

Russian president Vladimir Putin launched transition of power

The Russian parliament has approved Mikhail Mishustin as new prime minister. Mishustin's appointment is a right tactical move, since the new prime minister should not be associated with neither law enforcement nor liberals.

With Mishustin's appointment, there'll be no further direct transition of power. He is viewed as pro-business orientated PM who wants to improve its relations with the state. His actions could improve market sentiment.

Mishustin's nomination seen as a start of transition of power is aimed at enhancing efficiency of the government that should become a driver of economic growth. The key goals of the new PM include raising living standards, fighting corruption, increasing transparency of the cabinet and restoring the confidence of non-residents in the Russian market, though reducing political risks depends on the president.

Mishustin's reforms could support Russia's president's initiatives of advancing in the Doing business ranking from current 28th to top-20 by end of 2020.

Mishustin is not seen as a political power player, he is known as a technocrat who implemented computer systems across the tax agency in a drive that cut evasion and boosted collections. An economics PhD and former president of UFG Capital Partners and managing partner of UFG Asset Management in Russia, he served as a deputy tax minister for five years and became head of the Federal Tax Service in 2010.

Historical background

- The previous resignation of the government took place 12 years ago (12 September 2007), when Mikhail Fradkov was the PM
- Medvedev worked as prime minister more than seven years, the longest term in the modern Russian history
- The term of the current government (formed on 18 May 2018) was the shortest in 20 years

What to expect from new PM ?

- Vladimir Putin's prime minister-designate pledged to work with business and overhaul the cabinet after a surprise shakeup that may enable the president to extend his 20- year rule.
- Mishustin has promised to support Yandex as "government should be a digital platform that's created for people"
- Mishustin also said he's against nationalization of business, progressive tax system
- The move will ensure depoliticization, shift focus on national projects that are key to success of the new cabinet, which may include Alexei Kudrin
- The appointment is neutral for the markets

What to buy now?

- Sberbank, Yandex, Gazprom, Surgutneftegas pref and metal companies, as well as undervalued second-tier papers such as AFK Sistema

Impact on economy

- Maternity lump-sum payments and regular payments for low-income families - could cost up to 450 bln roubles in 2020; that is up to 0.4% of the GDP
- The impact on economy could lead to a rise in GDP by 0.2% to 1.5%

Impact on inflation and CBR rate

- Inflation has risen in December and inflation advanced in the first weeks of the month due to a pick-up in consumer spending, government initiatives could see inflation rising to 3% by the end of Q1 instead of 2.5% as a target expected by the market
- We think that a rate cut is still on the table but modest at 25 bps to 6%

Reasons for power shake-up

- Demand for changes and start of a new political cycle
- Change of policy to improve economy
- Improving approval rating of the government and the president
- Shifting to more of a parliamentary system
- Dropping direct transition of power and focusing on national projects

Market reaction

- the MICEX index fell by 1.3% at the time of resignation on Wednesday, January 15
- the USDRUB rate was 61.725 as of 16:30, which is 0.30 roubles lower than before the announcement
- Now the market has fully recovered and renewing its gains

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