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**TRENDS AND OUTLOOKS**

*(Issue 42)*

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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 42th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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#### 4.6. The pandemic and food security<sup>1</sup>

Early in 2020, Russia adopted the new Food Security Doctrine,<sup>2</sup> which included the entire range of amendments as compared with the previous Doctrine-2010:

- the section dealing with the national interests in the field of food security includes the list both of traditional interests (upgrading of the standard of living, ensuring of food safety, sustainable development and modernization of agriculture, fishery and the domestic market infrastructure, promotion of livestock breeding and plant selection and recovery and boosting of soil fertility) and the new ones (the prohibition of the importation of genetically modified organisms and biological control agents to the territory of the Russian Federation);
- along with traditional tasks, the section dealing with the Doctrine's strategic goal and main objectives includes a number of new ones: the achievement of a positive balance in exports and imports of agricultural products, primary products and food and ensuring of food security within the framework of formation of healthy food ration;
- the list was expanded in respect of products on which the threshold levels of food sovereignty were set: threshold levels were added in respect of vegetables and cucurbits, fruits and berries, as well as seeds of the main agricultural crops of domestic plant selection;
- in respect of three types of products, the Doctrine 2020 raised the threshold levels of food sovereignty as compared with the Doctrine 2010: as regards sugar and vegetable oil – from 80% to 90%; as regards fish and fish products – from 80% to 85%;
- the methods of calculation of the threshold level of food sovereignty regarding individual products were changed as “the correlation of

1 This section was written by: *Schagaida N.*, Doctor of Economic Sciences, Head of the Center for Agro-Food Policy, IAES RANEPa; *Uzun V.*, Doctor of Economic Sciences, Professor, Senior Research Associate of the Agricultural Policy Department, Gaidar Institute, Senior Research Associate of the Center for Agro-Food Policy, IAES RANEPa; *Ternovsky D.*, Doctor of Economic Sciences, Leading Research Associate of the Center for Agro-Food Policy, IAES RANEPa.

2 Executive Order No.20 of January 21, 2020 of the RF President “On Approval of the Food Security Doctrine of the Russian Federation.”

the volume of the domestic output of agricultural products, primary products and food to the volume of domestic consumption.” By contrast with the Doctrine-2010, this calculation algorithm does not require to give up the importation of those products which are in demand in the Russian Federation. This interpretation correlates to the Doctrine’s abovementioned strategic goal, that is, the facilitation of the positive export-import balance as a whole across the entire group of agro-food products;

- the criteria of economic availability of food were established in respect of the main groups of food. They are calculated as “the ratio of the actual consumption of the main food products per capita to the reasonable norms of consumption meeting the healthy nutrition requirements and has the threshold value of 100%”<sup>1</sup>;
- it was determined that the physical availability criterion should be established.

Such an interpretation of food sovereignty not only allows the importation of those products which are in demand in the Russian Federation, but not produced there (or which have poor quality and cost more as compared with foreign analogs), but also provides for an increase in imports on condition that exports grow to the same extent. This interpretation correlates to the Doctrine’s abovementioned strategic goal, that is, the facilitation of the positive export-import balance across the entire group of agri-food products. This strategic goal has a priority over the objectives to achieve food sovereignty in respect of each product.

In compliance with the new doctrine, the level of food sovereignty as a whole in respect of the group of agri-food products (TNVED – 1–24) can be increased owing to growth in exports of those types of products whose production is the most cost-efficient in Russia, rather than by means of import substitution alone.

The spread of Covid-19 coincided with the beginning of 2020. The UN Food and Agriculture Organization (FAO) identified a few food security risks related to the expansion of the geography of this disease, but they did not include the risk of food shortages in the world:

- disruption of food supply logistics chains;
- reduction in donor-countries’ contributions to international funds and contraction of international organizations’ humanitarian activities;
- impoverishment of the population in importer-countries;
- exporter-countries’ restrictive measures and destabilization of markets;
- appreciation of prices (on importers’ domestic markets owing to currency depreciation and logistics costs; on external markets owing to restrictions on supplies in exporter-countries;
- disruption of migration flows of workers to agriculture.

Before the outbreak of the pandemic, the global grain stocks exceeded the previous year’s level; the outlook for the 2020 grain yield was optimistic.<sup>2</sup> During

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1 See: The RF Food Security Doctrine, p. 5.

2 URL: The FAO reports disruptions in distribution of food during the pandemic. [http://www.cnsnb.ru/news/fao/fao\\_srpp.pdf](http://www.cnsnb.ru/news/fao/fao_srpp.pdf)

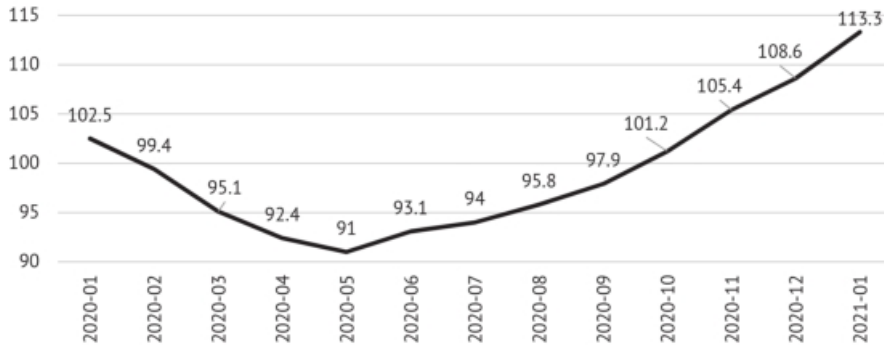


Fig. 25. FAO food price indices, %

Source: URL: <http://www.fao.org/worldfoodsituation/foodpricesindex/ru/>

the first wave of the pandemic, prices of essential foods were depreciating in January-May though the epidemic was on the rise (Fig. 25). The lessons of the first wave of the pandemic changed the behavior on external markets: anxiety increased and prices appreciated.

The situation with grain stocks and outlooks for the yield in Russia at the beginning of the pandemic were favorable, too. However, the depreciation of the ruble and anxiety created risks to the food security system. The main risks are shown in Table 27.

Table 27

### The systemization of risks to the internal food market amid the pandemic

Risks	Assessment
Feverish demand and depletion of supplies	Risk exists
Growing competitiveness of Russian products and exportation thereof to detriment of domestic market	Risk exists partially (in respect of limited range of products)
Food shortages on external markets and infeasibility of importation of food which is in short supply to Russia	Low risk
Restrictions on movement of products within EEU's borders and between subjects of RF	Risk exists partially (small farms)
Risk of catching disease at work	Risk exists

**Feverish demand** manifests itself in sudden growth in purchases of relatively inexpensive long shelf-life products. If in January 2020 there was a 2.3% growth in purchases as compared with January 2019, in March it was already equal to 4.7%. However, overall, in Q1 2020 purchases were equal to +3.6% relative to the previous year, while a year before, to +2,2%. Based on the results of January-April, the volume of purchases of 2020 was equal to that of 2020 (Fig. 26).

Purchases of inexpensive and long shelf-life products increased by 78%. (Fig. 27).

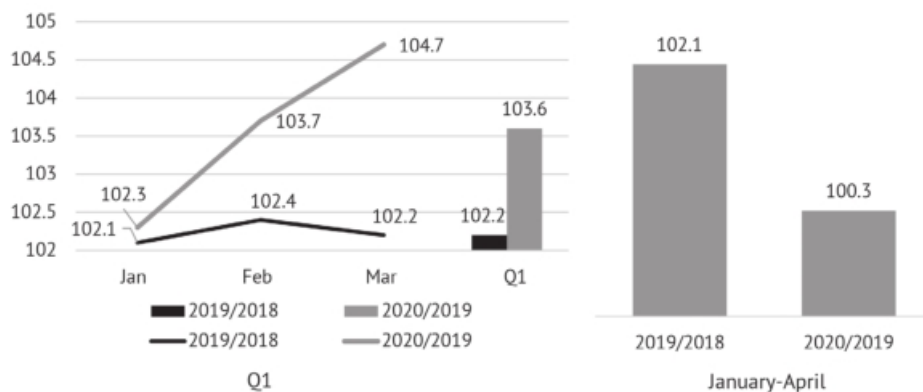


Fig. 26. Retail food sales, % change compared with the corresponding period

Source: The Rosstat

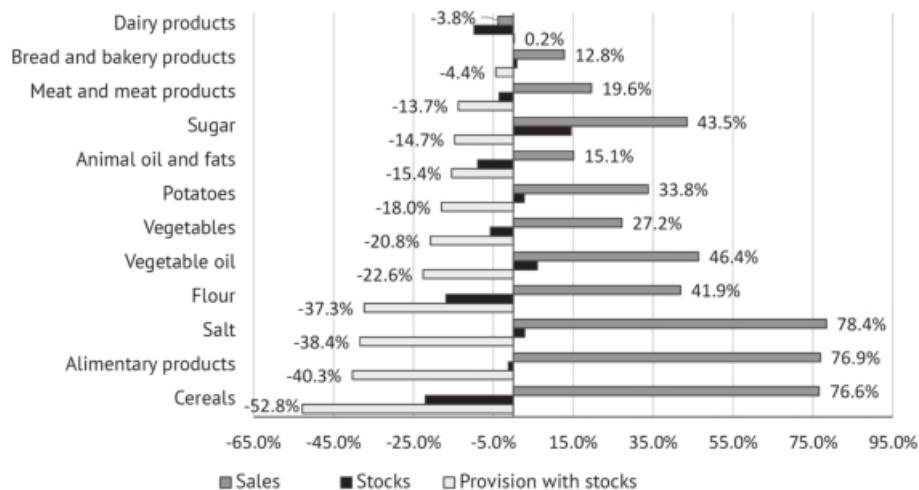


Fig. 27. Dynamics of sales and stocks of food products amid feverish demand, March 2020 on February 2020

Source: The Rosstat.

Despite increased growth in food purchases and reduction in their stocks, only stocks of alimentary products were critically low. It can be stated that feverish demand was overcome owing to correct moves made by the federal government (which did not introduce restrictions on freight traffic inside the country) and the business (which managed to adjust to the situation and replenished stores with goods again and again).

**External market shortages** and infeasibility of the importation to Russia of food which was in short supply were low because the FAO forecasted high stocks

of food and yield in 2020. Actually, the Russian market did not experience any food shortages after feverish demand had subsided.

**Growing competitiveness** of Russian products and exportation thereof to the detriment of the domestic market

Early in 2020, depreciation of the ruble promoted Russian goods' competitiveness. To arrive at this conclusion, just take NPC ratios, that is, the nominal coefficient of protection of agricultural producers with producer prices at the threshold of the Russian farm in its numerator and those at the farm of the potential importer in its denominator (*Table 28*). For instance, on the back of a 20% depreciation of the ruble only beef and dairy products remained non-competitive in terms of price, with pork being so to a lesser extent. Consequently, there is motivation to export food products, including even livestock products. But exports are limited because of veterinary requirements imposed in numerous countries regarding the importation of livestock products.

*Table 28*

**Correlation of prices of agricultural products at the threshold of a farm  
and on global markets (NPC)**

Product	2019	Product	2019
Wheat	0.99	Milk	1.16
Barley	1.00	Beef	1.27
Maize	1.19	Pork	1.24
Rye	0.98	Poultry	1.07
Sunflower	0.92	Eggs	1.00
Sugar	1.21	Potatoes	1.00

Source: The OECD.

*Table 29*

**Post-Soviet countries' measures to ensure food availability  
on the internal market**

Measures	Country	Period	Products
Export restrictions	Ukraine	April 3 – July 1	Buckwheat
	OECD countries	April 12 - June 30	Onions, garlic, turnip, rye, rice, buckwheat and sunflower seed, soya
	Kazakhstan	March 16 – September 1 (initially till April 15)	Wheat and wheat-rye flour, soft wheat, meslin, buckwheat, buckwheat groats, sugar, potatoes, sunflower seed, sunflower oil
	Quotas on exports to non-OECD	Russia	April 1 - June 30

Source: FAO, website Kremlin.ru.

With Russian food becoming more competitive and exports growing, it was necessary to take measures to protect the domestic market. However, Russia's and OECD countries' restrictions were not necessarily justified. The review of protective measures by post-Soviet countries is shown in *Table 29*.

**Food traffic restrictions** and shutdown of small markets. There were just few instances of shutdown of borders of subjects of the Russian Federation by decision of regional authorities. Restrictions at state borders on movement of small consignments of goods and entrepreneurs' vehicles were observed all over the EEU territory. So, green cabbage from Kazakhstan failed to get through the Russian border in spring and this when no restrictions on freight traffic were in place between the EEU member-states.<sup>1</sup> As small food markets were closed, resellers did not come on a mass scale to buy the delicacies of the season and green vegetables, so this led to the loss of products of small producers and farmers.<sup>2</sup> Meat producers in regions where traffic communication was limited encountered problems related to the delivery of their products. As a result, prices appreciated. So, in H1 2020 the consumption of lamb decreased by 9.1% owing to the Rosselkhoznadzor's ban on lamb supplies from the North Caucasian federal okrug and the Southern federal okrug,<sup>3</sup> as well as the shutdown of markets and small retail outlets during the pandemic; it is noteworthy that about 95% of lamb is sold on food markets and through non-chain retail outlets.<sup>4</sup>

By estimates of the USDA, the outlook for yield in Russia in spring 2020 was set at the level higher than in 2019 and with stocks of the previous year at the level surpassing 2019-2020 made it possible to assess favorably the food supply situation amid the pandemic. Based on the results of 2020, this estimate turned out to be underestimated: the yield was higher than forecasted.

In 2020, the output of agricultural products increased by 1.5%. Growth drivers were the production of grain (+9.8%), pork (+8.9%) and milk (+2.7%) (*Fig. 28*). Downside dynamics were observed in production of sugar beet (-40.4%), sunflower (-13.7%), potatoes (-11.3%) and vegetables (-2.3%). Production of eggs (0%), poultry (+0.3%) and cattle (+0.3%) remained stable.

The main factors of changes in the output volumes of crop farming were fluctuations in agricultural crop yield made worse in case of potatoes and sugar beet by substantial reduction in the crop production area (-5.0% and -19.0%, respectively). It is noteworthy that the contraction of the sugar beet production area is justified by a dramatic drop in prices of sugar after the record-high yield seen in 2019 and that of potatoes production area, by a long-term trend of reduction thereof by households.

Overall, in 2020 the agricultural sector exported \$30 bn worth of agricultural products, an increase of 20% compared with the indicator seen in 2019 and \$5 bn

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1 Cabbage has disappeared. The Minselkhoz's (the Ministry of Agriculture) answer to Kazakh farmers. URL: [https://tengrinews.kz/kazakhstan\\_news/kapusta-propadaet-kazahstanskim-fermeram-otvetil-minselhoz-398155/](https://tengrinews.kz/kazakhstan_news/kapusta-propadaet-kazahstanskim-fermeram-otvetil-minselhoz-398155/).

2 Russian farmers started to squash the unsold harvest. URL: <https://www.kp.ru/daily/27126/4209656/>

3 Demand for lamb was undercut. URL: <https://www.kommersant.ru/doc/4465787>

4 Lamb sales are falling in Russia. URL: <https://agrotrend.ru/news/2276-v-rossii-padaet-realizatsiya-baraniny/>



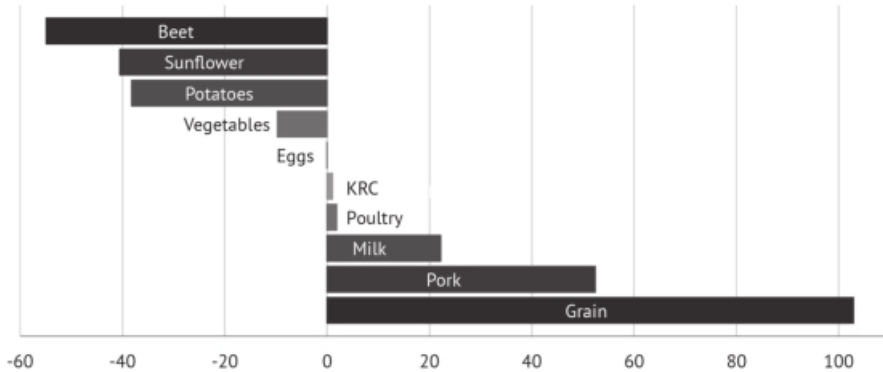


Fig. 28. Main agricultural products' contribution to gross output growth in 2020 (preliminary estimates in prices of 2018, billion rubles)

Source: own calculations based on the Rosstat's data.

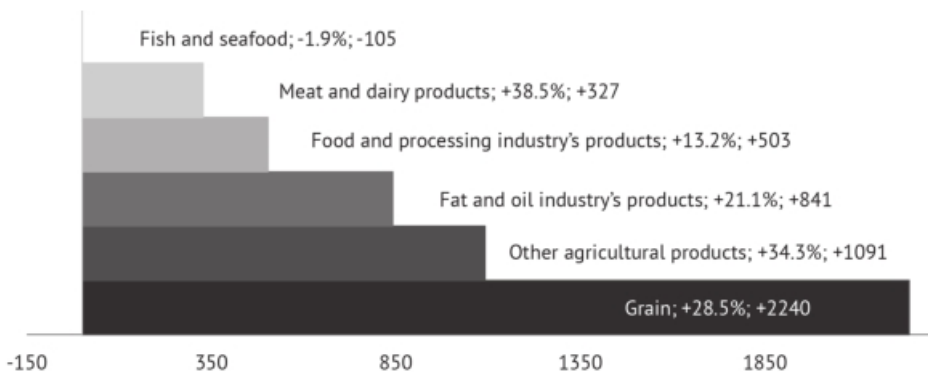


Fig. 29. Growth in exports of the agricultural sector's products in 2020 (million US Dollars, %)

Source: The Federal Center for Promotion of Exports of Agricultural Products, the RF Ministry of Agriculture, the data as of January 17, 2021.

above the 2020 target indicator of the “Exports of Agricultural Products” federal project. The performance over and above the targets of the federal project is facilitated by growth in exports of grain and other agricultural products (mainly unprocessed oil-yielding crops), while the shortfall is caused by insufficient growth in exports of fish, meat and dairy products (Fig. 29).

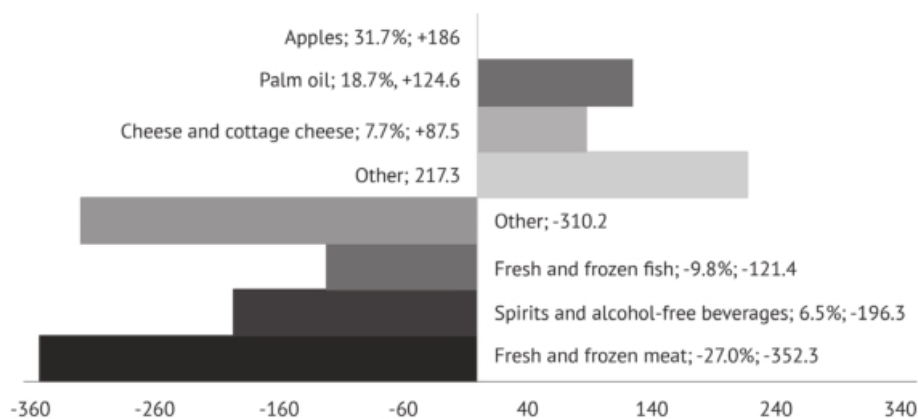
Though the targets of the federal project failed to be achieved, exports of meat and dairy products demonstrated high growth rates (+38.5%), with an increase facilitated primarily by growth in exports of meat: the shares of pork and poultry in exports growth were equal to 49.9% and 30.9%, respectively.

Growth in exports was underpinned by the exchange rate: agricultural exports volume-weighted average Ruble/US Dollar exchange rate exceeded by 9.7% in January-September 2020 the relevant indicator seen in 2019 (Rb71.3 per \$1 against Rb65.1 per \$1).

Advanced growth in exports of the fat and oil industry's products (+21.1%) and meat and dairy products (+38.5%) changed for the better the exports pattern as regards the process stage of products: in 2020 the share of midstream process stage products increased by 1 p.p. to 24.6% with the share of upstream process stage products remaining stable (59.8%). The downside is the lag of growth in exports of downstream process stage products, that is, prepared foods: their share decreased by 1.0 p.p. to 15.6%. If growth in exports of midstream process stage products related to meat and dairy products amounts to 39.9%, that in exports of downstream process stage products, to the mere 16.9%. A similar situation is observed in the food and processing industry: with overall growth of +13,3%, growth in output of downstream process stage products amounts to +5.5%.

In 2020, the importation of food and agricultural primary products decreased by 0.8%, but the decline was not homogeneous. The largest contribution to the reduction in exports was driven by a decrease in imports of meat (27.0%), spirits and alcohol-free beverages (6.5%) and fish (9.8%). At the same time, imports of apples and palm oil increased by 31.7% and 18.7%, respectively (*Fig. 30*).

The appreciation of food prices on external markets and depreciation of the ruble created all the conditions for price rises on the internal market. Global food prices appreciated by 8.5% and 6.5% in November 2020 on November 2019 by estimates of the IMF and the FAO, respectively. A similar appreciation of prices is registered with Russian producers of agricultural products (+8.8%) and food producers (+10,2%). At the same time, in Russia retail food prices demonstrate smoother dynamics, appreciation of 5.7% (*Table 30*).



*Fig. 30.* Growth in imports of the most important food products in absolute and relative terms in 2020 (million US Dollars, %)

Source: The RF Federal Customs Service, data as of February 8, 2021.

*Table 30*

**Dynamics of Russian and global food prices (growth rates, %, November 2020 on November 2019)**

<b>Products/indices</b>	<b>Retail prices in Russia (Rosstat)</b>	<b>Global prices (IMF, US Dollars)</b>	<b>Global prices (IMF, rubles at exchange rate of RF Central Bank)</b>
Products/indices	-0,8	-1,1	19,0
Chickens	24,7	47,7	77,7
Sunflower oil	59,3	17,7	41,6
Sugar	13,1	33,8	61,0
Wheat flour/wheat	0,8	14,1	37,3
Milk	5,7	12,9	35,9
Tomatoes	0,0	18,8	43,0
Pork	17,2	15,5	39,0
Apples	5,7	8,5	30,5
CPI of food products/ Food price index IMF	8,8	X	X
Agricultural producer price index	10,2	X	X

*Source:* The Rosstat, the IMF and the RF Central Bank.

Changes in prices of various agricultural and food products were not homogeneous. Prices of products that integrate Russia into the global market as the exporter (grain, sunflower oil) and the importer (vegetables and fruits) appreciated the most. Appreciation of prices of these products was explicit, but did not exceed global prices growth. As regards those products whose domestic consumption is close to the output volume (poultry, pork and milk), prices fluctuated within the range of 1% and were several-fold below the appreciation of prices on the global market. Dramatic growth in Russian prices of sugar (+59.3%) leaving behind global price changes can be largely substantiated by the low base effect: the depreciation of internal prices of sugar in autumn-winter 2019 because of the record-high sugar beet yield. From January 2019, internal prices of sugar increased by 11.5%, while global nominal prices, by 17.8%; with depreciation of the exchange rate of the ruble taken into account, they grew by 34%. By comparing the dynamics of changes in output and prices, it can be concluded that as regards crops which output increased the price change was relatively small, while as regards those which output decreased, prices appreciated; it is noteworthy that percentage of price growth was much higher than that of output contraction (*Fig. 28 and Table 28*).

Overall, it can be concluded that both the global agricultural sector and the Russian one have safely passed through two phases of the pandemic providing sufficient output of food. The downside is the global food price appreciation which can be explained by higher risks of disruption of trade supply chains and relevant growth in national stocks of food.

The appreciation of global prices of individual types of agricultural products which constitute large volumes of Russian foreign trade brought about price

rises on the internal market and worsened the social and economic situation related to households' falling incomes amid the pandemic and lower economic availability of food. The government regulation priority should consist in the development and introduction of instruments limiting the pass-through of sharp price fluctuations from the global market into export goods without undermining the base of agricultural production in the long-term and ensuring producers with sufficient resources for achieving output growth and higher competitiveness of their products.