

Inflation in the New Russia

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1 Introduction

The liberalization of prices in January 1992 under conditions of state control of the economy (during this period of time), led to uncontrolled inflation across a broad spectrum of industries. In December of 1992 the composite price index increased by roughly 2609%, while wholesale prices increased 34 times over.

Based on initial impressions, the reason behind the price liberalization was the government's inability to support its level using the budget.

This is confirmed by the budget deficit (-12%) and by a rapid decrease of the state's external debt payments (17% of planned payments). Nevertheless, the most pertinent reason behind the liberalization move was not the budget deficit, but rather future transition from state holding to privatization of capital and imminent voucher privatization. According to Keynes, "there is no more cunning, more certain way (means) to overturn principles, than disbalance of the monetary system. This process directs all the hidden forces of the economic system aside of distraction of this system, so, nobody of us can find out the root of the evil".

Because the balance values of fixed assets stayed at the same level in 1992, entrepreneurs could pay lower prices for the shares of firms than the true price. Inflation depreciated the price of privatization cheques, when purchased from individuals. There was also a depreciation of the credits that were borrowed from banks preceding 1992, and a decrease of demand for fuel resources allowed to increase its export. Therefore, the economic agencies were interested in such rapid changes in the prices.

The history of inflation in new Russia was very dramatic as is clearly seen in the following data:

Table 1. Official price indices in Russia, %

Year	CPI	Food	Non-Food	Services
1991	260.4	236.1	310.7	178.8
1992	2608.8	2626.2	2673.4	2220.5
1993	933.9	904.9	741.8	2411.2
1994	315.1	314.1	269	622.4
1995	231.3	223.4	216.3	332.2
1996	121.8	117.7	117.8	148.4
1997	111	109.1	108.1	122.5
1998	184.4	196.0	199.5	118.3
1999	136.5	135.9	139.2	134
2000	120.2	117.9	118.5	133.7
2001	118.6	117.1	112.7	136.9
2003 (11 month)	110.8	108.6	108.6	121.2

The independence of the fuel-energy complex on the domestic market led to it taking the first place in price expansion and to close power-consuming industry's prices food industry moving in 2000 according total 1991 – 2001 price increasing from the 8th to 2nd place in explaining with steady demand on its merchandise