

Low Oil Prices Send Russia Careening Toward Recession

By [The Moscow Times](#)

December 26, 2014



Participants dressed as white bears saw an oversized replica of a one Russian ruble coin as they stage a performance during a rally near the White House (R), the headquarters of the federal government, in Moscow, on Dec. 22, 2014.

Slumping oil prices have put Russia's economy on course for a sharp recession next year, its finance minister said on Friday, as authorities scaled up the bailout of the first bank to succumb to the country's currency crisis.

Russia's economy is slowing sharply as Western sanctions over the Ukraine crisis deter foreign investment and spur capital flight, and as a sharp slump in oil prices severely reduces Russia's export revenues and pummels the ruble.

The government has taken steps to support key banks and address the deepening currency crisis in the past week, including a sharp and unexpected interest rate hike, but analysts are pessimistic on the outlook for both the economy and the ruble.

Finance Minister Anton Siluanov told journalists on Friday that the economy could shrink by 4 percent in 2015, its first contraction since 2009, if oil prices averaged their current level of \$60 a barrel.

Siluanov also said the country would run a budget deficit of over 3 percent next year if the oil price did not rise.

Crude prices have almost halved from their June peak amid a global glut and a decision by producer group OPEC not to cut output. Saudi Arabia said on Friday it was prepared to withstand a prolonged period of low prices.

"We need to have our budget break even at \$70 per barrel by 2017," said Siluanov.

Russia's government also imposed informal capital controls this week, including orders to large oil and gas exporters Gazprom and Rosneft to sell some of their dollar revenues in a bid to shore up the ruble.

Russians have kept a wary eye on the exchange rate since the collapse of the Soviet Union, when hyper-inflation wiped out their savings over several years in the early 1990s.

The slide in the ruble will inevitably lead to higher inflation next year, which after years of stability threatens President Vladimir Putin's reputation for ensuring the country's prosperity.

Ruble Trouble

The Russian currency slipped on Friday after hitting its strongest levels in more than three weeks earlier in the day,

At 3:45 p.m. in Moscow, the ruble traded at over 54 per dollar, a sharp rebound from its recent low of 80 but still far weaker than the 30-35 range it was trading at in the first half of 2014.

"If oil goes down to \$50 [per barrel] ... I don't think our authorities will be able to artificially maintain the [ruble] rate even with higher sales by exporters," said the head of treasury at a major Russian bank, who asked not to be named because he is not authorized to speak to media.

On Friday, Russian authorities also significantly scaled up rescue funds for Trust Bank, saying they would provide up to \$2.4 billion in loans to bail out the mid-sized lender.

The falling ruble has prompted panic buying of foreign currency in Russia and a spike in deposit withdrawals, heaping pressure on a vulnerable domestic banking sector whose access to international capital markets had already been restricted by Western sanctions.

Credit agency Standard & Poor's said this week it could downgrade Russia's rating to junk as soon as January due to a rapid deterioration in "monetary flexibility" in the country.

Meanwhile Russian gold and forex reserves have fallen to their lowest levels since 2009. Last week, reserves dropped by as much as \$15.7 billion to below \$400 billion, down from over \$510 billion at the start of the year.

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