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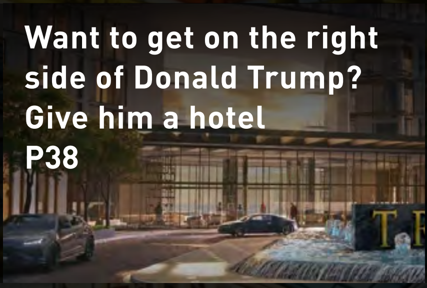

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The completion of the TAL pipeline expansion will enable Czechia to acquire oil without having to resort to Russian deliveries. / bne IntelliNews

TAL pipeline expansion nears finish, offering Czech Republic a future free of Russian oil

bne IntelliNews

The project aimed at replacing Russian crude is being achieved in "an incredibly short period," the CEO of the Czech Republic's state oil pipeline operator told NewsBase.

WHAT: An expansion of the TAL pipeline is nearing completion.

WHY: The project will allow the Czech Republic to end its dependency on Russian oil.

WHAT NEXT: Preparation work to start flow should wrap up within the first half of 2025.

The Czech Republic is on course to end its 60-year dependence on Russian crude imports next year as major technical upgrades to the Transalpine Oil Pipeline (TAL) near completion.

Known as TAL-PLUS, the project will double the country's import capacity from the west and allow it to fully meet annual oil demand of around 8mn tonnes (160,000 barrels per day). It will mark the end of Russian crude deliveries to the EU member state via the Soviet-era Druzhba pipeline system, one of the world's longest oil corridors.

"Work on the TAL-PLUS project is proceeding according to the time schedule, and we believe that by the end of this year, the TAL crude oil pipeline will be fully technically ready to increase the volume of transported crude oil," said Jaroslav Pantůček, chairman and CEO of Mero ČR, the Czech Republic's state-owned oil pipeline company, in an interview with NewsBase.

Work began earlier this year on upgrading the pipeline's pumps, motors and controlling systems to boost flow from

6,400 to 7,500 cubic metres per hour. The improvements will add about 5mn tonnes (100,000 bpd) to the current annual operational capacity of 43mn tonnes (860,000 bpd).

Pantůček said in response to questions from NewsBase that he expects certification, testing and the installation of backup pumps to be completed in the first half of 2025.

The 753-km TAL originates at a marine terminal in Trieste, Italy, and is the primary source of oil for refineries in Austria and the German states of Bavaria and Baden-Württemberg. Currently, TAL and Druzba each supply about half Czech crude demand.

Mero is financing the systemwide improvements at a cost of between CZK1.3-1.6bn ($55-68mn). Storage capacity at Mero's bunkering facilities in Germany and the Czech Republic is being upgraded as well.

The pipeline operator has also modernised the 347-km Ingolstadt-Kralupy-Litvínov (IKL) pipeline, which was completed in 1996 and transports oil from TAL in Bavaria to Czech storage tanks in central Bohemia. The updates to the IKL control and security systems cost CZK265mn ($11mn).

The impetus of war

The TAL capacity expansion had been considered for years. But the project gained urgency after the EU banned most Russian crude and refined petroleum product imports and imposed an oil price cap following the Kremlin's February 2022 invasion of Ukraine. Temporary exceptions were provided for those countries in Central Europe that lacked enough access to alternative sources of oil besides Druzhba, including the Czech Republic.

Agreement on TAL-PLUS was announced by Czech Prime Minister Petr Fiala in May 2023, capping months of negotiations between the Czechs and other TAL Group shareholders. Mero owns a 5% stake in TAL.

"It is important to note that the project has been ongoing for an incredibly short period of time," Mero's Pantůček said. He added that "all components had to be tendered according to the law, and at the same time, there are very complex technologies that often consist of components from all over the world. Installation is under way in Italy, Austria and Germany, and very soon we will see that the Czech Republic will be able to cut itself off from Russian crude oil."

Druzhba, or 'friendship' in Russian, was completed in 1964 to supply Soviet oil to Czechoslovakia, East Germany, Hungary and Poland along a 5,500-km corridor originating in Siberia and transiting Russia, Belarus and Ukraine. TAL became operational three years later on the western side of the Iron Curtain.

Czech oil dependence under scrutiny

The Czech Republic has faced controversy for its lingering dependence on Russian oil, despite lacking feasible alternatives – that is until TAL-PLUS is up and running.

Along with Slovakia and Hungary, the Czech Republic was granted an exception to EU's sanctions on Russian crude imports to give it time to find alternatives. But some analysts have accused these countries of using the waiver to profit from discounted Russian oil.

"In reality, Russian oil purchases have barely changed. Pipeline oil exports contributed €2.5bn ($2.7bn) to Russian export revenues in the first half of 2024 alone, around one-fifth of that coming from the Czech Republic," according to an analysis by the Helsinki-based Centre for Research on Energy and Clean Air, released in mid-October.

The CEE Bankwatch Network, an environmental watchdog in Prague, has accused the Czech government of caving in to the oil majors behind TAL by backing the costly upgrade. "The Czech Republic needs to substantially step up efforts to decrease oil demand, not to satisfy it," according to Bankwatch.

Energy security and the future of Druzhba

As the Czech Republic prepares to enter an era without Russian oil, the state pipeline company is working to ensure maximum physical security and security of supply amid heightened geopolitical uncertainty. Incidents such as the ransomware attack on the Colonial pipeline in the US in May 2021 and the Nord Stream gas pipeline sabotage in September 2022 are harsh reminders of energy infrastructure vulnerability.

"Defence against physical and cyber-attacks is an absolute priority," Pantůček said. "We also have very detailed control systems and inspection elements that detect any damage. Close communication with all partners and prepared security plans are a certainty."

"If an outage were to occur," Pantůček added, "then the emergency reserves of crude oil in the system of the State Material Reserves Administration, which the Czech Republic retains for this very reason, can be used for a certain period."

Meanwhile, Druzhba may get a new lease on life as Mero explores ways to repurpose the Czech pipeline segment following years of modernisation and investment.

"Mero ČR is responsible for ensuring that the condition of the Druzhba crude oil pipeline in the Czech Republic is at the best level and corresponds to the standard of international oil infrastructure," Pantůček told NewsBase."Therefore we regularly invest in the crude oil pipeline in regards to its necessary maintenance and cleaning. We also want to find a new use for the Druzhba crude oil pipeline when Russian crude oil no longer flows through it. That is the reason why it is necessary to maintain it." ●

Slovak gas distributor SPP concludes pilot deal with Azerbaijan's SOCAR

Slovakia received 89% of it gas supply from Russia last year / bne IntelliNews

Albin Sybera

Slovakia's largest gas company, the state-owned Slovensky plynarensky priemysel (SPP), has concluded a pilot deal with Azerbaijani national gas company Socar to source gas supplies as a potential alternative to Russian gas.

Ukraine has said it intends to stop the supply of Russian gas over the pipelines that cross its territory when the transport contract runs out at the end of this year. This is forcing countries such as Slovakia, Hungary and Austria to scramble for alternative supplies. Slovakia received 89% of it gas supply from Russia last year

"SPP has been long supporting the continuation of gas transit across the territory of Ukraine. It is the most advantageous solution in terms of price for our clients," SPP CEO Vojtech Ferencz was quoted as saying by state broadcaster STVR.

"However, considering the high risk of stopping suppliers through the eastern branch, we are adopting measures so we can guarantee our clients from large industrial customers to households safe supplies of gas in any situation," Ferencz added.

Reuters noted that for the pilot deal in December "small volumes of Azerbaijani gas will be shipped via the Trans Balkan pipeline in Bulgaria" and delivered to Austria, referring to a source with knowledge of the SPP-SOCAR deal.

If SPP were later to sign a long-term deal, it could potentially import Azerbaijani gas via Ukraine. In this case, one possibility is that this would be Russian origin gas, and in exchange Azerbaijan would supply gas to Russia.

SPP's preferred alternate route is the gas pipeline connection through neighbouring Czechia from Germany, a route where it has reserved sufficient transit capacity. Slovakia can be also supplied from the south using the Turk Stream route from Turkey, Bulgaria, Serbia and Hungary, which can be used for gas from Russia and Azerbaijan.

Daily *Sme* noted that SPP already has contracts with international energy companies BP, ExxonMobil, Shell, ENI and RWE giving SPP 50% coverage of the consumption of its clients, and the contracts and its own reserves enable it to raise this to 150% of this consumption.

Ferencz said that "compared to last year we have increased the volume of gas in underground storage [facilities] in Slovakia, which we currently have at disposal, by about 20%", adding that the storage capacity "will be 100% full not just at the beginning of the heating season, but also [...] in January 2025",

Ferencz added it is the largest volume of gas Slovakia has stored in recent years and that if Slovakia loses the Russian supplies and buys the gas from a different source the additional costs would amount to €140mn.

"However, considering the high risk of stopping suppliers through the eastern branch, we are adopting measures so we can guarantee our clients from large industrial customers to households safe supplies of gas in any situation"

Slovakia's sitting left-right cabinet of populist Prime Minister Robert Fico has been slow to reduce the country's energy dependence on Russia. Fico even threatened Ukraine earlier this year, saying that his government would halt diesel supplies to Ukraine after Kyiv tightened sanctions against Russian oil giant Lukoil in the summer.

The EU urged governments in both Slovakia and Hungary to do more to shake off their dependency on Russian oil in response to Hungary's and Slovakia's complaints over the sanctions on Lukoil. ●

Pakistan could quit TAPI as India now "extremely lukewarm" on gas pipeline project, says report

bne IntelliNews

Pakistan is pondering quitting the Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline project as officials feel India may have gone "extremely lukewarm" on the investment and, without the participation of New Delhi, it would not make economic sense to Islamabad.

That's the TAPI state of play as reported by Pakistani newspaper *The News*.

If the multi-billion-dollar project collapses, it will come as a huge blow to Turkmenistan. The project was first put forward nearly 30 years ago. Since then, the Turkmen have been trying to overcome challenges largely caused by the security situation in Afghanistan to get the construction of the 1,849-kilometre (1,149-mile) pipeline, expected to cost at least $10bn, under way in earnest. With only China as a major customer for its abundant gas, Turkmenistan badly needs to diversify its gas export market coverage.

The News said "top functionaries" in Pakistan were mulling exiting TAPI, as "TAP" would not be sustainable, given that Pakistan would lose a gas transit fee payment of $500mn per annum from India.

There are reports that India has been exploring other options to diversify its energy mix, including imports of liquefied natural gas (LNG), renewable energy projects and other regional energy corridors. Pakistan too appears to be taking a long hard look at LNG potential.

In September, Turkmenistan and Afghanistan's Taliban administration announced the construction launch for the Afghan section of TAPI – only, as Central Asia expert Bruce Pannier pointed out in *bne IntelliNews*, the announcement "barely elicited a yawn" given that this was actually the second time such a construction start had been announced over the years and veteran TAPI watchers did not expect things to progress meaningfully.

Pakistan has several times announced the start of construction work for its section of TAPI several times, but actual work on rolling out the pipeline has in fact never started outside Turkmenistan, beyond ceremonial welding of pipe segments.

After the Taliban regained control in Afghanistan in 2021, the security situation along the proposed TAPI route improved, but it became more difficult to find foreign investors to finance the mega-infrastruture since the Taliban government remains under international sanctions.

If TAPI was up and running, project specifications envisage that Turkmenistan would be selling an annual 3bn cubic metres (bcm) of gas to Afghanistan 30 bcm/year that would be equally shared by Pakistan and India.

According to Turkmenistan's Energy Institute, the country's gas exports in 2023 reached 39.5 bcm. Almost all of that went to China,

Iraq's Ministry of Electricity announced in mid-October that it has signed a deal with Turkmenistan to secure up to 20mn cubic metres of gas per day, with the deliveries contingent on swap arrangements with Iran. ●

Ceremony on completion of the Turkmen section of the Turkmenistan-Afghanistan-Pakistan-India pipeline.

Turkmenistan's ambition to export to South Asia gas from its Galkynysh field, one of the biggest gas fields in the world, could be doomed. / DQttwo, public domain

Freedom Holding Corp reports 33% revenue growth in 2Q24, expands in Central Asia and Europe

bne IntelliNews

The NASDAQ-listed Freedom Holding Corp. has reported a 33% y/y revenue increase in the second quarter to $580.9mn, the investment bank and broker said in a press release on November 8.

Net profits reached $114.5mn, driven by growth across its banking, brokerage, and insurance segments and the fund plans to expand in Central Asia and Europe.

The company's banking division was key for the revenue growth, up 21% to $201.5mn, bolstered by Freedom Bank Kazakhstan's addition of 1.2mn clients. Meanwhile, brokerage revenues rose to $174.8mn, with a client base now at 555,000 as of September 30.

Insurance was Freedom Holding's most dynamic segment, recording a 121% revenue boost to $178.2mn, alongside a 58% client base increase to 846,000. Acknowledging the strong results, S&P Global Ratings recently upgraded Freedom Insurance's rating to 'BB-' with a 'stable' outlook. Insurance underwriting income also surged by 177%, reaching $160.3mn.

Freedom Holding further reported half-year revenues of $1.03bn, marking a 33.4% increase from $751.8mn in the previous year. Fee and commission income contributed $236.5mn, while underwriting income more than doubled to $289.8mn. Interest income rose to $436.3mn, indicating growth in both banking and brokerage activities. Over the six months, net profit climbed 82% to $375mn.

Total assets rose to $8.82bn, up from $8.3bn in March 2024. Available-for-sale securities now stand at $284.6mn, while trading securities have reached $3.6bn. This reflects Freedom Holding's diversification strategy, expanding across 22 countries, including Central Asian and European markets. In October, it secured a banking licence in Tajikistan, furthering its presence in Central Asia.

CEO Timur Turlov has emphasised the company's expansion focus in emerging markets. In Kazakhstan, Freedom Holding is creating a financial and lifestyle services ecosystem, which Turlov indicates could eventually extend globally. Additionally, acquisitions such as Freedom Telecom's recent purchase of SilkNetCom, a Kazakh IT firm, reflect this diversification effort.

An additional business segment, including online payments and e-commerce, generated $26.4mn in Q2 FY2025, a 56% y/y increase.

The company's corporate social responsibility (CSR) initiatives remain at the forefront, with a commitment to supporting education, youth sports, and environmental projects in Central Asia and beyond. Turlov underscored the importance of strengthening these efforts to "create long-term value for shareholders." ●

The NASDAQ-listed Freedom Holding Corp. saw revenue rise by a third in 2Q24 to $580.9mn and the broker plans to expand in Central Asia and Europe. / bne IntelliNews

Russia and Iran officially link bank card networks

Iran and Russia officially link bank card networks / bne IntelliNews

bne Tehran bureau

Iran and Russia have officially connected their interbank networks, enabling the use of Iranian banking cards in Russia's ATM network, Central Bank of Iran (CBI) website reported on November 11.

This significant step aims to simplify financial transactions for Iranian and Russian travellers, marking a milestone in economic cooperation between the two nations. Iran and Russia have been working to strengthen their banking systems since sanctions were imposed on Russia for more than a decade. Plans are underway to address the challenges faced by businesses in both countries.

The first phase of linking Iran's Shetab banking network to Russia's Mir payment network was inaugurated at a ceremony attended by the Governor of Iran's Central Bank, Mohammadreza Farzin, along with Iran's ambassador to Russia, Jalal Kazemi, and several high-ranking banking officials.

All Iranian banks and credit institutions are required by a CBI directive to connect to Shetab. This measure has been on the CBI's agenda since 2017 but has been repeatedly postponed for unknown technical reasons.

With this initial stage now operational, Iranian travellers can withdraw rubles from Russian ATMs. The second phase, expected by the end of this year, will allow Russian travellers to access Iranian ATMs, while the third phase will eventually permit Iranian tourists to make purchases in Russia using their Shetab-linked cards.

Farzin described the launch as a "proud step" toward reducing dependence on the US dollar in bilateral transactions and promoting regional economic integration. "By connecting the two countries' national payment networks, we are removing electronic payment barriers and paving the way for a new era in economic cooperation," he added.

Noushafarin Momen, CBI's head of supervision on payment networks, confirmed that four Iranian banks had completed the required modifications to enable this service, with several others also in the process of system upgrades to join the network.

"This project is a collaborative effort involving Iran's National Informatics Centre and a Russian technology partner, with Iran's Bank Saderat and Russia's VTB Bank serving as intermediaries," she said, "Several major Iranian banks, including Bank Mellat, Bank Refah, and Bank Pasargad Iran, have joined this initiative, expanding access and support for Iranian cardholders abroad."

"NFC-enabled ATMs across Russia now support contactless payments for Shetab-linked Iranian bank cards," she added.

"New concepts have been created in the monetary and banking sphere between the two countries, and today, most barriers have been removed. Regarding other work, we should focus on attracting Russian tourists," said Iranian Ambassador to Russia Kazem Jalali.

This development follows Russian President Vladimir Putin's September statement about enhanced bilateral relations with Iran under Supreme Leader Ayatollah Ali Khamenei's support. The countries are working towards signing a major interstate agreement to establish strategic partnership status.

In 2023, the two central banks signed a significant agreement to establish banking ties, as both are disconnected from international interbank messaging systems such as SWIFT.

In May, Iranian Trade Attaché Rahimi Mohsen told Russian *Izvestia* that Moscow and Tehran were developing new settlement methods, including central bank digital currencies and digital financial assets.

bne IntelliNews could not verify the claim by the Iranian officials, with Russian banks yet to comment on the commencement.

In the past, Iran had a similar swap deal with Turkey, which was seemingly cancelled following the re-imposition of sanctions on Iran in 2018.

In 2023, the two central banks signed a significant agreement to establish banking ties, as both are disconnected from international interbank messaging systems such as SWIFT.

Earlier that year, Iran's SEPAM system was linked to Russia's Financial Message Transfer System (SFPS), allowing some banks to start offering transactions to Iran or open letters of credit.

As part of the new deal, Iranian bank cards can be used to withdraw rubles from ATMs in Russia starting in August. This marks the first phase of plans to connect Iran's Shetab interbank network to Russia's MIR network. ●

US financial sanctions on Russia are working, but yet to affect trade volumes significantly

Ben Aris in Berlin

Since December 2023, the US administration has been intensifying its pressure on Russia's financial system with its so-called strangulation sanctions, making it progressively more difficult for the country to finance its imports.

Despite traders' growing problems with getting paid, the new tougher financial sanctions have primarily hurt Russia's small- and medium-sized enterprises (SMEs), while the big Chinese and Russian entities continue to find workarounds, and trade volumes between Russia and its partners have been largely unaffected, apart from outages that last for only a few months while new payment methods are found, OSW reported in a recent note.

According to the Central Bank of Russia (CBR), the value of imports for the first eight months of 2024 only fell by approximately 8% year on year, while exports saw a modest decline of more than 1%. Though these changes seem relatively contained, the rising cost of imported goods and longer delivery times have hurt as they are contributing to a persistent inflationary pressure, which has forced the CBR to hike the prime interest rates to 21% in October that is crushing growth and investment.

The US's escalation began with granting the Treasury Department authority in December 2023 to impose secondary sanctions on entities aiding Russia's military-industrial base. By restricting their access to the US financial market, Washington has targeted significant parts of the Russian financial sector, including major institutions like the Moscow Exchange (MOEX), the National Clearing Centre, and the National Payment Card System, which issues MIR bank cards. Additionally, sanctions were imposed on various banks, including the Shanghai branch of VTB, Gazprombank and the Russian Agricultural Bank. The knock-on effect lead to a number of Chinese and Turkish banks cutting ties to their Russian clients in April. Companies in China, Turkey and the UAE are increasingly being targeted by the US Office of Foreign Assets Control (OFAC), reflecting the widening net cast by the US and, more selectively, the EU.

"Foreign banks, primarily those from China, Turkey, Armenia and Kazakhstan, have increasingly refused to accept payments from Russia," OSW says.

The most severely affected sectors have included cars, electronics and Indian steel imports, with mounting challenges in processing payments. Most payments are reportedly being

US financial sanctions on Russia are the most effective yet, but have not badly affected trade volumes as the Russia and the US continue to play a game of whack-a-mole. / bne IntelliNews refunded to payers, yet the broader implications for trade remain. Notably, the CBR revealed that in June, 43% of Russia's imports were settled in rubles, closely followed by the yuan at 40%. The yuanisation of the Russian economy has led to a liquidity shortage of yuan on the Russian market in recent months, but analysts say this is temporary.

Chinese banks treading carefully

Chinese banks have exhibited a cautious approach to mitigating the risk of sanctions, driven by their relatively limited stake in the Russian market. The Bank of China, for instance, reduced its net assets in Russia by approximately 40% since April 2024. Following the Moscow Exchange's addition to the sanctions list, the Industrial and Commercial Bank of China (ICBC) stepped in to manage yuan clearing. However, its involvement could hinge on whether US licences allowing temporary cooperation expire on October 12. Similarly, China Construction Bank and Agricultural Bank of China have reportedly scaled back their operations with Russian entities, fearing potential secondary sanctions.

This caution from Chinese institutions has resulted in heightened vetting of cross-border transactions, significantly lengthening the clearing process. Some payments have not been processed at all, and many institutions are treating yuan passing through the Russian financial system as "dirty." Smaller banks, particularly those in border regions, have attempted to fill the void left by Beijing-controlled entities but face limitations in capacity and resources.

The reluctance of larger Chinese banks to deal with Russian financial institutions has created a two-tier system where only those businesses able to afford intermediary fees or establish subsidiaries in third countries can continue trading effectively. This dynamic has further exacerbated inequalities within the Russian economy, favouring larger enterprises at the expense of smaller ones.

Trade unaffected for now

Despite these obstacles, trade volumes have yet to show a significant contraction. The CBR data from the first eight months of 2024 show an 8% reduction in imports, while customs data reveal that imports from the largest suppliers to Russia have changed only marginally. However, this resilience has relied on increasingly creative solutions. One key method has been using third countries for registering subsidiaries, as well as intermediaries to facilitate payments, allowing businesses to circumvent direct exposure to Russian sanctions. Russia has also turned to platforms that connect importers with exporters holding "clean" yuan in China and, in more extreme cases, cash, cryptocurrencies and even barter arrangements have come into play.

For China, there have been benefits amidst these complications. As smaller Russian importers struggle to navigate the web of sanctions, larger Chinese businesses, such as Sinopec and Huawei, are well-positioned to capture a more significant market share. This has implications not only for the structure of Russia's import ecosystem but also for prices, as reduced competition could push up the costs of imported goods, says OSW. Furthermore, Chinese exporters have found new opportunities to leverage their financial connections in Southeast Asia and the Middle East to provide alternative channels for payments, thus reinforcing their influence in the region. In doing so, China has positioned itself as an indispensable partner for Russia, capable of bridging the gaps left by Western financial institutions.

The repercussions of these sanctions have also rippled through the logistical aspects of trade. Shipping costs for imports have increased, partly due to the reduced number of viable routes that avoid jurisdictions imposing sanctions. Delays at ports and border crossings have become more frequent as heightened scrutiny leads to longer inspection times. These logistical hurdles, coupled with increased payment processing times, have strained the supply chain for critical goods, from industrial machinery to consumer electronics.

Russian businesses have shown a remarkable ability to adapt by stockpiling inventories and adjusting their procurement strategies to mitigate these disruptions. For traders currently it's a case of "what doesn't kill you makes you stronger."

While sanctions are undeniably straining Russia's economy, particularly its SMEs, analysts suggest that what is developing are new robust financial payment mechanisms outside the reach of sanctions for both Russia and China. Though payment issues have escalated since late July, and trade data for this period is not out yet, it seems that neither country is willing to let sanctions define the limits of their commerce. The evolving methods – from formal banking to barter – suggest a determination to maintain economic connectivity, even as global financial networks become increasingly fragmented. At the same time, the strangulation sanctions is driving innovation and at the recent BRICS summit in Kazakh in Russia all the members discussed setting up a BRICS Pay cryptocurrency that can be used to settle mutual trade deals independent of the dollar.

Game of whack-a-mole

The jury is still out on what the long-term consequences of these strategies and the effectiveness of the evolving financial sanctions. Sanctions on Russia remain a game of whack-a-mole and so far Russia has managed to successful evade both the oil price cap sanctions and technology sanctions that were supposed to bring the economy to its knees.

But there is a price to pay as the increased use of barter, cash and cryptocurrencies not only undermines the transparency of international trade but also increases the risk of corruption and inefficiencies. Moreover, the shifts in trade dynamics have political implications. Smaller nations, such as Armenia and Kazakhstan, are finding themselves increasingly caught between major powers, balancing the benefits of facilitating Russian trade against the potential repercussions from the West.

Furthermore, the focus on circumventing sanctions has led to the strengthening of economic ties with non-Western countries. The sanctions regime has driven Russia into the arms of not only China – probably a major strategic blunder by the US – but has also catalysed the development of major non-aligned organisations like the BRICS+ and the G20, which will only weaken the West's influence in an increasingly fractured world.

It has also created unlikely beneficiaries. Central Asia is the big winner from the Ukraine war thanks to the windfall from not only amplified trade with Russia, but now there is an FDI and manufacturing boom underway that is lifting all boats in the region, which is also undermining the West's influence in the region as it is not in the 'Stans economic interests to adopt sanctions against Russia or cooperate in anyway with the Western campaign.

Russia's engagement with nations across Central Asia, the Middle East and Africa has intensified and has been met with enthusiasm, creating new opportunities for bilateral agreements and partnerships. Russian President Vladimir Putin's message of anti-colonialism plays well in Africa where resentment to the colonial era remains strong. And the discounts offered to "friendly countries" buying Russian commodities, nuclear technology and arms are very attractive. On the flip side, the US aggressive lobbying of countries to adopt sanctions also goes down very badly.

Moreover, these alliances are not just economic; they represent a broader realignment of geopolitical loyalties, as Russia seeks to anchor its position outside the sphere of Western influence. Putin started the war in Ukraine specifically to keep Ukraine out of Nato, but more generally, he wanted to break up the unipolar hegemony of the US in geopolitics and replace it with a multipolar model. And in this he has been largely successful. The implications of these shifts are significant, potentially laying the foundation for a new set of international alliances and the end of the *Pax Americana*.

The continued adaptability of Russian and Chinese enterprises in finding solutions to maintain trade flows also highlights a broader trend of financial decoupling. As Western nations tighten restrictions, both Russia and China are increasingly investing in developing alternative financial systems, such as cross-border interbank payment systems that bypass SWIFT. The dollars dominance in global trade and reserves currencies gave it enormous power, not to mention the ability to borrow limitless amounts of money at all-but no cost. Undermining trust in the dollar could prove an extremely costly mistake and the dollar's share in reserve currencies has already fallen below 50% in the last two years, although it will take decades for the dollar to lose its privileged position. ●

Russia cuts off gas supply to Austria's OMV

Newsbase

Russia's Gazprom cut off its natural gas supply to Austria's biggest oil and gas company OMV on November 16, the latter's trading arm reported on the previous day, triggering a spike in European gas prices. The move came three days after OMV warned that Gazprom might halt deliveries in response to the Austrian company deducting from its invoice for current supplies more than €230mn ($243mn) in damages from the Russian supplier for past contract violations.

OMV reported on November 13 that it had been awarded €230mn in damages plus interests and costs from Gazprom Export by the Paris-based International Chamber of Commerce (ICC) for irregular supplies in Germany in 2022, which were halted in September of that year. OMV said it would take steps to enforce the ruling immediately, with OMV Gas Marketing & Trading (OGMT) offsetting its claims against invoices billed to Gazprom.

OMV acknowledged that taking this step was expected to cause "a deterioration of the contractual relationship" with Gazprom, including a potential halt to gas supplies.

In a statement on the Central European Gas Hub on November 15, OGMT said Gazprom Export had notified it that gas supplies would be suspended the following morning. The front-month contract at the Dutch TTF hub exceeded €47.3 per MWh ($530 per 1,000 cubic metres) in afternoon trading when the announcement was made, building on daily gains from €43.7 per MWh on November 13.

When announcing the arbitration award, OMV said that if the supply was cut off, "small one-time hedging losses could occur, but will be clearly outweighed by the positive effects from the recovered damages". It added that it would be able to fully satisfy the demand of its customers in this scenario, noting it had secured options for gas supply from Norway and in the form of LNG, and that its storage facilities in Austria were filled to more than 90% of capacity.

Austria relies on pipeline gas supplies for Russia to cover most of its demand, with its dependency reaching as high as 98% in December last year. The majority of purchases take place under OMV's long-term contract with Gazprom, which does not expire until 2040.

Following the cut-off, the only two remaining significant buyers of Russian pipeline gas in Europe are Hungary and Slovakia. While

Hungary gets most of its Russian supply via the TurkStream from Turkey, Slovakia receives all of its deliveries via Ukraine. Ukraine transited 14.3bn cubic metres of Russian gas to Europe in 2023, but Kyiv's transit deal with Moscow is due to run out at the end of this year and it has repeatedly said it will not seek a renewal.

Unless an alternative arrangement is agreed – whether that involves Azerbaijan assuming responsibility for Ukrainian gas transit as has been suggested, or remaining European gas buyers taking ownership of gas at the Russia-Ukraine border – flows through Ukraine are due to halt almost completely in a month and a half.

The supply cut-off marks the end of a long era for Austria of energy reliance on Russia. It was one of the first Western European countries to start buying Russian gas after signing a supply contract with the USSR in 1968. ●

Gazprom's move follows OMV's decision to deduct from its invoice for current supplies more than €230mn ($243mn) in damages from the Russian supplier for past contract violations. / bne IntelliNews

Will the renewal of the Serbia-Russia gas deal prolong Moscow's energy dominance in Europe?

Fuad Shahbazov in Durham

Serbian Deputy Prime Minister Aleksandr Vulin hinted during the Eastern Economic Forum in Russian Vladivostok in September that Moscow and Belgrade need to solve issues related to the gas supply contract set to expire in 2025. Despite Western sanctions, Russia still plays a crucial role in supplying Serbia with natural gas "on time and based on very good conditions", the Serbian minister said.

Although the continuing Russian gas supplies to Europe pose a serious dilemma within the region, some EU member countries like Hungary, Slovakia and Austria, as well as non-members like Serbia, do not hesitate to maintain energy partnerships with Moscow.

As such, Belgrade officials are preparing to extend the gas deal with Russia for another year. The original deal was signed in May 2022, shortly after the Russo-Ukraine war erupted. Moscow agreed to sign the deal on favorable conditions for Belgrade while cutting off gas supplies to Finland, Poland and Bulgaria.

Europe sought alternative gas suppliers to tackle the energy deficit and hurriedly reduce reliance on Moscow. However, it is not yet clear whether the EU plans to shut off the Russian supply pipeline that crosses its member countries. Russia provides 2bn cubic metres (bcm) of natural gas via the Balkan section of the TurkStream pipeline working at capacity. This dependence on Russian gas could potentially hinder the EU's efforts to reduce its reliance on Moscow and diversify its energy sources.

Unlike some EU member countries, Serbia is highly dependent on Russian gas. The EU has not taken any bold steps to punish or pressure Serbia to avoid the extension of the gas deal with Russia. Nevertheless, in 2023, Serbia agreed to import additional gas volumes from Azerbaijan in an effort to diversify the local market, including the inauguration of a new pipeline link via Bulgaria. This move to diversify its energy sources could potentially reduce Serbia's dependence on Russian gas. Since 2024, Azerbaijan began supplying Serbia with 400 bcm of natural gas, with an additional agreement to supply an extra 1mn cubic metres of gas on a daily basis from November 2024 to April 2025.

As Azerbaijan's gas exports represent less than 15% of Serbia's domestic gas consumption, Belgrade still considers Russia's Gazprom the main source of gas supplies. However, this diversification strategy could be a step towards reducing

Serbian President Aleksandar Vucic announcing his country's "very favourable" deal with Gazprom in 2022.

Serbia's reliance on Russian gas. Moreover, the EU's criticism and expectation of Russia's waning influence in the energy market of the Balkans, particularly in Serbia, is unlikely to be justified soon, considering that its main energy companies are under Russian majority ownership.

Consequently, Europe's enormous efforts to wean itself off Russian fossil fuels have not yielded major results due to the pragmatic foreign policy strategy of certain countries like Serbia, which opted to remain connected to Moscow's energy and reap the cost benefits. Given the favourable conditions of the original agreement, Serbia's enthusiasm for securing a deal with Russia seems rational.

Although Russia's long-term energy dominance in the Balkan region seems undented due to regional countries' diversification attempts, Serbia's renewed gas deal could prolong Moscow's presence in the local energy market for a while, even though the continuing Russian gas shipment will become more costly, emboldening other states to seek cheaper solutions. Considering this factor, Belgrade inked a gas agreement with Russia based on a fixed price, shielding itself against extra costs, which is now likely to be renewed on the same terms.

However, the expected decline of Russia's state revenue from oil and gas to $117.53bn between 2025-2027 due to the heavy tax burden on energy giant Gazprom is a cause for concern. This may push Moscow to reconsider the price it charges Serbia once the contract comes up for renewal in 2025.

Moreover, like leading EU member states, Serbia put enormous efforts into switching to alternative energy sources in the near future. By 2026 Serbia expects to have more than 1,500 megawatts (MW) of green energy within the framework of the Integrated National Energy and Climate Plan, which outlines a vision through 2030 and 2050. The successful implementation of the strategy will enable Serbia to dramatically decrease dependence on fossil fuels, particularly Russian, thus resolving one tough political dilemma. ●

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Moldova's electronics sector rises again

Clare Nuttall in Chisinau

Moldova's electronics sector is undergoing a renaissance, with the rise to prominence of new companies in the sector, many of which have become important parts of European supply chains in the automotive and other sectors.

It's a very different picture from 40 years ago, when Moldova, then part of the Soviet Union, had an electronics sector that was mainly focussed on defence, although the small republic also produced household appliances. Since independence in the early 1990s, however, Moldova's electronics industry has been completely reborn, Elena Maevski, executive director of the Association of Electronics Companies in Moldova (ACEM) told *bne IntelliNews* in an interview in Chisinau.

"The electronic sector activities in Moldova started at the beginning of the 1960s. In Moldova, as part of the Soviet Union, we developed electronics mostly for defence, as well as some household uses," said Maevski. These factories produced sophisticated electronics, including components for military use, equipment for rockets and other high-tech applications.

"The factories in Moldova were cutting-edge, producing complex electronics largely for defence purposes," Maevski said. The sector then virtually collapsed following the breakup of the Soviet Union, which led to a period of deindustrialisation and a near-complete halt in investment in electronics.

But it experienced a rebirth after the first difficult years of transition and has grown up again as a primarily export-driven industry focused on civilian applications.

"The concept of the electronics industry changed. In Moldova we do not produce at all for defence. We produce for civil applications – such as power for city public transport, sophisticated smart meters, scales, wire harnesses for the automotive industry, lighting solutions and many others." Founded in 2019, the Moldovan Electronics Association now represents over 210 companies, across a broad range of sub-sectors. "Our primary objective is to develop, promote, and increase the competitiveness of the electronics industry in Moldova," Maevski explained, saying that collaboration with government agencies, international organisations and NGOs has been critical to supporting the sector.

Some of the high-profile local companies include ADD Group, a major producer of smart metering solutions, which exports to over 32 countries worldwide and has produced more than 8mn smart meters. Another is Informbusiness, a specialist in energy efficiency within public transportation that developed Moldova's first electric bus. Its technology is used not only in Chisinau and other Moldovan cities, but in 170 cities worldwide. In 2023, it inaugurated a new assembly plant for trolleybuses and electric buses in Chișinău.

Other companies have emerged as suppliers to the automotive industry, and Moldova is particularly strong in exports of high-tech cables and wires. Companies in this area include ELIRI, which produces advanced technology and equipment for the creation of moulded glass-insulated microwires. Moldovan companies supply well-known automotive brands such as Volkswagen, Renault and Stellantis.

Alongside these local companies are a growing number of international companies which, Maevski says, “play a crucial role in modernising the electronics industry.”

Growth of the sector has been helped by Moldova’s advances towards EU integration. The country signed its Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA) agreement in 2014. In 2022, Moldova, along with neighbouring Ukraine, was given EU accession candidate status, and in December 2023 it got the nod to start accession talks. In October 2024, Moldovans voted (albeit narrowly) in a referendum in favour of including the country’s EU accession aspiration in the constitution.

“Moldova’s path is to integrate into the EU. International companies export to their mother companies or countries where they come from. Moldova’s integration into the EU also helps local producers to export their products abroad,” said Maevski.

The emphasis on exports is essential for Moldova, where the local market is too small to sustain the sector alone. Electronics sector exports have grown steadily, reaching $536mn in 2022 – double the 2016 figure.

“This export growth has been driven by international companies establishing production in Moldova, thanks to favourable legislation and government incentives,” according to Maevski.

One of Moldova’s advantages is its highly skilled workforce, thanks to strong educational partnerships that supply trained professionals to the electronics sector. “We see local and international companies investing heavily in education, partnering with universities and vocational schools to develop curriculums that meet the demands of the electronics industry,” Maevski explained. This strategy not only attracts foreign investors but also provides local companies with a steady pipeline of qualified workers.

The country is not just a centre for low-value manufacturing. Maevski points to the example of Germany’s Magnetec, which launched operations in Moldova’s second city Balti. “Magnetec is expanding their production in Moldova because they identified that we have very highly skilled staff, who will not only help them produce parts or components, but help them carry out the R&D for their components.”

Another international company active in Moldova is Germany’s Steinel, which produces lighting and sensor technology at its factories in several European countries including Moldova.

Steinel Electronics SRL's manufacturing hall. Steinel is one of numerous international electronics companies active in Moldova. / ACEM /Steinel Electronics

The sector also benefits from Moldova’s multilingual workforce, which includes Russian, Romanian, English, French, Italian and Turkish speakers, among others. “Being a multi-language country makes it easier to communicate with global partners and clients without language barriers,” Maevski pointed out.

Moldova’s free economic zones (FEZ) have played a role in attracting foreign investors. Companies operating within these zones enjoy preferential tax rates, easing their cost burden and helping them remain competitive.

The country’s proximity to European markets is another aspect. “Our logistics are favourable, too,” said ACEM’s head. “We’re just a two-hour flight from Germany, and goods can be transported by lorry within three days, making Moldova an attractive production base for European companies.”

Still, companies in the sector have had challenges to overcome. Maevski pointed to the war in neighbouring Ukraine, which forced some electronics companies to reorient. "Before the war in Ukraine started, our market was divided. We had companies exporting to the CIS and also to the EU. Unfortunately electronics companies faced some challenges when the Russia, Belarus and Ukraine markets were closed due to the war, but most were ready to redirect, or to identify new markets,” Maevski said. "Some companies closed their doors because they were oriented only to the Russian or Ukrainian market, but most companies identified extra markets.”

Maevski believes the sector has strong prospects for future growth. Admittedly, she said, “Sometimes problems happen, because the electronics sector is part of a global chain and international problems can cause internal problems, but we think will have constant growth.”

She points out that ACEM is aware of new foreign companies considering an entry to the Moldovan markets or expansion of their existing operations, while local companies continue to grow. “The electronics sector continues its growth under any circumstances,” she said. ●

bne:Funds

Studenac aims to raise €80mn with dual listing in Warsaw and Zagreb

Clare Nuttall in Glasgow

Studenac Group S.A., Croatia's largest food retailer by store count and one of Central and Eastern Europe's (CEE) fastest-growing retailers, has announced plans to go public with a dual listing on the Warsaw Stock Exchange (WSE) and the Zagreb Stock Exchange (ZSE).

The IPO is expected to raise gross proceeds of approximately €80mn from the issuance of new shares, part of which Studenac plans to channel into further expansion, including acquisitions and new store openings in both Croatia and Slovenia.

Years of rapid growth

Since its acquisition by Polish Enterprise Fund VIII in 2018, Studenac has grown rapidly, tripling its store network to over 1,400 locations by late 2024.

In a press release, CEO Michał Seńczuk highlighted the company's rapid ascent from a regional chain to Croatia's largest food retailer. "We have grown from a successful regional chain in Dalmatia to cover all of Croatia," he commented.

Studenac also recently expanded into neighbouring Slovenia, in its first step beyond Croatia's borders.

Studenac's proximity store format has been a driving factor behind its success, according to Seńczuk. "A key driver of this growth has been our focus on the stores' format, which allows us to be closer to our customers and meet their everyday shopping needs quickly and conveniently," Seńczuk said.

Its growth is part of a broader trend of thriving convenience store chains in the Central and Southeast Europe region and elsewhere in Europe.

With discounter penetration at just 15%, compared to higher levels in neighbouring Central and East European (CEE) countries, proximity-focused retailers like Studenac are well-positioned to capture market share, the company said in its press release.

This model has enabled Studenac to become a staple in Croatian communities, the company said, with 71% of its customers living within a five-minute walk of a store.

Studenac had a network of over 1,400 stores as of September 2024. / Studenac

IPO to fuel expansion and reduce debt

The IPO will include both new and existing shares. With the funds raised, as well as funding its expansion plans, Studenac also aims to reduce leverage and improve its financial profile by lowering its adjusted net debt/Ebitda ratio.

In addition, Seńczuk highlighted the IPO's potential benefits for Studenac's brand and visibility. "The listing will facilitate further growth by enhancing the company's profile, brand recognition, and credibility," he said.

Looking ahead, Studenac's management has set a target of more than doubling its number of stores to 3,400 by the end of 2028. This strategy involves both organic growth and continued acquisitions across Croatia and Slovenia, with plans to increase the number of new stores opened each year.

According to Seńczuk, "the management's target is to grow group sales revenue by approximately 30% in 2024 compared to 2023 and at a compound annual growth rate of 25-30% in the medium term."

Favourable market environment

In its home country Croatia, the fragmentation of the grocery retail presents a favourable environment for Studenac's consolidation strategy, the company said. It has already carried out a series of acquisitions within Croatia.

Studenac's presence in residential and tourist-heavy locations also provides seasonal resilience, a significant advantage in a country that hosted 21mn tourists in 2023, a figure expected to grow following Croatia's entry into the Schengen zone and the adoption of the euro.

Additionally, the Croatian grocery market, valued at €10.2bn, has experienced robust growth of 5.5% annually between 2018 and 2023, with a projected 4.8% CAGR over the next five years, according to analysis by strategy consultancy OC&C.

Studenac's recent expansion into Slovenia through the acquisition of local retailer Kea aligns with its long-term goal to penetrate new markets. At the time of the deal, a company spokesperson told *bne IntelliNews* that the move was "a natural first step" towards international expansion. "Slovenia and the acquisition of Kea mark the beginning of a new chapter in our story, which started 30 years ago within Croatia's borders and is now expanding to regional markets," the spokesperson said.

Slovenia, with a grocery market size of €5.9bn, offers similar consumer dynamics and spending patterns as Croatia, making it an attractive location for Studenac's growth model.
Solid Financial Performance

Between 2021 and 2023, Studenac nearly doubled its sales revenue from €309.5mn to €668.1mn, a compound annual growth rate (CAGR) of 46.9%. Adjusted Ebitda also grew significantly over the period, climbing from €31.3mn in 2021 to €65.9mn in 2023. The company's 2023 pro forma sales revenue reached €702mn, with expectations for further growth in 2024.

Studenac CEO Michał Senczuk.

Studenac's management anticipates continued robust financial results, projecting a 30% increase in group sales revenue for 2024 and sustained growth at a 25-30% CAGR over the medium term. This aligns with the company's goal to solidify its leadership in Croatia and expand further into neighboring markets.

A broader investor base

Studenac's IPO is expected to attract retail and institutional investors across Poland and Croatia, as well as qualified institutional buyers in the US and selected investors in other international markets.

"Croatian, Polish, and international investors will gain exposure to one of the fastest-growing companies in Croatia in terms of revenue, operating in an attractive market that offers both further dynamic scale growth and attractive levels of profitability," said Seńczuk.

The IPO comes shortly after Polish convenience store chain Zabka launched its IPO on the Warsaw Stock Exchange in October. The company's PLN6.45bn (€1.5bn) IPO put the company's value at PLN21.5bn, placing it among the largest IPOs in Poland in recent years, second only to the e-commerce giant Allegro's PLN9.2bn listing in 2020.

According to Studenac, Erste Group Bank AG, Erste Securities Polska S.A., Erste&Steiermärkische Bank d.d., Jefferies GmbH, J.P. Morgan SE, Santander Bank Polska S.A. – Santander Biuro Maklerskie and Banco Santander, S.A. will act as the joint global coordinators and ioint bookrunners for the IPO.

Santander Bank Polska S.A. – Santander Biuro Maklerskie and Erste&Steiermärkische Bank d.d. have been selected as investment firms for Poland and Croatia, respectively. Erste Group Bank AG has been appointed as stabilising manager. ●

bne:Bond

Croatia has triple-A rating after Moody's upgrade

Aida Kadyrzhanova in Prague

Croatia has joined the group of a few dozen countries with triple-A ratings from all three major international rating agencies following its upgrade by Moody's on November 8.

Croatia's long-term credit rating was upgraded by Moody's Ratings to A3, a two-level increase from Baa2, reflecting strong economic growth prospects and stable fiscal policies. The outlook is stable.

In a statement, Moody's pointed to Croatia's improvement in fiscal strength due to a sharp reduction in government debt, which it expects to maintain in the coming years.

This assessment aligns with other recent upgrades from Fitch and S&P Global, which also boosted Croatia's credit rating to A-.

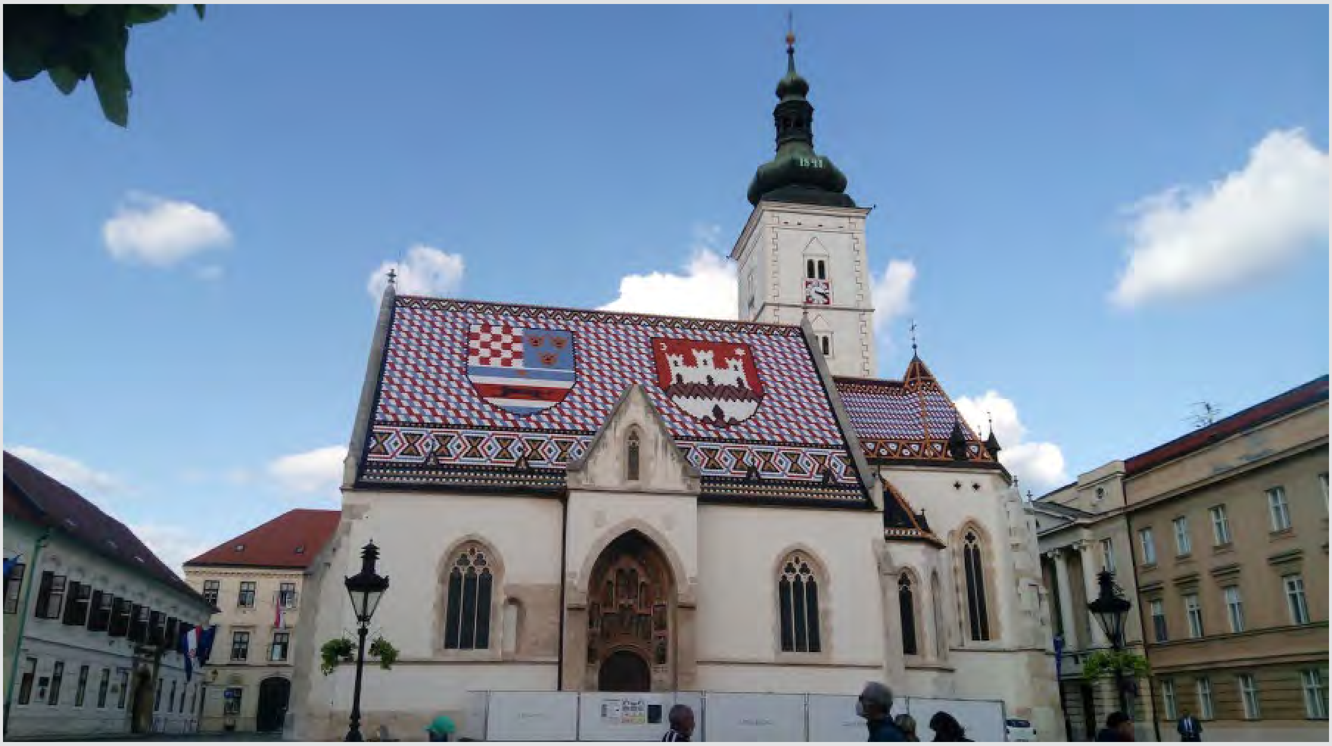
Prime Minister Andrej Plenkovic hailed this as a historic milestone: "With this rating, Croatia joins a select group of about 40 countries with an A-category rating across all three major global agencies. It underscores the resilience of our economy and the effectiveness of our public finance management, benefitting our citizens and businesses alike."

Deputy Prime Minister and Minister of Finance Marko Primorac expressed similar pride, attributing the rating increase to responsible fiscal policies and the successful execution of the National Recovery and Resilience Plan: "This upgrade validates our hard work and dedication to economic growth, quality of life improvements, and fiscal stability," Primorac said, according to a government statement.

Moody's noted that Croatia is the only country to achieve such a rapid rise in credit rating during the past few years, surpassing several EU nations like Bulgaria and Spain, which are now rated lower than Croatia.

"Considering that in July 2022 Croatia was at the level of speculative/non-investment rating (Ba1 level), we achieved a jump of four levels (to investment A3 rating) in less than 2.5 years," a government statement said.

The achievement follows Croatia's recent integration into the eurozone and Schengen Area, key goals in the nation's strategic growth and stability efforts. ●



Upgrades from major rating agencies follow Croatia's entry to the eurozone and Schengen Area. / bne IntelliNews bne:Tech

Iraq blocks 4chan in latest internet crackdown

bne Gulf bureau

Iraq has expanded its internet restrictions, blocking access to several major international websites, including the Internet Archive and 4chan, according to multiple sources across the country, *bne IntelliNews* learned.

Users in Baghdad, Basra and other major cities reported that popular platforms such as SoundCloud and discussion forum 4chan had become inaccessible without virtual private networks (VPNs) following the announcement by the government on blocking the Internet Movie Database (IMDb).

"Even basic computing tasks have become challenging", said Mohammed Ali, a Baghdad-based software developer who reported difficulties completing Windows installations due to blocked access to Microsoft account services.

The Ministry of Communications has not publicly addressed the restrictions, which appear to be implemented inconsistently across different internet service providers and devices.

"These educational and archival resources are being blocked whilst platforms often criticised for inappropriate content remain accessible"

Some websites remain accessible via desktop computers whilst being blocked on mobile devices.

Social media platforms, including Facebook and Instagram, remain unaffected by the restrictions, prompting criticism from local technology experts.

"These educational and archival resources are being blocked whilst platforms often criticised for inappropriate content remain accessible", said a Baghdad-based IT consultant who requested anonymity.

The measures have forced many Iraqis to rely on VPN services to access blocked content despite concerns about reduced connection speeds.

"The internet infrastructure is already struggling. Adding VPN usage makes it substantially worse", said Ahmed Hassan, a telecommunications engineer in Basra, wrote on Reddit on November 29.

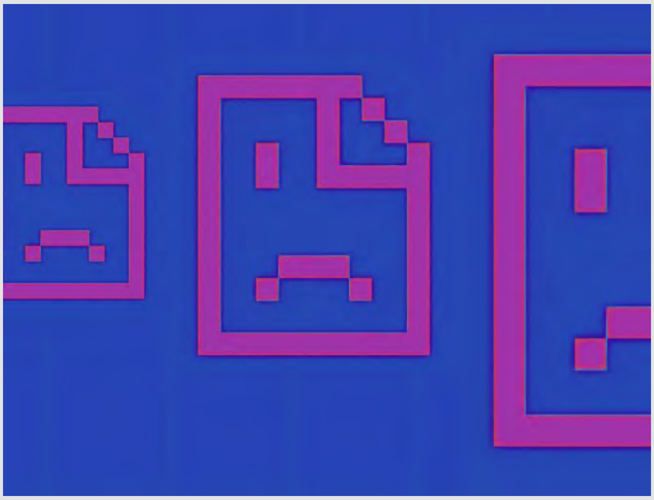
Some users have found alternative solutions, including modified DNS settings, though these workarounds may not remain effective as restrictions evolve, according to local IT specialists.

Iraq's Al-Sudani-led administration has increasingly acted stringently on grasping power in recent months, with lockdowns enforced for the census over the past week, stricter monitoring of its several regions and previous moves to switch the country's internet off during school exam periods.

Iraq's move follows similar measures implemented by other countries in the region seeking greater control over internet access, though the selection of blocked platforms has puzzled many observers.

Despite reaching 78.7% internet penetration with approximately 36.22mn users as of January 2024, Iraq continues to struggle with infrastructure challenges.

Also, internet costs remain among the region's highest, with average monthly fixed-line broadband packages costing $36.14 despite relatively slow speeds. The situation is particularly acute in rural areas, where some regions still rely on 2G technology. ●



Iraq blocks 4Chan in latest internet crackdown. / bne IntelliNews

Half of Ukraine's top IT firms see revenue drop amid war, relocations

bne IntelliNews

Half of Ukraine's largest IT companies recorded a decline in revenue in 2023 as the ongoing war forced relocations and saw staff and resources move abroad.

According to industry data, 15 of Ukraine's 30 biggest IT firms reported lower revenues than in 2022, a trend attributed to shifts in business between affiliated legal entities, relocation to other jurisdictions, the departure of skilled workers and an overall downturn in business activity.

Despite these challenges, several global players have remained resilient. EPAM, GlobalLogic and Luxoft continue to dominate Ukraine's IT market in terms of revenue, with EPAM Digital showing particular growth after transferring part of its operations. Fintech company Monobank and SoftServe also recorded positive revenue gains during the year.

Playtika led in terms of revenue per employee, generating an impressive $6,900 per month, while most of Ukraine's other major IT firms posted monthly revenues of between $3,000 and $5,000 per employee. The highest net profits were recorded by Monobank, EPAM, and GlobalLogic, accounting for nearly 47% of the total profit among Ukraine's top 30 IT companies.

Meanwhile, employment has grown across Ukraine's IT sector, with the 30 largest firms collectively employing 10,500 full-time workers in 2023, up from 8,500 in 2022. ●

Telekom Srbija plans US expansion after Trump's victory

Tatyana Kekic in Belgrade

Telekom Srbija, the state-controlled telecommunications company, is set to expand its services to the US market, CEO Vladimir Lucic told Serbian media on November 12.

In an interview with *Newsmax Balkans*, Lucic emphasised the opportunity for closer ties with the United States following Donald Trump's election victory. Serbian President Aleksandar Vucic was among the first European leaders to congratulate Trump and held a friendly phone conversation with the president elect on November 10.

Lucic believes that Vucic's close relations with Trump could benefit both the Serbian economy and Telekom Srbija. "I am sure that this will help Telekom Srbija," Lucic said, emphasising the company's goal of reaching the Serbian community in the US through its telecommunications services.

In addition to expanding into the American market, Lucic revealed that Telekom Srbija plans to explore strategic partnerships with major digital companies, including Amazon. "Let's try to establish strategic partnerships with digital companies such as Amazon, in order to sell their services here and work with them in content production," he told *Newsmax Balkans*.

Telekom Srbija has previously been a pioneer in the region, becoming the first company to enter the European stock market. Lucic pointed out that a significant portion of the financial firms purchasing Telekom Srbija's bonds were based in the US, underlining the company's international reach and future expansion prospects. ●

CEO Vladimir Lucic believes Donald Trump's re-election could benefit both the Serbian economy and Telekom Srbija. / Telekom Srbija

Top Uzbek e-commerce and fintech player Uzum posts $100mn in 9M24 net income

Uzum's financials showed threefold growth in gross merchandise value, or GMV. / Uzum Holding

bne IntelliNews

The largest digital platform and ecosystem in Uzbekistan, Uzum Holding, on November 14 posted $100mn in 9M24 consolidated net income, while projecting full-year net income of $150mn.

The company highlighted significant expansion in e-commerce and fintech.

The gross merchandise value (GMV) of Uzum's e-commerce segment saw threefold year-on-year growth to $237mn. The company said this outcome was driven in part by the rapid success of Uzum Tezkor, an express delivery service that has become a significant revenue stream.

In the fintech segment, Uzum's buy-now-pay-later (BNPL) service, Nasiya, reported total financed volume (TFV) of $235mn, marking a 2.3-fold increase.

Uzum's gross loan portfolio more than doubled to $169mn as of September 30, supported by a 2.6-fold y/y expansion in the bottom line.

On a more than two-fold increase in the first nine months of the year, the Uzum digital ecosystem now serves over 12.6mn monthly active users (MAU), accounting for more than 30% of Uzbekistan's population.

Strengthening fintech, Uzum in August launched its Visa debit card, which includes a preapproved credit limit. The card is aimed at capturing a large share of Uzbekistan's peer-to-peer transaction market. It saw strong early adoption, with over 350,000 cards issued during its soft launch, Uzum noted.

The debit card has facilitated daily cash loan disbursements exceeding $1mn, achieved with zero marketing spend.

To support its e-commerce growth, Uzum Market has commissioned Central Asia's largest warehousing complex. It boasts a storage area of 100,000 square metres and a daily GMV handling capacity of $4.5mn.

Uzum said the strategic addition enables it to process a higher volume of orders efficiently, with 14mn orders managed in 9M24 – representing a 2.5-times y/y increase.

The company has reported positive Ebitda before marketing costs for two consecutive quarters.

Nikolay Seleznev, chief strategy and business development officer at Uzum, said of the company's performance: "We are thrilled with Uzum's progress and the resilience of our ecosystem, which continues to deliver substantial growth across our Commerce and FinTech verticals. The successful launch of our virtual debit card, alongside strategic milestones like our new warehousing complex, reinforces our commitment to advancing Uzbekistan's digital economy.

"We are thrilled with Uzum's progress and the resilience of our ecosystem, which continues to deliver substantial growth across our Commerce and FinTech verticals."

"Looking forward, we are actively engaging with investors to secure the resources needed to accelerate our initiatives and further strengthen our market position as we drive innovation in e-commerce and financial services in Uzbekistan."

Uzum Holding's range of services also includes express delivery, banking and business development. Business units include Uzum Market, Uzum Tezkor, Uzum Bank, Kapitalbank, Uzum Nasiya and Uzum Business. ●

Plastic pollution in Ghana / Muntaka Chasant

bne:Green

UN talks start in South Korea on plastics pollution as waste chokes planet

bne IntelliNews

A highly anticipated week of UN talks on plastic pollution has started in Busan, South Korea. The summit is officially called the fifth Intergovernmental Negotiating Committee discussions.

The event is a last chance to develop an international legally binding instrument on plastic pollution, including in the oceans.

But there are more plastics lobbyists at the conference than from any other grouping – that is, they are the single biggest delegation, says *The Guardian*.

According to the newspaper, the Centre for International Environmental Law (CIEL) has counted 220 fossil fuel and chemical industry representatives at the event, which opened on November 25. They emphasise 'waste management' – or recycling – instead of production cuts.

Little plastic can be effectively recycled.

Around 460mn tonnes of plastics are produced globally every year, and if growth rates are unchanged, production will have tripled by 2060.

Since 2000, plastic waste has grown more than 200% from 156mn tonnes to 353mn tonnes in 2019. Only 9% was recycled, said an OECD report cited by *The Guardian*. Only 12% have been incinerated, and the balance is in landfills or in environment, often the ocean, says *Politico*.

As much as 199mn tonnes of plastic is in the oceans, equal to the weight of around 1mn blue whales – and up to 10mn tonnes is dumped in the oceans every single year, adds *Politico*.

More than 170 countries and over 600 observer organisations have registered for the talks.

"Our world is drowning in plastic pollution. Every year, we produce 460mn tonnes of plastic, much of which is quickly thrown away," said UN Secretary-General António Guterres via video message, as he called on delegates to reach a binding deal.

“By 2050, there could be more plastic than fish in the ocean. Microplastics in our bloodstreams are creating health problems we’re only just beginning to understand,” he said.

The summit follows four previous rounds which began 1,000 days ago in Uruguay.

“Some plastics can take up to 1,000 years to decompose,” UNEP chief Inger Anderson said, and even then, “they break into ever smaller particles that persist, pervade and pollute...Damaging ecosystem resilience, blocking drainage in cities and also very likely harming human health and growth in plastic pollution is emitting more greenhouse gases, pushing us further into climate disaster. That is why public and political pressure for action has risen into a crescendo.”

Around 40% of the world’s plastic waste comes from packaging, says Our World in Data. Plastic is made from oil. And as much as $1.64 trillion will be needed within the next 15 years to “beat plastic pollution,” says UN estimates.

Oil-rich countries are resisting a treaty, while small island nations are those most avidly pushing for one. “You can’t get to 1.5 (Celsius, as in the Paris Agreement] or probably even a two-degree target without massively constraining plastics production,” Dennis Clare, a legal adviser for Micronesia’s negotiating team, told *Politico*. ●

This year to be warmest on record, says Copernicus

bne IntelliNews

The year 2024 is almost certain to set a new record as the warmest year in documented history, according to the European Union’s Copernicus Climate Change Service (C3S). Analysing data up through October, C3S found this year’s temperatures are set to surpass previous records that date back to 1940.

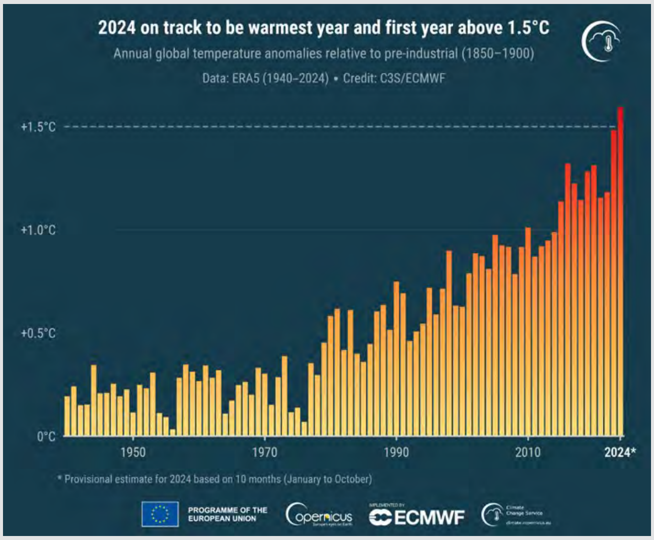
October’s global average temperature rose to 1.65 degrees Celsius above pre-industrial levels, marking the 15th of the past 16 months in which temperatures exceeded the 1.5-degree Celsius threshold outlined in the Paris Agreement, C3S reported. This threshold is a key marker, as temperatures above this level are likely to drive more severe and unpredictable impacts of climate change.

"After 10 months, 2024 is now virtually certain to become the warmest year on record and the first to exceed 1.5 degrees Celsius above pre-industrial levels,” Samantha Burgess, deputy director of C3S, said on November 7, citing the ERA5 dataset. This milestone, Burgess added, should prompt urgent action at the upcoming COP29 Climate Change Conference.

The ERA5 dataset reanalyses hourly meteorological conditions dating to 1979. Projections from this dataset indicate that the average global temperature for 2024 will likely surpass 1.55 degrees Celsius, up from 1.48 degrees in 2023.

C3S noted that for 2024 not to become warmer than 2023, an unprecedented drop in temperatures to almost zero would be needed for the rest of the year.

In Europe, October registered as the fifth-warmest on record, with average surface temperatures of 10.83 degrees Celsius, which is 1.23 degrees above the October norm for 1991-2022.



The warmest October in Europe was recorded in 2022, with temperatures 1.92 degrees above average.

Europe experienced severe flooding in multiple regions during October, which scientists linked to intensified rainfall driven by climate change. On October 29, extreme rainfall caused devastating floods in Valencia, eastern Spain, claiming more than 200 lives. Italy's Emilia-Romagna region was also hit hard by flooding starting October 16.

Other parts of northern and western Europe, including the Iberian Peninsula, France, northern Italy, Norway, northern Sweden and areas east of the Black Sea, saw significant rainfall as well, according to C3S.

Elsewhere, wetter-than-average conditions were observed in southern and eastern China and Taiwan, where Tropical Storm Kong-rey brought heavy rain at the end of the month. In the United States, Hurricane Milton caused major flooding in Florida, fuelled by a combination of heavy rain and storm surges.

In contrast, exceptionally dry conditions persisted in parts of the United States, Australia's central lowlands, southern Africa, Madagascar, Argentina and Chile, where a severe drought continues.

The extent of Antarctic sea ice remains near historic lows. In October 2024, the average sea ice extent was 17.1mn square kilometres, 8% below the 1991-2020 average for October and the second-lowest extent on record for this month, after the record low of -11% in October 2023. This trend of minimal sea ice coverage has persisted since early 2023.

Parts of the South Atlantic, Indian Ocean, and northern Ross Sea regions saw particularly low sea ice concentrations up to the end of October. In the Arctic, the sea ice extent in October was 19% below the 1991–2020 average, marking the fourth-lowest extent in the satellite data record. By October 31, Arctic sea ice coverage was only 8mn square kilometres, the third-lowest level recorded for that time of year, following 2016 and 2020. ●

Lax rules agreed at COP29 for global carbon trading market

bne IntelliNews

After failed talks in Azerbaijan at COP29, members did agree, however, to a carbon credit trading market. But it has such broad rules, the system may mean little improvement in emissions – or even higher emissions by buyers.

It had been nearly a decade since such a global carbon trading market was first proposed by the international community in Article 6 of the 2015 Paris Agreement.

The final text, agreed to late on November 23 and dubbed the Paris Agreement Trading Mechanism, was a compromise in the end. Attendees agreed to rules on how countries can create, trade and register credits. Trading could start as soon as next year.

Carbon credit trading means that a more-emitting country such as Japan or Germany or a company can buy a one-tonne CO_2 credit from a poorer location where, for example, trees have been planted or a wind farm built. It helps transfer wealth to the developing world and in theory cuts emissions.

In practice, the nascent market has proved hard to track and verify, and vulnerable to fraud. The market was worth more than $2bn in 2022. But its market value has since more than halved amid a lack of clarity and structure.

Kevin Conrad, the leader of the delegation for a group of heavily forested countries, such as Bolivia and Democratic Republic of Congo, told the *Financial Times* after the deal was truck: "Properly regulated, markets can become a force for good, and start to reverse the market failures causing environmental and atmospheric destruction".

With the hope that the market would be hammered out, preliminary deals have already been signed. Trafigura, the commodity trader, announced what it called a pilot carbon deal to help Mozambique develop climate restoration projects.

Norway has set aside $740mn for the carbon trading market and signed deals with Benin, Jordan, Senegal and Zambia.

Indeed, some delegates and observers view the COP29 agreement as a final chance to forge a successful carbon trading market.

"International carbon markets have crashed twice in two decades. This was due to an erosion of credibility. At Baku, the 'operationalisation' of international carbon trading under Paris can prevent a third meltdown that could be fatal," Axel Michaelowa, of the University of Zurich, told *the Guardian*.

"They are a powerful tool to accelerate the diffusion of low-carbon technology around the world. The Paris carbon market is now ready to roll out in 2025. It can accelerate mitigation and thus help close the gaping emissions gap that separates us from achieving the 1.5C target," said Michaelowa.

But there are still concerns. At COP28 in Dubai, it became clear that a lot of African forest had been sold off in carbon trade deals to a start-up company run by a member of the Dubai royal family, said *The Guardian*. The revelation raised fears of a scramble for the continent's resources, in this case those that help limit emissions.

"We have to learn the lessons of past mistakes and watch for new ones this system could create, otherwise we risk the Paris Agreement becoming a market failure"

A study in Nature Communications published in mid-November analysed 2,347 carbon mitigation projects, or one-fifth of the credit volume issued globally to date, or almost 1bn tonnes of CO2e. The researchers found that less than 16% of the carbon credits issued to the investigated projects constituted real emission reductions. "Carbon crediting mechanisms need to be reformed fundamentally to meaningfully contribute to climate change mitigation," they said.

"The available evidence suggests that many carbon credits are not backed by any actual emission reductions," Dr Lambert Schneider, a co-author and a senior researcher at the Oeko-Institut in Berlin, told *The Guardian*. "These problems would undermine the Paris Agreement if they spilled into the official UN system. If these quality issues continue under Article 6, this could undermine our efforts to achieve our climate targets. It is critical that we fix the integrity issue of the market," he said.

"If these credits are used by buyers to emit more, this would result in more carbon added to the atmosphere. And the potential for issuing such credits is very large," he concluded.

"The new rules are a start, but the risk of abuse still remains alive and well," Injy Johnstone, research fellow at the University of Oxford, told the newspaper. "We have to learn the lessons of past mistakes and watch for new ones this system could create, otherwise we risk the Paris Agreement becoming a market failure," she noted.

However, the rules contain several serious flaws that years of debate have failed to fix. It means the system may essentially give countries and companies permission to keep polluting, argued the University of Melbourne's Kate Dooley after the deal was struck in The Conversation. The deal is seriously flawed, she said.

There could be double counting. Indigenous communities might, for example, lose access to land planted with trees. The carbon stored in trees may not be sequestered for as long as the emissions from a coal company in the developed world stay in the atmosphere, she said. Wildfire and drought may interfere with carbon storage in forests.

"[Australia] could also set a precedent by establishing a framework that treats carbon removals as a complement – not a substitute – for emissions reduction," she suggested. ●

A jungle in Panama. A carbon credit could include an investment by a high polluter in the planting of trees elsewhere to lower CO2 emissions. / Paul Harrison

RUSSIA'S ECONOMY IS TOUGHER THAN IT LOOKS, NO CHANCE OF A CRISIS IN THE NEXT 3-5 YEARS

Ben Aris in Berlin

Russia's economy has been battered by sanctions and high inflation, but there is no chance of a major economic crisis occurring anytime in the next three to five years, says a new authoritative report from CASE.

The authors of the report are amongst the keenest observers of Russian economics. Sergey Aleksashenko is a renowned Russian economist who served as Deputy Finance Minister of Russia from 1993 to 1995. Dmitry Nekrasov held various positions in Russia's Federal Tax Service and Presidential Administration during Dmitry Medvedev's years in the Kremlin. And Vladislav Inozemtsev is a famous Russian economist in exile who is the founder and director of the Center for Post-Industrial Studies and former professor at the prestigious Higher School of Economics in Moscow.

Inozemtsev has been well ahead of the curve, being the first to predict how the Russian economy is cooling as the military Keynesian effects start to wear off in August. The theme of Russia's growing economic problems has been taken up by many of Russia's opponents and culminated in a recent article from opposition publication Meduza predicting that Russia faces a wave of bankruptcies in 2025 thanks to the soaring cost of borrowing.

But in his latest paper, Inozemtsev takes some of the wind out of the sails of this pessimistic outlook. The report's general conclusion is that "Russia has been able to withstand the blow caused by the Western sanctions due to a combination of factors, including its well-developed market economy, its indispensable position as a supplier of primary commodities to the global market, highly professional responses by its government officials, and the West's inability to isolate Russia on the international stage."

"An unbiased assessment of Russia's economic capabilities presented in the report excludes almost any chances of a serious crisis caused by internal factors in at least three-to-five-years perspective," the report concludes, running counter to the predictions that Russia's economy will run into a brick wall in 2025.

Growth without development

Russia's economy was expected to collapse after the extreme sanctions were imposed in 2022. And indeed, the first few months were a shock. But during the summer it unexpectedly boomed and in 2024 it has been the European economies that have fallen into recession as the boomerang effect of the sanctions begins to bite. The West underestimated how fast and how successfully Putin could reorient his trade to the Global South and how deeply integrated Russia is into European economies.

Since mid-2023, the Russian economy has undergone important structural changes: military spending has increased, the geography of foreign trade has changed and the citizens' real disposable incomes have grown as wages are driven up by a chronic labour shortage. Together, all this has provided the Russian economy with strength and stability and made it capable of meeting the needs of Kremlin's military machine in the years to come while providing the necessary financial resources for funding welfare programmes on a scale preventing an increase in protest sentiments, the authors say. The flourishing oil trade means Russia has plenty of money, but the war has killed off meaningful progress.

"The current stance can be described as a "growth without development", being characterised by a quantitative increase in the volume of production of long-mastered products, an expansion of the service sector, and limited modernisation of infrastructure without significant technological progress.

Indeed, in many respects Russia's economy has gone backwards. CBR Governor Elvira Nabiullina warned companies at the start of the war they might need to go back "two generations of technology" to keep their factories running.

And even more worrying for the global economy, sanctions have created a new class of Bandit Countries that champion massive violations of intellectual property rights, illicit foreign trades and the use of non-traditional forms of international settlements.

"The Kremlin sees opportunities for institutionalising this model and is laying it down as the basis for its geopolitical claims, trying to establish itself as a leader of a "non-Western" community of nations.

"An unbiased assessment of Russia's economic capabilities presented in the report excludes almost any chances of a serious crisis caused by internal factors in at least three-to-five-years perspective"

Getting it wrong

The authors point out that analysts keep getting Russia wrong, overestimating the power of sanctions, underestimating the quality of the country's economic leadership and its ability to remake its markets in the face of sanctions.

In April 2022 the World Bank predicted Russia's GDP would decline by 11.2% by the end of the year, but the final estimate came to only minus 2.1%. In 2023, the Russian economy grew by 3.6% against the January IMF forecast of 0.3%; and in 2024 its growth could achieve 3.8-4.0%, while at the start of the year international experts gave a figure of just 1.3%. These are not small mistakes. They belie a deep misunderstanding of what is happening in Russia, the authors argue, and lead to very poor policy recommendations.

"We believe this disconnect is largely subjective, reflecting essential features of three main groups of analysts.

"The first group consists of long-time Russia specialists who view current events through a Soviet-era lens, interpreting Putin's dictatorship as an attempt to restore the Soviet system.

"The second group includes analysts who work for Western governments or NGOs, and feel compelled to propose sanctions and restrictions, projecting confidence in their effectiveness.

"The third group is made up of experts with Russian backgrounds, including those former politicians who despise Putin and are convinced of his regime's imminent collapse.

"The deep biases of these groups hinder objective assessments of the Russian economy's current state and prospects," the authors opine.

Sanctions don't work because the "international community" is in reality only the handful of countries that make up the Global North, and even in Europe, within the EU itself, the willingness to impose sanctions is weakly followed or enforced. Turkey's propensity to continue to act as a way-station for trade with Russia, Austria and Hungary's continued imports of Russian gas and Germany's luxury carmakers that continue to export top of the range cars to Moscow via Minsk are only a few of the manifold examples of how sanctions are being undermined. The West's failure to get China and India on board and refusal to join the regime by the real "international community" of the Global South, which makes up 90% of the world's population, blows a major hole in the sanctions regime.

Another miscalculation is to put all the growth at the feet of the military-industrial sector. The civilian sector has also flourished. Several things have gone into this growth but among the most important was Russian businesses reacted to sanctions by investing heavily into retooling factories to replace hard-to-obtain Western technology, and booming consumption fuelled by the rapid rise in real disposable incomes.

In 2023, the largest increase in gross value added was recorded in the hotels and catering enterprises (by 10%), in the information and communications sector (10%), in financial and insurance activities (8.6%), in wholesale and retail trade (7.3%) and in construction (7.0%), which reflects an increase on the share of final consumption expenditures in GDP to 68.7% from 64.9% in 2022, including the share of household expenditure to 49.8% from 47.4%.

"It seems that the development of the Russian economy in the last two years, as well as the real effect of sanctions, should have led to a re-evaluation of the quality of the expertise used by policymakers – but this has not happened yet," the authors say.

Russia's robust growth

The introduction of the twin oil price cap sanctions at the end of 2022 and start of 2023 were also misunderstood. When the budget figures were released in March 2023 and showed a massive deficit for 2022 and collapsing tax revenues in January 2023, the oil sanctions were hailed as huge success. However, the numbers were misleading.

"Bureaucratic factors became more important: the excessive strengthening of the ruble exchange rate under the influence of paramount currency restrictions and the Ministry of Finance's sluggishness in changing the methodology of determining the price of oil for tax purposes [which used to be based on the price of the sanctioned Urals blend, but was changed to a Brent benchmark]," the authors explain.

"Bureaucratic factors became more important: the excessive strengthening of the ruble exchange rate under the influence of paramount currency restrictions and the Ministry of Finance's sluggishness in changing the methodology of determining the price of oil for tax purposes [which used to be based on the price of the sanctioned Urals blend, but was changed to a Brent benchmark]"

"When these factors ceased to have an effect, budget revenues stabilised and soon began to increase rapidly, outpacing economic growth – the Ministry of Finance began to collect an "inflation tax" of additional revenues from VAT, profit tax and personal income tax, caused by a significant excess of the inflation rate over what was anticipated in the draft budget," which *bne IntelliNews* reported on at the time and also discussed in an oil podcast, but was not well understood by most commentators.

In 2023 the Ministry of Finance had to dip into the National Welfare Fund (NWF) for RUB3.46 trillion to cover a 17% of the budget shortfall. In 2024, the budget spending to date is fully funded by revenues – although it may not stay that way, as typically 20% of all spending usually happens in December. Currently, the official forecast for the deficit is 1.7% of GDP of around RUB3 trillion, increased from 0.8% earlier in the year. For 2026, the Ministry of Finance is expecting the budget deficit to be flat.

"One should add that the Russian government's debt is insignificant by modern standards," say the authors. Debt is expected to reach 18.1% of GDP by the end of 2024, which leaves a huge space for domestic borrowing. The Ministry of Finance is planning to issue RUB4 trillion of domestic debt in 2024 (nearly double pre-war levels), tapping the estimated RUB19 trillion of liquidity in the domestic banking sector. That is enough money to continue Putin's war in Ukraine for years.

The growth of real disposable incomes during the war was an even bigger boon, as it came after the longest period of their fall in Russian history – from 2014 to 2021 – ironically caused by the chronic labour shortage as men were bled away from the labour pool to fight on the frontlines. In three years since the start of the aggression against Ukraine, this figure will grow by at least 17.5% (4.0% in 2022, 6.9% in 2023 and, according to the government forecast, about 7% in 2024).

Domestic consumption has become a bigger growth driver than the booming raw material exports. It has created a new War Middle Class and is fuelling activity in the civilian segment of industry. At least until mid-2024, the rate of income growth accelerated (the maximum figure of 8.1% was recorded in the first half of this year) with ever higher pay going to soldiers, who earn three times the average salary.

The growth of incomes is part of the reversal of Putinomics that war has brought with it. Pre-war the Kremlin effectively ran an austerity budget, starting in about 2012 when Putin launched a drive to modernise the military. The CBR hoarded cash, building up a huge $600bn reserve, debt was paid down and investment into non-strategic sector was muted.

Since the war started, the Kremlin has opened the spending spigot and money has poured into wages and investment, as much as is needed to get the job done. From mid-2023 to mid-2024, the Kremlin paid RUB3 trillion in military salaries, equivalent to the entire budget deficit.

While many commentators have pointed to the huge military salary bill as a weakness, the Kremlin doesn't appear to think so. The current 2025-2027 budget proposal keeps military spending at 6% of GDP and this is not seen to be excessively high, but the current budgetary structure looks sustainable over a three-year horizon, maintaining the massive military spending. What is spent on salaries can be offset to a large extent by what is earned on taxing consumption and growth. Already the non-oil part of the budget revenues is easily outstripping those from oil.

A dramatic U-turn in strategy, the reversal of Putinomics has unleashed years of pent-up growth. Another side-effect of the spending is to undo some of Russia's legendary income inequality, as the poorest regions have been the biggest winners of the Kremlin's largesse, as that is where most of the military factories are located as a legacy of the Cold War. Putin stressed the importance of balanced investment into both civilian and military parts of the economy in his guns and butter speech in May and more generally, the Kremlin continues to push its National Projects 2.1 agenda aimed at improving the lives of the average family.

"With the outbreak of the war, a trend in the transformation of social policy became especially noticeable: the efforts of the authorities and budget funds are directed at those Russians who either belong to less well-off social strata," say the authors, "or do not show a tendency to emigrate."

"It should be noted that in Russia a significant part of both individuals and businesses does not experience profound economic discomfort either from Putin's aggression against Ukraine or from the Western nations' reaction to it," the authors add. "The main effect of sanctions has so far been felt by the upper middle class, which has historically taken the most critical stance vis-à-vis Vladimir Putin and his policies."

And the upper middle class are actually making money from the strain the economy is under. Sky-high interest rates are threatening SMEs, but they have also become a cash cow for the middle class, which are depositing their cash in banks for the interest income that can be earned. Over the first nine months of 2024 retail deposit soared by 53.8% year on year and companies are also placing so much of their cash in deposit accounts the CBR is currently planning to impose special restrictions on corporate deposits in order to keep this cash in circulation.

Sale of the century

"The first and most important circumstance is the free market character of the Russian economy, which has been underestimated by analysts," the authors argue.

Most of Russia's detractors have tried to paint Putin as reverting to Soviet control. The famous Yale University report that predicted Russia's economy was headed into oblivion, mentioned the word "Soviet" 19-times, although few modern economic commentators make any reference to the Soviet Union today. The report was debunked by *bne IntelliNews* at the time, and by Russia's performance since.

As Putin established control over Russia's largest corporations, the idea of the "étatisation" of the Russian economy, and consequently about its growing similarity to the old Soviet system, spread amongst the Western expert community. It was argued that the state controls 100% of the railway and pipeline infrastructure, and that by 2018 the share of state-owned companies in overall corporate revenue had reached 63% in the oil and gas industry, 79% in the machine-building sector and 92% in banking. The observers therefore arrived at the conclusion that Russia's economy could collapse just as easily as the Soviet one once did.

But this ignores the fact that half of Russia's economy is privately owned and that even the leading state-owned enterprises operate in highly competitive environments. As part of Putin's hybrid ZAO Kremlin model, the state purposely sets up two big state-owned companies to directly compete against each other and also encourages privately owned business to also keep their feet to the coals. It has been a successful model that ensures both state control over key sectors but also efficiency and competitiveness in the leading state-owned enterprises.

"Many large state-controlled corporations (one may just look on the banks) operate in a highly competitive environment, acting as if they were owned by private capital," the authors conclude.

The Kremlin's changes to the regulations after sanctions were imposed – most importantly the legalisation of "parallel imports" that undid a decade of intellectual property rights rules – that opened up a plethora of new opportunities to sell famous brands royalty-free.

Likewise, the departure of scores of foreign brands, many of which simply sold their Russian businesses to their Russian managers, was probably the largest transfer of property in Russia's modern history. What was in effect the appropriation of decades of FDI has also opened huge opportunities for entrepreneurs as they took over businesses worth billions of dollars at knock-down prices.

In just the car sector – by far the worst hit of all the sectors by sanctions – all the Western brands have left but Russian carmakers and the leading distributors have taken over their businesses. Renault-Nissan sold the largest car concern in Russia Avtovaz for just one ruble, while the sector as a whole has completely recovered after production came to a complete standstill in 2022. The team that took over the McDonald franchise claim its replacement Vkusno i Tochka (Tasty. Period) is now more profitable than its predecessor. There are similar stories in nearly every sector of the economy.

The Yale report claimed the departing international companies had revenue that was equivalent to 40% of GDP, but this revenue didn't leave the country; it was simply taken over by Russian businessmen.

"No less important is the fact that property became the main reason for non-resistance to the authorities, since fears of losing it perfectly disciplined the Russian entrepreneurs. In other words, the private and market nature of the Russian economy made it much more resilient than the Western policymakers had expected," the authors wrote.

The commodities backstop

Russia's economy has always been strong thanks to the bedrock of the commodities subsidy. Even during the chaotic 90s, Russia has suffered from multiple crises, but the economy has always bounced back relatively quickly and each crisis did progressively less damage than the last one.

"Despite a probable slowdown in economic growth in the second half of 2024, Russia looks safe from the collapse of the existing economic model in the near future: the budget remains balanced, and real disposable incomes are expected to grow further. Of course, the increased military spending provokes growing inflation, but for now it is kept within single-digit numbers," the authors argue.

This resilience is thanks to the subsidy the country earns from the export of things like oil and metal. The best way to understand this is from the so-called non-oil deficit. For all of Putin's reign until the war in Ukraine the headline budget has been in surplus, but if you magically remove the oil and gas revenues then the non-oil budget has been around -4% of GDP in the non-crisis years. In other words, the Kremlin has used the oil and gas income to subsidise the rest of the economy. In times of crisis the non-oil deficit can blow out to -13% at its most extreme in the past, as the Kremlin taps its cushion of cash to ease the pain.

As the table shows, the government continues to rely on its raw materials subsidy to cushion the cost of the war by running a non-oil budget deficit of

Non-oil and gas budget deficits 2022-1H24 (RUB trillion)

	2022	2023	1H 2024
total revenue	27.9	25.5	14.5
oil & gas revenue	11.6	8.8	5.7
non-oil & gas revenue	16.3	16.7	8.8
total expenditure	31.2	29.7	15.5
nominal GDP	151.5	160.5	80
deficit nominal*	-3.3	-3.2	-0.2
deficit% GDP*	-2.3	-1.9	+0.25
non-oil & gas deficit nominal	-14.9	-13	-6.7
non-oil & gas deficit% GDP	-9.8	-8.1	-8.4

Source: Ministry of Finance

** the numbers don't add up merely by subtracting just two kinds of revenue from expenditures, as the government has additional sources of income.*

around 8% of GDP. This is a high number, but not the most extreme non-oil deficit Russia has ever run. For comparison, in 2020 during the pandemic the government ran a 9.8% of GDP non-oil deficit, equivalent to RUB10.4 trillion.

Put in other terms, the war in Ukraine is now stressing the government's finances less than the coronavirus global pandemic did.

Russia's oil and gas revenues occupy the most attention, but Russia exports a cornucopia of raw materials and commodities. Another miscalculation the Western sanctions have made is how deeply these inputs are integrated with the global economy.

As of 2021, in addition to the export of more than 7.8mn barrels of crude and refined oil per day, it also sold 240bn cubic metres of natural and liquefied gas, 227mn tonnes of coal, 43.5mn tonnes of steel, 37.6mn tonnes of mineral fertilisers, 49mn tonnes of grain, as well as large volumes of timber, aluminium, nickel, uranium and many other commodities, which collectively accounted for 78% of all exports and were worth a whopping $385bn in 2021. This made Russia the world's largest supplier of crude and primarily processed raw materials.

As *bne IntelliNews* has reported, the vast majority of the sanctions on Russia have failed to make much of a dent in the export business. Russia has either found new markets in Asia for things like oil, or it has offered discounts to win over new customers. At the same time, the West has turned a blind eye to the daisy chain of transhipments of Russian commodities or the more obvious transubstantiation of say Russian crude oil into Indian petrol that allows Russia to continue to trade.

Despite all the introduced restrictive measures, Russian exports decreased from $491.6bn in 2021 to $425.1bn in 2023, or by a mere 13.5%.

"Overall, this creates a trend that is alarming for the West and highly significant for Russia: Russia is not simply "falling into China's embrace" the authors wrote. "Rather, Moscow is transforming into a centre of an "alternative model of globalisation," operating outside the frameworks of Western-controlled institutions and established rules. This trend could prove far more dangerous than the much-discussed "export of corruption" to Western countries... As recent years have shown, the use of unconventional payment systems, the export of pirated products, and the smuggling of goods from Western companies – all of these practices are much easier to implement than previously assumed."

"Viewing all of this as merely a way to circumvent sanctions is extremely short-sighted, as the Kremlin has set its sights on fundamentally undermining the existing system and has reasonable grounds for hoping to succeed," the authors conclude. ●

Donald Tusk is taking over the EU's rotating presidency on January 1, just weeks before Trump's inauguration as the 47th president of the US. / bne IntelliNews

Trump's election complicates Tusk's foreign policy challenges

Wojciech Kosc in Warsaw

When it dawned on the world that Donald Trump had actually completed his stunning comeback to the top of world politics, Polish President Andrzej Duda took to social media.

"Congratulations, Mr President! You made it happen," the Polish president posted on X.

Just over 90 minutes later, Prime Minister Donald Tusk logged on. "Congratulations to Donald Trump on winning the election. I look forward to our cooperation for the good of the American and Polish nations," Tusk posted.

Unlike the opposition Law and Justice's (PiS's) supporting president, who knows – and apparently likes – Trump from his first term in the Oval Office, Tusk and his camp have made it clear Kamala Harris would have been their preferred US president.

Tusk will now hope Duda will work hand in hand with the government to make Trump get over his criticism of Nato and shelve his plan to "end war in Ukraine in 24 hours", which Poland fears means conceding to Putin. But it will mostly fall on Tusk to handle Trump's famed – and feared – erratic and capricious behaviour, such as his accusations that Europe is "freeloading" on the US for defence.

Tale of two Donalds

With Trump in charge, Tusk has just been presented with an extra level of difficulty in how he and Poland's Foreign Minister Radoslaw Sikorski (whose wife, columnist Anne Applebaum likened Trump to Hitler, Stalin, and Mussolini) are going to lead their country's foreign policy in the coming years.

Warsaw is worried that Trump is capable of making abrupt decisions that would end the West's involvement in Ukraine, forcing Kyiv to concede occupied territories to Russia and

> "One of Trump's principles is being unpredictable, which he uses purportedly to surprise his enemies – but also his allies"

effectively giving the Kremlin time to regroup before attacking Ukraine again. Poland is concerned it might become Moscow's next target if the Kremlin brings Ukraine to heel.

Yet Tusk had handled Trump before as the European Council President between 2015 and 2019 and believes he has the measure of him. "I know Trump well from those times. He is a demanding partner but we had a good relationship," Tusk told journalists on November 7.

"One of Trump's principles is being unpredictable, which he uses purportedly to surprise his enemies – but also his allies. Does that mean Washington is about to U-turn on Ukraine? I honestly don't think there is anyone in the world today who is able to answer that question," Tusk said.

"It's not Poland that will decide who President Trump will do about Ukraine and Russia but it's the job of the Polish government to define Polish interests well and ensure safeguarding them," Tusk also said.

King of Europe again?

In the campaign ahead of last year's election that elevated him to power, Tusk said repeatedly that his experience on the international stage as the European Council President will pay off by returning Poland to the top tier of EU's decision makers. But since taking office in December, the Polish PM's foreign policy record is a mixed bag.

Arguably, Tusk's biggest success arrived in May, when the European Union lifted the Article 7 procedure against Poland – a kind of retribution slapped on Warsaw under the previous government of Law and Justice's (PiS's) for reforms that, Brussels said, damaged the rule of law.

Brussels soon followed with unblocking billions of euros from the bloc's cohesion and pandemic recovery funds. Both came in return for the mere prospect of undoing the previous government's war on the rule of law.

Meanwhile, the Tusk government has since managed little in the way of actually restoring the rule of law, critics have said. The PM says his hands are tied as long as Duda remains president. Tusk does not have enough votes in the parliament to override Duda's vetoes.

Tusk also made his mark on the EU by announcing Poland was considering suspending the right to asylum to counter "hybrid war" waged by Belarus – and by extension, Russia – on the Polish border.

Following an outcry by human rights defenders in Poland, an unfazed Tusk took his message to Brussels and won the backing of EU leaders who – he said – regarded Poland's position on the way Belarus had instrumentalised migration as "100%" in the bloc's political mainstream.

Poland's improved clout in the EU is also underscored by the nomination of Polish candidate Piotr Serafin as the new European Commissioner for Budget. This high-profile role comes at a critical time with negotiations over the next EU budget framework fast approaching.

PiS wasn't wrong, after all

That said, the Tusk government's foreign policy – at least in the EU context – is in many aspects similar to predecessors from PiS, who Tusk invariably painted as "anti-European".

The PM – who PiS ritually accuses of being a "German protege" – remains frustrated by Berlin's inability to act more decisively on matters of European security and has criticised the now-defunct Olaf Scholz's Ampel Coalition for that.

Other than his stance on migration, Tusk also spoke against the fundamental reform of EU's environmental policy by voting against the Nature Restoration Law, a comprehensive package of measures to protect biodiversity.

Tusk also continued PiS's tough approach to imports of Ukrainian agricultural produce, which are allegedly ruining Polish farmers. Warsaw even went so far as far as threatening it would block Ukraine's entry to the EU if Kyiv does not move the needle on the long-standing historical issue of wartime massacres of Poles by Ukrainian nationalist guerrillas in the 1940s.

Tusk has suffered defeats on the international stage, too. The biggest one came in October, when Western leaders meeting in Berlin – US President Joe Biden, Chancellor Scholz, French President Emmanuel Macron, and UK Prime Minister Keir Starmer – did not think it necessary to invite Tusk.

"Poland should have been included, given that it is one of the countries most actively engaged in supporting Ukraine on multiple fronts. Additionally, the vast majority – around 90% – of aid to Ukraine passes through Poland," the foreign ministry said at the time.

Stormy waters of foreign policy

The next – and arguably the most serious test to date – of Tusk as a foreign policy leader is coming soon. Poland is taking over the EU's rotating presidency on January 1, just weeks before Trump's inauguration as the 47th president of the US.

That will put Tusk in the eye of the storm as he will play an important role in handling the first possible shock wave of the Trump's presidency, especially with regard to Europe's security but also Trump's plans to disrupt world trade and undermine global climate policy. On the EU front, backstage talks will continue on the bloc's next long-term budget, which the European Commission will table sometime in 2025, to be agreed by 2028.

Domestically, how Tusk will handle foreign policy could decide the fate of his coalition government. As security rises to the top of international agenda, it will also feature high in next year's presidential election in Poland.

While Tusk will not run, his candidate will be seen through the government's success – or lack of it – in foreign policy. That could ultimately weigh in on who replaces Duda in mid-2025, with with another PiS president all but certain to block any major reforms, potentially leading to a premature end of the Tusk government and a snap election. ●

Draghi report recommendations could lift eastern EU members' economies, says EBRD chief economist

Clare Nuttall in Glasgow

Europe is facing a critical moment as it grapples with rising energy costs, increased regulation and intensifying global competition, warned Beata Javorcik, chief economist at the European Bank for Reconstruction and Development (EBRD).

In a recent interview with *bne IntelliNews*, Javorcik outlined the challenges that are eroding the continent's competitiveness, particularly in the face of competition from the United States and China, and stressed the need for action along the lines of the recommendations in the September 2024 report by Mario Draghi on the future of EU competitiveness.

"In European cities, there is a view that Europe is in crisis and losing competitiveness," Javorcik said. Recent events, such as Volkswagen's announcement of a factory closure in Germany, reflect the severity of the situation. Javorcik linked this trend not only to energy costs but also to increasing competition from China, which has become a significant player in global markets.

Regulatory burden straining businesses

A key issue highlighted by Javorcik is regulation of European companies. While many of these regulatory measures are well-intentioned, the sheer volume of directives is creating a burden that European businesses struggle to bear.

"There is a sense that a tsunami of regulation is sweeping through Europe," she said. "Even if each directive is well-meaning and makes sense, the sheer number imposes a big burden on European firms, and that erodes competitiveness."

This erosion is contributing to a broader sentiment that now is the time to act. "This feels like a now or never moment," Javorcik said, expressing concerns that unless decisive steps are taken, Europe's economic standing could continue to decline.

The Draghi report's wake-up call

Javorcik's comments were made shortly after the publication of the Draghi Report, a hard-hitting assessment of Europe's economic future, authored by former Italian prime minister Mario Draghi. The report, which calls for an €800bn annual investment to rejuvenate Europe's productivity, has sparked debate across the continent. Draghi warned that Europe is facing a "slow and agonising decline" unless it can overcome long-term stagnation and boost competitiveness through massive investment.

Javorcik believes the Draghi Report has shaken up the European elite and achieved its purpose of creating a sense of urgency. "The Draghi report has shaken Europe up," she said. "The report is a statement of the problem. It shocked. I think that was its purpose: to shake up the European elite and create a sense of urgency, and it succeeded."

While the report has been seen by some as primarily focused on Western Europe, Javorcik argued that it is equally relevant for the newer EU members of Central and Southeast Europe.

"Some in Eastern Europe perceive it as pertaining mostly to the West, but I don't think that's the right perspective," she said.

"The focus is on the lack of competitiveness and need for greater innovation, dynamism and productivity growth. Eastern Europe registered spectacular growth over the last 30 years, but those old sources of growth are depleted. The East now needs to grow based on its own innovation."

No magic bullet

The Draghi Report highlights several areas of concern, including excessive regulation and the difficulty of scaling up startups in Europe. Despite Europe generating innovative ideas, Javorcik

The Berlaymont building illuminated with the logo of 20th anniversary of the 2004 EU enlargement. / European Union, 2024 pointed out that many startups seek financing in the US due to the lack of supportive financial infrastructure in Europe. “There is no magic bullet. What the report is advocating is massive spending and the question is how to achieve that,” she said.

One of the report’s main recommendations is a call for massive spending on future growth, but the challenge lies in how to finance it. Javorcik said that Europe must make strategic investments in innovation and productivity while being mindful of fiscal constraints. “The money has to come from somewhere, which is a sensitive topic,” she added.

The report suggests that this investment could come at the EU level, giving all member states access to funds and preventing governments from misallocating resources. However, the downside is the need to raise significant amounts of capital. Another alternative would be to encourage countries to spend more on their own, potentially by loosening state aid rules. However, this could create inequalities between countries with more fiscal space and those facing tighter budgets.

For Eastern Europe, the fiscal space is generally more limited than in Western Europe, but Javorcik remains optimistic, explaining that Eastern Europe still stands to benefit from increased investment in countries like Germany, which would fuel exports. However, countries in the region have been hit hard by external demand shocks, particularly from Western Europe, and by high energy costs, which soared after Russia’s invasion of Ukraine in 2022.

Several countries in the region saw faster wage growth and more expansionary fiscal policies, which helped soften the blow. However, some are now facing scrutiny from Brussels over budget deficits, particularly Poland, Slovakia and Hungary, making it harder to commit to supporting the innovation and investment that is urgently needed. ●

Hungarian opposition leader claims Fidesz is wiretapping him for black propaganda campaign

Tamas Csonka in Budapest

Hungarian opposition leader Peter Magyar has alleged that Prime Minister Viktor Orban's office is employing private intelligence agencies to gather potentially compromising personal information on him and his associates.

The leader of the Tisza Party said Fidesz would launch an unprecedented smear campaign against him, which will include wiretapped conversations of MEPs, secret recordings by his former girlfriend and false claims generated by AI.

At a press conference on November 9 titled "Hungarian Watergate, the largest scandal since the change of regime", Magyar presented alleged evidence that his former partner Evelin Vogel had made audio recordings in secret and had demanded HUF30mn (€74,000) to keep silent.

The politician alleged that his former partner had made an agreement with the ruling Fidesz party, handing over 11 hours of audio recordings, and had tried to blackmail people tied to the Tisza Party.

According to Magyar, his ex-wife, former justice minister Judit Varga, and Vogel receive monthly payments from an associate of Antal Rogan, the head of Orban’s cabinet office and the person overseeing Hungary’s intelligence services and the person behind the alleged smear campaign. Vogel lives in a downtown apartment in Budapest owned by a businessman close to Rogan and regularly receives HUF5mn in cash for her "services".

Vogel accused his former partner of aggressive behaviour in a video interview with Hungary’s leading online portal index.hu, and later did the same on Facebook. At a press conference, Magyar said he would file a complaint against Vogel for blackmail.

The former Fidesz cadre has been the target of an unprecedented smear campaign since he launched his Tisza Party, which according to the latest polls, has overtaken Fidesz.

> “The politician alleged that his former partner had made an agreement with the ruling Fidesz party, handing over 11 hours of audio recordings, and had tried to blackmail people tied to the Tisza Party”

Magyar cited upcoming "unprecedented" attacks, which he said would include AI-manipulated recordings mixed with real content, the discussions of Tisza Party members and materials acquired from Vogel. The fabricated content, he said, is set to be uploaded to Objectiv.hu in the coming days.

The Tisza Party leader claimed that the planned disinformation campaign would target other popular public figures, known for their dissent from the ruling party. Fidesz will likely disseminate information or fabricated materials about the sexual misconduct of these persons, specifically focusing on their known homosexuality.

Magyar recalled that several former intelligence officials had informed him of state involvement in the harassment of his colleagues and associates. He added that insights from these sources convinced him that his office, car, and home have been under surveillance, although he could not provide evidence of that.

At the end of his press conference, Magyar appealed to Finance Minister Mihaly Varga to give an account of the real state of the economy. According to his knowledge, Istvan Tiborcz, the prime minister's son-in-law, is giving direct instructions to National Economy Minister Marton Nagy on certain policy measures. Recently, the government acquired an office building built by the companies of Tiborcz for at least 30-40% above the market price, he claimed.

At the end of the press conference, Magyar also made a plea to Interior Minister Sandor Pinter, calling on him to "stand up for the country" and intervene in what he called a disturbing misuse of state power against his party. Pinter used to oversee the operations of Hungary's intelligence services until the 2022 elections, after which these were handed over to Rogan. ●

Xi Jinping announces strategic partnership between China and Slovakia

bne IntelliNews

Slovakia and China have upgraded their bilateral relationship to a new level of "strategic partnership", China's President Xi Jinping announced during a visit by populist Slovak Prime Minister Robert Fico on November 1.

The agreement represents another success in Beijing's strategy of building support among CEE member states of the European Union, thereby preventing any potential united EU policy against China, following the announcement of a similar deal with Hungary in May.

"The visit to China has a strategic nature and expresses mutual respect between both countries," Fico highlighted on his Facebook page, where he also released photographs from his visit.

Fico is accompanied by eight cabinet ministers and 56 companies and trade associations, according to the Central European Institute of Asian Studies (CEIAS), but few details have been released since Fico's departure from Bratislava on October 31. The Czech Press Agency reported that no journalists were accompanying the delegation.

"Fico's visit is happening rather secretly," the head of Bratislava-based CEIAS Matej Šimalčík commented on his LinkedIn profile, adding that neither the official agenda, list of delegation members, nor the list of accompanying people were officially announced.

Despite proclaiming himself a socialist, Fico is an open supporter of the radical rightwing Hungarian Prime Minister Viktor Orban and often copies his playbook, in this case by strengthening ties with the Chinese communist regime in order to win future investment and trade deals.

> "The visit to China has a strategic nature and expresses mutual respect between both countries"

Hungary is the biggest recipient of Chinese foreign direct investment in recent years and has on occasions blocked a united EU foreign policy stance towards Beijing, proclaiming it is taking a pragmatic stance for the country's benefit, and does not want to interfere in China's internal affairs. Building relations with Beijing and keeping channels open with Vladimir Putin's Russia are also seen as a way of rebalancing Hungary's foreign policy and showing an often criticial Brussels that the country has other options.

The head of CEIAS's Prague Office Filip Šebok wrote on his X account that Fico "expressed support for China's three global initiatives (global development, civilization and security)" and opposed "unilateralism and hegemonism".

Šebok also noted that "there was discussion on Ukraine, with the two sides praising each other's stance" and that Fico said "Slovakia is willing to join the Friends of Peace group on Ukraine and contribute to the political resolution of the conflict together with China".

After forming his left-right cabinet, Fico has reoriented Slovak foreign policy from a staunch backer of Ukraine to a Kremlin-pleasing stance, calling for peace negotiations with the Kremlin.

Before departing for China, Fico appeared on the Russian state propaganda channel Rossiya 1 in an unprecedented interview, calling for security guarantees for Russia. ●

Slovenia's ex-foreign minister aims to capture centre ground with new party

Valentina Dimitrievska in Skopje

Slovenia's ex-foreign minister and senior member of the now opposition right-wing Slovenian Democratic Party (SDS), Anze Logar, has officially launched his new political party, the Democrats.

With the Democrats, Logar aims to create a centrist alternative in Slovenia's political landscape. Positioned as a "third pillar," the party seeks to bridge divides and focus on pragmatic solutions, hoping to attract a broad base of support across the country.

The founding congress took place on November 16 in Maribor, with Logar outlining a vision centred on cooperation, moderation and social cohesion.

"Slovenia is tired of the 'against' policy, tired of the fight of everyone against everyone in an already demanding regional and international environment," Logar said at the party's inaugural convention.

"Deep down, we all want to work together and progress. Let's trust in success and create a strong political third pillar that will restore our faith in the future and pave the way to a victorious Slovenia!" he said in a Facebook post.

In his speech, Logar spoke of the Democrats' commitment to fostering social integration and promoting the social market economy as a service that empowers individuals. He rejected extremism, called for trust in public institutions, and pledged not to introduce any new taxes on the economy, highlighting the importance of economic competitiveness.

"We are a party of social cohesion, essential for the long-term survival of the nation and its social market economy," Logar said. "The state and politics must serve the people, and we aim to be close to citizens at all levels – local and national," RTV SLO reported on November 16.

Logar called for a "big programme coalition" in the coming decade to address Slovenia's delayed responses to significant challenges.

Before Congress, Logar outlined the Democrats' programme priorities, focusing on five key areas: security, modernising society, fostering a favourable economic environment, reforming healthcare, and combating corruption. He emphasised that these issues will be crucial for the next two terms.

Logar's move to establish the Democrats, followed the creation of the Cooperation Platform in May 2023, a political initiative aimed at fostering dialogue and addressing Slovenia's pressing issues. Speculation had long surrounded the platform's potential evolution into a formal party.

The new party signals a breakaway from the SDS, which has faced internal strife in recent months. Dejan Kaloh, an MP for the right-wing opposition SDS, resigned on October 19, following the exits of Logar and Eva Irgl earlier this year. Both had declined to sign a party loyalty pledge, further exacerbating tensions within the SDS.As the tensions in Slovenia's political landscape intensify, there are rising expectations for early elections in 2025. Logar said in October that he expects elections around this time next year, citing signs of instability in the ruling coalition. While regular elections are scheduled for 2026, early polls now seem likely.

> "Logar called for a "big programme coalition" in the coming decade to address Slovenia's delayed responses to significant challenges"

Former foreign minister Anze Logar with his colleagues in the newly founded Democrats party. / Anze Logar via X

A resort and golf complex in Oman's capital Muscat, as shown here on the developer's website, is one of the latest luxury real estate projects around the world to bear the Trump name. / darglobal.co.uk

So you want to get on the right side of Donald Trump? Try gift-wrapping a hotel

bne bureaus

How to get on the right side of Donald Trump? With the erratic businessman-politician due back in the Oval Office in two months' time, it's the question governments all around the world are desperate to solve. Might throwing in a Trump hotel or high-rise grease the bigger deal? It's been tried before...

New ventures in the Gulf

Even in the short time since Trump's return to office was confirmed at the ballot box, the latest on new business ventures backed by the American president-elect in the Middle East has been popping up in the headlines.

The idea of Iran ever using a downtown Tehran property deal with Trump to get him off its case at this point seems rather far-fetched – though the November 13 announcement that Trump has appointed his golfing buddy and real estate developer Steve Witkoff to be his special envoy to the Middle East might give Tehran some food for thought on that score. Across the other side of the Persian Gulf, however, there's plenty of commercial action involving Trump enterprises.

In July, The Trump Organization announced a partnership with Dar Global, the international arm of Saudi real estate developer Dar Al Arkan, to build a high-rise luxury tower in Dubai. The development includes branded residential units and a Trump hotel. It will capitalise on strong demand for luxury branded real estate in the Gulf.

Earlier in July, The Trump Organization said that, in another collaboration with Dar Global, it would construct a Trump Tower in Jeddah, Saudi Arabia.

"We are excited to expand our presence in the Middle East," Eric Trump, the second son of Donald Trump, and executive vice president of The Trump Organization, said in a statement.

In 2022, Trump's company partnered with Dar Al Arkan to create a luxury resort and golf complex in Oman's capital Muscat (an aside: South Korea's president is said to be practising his golf swing ahead of a hoped-for encounter with Trump).

The AIDA project includes a Trump-branded hotel, villas, and an 18-hole golf course overlooking the Gulf of Oman. The Omani government, heavily invested in the infrastructure, provided land for the project. Concerns over labour practices were subsequently raised, with migrant workers reportedly facing challenging conditions and low pay.

Deals in the shadows of Trump Towers Istanbul

Istanbul's links with Trump the businessman go way back and with Turkey's president, Recep Tayyip Erdogan, on terms with both Trump and his incoming government "efficiency czar" Elon Musk, the "art of the deal" is not lost on the Turkish leader of three decades.

Trump Towers Istanbul was opened in 2012. Trump and his daughter Ivanka visited the investment following the inauguration ceremony.

The complex boasts two towers, a 39-storey residential tower and a 37-storey office tower, as well as a shopping mall.

It was in 2008 that Trump inked the licensing agreement with Mehmet Ali Yalcindag, a son-in-law to the Dogan family that owns Dogan Holding (DOHOL).

In 2016, Yalcindag attended Trump's presidential inauguration. He went on to become one of a trio of US and Turkish sons-in-law that turned into power brokers. The New York Times described Yalcindag as a go-between for then Turkish finance minister and son-in-law of Erdogan, Berat Albayrak, and Jared Kushner, the real estate investor, husband to Ivanka Trump, who became a senior White House aide to her father.

Media reports suggested Trump praised his "close friend" Yalcindag during phone calls with Erdogan.

In 2018, Yalcindag was appointed to head the Turkish-US Business Council (TAIK). Predecessor Ekim Alptekin was indicted by federal US prosecutors for his role in hiring Trump's first national security advisor, retired general Mike Flynn.

Trump's relationship with Erdogan has often raised eyebrows. For instance, Trump blocked sanctions requested by Congress over Turkey's purchase of S-400 missile defence systems from the Kremlin.

In 2019, Trump moved US forces out of the way when Erdogan sent Turkish forces into northeast Syria to attack Kurdish militia who allied with Washington in the fight against Islamic State. Trump's first defence secretary James Mattis called the move "felony stupid" in Bob Woodward's book "Rage".

In September 2020, Trump tax records published by *The New York Times* showed that he had collected $13mn in licensing fees from Trump Towers since 2008. He had previously claimed to have collected only $1mn since 2016.

Also in 2020, Trump's former national security advisor John Bolton urged the House impeachment inquiry into Trump to look at how as president he had allegedly intervened in New York prosecutors' investigations into Turkey's Halkbank (HALKB) in order to curry favour with Erdogan.

Reza Zarrab, who turned state's witness in the US in the Halkbank case after pleading guilty to taking part in an Iran sanctions-busting scheme, had an office at Trump Towers. Trump's then personal lawyer, Rudy Giuliani, acted as an unregistered lobbyist for Zarrab in the US during the court process.

Luxury hotel designed for Belgrade site bombed by Nato

In the spring, it was revealed that Affinity Partners, an investment firm linked to US president-elect Donald Trump's son-in-law Jared Kushner, plans to build a luxury hotel complex in Belgrade to replace the derelict Yugoslav General Staff headquarters, bombed by Nato in 1999. Kushner presented the project to Serbia's President Aleksandar Vucic in June.

Richard Grenell, US envoy for the Serbia/Kosovo conflict during the first Trump administration, reportedly liaised between Kushner and the Serbian authorities.

Affinity also plans to develop a luxury resort on Sazan Island, a former Cold War military base and protected marine park in Albania.

US Senate Finance Committee chair senator Ron Wyden has warned that the luxury developments planned in Serbia and Albania would give the governments of the two Western Balkan countries leverage over Trump family members.

Mehmet Ali Yalcindag with Ivanka Trump and Donald Trump at the Trump Towers Istanbul opening 12 years ago *(Credit: The Trump Organization).*

The committee revealed in September that Serbian and Albanian government officials proactively approached Affinity Partners with proposals for real estate projects in their respective countries. The finding was part of an ongoing investigation into the firm's foreign investments.

Wyden said in a letter to senators that the "prospective real estate deals give Albanian and Serbian governments leverage over [the] Trump family".

Specifically, Wyden points out that the respective governments will control permitting, local taxation and licences required for the projects to go ahead, while they also appear to own the land where the two projects will be developed. This situation would allow the Serbian and Albanian governments to "extract unusual concessions" from Affinity in the process.

Affinity's planned redevelopment of the former Yugoslav military HQ in Belgrade is particularly controversial.

The site, designed by renowned Serbian architect Nikola Dobrovic, has been kept as a memorial to the bombings related to the Kosovo war, and is seen by many Serbians as a symbol of Nato aggression.

In correspondence with the Senate committee, Affinity confirmed that the Belgrade project would include a museum dedicated to the "victims of Nato aggression", a proposal that Wyden sharply criticised.

"It is wholly inappropriate for any foreign government to require an American firm to participate in that kind of anti-American historical revisionism, an act that whitewashes ethnic cleansing and genocide and falsely recasts Nato as an antagonist, and it is egregious that a firm founded and owned by family of a former and potential future President of the United States would agree to it," wrote Wyden in a letter published by the Senate committee.

Within Serbia, over 22,000 people have signed a petition calling for the bombed General Staff building in central Belgrade to be preserved, with more than 10,000 people signing up in the first 24 hours. "The construction of a hotel on the site of this building is illegal and represents the destruction of dignity," said the Kreni-Promeni (Go-Change) movement when it announced the petition.

After Affinity Partners' plans in the Western Balkans were revealed, several other businessmen linked to Trump also expressed interest in the region.

In June, North Macedonia's President Gordana Siljanovska Davkova received a delegation of executives from the Trump Media & Technology Group and other business figures associated with Trump.

North Macedonia's President Gordana Davkova seen in June hosting a visiting delegation of American business executives associated with Trump *(Credit: Pretsedatel.mk)*.

In September, Serbian media reported that Trump's eldest son Donald Trump Jr, who is executive vice president of The Trump Organization, had made an unexpected visit to Belgrade where he hosted a private dinner with a select group of prominent Serbian business figures, including owners of construction companies and banks.

"Donald Trump's Worst Deal"

Back in March 2017, *The New Yorker* told the story of what it headlined as "Donald Trump's Worst Deal".

To great astonishment at the time (reactions to Trump's misdeeds nowadays, of course, frequently involve a shrug of the shoulders, people the world over having grown accustomed to Trump getting away scot-free over the years), the publication related how Trump appeared to have helped build a hotel in Azerbaijani capital Baku that seemed to result from a corrupt operation engineered by oligarchs tied to Iran's Islamic Revolutionary Guard Corps, or IRGC – the elite ideologically-driven branch of Iran's armed forces that Trump, in late 2017, instructed US Treasury officials to designate as "terrorist".

As things turned out the 33-storey-high five-star hotel and residence Trump International Hotel & Tower Baku never opened, though in 2012, The Trump Organization signed multiple contracts with the Azerbaijani developers behind the project with plans to deliver an "ultra-luxury property."

The developers were close relatives of the now 72-year-old Ziya Mammadov, one of Azerbaijan's wealthiest and most powerful oligarchs, who served as transportation minister. In a series of cables, sent from the US Embassy in Baku in 2009 and 2010, and revealed by WikiLeaks, a US diplomat described Mammadov as "notoriously corrupt even for Azerbaijan".

However, The Trump Organization's chief legal officer, Alan Garten, insisted that the Baku hotel project sparked no ethical issues for Trump, because his company had never engaged directly with Mammadov and was "merely a licensor" that gave rights to use his famous name to a company headed by Ziya Mammadov's son, Anar.

A month after Trump was elected president in 2016, Garten announced that The Trump Organization had cut its ties with the hotel project.

Whatever the true extent of The Trump Organization's involvement with the hotel investment – *The New Yorker* exhaustively explained how it amounted to rather more than just a licensing arrangement and how The Trump Organization could be vulnerable to US prosecution under the Foreign Corrupt Practices Act (FCPA) if it was found that there was insufficient due diligence performed on the project partners – the Mammadov family's financial entanglement with an Iranian family tied to the IRGC, the military force that plays a huge role as a stakeholder in Iran's construction industry, was problematic.

Garten argued that the FCPA did not apply to The Trump Organization's role in the Baku project as it had no equity ownership stake, but Jessica Tillipman, an assistant dean at George Washington University Law School and FCPA specialist, was cited as responding: "No, that's just wrong. You can't go into business deals in Azerbaijan assuming that you are immune from the FCPA. Nor can you escape liability by looking the other way. The entire Baku deal is a giant red flag – the direct involvement of foreign government officials and their relatives in Azerbaijan with ties to the Iranian Revolutionary Guard. Corruption warning signs are rarely more obvious."

The Baku deal appears to have been the second time that The Trump Organization had become involved in a business transaction that was vulnerable to US efforts to sanction Iran. In 1998, when Trump purchased the General Motors Building, in Manhattan, an Iranian tenant, Bank Melli, came with it.

The following year, the Treasury Department listed Bank Melli as "owned or controlled" by the government of Iran, meaning it was covered by US sanctions. It later even described Bank Melli as a primary financial institution via which Iran was routing money to finance terrorism and develop weapons of mass destruction. The Trump

If Trump had gone ahead with the hotel and residential tower deal in Baku, he might have found himself sharing the same profit stream as Iran's Revolutionary Guard, designated "terrorist" by Washington *(Credit: Matti Blume, cc-by-sa 4.0)*.

Organization, however, stuck with Bank Melli as a tenant for four more years before ending the lease. ●

Compiled and written by bne IntelliNews correspondents Will Conroy in Prague, Daniel Rad in Belfast, Akin Nazli and Tatyana Kekic in Belgrade, Clare Nuttall in Glasgow and Valentina Dimitrievska in Skopje.

Moldova's pro-EU President Maia Sandu wins second term

Iulian Ernst in Bucharest

The pro-EU President of Moldova Maia Sandu won a second term on November 3, defeating moderate pro-Russian rival Alexandr Stoianoglo by a significant margin of nearly 10 percentage points in the heated second round of the presidential election.

Sandu's win is good news for the country's European integration, but it is only the first step towards the stabilisation of the democratic process in Moldova. Next year, Moldova will elect a new parliament, and Sandu's Party of Action and Solidarity (PAS) will have the tough task of preserving its majority or – a more realistic scenario – building a broader coalition.

In Moldova, Stoianoglo received nearly 52% of the votes, but 82% of the Moldovans living abroad backed Sandu, according to the preliminary results announced by the Central Electoral Commission after the counting of votes from 98.7% of polling stations. In total, over 300,000 votes came from abroad out of the total 1.65mn votes cast.

Change of course

Sandu owes a lot to the pro-EU electorate, which supported her particularly in the second round, despite the disappointing performance of her executive over the past three years.

"Moldova, today you are victorious. Together, we've shown the strength of our unity, democracy, and commitment to a dignified future," Sandu wrote on X, announcing her election victory.

"Thank you, dear Moldovans, at home

President Maia Sandu says her victory shows "the strength of our unity, democracy, and commitment to a dignified future". / *Maia Sandu via Facebook*

and abroad. Walk with pride – you are freedom, hope, and resilience. I am proud to serve you all."

Importantly, between the two rounds of the presidential elections, Sandu promised two things: a government reshuffle by the end of the year and a broader dialogue with other political forces with reformist and pro-EU orientation.

Her rhetoric changed visibly from an authoritarian and radical one, to something more humble, inclusive and open to dialogue with her critics. The close result in the pro-EU referendum on October 20 and the high scores of her rivals contributed to the change in attitude.

Interference allegations

Pro-Russian groups controlled by fugitive oligarch Ilan Shor attended to disrupt the voting process among the pro-EU diaspora, while organising the voting process in regions populated by pro-Russian electorate, according to official Moldovan reports.

"We're seeing massive interference by Russia in our electoral process as Moldovans vote in the presidential runoff today – an effort with high potential to distort the outcome. Authorities are on high alert," said Sandu's national security adviser Stanislav Secrieru.

He detailed incidents in a series of posts on X, including organised voter transportation, and incentives such as meal tickets given to members of the diaspora in Moscow.

Meanwhile, Secrieru said there had been "coordinated cyberattacks" on election infrastructure and bomb hoaxes at several West European polling stations.

Both sides can be said to have engaged in unorthodox practices, as Moldova organised only two voting stations in Russia – both in the same building. In response, Shor organised air transportation for Moldovan voters from Russia to Belarus, Turkey and possibly the United Arab Emirates.

Tough times ahead

While Sandu secured victory on November 3, unless the authorities in Chisinau genuinely change their methods and increase the credibility of their anti-corruption and democratic policies, this will not be repeated next year and Sandu will either have to cohabitate with a hostile majority or will be faced with endless political crises.

Besides delivering on the promises made by Sandu during the toughest moments of her presidential term, the authorities in Chisinau would gain enormously from attempting to engage the Russian-speaking population that they have so far ignored if not publicly condemned.

This gave Stoianoglo and Socialist leader Igor Dodon an opportunity in the 2024 presidential election, and they took advantage of it. The Russian-speaking, conservative electorate is vulnerable to pro-Russian propaganda even when no money is involved, and this needs to be addressed by Sandu and her party as she embarks on her second term. ●

Elon Musk wants Italian judges who blocked migrant deal with Albania sacked

bne IntelliNews

Elon Musk, CEO of Tesla and X, took to social media on November 11 to criticise Italian judges who blocked a migrant transfer arrangement between Italy and Albania, writing, "These judges need to go."

The court ruling Musk referred to blocked the detention of seven migrants, who had been transferred to Albania as part of Italy's recently established migrant processing hubs. The plan, promoted by Italy's right-wing government, seeks to reduce migrant flows by holding men from specific "safe" countries in Albanian facilities while their asylum applications are processed.

The Italian government has invested €670mn into the facilities, which operate under Italian jurisdiction, with Albanian guards responsible for external security.

However, Italian judges ruled that the group of migrants, citizens of Egypt and Bangladesh, could not be detained in Albania and ordered their transfer back to Italy.

The decision follows an earlier judgment on October 18, when the same court rejected the detention of 12 other migrants sent to Albania. Both cases have fueled heated debate over the legality of Italy's deal with Albania, and the courts have now referred the issue to the European Court of Justice for further review.

Musk, responding to a post on X by Mario Nawfal, a prominent social media figure, added his voice to the growing criticism of Italy's judiciary from rightwing politicians within the country. As of early afternoon on November 12, the post had racked up almost 200,000 views.

The move is the latest instance of Musk commenting on immigration policies, having previously aligned himself with other conservative and nationalist leaders, most notably US president-elect Donald Trump.

Matteo Salvini, Italy's deputy prime minister, called the judges' rulings "political", adding, "This is not a sentence against the government but against Italians and their security". Salvini and other Italian officials argue that the court's decision undermines the government's right to manage migration within the EU's framework.

The Albanian scheme was launched in October with the potential to process up to 3,000 male migrants per month, adding up to as many as 36,000 a year. Vulnerable individuals, women, and children are processed within Italy.

However legal challenges have hindered its implementation, and Italy's government under Giorgia Meloni, which has described the deal with Albania as a potential model for the EU, has faced increasing pushback from Italian courts over its migration policies.

Only 24 migrants have been transferred to Albania since the scheme began, and all have since been ordered to be returned to Italy.

Prime Minister Edi Rama of Albania has defended the plan, emphasising Albania's role in aiding EU migration efforts and, like Meloni, describing the deal as a possible model for other European countries.

Italy is a key trading partner for Albania, and Rome's support is seen as critical as Tirana pursues EU accession. However, the deal has also met with criticism within Albania, having been challenged by opposition parties. ●

Russian consulate that was closed for espionage continues to work secretly in Bulgaria's Varna

Denitsa Koseva in Sofia

A Russian consulate in the Bulgarian city of Varna, which was closed by the authorities for espionage in 2022, is still operating secretly at the premises of the pro-Russian Bulgarian Socialist Party (BSP), *Dnevnik* news outlet reported on November 14.

In June 2022, Bulgaria declared 70 Russians working for diplomatic representations in the country personae non grata, including almost the whole personnel of the Varna consulate. The decision was taken based on three reports by the national security agency (DANS).

Dnevnik noted that evidence of the consulate's illegal operations were numerous posts on social media and on chats, which show that Russian citizens who are also spreading pro-Kremlin propaganda on their Facebook profiles are aiding the consulate.

The local organisation of the BSP has provided its office to the consulate to continue its work unofficially.

Dnevnik published an example of secret operations in Varna. A Facebook user asked on October 21 in a group of Russian-speaking citizens living in Varna a question on how to register online for getting documents by the Russian consulate. The user received a response from another user that the next day there would be a consular reception in Varna and left information for a contact person – Marina Nacheva, leader of the Russian Club in Varna.

Another post provides the exact address where the consulate operates and information that this is the BSP's building, as well as a WhatsApp channel for registration for consular services.

An explanation provided by another contact person of the Russian consulate, Luiza, said that Russian diplomats visit Varna to provide passport services and help retired Russians. She also said that the BSP's building is the only place this can happen for the moment.

Prior to the 2022 expulsion of Russian diplomats, for 32 years the Varna consulate used a Bulgarian state property, but for most of the time, until 2009, it had not paid any rent as there was no signed contract.

Dnevnik also reported that, according to unconfirmed information the Russian embassy has been viewing private properties in Varna, seeking to hire premises and restore its activity in the city.

Putin gave one of his regular strategy speeches at the Valdai club, where he laid out his updated vision of how he thinks the world should be. These speeches are very illuminiating, as he has several recurring themes. / bne IntelliNews

Putin lays out his view of the new world order in Valdai speech

Ben Aris in Berlin

President Vladimir Putin took the stage at the Valdai Discussion Forum on November 7 in Sochi and laid out his idea on what the new world order should look like.

The speech lasted over three hours, where he decried what he termed the West's "neocolonial policies" and the erosion of "traditional values."

The annual event addresses a select group of journalists, academics and in better days, leading international journalists covering Russia. It is a pseudo-intellectual summit, part policy and part platform for the Kremlin.

Putin depicted Russia as the linchpin of a "multipolar world," asserting that "Russia's existence" secures "diversity, variety, and complexity" on a global scale, which he argued are essential to "successful development."

Putin's "new world order doctrine" can be broken into six points:

- Openness between states;
- The absence of "universal dogmas";
- The necessity of considering each country's voice in making "global decisions";
- The rejection of certain international blocs (this apparently doesn't apply to the BRICS+ organisation, but is a jab at Western-led bodies like the G7 and IMF);
- Closing the developmental gap between countries; and
- Pursuing equality for all peoples.
- Over the years Putin has given a number of key addresses where he has outlined changes in the Kremlin's basic policies.

Following the forum, the Kremlin issued guidelines to state-aligned media and government-approved analysts, which were obtained by Meduza, a Russian news website. Notably, they omit any mention of Putin's remarks where he admitted that he had congratulated US President-elect Donald Trump on his victory on November 5 or the potential for peace talks with Ukraine. Instead, the guidelines position Putin's speech as “the event of the year in the realm of ideas and meaning,” casting him as “a major global leader” behind a “doctrine of a new world order.”

Highlights from the speech:

- **Theme:** Discussing “Lasting Peace” with a focus on common security and equal development opportunities for the 21st century.
- **Historical Context:** Putin reflected on major global revolutions and asserted that the world is in a new era of fundamental changes.
- **New World Order:** Observes the emergence of a new, unpredictable global structure as old systems fade, with rising regional powers and nations asserting independence.
- **Global Challenges:** Lists issues like technological change, economic crises, social division, and regional conflicts.
- **Western Critique:** Putin criticised Western liberalism as intolerant and self-righteous, claiming it undermines democracy, promotes division, and hinders a multipolar world.
- **Multipolar World:** Advocates for a world system with multiple power centres, urging mutual respect for cultures and the rejection of coercive practices.
- **Russia’s Position:** Asserts Russia does not view the West as an enemy but will defend its values and interests.
- **Economic and Security Systems:** Calls for new economic frameworks and cooperative security systems across Eurasia, with emphasis on non-Western alliances like BRICS and regional partnerships.
- **Equality and Justice:** Highlights the need for equitable global development, criticising the economic and social divides between the “Global North” and “Global South.”
- **Climate and Environment:** Discusses the importance of a collective approach to climate challenges and criticises the use of green policies as neo-colonial tools.
- **Russia-China Partnership:** Putin lauds Russia’s strategic relationship with China as an example of mutual respect and beneficial cooperation.
- **Opposition to Western Dominance:** Claims the US and allies are trying to impose a unipolar world order, which Russia and like-minded nations resist.
- **BRICS and Economic Reform:** Emphasises BRICS’s role in creating alternatives to the US dollar-dominated financial system and advocates for the use of national currencies in trade.

has long advocated that international organisations like the UN are the appropriate venue to resolve this differences through arbitration and consultations.

The Valdai speech is a continuation of this focus on a multipolar world, which Putin has largely been successful in achieving. While the purpose of the war in Ukraine was nominally to prevent Ukraine from ever joining Nato, the broader goal was to end the US dominance of geopolitics. The reaction by the Global South to the extreme sanctions imposed on Russia following the invasion of Ukraine has been flock to the new non-aligned organisations that have been established and developed by Russia, China and India in particular such as the BRICS+ and the expanded G20. While these are works in progress, they have expanded in size and importance in just the last two years.

> “Putin depicted Russia as the linchpin of a "multipolar world," asserting that “Russia’s existence” secures “diversity, variety, and complexity” on a global scale, which he argued are essential to “successful development”.”

Foreign Policy concept

The Valdai speech follows on from a revision to Russia’s basic foreign policy concept, released in March 2023. That document represented a radical departure from the previous version, dropping the talk of “partnership” with the West and striking an entirely more aggressive tone.

The Russian Foreign Ministry has renamed its Department of Pan-European Cooperation to: The Department of European Problems. MFA spokesperson Maria Zakharova: new name reflects “geopolitical realities.”

It also stressed Russia’s desire for an end to the so-called uni-polar world that is dominated by the US hegemony and shift to a multipolar world, where all countries have equal importance and their sovereign decisions are respected. In the case of conflict or disputes, Putin

New rules of the game

Prior to the war another key speech was delivered by Russian Foreign Minister Sergei Lavrov, but certainly authored by Putin – his “new rules of the game” speech delivered in February 2021 in the midst of a visit to Moscow by EU foreign policy chief Josep Borrell. Lavrov also warned the same month that Russia would break off diplomatic relations with the EU if his comments were ignored, and indeed did break off diplomatic relations with Nato later the same year.

In that speech, Lavrov lectured the West, saying Russia would no longer tolerate the West’s double take on Russia, doing business and buying raw materials on one hand and sanctioning Russia for its digressions with the other. This speech was the precursor to the war in Ukraine and a radical departure from the previous “suck it up in silence” stance the Kremlin had taken previously. Many of the complaints Lavrov made in that speech are echoed in Putin's Valdai speech.

Underscoring Putin's worldview is his objection to what he sees as a two-speed world with the G7, that represents less than 10% of the world's population, taking on itself the role as leader and dictating to the Global South. He frames this as a neo-colonial attitude, and not without justification. The idea of "colonialism" is a constant trope in his speeches and goes down with the emerging world, especially in Africa.

AS if to rub the point in, President of Azerbaijan Ilham Aliyev caused a stir at the COP29 summit when he lambasted the West with a rant against Western "hypocrisy." Two days later, he tore into France and the Netherlands for what he described as "repression" and ongoing "colonial rule" which ruffled Western feathers. Within hours, France's top climate official cancelled her trip to Baku and EU foreign policy chief Josep Borrell said the EU stands with France and Holland.

Aliyev also took a swipe at Borrell, who last year said that the EU was "like a garden" but the rest of the world was a "jungle."

'What can we expect from the European Parliament and PACE if Europe's leading diplomat Josep Borrel called Europe a garden and the rest of the world a jungle. Well, if we are a jungle, then stand aside and do not interfere in our internal affairs!', Aliyev said in the conclusion of his emotional speech.

History essay

Probably most controversially, in July 2021 in the run-up to the war in Ukraine, Putin wrote a history essay entitled "On the Historical Unity of Russians and Ukrainians." The article was posted on the Kremlin's official website and later translated into multiple languages, drawing considerable international comment.

The essay has been interpreted to mean that Putin doesn't believe Ukraine is a separate country, but part of Russia, as has been taken as his raison d'etre for the invasion and his desire to conquer the country. A more forgiving interpretation is that Putin was framing his argument around the idea of a shared heritage and destiny in the context of his idea of the "tragedy of the collapse of the Soviet Union" and how that trapped ethnic Russians in new countries.

Putin argued that Russians and Ukrainians (along with Belarusians) share a common historical and cultural origin, dating back to the medieval state of Kievan Rus. He suggested that these ties mean that Russians and Ukrainians are "one people."

Putin also blamed the Western powers, especially the US and Nato, for exploiting Ukraine and encouraged anti-Russian sentiment, particularly since the 2014 annexation of Crimea. He specifically rejected Ukraine's sovereignty over its western regions, including the Donbas. Putin also criticised Ukrainian authorities for allegedly failing to protect the rights of Russian-speaking populations in those regions – a recurring theme in his speeches.

While he did not explicitly call for the annexation of Ukraine in his essay, Putin suggested that the "natural" relationship between Russia and Ukraine should be one of close unity. Following the invasion of Ukraine this essay has been constantly cited to explain Putin's motivations for invading Ukraine and dismiss the idea that preventing Nato enlargement was the key issue for the Kremlin.

MSC speech

The most significant speech Putin gave in his first half of his 23 in power was an address to the Munich Security Conference in February 2007, where he complained about the broken verbal promises made to Mikhail Gorbachev in February 1990 not to expand Nato "one inch" to the east and warned that Russia would "push back" if Nato expansion continued. Nato began expanding eastwards in 1999, when Poland, Hungary and Czechia joined, eventually adding eight new members. Most recently Finland and Sweden have also joined and Ukrainian President Volodymyr Zelenskiy has been insisting that Ukraine be fast-tracked to join in his recent victory plan.

Putin's MSC speech is widely taken as the starting point of the Kremlin's dissatisfaction with the Western security strategy that led directly to the war in Ukraine. The tail end to this particular bookstop was the eight-point list of demands issued by the Russian Ministry of Foreign Affairs in December 2021, demanding "iron-clad legal guarantees" that Ukraine would never join Nato.

Again many of the points Putin brought up in the MSC speech are also present in his Valdai speech.

Soviet Union tragedy

In another widely quoted and also widely misrepresented speech, Putin famously called the collapse of the Soviet Union "the greatest geopolitical catastrophe of the 20th century" in his annual address to the Russian Federal Assembly on April 25, 2005 in Moscow.

In this address, Putin highlighted the social, economic and geopolitical impact of the Soviet Union's dissolution, and has been widely taken as evidence that he would like to re-establish the Soviet Union. However, the quote is shorn of its context, as the comment was made specifically referring to the fate of ethnic Russians that suddenly found themselves living in new countries, many of which have suffered from discrimination and difficulties as a result.

The full quote, rarely cited, is: ""The collapse of the Soviet Union was the greatest geopolitical catastrophe of the 20th century. As for the Russian nation, it became a genuine tragedy. Tens of millions of our fellow citizens and countrymen found themselves beyond the fringes of Russian territory. The epidemic of disintegration infected Russia itself."

This sentiment is important, as it has fuelled Putin's calls for Ukraine to repeal its anti-Russian language laws and also bred tension with countries like the Baltic States that have also introduced local language requirements on would-be citizens; often ethnic Russians in these countries have never mastered languages like Estonian and continue to live in Russian-only speaking communities.

The Russian constitution requires the Kremlin to "protect" ethnic Russians living in other countries, especially if they have a Russian passport. The Kremlin has used passports as both a justification and a tool of annexation. About half of the population of the Crimea held dual nationality prior to its annexation in 2014 and home to a dense concentration of ethnic Russians inside Ukraine. Likewise, Russia dished out passports to the populations of Abkhazia and Ossetia in what was Georgia before recognising their "independence" in 2008 in a de facto annexation. Most recently the Kremlin has withheld state jobs such as teachers and doctors to residents of the Donbas unless they have applied for a Russian passport.

Gorby's mistake

In a little remembered speech very early in his career as president, Putin said that Gorbachev's "biggest mistake" while head of the USSR was to initiate his *perestroika* political reforms before securing the economic stability of the Soviet Union, which led to the collapse of the economy and his overthrow. That ushered in nearly a decade of chaos under Boris Yeltsin in the 1990s – a period most Russians still remember with horror. The bedrock of Putin's domestic popularity is that he brought stability and economic revival in his first decade in office, something which many middle-aged Russians remain extremely grateful for.

Putin has repeated this comment about Gorbachev's mistake many times over the years, most prominently repeating it in a December 2011 interview with Russian television channels, where he again lambasted Gorbachev's approach.

For his part, Putin began his first term in office by hiring academic German Gref and tasked him with transforming the economy with his so-called "Gref Plan". A Kremlin outsider with no powerbase of his own, Gref began to implement sweeping reforms, facing much opposition of the establishment, but was able to proceed thanks to Putin's personal backing.

Over the years this effort has been refined and expanded, culminating in first the May Degrees in 2012 just after Putin took office for the third time. The decrees outlined a series of ambitious social, economic and political goals for Russia, aiming to improve the quality of life, strengthen national security and stimulate economic growth, including:

- Raising wages for public sector workers
- Improving healthcare, education and housing
- Modernising the military
- Supporting science, technology and innovation
- Boosting Russia's economic competitiveness

More recently these ideas were revised again and after the post-2008 crisis have reemerged as the National Projects, which have the same goals, and have been revised and expanded several times to the current National Projects 2.1.

Ukraine's President Zelenskiy switches rhetorical tack from victory to resistance

bne IntelliNews

President Volodymyr Zelenskiy has changed his rhetorical tack and announced a comprehensive ten-point internal "Resilience Plan" during his evening address on November 14, after months of talking about a "victory plan" for Ukraine.

As the war goes increasingly against Ukraine and US support appears to be faltering, Ukrainian President Volodymyr Zelenskiy switched rhetorical tacks in his evening speech, announcing the launch of a 10-point Resilience Plan next week in place of his victory plan. / bne IntelliNews

The details of resistance plan will be revealed next week, the president said, but come at a time when continued support for Ukraine's war against Russia from the US is looking increasingly unlikely.

"We're going to work very hard on Russia and Ukraine. It's gotta stop. Russia and Ukraine's gotta stop," President-elect Donald Trump said in his first comments on Ukraine in an interview on November 14.

The US ran out of money for Ukraine at the start of this year and even after Congress approved a $61bn aid package on April 20, Zelenskiy complained earlier this month that only 10% of this aid has since arrived in Ukraine.

Trump's team are currently thrashing out a plan for the Ukrainian war and nothing has been decided, according to US reports, but most of the plans involve Ukraine ceding up to 20% of its territory to Russia and the creation of some form of demilitarised zone in between.

The White House has said repeatedly the final decision on holding talks and the terms agreed lie with Kyiv and so Zelenskiy's resistance plan could be an alternative to a ceasefire that will allow Kyiv to continue the war on its own, without US backing.

Zelenskiy says Bankova (Ukraine's equivalent of the Kremlin) aims to mobilise Ukraine's internal resources to achieve a "secure and just victory" in the ongoing conflict with Russia. The plan will address key areas from national security to cultural sovereignty, the president said.

"There are ten points [of the internal Resilience Plan] in total, which will be presented next week, and for each point, together with Ukrainian civil society, together with everyone ready to contribute rational ideas, together with business, we will prepare a foundational, doctrinal document for Ukraine and for our resilience. With specific annexes; step by step," Zelenskiy explained, emphasising the collaborative approach behind the plan.

The Resilience Plan seeks to channel Ukraine's internal capacities to secure what Zelenskiy described as "victory," a term he claimed as integral to Ukraine's collective national spirit. "Each one of us – every Ukrainian – millions who dream of ending this war in a way that is just for Ukraine and who work and fight toward that goal," he asserted.

The Armed Forces of Ukraine (AFU) situation looks increasingly desperate as the Armed Forces of Russia (AFR) "slice through" Ukraine's defence, according to a recent report by *The Economist*, and as *bne IntelliNews* has reported, Ukraine is increasingly running out of men, money and materiel.

Security, a key pillar of the Resilience Plan, was discussed in depth on November 14, covering comprehensive safety measures across Ukraine's administrative regions, including every oblast and hromada. [an administrative district covering a few villages or a town], Zelenskiy said as cited by Ukrainska Pravda. "This is fundamental. A safe space that every person needs. The Ministry of Internal Affairs and the Security Service of Ukraine have developed some good solutions. We will definitely implement everything."

The Resilience Plan also touches on energy security and defence capabilities, both critical after Russia destroyed half of Ukraine's generating capacity following an escalation in the missile barrage that began in March.

"We have already addressed points related to energy – everything has been prepared in detail – as well as armaments, including our own production and cooperation with allies," Zelenskiy added reports Ukrainska Pravda, hinting at potential new initiatives to bolster domestic production just as temperatures in Kyiv fall to zero and the first snows arrive.

In addition to physical security, the plan appeals to Ukraine's new sense of national pride and will dedicate significant focus to Ukraine's cultural sovereignty. During the discussions, Zelenskiy highlighted the importance of preserving Ukraine's cultural heritage, promoting contemporary cultural expression and strengthening cultural diplomacy to maintain Ukraine's global presence.

"And, to that end, fostering real and effective unity within Ukraine's cultural community. This is part of our strength and an element of guaranteeing Ukraine's ties with the global world," he said. ●

Finding workers in wartime Odesa

Clare Nuttall in Odesa

Set among the tall grey apartment blocks and tree-lined streets of Ukraine's third-largest city Odesa, the office of the Odesa branch of the State Employment Service has a challenging task complicated by the demographic upheavals since the start of the war.

The loss of control over large parts of eastern Ukraine to Russia, coupled with the departure of men to the frontline and the migration of millions of Ukrainians to other European countries, has had a devastating impact on the economy. Companies have been forced to relocate, and some have pivoted to new activities to respond to the economic damage inflicted by the war.

For Odesa region, the site of Ukraine's vital Black Sea ports, these effects are magnified as it grapples with disrupted trade, naval blockades, and missile strikes. Given the massive shifts in population, one of the greatest challenges for companies operating under wartime conditions is simply finding people to work for them.

Fighting for survival

All this leaves small and medium-sized enterprises (SMEs) fighting for survival. Maria Gutsman, team leader for inclusive development, recovery and peacebuilding at the United Nations Development Programme (UNDP) Ukraine, spoke in an interview with *bne IntelliNews* about the devastating impact of the war for Ukraine, "on the economy, on employment" given "how many people left their jobs, left their homes".

With SMEs comprising 99% of Ukrainian firms and providing around 70% of the nation's jobs, they play an irreplaceable role in stability and employment. "The key challenges facing SMEs are that many have had to relocate or re-envisage their businesses. For example, heavy industries were concentrated in the east, but with the war now there, companies are restructuring, finding new supply chains, and pursuing new export opportunities. Everything has changed," Gutsman told *bne IntelliNews*, citing UNDP research.

In Odesa, companies face unique challenges tied to the city's maritime economy. "Businesses in Odesa are facing the same challenges, but of course the blockade of the port affects them. Odesa was always a port city, and a lot of the businesses were oriented to that. Now businesses have to reimagine what to do next," Gutsman commented, adding, "And the UNDP will be here to support Odesa."

Dramatically changed labour market

Perhaps the most pressing issue for SMEs is the severe labour shortage caused by mass mobilisation and emigration. "The full-scale invasion has dramatically changed our labour market," said Mykyta Koreniev, director of the Odesa Oblast State Employment Service (SES).

One of the biggest difference is that 80% of the Odesa Oblast SES's clients are now women. "Men are mobilised and have to serve in the armed forces, and a lot of people left Ukraine because of the war. Now we have severe deficit of skilled workers, mainly in traditionally male professions."

This year alone, more than 15,000 vacancies were put up by employers in Odesa Oblast, making the SES's

The Odesa Oblast State Employment Service headquarters. / bne IntelliNews

services more in demand than ever. "Because of the employee deficit even those companies who never cooperated or applied for the services of the State Employment Service now apply," said Koreniev.

Asked which sectors have the biggest unmet demand for labour, Koreniev gave a long list, including agriculture, trade, the civil service, transport, manufacturing, medicine, education, accountancy, metalworking, and others.

The SES's service is free for both employers and jobseekers, and this year has found positions for over 10,000 people. The Odesa office alone has more than 1,000 clients. As well as serving companies and jobseekers in Odesa, it also has a mobile employment service; a minibus equipped with information on job opportunities and vocational training is parked outside the SES office. It is regularly dispatched to smaller towns and villages without their own employment offices.

For the Odesa Oblast SES, acting as an intermediator in the labour market, it can be difficult to fit the right people to the right jobs. While many skilled male workers have left to fight Russia's invading army, jobseekers are overwhelmingly female, many of them mothers with young children. Others include veterans, internally displaced people from the east of the country, and workers close to retirement age.

The employment service has responded to the need for new skills by setting up vocational training programmes. "We provide more than 140 short-term courses to up-skill in 33 professions," Koreniev said. "This year more than 1500 jobless people were trained. Usually more than 80% of graduates of those courses find a job."

Professions covered include construction, beauty, services, bartending, administration, accountancy and various industrial specialisms such as welding.

The employment service is encouraging women to retrain for high-demand, traditionally male-dominated fields like welding and construction. Yet, these retraining efforts face challenges – not least the demand for childcare, given only around half of Odesa's kindergartens have bomb shelters and are thus allowed to operate.

Made in Ukraine

Since May 2024, the Odesa Oblast SES office has also been home to Odesa's Made in Ukraine office. The ninth such office in the country, it was set up by the UNDP and government of Japan in cooperation with the SEC, the Odesa Oblast Employment Centre and the Ministry of Economy.

The role of the Made in Ukraine platform, announced by Ukrainian President Volodymyr Zelenskiy in February 2024, is to support Ukrainian manufacturers, with the aim of strengthening the national economy.

"In 2023, nearly 300 civilian infrastructure facilities had been damaged by shelling in Odesa. Despite this, the economy of Odesa Oblast is striving to survive and adapt," said a UNDP press release issued on the Odesa office's launch.

"Amid complex logistics related to raw materials and product distribution, as well as power supply limitations due to hostilities, 99,400 small and medium enterprises are continuing to operate in the region, over 5,000 of which started their activities in 2023."

Ultimately, there are plans to open similar offices in employment services across the country. "The key objective is to create opportunities for businesses inside the country and for those who relocated to other countries to come back and contribute to Ukraine's recovery," said Gutsman.

Made in Ukraine offices, equipped with consultation spaces, allow entrepreneurs to access government grant information, regional or city programmes to support micro and small entrepreneurs, business registration assistance, tax support and other services. Entrepreneurs can also participate in a cashback scheme for goods made in Ukraine.

"We launched this office in May and so far more than 500 entrepreneurs have applied here for services," said Koreniev. Those include companies in sectors from transport to garment manufacturing to agricultural processing. "It's important that applicants can receive face to face help with all government programmes here in this modern office," he added.

Both Gutsman and Koreniev acknowledge that Ukraine's small businesses face a daunting road ahead, especially when it comes to finding the right people. Yet, through the efforts of agencies like the SEC and UNDP, and the Made in Ukraine programme, there is a growing network of support designed to help them rebuild. ●

Russian teachers fooled into donning tinfoil hats to fight Nato

bne IntelliNews

Teachers from Russia's Voronezh Oblast have gone viral after being misled by Belarusian prankster Vladislav Bokhan into crafting tinfoil hats as part of what they believed was a patriotic defence exercise.

Bokhan, posing as an official of the ruling United Russia party, sent detailed hat-making instructions to teachers under the guise of the "Helmet of the Fatherland" workshop, claiming the tinfoil headwear would protect against Nato satellite interference and electronic warfare. Adding to the ruse's credibility, he used AI to create documents that mimicked official Russian bureaucracy, complete with fabricated warnings about potential consequences for non-compliance.

Many teachers in the region took the instructions seriously, with some even involving students in the exercise. Images and videos released by Bokhan on social media showed educators wearing the hats, with some describing the project as a patriotic gesture. One teacher reportedly sought a certificate of participation, while another lauded it as a way to "instil unity and national pride in the face of external threats."

In response, the Voronezh Education Ministry issued a statement acknowledging the teachers' "patriotic spirit" while also highlighting their gullibility. Officials urged educators to be cautious about unverified directives.

"Teachers have already been reminded of the rules of information security," the statement said.

This is not Bokhan's first success with pranks targeting Russian educational institutions. In 2022, he persuaded a school in Moscow's Klin district to adopt a slogan resembling Nazi propaganda, substituting the Cyrillic "B" with the Roman "V." In 2023, he convinced school leaders in Arkhangelsk to post posters proclaiming him a "United Russia hero."

Many teachers in the region took the instructions seriously, with some even involving students in the exercise. / Vladislav Bokhan

Belarus Election Committee registers six pro-regime candidates to run against Lukashenko in 2025 presidential election

Ben Aris in Berlin

The Belarusian Central Election Committee (CEC) has registered six pro-regime candidates to run against incumbent Belarus President Alexander Lukashenko in the January 26 presidential elections.

The six candidates now have to gather at least 100,000 signatures to support their bid before they are formally enrolled in the ballot. Lukashenko is automatically enrolled as he seeks a seventh consecutive term in office.

Belarusian law enforcers launched massive countrywide raids starting Oct. 31, Human Rights Group Viasna reported, saying the arrests and searches were part of a "pre-election intimidation campaign." Viasna reports that the Belarusian KGB security agency detained dozens of individuals in the capital, Minsk, in the oblast centers of Homiel and Mahiliou, as well as regional cities across the country under the pretext of investigating an alleged "conspiracy to seize power."

This election will be very different from the last one in August 2020, when several opposition figures, more notably popular blogger Sergei Tikhanovsky and Viktor Babariko, the former head of Belgazprombank, a subsidiary of Russia's Gazprom, who were both jailed before they could register after they gathered hundreds of thousands of signatures.

Tikhanovsky's wife, Svetlana Tikhanovskaya, stood in her husband's stead and is widely believed to have won the election that was massively falsified and sparked mass demonstrations that went on for months.

Lukashenko made the mistake of allowing Tikhanovskaya to register for the election, dismissing her as a "mere housewife" and underestimating the appeal of her passionate campaign. She was quickly driven into exile after the results came out and has spent the last five years lobbying the international community to increase the pressure on the Lukashenko regime.

The government is now preparing a lot more carefully for the new vote. The last four years has seen a severe crackdown on civil society and more than 1,700 NGOs have been closed, reports *The Kyiv Independent*. At the same time any potential protestors still in the country have been harassed or arrested. Human rights organisations estimate there are a record 1,300 political prisoners in jail.

Belarus has not held a free or fair election since Lukashenko first came to power in 1994 after which he changed the constitution in 1996 to remove the term limits rule that allows him to be in effect president for life.

The CEC has formally registered nomination groups for Anna Kanapatskaya, who was seen as a spoiler candidate during the 2020 presidential elections, Siarhei Bobrykau, chairman of the Belarusian Union of Officers, and Siarhei Syrankou, leader of the Communist Party of Belarus, the The Kyiv Independent reports.

Additionally, Lukashenko and three other loyalists have also been cleared: Aleh Haidukevich, leader of the pro-Lukashenko Liberal Democratic Party; Alexander Hizhnyak, leader of the Republican Party; and Olga Chemodanova, a former spokeswoman for the Interior Ministry.

Lukashenko himself has downplayed the appearance of competition, stating that his supporters are motivated primarily by a desire to "secure" his candidacy. "I'm sure they just want to flank me here, to keep me safe, no more, no less. Well, I would like it that way," Lukashenko told a state-owned TV channel as cited by *The Kyiv Independent*.

The opposition in exile have been arguing about how to deal with the upcoming election, with some saying they should campaign and others that believe they have no role to play in the vote and should focus on their international campaign.

The Lukashenko has perfected its tools of repression over the last five years, in particular mobilising factory general directors to police their staff to great effect. Those who supported alternative candidates in 2020, particularly employees at government agencies, banks, military enterprises, and factories, faced repercussions, including dismissal from their jobs. In 2020, workers came close to calling a general strike that could have brought Lukashenko down. Lukashenko had his Ceausescu moment when factory workers heckled him at a public meeting, prompting Russian President Vladimir Putin to promise "everything needed" to support Lukashenko, which was widely taken to mean he would send in OMON riot police.

Tikhanovskaya has condemned the upcoming vote as an "imitation" and "non-elections." Her office has called on supporters to demonstrate their dissent by voting against all candidates. Other figures within the exiled opposition have advocated for a full boycott or consolidated voting for one of the spoiler candidates. ●

Cut off from Western goods by sanctions, Russia turned to its friends in the Commonwealth of Independent States (CIS) for help and they happily stepped into the breach, fuelling an FDI and manufacturing boom. Sanctions have proved to be a boon for the countries of the former Soviet Union. / bne IntelliNews

Ukraine war fuelling a manufacturing and FDI boom in the CIS

Ben Aris in Berlin

The war in Ukraine is fuelling an FDI and manufacturing boom in the Commonwealth of Independent States (CIS) as local entrepreneurs rush to fill the gaping holes left in Russia's supply chains by departing Western firms, reports Oxford Economics on November 5.

Several ex-Soviet economies are continuing to grow at rates exceeding pre-conflict expectations, buoyed by major changes to the make-up of Russia's economy and trade patterns across the region.

FDI surges in 2022-2023

Foreign direct investment (FDI) in 2022-23 surged across the entire region, leading to a manufacturing boom that is likely to be sustained into the mid-2020s, although growth is expected to moderate somewhat in 2025-26 as the Russian economy is cooling as the military Keynesianism boost factors begin to wear off.

Russia has re-emerged as what the European Bank for Reconstruction and Development (EBRD) previously dubbed a "node country" for investment in the region; Russia plays an economic role similar to that of Germany in Western Europe, as a source of investment and a driver of growth for all the former members of the USSR, funded by its excess income from raw material exports.

Industrial growth up on high demand

Russian demand for manufactured goods soared after extreme sanctions were imposed in 2022 and fostered regional industrial growth, with Kyrgyzstan, Uzbekistan, Armenia and Belarus benefitting the most from the exit of Western firms from the Russian market, says Oxford Economics. "This shift has allowed regional manufacturers to capture new market share in Russia," Oxford Economics said. Alongside domestic demand, the growth is underpinned by "real wage increases and relatively low inflation," allowing for looser monetary policy and reduced borrowing costs across the CIS.

The biggest winner has been the civilian sector. While there are suspicions that some of the countries are helping to supply Russia's military industrial complex, by far the biggest demand is from the civilian sector as Russia seeks to replace simple products that temporarily disappeared from its shelves as Western firms producing non-sanctioned items left the market for reasons of reputational risk.

The ongoing conflict has also driven investment into sectors like logistics and IT, especially from Russian sources. Tourism, a traditionally smaller sector, has also seen renewed interest and FDI inflows, further supporting GDP growth. Armenia and Georgia have led the way with significant upticks in FDI following Russia's 2022 partial mobilisation, which saw an exodus of funds and skilled workers to the region. Armenia's FDI peaked after Russia's third quarter mobilisation announcement, while Georgia and Belarus saw their FDI flows peak in mid-2023 before easing to historic levels in 2024.

GDP growth revised up

Although growth is forecasted to moderate in the next two years, recent data has led to revisions in expectations, says Oxford Economics. Growth forecasts for Georgia, Azerbaijan and Tajikistan in 2024 have been raised by 3.1, 1.5, and 1.7 percentage points respectively.

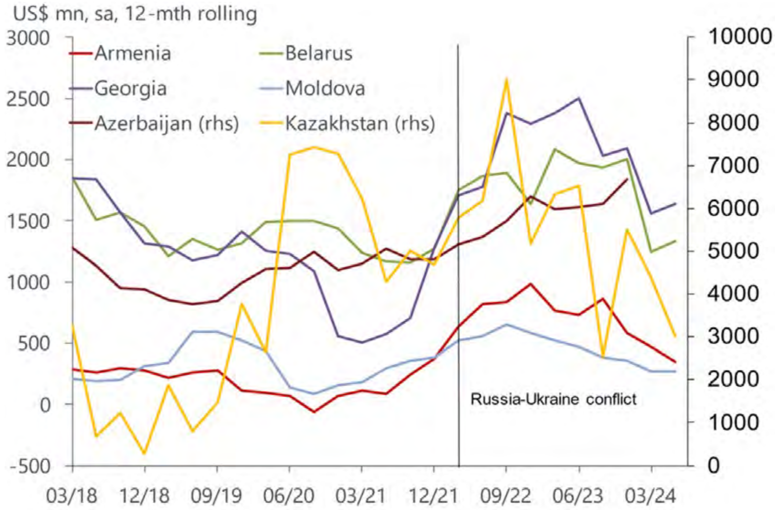
Belarus and Moldova saw more modest adjustments, while Armenia's growth forecast was cut by 1 percentage point to 6.8%. Analysts expect Armenia, Azerbaijan, Belarus, Georgia and Kyrgyzstan to maintain above-average growth rates in 2024, driven by "a combination of external and domestic factors," says Oxford Economics.

Among the few exceptions, Moldova's economy has struggled to regain its footing following a 4.6% contraction in 2022. Its GDP grew by only 0.7% in 2023, with an expected 3% growth this year, a pace below historic averages.

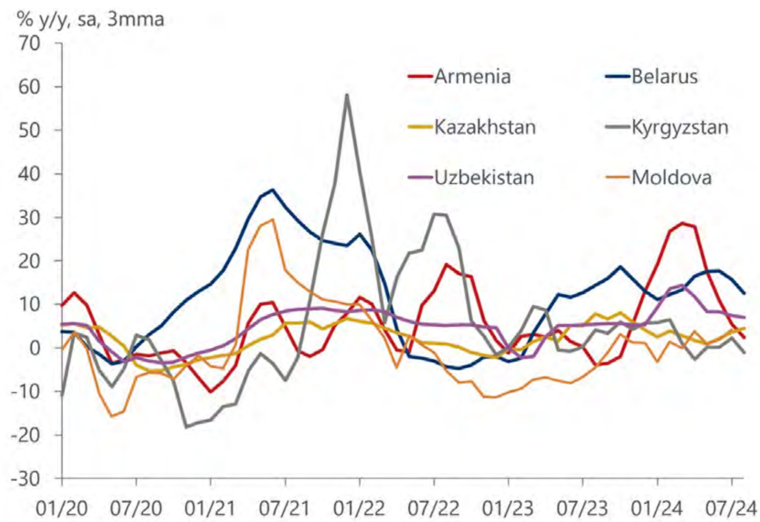
Sanctions on Russia are a good thing

Oxford Economics suggests this divergence reflects a broader trend where those countries that are more integrated with Russia's economy have done far better than those with more diversified business interests. In this context complying with Western sanctions would be extremely

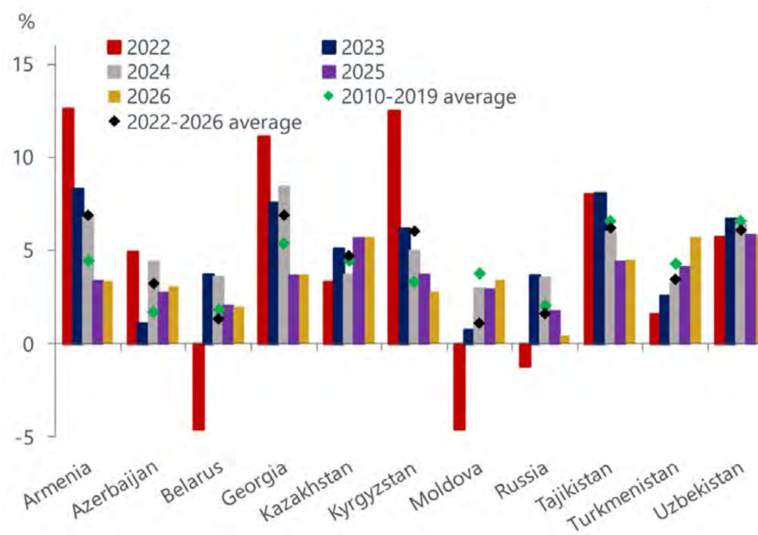
Selected ex-USSR countries: Inbound FDI



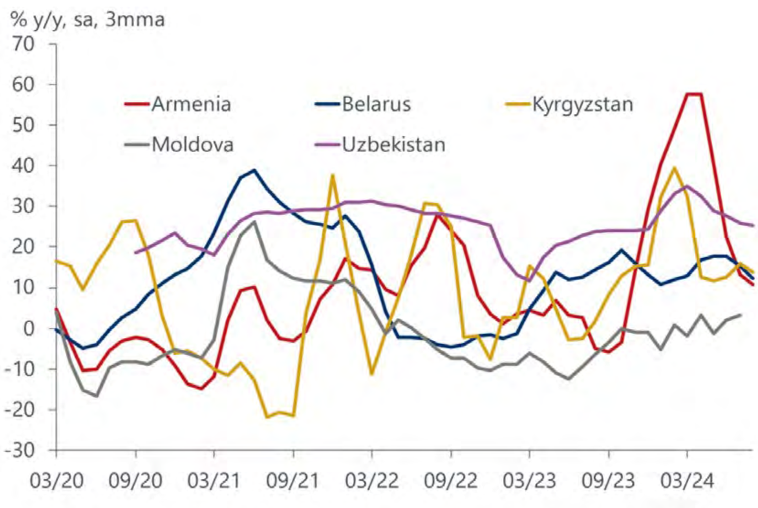
Selected ex-USSR countries: Industrial production



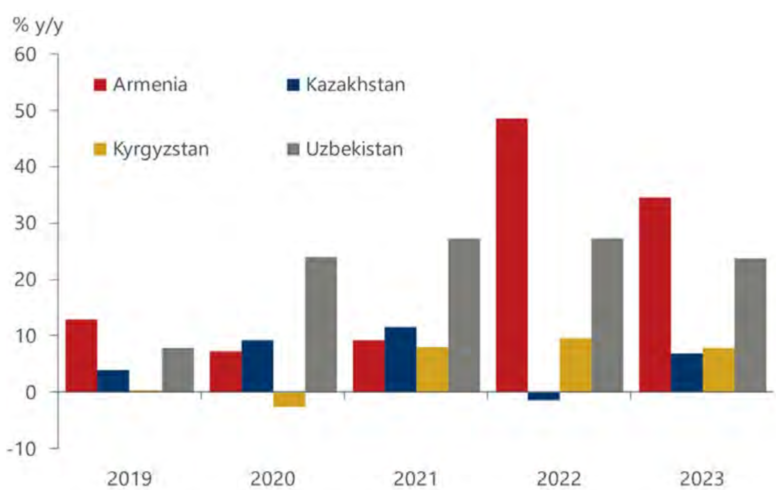
Ex-USSR countries: Our GDP forecasts vs historic averages



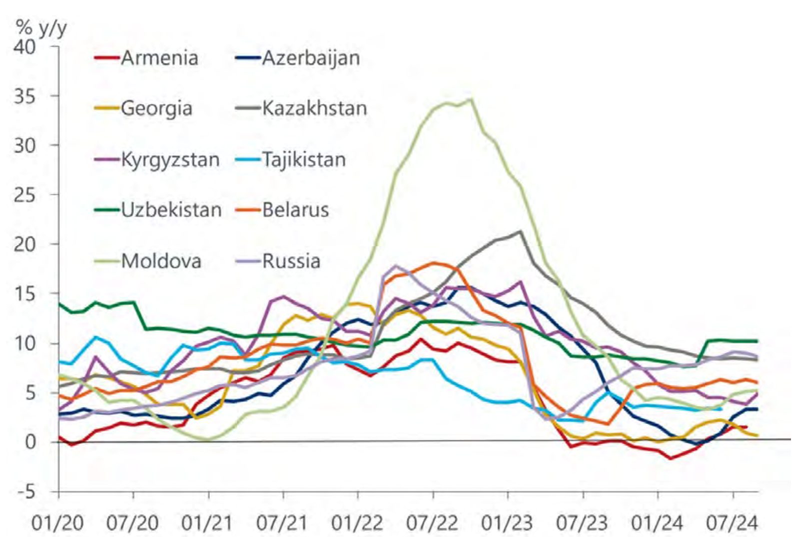
Selected ex-USSR countries: Manufacturing



Selected ex-USSR countries: Growth in IT and telecommunications



CPI inflation



detrimental to the local economies and have been eschewed by all the members of the CIS. Ironically, the sanctions regime on Russia is the reason why the CIS countries are flourishing.

This regional economic outperformance has been propelled by Russia's own surprisingly strong growth. "After a brief GDP contraction in 2022, Russia returned to growth with fiscal stimuli and monetary easing," Oxford Economics reports. Russia's economy grew by 3.6% in 2023, with an estimated similar growth rate this year. With domestic demand surging, bolstered by state-backed lending, demand for labour remains high, supporting remittance-dependent economies such as Tajikistan and Kyrgyzstan in particular.

As *bne IntelliNews* reported Central Asia has been the big winner from the war in Ukraine, acting as a bridge between trading blocs. EBRD analysts note that Central Asia is maintaining robust trade ties with competing economic powers, benefiting from enhanced FDI flows largely tied to logistics and trade services. In particular, Kyrgyzstan has taken the war-time windfall and is investing into the massive new Kambarata-1 HPP hydropower plant that will turn the mountainous republic into a net power exporter and provide the government with a new source of income, but like the other 'Stans is also enjoying a manufacturing boom.

Industrial output

Key sectors in the CIS are benefiting from the effects of redirected FDI and rising exports to Russia, Oxford Economics data reveal. Belarus, Armenia and Uzbekistan have all registered notable gains in industrial production, which, according to analysts, reflects "the earlier influx of FDI and a rise in exports to Russia."

While formally direct trade ties between the EU and Russia have been cut and are currently at a 25-year low, in practice many private Western firms are simply redirecting their trade via third countries. Exports of EU products to countries like Armenia, Kyrgyzstan and Belarus have risen by thousands of percentage points in the last two years. With car sales in Europe stagnant, makers of luxury Western brands have lobbied the EU to not tighten sanctions on Belarus, as it is an open secret that Minsk is now a major way station for their continued sales to the Russian market.

The conflict-induced demand is particularly visible in Belarus, where the economy quickly rebounded from a 2022 recession. Belarus' industrial output surged by 15% year on year on average so far in 2023, supported by "strong trade ties with Russia" and increased demand for local goods as Western firms exited the Russian market.

In Armenia, industrial production rose more than 25% y/y in the first quarter, while Uzbekistan has posted steady manufacturing growth that often exceeded 15% y/y over the past four years. Uzbekistan is in a particularly sweet spot as its economy was already booming as the raft of economic reforms put in place by Uzbek President Shavkat Mirziyoyev starting in 2016 were already kicking in before war in Ukraine began, which has only supercharged the growth.

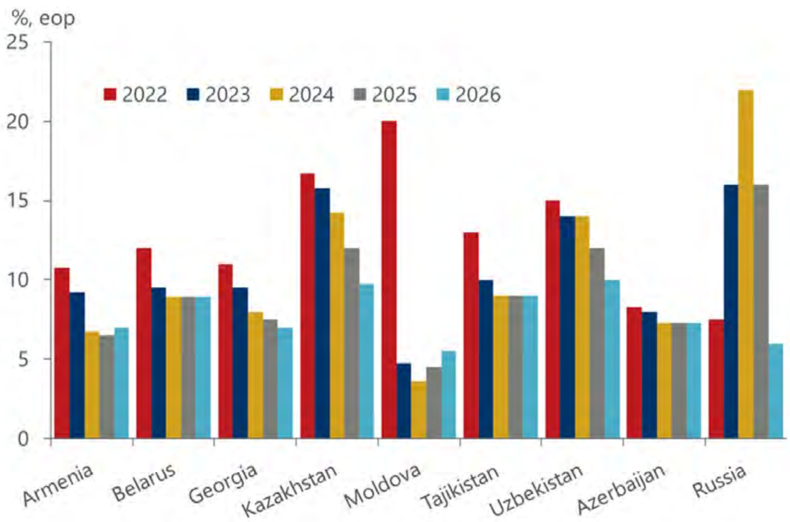
This manufacturing boom is reinforced by a shift in the IT sector across Central Asia and the Caucasus, fuelled by "digital nomads" and skilled Russian workers who relocated after Russia's 2022 mobilisation. Armenia's IT and telecoms sector led the region, growing by an average of 41.5%, followed by Uzbekistan at 25.5% and Kyrgyzstan at 8.7%, according to an EBRD report.

Labour market shifts bolster remittances and consumption

Russia's chronic labour shortage has amplified remittance flows to neighbouring economies like Tajikistan and Kyrgyzstan, as Russia turns to migrants to fill factory benches.

"The high demand for migrant labour in Russia, coupled with rising wages there, has driven up remittances well above pre-war levels, providing substantial support to household consumption

Policy rate forecasts



Selected ex-USSR countries: Retail sales

Selected ex-USSR countries: Balance of payments, services exports

in these smaller economies," Oxford Economics reports.

Despite stricter immigration controls following the tragic Crocus City Hall mall terror attack on March 22 that saw over 140 people killed, the acute need for low-skilled workers has sustained these remittance flows, with Tajikistan seeing notable increases in 2022–24.

In parallel, household demand across the Caucasus and Central Asia has accelerated, supported by moderating inflation rates and favourable monetary policy. Inflation in Georgia and Armenia has dropped to record lows, allowing central banks to cut rates further. This, in turn, has driven a surge in consumer lending and real wage growth, especially in Kyrgyzstan, where retail sales have shown double-digit increases since 2023.

"Retail sales growth recently picked up in Azerbaijan and Kazakhstan," analysts note, attributing the uptick to low inflation, rising wages, and a lending boom. Azerbaijan's domestic demand is forecast to rise by 6.3% this year, up from 2% in 2023, while Georgia's demand growth is expected to reach 8.3% in 2024.

Tourism boom drives investment in hospitality

Another quirk of the sanctions has been to completely remake tourism in the region. Russians love to travel and in theory they are still able to visit their favourite holiday spots in Europe, but as airline routes between the EU and Russia have been effectively closed the long roundabout routes are prohibitively expensive and time consuming leading most Russians to switch to alternative destinations with direct flights from Moscow.

sanctions and a weak rouble has driven many of Russia's middle class to seek travel destinations within the region rather than in the West, driving up tourism receipts across ex-Soviet countries, with some countries reporting considerable increases in services exports since early 2022. The resulting influx of tourists has stimulated investment in local hospitality sectors, reinforcing economic resilience in these nations. ●

What Trump's return means for Armenia and the South Caucasus

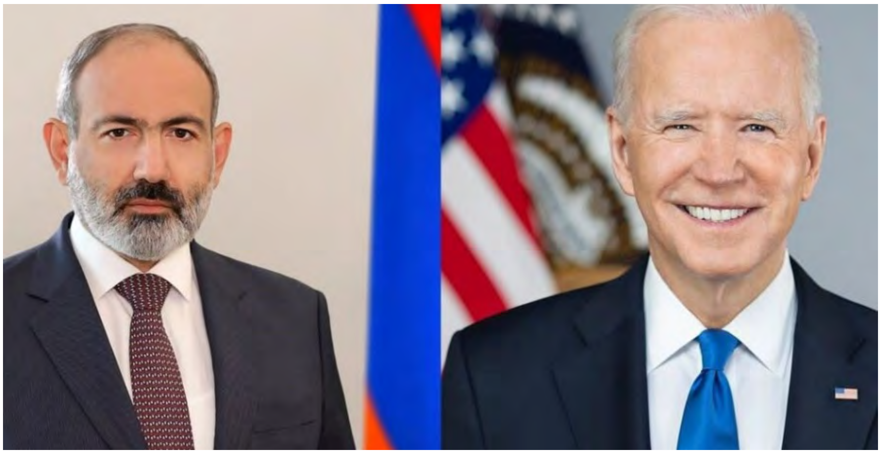
Ani Avetisyan

Donald Trump's return to the White House as the 47th president of the United States comes at a critical time for the South Caucasus region, as Georgia remains highly polarised after the controversial re-election of the pro-Russian Georgian Dream party, and as Armenia and Azerbaijan seek to finalise a historic peace deal.

Trump's victory has raised both hopes and concerns in Yerevan. Armenian Prime Minister Nikol Pashinyan was quick to congratulate Trump on his victory, expressing his hope to "work together" on the strategic partnership between the two countries, but many in the region are worried that the transition of power in Washington could significantly decrease US involvement in the ongoing peace process with Azerbaijan.

Pashinyan's extensive message to Trump, however, was notably positive and optimistic. Pashinyan emphasised the "unprecedented" improvement in the two countries' relations in the past years, hoping that the trend will continue under Trump's presidency. Pashinyan praised Trump personally, saying that he is confident that Trump's "rich experience, knowledge and abilities will best serve to ensure the well-being of the American people, promote the interests of the United States, and strengthen the global role of the United States".

The timing of the elections is particularly crucial for Armenia, as Joe Biden's administration has become increasingly involved in the process in the past year. The improvement that



The timing of the elections is particularly crucial for Armenia's Nikol Pashinyan's (left), as the administration of Joe Biden (right) has become increasingly involved in the peace process in the past year. / bne IntelliNews

Pashinyan mentioned in US-Armenian relations in the "past years" took place during the Biden presidency, with the two countries' relations switching to "strategic partnership" from "strategic dialogue" earlier this year.

Trump's election campaign did explicitly mention Armenia, as the US-based diaspora were potential voters. His promises regarding Armenia were direct and populistic, pledging to "protect persecuted Christians, work to stop violence and ethnic cleansing, and establish peace between Armenia and Azerbaijan".

US-Armenian community leaders did not support any candidate, unlike previous years, explaining their neutrality by the lack of clarity on the issues regarding Armenia and the Nagorno-Karabakh conflict from the presidential candidates. The leaders of the nationalist Hay Dat committee, however, remained hopeful that they could possibly advocate for sanctions against Azerbaijan, the release of Armenian prisoners.

In the election, Trump's opponent Democrat Kamala Harris won 54% of the votes in California, where most Armenian-Americans live, including in Los Angeles, which has over 150,000 Armenian residents.

Trump's promises for Armenia were seen as empty by many in Yerevan, as the Trump administration was in power during the war between Armenia and Azerbaijan in 2020, with no particular focus on the region and little to no action during the war that ended with a devastating defeat for Armenia.

Some see Trump's comeback as a chance for Azerbaijan to minimise Western involvement in the Caucasus and achieve a deal with Armenia with maximum benefits for Azerbaijan. Russia, which has been backing Azerbaijan in recent years, also has warned against a "hasty" peace deal, complaining about the US government's increased desire to finalise the deal before Biden's departure.

Trump's return could also complicate Armenia's regional relationships. His potentially more constructive approach toward Moscow might ease some regional tensions, but his harder stance on Iran – one of Armenia's crucial neighbours and economic partners – could create new challenges. Trump's strong pro-Israel position and potential alignment with Azerbaijan in anti-Iranian initiatives might further complicate regional dynamics for Armenia. In the meantime, any potential Russia-US rapprochement would further complicate Armenia's foreign policy shift towards the West and the European Union. ●

Protesters attack parliament building in Abkhazia

Ailis Halligan in Tbilisi

Resistance to the disputed Russian-Abkhaz investment agreement is gaining momentum in the Abkhaz capital. A violent protest took place on November 15 outside the parliament building in Sokhumi, inside which discussions on the ratification of the agreement were taking place.

Fearing Russian encroachment in the region, a significant proportion of the public strongly oppose the investment deal, which grants unprecedented concessions to Russian investors in Abkhazia, and has been dubbed "privileges for oligarchs".

Swarms of angry protestors breached the parliament gates, besieging the building, and threw eggs and plastic bottles at the police and military, who were mobilised in anticipation of civil unrest during the parliamentary meeting on November 15.

The Abkhaz political opposition have expressed concern that the agreement, should parliament sign off on it, would be detrimental to the republic's interests. Specifically, they warn of a fatal blow to local businesses and a security threat to Abkhaz society.

Over recent days opposition figures have been urging local parliamentary deputies to block the deal, which has already been signed by the Abkhaz Minister of Economy but requires ratification by the parliament. These talks have proved effective; by the morning of the 14 November 12 out of 35 deputies had officially stated that they would oppose ratification of the agreement.

On the evening of November 11, following one such meeting, five opposition members were arrested and detained, fuelling widespread protests. Throughout the day on November 12 hundreds of demonstrators blockaded Abkhazia's Kodori and Gumista bridges in an act of protest, resulting in the opposition members' release the following day.

Opposition leader Adgur Ardzinba called on the authorities to "postpone the discussion of this divisive issue until after the presidential election, which is due in several months". He also appealed to the security forces to "exercise wisdom and restraint".

"Do not allow yourselves to be used as tools by a government that seeks personal enrichment at the expense of the people. Remember, your oath is to our homeland, not to President [Aslan] Bzhania and his oligarchs," Ardzinba said.

If the opposition succeeds in blocking the ratification, the pro-Russian Abkhaz president, Bzhania, has a very slim chance of re-election in the February 2025 vote. ●

Mutual appreciation society: Viktor Orban (left) and Donald Trump. / Photo: Zoltan Fischer / X account of Viktor Orban

VISEGRAD BLOG:

Central Europe's populists clamour to applaud Trump's victory

Robert Anderson in Prague

Central Europe's populists have clamoured to congratulate Donald Trump for winning the US presidential election but it is far from clear that the region will benefit from his victory.

Central Europe contains some of the loudest Trump fanboys in the world, including Hungarian Prime Minister Viktor Orban, Polish President Andrzej Duda and former and likely future Czech premier Andrej Babis.

Some of them, such as Orban, have been proudly (and undiplomatically) backing Trump from almost the very beginning of his political career and they will be buoyed by his victory. Poland's Law and Justice party will hope Trump's victory transforms the global political mood and helps it retain the presidency next spring, while Babis will be even more confident of returning to power in autumn 2025.

Conversely, liberals in the region who have been battling populists and Russian dictator Vladimir Putin, may be demoralised, though they too congratulated Trump on November 6.

More widely, European Union leaders could be put on the back foot by Trump's victory and may struggle to put up the same resistance to the rising tide of populism in the bloc. France and Germany, the traditional motors of the union, are already both convulsed by domestic political turmoil, while in the European Parliament, Orban's new Patriots for Europe grouping is likely to become noisier and more obstructive.

Within the EU, the radical right is already in charge in Hungary and Italy, and it plays a role in government in the Netherlands, Belgium, Slovakia, Croatia and Finland, and backs the Swedish government. It is also likely to dominate the still to be formed Austrian and Bulgarian governments.

This growing support – boosted in the future by public backing from the new US president – could make it increasingly difficult for the EU to try to discipline Orban, both for his hollowing out of democracy, corruption and abuse of human rights, and for his more and more overt sabotage of the bloc's efforts to counter Russia.

“The strong ties that the Trumpian ecosystem has built up with Hungary and, to a lesser extent, other European populist forces in Austria, Italy, Poland, Slovakia and elsewhere could easily shape internal EU politics,” Jeremy Schapiro and Zsuzsanna Végh wrote in a policy brief for the European Council on Foreign Relations last month. “A new Trump administration might be willing to back them in their intra-EU struggles or help out in their individual challenges. In exchange, these forces could use their influence in the Council to, say, reduce retaliation from the EU against his trade policies or for increasing fossil fuel and weapons purchases from the US.”

Within the EU, Orban has been Trump’s greatest supporter and he will benefit the most from his victory. He is set to parade this support and applaud what he regards as the positive transformation in global geopolitics it will bring at the European Political Community (EPC) meeting in Budapest on November 7-8, which he presides over as the current rotating president of the EU.

"A very strong man"

Orban has backed Trump since before the tycoon was first elected in 2016, the first incumbent leader to do so. After eventually meeting his idol in 2019, both Orban and Trump have regularly applauded each other, Trump saying in January this year: “There is a great man, a great leader in Europe – Viktor Orban. ... He is the prime minister of Hungary. He is a very great leader, a very strong man.”

Incredibly, Orban, leader of a politically marginalised and economically struggling Central European economy, has now become a hero on the US right, both because of his outspokenness on migration and “political correctness” and his success in repeatedly retaining power in flawed elections.

Even more significantly, the Hungarian strongman has built up strong links between institutions close to his Fidesz party, such as the Danube Institute and the Center for Fundamental Rights, and the US Republican party and associated institutes such as the Heritage Foundation. As part of this, the Conservative Political Action Conference (CPAC), a love-in for think tankers on the global radical right, has now held its European meeting in Budapest for the past three years.

The Heritage Foundation has used lessons drawn from studying Orban’s semi-authoritarian rule over the past 14 years to plan for a second Trump presidency in its notorious Project 2025.

“We have entered the programme-writing system of President Donald Trump’s team, and we have deep involvement there,” Orban said in July.

If Trump indeed follows Orban’s path, the outlook for American politics is bleak, as Hungary is no longer regarded as a full democracy by Freedom House.

Orban will see Trump’s victory as potentially vindicating his lonely stance against effective Western sanctions on Russia and against strong support for Ukraine. Trump has boasted of ending the war in Ukraine within 24 hours of taking office, with analysts speculating that he will force Russia and Ukraine to the peace table by threatening Kyiv with an end to US support, and Moscow with a ramp-up of US support for Ukraine.

"Europe cannot bear the burden of [the war] alone, and if Americans switch to peace, then we also need to adapt, and this is what we will discuss in Budapest," Orbán said ahead of the EPC meeting this week.

“The strong ties that the Trumpian ecosystem has built up with Hungary and, to a lesser extent, other European populist forces in Austria, Italy, Poland, Slovakia and elsewhere could easily shape internal EU politics”

If Trump does indeed put pressure on Ukraine to agree to a peace deal that in effect confirms Russian’s territorial gains on the battlefield – and gives it time to rearm and restart the war at a later time of its own choosing – this will be a disaster for Central Europe, which borders the conflict. Trump’s constant threats to downgrade Nato and scale back US military involvement in Europe are also deeply worrying for the region’s security.

Beyond the military dimension, Trump is also likely to ramp up trade tensions with the EU, and try to take advantage of the bloc’s courageous measures against climate change by doubling down on exploiting US fossil fuel resources.

As part of a new trade war, Trump has threatened to impose a 100% tariff on all imported cars, Central Europe’s most important export industry. The new administration is also likely to be even more aggressive in trying to challenge China’s growing economic dominance.

Hungary, which has built strong links with Beijing and is positioning itself as a beachhead for Chinese electric vehicle battery production within the EU, could be one of the most affected by such measures. Even Orban therefore may find that a new Trump presidency – with all its predictable unpredictability – is not always to his liking. ●

COMMENT

Political, economic and security headaches Trump Europe's mounting problems

A European recession, uncertainty on Trump's tariff programme, underinvestment in defence and now the collapse of the German government are all compounding Europe's mounting difficulties. / bne IntelliNews

Ben Aris in Berlin

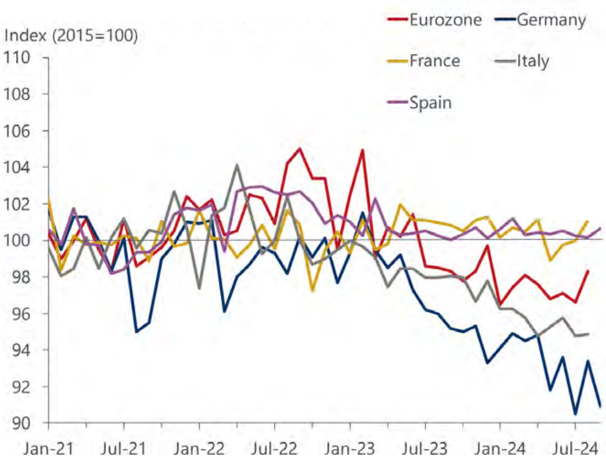
The re-election of Donald Trump as US President could become a major headache for Europe that is already struggling to keep its head above recessionary water. Trump's return will likely bring a nationalistic "America First" approach back to the forefront, with policies that could batter Europe's growth prospects while amplifying security concerns, said Angel Talavera, head of Europe economics at Oxford Economics in a note on November 8.

To add to the bad news, the German governing "traffic light" coalition collapsed after Chancellor Olaf Scholz sacked finance minister Christian Lindner, who belongs to the rival Free Democratic Party, paving the way for elections in early 2025 and probably leaving Germany without a budget for part of next year.

The political firestorm hits as the latest data shows that European economies are continuing to lose ground, especially Germany.

"Data releases this week continued to paint a gloomy picture for the industrial sector, especially in Germany, where production remains depressed. Short-term prospects remain negative, and we do not expect an imminent turnaround, but we think a more positive backdrop in 2025 should help foster a modest recovery," said Talavera.

Eurozone: Industrial production



In contrast, as *bne IntelliNews* reported, Russia's economy is flourishing for now, although growth and consumption are expected to slow sharply next year as Russia's economy is cooling as the military Keynesianism boost wears off. Russia and China are global manufacturing powerhouses. Oil sanctions are a spent cannon and technology sanctions have failed, although financial sanctions on Russia are more effective, but have yet to affect Russia's trade. Some analysts and market participants are anticipating the possible easing of some of these sanctions under Trump as he could generally disengage from the global economy.

Tariff Fortress America

Trump's talk of a Fortress America behind a high tariff wall could severely hurt European business already reeling from the polycrisis. In the coming years, Trump's tariff ambitions, particularly on key trade partners like China and the EU, threaten to erode market confidence and disrupt supply chains across Europe's open economy.

"Trump's return is bad news for Europe, given his nationalistic, America-first approach and his desire to impose widespread tariffs across the globe, something that is of particular concern to the open European economy," said Talavera. "But the impacts of Trump's return on the economy are highly uncertain at this point. Aside from the unpredictability of his character, which makes forecasting policy changes extremely challenging, some of his proposed measures will provide a substantial fiscal boost to the US economy, which would have positive spillovers for Europe."

Talavera reassures that if the tariffs are imposed, they would likely start to have a significant impact from 2026, rather than next year, so the impact on 2025 figures will likely be smaller than assumed.

"A new presidency by Donald Trump will put the EU under pressure in many areas. As the USA is an important trading partner for some European countries, the prospect of possible tariffs of 10% on all imports to the USA alone will have a dampening effect on growth prospects in the eurozone. This gives European companies an incentive to relocate production capacities to the USA in the medium-term," Erste said in a note.

Security headaches

Since the end of the Cold War, Europe has sheltered under the US-led Nato security umbrella, and under invested in defence. That may have to change now as Trump has threatened to not support countries that spend less than the 2% of GDP on defence mandated by Nato.

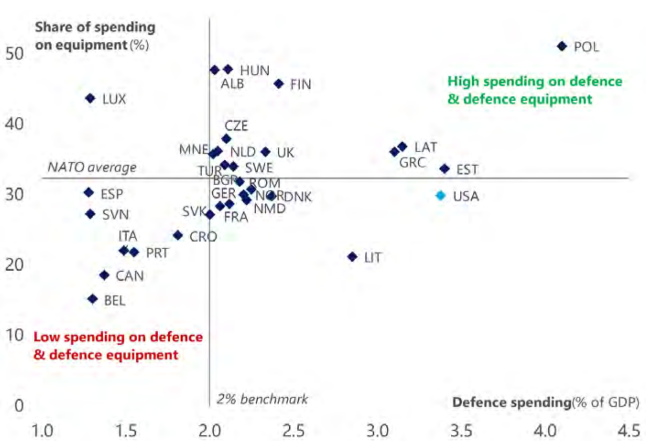
Indeed, the recent report from former Italian Prime Minister and ex-European Central Bank boss Mario Draghi also highlighted underinvestment in defence as one of the reasons why Europe has lost its competitive edge.

Trump's focus on increasing defence spending among Nato members will require some nations to reassess budget priorities. However, the most immediate threat to Europe lies in Trump's approach to the conflict in Ukraine. Trump's apparent eagerness to end the war – possibly requiring Ukraine to make territorial concessions – would mark a sharp departure from the current Western stance. His position on reducing or even ending US support could lead to substantial geopolitical and security shifts within Europe.

According to a report in the *Wall Street Journal*, citing senior US officials, Trump has no concrete plan to end the war in Ukraine, but amongst the ideas being floated is to freeze the front line, a 20-year ban on Ukraine joining Nato and a DMZ cutting off eastern Ukraine that will be policed by non-US forces – more or less the same 12-point Chinese peace plan suggested by Beijing on the first anniversary of the start of the war.

In this scenario, the fate of continued military and financial aid remains unknown. Kyiv is about to receive the long

NATO: Defence and defence equipment spending (2024)



discussed G7 $50bn loan to Ukraine, approved on June 13 at a G7 summit in Italy, that will keep it in the game for now. On November 7, Ukraine's Ministry of Finance (MinFin) said that it would keep part of this money in reserve for use after 2025, suggesting that Bankova (Ukraine's equivalent of the Kremlin) is anticipating a dramatic fall in Western funding under Trump.

Trump's former national security aide says he will decide personally on a peace plan and at the last moment, so no one can predict what the president will decide.

German government collapses

To add to the problems, within hours of the release of the US election results, the German "traffic light" coalition collapsed.

"Political instability in Germany comes at a particularly tricky time for Europe. In the short term, the downside risks to growth are probably a little higher now because Germany might be without a budget for part of next year, unless the ruling SPD and Scholz's remaining coalition partner, the Green party, manage to get support from elsewhere," says Talaverad.

The EU has always been fissiparous but the problems have become a lot worse as the boomerang effect of sanctions drags down European growth in the last two years. Hungarian Prime Minister Viktor Orban, who is currently the president of the Council of the EU, has been actively building a pro-Russia illiberal axis in the European parliament, which swung to the right in the recent EU elections.

French President Emmanuel Macron has also been significantly weakened by his own electoral debacle earlier this year. Now with the collapse of the government of German Chancellor Olaf Scholz, the EU is in even more political disarray than ever. That is good news for Russian President Vladimir Putin, but extremely bad news for Ukrainian President Volodymyr Zelenskiy.

Germany's governing coalition collapsed Scholz dismissed Finance Minister Christian Lindner, who belongs to the Free Democratic Party. The two had clashed repeatedly over how to fix the German economy, but The Kyiv Independent reports the straw that broke the camel's back was Lindner's suggestion to supply Ukraine with the powerful Taurus missiles instead of economic aid – something that Scholtz has long resisted.

This fracture will likely lead to early elections in March 2025, adding another layer of political uncertainty to an already delicate situation.

The ongoing structural challenges within the German economy and its deindustrialisation after being cut off from cheap Russian gas further complicate matters. Volkswagen has announced that it will close three German plants for the first time in its 87-year history and Audi, a Volkswagen subsidiary, announced it will cut 15% of its workforce on November 8. The European car market is under increasing pressure from Chinese imports and is also intending to erect a tariff barrier to protect its own carmakers as the price crisis filters through from heavy industry and starts to impact consumption.

Recent data shows little sign of relief for the industrial sector, according to Oxford Economics, which has been contracting throughout 2023. The latest September figures show another sharp decline in German production, traditionally the engine of European growth.

Although the recent third quarter GDP figures provided a positive surprise, the broader indicators – such as the PMI data in October – are less encouraging.

"The industrial sector is mired in a slump, particularly in Germany. Although short-term prospects remain negative, we anticipate a modest recovery in 2025 if monetary easing begins to feed through," Talavera said. However, this potential upturn could be undercut if early elections fail to yield a stable government committed to structural reforms.

Looking forward, the 2025 German elections could define the trajectory of Europe's largest economy. If a new coalition manages to coalesce around much-needed economic reforms, particularly the controversial public debt brake, Germany might finally see a much-needed policy reset. But much will depend on whether the likely favourite Christian Democratic Union (CDU) party, currently leading in polls, will pursue reform or maintain fiscal conservatism.

The other wild card in the German vote is the FDP is unlikely to clear the 5% threshold and will not be represented in the Bundestag. The Greens are also likely to see their support fall, while the right wing AfD (Alternative für Deutschland), which recently shocked with first time wins in regional elections, could improve its hand further.

Europe's near-term outlook remains clouded by uncertainty – Trump's hallmark – and shifting political landscapes on both sides of the Atlantic.

The New York Times poignantly observed in its wrap of the US elections: "Now Americans will have to come to terms with the fact that Trump's first presidency was not a random four-year period, but the opening of a 12-year era of Trump." The EU will have to wake up to the same reality. ●

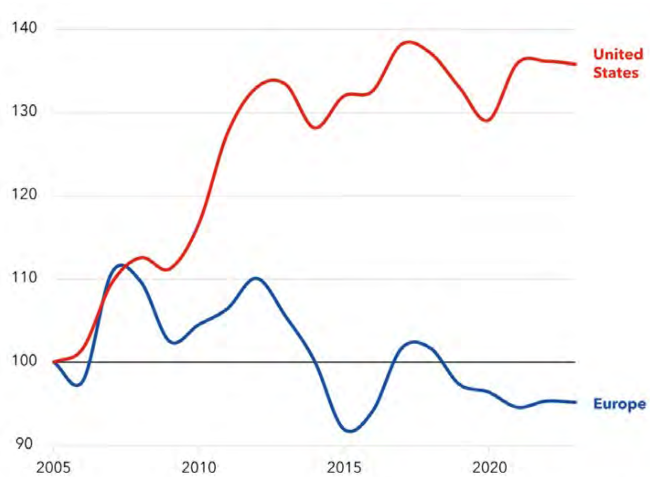
How to awaken Europe's private sector and boost economic growth

IMF

The recent report from former Italian Prime Minister and ex-European Central Bank boss Mario Draghi painted a bleak picture for Europe's future. It has fallen badly behind the US and is facing an increasingly strong challenge from the rising Global South economies after it lost its competitive edge. Draghi says that the EU needs to invest over €800bn a year to catch up – more money than was spent on the post-WWII reconstruction. Diego Cerdeiro, Gee Hee Hong, and Alfred Kammer wrote a blog for the International Monetary Fund (IMF) on what needs to be done to revitalise Europe's economy.

In the European Union, income per person, one of the main gauges of living standards, is on average one-third less than in the United States, mostly because of lower productivity – as emphasised by Mario Draghi's September 9 competitiveness report for the European Commission. But what is the cause of the problem? As we show in the forthcoming Regional Economic Outlook, Europe's aggregate productivity problem can be traced back to performance differences at the firm level.

Europe's corporate productivity growth has lagged gains by US businesses
Productivity index of listed tech firms, 2005=100



Sources: Compustat, Ghandi and others (2020), and IMF staff calculations.

Among large, leading companies, productivity and innovation have diverged markedly across both sides of the Atlantic. Market valuations of US-listed firms have more than tripled since 2005, while Europe's have grown by only 60%. While valuations can reflect expectations that end up unmet, our analysis suggests that the divergence stems also from a productivity gap across all industries and is particularly pronounced in technology sectors. Productivity for US technology firms has surged by nearly 40% since 2005, yet it's little changed for European companies. This significant difference is underpinned by much greater innovation efforts among enterprises in the United States, where research and development spending as a share of sales is more than double that of Europe.

Europe also suffers from a broader lack of business dynamism beyond large corporations. There is a lower number of startups, and too few among them grow fast and eventually become large firms. In the United States, the fastest growing young companies employ six times more people (as share of total employment) than their European counterparts. With fewer successful young firms, there are also fewer large and highly productive companies later on. There is, instead, an overabundance of small and low-growth firms.

Europe's weaker business dynamism is partly due to constraints to scaling up – particularly in innovation. Two key factors are a smaller market size and access to finance:

- *Market size:* While the EU and US markets are comparable in terms of purchasing-power parity gross domestic product, the EU's is still highly fragmented. Trade intensity between EU countries is less than half the level between US states. That means a European business doesn't benefit from economies of scale and network effects the way an American one does – which is especially harmful in tech, where scaling up quickly is critical.

- *Access to finance:* In the last two decades, US-listed firms have issued about twice as much equity relative to their size as their European counterparts. Equity is crucial to finance intangible investments like patents or trademarks that can't be pledged as collateral for bank credit, and to protect these investments against short-term economic fluctuations. Funding through debt also bears higher interest rates, especially for younger businesses. Venture capital investment could help these firms, but the size of that market in the EU as a share of the economy is only around a quarter what it is in the US.

Addressing these root causes behind the underperformance of European businesses will require significant action at both the EU and domestic levels.

Deepening the European single market would lift constraints to growth for Europe's most productive firms. Removing remaining barriers to trade within the EU and advancing the capital markets union would incentivize firms to undertake R&D and other investments that only pay off with a large customer base. For example, investing more in physical infrastructure to connect EU countries and deeper services trade liberalisation can expand firms' market access within Europe. Easing the constraints that inhibit venture capital would increase the availability of equity financing for startups and young firms. Measures include harmonising regulations that hinder investments in larger venture funds; and having the European Investment Fund play a catalytic role by providing a quality seal, including through due diligence as a public good.

"The strong ties that the Trumpian ecosystem has built up with Hungary and, to a lesser extent, other European populist forces in Austria, Italy, Poland, Slovakia and elsewhere could easily shape internal EU politics"

Improving business dynamism also requires strong domestic efforts that match EU-level ambitions. Easing remaining administrative barriers to entry would help more people start businesses, especially in services sectors. Facilitating the entry of new, innovative firms also calls for labour market regulations that protect workers, not jobs. This means combining more flexible layoff procedures with adequate unemployment benefits and strong active labour market policies that support job search and skill development. Tax and regulatory incentives for small firms should be made temporary to incentivise firm growth. Finally, supporting tertiary education and addressing skill mismatches are critical to foster ideas creation through new firms and technology adoption by existing businesses.

The EU must find common ground for removing barriers to goods, services, capital, and labour flows within the single market. The efforts will need to span multiple areas, opening protected sectors, lowering regulatory costs of operating across borders, expanding the capital market for innovative ventures, and investing in education. A thriving business sector is key to reducing Europe's large productivity and income per capita gap. ●

BALKAN BLOG

What went wrong for the EU in Georgia's and Moldova's elections?

A booth in central Chisinau urging Moldovans to 'vote yes' in the referendum on adding EU integration to the constitution. / bne IntelliNews

Clare Nuttall in Glasgow

Both Georgia and Moldova held pivotal elections in late October, each framed as a litmus test of the strength of their pro-European aspirations against Russia's lingering influence. When the results came in, the pro-EU share of the vote was considerably lower than expected. What went wrong?

Ahead of Moldova's October 20 referendum on the issue of embedding EU integration into its constitution, people questioned by *bne IntelliNews* in Chisinau – from government officials to analysts to business representatives and international investors – saw the vote as a foregone conclusion, expecting a resounding 'yes' from the population.

Instead, it was an unexpectedly close vote. The 'yes' camp won with just 50.35% of the vote, as confirmed by Moldova's Constitutional Court on October 31, and this outcome was swayed by the Moldovan diaspora's strong pro-EU vote; within Moldova, a majority of voters opposed the constitutional change.

This outcome raises questions about the resilience of Moldova's pro-EU trajectory, as incumbent President Maia Sandu – the main driving force behind Moldova's EU accession progress in recent years – could struggle to hold onto her post in the second round of the presidential election on November 3 against moderate pro-Russian opponent Alexandr Stoianoglo. The outcome is unclear. As in the referendum, if Sandu does secure victory, polls indicate she will only do so with the help of the diaspora.

"Sandu won by far the most votes in her campaign for reelection, with 42.5% against 26% for her nearest rival. But there remains a substantial Russia-friendly vote in the country and her victory in the second round is by no means assured. Some analysts believe she may lose," wrote Olga Lautman, a non-resident senior fellow at the Center for European Policy Analysis (CEPA), on October 30.

In Georgia, meanwhile, the October 26 parliamentary election ended in victory for ruling Georgian Dream (GD), which took 54.23% of the vote, while the main opposition parties took a combined total of only 37.44%.

"The results align with pre-election polls which predicted that Georgian Dream would win the election and garner the most votes. The ruling party's victory therefore came as no surprise. What does raise questions is the scale of its success," wrote Wojciech Górecki, senior fellow at the Warsaw-based Centre for Eastern Studies (OSW), in a comment on the election on October 28.

"These results probably differed from the figures reported by the Central Election Commission because independent and opposition-affiliated polling centres underestimated the party and had difficulties measuring the impact of administrative leverage and various forms of pressure on citizens."

What went wrong?

Politicians in both countries – from Sandu's ruling Party of Action and Solidarity (PAS) and the Georgian opposition – have explicitly blamed Russia, accusing it of both helping sway public opinion through disinformation, and of outright interference in the elections.

Moldovan authorities have pointed to substantial Russian financial transfers aimed at manipulating the vote. Police chief Viorel Cernautanu said after the referendum and first round of the presidential election that over $39mn had been funnelled into Moldova from Russia via Promsvyazbank in recent months, allegedly with the goal of swaying voters in favour of Moscow's interests. Cernautanu argued that "frauds of massive proportions" took place, with Russia-backed groups purportedly trying to buy up to 300,000 votes.

This was backed up by Renato Usatii, the third placed candidate in the election. Usatii claimed that Moscow pressured him to back Stoianoglo. He alleged Russian officials had threatened him with criminal charges if he didn't align with Moscow's preferred candidate.

In Georgia, an investigative report by *Bloomberg* published ahead of the election highlighted Russian spies' alleged infiltration of key institutions, including the Ministry of Foreign Affairs and the central bank. President Salome Zourabichvili described the vote as a "Russian special operation" orchestrated to undermine Georgia's European aspirations. She joined the opposition in condemning GD, accusing the party of "stealing" the vote and Georgia's future.

International observers including from the OSCE Office for Democratic Institutions and Human Rights (ODIHR) have strongly criticised the vote in Georgia. Their concerns have been echoed by Western politicians such as European Commission President Ursula von der Leyen, who have called for an independent investigation, a concern also raised by 13 individual EU member states.

Some Western politicians have gone further, echoing Zourabichvili in explicitly blaming Russia for the outcomes of the votes in both countries.

"Russia is waging a hybrid war not only against Poland or the West as a whole. It tried to influence the outcome of the referendum in Moldova with bribery and information aggression, and is now doing the same in Georgia," wrote Polish Foreign Minister Radek Sikorski on X.

Michael Roth, head of the German Bundestag's Foreign Affairs Committee, also commented on X: "Ukraine is facing a war of annihilation. Moldova is facing a hybrid war. Georgia's free and fair elections are being stolen. Russian imperialism is behind it all. It wants to destroy the young democracies in Eastern Europe."

> "The results align with pre-election polls which predicted that Georgian Dream would win the election and garner the most votes. The ruling party's victory therefore came as no surprise. What does raise questions is the scale of its success"

Parallel histories

There are some obvious parallels between Moldova and Georgia – both are small post-Soviet countries, and both have part of their territory occupied by Russian-backed separatists (Transnistria in Moldova; Abkhazia and South Ossetia in Georgia).

For both, their post-1991 history has to a large extent been defined by their positioning towards Russia: they are on the new geopolitical frontline between Russia's influence and the West's, with their political centres of gravity sporadically shifting from one to the other.

Russia is not just the regional great power, with military and financial clout at its disposal, it has also ensured it has long-term leverage over both countries by helping separatist leaders to take over parts of their territories.

But there are also some clear differences, chiefly in their leadership. While Moldova has made significant strides towards EU accession under the leadership of Sandu, Georgia's trajectory has been murkier.

Sandu has been a steadfast advocate for EU integration. She achieved EU candidate status for Moldova in 2022 and recently initiated accession negotiations. Her PAS has advanced reforms, further boosting Moldova's credibility in Brussels.

Meanwhile, Georgia's ruling party, while publicly supporting EU accession, has taken several steps that have raised doubts about its commitment to democratic values. Under the unofficial influence of founder and billionaire Bidzina Ivanishvili, the party has sent mixed signals to both the EU and its citizens. Ivanishvili, who made his fortune in Russia, remains a divisive figure whose policies have often seemed more aligned with Russian interests than European ideals.

Despite Georgia's official position in favour of EU membership, GD has been criticised for its "foreign agents" law, echoing legislation used in Russia to stifle dissent, and for its anti-LGBTQ initiatives, again similar to Russian legislation that plays on shared Orthodox suspicion of liberal Western views on homosexuality.

These moves have drawn scrutiny from European leaders who see them as backward steps on the path to EU accession. Even though GD hasn't re-established formal ties with Moscow since the 2008 war, it has taken measures to facilitate closer economic relations, such as accepting the resumption of direct flights and choosing not to support Western sanctions against Russia.

Perhaps unsurprisingly, while Moldovan police and prosectors have investigated and announced the extent of Russia's interference in the country, the Georgian authorities have shown no interest in probing whether ruling Georgian Dream was helped to victory by Moscow.

Not the whole story

Yet Russian interference in Moldova and alleged vote rigging by Georgian Dream do not tell the whole story.

Commenting on the Georgian election, OSW's Górecki said: "Three main factors have led to the ruling party's victory – despite challenges to its legitimacy – and the opposition's defeat. Firstly, Georgian Dream's effective propaganda framed pro-Western forces as agents of a 'global war party' intending to draw Georgia into a confrontation with Russia. Secondly, the opposition is fragmented and has no prominent leaders. Thirdly, the opposition's political manifesto failed to reach a broader electorate, including voters from smaller towns and more conservative communities."

For both Moldova and Georgia, economic issues often overshadow the debate on EU integration, especially in rural regions where poverty and economic instability prevail. Moldova, one of Europe's poorest nations, has struggled to recover from recent economic shocks, including the COVID-19 pandemic and the ripple effects of the war in Ukraine. Inflation and a Russian-induced gas crisis have exacerbated hardship, leading many voters, especially in rural areas to prioritise economic survival over geopolitical alignment.

In Moldova, public disillusionment with pro-EU politicians' failure to cushion the population from external economic shocks appears to have bled into skepticism towards the EU itself. This previously happened a decade ago, when support for EU accession in Moldova also fell, despite the signing of the Association Agreement and the economic benefits it brought.

"There are significant domestic issues at play and voter disgruntlement with Sandu and her government," wrote CEPA's Lautman. "Poverty has been rising since Russia's all-out invasion of Ukraine (to 31% from 26%) and the country's economy is only slowly recovering from recession. The European Union's biggest-ever promise of $1.9bn in aid will help, eventually, but will take time to feed through."

In Georgia, economic concerns are also among voter priorities, particularly in the countryside where support for GD is strongest, as *bne IntelliNews* has reported. Again, that suggests that joining the EU may not be a primary concern among many voters.

"The election in Georgia on October 26 constituted a stress test for the EU for the countries that, along with Ukraine, have deeper relations with Brussels in Eastern Europe ... Although polls show support of over 80% for EU accession in Georgia, the parliamentary elections in Georgia have shown that the EU is having difficulty in influencing public perception in these countries," wrote *bne IntelliNews* columnist Denis Cenusa in an analysis of the vote.

Georgia is one of the countries that has arguably benefited from the war in Ukraine by boosting its trade links with Russia, as trade is rerouted through the Caucasus. Voters have seen the impact of this in their pockets and may have been worried that the pro-Western opposition would end this by taking a tougher line against Moscow.

The peace issue

Most importantly, there is speculation post-election that a large part of Georgian Dream's success was that by seeking to repair relations with Russia, it presented itself as the party of peace.

The peace narrative was a powerful tool in the party's campaign, especially against the backdrop of the ongoing war in nearby Ukraine. "For many Georgians, the memory of the 2008 war is still fresh," said non-resident fellow at CEPA Ketevan Chachava in a webinar ahead of the vote. "Peace, especially in our region, is a very tangible thing. Georgian Dream has successfully positioned itself as the party that can maintain stability."

The struggles Ukraine has faced in securing weapons from the West to continue its fight against Russia are also likely a factor; Russia lies right next door to Georgia and has a military presence in the separatist Abkhazia and South Ossetia regions, while Georgians have seen from Ukraine's experience that Western help is less certain.

Similarly, there is speculation that Stoiangolo's rhetoric of a "balanced foreign policy" has appealed to Moldovan voters, wary of severing ties with Russia. Meanwhile, Sandu and her government have become increasingly assertive vis a vis the neighbourhood great power, even mooting the idea of joining Nato – precisely the issue that prompted Russia to launch its illegal invasion of Ukraine in 2022.

As the second round of Moldova's presidential election approaches on November 3, voters are set to decide whether to play it safe by not antagonising their dangerous near neighbour with Stoiangolo, or to take a chance on a different future by reaching towards EU membership with Sandu. ●

Street billboard promoting ruling political party Georgian Dream. Tbilisi, Georgia. October, 1, 2024 / www.shutterstock.com

COMMENT

Will COP29 become a milestone in Azerbaijan's long-term energy strategy?

Fuad Shahbazov in Durham

The opening ceremony of COP29 in Baku, Azerbaijan. / cop29.az

Despite its heavy reliance on fossil fuel exports for many years, Azerbaijan has now shifted its long-term energy strategy by steadily switching to renewable energy sources.

Thus, the 29th Conference of the Parties to the UN Framework Convention on Climate Change (COP29) in Baku became a vital platform for Azerbaijan's main energy giant SOCAR and its affiliate SOCAR Green LLC (established in December 2023) to ink new agreements with countries and companies in the field of green energy, smart technologies and decarbonisation.

Focus on gas

It is noteworthy that SOCAR started supplying North Macedonia with natural gas on November 15, while Azerbaijan was hosting the major climate event on its soil. Considering that natural gas is the cleanest fossil fuel, in contrast to crude oil, Baku did not hesitate to announce the new partnership during COP29.

Although Azerbaijan has maintained the role of a significant crude oil and gas exporter for many years, in the last few years, it has primarily focused on exports of natural gas to Europe, including developing green energy fields by launching bilateral partnerships and joint projects with global leading companies like ACWA Power, ADNOC, Masdar, Siemens, Total Energy, BP, Fortescue Future Industries and others within the framework of decreasing dependence on oil and gas exports and commitment to reach a higher level of decarbonisation.

According to local sources, Azerbaijan produced 33bn cubic metres (bcm) of natural gas in the first eight months of 2024, while gas sales during this period amounted to approximately 16.4 bcm, reflecting a 3.1% increase compared to 2023. Of this, nearly 6.5 bcm was sold to Turkey, 8.4 bcm to Europe and 1.5 bcm to Georgia. Additionally, 3.7 bcm of gas was exported to Turkey via the Trans-Anatolian Natural Gas Pipeline (TANAP).

President Ilham Aliyev's praise of the country's oil/gas resources during the speech at COP29 summit outraged some Western countries, such as Belgium, which dubbed it "inappropriate". In his turn, Aliyev highlighted the fact that it was the EU that was asking for additional volumes of Azeri gas after 2022, but now some member countries are "lecturing Baku for having and bringing these resources to the market".

Greener deals

Seemingly, Azerbaijan will keep demonstrating its strong commitment to increasing gas volumes to Europe, while inking additional agreements on alternative energy sources, with several signed on the sidelines of COP29.

For example, on the first day of COP29, SOCAR signed a new agreement with IntelliGrid, a joint venture between Esyasoft holding and the Presight company. According to the signed document, IntelliGrid's artificial intelligence capabilities will be used to integrate data analysis, predictive maintenance and real-time monitoring into the gas distribution network, optimising gas consumption, minimising losses and improving overall operational efficiency.

On November 13, during the visit of Bulgarian President Rumen Radev to Baku, SOCAR inked the Joint Development Agreement with Bulgaria's Asarel Energy to enhance joint efforts on renewable energy projects.

In addition, on November 15, during another COP29 session, SOCAR announced a new collaboration with China Energy to begin decarbonising its offshore facilities soon. SOCAR Green and China Energy Overseas Investment Co. Ltd. signed an additional agreement to build a 160 MW solar power plant in the Fuzuli district, while a separate memorandum of understanding was signed with China Datang Co. Ltd. on developing a renewable energy field in Azerbaijan.

New partnerships

SOCAR's interest in diversifying partnerships in the renewable energy field can be explained by Azerbaijan's massive reconstruction of the formerly war-torn Karabakh region and its vast potential for generating green energy.

For example, a few months ago, SOCAR, in partnership with BP, started construction of the 240 MW Shafag solar power plant in the Jabrayil district, describing it as another essential step in decarbonising the largest oil and gas terminal in the Caspian region, the Sangachal terminal.

Hence, as a part of SOCAR's recent agreements with Chinese companies, a research and development centre in the renewable energy field will be established in Azerbaijan to facilitate joint projects.

SOCAR's vision of green energy is not limited only to the Karabakh region, as on November 17, the company inked a separate agreement with Masdar, the Asian Development Bank, European Bank for Reconstruction (EBRD) and Asian Infrastructure and Development Bank (AIIB) securing finance for the 445 MWac Bilasuvar and 315 MWac Neftchala solar projects, with the total cost expected to be more than $600mn. A separate agreement was signed on the same day with Saudi Arabia's ACWA Power on wind power production with a capacity of 3.5 gigawatts in the Azerbaijani sector of the Caspian Sea.

Furthermore, SOCAR and Italgas S.p.A announced another new partnership at COP29 to promote innovation, efficiency and sustainability in gas distribution.

On the global stage

Despite the controversy, hosting COP29 clearly boosted Azerbaijan's international profile. November 11 saw the arrival of dozens of governmental officials, top diplomats, foreign delegates and energy companies to attend the event. A major focus of COP29 was the establishment of a New Collective Quantitative Goal (NCQG) for climate finance. To advance this objective, the presidency of COP29 has introduced 14 key initiatives that integrate climate action with the United Nations Sustainable Development Goals (SDGs).

Moreover, to repeatedly emphasise the need to switch to renewable energy sources, the Azerbaijani government has announced the Climate Finance Action Fund (CFAF) to invest in climate action. The fund will be capitalised with contributions from fossil fuel-producing countries and companies across oil, gas and coal, and Azerbaijan will be a founding contributor. As a result, a consensus has been reached on Article 6.4 of the Paris Agreement and on raising annual climate finance commitments by multilateral financial institutions from $75bn to $170bn.

For the government of Azerbaijan, the COP29 event became a milestone in promoting climate action, alternative energy sources, and decarbonisation, boosting its own image as a potential green energy producer and exporter. Such an image is vital for Azerbaijan to tackle criticism made by some Western countries during COP29, as well as to decrease dependence on fossil fuel exports, diversify its energy portfolio, and make additional inroads into the European market. ●

COMMENT

Trump 2.0 could be a blessing for Belarus

bne IntelliNews

Belarusian leader Alexander Lukashenko was quicker than many American news networks to pronounce Donald Trump the winner of the recent US presidential election. Lukashenko showered Trump with compliments, and pledged to personally nominate the US president-elect for the Nobel Peace Prize if he keeps his promise to "stop wars" overseas," political analyst Artyom Shraibman said in a paper for the Carnegie Endowment for International Peace.

"It is tempting to read Lukashenko's flattery as just another world leader wanting to start off on the right foot with the incoming administration in Washington. In fact, there is much more to it: Minsk genuinely hopes that Trump will keep his word by freezing the Ukraine war, defusing US-Russian tensions and helping anti-liberal mercantilism triumph in a once united West," Shraibman added.

Bilateral relations with the United States hold few prospects for Minsk in and of themselves. Trump doesn't care about small countries like Belarus and cares little for America's role as self-appointed upholder of "freedom" everywhere. If anything, Trump's admiration of strongmen argues that he will be more tolerant of Lukashenko than any other American leader.

But the wily Lukashenko is hoping for more. As the leader of a smallish and relatively poor country, the one thing Lukashenko excels at is playing other strong countries off against each other. Belarus remains heavily dependent on Russia but for years Lukashenko has flirted with the West to gain leverage in his negotiations with Russian President Vladimir Putin in order to extract concessions on cheap gas and soft loans with aplomb.

Lukashenko's regime is betting on a recalibration of US foreign policy under Trump that could thaw Belarus' diplomatic isolation – achieved without Minsk conceding anything of note on human rights or democratic reforms. Lukashenko's gambit hinges on Trump's potential to broker a ceasefire in Ukraine and dial back US-Russian tensions, offering Belarus a way to re-emerge as a regional actor.

"Minsk is counting on Trump to end the war in Ukraine, something it secretly wishes for. Unlike Russia, Lukashenko never publicly backed the objectives of the "special military operation" and is unlikely to have ever been interested in those objectives," says Shraibman.

A Trump reset

Minsk's relationship with Washington has historically been low-key, with the EU taking the lead in putting pressure on Minsk for change. Lukashenko's disregard for human rights and democratic norms has made Belarus largely irrelevant to US foreign policy, which has never been too concerned with the fine details of Eastern European politics, says Shraibman.

Yet Minsk is pinning its hopes on Trump's non-interventionist rhetoric, which aligns with its own preference for a cessation of the Ukraine conflict and a winding back of sanctions.

Despite supporting the Russian war and bringing down more sanctions on itself, Lukashenko's government is still sending conciliatory signals to the West, such as pardoning political prisoners and proposing peacekeeping initiatives to try to reopen its communication with Brussels. However, as these gestures fall short of real reforms, Lukashenko has been met with a stony silence so far. The message is a good one: his formula for peace echoes the rhetoric of Global South powers like Brazil and China, prioritising the end of military aid to Ukraine, troop withdrawals, and neutrality guarantees. But he is seen as insincere and peripheral to the process of ending the hostilities.

Minsk's path to redemption?

A new Trump presidency could end all that. Should ceasefire negotiations materialise, Belarus would aim for a seat at the table in a repetition of the role it played during the previous two rounds of the Minsk agreements to end the conflict pre-invasion. Despite Lukashenko's tarnished reputation following his role in the 2020 Belarusian election crackdown and his material support of Russia's invasion, he could leverage Belarus' past as a negotiation venue during the Minsk agreements.

"Lukashenko is attempting to escape pariah status," notes Shraibman. Even a limited role in negotiations could boost Belarus' profile, making it a less toxic actor on the European stage.

The stakes for Lukashenko are high. A protracted war or Ukrainian collapse would extend sanctions, deepen Belarus' isolation and complete its dependence on Moscow. Conversely, a Russian defeat could expose Lukashenko's regime to existential threats, as Moscow's ability to prop up his otherwise loss-making economy would end.

"Ukraine's fall and the establishment of a puppet regime or Russian occupation would immediately create several serious problems for Lukashenko. Belarus would have to compete with Ukraine for Russian subsidies," says Shraibman. "Plus, Ukraine's surrender to Russia would trigger NATO's eastern flank to militarise more actively, increasing risks for Minsk and inducing Moscow to expand its own presence in Belarus."

Russia's defeat is equally dangerous for Minsk, as not only would it lose its main benefactor, but Minsk would also become part of the mopping up operation to end tyranny in Eastern Europe and guarantee Ukraine's long-term security.

If there is a compromise and negotiations to find the "just peace" that Ukrainian President Volodymyr Zelenskiy is calling for, then Lukashenko has a good chance of being involved. Having already played the role of peacekeeper twice in the Minsk talks between Putin and former German Chancellor Angela Merkel, Lukashenko was also a party to the failed Istanbul peace deal in 2022 and could well be invited to the mooted talks that may start after Trump is sworn in. Russia needs an extra strong voice at the table and Lukashenko represents a potential military threat to Ukraine as well, adding some more steel to Putin's position in talks.

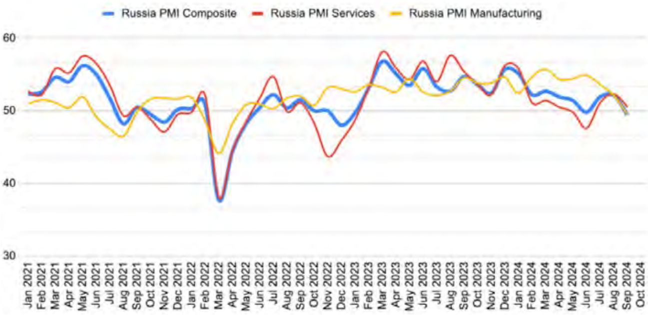
The West will not object to Lukashenko's involvement and his inevitable demand that Belarus be included in any security arrangements agreed. "It is unlikely that anyone will torpedo the whole process just to avoid yielding to Moscow on such a trivial issue. The moment will be too critical to point out that Lukashenko is illegitimate and does not deserve a seat at the adults' table," says Shraibman. In this case he would succeed in using the regional reset to shed his untouchable status.

Clearly, though, Lukashenko is tired of playing second fiddle to Russia. He would much prefer a return to the status quo of before 2020 where he could act independently, playing off both sides, without damaging his alliance with Russia.

Lukashenko's maximalist vision sees Trump heralding a broader shift in Western politics, dismantling liberal democracy's dominance and promoting *realpolitik*, which is the style of politics that Lukashenko has employed for all of his 30 years in office. Yet, even a less transformative scenario could see Minsk benefiting from a transatlantic rift that lowers the bar for sanctions relief and de-emphasises the Belarusian problem. ●

Trump's return to the White House presents Belarus' leader Lukashenko with a window of opportunity to end his pariah status and re-engage with the rest of Europe. / bne IntelliNews

Russia PMI



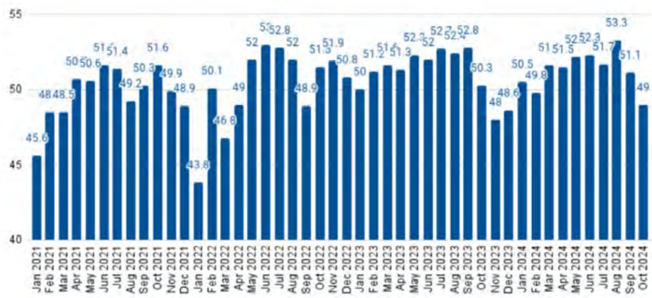
Source: S&P Global

Russian service sector PMI up to 51.6 in October as inflationary pressures resurface

Russian service providers reported continued growth in October 2024, with a rise in both output and new orders, according to the latest PMI survey from S&P Global released on November 6.

The seasonally adjusted Russia Services PMI Business Activity Index climbed to 51.6 in October from 50.5 in September, indicating a modest but accelerating expansion of activity across the sector. However, the rate of expansion remained below historical averages.

Kazakhstan PMI Index



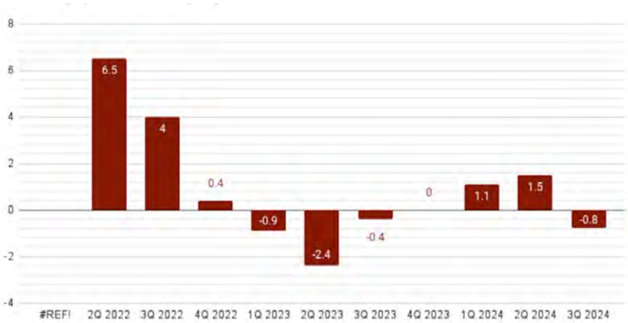
Source: IHS Markit

Kazakhstan sustained manufacturing growth in October, PMI data shows

Kazakhstan saw sustained growth in the manufacturing sector in October, according to the monthly Kazakhstan Manufacturing Purchasing Managers' Index (PMI), produced by a partnership of S&P Global and Freedom Holding. The PMI was recorded at 51.7, above the 50.0 no-change mark, but down from September's 52.3.

"Output and new orders both increased amid demand improvements, although there were some signs of rates of growth softening. Firms responded to higher output requirements by increasing purchasing and employment, the latter at a faster pace than in September," the accompanying statement to the PMI data said.

Hungary GDP growth y/y



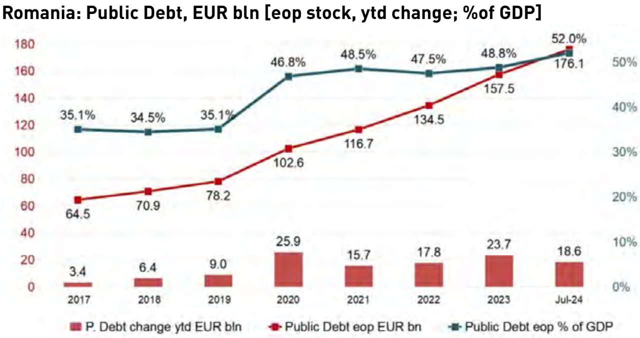
Source: Hungary state statistics agency

Hungary slips into technical recession in Q3

Hungary's GDP contracted by 0.8% y/y in Q3 and by 0.7% when adjusted for seasonal and calendar effects, surpassing even the most bearish forecasts. On a quarter-on-quarter basis, GDP dropped by 0.7%, significantly more than the 0.2% decline anticipated by analysts.

The economy has now contracted for two consecutive quarters, indicating a steeper decline than expected and marking a return to recessionary conditions last observed during the energy crisis in late 2022. Following the data release, the EUR/HUF exchange rate slipped to 409, its weakest level in two years.

Romania: Public Debt, EUR bln [eop stock, ytd change; %of GDP]



Source: bne IntelliNews

Romania's public debt hiked by €3.3bn in July to reach 52% of GDP

Romania's public debt (chart) measured by EU methodology rose by RON16bn or €3.3bn in July, which is a lot for a slow summer month with no FX bonds, according to data published by the finance ministry. Under the national definition of public debt public debt remained steady at RON1,033bn, or 58.5% of the year's projected GDP.

Germany's industry back to contraction in September

Germany's industrial sector slipped back into decline in September, with output retreating by 2.7% month-on-month, Oxford Economics reported on November 7.

"This larger-than-expected fall erased most of the gains registered in August and reflects a renewed bout of weakness for the country's manufacturing base," Oxford Economics said in a note. "Today's poor reading shows that the industrial turnaround is not there yet, as demand remains soft and structural challenges acute, posing a downside risk to our forecast of a very gradual rebound in industrial output by year-end."

The boomerang effect of sanctions on Europe is pushing the Continent into recession due the effects of the polycrisis, while Russia's economy is flourishing for now. The European slowdown is due to Europe has lost its competitive edge, according to a recent report by former Italian Prime Minister Mario Draghi.

The latest data paints a sobering picture for Germany's industry, suggesting that optimism surrounding an industrial recovery may have been premature.

Industrial production excluding construction declined by 2.7% month-on-month in September, following a rise of 3.2% in August. The August gains had offered a glimmer of hope, though analysts cautioned that it did not necessarily indicate a broader recovery. The sharp downturn in September has proven those warnings well-founded, with the decline steeper than consensus expectations.

The fall in industrial output was broad-based, affecting all major sectors and categories of goods. Automotive output, which has shown particular volatility in recent months, was a key driver of the downturn and comes on top of Volkswagen's recent announcement that it will close three German plants for the first time in its 87-year history. The automotive sector, which contributed strongly to August's growth, registered a significant fall of 7% in September.

Additionally, energy-intensive industries saw their production decrease for the third consecutive month, with output now falling below levels recorded at the beginning of the year. Capital goods were the hardest hit, with a 4% decline, but production of intermediate and consumer goods also fell amid the wider industrial slump.

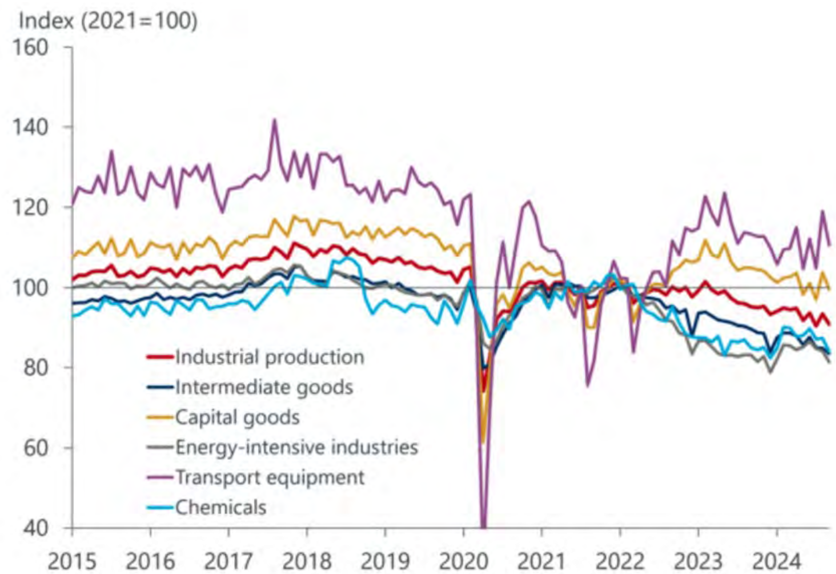
The weak industrial performance in September and similarly lacklustre survey data suggest that Germany's industrial sector is unlikely to escape its current malaise in the short term.

"September's even lower-than-expected outturn and recent weak surveys suggest that a clear end to Germany's industrial malaise is not in sight in the short term," Oxford Economics noted, highlighting the challenges the sector continues to face. This presents a downside risk to forecasts of a gradual industrial recovery by the end of the year and raises the likelihood that any significant rebound may be delayed further, the analysts said.

Despite the beginnings of a monetary policy easing cycle, the impact on the real economy appears limited so far. Interest rates, while beginning to moderate, remain elevated, thereby constraining demand for capital goods and consumer durables. Additionally, uncertain demand prospects have delayed the expected turnaround in the inventory cycle, further weighing on prospects for industrial recovery. The current environment of high borrowing costs and cautious business sentiment continues to pose headwinds for German manufacturers, who must also contend with structural challenges and a subdued global economic outlook.

The September figures suggest that Germany's industrial base, often considered the engine of the broader European economy, continues to struggle. The latest data adds to growing concerns over the strength and resilience of both Germany's, and Europe in general, industrial outlook, as ongoing demand-side weakness, high energy prices, and supply chain constraints combine to depress economic activity. ●

Germany: Industrial production by sector



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