Bank of America: Oil Price Slump Means Recession for Russia

By The Moscow Times

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The ongoing drop in global oil prices will likely push Russia's weakening ruble past 44 to the U.S. dollar by the end of next year, causing the country's economy to contract by 1.5 percent, analysts at Bank of America Merrill Lynch Research said in a report cited by news agency RBC on Wednesday.

Lower oil prices and a sickly ruble will discourage foreign investment and raise inflation, which the bank estimates will rise to 8.7 percent in the first quarter of 2015. The bank also slashed its expectation of the price of Brent oil from $108 to $96 per barrel for next year.

Brent oil, which is used as a global benchmark, was trading at $84 per barrel on Wednesday, its lowest point in almost 4 years.

Russia, the world's second biggest oil exporter, has seen its currency weaken in line with the oil price. When oil traded at $110 per barrel in July, the ruble was at 34 to the dollar.

On Wednesday, it hit 41 to the dollar.

However, oil is mostly traded in dollars, and the ruble's steep fall means that the Russian government gets more rubles in tax revenue for each dollar's worth of oil sold. This will likely allow the country's budget, which is under strain from promises of higher military spending and pay raises for civil servants, to record a cash surplus, according to the report's author, Vladimir Osakovsky, head economist on Russian and the CIS at Bank of America Merrill Lynch.

That is if, he added, the government favors fiscal stability over populist spending programs.

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