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Harsher Western Sanctions Would Shrink Economy, Minister Says

By The Moscow Times

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Economic Development Minister Alexei Ulyukayev

The Russian economy will contract if the West introduces wide-ranging sectoral sanctions over Ukraine, but that would not be a "dramatic" situation, Economic Development Minister Alexei Ulyukayev was quoted as saying.

The U.S. and the European Union have repeatedly called on Moscow to do more to help stop fighting in eastern Ukraine, where Kiev is struggling against a separatist pro-Russian rebellion, or face harsher sanctions.

Ulyukayev told the "Vesti on Saturday with Sergei Brilev" television program that the Russian government has worked out an economic outlook scenario envisaging sectoral sanctions.

They could hit Russian exports from luxury goods like furs and caviar under a relatively lenient option to metals, fertilizers, gas and oil under the harshest one, he said.

"The economy can withstand such a scenario. The pace of economic growth, of course, retires to a negative area. The pace of investment is even worse, revenues are reduced, inflation accelerates, government reserves shrink," Ulyukayev said.

"But, in general, there is no dramatic development."

The government's official 2014 growth forecast now stands at 0.5 percent but Ulyukayev has said it could come in at around 1.1 percent — the same as in the first five months of the year.

The EU, which relies on Russia for a large part of its energy needs, has been reluctant to press ahead with sectoral sanctions fearing they would backfire.

Diplomats in Brussels said on Friday any immediate moves could instead take the form of expanding the existing lists of people and companies targeted with asset freezes over Russia's role in Ukraine, including the annexation of Crimea.

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