

REPORT

THE KREMLIN'S FINANCIAL OCTOPUS IN HUNGARY

THE INTERNATIONAL INVESTMENT BANK AND STRATEGIC POWER PROJECTION IN CENTRAL- EASTERN EUROPE



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EXECUTIVE SUMMARY

- The International Investment Bank originally founded in 1970 by COMECON (Council for Mutual Economic Assistance) was set up to foster economic cooperation within the Eastern Bloc. After the collapse of the Soviet Union, the bank was left with little function until 2012, when President Putin reinvigorated the institution to serve the Kremlin's interests abroad. Currently, it has 9 member states represented by mostly finance ministry and central bank officials, with the largest share owned by Russia (46%), followed by Hungary (17%).
- The International Investment Bank's presence in Hungary, where it has been headquartered since 2019, is a sign of the Kremlin's increasing "hybrid" or strategic power projection efforts reliant on both secret service activities and close ties between the Russian elite and European economic or political decision-makers to counteract the sanctions regimes following the annexation of Crimea.
- For Hungary and Central-Eastern European countries, the hybrid nature of the IIB means the bank provides access to key financial sectors and decision-makers to pursue the economic, political or intelligence goals of the Kremlin, shielded by the institution's broad diplomatic immunities provided by the IIB law enacted by the Hungarian government.
- Although the Hungarian government welcomed the bank to make Budapest an "international financial hub" and finance the Hungarian economy on a large scale, the low paid-in capital worth around EUR 350 million (authorised capital EUR 2 billion) make these aspirations rather delusional. Instead, the Kremlin's control over the bank provided by its ownership share (46%) and the qualified majority rule (3/4 vote majority) enable Moscow to pursue its interests through investment policy or intelligence activities in the European Economic Area freely.
- Despite the low capital of the bank, the institution's economic and corruption potential is enhanced by the fact that it (1) has become deeply integrated into the Hungarian financial system; (2) has financed key Hungarian sectors, such as telecommunication, energy, food production etc. worth EUR 400 million since 2015; and (3) established cooperation with business entities related to key Hungarian economic sectors (OTP, MOL, MET, MVM, Takarékbank etc.).
- What makes the IIB a likely, but officially not proven, intelligence asset of the Kremlin is its past as a "cover organisation" for the KGB, its broad organisational and personal immunities enjoyed in Hungary, and the current leadership ranks filled with personnel with some indirect links to the Russian intelligence services. For example, CEO Nikolay Kosov comes from a family of high-ranking intelligence officials, while Imre Boros, the Hungarian appointee to the Board of Directors by the Hungarian government, worked for Socialist intelligence services before 1989.
- The regional importance of the IIB as a vehicle for the Kremlin's interests is related to its other international Russian affiliates, such as VTB Bank or IBEC that multiply Moscow's systemic financial leverage over European and NATO member states' financial systems, and the capability to take part in Hungarian companies' acquisitions, such as the buyout of the Hungarian telecommunication firm Invitel by the Chinese state in 2017, or its cooperation with Hungarian financial affiliates abroad related to the largest Hungarian bank, OTP group.
- Altogether, the IIB can be considered as a "crown jewel" of the Kremlin's strategic influence projects that fits the NATO definition of "hybrid warfare" by synchronising multiple instruments of power simultaneously and intentionally to exploit creativity, ambiguity, nonlinearity and the cognitive elements of warfare.
- Hungary's increasing role in the institution and its activities, coupled with the bank's intent to participate in the post-pandemic economic recovery foreshadows the Kremlin's growing economic and intelligence influence in the Central-Eastern-European region.

RECOMMENDATIONS

- The Hungarian government's increasing role in the IIB and the broad immunity it provides for the bank activities and staff make any regulatory or political countermeasures hard to pursue or sustain in Hungary.
- Therefore, any scrutiny or oversight targeting the bank would need to focus on the operational "environment" of the institution in a cross-border setting.
- The European and local political elite should treat the investments, cooperation and acquisitions utilising the IIB or its capital abroad as a regional economic, political, and national security risk that needs to be evaluated in light of the Kremlin's long-term hybrid power projection aspirations and strategies.
- European, multinational, or national financial oversight bodies would need to examine or audit closely the bank's partners and projects without having a direct access to the IIB's staff or internal operations.
- Both financial authorities and journalists should reveal Russian investments executed through the IIB into sensitive and new technologies, as well as shell companies. These efforts should seek to expose other authoritarian states' presence behind those companies.
- Transnational cooperation of investigative media should be established to monitor the activities of the IIB in the economic and political systems of multiple countries at the same time.
- The involvement of the Russian business elite in the activities of the institution should be closely monitored by journalists to map the international business, political or media networks of the bank and all those interested in the activities of the IIB.
- European and Central-European business partners of the International Investment Bank should be put under pressure by the public to explain their cooperation with Russian actors in terms of profits, business interests, risks, and ethics.
- European or national intelligence agencies would need to identify and reveal the national security, market-related, technological etc. risks for all economic sectors, projects, business partners or decision-makers doing business with the IIB or its affiliates.
- Intelligence agencies should monitor the IIB's and related Russian economic institutions' activities in Europe and publish a yearly assessment of those activities in all the partner countries of the IIB.

HUNGARIAN-RUSSIAN FOREIGN POLICY RELATIONS

Successive Hungarian governments have been trying to establish a pragmatic and working relationship with Russia after the Hungarian democratic transition of 1989, since the Hungarian energy production continued - in terms of oil, natural gas and nuclear fuel - to be reliant on the Russian Federation. However, the Kremlin could only retain low-level political clout among the newly established Hungarian democratic parties, mostly provided by the political heir of the Hungarian Socialist Workers Party, the democratically transformed Hungarian Socialist Party (MSZP). At the same time, most of the

Hungarian political elite was preoccupied with the Western integration of the country – Hungary joined NATO in 1999 and the European Union in 2004. Therefore, closer cooperation with the Russian Federation was not a top priority of the Hungarian foreign policy agenda even after 2000, save for the Hungarian support expressed for the construction of the South Stream pipeline project in 2007 by then-Prime Minister Ferenc

Gyurcsány (MSZP).¹ In hindsight, the period between 2000 and 2009 was not only marked by the new Russian President's effort to stabilise the economic and political system of the Russian Federation, indeed Moscow also started quietly regaining some of its lost (pre-Soviet) political or economic influence in the former countries of the COMECON in Central-Eastern-Europe.

In Hungary, the Russian foreign policy effort already showed signs of a "hybrid" approach early on. The Kremlin tried to garner political support for the South Stream project among major parties. At the same time, the far-right Jobbik party was infiltrated by an alleged Russian operative named Béla Kovács in 2005, who quickly became the party's largest individual donor. He went on to become the head of Jobbik's foreign policy cabinet, organising high-level meetings with Russian politicians and Alexander Dugin a few years later.²

2009 proved to be the clear turning point in Hungarian-Russian foreign policy relations. Former PM Ferenc Gyurcsány, who resigned in March 2009, had a personal dinner with President Putin as an acknowledgement of Russia being one of the "world's three power centres," while the next expected prime minister of Hungary, Viktor Orbán, briefly met with the Russian President during the United Russia Party's congress held in St. Petersburg to smooth over differences between the Kremlin and one of the formerly most fiercely anti-Russian democratic politician in Eastern-Europe.³

A political and economic rapprochement between Russia and Hungary thus followed after the second Orbán government took office in 2010. In public, PM Orbán talked about the decline of "Western-style capitalism" embodied by the global financial crisis with "speculative capitalism" gaining ground, while two of the most important Fidesz-friendly oligarchs started talks with the inner circle of the Kremlin behind closed doors.⁴ Investigative portal Direkt reported in 2018 that the former most significant oligarch of the ruling Fidesz-KDNP, Lajos Simicska and his "right man hand" Zolt Nyerges met with senior FSB officials in the run-up to 2010 election in the Lubyanka Square Headquarters of the FSB.⁵

The layers of Russia's influence in Hungary

What started out as a somewhat inevitable economic and political rapprochement between the second Orbán cabinet and the Russian Federation, turned out to be a strategic relationship for the long-run. The Kremlin provided the second Orbán government's political regime entitled System of National Cooperation (Nemzeti Együttműködés Rendszere) with "domestic" and "foreign policy" resources to stabilise its institutions of political rule, as Hungary became diplomatically isolated from European member states. As Dominik Istrate wrote in his report entitled "Russian influence in Hungary, the case of Paks 2 and Russia's influence-seeking efforts through nuclear energy," the lower natural gas prices provided by Gazprom allowed the Hungarian government to keep its signature campaign promise of "household utility costs reduction" and win the general elections with a two-thirds majority in 2014 again.⁶ On top of that, the MET (formerly MOL Energiakereskedő Kft) deal that enabled Hungarian businessmen to "re-import" natural gas from the West

1 MTI, 'Gyurcsány aláírta a Déli Áramlat építését', 10 March 2009,

http://index.hu/gazdasag/magyar/2009/03/10/gyurcsany_alairta_a_deli_aramlat_epiteset/

2 ATV, 'Kommunista Vezetővel Egyeztetett Vona Gábor Moszkvában', ATV.hu, accessed 11 December 2020,

http://www.atv.hu/belfold/20130527_kommunista_vezetovel_egyeztetett_vona_gabor_moszkvaban

3 Moszkva Nyilas Gergely-, 'Gyurcsány még Putyinnal vacsorázgat', NOL.hu, 25 November 2009,

http://nol.hu/kulfold/gyurcsany_meg_putyinnal_vacsorazgat-443331

4 A Nyugati Típusú Kapitalizmus Került Válságba', accessed 11 December 2020,

http://2010-2015.miniszterelnok.hu/cikk/a_nyugati_tipusu_kapitalizmus_kerult_valsgaba

5 Staff, 'Direkt36: Members of Viktor Orbán's Inner Circle Met with FSB Official in Run-up to 2010 Election', The Budapest Beacon, 12 March 2018, <https://budapestbeacon.com/direkt36-members-of-viktor-orbans-inner-circle-met-with-fsb-official-in-run-up-to-2010-election/>

6 Népszava, 'A Fidesz 12. alkalommal szavazta le a rezsicsökkentést', accessed 11 December 2020,

https://nepszava.hu/3076891_a-fidesz-12-alkalommal-szavazta-le-a-rezsicsokkentest

with the approval of Gazprom, along with the Paks 2 nuclear deal struck in 2014, consolidated the Kremlin's corrupt influence over the oligarchic business circles around Fidesz for good.⁷ As a result, for example, pro-Fidesz oligarch Lőrinc Mészáros is one of the main Hungarian sub-contractors for the construction of the nuclear project worth at least EUR 10 billion.⁸ Since 2010, Mészáros himself has become the wealthiest Hungarian, making him the 2047th wealthiest man in the world in 2019, according to Forbes.⁹

The increasingly close business and diplomatic ties between the two countries were “ideologized” and formulated by the Hungarian government through the adoption of the so-called Eastern Opening Policy (EOP). The EOP's explicit and official aim was to geographically diversify Hungary's exports and enhance economic cooperation between Hungary and the countries of the “East” in 2011.¹⁰ In fact, the EOP implicitly legitimised Fidesz's geopolitical reorientation with regard to Russia to a right-wing electorate and the pro-Western Hungarian populace historically harbouring strong anti-Russian attitudes (related, for example to the 1956 revolution crushed by the Soviet-Russian military intervention). Moreover, it served as an institutional framework to further cement relations with enhanced cooperation between the Hungarian government and Eastern autocratic or dictatorial regimes, such as China or Turkey. It has also institutionalised the yearly bilateral summits between the Russian president and the Hungarian prime minister, held in Budapest or in Moscow on a rotating basis. These meetings, the last held in October 2019 in Budapest, clearly symbolise the “special relationship” between Hungary and Russia, as well as Hungary's self-proclaimed “bridge-maker role” between the West and the East, while they also strengthen the Hungarian regime's international standing, which entails a significantly marginalised role within the EU and NATO, but several strong partnerships with Eastern autocratic regimes.¹¹

RUSSIA'S HYBRID AND STRATEGIC POWER TOOLSET IN HUNGARY

The ever-expanding layers of Russian influence in Hungary from gas prices to high-level diplomacy and governmental cooperation on issues such as money laundering, traditional values and Christianity, fit perfectly with the Kremlin's long-term foreign policy strategy aimed to divide the West and pursue its hybrid war in the vicinity of Ukraine.¹² Moscow is actively seeking to undermine Western societies, sow discord between them, and divide the EU internally, which can further destabilise Ukraine and upend the Western-led world order founded on human rights and rights-oriented international political or financial institutions, turning it into a “multipolar” one. **However, Russian power projection has its limits when it comes to “soft power.” With a few exceptions (e.g. Bulgaria, Slovakia, Hungary and Greece), Moscow's and Putin's image in the world is negative as a result of military aggressions, so the Kremlin is forced to use “sharp power”, or the power of manipulation through distorted information and disinformation to influence public opinions or decision-makers in its favour.**¹³ In Central-Eastern Europe, the Kremlin's key objectives of dividing and weakening NATO and the EU, subverting local governments and institutions and expanding Russia's sphere of influence (geographically, economically, politically, etc.) using sharp

7 András Pethő, 'A nyolc legérdekesebb rész az Orbán-Putyin kapcsolatot feltáró cikkünkéből', *Direkt36 (blog)*, 12 March 2018, <https://www.direkt36.hu/en/a-nyolc-legerdekesebb-resz-az-orban-putyin-kapcsolatot-feltaro-cikkunkbol/>

8 Zrt HVG Kiadó, 'Mészáros Lőrinc érdekeltsége 2 milliárdért építi át a paksi atomerőmű tűzvíz-rendszerét', *hvg.hu*, 3 November 2020, https://hvg.hu/kkv/20201103_Atepitik_a_paksi_atomeromu_tuzvizrendszeret

9 Bence Stubnya, 'Forbes: Mészáros Lőrinc bekerült a világ leggazdagabb emberei közé', 5 March 2019, https://index.hu/gazdasag/2019/03/05/forbes_meszaros_lorinc_bekerult_a_vilag_leggazdagabb_emberei_koze/

10 About Hungary - Eastern Opening', accessed 11 December 2020, <http://abouthungary.hu/eastern-opening/>

11 Bozsik Daniel, 'Újabb Orbán-Putyin találkozó Budapesten', *euronews*, 28 October 2019, <https://hu.euronews.com/2019/10/28/ujabb-orban-putyin-talalkozo-budapesten>

12 Lóránt Győri and Péter Krekó, 'Russian Disinformation and Extremism in Hungary', *The Warsaw Institute Review*, no. no.3 2017 (16 October 2017), <https://warsawinstitute.org/russian-disinformation-extremism-hungary/>

13 Media Inquiries, 'Russia and Putin Receive Low Ratings Globally', *Pew Research Center (blog)*, accessed 11 December 2020, <https://www.pewresearch.org/fact-tank/2020/02/07/russia-and-putin-receive-low-ratings-globally/>

power or hybrid warfare is even more pronounced.

According to NATO's MCDC the definition "hybrid warfare" is "the ability of an actor to synchronize multiple instruments of power simultaneously and intentionally exploit creativity, ambiguity, nonlinearity and the cognitive elements of warfare," with the potential to remain below the threshold of recognizability of adversaries.¹⁴ In terms of geopolitical aims and tools, HW actors use their instruments of (military, political, economic, civilian and informational) power to attack the vulnerabilities of a target in „synchronised and coordinated fashion," according to Erik Reichborn-Kjennerud and Patrick Cullen.¹⁵

In terms of Russian "hybrid warfare" and strategic power projection, Hungary re-joining the International Investment Bank (IIB) and allowing it to be headquartered in Budapest put the "crown" on the Kremlin's Hungarian, regional and European hybrid power projection. Detailed in the table below and subsequent chapters, the IIB manifest and latent functions as a financial/intelligence institution is perfectly suited to organize or conjoin the Kremlin's different political, diplomatic, economic, intelligence, informational or cultural layers of influence – an arsenal of hybrid tools.

Influence	Political			Economic			Information			Intelligence		
Levels/ Projects	HU	CEE	EU	HU	CEE	EU	HU	CEE	EU	HU	CEE	EU
Subway	yes	no	no	yes	no	no	yes	no	no	yes	no	no
Paks2	yes	yes	no	yes	no	no	yes	yes	yes	no	no	no
IIB	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes

Table 1. The Kremlin's hybrid toolkit in Hungary by case and regional/political impact

Based our assessment, it is evident that the IIB has the most "hybrid power" potential as compared to other Russian projects present in Hungary, such as the refurbishment of subway cars or the construction of the Paks2 nuclear reactor by Rosatom. The IIB can be actively used in all the influence domains of politics, economy, information warfare, intelligence gathering, at all the three levels of political system (Hungarian, regional or European). If we compare these projects' ability to project different types of Russian influence at the three political levels, it is evident that the IIB can significantly contribute to Russian political or economic leverage in Europe by financing "friendly" oligarchs and politicians, as well as by coordinating intelligence operations, including projecting a relatively positive image of the Kremlin in the information space.

Central European countries' vulnerability to authoritarian influence/hybrid warfare is particularly enhanced by the weakness of young democratic societies and democratic institutional settings, as detailed by the comparison of Russian, Chinese and Iranian hybrid warfare by the European Values Centre for Security Policy and Ukraine Crisis Media Center.¹⁶ **The successful pursuit of hybrid influence has an adverse effect on the recipient states. Firstly, the systemic economic or political influence exerted over local officials or governments results in an "asymmetrical" relationship between Central European countries and the Kremlin,** since, for example, Hungary's economic or trade potential pales in

14 Russia and Putin Receive Low Ratings Globally', *Pew Research Center (blog)*, accessed 11 December 2020, <https://www.pewresearch.org/fact-tank/2020/02/07/russia-and-putin-receive-low-ratings-globally/>

15 Lóránt Győri, 'Larger than Life - Who Is Afraid of the Big Bad Russia? Grassroots Vulnerability to Russian Sharp Power in Hungary Country Report' (Political Capital, May 2019), https://politicalcapital.hu/pc-admin/source/documents/pc_larger_than_life_eng_web_20190410.pdf

16 Hybrid Warfare Analytical Group - Posts | Facebook', accessed 15 December 2020, <https://www.facebook.com/HybridWarfareAG/posts/874063103367708>

comparison to Russia's, not to mention the Kremlin's weight in global affairs or the Security Council. Therefore, systemic political or economic influence intertwined with one of the best intelligence services in the world leave local businessmen and politicians open to potential blackmail concerning sensitive business, political or personal data. **Secondly, Russia's influence has the capacity to contribute to the transformation of democratic societies into hybrid regimes or cement such regimes in an embryonic form,** since autocratic political systems within the European Union or the Euro-Atlantic Community have the potential platform to legitimise the Kremlin's autocracy and delegitimise democratic political systems in general.

THE ESTABLISHMENT OF THE INTERNATIONAL INVESTMENT BANK

The International Investment Bank (Russian: Международный Инвестиционный Банк), originally founded in 1970 by COMECON (Council for Mutual Economic Assistance), was set up to foster economic cooperation within the Eastern Bloc and among COMECON member states. The member states of the Bank at the time of its foundation were: the People's Republic of Bulgaria, the People's Republic of Hungary, the German Democratic Republic, the Mongolian Democratic Republic, the People's Republic of Poland, the Socialist Republic of Romania, the Union of Soviet Socialist Republics, and the Czechoslovak Socialist Republic. **Even during Socialist times, the IIB served as a launching ground of Soviet intelligence operations and a cover organisation for the KGB.¹⁷ After the democratic transitions of Socialist countries and the disintegration of the Soviet Union, the bank was left with little function until 2012, when President Putin reinvigorated the institution to serve the Kremlin's interests abroad.** Although, Nikolay Kosov, the new president coming from the state-owned Bank for Development and Foreign Economic Affairs (Vnesheconombank) and appointed by President Putin, signalled significant foreign policy aspirations, the capital available to the bank amounted to just EUR 410 million (about USD 560 million) at the time, which made it financially insignificant in the international or the Hungarian banking system.¹⁸ By comparison, Hungary's leading OTP Bank Group has total assets worth HUF 14590 billion or EUR 41 billion.¹⁹

Even though the authorised capital of the bank has risen to EUR 2 billion recently, the real assets are its members: Bulgaria, Cuba, the Czech Republic, Mongolia, Romania, Slovakia and Vietnam, with Hungary joining the list of members in 2014.²⁰ **In 2019, the Hungarian government allowed the bank to move its headquarters to Budapest, which not only provided the institution with an office building without charge, but with a wide range of immunities and exemptions engrained into a new law adopted by the Hungarian National Assembly,** as detailed below.²¹ While the Hungarian government justified the financial cooperation with the Russia-led bank by claiming that it contributes significantly to the success of the Eastern Opening Foreign Policy and strengthens Budapest's role as an international "financial centre," the Kremlin's control over the bank and its immunity against external regulatory or financial oversight raise serious doubts about the Hungarian political assertions and interests.²²

17 A Foot in the Door? Russia's International Investment Bank Moves to Hungary', ECFR, accessed 15 December 2020, https://ecfr.eu/article/commentary_a_foot_in_the_door_russias_international_investment_bank_moves_t

18 Separate Financial Statements' (International Investment Bank, 31 0 2013), https://iib.int/attachments/separate_financial_statements_year_ended_31_december_2013_together_with_independent_auditors_rep.pdf

19 OTP Bank Annual Report 2018; 2019, https://www.otpbank.hu/static/portal/sw/file/Annual_Report_2018_4.pdf

20 International Investment Bank (IIB) | General Information', accessed 15 December 2020, <https://iib.int/en/about>

21 T/4476. Számú Törvényjavaslat a Nemzetközi Beruházási Bank És Magyarország Kormánya Között a Nemzetközi Beruházási Bank Magyarországi Székhelyéről Szóló Megállapodás Kihirdetéséről/Agreement between the International Investment Bank and the Government of Hungary Regarding the Headquarters of the IIB in Hungary

22 Varga Mihály: Tovább erősödik Budapest pénzügyi központ szerepe', <https://www.origo.hu/>, accessed 15 December 2020, <https://www.origo.hu/gazdasag/20190917-varga-mihaly-tovabb-erosodik-budapest-penzugyi-kozpont-szerepe.html>

The internal structure of the IIB

On paper, the majority of assets is owned by European member states, with Russia holding a minority share of 46%, followed by Hungary's 17% share in the bank's current EUR 349.61 million paid-in capital.²³ However, the Kremlin's dominance in the internal decision-making processes is provided, first of all, by the chairman's function. Nikolay Kosov, the chairperson of the Management Board appointed by Russia has the sole power to regulate day-to-day operations according to the statute.²⁴ Second, the three main bodies of the bank make Russian consent in all strategic issues practically unavoidable, as detailed below.

The Board of Governors

The Board of Governors serves as the highest management body of the bank, in which each member state delegates one representative. Hungary's significance is highlighted in the governing body, since it is currently represented by Governor Mihály Varga, a Hungarian deputy prime minister and minister of finance, as well as Gábor Gion, minister of state for financial policy affairs at the Ministry of Finance of Hungary, as deputy governor.²⁵ **It can be generally said that member states are usually represented at a ministerial level, which provides the with Kremlin direct access to the financial elite and bureaucracies of all countries involved.** The Board holds at least one sitting a year and it is responsible for developing the rules of general operation and approving the annual report, the bank's capital and assets, and the status of members. Most importantly, the Board of Governors appoints the vice-chair and the chairperson of the Management Board, who are responsible for daily operations. Since the Governors' votes are weighted according to their country's ownership share, and decisions must be taken by a qualified majority (3/4 vote majority), **Russia has the final say in the decisions of the Board of Governors.**

The Board of Directors

The Board of Directors is responsible for strategic decision-making in the fields of organisational structure, employment, investment and management policy. Each member state sends one delegate to this body as well. **Similarly to the Board of Governors, Russia can cast a decisive vote in the Board of Directors concerning all the issues on the table due to the same 3/4 majority rule that weighs every member's vote according to their share in the ownership structure.** Hungary is, again, represented by two board members: Director Imre Boros and Deputy Director György Patrik Polai.²⁶ **It should be noted here that the appointment of Imre Boros to the board can be considered as a gesture towards the Kremlin and it may strengthen the bank's alleged relations to the Russian intelligence services, since Boros worked for the Department III/II of the Hungarian Socialist intelligence before the democratic transition.**²⁷ He worked as a counter-intelligence officer with the rank of "captain" in the 1980s, while the father of the bank's current CEO, Nikolay Kosov Sr. used to be the head of the Hungarian KGB unit in Budapest for more than 12 years after the crushing of the revolution in 1956.²⁸

23 Tőkerészesedés Nemzetközi Beruházási Bank, 'Tovább növeli tőkerészesedését Magyarország a NBB-ben', *Figyelő (blog)*, accessed 15 December 2020, <https://figyelo.hu/hirek/tovabb-noveli-tokereszesedesetmagyarorszag-a-nbb-ben-67147/>

24 International Investment Bank (IIB) | Nikolay Kosov', accessed 15 December 2020, <https://iib.int/en/directorate/2>

25 International Investment Bank (IIB) | Board of Governors', accessed 16 December 2020, <https://iib.int/en/governors>

26 International Investment Bank (IIB) | Board of Governors', accessed 16 December 2020, <https://iib.int/en/governors>

27 Eva S. Balogh, 'A Former Counterintelligence Agent Will Be Hungary's Representative to the International Investment Bank', *Hungarian Spectrum (blog)*, 4 August 2019, <https://hungarianspectrum.org/2019/08/04/a-former-counterintelligence-agent-will-be-hungarys-representative-to-the-international-investment-bank/>

28 Relocation of "Russian" Bank Alarms Western Security Officials | Voice of America - English', accessed 16 December 2020, <https://www.voanews.com/europe/relocation-russian-bank-alarms-western-security-officials>

Management Board

The Management Board is responsible for the day-to-day operations of the institution, including issuing bonds, managing capital-related decisions and relations with other banks. Although the Board of Governors appoints the two leading members of the body, the chairperson and the deputy chairperson, the Kremlin made sure that the oversight of daily activities remains under its control. Therefore, the Board of Governors nominated Nikolay Kosov, a confidant of the Kremlin as chairperson to the board.²⁹ **Mr Kosov's background also hints at the institution's alleged intelligence background.** As mentioned above, Mr Kosov's father was the top operative in Budapest for the KGB throughout the 1970s; his mother was described by Russia's Tass news agency as "one of the most extraordinary spies of the 20th century."³⁰ The power of the chairperson and the Management Board can be more understood in light of the wide range of immunities the bank, its staff and daily operation received from the Hungarian government.

Immunity and the lack of transparency

Beyond official and formal decision-making processes, the waivers and status enjoyed by the bank and its staff make it even harder for Hungarian or any other international authorities to have any control or oversight over the activities of the IIB. **The bank, its premises, assets, communication, financial activities, staff, officials and their guests received almost total immunity from the Hungarian government against any financial or regulatory control, and any court or administrative proceedings,** including exemptions from any local or national taxes (see IIB law, sections 5, 6, 7, 9, 10, 14, 15, 16 under 3. §).³¹ The immunities and privileges enjoyed by the governors and directors of the bank provide "immunity from any court or administrative proceedings with respect to any action taken by them in their official capacity" save for civil liabilities related to traffic accidents (IIB law, 3. § sections 14 through 15). **The chairperson and the staff of the bank were provided the highest possible protection against any domestic or foreign oversight by declaring that they "enjoy, together with their families, repatriation benefits equal to those granted to the staff of diplomatic missions in Hungary" (IIB law, 3. §/16.1/b)).**³²

Ultimately, the 3/4 majority decision-making process in the BD and BG make sure that Russia, as the largest shareholder, has the final say in all strategic decisions. Moreover, the statute grants Mr. Kosov freedom to autonomously settle issues related to investment management, transactions, hiring of staff members, workplace regulations etc. **The governing bodies controlled by Russian ownership combined with the chairperson's purview provide the Kremlin with total control over the institution and its behaviour in the international arena.**

The international financial structure around the IIB

Russia's power over the IIB, however, is also exerted through a set of external institutions that are even less influenced by European stakeholders of the bank. These other institutions, therefore, serve as a "hybrid force-multiplier" for the Kremlin on the Central European or global stages that allow the pursuit of Russian political, economic or intelligence interests through an international network of financial organisations.

29 International Investment Bank (IIB) | Executives', accessed 16 December 2020, <https://iib.int/en/directorate>

30 Russian Development Bank's Move to Hungary Causes Alarm - Invest for the Future', accessed 16 December 2020, <http://iinvest.ps/iinvest/index.php/2019/03/26/russian-development-banks-move-tohungary-causes-alarm/>

31 T/4476. Számú Törvényjavaslat a Nemzetközi Beruházási Bank És Magyarország Kormánya Között a Nemzetközi Beruházási Bank Magyarországi Székhelyéről Szóló Megállapodás Kihirdetéséről/Agreement between the International Investment Bank and the Government of Hungary Regarding the Headquarters of the IIB in Hungary

32 T/4476. Számú Törvényjavaslat a Nemzetközi Beruházási Bank És Magyarország Kormánya Között a Nemzetközi Beruházási Bank Magyarországi Székhelyéről Szóló Megállapodás Kihirdetéséről/Agreement between the International Investment Bank and the Government of Hungary Regarding the Headquarters of the IIB in Hungary

Firstly, the Ministry of Foreign Affairs of the Russian Federation has established a special relationship with the bank since 2013, when the IIB and the ministry signed a Memorandum of Cooperation. ³³

The memorandum not only “promotes the long-term investments of the Bank in the territory of member countries taking into account the economic and political interests of Russia,” it also provides the Russian MFA with a great deal of access to the institutional operational activities. The bank is required to inform the MFA about its international operations, provide advice upon request and prepare “reports, recommendations, forecasts and other information and materials prepared by the Bank.” **As a clear sign of hybrid power projection, the IIB is instrumentalised as part of the Russian foreign policy toolkit since the MFA can involve the bank’s experts in bilateral negotiations between Russia and IIB member countries.** Given that no other member state or their foreign ministries were granted similar cooperation memorandums with the IIB, **the high-level cooperation between the institution and the Russian MFA provides the Kremlin with a unique formal and informal power to pursue its interests through the IIB.**

Other external institutional players also relegate the IIB to an element of the Russian economic ecosystem, which significantly reduces the bank’s and its members’ international autonomy in terms of economic or (geo)political strategy and/or decisions.

VTB Bank

In 2014, IIB granted the VTB group, the second-largest bank in Russia, observer status, which enables VTB oversight over IIB meetings, decisions and its international relations.³⁴ Through the VTB, the IIB has ever closer ties to the Russian political elite, as VTB Chairman Andrey Kostin is intimately involved with Russian financial interests. Investigative portal Direkt36 reported that the leaked document of the Panama Papers highlighted the role VTB played in moving billions of dollars through shell companies and a Cyprus-based bank backed by VTB.³⁵ Furthermore, the VTB, along with Kostin, was sanctioned by the EU and the US for activities related to the Russian military aggression against Ukraine. Connections between the two financial institutions are also strengthened through the long-term friendship between the two chairmen. They both worked as diplomats and served at the Soviet Union’s UK embassy in the late 1980s, where they became friends, Kosov recalled in a 2013 interview.³⁶ As a result, Kosov’s son, Pavel Kosov, became a senior manager at VTB. **The Kremlin’s control over IIB through VTB is formalised by the fact that VTB’s majority owner is the Russian state.**

IBEC

Besides the IIB, the International Bank for Economic Co-operation (IBEC) was created in 1963 to facilitate financial-economic cooperation between COMECON countries.³⁷ Similarly to the IIB, a fundamental reorganisation of the IBEC by the Russian Federation began in 2011. It was followed by the 2015 Strategy for

33 Меморандум о Сотрудничестве Между Министерством Иностранных Дел Российской Федерации и Международным Инвестиционным Банком, Меморандум От 22 Мая 2013 Года, accessed 16 December 2020, <http://docs.cntd.ru/document/499035790>

34 VTB Group Was Granted an Observer Status in the International Investment Bank, International Investment Bank (IIB), accessed 16 December 2020, <https://iib.int/en/articles/vtb-group-was-granted-anobserver-status-in-the-international-investment-bank>

35 Pethő András, ‘Putin-Controlled Financial Giant Has Close Ties to IIB, the Russian-Led Bank Moving to Hungary’, Direkt36 (blog), 20 June 2019, <https://www.direkt36.hu/en/putyinhaz-bekotott-penzugyi-orias-sejlik-fel-a-budapestre-koltozo-bank-mogott/>

36 Pethő András, ‘Putin-Controlled Financial Giant Has Close Ties to IIB, the Russian-Led Bank Moving to Hungary’, Direkt36 (blog), 20 June 2019, <https://www.direkt36.hu/en/putyinhaz-bekotott-penzugyi-orias-sejlik-fel-a-budapestre-koltozo-bank-mogott/>

37 Zdzisław Osiecki and Michel Vale, ‘The International Banks of the COMECON Countries’, Soviet and Eastern European Foreign Trade 12, no. 1 (1976): 12–18

Renewal and Development of the Activities of the International Bank for Economic Co-operation 2016–2020 “aimed at developing a new operating niche represented in such segments as: organization and maintenance of foreign trade operations between companies and organisations of the IBEC member states.”³⁸ IBEC can be considered another international vehicle for the Kremlin with its financial potential, similarly to the IIB, remaining quite low with EUR 200 million paid-in capital and EUR 400 million authorised capital as of June 2020.³⁹ **The bank’s function is to provide another financial umbrella organisation for the Kremlin over the bank’s member states**, which are currently: Bulgaria, the Czech Republic, Poland, Mongolia, Romania, Slovakia and Vietnam. **The Hungarian Minister of Foreign Affairs Péter Szijjártó announced in 2018 that Hungary would also re-join IBEC in order to “attract more (...) investment and foreign trade.”** In February 2019, Hungarian Deputy Prime Minister, Minister of Finance Mihaly Varga held talks with Chairman of the Board Denis Ivanov at the headquarters of IBEC in Moscow about the accession process of Hungary.⁴⁰ **While financial experts see few reasons for Hungary to join another financially insignificant post-Soviet bank of the Russian Federation, the Hungarian decision clearly makes sense from the Kremlin’s point of view to project even more strategic power over Hungary.**

Talks about the IIB moving to an EU-based headquarters were conducted in parallel with the IIB’s plans to merge with IBEC in 2018.⁴¹ Although Nikolay Kosov has since clarified that the two banks would “keep their independent status,” **the cooperation between the two banks without doubt serves the Kremlin’s interests in that it multiplies Moscow’s systemic financial leverage over European and NATO member states’ financial systems and political elite related to systemic corruption and intelligence operations, as detailed below.**⁴²

INTELLIGENCE POTENTIAL OF THE IIB

There are four factors that prove that the International Investment Bank might serve as an intelligence asset for the Russian intelligence services. Firstly, the IIB was a cover organisation for the KGB during the Soviet period. For example, Georgij Matyukhin, who served as post-Cold War chairman of the bank, spent 13 years as an undercover KGB agent in the ranks of the IIB between 1970 and 1983.⁴³ **Secondly, the current personnel policy of the bank and the past of leading officials suggest (at least) an indirect link between the IIB and the Russian intelligence agencies.** As mentioned above, the current CEO of the bank, Nikolay Kosov comes from a family of high-ranking intelligence officials, while Imre Boros, the Hungarian Director appointed to the Board of Directors by the Hungarian government, used to work for the

38 International Bank for Economic Co-Operation - History of the Bank’, accessed 16 December 2020,

http://en.ibec.int/about_the_bank/stories_bank/

39 ACRA Affirms A- to International Bank of Economic Co-Operation, Outlook Stable, under the International Scale, AAA(RU), Outlook Stable, under the National Scale for the Russian Federation, and AAA(RU) to Bond Issue’, ACRA affirms A- to International Bank of Economic Co-operation, outlook Stable, under the international scale, AAA(RU), outlook Stable, under the national scale for the Russian Federation, and AAA(RU) to bond issue, accessed 16 December 2020, <https://www.acra-ratings.com/about/news/1747>

40 International Bank for Economic Co-Operation - Hungary Is Considering Re-Joining IBEC’, accessed 16 December 2020, http://en.ibec.int/pressroom/news/news/Novosti-angl/Hungary-held-talks-with-the-IBEC-management_2190/

41 Panyi Szabolcs, ‘Russian-Led Bank Rapidly Gearing up in Budapest amid EU and U.S. Worries’, Direkt36 (blog), 25 April 2019, <https://www.direkt36.hu/en/gyorsan-aktivizalodik-az-orosz-vezetesu-bank-budapesten-hiaba-van-miatta-nemzetkozi-idegeskedes/>

42 International Investment Bank Welcomes the Appointment of Deputy Chairman of the Board Denis Ivanov as the Chairman of International Bank for Economic Cooperation’, International Investment Bank (IIB), accessed 16 December 2020, <https://iib.int/en/articles/international-investment-bank-welcomes-the-appointment-of-deputy-chairman-of-the-board-denis-ivanov>

43 The Russian International Investment Bank is moving to Budapest’, accessed 11 January 2021, https://politicalcapital.hu/news.php?article_id=2369

Socialist intelligence services before 1989. Moreover, graduates of the leading Soviet, later Russian diplomatic school MGIMO used as a primary pool for Russian intelligence recruitment, are well represented at both the top and middle levels of management of the organisation. Half of the members on the Management Board graduated at MGIMO, significantly Georgy Potapov, Imre Laszlóczki and Nikolay Kosov. **Thirdly, the Kremlin's political appointment practice is increasingly relying on former members of the intelligence services**, as noted by experts. So, the intelligence background of the bank's staff may very well not only be a sought-after attribute, but rather a heavily encouraged and supported function of leadership by Moscow. **Finally, even if the IIB or its organisation would have had no contact whatsoever to the Russian intelligence establishment, its wide ranging organisational and personal immunities provided by the Hungarian government make it an ideal vehicle for any Russian intelligence activity within the Euro-Atlantic Community.**

What makes the International Investment Bank an ideal place for intelligence activities is freedom of movement of foreign personnel and protected communication, the "bread and butter" of intelligence field operations granted by the Hungarian government and authorities.

Firstly, the Hungarian authorities cannot enter the headquarters premises without the bank waiving its immunity. Under section 6.5 of the IIB law: "The authorities of Hungary or person exercising any public authority shall not enter the Premises to perform any official duties therein or execute any legal process or perform any ancillary act such as the seizure of private property without the consent of, and under conditions agreed to by the Bank." Moreover, "The Bank, its property and assets, the Archives of the Bank, wherever located and whoever possessed by, as well as the Bank's operations, shall be immune from any form of legal process, administrative or court proceedings, with the exception of those cases where the Bank has waived immunity," states section 6.1 of the law.⁴⁴

Secondly, the communication channels enjoy diplomatic-level security. Under section 9.2 of the law: "The Bank shall have the right to use codes and to dispatch and receive correspondence and other official materials by courier or in sealed bags which shall have the same privileges and immunities as diplomatic couriers and bags."

Thirdly, the Hungarian authorities are not only prevented from interfering with the bank's or its personnel's activities, they are required to actively facilitate the arrival and accommodation of an indefinite number of "other persons," who can be related to Russian intelligence services or any official Russian institutions for that matter. Under section 13.1 of the law: "The Government shall take measures to facilitate as promptly as possible the entry into, residence and freedom of movement in, and departure from Hungary of the following persons irrespective of nationality: (a) Governors and Other Representatives of Members; (b) Chairpersons; (c) Directors; (d) Staff of the Bank; (e) Dependents; (f) Experts and Consultants performing missions for the Bank; and (g) Other persons invited by the Bank and in possession of written evidence and including evidence in digital form of such invitation."

András Rácz from GDAP interpreted the hosting of an indefinite number of "guests" through the IIB as a clear national security threat for the European Union or NATO:

"In theory, the bank could host hundreds of foreign citizens who would be able to move freely within the Schengen Area. The same applies to IIB-owned vehicles, which will be protected from search, expropriation, seizure, and disposal. (...) None of these problems is certain to threaten European security by itself. However,

⁴⁴ Wolters Kluwer Hungary Kft, '2019. Évi XI. Törvény a Nemzetközi Beruházási Bank És Magyarország Kormánya Között a Nemzetközi Beruházási Bank Magyarországi Székhelyéről Szóló Megállapodás Kihirdetéséről És a 2015. Évi XLI. Törvénnyel Kihirdetett, a Nemzetközi Beruházási Bank Megalapítása Tárgyában, Moszkvában, 1970. Július 10-En Aláírt És 1990. December 20. Napján Módosított Egyezményhez Csatolt Alapszabály Módosításának Kihirdetéséről', accessed 16 December 2020, <https://net.jogtar.hu/jogszabaly?docid=A1900011.TV>

Budapest's new law on the IIB seriously undermines the Hungarian authorities' capacity to take action should a threat arise. Therefore, it poses serious risks to both internal security, not least counter-intelligence, and financial security."

Still, the bank vehemently denied having any involvement with intelligence services or activities in its 2020 statement, saying:

*"IIB emphatically rejects this statement (about being a Trojan horse of the Russian secret service). For almost 50 years of IIB existence, no cases have been registered when any of the Bank's employees have been accused in activities incompatible with the status of an international official. There is a high-quality international team currently working at the Bank with specialists from nine different countries."*⁴⁵

So far, however, the IIB seems to not to have abused the immunity clause. Currently, the bank has officially requested only a handful of high-level immunities registered by the Hungarian MFA. Those are currently provided to:

- President Nikolay Kosov and his spouse, Natalia Kosova;
- Deputy Chairman Jozef Kollár;
- Deputy Chairman Georgy Potapov and his spouse, Natalia Potapova;
- Deputy Chairman Romyana Kyuchukova;
- Deputy Chairman Alexandru Florescu.⁴⁶

A VEHICLE OF BUSINESS TIES AND CORRUPTION

Although the Hungarian government's main reason for re-joining the IIB was to boost the Hungarian economy through Russian financial services provided in Budapest, the small financial instruments available to the Bank and its actual financial activity make the claim at least highly dubious. In the first half of 2019 in Budapest, the Hungarian government received only 5% of the year's loan portfolio, despite being the third-largest contributor to the bank by paid-in capital ratio. Still, the Hungarian government continued to play an oversized role in the bank's activity by contributing another EUR 10 million to the institution's paid-in capital, which made Hungary the second largest stakeholder of the bank in 2020. The Hungarian proactivity was "rewarded" accordingly, since Hungarian economic sectors received altogether more than 25% or EUR 214 million of the bank's credit or credit loans. **The still negligible size of the Hungarian loan activity coupled with the continuously growing paid-in capital of the institution, however, outline the economic targets and the hybrid power projection priorities of the Kremlin.**⁴⁷

In Hungary, the bank financed the five main sectors of telecommunication (EUR 82.6 million), pharmaceuticals (EUR 52.6 million), energy (EUR 34.9 million), food (EUR 37.2) and industrial production (EUR 6.4 million).⁴⁸

The ranking of sectors based on the amount of investments highlight a set of priorities shared by both the Hungarian government and the Kremlin, and foretell Russian interests pursued in the future.

45 International Investment Bank (IIB) | Statement of the IIB Management Board, accessed 11 January 2021, <https://iib.int/en/about/statement-of-the-iib-management-board>

46 Károly Csabai, 'Nemzetközi Beruházási Bank: a titokzatos bank', mfor.hu - Menedzsment Fórum, 13 April 2020, <https://mfor.hu/cikkek/makro/nemzetkozi-beruhazasi-bank-a-titokzatos-bank.html>

47 Még tízmillió euróval szállt be a magyar állam az NBB-be', Infostart.hu, accessed 11 January 2021, <https://infostart.hu/gazdasag/2020/01/17/magyarorszag-lett-a-nemzetkozi-beruhazasi-bank-masodik-legnagyobb-reszvenyese>

48 Károly Csabai, 'Nemzetközi Beruházási Bank: a titokzatos bank', mfor.hu - Menedzsment Fórum, 13 April 2020, <https://mfor.hu/cikkek/makro/nemzetkozi-beruhazasi-bank-a-titokzatos-bank.html>

The energy sector has been a clear and simple priority for the Kremlin for a long time in Central-Eastern Europe (and across Europe for that matter), since the energy market has been one of the most significant revenue sources for Russia on a regional scale. Russian energy companies are also being used as the main vehicles for systemic corruption put forward by the Kremlin all over the region. Among the companies supported by the IIB, we can find the energy trade company MET and the biggest Hungarian oil company MOL Group with an annual revenue of around EUR 16 billion.⁴⁹ In October 2020, the state-owned Hungarian Electricity Works received EUR 100 million from the IIB to develop Hungary's energy infrastructure.⁵⁰ It is worth noting that MVM was the Hungarian government's main vehicle in 2013 to "re-nationalise" Hungarian energy production through the acquisition by the Hungarian gas business of German E.ON, and continues to this day to expand its business on a regional scale.⁵¹ For example, in 2020 it also bought one of the leading Czech energy trading companies, Česká republika a.s.⁵²

Besides the energy sector, the production of pharmaceuticals represents the other "real" or economically sound investment on the part of the Kremlin due to the Hungarian pharmaceutical presence of the Gedeon Richter Plc., a Hungarian multinational pharmaceutical and biotechnology company, on the Russian market.⁵³

Telecommunications, food investments and financial cooperation (not listed in the bank's original financial announcement referred to above) related to the International Investment Bank, however, predominantly serve Moscow's pure hybrid power projection and its intent to gain even more influence over regional and Hungarian economic and/or political areas.

Telecommunication investments in general serve the interests of the Hungarian government that has long entertained the idea of acquiring one of the leading telecommunication companies in Hungary. The plan was realised in October 2019, when state-owned Antenna Hungária acquired a 25% stake in Telenor, a Hungarian company owned by the Czech PPF Group controlled by Czech billionaire Petr Kellner.⁵⁴ The investment enables the IIB to contribute significantly to the future development of the pro-governmental telecommunication sector in Hungary based on the next generation 5G technology and Chinese hardware components. As a prelude to the Telenor acquisition, the IIB did already finance the buyout of the Hungarian Invitel, a telecommunication business group, by the Chinese state through an intermediary company called Ilford Holding and another shell-company registered in Cyprus back in 2017, reported investigative portal Átlátszó.⁵⁵ **Since Russia is neither an investor nor significant hardware producer in the European telecommunication sector, the IIB's involvement facilitates the interests of Hungarian or Chinese stakeholders, which could, in turn, also contribute to Russian intelligence operations based on new technologies in the future.**

49 Publication of MOL Group's Q4 and Full Year 2019 Results and 2020 Outlook - Investor News', MOLGroup, accessed 12 January 2021, <https://molgroup.info/en/investor-relations/investor-news/publication-of-mol-groups-q4-and-full-year-2019-results-and-2020-outlook>

50 Az MVM 100 Milliós Hitelt Vesz Fel a Rejtélyes Orosz Hátterű Banktól', Napi.hu, accessed 12 January 2021, https://www.napi.hu/magyar_vallalatok/mvm-hitel-villamosenergia-halozatberuhazas.715423.html

51 MVM Pays HUF 281 Billion for E.ON Gas Business - BBJ', BBJ.hu, accessed 12 January 2021, <https://bbj.hu/business/tech/telco/mvm-pays-huf-281-billion-for-e-on-gas-business->

52 MVM Has Acquired One of the Leading Energy Trading Companies in the Czech Republic', MVM, 30 October 2020, <http://mvm.hu/uncategorized/mvm-has-acquired-one-of-the-leading-energy-trading-companies-in-the-czech-republic/?lang=en#:~:text=By%20the%20transaction%20completed%20today,million%20retail%20and%20corporate%20customers>

53 A MOL, a MET, az OTP és a Takarékbank is üzletelt már az orosz Nemzetközi Befektetési Bankkal', atlatszo.hu (blog), accessed 11 January 2021, <https://atlatszo.hu/2019/03/21/a-mol-a-met-az-otp-es-a-takarekbank-is-uzletelt-mar-az-orosz-nemzetkozi-befektetesi-bankkal/>

54 PPF Group and Antenna Hungária Announce the Sale of 25% Stake in Telenor Hu', accessed 11 January 2021, <https://www.ppf.eu/files/ppfgroup-telenorhu-close-eng.pdf>

55 A MOL, a MET, az OTP és a Takarékbank is üzletelt már az orosz Nemzetközi Befektetési Bankkal

The Hungarian food sector in itself is not a significant supplier of the Russian food market. Russian investments, therefore, may flow to notable Hungarian businessmen. To date and on record, the IIB together with Russia-owned Sberbank, financed only one major food enterprise in Hungary. They provided EUR 40 million for the construction of the Hunent poultry processing plant owned by Hungarian businessman István Kiss (net worth of around EUR 12 million) in 2019.

The Hungarian financial sector, separate to and not categorised within IIB data, has also received noteworthy investments over the years from the International Investment Bank. The leading Hungarian OTP Group has been a “strategic partner” of the IIB since 2016 and its affiliates cooperate with the Russian bank in Romania and Bulgaria as well. The IIB provided the future Hungarian “superbank” Takarékbank, uniting 15 Hungarian financial institutions with a balance sheet total of EUR 7 billion and paid-in capital of EUR 768 million, and a credit line of EUR 12.5 million in 2017.⁵⁶ Hungarian Eximbank sealed a EUR 15 million loan deal with the International Investment Bank even before

Hungary joined the institution in 2015.⁵⁷ In 2019, the IIB started issuing bonds in Hungarian Foring and approved by the Central Bank of Hungary (MNB) worth little over EUR 41 million together with OTP Bank and UniCredit Hungary.⁵⁸ **Although these amounts do not constitute a significant investment into the Hungarian financial system by the IIB, they accomplish two vital goals for the Kremlin: (1) the IIB provides strategic access to the most important private or state-owned banks in Hungary, while collecting funds on the European financial markets, and by extension (2) to their international portfolio and affiliates on a regional or European scale.**

THE IIB'S FUNCTIONS AS A HYBRID TOOL OF STRATEGIC POWER PROJECTION

Based on the data above, we can determine the four basic functions of the International Investment Bank as a hybrid power projection tool of the Kremlin in Hungary or in Central-Eastern Europe, which extend to (1) business practices; (2) the Russian elite; (3) European decision-makers; and (4) intelligence activities related to the war in Ukraine or active measures in the CEE.

I. On the business side, the IIB may:

- 1.) look out for Russia's traditional economic interests in the European Union first and foremost on the energy market.
- 2.) fund projects which cannot receive European Union grants.
- 3.) finance leading technologies, such as the installation of 5G networks in cooperation with other authoritarian powers, such as China.

II. With regard to the Russian elite, the IIB may:

- 1.) provide the Kremlin with shell companies or back-channels to finance its activities.

III. With regard to the Kremlin's power projection, the IIB may:

- 1.) provide the IIB and by extension the Russian MFA with access to vital political, economic and financial

⁵⁶ Az egyesülés közepette is növekedett tavaly a Takarékcsoport', <https://www.origo.hu/>, accessed 12 January 2021, <https://www.origo.hu/gazdasag/20200625-az-egyesules-kozepette-is-novekedett-tavaly-a-takarek-csoport.html>

⁵⁷ A MOL, a MET, az OTP és a Takarékbank is üzletelt már az orosz Nemzetközi Befektetési Bankkal'. www.napi.hu, 'Forintkötvényt Bocsát Ki a Nemzetközi Beruházási Bank', Napi.hu, accessed 12 January 2021, <https://www.napi.hu/tozsdok-piacok/bet-nbb-iib-kotveny-kibocsatas.692578.html>

⁵⁸ Forintkötvényt Bocsát Ki a Nemzetközi Beruházási Bank', Napi.hu, accessed 12 January 2021, <https://www.napi.hu/tozsdok-piacok/bet-nbb-iib-kotveny-kibocsatas.692578.html>

sectors, and to central government's top bureaucratic decision-makers.

- 2.) bankroll pro-Kremlin businesses, oligarchs, political parties and politicians.
- 3.) exert the Kremlin's interests on a regional or European level through local "neutral" businesses.
- 4.) support Russia's image as a constructive partner and a credible financial player.

IV. With regard to intelligence activities, the IIB may:

- 1.) serve as an arm of intelligence services in terms of sensitive information-gathering concerning businesses, decision-makers or politicians needed to influence local or European economic or political systems and diplomacies in favour of the Kremlin.
- 2.) host a high number of field operatives who can enter and leave the institution's premises, conduct intelligence activities and field operations under diplomatic-level immunity provided by the IIB.

In his yearly summary of 2020, President Nikolay Kosov implicitly acknowledged the bank's successful power projection in Hungary and the region by applauding the institution's "smooth integration into the European financial environment."⁵⁹ According to him, the IIB is supporting key Hungarian economic sectors and its total Hungarian investments have amounted to around EUR 400 million since 2015. On a regional or European level, over half of the bank's loan portfolio (54%) was allocated to the European member states, worth EUR 951.3 million. The successful "integration" of the IIB meant that its "brand" became more trusted and developed an active "partnership network" based on "partner projects" in cooperation with multilateral and national development institutions and commercial banks in Europe.⁶⁰ Moreover, the bank's activity in Hungary suggests that Russia is trying to present itself as a constructive partner in the economic recovery after the pandemic, which could immensely boost the Kremlin's image which was tarnished by the aggression against Ukraine and the subsequent economic sanctions by the European Union and the United States.

⁵⁹ Sikeres integráció van túl a Nemzetközi Beruházási Bank', *Világgazdaság (blog)*, accessed 12 January 2021, <https://www.vg.hu/penzugy/penzugyi-hirek/sikeres-integracion-van-tul-a-nemzetkozi-beruhazasi-bank-3422164/>

⁶⁰ Nőtt a Nemzetközi Beruházási Bank profitja és eszközállománya', ProfitLine.hu, accessed 12 January 2021, <https://profitline.hu/Nott-a-Nemzetkozi-Beruhazasi-Bank-profitja-es-eszkozallomanya-410744>