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Harsher Sanctions Would Cost Russia 0.3% of GDP, Ministry Says

By The Moscow Times

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The Finance Ministry building in Moscow.

An upsurge in international tensions and further sanctions slapped on sectors of the Russian economy over the country's annexation of Crimea from Ukraine would cost Russia 0.2 to 0.3 percent of the GDP this year, according to Russia's Finance Ministry.

But longer-term implications could be broader, crippling the country's much-needed modernization drive and hampering Russia's ability to emerge from an sharp economic slowdown, the ministry said Thursday in a budgetary policy outline for 2015-2017 published on its website.

In the international furore that followed Russia's land grab in March, the European Union blacklisted about 60 Russian top officials, businessmen and companies, while the U.S. sanctioned some 50 names, banned cooperation in the nuclear and space industries and restricted the sale of hi-tech products to Russia.

Broader sanctions against whole sectors of the Russian economy, including its main staple, oil and gas, have been threatened, but not implemented. Skeptics said such sanctions would backfire against the EU, Russia's leading trade partner which is also heavily reliant on Russian petroleum exports. The ministry's forecast assumes no "sectoral" sanctions will be imposed.

Broad damage has been done, however — the spike in uncertainty has sent the perceived risks of operating in Russia skyrocketing, leading Western banks to shy away from the country, while many companies not already tied into Russia have put investment plans on hold.
The value of syndicated loans granted to Russian commodities producers plummeted by 82 percent to $3.5 billion in the first half of this year, Bloomberg reported this week.

Russian economic growth has been sputtering since 2012, and the country entered technical recession in the first half of 2014, according to HSBC, though official statistics indicated GDP growth of 1.1 percent between January and May.

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