

**GAIDAR INSTITUTE FOR ECONOMIC POLICY**

**RUSSIAN ECONOMY IN 2021**

**TRENDS AND OUTLOOKS**

*(Issue 43)*

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**Gaidar Institute Publishers  
Moscow / 2022**

UDC 338.1(470+571)"2021"

BBC 65.9(2Poc)"2021

R95 **Russian Economy in 2021. Trends and outlooks. (Issue 43)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2022. – 568 pp.: illust.

ISBN 978-5-93255-637-5

The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 43th issue. This publication provides a detailed analysis of the most significant trends in the Russian economy, global trends in the social and economic development. The work 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 work is based on an extensive array of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

Reviewers:

*Glinkiy V.V.*, Doctor of sciences (economics), Professor, Department of Statistics, Novosibirsk State University of Economics and Management (NSUEM);

*Tyutyunnik A.V.*, Doctor of sciences (economics), Business Development Director, Luxms BI.

UDC 338.1(470+571)"2021"

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ISBN 978-5-93255-637-5

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#### **4.5. The second year of the pandemic: food security <sup>5</sup>**

##### **4.5.1. Impact of the pandemic on food security**

At the beginning of 2020,<sup>6</sup> the FAO set out guides about risks that can arise during a pandemic. The key world-wide risks are: panic buying, which can lead to temporary shortages; a decrease in allocations from donors to the poorest countries; the threat to population movement (including migrant workers), limiting the mobility of resources for agriculture and finished products; a high

<sup>5</sup> This section was written by: *Shagaida N.I.*, Doctor of Economic Sciences, Director of Center for Agro-Food Policy, IAES RANEPА; *Uzun V.Ya.*, Doctor of Economic Sciences, Main Researcher at the Agro Policy Department, Gaidar Institute; Main Researcher at the Center of Agro-Food Policy, IAES RANEPА; *Ternovskiy D.S.*, Doctor of Economic Sciences, Leading Researcher at the Center for Agro-Food Policy, IAES RANEPА.

<sup>6</sup> UN FAO.

probability of restrictions on economic activity and, as a result, a decline in income, jeopardizing economic access to food.

The first challenge, panic buying for certain food groups, was quickly overcome in Russia. Despite that in February-March the surge in purchases was significant, by January-April 2020 cumulative purchases only exceeded the level of 2019 by tenths of a percent. Negative risks of the pandemic for Russian agriculture were largely avoided, because by spring 2020 resources were available. One year later, in 2021, countries generally learned to live with the pandemic, despite the problems of providing certain types of resources due to supply failures. As a result, in 2021 agricultural production in Russia was at a reasonable level — not as good as in some years, but higher than in many years before. Problems noted by agricultural producers were related to the restriction of labor migration and rising prices for resources, which were a consequence of rising prices for agricultural products in foreign markets. Rising food prices became a problem for both the population and the government.

#### 4.5.2. State of agricultural production

In 2021, the physical volume of agricultural production was 0.9% lower than in the previous year. At the same time, the spirited growth of producer prices of agricultural products, which began in the second half of 2020, continued in 2021 — for the year it amounted to 18.1%. Thus, the volume of agricultural production in current prices not only did not decrease, but also grew by 17.1%.

The main contribution to the reduction of agricultural production was made by a decrease in the harvest of grain crops, which amounted to 9.0%. Under the influence of this factor the gross output of agriculture dropped by 2.2%. The growth of sunflower and sugar beet harvest (+17.6% and +21.6% respectively) fully compensated for the decrease of potatoes and vegetables production (-6.7% and -2.8% respectively) in the structure of gross output. The change in livestock production was very insignificant, the contribution to the dynamics of the gross agricultural output in general did not exceed 0.1% for any of the types of products (*Fig. 14*).

The decrease in grain production in 2021 was due to unfavorable weather conditions. Despite the comparable size of all sown areas under cereals and leguminous crops (98.0% in 2021 against 2020), the reduction in winter wheat sowing constituted 7.5%. This was due to the ruin of winter crops in almost 10% of the sown area. Nevertheless, the 2021 grain crop is more than 10% above the average for the past decade, and only 3% below the average for the last five years, which saw record harvests in 2017 and 2020.

Despite the large absolute value of its impact on gross agricultural output, the grain harvest has less impact on the domestic market than the reduced harvest of potatoes and vegetables compared to 2020. This is owing to the fact that in relation to domestic consumption, grain production is excessive and the industry is export-oriented. Over the past 5 years, 2016—2020, grain exports have accounted for more than 1/3 of grain production. Accordingly, yield fluctuations affect the income of agricultural producers and the volume of exports, but do not threaten domestic consumption and do not determine the dynamics of domestic prices in general.

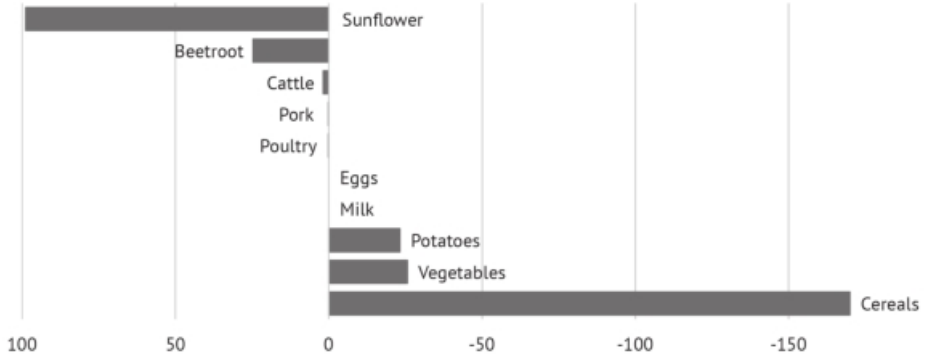


Fig. 14. Contribution of main agricultural products to gross output growth in 2021, Rb bn. (estimates in 2021 prices)

Source: own calculation on Rosstat data.

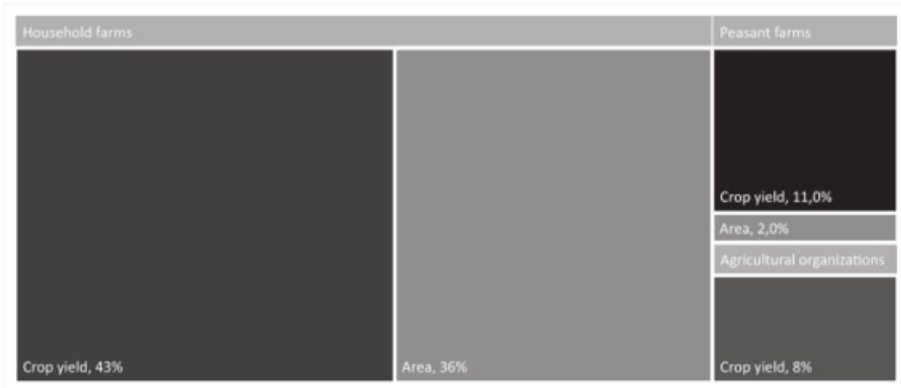


Fig. 15. Factors of potato harvest reduction in Russia in 2021

Source: own calculations on Rosstat data.

In contrast to grains, almost all of the volume of potatoes and vegetables grown is consumed domestically. Therefore, a lower harvest, firstly, reduces the market supply and therefore leads to higher prices, and, secondly, a low harvest leads to increased imports, usually more expensive, which also leads to higher prices.

The drop in potato production by 7% is due to both a decrease in the area sown in 2021 (-3.1%), as well as a decrease in yields (-4.0%). These phenomena were characteristic of all categories of farms in various degrees, but if for agricultural organizations (AO) and peasant farms (PF) the main factor of production decline was the reduction of crop yields, the reduction of production in household farms was primarily due to the reduction of the area. The results of the analysis (Fig. 15) show that 79% of the decline in potato production in 2021 is connected with

household farms, of which 36% is the reduction of cultivated areas, i.e. a deliberate withdrawal from the market as a potato producer.

A similar situation has developed in the vegetables production — sown areas for their cultivation declined by 3.1%, including in peasant farms by 8.9%, in household farms — by 1.4%, and in agricultural organizations increased by 0.1%, the main problem with the production of vegetables and potatoes - the decline in production in household farms and no guarantees of production growth in agricultural organizations and farms, which — in the case of farms are not narrowly specialized in the production of these products — can easily be redirected.

#### 4.5.3. Limits on labor migration

One of the issues in the second pandemic year was the disruption of the inflow of migrant workers. This problem manifested itself unexpectedly, because the statistical reporting forms for agricultural production did not allow precautionary identification of such a fall in numbers. The problem was made evident in an appeal by large agricultural producers to the Russian Ministry of Agriculture and the Russian government.<sup>1</sup> Our comparison of the fact of the appeal to the government and the absence of data about seasonal workers in the reports of agricultural producers gave insight into the widespread use of outstaffing in agriculture, when workers are not directly hired by producers but by agreement with a third party organization for the provision of services, that is, workers. The spread of this pattern owes to numerous problems associated with recruiting foreign labor. However, “shadow” labor employment not only increases the risks of distortion of the labor market, wages, social protection of such workers (which is lacking), and underpayment of local workers, but also increases the risk of the spread of disease. A sick service worker simply does not turn up at work without naming his employer, the agricultural organization or meat processing plant, when at the health care institution. This risk requires regulation. It should be reflected in the report of the number of average annual workers through third-party services at a minimum, and by imposing the obligation on the organization-consumer of services to notify Rospotrebnadzor in the event of the illness of workers. At a maximum – it should be reflected by the introduction of a form about the attraction of migrants, indicating their number and payment, both directly and through intermediaries, by the reporting organizations.

#### 4.5.4. Rising food prices

One of the main risks during the pandemic was the risk of sharp and long-term increases in food prices. Until mid-2020, external markets were fairly stable and grain prices were even declining. A good 2020 harvest did not maintain trends in markets: prices began to rise from mid-2020. Following the rise in prices on the foreign market, domestic prices began rising. At the same time, the growth in the Russian domestic market was at a maximum for products that were not exported and mostly not imported (*Fig. 16*).

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<sup>1</sup> The Ministry of Agriculture allowed migrants come to Russia for seasonal work in the fields. URL: <https://www.rbc.ru/business/10/02/2021/602284149a79477561239575>

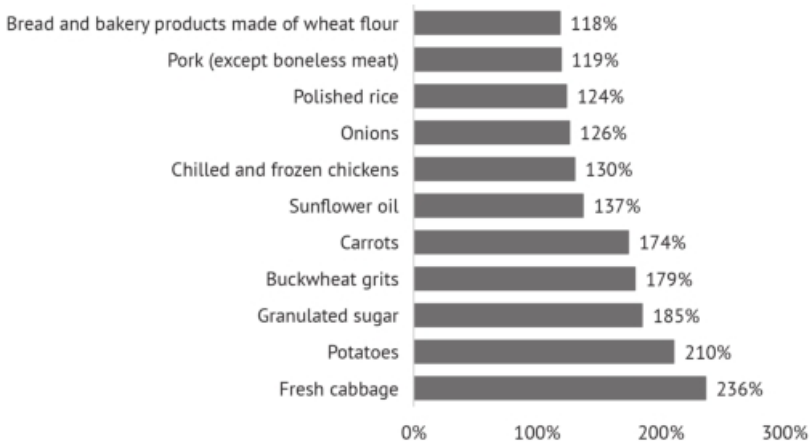


Fig. 16. Changes in consumer prices for basic foodstuffs, December 2021 on December 2019, %

Source: Rosstat.

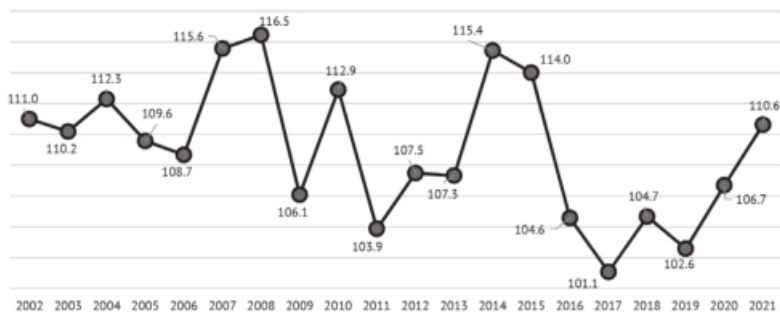


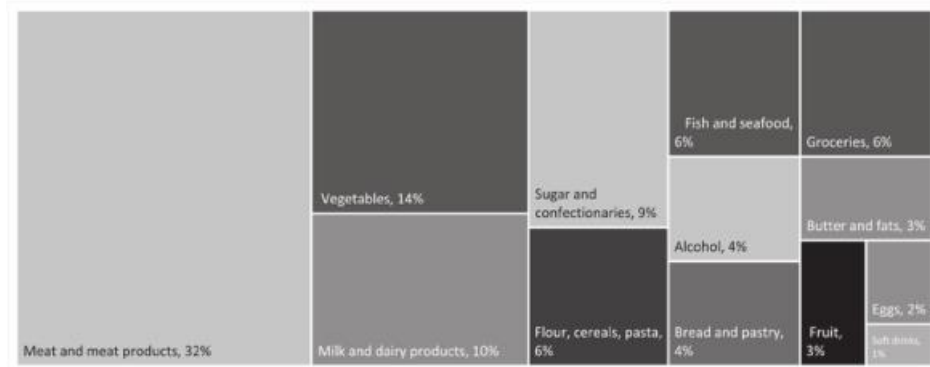
Fig. 17. Consumer price index for food, December to December of the previous year, %

Source: Rosstat, data as of 15.02.2022.

Rising prices caused social tension in society in late 2020—2021, while food inflation was lower than in 2015—2016 (Fig. 17).

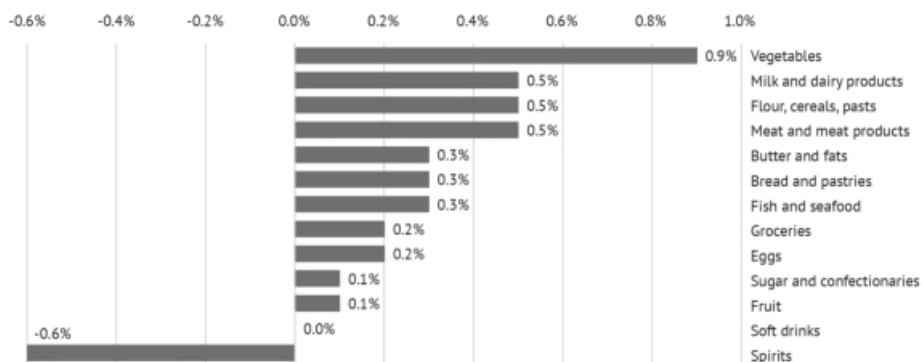
In December 2021 as compared with December 2020, retail prices for foodstuffs went up by 10.6%, and for the main kinds of foodstuffs excluding catering — by 11.8%. The main contributors to the price rise were meat and meat products (3.8 p.p., 32% of the total increase) and vegetables (1.6 p.p., 14% of the total increase) (Fig. 18).

In the composition of meat and meat products the greatest contribution to the growth of consumer prices was made by poultry (1.0 p.p.), the impact of which on prices is higher than the combined effect of pork and beef (0.6 p.p. and



*Fig. 18.* Contribution of individual commodity groups to the growth of retail food prices in 2021

*Source:* own calculations on Rosstat data.



*Fig. 19.* Contribution of individual commodity groups to the growth of real retail food prices in 2021 compared to the average value for 2016—2020, %

*Source:* own calculation on Rosstat data.

0.4 p.p., respectively). The contribution of price growth for sausages and other meat products (0.9 p.p. each) is probably also connected with the price growth for poultry, the main raw material in them. The contribution of vegetable price dynamics to the total price growth (1.6 p.p.) was mainly due to the rise in prices of borsch set vegetables — potatoes and other borsch set vegetables accounted for 1.5 p.p. of the increase.

Comparison of prices in 2021 with those observed in the previous 5 years — from 2016 to 2020 (taking into account the core inflation) demonstrates that with equal volumes of food consumption the population would pay 3.3% more than in previous years (*Fig. 19*). The largest contribution to the formation of such overpayment is made by vegetables (27% of the overpayment amount, including potatoes — 15%), flour, cereals and pasta (15%, including buckwheat 6%, flour,



pasta, rice — 3% each), milk and dairy products (15%, including cheese — 9%). As the list of products shows, if we exclude dairy products, those relatively cheap became more expensive.

#### 4.5.5. Measures to reduce/restrict consumer price growth

The Government of the Russian Federation has taken a number of measures to protect the domestic market. According to the mechanism in force through December 30, 2020, there were no grounds for restricting consumer prices on socially high valued goods (24 product groups) at the end of December 2020: there had been no growth of prices by 30% over the previous 30 days. Nevertheless, on December 14, 2020, the Decree of the Government of the Russian Federation No. 2094 on changes to the existing mechanism was adopted. First, it introduced the practice of agreements between federal executive bodies and economic entities. Secondly, it changed the criterion when a restriction could be imposed on socially high valued goods — price growth by 10% over 60 days. Thirdly, in accordance with Decree No. 2094, the duration of the restriction could be unlimited and could be extended.<sup>1</sup>

Two products fell under the restriction — refined deodorized sunflower oil and granulated sugar of a certain category. On behalf of producers the Agreement was signed by representatives of producers' unions (producing 85% of oil and 92% of sugar). Representatives of seven network companies and unions signed on behalf of trade. In addition, the category “voluntarily joined”, not provided for in the normative documents, was used. Around 13,000 sugar and sunflower oil producers fell into that category. However, as of January 20, 2021, there was not a single entity in 12 Russian regions that had voluntarily joined the butter market and only one retail outlet in the 5 regions.

The list of socially important products often includes groups of products, within each of which the types and varieties differ significantly in price. For example, sunflower oil and granulated sugar are recognized as socially important, and the 2021 prices were controlled only for refined deodorized sunflower oil and granulated sugar of category TC-2. For all other types of oil (unrefined, for example) and granulated sugar (extra, categories TC-1, TC-3) prices faced no ceiling. It was still possible to raise average prices by changing the structure of production by types of sugar and types of sunflower oil.

For Russia, with its variety of natural and economic conditions, a maximum price could hardly be set. This is reflected in Decree No. 2094, which deals with agreements between federal authorities and economic entities. In the agreements themselves, 22 subjects of the Russian Federation and the northern regions are allowed to determine the maximum prices independently. Some subjects set increasing coefficients of 3—5% (the Altai Krai, the Republic of Khakassia,

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<sup>1</sup> The transition from the statutory procedure for restriction of prices by decisions of the Government of the Russian Federation to agreements between business entities and government authorities requires a more thorough legal justification of the new procedure's compliance with Article 11 of the Law on Protection of Competition, which “Recognizes cartels and prohibits agreements between competing business entities ...if such agreements lead or may lead to the establishment or maintenance of prices”, and also Article 16 of that law, which prohibits similar agreements between federal, regional and local authorities.

the Tyumen Region). Other regions used their right in a very peculiar way: they differentiated the maximum price by zones or districts within the region. Each region of the Russian Federation, zone or district, sets its own maximum acceptable prices. For this they have a challenging task: to select the main production and trading companies in their territory or outside it and conclude agreements with them.

The state was the initiator of the agreements, but at the first stage it did not undertake any obligations to compensate for related business losses. Subsequently, subsidies were provided (5 rubles per kg of white sugar and 10 rubles per liter of refined oil). Subsidies were paid for products supplied to retailers at a price no higher than the maximum. The subsidies were limited, so they might not be enough for the entire volume of supplies.

The implementation of the Decree faced the problem of accounting for seasonal price fluctuations. During the transition from the summer season to the autumn and winter some types of agricultural products advance in price by leaps and bounds. If there is a price growth of more than 10% for the previous 60 days, there is a problem of fixing the price ceiling for the next 90 days, as it is impossible to limit it to the price ceiling for the previous 60 days, there is a need to set several price ceilings for the next period.

The introduction of maximum retail prices for oil did lead to their reduction, albeit insignificantly: at the end of March 2021, the price across the country as a whole was 0.6% lower than in mid-December 2020. At the same time, prices in 42 subjects went down, and in 43 — increased, including in seven subjects by more than 10%. Despite control over observance of limits within the period that the agreement is valid (not more than Rb110 per liter — Rb118.9 kg of refined deodorized oil), to the end of March 2021, the actual retail price for sunflower oil in the country amounted to 126.5 rubles/kg and was 7.6 rubles above the price ceiling. Only in 21 regions the average price was not higher than the ceiling level. In other regions it was higher than the established level, in some of them significantly. This was probably due not only to price increases in individual regions, but also to changes in the structure of the oil sold.

This makes it necessary to use other ways to counteract the price rise:

- competition in the domestic market should be ensured. According to economic theory, in order to lower prices, the state must take measures to ensure fair competition. When agreements were made between the state and the largest producers and traders, a step in the exact opposite direction was taken: the largest producers, traders, and their unions were given the right to negotiate prices. Such a measure reduced competition rather than promoted it;
- it is important to ensure that the state enters the market with the sale of products from intervention funds. To curb the price rise for socially important products, it is necessary to develop and implement special measures to strengthen competition for each product. In Russia an intervention fund was created for this purpose, but its work was criticized. In general we can characterize its effect as positive. At the very beginning of the pandemic, in the spring of 2020, the intervention fund was almost

empty, however, and so its mechanism needs to be improved. Possibly, one can consult the experience of China, which uses reserves of grain for intervention purchases and sales;

- foreign suppliers of cheaper products should be attracted to the domestic market. Measures to reduce barriers to entry for foreign suppliers are the elimination or reduction of import duties and quotas, as well as non-economic measures to contain imports. Such a measure was used by the Russian government during the pandemic;
- it is necessary to attract exporters of domestic products to the internal market. If prices in the world market exceed domestic prices, exporters tend to send more products to the foreign market. To counteract this, measures can be applied to reduce state support for exports. If an exporter sells products in the foreign market below the domestic market price, then such an exporter should not be subsidized, and no subsidies should be paid for the transportation of exported products;
- a system of food aid should be introduced. When the prices of socially important foodstuffs rise sharply, the population groups with the lowest income find themselves in a critical situation. Instead of imposing price ceilings for socially important products in order to ensure food security in the context of high price volatility, food aid for low-income groups can be used. This measure is socially more fair and much less costly for the budget than price caps with subsequent subsidization of the major producing companies.

As the analysis shows, the administrative limitation of retail prices for individual items of commodity nomenclature of sunflower oil and granulated sugar did not succeed in ensuring their threshold level — the example of oil is shown in *Table 19*.

*Table 19*

**Changes in sunflower oil prices after the conclusion  
of agreements (fragment)**

	Prices as of 14–21.12. 2020, Rb/kg	Prices as of 29.03–4.04 2021, Rb/kg	Prices as of 29.03–4.04 on prices as of 14–21.12. 2020, %	Top price, Rb/kg (from 17.12.2020)	Price change as of 29.03—4.04 2021, of top price, Rb/kg
Russian Federation	127.2	126.5	99.4	118.9	7.6
Altai Krai	117.7	124.5	105.7	122.5	2.0
Moscow	129.4	123.3	95.3	118.9	4.4
St. Petersburg	143.1	133.6	93.4	118.9	14.7
Krasnodar Krai	132.5	120.2	90.7	118.9	1.3
Republic of Dagestan	133	142.0	106.8	118.9	23.1
Omsk region	128.4	124.5	96.9	136.9	-12.4

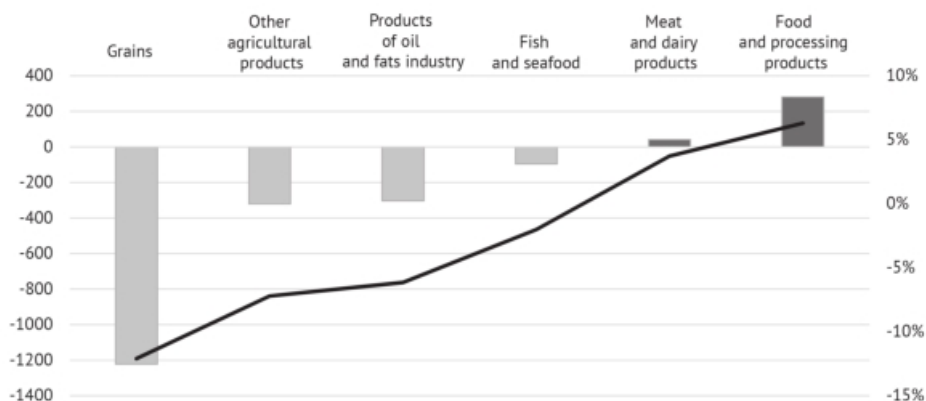
*Sources:* data on weekly prices – UISIS of Rosstat. Price ceilings: calculations according to the RF Government Decree of 14.12.2020 and decisions taken by authorities of RF subjects.

#### 4.5.6. Export of agricultural products

Domestic requirements were the reason export restrictions were put in place in 2021, which affected the two main export items of agricultural products - grains and products of the oil and fats industry. The peculiarity of these restrictions introduced in the form of floating export duties was the fact that they were not aimed at physically restricting the volumes of grain and vegetable oil exports, since they were in surplus on the domestic market, but they were designed to reduce domestic prices for consumers through redistribution of producers' incomes. Therefore, there was no reduction in exports under the direct influence of restrictions. For 2021, it amounted to \$36.1 billion, which was 21.3% higher than in the previous year. Oil and fats industry products (36.7% of the total growth), crops (20.0% of the total growth), fish and seafood (19.3% of the total growth) made the biggest contribution to the change in the value of exports. Furthermore, products of oil and fats industry became the leader by growth rate — +47.5%, while grain export moved up by only 12.6% — the lowest value for the commodity groups listed in the federal project “Export of Agribusiness Products”.

The increase in the value of Russian agricultural exports in 2021 was accompanied by a rise in world food prices. The results of the analysis presented in *Fig. 20* show that the physical volume of Russian agrarian exports dropped by 5.4% relative to the previous year (when calculated by 6 digits of the TN VED). However, the growth of prices in the market ensured the growth of income of Russian exporters.

Of the six commodity groups included in the federal project, an increase in the physical volume of exports is observed only for products of the food and processing industry, or, meat and dairy products. The rest of the commodity groups experienced decline, with a rational explanation. The drop in grain exports



*Fig. 20.* Dynamics of Russian agrarian exports in 2021 in comparison with the previous year (in constant prices of 2020, million dollars — left axis, % of growth — right axis)

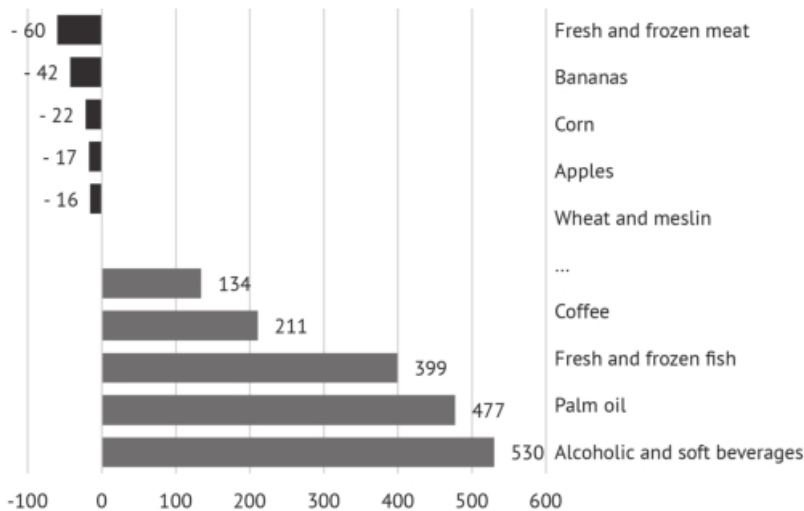
Source: own calculations on FCS data.

is due, firstly, to a poor crop this year, and, secondly, to the robust export of grain in the last months of 2020, before the introduction of export restrictions, which reduced the volume of supplies in H1 2021. The decrease in exports of other agro-industrial products may be owing to oilseed export restrictions imposed in late 2020. The lower export volumes of oil and fats industry products are connected with the low volumes of production and export of sunflower oil in H1 2021 due to the low yield of sunflower seeds in 2020.

Consequently, a reduction in the physical volume of exports does not represent problems in agriculture, for which exports in recent years have been one of the main factors of development. However, the development of exports once again raises questions about the validity of the target values of the federal project “Export of Agricultural Products” and assessment of the effectiveness of its implementation. According to the project data sheet, growth of exports in comparable prices in 2021 should have amounted to 12% (from \$25 to \$28 billion). Based on the above dynamics indicators we can say that this goal was not achieved.

In 2021, import of food products and agricultural raw materials gained 14.3% in value terms and amounted to 98.3% of the value of agricultural export. Import growth was also largely predetermined by rising global food prices — for the main products of the Russian food import prices climbed by 9.0%, while the growth in the physical volume of imports constituted 4.9%.

The products that contributed most and least to the positive movement of Russian food imports were, on the one hand, beverages, palm oil, soybeans, fish and coffee, and, on the other hand, meat, fruits and grains (*Fig. 21*).



*Fig. 21.* Growth of imports of important food products in 2021, USD mn.

*Source:* own calculations on FCS data.

In 2021, there was a transition to new tools of food import regulation, focused primarily on the economic availability of food. Despite the fact that there is a sufficient amount of domestically produced sugar, cattle, poultry and pork on the domestic market, the government used a tariff quota instrument with a zero rate of customs duty. Taking into account that, according to the values of the nominal producer protection coefficient calculated by the OECD, domestic Russian prices for these types of products are steadily overvalued relative to free trade prices, their duty-free import can exert downward pressure on retail prices or, at least, act as a constraint to their further growth.

#### 4.5.7. The state of food security

General patterns in consumption changes during crisis periods were highlighted by the FAO on the basis of the experience of past crises and were confirmed in Russia during the pandemic. Trends in 2020 relative to 2019 were as follows:

1. Increase in the share of food in the structure of retail trade turnover (maximum since 1986 — 49%);
2. A sharp decrease in the amount of consumer spending on non-food items (almost 11.4%);
3. Increase in the share of food expenses in total final consumption expenditures (up to 37%);
4. Reduction in the share of out-of-home food expenses (from 10.5% to 6.5% in the city, to 2% in some quarters; to 2.2% in the countryside);
5. Enhanced growth rate of consumer prices compared to global average food prices (133.7% in Russia vs. 125.3% globally in June 2021 vs. June 2015, FAOSTAT).

The fact that access to food for economic reasons worsened during the pandemic year was indicated by the breaking of the downward trend in the share of natural incomes in nutrition. The share continued to be high in rural areas even before that, although steadily declining, but began to climb at the end of 2020: in Q1 2021, the share rose to 4.1% in urban areas (3.5% in Q1 2020) and to 19.9% in rural areas (from 16.8%). Food expenditures in household consumption expenditures rose from 34.6% to 37% from 2019 to 2020 and nearly reached 2015 and 2016, the highest levels of the decade (the share was declining before 2013). Overall, nutritional differentials between income groups of households did not increase in 2020: in both 2019 and 2020, about 3.8 sets of food in group 10 could be bought for the cost of food in group 1. About the same amount could be bought in Q1 2021, while in Q1 2020 — 4.3 group 1 sets. This is the first positive sign of improved economic access to food for families as early as 2021.

The analysis of consumption revealed a paradox that is not characteristic of the situation of falling incomes — an increase in spending on food traditionally indicates deterioration of nutrition. In 2020, the growth of expenditures (*Fig. 22 and 23*) was accompanied by no deterioration or even a slight improvement of the diet in H2 2020.

Clearly, unspent money for travel, vacations, attending cultural and sporting events, and clothing due to periods of self-isolation and restrictions during the pandemic, households spent on food, providing themselves with a familiar set of

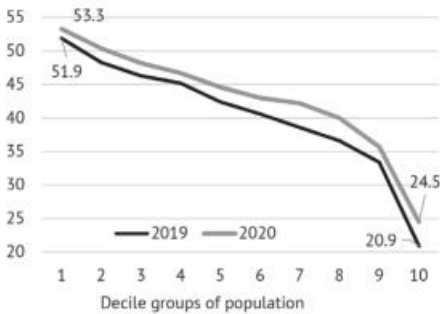
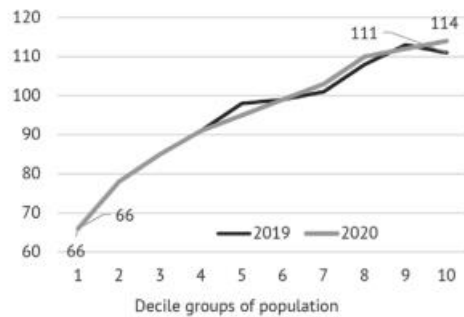


Fig. 22. Share of food expenses in consumption expenditures, %



Puc. 23. Ratio of the cost of the actual and rational set of food, %



Fig. 24. Index of physical volume of food purchases, % to the corresponding month of 2012 (in 2012 prices)

Source: Rosstat, data as of 15.02.2022.

meals for more money than before the pandemic. This allowed food purchases to climb back up to 2015 levels after falling since August 2014, surpassing 2016—2020 levels — Fig. 24.

Consequently, the Russian agricultural sector ensured a sufficient level of food security during the ongoing COVID-19 pandemic. The decline in agricultural production is largely due to fluctuations in the grain harvest, which have been within the historical limits of recent years. Total harvests are quite sufficient to meet any reasonable domestic needs and do not affect the level of food security. The decline in production of potatoes and vegetables is a consequence of the reduction of cultivated areas in household farms — a change in the model of food supply — an increasing shift from production for family needs and sale of surplus to the purchase of potatoes in the retail trade. Significant increases in food prices had no noticeable impact on the average ration of food consumption — the additional costs of providing it were compensated by savings on items affected

by the pandemic — leisure, entertainment, travel. Despite the inconsistency of applied measures of internal market regulation, changing the parameters of the market mechanism, they partially achieved the main goal — the movement of prices for basic foodstuffs was detached from the development of world prices. At the same time, the traditionally higher growth rate of food prices in Russia indicates that there is room for improvement of policies to stimulate structural shifts in production, export-import regulation.

The growth of world food prices has leveled the risks of deterioration of agricultural producers and reduction of production and supplies to the domestic market due to regulation, however the potential danger of over-regulation continues. In this regard, the task of regulation in the field of food security remains the reduction of the use of administrative measures to restrict prices and the transition to a flexible export-import tariff policy. Measures to stimulate potato and vegetable production should include support for production in household farms through cooperation with farms that can act as strongholds in organizing the supply of resources, mechanization of work, storage and sale of products. It is advisable to support highly specialized agricultural organizations and farms that cannot promptly switch to the cultivation of other, more profitable crops.