

Russia Approves \$6.8Bln Aid Package for Crimea

By [The Moscow Times](#)

March 30, 2014

The  **Moscow Times**

Russia approved an initial financial aid package for Crimea on Friday to help the local economy as it consolidates control over the region it annexed from neighboring Ukraine this month.

Finance minister Anton Siluanov said Wednesday that Russia would spend up to 243 billion rubles (\$6.82 billion) in Crimea this year, to be financed from the budget reserve.

The ultimate cost of its action in Crimea, which has sparked the biggest crisis in East-West relations since the Cold War, is likely to be far higher: analysts in a Reuters poll on Friday slashed their forecasts for Russian economic growth.

The government said Friday it would inject 10.7 billion rubles (\$300 million) into Crimea's budget and send a further 2.4 billion to the city of Sevastopol for small and medium-sized firms, social security needs and the economy in general.

Boosting the economy of Crimea, which voted to break away from Ukraine on March 16, is important to President Vladimir Putin's hopes of maintaining the support of the local population and keeping his popularity ratings high across Russia.

But Crimea will be another drain on Russian finances at a time when the economy is already stuttering. The region has an estimated 55 billion ruble budget deficit, which Moscow plans to cover with funds from the Russian federal budget.

Russia has also vowed to bring Crimean public sector pay and pensions into line with Russian levels, implying that these will be doubled.

Rating agency Standard & Poor's has calculated that Moscow would need to pay more than \$1 billion a year just to bring Crimea's per capita budget revenue to the same level as Russia's poorest regions.

The peninsula, which has a population of 2 million and is connected to the mainland by a narrow causeway, has been dependent on Ukraine for 85 percent of its electricity, 90 percent of its drinking water and much of its food.

The reliability of those supplies is now in question, and the local authorities have said they will nationalize Ukrainian state-owned business, including energy producer Chernomorneftegaz.

So far, Russian companies have been cautious about investing in Crimea's economy although some will want to help boost the tourism industry there.

Providing aid to Crimea from private businesses could also be complicated by international sanctions, intended to punish Russia for annexing Crimea but which so far have mostly covered individual Russian officials.

Analysts say the \$2.1 trillion Russian economy can cope with providing aid to the region but there will be other big impacts on it as a result of Moscow taking over Crimea.

"Direct costs for Russia are relatively small, as Crimea is not a big region," said Alexei Devaytov, chief economist with Moscow-based brokerage Uralsib Capital.

"As an economist, I am more worried about the cost of this 'operation' from the point of view of capital outflows, tightening of monetary policy and the ruble weakening.

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