

BACKGROUND INFORMATION

ONE-OFF IMPACT OF EU ACCESSION ON PRICES OF CERTAIN GOODS AND THEIR IMPORTS

During accession negotiations several measures aimed at harmonising the tax policy and trade regime, which were to enter into force upon joining the union, were agreed upon. The one-off effects of the accession became evident mainly in the inflation area since several tax rises were timed for the moment of joining the union.

- The 0% rate of value-added tax levied on subscribed periodical publications was replaced by the 5% tax rate.
- The 0% value-added tax rate levied on hydro-electricity and electricity generated by wind was replaced by the 18% tax rate.
- Tax-free trade was abandoned in the shipping and aviation sector on journeys within the EU.
- Fuel excise rates, which have to comply

with the EU minimum rates by 2010, continued to rise.

Furthermore, as of the moment of accession higher customs duties were imposed on goods imported from non-contracting parties, i.e. from the countries that have no free trade agreement with the European Union, upon release for free circulation. This applied mainly to sugar, metals, certain fish products, pharmaceuticals and electronic goods as well as to household appliances; therefore it was also predicted that the prices of such goods would rise.

The inflation rate in May turned out to be high indeed, as predicted. Consumer prices increased by 2.1% compared to the previous month, while 85% of that one-off price arose from the accession to the European Union (see Figure a).

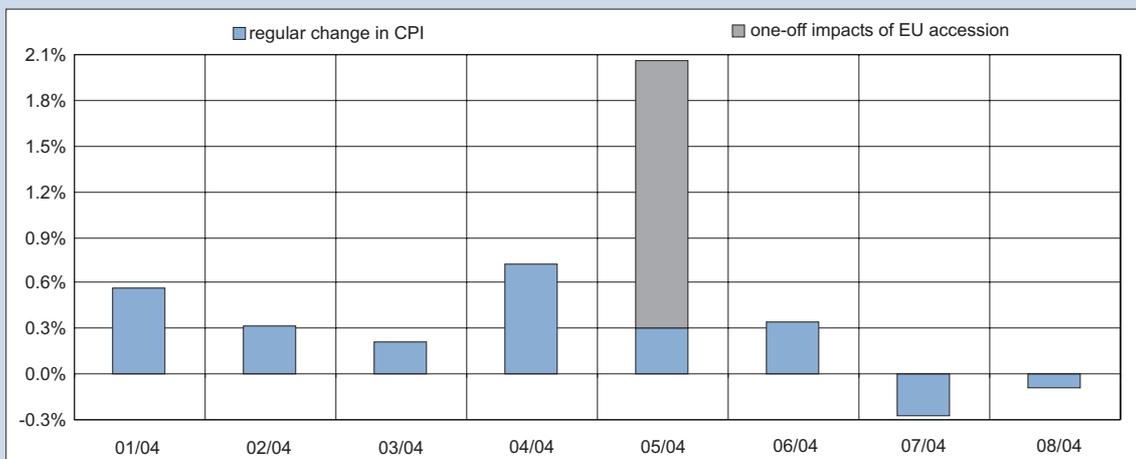


Figure a. Consumer price rise immediately before and after the EU accession compared to previous month (%)

The major market basket components with prices rising most in May were, indeed, food products (above all sugar, but also bananas and fish) and

motor fuel, whereas in the latter case the high price of crude oil on the world market played a certain role (see Figure b).

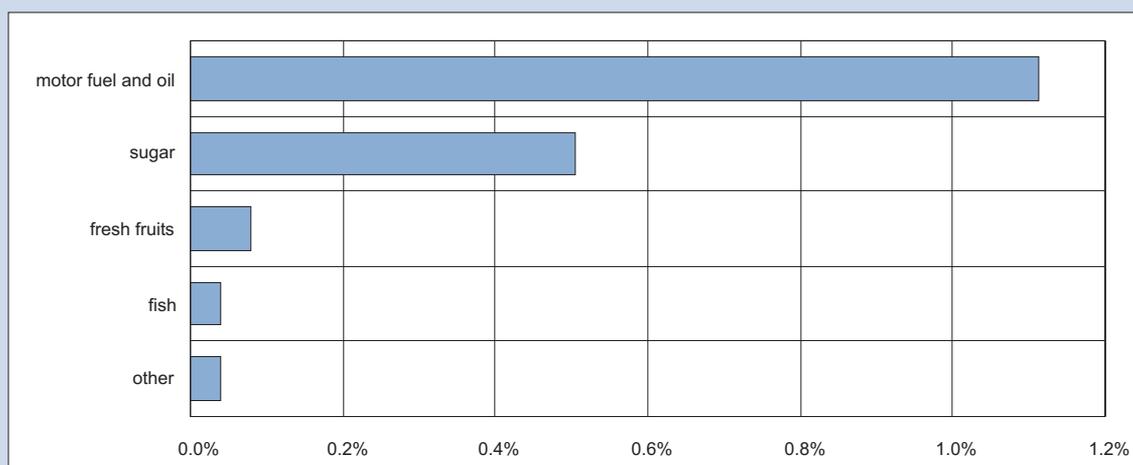


Figure b. Commodity groups with highest price rises compared to previous month and their impact on CPI in May 2004 (%)

The price rises of other components in the market basket were modest and commonplace, which serves as a proof of the one-off nature of the price increase in May.

In anticipation of price rises in individual commodities in May, both households and companies stocked up enormous provisions during preceding months, particularly in April, which led to an increase in imports in April and to an extraordinarily large current account deficit in the second quarter. Meanwhile

some economic operators acted rationally in the sense that they stocked up provisions that actually became more expensive (motor fuel, metal, sugar). On the other hand, goods that did not become more expensive were purchased as well (e.g. salt, household appliances). All in all, imports of goods soared in April, year-on-year, by more than 45% and it can be estimated that to the extent of two thirds such growth was more or less spurred by the fear of price rises.

Table a. Increase in goods imports in April 2004 compared to previous year (EEK m)

Food products	189
Sugar	143
Fuels	439
Metals and metal products	526
Transport vehicles	481
Electrical goods	622
Other	1,258
Total	3,515