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# BOFIT Weekly

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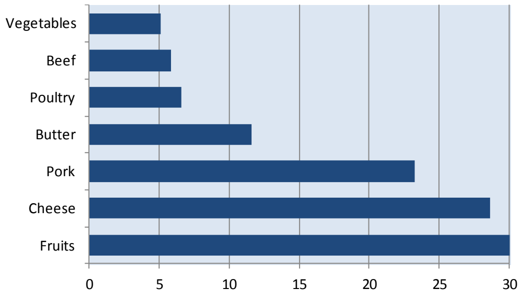
# Russia

**Food import ban and Russia's food supply security.** On August 6, President Vladimir Putin imposed a ban on imports of farm produce and foodstuffs from the EU, US, Norway, Canada and Australia. The ban includes poultry, pork, beef, fish, dairy products, fruits, vegetables and some processed foods. The ban is initially set to last for a year, but the government may revise its duration depending on the situation. The import ban does not apply to baby foods or food imports for private consumption. Under Russian customs rules, a private person may bring in goods duty-free up to €1,500 in value or a total weight of 50 kilograms.

The value of imported food items falling under the ban last year amounted to over $9 billion, about 7 % of Russia's goods imports. Russia plans to replace the banned import foodstuffs with imports from other countries and increased domestic production. Substitution of certain products will be challenging – banned imports account for as much as 30 % of Russian consumption in certain product categories.

**Contribution of banned imports by category relative to total food consumption in Russia, %**




*Sources: Rosstat, UN Comtrade*

Proposals to modify the list of banned imports are already under consideration. Vice premier Arkady Dvorkovich says products for special diets (e.g. lactose-free milk) and basic inputs (e.g. seed potatoes) could be removed from the list in a few days as the domestic supply of such products is inadequate. There are also demands for new additions to the list. Russian fish producers, for example, would like to see canned fish on the banned product list.

Russia has long sought to boost its food self-sufficiency through measures such as its national food security programme. A report published this year by an economic research institute under the presidential administration noted that domestic grain and potato production already exceed domestic consumption. The report further found that, while self-sufficiency in meat production improved in recent years, it is still well below the government's 85 % goal. Dairy production, which remains well below the official 90 % self-sufficiency target, has seen the share of imports even increase slightly in recent years.

**Observers say import ban may stoke Russian inflation.** Temporary shortages of certain food items on the Russian market and higher costs of transport and finding alternative suppliers are likely to have an inflationary impact. A number of research institutions have already raised their inflation target for Russia, with the consensus outlook now averaging 7–7.5 % for this year. Next year's inflation is now expected to remain at the 2014 level, or even accelerate in response to higher taxes, planned increases in utility rates and rail freight fees, possible further weakening of the ruble and the ban on agricultural imports. The CBR and government have yet to modify their official inflation target ranges of 6–6.5 % this year and 4.5 % next year.

The government has launched a monitoring of prices in 40 food categories. Food chains are required to report their prices to regional officials on a regular basis, and inspectors must conduct on-site checks in stores and at outdoor marketplaces. The ministries of agriculture and industry and commerce as well as the Federal Antimonopoly Service will coordinate food price oversight. They are tasked with affecting market conditions through regular discussions with producers and retailer/wholesaler representatives.

**Belarus and Kazakhstan stay on the sidelines in Russia's food fight with the West.** On August 7, Russian president Vladimir Putin discussed with Belarus president Alexander Lukashenko and Kazakhstan president Nursultan Nazarbayev the possibilities of coordinating their trade policies with Russia's ban on food imports. Lukashenko and Nazarbayev declined participation in the import ban. Both countries are also continuing to trade with Ukraine under their free-trade agreement, despite Russia's June imposition of duties on Ukrainian trade in response to Ukraine's EU association agreement and its request that Belarus and Kazakhstan revoke their free-trade agreement with Ukraine. Members of the Russia-Belarus-Kazakhstan customs union are committed in principle to harmonising their trade policies.

Lukashenko assured Putin no goods subject to the import ban would be permitted to transit Belarus to Russia. Belarus is an important supplier of farm produce to Russia, and will likely benefit from the import ban. Current ministry-level talks between the two countries are aimed at raising quotas on agricultural products imported from Belarus. Belarus can still sell food products in Russia even if ingredients imported from the West are used, while Russian firms may not import raw ingredients from the West.

Belarus farm subsidies are the highest in the customs union. This has aroused dissatisfaction among Russian producers, leading Russia in some cases to impose restrictions on imports based on health and food safety risks. Under the constitution of the Eurasian Economic Union, which comes into force next year, Belarus commits to reducing agricultural subsidies to 10 % of the value of its agricultural output by 2016.

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# China

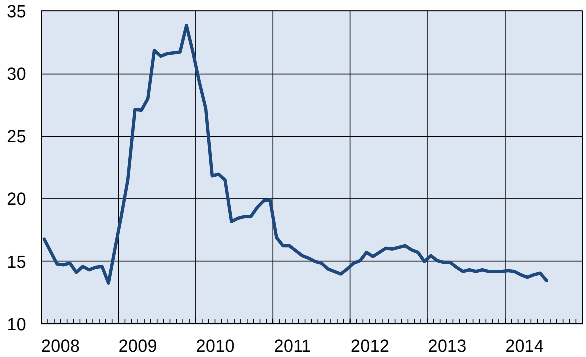
**Credit growth in China slows; real economy indictors suggest more balanced growth.** July credit stock growth amounted to 385 billion yuan (€47 billion), and the volume of new bank loans in July fell to its lowest level since 2009. The credit stock increased just 0.5 % for the month, with on-year growth slowing to 13.4 %. Growth of the broad money supply (M2) decelerated in July to 13.5 % y-o-y. Lower borrowing demand reflects in particular the slowdown in the real estate sector. The People's Bank of China was quick to comment that July's weak credit demand was not the result of changes in monetary policy, and that the volume of new loans issued had picked up in the first week of August.

The July economic figures indicated more balanced growth. Industrial output increased 9 % y-o-y, down from 9.2 % in June. Consumer demand remained at the same level as in previous months, with the value of retail sales increasing 12.2 % in July. While the manufacturing purchasing manager index (PMI) suggested an improving growth outlook for new domestic and foreign export orders, the outlook for service companies is deteriorating. Construction firms also expect lower growth than in the first half.

Investment growth seems to be slowing. Fixed capital investment (not including rural households) remained at 17 % y-o-y in the first seven months of the year, down from over 20 % in the same period last year. The biggest slowdown was seen in growth of real estate investment.

Price inflation held steady in July, with consumer prices rising at 2.3 % y-o-y and producer price deflation slowing slightly to 0.9 % y-o-y. Consumer price inflation has remained below the government's official target ceiling of 3.5 % this year. While low inflation provides China's monetary authorities with an opportunity for policy relaxation, the rising indebtedness of firms and local governments puts severe limits the range of available measures.

**12-month growth in credit stock, %**




*Source: Bloomberg*

**China's trade surplus hits record high in July.** Goods exports staged remarkable gains in July, amounting $213 billion (up 15 % y-o-y). At the same time, the value of goods imports contracted 2 % to $166 billion. Driven by record export demand, China's trade surplus hit $47 billion.

Major gains in exports to the EU (up 17 % y-o-y) and the US (up 12 %) were seen in July. Import growth was dragged down by the demand for raw material inputs, particularly oil and coal. Foreign trade trends overall have been more balanced in 2014. The value of exports in January-July increased 3 % y-o-y and the value of imports 1 %.

**Foreign firms investigated under China's anti-monopoly law; EU Chamber of Commerce calls for equal treatment of all companies.** China's competition authorities have launched a number of investigations of foreign firms across China under the auspices of the Anti-Monopoly Law (AML). Officials suspect targeted firms of AML violations such as abuse of dominant market position and price gouging. While the EU Chamber of Commerce in China has repeatedly called for Chinese officials to effectively enforce the AML, Chinese authorities have only applied AML rules sporadically since it went into force in 2008.

In a press release published Wednesday (Aug. 13), the EU Chamber of Commerce in China insisted on fair and consistent implementation of the AML, noting that Chinese officials have not targeted domestic firms in a similar manner. The Chamber said that in certain joint ventures involving a foreign and a domestic partner, *only* the foreign partner has been investigated. Although there have been investigations of Chinese firms since the AML was enacted, the special status and benefits enjoyed by state-owned enterprises have remained largely unchallenged.

China's commerce ministry denies that it discriminates against foreign firms and assures that the same rules apply to Chinese and foreign firms. Commerce ministry officials say the investigations have been motivated largely by needs to protect consumer interests and promote fair competition.

Among the investigation targets, China's competition authorities have focused on foreign carmakers for price gouging practices. They say that many of these manufacturers' products and spare parts are priced higher in China than elsewhere. The EU Chamber of Commerce in China responds that taxation and distribution chains, among other things, add to costs in China. In response to the investigations, some carmakers have lowered their prices to avoid sanctions for AML violations.

Foreign firms have long found the Chinese regulatory environment problematic. The latest American Chamber of Commerce in China survey found that companies list regulatory uncertainty among the biggest challenges in doing business in China. The latest round of official investigations could further increase such uncertainty.

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