

Russian economy minister arrested, but the ship sails on...

Blog post by Adviser Alexander Smotrov, 15 November 2016

Russia woke up this morning to news unprecedented for its modern history - a serving minister has been arrested for an alleged \$2 million cash bribe over privatisation of 50% in Bashneft oil company by powerful Rosneft. An operation led by the Investigative Committee and the Federal Security Service reminded some of infamous high-profile night-time arrests in the 1930s.

The story quickly stole the headlines from other issues, including the first official phone conversation between President Putin and President-elect Trump, but still poses more questions than it answers. And the most important of these questions is *cui bono*, or who could benefit from this?

Rosneft, which initiated and even supervised the whole undercover investigation against Alexei Ulyukaev, who reportedly requested a kickback for issuing a permission for state-controlled Rosneft to buy Bashneft, keeps silent but insists that the Bashneft deal would stand. However, the company still needs to overcome another hurdle and get permission for a proposed buy-back of its own shares by the end of the year. If this transaction is derailed or delayed, the government risks plunging into a larger-than-planned budget deficit which could undermine its social welfare obligations and ultimately public support in the run-up for the 2018 presidential elections.

Russian 'siloviki' from security services have always been eager to justify their own existence and loyalty. The Investigative Committee, and its head Alexander Bastrykin, who were recently under scrutiny, have now got some breathing space. An attack on a relatively liberal and market-oriented Ulyukaev could help the hardliners to get an upper hand in their rivalry with the liberal wing in the government. However, expectations of some about an imminent dismissal of the whole Medvedev government are unlikely to materialise.

The Kremlin might use the situation as leverage in balancing up different groups and individuals in the Russian elite, as well as a reminder to all of them that they are no longer untouchable or irreplaceable to keep them on their toes. The renewed anti-corruption drive which started in the regions and now reached the banks of the Moskva River could serve both as a good cover for dismissal of those who fell out of favour and as the source of a popularity boost while the post-Crimea euphoria is declining and the economy is still stagnating.

There could be more vested interests involved in a complex and rather hermetic web of relationships and links within the increasingly unpredictable Russian system. But what was quite surprising to observe was today's unsurprised reaction from markets and investors. Despite all political and media hype, the share prices for Rosneft and Bashneft, as well as the Russian stock market in general, did not move significantly while the main upward pressure for the rouble was driven by global oil prices and not by domestic events. This could be either an indication of the limited impact of this individual case on the market, as it is traditionally more influenced by wider fiscal and monetary moves from the Finance Ministry and the Central Bank, or a sign that the market just simply decided to wait for clear winners and losers to emerge.