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Standard & Poor's Lowers Russian Growth Forecast

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A view shows the Standard & Poor's building in New York's financial district.

Standard & Poor's has cut its growth forecast for Russia, predicting that lower and more volatile oil prices will make it harder for the country to emerge from recession.

The ratings agency said Thursday that the Russian economy would contract by 3.6 percent this year and grow by only 0.3 percent in 2016. It had earlier predicted a 2.6 percent contraction for this year and 1.9 percent growth in 2016.

"The change reflects our expectations of a more prolonged weakness in domestic demand due to lower and more volatile oil prices, and tighter fiscal and monetary policies through end-2016, compared with our previous assumptions," a press release quoted Standard & Poor's senior economist Tatyana Lysenko as saying.

Consumer spending has fallen sharply since Russia's economic slump began in 2014, but S&P

had expected it to begin to recover this year thanks to a stabilization of the oil price and ruble exchange rate, slowing inflation, and falling interest rates.

However, the price of oil, Russia's most important export, fell by about one-quarter during July-September, causing the ruble to weaken and reviving inflation fears.

The lower oil price has also reduced budget revenues, forcing the government to propose limiting spending on pensions and public-sector wages, measures that are also likely to further depress consumer demand in the short term, S&P said.

The agency is still more optimistic than Russia's Central Bank, which said last month the economy would contract by 3.9-4.4 percent this year and likely shrink again in 2016.

Oil prices are at their lowest in six years due to a supply glut, which the International Energy Agency this week said would continue through next year. Brent oil, the international benchmark, cost about $50 per barrel on Thursday, down from a peak of $115 in summer 2014. Russia is one of the world's top three oil producers.

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