

Bread price

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- On the beginning of June bread prices in several Ukrainian regions increased by 5-30%. Government claimed that economic reasons for price increases are absent and used administrative methods to return prices to the previous levels.

Before bread price increase grain market faced uncertainty as to future grain harvest after draught (2007 wheat harvest forecast: government – 12 m ton, US Department of Agriculture – 14 m ton, Ukragroconsult – 15.3 m ton) and timing of export quotas abolishment. Consequently wheat supply on the internal market decreased. In turn, unstable grain supply and higher prices caused flour prices jumps in several regions. On the other hand, high market power of bakeries on the local markets could also cause these price changes.

The Cabinet of the Ministers reacted to price increases by mainly administrative methods. Price control inspection, prosecutor's office and other controlling authorities jointly investigate activities of bakeries. Competition authorities conducted investigation too. Central government has also expanded authority of local governments to regulate mark-ups and prices.

We should note that the bread prices regulation is hardly optimal instrument of social protection and government regulation can only be justified when intended to prevent market failures.