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Russian State Bank Loaned $11.6 Bln to Start Rosneft Privatization Deal

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Maxim Shemetov / Reuters

Kremlin-owned Russian bank VTB provided a loan to kick-start the privatization of Russian energy giant Rosneft, the RBC news outlet has revealed.

VTB Bank lent 692 billion roubles ($11.6 billion) to Singapore's QHG Shares Limited on Dec.15, 2016. The company is a joint venture between the Anglo-Swiss commodity trading company Glencore and the Qatar investment fund (QIA), the consortium which went on to buy the Kremlin's 19.5 percent stake in Rosneft.

The Glencore-QIA consortium used the VTB money to secure the Rosneft shares, transferring the money to Rosneft's former parent company Rosneftgaz. The funds, which totaled 711 billion rubles ($12 billion) when counted alongside additional dividends, were immediately transferred to the state budget.

A week later, VTB Bank sold QHG Shares' debt to Rosneftgaz, so that the Singaporean company would instead repay their loan to the government energy company itself.

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QHG Shares finally settled the account on Jan. 7, 2017, when it received 5.2 billion euro ($5.5 billion) from Italian bank Intesa. The consortium used the money, alongside payments from Glencore, QIA, and the Russian bank Gazprombank, to pay Rosneftgaz 10.2 million euros.

The VTB loan has been described as a bridging measure to ensure that the privatization deal could take place while Intesa decided to take part in the transaction.

Intesa had been slated to provide money for the deal from an early stage – but media reports in December claimed that European financial authorities were examining the deal to ensure that it complied with European Union sanctions placed on Russia in 2014.

The company announced on Dec. 17 that they were unaware of any investigation taking place, but that the bank was still "evaluating" its potential involvement. The company only confirmed that it would provide Glencore-QIA with money on Jan. 3, several weeks after VTB made their initial loan.

As the conditions of the VTB loan have not been made public, there is no way of confirming what action the Kremlin would have taken if the Italian lender had pulled out at the last moment, or if the deal had collapsed.

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In a statement, Rosneft said that the VTB loan had been used to any potential volatility on the foreign exchange market. VTB has not provided any comment.

The revelations could be seen as a blow to the Kremlin, which has been trying to encourage the use of private lenders to fund investment in the country.

In February 2016, Russian President Vladimir Putin warned that the country needed "future investors and purchasers to look for their own resources or loans, rather than [borrow from] state-owned banks."

The Russian government currently owns a 60.9 percent share in VTB Bank. The company is currently slated for privatization in 2017.

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