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Inflation Races as Russia's Food Bans Push Up Prices

By Delphine d'Amora

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Two weeks after their introduction, Russia's bans on Western food imports have sent prices skyrocketing in some far-flung corners of the country as prices began to rise across the board, raising fears that Russia's poorest citizens will pay for the Kremlin's reprisal to Western sanctions.

Some also worry about a destabilizing spike in headline inflation, hardly good news for an economy already in the throes of a sharp economic slowdown. Breaking typical season trends, inflation rose 0.1 percent in the week ending Aug. 18 after two weeks of no inflation at all, pushing up the yearly rate to 7.5 percent, according to data from Rosstat — far overshooting the Central Bank's target.

Certain regions have seen staggering price increases: The cost of chicken legs soared 60 percent in the Sakhalin islands of Russia's Far East, while meat prices in the nearby Primorye

region climbed 26 percent and prices on some types of fish rose by 40 percent, newspaper Kommersant reported this week.

But Russia-wide price rises are much milder than in the Far East. The cost of chicken has risen 2.1 percent since the beginning of August, while pork rose by 0.8 percent, frozen fish by 0.5 percent, cheese by 0.2 percent and apples by 0.2 percent, according to Rosstat.

Russia's ban earlier this month on imports of beef, pork, poultry, fruit, vegetables and dairy products from countries that had targeted it with sanctions over the crisis in Ukraine caught retail chains and distributors completely by surprise, giving them little chance to adapt to the new reality.

"[The price increases] are due to the cost of suddenly changing procurement logistics ... with barely any transition period," said Maxim Klyagin, a food market analyst at Finam Management.

Officials have assured the public that no price increases should ensue. Hammering home the point, Prime Minister Dmitry Medvedev said this week that the bans "should not significantly affect the situation on the food market" while ordering the government and regional authorities to "monitor the situation." Authorities have foisted masses of price monitoring paperwork on retailers, and reports of threatened countermeasures against price-gougers abound in the media.

Inflation Inevitable

But economists insist that the bans were certain to strike food prices, and inflation along with it.

"We expect that because of these decisions, inflation will accelerate by 1.3 percent, with about 1 percent coming this year," said Oleg Kuzmin, chief economist for Russia and the CIS at Renaissance Capital.

Expenses on groceries are a large portion of most Russians' spending and constitute about 37 percent of the so-called "consumer basket" by which inflation is tracked, Klyagin said.

Renaissance Capital now expects inflation for all of 2014 to hit 7.5 percent, up from an original forecast of 6.5 percent. Similarly, Alfa Bank raised its forecast for the year from 7 to 8 percent after the food bans were announced.

These rises could push the Central Bank to raise its key interest rate, which is already up 2.5 percent since the beginning of the year at 8 percent.

But overall, although drastic price rises may be seen in remote regions that previously relied on the U.S., Canada and Australia for certain products, the bans are no death blow to the Russian market, Klyagin said.

"We are talking about sectors where the level of import dependence is comparatively low and where the lost volumes can be compensated with imports from other countries and, to a lesser degree, by expanding domestic production," he said.

Prices increases will range from zero percent on those goods produced primarily in Russia to between 10 and 15 percent in certain narrow, import-heavy segments, Klyagin estimated.

Inflation may also be somewhat buffered by the fact that thrifty Russian consumers — whose purchasing power is already under pressure from the economic slowdown — will only put up with so much, according to Kuzmin.

"Distributors or retail chains will take [the cost increase] partially on themselves, as consumers will be willing to buy less," he said.

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Contact the author at d.damora@imedia.ru

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