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Russia's Food Price Cap Could Lead to Shortages

Government body flags “systemic risks” of capping prices of agricultural goods.

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Russia capped prices for some agricultural products last year amid rapid inflation. **Andrei Nikerichev / Moskva News Agency**

A government cap on food prices could lead to shortages in the near future, Russia’s Audit Chamber warned Monday in a new report.

Russia slapped maximum prices on certain “socially significant” foodstuffs — like sugar and sunflower oil — at the end of last year, and the country’s largest supermarket chains also pledged not to hike prices for a wider range of goods, including pasta, beef, tea and bread. Agricultural exports were also restricted.

The move came as inflation picked up at the end of last year, with prices for sugar rising by more than 70% over 2020, prompting President Vladimir Putin to confront the issue during a

televised government meeting.

But the government's budget watchdog said Monday the policy carries "systemic risks," business site Vedomosti reported. Manufacturers and farmers might simply refuse to sell at the new price levels, which could lead to shortages on supermarket shelves, it said.

Related article: Putin Urges Food Price Cap As Russian Economy Falters

The government has also restricted exports, in a bid to stop producers selling abroad at higher rates, but the Audit Chamber still fears the new mandated prices could prompt some to stockpile in warehouses until the temporary price freezes come to an end in March.

Smaller retail chains have complained that manufactures are setting higher delivery prices, limiting the quantities they sell or forcing buyers to physically come and collect the orders themselves, as they try to minimize losses from the price cap.

Other economists said the policy could spark faster inflation in the future once the policy ends, as producers will raise prices to recover losses, as well as cutting back on investment projects which could have made their operations more efficient.

The cap has, however, successfully limited further price rises among the targeted goods, it added. The Kommersant business paper reported Tuesday that Russia's tax authorities had begun asking food manufacturers to submit official price forecasts for the rest of the year — a move which spooked some producers, fearful that their loose forecasts could be used as the basis for future price caps.

Food prices are an especially sensitive topic in Russia — even more so amid the coronavirus pandemic which has reduced disposable incomes by almost 5% and caused a surge in unemployment claims. An extra one million people fell below the poverty line in the middle of last year, taking the total number to almost 20 million, the government said last year.

Russia's Agricultural Ministry disputed the Audit Chamber's findings, saying in a statement the market was "stable" and that it "does not expect a shortage of any type of food."

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