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February 2025

Russia's hidden war debt and a looming credit crisis

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Georgian Dream lashes out at "Global War Party" and "deep state" networks

Europe needs to start the fightback against Trump now

NEW US OIL SANCTIONS, ATTACK ON TURKSTREAM SHAKE UP GLOBAL ENERGY MARKETS

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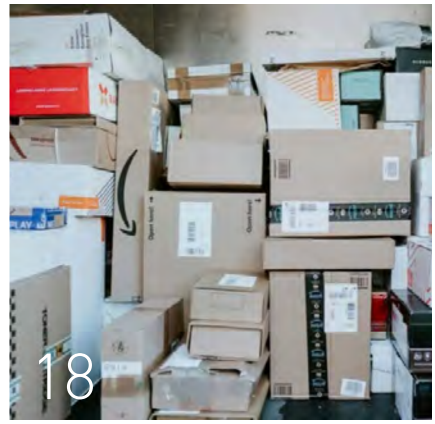

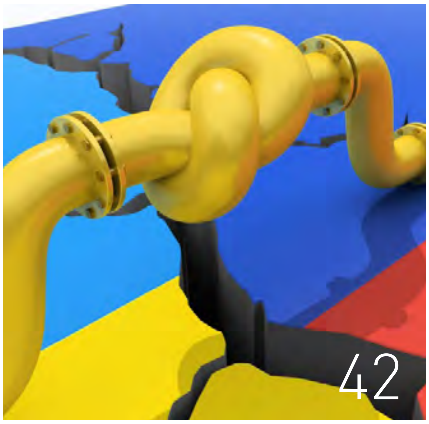
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Spike in Czech beer exports to Russia highlights cracks in Moscow-bound trade and businesses / bne IntelliNews

Spike in Czech beer exports to Russia highlights cracks in Moscow-bound trade and businesses

bne IntelliNews

Czechia's exports of beer increased year on year in 2024, which was the first spike in beer exports to Russia after a slump caused by Russia's 2022 full-scale invasion of Ukraine and the subsequent severing of business links to Russia.

Although the Czech Beer and Malt Association (CSPAS) rejects that its member breweries exported to Russia after 2022 and says that CSPAS cannot control trade carried out by middlemen, the Czech Statistical Office (CZSO) insists its figures are correct.

"If the goods made it to Russia through other countries, then it is not possible to trace it in the foreign trade figures. CZSO always knows only the first country to where the goods are exported," CZSO's spokesperson Jan Cieslar was quoted as saying by the Czech Press Agency (ČTK).

Cieslar added that "information is not available to CZSO" when the goods are exported to third countries. The country's major breweries, including Pilsner, Staropramen, Budvar and Heineken's local branch, told the business section of online news outlet Seznam Zprávy (SZ) that none of them export directly to Russia, which is also seen as a risky destination.

"On long-term bases, we consider Russia, in light of the unstable business environment and bad rule of law conditions for Czech entities, as an unsuitable destination for Czech companies," Minister of Industry and Trade Lukáš Vlček told SZ on January 14.

While for the whole of 2023, Czechia exported beer worth CZK728mn (€28.9mn), beer exports to Russia from January-October 2024 amounted to CZK819m, which is an increase of 12.4% y/y, according to CZSO.

This makes Russia the third largest beer export destination after Germany and Slovakia, ČTK noted, adding that Russian state-linked agency RIA described Czechia and Germany as the two largest beer importers to Russia.

Czechia exported beer worth CZK2.15bn to Germany and worth CZK1.64 bn to Slovakia from January to October 2024. Along with Russia, Poland is the only other destination where the volume of exports exceeded CZK0.5bn.

The news of increased beer exports to Russia reinvigorated the reporting of more goods registering a spike in exports to Russia even though the overall volume of exported goods to Russia continues to fall.

SZ wrote that the volume of exported organic chemicals increased from January – October 2024 by 39.9% y/y to just over CZK2bn. Furniture, hospital beds spiked by 144.1% to CZK0.54bn, plastic products by 34.8% to CZK71bn, and oil seeds such as poppy seeds by 35.2%. to CZK0.42bn.

Both of the two Czech hospital bed producers – Linet and Proma Reha – told SZ that they are not exporting any products to Russia, while the Chair of the Czech poppy association, Pavel Cihlář told SZ “I don’t know who exports there [to Russia].”

Russian-linked businesses inside Czechia, which has traditionally been a popular destination for Russian elites, who sent their children for schooling there and purchased lucrative real estate in the country’s prime locations, remain also active.

Investigative website Page Not Found published a story this week that Russian discount retail chain Mere, which is facing sanctions in Ukraine, is opening a fifth warehouse in Czechia.

Mere has launched its expansion in outskirt regions in northern Bohemia, struggling with high unemployment and hoist of social issues. It opened its first store in 2019 in the northwest town of Most, whose continued struggles to catch up with the rest of the country *bne IntelliNews* covered last year, and the latest store is to open in the regional capital Ústí nad Labem.

In a twist of irony, Mere is taking advantage of hundreds of thousands of Ukrainians who fled to Czechia and were quickly absorbed by manual and low-paid jobs in the labour market designed to swallow a cheap workforce.

Head of the National Agency to combat organized crime (NCOZ), Jiří Mazánek told SZ in an interview this week that NCOZ is addressing “several cases linked to sanctions” against Russia.

“It is organized crime of Russian type involving, of course, other countries in the region,” Mazánek said, adding that “we are afraid Czechia serves to launder dirty money and that our legislation is weak in this regard.” ●

Czechia wraps up work on pipeline expansion to end reliance on Russian oil

Newsbase

Czechia is on track to end its reliance on Russian oil within the next few months following the completion of key technical work on the TAL-PLUS oil pipeline expansion, announced by Czech Prime Minister Petr Fiala on January 14.

The TAL-PLUS project, approved by the Czech government in November 2022, has expanded the transport capacity of the Transalpine Pipeline (TAL), enabling the country to fully replace Russian oil supplies with up to 8mn tonnes per year (160,000 barrels per day) of crude via the TAL and IKL pipelines. This volume is sufficient to meet Czechia’s total demand. Until now, Czechia could only secure 3-4mn tpy of crude from TAL.

Final operational tests and certifications of the upgraded system, conducted by Czech oil transmission operator MERO in partnership with the TAL consortium, are expected to conclude in the coming months. Full reliance on non-Russian oil transported through the TAL and IKL pipelines is anticipated by mid-year.

"Construction work on the TAL pipeline expansion has been successfully completed. This marks a pivotal moment for our energy security, ending decades of dependency on Russian oil and vulnerability to its regime. After eliminating reliance on Russian gas last year, we will now achieve independence from Russian oil," Fiala said.

Czech Finance Minister Zbyněk Stanjura stressed how quickly the project costing CZK1.6bn ($65mn) had been implemented. It was funded entirely by MERO without impacting the state budget. “In just two years since its approval, TAL-PLUS is technically prepared to secure the Czech Republic's full oil supply from the west," he said.

MERO CEO Jaroslav Pantůček described the project as one of the company’s most significant investments, noting that the system has already been successfully tested and is ready to replace Russian oil supplies in case of disruptions.

Czechia is one of the few EU markets still accepting Russian oil, alongside Hungary and Slovakia. The EU placed an embargo on Russian oil imports at the end of 2022 in response to Moscow’s invasion of Ukraine, but provided a temporary exemption to Czechia, Hungary and Slovakia, in light of their lack of alternatives to importing Russian crude via the Soviet-era Druzhba system. ●

Hungary's 4iG seeks further acquisitions in CEE and Western Balkans for rebranded telco operations

Tamas Csonka in Budapest

4iG will rebrand all its telephone operations under the ONE brand and will seek further acquisitions in Central and Eastern Europe and the Western Balkans, CEO Peter Fekete told Inforadio on January 6 after the BSE-listed ICT opened the first flagship ONE brand store in Budapest on January 6.

4iG has rapidly expanded since 2018 to become Hungary's 25th largest company, acquiring nearly 25 firms but keeping a focus on telecommunication services, which now generate over 85% of the group's revenue.

From the start of 2025, 4iG will offer the services of Vodafone Magyarorszag, DIGI, Antenna Hungaria, and Invitech under the ONE brand as part of a rebranding of its commercial telecommunication services. Two years after it bought a majority stake in Vodafone's Hungary unit, the third-largest telco in Hungary with 3 million clients, 4iG will rebrand its commercial telecommunication services under the ONE brand. The company will complete the rebranding of all its 135 stores within a couple of years.

Fekete emphasised 4iG's commitment to the telecom sector and its long-term operational goals. Beyond Hungary, the company is already active in Montenegro and Albania and is eyeing further expansion in the Western Balkans and Central and Eastern Europe.

"We don't aim to be present everywhere in Europe. Our focus is on the Western Balkans and Central and Eastern Europe", Fekete said, adding that the company seized the opportunity to expand in Albania and Montenegro when opportunities arose.

4iG has prioritised consolidation but sees the chance for new deals, which could be realised in the next one to two years, he added. The company has recently announced the establishment of a new subsidiary, ONE Macedonia Telecommunications in North Macedonia.

4iG is one of the region's leading integrated ICT groups, with a robust presence in IT systems integration and telecommunications in Hungary and neighbouring countries.

Thanks to a streak of acquisitions, 4iG's revenue has surged from HUF15bn in 2018 to nearly HUF700bn (euro1.7bn). In a geographical breakdown, domestic sales accounted for 87% of the revenue in H1 2024, while sales in Albania generated 10% and sales in Montenegro 3%,

Over the past decade, it has transformed from a small IT firm into a significant ICT player, with operations extending into the Balkans, Israel and Egypt.

It has enjoyed the strong support of the government, which has sought to create national champions in strategic sectors. The company's CEO and part-owner Gellert Jaszai earlier headed Opus, the flagship company of Hungarian oligarch Lorinc Meszaros, the childhood friend of the prime minister.

The company is a market leader in Hungary's fixed-line, internet, cable, and digital terrestrial broadcasting sectors. Over the last few years, 4iG also ventured into the defence industry, setting up a joint subsidiary with Rheinmetall and is now shifting focus to the space industry. The company will start to manufacture of the low Earth orbit satellites in a space technology centre, near Budapest, from 2026. ●

"We don't aim to be present everywhere in Europe. Our focus is on the Western Balkans and Central and Eastern Europe"

4iG opened its first ONE store in Budapest as part of its rebranding of telco units, including former Vodafone units. / bne IntelliNews

Russia's war machine fed by free-flowing exports of Uzbek "guncotton" pulp, say reports

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

bne IntelliNews

Much of Russia's war machine reportedly remains reliant on exports of cotton pulp, or cellulose, from two factories in Uzbekistan.

Cellulose is a key ingredient in nitrocellulose, or "guncotton", a highly flammable compound used as an explosive and as a propellant in artillery shells, rockets and missiles.

Reporting from US public broadcaster PBS Newshour and an article from *Talk Finance* have focused on Fergana Chemical Plant (Fargona Kimyo Zavodi) and Jizzakh Chemical Plant (Raw Materials Cellulose). The latter media outlet said the plants have supplied over $170mn worth of cellulose to Russian arms makers since February 2022, when the Kremlin launched its full-scale invasion of Ukraine.

Fergana Chemical Plant and Jizzakh Chemical Plant were both owned by Tashkent-born Russian national Rustam Muminov, though he transferred his shares in the Jizzakh factory to other parties last year.

US sanctions do not apply to cotton pulp exports, though observers of Russia's war machine and war economy have several times raised the issue of whether Muminov should be personally sanctioned.

The two plants have supplied cellulose to Russian military contractors including the Kazan State Gunpowder Plant, Perm Gunpowder Plant and Tambov Gunpowder Plant, according to *Talk Finance*.

These entities were sanctioned by the US Treasury Department in 2023.

Uzbekistan's cotton, known as "white gold," has long been a highly important part of the country's economy, helping it through its post-Soviet economic challenges.

Geopolitical analysts note that while Uzbekistan has not backed Russia's war in Ukraine and forbids Uzbek nationals from serving as mercenary soldiers in the conflict, Tashkent in its foreign policy would not be prepared to significantly disrupt economic relations with Russia, which remains its second largest trading partner, closely behind China. Russian President Vladimir Putin visited Uzbekistan in May last year and secured a deal to build the country its first nuclear power plant.

Joh Herbst, a former US ambassador to Ukraine, said in an interview for the PBS report: "Uzbekistan does sit in one of the world's most difficult regions. It has China, Iran and Russia [as near neighbours]. So they have to be cautious. So the fact that the Uzbeks will make some arrangements with Moscow, or, for that matter, with Beijing, is something that we cannot [shakes head] – we have to understand. I think we just want to make sure that there are limits to that relationship."

However, Denys Hutyk, a representative of the Economic Security Council of Ukraine, told the broadcaster it was certainly the case that "using sanctions and targeting those two legal entities [the cellulose plants] and this individual [Muminov], this Russian citizen, can have an impact on the direct supply chains of the Russian defence industry."

Muminov, born in 1965, graduated from the Tashkent Automobile and Road Institute. He formerly directed the Turkish company Bursel Insaat, managing cotton processing and textile projects in Uzbekistan.

From 1997 to 2012, Muminov was involved in various industrial projects, including his role as deputy director for foreign economic relations at Tashkent Aircraft Production Association (TAPOiCh). ●

Kazakhstan's KazMunayGas reportedly bids for Lukoil's Bulgarian asset

bne IntelliNews

Kazakhstan's state-owned KazMunayGas is understood to be bidding to acquire Lukoil's Bulgarian refinery, Bloomberg reported on January 7, quoting two sources close to negotiations.

The Bulgarian refinery is Lukoil's biggest asset and is the largest refinery in the Balkans. Lukoil has been indicating it wants to sell it along with petrol filling stations in Bulgaria since December 2023, as Sofia has banned the import of Russian crude oil.

According to *Bloomberg*, Litasco SA, the Lukoil-owned company that owns Lukoil Neftochim Burgas, has received several binding offers for the refinery, including one from KazMunayGas.

The Kazakh company is reportedly discussing financing of the acquisition with Vitol Group.

According to one of *Bloomberg's* sources, KazMunayGas, which already processes Kazakh crude at its Petromidia refinery in Romania, expects to complete the acquisition of Lukoil Neftochim Burgas in around a month and the price is seen at $1bn.

The Kazakh company will seek guarantees that Litasco would not transfer the money to Russia.

In December, Hungarian Prime Minister Viktor Orban said that MOL is also bidding for the Bulgarian refinery, but that was not confirmed officially. At the time, Bulgarian public broadcaster BNT reported that MOL had submitted a bid, along with six other candidates in a tender for the sale of Lukoil Neftochim Burgas. Orban also said that MOL is the only candidate located in an EU member state.

Orban said the final decision on which bidder the refinery will be sold to will be made by the Bulgarian state, which holds a golden share in the refinery.

However, Bulgaria's caretaker Energy Minister Vladimir Malinov said that the state cannot interfere in the sale of Lukoil's refinery as it is private property, but it will seek detailed information regarding the potential deal.

In November, the *Financial Times* reported that Lukoil was in talks on the sale of the refinery with a Qatary-UK consortium comprising Oryx Global and DL Hudson. The Russian company denied the report.

Meanwhile, Azerbaijan has also expressed an interest in acquiring the refinery.

Back in December 2023, then finance minister Assen Vassilev said that a possible sale of Lukoil's business in the country did not pose a risk of the refinery having insufficient fuel, as the government already knew the company was preparing a sale. Vassilev added that the refinery's operations should be secured with the appointment of a state representative. ●

Bulgarian refinery is Lukoil's biggest asset and is the largest refinery in the Balkans.

"Danish model" funded 500% increase in Ukraine's domestic arms production in 2024

Ukraine's domestic production of weapons expanded by 500% in 2024 with help from the "Danish model" of funding for investment into new facilities.

Ben Aris in Berlin

With US supplies of weapons expected to fall in 2025 and European stockpiles running low, Kyiv's arms supplies are shifting from international purchases to boosting domestic production.

Ukraine's domestic production of arms grew 500% in 2024, led by drone production where the country has overtaken Russia in the number of units produced.

The trend in 2025 is expected to continue on the basis of the so-called "Danish model"; Denmark has been providing Ukraine with hundreds of millions of euros to invest into rapidly building up the country's arms production, to make it more self-sufficient.

The plan was first floated by Ukrainian President Volodymyr Zelenskiy at a summit where he proposed making Ukraine a military production hub in October 2023 and those plans are starting to come to fruition.

As *bne IntelliNews* reported, Ukraine's defence sector development went into high gear in October last year and Bankova (Ukraine's equivalent of the Kremlin) signed a string of deals with international defence companies during the the second international Defence Industries Forum (DFNC2).

Ukraine's defence industry has reaped substantial benefits from its cooperation with Denmark in 2024, receiving weapons worth €538mn under a Danish-led financing initiative. The collaboration leverages multiple funding sources to bolster Ukraine's military capabilities.

The financing includes €125mn from Denmark's national Ukraine Fund, €20mn from Sweden, €2.7mn from Iceland, and €390mn in interest generated by frozen Russian assets. This funding model facilitates a streamlined process: Ukraine identifies priority projects while Danish experts evaluate suppliers' capabilities and oversee contract fulfilment.

Deliveries under the scheme's first stage included Bogdan self-propelled artillery systems, long-range drones, and anti-tank and anti-ship missiles. The equipment has already proven effective on the battlefield.

"I am impressed by the speed with which the Ukrainian defence industry is providing," Denmark's Defence Ministry spokesman said, as cited by UBN. An additional €135mn has been earmarked for further purchases and production of Ukrainian weapons, with Norway planning to contribute €43mn to support Ukraine's defence.

Denmark's national Ukraine Fund is the lead actor in the model, providing a significant share of the total funding as well as managing the process.

Rheinmetall

Germany's leading defence company Rheinmetall is another key partner and has launched several projects, but these have been done largely at the initiative of the company itself and on a bilateral bias, rather than as a strategic plan cooked up by Berlin.

In October 2023, Rheinmetall and Ukrainian Defence Industry JSC (UDI, formerly Ukroboronprom) established a joint venture, Rheinmetall Ukrainian Defence Industry LLC, based in Kyiv. Rheinmetall holds a 51% stake in this partnership, with UDI owning the remaining 49% and focuses on the service and maintenance of mechanised armour, as well as the assembly, production, and development of military vehicles.

In December 2024, Rheinmetall announced plans to produce the Lynx Infantry Fighting Vehicle and the TPz Fuchs Armoured Personnel Carrier in Ukraine, with the first units expected to roll off the production line in 2025. Additionally, Rheinmetall has been supplying Ukraine with various military equipment, including Marder infantry fighting vehicles and Leopard 1 battle tanks, to bolster its defence capabilities.

Gunpowder factories are also in the works and expected to go online sometime this or next year.

Military-industrial growth
As a result, these initiatives are already making themselves felt. Ukraine's military-industrial complex saw production capacity surge by 500% in 2024 after the government invested over UAH39bn ($1bn) in weapons production. A preferential lending programme for defence manufacturers – offering loans at 5% interest, subsidised by the state – was a major driver of growth.

The Zbroyari campaign, a financing initiative that attracted $1bn with the help of international partners, further underpinned this expansion. Additionally, the government launched the Iron Polygon service that provides testing facilities for drones and other weaponry free of charge.

Ukraine's drone production saw a dramatic increase in 2024, largely due to a combination of strategic investments, international cooperation, and the government's prioritisation of the defence sector.

In 2024, Ukraine's drone production reached unprecedented levels, with over 1.5mn first-person-view (FPV) drones manufactured. Domestically produced drones accounted for 96.2% of all unmanned aerial vehicles (UAVs) used by Ukrainian forces in 2024.

These drones have proven to be instrumental in the war and filled in for shortages of artillery shells. Although each drone can kill only a few soldiers, their accuracy and high success rates make them lethal and have prevented Russia following through on military successes slowing its advance.

This achievement was part of a broader initiative to produce a total of 2mn drones, including various types such as medium-range attack drones and long-range drones capable of reaching targets over 1,000 kilometres away, that puts Ukraine's drone production on a par with Russia's.

Key projects for 2025 include a planned production ramp-up of 30,000 long-range drones and 3,000 cruise and drone missiles, as directed by President Volodymyr Zelenskiy.

The Ukrainian defence sector's growth underpins a broader goal of boosting production capacity to $30bn annually, reflecting a strategic effort to secure long-term military readiness.

Ukraine also developed its first long-range cruise missile the Palyanytsia and put them into serial production at the end of last year, according to Zelenskiy. ●

Russia's hidden war debt and a looming credit crisis

Ben Aris in Berlin

Moscow has been quietly pursuing a two-pronged strategy to finance its escalating war costs. In addition to the publicly scrutinised defence budget, it has set up a system of state-directed off-budget soft loans where the Kremlin badgers banks into making easy credits to defence sector companies to fund its war machine unofficially. But with the soaring cost of borrowing that is now becoming a problem that could end in a debilitating crisis, according to a report from the Davis Centre.

This lesser-known mechanism, instituted shortly after the invasion of Ukraine, has mushroomed, with the volume of loans running into hundreds of billions of dollars. Companies that were forced to take out these loans are starting to squeal from the pain servicing the rapidly rising interest payments after interest rates climbed into double digits.

Inflation took off forcing the Central Bank of Russia (CBR) to reverse its loosening of monetary policy in the second quarter of 2023. Since then, prime interest rates have climbed relentlessly to the current all-time high 21% imposing crushing interest payments on Russians corporates that have traditionally avoided credits, preferring to make the majority of their investments from retained earnings.

Interest payments eating into profits
The debt burden is now eating up one ruble in four, according to Sergey Chemezov, and is leading some analysts to predict a wave of bankruptcies later this year, although other economists have argued that Russia's economy is a lot more robust than it looks.

Since mid-2022, this off-budget financing has led to a record $415bn surge in corporate borrowing, with an estimated $210bn-$250bn (RUB21-25 trillion) as compulsory loans to defence contractors, said Craig Kennedy, a former investment banker and now an associate of the Davis Centre at Harvard, in a social media post.

Given the total Russian defence spending was just over RUB10 trillion in 2024, this informal state-directed lending to defence companies, according to these estimates, is double all the official military spending – a substantial amount.

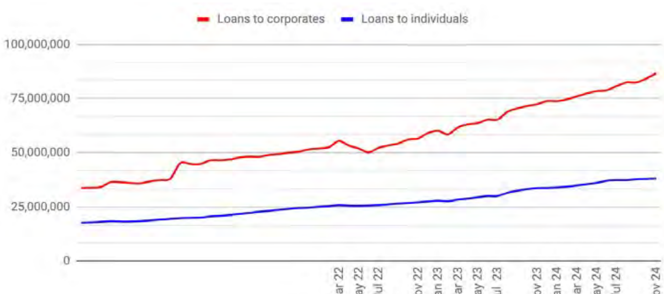
CBR Governor Elvia Nabiullina has been struggling to bring down inflation as interest rate hikes are clearly not working, so at the end of last year she teamed up with the Ministry of Finance (MinFin) to introduce a series of non-monetary policy methods. Amongst these was effectively reducing retail borrowing by increasing bank macroprudential limits, but she had less success with cutting corporate borrowing, although even that started to slow in the autumn.

The growth of corporate lending slowed to 0.8% year on year in November 2024, down from 2.3% in October 2024, as Nabiullina's tightening of lending conditions appeared to deliver some results.

Still, even according to the official CBR corporate borrowing figure remains elevated at a total outstanding corporate borrowing of RUB86.7 trillion ($852bn) in November, up by almost two thirds (65%) from RUB52.6 trillion at the start of the war in February 2022. The increase was largely driven by ruble-denominated government-backed loans to industry, according to the CBR's own reporting.

Kennedy estimates that 30% of all this borrowing is due to state-directed lending for military-related contracts.

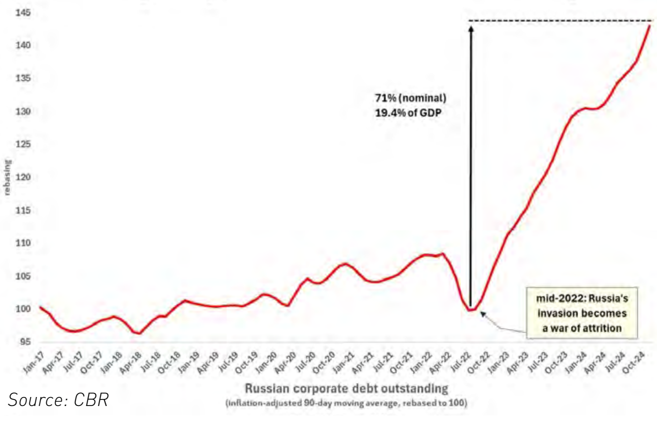
Russian banks corp vs retail loans RUB mn



Source: CBR

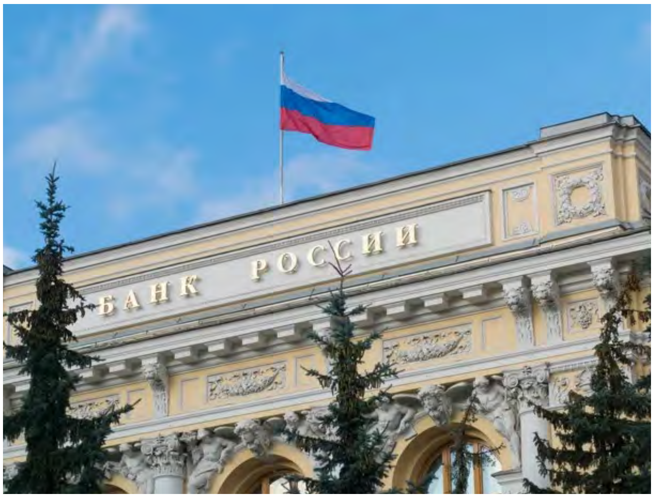
Kennedy argues that if the off-budget lending is added in, the increase in corporate borrowing is much more dramatic.

The corporate credit surge. After years of low growth, corporate borrowing soars by $415 billion after Russia shifts to a war footing*



Source: CBR

"This off-budget funding stream is authorised under a new law, quietly enacted on February 25, 2022, that empowers the state to compel Russian banks to extend preferential loans to war-related businesses on terms set by the state. Since mid-2022, Russia has experienced an anomalous 71% expansion in corporate debt, valued at RUB41.5 trillion ($415bn) or 19.4% of GDP," Kennedy said.



"In short, Russia's total war costs far exceed what official budget expenditures would suggest. The state is stealthily funding around half these costs off budget with substantial amounts of debt by compelling banks to extend credit on "off-market" (non-commercial) terms to businesses providing goods and services for the war," write Kennedy.

Government sources of funding

Bank loans to defence companies are not the main source of funding for Russia's defence spending. The formal budget expenditure remains the source of funds and thanks to the war-boost, revenues rose again in 2024.

For the January-November 2024 period, total revenues reached RUB32.65 trillion, with oil and gas revenues up by a quarter to RUB10.3 trillion ($103bn), while non-oil revenues were also up by quarter to RUB22.3 trillion – the Kremlin earned twice as much from non-oil taxes as it did from fuel exports. Currently the oil and gas revenues almost cover all of the defence spending of RUB10.8 trillion.

Looking ahead, the 2025 budget indicates a further increase in defence spending, with plans to allocate nearly RUB13.5 trillion (€13bn), representing almost a third of federal spending.

The other significant source of budget funding is the approximately RUB4.5 trillion of Russian OFZ treasury bills issued by the MinFin in 2024 – almost double the amount it used to issue annually pre-war. The total amount of OFZ bonds currently outstanding is around RUB20 trillion, but that is almost entirely covered by the RUB19 trillion of liquidity in the banking sector, which is also the main buyer of OFZ.

Finally, the government can tap the National Welfare Fund (NWF), Russia's rainy-day fund. The amount of cash in the liquid portion of the fund has fallen by half since the start of the war, but in 2024 MinFin actually managed to increase the amount in reserve slightly. The liquid part of the fund halved from a pre-war RUB9 trillion to a low of RUB4.8 trillion in 2023. But this year the government started with just over RUB5 trillion and ended the year with RUB5.8 trillion ($580bn), leaving MinFin with a comfortable cushion that can cover the projected budget deficit this year twice over.

Banking crisis on the cards?
Now analysts warn that the amount of accumulated debt may begin to unravel, posing risks to Russia's financial stability. By maintaining its official defence budget at ostensibly sustainable levels, MinFin has misled observers and fooled them into significantly underestimating the strain the so-called special military operation is having on the corporate and banking sectors. The off-budget funding scheme is only fuelling more inflation, pushing up interest rates, and weakening Russia's monetary transmission mechanism.

"The Kremlin's reliance on preferential loans is now driving liquidity and reserve shortfalls in banks and risks a cascading credit crisis," notes the report. "Interest rates and inflation have surged, with knock-on effects threatening the broader economy," says Kennedy.

This covert funding method has also left Moscow grappling with an emerging dilemma: delay a ceasefire and risk credit events, such as large-scale bank bailouts, or negotiate while still retaining economic leverage. These risks are of increasing concern to Russian policymakers, who are growing wary of a potential credit crisis undermining domestic stability and their bargaining position in any future peace talks.

The Kremlin's fiscal fragility provides Ukraine and its allies with a unique opportunity to press for advantageous terms in negotiations. "The financial strain on Moscow has shifted the dynamics, offering unexpected leverage to Ukraine," the report suggests.

The Russian big business lobbying group, the Russian Union of Industrialists and Entrepreneurs (RSPP), has been baying for Nabiullina's blood for months and at the end of last year suggested that the CBR "coordinate" its monetary policy with the government and business leaders, suggesting the long-standing independence of the central bank be undermined.

And Nabiullina appeared to cave in December, giving into the pressure, when in a rare dovish surprise decision she kept interest rates on hold at 21%, despite the very widespread expectations of a 200bp rate hike.

NPLs stable but inflation rising
Just before the meeting, Nabiullina defended herself in a speech before the Duma, saying that the CBR was on the verge of an "inflation rate breakthrough" that would become apparent in the first quarter of this year.

Russia's off-budget defence funding schemes have turned toxic twice before – in 2016-17 and again in 2019-20, the report said. Both times the state had to assume large amounts of bad debt. Will it happen again?

She also pointed to the non-performing loan (NPL) results which amount to only 4% of the loan book and which even declined slightly in October to 3.8%, or RUB3.1 trillion, which have remained largely unchanged all year. Indeed, the level of non-performing debt is now less than 5.51% in 2022 and 6.1% in 2021.

Moreover, corporate NPLs remain adequately covered by prudential reserves at 72% in October, which the CBR said remains a "stable level" compared to the previous month in its November banking update. Banks and companies may be under pressure, but they are not suffering any actual damage – yet. However, a few, like Gazprom, are already at risk; the state-owned gas giant has been borrowing heavily in the last year to cover historic losses after its pipelines were blown up in 2022.

The soft loans are not going to spark a crisis soon. The damage it is doing is more indirect: driving up inflation. The Ukrainian defence budget is some 20% of GDP – ten-times higher than most Nato members. Against that Russia's 6% of GDP or circa RUB10 trillion, appears to be prudent given the scale of the conflict. However, if you add in an extra clandestine RUB20 trillion of spending via the soft loans the true level of military spending is closer to 18% of GDP – on a par with Ukraine – that is pumping the economy full of money.

It is this torrent of money that is causing Nabiullina's inflation problem and no amount of rate hikes will make any difference, as rising interest rates are supposed to take cash out of the system and cool the economy. But traditional monetary policies don't work when it is the Kremlin, not the central bank, that has its hand on the cash spigot.

"In the second half of 2024, the Central Bank of Russia began identifying the state's preferential corporate lending scheme as a significant threat to Russia's economic stability," says Kennedy. "As the main contributor to monetary expansion, it has been driving Russia's rising inflation. Worse still, because this lending is strategic rather than commercial in nature, the CBR observes that it has been largely "insensitive" to interest rate hikes, blunting the CBR's main tool for combating inflation."

Credit problems are a gift for Ukraine
"By late 2024, the Kremlin had become aware of the systemic credit risks unleashed by its off-budget defence funding scheme. This has created a dilemma that is likely to weigh on Moscow's war calculus: the longer it relies on this scheme, the greater the risk a disruptive credit event occurs that undermines its image of financial resilience and weakens its negotiating leverage," Kennedy argues.

As *bne IntelliNews* has reported, Ukraine is rapidly running out of men, money and materiel, although it currently has enough to muddle through 2025. But the looming credit problems means the clock is ticking for Russia too. The military Keynesianism boost to the economy has already worn off and the CBR issued a pessimistic medium-term macroeconomic outlook at the start of August that predicts growth will stumble and fall to a mere 0.5% this year. Russia won't have a crisis this year, but Putin also can't afford to keep the war machine going indefinitely and from 2025 will be under growing pressure to bring the hostilities to halt.

On October 28, Vladimir Putin convened a meeting of senior officials, including the head of the CBR, to discuss problems around the "structure and dynamics" of Russia's "corporate debt portfolio." Since then, he has publicly shown heightened sensitivity to defence spending levels and the state's use of preferential lending to achieve "strategic tasks." This chain of events was capped in December with Nabiullina's surprise decision to keep rates on hold.

"Unlike the slow-burn risk of inflation, credit event risk – such as corporate and bank bailouts – is seismic in nature: it has the potential to materialise suddenly, unpredictably and with significant disruptive force, especially if it becomes contagious," the report says.

The Kremlin still has the resources to be able to cope with a credit crisis, but what will be far more damaging is a crisis would strip away the veneer of normality carefully built up by the Kremlin, which has strived to insulate the lives of normal Russians from the effects of the war. That will undermine its hand in mooted talks with Kyiv as well.

"Moscow now faces a dilemma: the longer it puts off a ceasefire, the greater the risk that credit events uncontrollably arise and weaken Moscow's negotiating leverage," says Kennedy.

Western tactics going into the talks should include making it clear it is prepared to drag the conflict out as long as it takes until a Russian credit crisis arrives with suitable commitments to a long-term support package for Ukraine. Also to refuse to even discuss sanctions relief that Russia needs to generate more revenues to deal with a mounting pile of deteriorating debt, unless there is a comprehensive and "just" peace deal, says Kennedy. ●

TurkStream is now the only route for Russian gas to Europe

Newsbase

Assuming that Ukrainian gas transit does not resume – despite Slovakia lobbying aggressively for this, with its Prime Minister Robert Fico threatening to cut electricity supplies and withhold aid to Ukraine if it does not allow continued flow – this leaves TurkStream.

WHAT **TurkStream is now the only export route for Russian gas to Europe.**

WHY **Transit through Ukraine ended on January 1 after the expiry of the contract between Moscow and Kyiv.**

WHAT NEXT **High gas prices will restrain gas demand in Europe, which will resort to extra LNG to replace Russian gas.**

The TurkStream pipeline is now the only export route for Russian natural gas to Europe, following the expiry of the contract between Moscow and Kyiv covering transit through Ukraine at the start of this year.

Assuming flow via Ukraine is not resumed, Russia stands to lose billions of dollars of revenue from gas sales this year, and reliance on a single route poses an energy security risk for remaining European buyers of Russian gas, and a risk of Gazprom losing further revenues, should Russian fears of a successful sabotage attack by Ukraine come to materialise, or some other disruption occur. Indeed, Russia's defence ministry claimed on January 13 that nine Ukrainian drones were shot down attempting to take out a TurkStream compressor station in the Krasnodar region of southern Russia.

TurkStream, consisting of two strings under the Black Sea from Russia to Turkey, has a combined capacity of 31.5bn cubic metres per year. For the first time, the pipeline handled more Russian gas bound for the EU and Moldova than Ukraine in 2024, with deliveries increasing by 23% to 16.7

TurkStream

bcm, according to calculations made by the Moscow-based *Vedomosti* newspaper. Most of the rest of its capacity is used to serve the Turkish market.

In comparison, only 15.4 bcm of Russian gas was delivered to Europe via Ukraine, according to *Vedomosti*, while overall Russian shipments climbed 14% to 32.1 bcm.

Russia now pipes only a fraction of the amount of gas to Europe compared with pre-war volumes of 140 bcm it used to send, *The Bell* notes. In 2022, at the height of Europe's energy crisis, when gas prices exceeded $1,000 cubic metres, Russia's state gas monopoly Gazprom was earning $8bn per month from European gas sales, according to *The Bell*. For the whole of 2024, its revenues are expected to reach only $10bn.

Revenues have declined further, following the expiry of Ukraine and Russia's transit contract. While Russia had been willing to renew the deal, Ukraine repeatedly insisted it would not do so. EU authorities, which played a critical role in brokering the original contract at the end of 2019, had said they viewed an extension as unnecessary, arguing that those countries still dependent on Russian gas flow through Ukraine – namely Slovakia and some of its neighbours in Central Europe – had sufficient alternatives to offset a halt in transit.

No alternatives

Assuming that Ukrainian gas transit does not resume – despite Slovakia lobbying aggressively for this, with its Prime Minister Robert Fico threatening to cut electricity supplies and withhold aid to Ukraine if it does not allow continued flow – this leaves TurkStream. Even if some flow does resume, it is likely to be far lower in volume, and contingent on the outcome of expected Ukrainian peace talks between the Kremlin and the incoming Trump administration.

Before the war, Russian gas flowed to Europe via four routes. In addition to Ukraine and TurkStream, there was the 31.5 bcm per year Yamal-Europe pipeline running through Belarus and Poland to Germany, and the 55 bcm per year Nord Stream 1 pipeline under the Baltic Sea to Germany. The odds of either of these routes resuming flow in the foreseeable future look slim.

Sanctions and counter-sanctions imposed by Russia and Poland in 2022 have prevented the running of Yamal-Europe. Meanwhile, sabotage attacks, reported by the *Wall Street Journal* and other Western media outlets as having been carried out by a Ukrainian group, have rendered the two Nord Stream 1 strings inoperable, as well as one of the two strings of the non-commissioned 55 bcm per year Nord Stream 2 pipeline.

Given Poland's tough stance against any resumption in Russian trade, and the fact that it already switched to non-Russian gas sources before the war, Warsaw is unlikely to allow Yamal-Europe to restart. Alice Weidel, a candidate for German chancellor hailing from the far-right Alternative for Germany (AfD) party, has advocated for a resumption of flow via the Nord Stream pipelines, presumably via the last undamaged string, but as The Bell notes, her chance of winning in the upcoming election on February 23 is slim.

According to experts who spoke with *Vedomosti*, TurkStream could supply up to a maximum of 20 bcm of gas annually to Europe, which is not nearly enough to replace the lost flow through Ukraine. Should those supplies be disrupted, the EU would lose a further 5.0-7.5% of its gas supply.

What next?

Lower Russian volumes have already fuelled a spike in European gas prices, with the front-month TTF price climbing to its highest level in over a year on January 2, reaching €50.3 per MWh ($547 per 1,000 cubic metres). The front-month contract closed on January 10 at €45 per MWh. Higher gas prices will further suppress gas demand in Europe, encouraging switching to alternative sources of energy and undermining industrial performance. Consumption levels are already significantly lower than the pre-war level, with demand coming to only 56 bcm in the third quarter of 2024, which was roughly the same as in the same period of the previous year, but down from 64.4 bcm in the third quarter of 2021.

The EU's options for replacing lost Russian gas supply are mostly limited to LNG. Norway, which is now Europe's top gas supplier from the steep drop in Russian flow over the last few years, is already exporting at close to full production capacity. Azerbaijan and other pipeline suppliers also have limited extra production to spare. This may include more Russian LNG, EU purchases of which rose to a new record of 24.2 bcm in 2024.

"As for Gazprom, the company has limited means of offsetting the loss of its exports to Europe with increased supplies to other markets"

As for Gazprom, the company has limited means of offsetting the loss of its exports to Europe with increased supplies to other markets. It began supplying gas to Uzbekistan in late 2023, and forecasts that volumes to the country and its Central Asian neighbours could reach 15 bcm per year in the future. It has also mooted delivering more gas to Turkey. It expects to launch gas supply to China via a new 10 bcm per year pipeline in the Far East towards the end of this decade, complementing supply via the 38 bcm per year Power of Siberia pipeline. But efforts to secure a supply deal with China to underpin construction of the much larger, 50 bcm per year Power of Siberia 2 pipeline, have so far been unsuccessful, with Beijing proving reluctant to commit to so much more gas. Meanwhile, Gazprom and other Russian companies are struggling to advance new LNG projects because of Western sanctions. ●

Albania, Italy and UAE to build €1bn Adriatic subsea cable

Belinda Balluku via Facebook

bne IntelliNews

Albania, Italy and the United Arab Emirates (UAE) signed an agreement on January 15 on a project valued at around €1bn to build a subsea interconnection to facilitate the transfer of renewable energy across the Adriatic Sea.

Energy generated in Albania will be transferred to Italy via an underwater cable crossing the Adriatic Sea. The agreement adds to existing connections between Italy and the Balkans, including a 430-kilometer subsea power link from Montenegro to Italy.

The deal, signed at the World Future Energy Summit in Abu Dhabi, will leverage the UAE's expertise in solar and wind energy to bolster Albania's renewable energy capacity.

"The investment agreement for the underwater connection of the energy distribution network with Italy, as well as for investments in increasing production from renewable sources in Albania, was signed today," said the Albanian government in a statement.

The deal was signed by officials from the three countries in the presence of Italian Prime Minister Giorgia Meloni, UAE President Sheikh Mohamed bin Zayed and Albania's Prime Minister Edi Rama.

Rama estimated the project's value at approximately €1bn and projected it would become operational within three years.

"This agreement will serve to increase Albania's capacity as a key player in the region, based on its production of 100% renewable energy," Rama said, according to a government statement.

The underwater cable will link the Albanian port of Vlore with Italy's Puglia region, the narrowest point between the two countries.

"It has been a long and challenging road to reach today as Albania becomes an internationally trusted partner, with leading countries in the electricity sector, thanks to the hard work and maximum commitment of the entire team," wrote Albania's Energy and Infrastructure Minister Belinda Balluku on Facebook.

Meloni highlighted the strategic importance of the agreement in addressing Italy's long-term electricity needs. "This three-way arrangement demonstrates how international cooperation can support sustainable energy goals while meeting growing energy demands," Meloni said, pointing to its alignment with global climate commitments.

The relationship between Albania and Italy has strengthened recently. Under a deal between the two countries, migrants aiming to enter Italy will be housed in Albania while their applications are assessed. However, the project, championed by Meloni, hit a hurdle when Italian courts refused to validate the detention of the first two groups of asylum seekers.

UAE Industry and Technology Minister Sultan al-Jaber described the agreement as a "far-sighted collaboration" that connects Albania's renewable energy potential, the UAE's expertise and Italy's sophisticated energy market. Al-Jaber, who also chaired the COP28 climate summit, said the initiative aligns with global goals to triple renewable energy capacity and transition away from fossil fuels.

The UAE, a major oil producer aiming to achieve carbon neutrality by 2050, has been investing heavily in renewable energy.

"By leveraging Albania's abundant natural resources, the UAE's renewable energy expertise, and Italy's energy infrastructure, we are fostering a sustainable energy future across the Mediterranean," Al-Jaber said.

Albania has significantly increased its renewable energy capacity, adding approximately 500 megawatts in the last two years. The country plans to diversify beyond hydropower, which currently dominates its energy production.

"Albania now generates 10% of its energy from solar sources, compared to virtually zero a few years ago," Rama noted, adding that projects in the pipeline aim to raise this to 30%.

The initiative also strengthens Albania's ambitions to become a net electricity exporter by 2030. Rama said recently that Albania's renewable energy share of final energy demand, at 44%, places it among Europe's leaders alongside Scandinavian nations.

In 2019, Italian energy firm Terna inaugurated a similar cable connecting Montenegro and Italy, following an investment of €1.1bn. ●

bne:Funds

airBaltic CEO and IPO under pressure after flight cancellations

bne IntelliNews

Latvian ministers have called for the resignation of the chief executive of airBaltic after the state-owned airline revealed that engine maintenance issues would force it to cancel 4,670 flights scheduled for this summer.

Latvia's national airline had been expected to launch an initial public offering (IPO) later this year but these plans will now be in doubt.

Latvia's Economics Minister Viktors Valainis has called for changes in the airline's executive management, including replacing CEO Martin Gauss. Meanwhile, Transport Minister Kaspars Briskens has suggested that the airline's supervisory council, which is responsible for overseeing management, should be scrutinised.

Gauss has defended the airline's cancellations and has hit back against politicians, who he told Latvian Television on January 6, "often harm the airline" by their political decisions, eng.lsm.lv reported.

Regarding political pressures and statements about the possible change in the company's management, Gauss said he had seen "many politicians come and go during my tenure". The airline has stated that the engine maintenance issues are beyond its control, with the engine manufacturer Pratt & Whitney being responsible for the delays. Although airBaltic was informed of the maintenance delays just before Christmas, the company waited until after New Year to make a public announcement.

Gauss also explained that airBaltic still has long-term lease contracts for aircraft, but many of these aircraft will be used over the next three years by the airline to provide wet leasing operations for the German airline Lufthansa Group because it is more profitable, eng.lsm.lv reported.

Gauss also acknowledged that the airline's financial difficulties were partly due to past debts and losses during the COVID-19 pandemic restrictions but added that there were no plans to request more government funds.

However, the company's chairman Klavs Vasks earlier suggested that the airline's bond liabilities are unsustainable, and additional state capital might be necessary, eng.lsm.lv reported.

Estonian aviation expert Sven Kukemelk noted that airBaltic is a major player at Tallinn Airport, with every third passenger flying with the airline, so these cancellations will significantly impact the airport, ERR.ee reported.

In an interview with *bne IntelliNews* in September 2024, Gauss shied away from discussing the IPO directly but was keen to talk about the turnaround story at airBaltic over the past decade. ●

airBaltic CEO Martin Gauss said he had seen "many politicians come and go during my tenure". / bne IntelliNews bne:Tech

Central Asia emerges as new e-commerce hub

With a combined population of 75mn and fast-growing economies, e-commerce is taking off in Central Asia as international players start to jockey for position in the rapidly developing market. / bne IntelliNews

bne Central Asian bureau

The Central Asian region, encompassing five countries with a combined population of 75mn – Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan – is poised for an e-commerce boom as international players jockey for position in this high-potential market.

E-commerce expansion

According to the World Bank, the GDP of Central Asian countries grew by 5.6% last year, is projected to rise by 4.3% in 2024, and will grow by 5% in the coming year. E-commerce is experiencing especially rapid growth due to the low penetration of modern retail-store chains in the region, where markets (bazaars) and independent shops dominate as the primary trade format.

"The largest marketplace, Kaspi.kz, which is also a digital bank, is listed on the NASDAQ stock exchange with a market capitalization exceeding $20bn"

The expanding e-commerce market in Central Asia is being contested by several groups of players: local, global, and regional.

Global marketplaces like Amazon and Alibaba are technically accessible to Central Asian consumers but have not developed local infrastructure for fast delivery, which limits their popularity. Regional players, like Russia-based Wildberries, have gained significant traction by investing in logistics on the ground and making their platforms more accessible to local sellers.

Local companies like Kaspi.kz and Uzum currently lead the e-commerce markets in the region's largest countries, but the region is set to see increasing competition as local consumers increasingly turn to shopping online.

Growing markets

In Kazakhstan, the largest economy in Central Asia, the e-commerce market reached $4.6bn in 2023, accounting for nearly 13% of retail turnover compared to just 4% in 2020. The largest marketplace, Kaspi.kz, which is also a digital bank, is listed on the NASDAQ stock exchange with a market capitalization exceeding $20bn. Kaspi.kz is pursuing international expansion and recently acquired the Turkish marketplace Hepsiburada.

In Uzbekistan, the most populous country in Central Asia, the e-commerce market amounted to $1bn in 2023, representing about 4% of retail turnover. The leading local player Uzum became the country' s first tech unicorn this year and is expanding rapidly, with more than half of purchases on the platform made through its shariah-compliant BNPL (buy now, pay later) service. This is significant for Uzbekistan, where income levels are relatively low, and the predominantly Muslim population generally avoids using loans.

Kyrgyzstan, with a relatively small population of 7mn, saw its e-commerce market grow to $359mn in 2023, accounting for over 6% of retail turnover. In Turkmenistan, known for its natural gas production, and Tajikistan e-commerce is less developed but holds considerable potential.

For comparison, e-commerce accounts for 22% of retail turnover in the US and over 27% in China. Central Asian countries are poised for years of active market growth to reach such levels.

The Russian and regional market leader, Wildberries, is already present in three Central Asian countries and holds leading positions there. According to Forbes Kazakhstan, Wildberries' sales in the country tripled in 2023, reaching $614mn.

In Uzbekistan Wildberries provides local manufacturers with opportunities to sell their products internationally, particularly to Russia. In 2023, sales of Uzbek sellers on Wildberries nearly doubled to $418mn.

More than 15,000 sellers from Kyrgyzstan are registered on Wildberries, generating sales of $115mn in 2023. In late 2024, Wildberries CEO Tatyana Kim announced plans to enter the Tajikistani market soon.

Warehouses and pickup points
What sets Wildberries apart from some local and global e-commerce platforms are several key features. First, the company has 75mn active users across six countries, offering local entrepreneurs access to a broad audience in the region. Second, Wildberries is developing its own logistics infrastructure to ensure fast and convenient delivery, including warehouses and pickup points, to support its business growth.

Currently, Wildberries operates eight logistics facilities in Kazakhstan and 1,600 order pickup points. The company is building two large logistics complexes near the country's major cities, Almaty and Astana, with a combined area of nearly 270,000 square meters, and plans to complete them by the end of 2025. In Uzbekistan, Wildberries is planning to build a logistics complex of 150,000 square meters near Tashkent and expand its network of pickup points.

Wildberries started its business with clothing sales two decades ago. Its pickup points allow customers to try on clothing or shoes and return items that don't fit on the spot. This format has helped the company gain consumer trust in Russia, where leaving packages at doorsteps is less common due to safety concerns in large cities and underdeveloped infrastructure in remote regions. Pickup points are also seen gaining popularity in Central Asia, where people are accustomed to inspecting goods at markets before making a purchase.

In the coming years, the Central Asian market is expected to grow rapidly, catching up with developed countries in e-commerce penetration. All the pre-requisites are in place – a young and growing population, advanced mobile internet penetration, GDP and income growth, and active local entrepreneurs. Although local and regional companies have already emerged as leaders, it is clear that intense competition lies ahead. ●

Why pick-up points for online orders are gaining popularity vs. home delivery

NEO

The share of European consumers preferring home delivery for online orders dropped from 73% to 64% over the past year, according to a Last Mile Experts study. At the same time, pick-up and drop-off (PUDO) points and automated parcel machines (APMs, or parcel lockers) are gaining popularity. The leaders in this trend are the UK and France, each with over 50,000 pick-up points, followed by Poland with nearly 40,000 lockers, and Germany.

Delivery methods beyond Europe
Since the 2010s, postal and logistics operators in Europe have actively developed new delivery methods. The UK's Royal Mail launched Local Collect, France's DPD introduced Pickup Points, Poland's InPost established Lockers, and Germany's DHL created Service Points. Collecting an order from a nearby pick-up point at a convenient time is often more comfortable for buyers than waiting for a courier at home. For e-commerce operators, consolidated delivery to a single location is more cost-effective and reduces the carbon footprint compared to individual home deliveries.

China, with one of the highest e-commerce penetration rates globally and rapid urbanization, is a world leader in the number of lockers. Even before the COVID-19 pandemic, the country had over 300,000 lockers. Today, Alibaba and JD.com's logistics divisions are expanding into Europe, actively developing local locker networks.

In the United States, home delivery remains the most popular option for online orders. This is largely due to the country's geography – many Americans live in suburban, single-family homes. However, delivering parcels to pick-up points or lockers is more convenient for e-commerce operators, who offer perks to encourage consumers to choose this option. For example, Amazon offers buyers a $10 discount if they collect their order rather than have it delivered to their home.

Use of pick up lockers for e-commerce deliveries is surging and proving particularly popular in Commonwealth of Independent States (CIS) countries, where urban residents often live in large apartment complexes and delivery infrastructure remains underdeveloped in rural areas. / Image: Claudio Schwarz via Unsplash

Pick-up points most popular in CIS countries

Pick-up points are particularly popular in Eastern Europe, Russia and Central Asia, where urban residents often live in large apartment complexes, while rural delivery infrastructure remains underdeveloped. Wildberries, a top e-commerce player in the region with sales equivalent to $25 billion in 2023, operates about 50,000 pick-up points in Russia, Belarus, and Central Asia. The company's story began 20 years ago when English teacher Tatyana Kim started selling clothes and shoes online through European mail-order catalogues. She uploaded product listings online, allowing purchases without prepayment.

As the platform grew rapidly, it became essential to ensure delivery across a vast territory. National postal services were unreliable, and private delivery operators were too expensive. As a result, Wildberries focused on creating its own network of pick-up points.

These are not just collection windows but small, branded spaces with fitting rooms where customers can try on clothes and return items that don't fit. This model helped popularize online shopping in Russia and neighboring countries, where consumers initially lacked trust in e-commerce. Many Wildberries pick-up points operate under a franchise model, driven by local entrepreneurs. Today, over one million sellers list their products on Wildberries, with the company running its own warehouses and offering free delivery to pick-up points.

Emerging markets join the trend

Other emerging markets have turned to pick-up points as an alternative to home delivery to meet local challenges, including poor road infrastructure, security risks and long distances for deliveries. Mercado Libre, Latin America's equivalent to Amazon, operates pick-up points even in pet shops, stationery stores, and petrol stations – wherever is most convenient for customers.

In Southeast Asia, Shopee has established a network of parcel collection points by partnering with convenience stores and individual residents interested in operating these points service within their neighborhoods. Its rival, Lazada, is also developing collection points through partnerships. Urban pick-up points help reduce delivery costs and are popular among customers who are not at home during delivery hours.

Globally, pick-up points and lockers are becoming an increasingly important alternative to home delivery. In some countries, logistics companies drive the development of these services, while in others, marketplaces themselves lead the way, recognizing logistics and delivery as key competitive advantages. ●

RuNet sees its second big outage since January

bne IntelliNews

Russia's internet, or RuNet, experienced its second significant outage of the year, with users unable to access most websites and online services for approximately 30 minutes on January 14.

The disruption was attributed to a failed system update by the state telecommunications regulator Roskomnadzor, but there has been speculation that the Kremlin is getting ready to be able to cut Russia's internet off from the World Wide Web and run its own autonomous network as part of its "Internet sovereignty" policy.

Reports of the outage began circulating around 17:10 Moscow time, with network functionality restored by 17:40. During this window, major platforms including Russia's largest operator, Rostelecom, government services portal Gosuslugi, and popular taxi-hailing apps were inaccessible. However, messaging platforms Telegram and WhatsApp, alongside social media network VK, were largely unaffected or only partially disrupted.

The incident is reminiscent of a similar shutdown earlier this month on January 6, although that had a small impact as it occurred during Russia's New Year's holidays. A much more serious incident happened in February last year during pre-election reconfigurations of Roskomnadzor's traffic-blocking systems, which disabled almost all services, including the normally robust social media and messaging services, such as Telegram, YouTube, and VK for about an hour.

State interference in the internet has been growing. Last year YouTube slowed to a crawl as the state reportedly experimented with cutting off access to the popular video sharing site. YouTube's download speeds were reduced again this January, but to a lesser extent.

> "Last year YouTube slowed to a crawl as the state reportedly experimented with cutting off access to the popular video sharing site"

Experts quickly identified Roskomnadzor as the cause of the problem on January 14. "If all providers in Russia simultaneously fail to load the same websites and services, the culprit can only be the traffic management systems installed by Roskomnadzor," a source within the Ministry of Digital Development, as reported by Ostorozhno Media and cited by The Bell.

These systems, known as TSPU (Technical Means for Counteracting Threats), have become mandatory for all Russian internet providers since 2019 under the “Sovereign Internet” law. Intended to centralise traffic management and enforce access restrictions on banned resources, TSPU has long been criticised for introducing inefficiencies and vulnerabilities, reports The Bell.

A former telecom operator employee described the system to The Bell: “It's essentially a ‘black box’ inserted into the network. Providers have no control over its functioning, and if it fails, there's little recourse other than hoping for a swift fix.”

Roskomnadzor confirmed the outage but offered no detailed explanation, stating only that the issue was a "temporary loss of connectivity" that had been "promptly resolved."

"Before the Sovereign Internet law, there was no centralised kill switch for the internet in Russia," noted one commentator. "Now, these systems have made the entire network more susceptible to breakdowns and attacks." ●

US President Trump says Microsoft in new talks to acquire TikTok

bnm Gulf bureau

President Donald Trump said on January 28 that Microsoft is in discussions to acquire TikTok, marking the second time the technology giant has explored purchasing the popular Chinese-owned social media platform.

Speaking to reporters, Trump expressed interest in seeing a competitive bidding process for the app, which currently has approximately 170mn American users. The move to sell the app comes as both the new administration and the previous Biden administration made moves to wrestle ownership of the app away from its Chinese owners, where several congressmen and other officials have accused it of potentially being a security risk.

The discussions come shortly after Trump signed an executive order delaying by 75 days the enforcement of a law requiring TikTok's Chinese owner ByteDance to sell the platform or face a ban.

TikTok briefly went offline just before the original January 19 deadline for the divestment law, which was enacted due to national security concerns.

Trump, who returned to office on January 20, indicated he would likely make a decision on TikTok's future within 30 days, noting he has been in discussions with multiple potential buyers.

The President previously suggested Tesla CEO Elon Musk as a potential buyer, though Musk has not publicly responded to this proposition.

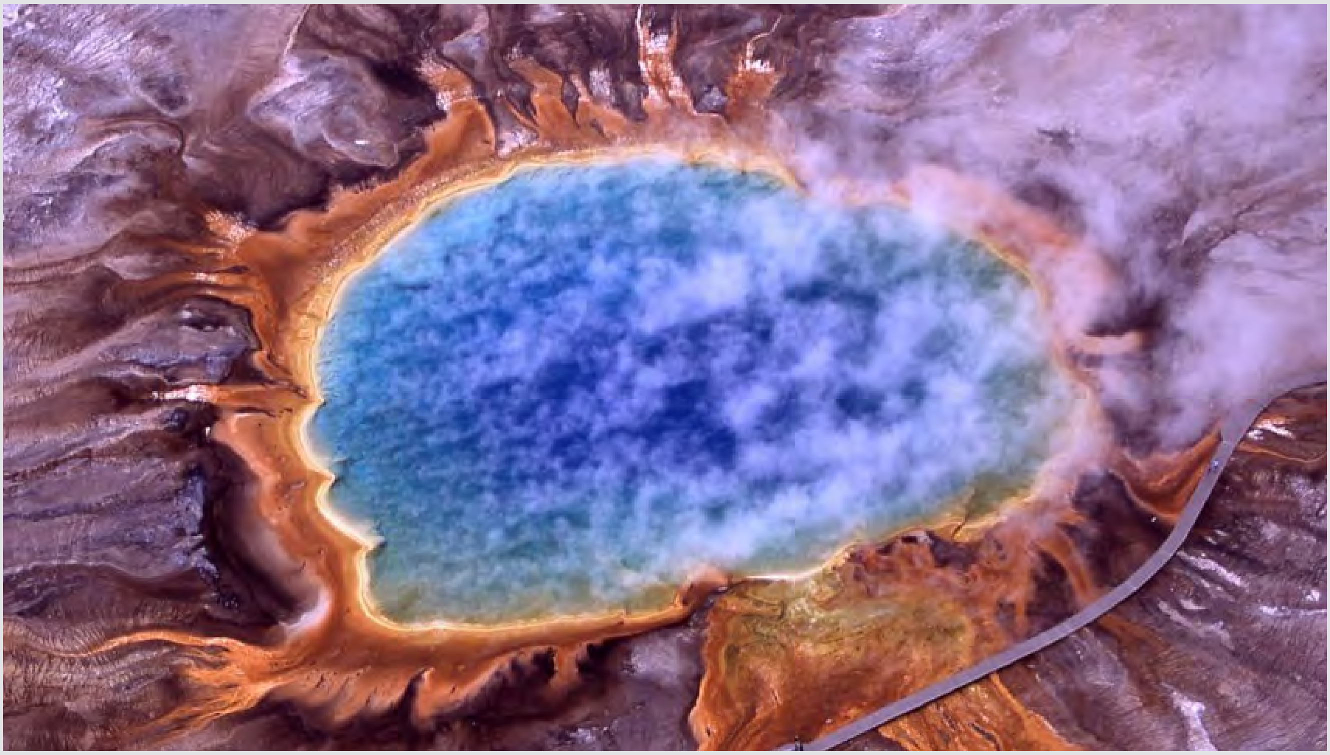
More recently, AI startup Perplexity AI proposed a merger with TikTok that would give the US government up to half of the resulting company's future ownership, according to sources familiar with the matter.

Microsoft's previous attempt to acquire TikTok in 2020 during Trump's first term ended unsuccessfully.

Microsoft CEO Satya Nadella later described those negotiations as "the strangest thing I've ever worked on," noting that the US government's requirements suddenly "disappeared" when Trump left office, *Reuters* reported.

Microsoft declined to comment on the current discussions, while TikTok and ByteDance did not immediately respond to requests for comment outside regular business hours. ●

President Trump says Microsoft in new talks to acquire TikTok / bne IntelliNews



New technology means geothermal could potentially produce 800 GW of power a year – enough to power the US – according to a groundbreaking report from the IEA. / bne IntelliNews

bne:Green

Geothermal energy poised for major global expansion, says IEA chief Fatih Birol

Ben Aris in Berlin

"Geothermal energy could see transformative global growth thanks to advancements in technology and expertise from the oil and gas sector," the International Energy Agency (IEA) said in a groundbreaking report entitled "The Future of Geothermal Energy" released in December. The IEA has decupled its estimate of the potential power generation capacity of geothermal to 800 GW – almost enough to power the entire EU or US economies.

According to Fatih Birol, Executive Director of the IEA, there is huge untapped potential in geothermal energy to provide clean and secure energy worldwide that also solves the most basic of the problems associated with renewable energy: providing a base load power supply when the sun is not shining or the wind is now blowing. Geothermal's greatest advantage is that the supply of power is constant and neither dependent on the weather nor the diurnal cycle.

With electricity consumption expected to surge due to the rising use of air conditioning, electric vehicles and data centres, geothermal energy offers a reliable alternative. "With electricity use set to grow strongly to run air conditioners, EVs and data centres, geothermal offers clean power round-the-clock," Birol said.

800 GW potential

The potential of geothermal energy is massive. The IEA has upgraded its assessment of the total power available from the earth ten-fold to 800 GW – a bit less than the circa 1,000 GW the US or Europe generated last year – up from the 16.3 GW produced globally in 2023.

Geothermal will never replace solar and wind from amongst the renewables, which will remain cheaper to produce and easier to install, but the IEA says that it will make up 15% of the growth of new generating capacity to 2050 and nearly all that new capacity will be from investment into renewables. Geothermal's anticipated rapid growth will be driven by the major advantages it enjoys over the other renewables.

First, it is entirely emission free, as it simply draws heat from the earth's core that is caused by the residual heat from the planet's formation, gravitational compression and radioactive decay of isotopes inside the core. By the same token, this energy is limitless.

Secondly, the energy produced is continuous and neither dependent on the weather nor the diurnal cycle. That makes geothermal the missing piece in the renewables puzzle; it can be the source of the baseload power supply that is missing from solar at night and wind when the weather is calm.

But to realise the IEA's projected 800 GW of geothermal power governments and private investors will have to invest some $1 trillion over the next decade. Birol forecasted that "market opportunities for next-generation geothermal energy could attract investment totalling $1 trillion by 2035 and create over a million new jobs," adding that geothermal could not only meet growing electricity demands but also provide industrial and building heating solutions across the globe.

Birol says that this is not as big a number as it first appears and is the same that has already been invested into wind power in the last seven year and solar power in only the last three years.

"This scale-up of geothermal can easily be done and it can then play a significant role in meeting the rising electricity demand we are expecting from things like the mushrooming AI data centres and improving lives of emerging middle classes around the world," says Birol.

However, Birol admitted that it is not clear whether geothermal will take off. "Government needs to act with funding and with slashing the bureaucracy of permitting to make it easier to start projects and bring down costs," says Birol.

Drilling deep

The IEA's research shows that if geothermal wells drilled to 2,000 metres there are few sites in the world that produce much heat, but the situation changes dramatically if wells are drilled to 5,000 metres, when most of the countries in the world would produce enough heat to be a viable source of energy. And at 7,000 metres virtually the whole world becomes a viable source of geothermal power and heat.

"And 5,000m deep wells are routine for oil companies," says Birol. "There is a direct cross-over from the oil and gas business to geothermal."

Industry professionals are more sceptical, as more technological development needs to be done.

"5,000m deep is the cutting edge of the geothermal business," one industry participant said who wished to remain anonymous, as they are in ongoing government negotiations. "I don't know of anyone who has dug a well that deep in Europe. Most wells are between 2,000m and 4,000m."

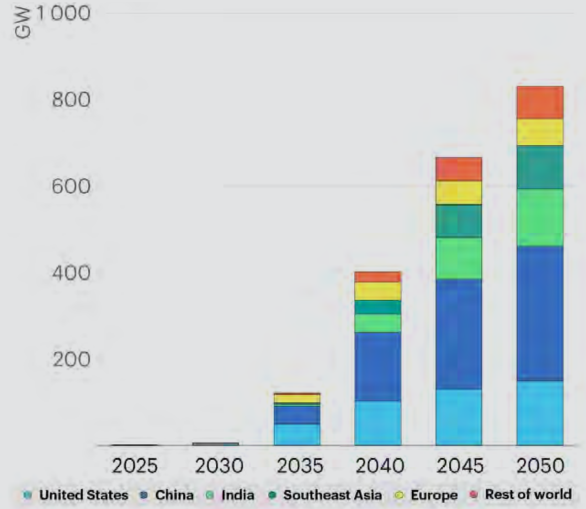
The expert also pointed out that 7,000m is an extreme, as the temperatures at that depth rise to between 250C and 400C, which would melt steel pipes.

"There are alternatives like making pipes out of carbon fibre, but this is all still in the future," the expert said.

Currently, most geothermal projects simply drill deep into the earth, pipe down water to extract the heat and bring it to the surface to use either as raw heat or run an electric generation turbine.

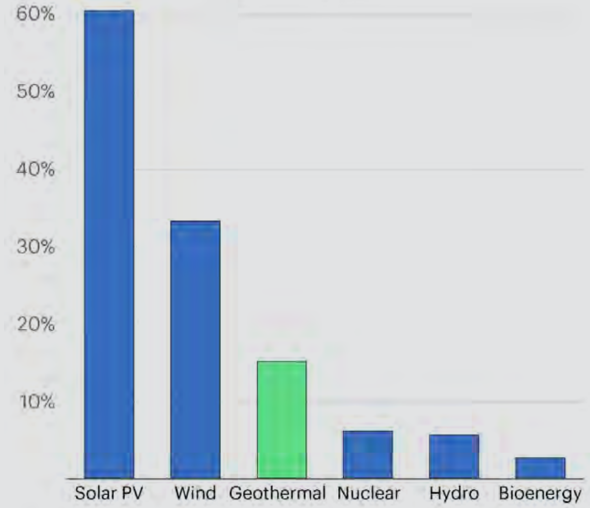
However, advances in oil extraction, such as horizontal drilling, offer new opportunities of more sophisticated methods. One

Technology breakthroughs are unlocking geothermal energy's vast potential in countries around the globe
Cost-effective market potential for next-generation geothermal by region



Source: International Energy Agency

Geothermal could meet up to 15% of global electricity demand growth if costs for new technologies continue declining
Potential share of electricity generation growth to 2050 with cost declines



option is a “closed loop” geothermal well, where a pipe is sunk and a series of horizonal pipes are drilled to a second pipe that can lift superheated water back to the surface – similar to an upside-down radiator.

“Advances in technology are opening new horizons for geothermal, promising to make it an attractive option for countries and companies all around the world. These techniques include horizontal drilling and hydraulic fracturing honed through oil and gas developments in North America. If geothermal can follow in the footsteps of innovation success stories such as solar PV, wind, EVs and batteries, it can become a cornerstone of tomorrow’s electricity and heat systems as a dispatchable and clean source of energy,” the report says.

However, experts say this idea remains on the drawing board and no one has yet attempted to build a closed loop system, although a lot of money is being invested into the research.

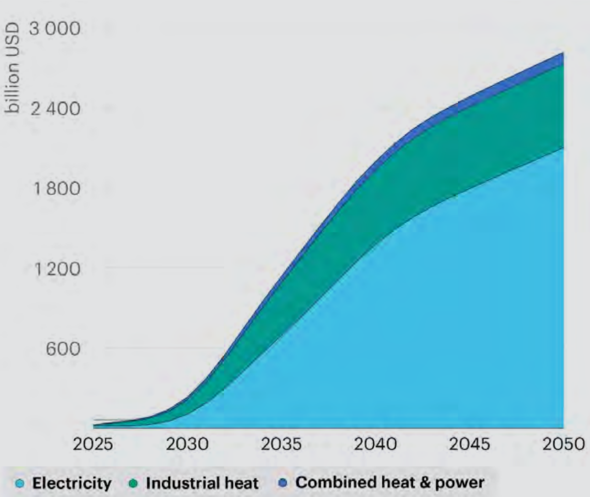
The IEA report proposes 7,000m deep wells, but industry professionals *bne IntelliNews* talked to said much shallower wells are as attractive, which lift heated water at between 100C and 130C. Half of the gas burnt in the Netherlands goes to heating houses and heat brought to the surface can be used for simple tasks like heating greenhouses in the winter, cutting the demand for other fuels like gas.

Lower temperatures can be used to power turbines if the water is replaced by alcohol with lower boiling temperatures that can also drive turbines. But of course superheated water from the deeper wells will produce far more energy if the goal is to provide the baseload power for the national grid.

Falling costs

“The EU is the home of geothermal technology and the first commercial geothermal project in the world,” Brent Wanner,

Market opportunities for next-generation geothermal energy could attract investment totalling $1 trillion by 2025
Cumulative investments in next-generation geothermal energy



Source: International Energy Agency

head of the IEA’s power sector unit, said during the press conference. “Now we can drill deeper it is possible to increase the output and meet rising demand many times over. There is a huge and open opportunity in Europe.”

The world’s first commercial geothermal power plant was developed in Larderello, Tuscany, Italy, in 1904, by scientist Prince Piero Ginori Conti. Natural steam from a hot spring was used to power a small generator that eventually powered local industries. Today the Larderello geothermal field is a major contributor to Italy’s energy mix, producing 800 MW of power a year, enough to light 1mn homes.

“We are expecting to see costs of producing geothermal to fall by three quarters in the coming years thanks to the spillover effects from the oil technology”

The EU also been a global leader in promoting decarbonisation with its Green Deal that is supposed to see carbon-zero by 2050, and it is technologically advanced.

Currently, thanks to the drilling costs, producing geothermal power is expensive: just under $250 per kilowatt hour. But Birol says that geothermal power should follow the same path as solar power, where the costs have fallen dramatically in the last years as countries around the world have scaled up their solar power generation; solar power has become the cheapest source of power at $50 per kWh, leading to an acceleration in the roll out of new capacity, led by China, the global green energy champion. The IEA forecasts that geothermal costs will also fall to $50 per kWh by 2035 if governments and investors around the world throw themselves into the business – a fall of 80%.

“We are expecting to see costs of producing geothermal to fall by three quarters in the coming years thanks to the spillover effects from the oil technology,” says Birol.

But there are still many hurdles to overcome. Birol began his presentation by calling on governments to expediate issuing permits, which currently can take over a decade to obtain. One industry professional told *bne IntelliNews* that the Netherlands has recently tried to simplify the permitting process, but all that happened was each part of a project now requires a separate permit so they have to submit applications for two, whereas before both parts of the project were covered by a single permit, and this change has introduced delays of eight months to the process.

“It means you have to take a portfolio approach; the uncertainties this sort of thing introduces means that a project can be derailed or delayed and that causes problems with funding. So you need multiple projects in case one goes wrong,” the expert said. ●

Smog back with a vengeance in Ulaanbaatar

Massive Soviet-era coal-fired power plants are to blame for a significant part of the smog (Credit: Chinneeb, cc-by-sa 4.0)

Michael Kohn

The Mongolian government is set to step up efforts to reduce air pollution in Ulaanbaatar weeks into a public health crisis that has left large parts of the capital city shrouded in thick smog.

Officials say the high levels of air pollution could be caused by briquettes burned by some residents to heat their homes. The briquettes, made by Tavan Tolgoi Fuel, are being quality tested in laboratories abroad.

The government has, meanwhile, drawn up a list of activities to cut air pollution, including curbing vehicle use, improving home insulation and expanding the use of natural gas to reduce reliance on coal.

Ulaanbaatar has grappled with wintertime air pollution for decades. The point source for most of the smoke is thousands of chimneys poking out of private homes in so-called ger districts. These unplanned neighbourhoods sprawl in every direction and lack central heating, so the only way to fend off the bitter cold in winter is by burning coal in stoves.

Smog also comes from the city's massive Soviet-era coal-burning power plants, which work overtime in winter to heat and provide power to apartments across the city, and from vehicle exhaust emissions. According to government statistics, 55.6% of the smog comes from the ger districts, 28.9% from vehicles and 15.5% from heating boilers, power plants and other sources.

Ulaanbaatar is the world's coldest capital. Nighttime temperatures in winter can dip below minus 30 Celsius (-22 Fahrenheit). On the coldest days, particulate matter-2.5 (PM-2.5) air pollution levels are 27 times the level that the World Health Organization (WHO) recommends as safe.

Processed briquettes became available to the public a few years ago. They gave residents an alternative to raw coal, an initiative that helped to improve air quality in ger districts. But the smog has come back with a vengeance this winter.

The dangerous PM levels, which regularly reach over 400 (hazardous) on the air quality index in some parts of the city, have sparked public protests, with calls for government accountability. An online petition demanding that officials act was signed by over 71,000 people.

At a cabinet meeting late last month, Prime Minister Oyun-Erdene Luvsannamsrai ordered ministers to step up efforts to reduce pollution. Officials visited the soot-filled Tavan Tolgoi briquette processing plant in the Gobi Desert, and identified in a report the challenging conditions and high levels of dust inside the plant.

The Oyun-Erdene cabinet has since increased efforts to limit coal burning and vehicle use. Police have been ordered to crack down on illegal imports of raw coal. A freeze on issuing licence plates for imported cars is also in place.

> "Ulaanbaatar has grappled with wintertime air pollution for decades"

A group of cabinet members and other officials recently announced a series of other measures they said would help reduce air pollution. Orders were issued to remove coal-burning furnaces from schools in some areas and replace them with gas furnaces.

Natural gas is mainly methane, a potent greenhouse gas that contributes to climate change. It is, however, a relatively clean-burning fossil fuel that results in few air pollutants.

Another action plan will create "chimney-free zones", with bans on wood or coal burning. The city aims to connect 40,000 homes to liquefied natural gas (LNG) lines in these areas.

Ulaanbaatar also wants to speed up construction projects that replace ger districts with apartment complexes. The city has already made some progress in this effort. The percentage of ger districts in the city has fallen from 50.2% to 44% of all districts, according to official statistics.

When interviewed recently by members of parliament, officials from Tavan Tolgoi denied that their process for making briquettes has changed, according to a readout from the Mongolian Parliament website.

The company's chief technologist D. Ulziibat blamed the poor air quality in Ulaanbaatar on increased vehicle usage and private companies burning raw coal. Poor quality stoves are a problem too, he told the officials, saying that 60% of stoves in Ulaanbaatar do not meet quality standards.

Oyungerel Tsedevdamba, leader of the Civic Unity Party and a critic of the government, said sending briquettes abroad for testing was unnecessary, suggesting that the government is stalling until the end of winter when public anger over air quality will fade away.

"There are many labs that can easily test them here," said Oyungerel.

She accused the government of avoiding questions over briquette quality because the company that provides the middling to produce the briquettes, Energy Resources, is politically aligned with the ruling Mongolian People's Party (MPP). In 2021, Oyun-Erdene signed a resolution exempting Energy Resources from air pollution fees.

Government officials did not respond to questions about the briquettes from *bne IntelliNews*.

The government has warned the public to stay indoors when smoke levels increase. But in ger districts, where many people live in a felt-covered ger (yurt), avoiding exposure to the pollution is a daily challenge. Simple requirements like fetching water or using the outhouse require a trip outside.

Typically for this time of year in Ulaanbaatar, hospitals are reporting increased cases of children with colds and flu. Many of the cases are blamed on the breathing of dirty air.

According to the United Nations International Children's Emergency Fund (Unicef), pneumonia is the second leading cause of mortality in Mongolia among children under five. Children living in highly polluted districts of Ulaanbaatar have 40%-lower lung function than children living in rural areas.

Unicef also reports air pollution in Ulaanbaatar severely impacts pregnancy and fetal health, including increased cases of postpartum bleeding, abnormal fetal development and increased stillbirths. Studies show fetal deaths occur at a rate 3.5 times higher in winter compared to summer. ●

Officials say more than half of the air pollution is produced by the city's little-planned ger districts (Credit: Borodaty, cc-by-sa 1.0).

NEW US OIL SANCTIONS, ATTACK ON TURKSTREAM SHAKE UP GLOBAL ENERGY MARKETS

Ben Aris in Berlin

The Biden administration imposed the harshest ever oil sanctions on Russia on January 10, which immediately roiled the international energy markets. Russia's major oil producers, insurance companies and 183 members of its shadow fleet were placed on the Specially Designated Nationals and Blocked Persons (SDN) Lists in an effort to "significantly reduce Russia's oil revenues".

Ukraine's supporters have been calling for these tougher oil sanctions for all of the three years of the war, but the White House has held off until US President Joe Biden's last week in office for fear of causing a spike in oil prices.

"Chinese and Indian refiners are already hunting for alternative fuel supplies as they adapt to the new sanctions regime on Russian producers and tankers"

As *bne IntelliNews* reported, Western oil sanctions have largely failed and experts believe even these latest sanctions will not reduce the Kremlin's oil tax take, but they will cause significant disruptions, drive up transaction cost and widen the discount Russia has to offer on its crude prices that will hurt the Russian economy.

Despite the existing regime, Russia's oil taxes jumped by a third in 2024 to RUB9.19 trillion ($89.4bn), which made up a quarter of its income and almost entirely covered the defence spending on its own.

The new oil sanctions have sent shock waves through the global market that have been exacerbated by an attempt by Kyiv to destroy Russia's last remaining gas pipeline to Europe, TurkStream, on January 13, and the first gas sanctions that may be included in the sixteenth sanctions package due to be introduced on the third anniversary of the start of the war in Ukraine on February 24.

Prices soar

Oil prices eased on January 14 but remained near four-month highs as the impact of the US' harsh January oil sanctions on Russia hit the market. Brent oil rose to $80.73 as of January 14 from an average of $70 in December.

Supertanker freight rates also jumped following the announcement after the US expanded sanctions on Russian oil trade. Traders rushed to book ships to pick up supplies from other countries to go to China and India before the sanctions kick in in March, *Bloomberg* reports.

Russia has already been paying a premium to book international oil tankers due to sanctions, but those costs will only increase now, marginally decreasing profits, but that will be offset by the accompanying rise in oil prices as a result of the sanctions.

Chinese and Indian refiners are already hunting for alternative fuel supplies as they adapt to the new sanctions regime on Russian producers and tankers.

Sanctions could take 700,000-800,000 barrels per day (bpd) of Russian crude off market out of the total of 5mn barrels that Russia exported in 2024, analysts say. However, with an estimated 2mn barrels oversupply expected this year, removing this amount of Russian oil from the market is not expected to push up prices dramatically.

Of the 183 tankers targeted in the new sanctions, most are a part of Russia's shadow fleet that is made up of some 400 vessels, although other estimates put the total as high as 800 tankers, if freelancers are included.

Freight rates for Very Large Crude Carriers (VLCCs) that can carry 2mn barrels of crude jumped after Unipec, the trading arm of Asia's largest refiner Sinopec, chartered several supertankers on January 10, Reuters reports. On a daily basis, the rate on the Middle East to China route, known as TD3C, has surged 39% since the sanctions announcement to $37,800, the highest since October, a shipbroker told Reuters.

At the same time, shipping on Russia's east coast, which is outside the European sanctions reach, have also soared. The freight rates for Aframax-size tankers to ship ESPO blend crude from Russia's Pacific port of Kozmino to North China more than doubled on January 13 to $3.5mn as shipowners requested massive premiums due to limited tonnages available for that route, according to S&P Global Commodity Insights data, Reuters reports.

The rate for VLCCs from the Middle East to Singapore has gained the most, up worldscale (WS) 11.15 on January 10 to WS61.35 on January 14 – an industry tool to calculate freight charges, Reuters said.

Tightening the oil price cap noose

The sanctions will have a knock-on effect on Russia's biggest customers, with India expecting disruptions to supply in the short term when the sanctions come into effect at the start of March, but China seeing bigger problems in the medium term, say analysts.

India has halted negotiations for March supplies of Russian oil and is looking for alternatives, according to the report.

Demand from Russia's other major buyer China is also uncertain and could blunt the impact of the tighter supply. China's crude oil imports fell in 2024 for the first time in two decades outside of the COVID-19 pandemic, official data show.

Six EU countries called for the G7 to tighten the noose around Russia's neck and further lower the oil price cap from $60 per barrel. Some have suggested the bar should be dropped to $40 to cut Russia's income.

"Measures that target revenues from the export of oil are crucial since they reduce Russia's single most important income source," Sweden, Denmark, Finland, Latvia, Lithuania and Estonia said in a letter to the EU executive arm, Reuters reports.

The twin price cap sanctions on crude and refined products were introduced on December 5, 2022 and February 5, 2023 respectively. As the market is already oversupplied with oil, that has given the West more wiggle room to impose even tighter sanctions on Russian exports and so easier to avoid a repeat of the price shock that roiled markets in 2022.

"The international oil market is better supplied today than in 2022, reducing the risk a lower price cap will cause a supply shock," the letter of the six countries said. "In view of limited storage capacity and its outsized dependence on energy exports for revenue Russia has no alternative to continue oil exports even at a substantially lower price," the letter said.

"Measures that target revenues from the export of oil are crucial since they reduce Russia's single most important income source"

Russian gas exports also in the firing line

Gas is also in the firing line. Ten EU member states also called for the first sanctions to be imposed on Russian LNG exports. Currently the West has imposed no sanctions on Russian gas and the EU remains dependent on imports to meet its winter heating needs. The EU is preparing its sixteenth package of Russian sanctions ahead of the third anniversary of Moscow's full-scale invasion of Ukraine in February 2022.

The ten countries – including the Czechia, Denmark, Estonia, Ireland, Latvia, Lithuania, Poland, Romania, Sweden and Finland – want Europe to end Russian gas imports, in any form, completely, in order to end revenues paid by Europe to Russia completely. Moscow has earned an estimated €92.3bn between the onset of the conflict and November 3, 2024, Statista reports. But banning Russian imports of gas will be hard as Europe remains hooked on Russian gas. Spain, France and Belgium continue to be the main partners, accepting Russian LNG shipments.

"As an end goal, it is necessary to ban the import of Russian gas and LNG at the earliest date possible," the countries said in a joint paper seen by Reuters.

Ukraine ended gas transit to Europe from Russia on January 1, but attempted to destroy the remaining transit pipeline, TurkStream, and end Russian exports of gas to the EU completely.

Ukraine sent nine drones to attack the TurkStream pipeline on January 13 that attempted to blow up one of the pipeline's compressor stations in the Krasnodar region of southern Russia. Russia's Defence Ministry said all nine drones were shot down without reaching their target. Kremlin spokesman Dmitry Peskov called it an "act of energy terrorism".

He said Russian Foreign Minister Sergei Lavrov and Gazprom CEO Alexei Miller had discussed the alleged incident with their Turkish counterparts.

Gas exports via pipelines from Russia to Europe in 2024 increased by 14% to 32.1bn cubic metres, according to data from Gazprom and the European Network of Gas Transmission System Operators (ENTSOG), reports *Vedomosti*.

The main growth in 2024 came from supplies via the Turkish Stream gas pipeline and its extension through the Balkans which jumped to the number one transit route after Ukraine ended transits in January. TurkStream flows grew by 23% to 16.7 bcm – above its design capacity of 15 bcm. The average daily volume of gas supplies to the EU via Turkish Stream last month was 49.2mn cubic metres.

The pipeline consists of two strands with a design capacity of 15.75 bcm per year (about 43.2 mcm per day) each. One of them supplies gas to Turkey, the other to Bulgaria and further to the countries of Southeastern Europe.

Deliveries into Europe via the European string of TurkStream at the Strandzha 2 entry point on the Turkey-Bulgaria border totalled 15.5 bcm in 2024, up by 22% year on year, reports S&P Global. The main customers of this route are Hungary and Serbia. Total Russian gas exports to Hungary in 2023 exceeded 5.5 bcm and were expected to reach almost 7 bcm in 2024. Russia is currently in talks with Serbia to renew its existing gas deal which expires in March. The last contract for Serbia was agreed in May 2022 for the delivery of 2.2 bcm per year at 100% oil-indexed prices.

Russian gas via TurkStream can also be delivered to Romania, Greece, North Macedonia, and Bosnia and Herzegovina.

Supplies to the EU and Moldova in transit through the Gas Transmission System Operator of Ukraine (GTSOU) of Ukraine in 2024 amounted to 15.4 bcm, which is 6% more than a year earlier.

Bulgaria's Bulgargaz was cut off from Russian gas supplies in April 2022, but Energy Minister Vladimir Malinov said in May last year that there had been a return of Russian gas to Bulgaria through "intermediary" companies, S&P Global reports.

Gas market to tighten

The moves to impose sanctions on Russian gas exports and the nerves following the attack on TurkStream threaten to cause a tighter global gas market this year, as well as driving up prices in energy-hungry Europe. For the first time since the war in Ukraine started three years ago, Europe faces the possibility of missing its targets for refilling its gas storage tanks before the start of the next winter.

While Europe has enough gas reserves to get through this winter and prices have eased since the start of the year, inventories are being eroded by cold weather. Gas withdrawals from the tanks are already running ahead of their previous five-year average and the EU is on track to end the heating season with tanks only 35% full – well down on the 60% full they ended the last season with. That means importing more gas to refill the tanks in 2025 than was needed in 2024.

"There will certainly be an energy gap in Europe this year," Francisco Blanch, commodity strategist at Bank of America Corporate told *Bloomberg*. "That means that all the incremental LNG that's coming online this year around the world will go into making up for that shortfall in Russian gas."

To make up the shortfall, Europe needs to import an extra 10mn tonnes of LNG in 2025, or about 10% more than imported in 2024. And shortfalls in European gas supply are forecast to persist through to 2027 at least. That will put Europe into increased competition with Asia, the world's biggest consumer of LNG, that will press prices upwards.

Gas futures in Europe, which typically also have an impact on Asian spot LNG prices, are still about 45% higher than at the same period last year at circa $550 per thousand cubic metres, and triple pre-crisis levels so far in 2025. The LNG market is still relatively youthful, and supplies of LNG are limited, although both the US and Qatar have plans to bring new production online in the coming years.

Global warming is making supplies worse as record high temperatures are driving up demand for power during the summer heat and reducing the surplus gas production available for storage before the heating season starts; 2024 was hottest year in documented history and first ever to see every month above the 1.5C Paris Agreement upper limit. Countries such as Brazil, Egypt and Germany are all exposed to climbing LNG prices due to these problems. ●

Poland's presidency under Prime Minister Donald Tusk offers an opportunity to reinforce its status as a major European power while advocating for a stronger and more united EU. / bne IntelliNews

EU presidency passes from Putin-whispering Hungary to hawkish Poland

Wojciech Kosc in Warsaw

It's a wild swing at the top of the EU as we enter 2025. Poland has just assumed the rotating presidency of the Council of the European Union (EU). The EU's rotation system changes presidencies every six months, and this January it marks the beginning of a new trio of presidencies of Poland, Denmark, and Cyprus, working in coordination.

Until the end of June, then, Poland will be at the forefront of shaping the EU's agenda during a period fraught with political and economic uncertainty. But unlike the preceding Hungarian presidency, there are hopes that Warsaw will actually address the EU's pressing challenges, not exacerbate them.

The Hungarian presidency – described by one critic as the EU's "worst ever" – was mired in controversy. Hungary became the first country to hold the presidency while under EU sanctions. Its eurosceptic leader, Prime Minister Viktor Orban, carried on in the vein that had earned him scorn elsewhere in the bloc, cozying up to the Russian President Vladimir Putin – beginning with a visit to Moscow in July, a diplomatic effort from which other EU leaders hurriedly distanced themselves.

In stark contrast, Poland's pro-European government, led by Prime Minister Donald Tusk, is expected to preside over a largely like-minded bloc, not set itself against it.

Tusk's victory in Poland's 2023 elections, following eight years of nationalist Law and Justice (PiS) rule, marked a turning point in Warsaw's relations with Brussels. Tusk, a former EU Council president, has since signalled a determined return to the European mainstream.

Tale of two Donalds

Challenges to the bloc's security are mounting in Russia but also in China and the US under incoming President Donald Trump, whose first, likely tumultuous months in the White House will coincide with Poland at the helm of the EU's agenda.

Tusk outlined an ambitious presidency agenda under the motto "Security, Europe!" by which Poland means security considerations related to defence, energy, economy, food, health, and information.

Europe is "fortunate" that Poland will hold the EU presidency in the first half of 2025, Tusk said at a Warsaw gala celebrating the takeover of the role from Hungary.

Defence and external security will be top priorities, with Poland advocating for increased EU military spending and the development of Europe's defence industry. Proposals include co-financing projects such as the East Shield initiative to strengthen Poland's borders with Russia and Belarus, and issuing Eurobonds for defence investments.

External security also includes tackling the "hybrid war" waged on Poland by Belarus via orchestrating migration pressure, which Tusk wants to tackle by revising asylum rules – something that he had convinced other EU leaders to support despite the outcry of human rights organisations in Poland and abroad.

Poland will also continue to advocate for continued support for Ukraine fighting Russian aggression, a policy that is expected to come under duress in the early months of Trump, whose stance on the Russia-Ukraine war remains unclear.

"We have every reason to become a strong Europe once again and Poland is prepared for this task. If Europe rediscovers the sources of its strength, it will once more become what we have often been proud of throughout history, including in recent years," Tusk said.

Economic resilience is another key focus, as Europe braces for potential US tariffs under Trump and seeks to reduce its dependence on Chinese imports.

Poland also aims to advance EU enlargement, following the December 2023 decision to begin membership talks with Ukraine and Moldova.

Food and energy security round out the agenda, with Poland pushing for policies that support farmers, reduce reliance on Russian resources, and lower costs for citizens while promoting greener, more flexible energy solutions. That said, Tusk is expected to try to blunt the EU's climate drive somewhat, arguing it is too costly amidst spending required to ensure the bloc's security against Russia.

"Tusk outlined an ambitious presidency agenda under the motto "Security, Europe!" by which Poland means security considerations related to defence, energy, economy, food, health, and information. "

It's all for Rafal

Poland's presidency faces distractions at home and abroad. The country's presidential election, scheduled for May 2025, pits Tusk's centre-right coalition against the hard-right PiS. President Andrzej Duda, PiS's last stronghold, has remained at odds with Tusk – to the point of declining to attend the presidency's inauguration gala.

According to some observers, however, Tusk might just make the presidency and the election – for which he fielded a longtime associate, Warsaw Mayor Rafal Trzaskowski – come together. By fostering the presidency's ambitions agenda, Tusk may think it will work in Trzaskowski's favour in the clash against Eurosceptic PiS's frontrunner Karol Nawrocki.

Adding to tensions, relations with Hungary have soured following Budapest's decision to grant asylum to Marcin Romanowski, a fugitive former Polish deputy justice minister. In retaliation, Poland barred Hungary's ambassador from attending the inauguration of the presidency.

The diplomatic rift complicates Poland's efforts to counter Hungarian vetoes on Ukraine-related EU initiatives, with Warsaw pledging to bypass Budapest's obstruction while holding it accountable for its actions.

Step into the vacuum

Poland's presidency comes at a time when Europe's traditional powerhouses, France and Germany, are struggling to lead. Both are facing internal political turmoil, creating a leadership vacuum in which Poland might step in – provided that Tusk wants to, say critics of the Polish leader, whose proneness to complacency is almost legendary.

For now, Tusk has positioned Poland as a critical player in shaping Europe's future, asserting that the country's history of resilience – cue the Solidarity movement against communism referenced by Tusk in his gala speech – equips it to guide the EU through its current challenges.

However, Poland cannot lead alone. Its ability to forge alliances will be crucial, especially as the EU confronts external pressures, from Trump's unpredictable policies to the ongoing war in Ukraine.

Since returning to power in 2023, Tusk's government has repaired strained EU ties, unblocked most – but not all – vital recovery funds, and has strived to resolve rule-of-law disputes with Brussels. These achievements have set the stage for Poland to take on a prominent role during its presidency. Still, the road ahead is fraught with obstacles, from managing domestic political strife to countering Hungary's obstructionism.

Poland's presidency offers an opportunity to reinforce its status as a major European power while advocating for a stronger and more united EU. As Tusk seeks to translate Poland's ambitions into tangible results, his leadership will be tested by the delicate balance of pursuing national interests and advancing the broader European agenda. ●

US sanctions key Orban ally for corruption

Tamas Csonka

The US has sanctioned Antal Rogan, a close ally of Hungarian Prime Minister Viktor Orban, for his alleged leading role in systemic public corruption in Hungary, outgoing US Ambassador David Pressman informed local media at an extraordinary press conference on January 7.

The US Department of the Treasury sanctions come under Executive Order 13818, which implements the Global Magnitsky Human Rights Accountability Act. They block all assets of the 52-year-old minister under US jurisdiction and restrict transactions with US persons.

Rogan, one of the most influential members of the Orban cabinet, oversees Hungary's intelligence agencies and government communication, and leads several government entities including the Digital Government Agency and the Hungarian Tourism Agency.

He is accused of orchestrating public procurement schemes that enriched himself and other party loyalists, diverting state resources and manipulating strategic sectors of Hungary's economy for personal gain, according to the statement.

Public sector corruption in Hungary has been worsening for more than a decade, leading to Hungary receiving the lowest score of any European Union member state on Transparency International's 2023 Corruption Perceptions Index for the second consecutive year.

The EU suspended the transfer of €6.3bn in funding from cohesion funds to Hungary in December 2022 over concerns related to public procurements, conflict of interest and the fight against corruption.

Hungary became the first EU country to lose funding, €1bn in total, irretrievably under the ongoing "conditionality mechanism", and Budapest has been blocked from accessing €6.5bn in grants and €3.9bn in loans requested from the EU's Recovery and Resilience Facility for failing to meet other conditions set by the European Commission.

Hungary's chief prosecutor, Peter Polt, a former Fidesz MP, is widely accused of overlooking corruption scandals involving individuals closely connected to the ruling party.

At the press conference, Pressman told journalists that senior government officials in Hungary have long used positions of power to enrich themselves and their families. When corruption cases were exposed by journalists or NGOs, their efforts not only failed to prompt official action, but it spurred government-led attacks against them.


Antal Rogan (left) is a key henchman of Prime Minister Viktor Orban (right). / bne IntelliNews

Washington has voiced concerns with senior government officials multiple times without any results. He added that the US rarely sanctions a sitting minister, especially from an allied country, but said the "US will act when its interests are harmed. Make no mistake, corruption in Hungary very much implicates the interests of the United States," he stressed.

The action taken is a serious step to challenge the system of corruption in which many others are involved, he added.

Rogan's media megaphone would attempt to frame the decision as partisan or an attack on Hungary's sovereignty, the ambassador added, but in reality, the opposite is true. "It is not the United States that threatens Hungary's sovereignty, but the kleptocratic ecosystem managed and by Rogan."

Foreign Minister Peter Szijjarto and Gergely Gulyas, the head of the Prime Minister's Office, called the sanctions a "petty revenge" by the outgoing Democratic administration.

Hungary's top diplomat accused Pressman of leaving Hungary "without honour" and expressed hope that the incoming US leadership would treat Hungary as a friend.

Gulyas added that the sanctions were retaliation for Hungary's support of incoming president Donald Trump.

Opposition leader Peter Magyar said the prosecution of Rogan is not the task of foreign powers but the responsibility of the Hungarian justice system, which at present operates under constant political pressure. Magyar repeated his call for an early election to put an end to the "Orban-Gyurcsany-Rogan" era.

UAE-based Eagle Hills published AI-based sketches of the Grand Budapest project. / bne IntelliNews

City of Budapest vows to exercise pre-emptive rights over plot for planned €5bn luxury project by UAE investor Eagle Hills

bne IntelliNews

The Budapest municipality has vowed not to waive its pre-emption rights over a plot of land sold by the state to UAE investor Eagle Hills, which plans a €5bn real estate development on the site, Mayor Gergely Karacsony announced at a press conference on 22 January.

The state sold the plot to Eagle Hills for HUF51bn (€120mn) two days earlier, as part of the intergovernmental agreement signed in March 2024.

The liberal mayor claimed that the government is obstructing the city's right to purchase the 85-hectare site surrounding the Rakosrendezo train station in Budapest, located 4 km north of the iconic Heroes' Square.

While the land is owned by state railway company MAV, the city holds pre-emption rights due to an existing ownership stake in the site through a utility company.

This gives Budapest the first option to buy the property at the same price offered to the foreign investor, and Karacsony emphasised the city's commitment to upholding these rights.

Remarks by the city's liberal mayor came in response to comments by National Economy Minister. Marton Nagy said that the real estate could only be sold to a buyer designated by the UAEs, with the prior consent of the Hungarian government, under the 2024 intergovernmental agreement.

However, legal experts argue that pre-emption rights cannot be circumvented in this manner, and any legal challenge could potentially delay the sale process, hence the project for years.

Fidesz strongman Janos Lazar, Minister of Transport and Construction, cynically suggested that Budapest could exercise its pre-emption rights if it matched the UAE investor's offer. However, in his letter to the mayor, he referenced a €12bn figure instead of €5bn, raising questions about the actual scale of the investment Eagle Hills has committed to.

Dubbed "Mini-Dubai" before being rebranded as the "Grand Budapest" project, the development, led by Mohamed Alabbar – whose company also built the Burj Khalifa in Dubai – will include luxury apartments, office buildings, and potentially Europe's tallest skyscraper, projected to stand between 250 and 500 metres tall.

Critics noted that by classifying the €5bn project as "national economic interest", the government granting the developer significant autonomy over what can be built on the site. Furthermore the state vowed to carry out €800mn worth of infrastructure projects around the area.

At Wednesday's press conference, Karacsony asserted the city would exercise its pre-emption rights to "prevent a harmful investment the government is trying to force onto Budapest residents," and reaffirmed plans to implement an earlier project, "Park City," which prioritises public spaces and amenities and affordable housing projects.

The local council is set to convene next week to decide whether to exercise its first right of purchase.

In related news, Valasz Online reported that a private equity fund linked to Prime Ministerial Advisor Arpad Habony and construction mogul Istvan Garancsi recently acquired part ownership of the contested site. This, in theory, grants them pre-emption rights to purchase the land. The ownership change occurred just days before the state finalised the sale to the UAE investor. ●

PROFILE

Lorinc Meszaros, Hungary's most powerful oligarch

Tamas Csonka in Budapest

Lorinc Meszaros, widely regarded as Hungary's most influential oligarch, embodies the new business elite built by Prime Minister Viktor Orban's semi-authoritarian regime. His rise has also come to symbolise crony capitalism, where business success depends on loyalty rather than financial skill or technological innovation.

The 58-year-old has risen from a small-town gas fitter to become a business magnate with an estimated fortune of HUF1 trillion (€2.45bn), equal to two years of Budapest's budget. His rapid ascent has coincided with the election victory of Orban, his long-time friend, in 2010. While Meszaros portrays himself as a skilled entrepreneur, critics argue he merely serves as a proxy for Orban, an accusation he denies.

Meszaros' ties to Orban date back to the 1970s, when they both attended the same elementary school in the village of Felcsut. In the early 1990s, he ran a business connecting homes to the gas network under a state-funded programme. In 2001, the company bearing his name, Meszaros & Meszaros, was founded with an expanded portfolio that included engineering works and construction.

His business grew to handle larger projects in nearby towns but struggled in the mid-2000s due to increased competition. The company nearly went bust a year before the 2007-8 global financial crisis.

Football focus

There are rumours that in 2007 he sought help from Orban, then opposition leader, with whom he shared a passion for football. They were often seen together at matches of the local club FC Felcsut, which in hindsight marked the beginning of a long and fruitful collaboration.

Despite financial troubles, Meszaros became a major sponsor of FC Felcsut and was appointed president of the newly founded football academy in 2008, which bears the name of legendary Hungarian footballer Ferenc Puskas. The launch of the academy was a dream come true for Orban, who also played for the team as a substitute before 2010.

People familiar with the situation said Meszaros had little decision-making power in football matters, acting as a frontman for Orban, just as critics argue he does in business.

In 2008, two years before Fidesz swept into power, Meszaros took over the club from its founder Csaba Molnár, who disagreed with plans to construct a 4,000-capacity stadium in a village of less than 2,000 residents.

After Fidesz's supermajority victory in 2010, Molnar fell out of favour with the

Prime Minister Viktor Orban (right) and Lorinc Meszaros (left) have been friends since they were at school together. / bne IntelliNews party leadership, and his company lost all state contracts, leaving Meszaros – and indirectly Orban – in charge of the club. In a move foreshadowing future events, Meszaros took over Molnar's companies, mirroring his later acquisition of businesses owned by former Fidesz treasurer Lajos Simicska.

The club's promotion to the first division in 2012 was celebrated by the construction of a new stadium, built by Meszaros' company. The project and the football academy were partially funded through Hungary's corporate tax benefit scheme (TAO), which allows companies to deduct taxes for sponsoring sports clubs. Puskas Akadémia has since become the largest recipient of TAO funds among Hungarian sports clubs.

Despite the billions of forints invested, the academy has yet to produce internationally recognised football talent. The first division team, which is chasing its first championship title, mainly fields foreign players, much to Orban's disappointment.

Road to politics

Locals recount that Meszaros initially showed little interest in national politics, and during Orban's first term as premier (1998-2002) he was elected to the local council as an independent. After an eight-year hiatus, he returned to politics in 2010, leveraging his role as president of the local football academy, and won a council seat with Fidesz's backing.

Despite Fidesz's sweeping victories in the general and local elections that year, the mayoral candidate of the ruling radical rightwing party narrowly lost to independent incumbent Gyorgy Varga, a setback for Orban. In 2011, the mayor was removed from office under a newly amended law disqualifying public servants with outstanding debts. The politically motivated campaign highlighted Orban's ruthless power politics. In the subsequent election, Meszaros won by a landslide.

As mayor, he maintained a low profile, rarely granting interviews or engaging with constituents. Council meetings were often announced only hours beforehand, violating procedural rules. On one occasion, he called the police on a journalist attempting to attend public meetings

Since 2010, tens of billions of state and EU funds have transformed Felcsut into a Potemkin village of Orban's design. High-profile projects include a narrow-gauge railway connecting Felcsut to Bicske, funded largely by EU grants, which has been criticised as a vanity project because of its low use. Tourism investments have spurred guesthouses, an artificial lake with a swan-shaped bridge, and a glass-walled restaurant with a HUF1.5bn state-funded price tag.

Business kicks off

In the year of the 2007-8 financial crisis, Meszaros & Meszaros was just a small business with 40 workers. Annual revenue was close to HUF100mn and profits reached HUF5mn.

"Meszaros's rapid wealth accumulation was primarily linked to lucrative public procurement contracts"

The turning point came in 2011, following Orban's return to power. Revenue soared to HUF2.2bn and after-tax profit reached HUF853mn, of which HUF322mn was taken out as a dividend. From this point onwards, the company reported an exponential rise in revenue, while profits rose at a less robust pace.

The former Felcsut mayor was flooded with state contracts after the falling out between Fidesz treasurer Simicska and Orban in 2015. The businessman turned against the prime minister because of his shift towards Russia and for dismantling the rule of law. By 2020, Meszaros & Meszaros raked in HUF113bn in revenue and HUF15.5bn in profit, which rose to HUF129bn and HUF32bn respectively by 2023.

Meszaros's rapid wealth accumulation was primarily linked to lucrative public procurement contracts, as Orban sought to create a new bourgeoisie – a class of loyal, domestic entrepreneurs aligned with his political agenda – replacing the pre-existing elite, which was dominated by foreign investors and liberal businessmen.

Hungary's strongman has used the state's regulatory and financial power to shift wealth and resources toward politically connected individuals. Besides lucrative state contracts often funded by the European Union, the government has nationalised strategic assets, such as energy utilities and banks, and later sold them to chosen Hungarian businessmen at favourable terms.

Sector-specific taxes were introduced targeting foreign companies, particularly in banking, retail, and telecommunications, driving some out of the market, creating space for local players and national champions.

The making of a national champion

Prominent examples include the creation of Opus Global Holding, the flagship company of Lorinc Meszaros listed on the Budapest Stock Exchange. In just three years, the holding company, which consists of more than 40 entities. tripled its turnover to a record HUF686bn, while net profit rose two-fold to HUF45bn.

Opus has grown from a small holding to a national champion, securing market-leading positions in several sectors. Its resilience lies in strong fundamentals, supported by a diversified, multi-industry portfolio.

Meszaros personally owns over 200 companies, 40 of which are managed under the Opus umbrella. The holding includes enterprises in tourism, construction, industry, food production, energy, and insurance – sectors deemed strategic within Orban's economic agenda.

One notable subsidiary, R-Kord, is Hungary's sole company specialising in railway development. It is part of the Chinese-Hungarian consortium tasked with constructing the Hungarian section of the Budapest-Belgrade railway line. In tourism, the Hunguest Hotel chain is the largest operator of hotels outside the capital.

In alignment with the government's strategic vision, Opus has become Hungary's second-largest energy supplier after state-owned MVM, covering 40% of the country geographically. Its gas subsidiary, Opus Tigaz, serves 1.27 million consumers, while Opus Titasz provides electricity to 784,000 households. In 2023, the energy division accounted for 41% of the group's total assets and 32% of its turnover, making it the largest segment by asset value and the second-largest by revenue.

Opus has set ambitious long-term goals, projecting a compound Ebitda growth of 26% from 2023 to 2026, with a focus on consolidating its business lines and boosting profitability. Management has committed to reviewing shareholder entitlements, aiming to distribute 15% of consolidated net profit as dividends and conduct share buybacks up to HUF10bn between 2024 and 2026.

Foreign expansion

In an April interview with Index.hu, Meszaros stated that the company is prioritising efficiency and consolidation in its key sectors. However, foreign expansion remains a strategic goal, particularly in areas where Opus has a strong domestic presence, such as infrastructure development.

The Orban government has actively encouraged Hungarian companies to invest abroad, helped by various state-supported schemes. While large players like OTP, MOL, and 4iG have the resources for international growth – the latter bolstered by bilateral agreements in the Balkans and North Africa – the strategy has recently been extended to SMEs.

Opus also plans to expand its tourism portfolio further. Meszaros is involved in the dynamically growing Croatian tourism industry and is ploughing €100mn into new hotel developments. It is building a 185-room luxury hotel in Opatija, on the Croatian coast that will operate under the Marriott Hotels brand from early 2025. Opus also has hotels in Austria and Montenegro.

In the agriculture sector, Opus recently acquired Rabo, Croatia's largest apple producer. In addition, it purchased Lukavac Cement, the leading cement manufacturer in Bosnia and Herzegovina, enhancing its foothold in the regional construction industry.

Cosy links

Meszaros has been a significant beneficiary of allegedly politically-influenced lending by MBH Bank, which was created through the three-way merger of MKB, Budapest Bank, and Takarekbank in 2023, in which the oligarch himself holds a stake. According to some economists, this politically-driven lending poses substantial macroeconomic risks, particularly in the event of a government change.

Meszaros dismisses accusations that his wealth stems from political connections. However, between 2010 and 2020, his company's revenues increased by a multiple of 1,000. When asked how this was possible compared to Facebook's "mere 600% growth" in the same period, Meszaros quipped: "Maybe I'm smarter than Zuckerberg."

In 2022, Meszaros' companies won 12% of all public procurement contracts in value, down from the peak of 16% in 2021, according to Budapest-based think-tank Corruption Research Centre Budapest (CRCB).

This redistribution of resources has been criticised for fostering crony capitalism. Transparency International and other watchdogs frequently cite Hungary for declining transparency and rising corruption.

Some of these corruption allegations come close to the premier himself. Meszaros's business ventures have frequently overlapped with the interests of Orban's family. In the Felcsut area, extensive tracts of land are owned by members of either the Meszaros or Orban families.

Among these is the Hatvanpuszta estate, an opulent complex boasting a palm house, guesthouse, library, and underground garage. Although officially owned by Orban's father, Meszaros has leased the property for a decade. The highly secretive construction of the estate has fuelled speculation that it functions as Orban's private retreat.

Dolomit Ltd., owned by the prime minister's father, has supplied materials from its mine for several state or EU-funded infrastructure projects, including sewerage works, road, and railway construction led by companies owned by Meszaros. Dolomit Ltd. supplied over 200,000 tonnes of railway stone for the Budapest-Belgrade railway project between 2022 and 2023, allegedly at above-market prices.

Despite evidence of family enrichment, Orban maintains that he does not involve himself in business matters, and this is a standard response of his press office when queried by journalists. ●

"Meszaros dismisses accusations that his wealth stems from political connections. However, between 2010 and 2020, his company's revenues increased by a multiple of 1,000"

Bomb threats to schools in Hungary traced to emails sent through Yandex platform, IT experts say

Tatyana Kekic in Belgrade

Hundreds of schools in Hungary received bomb threats in the morning hours of January 23, disrupting education. Police later confirmed that no explosives were found. IT security experts said the bomb threats were traced to emails sent through the Russian Yandex platform, suggesting involvement from Russian actors.

A total of 268 schools were targeted with bomb threats, 245 in Budapest and 23 in other parts of the country.

The threatening message, released by the government on social media later, was poorly constructed, with language suggesting the use of translation software. The messages mimicked Islamist-style threats but were inconsistent in tone and style.

"An explosive device was planted in the school. It is time to extend our blessed operations to the heart of Europe, the bastion of unbelief and hypocrisy. We have witnessed your government's ongoing war against Muslims, and it would only be fair that you experience the voice of the oppressed. From now on, your safety is no longer guaranteed."

The letter continued: "Let your leaders know that the lions of the Caliphate will strike at any moment," the anonymous writer warned, adding threats of building explosions and bloodshed in Budapest.

Shortly after the news broke, different interpretations emerged, unsurprising in a country as deeply polarised as Hungary. Conspiracy theories circulated online, with some accusing the government of benefiting from or even staging the threats.

Some online users speculated that the government might have staged the threats to bolster its ongoing security narrative. Critics claimed the incident plays into the government's rhetoric on terrorism and migration as key security risks.

Pro-government bloggers made unsubstantiated claims linking opposition leader Peter Magyar, head of the Tisza Party, to the threats.

Government spokeswoman Eszter Vitályos posted on Facebook, framing the threats as evidence of Brussels' "flawed migration policies" endangering Europe. She also accused Brussels of promising immunity to Peter Magyar, alleging he supported their agenda in exchange.

The reference to the opposition leader in the case suggests that the government is using dirty tactics to implicate Magyar, whose party seemed to have stabilized its lead over Fidesz, based on the latest polls.

Several pointed to a possible Russian connection, highlighting similarities with suspected Russian operations in neighbouring countries. Similar bomb threats referencing Islamist terrorism were recently sent to Bulgarian and Czech schools, but intelligence sources in both countries suspect Russian involvement, hinting at hybrid warfare tactics.

Last fall, the head of the Czech secret service, Michal Koudelka, explicitly blamed Russia for similar bomb threats against schools in the Czech Republic and Slovakia.

IT analysis revealed that the account was linked as a secondary email to a Yandex account with Russian language settings, investigative news site Atlatszo reported on Thursday night.

The bomb threats originated from a disposable email address (harcos@coredp.com) tied to an account using Russian language settings on a Yandex email service with an Armenian domain (.am).

The coredp.com email address allows users to remain anonymous. The account's user reportedly used a German VPN for added anonymity, Atlatszo writes, citing an expert on Reddit, who shared screenshots confirming the details about the account's setup and activity.

Opposition leader Peter Magyar raised the question of the responsibility of Hungarian intelligence services, which are overseen by Antal Rogan, who is on the US sanctions list under the Global Magnitsky Act. Opposition parties called for a meeting of Parliament's National Security Committee. ●

Bomb school threats in Hungary have been traced to emails sent through the Yandex platform / bne IntelliNews

Russian presidential advisor Nikolai Patrushev blamed the pro-EU authorities in Chisinau for the ongoing energy crisis in Moldova. / mid.ru

Russian presidential adviser warns Moldova may "cease to exist"

Iulian Ernst in Bucharest

Influential Russian presidential advisor Nikolai Patrushev voiced unprecedentedly aggressive rhetoric against Moldova, saying the country may "cease to exist" in an an interview given to *Komsomolskaia Pravda* and broadly circulated in the Russian media.

Patrushev blamed the pro-EU authorities in Chisinau for the ongoing energy crisis in Moldova that followed Gazprom's cut off of gas supplies on January 1. This sparked a humanitarian and economic crisis within the pro-Russian separatist Transnistria region within Moldova, which relied heavily on Russian gas both for its own use and to produce electricity for the rest of the country. The move is seen as an attempt by Russia to destabilise Moldova ahead of this year's general election.

Speaking to *Komsomolskaia Pravda*, Patrushev said Moldova may "cease to exist as a state," if it continues the "aggressive anti-Russian policy".

"I do not exclude that the aggressive anti-Russian policy from Chisinau will lead to the fact that Moldova will either become part of another state or will cease to exist. In this situation, we can look at the example of Ukraine, where neo-Nazism and Russophobia led the country to collapse, and this long before the special military

"I do not exclude that the aggressive anti-Russian policy from Chisinau will lead to the fact that Moldova will either become part of another state or will cease to exist"

operation," Patrushev said, using Russia's preferred term for the ongoing war in Ukraine.

Russian President Vladimir Putin's influential adviser claimed that Ukraine will also cease to exist as a state as early as 2025 and said that it will not be among the priorities of the new US president, Donald Trump.

The Russian official ruled out a role for the European Union in the negotiations on the settlement of the war in Ukraine, arguing that officials in Brussels have lost support from several EU member states (including Romania).

He placed Romania among the group of EU countries also including Austria, Slovakia and Hungary that supposedly seek better ties with Moscow in contrast with the policy conducted by Brussels.

"The EU leadership, for example, has long lost the right to speak on behalf of many of its members, such as Hungary, Slovakia, Austria, Romania and several other European countries interested in stability in Europe and adopting a balanced position towards Russia," Putin's representative argued.

By listing Romania along with the other three countries, Patrushev implied he expects an imminent win for ultranationalist presidential candidate Calin Georgescu, known for his anti-EU and anti-Nato rhetoric, for whom Moscow has expressed its appreciation. After Romania cancelled last year's presidential election, the vote will be held on May 4, and polls indicate strong backing for Georgescu. ●

Turkey's Erdogan threatens to "cut off heads" of terrorist groups in Syria

bnm Gulf bureau

Turkish President Recep Tayyip Erdogan has threatened military action against militant groups in Syria, particularly Kurds, unless they lay down their arms and disband, Turkish media reported on January 15.

The Turkish leader's fiery language is not new and is part of a push by authorities in Ankara and Idlib, which Turkey supports, to remove the groups from the border region.

Ankara has repeatedly hit Kurdish groups, both before and after the fall of the Assad regime on December 8, and backs, and is backed by, the interim administration in Damascus. Several Kurdish groups said they would integrate with the new administration following Assad's departure, but many have yet to do so.

"If the SDF does not lay down their arms, they will not escape their impending fate," Erdogan told his ruling AK Party's parliamentary group, referring to the Syrian Democratic Forces (SDF), which Ankara considers an extension of the banned Kurdistan Workers' Party (PKK).

"We have the strength and capability to resolve this issue. All external forces must remove their hands from the region, or we will, together with our Syrian brothers, cut off the heads of ISIS and PKK-SDF," he said in remarks broadcast on *TRT Haber*.

Turkish Foreign Minister Hakan Fidan has previously warned of possible military operations against Kurdish armed groups in Syria if they fail to meet Ankara's demands.

The threats come amid significant changes in Syria's political landscape following opposition forces' capture of major cities, including Aleppo, Hama, Daraa and Homs, in late November.

Mohammed al-Bashir, who led the opposition in Idlib province from January 2024, has declared himself head of Syria's transitional government until March 1, 2025.

Ahmed al-Sharaa, also known as Abu Mohammed al-Jolani, former leader of Hayat Tahrir al-Sham (HTS), has emerged as Syria's de facto leader, meeting with foreign officials, including European leaders and UN officials. ●

Turkish President Recep Tayyip Erdogan at a recent press conference in Ankara. / Turkish presidency

Albania, Italy and UAE to build €1bn Adriatic subsea cable

bne IntelliNews

Albania, Italy and the United Arab Emirates (UAE) signed an agreement on January 15 on a project valued at around €1bn to build a subsea interconnection to facilitate the transfer of renewable energy across the Adriatic Sea.

Energy generated in Albania will be transferred to Italy via an underwater cable crossing the Adriatic Sea. The agreement adds to existing connections between Italy and the Balkans, including a 430-kilometer subsea power link from Montenegro to Italy.

The deal, signed at the World Future Energy Summit in Abu Dhabi, will leverage the UAE's expertise in solar and wind energy to bolster Albania's renewable energy capacity.

"The investment agreement for the underwater connection of the energy distribution network with Italy, as well as for investments in increasing production from renewable sources in Albania, was signed today," said the Albanian government in a statement.

The deal was signed by officials from the three countries in the presence of Italian Prime Minister Giorgia Meloni, UAE President Sheikh Mohamed bin Zayed and Albania's Prime Minister Edi Rama.

Rama estimated the project's value at approximately €1bn and projected it would become operational within three years.

"This agreement will serve to increase Albania's capacity as a key player in the region, based on its production of 100% renewable energy," Rama said, according to a government statement.

The underwater cable will link the Albanian port of Vlore with Italy's Puglia region, the narrowest point between the two countries.

"It has been a long and challenging road to reach today as Albania becomes an internationally trusted partner, with leading countries in the electricity sector, thanks to the hard work and maximum commitment of the entire team," wrote Albania's Energy and Infrastructure Minister Belinda Balluku on Facebook.

Meloni highlighted the strategic importance of the agreement in addressing Italy's long-term electricity needs. "This three-way arrangement demonstrates how international cooperation can support sustainable energy goals while meeting growing energy demands," Meloni said, pointing to its alignment with global climate commitments.

The relationship between Albania and Italy has strengthened recently. Under a deal between the two countries, migrants aiming to enter Italy will be housed in Albania while their applications are assessed. However, the project, championed by Meloni, hit a hurdle when Italian courts refused to validate the detention of the first two groups of asylum seekers.

UAE Industry and Technology Minister Sultan al-Jaber described the agreement as a "far-sighted collaboration" that connects Albania's renewable energy potential, the UAE's expertise and Italy's sophisticated energy market. Al-Jaber, who also chaired the COP28 climate summit, said the initiative aligns with global goals to triple renewable energy capacity and transition away from fossil fuels.

The UAE, a major oil producer aiming to achieve carbon neutrality by 2050, has been investing heavily in renewable energy.

"By leveraging Albania's abundant natural resources, the UAE's renewable energy expertise, and Italy's energy infrastructure, we are fostering a sustainable energy future across the Mediterranean," Al-Jaber said.

Albania has significantly increased its renewable energy capacity, adding approximately 500 megawatts in the last two years. The country plans to diversify beyond hydropower, which currently dominates its energy production.

"Albania now generates 10% of its energy from solar sources, compared to virtually zero a few years ago," Rama noted, adding that projects in the pipeline aim to raise this to 30%.

The initiative also strengthens Albania's ambitions to become a net electricity exporter by 2030. Rama said recently that Albania's renewable energy share of final energy demand, at 44%, places it among Europe's leaders alongside Scandinavian nations.

In 2019, Italian energy firm Terna inaugurated a similar cable connecting Montenegro and Italy, following an investment of €1.1bn.

Poll reveals dominance of far-right presidential candidates in Romania

Iulian Ernst in Bucharest

Two candidates with radical, mostly far-right views are expected to face each other in the second round of the presidential elections in Romania this May, irrespective of whether leading candidate Calin Georgescu is allowed to run, according to an electoral poll carried out by Sociopol for Romania TV.

If Georgescu does run for the presidency, the poll shows support for the controversial far-right candidate on 50%, putting him on the threshold of a first-round victory. Without Georgescu in the race, fellow far-right politician George Simion would come out on top but with only 35% of the vote.

In both cases, former prime minister Victor Ponta, who has increasingly embraced nationalist rhetoric despite being a member of the centre-left Social Democratic Party (PSD), would face the frontrunner in the second round of the election.

The poll confirms Georgescu's dominant position, even though the politician had almost no electoral support before the 2024 presidential election, which was cancelled shortly before the second round amid concerns over potential illegal financing and Russian interference.

This cannot be attributed to social media platforms – in particular TikTok – but to Georgescu's ubiquitous presence in traditional media outlets that are chasing views with a multitude of mostly irrelevant if not outrageous or bizarre statements by Georgescu.

To mention only two statements Georgescu made on January 16 alone: Romania will build a canal between the Black Sea and the Caspian Sea, and the country's economy will grow so much after the diaspora returns home that German unemployed workers will seek jobs in Romania.

During the five weeks since the cancellation of the presidential election, Georgescu has been transformed into a legitimate politician despite his lack of ideology (or his opportunistic, variable ideology).

The poll reveals Ponta, currently serving as an adviser to Prime Minister Marcel Ciolacu, as the second-strongest candidate.

Ponta recently built a profile akin to that of Romania's far-right candidates, with visits paid to Mar-a-Lago, while also commenting on his PSD membership (meaning he is again a member of the party).

However, the sponsor of the poll, Romania TV, is reportedly controlled by Sebastian Ghita – a fugitive businessman who has been indicted in several corruption files at home. Ghita is a close associate of Ponta.

The poll also points to several other conclusions.

Simion, leader of the Alliance for the Union of Romanians (AUR), is seen as a close substitute for Georgescu if he is barred from running. Georgescu's voters would predominantly opt for Simion and to a lesser extent for Ponta, the poll showed.

The poll indicates an equal preference of the moderate opposition voters for independent Nicusor Dan, the mayor of Bucharest, and for mayor of Cambulung Muscel Elena Lasconi, the Union Romania (USR) candidate.

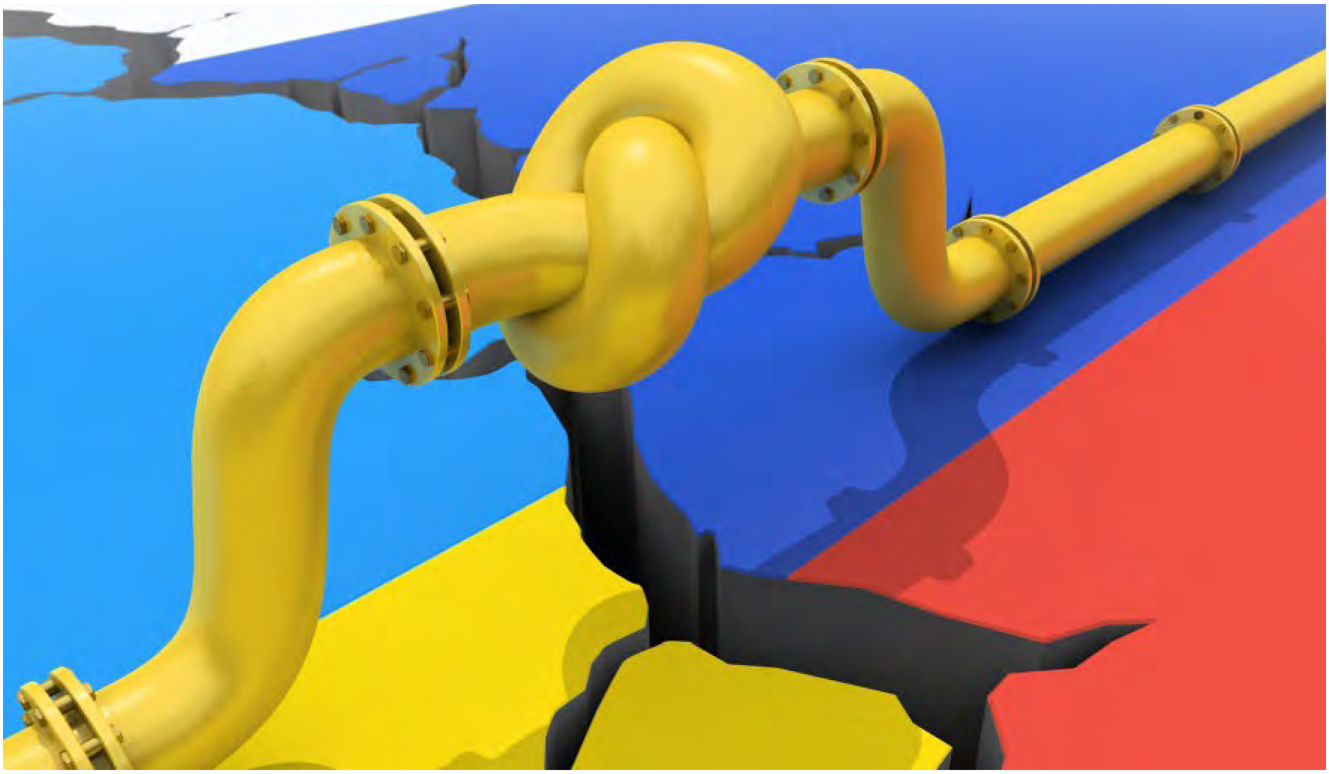
There is little support for Crin Antonescu, who is expected to run as the candidate for the ruling coalition, with or without Georgescu as a candidate.

Only small part of Georgescu's voters (8% of the electorate, out of 50% share supporting Georgescu) would vote for moderate candidates such as Dan, Lasconi or Antonescu if he is unable to run. ●

Sociopol poll results

With Calin Georgescu:	
Calin Georgescu	50%
Victor Ponta	15%
Nicusor Dan	10%
Elena Lasconi	10%
Crin Antonescu	8%
George Simion	6%
Without Calin Georgescu:	
George Simion	35%
Victor Ponta	26%
Nicusor Dan	13%
Elena Lasconi	13%
Crin Antonescu	10%

Calin Georgescu arriving at a polling station for the first round of Romania's 2024 presidential election. The election was later cancelled amid concerns about potential Russian interference.



As of the start of 2025 the transit of Russian gas to Europe via Ukraine ended putting more pressure on the EU to power its economy and cutting €1bn off Kyiv's income. / bne IntelliNews

Russian gas transit through Ukraine ends, with Europe meeting the new year with 5% less gas

Newsbase

Transit of Russian natural gas through Ukraine ended in the early hours of January 1, depriving the EU of about 5% of its gas supply, after last-hope efforts led by Slovakia to ensure continued flow failed.

Ukraine has served as a critical route for Europe's gas supply for many decades. Flow through Russia's oldest pipeline route to Europe has now ended.

Expectations had been growing through late 2024 that Russia and Ukraine would not extend their five-year gas transit deal beyond the end of last year, as Kyiv had repeatedly insisted it would not agree to an extension and EU authorities, which played a critical role in brokering the previous agreement, ruled out an extension as unnecessary. These expectations stoked a growth in gas prices over the last few months.

When it became increasingly clear that the deal would not be renewed, gas prices surged in the final days of 2024, with the front-month TTF contract closing the year at €48.9 per MWh ($542 per 1,000 cubic metres).

Ukraine transited 14bn cubic metres of Russian gas to the EU in 2023, which was roughly the same as 5% of its overall gas consumption that year. In such a tight energy market, this will cause Europe pain, but considerably less than the pain it suffered when Russia dramatically cut supply in 2022 after its invasion of Ukraine, in a failed attempt to force concessions from Ukraine's European allies. Prior to the war, Russia supplied more than a third of the continent's gas.

Only losers

Everyone loses from the halt in gas transit. Russia's national gas champion Gazprom will lose around $5bn in revenue, having already suffered its first annual loss in decades in 2023 as a result of Moscow's weaponisation of gas supply. Gazprom now faces an existential crisis. It no longer makes the Kremlin much money, and is unlikely to do so for many years to come. Russia's efforts to clinch a new deal with China for 50bcm of gas per year – twice the pipeline shipments that it had been sending to Europe before the Ukraine cut-off – have so far received a cool response from Beijing.

Ukraine will lose around $800mn in annual transit revenue. Unless flow is resumed, Kyiv will retire most of its transit pipelines as they will be too costly to maintain without any revenue, eating up about $1bn a year in maintence costs. Ukraine's total pipeline capacity stands at over 140bcm – far in excess of what was needed even before the end of the transit deal.

Slovakia has lobbied hardest to avoid a halt, as it is more dependent on Russian gas through Ukraine than any other EU country, with flow through the country accounting for about 60% of its gas supplies last year. Slovakian Prime Minister Robert Fico said on December 13 that his government was holding "very intense" negotiations on continued transit through Ukraine, adding he was "confident that a solution can be found." He later flew to Moscow to meet with Russian President Vladimir Putin for talks on December 22 without result.

Other affected countries in the EU include Hungary and Austria, although both have access to more alternative supply that Slovakia does not. Hungary can still import Russian gas via the TurkStream, the last remaining Russian pipeline route to Europe, while Austria can access German imported LNG and Norwegian pipeline gas. Slovakia's options are more limited, although it can also pipe in some gas from Germany and Hungary.

Russia's Gazprom also announced on December 29 it would be halting gas supply to Moldova, depriving of fuel a key power station in the breakaway region of Transnistria that supplies the bulk of all Moldova's electricity. The Moldovan government has implemented emergency measures to curb power use and switch to alternative fuels to natural gas.

Despite efforts by Slovakia and others, the writing was on the wall when Putin said on December 26 that it would be impossible to agree a new transit deal before the end of the year.

"There is no contract – and it is impossible to conclude it in three-four days, no way," Putin was quoted as saying by Russia's TASS news agency. However he said that it might still be possible to arrange contracts for gas delivery through third parties, noting as examples intermediaries from Turkey, Hungary, Slovakia or Azerbaijan.

"The problem is that Gazprom has long-term contracts, until 2035, until 2049, and in order to change the situation with transit, these contracts need to be dissected," he said. "This is a complex procedure."

What next?

No such contracts have since been announced, which would presumably involve European buyers purchasing Russian gas at the Russia-Ukraine border and then taking responsibility for its transit through Ukrainian territory, limiting the need for direct interaction between Moscow and Kyiv. However, this option would still need Russia and Ukraine first to sign a border interconnection agreement, which is yet to be announced.

Gas flow may well resume, if such arrangements are made. A lot will depend on the outcome of peace talks on Ukraine, in which the actions of the incoming Trump administration will play a critical role. For the time being, Europe's weak energy security has been made even weaker, and its economy will suffer. ●

The war went badly for Ukraine in 2024

Ben Aris in Berlin

Ukraine lost more territory to the advancing Armed Forces of Russia (AFR) in the second half of 2024 than at any time since the initial invasion in 2022.

"Although the worst-case scenarios didn't materialise in 2024, it was the most difficult period since spring 2022. There were positive developments, and bright spots, but the current trajectory is negative," says leading military analyst Michael Kofman, a senior fellow specialising in Russian military affairs in a post on social media.

The Armed Forces of Ukraine (AFU) relinquished control of over 3,600 square kilometres of territory in 2024, marking a sharp increase in territorial losses compared to 2023, when around 540 square kilometres were lost.

The most intense fighting is currently in the Donbas region, as the Kremlin largely ignores other operations, hoping for a breakthrough and control over Ukraine's key frontline logistical centre of Pokrovsk. November alone saw an average AFU daily loss of 20.3 square kilometres.

The Kursk incursion is also going badly, after the AFR recaptured half the territory it lost in August, partly thanks to the help of a reported 12,000 elite North Korean troops that have arrived on the battlefield. On January 5, the AFU launched a large counter offensive in the Russian region to push back the AFR and the Kremlin reportedly has been forced to move some of its own elite troops to the region to shore up defences.

The Russian assault has been extremely expensive in terms of the loss of life, losing as many as 1,500 men a day, according to reports, but the assault has continued relentlessly in the Donetsk and Kharkiv regions, according to Ukraine military outlet, Militarnyi, citing data from mapping Telegram channel Deep State.

"Yes, Russian losses are significant, but the current RF contract rate is still providing replacements and enabling rotations. Russian payouts and bonuses have grown astronomically, raising questions on how long they can keep this up into 2025. Eventually, no amount of [money] will be enough," says Kofman.

The most intense fighting continues near Pokrovsk, where the AFR are only a few kilometres from the centre after months of slow advances. The Ukrainian General Staff has reported over 100 clashes between the warring armies in the last few days. Russian shelling of the city from across the border is intense and has also targeted settlements in Sumy and Kharkiv, including Oleksandrivka, Pokrovka, and Vidrodzhenske around Pokrovsk.

However, while Russia gained the initiative with the fall of Avdiivka on February 17 it has not been able to decisively capitalise on its advantage. In March, Russia launched a massive missile barrage after the US ran out of money for Ukraine at the start of the year, and Ukraine subsequently ran out of air defence ammo. Since then, Russia has destroyed or damaged the majority of Ukraine's non-nuclear power and heat generating capacity – about half the total installed capacity – leading to rolling blackouts and freezing apartments as temperatures plunge to sub-zero with months of winter left to go.

"What's different about the current dynamic? Russia lacks a decisive fire advantage, and there is parity in tactical strike drones. In some areas Ukraine is advantaged in UAS. Yet Russian progress has been increasing over the past six months," says Kofman. "Russian forces have not been able to convert their material advantage into operationally significant breakthroughs. This is partly due to force quality issues. They assault in a way that presses the front line, but is not conducive to achieving major breakthroughs."

However, on a positive note, Ukraine's production of domestically made drones and new long-range missiles has come on by leaps and bounds. In the second half of 2024 Ukraine's drone production overtook that of Russia for the first time, which have played a significant role in slowing the AFR advances.

"Ukraine's own long-range strike capacity has grown immensely, holding RF infrastructure at risk. As production of drones and ground launched cruise missiles grows, in 2025 it will be far less dependent on Western strike capabilities, or dealing with associated restrictions," says Kofman.

The EU also finally delivered the promised 1mn artillery shells giving the AFU parity in the artillery battle for the first time since the start of the war. Additionally, in December, US President Joe Biden finally signed off on permission for Ukraine to use Nato-supplied missiles on targets inside Russia – albeit with caveats.

> "Although the worst-case scenarios didn't materialise in 2024, it was the most difficult period since spring 2022"

Military outlook

"Although the worst-case scenarios didn't materialise in 2024, it was the most difficult period since spring 2022," said Kofman. "The current trajectory is negative."

Kofman highlighted the strain on Ukrainian forces, noting persistent manpower shortages and a decline in mobilisation rates after the summer. Despite early gains in 2024, including the stabilisation of some fronts, Ukrainian infantry units have been significantly depleted due a growing manpower shortage.

"Mobilisation and force management remain critical challenges," Kofman said, adding that Western-supplied equipment alone cannot address the deficit of experienced personnel at the front, as Kyiv struggles to recruit fresh forces. "Consequently, across the front [AFU] units are being detached and attached to others short of men, leading to a steady fragmentation of the defensive effort and loss of cohesion. This patchwork groupings of forces must hold the front," says Kofman.

A new mobilisation law, passed in mid-April, temporarily improved Ukraine's manpower problem, but the number of new recruits has since fallen off again. Moreover, the quality of the new recruits is low and the AFU is increasingly plagued by low morale and a surging number of desertions.

"Not only are the new brigades inexperienced, lacking in good leadership, and generally combat ineffective, but they are also not being employed as brigades either. Instead, battalions are detached and sent piecemeal to reinforce other units," says Kofman.

Ukraine's decision to make new brigades, instead of replacing losses at the front line among the best and most experienced units, has proven to be one of the more puzzling force management choices given the battlefield situation and problems with mobilisation, says Kofman.

Russian forces, despite sustaining high casualties and equipment losses, have adapted their tactics. "They employ incremental advances with small groups of dismounted infantry supported by reconnaissance and strike drones," Kofman noted. This approach, he explained, limits equipment losses but fails to deliver decisive breakthroughs.

Strategic outlook

The coming months are expected to test both sides further, with weather conditions slowing operations in December. Russian forces continue to press south of Pokrovsk, while Ukraine focuses on shoring up its manpower and leveraging technological advantages, including expanded long-range strike capabilities.

"Stabilising the front line is essential to buying time and forcing Moscow to reassess," Kofman concluded. "But without addressing fundamental issues in training, mobilisation, and force structure, Ukraine risks further setbacks."

Militarnyi predicts Russia will prioritise the capture of Kurakhove, Toretsk, and Chasiv Yar in 2025 while pushing towards Dnipropetrovsk. Meanwhile, the West's continued support for Ukraine, both militarily and economically, remains a crucial factor in shaping the outcome of the conflict.

Monthly territorial losses in 2024:

- June: 100 sq km (3.4 sq km/day)
- July: 160 sq km (5.2 sq km/day)
- August: 370 sq km (12 sq km/day)
- September: 400 sq km (13.4 sq km/day)
- October: 560 sq km (18.7 sq km/day)
- November: 610 sq km (20.3 sq km/day)
- December: 510 sq km (16.45 sq km/day)

Throughout 2024, Russian forces made significant advances across multiple fronts. In the Velyka Novosilka-Ocheretyne sector, more than 2,400 square kilometres were seized, with advances reaching 45 kilometres deep. Russian troops are now less than 10 kilometres from the administrative border of Dnipropetrovsk Oblast.

Other hotspots include the New York-Siversk area, where over 335 square kilometres were taken, and the Lyman-Kupiansk front, where Russian forces captured at least 479 square kilometres. In northern Kharkiv, Ukraine managed to reclaim some ground after initially losing 211 square kilometres during a Russian offensive in May.

Further south, Russia seized approximately 95 square kilometres in Kherson Oblast, including areas around Krynky. In Zaporizhzhia, losses amounted to 97 square kilometres, primarily near Robotyne.

Outlook

"The front is not imploding, but Russian forces have increased their rate of gain over July-December. The most problematic area is south of Pokrovsk. Following the fall of Avdiivka, then Vuhledar, RF forces have slowly taken important anchoring positions in Donetsk," says Kofman.

Given the worsening military situation, the possibility of ceasefire talks has increased and the incoming President-elect Donald Trump has promised to end the war "in 24 hours" after his inauguration on January 20.

Ukraine is facing the prospect of a dramatic reduction in financial support from its Western partners and a fall in arms deliveries. The outgoing Biden administration has tried to lock in as much in the form of military supplies as it can before it departs and analysts say that Ukraine will probably have enough equipment and ammo to be able to continue to fight on in 2025, but after that the outlook for sufficient support worsens.

Despite gains in drone capabilities and improved fortifications, the rising costs of maintaining a coherent defence strategy weigh heavily on Ukraine's prospects as the conflict enters another critical year.

Kofman argues that you could view the current situation positively as Ukraine is grinding down Russian forces and Russia's gains are small relative to costs. But Ukraine also can't sustain more losses and the coldest part of winter is still ahead.

"But the current situation requires course correction. Spinning the prevailing dynamic as positive strikes me as unhelpful," says Kofman. "Increased long-range strike capability alone is unlikely to compel Russia to negotiate as long as RF keeps making gains along the front, and is increasing its own strike capacity. Stabilising the front line is essential to buying time and forcing Moscow to reassess."

Russia took more territory in the second half of 2024 than at any time since the invasion in 2022, but a heroic defence and improving weapons supplies has allowed the Armed Forces of Ukraine to stave off a disaster. / bne IntelliNews

EU leaders brace for emergency summit if Hungary continues to block extension of Russian sanctions

bne IntelliNews

Hungary has withheld its consent to extend EU sanctions against Russia at the meeting of EU ambassadors on January 24. EU Foreign Ministers will gather on Monday, 27 January, to vote on the issue, but if no agreement is reached by the end of the month, Russia could potentially access €210bn of state assets currently frozen in Belgium.

European Council President Antonio Costa is reportedly considering convening an emergency summit for January 31, if Hungary sticks to its stance.

The sanctions imposed on Russia have cost Hungary €19bn over the last three years, the prime minister said in a regular interview with state media on Friday, 24 January, while accusing Ukraine of "playing tricks" on Hungary and central Europe regarding energy transit routes.

Orban said he had to "pull the brakes" and urged European leaders to recognise that Hungary cannot continue to bear a "disproportionate financial burden."

He listed three criteria needed for his support of extending sanctions. He demanded Ukraine to reopen Russian gas imports via the country's transit pipelines, refrain from "semi-legal and legal military actions" targeting gas transit infrastructure (TurkStream pipeline) and that Kyiv must pledge not to disrupt oil deliveries in the future.

> "If Orban blocks EU sanctions, it will prove that he is siding with Vladimir Putin, with all the consequences this entails"

In the interview, Orban has sent strong signals opposing the continuation of sanctions, arguing that they have failed to end the war, or cripple the Russian economy, or secure alternative affordable energy sources for Europe.

Three days before Donald Trump's inauguration, Hungary's strongman said sanctions against Russia should be thrown out of the window describing them as harmful to the EU's competitiveness.

Foreign Minister Peter Szijjarto on Sunday, 26 January said that before he meets EU counterparts in Brussels on Monday, he wants to make clear that Budapest receives "guarantees either from Ukraine or from the EU" on future energy security, reciting the same three conditions cited by Orban.

Hungary has consistently fought against sanctions that could threaten its national security and strategic interests, particularly in gas deliveries and nuclear energy cooperation, Szijjarto said, adding that sanctions did more harm to EU economies than to Russia.

In an interview with broadcaster RTL on Sunday night, taped on Thursday, he said Budapest will consult with the new US administration before making its position on sanctions.

According to *Politico*, Hungary is unlikely to follow through its veto threats to renew EU sanctions against Russia, especially after Donald Trump signalled new, harsher sanctions aimed at pressuring the Kremlin to negotiate.

The EU is also considering alternative solutions, such as invoking a 1944 Belgian law to prevent the release of frozen Russian assets held under Euroclear's supervision. These funds are crucial for financing a planned $50bn loan repayment to Ukraine.

While the debate focuses on the current sanctions, EU member states are also discussing the 16th sanctions package. EU leaders aim to adopt it before the third anniversary of the war's outbreak.

Despite voicing criticism about the effectiveness of sanctions, Hungary has approved all 15 sanctions against Russia and has consistently supported the EU's measures.

Hungary's ongoing resistance to aligning with joint EU foreign policy has strained its relationship with long-time ally Poland. The previous PiS-led government had also expressed frustration with Budapest's pro-Kremlin stance.

"If Orban blocks EU sanctions, it will prove that he is siding with Vladimir Putin, with all the consequences this entails," Polish Prime Minister Donald Tusk posted on X.

In response, Szijjarto replied that "it may be difficult for a Soros agent to understand, but when it comes to teams, we play for Hungary."

In related news, the Polish presidency is considering a strategy to circumvent potential vetoes by Hungary and Slovakia on the 16th round of sanctions. These could be reclassified as a trade policy measure, which under EU treaties requires only a qualified majority, unlike foreign and security policy decisions that mandate unanimous approval. ●

Poland's Tusk warns of Russian airline bomb terror campaign, promises to speed Ukraine's EU membership

bne IntelliNews

Polish Prime Minister Donald Tusk warned that Russia is planning a terror campaign of bombs on "airlines around the world" at a press conference with Ukrainian President Volodymyr Zelenskiy during his visit to Poland on January 15.

"I will not go into details, I can only confirm the validity of fears that Russia was planning acts of air terror, not only against Poland, but against airlines around the world," Tusk said, as cited by *AP*.

Tusk and Zelenskiy have regularly accused the Kremlin of acts of terrorism, targeting civilians in the war in Ukraine and assassinating spies in European capitals with radioactive tea. However, Tusk suggested the Kremlin was planning to take its assault on Europe up to a new level by placing bombs on international air carriers.

The warning comes after Western security officials suspected Russian intelligence was behind a plot to place an incendiary device in cargo planes flying to North America. The devices were discovered after one caught fire in Germany while still on the ground and another that burst into flames in a warehouse in England last year.

Russia and Poland have been bitter enemies since WWII and frequently trade barbs. Poland's Foreign Ministry shuttered one of its three consulates in Russia last year following what it claims were arson and sabotage attacks sponsored by Moscow. ●

Armenian Prime Minister Nikol Pashinyan receives EU special representative Magdalena Grono on January 9. / primeminister.am

Armenia approves EU membership bid further straining ties with Russia

Ani Avetisyan in Yerevan

Armenia has formally started the process of joining the European Union (EU). A bill calling for the country to launch a bid to enter the 27-member bloc was approved by Prime Minister Nikol Pashinyan's government on January 9.

Pashinyan has pledged to hold a national referendum on EU accession, leaving the final decision to the Armenian people.

This follows a growing sense of dissatisfaction with Armenia's long-time ally, Russia, and an apparent desire to strengthen ties with Western institutions.

The bill was adopted after a public petition garnered 60,000 signatures, demonstrating significant domestic support for EU integration.

The petition was organised by a number of minor pro-European parties. They managed to get the necessary number of signatures in a very short period, pressuring the Armenian government to take actions.

Foreign Minister Ararat Mirzoyan pointed to the EU's consistent political and economic support as a driving factor. "The European Union has demonstrated its commitment to Armenia's security and stability," he said. He added that deeper ties with Brussels could pave the way for long-term peace and prosperity.

The shift towards the EU parallels Armenia's growing frustration with Moscow, particularly over its perceived lack of support during Armenia's conflict with Azerbaijan. The Armenian government has openly criticised Russia for failing to meet its security commitments during the 2022-2023

"Pashinyan has pledged to hold a national referendum on EU accession, leaving the final decision to the Armenian people."

escalation over Nagorno-Karabakh and in Armenia's southern regions.

Despite the country's political will to join the EU, Armenia's EU aspirations face significant challenges.

Russia, a key economic and security partner, has opposed the bid, warning that it conflicts with Armenia's membership of the Russian-led Eurasian Economic Union. Kremlin spokesman Dmitry Peskov insisted that Yerevan must choose between deeper ties with the EU or its current alliances with Russia. Armenia's economic dependence on Moscow further complicates matters, as Russia remains its main supplier of natural gas and nuclear fuel, as well as a major trading partner.

The EU has welcomed Armenia's interest in closer ties, but has reacted cautiously to the membership bid.

Officials have recognised Armenia's progress under the Comprehensive and Enhanced Partnership Agreement, which focuses on political and economic reforms, as a strong basis for further integration. However, membership negotiations are a lengthy process that requires alignment with EU laws and the unanimous consent of all member states.

Some EU states, wary of antagonising Russia, may be reluctant to speed up Armenia's application, while others see an opportunity to extend EU influence in a region traditionally dominated by Moscow. In addition to Armenia's domestic challenges, recent developments in neighbouring Georgia are also likely to influence Armenia's EU path. Georgia's accession to the EU is seen as Armenia's gateway to Europe, both politically and economically. However, in November the ruling Georgian Dream party decided to put the country's EU accession efforts on hold, sparking a wave of protests. ●

Georgian Dream lashes out at "Global War Party" and "deep state" networks

bne IntelliNews

Georgia's ruling party Georgian Dream (GD) has released a statement denouncing recent "anti-Georgian resolutions" by certain Western countries, which the ruling party claim are members of "deep state" networks acting on the instruction of a so-called "Global War Party" (GWP).

The statement comes at a time of profound political polarisation in the Caucasus country. GD is accused by anti-government protesters in Tbilisi of stealing power in the latest elections and orchestrating the country's authoritarian tilt away from Europe and towards Moscow.

The GD Political Council's extensive January 8 statement doubles down on old GD conspiracy theories whilst also throwing up some alarming new ones.

In the document, the GD Political Council lays down some of the wildest anti-Western propaganda and accusations ever before seen from a party that started out twelve years ago as firmly pro Georgia's Euro-Atlantic integration, but has now done a complete about turn and can't criticise the West enough.

Meanwhile, pro-EU demonstrators continue to march in Tbilisi daily demanding new elections and the exit of a contested government they say has stolen their country's EU future, calling on Georgia's Western partners to increase the pressure on GD officials.

"Global War Party"

For several years GD has accused a "Global War Party" of seeking to provoke conflicts around the world, including in Georgia, by opening a "second front" of the Ukraine war in the Black Sea nation and dragging it into war with Russia.

In its pre-election campaign in the autumn of 2024, GD pledged to maintain "peace" in Georgia if elected, while insisting that victory for the pro-EU opposition, which GD claims is an agent of the West, could mean only "war".

"'Either you fight, or I will punish you' – this is the simple message that Georgia and Georgians receive from the GWP," the ruling party declared in its January 8 statement, reiterating its suspicion of the West's intentions in the country of 3.8mn people.

Yet according to the Political Council, the Georgian people are "uncompromising", and would "not allow the collective national movement [a GD term for the pro-western opposition], or the agency of the GWP to return to power and draw Georgia into war again".

"The Global War Party is only able to manipulate the opinion of a minority of the public," the statement read, signalling GD believes the bulk of the Georgian people to be on its side, while a small proportion back the collective movement and "oppose the national interests of their country".

"Deep state"

The GD Political Council declared so-called "deep state" networks to be "the main instrument of informal influence" of the "Global War Party" in Western countries. The statement, whilst devoid of a concrete definition of "deep

Georgian Dream founder Bidzina Ivanishvili (left) with Georgian President Mikheil Kavelashvili. / Georgian Dream via Facebook

state", claims that "the deeper the roots of the GWP in a country, and the more entrenched the 'deep state network', the more anti-Georgian the attitude of the country towards Georgia and the Georgian people".

The party claims that "every politician and bureaucrat who makes anti-Georgian statements, be it a president, prime minister, parliamentarian, MEP, diplomat or official, is a member of the 'deep state' network, which operates according to the instruction of the GWP".

Sanctions

According to GD's statement, Western financial sanctions and visa restrictions imposed on a number of Georgian officials and politicians in recent months are "anti-Georgian" measures "imposed by the "GWP" and "deep state" and have no valid basis.

The ruling party highlighted the Baltic states, which were among the first countries to sanction GD officials in December 2024 following incidents of brutal police violence against pro-EU protesters in Tbilisi, as having "completely lost their sovereignty" and acting "at the behest of the GWP" and "through the actions of 'deep state'".

The statement pointed too to the Ukrainian government, which was also quick to impose sanctions on GD, and whose "top officials openly called on the Georgian government to open a second front", a move which, according to GD, proves Ukraine's subordination to the GWP.

In its January 8 statement, the GD Political Council defended the party's founder Bidzina Ivanishvili, as well as incumbent Interior Minister Vakhtang Gomelauri, against Western sanctions, arguing that its founder was "punished for peace" and for "replacing bloody authoritarianism in Georgia with democratic rule". The Political Council painted the billionaire, who led GD to its first election victory in 2012, as the country's redeemer following the nine-year rule of United National Movement (UNM) founder Mikheil Saakashvili. The statement labels Saakashvili a "dictator" who instigated a war with Russia in 2008 and led a regime of torture, murder, "media-grabbing" and election fraud.

On December 27, the US did indeed impose sanctions on Ivanishvili, accusing him of undermining the country's democratic institutions and Euro-Atlantic aspirations and advancing Kremlin interests in Georgia. Later, on January 7, the diplomat and former coordinator for sanctions policy at the US State Department, Daniel Fried, commented in an interview with Voice of America that the sanctions against Georgia's richest man were imposed under an executive order targeting Russian agents or individuals acting in Russia's interests. "This indicated the United States has evidence of Ivanishvili's actions on behalf of the Kremlin," he added.

GD critics such as Georgia's former president Salome Zourabichvili have long pointed to a friendly relationship between the GD founder and Russian President Vladimir Putin, but Ivanishvili has deliberately ensured the details of his personal and professional life – including any links he may have to Moscow – remain murky.

With regards to Gomelauri, GD's statement highlights how the interior minister, who was sanctioned by the US under the Magnitsky Act on December 19, and the "heroic police officers" under his command, "are being punished for effectively preventing three violent attempts of the government coup in the last two years". This alludes to protests movements in Georgia in March 2023 and spring 2024 against GD's controversial "foreign agent law", and the ongoing pro-EU, anti-government protests which began following GD's alleged rigging of the October 26

"The party claims that "every politician and bureaucrat who makes anti-Georgian statements, be it a president, prime minister, parliamentarian, MEP, diplomat or official, is a member of the 'deep state' network, which operates according to the instruction of the GWP"

parliamentary elections and intensified after the u-turn on EU accession announced on November 28.

The Political Council underscored the hypocrisy of the "GWP" and "deep state" in their recent sanctioning of Gomelauri but not of Vano Merabishvili, interior minister under Saakashvili, or Giorgi Gakharia, who held the position under GD in 2019, both of whom the ruling party claim were responsible for police violence against protesters.

"No one can force the Georgian government to sacrifice the country for a devastating war at the cost of any sanctions", the Political Council concluded, adding that the Georgian people "will not allow Ukrainisation of Georgia at the cost of sanctions" and, therefore "'deep state' sanctions have lost all power in Georgia".

"Ukrainisation"

GD seems convinced that the so-called GWP, along with "deep state networks" that it says hold influence over certain Western states, will stop at nothing to bring war to Georgia.

In its statement, GD reiterates its warning against Georgia's potential "Ukrainisation" and claims that "as long as the first front exists in Ukraine, there will always be interest in opening a second front in Georgia".

The Political Council asserted that, over the past four years, "deep state" had "swept a number of states around the world into the whirlwind of war", had "destroyed America" and created "severe economic problems" for the EU, yet GD named Ukraine as reflecting "the most severe effects of 'deep state' patrons".

"Ukraine, which until 2014 had sovereignty, territorial integrity, peace and almost $200bn economy, is practically destroyed, for which the authors of 'Maidan' do not take any responsibility," GD stated, before adding that Georgia has survived the "Ukrainian scenario". This assertion, coupled with the earlier claim that Georgia's interior ministry "effectively prevented" a coup attempt, signals that the ruling party views the threat of pro-EU protests, which entered their 43rd day on January 9, to have passed.

Although it appears confident that its grip on power is strong, GD warns that "the struggle for peace continues" and Georgians must "fight to the end to survive and prevent the 'Ukrainisation' of Georgia". Bizarrely, GD views its battle to withstand "GWP" attempts to stir up conflict on Georgia's territory as doing "a good job for Europe", while most European countries "are playing 'deep state' and are unable to protect their national interests".

Georgia's EU membership

According to GD's recent statement, the spread of "deep state" networks within Europe is behind "the existing anti-Georgian policy of the EU bureaucracy", the value system of which it describes to be in a "dire condition", citing "LGBT propaganda" which "directly threatens our country".

In the statement, GD reiterates that Georgia's accession to the EU could only be considered once the European bloc has "fully overcome the problem of informal oligarchic influence and 'deep state'", which the party hopes will happen by 2030, after which it will then pursue membership.

The GD Political Council also doubled down on the party's key parliamentary elections campaign message: "with peace, dignity and prosperity to Europe", values the party publicly claimed on November 28 have been compromised under the current EU leadership, leading it to suspend accession negotiations with the bloc, triggering the ongoing protests across Georgia.

US relations re-set

GD's statement presented US president-elect Donald Trump as something like Georgia's saving grace in all this, highlighting 'promising statements' from his team about "the destruction of 'deep state' in American official structures".

This is not the first time Georgia's ruling party has hinted that it is banking on significant changes once Trump comes back to office in a couple of weeks, namely a shift in Europe's policy towards the current government in Tbilisi, but also the restoration of Georgia-US ties which, according to the statement, "President Trump's successful disruption of 'deep state' can ensure".

GD did not forget Joe Wilson, chair of the Helsinki Commission and a US representative, who has emerged recently as one of GD's most outspoken critics in the international political community. "Joe Wilson is one of the most severe manifestations of 'deep state'," the statement declares, "a degraded politician with zero political culture who blatantly threatens to punish us if we don't fight".

The ruling party alleged that in recently reintroducing into Congress the "MEGOBARI (Friendship) Act, which sanctions those guilty of corruption or undermining Georgia's sovereignty, Wilson was "fulfilling the political tasks of 'deep state'". The statement claimed the bill, dubbed the "Enemy Act", was backed by former Georgian defence minister, Davit Kezerashvili, "a fraudster who has robbed many European pensioners", and used the misappropriated money to fund Wilson's initiatives and "blackmail Georgia with sanctions".

On January 9, the day after the GD Political Council released its statement, Wilson formed the Friends of Georgia group along with 42 other politicians, their task being to urge all "free and democratic governments" around the world "not to recognise the illegitimate regime of Bidzina Ivanishvili and to demand free and fair elections in Georgia". The same day, a bipartisan bill co-authored by Wilson and titled the Georgian Nightmare Non-Recognition Act was introduced in the US Congress, prohibiting US officials from recognising the GD government.

"Orwellian principle"

In a style of rhetoric reminiscent of Putin, the statement as a whole paints GD as leading Georgia's courageous crusade against a Western neo-liberal world intent on bringing war and destruction to Georgia.

"Under the influence of the 'GWP', the Orwellian principle operates in the Modern World – 'War is peace, slavery is freedom, and ignorance is power'," the Political Council stated.

As an example, GD cited how the "GWP" refused to recognise the OSCE/ODIHR conclusion regarding the October 2024 parliamentary elections. The ruling party is seemingly alluding to how many in the European and US political sphere hold the belief that the autumn vote was not free or fair, a conclusion which the OSCE's final observation report in fact draws.

Later in the day on January 8, cultural expert Zaal Andronikashvili described the political council's statement as a manifestation of "delusional disorder and a conspiracy theory", whilst also signalling GD's "refusal to hold new elections and its intent to dismantle the state".

Political analyst Paata Zakareishvili, meanwhile, stated that "GD has realised it's been cornered; they didn't expect such a sharp reaction [sanctions] from the West. Now they're trying to withstand the blow and then go on the offensive."

The director for the Centre for Social Justice, Tamta Mikeladze said that she believed GD's propaganda should be taken more seriously. "Their primitive myths and conspiracy theories resonate with certain parts of society, and this requires not ridicule but proactive engagement," she said.

With the current protest movement slowly losing steam and another four-year term for Georgian Dream increasingly becoming a reality, the statement gives insights into how the ruling party is seeking to firstly, retain its loyal supporters and, secondly, earn the trust of those Soviet-generation Georgians who may be on the fence, and for whom Europe does not provide all the answers to their problems. ●

Central Asian leaders look to expand mutual trade

Eurasianet

After decades of competition over dwindling resources in Central Asia's agricultural heartland, the leaders of Kyrgyzstan, Tajikistan and Uzbekistan are embracing a spirit of cooperation as they jointly confront global warming-related challenges.

That spirit of cooperation was on display January 8, when the prime ministers of the three states gathered at a remote location in the Fergana Valley where the three nations' frontiers meet, to mark progress on settling long-standing border disputes.

Helping to pave the way for the gathering was a border demarcation agreement reached by Kyrgyzstan and Tajikistan in December. The two countries engaged in armed clashes over the disputed frontier as recently as 2021 and 2022. And in 2023, reports that the two states were engaging in an arms buildup raised fears of renewed conflict.

The resolution of border disputes sets the stage for joint efforts to expand economic cooperation in 2025. "The prime ministers of the three countries emphasised that the countries have great potential for strengthening cooperation in such key areas as trade, logistics, water-energy and cultural-humanitarian ties," a Kyrgyz government statement issued after the meeting noted. Managing dwindling water resources was a major topic of discussion during the meeting.

With the region's borders settled, barriers to cross-border trade should start coming down. The three states are participating in a US-sponsored initiative, dubbed the B5+1 process, that promotes regional trade connectivity.

A report published on a World Bank blog in December touted the regional potential for e-commerce. "E-commerce development is a viable way to reduce poverty in Central Asia," the item stated. "Except for the payment sector, which requires financial experts, the e-commerce ecosystem, particularly in production, marketing, and delivery, offers job opportunities that facilitate the participation of the poor and less skilled in online markets." ●

This article first appeared on Eurasianet.

Uzbek prime minister Abdulla Aripov (left) shakes hands with his Kyrgyz counterpart Adylbek Kasymaliev ahead of the meeting where the PMs of Uzbekistan, Kyrgyzstan and Tajikistan discussed settling their countries' long-standing border disputes. / gov.kg

Hailed as strong, aggressive and extremely quick, Khusanov is nicknamed "The Train" in Uzbekistan because of his sheer strength. / Manchester City F.C.

Football talent Khusanov poised to become first Uzbek to play in English Premier League after Man City signing

Mokhi Sultanova in Tashkent

Defender Abdukodir Khusanov is poised to become the first Uzbek football player to play in England's Premier League, widely regarded as the most high-profile and toughest soccer league in the world. On January 20, he signed for Manchester City F.C. in a deal football media understand to be worth €40m (£33.8m) plus add-ons.

Twenty-year-old centre-back Khusanov, an Uzbek international with 18 caps nicknamed "The Train" in Uzbekistan because of his raw power, has had a meteoric rise. City are buying him from French club Lens, which only paid €100,000 for Khusanov when they purchased him from Belarusian club Energetik-BGU in July 2023.

Khusanov began his football career at Bunyodkor academy in Tashkent at the age of seven or eight. Initially playing in various positions, including as right-back and as striker, Khusanov was moved to the reserves at 17 years-old due to concerns about his physical strength.

Disappointed, he and his father sought alternatives to progress his career. That led to the Belarus move in 2021.

Championat.asia editor Narzulla Saidullaev told *the Guardian* that Khusanov has become the most famous person in Uzbekistan, saying: "Even people who know nothing about football talk about him. Only two Uzbek footballers have played in major European leagues before – both in Italy... Now we have a star in England and it is a very big story. Many millions of Uzbeks are going to watch Khusanov's matches."

"I'm absolutely delighted to be joining Manchester City, a club that I have enjoyed watching for a long time," Khusanov said following the confirmation of his signing on a four-and-a-half-year contract. "This squad is full of the best players in the world, and I can't wait to meet them and play alongside them. And of course, [City team manager] Pep Guardiola is one of the greatest coaches ever, and I am so excited to learn from him and improve my game even more. This is a very proud moment for me and my family to be joining a great club like Manchester City, and I'm more than ready for this challenge."

City's director of football, Txiki Begiristain, spoke highly of the young defender, noting his potential and impressive qualities. "We are very happy that he has joined us, and we are all very excited about what he will bring. For such a young defender, Abdukodir is already very intelligent, as well as being strong, aggressive, and extremely quick. Working with Pep will only make him better, and, speaking to him, he is determined to keep improving. He is a really exciting signing as we aim to keep progressing to maintain one of the best squads in Europe."

Khusanov's transfer fee surpasses the previous record set for an Uzbek player by Eldor Shomurodov, who moved from Genoa to Roma in 2021 for €18mn.

At Energetik-BGU, Khusanov spent a year training before he was able to sign a professional contract at the age of 18. He became a key player for the club, helping them finish second in the league in 2022. His performances led to a call-up to Uzbekistan's U20 team, where he played a role in their 2023 Asian Cup victory.

Khusanov's performances in Belarus gained wider attention after the Asian Cup and in July 2023, he transferred to Lens, where he impressed with his ability to play in multiple defensive positions. ●


US president Donald Trump mulled annexing Greenland and Panama by force in violation of international law.

BALKAN BLOG:

Trump's annexation remarks risk reigniting Balkan border disputes

Clare Nuttall in Glasgow

Before even taking office, US President-elect Donald Trump caused alarm by discussing the annexation of Canada, Greenland and Panama. While these remarks were largely dismissed as unserious and met with mockery, the notion that the soon-to-be leader of the free world might support redrawing international borders – and moreover by force – could have serious repercussions.

These statements may resonate particularly strongly in the Balkans, where border disputes remain a volatile issue. The region's history of ethnic conflict and territorial claims makes it acutely sensitive to any suggestion of redrawing boundaries.

Already, Bulgarian far-right politician Kostadin Kostadinov has seized on Trump's comments to advocate for annexing parts of Ukraine and the whole of North Macedonia, demonstrating the dangerous ripple effects of such rhetoric.

German Chancellor Olaf Scholz was among the global leaders to respond negatively to Trump's comment, saying that "the inviolability of borders is a universal principle." Without naming Trump directly, Scholz's remarks highlighted the unease felt in Europe.

"Borders must not be moved by force," he said, drawing a parallel to Russia's violation of this principle in Ukraine.

"The principle of the inviolability of borders applies to every country, regardless of whether it lies to the east of us or the west, and every state must keep to it, regardless of whether it is a small country or a very powerful state," he added.

Serbia-Kosovo land swap

After former Yugoslavia was torn apart by bloody ethnic wars in the 1990s, the spectre of border changes is not new to the Balkans.

Since then the issue has continued to be raised sporadically. Milorad Dodik, president of Bosnia & Herzegovina's Republika Srpska, in particular, has repeatedly talked of the secession of Bosnia's Serb entity and its potential unification with Serbia post-independence.

A controversial proposal for a land swap between Serbia and Kosovo has also been mooted as a potential way to resolve the ongoing tensions in Serb-majority areas in northern Kosovo.

This resurfaced in 2018, sparking widespread criticism. The plan, supported by Serbian President Aleksandar Vucic and Kosovo's then president Hashim Thaci, suggested exchanging ethnic Albanian-majority territories in southern Serbia for parts of northern Kosovo. Advocates claimed this could resolve long-standing tensions, paving the way for Kosovo to gain a UN seat and advancing EU accession talks for both countries.

Despite US support under Trump's then national security adviser John Bolton, the plan faced fierce resistance in Kosovo and elsewhere in the Balkans.

Critics warned that such a move could destabilise the region. Kosovo's then prime minister Ramush Haradinaj condemned the proposal as a "disastrous idea", arguing it could reignite ethnic conflicts. Then German Chancellor Angela Merkel strongly opposed the plan, while former international representatives to Bosnia warned it could plunge the region back into division. Three former high representatives for Bosnia – Carl Bildt, Paddy Ashdown and Christian Schwarz-Schilling – wrote an open letter saying they could "think of no policy more likely to lead us back to division and conflict in the Balkans".

The mystery of the 'non-papers'

Three years later, in 2021, a diplomatic firestorm erupted over leaked "non-papers" – unofficial documents proposing redrawn borders in the Balkans. These proposals included the "peaceful dissolution" of Bosnia, with Serbia and Croatia annexing large portions, as well as the unification of Kosovo and Albania.

Valentin Inzko, the then high representative in Bosnia, warned that such ideas could open "Pandora's box", jeopardising the region's fragile peace. "Frozen conflicts can break out at any time," he warned, citing recent flare-ups in fighting in Nagorno-Karabakh and Palestine.

The non-papers drew widespread condemnation, though Bosnia's Dodik voiced support for their secessionist implications. Accusations then flew about the origins of the papers, with some even speculating about Franco-German involvement. Slovenia's then prime minister, Janez Jansa, was among those under scrutiny, while Kosovo's President Vjosa Osmani accused Serbia of orchestrating the documents, which Belgrade denied.

Wider instability

The ramifications of reopening border disputes extend beyond Serbia and Kosovo. North Macedonia – the target of Kostadinov's proposal – has expressed concerns about land swaps potentially reigniting ethnic tensions. Back in 2018, Radmila Sekerinska, the country's then defence minister, told *The Guardian* that such ideas harken back to the Balkan wars of the 1990s, when ethnic divisions led to atrocities. "Political solutions to political problems do not require ethnic borders," she said.

Specifically, the fear is that that reopening one territorial dispute could embolden nationalist movements across the Balkans, destabilising fragile peace agreements. Ethnic Serbs in Bosnia's Republika Srpska, for example, could intensify calls for secession, while Serbs and Macedonians fear Albanian nationalists might make their own demands.

> "The principle of the inviolability of borders applies to every country, regardless of whether it lies to the east of us or the west, and every state must keep to it, regardless of whether it is a small country or a very powerful state"

The "Serbian World" and "Greater Albania"

Serbia's Deputy Prime Minister Aleksandar Vulin has promoted the concept of a "Serbian World" ("Srpski svet"), advocating the unification of all ethnic Serbs across the Western Balkans. This vision echoes the "Greater Serbia" agenda that fuelled Slobodan Milosevic's military campaigns in the 1990s, marked by territorial expansion and widespread atrocities.

Historian and political analysts Jasmin Mujanovic has described it as "perhaps the most dangerous idea in European politics today, and therefore a threat to the entire continental order".

The concept of a "Greater Albania" ("Shqipëria e Madhe") envisions uniting territories with historical or current Albanian populations, including Kosovo, parts of Serbia's Preševo Valley, Montenegro, North Macedonia and northwestern Greece, has also periodically surfaced.

While "Greater Albania" is not promoted by Albanian politicians, symbols associated with the concept continue to spark tensions. Albania's football association was charged at the Euro 2024 championship after fans displayed a map of "Greater Albania" as well as "transmitting a provocative message unfit for a sports event". In 2020 Kosovo-born British pop star Dua Lipa shared a "Greater Albania" map on Twitter, but quickly back-pedalled, saying her post was "never meant to incite any hate".

Fears of renewed instability
Already, the prospect of Trump's return to the White House raises fears of renewed instability in the Balkans. During his first term, Trump's administration adopted an unorthodox approach to the region, including backing the Serbia-Kosovo land swap concept. Critics worry that a second Trump presidency could embolden nationalist actors like Serbia's Vucic or Bosnia's Dodik.

A recent report by the European Council on Foreign Relations (ECFR) warns that Trump's foreign policy could shift from a neutral stance to openly favouring Serbian interests. This, the report argues, could undermine efforts to maintain the delicate balance of power in the Western Balkans, reignite calls for contentious border changes, and embolden secessionist movements.

The resurgence of nationalist rhetoric and territorial ambitions in the Balkans poses a serious challenge to regional stability. Politicians like Dodik and Vulin capitalise on such narratives to strengthen their domestic positions, while external actors like Russia and Turkey exploit these divisions to expand their influence.

Trump's unpredictable foreign policy and apparent indifference to established international norms could further embolden these forces, complicating efforts to maintain peace. The US president elect's casual rhetoric about annexations – even when unserious – risks legitimising dangerous ideas about border changes. As the European Union struggles to maintain unity and the US' commitment to international norms appears uncertain, the potential for renewed instability in the Balkans looms large. ●

COMMENT

Gulf states court Russia but stop short of strategic shiftheadaches Trump Europe's mounting problems

bne IntelliNews

The Gulf Cooperation Council (GCC) states – Saudi Arabia, Kuwait, Bahrain, Qatar, the UAE and Oman – are increasingly backing Russia in its geopolitical and economic standoff with the West, but they have stopped short of allying with the Kremlin, argues Nikolay Kozhanov, a Research Associate Professor at Qatar University, in a paper for Riddle.

The relationship between the Kremlin and the Persian Gulf Arab monarchies is more than a marriage of convenience but less a full-blown partnership. Since they became competitors with the US in global oil markets, the GCC nations are trying to establish themselves in the middle ground between East and West and become autonomous players on the international geopolitical stage while also plugging into the broader Muslim culture of Russia.

The perceived closeness between the GCC and Russia stems from the obvious economic benefits derived by Gulf states from their dealings with Moscow, including cooperation within the OPEC+ framework to stabilise oil prices, which the Kremlin studiously ignored for years until signing up in December 2016 after the international sanctions regime following Russian President Vladimir Putin's annexation of the Crimea two years earlier. Putin has gone out of his way to woo the Arab states, notably the Kingdom of Saudi Arabia (KSA), as he attempts to rebuild Russia's international relations, focusing on the Global South.

That has been welcomed by the GCC countries looking for a counterbalance to the US, as their relations with Washington have soured since the shale revolution in 2016.

However, while embracing Putin's vision of a "multipolar world" that he laid out in his recent Valdai speech, the GCC is also careful to hold the Kremlin at arm's length.

Economic pragmatism over alliance
Economic ties between Russia and key Arab Persian Gulf states have expanded since the outbreak of the war in Ukraine. Russian-UAE trade surged from $5.3bn in 2021 to $11.2bn in 2023, while Russian-Saudi trade increased by $1.1bn during the same period. Beyond trade, those countries have leveraged Russia's economic pivot to Asia to enhance their food and energy security. Russian hydrocarbons, agrarian products and IT have found a receptive market in the region, underscoring a pragmatic rather than ideological partnership.

"Russia has become more involved in ensuring the food and energy security of the Gulf since 2022," noted in November.

The Gulf's role in the International North-South International Transport Corridor (INSTC), mainly through Iran's Chabahar and the UAE's port of Fujairah, has also been critical for Russia's access to Asian and African markets. Multilateral cooperation, such as the UAE joining BRICS in 2024 and strategic dialogue within OPEC+, underscores the alignment of economic interests but stops short of solidifying a formal alliance.

A calculated neutrality

On the geopolitical front, the Arab GCC nations navigate a delicate balance. While Saudi Arabia and the UAE avoid openly criticising Moscow, Kuwait and Qatar have condemned Russia's actions in Ukraine. Diplomatic circles in the Persian Gulf continue to prioritise their alliance with the United States, demonstrating restraint in sanction circumvention when US pressure mounts. As Kozhanov highlights, "The GCC does not see Ukraine as 'their' conflict." Instead, economic stability, energy security and the reshaping of US regional influence dominate their calculus.

The GCC's policies towards Moscow are shaped by the region's shifting relationship with Washington. Limited US responses to regional security crises and threats like the NOPEC bill have pushed Gulf states to diversify their partnerships while maintaining strong US ties. This balancing act extends to Russia, with GCC nations willing to engage economically, provided it does not harm relations with the West.

The fear of sanctions mechanisms, such as the EU's price cap on Russian oil, being replicated against them also aligns Gulf monarchies with Moscow's positions. Yet such alignment remains tactical, aimed at maximising economic benefit and minimising exposure to global energy volatility.

Not allies but strategic partners

Essentially, the GCC's interaction with Russia demonstrates strategic pragmatism rather than an attempt to form alliances and follows that of Iran, which has also become closer to Moscow in recent years with its observer member status in the Eurasian Economic Union (EEU) and membership of BRICS along with Saudi Arabia and the United Arab Emirates.

"Economic and political collaboration is based on mutual advantages rather than ideological similarities"

Economic and political collaboration is based on mutual advantages rather than ideological similarities. It is improbable that this relationship will develop into a strong partnership or an alliance, as both sides know the more considerable geopolitical limitations and their individual national interests.

Future changes will hinge on developments in global energy patterns, the shifting role of the US in the Gulf region and the capacity of both parties to adjust to a more multipolar global landscape. While the GCC may continue to act as a "fellow traveller" alongside Russia, the relationship is expected to remain pragmatic, transactional and limited. ●

The GCC has embraced Russia as its relations with the US sour, but the Arab powers are still holding Russia at arm's length. / bne IntelliNews

COMMENT

The EU's Green Deal is a "policy disaster"

The EU's Green Deal is based on a renewable only solution to emissions reduction and relies on technology that doesn't exist, argues energy analyst Tom O'Donnell, an advisor to several governments in Europe. / bne IntelliNews

bne IntelliNews

Energy analyst Dr Tom O'Donnell has issued a stark critique of the European Union's Green Deal, describing it as a "policy disaster" that requires radical reform to prevent further industrial decline and to bolster energy security.

Speaking at the "Energy Security in Central & Eastern Europe" conference in Warsaw, O'Donnell highlighted significant technological shortcomings within the EU's current all-renewables energy model.

"Several of the stated key technical requirements for the model to succeed have failed," O'Donnell stated, pointing to the lack of universally applicable, long-term, grid-scale storage technology as a critical flaw.

He traced the origins of the EU's Green Deal to the German Energiewende, itself influenced by American physicist Amory Lovins' "Soft Energy Paths" concept from the 1970s.

"In 2019, Dr. Lovins, an American physicist and futurist, was decorated by the German government, recognized as the father, in effect, of the plan that has become the German national energy transition policy. He is also credited with coining the phrase "energy transition"," Donnell said.

The initial reason for advocating this soft-energy-paths transition had very little to do with climate change. Climate change was a minor issue at the time. Rather, it had to do with how, in order to use hard energy paths, you need big industrial facilities run by big corporations. So, it was said that to undermine these corporations' power, we have to use only renewables, says Donnell.

At that time in Germany, an anti-big business movement had grown up against the arbitrariness of large project decisions by government and corporations, without any local consultations with citizens that was a backlash against the rapid post-war re-industrialization.

In addition, neo-Malthusian ideas, first popularized by the Club of Rome, had popularized predictions of the extinction of each mineral resource, including oil and gas, as well as another looming overpopulation crisis.

"These deep-seated concerns were the bases of what, in Germany in particular, coalesced into a new movement for replacing so-called "hard energy paths," fossil fuels and nuclear power, as a path to preserving the environment and killing the economic and social dominance of large corporations," says Donnell. "Climate change, as an issue, as a driver of this all-renewables program, came along later."

O'Donnell argued that, despite decades of research and development, essential technologies such as advanced grid-scale storage and smart grids have not materialised at the necessary scale.

Two core ideas of the soft energy paths were smart "mini-grids" and developing effective power storage. Mini-grids are democratic energy, set up to serve a community and run by the community. From the start it was clear the drawback with renewables is the intermittent nature of its energy – there is only power when the sun shines and the wind blows. Smart meters attached to the mini-grid would tell housewives when they can run the washing machine or a factory's machinery. Essentially, communities would sync activity to the weather.

Even then it was clear from the start that in addition is the need for grid storage of power to deal with demand that will inevitably run above renewable energy supply in peak periods of the day and to deal with what the Germans call "Dunkelflaute," the days when the sun doesn't shine and winds lull. Battery technology has come a long way in the last forty years, but today it can cope with an hour of poor weather conditions but it is still nowhere near being able to cope with Dunkelflaute at any kind of scale.

Other than batteries the best energy storage technology is pumped storage hydropower that currently accounts for 93% of all grid-scale storage capacity. But pumped storage is only suitable for countries with large mountainous lakes. However, pumped storage is not an option for all the countries between Paris and Moscow on the Great Northern Plain, which is as flat as a pancake.

For all these reasons, Europe remains hooked on Russian gas as the best alternative energy source and the least harmful for the climate. Despite its best efforts to wean itself off Russian gas in the last two years, Russian gas increased its share in the EU energy mix over 2024 from 14% at the start of the year to 21.2% in December.

The 8th Monitoring Report of the Energiewende report that tracks Germany's progress in the national energy transition program presented to former Chancellor Angela Merkel concluded that Germany cannot produce sufficient renewables on its own territory to satisfy its own demand for power. It will always have to import power, putting increased strain on other EU members that are also struggling to reduce fossil fuel use.

In lieu of sufficient renewable generating capacity last year Robert Habeck, a leader of the Green Party, got emergency parliament funding to install 25GW of new natural gas generation (he actually wanted 36-39GW), roughly equal to 25 big coal plants or 25 big nuclear plants and a de facto abandonment of the "renewables only" policy that has driven German energy transition policy until now.

In desperation, the Merkel government launched a "hydrogen strategy" as an alternative to gas, but as *bne IntelliNews* reported hydrogen won't work due to numerous technical problems. To name only one, it can't be transported as to liquify it, hydrogen needs to be cooled to just 20C over absolute zero, needing an extraordinarily amount of energy to make it that cold. Only helium has a lower liquification point. And as hydrogen atoms are so small, they simply leak through the walls of conventional pipelines, posing a major explosion threat.

The only realistic scalable alternative to natural gas or renewables is nuclear power following France's Messmer model, argues O'Donnell.

The EU has reversed its policy on nuclear power and now has the political will to develop nuclear power infrastructure after years of favouring renewable energy investments, government and industry officials said during an industry conference in Brussels December 17, S&P Global reports. As part of the changes provoked by the Draghi report, a new business model for EU nuclear energy investments will be rolled out from 2025, including the development of small modular reactors and a potential competitiveness fund, are urgently needed to capitalize on this momentum, the officials added.

Barking up the wrong tree

Since these early days, the mini-grid idea has been abandoned and replaced with the idea of a as large a grid as possible to smooth out the local variants in supply and so smooth supply. Germany's decision to switch off its six nuclear power plants and becoming a net importer was made possible as EU rules forced its neighbours to export Germany the missing power. Now this winter, countries like Sweden, Norway and the Baltic states have begun to complain heavily after the cost of power in their countries has soared.

"The idea was that you could get rid of all of what Lovins called 'hard energy paths,' that is fossil fuels and nuclear, and replace this with so-called 'soft energy paths,' meaning renewables," Donnell.

O'Donnell warned that the EU's steadfast commitment to an all-renewables strategy, without addressing these technological gaps, is leading to deindustrialisation and undermining energy security.

He cited Germany's recent closure of its last three nuclear power plants during a wartime energy crisis as an example of policy decisions that exacerbate the problem.

"The stance that the new Commission is taking, while focusing on energy and industrial policy, is simply doubling down on old policies, wrong policies which are dangerous," O'Donnell asserted.

He criticised the appointment of Teresa Ribera, a proponent of all-renewable energy systems, as the European Commission's Executive Vice-President in charge of both the Green Deal and industrialisation.

"The fact that [European Commission President Ursula] von der Leyen fought hard to appoint Ribera and then put her in charge... shows that Von der Leyen... has no interest in reform of the renewables model despite its suffering technological failures on several key aspects," O'Donnell remarked. "The problem is, Ms. Ribera is a true believer in all-renewable energy systems, I would say a career-long renewable fundamentalist"

"She's said to be so good at negotiating that she managed to get the Spanish nuclear industry and civil society to agree on a timetable to close all the Spanish nuclear power plants, and she's very proud of this," O'Donnell added.

This misguided policy is condemning Germany and the rest of Europe to deindustrialisation, a process that already started long before the war in Ukraine catalysed it with the 2022 energy crisis. The point was rammed home in great detail by the report by former Italian Prime Minister and ex-European Central Bank boss Mario Draghi that warned Europe has lost its competitive edge and needs to spend €800bn a year to just stand still, or about 4% of Europe's collective GDP. Finding this amount of money is a daunting prospect for budgets that have already been depleted first by the 2020 pandemic and now by the €100bn a year sent to

Kyiv. And all this comes at a time as all of Europe sinks into recession.

"Von der Leyen's administration has no new ideas on this, and is instead simply changing names of things from "green" to "clean" and doubling down on the technologically failed Green Deal Model, based on the German Energiewende Model," says O'Donnell. "EU strategy, as Ribera and Von der Leyen repeatedly remind us, is to use green tech development to regain EU competitiveness. But, that battle for Green tech supremacy has already been lost. You know the story vis-à-vis both the USA and especially China... And so, there was, and still is, a wrong theory, a flawed model, and it is now contributing to the deindustrialization of Europe, to its competitive failures."

The failure to recognise the flaws in the EU's green transition policies is leading to the deindustrialization of Europe. That in turn presents an acute economic and national security threat for Europe. The German industrial decline will pull everybody else down, especially their Central and Eastern Europe (CEE) and Baltic neighbours simply because it is so big and so important as a market to all its neighbours, O'Donnell argues.

As a solution, O'Donnell advocated for a diversified energy mix that includes nuclear power, citing France's historical success in decarbonising its electricity generation through nuclear energy without the need for new grids or long-term storage technologies.

"The French Messmer plan, which rapidly built nuclear plants, succeeded in decarbonising French electrical generation without any need for new grids or long-term grid-scale storage tech," he noted.

O'Donnell's critique calls for a reassessment of the EU's current energy policies to address technological shortcomings and to consider a more pragmatic approach that ensures both energy security and industrial competitiveness. ●

COMMENT

Trump demands Europe import more US LNG, as the EU proposes banning Russian LNG completely. Neither will happen.

Ben Aris in Berlin

US President Donald Trump wants Europe to buy more US gas or face tariffs, and ten EU member states have called again for an end to all Russian imports. Neither of these things are going to happen. Europe remains hooked on Russian gas.

"Large scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way!!!" Trump posted on social media last month.

That was followed by comments from European Commission President Ursula von der Leyen shortly after her re-election as the European Commission (EC) president: "Why not replace [Russian gas] by American LNG?" she asked in an effort to curry favour with the mercurial US leader.

The problem that they both face is, despite their political desire to change the nature of the Europe energy market and cut Russia off from an important source of income, Europe's gas market is commercial and neither leader has any power to force companies to switch suppliers. The brutal truth is that Russian LNG is cheaper than US gas.

Trump is hoping to force the issue by imposing duties on Europe if it doesn't buy more LNG. The freshly inaugurated president signed over 100 decrees on his first day in office, including ending all restrictions on developing new deposits and lifted a ban on exports of LNG to Europe. In his inauguration speech, he promised to make America rich again by exploiting its hydrocarbon reserves, "the biggest in the world."

The politicians are being ignored by the market. Europe imported a new record amount of Russian gas in 2024, up 14% year on year to 23.5bn cubic metres, still a fraction of the circa 150 bcm a year that Europe used to import pre-war.

The end of cheap Russian piped gas supplies has had a devastating impact on the EU's economy. Germany has been particularly hard hit, posting two consecutive years of economic contraction in January for the first time since the 1990s, as it de-industrialises. German companies simply cannot afford to pay more for energy when energy prices are already currently triple their long-term pre-war average.

On one hand, European politicians are calling for a total ban on Russian gas imports; on the other hand, the companies are buying every cubic centimetre they can get their hands on. Spain, France and Belgium are by far the largest purchasers.

But things may change as new LNG production comes on line in the coming years. Industry analysts at S&P Global Commodity Insights project that US LNG supplies to Europe could eventually surpass the current import volumes. They estimate 14.2 bcm (10.3mn tonnes) of LNG are already contracted for European delivery from US plants currently under construction, with an additional 13.1 bcm (9.5mn tonnes) available for purchase, which should all come online by 2029.

At the same time, the EU's natural gas demand is forecast to decline by as much as 25% by 2030 compared to 2023 levels, helping to swing the balance to America's disadvantage, according to the International Energy Agency (IEA).

Asia will play a role too, drawing LNG away from Europe. Already the world's biggest consumer of LNG, Jarand Rystad, CEO and founder of Rystad Energy, told CNA that the demand for LNG will double in the next five years, as "this is a construction process". Willing to pay more, US tankers are likely to be diverted to the most lucrative Asia markets only worsening Europe's gas supply problems.

"The price issue is a delicate and decisive one," a senior EU official told the *Financial Times* in a recent interview.

Meanwhile, European regasification infrastructure could accommodate additional imports, providing potential leverage for diversification. However, this hinges on whether EU policymakers or governments decide to set up a strategic LNG reserve to facilitate purchases from the US.

Ukraine would love to see a strategic reserve created which could be stored in its underground gas tanks on the EU border – the largest on the Continent. But there are problems with this idea too. In 2023, European gas traders stored just over 3 bcm in Ukraine's tanks while speculating that prices would rise in winter. However, they didn't repeat the profitable bet in 2024 after Russia started targeting the gas storage facilities with missiles. Buried deep underground, Russia's missile attacks have been ineffective, but the increased risks were enough to make Ukraine's tanks an unappealing place to store gas this winter.

In the short term the pressure to import more gas will grow in the summer of 2025. Ukraine refused to renew the gas transit deal with Russia signed in 2019 that expired on January 1 taking another 15 bcm out of the market. At the same time, colder temperatures this year mean that gas is being removed from the EU storage tanks at a faster rate than usual. The EU is on track to end the heating season with its tanks 35% full, well below the previous year's 60% level. That means the EU will have to find an additional 10bcm to make up for this year's extra cold weather usage plus another extra 15 bcm on top of that to replace the end of Ukraine's supplies. Doing this without importing Russian gas is currently impossible.

Other global suppliers, including Qatar and Canada, are also planning to ramp up LNG production that will ease the pressure in the medium term, for the next two years at least, the EU must navigate an increasingly competitive market while at the same time it attempts to reduce its exposure to Russian energy as well as deal with Trump's tariff threats. ●

US President Trump has threatened to hit the EU with tariffs unless it imports more US LNG. The EU wants to ban the import of Russian LNG completely. But the shortage of gas supplies and cheapness of Russian gas mean that Europe remains hooked on Russian imports for now. / bne IntelliNews

COMMENT

Europe needs to start the fightback against Trump now

Hungarian Prime Minister Viktor Orban has become a totemic figure for the US far right.

Robert Anderson in Prague

Even before Donald Trump re-entered the White House in triumph, Europe's right wing was already adjusting their sails to the new prevailing wind.

Europe's resurgent far right has long hailed the coming of the king across the water. Some, such as Hungary's Viktor Orban, have been longing for this moment for years. The Hungarian premier crowed, "So the great attack can start. Hereby I launch the second phase of the offensive that aims to occupy Brussels."

But now the centre-right (and some liberals and social democrats) are also making their obeisances to the American populist strongman. European politicians are rushing to assure the new president that they will jump at his command – their only question is how high – in a clear sign of the rottenness of the European centre at a time when it should be steeling itself to protect liberal democracy against its modern day enemies.

Trump's outriders such as Elon Musk have been threatening Europe even before his motorcade arrived, and have met little if no resistance. Even when Trump himself made extraordinary and outrageous territorial claims on Greenland, Danish and EU leaders hardly made a peep.

"There is the danger of bilateral responses, what we have to offer to the new king of America. Everyone is looking how we can please this guy," Ursula Plassnik, former Austrian foreign minister, warned a seminar at the Czech Institute for International Relations in November.

A weakened Europe – with traditional motors France and Germany consumed by domestic political woes – appears ready to give way to Trump on key parts of the bloc's policy framework. Already political leaders are rushing to promise to buy more American LNG and hike defence spending (typically by buying more from US arms companies).

On Ukraine, doomsayers and Kremlin apologists are sensing growing support for their false counsel that Europe should cut and run. The EU has even postponed discussion of Russian sanctions until after his inauguration.

On the Green Deal, there also appears to be mounting pressure to ratchet back. On social media regulation that infuriates US tech giants, the EU has signalled that it will have a rethink. Only significantly on Trump's threat to impose tariffs are there signs that Europe is prepared to push back.

Trump's election has also helped to normalise illiberal politicians, Ruth Deyermond, a senior lecturer at King's College London, told a UCL webinar in November.

"'We're not marginal, we're really moving with the tide of history'," she said the far right were now saying, predicting that "they will walk taller, play a bigger role, be more difficult and play hardball … The awkward squad will get more awkward".

But she argued the mainstream right are really the ones to watch. "We can see figures in these conservative parties who say 'we need to reassess, to take Trump seriously'," she said. "They want to do a double take, to get behind a winner."

The truth is that the rise of Europe's far-right has long been facilitated by the weakness and lack of scruples of the continent's traditional centre-right. Time and time again the centre-right has both formed governments with the far right and adopted its illiberal ideas in an attempt to stay relevant, thereby normalising politicians and ideas that are opposed to everything a liberal and democratic Europe stands for.

Currently the radical or far right is in government or has a share of power in nine governments out of 27 in the European Union, with a commanding position in Hungary and Italy. Slovakia's Prime Minister Robert Fico also arguably should be added to that number, though his party is ostensibly leftwing.

The far right is also likely to add to its tally this year following the elections in Austria, while Calin Georgescu looks likely to become Romanian president at the second attempt in May, after the 2024 election was cancelled because of suspected Russian interference.

Also in May, Poland's radical rightwing Law and Justice party will hope Trump's victory helps it retain the presidency, while Czech populist leader Andrej Babis will be even more confident of returning to power this autumn.

The number of European Council members with a strong radical or far right presence is already close to a blocking minority and that point looks almost certain to be reached in the near future.

This trend was confirmed this month when the centre-right Austrian People's Party (OVP) agreed to open negotiations on taking part in a government led by the far-right Austrian Freedom Party (FPO). The scandal-ridden FPO, which was formed by Austrian Nazis after the war, plays with Nazi dog whistle slogans, promotes hostility towards immigrants, campaigns against the EU, and has had longstanding links with Russian dictator Vladimir Putin.

In a first for the party, the FPO came top in Austria's general election last September with 29%, ahead of the country's two traditional main parties, the OVP with 26% and the Austrian Social Democrats (SPO) with 21%.

Three month-long negotiations between the OVP and the SPO to keep the FPO out collapsed earlier this month, prompting the resignation of OVP Chancellor Karl Nehammer. Liberal President Alexander Van der Bellen felt he had no alternative than to nominate FPO leader Hubert Kickl as premier. Under its new leader Christian Stocker, the OVP has indicated that it is now willing to serve under Kickl.

> "There is the danger of bilateral responses, what we have to offer to the new king of America. Everyone is looking how we can please this guy"

The FPO has taken part in Austrian coalitions before but if such a government is formed, this would be the first time it will be calling the shots. The days when the OVP and the SPO were able to divide up power are well and truly over.

An FPO-led government would have serious implications for EU policymaking, notably on Ukraine and Russia, where already Hungary and Slovakia criticise the bloc's approach. The FPO is so suspect on Russia that when Kickl was interior minister between 2017-19 in an OVP-led government, Nato allies were forced to cut intelligence ties with Austria because of the risks of leaks to the Kremlin.

"Kickl has kept his powder dry on Russia but his policy positions are very Russia-friendly," says Marcus How of VE Insight, a Vienna-based investment risk advisory. "Kickl is opposed to sanctions, and especially opposed to aid to Ukraine within the European Peace Facility. He is even sceptical of non-lethal aid to Ukraine, and opposed to [hosting] Ukrainian refugees."

Kickl could be a stalwart ally for Orban, How argues, because Austria is not reliant on EU aid. "Kikl is not like Fico, as he can't easily be held over a barrel. He is much more ideological, he will be a much more reliable figure for Orban."

If the FPO is able to form a government, it will give a boost to the EU's far right and radical right parties, whose rise was highlighted by last summer's European Parliamentary elections. Kickl would join Orban and Italy's Georgia Meloni as far-right premiers in the EU, and he could be joined by Babis after the Czech elections this autumn.

If that were to happen, all the core parts of the old Habsburg Empire – Austria, Czechia and Hungary, together with Slovakia – would be controlled by populist Eurosceptic parties.

An FPO-led Austria could also have a knock-on effect on Germany, where the far-right Alternative for Germany (AfD) is in second place in opinion polls ahead of the general election on February 23. "Will the Austrian government become some kind of template for the far right in Germany?" How ponders.

The rise of the FPO in Austria is mirrored by the rise of the far right in the European Parliament. After last June's European Parliament elections, Kickl was one of the founders of the Patriots for Europe grouping, together with Orban and Babis. They have subsequently been joined by France's National Rally, Italy's Lega, Spain's Vox, Netherland's PVV, Belgium's Vlaams Belang and the Danish People's Party, becoming the third largest grouping in the parliament.

Several of these parties are already in government, notably Hungary's Fidesz (leading the government since 2010), and Italy's Lega and the Dutch PVV, both as part of coalitions.

Italian premier Meloni's Brothers of Italy has yet to join the grouping but is close to Orban. More worryingly, France's National Rally is widely expected to win the next presidential election in 2027, if it is not held earlier.

Alongside the Patriots for Europe is the even more extreme Europe of Sovereign Nations group, which includes the AfD, which is expected to come second in the German federal election next month, ahead of the ruling Social Democrats.

Both party groups are likely to become noisier and more obstructive following Trump's victory.

This populist surge comes as the EU's traditional leading political families – the Social Democrats and the centre-right European People's Party (EPP) – are suffering a prolonged crisis of confidence.

The EPP, to which the OVP belongs, is if anything undergoing the more profound crisis. It has often indulged the far right. Only in 2021 did Orban jump before he was pushed out of the EPP, while Bulgaria's populist Gerb – which formed the new government there earlier this month – remains a member.

Leading EPP figures have indicated that the group should be open minded about working with the far right in the European Parliament, particularly on migration and on reversing the last Commission's Green Deal.

European Commission President Ursula von der Leyen (nominated by the EPP) has already shown a willingness to be more accommodating to the views of the far right on migration and the Green Deal, as part of a bargain to use their votes if needed to get the rest of her programme through.

A further risk now is that, following Trump's victory, the EU could back down on trying to discipline Orban – who has become a totemic figure for the US far right – ignoring his hollowing out of democracy, corruption and abuse of human rights, and his more and more overt sabotage of the bloc's efforts to counter Russia.

"A new Trump administration might be willing to back [populist forces] in their intra-EU struggles or help out in their individual challenges," Jeremy Schapiro and Zsuzsanna Végh wrote in a recent policy brief for the European Council on Foreign Relations. "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."

Europe is therefore in danger of giving in to the far right without putting up a fight, something that would be dangerous at any time, but which is disastrous when the continent is threatened by Russian aggression, both on its borders and in hybrid attacks within.

Yet the victory of the far right, abetted by Trump and his minions, is still far from certain. Even in Central Europe, populism's stronghold, Fico's government in Slovakia is wobbling, and Orban faces a serious challenge from Peter Magyar's Tisza party at the 2026 Hungarian election.

But only by standing firm against Trump and the far right, and by meeting the real – primarily economic – concerns of their discontented voters, will Europe's centre be able to do this. ●

Analysts expect 'perfect storm' of political risks in 2025

Clare Nuttall in Glasgow

Global political risk is set to intensify in 2025, with analysts from Verisk Maplecroft warning of shifting alliances, escalating conflicts and the deepening impact of protectionism on global trade and supply chains.

The firm's latest analysis, presented during a recent webinar, outlines a "perfect storm" of geopolitical challenges that businesses and investors must navigate in the coming year.

"99 countries have witnessed a significant increase in political risk over the past three years," said Jimena Blanco, chief analyst, global risk insight at Verisk, referring to the firm's research.

"It's not just one factor, it's actually a perfect storm of civil unrest, conflict, challenges to government authority, trade disputes, interstate tensions, resource nationalism, sanctions," Blanco told the webinar on January 15.

"All of these have the potential to converge at times or remain parallel but distinct risks at others."

Blanco added: "there is one common thread stitching our political risk outlook together and that is the strategic competition between major powers creating this new baseline level of risk and uncertainty for businesses and investors."

This is set to intensify in 2025, as Donald Trump takes power in the US on January 20.

"As President Trump takes office since again ... the role of international trade as a geopolitical battleground is set to intensify as his proposed tariffs could upend international trade, place further pressure on glob and also potentially drive inflation in the US," Blanco told the webinar organised by Verisk Maplecroft.

Trade tensions to escalate
Trade tensions are expected to escalate, with a new wave of tariffs and protectionist measures threatening to disrupt international commerce. Verisk analysts noted that harmful government interventions, including financial sanctions and domestic subsidies, have tripled since 2019, reshaping the global economic landscape. These measures are increasing costs for businesses, particularly in Western democracies, where trade disruptions are being felt most acutely.

Not all countries are the losers. The report singles out Mexico and Vietnam as countries that have emerged as key connector economies, benefiting from the fragmentation of global supply chains. However, they face political and labour rights challenges as they seek to solidify their roles in the global economy.

Meanwhile, the broader trend of de-globalisation is adding significant costs to businesses and consumers, with supply chain inefficiencies and geopolitical rivalries driving inflation higher.

At the same time, Blanco said, “We expect to see alternative international institutions – be it the BRICS, be it the SCO – become increasingly relevant vehicles to offer an alternative world view to the one presented by the rules-based into international order, which has dominated for much of the past eight decades.”

Escalating conflicts and increased exposure
Armed conflict has expanded dramatically, with the proportion of global landmass exposed to conflict increasing by 65% since 2021, according to Verisk’s Conflict Intensity Index of 198 countries and territories. Key conflict zones include Ukraine, the Middle East and sub-Saharan Africa, with the Sahel region witnessing the most significant territorial expansion.

“The headline takeaway from our data is that the global conflict risk have increased very significantly over the past four years,” said Hugo Brennan, head of EMEA, global risk insight at Verisk Maplecroft.

The drivers of these conflicts are diverse, ranging from poor governance and socio-economic instability to the intensification of long-standing disputes.

The firm’s latest Conflict Intensity Index highlights that nearly all of the worst-performing countries have seen their scores deteriorate over the past four years. The expansion of conflict-affected areas is exposing critical supply chains to heightened risks, particularly in sectors such as oil, gas and critical minerals.

“Global supply chains are … exposed to war risks, most notably the Houthis’ ongoing campaign to target shipping in the Red sea, the world’s busiest trade route, has disrupted supply chains and increased shipping costs,” said Brennan.

Similarly, “the fallout from Russia Russia’s full scale invasion of Ukraine … roiled global supply chains from energy to fertiliser to agro commodities,” he added.

The rise of protectionism
In countries around the world, protectionist policies are reshaping the global economic order, with state interventions and resource nationalism on the rise.
“Global trade wars are back in focus following the 2024 US elections. However this de-globalisation trend and fundamental shift in the global economic landscape has been building for years, and is currently at levels not seen since the end of the Cold War,” said Reema Bhattacharya, head of Asia, global risk insights at Verisk Maplecroft.

“These multidimensional disruptions [are] forcing a fundamental reset of long-standing strategies … protectionism is on the rise … harmful government interventions, primarily new trade restrictions targeting goods and services, foreign investments and labour force migration, have increased sharply, more than tripling since 2019, soon after the US-China trade dispute entered high gear,” Bhattacharya said.

Over the past five years, 72 countries have introduced significant interventionist policies, particularly in critical minerals and mining. Governments in Europe and North America are taking steps to secure supply chains essential to the green energy transition, aiming to reduce reliance on geopolitical rivals like China.

While these measures aim to bolster national security, they are also driving fragmentation in global energy markets. Verisk analysts expect more restrictions on trade with strategic competitors, further complicating the business environment for multinational corporations. Companies operating in high-risk jurisdictions face potential asset seizures and other interventionist actions.

Listed companies affected
Geopolitical tensions have the potential to affect large shares of companies listed on major global stock markets. European indices such as the DAX, CAC 40 and FTSE are particularly exposed, with significant assets located in geopolitically sensitive regions.

S&P500, Nikkei 225 markets, while more domestically focused, face vulnerabilities in strategic sectors such as semiconductors and electronics.

At the same time, there has been a sharp increase in resource nationalism, especially in Europe, where Germany, Poland, Spain and the UK have all taken recent steps to tighten control over strategic resources. The US and Canada have taken similar steps, as well as teaming up with allied countries to diversify their supply chains away from China.

Overall, said Blanco, “Operating globally is going to get tricker as geopolitical faultiness deepen”. ●

Russian inflation y/y

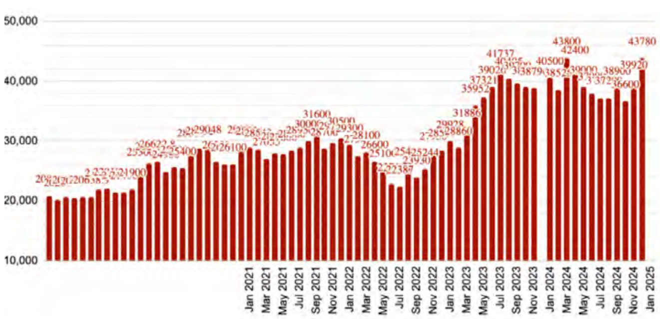
Source: CBR

"Out of control" Russian CPI inflation up again to 9.5% in December

Russia's runaway consumer price inflation (CPI) made more gains in December, rising to 9.5% y/y, as the Central Bank of Russia (CBR) continues to lose the fight to reign in rising prices.

"The rise in Russian inflation to 9.5% y/y in December is likely to be followed by an increase to more than 10% early this year. The central bank has set a high bar for further tightening but we think the balance remains tilted towards another interest rate hike this quarter," Liam Peach, the senior emerging market economist with Capital Economics, said in a note.

Ukraine gross intl reserves $mn



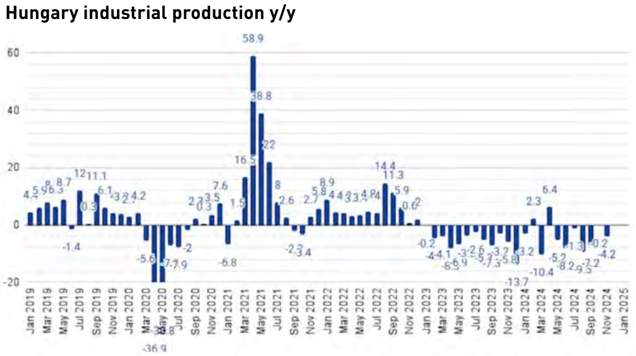
Source: NBU

Ukraine's international reserves soared to new all-time high of $43.78bn in 2024

Ukraine's international reserves soared to a new all-time high of $43.78bn as of 1 January 2025, marking a 9.7% increase in December alone, according to data released by the National Bank of Ukraine (NBU).

The new record surpasses the previous peak recorded in April 2024 by $21bn, underscoring the critical role of international aid in bolstering the nation's economic resilience amidst ongoing challenges. December's sharp growth in reserves was attributed to inflows from international partners ahead of Donald Trump taking office.

Hungary industrial production y/y



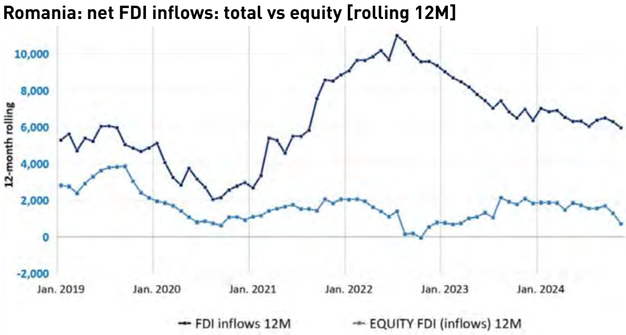
Source: Hungary state statistics agency

Hungary's industry mired in recession in November as October bounce proves one-off

Industrial output in Hungary fell 4.2% year on year in November and by 2.9% when adjusted to working days, according to preliminary data from the Central Statistics Office (KSH) released on January 9.

After a bounce in October, the monthly data showed a 1.6% contraction, dashing hopes of a potential turnaround, financial website Portfolio.hu noted, adding that given the persistent weakness of European economies, namely Germany, the latest figures come as little surprise.

Romania: net FDI inflows: total vs equity [rolling 12M]



Source: bne IntelliNews

Net FDI in Romania dips in 2024

Net foreign direct investments (FDI) in Romania contracted by 7% year on year to less than €6bn in the 12 months to November 2024, according to data published by the National Bank of Romania (BNR). During this period, the FDI-to-GDP ratio fell to 1.7%, down from 2.2% in the previous 12 months.

FDI covered only a small fraction of the current account deficit, which widened to 7.9% of GDP during the same timeframe. Meanwhile, gross external debt rose by €19.2bn, equivalent to 5.3% of Romania's 2024 GDP.

Gas exports to Europe to boost Azerbaijan's growth over next decade

bne IntelliNews

Azerbaijan's economy is projected to grow at an average annual rate of 2.9% over the next decade, according to a report by Fitch Solutions. The report highlights that during the forecast period up to 2033, Azerbaijan's economic growth is expected to increase from an average of 1.7% during 2012-2022 to 2.9%.

"We anticipate Azerbaijan's growth profile to stabilise during the forecast period. The country's vast energy reserves, particularly natural gas, will remain the primary driver of growth in the coming decade, especially as Europe increases its consumption of Azerbaijani energy."

"Since 2005, oil revenues have accounted for approximately 30% of GDP and over 75% of government revenues in recent years. Despite declining production, we expect stable prices to keep oil's contribution to GDP high throughout our 10-year forecast," the report said.

Fitch Solutions has also forecasts Azerbaijan's economic growth at 2.6% for 2025. Meanwhile, other agencies have released varying forecasts for Azerbaijan's economic growth. The Netherlands' ING Group has maintained its projection at 2.6% for 2025 and 2.8% for 2026.

The report breaks down growth estimates by quarter, predicting 2% in the first quarter of 2025, rising to 3% by the third and fourth quarters. For the last quarter of 2026, growth is forecast to slow to 2%.

The Azerbaijan government's own projections are more optimistic, expecting GDP growth of 3.5% in 2025 and 2.8% in 2026. Last year, Azerbaijan's GDP grew by over 4%. The UN forecasts growth of 3% this year and in 2026, while the World Bank expects GDP to expand by 2.7% in 2025 and 2.4% in 2026.

The European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) both forecast growth of 2.6% for 2025. Meanwhile, the International Monetary Fund (IMF) projects GDP growth of 2.5% this year, slowing to 2.4% by 2029.

S&P Global Ratings forecasts slower growth at 2% in 2025, tapering to 1.5% in 2026 and 2027. Similarly, Fitch Ratings estimates growth at 2.7% this year, dropping to 2.3% in 2026. ●

Azerbaijan's vast energy reserves, particularly natural gas, will remain the primary driver of growth in the coming decade, Fitch Solutions said in a report.

Newsletter

Invest Uzbekistan

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