraging the sale of wood products, citing the Kopyl forestry company as a good example which had implemented a 15% sale on firewood with an additional 50% discount for pensioners. The same article mentions Kopyl's product diversification into wicker baskets, wooden hangers for towels and clothes, phone stands, cutting boards, birdhouses, including DIY set-designs in a positive way.

This new way of marketing domestic forest products, as well as the decision to lower prices on industrial timber and other wood products, is a direct result of Western sanctions.

According to Kerch, "during the implementation of the action plan to find alternative markets against the background of the imposed sanctions by the collective West, as well as to stimulate sales of wood and products from it in the domestic market, the Ministry of Forestry has taken a number of actions."

If a government encourages industrial export products to be sold at below market price to individuals, it's a sign that it is having major problems with offsetting its exports. While of course beneficial to the average Belarusian wishing to build a home, it's a clear sign that Western sanctions are working and are having a significant effect on Belarus' domestic market. ●

EC proposes suspending two thirds of Hungary's cohesion funds

Tamas Csonka in Budapest

The European Commission has proposed to the European Council a suspension of 65% of three cohesion funds due to Hungary, amounting to an estimated €7.5bn. The council will now have one month to approve the Commission's proposals with a qualified majority, which can be extended by a further two months under special circumstances.

www.bne.eu



Johannes Hahn, the Commissioner for Budget and Administration, announces the decision of the EC in the conditionality mechanism against Hungary. / bne IntelliNews

If Hungary fails to adopt relevant legislation it could lose two-thirds of funds from the Operational Programmes for Environment, Transport and Rural Development. The amount in question amounts to 5% of the country's estimated 2022 GDP and a third of the funds the country is eligible for under the 2021-2027 budget.

Hungary could become the first EU country to lose significant EU funds under the bloc's new Conditionality Mechanism if it fails to implement reform measures to prevent and detect systemic fraud and abuse. Viktor Orbán's regime is currently struggling to keep its budget deficit under control, and the hold-up in the payment of EU funds has caused the forint to plunge.

However, Hungary believes it can secure the frozen funds by the end of the year by pushing through what critics allege are superficial reforms to its deeply flawed procurement process and a stepping up of prosecutors' investigations of the country's

“Hungary believes it can secure the frozen funds by the end of the year by pushing through what critics allege are superficial reforms to its deeply flawed procurement process”

rampant corruption, which has up to now failed to prosecute offenders close to the ruling radical rightwing regime. The European Council must decide on dropping financial sanctions or imposing them by December 18 at the latest, by a qualified majority, which means that 15 of the 27 countries must support the decision, and the 15 must represent at least 65% of the total EU population.

Johannes Hahn, the Commissioner for Budget and Administration, informed reporters on the decision of the European Commission's assessment of Hungary's reply to allay the concerns of the EU's executive body on corruption at a Sunday press briefing.

“It's about breaches of the rule of law compromising the use and management of EU funds,” Hahn said, adding that so far “we cannot conclude that the EU budget is sufficiently protected”.

Hahn said Hungary's latest promise to address EU criticisms in 17 areas was a significant step in the right direction, but must still be translated into new laws and practical actions.

Replying to a question, the commissioner said the conditionality mechanism could be relaunched if Hungary fails to implement its commitments.

The rule of law conditionality mechanism was triggered just after the fourth consecutive supermajority of the ruling Fidesz party in early April after the EU courts turned down the legal challenges posed by Poland and Hungary.

The EU and Hungary have been at odds over the systematic irregularities in public procurement laws, shortcomings in other

anti-graft measures and weaknesses in effective prosecution. Budapest has made a string of pledges over the last two months, which includes the establishment of an anti-fraud “integrity authority” to oversee public procurement procedures using EU funds. Its head will be chosen by independent experts through an open application process. The authority could begin its work in the second half of November.

Hungary has also promised to set up an anti-corruption working group that will be independent of the government and will be tied to the integrity authority, Hahn said.

The government will further strengthen anti-corruption systems, he said, noting changes to be made to the asset declaration system.

Rules on conflicts of interest when it comes to foundations managing assets of public interest will also be tightened and be based on EU regulations

Hungary's commitments, he noted, also include ensuring a legal remedy against the prosecutor's decisions in corruption cases.

Tibor Navracsics, the minister in charge of the uptake of European Union funds, on Sunday welcomed as “progress” the European Commission's decision on EU funds allocated to Hungary, saying it would allow for a swift conclusion of the talks on the cohesion monies and post-pandemic Recovery and Resilience Fund (RRF) payments, which are also frozen.

Navracsics told a press conference that the government was hopeful that negotiations could be concluded by the end of the year.

Because the government intends to fulfill the commitments it made during the procedure regarding the conditionality mechanism linking EU funding to the rule of law, the sanctions proposed by the Commission “are of secondary importance”, as “their approval cannot happen”, Navracsics said.

He said that the government will submit the related legislative proposals to parliament on Monday and Friday.

The EC's announcement on Sunday means that in the best-case scenario Hungary can wind up talks on cohesion funds and the RRF before the end of the year, which means the first transfers could be made in early 2023, financial website Portfolio.hu commented. ●

“Hungary has also promised to set up an anti-corruption working group that will be independent of the government”

Ryanair cuts Hungarian operations due to windfall tax

bne IntelliNews

Ryanair will reduce the number of flights this winter to and from Hungary due to the extra profit tax on airlines, Michael O'Leary, CEO of Europe's leading low-cost airline, announced at a press conference in Budapest on September 13.

O'Leary said that eight flights from Budapest will be suspended, which would reduce passenger traffic from 4.5mn to 4mn. The airline predicted traffic of around 5mn in Hungary in 2023.

In mid-August, the airline indicated plans to remove eight cities from its Budapest timetable from October. According to local media, flights to Bordeaux, Bournemouth, Cologne, Krakow, Kaunas, Lappeenranta, Riga and Turin would be terminated from October and Ryanair will operate fewer flights to Amman, Bristol, Prague, Pisa, Sofia and Warsaw.

The announcement of Ryanair's maverick CEO's visit to Budapest a week ago triggered speculation that the airline would announce drastic measures in response to Hungary's windfall tax. A week ago, in the Belgian capital, O'Leary had announced the closure of the Brussels base. But O'Leary said Ryanair is not closing its Budapest base and has no plans to withdraw from Hungary.

To set the tone for the press conference, O'Leary posed with



Ryanair CEO Michael O'Leary said that eight flights from Budapest will be suspended. / bne IntelliNews

a sign reading "Scrap the extra profit tax on loss-making airlines" next to him on the table as he spoke.

Airlines operating in Hungary were hit with a departure fee from €10-25 per passengers in June as part of the government windfall taxes on sectors from energy and banking to airlines to plug its yawning budget gap.

Hungary's government and Ryanair have been embroiled in a war of words since then.

O'Leary called the tax "highway robbery" and "idiotic", a levy on a loss-making sector recovering from the pandemic.

"I'm sure that some members of the government were drunk when they decided to impose an extra profit tax on a loss-making sector in the spring", he told reporters.

Ryanair passed over extra costs to consumers after which the Budapest Government Office slapped the airline with a HUF300mn (€757mn) fine last month for "unfair commercial practices, that misled consumers".

O'Leary said the airline would not pay the fine and expects to lose the legal case in Hungary, but in that case, they would go to the EU's Court of Justice, he added. ●

Czechia pushes for more connections to LNG terminals

Albin Sybera

Czech premier Petr Fiala (ODS party) and his Polish counterpart Mateusz Morawiecki (PiS) have announced the resumption of work on the Stork II pipeline bringing gas from the Polish LNG terminal at Swinoujscie to Libhost in Czechia's northern Moravian region.

Premiers of both countries made the announcement during the economic forum in the Polish spa city of Karpacz near

the Czech border and stressed that Stork II will contribute to greater energy security in Central Europe.

"We cannot make the same mistake as our predecessors in office who did not care about energy security", Fiala was quoted as saying by the Czech Press Agency, and he praised the recent opening of the pipeline connecting Poland and Slovakia.

Plans to restart the works to landlocked Czechia were announced already in May following the Russian invasion of Ukraine.

The project was shelved by the previous cabinet of Andrej Babis (ANO). Czech ex-premier Bohuslav Sobotka (Social Democrats) has recently accused his successor Babis of deliberately derailing the Stork II project in concert with Czech president Milos Zeman, known to be a long-term Russia supporter, to maintain Czechia's high dependency on Russian imports.

Fiala also announced this week that he is to attend Thursday's opening of a new floating LNG terminal in the Netherlands which could provide up to 30% of annual gas consumption in Czechia.

Earlier this year Czechia's majority-state-owned energy utility CEZ rented out capacity in the Dutch LNG terminals. According to the current gas reserves and the new LNG links, Czechia can probably last until March without imports of Russian gas.

Czechia has pipeline connections to Germany providing infrastructure from the west and south but no infrastructure to the north.

Some 90% of gas has been coming from Russia, making Czechia

one of the most energy dependent countries on Putin's regime.

The Czech energy market has been for years dominated by the majority-state-owned utility CEZ and private conglomerates producing and distributing energy: EPH of billionaires Daniel Kretinsky and Patrik Tkac, and Sev.En of controversial coal tycoon Pavel Tykac.

As the energy crisis deepens, calls have mounted for a greater increase of renewable resources in the energy mix, the introduction of an energy windfall tax, or nationalisation of CEZ, all ideas that the three big energy companies have been resisting.

Mirek Motejlek, editor and manager of the Motejlekkocdopole.cz business insider website, referred to EPH and Sev.En as masters of the energy crisis. "PT (Pavel Tykac) and DK (Daniel Kretinsky) did it", he wrote on Facebook on Tuesday, and added they "obtained cheap loans, got no windfall tax and enough room in [the Czech price] cap to be no. 1 and no. 2 in Forbes [personal wealth index for the Czech Republic]".

On Sunday Czech Minister of Industry and Trade Jozef Sikela (STAN) confirmed that EPH and Sev.En will receive state loans to cover their energy trading deposits. ●

Romania's government to speed up major natural gas projects

Iulian Ernst in Bucharest

Romania's Minister of Energy Virgil Popescu has signalled that the government will do its best to speed up the two largest natural gas projects – one onshore and the other offshore – which are fully (the onshore project) or partially (offshore) managed by the state-owned company Romgaz.

Both the Neptun Deep project and the onshore deep Caragele field, which would cover Romania's gas consumption for a combined period of up to ten years, have been delayed for years while the deadlines have been repeatedly postponed.

Firstly, Popescu expressed hopes that OMV Petrom and Romgaz would announce this year the investment decision related to the extraction phase of Neptun Deep natural gas deposit in the Black Sea, "considering the current context on the gas market".



OMV Petrom and Romgaz are developing the Neptun Deep natural gas deposit in the Black Sea. / OMV Petrom

Popescu, spoke on September 21 at the Romanian International Gas Conference, organised by the Romanian Oil and Gas Employers' Federation (FPPG).

"I expect and I wish the decision of Romgaz and Petrom to be taken as soon as possible ... including by the end of this year. I wish this because there is a special situation in the market. [More] natural gas is needed in the market and Romania can play a role. I think the Offshore Law is clear enough. I believe a decision will be made by the end of this year," said the government official.

Romania sweetened the Offshore Law earlier this year and Romgaz took over Exxon Mobile's 50% stake in the Neptun Deep project, with an estimated reserve of 48bn-84bn cubic meters of natural gas.

Separately, Popescu said that Romgaz will begin extracting gas from its onshore deep Caragele field in 2024.

Discovered in 2016 some 100 km from Bucharest, Caragele field was initially supposed to come online in 2019.

Two years later, in 2018, the deadline was already deferred to 2021-22.

More recently, this year, Popescu was speaking of 2023 as the

most likely moment for beginning production at Caragele.

The deposit has an estimated accumulation of gas of roughly 25bn-27bn cubic metres, amounting to the country's entire consumption for up to three years. It was estimated at that time at a value of \$4bn, but the natural gas price has tripled meanwhile.

Romgaz owns 100% of the concession contract for the perimeter located in Buzău County. ●

Two Turkish banks suspend use of Russian Mir cards amid US sanctions pressure

Akin Nazli in Belgrade

Signs that US warnings to Turkish businesses over helping Russia to skirt sanctions are starting to have an effect were in evidence on September 19 as two banks in Turkey suspended use of banks cards issued under Russian domestic payments system Mir.

First, Istanbul-listed Isbank (ISCTR) told news services that it was suspending clients' use of Mir cards, saying it was seeking clarity on the sanctions. A little later in the day, Denizbank (a unit of Emirates NBD) told Reuters "We are currently unable to provide service" in Mir, after earlier saying that the bank "acts in accordance with international sanction regulations".

Also on September 19, a correspondent of Russian news service TASS confirmed that he could not withdraw Turkish lira cash from an Isbank ATM with his Mir card.

On September 15, Russian media reported that some hotels in Turkey had stopped accepting Russian credit cards that link to the Mir system.

Also on that day, some unnamed US officials told the Financial Times that the US was focusing on Turkish banks that have integrated into Mir.

On September 13, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) sanctioned the chairman of Mir and served a warning on the heightened risk of facilitating Russia's efforts to evade Ukraine war sanctions through the expanded use of the National Payment Card System (NSPK) or the Mir National Payment System.

Isbank told Bloomberg that it had seen the US Treasury's statement on the issue and was evaluating it.

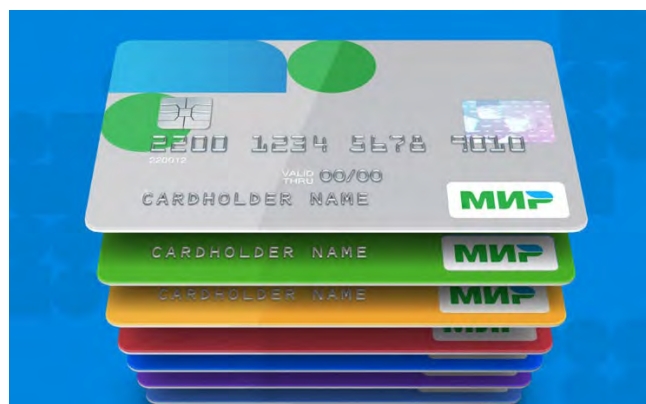
Prior to the war sanctions imposed on Russia, Isbank and its two government-run local peers, Ziraat Bank and Vakifbank (VAKBN), were already integrated with Mir.

Following the imposition of the sanctions, Denizbank and state-run Halkbank (HALKB) also established connections to the Mir system.

Russians in Turkey can use other participating banks' ATMs to cash out money. Halkbank, often seen as close to Turkey's Erdogan administration, is thought unlikely to cease the service.

Since June, US Deputy Treasury Secretary Wally Adeyemo has visited Ankara and has held phone calls with, and sent some letters to, Turkish companies. Adeyemo is involved in sanctions enforcement.

"OFAC sanctioned the chairman of Mir and served a warning on the heightened risk of facilitating Russia's efforts to evade Ukraine war sanctions through the expanded use of the Mir National Payment System"



A US Treasury letter sent to big Turkish businesses in August warned that there was a risk of penalties for companies that maintained commercial ties with sanctioned Russians. Private companies will generally shy from risking rows with the US.

Government-run Halkbank, meanwhile, remains accused by New York prosecutors of, starting from 2012, involvement in an Iran sanctions-busting scheme. As yet, the prosecutors, given process appeals, have not managed to have their case against

Halkbank heard by a court. Only a former deputy general manager at the bank, Hakan Atilla, has been convicted. He spent two years and four months in jail in the US.

The court where Atilla was tried – after star prosecution witness Reza Zarrab, head of the sanctions-busting scheme, was persuaded by prosecutors to confess – heard that Atilla did not personally receive money from the scam. He was, even Zarrab maintained, simply carrying out his duties under the scope of his post at the state-controlled bank. ●

Bulgaria offers electricity-for-gas exchange to Azerbaijan

bne IntelliNews

Bulgaria is offering to export electricity to Azerbaijan in exchange for more natural gas, caretaker Economy Minister Nikola Stoyanov said as quoted by public broadcaster BNT late on September 11 during a visit to Baku.

Azerbaijan is already supplying 1bn cubic metres (bcm) of natural gas per year to Bulgaria and has said it could double that amount.

However, after refusing to buy six out of seven tankers of US liquified natural gas (LNG) arranged by the previous government, the caretaker government of Prime Minister Gulub Donev has not been able to provide enough natural gas for the winter months ahead.

Interim Energy Minister Rosen Hristov has said that negotiations with Gazprom on the restoration of supplies are now inevitable. However, his efforts seem unsuccessful for the moment.

Stoyanov has said that the country will seek to double the import of natural gas from Azerbaijan after 2026 and to receive more gas this winter in exchange for electricity.

“There is such possibility, it was confirmed to me in principle – if we can provide them with electricity, they could give us the gas they would save [from not producing electricity],” Stoyanov said.

Bulgaria produces electricity from various sources, including coal-fired, nuclear and hydropower plants, while Azerbaijan



Bulgarian government officials on a visit to Azerbaijan, as Sofia seeks to increase energy security. / mi.government.bg

uses only natural gas. Stoyanov said that such a barter could help the country secure more gas for the winter months.

Stoyanov also said that Bulgaria is in negotiations with Gazprom, which stopped supplies at the end of April. Sofia hopes to persuade the Russian company to deliver the quantities agreed in the current contract that expires at the end of the year.

Meanwhile, Bulgaria's state-owned gas supplier Bulgargaz has asked to lower the price of natural gas for October by 30%, after the price was increased by 19% for September. The lower cost of the gas for next month comes thanks to the gas from Azerbaijan and one US tanker of LNG the caretaker government has acquired.

The previous government of Kiril Petkov had agreed seven tankers would be supplied in the autumn and winter, but the caretaker cabinet had to secure slots for their unloading. Donev's government said the slots were too expensive or unavailable despite statements by Greece it can provide cheap ones.

For October, Bulgargaz is asking the state energy and water regulation body, KEVR, to lower the price to BGN247.96 (€126.8) per MWh, down from BGN353.63 per MWh in September. However, the price proposed for November is higher at BGN278.83 per MWh. This price is based on projections for the market value of the natural gas. ●

Junked American cars do a roaring business in Georgia

Giorgi Lomsadze of Eurasianet

The black Toyota RAV4 was almost 15 years old – getting up there in car years – but it looked spanking new in the photos on Georgia’s largest automobile trade website. Dozens of other listings showed more SUVs also looking fresh off the assembly line, their model year notwithstanding. But there is a catch.

Look up these cars’ histories using their vehicle identification (VIN) codes and it becomes clear that they have taken a bad beating, many in accidents so bad the cars were assessed as totalled by insurance companies in the United States, the origin of most of Georgia’s wheels.

In its online history, this particular RAV4 looked like it had been run over by a train at least once in the U.S. Its entire front had been ripped off in an accident and the rest of the body was mangled into shapeless junk. It had been sold at auction for a few hundred bucks.

But it was nothing a Georgian couldn’t fix.

In their various states of ruin, tens of thousands of America’s discarded vehicles are shipped to Georgia every year, where an army of mechanics gets to work stitching them back together, rewiring and repainting them. To mark a car’s rejuvenation, its odometer often is rolled back as well.

The vehicle is polished to perfection and put on the block. An amateur eye may not even notice the Frankenstein monster inside the gleaming façade.

“Americans give up on their cars a little too easily,” laughed Revaz Nikolaishvili, a car dealer in Tbilisi who specialises in importing and reselling Toyota and Subaru compact SUVs. “We can take a discarded car and extend its life by decades; we make them run until their last breath.”

Georgia has become a regional hub for the used car industry. Though dominated by individual resellers, it is big business:

www.bne.eu



A used car lot in Rustavi / autopapa.ge

Selling cars, primarily used ones, is Georgia’s second largest category of exports, behind only copper ore and concentrates in 2021. The business accounted for nearly 11 percent of the country’s total exports.

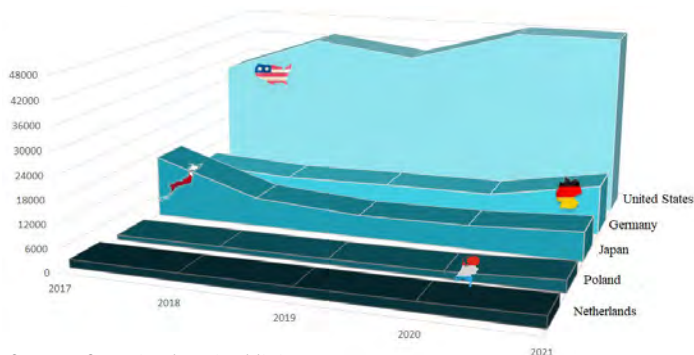
A combination of cheap labour, relatively low taxes, little red tape and Georgia’s location on an international transit route has spurred a steady growth in the automobile import-export business. The pandemic put the brakes on the trade, but it went bullish again in 2021 and exports are now on track to catch up with the pre-pandemic record of \$733 million in 2019.

The first half of 2022 saw a whopping 31 per cent year-on-year growth, and the cars’ share in exports has risen to 12 per cent.

Car enthusiasts from the United Arab Emirates have become Georgia’s most extravagant customers, purchasing new luxury vehicles from licensed dealers at an average price of \$66,000 per pop, according to government statistics.

But the bulk of the business is in cheaper cars sold to other countries in the former Soviet Union.

Car imports by country of origin



Source: Georgian Interior Ministry

“I know it had been gutted and reassembled, but they’ve done a good job: it runs well and looks good,” one Kazakh man told Eurasianet after taking a 2021 Toyota Land Cruiser for a test drive at Georgia’s largest physical automobile market, in the town of Rustavi just outside Tbilisi. “Plus, the newer and fancier the car, the more it makes sense to buy them here, because back home they charge a higher rate of taxes and duties on the older cars,” he said.

“Americans give up on their cars a little too easily. We can take a discarded car and extend its life by decades; we make them run until their last breath”

For Kazakhs pounding the pavement at Rustavi’s vast lots, the favoured model is a Toyota Camry, preferably under three years old. Since Kazakhstan sets its customs clearance rates proportionate to the engine size, horsepower and age, the newer iterations of this economy sedan with its unassuming 1.8-liter engine have become bestsellers among Kazakhs, dealers in Rustavi say.

Another Kazakh man at Rustavi said he could save thousands of dollars buying a three-year-old Camry in Georgia and having it shipped back home.

The second largest ex-Soviet economy after Russia, Kazakhstan has emerged as the third-biggest car importer from Georgia. The top spot is occupied by next-door Azerbaijan, which snaps up over half of automobile exports from Georgia.

Ukraine used to come in second, but sales nosedived after the start of war in February and gears have now shifted toward Ukraine’s invader. Exports to Russia have jumped by 72 percent, amounting to \$14 million worth of cars in the first six months of 2021.

“The Ukrainian market has been replaced by Russia this year,” the founder of Global Auto Import, Vano Bichinashvili, told the business news television show Sakmiani Dila. “Car plants have closed down in Russia, so Russians are increasingly buying cars from here.”

Major foreign automakers pulled out of Russia after the West imposed sanctions, prompting Russian drivers and dealers to turn to neighboring countries like Georgia and Armenia.

“Take a gander at this Porsche Cayenne,” says one Russian car dealer as he strolls around the Rustavi market in a video guide to buying cars in Georgia. “This is a ‘sanctioned’ car

and you can’t get it in Russia anymore.” The guide, identified only as Mikhail, says that given rising prices on automobiles in Russia, customers can on average save about RUB500,000 (over \$8,000) on a car between three and five years old by buying in Georgia.

Russians at Rustavi told Eurasianet that it can be four to five times cheaper to repair a used car in Georgia. “Generally, buying and fixing a used car in Moscow is far more expensive than here. Even if you spend a week in a hotel in Batumi [Georgia’s main resort city on the Black Sea coast], you will still be saving money,” one Russian shopper told Eurasianet. “So I can pick a damaged car in the U.S., have it shipped to Georgia, get it fixed here and then take it to Russia.”

There is now a growing crop of YouTube videos, Facebook and Instagram pages, and Telegram channels advising Russians and Kazakhs on how to buy cars in Georgia. They juxtapose the costs of buying specific models in Georgia against the cost of purchasing them at home. The calculations often include the cost of travelling to and spending a week in Georgia. Even with all the travel expenses included, Georgia tends to win out.

For an industry that occupies such a large share of the national economy, the used car business tends to be made up of small-scale operators. While there are several big, corporate players on the market, much of the reselling is done by individuals or small groups. They can peruse Georgian websites to find cars being sold at auctions in the U.S., get one shipped to Georgia, spruce it up and sell it for a markup of a few hundred dollars.

“I wanted to start a business with a few of my close friends,” said Nikolaishvili, the Toyota and Subaru specialist. “We brainstormed a bunch of ideas like opening a restaurant, a guesthouse, or a farm, but eventually we went for cars. It requires no investment and you don’t need to take out a loan. Anyone can do it.” ●

Giorgi Lomsadze is a journalist based in Tbilisi, and author of Tamada Tales.

This article originally appeared on Eurasianet.

“The second largest ex-Soviet economy after Russia, Kazakhstan has emerged as the third-biggest car importer from Georgia”

Kyrgyzstan: Kumtor, cloak and dagger

Eurasianet

It's a secret" is becoming a catchphrase to describe how Kyrgyzstan is currently being administered, especially as concerns the giant gold mine that authorities seized last year in the name of a long-suffering public.

To begin, the sudden fall off in reporting on activities at the economically vital Kumtor mine was easily explained away.

Kyrgyzstan's government was locked in a legal dispute with Toronto-listed Centerra Gold, Kumtor's operator prior to the sudden imposition of "external management" – code for nationalisation – in May 2021.

Making information about the mine public would have given Centerra the upper hand, top officials argued at the time.

But that legal standoff was settled amicably and for good in July of this year, while Kumtor is still a high-altitude shrine to opacity.

One of the biggest concerns is the mixed messages coming from the top leadership.

Last September, Kyrgyzstan's national security chief Kamchybek Tashiyev boasted in a public appearance that

"not a gram" of gold produced at Kumtor had left the country that year.

His claim did not tally with data from the national statistics committee, which showed gold had continued to be Kyrgyzstan's chief export.

In fact, committee data released this July revealed that Kyrgyzstan had exported record quantities of gold – 24.8 tonnes – in 2021.

But the committee did not account for where the vast majority of this bounty had been sold, referring to an "undefined country" as the purchaser of 19.2 tonnes, or 77%.

Switzerland is well-known as a longstanding destination for Kumtor's gold, and sure enough, Swiss trade statistics confirm that was where the gold had been received.

So why the secrecy?

In an interview last month with state media outlet Kabar, President Sadyr Japarov said that the identity of the importing country had been classified "for the security of the delivery."



The president eyeing the gold back in January. / Government handout.

Bizarrely, the statistics committee had already identified Switzerland as the destination for exports of a smaller quantity of gold – just over a tonne, along with the United Kingdom (4.08 tonnes) and “others” – 0.47 tonnes.

Japarov and Tashiyev, whose campaign to nationalise Kumtor began a decade ago when the pair were an opposition tandem, are Kyrgyzstan’s two most powerful politicians.

“Japarov and Tashiyev, whose campaign to nationalise Kumtor began a decade ago when the pair were an opposition tandem, are Kyrgyzstan’s two most powerful politicians”

The third leg of the stool is chief minister Akylbek Japarov, not a relative of the president, but who is just as vague as his boss when it comes to answering questions about Kumtor.

Earlier this month, when pressed to report on Kumtor to parliament, he declared his government’s readiness to “answer for every milligram” of gold in due course.

He further complained that media outlets were stirring discord over Kumtor. “Gold is not a toy!” he warned.

Every week seems to bring something new to feed speculation surrounding Kyrgyzstan’s largest asset.

Last week it was the emergence of a photo online showing President Japarov’s older brother, Sabyr, clutching a pair of gold bars.

The president’s spokesman Erbol Sultanbayev provoked guffaws when he suggested the snap had been taken in 2016 or 2017, a period when Sadyr Japarov would have been either living abroad or serving out a jail sentence on kidnapping charges. The fact that Sabyr Japarov was holding a face mask, and that the man next to him was wearing one – seemed to point to a more recent date.

Japarov cleared the air during another interview with Kabar on September 8, explaining that the photograph of his brother was taken in Turkey last year and that a Turkish metal refining company that wanted to buy Kumtor’s gold had reached out to Sabyr as a bridge to the president.

No deal materialised, he said.

The president advised people not to “turn this [the photo] into some tragedy”.

Another mining mystery is how things went so wrong for Japarov’s one-time golden boy Tengiz Bolturuk.

Even before the beginning of the seizure of Kumtor, Bolturuk had been a close ally of Japarov’s, representing Kyrgyzstan’s interests on the board of Centerra Gold where he quickly gained a reputation as a hostile interlocutor.

When state officials seized Kumtor in May 2021, he ditched that obsolete role to become the mine’s external manager.

Bolturuk’s three-decades of industry experience proved invaluable to Bishkek in the transition to national control over Kumtor, but his overnight superstardom ruffled feathers.

A brand-new government holding that he chaired called Great Nomads Heritage emerged to become arguably the most important player in the national extractive industry.

He made enemies both in parliament, where some lawmakers complained about his Canadian-Kyrgyz dual citizenship, and at the state mining champion Kyrgyzaltyn, where he reportedly called the shots without formally holding a position.

But in August, Bolturuk was declared to be under criminal investigation over financial misdemeanours that were detected at Kumtor in contracts for fuel, food and equipment.

Worryingly for Bolturuk – a native of Japarov’s home district of Tyup in Issyk-Kul region – the president has said absolutely nothing in his defence.

“I did not allow anyone to interfere in his work and I did not interfere myself, so that he would not later be able to say that because of me he could not fulfil his duties,” Japarov told Kabar of the investigation.

On September 13, Kyrgyzstan’s state prosecutor said it had opened three criminal cases as a result of the investigation with estimated damages to the state totalling more than \$12mn. Bolturuk and two others were reportedly taken into custody. ●

This article originally appeared on Eurasianet.

“Bolturuk was declared to be under criminal investigation over financial misdemeanours that were detected at Kumtor in contracts for fuel, food and equipment”



EM debt crisis around the corner

Ben Aris in Berlin

Soaring inflation, a strong dollar and a complete overhaul of global energy markets are playing hell with Emerging Market debt. The world is now teetering on the edge of a global debt crisis, warns Oxford Economics in a research paper released on September 6.

“The latest emerging market (EM) debt crisis is upon us, with the dollar-denominated debt of 25 EM sovereigns trading at yields of more than 1,000 bps,” Gabriel Sterne, the head of global EM research at Oxford Economics, said in a note emailed to clients. “Because this wave is only just breaking and is likely to crash on frontier markets and small developing economies this time around, it hasn’t yet grabbed the same headlines as the last wave of sovereign defaults in the 1980s – when most commodity exporters defaulted at least once.”

Earlier this year the International Monetary Fund (IMF) warned that the world was facing stagflation, which last time it reared its head in the 1970s led to multiple financial crises as debt loads became unmanageable. Sri Lanka’s economy has already blown up, causing a change of government, and at least four African countries, including Ghana, Egypt, Mozambique and Angola, have already been driven into the arms of the IMF after their public finances became untenable. And things are likely to only get worse.

Mature EM sovereigns usually choose default or devaluation to get out their bind. Having issued predominantly in local currency, the preferred way to reduce debt has been a deep depreciation, stoking inflation, introducing capital controls and negative real interest rates on local currency debt.

“Among stricken EMs this time, Nigeria, Egypt, Pakistan each fall into that category, giving creditors of FX-denominated debt a bit of space between them and a haircut,” says Sterne. “But the debt of most frontiers is predominantly dollar-denominated – and therefore prone to defaults once nasty shocks materialise.”

The dollar’s rise has been turning the screws intolerable tight this year, up some 20% since the start of this year. And much of this debt is owed to international financial institutions



A strong dollar, soaring inflation and sky-high energy prices are pushing more and more weak emerging and frontier markets towards default similar to the financial crises of the 1980s. / bne IntelliNews

(IFIs) that usually don’t accept haircuts when doing debt restructuring deals. Of distressed sovereigns, multilaterals hold more than 25% of the debt of Mozambique, Tunisia, Ecuador, Ukraine and Tajikistan, reports Oxford Economics.

Of those in trouble, Ukraine is one of the few to have already agreed debt relief with its main sovereign creditors, who have granted Kyiv a two-year coupon and redemption holiday while it is under attack by Russia. However, even with this help, Ukraine has borrowed large amounts of money in its effort against Russia’s invasion and must pay \$10.1bn in debt by the end of 2022.

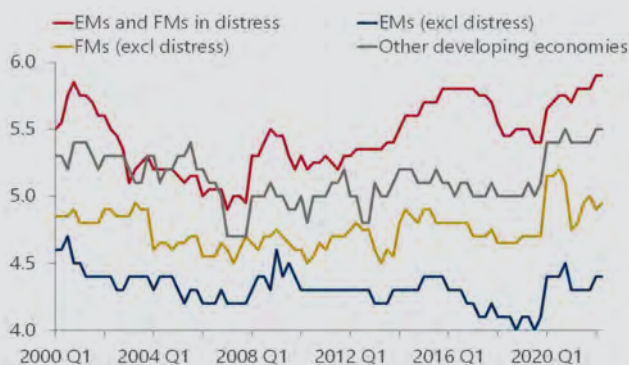
On top of the pressure EM and frontier markets are feeling thanks to their IFI borrowing, many countries have also over-borrowed from China and are struggling to meet payments. In Europe tiny Montenegro has already run into trouble after its public debt reached 84.75% of GDP in 2021 and it was unable to repay Chinese loans to build the Bar-Boljare motorway.

Sovereign stress building

EMs are facing a perfect storm, as they were just emerging from two years of the coronavirus (COVID-19) pandemic that had already put most countries’ balance sheets under strain. The global inflation surge and soaring energy costs hit hard

Sovereign risk scores among various EM groupings

Median scores within each grouping, higher implies more risk



Source: Oxford Economics / Haver Analytics

at governments already in a weakened position. Debt-to-GDP ratios have risen inexorably after 2010.

“We focus on the 80+ sovereigns with sovereign bonds outstanding. The profile of the 75th percentile of the debt-to-GDP distribution is a good place to look for risks of widening stress; it increased dramatically, from 45% in 2010 to 68% in 2019. And then it rocketed to 83% after the COVID-crisis and supply shocks,” says Sterne.

And the first defaults are already appearing, including Russia, Sri Lanka, Ukraine and Zambia, which is a 20-year high, but still below the defaults that followed the stagflation episode in the 1970s and that went on to cause financial crises in the 1980s.

The situation is even worse than this data suggests, Sterne argues, as defaults come at the end of a period of distress, but the prices on the bonds are forward looking and the price of EM debt has already jumped to 25-year highs, with the dollar-

“EM debt has already jumped to 25-year highs, with the dollardenominated debt of around 25 EM sovereigns trading at yields of more than 1,000 bps since the start of this year”

denominated debt of around 25 EM sovereigns trading at yields of more than 1,000 bps since the start of this year.

The 1980s experience reveals how defaults can come in waves triggered by a terms-of-trade shock. Most commodity producers defaulted at least once during that period, Oxford Economics reports.

“This time the impact is less focused on any particular group of economies. Commodity importers have suffered the biggest negative terms-of-trade shock, but all EMs suffered under Covid and generalised struggles in the global economy, including the fallout from Russia’s war on Ukraine,” says Sterne.

Composition matters

No one likes to restructure their debt, but how that debt up is made affects their ability to do restructuring deals if forced to.

Holders of local currency assets are typically a soft target for debt reduction for governments. A currency depreciation immediately cuts debt but typically causes high inflation. Capital controls also allow a government to impose negative real interest rates on local currency instruments, which also reduces debt. The bigger the share of local currency debt in the total debt, the bigger the incentive to depreciate rather than default on FX debt.

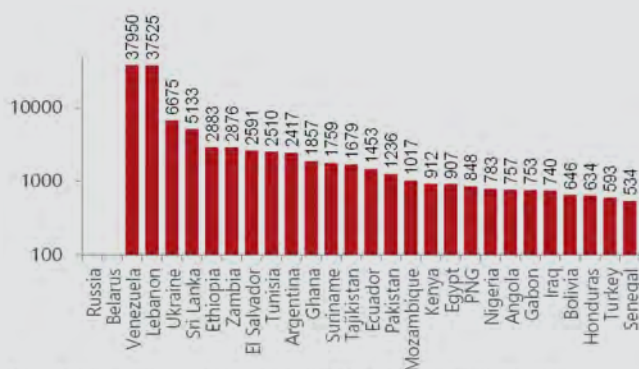
The good news for holders of sovereign bonds that are denominated in foreign exchange is that most mature EMs have largely issued debt in local currency, a process facilitated by Clearstream that has been connecting local debt markets to the international system, allowing traders in London and New York to participate directly on exchanges in places like Moscow or Kyiv. The dramatic shift came between 2004 and 2012, when the average share of local currency issues in total external sovereign debt in larger EMs increased dramatically, to 60% from 15% reports Oxford Economics. For example, Brazil, China and India’s total issues of dollar-sovereign bonds each amount to less than 5% of GDP, so it will likely never be worthwhile for them to default.

Smaller, less mature frontier markets have not connected their markets to the international system, making it onerous for international investors to tap their bond markets and leading those countries to have a much larger share of FX obligations. Of the 19 most distressed sovereigns, only four have domestic debt greater than 60% of the total. Sovereign spreads of these four are nevertheless temptingly high (Egypt >900bps, Nigeria >780bps, Pakistan >1200bps and Argentina >2400bps), reports Oxford Economics.

“Three of the four have demonstrated a long-standing capacity to tap local markets for funding (Argentina is a more complex story), and there may be a case to argue markets are underestimating the role of domestic funding in shielding dollar-debt from default,” says Sterne. “A big risk for all four is that domestic funding pressures result in pressures on the current account. For them, fiscal stress would most likely transmit to crisis via a pressure on currency and the resulting drain in FX reserves (though only Argentina and Nigeria currently have very low reserves).”

But most of the counties in distress have relatively low levels of domestic debt: Tunisia, Mozambique, Angola, Tajikistan, El Salvador, Ecuador and Cameroon each has domestic debt under a third of the total. “For these, when debt reduction is needed, attention will go directly to haircuts,” says Sterne. ●

Spreads of the most distressed sovereigns
bps (log scale)



Note: Belarus, Comoros and Russia spreads excluded owing to illiquidity

Source: Oxford Economics / Haver Analytics

Fondul Proprietatea selects investment banks for Hidroelectrica IPO

Iulian Ernst in Bucharest

Franklin Templeton, as the fund manager and sole director of Fondul Proprietatea (FP), announced that the fund and Romanian hydropower company Hidroelectrica have selected a consortium of investment banks, a key milestone for the planned IPO of Hidroelectrica.

After years of delays, the IPO of Hidroelectrica, the largest producer of electricity in Romania, is expected to take place by the end of June 2023, the Romanian government – its majority shareholder – announced in July.

FP did not name the investment banks selected. However, according to Ziarul Financiar citing sources familiar with the deal, they are Citi, Morgan Stanley, Erste and Jefferies (global managers), Bank of America, Barclays, UBS, UniCredit and Wood (joint managers) and respectively Banca Transilvania-BCTP and Swiss Capital (co-lead managers).

The role of the selected investment banks in the IPO process is to recommend the optimal structure of the transaction, promote the equity story of Hidroelectrica among local and



international investors, place securities in the IPO, as well as assist with the listing process.

“We firmly believe that the IPO and the subsequent listing of Hidroelectrica will bring significant benefits to the Romanian capital markets and Romania as a whole, as it has great potential to attract significant domestic and foreign investors for the Romanian leading electricity production company,” stated Ilinca von Derenthall, chairperson of the board of nominees.

Fondul Proprietatea, which owns almost 20% of Hidroelectrica hopes to succeed in convincing the government to approve the listing of the company on an external stock exchange, not only on the Bucharest Stock Exchange (BVB), Daniel Naftali, senior vice-president of fund administrator Franklin Templeton Bucharest, deputy portfolio Manager of Fondului Proprietatea and member of CS Hidroelectrica, said recently in an interview with Profit.ro.

According to him, most likely, the listing of the hydropower producer will take place in February next year. ●

Moldova's largest bank MAIB seeks listing in Bucharest

bne IntelliNews

Talks are being carried out with the authorities in Moldova for Moldova Agroindbank (MAIB) — the largest bank in the country by assets — to have its shares listed on the Bucharest Stock Exchange (BVB), announced Nicu Marcu, president of the Romanian financial supervisory authority (ASF).

MAIB, the largest credit institution in the Republic of Moldova, with a market share of 32% and assets of approximately MDL39bn (€2bn), is preparing a listing on the Bucharest Stock Exchange, in an offer scheduled for 2023 through which the bank will access the financing necessary for development.

www.bne.eu

“[S]teps are being taken to list the largest bank in the Republic of Moldova. They are aspects that make us confident. For quite some time, ASF has started the steps together with the National Bank of Moldova, with the Moldovan Capital Market Supervisory Authority, to harmonise the legislation so that MAIB can be listed in Bucharest as soon as possible,” said Marcu at the Moldova Romania Capital Bridges Forum organised by the BVB and MAIB on September 13.

Among the owners of MAIB are the European Bank for Reconstruction and Development (EBRD), Horizon Capital, as well as 3,000 other shareholders, both institutional and small investors.

"This decision is subject to shareholder and regulatory approvals, which we will obtain. We also explored other markets and I am happy to say that we are quite confident that the Bucharest Stock Exchange suits us best," Giorgi Shagidze, CEO of MAIB bank told Ziarul Financiar daily on September 7.

Shagidze, a former executive at Georgia's TBC Bank, was selected to head the bank in early 2021 with an eye to using his experiencing in listing the Georgian bank.

Shagidze has over 25 years of experience in the financial and banking sectors, most recently as chief financial officer and chief operating officer at TBC Bank. During his 10 years in the post, TBC Bank increased its assets more than eightfold, becoming the largest bank in Georgia. In 2014, TBC launched its IPO on the London Stock Exchange (LSE), attracting foreign institutional and retail investors. TBC shares are included in the FTSE 250 index with a current market capitalisation of approximately \$1bn.

The EBRD and two private equity investment funds that bought into the bank in 2018 in what was seen as an important step towards cleaning up the largest bank in a sector plagued by corruption scandals.

Since 2018 its largest shareholder has been HEIM Partners Ltd, a UK-registered company representing the international investor consortium of the EBRD and private equity investors Invalda INVL and Horizon Capital, which used to be run by former Ukrainian finance minister Natalie Jaresko.

MAIB is already listed on the local exchange in Chisinau, but the exchange lacks liquidity which prompted its owners to consider an international listing.

Four years ago, Purcari Wineries became the first Moldovan company to list on the Bucharest bourse, helping to fund its international expansion. ●



bne:FX

Poland's central bank winds down 12-month tightening campaign with 25bp rise

Wojciech Kosci in Warsaw

The National Bank of Poland (NBP) increased its reference rate by only 25bp to 6.75% on September 7, as fears of recession begin to trump those of inflation.

The small scale of the hike, which was in line with market expectations, marks a possible end to the NBP's year-long tightening campaign, aiming at bringing unbridled inflation under control via putting brakes on economic activity.

The real risk of recession seems to have been occupying the minds of policymakers more than inflation recently after growth halved in y/y terms in Q2, with the outlook now tilted increasingly towards at least a technical recession, analysts say.

"There was no new guidance in the communications in terms of the central bank's next move, but with policymakers seemingly more concerned about the deteriorating economic outlook than sky-high inflation, we think this marks the end of the tightening cycle," Capital Economics said in a comment.

For its part, the NBP said that further decisions would "depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy."

The ongoing economic slowdown could eventually bring inflation down, albeit incrementally, over the next several months. There already are signs of core inflationary pressures easing, even as food and energy prices still pushed headline inflation up to 16.1% y/y in August.

That said, some analysts point to a rare set of circumstances – Russia's war in Ukraine being a fundamental one – that could upend any projections as to inflation trajectory.



The NBP might be expressing hope that the economic slowdown will trounce inflation eventually – via weakening credit demand and Poles' propensity to shop – but that alone may not be enough, ING writes.

“The energy shock is so powerful that companies will continue to pass costs onto product prices, even in times of economic downturn,” ING Bank Slaski's chief economist Rafal Benecki wrote.

The analyst adds that the Polish government is also poised for a large budgetary expansion in 2023 in line with an EU-wide trend of the authorities striving to defy the effects of Putin's gas war on Europe.

“This is a reasonable approach, but in Poland we already have a very expansive policy mix and the side costs in the form of persistently high inflation may be higher than in other countries,” Benecki said.

Such a scenario – which boils down to stagflation – is a solid premise to expect no more hikes, even if the NBP appears in no position to declare so verbatim, according to PKO BP.

“The MPC will maintain the data-driven mode,” PKO BP said

in a comment, adding that further rate hikes could come if there is “a strong and permanent weakening of the zloty or a further heating of the labour market, symptoms of which we do not see so far.”

Oxford Economics said this week that nominal wage growth in Poland might stay strong, which could keep inflation higher for longer. This would keep assets under pressure and force the central bank to maintain a tight stance, or risk a weakening of the zloty or damage to economic competitiveness, hurting medium-term growth prospects. It says the central bank is currently “struggling to re-anchor inflationary expectations”.

If it halts further rate rises, the NBP would join Czechia's central bank CNB in its dovish stance. The CNB kept its key interest rate unchanged at 7% in early August, making it the first bank in Emerging Europe to halt the tightening cycle.

In contrast to Poland and the Czech Republic, neighbouring Hungary's central bank NMB delivered another solid hike – this time of 100bp – to bring its base rate to 11.75% in late August, continuing the bid to fight surging inflation, which could hit 20% at the end of the year. ●



bne:Tech

Romania expects €200mn from 5G licenses in 2022

bne IntelliNew

The terms for the 25-year radio licenses for the construction of 5G communication networks, expected to generate revenues of nearly €700mn to the budget over a five-year period were approved by the Romanian government on September 14, after final discussions between the National Communications Regulatory Authority (ANCOM) and the main bidders – Orange, Vodafone, RCS&RDS Digi and Telekom Mobile.

The budget revenues are expected at just over RON1bn (€200mn) this year and over RON2.5bn in the first five years, according to the estimated impact included in the substantiation note sketched along with the government decision.

After the latest round of discussions, the telecom operators convinced ANCOM to sweeten the terms of the contract,

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probably the most important being the 30% reduction of the radio spectrum usage tariff, which will translate into lower costs paid by the telcos.

However, the telecom companies were no longer granted access to preferential electricity prices, under the latest form of the “cap and subsidy” scheme aimed at protecting some economic sectors and households from unusually high energy prices.

The telecom operators have complained that this would result in fewer investments. The telecom operators are expected to invest some €2bn in developing 5G infrastructure, including the fees paid to the government.

The government's decision to no longer protect the telecom sector from high electricity prices is estimated to cost the companies some €300mn. ●

France's 52 Entertainment buys Bulgarian gaming developer Casualino

bne IntelliNews

French e-gaming company 52 Entertainment said it has acquired Bulgarian games development studio Casualino, improving its regional capabilities in board and card games.

The company did not disclose the value of the deal, but according to Capital weekly, the company is valued at around BGN90mn (€46mn).

“Joining forces, further solidifies the positioning of 52 Entertainment as one of the world’s leader in online mind and strategy games with a roster including already Exoty Belote and Exoty Tarot, FunBelote or Canasta Junction adding an impressive roadmap and amazing list of titles already



ready for roll out all around the world from Casualino,” the company said in a press release.

The deal will help 52 Entertainment achieve its goal to become a major global digital company in the entertainment industry.

Casualino, set up in 2014 as a subsidiary of Zariba Group, is focused on developing multiplayer and single-player card and board games online.

The company has around 1mn active users per month, offering 42 live games. Its brands are popular in France, Bulgaria, Saudi Arabia and the US. ●

Serbia’s video game industry generated revenues of €125mn in 2021

bne IntelliNews

Serbia’s video game development industry generated revenues of around €125mn in 2021, Mihailo Vesovic, director of the sector for strategic analysis, services and internationalisation at the Chamber of Commerce and Industry of Serbia (PKS), told an event on September 22.

Serbia is an emerging high-tech hub that is especially strong in blockchain and game development. Among the major global game developers in Serbia are Endava and UbiSoft, while there are also successful local companies such as Belgrade-based mobile games developer Nordeus, which was acquired by Take-Two Interactive for \$378mn in 2021.

“With more than \$200bn a year, the video game industry in the world and in our country is starting to be a huge force of development. More than 130 companies in Serbia employ about 3,000 people in this industry,” Vesovic told the Level Up your IP: 101 Strategies for Videogame Developers meeting, a statement from the PKS said.

Vladimir Maric, director of the Institute for Intellectual Property, said that 5% of the GDP in Serbia is created by creative industries, and half of that amount comes from the ICT sector.

Globally, the gaming industry is predicted to be worth around \$330 billion in 2026, and the number of gamers in the world will soon reach 3bn, according to the PKS.

Virag Halgand, head of the Department for Central Europe and Baltic and Mediterranean countries at the World Intellectual Property Organisation, noted that the video game industry has shown resilience over the last two years, and that demand is growing and not decreasing. ●

“With more than \$200bn a year, the video game industry in the world and in our country is starting to be a huge force of development”



Southeast Europe's first eco-mosque opens in Croatia

bne IntelliNews

Croatia opened the first eco-mosque and Islamic centre for the region in the town of Sisak with Turkey's President Recep Tayyip Erdogan (after whom the mosque is named) and his Croatian counterpart Zoran Milanovic attending the ceremony, the Sisak municipality said in a statement.

As the climate crisis worsens, there is growing interest in building more eco-friendly places of worship. The mosque in Sisak is built to be energy efficient with heat pumps, solar panels on the roof and a 30 KWh photovoltaic plant. It also has energy-efficient LED lights.

The Islamic centre is expected to serve at least 4,000 people in the county. It covers an area of 2,600 square metres with 600 sq m dedicated to prayers and the remaining area open for visitors.

The Islamic centre also has multipurpose classrooms designed for religious students, a restaurant with Islamic specialities, a convention centre and a reading room.

The opening ceremony gathered 5,000 people from the Islamic community in Sisak as the mosque's construction had been planned for more than 50 years. It was finally completed with Turkish support.

"Together we completed this precious project, which is a sign of our friendship and brotherhood, and I believe that this centre will be one of the main addresses for meeting and socialising in the city, where our friends of other faiths will also spend time," said the Turkish president in his speech.

"An integral part of Sisak is the Bosniak community, which, like all other Sisians, suffers hardships and troubles. However, adversity did not defeat my fellow citizens, on the contrary, it made them more determined and invincible. Today we stand before the symbol of their victory and ours," said Sisak mayor Kristina Ikić Banicek.

The chief imam of Sisak, Alem Efendija Crnkic, commented that it was a "a privilege to live in a city where the citizens rejoice over



The mosque in Sisak is built to be energy efficient with heat pumps, solar panels on the roof and a 30 KWh photovoltaic plant. / sisak.hr

the completion of the mosque and where not a single incident worthy of mention has been recorded in six years".

Sisak was badly affected by a major earthquake that struck in December 2020, with the town of Petrinje the worst affected but widespread damage in other parts of the county including the town of Sisak.

As well as the eco-mosque in Sisak, Croatia also has a smaller mosque in the town of Gunja and a smaller Islamic centre in Umag.

The first environmentally friendly mosque is believed to be Dubai's Khalifa Al Tajer Mosque, which opened in 2014. It has systems to reduce wastage of water, which worshippers use for their ablutions before the five daily prayers. The first purpose-built eco-mosque in Europe was the Cambridge Mosque in the UK.

Another initiative is the Green Mosque project in Morocco, under which a pledge was made to incorporate eco-designs such as solar panels and LED lighting into existing mosques. They include the historic 12th-century Jami'a al-Kutubiyya mosque in Marrakech, where solar panels were installed in 2017. ●

"Together we completed this precious project, which is a sign of our friendship and brotherhood, and I believe that this centre will be one of the main addresses for meeting and socialising in the city, where our friends of other faiths will also spend time"

Slovenia's Sigma Energy deploys device to convert sea waves into electricity

Richard Lockhart in Edinburgh

Slovenia-based company Sigma Energy, which has developed a device able to convert the energy produced by sea waves into electricity, announced that it deployed the full-scale Sigma WEC prototype device offshore Bar in the Adriatic Sea in Montenegro.

The deployment happened after two and half years of intensive development of the device, which was created to produce clean energy.

"The 30-kW device was deployed in mid-July and shows extremely promising results," the company said on its website.

The main purpose and objective of the Sigma WEC project is the development, deployment and testing of a full-scale Sigma WEC.

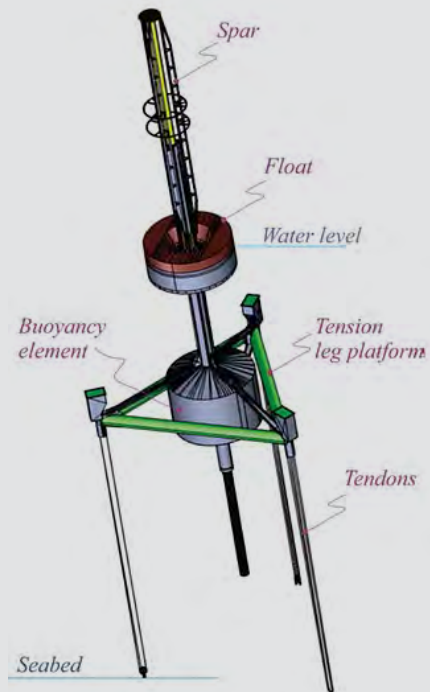
The investment is co-financed by the Slovenian state and the EU's European Regional Development Fund.

Sigma Energy's main partners are from Slovenia and Serbia.

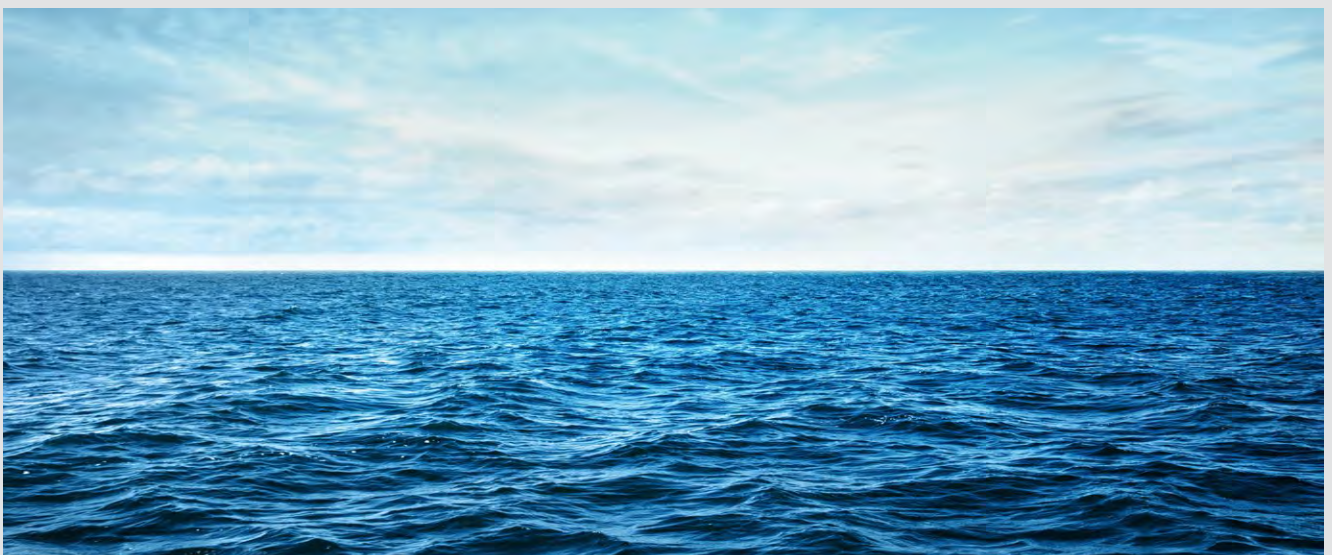
Along with Slovenia, several other countries are also developing wave energy, among them Australia, China, Denmark, Italy, Korea, Portugal, Spain, the UK and the US.

Wave energy is estimated to have the potential to meet the world's energy needs and is more reliable than other forms of renewables such as wind and solar power. However, it is relatively underdeveloped compared to other forms of alternative energy. ●

Sigma Wave Energy Converter



www.sigma-energy.si



ENERGY CRISIS: EUROPE'S INDUSTRY SHUTTING DOWN

Ben Aris in Berlin



With energy prices at decade-long highs, Europe's most energy-intensive companies have begun to shut down. Dozens of plants across a diverse range of industries such as steel, aluminium, fertilisers and the power industry itself have been forced to close up shop as sky-high gas and power prices make their businesses loss-making.

The shortage of gas has already prompted talk of energy rationing crippling industry, but for the most energy-intensive sectors things have already gone beyond that; costs have risen so high they are no longer profitable and have to close down.

That gutting of Europe's heavy industry is already weighing on the economies of the region and economists are predicting that the EU is about to go into a deep recession.

"Sky-high gas prices and aggressive monetary policy tightening have pushed the global economy to the brink of a late 2022/early 2023 recession – defined as two quarters of falling per capita GDP. We expect a global recession to be avoided, but a sustained and substantial improvement in growth also seems unlikely," Oxford Economics said in a note.

The closures could do long-term damage to Europe's industrial base.

In Germany, Europe's industrial powerhouse, the most energy-intensive industries are already being hit hard by unsustainable costs: energy accounts for 26% of the metallurgy industry costs; 19% of basic chemical production; 18% of glass manufacture; 17% for paper; and 15% of construction materials, according to Destatis. European carmakers have already begun hoarding windscreens in anticipation of a glass shortage in the months to come.

Over half of Europe's aluminium smelters have already been affected by the power crises. The EU has temporarily lost 650,000 tonnes of primary aluminium capacity, or about 30% of its total, Eurometaux said. Some of Europe's biggest steel and chemical plants have also been taken offline and there is no clear idea of when they can start up again. And Europe's fertiliser industry association says more than 70% of the continent's fertiliser production has been either shut or slowed due to sky-high gas prices.

As *bne IntelliNews* reported, after over seven months of war, commodity prices across the board have begun to fall in the last few weeks, but even as they come off their panic peaks the prices of things like gas and power remain double or treble their normal levels.

Steel

Producers of the metal from Spain to Germany are beginning to slow down or entirely stop their output as the higher costs make production unsustainable, even with steel trading near record levels. So far, more than 3mn tonnes of annual capacity are already being affected by sharply rising costs, reports Steel News.

At the start of September India's ArcelorMittal, one of the largest steelmakers in the world, said it was planning to close two of its plants in Germany amid soaring electricity costs.

Construction steel is typically made in power-intensive electric furnaces that have been hit hard by the record power prices in Europe.

Many mills using electric-arc furnaces are now loss-making. Plants using coal-fired blast furnaces will be less badly affected, say experts, as power makes up a lower proportion of their costs.

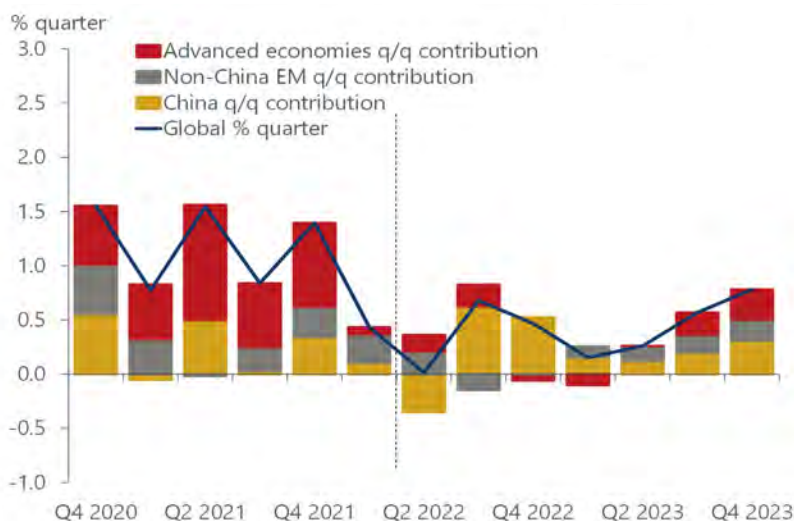
Other big steel mills in the firing line are Acerinox SA, Salzgitter AG and Liberty Steel. Spain's Acerinox has already partially closed one plant in Cadiz, where a stainless steel mill has halted but other hot and cold rolling lines are still working. The company has also furloughed 1,800 workers, 85% of its workforce.

In Germany, Salzgitter reduced its melting operations at its Peine plant and UK producer Liberty Steel stopped production at its Rotherham mill earlier than expected, reported Bloomberg.

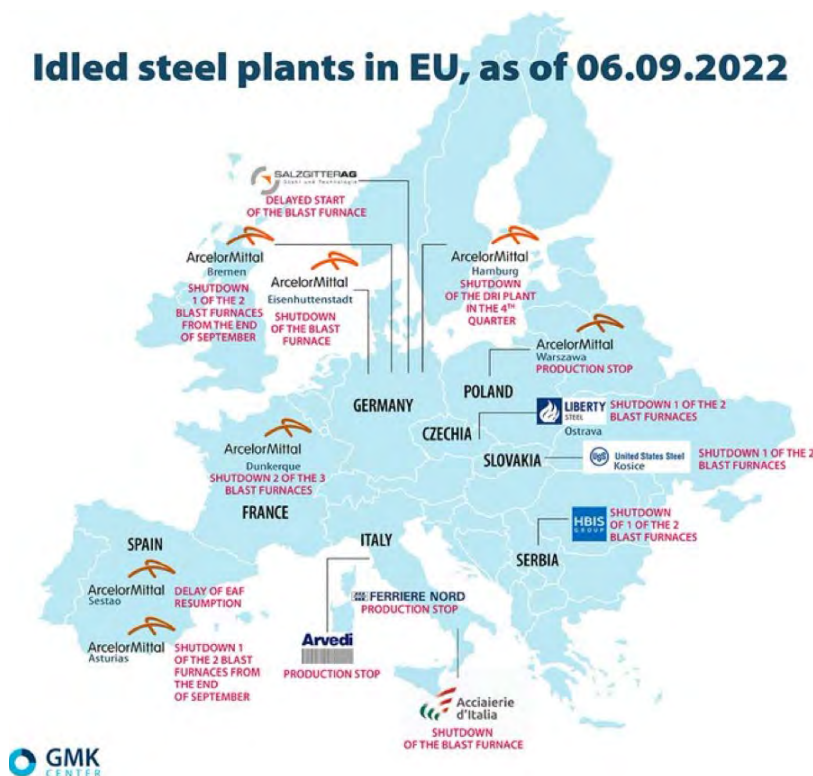
Spanish Celsa Group's furnaces at its Barcelona plant were halted last month, while Megasa SA also idled two facilities in the northern region of Galicia, according to Bloomberg. ArcelorMittal has closed its Spanish plant at Sestao, which will not resume working as previously planned on March 13 due to high electricity costs.

Already at the beginning of August, the Belgian Aperam mill in Genk was closed and production at the Châtelet mill has been reduced.

World: GDP



Idled steel plants in EU, as of 06.09.2022



The Spanish and Belgian EAF mills alone have a combined production capacity of more than 3mn tonnes per year (tpy) of stainless steel, which will definitely have an impact on the availability of stainless steel in Europe. In addition, there are about 2.5mn tpy of further EAF stainless capacities in Northern and Southern Europe about which no further information is currently available.

Aluminium

European producers of aluminium and other non-ferrous metals have cut production in response to soaring energy prices.

Since September 2021, the European Union has temporarily lost almost one-third of its primary aluminium capacity, and there have been similar shutdowns and capacity reductions by producers of zinc and other metals that require large amounts of electricity. Electricity costs make up to 40% of the production costs for primary non-ferrous metals, according to Eurometaux, the European Association of Metals.

They include a number of producers in eastern EU members such as Romania's Alro, Slovakia's Svalco and Talum in

Slovenia, as well as KAP in EU accession candidate Montenegro.

In Romania, Alro announced to investors in a note filed to the Bucharest Stock Exchange (BVB) at the end of December that its board of directors had decided that the production of primary aluminium would be reduced in 2022 from five to two electrolysis halls, "in the context of the exceptional situation on the energy and gas markets".

Slovakia's Svalco cut production by 40%, after previously announcing a capacity cut to 80% in 2019, the latter connected to the country's EU Emissions Trading System (ETS). The new cut corresponds to a reduction of 35,000 tpy of aluminium.

"If conditions are not improved, the smelter, which is one of the newest and most efficient in Europe, will shut down permanently," the association said.

Meanwhile, Talum lowered production from its Slovenian smelter from November 1.

Among the West European companies to take similar steps are Aluminium

Dunkerque Industries France, Trimet Aluminium in Germany, Aldel in the Netherlands and Alcoa in Italy.

The hike in power costs has also affected European producers outside the EU.

Montenegro's Uniprom completed the shutdown of the country's sole aluminium smelter, KAP, on December 30, after it failed to reach an agreement on a new electricity price with power company EPCG and the rising electricity prices made its production uneconomic.

That left Montenegro's power company EPCG with excess electricity worth more than €100mn to export after its biggest client halted operations.

Eurometaux said there have been a number of shutdowns and reductions in production at zinc producers, as all nine electrolytic zinc smelters in the EU have been "heavily affected" by the power crisis. Among them is the KCM zinc smelter in Bulgaria.

Fertilisers

Fertiliser producers are also shutting down as they are on the front line of the economic war, heavily dependent on gas as a feedstock. That could cause some serious problems.

The world will face a food shortage if the fertiliser markets are not normalised, the head of the UN said on September 15. "If we don't normalise the fertiliser markets, we will have a problem of food in 2023," UN Secretary-General Antonio Guterres stressed during the 77th UN General Assembly. "We are doing everything to make it happen in reality to get Russian food and fertilisers to global markets," Guterres added.

The German chemicals powerhouse BASF has already temporarily shuttered 80 plants worldwide and is slowing production at another 100 as it plans further output cuts depending on what happens to gas prices.

BASF is one of the largest gas users in Germany and said last week it is bracing

ing for prolonged high gas prices that it uses as a feedstock for chemical production.

"BASF is monitoring the situation and will decide, depending on the situation, on any changes to the production value chain as appropriate," it said in a statement as cited by Reuters.

Rival ammonia makers Yara and CF Industries said last month they were also slashing ammonia production in Europe due to soaring gas prices.

The EU's fifth sanction package limited imports of Russian fertilisers, throwing Europe onto its own resources. At the same time as Europe has cut off imports from its biggest supplier, it has been unable to step up its own production as the exploding cost of gas is driving EU fertiliser plants out of business.

One of Europe's biggest fertiliser producers, Warsaw-listed Polish chemicals group Azoty and its listed unit Pulawy, has suspended or reduced production of some products, including nitrogen fertilisers and ammonia, due to skyrocketing prices of gas, the companies said on August 23.

"Due to record prices for natural gas, the main production feedstock used by Grupa Azoty ... the company decided that as of August 23, it will temporarily shut down its nitrogen fertiliser, caprolactam and polyamide 6 production units," the

company said in a market filing. Pulawy said that it would cut its ammonia output to "about 10%" of production capacity.

"Although there are no problems with the availability of gas, the current situation in the gas market, which

"The German chemicals powerhouse BASF has already temporarily shut-tered 80 plants worldwide and is slowing production at another 100 as it plans further output cuts depending on what happens to gas prices"

determines the profitability of production activities, is extraordinary and completely beyond the control of [the group], and could not have been predicted," the two companies said in similarly-worded statements.

Another Polish fertiliser maker, Anwil – which is owned by energy giant PKN Orlen – also said on August 23 that it would suspend production of nitrogen fertilisers due to high prices of gas.

In Romania, the operations of fertiliser producer Azomures have been disrupted since December 2021 by high gas prices. Azomures produces 50% of the fertilisers used by Romanian farmers and is the largest natural gas

consumer in the country accounting for 10% of total consumption.

The company resumed production of fertilisers and other industrial products in April with state support, but two months later discontinued the produc-

tion of ammonia, saying at the time that it would only keep producing fertilisers until it used up all its inventory of ammonia. That point arrived in September, when Azomures decided to reduce its activity. Around 200 of its 1,000 employees will now be either sent home under a technical unemployment scheme or re-allocated to other companies.

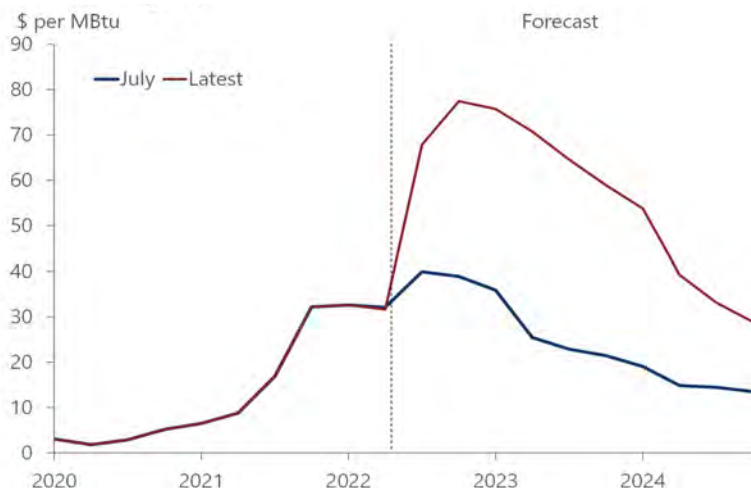
Power

The wild swings in gas prices have fed through to the normally placid power market, which has wreaked havoc. The power sector relies on exactly matching demand and supply, and traders are the backbone of this mechanism. If supply and demand can't be balanced then power stations simply go offline.

While the power system is efficiently co-ordinated Europe-wide, trading in power remains a largely local business with many small traders playing a key role. The wild swings in prices make their business impossible and open up these traders to large losses if they get caught on the wrong side of a trade.

Since September 2021, nearly 30 UK energy suppliers have filed for bankruptcy. Bankruptcies elsewhere include Bohemia Energy, the largest alternative supplier to state-owned CEZ in Czechia, which filed for bankruptcy in October 2021, while multiple energy providers have said they will withdraw from the French market.

European gas price



More pressure is being placed on small traders as contracts are usually signed well in advance to ensure the broker has power to sell when it is needed. Normal these contracts come with an upfront payment, but the central counterparties (CCPs) that facilitate these trades are now demanding up to 80% of the

forecasts have repeatedly been downgraded.

“The ZEW index for the eurozone fell again in September, as the assessment of the current situation and the outlook for the next six months deteriorated further, which reaffirms our call for an incoming

the series in January 1994,” Oxford Economic said.

Fiscal support to protect households and businesses from ballooning energy prices generally amounts to around 2-3% of GDP across Central and Eastern Europe (CEE) but is already in double digits in some countries. Economists are already saying the relief packages will cushion the blow, but they cannot stop a recession.

Governments have been rolling out a raft of measures to counter the crisis.

In Poland, the government slashed VAT and excise duties on fuel and energy at the start of this year, provided cash handouts to households, and has approved a price cap on heating for the upcoming winter. The total cost of this support amounts to around €11bn (1.7% of GDP), reports Capital Economics.

In Romania, the government has set caps on electricity and gas prices since last November and said it will continue to do so until August 2023. It has also introduced a series of grants, vouchers and subsidies for vulnerable households and industries.

The Czech government has been slower to respond but is now acting on a noticeable scale. Last month it approved an energy subsidy for households and businesses and said that it has set aside a total of €7bn (2.5% of GDP) to deal with soaring prices.

“The picture is even worse in Germany, where the outlook has deteriorated even more significantly”

contract price ahead of time, creating a liquidity problem that small traders can't cover and banks are increasingly unwilling to credit. The prospects of a default are growing and if a big trading house goes down that would lead to a system-wide liquidity crisis, says the Bruegel think-tank.

Several large utility players have already got into trouble. The German government is preparing to bail out its major utility company, Uniper, with a rescue package worth €15bn; the Élysée has announced a €10bn package to finalise the nationalisation of Electricité de France (EDF); and in early July CEZ, Czechia's biggest utility, signed a credit agreement with the country's finance ministry for up to €3bn, providing liquidity to the company.

European governments have been forced to step into the breach with massive bailout packages and nationalisations. Since September 2021, governmental interventions have spanned between 0.1 and 3.6% of GDP and amount to a total of around €230bn in the first half of this year. That number is set to as much as double before the end of this year.

Economic impact on Europe

The economic war with Russia is already weighing heavily on Europe's economy. The two main business polls, ZEW and IFO, have both tanked in recent months as fears of a Europe-wide deep recession build and growth

recession this winter. The picture is even worse in Germany, where the outlook has deteriorated even more significantly,” Oxford Economics said in a note. “The index for the eurozone now stands at -60.7, down 5.8 pp from August.”

Runaway inflation is dragging growth down as central banks across the region aggressively hike rates in an effort to regain control of prices. August inflation remained high in Germany and Spain, picking up to 7.9% year on year and 10.5% y/y respectively, driven up by food and energy hikes.

“Among the categories that drove the increase are housing (up 24.8% y/y), boosted by surging electricity prices, and food prices whose rate was 13.8%, the highest since the beginning of

Eurozone: Industrial production



In Hungary the government abandoned its price cap on household utility prices last month that had been in place since 2014, as it was proving too costly. It is now charging higher prices for above-average consumption, although it still estimates that keeping price caps partially in place will cost around €5bn this year (3.0% of GDP). All told, governments are providing support to counter high energy prices which totals around 2-3% of GDP, Capital Economics said in a note.

“These fiscal interventions will provide support to economic activity, but they won’t completely mitigate the effect of extremely elevated prices. Based on calculations we published earlier this week, which assume a full pass-through of wholesale energy prices to consumer prices, household spending on energy would rise by more than 3% of GDP across most of the region between 2021 and 2023. That rise is more than the total offsetting fiscal support governments have announced for both households and businesses,” Nicholas Farr,

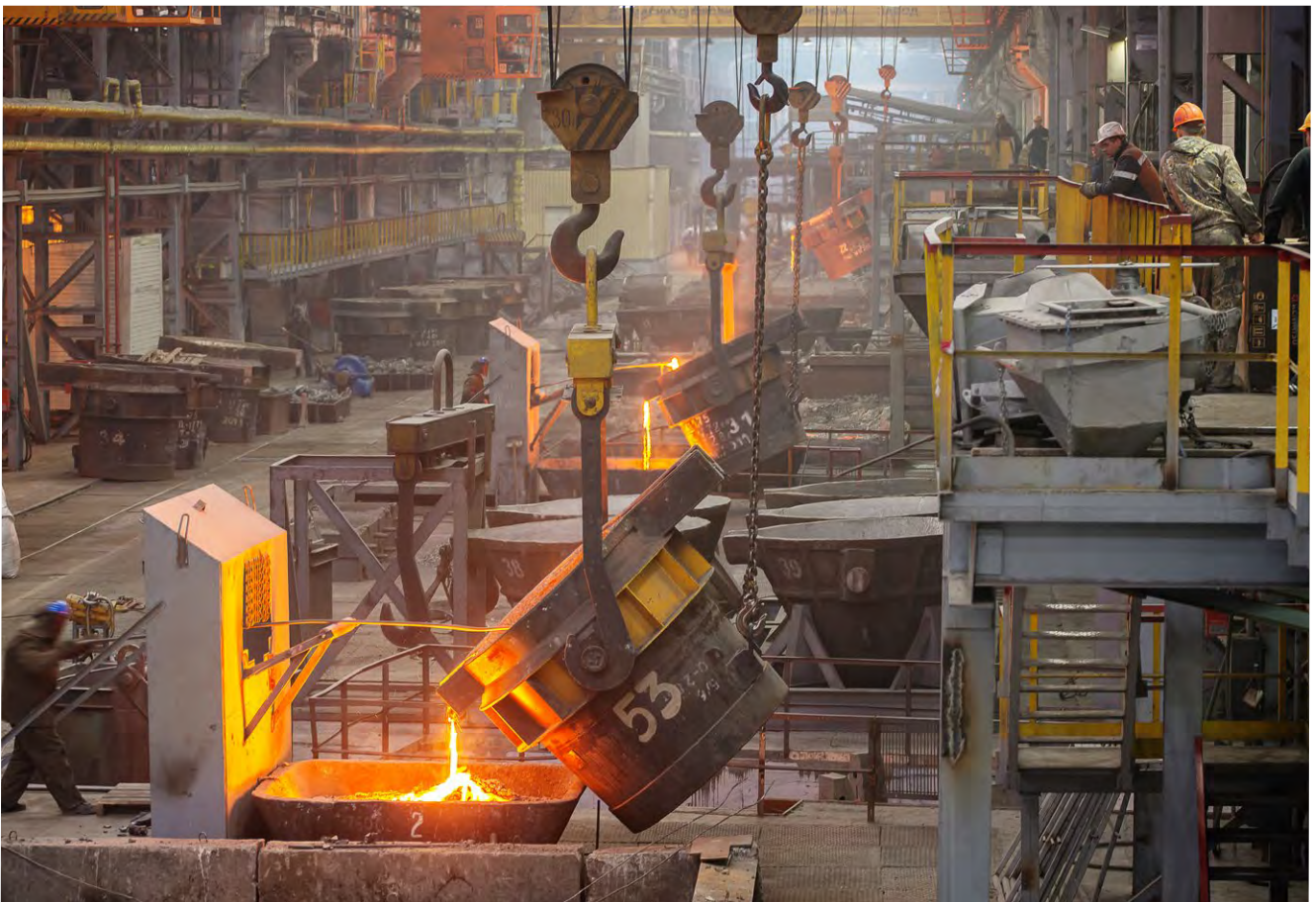
the Emerging Europe economist for Capital Economics, said in a note.

More and more government are looking at capping energy prices. An attempt to impose a Europe-wide cap on gas prices already seems to have fallen at the first fence but plans at national level are proliferating. Last week the Polish government set out more plans to freeze electricity prices in 2023 up to certain consumption levels, while Czechia’s government said it intends to cap electricity and gas prices from November. Romania has introduced a tax on the sector to offset the cost of its price caps, and Czechia’s plan to cap utility prices is part-funded by a windfall tax on energy companies. EU member states will discuss a similar bloc-wide tax later in September.

“Even so, if energy prices surge further or stay high for a prolonged period, some governments may still find it difficult to maintain or increase support,” says Farr.

A deep recession seems inevitable now. Eurozone industrial production slipped into the black in July after three months of expansion with a 2.3% fall – far worse than consensus expectations of a 1% drop. Three of the big four economies posted monthly declines in a sign that the industrial outlook was deteriorating markedly as Europe’s energy crisis is visibly taking its toll on industry.

“Further contractions in industrial output are to be expected as wholesale gas and electricity prices remain higher for longer, leading to demand destruction. Less government support for industry compared to households over winter will also weigh on output. We expect eurozone industry and GDP to enter a recession from Q3 and ending in Q1 next year,” Oxford Economics said in a note. “The GDP recession should be shallow, with activity gradually picking up over 2023 as inflation starts to ease and the ECB stops hiking. Nevertheless, the severe escalation in Europe’s energy crisis means GDP growth will be flat next year.” ●





Desperate Southeast Europe governments scramble for energy resources

bne IntelliNews

The small countries of Southeast Europe are urgently looking to new suppliers to help them though the energy crisis caused by Russia's invasion of Ukraine and related sanctions.

Soaring electricity prices on international markets have forced states from the region to look for ways to boost domestic generation – which in most cases means a return to coal power despite commitments to greening their energy sectors.

Even so, boosting coal power generation is complicated by the sudden need to secure new coal supplies as well as ageing and unreliable coal power plants outside the EU countries.

The government of Slovenia, which is the richest country in emerging Europe in per capita terms and also prides itself on being one of the greenest, said

back in January that it had endorsed a national strategy to phase out coal for power production by 2033 at the latest.

Fast forward eight months, and Ljubljana is scrambling to import coal to feed its one remaining coal-fired power plant Sostanj (TES), as well as trying to recruit miners to boost domestic production of coal.

TES produces as much as a third of all electricity in Slovenia. It was controversially expanded with the addition of Unit 6, despite strong opposition by environmental groups and warnings that it could become a 'stranded asset' as the country phases out coal power generation.

Prime Minister Robert Golob said on September 14 that the Premogovnik Velenje coal mine, which supplies Sostanj, only has coal stocks sufficient for two weeks. His government declared a level one threat for power supply.

"The situation at the mine is alarming, as the landfill only has supplies for just under a fortnight. This is also a reason why the government ordered the HSE to start immediately with coal import activities," Golob said in the statement.

"Slovenia must temporarily increase mining and coal imports in order to bridge the energy crisis, and on the other hand, we must be prepared for the restructuring of the region when the exit from coal will really begin," Golob said.

Premogovnik Velenje's general manager Janez Roser told RTV Slovenia that the management will try to maximise coal production and ensure larger stocks of coal.

Speaking about a possible expansion of the mining locations, he said that it is a demanding project, which would take at least three years, and the staffing issue also poses an additional challenge.

"We have already hired miners from Bosnia and Herzegovina, and talks are also underway on the possibility of [bringing in] additional miners from North Macedonia," Roser said.

Also in mid-September, Sostanj (TES) received the first test batch of coal from Indonesia. Along with Australia, the Southeast Asian country is becoming an increasingly important supplier of coal following disruptions to supplies from Russia and Ukraine. Golob said that if Slovenia managed to import enough coal, it would still be cheaper than importing electricity at current market prices.

Greece helps out North Macedonia

North Macedonia also needs coal for its thermal power plants (TPPs). North Macedonia is dependent on energy imports, and produces only electricity. It has no gas or oil, and has limited quantities of coal.

In August, North Macedonia's power producer ESM called two tenders to purchase 950,000 tonnes of coal for the needs of its two TPPs

Prime Minister Dimitar Kovacevski said on September 13 that he has secured supplies of coal and fuel oil from Greece during his meeting with Greek PM Kyriakos Mitsotakis in Athens.

"The supply of lignite and coal from the Greek mines will continue uninterrupted through the fourth quarter of this year and the first quarter of next year, so that the operation of thermal power plants REK Bitola and REK Oslomej will continue without interruption," Kovacevski said, according to the government statement.

Kovacevski said that they had also reached an agreement on the uninterrupted supply of fuel oil through Greece for the operation of TEC Negotino TPP.

In Greece, Kovacevski and Mitsotakis also discussed major energy projects such as the construction of the gas pipeline through Greece, Evzanoi interconnector to North Macedonia,

a new gas power plant and the Cebren hydropower plant.

Serbia seeks coal, electricity, gas and oil

With ageing power plants and facing the imminent cut-off of oil supplies from Russia in November, Serbia is scrambling to import coal, electricity, gas and oil from multiple sources.

The costs will be high. Serbia is looking at spending €3bn, or 4.5% of its annual GDP, on electricity, gas and fuel oil imports between October 2022 and March 2023, Mihajlovic told Reuters.

Serbia typically feeds its coal power plants with coal produced domestically as well as imports from Bosnia and Herzegovina, Bulgaria and Montenegro. This winter it plans to import 2.5mn tonnes of additional coal, with Energy Minister Zorana Mihajlovic naming Bulgaria, Bosnia, Romania and Greece as the main expected source countries in an interview with Reuters on September 15.

However, Serbia's power generation capacity is limited and last December electricity supplies for thousands of

"As one of the only remaining European countries that still has friendly relations with Russia, Serbia managed to secure a new long-term gas contract with Gazprom in May"

people were cut off following serious snowstorms.

Thus as well as coal from its own power plants, Belgrade also wants to import electricity, and state-owned power utility company EPS recently agreed to buy 2,600 MWh from Azerbaijan, which is growing in importance as an energy supplier to Southeast Europe. Talks with Turkey on transmitting the electricity are now in progress. Mihajlovic told Reuters that Belgrade is also in talks on electricity supplies from Hungary.

As one of the only remaining European countries that still has friendly relations with Russia, Serbia managed to secure a new long-term gas contract with Gazprom in May on relatively favourable terms. However, this won't cover all of its gas consumption and Serbia hopes Azerbaijan will step in again to supply gas, which will be facilitated by the Serbia-Bulgaria gas interconnector.

From November 1, new EU sanctions mean Serbia will no longer receive Russian oil that is currently delivered by tankers through the Adriatic Sea, and then via the Adriatic Oil Pipeline (Janaf) through Croatia to Naftna Industrija Srbije (NIS). As Croatia is an EU member, it will no longer be able to receive seaborne oil from Russia. That leaves Serbia with Iraq as its main oil supplier. Again, Serbia is scrambling for new suppliers of oil, as well as gas and electricity, and officials have indicated it will consider any supplier, reportedly including Iran.

Contacted by *bne IntelliNews*, Serbia's energy ministry said: "The main goal is to ensure sufficient quantities of

crude oil for the smooth operation of the refinery in Pancevo, and to ensure the security of supply to the domestic market. The sixth package of EU sanctions against the Russian Federation prescribes the deadline for the purchase of Russian crude oil, which is November 1, 2022. After that date, the purchase of crude oil of Russian origin for processing in a domestic refinery will no longer be possible.

"In the previous period, the refinery in Pancevo also processed crude oil of

other origins in addition to the crude oil of Russian origin, depending on the availability and economic conditions of procurement on the world market. In the following period, the refinery will continue to process other types of crude oil that are not of Russian origin, as it is possible to obtain them on the free market," the ministry's emailed statement added.

Bulgaria struggles after losing Russian gas

Bulgaria lost its supplies of Russian gas in April when then president Kiril Petkov refused to pay in rubles. Petkov aimed to buy in liquefied natural gas (LNG) from the US and increase gas imports from Azerbaijan.

After his government was ousted in June, the new caretaker government said it would reopen talks with Gazprom – leading to accusations of trying to return Bulgaria to Russia's sphere of influence – as well as exploring other sources.

Bulgaria, like Serbia, is looking to Azerbaijan, and in mid-September offered to export electricity to Azerbaijan in exchange for more natural gas. Azerbaijan is already supplying 1bn cubic metres of natural gas per year to Bulgaria and has said it could double that amount. Bulgaria's Ministry of Economy and Industry by Minister Nikola Stoyanov also held talks with Iranian ambassador Syed Mohammad Jawad Rasooli on September 13, according to a ministry statement, which described the conversation as a "continuation of the search for all opportunities to ensure the diversification of our country".

Elsewhere in the region the situation is somewhat easier, but even in Romania the government is seeking to speed up development of major gas projects.

Long before the current crisis, Croatia took the step of setting up a floating LNG (FLNG) terminal off the island of Krk, supporting its energy independence, and also has ambitions

to become an LNG hub for the region. Zagreb now intends to double the capacity of the terminal from 2.9 bcm to 6.1 bcm, Prime Minister Andrej Plenkovic said in June. Nonetheless, the government in Zagreb recently announced a sizeable package of anti-crisis measures to help the country cope with soaring energy prices.

All countries in the region, both EU members and aspiring members, plan to invest in renewables and end their use of coal. The green transition is already underway, albeit with states in the region at very different stages, and there are numerous investments into solar, wind, hydro and even geothermal energy. While the emergency move back to coal generation is anticipated continue though the winter ahead, with worrying consequences for air pollution, in the longer term the need to have secure energy supplies and end dependence on Russia is expected to be an added impetus for investment into cleaner energy. ●

LONG READ

Can Europe keep the lights on this winter?

Ben Aris in Berlin

Europe is facing a major energy crisis this winter that will test the continent's power supply systems to the limit. The EU has been rushing through a plan to reach zero-emissions by 2050, but as a result it has decommissioned too much generating capacity and left itself exposed to Russia's threat to cut off gas supplies.

On top of the gas shortage, some really bad luck has created a perfect storm. Germany's poorly timed decision to shut down its coal-fired and nuclear power plants, France and the UK's problems with their NPPs, and a scorching hot summer reducing water levels in hydropower reservoirs have all contributed to reducing Europe's ability to generate electricity this winter.

As the cold weather approaches, Europe has probably stored enough gas to get through a mild winter, but the European power system is in a delicate balance, with many countries relying on a few big producers for power exports, creating vulnerabilities. If one big supplier like Germany runs out of fuel then there is a very real risk that the resulting black- and brown-outs could ripple across the Continent.

"Europe's energy system faces unprecedented physical and institutional stress. The policy response so far has been excessively nationally focused and could undermine the goals of calming energy markets over the next 18 months and achieving ambitious decarbonisation targets," The Bruegel think-tank said in a paper

that also looked at the consequences for Europe's Green Deal goals.

Not enough wiggle room

Europe had a total installed generating capacity of 970 GW at the end of 2021 that could produce a total of 3,628 TWh of power if it was working at full capacity. The actual output was 5% lower, as the stations were run at 95% of capacity over the year – the year when Russia first started squeezing gas supplies and caused an energy crisis-lite.

But Europe, or rather the Continental Europe Synchronous Area (CESA) – which covers all of Europe plus new members Ukraine and Moldova, but does not include the UK, Ireland, Norway, Sweden, Finland and the Baltic States – doesn't have enough generating capacity

to meet all its own needs. The CESA was a net importer of power in 2021, sourcing most of the 1.3 TWh extra from Norway and Sweden. The two Scandinavian countries exported 29 TWh in 2021, although most of this was to Finland, the Baltic States and some to the UK.

Finland is in the final testing phase of a new 1.7-GW NPP that should come online in 2023 that will reduce its own deficit from 21 TWh to 9.5TWh. That will allow Norway and Sweden to export an extra 10 TWh to the rest of Europe – water levels at Norway’s gigantic hydropower water reservoirs permitting.

The difference between what Europe generates and what it consumes is not large, but the problem with the power sector is supply and demand for power have to exactly match each other. If they don’t, in what is called a “frequency incident,” then the power stations are shut down, otherwise the equipment can be badly damaged.

Some countries are net exporters and some net importers, but the deficit between the two is very unevenly distributed. The biggest importer of power in Europe is Italy, which imported 31 TWh in 2021 and is expected to import 30 TWh this year. It is followed by Hungary’s 8.7 TWh imports, rising to 9.1 TWh this year. The problem child in the family is Austria, which imported 3 TWh in 2021, but that figure will leap to 8.1TWh this year, according to Swiss power company Burggraben and European network of transmission system operators for electricity (ENTSO-E).

Together these three countries will need to import a total of 47.3 TWh of power in 2022, which is a lot more than the net 1.8 TWh the EU imported last year as a whole. It is also well beyond the 27 TWh that Norway and Sweden exported to Europe as a whole.

Proximity also plays a role as electricity doesn’t travel well over long distances so being close to the generator of power is important increasing the reliance on the Scandinavian exporters.

To make matters worse despite the growing tensions with Russia, German is taking coal-fired and nuclear power stations offline. Germany has shuttered its six NPP that have a capacity of 4GW and produce 35TWh of power as well as another 14GW (122TWh) of coal-fired stations, although Berlin recently said it will keep one reactor and 8GW (61TWh) of coal-fired power as a reserve.

In 2021 German was a net exporter of power selling 23 TWh, However, if it goes through with the plan to close all the NPP and coal-fired plants it would need to import 130 TWh, or 69 TWh if it used all its reserve. Altogether Austria, Hungary, Italy, and Germany would need to collectively import some 100 TWh of power, according to *bne IntelliNews* calculations.

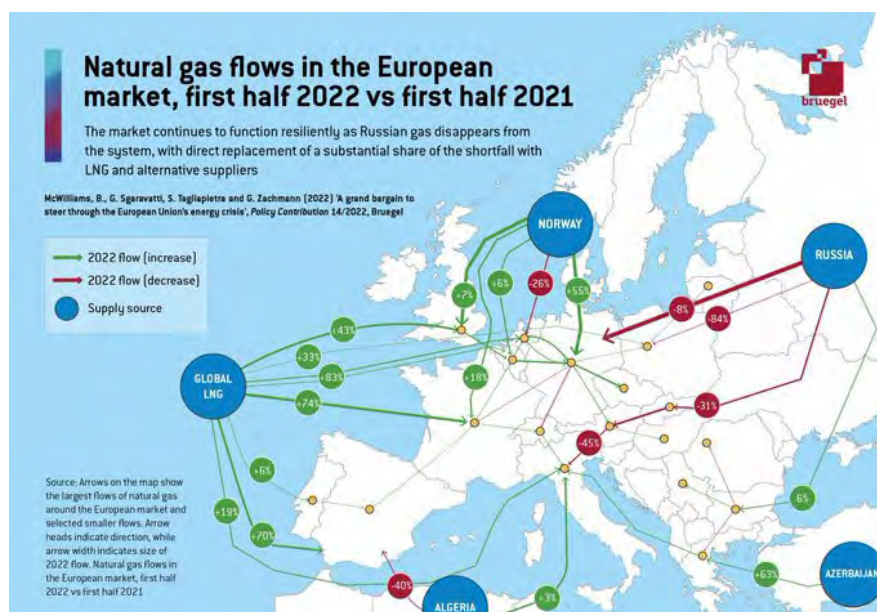
While the overall European power system is almost balanced between demand and supply, this group highlight are some very large discrepancies within Europe at a regional level. This shortfall normally would be covered internally within the EU, plus some imports and investment into new capacity that is ongoing, but this year the Russian-induced gas crisis will push the EU power system to the edge of what it can cope with as there is so little redundancy in the system.

With these problems Germany was the first to go to “warning” status on the EU’s three tier energy crisis system, as the impact of removing even a small amount of the power generation mix produced by Russian gas could have a big impact.

The European Commission has also been working to head off disaster and in May published its updated REPowerEU Plan in which it had already incorporated an increase in coal power (+105 TWh) and falling gas power (-240 TWh) without derailing EU climate objectives.

At the same time as 22% of Europe’s power is produced by gas-fired power plants, the EC plan to reduce gas consumption by 15% could in theory reduce power needs by 120TWh, according to *bne IntelliNews* calculations. That would solve the problem.

However, whereas European Commission President Ursula von der Leyen initially called for the reduction to be EU-wide and mandatory, after stiff resistance from members on the periphery of Europe, especially Spain, Portugal and Greece, the plan was massively watered down to be voluntary with carve outs and exemptions for 17 out of the 27 members.



Perfect storm

With Europe's power system so finely balanced, a perfect storm has developed. Europe's drive to invest into alternative clean energy solutions while decommissioning emission dirty generators has resulted in a profound energy supply-demand imbalance. That has been exacerbated by the stronger than expected bounce back of global energy demand after the peak COVID-19 crisis, as well as some really poor policy decision and neglect of energy security.

Italy closed its NPPs in the 1990s and never replaced the lost capacity. That has left it as one of the biggest importers of power in Europe. Its grid doesn't have enough capacity to cover its own domestic demand. The power stations it does have are heavily reliant on Russian gas as the government never bothered to diversify its supply of fuel and it never invested into renewables. Despite its long coastline, Italy doesn't have even 1MW of offshore wind generators.

Austria has invested into hydropower, but this year's long hot summer has seriously reduced their ability generate

"Italy closed its NPPs in the 1990s and never replaced the lost capacity. That has left it as one of the biggest importers of power in Europe"

power and the country's generating capacity is not enough to meet the domestic load demand. Austria became dependent on neighbour **Germany** to supply it with its missing power.

That would not be a problem but in 2020 Germany abandoned its six nuclear reactors taking 4GW of power off the grid, which is equivalent to 32TWh of power, or around 4.5% of the 700TWh that is traded in Europe every year, according to European network of transmission system operators for electricity (ENTSO-E).

Germany has been a net exporter of power, but the remake of its power

Guidance

Year to year, EDF generated 19% less nuclear power. Given its ongoing challenges, it may result in 265TWh output in 2022 (26% less than 2021; 359TWh). EDF guides for 300-330TWh in 2023)

French Nuclear Power Output (in TWh): 2021 YTD: 230 TWh; 2022 YTD: 186 TWh (-19% YTD)



Source: Burggraben analysis; Bloomberg

sector will make it a net importer of power by 2023. The German shortage is a problem for Germany, but it is an even bigger problem for Italy, Austria and Luxembourg that have all become dependent on German power exports to cover their own deficits.

Germany has decided to keep two of its six reactors on standby as a reserve and despite the talk to restarting its 16 coal

fired plants only one or two can be used as the rest are either "too old" or lack fuel – coal used to be imported from Russian but the ban on imports went into effect on August 10 and has been highly effective.

Germany had been planning to use natural gas to plug the hole but now that is suddenly not an option it will be left with a deficit in power and has no way to replace it if gas supplies run too low. That will cause blackouts not only in Germany, but in several countries in the heart of Europe.

"Fact is that 20 year of German Energiewende systematically reduced its dispatchable (frequency reliable) electricity

output options to the point where natural gas has to save the day – which we struggle to get," said Alexander Stahel, a power and commodities expert, in a thread on twitter.

Hungary, like Austria, has invested heavily into gas-fired power plants and is even more dependent Russian gas to run them as it produces little of its own gas. The government in Budapest has been reluctant to join any of the energy sanctions on Russia as the economy minister says the economy simply "won't function" without Russian energy supplies.

In **Estonia**, the state-owned energy company Eesti Energia said it was unable to produce enough electricity to meet its own domestic demand during peak consumption hours. It said this was not a big problem as long as Estonia remains connected to the Nordic electricity market where the security of supply is still guaranteed. However, this leaves the country more vulnerable to the conditions of the electricity market, such as fluctuating prices, which are out of its control.

Corrosion problems have pushed **France** to shut down many of its nuclear power plants, increasing the need for gas in power generation.

"France is the champion of nuclear power. It's fleet of 57 reactors should be capable to deliver 450TWh pa (62 GW installed). But it does not," says Stahel.

“Our forecast is for 59% utilisation or 315TWh based on EDF’s guidance.”

NPP usually run at around 95% utilisation, but this year’s reduction has taken another massive 135TWh of power out of Europe’s generating capacity. France’s will go from exporting more than 19% of the electricity it produced in July 2021 to importing 12% of its electricity needs in July 2022.

Slovakia has also invested in nuclear power and recently completed a third reactor at the Mochovce power plant, making it self sufficient in energy.

Belgium is one of the European countries that has invested in renewables and has a fleet of offshore wind turbines, but it still heavily dependent on its nuclear power stations half of which are approaching the end of their working lives and will soon need to be replaced.

Norway is a major exporter of hydropower, but this summer was so hot that water levels in reservoirs fell so far that it has reduced its ability to generate hydropower. The same heat as also stymied the use of coal fired power stations as the depth of rivers fell so much that coal barges could only be half loaded else they would be unable to navigate canals.

Not enough gas

The shortage of generating capacity makes Europe’s power sector dependent on Russian gas. In Germany’s case, although only 15% of generating capacity depends on gas fired power stations with the bulk relying on renewables, it is that 15% that provides the flexible surplus power in times of peak demand.

Without it the system breaks down just when power is most needed. This leads to a so-called “frequency incident” when the balance between generation and demand for power must be coordinated and kept in a very tight corridor. If this balance is lost, then the system shuts down to avoid damaging the equipment. An entire system spanning over 20 countries has been built up to maintain this balance – one that Ukraine joined the day before the

war with Russia started. Renewables are not suitable for maintain this balance as they are not reliable.

The clash with Russia has already affected the reliability of the European power system as the number of frequency incidents has been growing in the last two years. There were 33 hours of frequency incidents in 2020 which grew to 54 hours in 2021.

“Well, in 2021 alone the European Grid had two major incidents, classified as “Scale 2” incidents, for which final reports had to be prepared by an expert panel at ENTSO-E,” says Stahel. “The problem is that the Continental grid is increasingly incapable to match load with generation.”

Too many countries are relying on the import of power to cover their shortfalls. There is simply not enough generating capacity in Europe to provide power security to the continent. Cutting off Russian gas to just a few countries could have power outage consequences that will ripple out across the continent.

Even before it invaded Ukraine on February 24, Russia was manipulating European natural gas markets. It substantially reduced exports after summer 2021 and did not refill Gazprom-owned storage sites in the EU. Since spring 2022, Russia has used its remaining supplies as leverage to push

individual countries to relax sanctions on financial transactions and technology. By the beginning of July 2022, Russia was sending one-third of previously anticipated volumes, leading to a more than tenfold increase in EU gas prices.

Germany is a key piece in the jigsaw and replacing the 32TWh of nuclear power is turning into a major headache.

“As almost all fuels are affected, short-term fuel-switching supply elasticities are close to being exhausted. For example, EU coal-fired power generation increased only from 82TWh in the second quarter of 2021 to 95TWh in the second quarter of 2022 because available capacities were limited and coal prices tripled. Instead, demand reductions – both actual and anticipated – now play an outsized role in clearing the market,” says Bruegel.

Expanding the coal fired power output in all of the EU produced only an extra 13TWh of power -- only a third of the missing German nuclear output.

The alternative of reducing demand is not working either as government’s decision to rush into offering subsidies for soaring gas bills is actually working against efforts to tackle the crisis.

Despite soaring gas costs, thanks to both the regulation of prices on most national markets and the subsidies governments are already paying, prices



were up ten-fold but demand fell only 7% in the first half of this year. The demand elasticity in the gas business is very low indeed. As governments are very reluctant to make consumers pay for political reasons, reducing gas demand by using marketing mechanisms is almost impossible so Europe burns more gas than it should.

“While it is essential to continue targeted supports for vulnerable households, the overall result has been that governments have burned money in a race to consume more gas,” says Bruegel. Italy has not reduced its demand at all, which lead to substantial amounts of gas transiting Austria to meet this demand. If Italy had cut demand by only 3% then its tanks would be 80% full now, not the current 63%, Bruegel concludes.

The European gas market is a complex system that is nevertheless quite efficient at dispatching gas across the continent. But since

Gazprom cut off supplies to Europe via Nord Stream 1 pipeline indefinitely at the start of September the European gas transport system is stretched to breaking point.

Bruegel says the system faces four major coordination problems: refilling of storage; gas use reductions; new supply; and ensuring continued gas flow to where it is most needed.

“All four areas require national government intervention, with coordination failures leading to a less secure, sustainable and affordable system,” says Bruegel, which it goes on to say is not happening.

One of the biggest changes in the last year is LNG has gone from being a top-up supply of gas to keep the system running smoothly and as a buffer to external shocks to one of the key sources of fuel and that has sent its price through the roof.

“Prior to the crisis, Belgium imported moderate volumes of LNG, steady volumes of gas from the Netherlands and Russian gas via Germany in winter months to meet peak demand. Trade

with the United Kingdom fluctuated depending on demand. As the crisis has developed, Belgium has increased its LNG imports to maximum capacity and has boosted pipeline imports from the UK. As a result Belgium has become a significant net exporter to Germany, a vital aid as Russian gas flows are cut,” says Bruegel.

Prices and money

The power system is already in crisis. Faced with the prospect of freezing homes as the first snows fall, most European governments have focused on their own populations and thrown money at the problem rather than cut demand. Hundreds of billions of euros worth relief packages have already been spent and more will follow if prices continue to climb. The efforts so far run the risk of fragmenting Europe’s power market and could lead to massive over-investment into redundant generating capacity that will also undermine the investments into new renewable capacity which is the long-term solution to the current crisis.

“Subsidising energy consumption instead of demand reduction has been a common and misguided approach. Governments run the risk that energy consumption subsidies become unsustainable, eroding trust in energy markets, slowing action in sanctioning Russia and increasing the cost of the net-zero transition,” says Bruegel.

Even before the blackouts arrive, the wild swings in prices have already wreaked havoc on the power business. The European power market is highly coordinated but the business of buying and selling electricity – essential so that generating capacity and demand remain matched every hour of the day – remains a local business and exposes smaller traders to big losses. Since September 2021, nearly 30 UK energy suppliers have filed for bankruptcy. Bankruptcies elsewhere include Bohemia Energy, the largest alternative supplier to state-owned CEZ in Czechia, which filed for bankruptcy in October 2021, while multiple energy providers have said they will withdraw from the French market, with Planet Oui activating an accelerated safeguard procedure in January 2022.

It’s also costing a lot of extra money. The volatility in the market has pushed up the margin requirements for traders. Normally contracts on supply are signed well in advance of delivery dates to ensure demand and supply can be matched. Central counterparties (CCPs) that facilitate these trades demand a percentage of the contract as a down payment, but that share has risen to 80% of the contract price creating a liquidity problem that sends up costs for everyone. If the volatility gets worse then banks may stop providing the credits to cover these charges which would create a liquidity crisis that could spill over into the banking sector, says Bruegel.

Several large utility players have already got into trouble. The German government is preparing to bail out its major utility company, Uniper, with a rescue package worth €15bn; the Élysée has announced a €10bn package to finalise the nationalisation of Electricité de France (EDF); and in early July CEZ, Czechia’s biggest utility, signed a credit agreement with the country’s finance ministry for up to €3bn, providing liquidity to the company.

In the face of spiking energy prices governments have been throwing money at the problem to protect consumers too. When prices began to rise in the summer of 2021 as Gazprom squeezed supplies of gas European governments rushed out subsidies, but in the meantime that spending has become structural and enormous. Since September 2021, governmental interventions have spanned between 0.1 and 3.6% of GDP and come to a total of around €230bn in the first half of this year. That number is set to as much as double before the end of this year. The value of gas and electricity traded in the EU has jumped from about 1% of GDP in 2020 to over 10% of GDP based on August 2022 price levels, according to Bruegel.

At some point the cost of fuels like LNG and the subsidies governments are doling out to their population become unsustainable: it becomes cheaper to shut down half your economy than it does to pay for gas and your citizens’ power bills. ●

Does Ukraine have enough gas to survive winter?

Sergiy Makogon, CEO of GTSOU, says the answer is yes

Dominic Culverwell in Kyiv

Can Ukraine keep its citizens warm this winter? In Kyiv and across the country, many are asking this question as the heating season approaches and the gas storage tanks are still lacking crucial reserves. Ukrainian President Volodymyr Zelenskiy announced this year will be the “most difficult winter of all the years of independence” and fears grew after Ukraine’s national gas company, Naftogaz, warned that this year’s heating will start later, end earlier and be 3-4 degrees lower.

But Sergiy Makogon, CEO of Gas Transmission System Operator of Ukraine (GTSOU) is optimistic that Ukraine is well prepared for the challenges ahead, despite only having 13bn cubic metres in its gas storage facilities. In an exclusive interview with *bne IntelliNews* he mentioned that Naftogaz is continuing to pump gas into Ukraine’s storage facilities and expects to reach 14.5 bcm by mid-October, the start of the heating season. Although this is still far from the 19 bcm the government ordered from Naftogaz, Makogon says it will be enough for a standard winter and explained that Ukraine has a backup plan in case the winter is harsher than expected.

“In case of unexpected weather conditions, we created possibilities to import gas from Europe (...) in the amount of 54 mcm per day,” Makogon said. “It will come mainly from Slovakia, Hungary and Poland and also some volumes could be delivered from the Balkan pipeline – Greece, Turkey to Bulgaria and Romania to Ukraine.”

He said that GTSOU had done its homework and tested the Balkan route last year to prepare for issues in the local markets and increase the possibility for Ukraine to import gas from different locations. However, with Europe also suffering an energy crisis, some states may not be willing to give their gas supplies to Ukraine. Nevertheless, Makogon believes that this problem will be solved “on the commercial or political level”.

Moreover, with millions of Ukrainians leaving the country, Ukraine is likely to use far less gas than in previous years. Already Makogon has noted a 50% reduction in consumption in the industrial sector due to Russia’s military aggression forcing companies to stop operations, particularly on the front lines, and also the high cost of gas, which has hit \$1,000 per thousand cubic metres in the unregulated

“In case of unexpected weather conditions, we created possibilities to import gas from Europe (...) in the amount of 54 mcm per day”

segment. Many companies are choosing to wait until gas prices lower before resuming operations.

Speaking about Ukraine’s future in Europe’s energy sector, Makogon sees exciting opportunities for co-operation since Ukraine received EU candidacy



Sergiy Makogon, CEO of GTSOU / *bne IntelliNews*

status. In particular, he is keen that Europe and Ukraine work together to develop Ukraine’s significant gas reserves, one of the largest in Europe estimated at 1.09 trillion cubic metres, which he believes will help the continent wean itself off Russian gas.

In addition, Ukraine began exporting electricity to the EU in the summer after successfully synchronising its electricity grid with the Continental European Grid on March 16 due to the Russian invasion. Ukraine has a surplus of electricity which Makogon sees as another answer to managing Europe’s energy crisis. Currently, the country is exporting 300 MW to Europe but has the ability to increase to 2 GW.

Whilst Makogon acknowledged that the heating season will be difficult for Ukraine and Europe, he believes that they will be able to manage it together. Indeed,

he claims the most necessary thing is to stand together against Moscow.

“It is important to oppose the blackmail of Russia, to show that our countries can find a way to oppose the aggressive position of our northern neighbour,” he stated. ●



CEZ has also reportedly been in talks with Westinghouse over nuclear fuel supplies for Dukovany's Russian-designed VVER-440 reactors. / bne IntelliNews

Czechia and Slovakia accelerate decoupling from decades-long nuclear partnership with Moscow

Albin Sybera

Czechia and Slovakia have accelerated their decoupling from their decades-long nuclear partnership with Moscow. Recent moves demonstrate that Central European states are moving to widen the cutting off of Russian energy links beyond gas, oil and coal, to include nuclear fuel and technology, where they have long been dependent on Moscow.

Czechia announced on September 12 that it will end its membership of the Joint Institute for Nuclear Research in Dubno near Moscow (JINR) by December 31. Earlier this year, CEZ, the country's dominant largely state-owned electric utility, announced it would obtain its fuel supplies for its Temelin nuclear power plant (NPP) from Westinghouse of the US and France's Framatome from 2024.

Slovak officials have also proclaimed divestment plans from Russian nuclear fuel. Branislav Strycek, head of Slovenske Elektrarne, the country's dominant partly state-owned electric utility, told media this week that

Slovakia can now divest from nuclear fuel supplies from Russia.

The Czech Ministry of Education put out a proposal to leave JINR in March in response to the Russian army's attacks on the nuclear facility in Zaporizhiya in Ukraine, which have mounted since then. The International Atomic Energy Agency (IAEA) describes the security situation at the site held now by Russian forces as "precarious".

The Czech parliament voted to leave JINR in July and the cabinet aims to conclude the whole process by September in order to avoid paying more money to JINR. As a member country, Czechia paid some CZK130mn (€5.3mn) in annual fees.

"As of December 31 of this year Czech Republic ends its 66-years-long membership in the Joint Institute for Nuclear Research (JINR), where the Russian Federation is the dominant member and on whose territory this international organisation resides", reads the Czech Ministry of Education statement.

Czechia has also launched the process of terminating fuel supplies from TVEL, Rosatom's nuclear fuel supplying arm, and switching to Western suppliers. Deliveries of new US/French assemblies to the Temelin nuclear plant will begin in 2024. Currently, in Temelin the company has fuel assemblies for approximately two years of operation of the Russian-designed VVER-1000 reactors.

CEZ has also reportedly been in talks with Westinghouse over nuclear fuel supplies for Dukovany's Russian-designed VVER-440 reactors. The country's second nuclear plant currently has supplies of Russian nuclear fuel for even longer than at Temelin.

The government launched a tender to expand Dukovany in March, with Russia's Rosatom having been excluded in March 2021 because of Moscow's alleged involvement in the sabotage of the Vrbečice ammunition depot.

Slovakia is also trying to cut its Russian links for supplies to its VVER-440 reactors. Slovenske Elektrarne's

CEO has stressed that Slovakia is not dependent solely on Russia anymore.

“We launched an international tender for new supplies of nuclear fuel a month ago”, Strycek told reporters as the recently authorised new nuclear reactor at the Mochovce NPP began to load fuel.

French Framatome and American Westinghouse are expected to enter the tender besides TVEL, the current supplier.

Westinghouse, however, does not currently produce the fuel needed by the Slovak nuclear power plants at Mochovce and Bohunice and it would also likely be more expensive. Nevertheless, Strycek said Slovenske Elektrarne have been in touch with other VVER-440 operators and that Westinghouse had already developed and tested fuel for these type of reactors.

Both countries have been tied to Soviet nuclear technology since they were satellites of the Soviet Union and even today the Russian nuclear lobby is still a powerful voice in their energy politics. As recently as last year a large portion of the Czech political establishment, including the populist ANO party of controversial billionaire Andrej Babis and members of the ruling ODS party such as influential South Bohemian Governor Martin Kuba argued for Rosatom to take part in the planned tender for the expansion of the Dukovany NPP on the grounds that it would push down the costs.

Bulgaria, Hungary and Finland also still rely on Russian nuclear fuel for their Russian-designed VVER-400 reactors. However, neither Bulgaria nor Hungary is looking to cut their nuclear ties with Moscow. Hungary is even deepening its links by commissioning Russia's Rosatom to build its long-delayed new nuclear reactors at Paks.

Although Bulgaria attempted to cut its ties with Russia during the previous government of Kiril Petkov, the interim cabinet of Gulub Donev appointed by President Rumen Radev seems determined to bring the country back into the Russian energy orbit. ●

Nuclear power's share dropped to record low in OECD, but solar jumped to record highs thanks to hot summer

Germany's decision to take its nuclear power plants (NPPs) offline, coupled with production problems with France's NPPs, saw the share of nuclear power in the OECD countries year to date fall to its lowest level ever. But that was offset with the share of solar leaping to its highest level thanks to the record-high temperatures this summer, the International Energy Agency (IEA) said in its monthly update on September 15.

The latest IEA monthly electricity statistics report including June 2022 data showed that total net electricity production amounted to 908.6 TWh in June 2022. Over the first half of 2022, total electricity generation rose by 2.5% or 129.1 TWh compared to the first half of 2021.

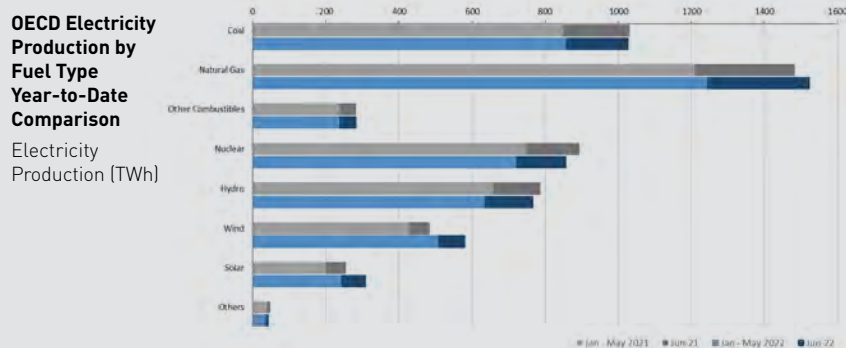
Electricity production from renewables was responsible for most of the growth in electricity generation (+7.5% YTD), led by strong wind and solar output, respectively up by 20.2% and 21.4% on a year-to-date basis. Significant capacity additions for these two technologies have indeed been introduced across several OECD countries throughout the first six months of the year, the IEA said.

Nuclear electricity production in the OECD decreased by 4.1% or 36.3 TWh YTD, because of reduced nuclear output after NPP shutdowns in Germany and Belgium as well as extended maintenance operations in France over the first half of 2022.

Electricity production from fossil fuels was stable at 495.7 TWh in June 2022, almost unvaried compared to June 2021 (-0.8% year on year). Electricity generation from coal decreased by 6.4% y/y, mainly because of lower output in the OECD Americas (-15.1% y/y), partly compensated by increased output in OECD Europe (+ 11.2% y/y). Conversely, electricity production from natural gas went up by 2.0% y/y, with positive increases being registered in all the OECD regions. In OECD Europe, total net electricity amounted to 269.5 TWh in June 2022, up by 1.1% compared to June 2021.

Production from nuclear continued to decrease (-16.7% y/y), reaching a record low share of 16.8% in the electricity mix.

Conversely, production from renewables kept increasing (+6.2% y/y), driven by wind (33.6% y/y) and solar (17.6% y/y), thanks to the record hot summer. European production from solar achieved a record high share of 10.7% in the electricity mix.





Slovak President Zuzana Caputova has referred a proposed referendum on snap elections to the constitutional court. / bne IntelliNews

Slovak government faces a hot autumn

Albin Sybera, Robert Anderson in Prague

Slovakia's tottering minority coalition government is facing a hot autumn, with a vote of confidence expected in Finance Minister Igor Matovic, and a referendum set to be held on bringing it down. In a sign of its future problems, on Wednesday only 71 deputies voted to start a session in the parliament, for which 75 votes is needed, and the session had to be postponed to September 20.

The political turmoil comes as the government needs to agree and pass a number of measures to combat the deepening inflation and energy crisis that threatens to lead to hardship and domestic unrest.

This month Slovakia saw a protracted cabinet crisis climax with the rightwing SaS party leaving the ruling coalition. Prime Minister Eduard Heger (OLaNO) can now only count on around 70 seats in the 150-member parliament.

SaS said it will back those moves of Heger's cabinet which are in line with the coalition agreement which SaS signed two years ago. The party also said it will try to remove Matovic, leader of OLaNO, whose behaviour as finance minister was the spark for it to leave the cabinet. Opposition parties are expected to launch a vote of no-confidence in him in him in the coming days, a move that could accelerate the disintegration of the cabinet.

"It still remains to be seen what game Sulik will play in opposition," Milan Nic, senior fellow at the German Council of Foreign Relations (DGAP), told bne IntelliNews in a telephone interview. "He doesn't want elections too soon and to get the blame. There's still a possibility they will muddle through until it's in the interest of a majority in parliament to have early elections."

Nic also pointed that Slovakia can scarcely afford at the moment to go

into election mode and neglect the ongoing cost of living crisis. "To have a government that is not working for three months in this crisis, this would cause a break-up of institutions," he warned.

Slovak President Zuzana Caputova has given the cabinet some breathing space by this week referring a referendum for snap elections proposed by a petition organised by former premier Robert Fico's Smer-SD to the constitutional court.

The first referendum questions asks "Do you agree that the government of Slovakia should resign immediately?" After consulting lawyers, Caputova found this question could possibly contradict the Slovak constitution. The constitution defines the parliamentary term as having four years.

The constitutional court ruling will determine the contents of the referendum, which Caputova said

on Monday she will call with at least one question. The second question asks voters whether they support the adoption of a constitutional change making it possible to shorten a parliament by referendum or by the parliament's decision, and enabling a snap election.

"A referendum will take place with one question at a minimum and it is up to the constitutional court whether the referendum will take place with two questions", said Caputova at a press conference, adding that the referendum will be called by the end of this year.

Caputova recalled last year's constitutional court ruling about a similar referendum, stipulating that a referendum or any other means not outlined by the Slovak constitution cannot end the valid term of a Slovak government.

Opposition leaders have criticised Caputova's decision to consult the constitutional court again, arguing the referendum could have been called already and held at the same time as local elections, next month, boosting the turnout. Referendums need at least a 50% turnout, something only the 2003 vote on joining the EU has so far managed of the eight referendums held so far.

The petition was started in June by Fico's Smer-SD party and could act as a way to enable him to return to power. Fico was forced to step down in March 2018 amid protests over the killing of journalist Jan Kuciak and his fiancé. In August the petition reached the quorum of 350,000 signatures necessary for authorities to respond.

Caputova has also accepted Heger's nominees for the vacated cabinet posts. On Tuesday she appointed former Slovak ambassador to the US Rastislav Kacer to head the foreign ministry, energy expert Karel Hirman to the economy ministry and lawyer Viliam Karas to head the justice ministry. Heger will temporarily be in charge of the vacated education portfolio. ●

'Mafia' monument unveiled in Prague city centre ahead of municipal elections

Albin Sybera

A mobile art piece by sculptor Jan Padysak consisting of busts of former premier Andrej Babis, former Prague ODS mayor Pavel Bem, and controversial ODS "godfathers" Roman Janousek and Ivo Rittig assembled around a gutter has been unveiled at Prague's Old Town Square.

The four men represent politicians and lobbyists who have been accused of some of the most blatant cases of abuse of power and systematic corruption at the Prague municipality and Czech government. None have ever been found guilty of corruption.

The art happening was backed by the Solidarity coalition of Social Democrats, Greens, Future and Idealists, which runs in the upcoming weekend municipal election on a joint list led by former dissident and former ombudsman Anna Sabatova.

Solidarity as well as the independent grassroots party Praha Sobe (Praguers for themselves) and the Pirates have been warning against the prospect of Babis' populist ANO and the rightwing ODS forming a coalition in Prague, by far the country's largest city of close to 1.5mn, accounting for about one quarter of the country's GDP.

Prague, which has been ruled by the ODS of current premier Petr Fiala for most of the past three decades, has become notorious for corruption, though few politicians have actually been convicted. The ODS has a long history of corruption, with all of its previous premiers resigning amid scandals. For its part, ANO always claimed to be an anti-corruption party and gained support from the ODS scandals, but Babis himself is currently on trial on fraud charges.

The current ruling coalition of the Pirate Party, Praha Sobe, and the centre-right TOP09 and Mayors and Independents (STAN) parties faces a strong challenge from both the ODS and ANO in the September 23-24 municipal elections.

In 2020 a coalition of right-wing parties and ANO ousted the leadership at Prague 1 district, covering much of Prague's historic city centre, after the then incumbent coalition led by Praha Sobe, Pirates and Greens attempted to crack down on the casino business in the city centre. The January public municipal session leading up to the ousting was reported to be attended by nightclub bouncers, some of them wearing Ku Klux Klan t-shirts and intimidating the public.

Praha Sobe leader Jan Cizinsky recently said that his goal is to cut off Prague of the influence of people behind the "Dozimetr" affair – a kickback scheme at the Prague Transportation Company which rocked the STAN party in the summer – where Praha Sobe politicians instigated a police investigation.

Eastern EU governments under pressure to act on rising living costs

bne IntelliNews

Central and Southeast Europe are suffering the highest inflation in the EU, pumped up by soaring food and energy prices, with the rise in consumer prices reaching an incredible 25% year on year in Estonia in August.

Even in the richer countries of the eastern EU, people are feeling the pinch as inflation accelerated this year, after starting its rise amid the global recovery from the coronacrisis in 2021.

Wages are not keeping up, with workers in all countries with the exception of Hungary suffering falls in real wages (Hungary's is expected to turn negative soon, according to an ING research note last month).

Central banks have reacted to the soaring inflation by hiking interest rates, which is predicted eventually to press inflation down again but also will push Central and Southeast Europe into recession, as well as hitting borrowers with higher mortgage payments.

In a region where consumption has been an important driver for growth, households are cutting back. People interviewed by *bne IntelliNews* reporters say they are shifting to cheaper brands and discount retailers, as well as putting off major purchases.

This bad economic news comes as the region is still emerging from the downturn caused by the coronavirus (COVID-19) pandemic. It also comes on top of lingering discontent with the region's slowness in catching up with Western living standards since the transition from Communism.

Some low-income groups – notably pensioners, rural dwellers, those with less education and skills – already feel they have not benefited from the transition. The risk is that they are becoming disaf-

ected with democracy and will vote for populist parties, which are already in power in Hungary and Poland, and are leading the opposition in Slovakia and Czechia.

This growing disgruntlement could also spill over into the international sphere, because patience is running thin with the cost of imposing sanctions on Russia in terms of higher energy prices, as well as the burden of looking after thousands of Ukrainian refugees. At a demonstration in Prague on Saturday, 70,000 protested against the government, but speakers also railed against sanctions, refugees, the EU and Nato.

Across the region opposition parties are calling for governments to do more, at a time when budgets are already stretched from dealing with the pandemic, putting currencies and asset prices under pressure. Populist governments, such as Poland and Hungary, have tended to be more interventionist, imposing price caps or even forcing

banks to make mortgage payment holidays.

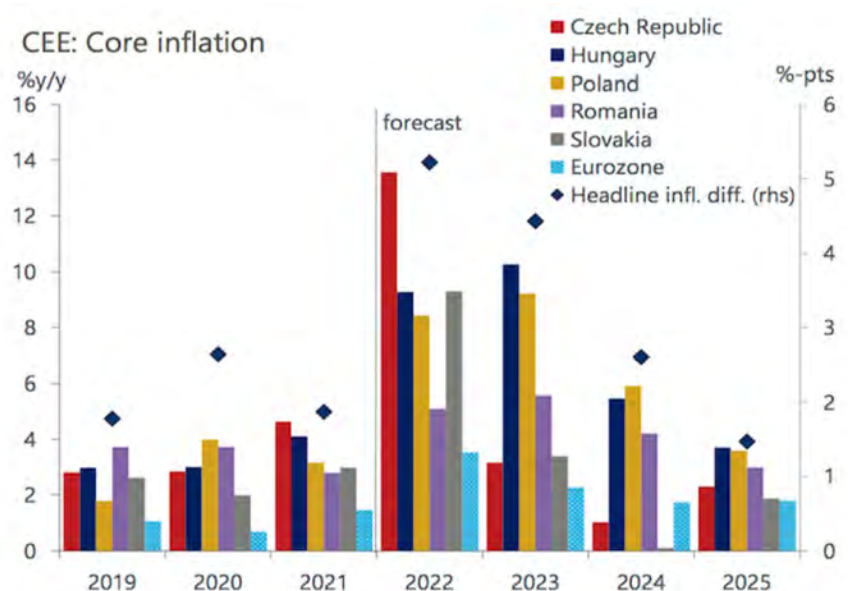
The challenge of helping citizens cope with the cost of living crisis is also accentuating tensions in the ruling coalitions, with the Estonian government collapsing in June and the Slovak coalition breaking up this week over increasing welfare payments.

Below, *bne IntelliNews* reporters look at how the governments in their countries are handling the cost of living crisis and whether it is likely to spark domestic unrest.

Poland targets heating energy costs

The main thrust of the Polish government's effort to stop Poles' wallets from thinning fast has gone into easing the cost of heating energy for households during the upcoming cold season. The government also made a one-off payment of PLN3,000 (\$648) to households to help cover the rising cost of coal, and has cut taxes on energy, petrol and basic food items.

Core inflation forecasts for the Visegrad Four countries and Romania.



Source: Oxford Economics / Haver Analytics

The government is subsidising the cost of purchasing coal and other heating fuels like wood pellets or oil for households with individual heat stoves. For multi-apartment buildings, which are mostly fed the heat via local district heating systems, there will be a cap of 40% in terms of how much heat companies could hike their prices.

The subsidies – especially ones to ease the cost of buying coal – are anticipated to bring the estimated 1.5mn households burning the commodity only limited relief. The spike in the cost of coal is due to short supply, which the government is simply unable to ramp up quickly.

Polish and foreign media have reported widely on days-long lines at coal mines, which sell coal sometimes up to three times cheaper than local distributors.

Even before the crisis, energy poverty in Poland affected as many as 1.6mn people. Experts now predict that the problem will grow much bigger.

Jaroslav Kaczynski, the leader of the ruling Law and Justice (PiS) Party, said at a recent meeting with voters that they would need to “burn everything but old tyres and waste” in order to keep warm, a statement that the opposition said epitomised PiS’ inability to address the energy crisis in a systemic way.

Other than the energy crisis, Poles have been grappling with inflation – which hit a surprising 16.1% y/y in August, surprising the government and analysts alike, who expected price growth to have peaked at 15.6% y/y in July.

The government has long said that inflation is largely imported and is an effect of Russia’s war in Ukraine and well as lingering pandemic-caused bottlenecks in supply chains.

The National Bank of Poland nonetheless is obliged to curb inflation and it has attempted to do so via massive hikes in interest rates, which have gone up from 0.1% to 6.25% in little less than one year.

That, however, exacerbated the cost



Households are cutting back in response to rising prices, while pressure grows on governments to ease the burden. / bne IntelliNews

of living crisis by sending mortgage repayments through the roof, to which the government responded by granting all borrowers a total of eight months of “credit vacations” – meaning the right to suspend repayments – in 2022 and 2023.

According to Prime Minister Mateusz Morawiecki, the total cost of limiting energy prices will reach around PLN50bn. The cost of subsidising purchases of coal is estimated at around PLN11bn (€2.32bn), while Polish banks have complained the credit vacation scheme could set them back by PLN21bn-27bn this year and the next.

Czechs on the streets over rising costs

Czechia has experienced the biggest demonstration so far over the cost of living crisis. In a protest organised by extremist and fringe groups, 70,000 rallied in Prague’s city centre on Saturday, using the ongoing energy crisis to criticise the country’s centre-right government for not doing enough to help ordinary people, as well as for aiding Ukrainians at their expense.

Protesters’ slogans and speeches were directed against the government for the high energy prices and for allegedly giving priority to people fleeing Russian aggression in Ukraine over Czech citizens. Some also called for negotiations with Putin over cheap gas supplies. The public media, the EU, the EU’s Green Deal and Nato were other frequent targets.

The organisers plan another demonstration on September 28, St Wenceslas Day. Unions are also planning a separate demonstration in October.

The fact that even fringe movements were able to mobilise so many protesters demonstrates the depth of unhappiness in the country with the government, which is perceived as doing too little, too late to deal with the crisis.

Opposition parties held a vote of no-confidence last week and support for the populist ANO movement of former premier Andrej Babis is riding high ahead of municipal and Senate elections later this month.

Inflation in the Czech Republic hit 17.5% in July, and is widely expected to breach 20% in the coming months. Despite a thriving export business, Czechia now has the highest electricity costs in Europe in purchasing power parity terms (PPS), a survey recently showed.

The government insists that it has done more than many in the EU but it remains hidebound by the ruling neoliberal Civic Democrat’s obsession with not raising taxes.

The government claims it has already allocated CZK177bn (€7bn) to combat inflation, and that pension hikes, one-off child benefit payments of CZK5,000 (€203), lowered taxes on gas, a waiver

on renewable energy payments for households, and a discounted electricity tariff make Czechia fourth in the EU relative to its GDP in terms of aid provided to citizens. According to Reuters, the government's claimed spending is equal to 2.9% of GDP.

Last month, the cabinet agreed to increase the amount of money allocated for the energy savings tariff, which will be distributed across the winter through contracted electricity and commodity prices as per the level of energy consumption.

Minister of Industry and Trade Josef Sikela said the discounted electricity tariff would translate to aid for households with low consumption to approximately CZK11,000 (€446), medium consumption of CZK14,000-15,000 (€568-608) and high consumption of above CZK18,000 (€730).

However, NGOs and analysts warn that aid needs to be more targeted to have the most effective impact. A third of households is struggling to cover their monthly expanses, sociologist Daniel Prokop points out. "Help should be targeted towards the poorer half or poorer third, households with children", Prokop told Czech Radio.

Some 700,000 Czechs (roughly 6.4% of the population) remain trapped in endless enforcement procedures, facing debts impossible to pay off during their lifetimes.

Slovak ruling coalition collapses

Cabinet tensions over how to respond to the cost of living crisis led to the collapse of the Slovak ruling coalition this week.

The right-wing Freedom and Solidarity Party (SaS) pulled out of the government over the way Finance Minister Igor Matovic pushed through his welfare plans with the support of a far-right opposition party when he could not get them through the cabinet.

The government's measures include monthly subsidies to families of €30 per child, a €50 monthly contribution to be

used for children's after school activities, a tax bonus for children under six and under 15 of €70 and €100 respectively.

Prime Minister Eduard Heger's government now commands 67 votes in the 150-member parliament, and even with the support of a handful of independent deputies it will lack a majority.

The two main opposition parties, Robert Fico's Smer and Peter Pellegrini's Hlas, are comfortably leading opinion polls and have collected enough signatures for a referendum on early elections, though the question is likely to be referred to the Constitutional Court.

The political scene is likely to become more stormy, particularly if – as likely – a vote of no-confidence is held in Matovic.

"There will be a period of friction, depression, rage," Martin Barto, a member of SaS' National Council, told *bne IntelliNews*. "There is a real threat of a really big political upheaval."

Hungary tries to rein in budget deficit

Hungary is different from its neighbours in that it already had price caps and welfare handouts and in fact has had to unwind some of them to keep its budget deficit under control.

There were big demonstrations when Viktor Orban's radical right-wing regime ripped up its manifesto pledges and moved to cut the budget deficit caused by its handouts before the election. Thousands protested in Budapest in July at the end of tax breaks for small entrepreneurs and a hike in utility price caps.

Hungary has capped retail fuel prices at HUF480 (\$1.23) per litre since November, well below current market prices. Sharp rises in gas and electricity prices have forced the government to set the limit at national average consumption levels, with market prices applying above that.

Hungary has now imposed an export ban on fuels and recently loosened logging regulations to meet increased demand for solid fuels such as firewood.

Households squeezed in Southeast Europe

In much of Southeast Europe the impact of the war in Ukraine has meant a further hike in food prices, and the lack of locally produced food in the shops is visible. Instead, retailers are resorting to costly imports to fill their shelves.

In Bulgaria, the poorest of the EU's 27 member states, households are reducing non-essential spending to a minimum to face the coming winter and to be able to buy food and pay for their bills.

"I think twice before deciding to travel this summer. I have never thought about my budget before as my income is excellent and I can afford a high living standard for my family. However, the fuel has jumped a lot and we have cancelled several trips," Desislava, 50, a mother of three, tells *bne IntelliNews*.

Food stores remain busy for now, but this is mainly thanks to the summer tourist season and the Ukrainian refugees in the country. Many expect that after the end of the summer season the consumption will decrease significantly.

"I am nearly having a panic attack every time I enter the store – full of crowds, buying so many things, that employees have no time to refill shelves," Daniela, 46, says.

She spends the summer at the Black Sea coast and does her weekly shopping at the local supermarket. As August ended, however, the crowds disappeared too.

Croatia, which is more dependent on tourism than Bulgaria, is expected to see a similar fall in economic activity as this year's summer season comes to an end. One segment that aims to do well out of the crisis is pawnbrokers; there has been a surge in advertising among pawnbrokers encouraging cash-strapped Croatians to turn to them as a solution to the crisis.

The beginning of autumn brings a new set of financial worries. Two surveys of parents in Romania show they are increasingly concerned about the costs of

back-to-school shopping in an environment of sharply rising prices. 33% of those interviewed by Deloitte said their household financial situation had worsened over the last year, while 37% expected to have to spend more on school supplies this year than they paid in 2021 for the same items. More than three-quarters (77%) planned to switch brands if preferred products were too costly or out of stock. A separate survey by United Media Services found almost one in 10 parents were concerned about higher prices for back-to-school products.

The latest data from statistics office INS shows Romania's retail sales volume index increased by 2.5% y/y in July, which was the weakest annual growth rate in over six quarters. Moreover, as reported by *bne IntelliNews*, households' purchasing power is being eroded by rising inflation, and retail sales are only shored up by people buying now because they expect consumer goods will get even more expensive in future.

Even in emerging Europe's richest country, Slovenia, higher prices are causing more people are turning to supermarkets such as Lidl and Spar that stock more discounted goods. Annual inflation in Slovenia, where the average wage is around €1,300, was 11% in August and was influenced the most by higher prices of fuels, electricity and food.

A *bne IntelliNews* reporter has noted the sharp increase in coffee prices, much to the dismay of the population in a country where the coffee culture is just as important a part of social life as in neighbouring Italy. Before the pandemic, the usual price for an espresso or lungo was €1 or up to €1.20 in chic cafes. Prices are now at €1.30-1.40 in regular cafes and as high as €1.50-1.70 in higher-end venues (with the range in prices depending on whether cafes charge for takeaway cups).

Mixed responses

Governments in the region have taken a variety of approaches to tackling the crisis. Some have adopted a blanket approach, helping everyone affected by rising prices of, for example, electricity or car fuel, such as Romania's much-criticised 'cap and subsidy' scheme for energy prices, or Bulgaria's handouts for drivers.

More targeted approaches specifically helping lower income households are rarer – not least among those governments with elections coming up that want to boost their ratings by offering something to everyone, not just the poorest in society. There are exceptions, though, like Slovenia's one-off energy supplements that are specifically for low-income households and other vulnerable groups.

This is despite clear indications that poorer households are being disproportionately affected. A working paper from the International Monetary Fund (IMF) forecasts that the average European household will experience an increase of around 7% in its cost of living this year

relative to what was expected in early 2021. However, not only does the impact vary widely across the EU – Estonia and Czechia are forecast to be the worst affected of the EU member states, while the impact in Hungary will be minimal – but within countries, the burden falls most heavily on low-income households that spend a higher share of their budgets on electricity and gas.

“Even in emerging Europe's richest country, Slovenia, higher prices are causing more people are turning to supermarkets such as Lidl and Spar that stock more discounted goods”

The IMF puts the case for targeted measures aimed at poorer households rather than blanket support, especially in countries like Estonia and the UK, where living costs for the poorest 20% of households are forecast to increase by about twice as much as those for the richest households.

“So far, Europe's policymakers have responded to the energy cost surge mostly with broad-based, price-suppressing measures, including subsidies, tax cuts and price controls. But suppressing

the pass-through to retail prices simply delays the needed adjustment to the energy shock by reducing incentives for households and businesses to conserve energy and enhance efficiency. It keeps global energy demand and prices higher than they would otherwise be,” the IMF economists argued.

“Moreover, the increasing cost of these measures is squeezing economies' limited fiscal space as high prices persist ... Policymakers should shift decisively away from broad-based measures to targeted relief policies, including income support for the most vulnerable.”

The fund warns that in many countries, the cost of measures in response to the energy crisis – mostly broad price-suppressing measures – will exceed 1.5% of 2022 economic output.

Caps and subsidies in Southeast Europe

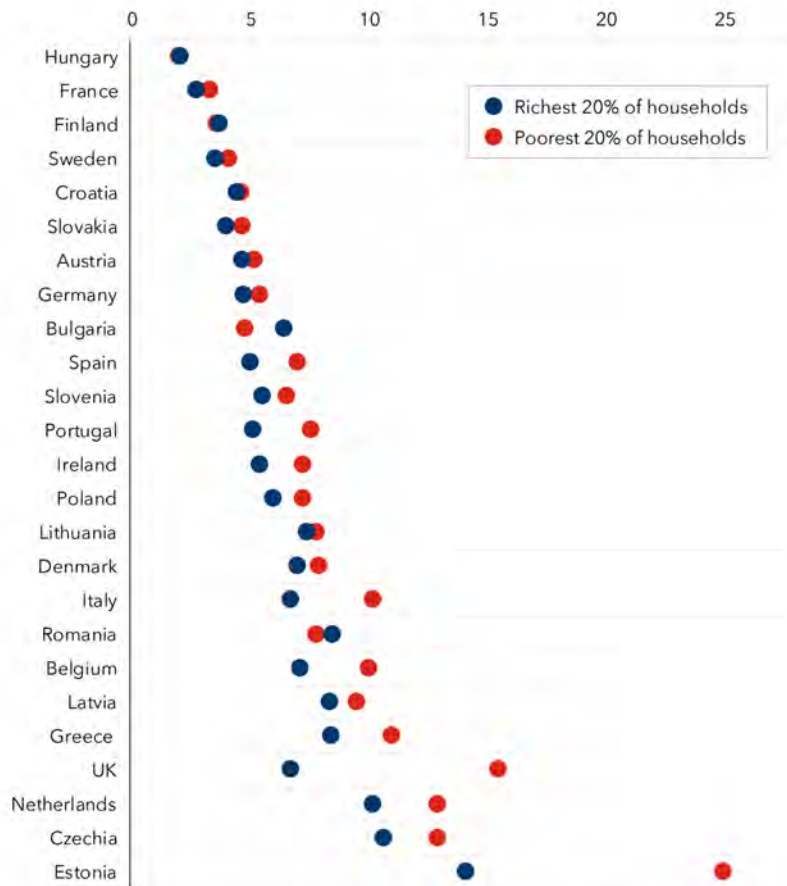
The parliament of Slovenia adopted temporary measures to eliminate the consequences of the high cost of living for the most vulnerable groups of citizens on August 31.

Low-income households will obtain a one-time energy supplement of at least €200 with the amount to be increased depending on the number of children, up to €314. An energy supplement will also be given to employees, parents of children with special needs, pensioners and some other people, provided they live in a low-income household. The first allowance payments will be made in November.

Due to the rising food prices, which also affect the cost of providing meals at work for employees, the government decided to exclude reimbursement of food expenses from the tax base.

Poorest under pressure

The cost-of-living increase is larger for lower-income households
(cost of living increase from higher energy prices, in percent of total household spending)



Sources: Bloomberg Finance L.P., Eurostat, and IMF staff estimates using CPAT.
Note: Price increases compare the current projected prices for 2022 based on May 2022 futures prices, with those based on January 2021 futures prices.

IMF

As well as this targeted aid, both Slovenia's current government and its predecessor have used fuel price caps. The former government under Janez Jansa introduced a flat measure ahead of the April general election, but uncapped it shortly when it became clear that Jansa's Slovenian Democratic Party (SDS) had no chance of forming a cabinet. The new government led by Robert Golob has since reintroduced more progressive capping.

As observed by one *bne IntelliNews* reporter in Slovenia, these changes in policy saw cars lining up at petrol stations every time before easing in capping was announced, though the situation later stabilised. In Bulgaria, prices started surging more rapidly since April due to high fuel costs. As a result, prices of basic food

products increased by between 25% and 40% for just a few months, affecting not only the households with low income but also those with higher living standard.

The authorities are also trying to reduce the electricity and heating price for households and companies, compensating that with the excessive profits of energy companies.

Direct financial aid is also provided to people whose incomes are below the poverty line, mainly retired people.

In Bulgaria, retail fuel prices jumped by between around 50% for diesel to more than four times for methane since April. In an attempt to mitigate these price hikes, the former government of Kiril Petkov introduced several measures. All

car owners can use a BGNo.25 (€12.3) per litre discount at petrol stations that is subsidised by the state.

Romania launched the so-called "cap and subsidy" scheme aimed at protecting end-users from excessive rises in electricity and natural gas prices back in February, and it has since been extended as prices continue to rise.

Most recently, the government passed an emergency decree on September 1 amending and prolonging the decree issued in February pertaining to the "cap and subsidy" scheme. The new decree prolongs the validity of the scheme until the end of August 2023 (from the end of March 2023) and seeks to secure a better balance between the cost of the subsidies and the revenues generated from the "solidarity contributions", which are taxes levied on the "windfall revenues" derived by energy companies. The scheme will cost the budget some RON1bn (€200mn) per month and the solidarity contributions should entirely cover it, Minister of Finance Adrian Caciuc said at a press conference after the government meeting.

In Croatia, the government is preparing to adopt a pack of financial measures that would help households and companies deal with the surging prices. The government has already capped retail price of fuels and is amending it each week. It also has pledged a direct aid to households and retired people.

EU-level intervention

In addition to the measures taken by individual member states, governments are also looking for action at EU level. At a meeting on September 9, EU energy ministers are expected to back unprecedented interventions on the energy market in a bid to put a lid on the price rises that have plagued EU economies since Russia's invasion of Ukraine in February.

Documents prepared by the Czech EU Council presidency, and obtained by Politico, warn that the interruption of supplies through Nord Stream 1 as well as other energy supply restrictions "are feeding rising inflation, and have severe impacts on all businesses and consumers". ●

Former Nato commander confirms bid for Czech presidency

Albin Sybera

Petr Pavel, former Czech army chief of staff, high ranking Nato officer and veteran of missions to former Yugoslavia and Afghanistan, has confirmed his long awaited candidature for Czechia's presidency. The first round of voting is scheduled for January 13-14.

"People feel abandoned by politicians" amid the present crisis, and "I want to change that", said Pavel during his speech on Tuesday, which reflected his non-partisan approach to the candidacy presented in earlier interviews to Czech media.

However, Pavel also made it quite clear he wants to stand up against divisive populist politics, and he also criticised the power of business interests in Czech politics. "I am not indifferent to the fact that in our country some people are more equal than others" adding "I am ready to lead by example".

Key stated priorities include an active foreign policy, an innovative economy, energy independence, education, and a healthy environment, while his election motto is "Let's return order and peace to Czechia".

A recent poll showed Pavel is the election's favourite, together with controversial billionaire and populist opposition leader Andrej Babis, who is yet to confirm his own candidacy, which could happen on the country's national holiday on October 28. In a possible run off round between the two, Pavel is favourite.

Pavel leaves an impression as though his bid is a mission to step in at a difficult time. "I don't think of the candidacy as a selfish effort to be elected at any price", he told DenikN in a recent profile interview.

His military career includes being the

first officer from the former Warsaw Pact countries in the Nato command, having held the position of chairman of military committee, Nato's second man, for three years.

Military rank "is a brand, in a way, under which people know me", Pavel told DenikN, suggesting he is quite aware that his public image is inseparable from his military career. This could seem as quite unusual political profile in a country known for a literary and film tradition ridiculing the military, be it Jaroslav Hasek's Good Soldier Svejk or Jaroslav Skvorecky's Republic of Whores.

When Pavel jokingly described his pre-1989 military past to that of private Kouba, the main hero of the 1980s popular film about Czechoslovak's special units who somehow manages to be an elite soldier despite his disorderly behaviour and unwitting romances, he is in part tapping into the Czech ambivalent attitude towards the military.

However, Pavel's pre-1989 past in the elite army units and military intelligence training, as well as his Communist Party membership, has also been a frequent source of critical comments from the country's vocal anti-communists.

One of the most fervent of them, historian Petr Blazek, has been accusing Pavel of having been trained for an intelligence officer's career. In the most recent televised debate at CNN Prima News, Blazek also accused Pavel of lying about his past and described the then Czechoslovak military intelligence as a "younger sister of the [Soviet] GRU".

Pavel himself has demonstrated a break with the anti-communist strand of politics, traditionally associated with right-wing ODS as well as the centre-right TOP 09 and Christian Democrat parties in the ruling coalition. He stated

for instance that he wouldn't give a state decoration to the Masin brothers, sons of legendary Nazi resistance fighter, who shot themselves out of Stalinist Czechoslovakia leaving several dead, including a tied-up captive.

The three parties won the 2021 parliamentary election as the SPOLU grouping, which now forms part of the ruling coalition with the more liberal grouping of the Pirates and Mayors. The cabinet has been under pressure amid the deepening energy crisis, and Saturday's far-right demonstration against the cabinet and the EU, organised by pro-Kremlin activists in Prague, attracted a crowd of 70,000.

Pavel has also expressed more liberal views than the ruling ODS of Prime Minister Petr Fiala. He defended the right to marriage for everyone and is more enthusiastic about adopting the euro currency than Fiala's party, with its strong Eurosceptic wing.

Pavel appears to be carefully distancing himself from SPOLU, aware of its faltering popularity, while not severing the ties completely. Parties in the formation have so far largely not endorsed any candidate. ●



Petr Pavel as Chairman of the Nato Military Committee, the highest Nato position held by a Czech. / Munich Security Conference



partidulsor.md

Fears more Emerging Europe airlines to follow Romania's stricken Blue Air

bne IntelliNews

It's been a terrible two and a half years for airlines. Barely had restrictions on international travel imposed to contain the coronavirus (COVID-19) pandemic been lifted when Russia's invasion of Ukraine sent energy prices sky high and caused an inflationary spiral that is shrinking household budgets in real terms across Europe.

The day before Romania's cash-strapped Blue Air announced it was temporarily grounding flights on September 6, analysts from US-based research and brokerage firm Sanford C. Bernstein told Bloomberg they see Europe's weaker airlines – which are disproportionately the smaller carriers located in Emerging Europe – as having a heightened risk of collapse this winter.

While few airlines went bust during the pandemic thanks to government support, they are now struggling with higher fuel and labour costs. Govern-

ments, meanwhile, have shifted their focus away from the transport industry to the urgent need to help households through the cost of living crisis.

Using a new model of assessing bankruptcy risk based on competition, capacity, route networks and expected costs of leasing and replacing planes, Bernstein analysts told the newswire the most exposed carriers are from Albania, Belarus, Bulgaria, Cyprus, Czechia, Georgia, Moldova and Romania (though without naming the airlines at risk).

By contrast, Europe's strongest players "face negligible risk", indicating a likely continuation of the consolidation seen in the European air transport sector in the years before the pandemic – when a number of smaller airlines from Central and Southeast Europe shut down or were taken over by bigger companies.

As *bne IntelliNews* reported at the time, while there were different stories behind the collapse of each company, they all happened against the underlying trend of an air transport market in the throes of consolidation. Carriers from the small Southeast European countries had been struggling particularly hard. National airlines from Albania, Bosnia & Herzegovina, Kosovo, North Macedonia and Slovenia had all folded in the years before the pandemic.

Blue Air grounded

Romanian lowcoster Blue Air has been struggling for years, as indeed has the country's flag carrier Tarom. On September 6, Blue Air announced that its bank accounts had been seized by the Ministry of Environment, and it would not operate any flight from a Romanian airport between September 6 and September 12. This created chaos at Bucharest airport, and speculation as to the company's future.

Blue Air has been under pre-insolvency procedures since July 2020 and is seeking a capital injection from investors. The company blames its financial problems on the Consumer Protection Agency (ANPC), which, recently slapped a €2mn fine on Blue Air for the huge amount of flights cancelled

airline reported its 13th consecutive year in the red, with the result admittedly affected by the pandemic and slump in international travel. That came after at the end of 2020, the government approved the 2021-2022 restructuring plan for the airline, pending European Commission approval.

tourism-dependent country's air sector didn't end there.

In February, bankruptcy managers of Montenegro Airlines filed a claim against the directors of Air Montenegro, accusing them of causing millions of euros of damage to the bankrupt airline. Air Montenegro posted a net loss of €4.96mn in its first year of operations, saying it was expected given the investments made during the year. However, Nebojsa Medojevic of the opposition Democratic Front said the company should be investigated over the loss, which he blamed on a combination of a crime and lack of expertise.

“On September 6, Blue Air announced that its bank accounts had been seized by the Ministry of Environment, and it would halt flights from Romanian airports”

over the past year and its failure to properly compensate its customers. This prompted a public spat between the head of the ANPC, Horia Constantinescu, and the airline, which Blue Air claimed had blocked discussions held in London with interested investors.

A statement from Blue Air on its plans is imminent, but it's unclear to what extent it will be able to resume flights. As the company has pointed out, its €230mn debt is roughly the size of half its annual revenues. However, from 13 aircraft operated now (compared to 32 in 2019), the company will be left with only five by the end of the year.

Nor Romanian flag carrier Taron been immune to difficulties. In 2021, the

Other Southeast European airlines struggling

Airlines from some other Southeast European countries have also been struggling.

Moldovan flag carrier Air Moldova was involved in a high-profile scandal in February 2021, when the High Court in Ireland ordered an Air Moldova Airbus A319 passenger jet not to leave Dublin airport, because of an award of €4.2mn in favour of Romanian company Just-US Air.

Montenegro got a new air carrier, Air Montenegro, after the bankruptcy of the country's previous flag carrier Montenegro Airlines, which had been one of its top corporate debtors for years. However, the troubles of the small,

Major airlines rush in

As Bernstein analysts forecast to Bloomberg, major airlines are already eyeing an additional presence in the Romanian market. They pointed out that the strongest players in the region, Ryanair and WizzAir, had the potential to quickly allocate resources to newly vacated routes.

Hungarian low-cost airline Wizz Air, already the market leader in Romania by the number of passengers carried, has announced another expansion of its operations in the country.

Ryanair has also seized the opportunity and launched a preferential offer to Blue Air customers that book a replacement flight by September 9. ●

Amid global energy crisis Balkan states reach out to energy-rich Azerbaijan

Fuad Shahbazov in Durham

With the deepening energy crisis in the West triggered by Russia's intervention in Ukraine, more European countries, mainly Eastern European and Balkan countries, including Bulgaria and Serbia, are eyeing alternative suppliers for additional natural gas volumes. The security cataclysms in Europe in the light of the

war have pushed European countries to seek partners such as Azerbaijan.

Since 2022, Azerbaijan has held several high-level meetings with EU officials regarding exporting additional gas volumes to Europe. It is noteworthy that non-EU countries like Serbia are also keen on deepening energy partnerships

with Azerbaijan. Serbia's willingness to acquire more Azeri gas depends on the construction progress of the EU-supported Serbia-Bulgaria gas interconnector – a 171 km natural gas interconnector that will connect Nis (Serbia) and Sofia (Bulgaria), thus supporting regional energy security. According to reports, the interconnector may become

operational in early 2023, giving Serbia and Bulgaria a non-Russian gas supply option. Obviously, Serbia is heavily dependent on Russian oil and gas, which have been disrupted following the Ukraine war and the imposition of sanctions on Moscow by the European Union, which Serbia is seeking to join.

With the inauguration of the new interconnector, Serbia will be able to join the Southern Gas Corridor network and import gas from Azerbaijan and from LNG terminals in Greece. In early September 2022, Serbia's Deputy Prime Minister Zorana Mihajlovic, in her interview with Azeri media, emphasised that Serbia's energy ministry is in official talks with Azerbaijan on the early signing of a gas supply contract. She stressed that "the Ministry of Mining and Energy is already conducting talks with the line ministry of Azerbaijan so that Serbia could have a contract for the supply of this energy generating product long before the completion of the pipeline."

Given the strategic importance of decreasing the Russian energy monopoly over the European countries, the European Investment Bank (EIB) provided €25mn for the construction of the Serbia-Bulgaria interconnector in addition to the €49mn grant provided earlier by the EU Instrument for Pre-Accession Assistance.

Serbia eyes Azerbaijan electricity

However, amid the growing energy crisis, Serbia is eyeing not only imports of Azeri gas but electricity from Azerbaijan. At the end of August 2022, on the 25th anniversary of establishing diplomatic relations between Serbia and Azerbaijan, President Alexander Vucic held a phone conversation with President Ilham Aliyev, asking him for help in providing secure and sufficient amounts of electricity. After brief negotiations, Azerbaijan approved an interstate agreement with Serbia on purchasing electricity from Azerbaijan on favourable terms.

Reportedly, the natural gas and electricity flow to Serbia will start in 2023, as it requires the shift of necessary infrastructure of both countries. The import of additional gas volumes and electricity from Azerbaijan could help Serbia to

stabilise the domestic energy crisis that occurred because of the war and poor management of Elektroprivreda Srbije, EPS, the state-owned electricity company that had major problems with many of its facilities over the year. In late 2021, there was a major breakdown in Serbia's two biggest coal plants that caused widespread outages, prompting EPS to start importing unprecedented quantities of electricity via transmission system operator Elektromreza Srbije (EMS). The share of power from abroad in domestic consumption reached as much as 45%.

Bulgaria taps new energy sources

Obviously, Serbia is not the only regional state concerned with its energy security in light of the changing security architecture of Europe. Bulgaria, which had its supplies from Russia cut off in April, is another country that has close contact with Azerbaijan in order to ensure the additional flow of natural gas. Earlier this year, Bulgarian and Azerbaijani senior officials held several meetings to discuss the possibilities of gas exports. The extra gas export to Bulgaria is expected to be delivered through the 182 km Gas Interconnector Greece-Bulgaria (IGB), which is still under construction and could become operational in early October 2022.

However, according to Azerbaijani Energy Minister Parviz Shahbazov, "Azerbaijan has supplied 555 million cubic metres of natural gas to Bulgaria since last year. Since July this year, daily gas transportation to Bulgaria has increased to 2.6 million cubic meters." In order to cement the ongoing negotiations with

Azerbaijan, Bulgaria's former prime minister Kiril Petkov paid an official visit to Baku to meet with President Aliyev and other senior officials earlier this year.

Azerbaijan's partnership with Bulgaria in the energy field seems to be more profitable, as the two states have agreed to swap gas for electricity. Bulgaria is a major electricity producer and is ready to supply Azerbaijan. Unlike Bulgaria, Azerbaijan produces electricity by using natural gas, which affects the volume of exported natural gas. However, with Bulgaria's swap deal, Baku would be able to save more gas for export and re-route it to Bulgaria. Indeed, the volume of natural gas exported to Bulgaria will increase to 1bn cubic metres when the IGB becomes fully operational this year.

In light of deteriorating relations between the West and Russia and the rising diplomatic standoff, the global energy crisis will hit major European countries badly and cause a more profound crisis. Therefore, the importance of alternative suppliers like Azerbaijan will rise immensely. The Caspian country can deliver additional natural gas to Southern Europe and Balkan countries such as Serbia and Bulgaria, which may find themselves in big trouble soon. ●

Fuad Shahbazov is an independent policy analyst focusing on regional security issues in the South Caucasus and a Chevening FCDO scholar at the University of Durham School of Government and International Affairs (SGIA). He tweets at @fuadshahbazov.



Serbia is eyeing imports of both gas and electricity from Azerbaijan. / bne IntelliNews



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Thousands join anti-government protest in Moldova

bne IntelliNews

Several thousand people joined an anti-government protest in the Moldovan capital Chisinau on September 18, organised by the opposition Shor Party led by fugitive businessman and MP Ilan Shor.

Moldova's ruling Party of Action and Solidarity (PAS) was elected by a landslide in 2021, but since then the Western-oriented government has come under pressure because of the strains of coping with high inflation, increased energy prices and the impact of the war in neighbouring Ukraine, including the arrival of hundreds of thousands of refugees.

Participants in the march called for the resignations of Sandu and Prime Minister Natalia Gavrilita's government.

Shor, sentenced in 2017 to 90 months in jail for fraud and money laundering (a ruling appealed but never re-judged), spoke by Skype to the protesters summoned by his party in front of the presidency in Chisinau, on September 18.

Dinu Turcanu of the Shor Party addressed the rally in person, saying

the crowd had gathered "to take on the future of this country. The people of the Republic of Moldova, who put those from PAS in office, have every right to hold them accountable.

"The Republic of Moldova is in clinical death, and those who will revive it

"The Republic of Moldova is in clinical death, and those who will revive it are the people who came here today. Moldova will regain its dignity"

are the people who came here today. Moldova will regain its dignity. We have only one condition: Down with Maia Sandu!" added Turcanu, according to a party statement.

The protest organisers have set up tents on the square outside Moldova's parliament and say they intend to continue the protest "non-stop" to push for Sandu's and the government's resignations.

Shor said the number of people who will camp out in tents will be limited, but every Sunday massive protests will be organised in the same place.

Turcanu claimed that tens of thousands of people took part in the protest and that many more were prevented from attending. However, according to the Moldovan police, quoted by Deschide.md, the protesters numbered around 6,500.

Shor, one of the main suspects in Moldova's so-called '\$1bn bank frauds', fled the country in 2019. However, he still has a following within Moldova, and a recent poll showed that the Shor Party would take 15.5% of the votes if an election were held now.

The protest took place just days after another opposition bloc, the Bloc of Socialists and Communists filed a no-confidence motion against the government, and the two appear to be coordinated.

Neither the motion nor the street protests can realistically succeed in overthrowing the pro-EU authorities, given the PAS' majority in parliament, but they will add to the tensions in Moldova that are likely to grow as utility companies start sending out higher

energy bills during the colder months towards the winter.

Moldova's economy contracted for the second quarter in a row in Q2, when it edged down by 1.3 q/q, and the government recently revised its growth forecast for this year to zero. Meanwhile, annual inflation reached 34.3% in August, and the government has limited capacity to address the social impact. ●

Albania's opposition Democrats to probe allegation party received \$500,000 from Russia

bne IntelliNews

Albania's opposition Democrats will probe an allegation the party received \$500,000 from Russia, as part of hundreds of millions of dollars the US State Department said were directed by Moscow at foreign political parties and individuals.

Political parties in the Western Balkan countries of Albania, Bosnia & Herzegovina and Montenegro are believed to have been among those targeted by Russia, which according to the US State Department covertly channelled over \$300mn to foreign political parties and individuals.

Russia has long been engaged in a struggle for influence in the Western Balkans mainly against the EU and US. While Russian influence has dwindled as all the countries in the region aspire to join the EU and several have already joined Nato, Russian efforts to prevent its westward movement have continued. Since the invasion of Ukraine in February, there have been fears Russia could try to further destabilise the region.

A State Department cable, quoted by newswires and discussed at a briefing on September 13, alleges that Moscow covertly spent over \$300mn in the last eight years to influence politicians and officials in over 20 countries.

While the cable does not name the countries, parties or individuals targeted, sources quoted by newswires say that parties from Albania, Bosnia and Montenegro were among them.

A source within the US administration quoted by AFP that Moscow had spent around \$500,000 to support Albania's Democratic Party in the 2017 general elections.

AFP also quoted the source as saying Russia had financially supported parties

or candidates in Bosnia, Montenegro and Madagascar.

Another source quoted by AP also pointed to Russian influence in elections in Albania, Bosnia and Montenegro.

Contacted by *bne IntelliNews*, a State Department spokesperson declined to elaborate on specific intelligence information.

The spokesperson added: "we have been clear about our concern about Russia's activity to influence the democratic process in various countries around the world, including our own. Our concern over Russia's activity in this regard is not with any one country but global in nature as we continue to face challenges against democratic societies."

An 'assault on sovereignty'

At a media briefing on September 13, US State Department spokesman Ned Price called Russian interference in foreign elections an "assault on sovereignty".

"[W]hat Russia is doing around the world in terms of its election meddling is also an assault on sovereignty. It is an effort to chip away at the ability of people around the world to choose the government

While he did not provide many further details, he outlined the reasons why the State Department released the information.

"[P]art of our charge not only is to do that assessment and to collect and to do that analysis, but then to expose what we know, because in order to fight this, in many ways we have to put a spotlight on it," he told journalists.

"And so by exposing Russia's strategies and Russia's tactics publicly, but then also discussing these tactics and strategies privately in diplomatic channels, in intelligence channels, with partners around the world, sharing practices for how we can put an end to Russia's meddling, that is also something that we're going about."

Albania's Democratic Party to probe alleged funding

The centre-right Democratic Party's current leader Sali Berisha – who has been sanctioned by the US for 'significant corruption' – accused the party's former leader Lulzim Basha of being personally responsible for the alleged Russian funding in a Facebook post on September 14.

"[T]he Democratic Party declares that, after becoming aware of indications

"What Russia is doing around the world in terms of its election meddling is also an assault on sovereignty. It is an effort to chip away at the ability of people around the world to choose the government that they see best fit to represent them"

that they see best fit to represent them, to represent their interests, to represent their values," said Price, according to a transcript of the briefing.

that spoke of a Russian financing, it has publicly denounced this personal act of Lulzim Basha ... The Democratic Party will ask its forums to set up a working

group to undertake a detailed audit under the direction of a Special Commission.

“We consider the financial intervention for malignant interests, which contradict the national interest of Albania and its Western orientation, to be a flagrant violation of the country's sovereignty, by an aggressor who is washing the friendly people of Ukraine in blood,” Berisha added.

Basha stepped down as party leader after the Democrats' defeat in local elections in early 2022, opening the way for Berisha to return as party leader.

In general, Albania is notable in the Western Balkans for the lack of Russian influence on domestic politics. Overall, along with neighbouring Kosovo, Albania is seen as the most pro-US and more broadly pro-Western country in the region. Unlike several of its neighbours it is not a Slavic or Orthodox nation, and relations with Russia are cool among politicians across the political spectrum (at least publicly).

The 2017 election – in which the state department source claimed to AFP that Russia had backed the Democrats – resulted in a heavy defeat for the party at the hands of Prime Minister Edi Rama's Socialists.

The vote was a critical one for Albania as its conduct was seen as a test for the country's democratic credentials as it tried to get approval from EU countries for the start of accession talks. It followed threats by the opposition to boycott the vote, which were later resolved, paving the way for it to take part. As noted by the OSCE at the time the vote “took place in the context of a long-standing and deep political division between the [Socialist Party] of the ruling coalition and the opposition [Democratic Party]”.

Russian influence in Bosnia and Montenegro

Russia remains influential among Bosnian Serb politicians, with the Serb member of Bosnia's tripartite presidency, Milorad Dodik, a long-time adherent of Russian President Vladimir Putin.

Leading Bosnian Serb politicians have been threatening the secession of Republika Srpska, the country's Serb entity, for years. More recently, Dodik has blocked efforts

“We consider the financial intervention for malignant interests, which contradict the national interest of Albania and its Western orientation, to be a flagrant violation of the country's sovereignty, by an aggressor who is washing the friendly people of Ukraine in blood”

by Bosniak and Croat politicians to impose sanctions on Russia over the invasion of Ukraine. Infighting among Bosnian politicians has also stymied efforts to move closer to EU and Nato accession.

He has continued to pursue closer ties with Russia, and plans to meet Putin in Moscow later this month.

Montenegro was once dubbed ‘Moscow-on-Sea’ – not just because its coast was such a popular destination for Russian holidaymakers, but also because of the tiny country's close relations with Russia. However, as the country under the former ruling Democratic Party of Socialists (DPS) moved steadily into the Western orbit, aspiring to join both the EU and Nato, relations with Moscow soured.

As Montenegro prepared to join Nato

in 2017, Russia appeared to step up its efforts to prevent its accession by destabilising it internally. Russian agents were accused of being involved in the

failed coup plot ahead of the October 2016 general election; leaders of the pro-Russian Democratic Front were also convicted in what became known as the ‘trial of the century’ but their sentences were overturned following a change of government in Podgorica.

Three months before Montenegro's Nato accession, DPS leader Milo Djukanovic, now Montenegro's president, claimed the plot was an attempt by Moscow to demonstrate to the West that Europe and Nato cannot expand without its consent.

Djukanovic's DPS was ousted in the 2020 general election, and – following two government collapses since then – a broad coalition of small parties, of which the Democratic Front is the largest, is expected to form the next government. ●





Flats blasted and scarred during Russian attack on outskirts of Kyiv / bne IntelliNews.

Kyiv's suburbs are healing from the brutal Russian occupation

Dominic Culverwell in Kyiv

K yiv's satellite towns are healing. It may not look like it at first when walking through the war-torn streets littered with crumbling apartments, shrapnel-damaged roads and burnt-out cars, but six months after Russian troops occupied Kyiv's suburbs, life is finally returning.

The damage from the occupation is immense. Investigators reported that Russian forces murdered, raped and mutilated civilians in Bucha, Hostolmel, Vorzel, Borodyanka and Irpin, leaving behind over 1,300 bodies. Stories of children being raped by Russian soldiers and citizens mercilessly executed became known in April once the troops left. The massacre shocked the world and led to Russia being suspended from the UN human rights council, a new wave of sanctions and helped fast-track Ukraine's EU application.

In the rural stretch of land between Kyiv and its suburbs, farm workers harvest the late summer crops. According to my friend Nick, a Bucha native, mines are still hidden in the fields and continue to cause injuries to farmers. Russian troops have been accused of deliberately mining Ukraine's fertile fields, wrecking the country's agricultural industry, which will have an impact on its economy for years to come. The cost of surveying lands at high risk of mine contamination and demining is estimated at nearly \$500mn, with financial support from Nato helping the demining operations.

After arriving in Bucha, Nick took me to a flattened home improvement store, Epicentr K, Ukraine's leading DIY chain. Although packs of building materials were stacked high in the car park, no one has started the rebuilding work yet. The

government promises that reconstruction will begin when the war ends, Nick informed. But three people were already taking matters into their own hands and were sorting through the piles of rubble surrounding the vast warehouse.

With the government busy directing funding toward the military, it is the citizens themselves that have begun to rebuild their home towns and look after the communities. A short drive from Epicentr K is a traditional Ukrainian bakery that sells fresh bread that would cost a fortune in an artisan London bakery. But here a loaf of bread doesn't have to cost anything. After the full-scale invasion began, the owners switched to a donation-based system so that those without money are still able to eat.

As we continue our journey, Nick notes the number of people, particularly chil-

dren, outside enjoying the final summer days. He tells me that a couple of months ago the streets were completely void of people and cars. He smiles at the recently reopened kiosks serving people coffee and a modified Soviet-era Lada with blacked-out windows that sputtered past. Life is slowly coming back to Kyiv's suburbs. However, the apocalyptic backdrop of decimated apartment blocks is an open wound and a reminder of the nightmare that took place just six months ago.

We stopped by a group of four young people who were rebuilding their small shop as the sun was setting. They mentioned that they were doing all the work themselves and hadn't received any funds or help from the government. When I asked what they thought the future would look like with the promised reconstruction funds from Western allies, they said it hadn't crossed their minds. Currently, the only thing preoccupying them was rebuilding and waiting for the war to end so that the government can commence with the reconstruction work.

This seems to be the attitude of a lot of locals. Oleksandr, a bearded carpenter and welder, said he would be very happy to see foreign allies help fund Ukraine's reconstruction; however, he wasn't waiting around for that to happen. He was already rebuilding his workshop that was left ravaged by heavy shelling. Fortunately, he has the skills to do so, but not everyone does and other garages surrounding his workshop were left as scorched skeletal frames.

Oleksandr's apartment was also hit by artillery and his shelled neighbourhood has decayed into a ghost town. The smell of rotting food wafted out of abandoned apartments once occupied by Ramzan Kadyrov's Chechen troops. At the bottom of one staircase, kilos of black potatoes provide a feast for the prodigious amount of flies and pests that have taken over the Soviet-era blocks. But Oleksandr and a few other locals haven't left. They remain, either out of a lack of options or, like in Oleksandr's case, out of determination. He will

never leave the home he's lived in for 40 years, even if the government offers to relocate him. When redevelopment begins, he hopes his apartment block will be rebuilt instead of being razed to the ground.

Oleksandr's hopes may soon be realised. In the capital, reconstruction is already underway and the redevelopment of a shelled apartment block in the Obolon district is an optimistic sign of the region's future. Like Oleksandr's home, the block was severely damaged after an explosion tore open dozens of apartments. However, instead of knocking the complex down, builders are renovating the existing framework and modernising the old Soviet design so that residents are able to return to their homes.

The site manager, Yeroslav, is optimistic about the massive rebuilding projects taking place and emphasised the good organisation and unity of the construction team that has helped the city recover quickly from the month-long siege. He doesn't see any challenges standing in their way, claiming they only need "time and patience" to get the work done.

However, as September begins, the fear of Kyiv's brutal winters percolates through the city and the builders are working quickly to try to finish before the heating season begins. The government approved "the Gas Storage Development Plan for 2022-2031" in July to tackle Ukraine's upcoming heating

"Oleksandr, a bearded carpenter and welder, said he would be very happy to see foreign allies help fund Ukraine's reconstruction; however, he wasn't waiting around for that to happen"

crisis. The project will allocate \$277mn to construct underground gas storage (UGS) facilities and \$168mn will be used to develop infrastructure facilities and reconstruct UGS technological equipment across the country.

When asked about foreign funding, Yeroslav believes that Kyiv has enough resources to carry out the rebuilding process. Instead, he says that the funding should first go to the front line and Ukraine's military who are still lacking heavy weaponry. Indeed, wherever you go in Kyiv, you see people raising money for the army, from major companies opening donation services like Uklon, a Ukrainian version of Uber, to children selling their old toys on the street.

The unity and pragmatism of Kyiv's citizens is to be admired and it signals a positive post-war development for Ukraine's cities currently suffering heavy fighting. Kyiv and its suburbs maintain a sense of pride from defeating the Russians, who claimed they would capture the capital in three days, and despite the damage from artillery, the streets remain well kept and clean.

Although millions left the Kyiv region when the war began, many returned at the start of summer alongside refugees from the eastern and southern regions, breathing new energy into the exhausted but resilient capital. It would be incorrect to say life has returned to normal, but walking through Bucha's municipal park on the last evening of August alongside happy families and friends, it was easy to forget the horrors people here suffered from.

Nevertheless, an apprehensive atmosphere weighs heavy on their shoulders and not everyone is certain

that fighting won't return to Kyiv. Some are waiting until the end of the war before rebuilding, to ensure that they won't have to suffer the pain of losing their homes and businesses again. ●

INTERVIEW:

"We are focused on supporting Ukrainian businesses and government needs"

– Dimitar Bogov, EBRD

Dominic Culverwell in Kyiv

Russia's invasion of Ukraine has devastated the country, causing billions of dollars' worth of damage to infrastructure, houses and industry. Kyiv and its international allies have discussed a "Marshall Plan" for Ukraine at several key events this year, including the reconstruction conference in Lugano, Switzerland in July, whilst another conference is planned in Berlin for October.

Ukraine needs assistance from its Western allies, and one of its key partners is the European Bank for Reconstruction and Development (EBRD), which is on the way to providing at least €1bn to keep Ukraine's businesses and operations afloat. In an exclusive interview with *bne IntelliNews*, Dimitar Bogov, the EBRD Regional Lead Economist for Eastern Europe and the Caucasus, explains how the bank is providing critical support for Ukraine.

Although primarily involved in the private sector, EBRD adjusted its priorities once the war began and focused on Ukraine's most urgent needs, which Bogov narrowed down to food security, medical supplies, energy security, logistics and trade finance facilities. At the same time, the bank stood by its clients to ensure they had full support during the war.

"We are focused on how we can support Ukrainian businesses and also the government needs to keep them functioning in the current situation," Bogov said.

He points to UkrZaliznytsya (UZ), Ukraine's state-owned railway, as an example. Pre-war, EBRD lent money to help with modernisation, but once the

war began, lending was repurposed to provide €50mn in liquidity to keep UZ's operations running, which Bogov knew was critical to the country. With Russia blocking Ukraine's Black Sea ports until July 22, UZ took the brunt of exporting goods, particularly agricultural products. Even in August, after the signing of the Black Sea Initiative which opened up three ports, 3mn tonnes of goods were exported via rail, more than by sea or road. As Bogov explains, the railways became "the only lifeline" for Ukraine.

The Black Sea blockade helped escalate global food prices and devastated Ukraine's agricultural industry, one

of the pillars of its economy. EBRD extended several trade lines with food and agricultural companies to help with the sowing and harvest season, which in turn not only contributes to food security in the country but the whole world, due to Ukraine being the globe's second-largest exporter of grain.

In addition, EBRD supported Ukraine's energy sector. The bank extended credit lines to Ukrenergo, Ukraine's national energy company, which helped the company continue operations and even begin exporting electricity to the EU, Bogov said. The bank also provided Naftogaz with up to €300mn due to fears

"We are focused on how we can support Ukrainian businesses and also the government needs to keep them functioning in the current situation"



EBRD London Headquarters / bne IntelliNews

of a gas shortage caused by the Russian invasion. Although Naftogaz hasn't managed to hit the 19bn cubic metre target set by the government, its current projection is 14.5 bcm by mid-October, enough to survive a mild winter.

Estimates vary on how much damage Russia has caused Ukraine and how much will be needed for the reconstruction process. The World Bank recently announced it is conducting an assessment and estimates that the war has cost Ukraine \$350bn. At the Lugano conference, Ukrainian Prime Minister Denys Shmyhal said Kyiv is looking for \$750bn over a 10-year period. Bogov believes it is too soon to make an accurate estimation but he is sure international partners will support Ukraine's reconstruction process.

Indeed, there are many new opportunities for Ukraine post-war. In particular, Bogov notes the possibility of rebuilding destroyed cities using a green model and implementing climate-friendly infrastructure which could be one of the most efficient methods of reconstruction. Although Ukraine's central and local authorities are preoccupied at the moment, Bogov sees potential interest after the war not only from Ukrainians but also from international partners to support such efforts, particularly as Ukraine now has EU candidate status.

Looking at the future of Ukraine's key industries, Bogov is optimistic that the agricultural industry will recover and continue to be a key pillar of the economy. He is not as certain about the devastated steel industry, which took a massive hit after the siege of Mariupol, home to Azovstal, the country's most important steel plant. It is estimated that steel production dropped by 60% in July. Huge reconstruction projects will be needed to return the metallurgy sector to its former level of success.

On the other hand, the IT industry continues to thrive, mostly due to the fact workers are able to operate remotely. Bogov sees that IT will become more prominent and become one of the "main pillars in the reconstruction process". The Ukrainian government has invested significant effort into digitalising the economy and introducing digital public services. With a highly qualified, well-educated tech-savvy nation, IT is likely to thrive after the war and help attract crucial investments.

However, Bogov also expressed concerns about corruption, which plagued Ukraine before the war and continues to do so. Over the summer, €8bn in EU funding was stalled allegedly due to concerns about corruption and accountability. Ukrainian President Volodymyr Zelenskiy is showing that

he is taking the issue seriously and has appointed a new head of the Special Anti-Corruption Prosecutor's Office after a two-year gap. Nevertheless, apprehensions still prevail, particularly as prodigious sums of money will enter Ukraine post-war.

"No doubt corruption was one of the central issues before the war. It will be again one of the priorities in the reconstruction stage after the war," Bogov said. "Certainly we closely looked at this before the war, and we will closely look after the war in the reconstruction period."

He states that Ukraine needs to acquire the funds quickly and easily, but that this should not come at the cost of transparency. In fact, Bogov sees the reconstruction process as an opportunity to implement a new way of working based on "competitive procedures and fully transparent procurement practices".

"We think some basic principles of transparency and some sustainability analysis should be in place even during the war for the urgent reconstruction needs, but the full focus will be on this after the war in the reconstruction phase," he said. "This would be a good opportunity to turn the page and make a significant improvement." ●

EU energy ministers clash over Russian gas price cap proposal

bne IntelliNews

EU member states have clashed over the European Commission's proposal to place a price cap on Russian gas supplies, casting doubt on whether the measure will be implemented.

The bloc's 27 energy ministers met on September 9 to discuss a package of EC proposals aimed at depriving

Moscow of revenues to fund its war in Ukraine, and ease soaring energy costs for EU households and businesses.

The ministers backed a number of the proposals, including a windfall tax on generators of non-gas power and oil and gas, a bloc-wide reduction in power consumption and the provision of "emergency liquidity instruments" to support energy firms coping

with soaring energy purchase costs, according to *Politico*.

"Today, we managed to agree on a common direction for temporary emergency measures and give a clear task to the commission to come forward with a robust and tangible proposal in a matter of days," Czech Transport and Industry Minister Jozef

Sikela said in a statement after the meeting.

However, ministers sparred over the issue of the gas price cap, primarily over whether it should apply only to Russian gas supplies or all EU imports. According to *The Guardian*, a dozen countries including France and Poland called for the cap to be imposed on all gas supply including LNG. However, EU Energy Commissioner Kadri Simson warned that such an approach “could present a security of supply challenge,” adding that “nothing is decided” on the proposal.

Sikela was more upbeat about the outcome of discussions, noting that there was “a prevailing view of the countries that we need [a gas price cap] as an emergency measure,” according to *The Financial Times*. But he warned that more work was necessary to assess the possible impact because “it is from the market point of view the most difficult case”.

The EU is competing for gas supplies from other countries such as Qatar, Norway and the US with Asian markets, Simson noted. The US in particular sells significant shares of its gas supply on the spot market, meaning it has no

contractual obligation not to divert these supplies to whichever buyer is willing to pay the highest price. The same is true of Norway, but the overwhelming majority of its supplies are sent to Europe via pipeline and cannot be redirected to other markets save for the UK, which is not party to the gas price cap talks.

Some countries heavily reliant on Russian supply including Hungary, Slovakia and Austria have warned that

“The EU is competing for gas supplies from other countries such as Qatar, Norway and the US with Asian markets”

Russia could respond to a price cap by simply cutting off gas supply. Russian President Vladimir Putin has indicated that Moscow would do just that, and also cease deliveries of oil, coal and heating oil to boot.

Only the Baltic States, which have been calling for harsher sanctions against Russia in recent months, fully backed the proposal.

Russian gas supply to Europe slumped to a new low of 3.4bn cubic metres in August, down 7% month on month, and a further decline is anticipated in September in light of Nord Stream 1’s indefinite closure. Gazprom reported last week that its supply to the EU has fallen by nearly half since the start of the year.

These reductions in supply have largely been political in nature. Gazprom has cut off deliveries to several EU member

states for refusing to comply with a Kremlin decree requiring them to pay for gas in rubles. And while Western sanctions have complicated the repair and maintenance of equipment at the Nord Stream 1 pipeline’s compressor station, reducing its flow capacity, Moscow has said it will not reopen it until sanctions are dropped, while state-owned Gazprom has chosen not to divert supplies to other supply routes such as Ukraine. Having imposed its own sanctions on the operator of the Yamal-Europe pipeline that runs through Belarus and Poland to Germany, Russia has effectively rendered that route unusable.

However, despite these cuts, the EU still managed to reach its target of filling gas storage facilities to 80% of capacity in late August – over two months ahead of schedule. And these storage facilities continue to be filled further, reaching close to 84% of capacity as of September 10, according to data published by Gas Infrastructure Europe. Whether this will be enough to see the EU through winter in the event of a complete shutdown in Russian supply will depend on temperatures and the effectiveness of the bloc’s efforts to curb consumption. ●



Moscow has said it will not reopen the Nordstream 1 pipeline until sanctions are dropped. / bne IntelliNews



Slam dunk for Kremlin's United Russia in regional elections

bne IntelliNews

Russia held a pan-regional voting day on September 11 with 15 Russian regions electing governors, six regions electing legislative assemblies and 12 regional capitals electing new city councils, as well as dozens of lower-level campaigns. The result has been one of the best performances for the ruling pro-Kremlin United Russia Party in its history.

As analysed by Andras Toth-Czifra for *bne IntelliNews*, for the Kremlin the main purpose of the regional vote is, as always, ensuring that the grip of United Russia remains strong on regional and municipal assemblies.

As the invasion of Ukraine unfolded, unconfirmed reports claimed that cancelling direct elections of the governors was on the agenda, which was accompanied by a reshuffle of heads of regions and appointment of inside-grown loyalists. But apparently competitive-looking regional and local elections remained important for the Kremlin as it decided to let the voting

day be held undisturbed, which paid off.

Analysts and think-tanks surveyed by *Kommersant* daily believe that the ongoing Russian military invasion of Ukraine has overshadowed local political agendas, with the regional voting transforming into a confidence vote for Vladimir Putin and the United Russia in general.

Six of the twelve United Russia candidates gained more than 80% of the votes in gubernatorial elections: Alexei Tsydenov (Buryatia, 86.2%), Maksim Yegorov (Tambov region, 85%), Vladimir Mazur (Tomsk region, 84.9%), Pavel Malkov (Ryazan region, 84.6%), Vladimir Avdeev (Vladimir

region, 83.7%) and Anton Alikhanov (Kaliningrad region, 80.2%).

Another two formally self-nominated candidates, Yuri Zaitsev (Marii El, 82.4%) and Mikhail Evraev (Yaroslavl region, 82.3%), were supported by United Russia. Three other United Russia candidates gained over 70% of the vote: Andrei Nikitin (Novgorod Oblast, 77%), Roman Busargin (Saratov Oblast, 72.3%) and Alexander Sokolov (Kirov Oblast, 71.9%), while the remaining candidates were still voted in by passing a 60% threshold: Artur Parfenchikov (Karelia, 69.2%), Yevgeny Kuyvashev (Sverdlovsk Oblast, 65.8%) and Alexander Brechalov (Udmurtia, 64.4%).

In the regional legislative elections, the United Russia Party increased its result in North Ossetia (67.9%, +8.7 percentage points over 2017), Penza region (74.9%, +5.9 pp) and Sakhalin (47.2%, +2.6 pp). In Krasnodar Krai, the percentage of its support remained unchanged at 70.8%; in Saratov Oblast it declined by 6.9pp to 59.9%; and in Udmurtia, it was down by 12% pp to 51.1%.

United Russia improved its results in most of the regions and in some cities, such as Tver and Nizhny Tagil, has even succeeded in forming single-party city councils.

In Moscow, where municipal elections were held in 125 districts, all but one district voted for non-systemic opposition candidates, according to preliminary results reported by *Kommersant* and RBC business portal. The ruling United Russia won 1,160 out of 1,417 seats (81.86%) in the city council, followed by the pro-government My Neighbourhood association established by the mayor Sergei Sobyenin with 134 seats (9.46%). ●

“Six of the twelve United Russia candidates gained more than 80% of the votes in gubernatorial elections”



Azerbaijan seems capable of supplying the extra gas, but a lot will depend on continuing exploration work, financing and whether or not Turkey will turn down the gas. Photo: Ahmet Colakoglu

How much Azeri gas can head to Europe?

bne IntelliNews

What: The EU wants to double Azeri gas supply to 20 bcm per year by the late 2020s.

Why: The bloc is scrambling to obtain alternatives to Russian gas.

What next: A lot will depend on progress at upstream projects, and whether or not Turkey, which has first rights to extra supply via the Southern Gas Corridor, turns it down.

Europe has reached out to Azerbaijan as a source of additional gas supply to eliminate more of its imports from Russia. But how much extra gas the country would be able to provide, beyond the 10bn cubic metres

per year it is already sending, will depend on results from upcoming exploration work at key fields, and whether Turkey waives its first rights to supplies.

Production prospects

Currently, all of the gas that Azerbaijan delivers to Europe comes from the Shah

Deniz Stage 2 project in the Caspian Sea. The country has discovered several more potentially promising fields, but they are all at varying stages of exploration and appraisal. This means there is quite some uncertainty about how much extra supply they could provide. In some cases, only one or two

“Currently, all of the gas that Azerbaijan delivers to Europe comes from the Shah Deniz Stage 2 project in the Caspian Sea. The country has discovered several more potentially promising fields, but they are all at varying stages of exploration and appraisal”

wells have been drilled into these fields, and none of their resources can be counted as proven or probable reserves.

Among the undeveloped finds in the Azeri Caspian, only Absheron, Umid and Garabagh are proven. Shah Deniz Stage 3, comprising gas reserves located beneath those that are already in production, are not proven, and neither are deeper gas layers at the Azeri-Chirag-Guneshli oil project. Neither have resources been proven at the Babek prospect.

To start off, there is the question of how much extra gas supply Baku and Brussels are discussing. Under a memorandum signed by the Azeri government and the European Commission in July, the two agreed on the potential delivery of an extra 10 bcm per year of gas by 2027, bringing the total to 20 bcm per year.

Let us move on to how much gas the proven fields might provide. Garabagh, which is being developed by Azerbaijan's SOCAR and Norway's Equinor under a risk service agreement, could supply 2 bcm per year at plateau, based on its reserves and statements by the Azeri government. This extra volume would only be ready by 2025-26, however.

Absheron, developed by a joint venture between SOCAR and France's TotalEnergies, could flow 5 bcm per year, but not until after 2027. The existing Umid field is currently producing 1.7 bcm per year and this could be ramped up to 3 bcm. Meanwhile Babek, located adjacent to the field, could produce 3-4 bcm per year, according to Azeri state estimates, but likewise not for a few more years.

At Shah Deniz Stage 3 and ACG Deep Gas, the drilling of new wells is due to start this year, and results from the boreholes will help define resource volumes and production potential. But in any case, it would seem that Azerbaijan has the potential to provide Europe with the gas that it wants. However, at all of these projects, foreign investment, technology and know-how

will be needed to drive development. This is particularly true at Umid and Babek, which are both geologically complex fields that currently lack any Western participation.

Investment may also be harder to secure, as many Western majors have announced plans to scale back capital expenditure in oil and gas over the coming years in favour of renewables

“Now the situation is very different. Spot prices are now exceptionally high, and Russian supply is unreliable now, and is set to be eliminated under EU plans anyway in the coming years”

and other low-carbon technologies. This includes BP, the biggest investor in Azerbaijan's oil sector, whose present strategy calls for a 40% cut in oil and gas production over the next decade.

Western financiers, likewise, have made commitments to phase out some or all of their fossil fuel investments, including the European Investment Bank (EIB), which played an integral role in getting the Southern Gas Corridor (SGC) pipeline project that connects Azerbaijan with the European gas market started.

On the other hand, SGC succeeded at a time when spot gas prices in Europe were generally low. Thanks to political support from the EU and nation states receiving Azeri gas, long-term contracts were agreed even though prices under them did not always compete with Russian supply, or LNG spot cargoes.

Now the situation is very different. Spot prices are now exceptionally high, and Russian supply is unreliable now, and is set to be eliminated under EU plans anyway in the coming years. This gives extra Azeri gas, priced under long-term contracts, a competitive edge. Even if there is less political support from Brussels for new fossil fuel projects, it may be that market conditions drive the case for increased supply.

Turkey's role

It is important not to understate the role that Turkey will play in deciding how much extra gas goes to Europe. According to the intergovernmental agreement signed between Azerbaijan and Turkey on the development of the Trans-Anatolian Pipeline (TANAP) section of SGC, “the states expressly agree that all volumes of gas belonging to the Republic of Azerbaijan and

planned to be shipped via the TANAP system in excess of an initial volume of 16 bcm per year will first be offered to buyers in the Republic of Turkey.”

Essentially what this means is that Turkey will have first dibs on the extra Azeri supply, and it will only become available to Europe once Turkish buyers have turned it down. Whether or not they do so will depend on a number of factors.

First, a lot will hinge on the outlook for Turkey's economy, which in recent years has grappled with a significant crisis. Second, it will depend on how much gas can be obtained from Turkey's Sakarya discovery in the Black Sea. Development is already underway, and Ankara says production could reach 15 bcm per year in 2026.

Third, there is the outlook for Russian gas. With Russian supplies sharply in decline, there will be more than enough supply for the Turkish market. Despite being a Nato member and selling arms to Ukraine, Turkey has so far sought to play the role of arbitrator in the conflict. But this could change, and a drastic shift in Turkish-Russian relations is certainly possible, as happened in 2015 when the Turkish air force downed a Russian jet undertaking operations in neighbouring Syria. ●



President Tokayev meeting business leaders on September 9. / Akorda.

Kazakhstan: Political reset or more old-style authoritarianism?

Joanna Lillis for Eurasianet

As Kazakhstan heads for snap presidential and parliamentary elections, voters have every right to feel confused.

Incumbent President Kassym-Jomart Tokayev will run in, and almost certainly win with ease, the poll he has called for this autumn, 18 months before schedule. But voters have no sense of what alternatives there will be on offer.

Decades of meddling and repression by the authorities have reduced the political scene to a desolate space devoid of robust opposition figures.

It isn't even certain how long a term Tokayev is poised to win. The limit is now five years, but Tokayev has said this will change to a single seven-year term.

It is no easier to understand what is happening in the parliamentary elections, which have been called for

the first half of 2023, three years ahead of schedule.

Reformists in government insist that electors will be offered rich pickings for the first time in years. Despite that pledge, no new parties have been registered since the authorities promised to

ease the registration process. As things stand, only the ruling Amanat party (formerly Nur Otan) and a handful of government-loyal parties, some posing as opposition, are on the menu.

Government insiders insist registrations will happen in time, although if new parties were to appear immediately, they would have only about six months

to get themselves in shape to run a competitive contest.

Tokayev is selling both elections as planks of a political reset whose urgency felt strong following fatal civil unrest in early January that has come to be known as Bloody January. Much of the anger seen in those events was fuelled by the monopolisation of power under Nursultan Nazarbayev, Tokayev's now disgraced predecessor.

Pundits are cynical about whether the plebiscites will be sufficient to ensure a clean break with the authoritarian past.

"Democratisation and political competition are not at the core of Tokayev's agenda," Sofya du Boulay, an Almaty-based political scientist specialising in authoritarianism and Central Asia, told Eurasianet. "Tokayev's announcement of the early presidential election signals his lack of impetus for political change from his autocratic predecessor."

Calling early elections will prevent opposition from organising, analysts say.

"He called the snap elections [so as] not to allow time for the consolidation of any opposition forces," said Nargis Kassenova, director of the Program on Central Asia at Harvard University's Davis Center for Russian and Eurasian Studies, offering two interpretations for that move. "He does not want to deal with genuine opposition rivals, and the

"The limit is now five years, but Tokayev has said this will change to a single seven-year term"

intention is to keep the political scene under tight control. Or he is ready for some liberalisation, but not now in this particular, very difficult and delicate, moment in the country's history."

[Editor's note: Kassenova is a member of Eurasianet's board of trustees.]

As motives for holding elections earlier rather than later, analysts point to the

Kazakhstan: Capital reverts to Astana, ending brief stint as Nur-Sultan

Almaz Kumenov for Eurasianet

And yet again, the capital of Kazakhstan is to change name.

Following a period of considered reflection, President Kassym-Jomart Tokayev revealed through his spokesman on September 13 that the city will revert from Nur-Sultan to Astana, as it was called until 2019.

The renaming is just another blow to the now-heavily tarnished cult of devotion to the former president, Nursultan Nazarbayev, whose status has been in terminal decline since a wave of protests rocked the country at the start of the year.

In a preventative bid to placate critics carping at the expected costs entailed in restoring the name Astana, the Finance Ministry issued a statement to say that the expenditure would be minimal.

Few cities in the world can have been renamed as often as Kazakhstan's capital has been over the past century or so.

Once named Akmolinsk by imperial Russian settlers, the city was dubbed Tselinograd in the early 1960s in honour of its status as the centre of the ill-fated Virgin Lands campaign launched by the Soviet authorities. After Kazakhstan gained independence, the city, then still an obscure and remote backwater, became Akmola.

Following Nazarbayev's decision to relocate the capital there, the city was in 1998 dubbed Astana, which is simply Kazakh for capital.

This name initially drew a fair dose of ridicule, although residents gradually became used to it.

Another rebranding arrived when Nazarbayev stepped down in the spring of 2019. Although he formally relinquished power to his handpicked successor, Tokayev, he retained significant sway from behind the scenes. That the capital was renamed after him, ostensibly at Tokayev's behest, was intended to convey a sense of the permanency of his status at the apex of Kazakhstan's hierarchy.

Other important landmarks got the same treatment. An important thoroughfare in the business capital, Almaty, carries the former president's name, as does the capital's airport. There is a Nazarbayev University, Nazarbayev schools and a Nazarbayev park. There are even flowers and a mountain named after the ex-leader.

The protests that erupted after the New Year dramatically

changed the mood. Although the discontent was initially triggered by anger over fuel price rises, it quickly evolved into a broader show of anger at decades of corruption and misrule which many associated directly with Nazarbayev and his family, which features multiple dollar billionaires in its midst.

Tokayev has set aside his former loyalty to his one-time mentor and taken to dismantling his cult of personality. Several of Nazarbayev's relatives and close allies have been pushed out of important positions or, in some cases, been targeted for prosecution.

Earlier this month, an initiative group of lawmakers known as Zhana Kazakhstan (New Kazakhstan), which was formed in February to support Tokayev's long-cultivated zeal for reforms, proposed reverting the name of the capital back to Astana.

Tokayev's office cited that appeal in his decision to agree to redubbing the city once more.

"[Lawmakers] cited proposals repeatedly heard during their meetings with the public, as well as in numerous appeals from citizens during the [constitutional referendum in June]," his spokesman, Ruslan Zheldibay, wrote in a Facebook post.

While the city will get its old name back, other things named after the former president will be left as is.

That is in recognition of Nazarbayev's role in "strengthening the modern statehood of Kazakhstan and in the creation of the capital," Zheldibay wrote.

Almaz Kumenov is an Almaty-based journalist. This article was first published by Eurasianet.



insecure geopolitical situation owing to Russia's war in Ukraine and the potential for Kazakhstan's economic position to deteriorate.

But many believe domestic political sensitivities are uppermost in Tokayev's mind.

Nazarbayev's political standing was dealt a mortal blow by the January bloodshed, which Tokayev has depicted as a bid to topple him by mounting

does not succeed," Junisbai said. "This consideration imposes a massive constraint on his ability to carry out rapid political reforms."

By this reasoning, it might be an inevitable necessity that reforms proceed more slowly than many would desire.

"If this helps him consolidate his position vis-à-vis the Old Guard, I think that's a step in the right direction, even if it's a frustrating half-step," Junisbai said.

he served two five-year terms, but a few months later.

But there is nothing to stop him or future presidents tinkering with the constitution again to prolong their rule, since they change the law "like gloves," as one caustic commentator put it on Instagram.

The person had a point: Tokayev pushed through amendments to the constitution in June, and now wants to alter it again.

Kassenova is prepared to give Tokayev the benefit of the doubt on his reform agenda, while acknowledging its limitations.

"I think he is sincere in his desire to carry out political reforms, but the goal is not full-fledged democratisation and political pluralism," she told Eurasianet. "The objective is to transform the system created during the Nazarbayev period, which is easy to steer but inefficient and excessively corrupt, and improve the quality of governance by removing the extravagant super-presidential features, rearranging the functions and powers among institutions, creating better vertical and horizontal connections, and bringing new people in."

In the short term, his vision may fall short of free and fair elections featuring robust opposition, not least because of "the systematic destruction of opposition" over decades, which cannot be set right in a few weeks, said du Boulay. ●

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

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"Nazarbayev's political standing was dealt a mortal blow by the January bloodshed, which Tokayev has depicted as a bid to topple him by mounting a coup d'etatpage 68"

a coup d'etat. Tokayev has refused to name names, but suspicions persist that Nazarbayev cronies were involved.

Nazarbayev has since been stripped of his powers, while family members and associates have lost political positions and been forced to cede some economic assets.

Although Tokayev quickly regained the upper hand, Nazarbayev's relatives and associates nevertheless retain enormous economic resources and some influence.

Azamat Junisbai, a professor researching post-Soviet transitions at California's Pitzer College, speculated that Tokayev may have called snap elections to neutralise further threats from these quarters and consolidate his power before they can regroup.

Some in Nazarbayev's inner circle "have experienced a previously unimaginable reversal of fortunes. However, they continue to have massive resources at their disposal," Junisbai told Eurasianet.

"It is logical to expect that they are unhappy with the new status quo. I believe that Tokayev's first priority is ensuring that another coup attempt

Tokayev has explained his plan to increase the presidential term from five to seven years but limit leaders to one spell in office, replacing the two currently permitted five year terms, as a bid to prevent the type of monopolisation of power that kept Nazarbayev at the helm for three decades.

But prominent analyst Dosym Satpayev has decried this proposal as something reminiscent of the power-clinging trickery deployed by Nazarbayev.

After January, "Tokayev said it was necessary to overhaul the current political system and the old rules of the game," Satpayev said during a recent discussion uploaded to YouTube. "The emphasis was placed on the need to create absolutely new political tools, but we now see that these tools have not changed much."

Tokayev has repeatedly promised not to seek more than the allotment of two terms allowed by the current constitution.

If he sticks to that pledge, even if he is elected for a seven-year term this year, he would be due to leave office in 2029, the same year he would have left had

Azerbaijan knows that power is power

Ani Mejlumyan in Yerevan

This week's attack by Azerbaijan on Armenia is a crude reminder that Baku is getting increasingly impatient about the failure to reach a full peace deal since its victory in the 2020 war over the disputed territory of Nagorno-Karabakh, and that Baku wants to use the new balance of power in the region to dictate the terms of such a deal.

This has raised fears that the region could once again descend into bloody conflict. Armenia has so far reported 150 military and eight civilian deaths and more than 2,500 civilians displaced. Azerbaijan reported 50 military deaths by September 14, making it one of the worst escalations in the fighting since the 1990s. In the 2020 war, 6,500 were killed and Azerbaijan reconquered large areas of land in and around Nagorno-Karabakh.

Azerbaijan has regularly accused Armenia of dragging its feet in implementing the 2020 ceasefire agreement, including moving towards a peace agreement for the territory, which is surrounded by Azerbaijan and internationally recognised as part of that country but is inhabited mainly by ethnic Armenians.

Azerbaijan has also refused to negotiate with Armenia through the Minsk Group of the Organisation for Security and Cooperation in Europe, which led negotiations between the two sides since the first war in the 1990s, in which Azerbaijan lost all of Nagorno-Karabakh and several other regions on its borders with Armenia. On multiple occasions, Aliyev has written off the efforts of the group, which includes Russia, France and the US, as useless, because he sees it as fatally divided and unable to promote his goals.

Instead Baku has accepted negotiations mediated by Moscow or the EU. This has been backed up by intermittent

military pressure to concentrate minds in Yerevan, using the imbalance in troops and materiel created by Baku's big rearmament programme, financed by its energy wealth.

Russia is the guarantor of the ceasefire agreement that ended the 2020 war between the two sides and has some 2,000 peacekeepers stationed in Nagorno-Karabakh. Russia also has a military base in Gyumri, on the Armenian-Turkish border, with several thousand soldiers. Armenia has a military treaty of security guarantee with Russia separately and is part of the military block CSTO.

But now, since Russia's invasion of Ukraine has diverted its attention and led many to doubt its military capabilities, Azerbaijan appears to be testing Moscow's willingness to keep the peace in the South Caucasus.

In addition, the war may have made Baku feel that it has become indispensable to the EU after Brussels signed a deal with Azerbaijan in July to double the gas imports it buys in order to cut its dependence on Russian supplies. European Commission

President Ursula von der Leyen visited Baku last month in a trip notable for the lack of criticism of Aliyev's repressive regime.

Azerbaijan is now pushing for a peace deal that is more like an ultimatum to Armenia. While the wording on paper is vague, the rhetoric in Baku is loud and clear; it wants a sovereign corridor through Armenia's Syunik region connecting Azerbaijan to its Nakhchivan enclave, which is mainly inhabited by ethnic Azerbaijanis, and the recognition of Nagorno-Karabakh as part of Azerbaijan.

Accepting both demands would not only be political suicide for Armenian Prime Minister Nikol Pashinyan but would also impose long-term security risks, including the possibility of ethnic cleansing of the Armenian population in Nagorno-Karabakh.

Nevertheless, Pashinyan announced on September 14 in parliament that he is willing to sign a deal, hinting that he would make concessions that could threaten his survival. The news sparked demonstrations across Armenia.



Armenian volunteers training. This week's fighting has raised fears that the region could once again descend into bloody conflict. / bne IntelliNews

“We want to sign a paper, as a result of which we will be criticised, scolded, called traitors, even the people may decide to remove us from power. But we will be grateful if as a result of this Armenia receives lasting peace and security on an area of 29,800 square kilometers. I made a clear decision, I don't care what happens to me. I care what happens to Armenia,” said Pashinyan.

Later, he appeared to reverse his position, writing on his Facebook

“Even before the five-point principles of the peace deal had been revealed, Azerbaijan escalated fighting in Nagorno-Karabakh as all attention was on Ukraine”

page, “no document has been signed and is not going to be signed. This is an information sabotage directed by unfriendly external forces to break the country's resistance.”

Pattern of conflict

The pattern of negotiations and fighting this year illustrates the tactics Baku has used.

Azerbaijan revealed its five-point plan in March, and Armenian officials said they accepted the principles. The terms are mutual recognition of each other's territorial integrity, which would amount to Armenia acknowledging Azerbaijan's sovereignty over Karabakh. However, Armenia proposed having a different resolution to the Nagorno-Karabakh conflict.

Even before the five-point principles of the peace deal had been revealed, Azerbaijan escalated fighting in Nagorno-Karabakh as all attention was on Ukraine, including and foremost, Russia's. Later in mid-March, Azerbaijan closed the gas pipelines to Nagorno-Karabakh, causing a crisis in the cold weather.

Following the restoration of the gas

supply, the sides met in Brussels on April 6. European Council President Charles Michel, who is meditating the talks, said they had “agreed to instruct ministers of foreign affairs to work on the preparation of a future peace treaty, which would address all necessary issues”.

After the second meeting in Brussels on May 22 between Aliyev and Pashinyan, there seemed to be a breakthrough; the border delimitation and demarcation commissions met on the border.

Azerbaijan insisted on Armenian military forces' complete withdrawal from Karabakh. Although Armenia announced in July that they would not be sending new conscripts to Karabakh on August 3, Azerbaijan attacked Karabakh's Armenian-controlled territories and managed to capture some additional mountain heights.

Azerbaijan also demanded that Armenia use an alternative road to Karabakh and give up the Lachin corridor. The August fighting was concentrated in that exact area.

By the end of August, Azerbaijani forces had taken control of the Lachin corridor, the only overland link between Armenia and Nagorno-Karabakh.

On August 31, Pashinyan and Aliyev held another negotiation in Brussels. Michel reported that the sides agreed on instructing the foreign ministers to meet within one month to work on draft texts. This month, both countries' leaders said a deal could come within a matter of months.

The next meeting was scheduled in November for the two countries'

leaders. However, on September 7, during a Eurasian Economic Union summit in Russia, Pashinyan revealed that they “did not manage to register common positions on the most important issues.”

On September 13, Azerbaijan attacked again, but this time on Armenia's internationally recognised borders. Days prior to the escalation, Azerbaijan had repeatedly reported Armenian ceasefire violations, which Baku denied.

Azerbaijan's statement speculated that Armenia was using “provocations” to slow down the finalisation of infrastructure projects carried out by Azerbaijan in the border areas and “maintain a tense atmosphere” near Azerbaijan's borders.

Russia's foreign ministry said the fighting had stopped under a Russia-brokered ceasefire reached at 10am Caucasus time on September 13. Still, shellings have been reported by the community leaders and residents of the Armenian villages on September 14. Even though Armenia appealed to the Russian-led CSTO for aid, its military allies have just agreed to send a fact-finding mission to the area, which will arrive next week.

Azerbaijan justified the war in 2020 in Nagorno-Karabakh by the lack of results through negotiations. Since then, the pattern of the Azerbaijani government's behaviour shows that they have understood that whatever couldn't be achieved on the negotiations table could be achieved through military force.

Nagorno-Karabakh, however, is a disputed territory, unlike Armenia. Until now, Azerbaijan refrained from any major attacks, excluding some incursions by small troops, into Armenian territory. Any further escalation could lead to a war where Russia needs to show up. In failing to do so, its relevance in South Caucasus would either be extremely weakened or vanish all together. ●

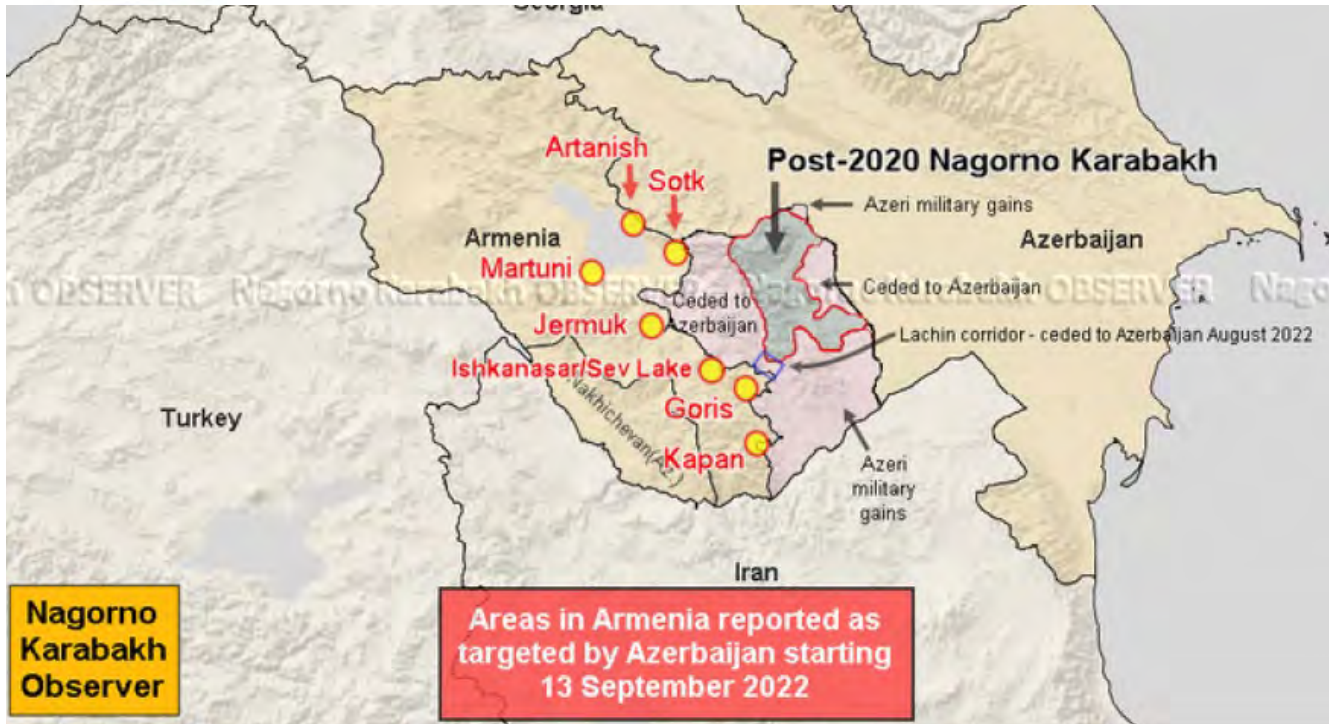


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The fragility of the balance of power in the region is worsening and could lead to a war bigger than the one in 2020. / bne IntelliNews

COMMENT

Armenia-Azerbaijan military escalation is a test for Russian status quo in the region

Denis Cenusca in Germany

A fresh outbreak of military hostilities between Azerbaijan and Armenia broke out on September 13, leaving more than 150 dead, including Armenian civilians. Unlike in previous clashes, the current tensions involve the national territory of Armenia (Sotk, Jermuk and Goris areas), not the disputed region of Karabakh. This showdown reveals that the fragility of the balance of power in the region is worsening and could lead to a war bigger than the one in 2020.

Flaws in Russia's military strategy regarding Ukraine could play a catalytic role in making that happen, especially if Russia's military and political morale declines further. But it is difficult to attribute a direct causal relationship between the events in the Ukraine and the South Caucasus, even if there is some degree of time overlap. In any case, if Russia does not restore the perception that it is a strong military power, it will face an imminent review of its relevance in maintaining peace and stability in Karabakh.

Overstretched beyond its current military strategic means, Russia's geopolitical weight is diminishing under the cumulative effects of the Western sanctions and the damaged image of its military powerhouse. By prioritising the Ukrainian theatre, Moscow is finding it harder to micro-manage the complicated relations between Armenia and Azerbaijan. The three arrangements that Vladimir Putin negotiated between Armenian Prime Minister Nikol Pashinyan and Azerbaijan President Ilham Aliyev in 2020-21 are working only partly, being challenged regularly by violations from both sides.

Pashinyan has given a positive appreciation of the activity of the Russian peacekeepers deployed since 2020 in the Karabakh region but just six days later the shelling between Azeri and Armenian sides restarted on 13 September. Similarly, Aliyev has reiterated Azerbaijan's commitment to fulfil the Russia-brokered trilateral declarations. These refer to the returning of some lands under the Azeri control, as well as the approval of the initially five-year long presence of 1,960

Russian peacekeepers with less than 500 military transport vehicles in Karabakh.

The military tensions have been obstructing the diplomatic dialogue on restoring the bilateral transportation and economic ties. The progress on the delimitation and demarcation of the borders is also compromised, despite the fact that the EU has joined these efforts in a parallel mediation process.

Both Armenia and Azerbaijan understand that Russian mediating power can face objective constraints, primarily because of the consequences of the lasting aggression against Ukraine. In Armenian eyes, the Russian security guarantees should ensure protection against external threats. Despite Russia's current weaknesses, Armenia cannot simply escape the Russian dependence in the security field. A qualitative change in the strategic preferences of Armenia can only arise if Russia were to be replaced with a solid alternative to counterbalance the Azeri-Turkish tandem. An international UN mission deployed in Armenia, directly or with the assistance of Georgia, could ease the pressure, but will still need the Russians to supervise the situation in Karabakh and the Lachin Corridor.

From the Azeri standpoint, the presence of Russia is useful to the extent that it helps to shape and shift the position of the Armenian side, avoiding military confrontations that could lead to international isolation and sanctions. Frequent bilateral talks with Russian President Vladimir Putin allows Aliyev to project power at home and is also used as part of multi-vector diplomacy with the West. These aspects do not reduce Azerbaijan's determination to complete its campaign of restoration of its territorial integrity.

If Baku is the initiator of the shelling against Armenia, this could only serve as a way to sow division between Yerevan and Moscow and undermine Russia's relevance as a security player in the region. Such thoughts have not yet been revealed by Azerbaijan and are quite problematic, since that would imply a fight with Russia with all the related consequences.

Armenia's options and Azerbaijan's motivations

The immediate reaction of Armenia was to ask the help of Russia, with which it is linked by a 1997 defence treaty that ideally should have activated military assistance from the Russian side. The next provider of security is the CSTO's Art. 4, which, as in the case of Art. 5 of Nato, triggers the collective defence obligations. On 14 September, Armenia triggered the article on collective defence. According to the treaty, even without an official condemnation of the Azeri actions, the member states are obliged to express solidarity and supply defence assistance. This does not include, however, a mandatory deployment of a peacekeeping mission, mirroring the experience of Kazakhstan at the beginning of 2022 during the mass protests, allegedly hijacked by the plotters of a coup.

The UN should be informed about any measures taken after the triggering of the collective defence clause.

In the meantime, the CSTO Extraordinary Council decided to send an evaluation mission, following Article 2 of the treaty activated by Armenia on the day of the escalations on September 13. The mission will travel to Armenia to collect information on the circumstances of the hostilities and write a report. The "evaluation" mission will include the organisation's leadership and member state representatives (five without Armenia), making it seem more like a "bureaucratic" intervention than anything else. Armenia seeks to prove its allegations about the attacks against its territories. That would solidify international efforts to blame Azerbaijan for the ongoing hostilities. A small first success has already been achieved, as French President Emmanuel Macron's request to his Azeri counterpart on the urgency of stopping hostilities and respecting the ceasefire agreement showed.

This made France the only international actor that has so far sent a signal referring to Azerbaijan by talking about hostilities. This differentiates France from Russia, the CSTO or the EU that put the two sides on an equal footing while demanding an end to the escalation.

“If Baku is the initiator of the shelling against Armenia, this could only serve as a way to sow division between Yerevan and Moscow and undermine Russia's relevance as a security player in the region”

Azerbaijan will have to think twice before shelling while the CSTO evaluation mission is investigating the villages hit by Azeri artillery. This is also a risky moment of legitimacy for the CSTO, if Baku disregards the presence of the mission and continues the shelling. Azerbaijan would more likely abstain than actually draw any attention and confirm that it is the initiator or the main responsible side. The decisions of Baku might also change if the CSTO countries are getting involved in the supply of defence aid to Armenia. Until then, Azerbaijan is claiming that its shelling is a response to the alleged "provocations" of the Armenians placing military equipment next to civilian objectives when targeting Azerbaijan.

This way Baku tries to justify the extension of its military operation deep into Armenian territory. The same argument of using the civilians was the cause of huge scandals around the heavily criticised Amnesty International's report on Ukraine. The accusations launched should be proved and probably Russia and CSTO are expecting the CSTO mission to verify their plausibility.

There are several ways to explain the ongoing hostilities. Some might say that there are no controls preventing Baku from engaging in militaristic behaviour. Others might claim that there are saboteurs around Pashinyan from the military ranks that he is not aware of and that they are instrumentalising these hostilities to prevent the government from recognising the Soviet borders of Armenia and Azerbaijan. In any case, the current status quo is in jeopardy. The lack of evidence makes finding a clear answer quite difficult.

In fact, another war between the two countries is not ruled out, but if such a scenario comes to life, an exhausted Russia and a hesitant CSTO will have to face Azerbaijan. Consequently, this will lead to the participation of Turkey, which has already helped Baku in 2020.

The current hostilities in the South Caucasus are definitely testing the Russian status quo in the region, but radical changes in the balance of power will only be associated with an all-out war between the two sides. In order not to turn against each other as the intended consequence of such a war, Russia and Turkey, whose alliance is growing, will have to take a step before the tipping point is reached. ●

Denis Cenusa is a Political Risk Analyst, Associated Expert at the Center for Eastern European Studies (Lithuania) and the think-tank "Expert-Grup" (Moldova). His main research focus lies in the EU's external governance, energy security, geoeconomics and crisis management in the post-Soviet space.

Russians routed in Ukraine, but is Putin in danger of losing power?

Ben Aris in Berlin

Exactly 200 days after Russia invaded Ukraine, the defenders of the country managed to pull off a stunning rout of Russia's forces, retaking an estimated 3,000 square kilometres of territory right up to the Russian border.

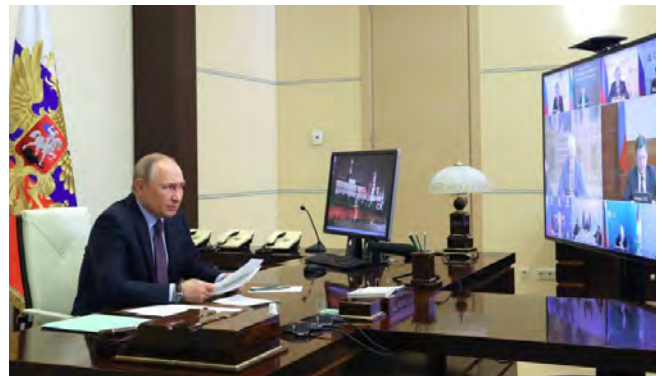
The war is not over, but a classic feint that threatened the central city of Kherson drew off Russian forces from Donbas, where Kyiv concentrated its best troops and modern US weapons to strike a hammer blow that scattered Russian defenders and caused chaos.

Social media rapidly filled with emotional footage of local residents rushing out to meet the advancing Ukrainian forces with cheers, flags and tears of relief as they were liberated.

Basking in the success of the counter-offensive, Ukraine's Defence Ministry wryly commented on Russia's abandonment of its military hardware as it retreated in disarray.

"Russia is trying to maintain its status as the largest supplier of military equipment for the Ukrainian army, and even to improve its status, knowing that lend-lease will soon come into effect."

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Russia has been humiliated after Ukraine routed its forces. Will that spark a backlash against Putin that could see him ousted from power? / bne IntelliNews

Russian President Vladimir Putin's invasion of Ukraine has turned into an abject failure, but does it threaten his position?

"No exaggeration to say that the apparent scale of the collapse of the Russian army poses potentially the biggest threat to Putin's rule since he came to power 22 years ago. Hardliners are furious, security chiefs unwilling to be made scapegoats. Next week [could] be very interesting," Marc Bennetts, the *Times* correspondent in Moscow, tweeted.

Social media was abuzz after municipal deputies in the Moscow district of Lomonosovsky publicly called for Putin to resign and called him a "traitor" in a statement released online.

In a very rare public show of dissent, the deputies said that "everything went wrong" after Putin returned to his second term of office and that they believe a change of power is necessary for the sake of the country.

The deputies claim that Putin's aggressive rhetoric and his subordinates have thrown Russia back into the Cold War era, in an assessment largely shared by Western commentators.

They also poured scorn on economic data that shows Russia's economy has doubled in size under Putin's tutelage and that the quality of life has materially improved.

"Your views, your management model are hopelessly outdated and impede the development of Russia and its human potential," the deputies said in their statement. The deputies appealed to close Putin confidant Moscow Mayor Sergei Sobyanin, saying that the system of local self-government does not actually work in Moscow, and dual power has developed at the district level, which hinders any initiatives of local residents and their representatives.

A similar protest earlier this week by seven deputies from St Petersburg's local government ended with a summons to the local police where they were fined, RFE/RL reports. The lawmakers demanded that Parliament's lower chamber, the State Duma, charge Putin with high treason over his decision to launch his unprovoked invasion of Ukraine.

"One of the goals declared by the President of Russia is the demilitarisation of Ukraine, and we see that exactly the opposite is happening. It's not that we fully support the goals declared by President Putin, but simply within the framework of his own rhetoric, he harms the security of the Russian Federation," Palyuga explained in an interview with The Insider. "We want to show people that there are deputies who do not agree with the current course and believe that Putin is harming Russia. We want to show people that we're not afraid to talk about it."

The loss in Ukraine was so large that even the military authorities had to admit to the setback, saying the Russian forces had withdrawn from several key cities and were "regrouping". However, state-controlled media carried almost no reports on the scale of the losses and Muscovites in particular were distracted by the annual founding-of-the city celebrations, as life on the street in the rich Russian cities has changed little since the war started.

However, the news of the big setbacks was seeping out and the Ministry of Defence was placed in the humiliating position of having to admit that it was pulling out of the Kharkiv region and abandoning Izyum, a key Russian-held city and a major logistics base for Russian supplies in the region.

"To achieve the declared aims of the special military operation to liberate Donbas, the decision has been taken to regroup Russian troops located in the Balakliya and Izyum areas in order to boost efforts in the Donetsk area. With that aim, over the last three days an operation has been carried out to draw down and redeploy the Izyum-Balakliya forces to the Donetsk People's Republic," Russia's military spokesman said in his latest update of the military action.

As the troops pulled back, Russia struck civilian infrastructure in Kharkiv on the evening of September 11, plunging the city into darkness.

The retreat is a major failure and the tone on Russia's political chat shows immediately changed. A top Russian political pundit, Boris Nadezhdin, was on the evening shows and raised some uncomfortable questions as the blame game got underway.

"The people that convinced President Putin that the special operation will be fast and effective, we won't strike the civilian population, we will come in with our National Guard along with Kadyrovites, will bring things to order. These people set us all up," Nadezhdin said. "Someone told him that Ukrainians will surrender, that they will flee, that they'll want to join Russia.

"Now we are at the point where we have to understand that it's absolutely impossible to defeat Ukraine using those resources and colonial war methods with which Russia is trying to wage war... A strong army is opposing the Russian army, fully supported by the most powerful countries, in the economic and technological sense, including European countries... I'm suggesting peace talks about stopping the war, and moving on to deal with political issues... Either we mobilise and have full-scale war, or we get out," Nadezhdin went on to conclude.

Putin remains popular

Putin is not threatened by a popular revolt, as he has once again played the "enemy at the gate" nationalist card that was so effective in 2014, when Russia annexed Crimea, and his approval rating, like then, has rallied on the back of Kremlin war propaganda.

Putin's approval rating is hovering above 80%, and 50.7% of those polled approved of the Russian government's work, according to the most recent poll from state-owned Russian Public Opinion Research Center (VTSIOM) released at the end of last week.

Putin's rating inched back up 0.8 percentage points to 80.3%, but before the rout of Russia's forces in Ukraine was reported.

"Asked if they trust Putin, 80.3% of the respondents answered in the affirmative (down 0.8 percentage points over the past week). Thus 76.8% approved of the president's activities (down 1.3 pp over the past week)," the pollster said, Tass reported.

In addition, 50.7% of those polled (down 0.1 pp) approved of the Russian government's work, while 51.5% (down 0.3 pp) approved of Prime Minister Mikhail Mishustin's endeavours. At the same time, 61.5% of the respondents said they trusted Mishustin (down 1 pp over the past week).

If regime change is to come, it is much more likely to be a palace coup, led by disgruntled members of the siloviki, or security services faction in the Kremlin.

However, Putin has long cultivated his relations with the FSB, which remains the core of his powerbase, and has been careful never to do anything that undermines this organ.

Filled with hardliners, the security faction has supported the war in Ukraine. But the unknown now is how they will react to Russia's crushing defeat in this battle. The kneejerk reaction will be to crack down even harder on dissent inside Russia and escalate the economic war with the West, say many pundits.

Russia has reached a crossroads where it is very difficult to say what will happen next. Analysts, pundits and even the Kremlin have been caught out by the speed and scale of the Ukrainian rout of the Russian forces. Analysts that have been following events closely from the start have had to admit they were taken totally by surprise by the events of this weekend.

"Ukraine's counter-offensive in the northeast – liberating in a day territory that took Russia a month or more to conquer – is breath-taking. Inspiring, even," tweeted Sam Greene, the Professor of the Centre for European Policy Analysis (CEPA) at Kings College in London. "But it should also be sobering. Apart from anything else, it reveals just how much we struggle to analyse this war."

"Focusing on objectives rather than achievability does not mean that we should ignore reality. Quite the opposite: the reality is that much of what we think we know about achievability is a fiction. Ukrainian troops on the outskirts of Donetsk seemed a fiction just yesterday," Greene added.

In what may be unrelated news, Russian Foreign Minister Sergei Lavrov brought up the topic of peace talks again in an interview on September 11.

"Russia does not reject negotiations with Ukraine, but their further delay by Kyiv will complicate the possibility of reaching an agreement with Moscow," Lavrov said in an interview with Rossiya-1 TV channel on Sunday.

Lavrov noted that Putin conveyed Moscow's position during a meeting with the State Duma and faction leaders. "The president told the meeting participants that we do not deny [the possibility of] negotiations, but those who do should understand that the longer they postpone this process, the more difficult it will be for them to negotiate with us," the minister said. ●

BALKAN BLOG

What Turkey's Erdogan can offer the Western Balkans

Clare Nuttall in Glasgow

Turkey's President Recep Tayyip Erdogan spent this week visiting three Balkan countries – Bosnia & Herzegovina, Serbia and Croatia – as his country seeks to extend its influence in the region. As well as various economic deals, Erdogan offered Turkish help with some of the pressing security issues in the region, namely the internal tensions in Bosnia and the situation between Serbia and Kosovo.

During his visit to Belgrade on September 7, Erdogan said the region would have Turkey's support to resolve the disputes that threaten its stability.

"We are ready to extend our support and I hope that there is now a positive acceleration which will be sustained in the Balkans, because the Balkans can no longer tolerate these kind of problems," he said at a press conference alongside Serbian President Aleksandar Vucic.



Turkish President Recep Tayyip Erdogan (left) with his Serbian counterpart Aleksandar Vucic in Belgrade on September 7. / predsednik.rs

Commenting on the situation in Bosnia too, Erdogan added that Ankara would like to help the ethnic groups in the country "find reconciliation".

Turkey is by no means the only interested party in this region. As a tense standoff developed between Serbia and Kosovo over the summer, both the EU and the US dispatched special envoys in a diplomatic offensive aimed at preventing any potential outbreak of violence. The international community has been represented since the wars of the 1990s by its high representative in Bosnia. As well as the Western powers, both Russia and China have an interest in the region.

So what does Turkey bring? As the world – or at least the northern part of it – divides along East/West lines following Russia's invasion of Ukraine, Ankara has positioned itself as a neutral partner between the two. This put it in a position to broker the July Istanbul grain deal that enabled Ukraine to

resume grain shipments by sea. The implication is that as a country not fully in either the Western or the Eastern camp, it may bring a similar perspective to the Western Balkans.

Turkey has a long history with the region, which was part of the Ottoman Empire, and it remains the small Southeast European countries' big neighbour and by far the largest economy in their immediate vicinity. On top of that, Erdogan personally has good relations with several of the Western Balkan leaders. That is not only obvious allies like Bakir Izetbegovic, leader of the Bosniak Democratic Action Party – Erdogan was best man at Izetbegovic's daughter's wedding – but also Serb politicians such as Vucic and Bosnian Serb leader Milorad Dodik, who is a fan of strongman leaders like Erdogan and Russian President Vladimir Putin.

Speaking to Turkey's Anadolu Agency, Dejan Vuk Stankovic of the University of Belgrade suggested that Erdogan personally could bring "creative solutions" to the outstanding problems of the Western Balkans. "His political authority and international reputation are enough to calm tensions, and his diplomatic skills can open up space for creative solutions in the case of Bosnia-Herzegovina," said Stankovic.

However, he considered that given the deep involvement of the EU and the US in the Kosovo situation, "the possibility of influence by any third actor is very limited".

Pre-election talks in Bosnia

The Turkish president arrived in Bosnia on the first leg of his tour amid a heated dispute within the country over amendments to the electoral law, less than a month ahead of the October 3 general election.

With Dodik and other Bosnian Serb politicians repeatedly challenging the authority of Bosnia's state-level institutions and threatening the secession of the country's Serb entity Republika Srpska, at the beginning of this year Bosnia was singled out by EU foreign policy chief Josep Borrell as one of Europe's two security hotspots (along with Ukraine). While Moscow's influence has waned in the region, it still has a lot of clout in Republika Srpska, giving the Kremlin the potential to further destabilise the situation within Bosnia.

On his arrival in Sarajevo on September 6, Erdogan weighed into the ongoing debate on the controversial electoral law changes, voicing his opposition to the changes planned by High Representative Christian Schmidt.

"Decisions related to the electoral law must be taken by the [Bosnian] leaders and the intervention of the high representative is not needed," Erdogan said at a press conference during a visit to Sarajevo, N1 reported. In a statement that may have surprised observers of Turkey's authoritarian leader, he added that the intervention "contradicts democratic principles".

He added that there is no time to amend the electoral law ahead of the October 2 general election. "The intervention of the high representative is a threat to democratic process. We want the election to go well," the president said. He also discussed the situation in Bosnia during his visit to Croatia later in the week.

The situation between Serbia and Kosovo was equally incendiary over the summer, when Kosovo's Prime Minister warned that war could not be ruled out. Kosovo declared independence from Serbia in 2008, but it is not recognised by Belgrade as a separate state, and tensions periodically spike. This summer, the cause of the elevation in tensions was Pristina's decision not to recognise Serbian ID documents and car number plates. The situation was partially resolved when the two sides reached an agreement on ID cards, but the question of car number plates still has to be tackled.

What's in it for Turkey?

Turkey has been working to build up its regional influence – reaching out to the Middle East, including Israel, Central Asia, the South Caucasus as well as the Western Balkans, where Ankara has been expanding political and economic relations simultaneously.

Erdogan's visit comes at a time ahead of the Turkish strongman's plan to seek reelection in a poll that must take place by June 2023. Given Turkey's economic woes and the growing strength of the opposition, foreign policy triumphs would be helpful. Playing to an audience at home, he even made a threat to Greece that Turkey could "come all of a sudden one night" at a press conference in Sarajevo.

A comment on Turkey's strategy in the Middle East published by think-tank the ECFR in July says: "President Recep Tayyip Erdogan remains politically vulnerable at home, with a deteriorating economy and the opposition leading in the polls. His government's survival now depends on efforts to balance between great powers and draw financing from former rivals in the Gulf."

Aside from the politics, there is the economic dimension. A raft of deals were signed during Erdogan's visit to Serbia, the biggest economy in the region, and Belgrade asked for Turkish help with planned electricity deliveries from Azerbaijan this winter and expressed interest in buying Bayraktar combat drones.

There are hopes that trade between Turkey and Serbia, the region's largest economy, will more than double to \$5bn this year. Turkey's investment into Serbia – including in a number of clothing factories – have already increased sharply. In total, Turkish companies employ almost 10,000 people in Serbia. ●

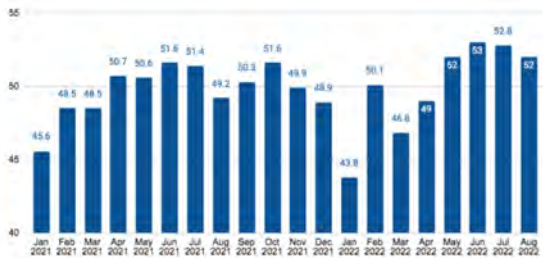
Poland PMI

Source: IHS Markit

Polish manufacturers go deeper in recession mode in August as PMI sinks to 27-month low

Poland's Purchasing Managers' Index (PMI) dropped 1.2 points to 40.9 in August (chart), the fourth time in a row when the index fell below the 50-point mark separating contraction from growth, the economic intelligence company S&P Global said on September 1.

The increasingly difficult business climate – high inflation, reduced purchasing power, and general market instability – once again, similarly to the previous months, led to sharp falls in output and new orders, S&P Global said. That made companies cut employment for a third month in succession in August while confidence about the future remained “subdued”.

Kazakhstan PMI index

Source: IHS Markit

Kazakh manufacturing PMI signals further growth in August

Kazakhstan's manufacturing sector signalled further growth in August following the expansion seen in July, June and May after a period of disruption caused by the outbreak of war in Ukraine and subsequent imposition of sanctions on Russia, according to the latest purchasing managers' index (PMI) survey data from Tengri Partners and IHS Markit.

The index posted 52 in August, following July's 52.8.

The survey noted that the output growth rate softened due to ongoing supply-chain disruption driven by Ukraine war sanctions against Russia and sharply rising prices. Moreover, currency weakness meant that input costs rose sharply again.

Hungary inflation y/y

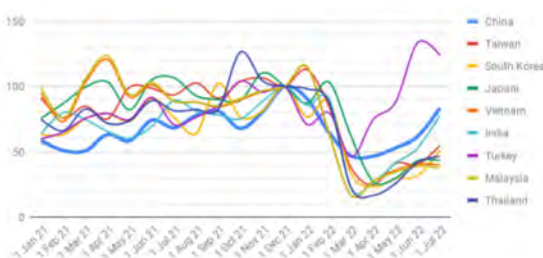
Source: Central Bank of Hungary

Hungarian inflation jumps to 24-year high in August

Hungary's annualised CPI accelerated to 15.6% from 13.7% in July (chart), the highest since May 1998, driven by higher food and consumer durable prices, according to data from the Central Statistics Office (KSH) on September 8. Core inflation rose from 16.7% to 19% in the same period. Consumer prices rose 1.8% from the previous month.

The price increase was broad-based, with 96 of the 140 of goods and services in KSH's consumer basket showing double-digit growth and 35% rising more than 20%.

The pace of food price growth continued to edge higher, up 30.9% y/y, despite the price freeze of half a dozen foodstuffs. The price of poultry climbed 40.4%, bread prices jumped 64.3% and dairy product prices increased by 54.7%. Hungarian consumers have already begun to scale back on food purchases, according to the latest retail data.

Russia trade change % y/y

Source: BOFIT

Russia-China trade up by a third this year, on course for \$200bn

Russo-Chinese trade turnover was up by 31.4% in the first eight months of this year to \$117bn and is on course to hit \$200bn, the General Administration of Customs (GAC) of China reported on September 7.

Total trade turnover hit a new record of \$146.9bn in 2021 as both sides have striven to reach the goal of increasing trade to \$200bn set several years ago.

China's exports to Russia rose by 8.5% in the reporting period to \$44.26bn, while imports of Russian goods and services climbed by 50.7% to \$72.95bn, according to released data, reported Tass.

IMF: How food and energy are driving the global inflation surge

Philip Barrett, economist for the IMF

Global inflation was generally moderating when the pandemic began, and the downward trend continued into the early months of the crisis. But surging prices since late 2020 have pushed inflation steadily higher. The average global cost of living has risen more in the 18 months since the start of 2021 than it did during the preceding five years combined.

Food and energy are the main drivers of this inflation, as our Chart of the Week shows. Indeed, since the start of last year, the average contributions just from food exceed the overall average rate of inflation during 2016-2020. In other words, food inflation alone has eroded global living standards at the same rate as inflation of all consumption did in the five years immediately before the pandemic. A similar story holds for energy costs, which show up both directly and indirectly, through higher transportation costs. This is not to say that prices of other items are not rising too. For example, services inflation has increased in the United States and the euro area. And the relative impact of food, energy and other items in driving inflation varies considerably across countries.

Inflation continued to climb throughout July, albeit a little more slowly. Though circumstances vary by country, the latest observations show a slight change in the composition of inflation, with food's share increasing further while energy-related categories eased slightly. This is consistent with the possibility that global energy prices have been passed on to consumers more quickly than higher wholesale food prices.

Our latest World Economic Outlook in July projected inflation to reach 6.6% this year in advanced economies

and 9.5% in emerging market and developing economies – upward revisions of 0.9 and 0.8 percentage points respectively from three months earlier. Next year, interest-rate hikes are likely to bite, with the global economy expanding by just 2.9% and in turn slowing price increases worldwide.

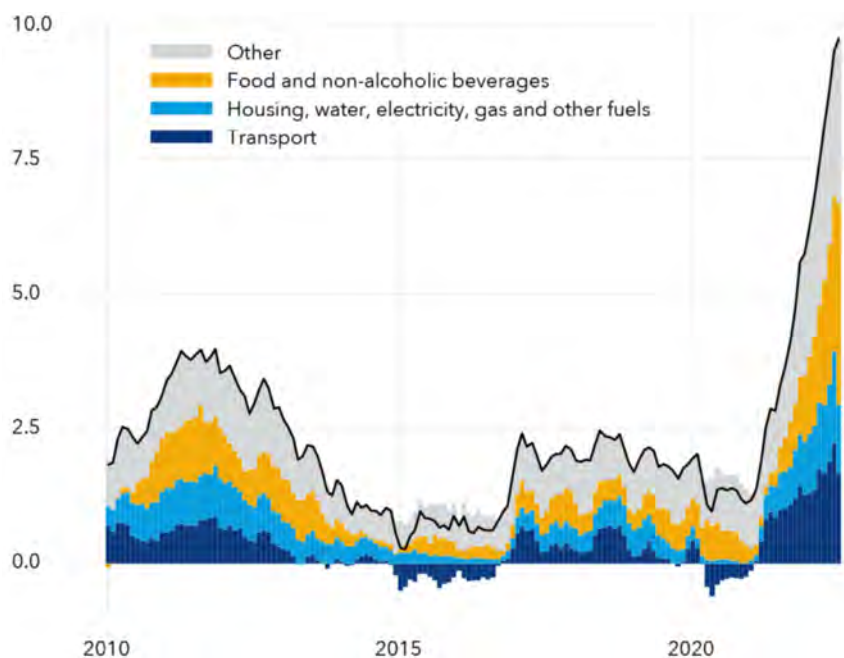
With rising prices continuing to squeeze living standards worldwide, taming inflation should be the priority for policymakers. Tighter monetary policy will inevitably have real economic costs, but these will only

be exacerbated by delaying corrective action. As a recent Chart of the Week shows, central banks have dramatically pivoted this year toward tighter policy globally.

Targeted fiscal support can help cushion the impact on the most vulnerable. Policies to address specific impacts on energy and food prices should focus on those most affected without distorting prices. And with government budgets stretched by the pandemic, such policies will need to be offset by increased taxes or lower government spending. ●

Inflation drivers

Food and energy prices continue to drive the global inflation surge. [percent, median inflation rate]



Source: IMF CPI database and IMF staff calculations.

Note: Chart shows median total inflation and in select categories across 88 countries, including 28 advanced economies and 60 emerging and developing economies.

IMF

Inflation already began to rise during the coronavirus pandemic, but the showdown between the West and Russia and the related energy crisis has pushed rates higher in 18 months than in the last five years combined.

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