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Central Bank Plans for Oil Price Drop

By The Moscow Times

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The Bashneft oil derrick.

Russia's Central Bank said Wednesday that it is working on measures to support the economy should oil prices fall by as much as a third or more, showing growing concern as the ruble slides and Western sanctions take a toll.

Punitive measures by the West over Moscow's role in the Ukrainian crisis have pushed the economy of President Vladimir Putin's Russia toward stagnation. The International Monetary Fund halved its growth forecast for next year to just 0.5 percent. The World Bank estimates the economy will expand next year by only 0.3 percent.

The Central Bank told Reuters that it is developing a "stress scenario" that envisages a drop in the oil price down to $60 per barrel.

This would be added to three existing scenarios for the Central Bank's policy outlook for the next three years and compares with a $100 assumption in the 2015-17 state budget adopted last week.

The Central Bank "is developing a stress scenario with a significant deterioration in the external economic environment compared with its [current most pessimistic scenario]," the bank said in an e-mail statement.

"In the stress scenario, it is proposed to assume even a more pronounced deterioration in the price of oil, up to the level of $60 per barrel."

The bank's current most sober outlook envisages oil falling to $86.5 per barrel by 2017. Its base scenario assumes the oil price will be above $100 per barrel for the next three years. Even then, it predicts only modest economic growth.

Oil and gas produce about a half of Russia's federal government revenues. Already the price of Urals crude, Russia's chief crude blend, has fallen to around $92, while companies are struggling to raise capital due to Western sanctions imposed over Russia's actions in Ukraine.

Commenting on the bank's new stress scenario, Finance Minister Anton Siluanov said his ministry didn't plan to adjust its own projections used for budget planning, which he said factored in a possible oil price as low as $80 per barrel.

"The forecast of the Central Bank somewhat differs from that of the government. There is nothing terrible about the fact that they consider a wider range of possible changes in price parameters," he said. "I consider [$60 oil] unlikely."

While playing down the likelihood that oil would fall so sharply, Siluanov has also warned repeatedly that a lower oil price is one of the biggest risks that the economy faces, requiring budgetary prudence.

The Central Bank told Reuters that there is an "ongoing discussion" about its draft, but the scenario will be included in the bank's final version of its 2015-17 monetary policy.

Timothy Ash, head emerging markets strategist at Standard Bank in London, said the Russian economy would be in serious trouble if crude fell to $60. This would lead to "deep recession, large current account and fiscal deficits, huge levels of capital flight, and significant stress on banks," he said.

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