



EVALUATION OF THE COMMON AGRICULTURAL POLICY'S IMPACT ON FOOD PRICES FOLLOWING SLOVAKIA'S ACCESSION TO THE EU

Ing. Michal Doliak, National Bank of Slovakia

In the period leading up to Slovakia's accession to the EU various information appeared as to what the impact of this step would be on the price level in the Slovak Republic. It was clear that Slovakia, as part of its membership in the EU, would have to adopt the Common Agricultural Policy (CAP) as well as the common policy in applying tariff and non-tariff policy, where the overall impact of the country's accession to the EU was difficult to predict.

On the basis of the inflation development for the first four months of the SR's membership in the EU it may be said that consumer prices as a whole were affected most by the introduction of CAP, and where this was reflected also in food prices. Moreover, accession to the EU could, to a very small degree, be seen also in the prices of tradable goods, where all restrictions towards EU countries have been lifted (tariff restrictions – elimination of customs as well as non-tariff restrictions) on the movement of goods, where this could facilitate market access also for new suppliers and thus increase the competition on the domestic market. This impact could be strengthened by the Slovak koruna / euro exchange rate, again connected with the Slovakia's entry to the EU (both current and forecast).

On the other hand however the EU single customs policy towards the third countries has also been adopted, and here it is not so easy to draw unambiguous conclusions on the impact on the price development. Different tariff rates from those applied by the SR before to imports of goods from these countries could affect the prices of tradable goods and thus constitute a rise in certain consumer prices, or vice-versa it could manifest in a decline in other prices. In the case of foods this influence could be seen in prices of certain commodities (e.g. bananas and rice). As in August 2004 the import duty fee selected totalled SKK 1.8 billion, compared to SKK 2.5 billion in the same period of the past year, it may be presumed that the influence of adopting and changing over to the tariff policy has as a whole had rather a positive effect on prices.

Other sectors of the consumer basket (market services, regulated prices) are feeling the impact mainly of factors other than those resulting from accession to the EU.

Changes in consumer prices (particularly cigarettes) to which a transitional period applies until 2008 had been taking form already prior to acceding to the EU. Slovakia saw, at the date of its accession to the EU, a minor increase in excise duty on cigarettes (contribution to overall inflation of 0.07 percentage points), which could however be considered rather a consequence of a fiscal measure than the impact of the Slovakia's entry to the EU.

As regards various opposing factors having a possible influence on prices of tradable goods, it may be said that the impact of Slovakia's accession to the EU on consumer prices should be roughly equal to the impact of accession on food prices.

Entry to the EU and adoption of the Common Agricultural Policy

The Slovak Republic entered the European Union on 1 May 2004 and at the same time adopted the Common Agricultural Policy (CAP). The single agricultural policy constitutes a set of economic, financial, legislative and institutional instruments for ensuring a single market of agricultural products. The aim is to ensure effectiveness, stability and financial solidarity in agricultural sectors. The most important economic and financial instruments of CAP are direct subsidies to producers or processors, export subsidies, targeted, threshold and intervention prices, protection at common frontiers, various purpose-specific funds, as well as the Structural Funds.

In entering the EU the Slovak Republic adopted these principles, where these are now having and will have in the future have an impact on consumer prices.

The main precondition determining the development of prices of agricultural products is whether the particular commodity is or not price-supported by CAP, meaning whether it is bought up by the intervention agency at intervention prices¹ enabling farms to achieve higher

¹ An intervention price represents a certain part of the target price (expected price). The national bodies intervene at this price provided that the market price falls below a certain level and stays at this level for a certain time period.



profitability, or whether the particular agricultural commodity is sold on the market without CAP support and the development of its price depends only on the market factors. The following commodities receive intervention support: wheat, barley, maize, rape, milk, beef and lamb, which as regards the level of the intervention price should represent a growth in the price of these commodities. Production of potatoes, grapes, pork, poultry is not supported by the intervention policy, thus their prices depend on the supply and demand (i.e. market factors) for these commodities. Sugar beet has an exceptional position in the framework of non-intervention commodities. Its price in the SR and subsequently also the price of sugar products will probably rise significantly as a result of the special support regime for sugar in the EU markets. The common customs policy, on the other hand, affects mainly the prices of imported commodities (tropical fruit, rice, etc.).

In a simplified way it may be said that consumer food prices depend on three factors:

- intervention prices (higher intervention prices may lead to a growth in prices),
- market factors (lower prices on the domestic market may bring about demand from abroad and subsequently pressure for a rise in prices),
- customs and tariff policy (following accession to the EU higher duties on commodities imported from third countries influence consumer prices).

By and large prices in the SR should to a significant extent depend on the development of prices in the surrounding countries, in particular the Czech Republic, Hungary, Poland, Germany and Austria as a result of their geographical vicinity and similar climatic conditions.

Expectations in connection with the impact of the Common Agricultural Policy on consumer prices

A year ago (in the Updated monetary programme for 2003) the NBS forecast that food prices in the period from May 2004 to April 2005 would increase by 7 to 8%, of which 5.5 to 6.5 percentage points in this growth would be attributable to the adoption of CAP. It was forecast that the contribution to the food price growth due to CAP to total inflation could represent roughly 1.0 to 1.2 percentage points, where it was estimated that the contribution of the change to prices of individual food products to total inflation would depend on the rate at which individual foods would contribute to the total expenditure of households.

With regard to the koruna's appreciation and taking account of information on possible impacts in other candidate countries, the forecast contribution of the price growth as a result of CAP to the total inflation in 2004 was lowered to 0.7 to 0.8 percentage points (where this

figure was broken down to the months May to August as each contributing 0.25 percentage points). In connection with this lowered forecast contribution of CAP, the year-on-year rate of growth in food prices in the period from May 2004 to April 2005 should reach a values in the range 5.4 to 5.9% (where the rate of growth in prices affected by CAP should move in the band of 3.9 to 4.4%). It was also emphasised that no shock increase in food prices is expected, but that this increase would be spread over a longer-term of 12 months.

The impact of adopting this policy on vertical price growth in the prices of goods from agricultural producers and food processing firms: consumer food prices, has, since the May accession of the SR to the EU, been varied. Consumer prices have grown also in the case of those commodities on which, due to complexity of CAP, the impact analysis did not count (e.g. tropical fruit, rice, sugar products). Four months after the accession to the EU and after adopting CAP it may be said that the increase in consumer prices of certain commodities (meat, butter) was rather of a one-off nature, concentrated in one month (July 2004), compared to the forecast spread over a longer-term period. On the contrary, prices of certain items have almost not changed at all (milk), or changed very slightly (beef), and certain commodities are recording only a very slow increase in prices (sugar, rice). As regards other commodities (wheat and flour products), the price increase was caused more by a poor harvest in 2003 than by entry to the EU.

Estimate of actual impacts of the Common Agricultural Policy in the first four months

It is quite difficult to ascertain what in the food price growth was caused by the "normal" price growth and what was caused by the introduction of CAP, as well as what price increase may still be expected. In the estimate several approaches may be applied.

The first of them is a comparison of the current price level of important food goods and the price level prior to the SR's accession to the EU and the CAP's adoption. In this case we have available several options. We can compare the average price level over twelve months prior to the entry to the EU and the average price level for the four months following entry. Another option is to compare their price level in the last month known (August 2004) with the twelve-month average prior to accession to the EU, or the price level in the last month known (August 2004) against the last month prior to the accession (April 2004). All these options are depicted in tables 1 to 3, comparing price growth with the primary (according to Updated monetary programme for 2003) forecast price growth in the respective commodities. As



Table 1

	Forecast change in prices in % (according to UMP 2003)	Change to date in price in % (average for May 04 to August 04 on the average for May 03 to April 04)	Contribution of change to date in prices on overall inflation	Difference (growth to date less forecast growth)
Flour, flour products	3.4	3.4	0.13	0.0
Sugar	30.0	7.5	0.03	-22.5
Potatoes	-4.2	5.6	0.02	9.8
Milk, butter, dairy products	16.8	1.4	0.05	-15.4
Beef	5.3	1.2	0.00	-4.1
Pork	1.2	-2.6	-0.03	-3.8
Poultry	1.5	-4.6	-0.04	-6.1
TOTAL			0.17	
Bananas		24.0	0.06	
Rice		10.7	0.02	
Sugar products		2.6	0.04	
Total			0.28	

Table 2

	Forecast change in prices in % (according to UMP 2003)	Change to date in price in % (August 04 on the average for May 03 to April 04)	Contribution of change to date in prices on overall inflation	Difference (growth to date less forecast growth)
Flour, flour products	3.4	3.6	0.14	0.2
Sugar	30.0	11.7	0.06	-18.3
Potatoes	-4.2	-33.1	-0.07	-28.9
Milk, butter, dairy products	16.8	2.7	0.10	-14.1
Beef	5.3	4.7	0.02	-0.6
Pork	1.2	6.3	0.07	5.1
Poultry	1.5	-2.6	-0.02	-4.1
TOTAL			0.29	
Bananas		9.7	0.02	
Rice		16.9	0.03	
Sugar products		3.1	0.04	
TOTAL			0.39	

Table 3

	Forecast change in prices in % (according to UMP 2003)	Change to date in price in % (August 04 to April 04)	Contribution of change to date in prices on overall inflation	Difference (growth to date less forecast growth)
Flour, flour products	3.4	0.7	0.02	-2.7
Sugar	30.0	13.3	0.06	-16.7
Potatoes	-4.2	-43.9	-0.09	-39.7
Milk, butter, dairy products	16.8	1.7	0.06	-15.1
Beef	5.3	6.1	0.03	0.8
Pork	1.2	19.0	0.19	17.8
Poultry	1.5	1.9	0.02	0.4
TOTAL			0.29	
Bananas		2.1	0.01	
Rice		17.0	0.03	
Sugar products		2.1	0.03	
TOTAL			0.36	

the estimate was based on a point prognosis, it may be assumed from the forecast price growth from May 2004 to April 2005 that over time the most faithfully depicted impacts should be calculated in this manner in table 3. The table gives a re-calculated impact also for commodities which were originally not taken into account, but the prices of which have increased through the influence entering the EU.

However, the drawback in this analysis is that it cannot identify and separate what in the price growth of these commodities was caused by "normal" growth in their prices and what was brought about by the impact of CAP. Therefore the growth in tables 1 to 3 may be considered rather as maximalist. On the basis of these statements and results achieved it may be said that the contribution to date of the SR's accession to the EU and the adoption of CAP to the total inflation (taking account also of other commodities that originally were not taken into consideration, but whose prices have increased) constitutes approximately 0.34 percentage points (the average value of the results from calculations given in tables 1 to 3).

The second method of ascertaining CAP's influence in the first four months following the SR's accession to the EU and the adoption of CAP is to make a comparison of the total "usual" or "normal" food price growth in these months (May to August) in the preceding years and the total growth in food prices in May to August 2004 (tables 4 and 5). It is also possible to compare the average growth of selected commodities (in the structure according to the Updated monetary programme for 2003 and 2004) during the four months of this year and the average growth in the same months in the past (table 6). The "usual" or "normal" increase in food prices may be deemed their average rate of growth for the same period in the past years (or during the last three years with regard to the structural changes in the food market).

On the basis of results of calculations



Table 4

	May	June	July	August	Total
Average month-on-month growth in food prices 1998 – 2003 in %	0.2	0.0	-1.0	-0.3	-1.1
Contribution to overall inflation in %-ge points	0.03	-0.01	-0.24	-0.02	-0.24
Month-on-month growth in food prices in 2004 %	0.6	0.5	0.6	-1.0	0.7
Contribution to overall inflation in %-ge points	0.10	0.09	0.11	-0.19	0.11
Difference	0.4	0.5	1.6	-0.7	1.8
	0.07	0.10	0.35	-0.17	0.35

Table 5

	May	June	July	August	Total
Average month-on-month growth in food prices 2001 – 2003 in %	0.4	0.1	-0.5	-0.4	-0.4
Contribution to overall inflation in %-ge points	0.09	0.01	-0.12	-0.09	-0.11
Month-on-month growth in food prices in 2004 %	0.6	0.5	0.6	-1.0	0.7
Contribution to overall inflation in %-ge points	0.10	0.09	0.11	-0.19	0.11
Difference	0.2	0.4	1.1	-0.6	1.1
	0.01	0.08	0.23	-0.10	0.22

Table 6

	Average month-on-month growth in food prices 2001 to 2003 in% (May to August)	Average month-on-month growth in food prices in 2004 in % (May to August)	Contribution for 2001 – 2003 in %-ge points (May to August)	Contribution for 2004 in %-ge points (May to August)	Difference	
					Growth	Contribution
Flour, flour products	0.2	0.7	0.01	0.02	0.5	0.02
Sugar	0.0	12.8	0.00	0.05	12.8	0.05
Potatoes	-16.8	-46.9	-0.04	-0.16	-30.1	-0.11
Milk, butter, dairy products	-2.1	1.8	-0.08	0.06	3.9	0.14
Beef	-0.8	6.1	0.00	0.02	6.9	0.03
Pork	7.6	18.8	0.08	0.16	11.2	0.08
Poultry	2.6	1.9	0.03	0.02	-0.6	-0.01
Total			-0.01	0.18		0.19
Bananas	-25.7	5.7	-0.09	0.01	31.4	0.10
Rice	0.0	16.1	0.00	0.03	16.1	0.03
Sugar products	1.8	2.0	0.03	0.03	0.2	0.00
Total			-0.07	0.24		0.32

in the development of food prices as a whole in tables 4 and 5 it may be stated that the contribution of food prices to the total inflation that could be caused have been by the implementation of CAP so far represents (May to August 2004) 0.22 to 0.35 percentage points.

On the basis of results achieved by this method of ana-

lysis (table 6) it may be said that the hitherto contribution of the SR's accession to the EU and CAP's adoption to the overall inflation (taking account also of other commodities that were not taken into account in the original analysis, but the prices of which grew by the influence of the entry to the EU) represented 0.32 percentage points.

On the basis of results given in the two analysis methods, as well as the mentioned premises it may be observed that from the expected contribution of the price growth of analysed commodities that is attributable to the CAP's influence on overall inflation of 0.7 to 0.8 percentage points for 12 months (May 2004 to April 2005) only, about 0.3 percentage points² could have as yet manifested (after taking account of also other commodities in which the impact of CAP has not originally been considered, but the prices of which have increased due to the influence of accession).

Despite the fact that the development of food prices in the first four months following accession to the EU is slightly higher than were the NBS's expectations in the sources for the updated monetary policy 2004, it should not present any more significant risks for the future development of consumer prices, since according to the latest information, prices of certain commodities that in the initial period recorded

a rise in consequence of CAP then decrease under the influence of market competition. The main risk as regards the single-shot growth in prices of certain commodities (meat prices in July) lies in when and to what extent the "remaining" price increase, or the price growth in the remaining commodities will occur.

² In the updated monetary policy 2004 it was expected that the CAP's impact for the month May to August would be roughly 0.25 percentage points. If the prices of commodities not originally counted on had not grown, and growth had occurred only in commodities originally considered, the contribution of the CAP's

influence to the overall inflation would have been only approximately 0.2 percentage points and the year-on-year growth in food prices would have reached approximately 1.9 to 2.0% in August, instead of 2.6%, which roughly corresponds to the mid interval of updated monetary policy 2004 for August.



Table 7

	2004				2005			
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Apr.
Prediction of month-on-month growth in food prices from August 2004	100.7	100.1	100.5	100.4	101.4	101.0	100.1	100.2
Contribution to overall inflation	0.12	0.02	0.09	0.07	0.25	0.18	0.02	0.04
Adjusted prediction of month-on-month growth in food prices	100.6	100.1	100.5	100.4	101.4	101.0	100.1	100.2
Contribution to overall inflation	0.11	0.01	0.08	0.07	0.25	0.17	0.01	0.03
Difference	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	-0.01	-0.01	-0.01	0.00	0.00	-0.01	-0.01	-0.01

Table 8

		2004							2005				
		June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Apr.	May
Overall inflation	August	108.1	108.5	107.2	106.9	106.9	106.8	106.8	103.8	103.5	103.6	103.7	103.4
	August – adjusted	108.1	108.5	107.2	106.9	106.9	106.8	106.7	103.8	103.5	103.5	103.6	103.3

Table 9

	2004				2005			
	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Apr.
Prediction of month-on-month growth in food prices from August 2004	100.7	100.1	100.5	100.4	101.4	101.0	100.1	100.2
Contribution to overall inflation	0.12	0.02	0.09	0.07	0.25	0.18	0.02	0.04
Adjusted prediction of month-on-month growth in food prices	101.0	100.4	100.8	100.7	101.4	101.0	100.1	100.2
Contribution to overall inflation	0.17	0.07	0.14	0.12	0.25	0.18	0.02	0.04
Difference	0.3	0.3	0.3	0.3	0.1	0.0	0.0	0.0
	0.05	0.05	0.05	0.05	0.01	0.00	0.00	0.00

Table 10

		2004							2005				
		June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Apr.	May
Overall inflation	August	108.1	108.5	107.2	106.9	106.9	106.8	106.8	103.8	103.5	103.6	103.7	103.4
	August – adjusted	108.1	108.5	107.2	107.0	107.0	107.0	107.0	104.0	103.7	103.8	103.9	103.6

Possible alternatives in future development

In drawing up the current prediction (situation report for August 2004) the originally "spread out" monthly contributions of changes (according to updated monetary policies 2003, 2004 and 2004) to food prices in overall inflation have not changed and only their current development has been taken into consideration. However, this approach means that the overall impact of CAP on inflation should be at the upper limit of the originally estimated interval of 0.7 to 0.8 percentage points.

The first alternative against the applied method in estimating further development is to keep the approach from the updated monetary policies 2003 and 2004 and the

spread of the forecast remaining contribution in the remaining months (September 2004 to April 2005). In the updated monetary policies 2003 and 2004, as well as in its update, the impact of implementing CAP was forecast as spread out in food prices across 12 months. If the total impact will be as forecast, after taking into account development in the first four months from the SR's accession to the EU and after again spreading the remaining contribution (approximately 0.45 percentage points) in food price growth into the following eight months, the total growth in food prices should be only slightly lower, or almost identical, with the August prediction of food prices, i.e. with almost the same impact on the overall inflation.

As can be seen from table 8, a forecast adjusted in this way would represent only a slight decline (0.1 percentage points) in the mean estimate of the NBS from August 2004 for the level of overall year-end inflation, to 6.7%.

The second alternative of possible future develop-

ment is to retain the approach used in the updated monetary policies 2003, 2004 and 2004, but as regards the development in the first four months, which indicates rather one-off changes to consumer food prices, the forecast remaining contribution (approximately 0.45 percentage points), in keeping the total contribution (0.7 to 0.8 percentage points), would be exhausted already in 2004 with a balanced distribution in individual months (from September 2004 to December 2004). As the development in the first months from the accession to the EU and from CAP's adoption indicates rather one-off prices changes, it is also necessary to count on this alternative, since it is not clear in what time period other more significant "shock" changes in consumer food prices will occur.

**Table 11 Comparison of food price development in 2004 in the SR and neighbouring countries**

	Jan.	Feb.	March	Apr.	May	June	July	Aug.
month-on-month change in %								
Czech Republic								
Total consumer prices	1.8	0.2	0.1	0.0	0.4	0.2	0.4	0.0
Prices of foods & non-alcohol. drinks	1.6	-0.3	0.1	0.3	-0.4	0.0	-0.7	-0.8
Hungary								
Total consumer prices	2.1	1.2	0.5	0.3	0.9	0.1	0.0	-0.3
Prices of foods & non-alcohol. drinks	3.0	1.1	0.2	-0.1	1.7	0.1	-0.5	-1.1
Poland								
Total consumer prices	0.4	0.1	0.3	0.8	1.0	0.9	-0.1	-0.4
Prices of foods & non-alcohol. drinks	0.5	0.3	0.8	2.1	0.6	2.7	-0.6	-1.3
Slovakia								
Total consumer prices	4.4	0.8	0.1	0.0	0.4	0.2	0.3	-0.1
Prices of foods & non-alcohol. drinks	4.4	0.2	-0.4	-0.9	0.5	0.4	0.5	-1.0
month-on-month change in %								
Czech Republic								
Total consumer prices	2.3	2.3	2.5	2.3	2.7	2.9	3.2	3.4
Prices of foods & non-alcohol. drinks	4.2	4.2	4.6	4.7	3.8	2.8	4.5	5.1
Hungary								
Total consumer prices	6.6	7.1	6.7	6.9	7.6	7.5	7.2	7.2
Prices of foods & non-alcohol. drinks	6.2	5.9	5.7	6.1	7.1	7.8	8.6	8.5
Poland								
Total consumer prices	1.6	1.6	1.7	2.2	3.4	4.4	4.6	4.6
Prices of foods & non-alcohol. drinks	2.2	2.7	3.3	4.6	5.2	8.1	8.0	8.1
Slovakia								
Total consumer prices	8.3	8.5	8.2	8.0	8.3	8.1	8.5	7.2
Prices of foods & non-alcohol. drinks	6.1	5.7	5.4	4.6	4.6	4.5	7.0	6.3

Weightings of foods and non-alcoholic beverages in consumer basket: Czech Rep. 19.8 (1999), Hungary 23.7 (2002), Poland 27.0 (2000), Slovakia 21.4 (December 2000).

Source: national statistics offices.

In the second alternative the prediction adjusted in this way would mean that the mean estimate of the NBS from August 2004 for the overall end-year inflation at the level of 6.8% would be increased to 7.0%, i.e. to the upper limit of the UMP 2004, but the year-on-year rate of growth of consumer prices at the end of 2005 could in this case be influenced, having a dampening impact, by the base effect (table 10).

International comparison

Neighbouring countries (the Czech Republic, Poland, Hungary) likewise expected the impact of accession to the EU and implementation of CAP on consumer prices.

According to statements of representatives of the Czech National Bank the Czech Republic was not expecting any significant impact from its accession to the EU on food prices, where the total contribution of up to 1.0 percentage point is deemed low.

Hungary was expecting that its accession to the EU would bring about a growth in food prices, where a diffe-

rentiated impact on individual products had been expected (however, no quantification of the possible impact on the overall inflation has been published). In general however, no more significant impact on consumer prices has been expected.

The Polish National Bank in its inflation report from May 2004 published estimates of the impacts of Poland's accession to the EU on domestic prices. According to these estimates its accession to the EU should bring about a growth in prices of approximately 15% for goods and services. 33% of goods and services should see a fall in prices and 52% of them should not be affected by the country's accession to the EU at all. By and large it had been expected that the direct impact on overall year-on-year inflation should not represent more than 0.9 percentage points.

A comparison of the actual development of food prices in the SR, Czech Republic, Hungary and Poland is given in table 11. From the overview it can be seen that Slovakia recorded, following the Czech Republic, the

second lowest growth in food prices. The highest growth of food prices has occurred in Hungary and food prices growing at the highest rate were in Poland.

Conclusion

The impact of the SR's accession to the EU and the adoption of CAP on food prices and subsequently also on the overall rate of inflation has as yet in the first four months been slightly higher than the expectations of the NBS. According to the original premises of the analysis of selected commodities which are taken into account in inflation predictions in UMP 2004, the contribution of changes to food prices to overall inflation, evenly distributed, was to represent, in the first four months following the SR's accession to the EU, approximately 0.25 percentage points. After taking into consideration also the development of prices of commodities whose prices have increased under the influence of accession to the EU this contribution represented approximately 0.3 percentage points. (Currently however, according to information available at the time of writing this article, prices of certain commodities that in the initial period record a rise under the influence of CAP are, through the effect of market competition, starting to fall).



Nonetheless, consumer food prices have not yet completely adapted to the expected price levels. In the months to come the greatest growth may be expected in prices of sugar and sugar products (about 25%), as well as in the case of prices of milk and dairy products (15%). However, a risk continues to persist here, connected with in what time horizon the "increased" growth in prices of individual commodities will occur. In the case that an "even" growth in prices occurs in the scope forecast in the updated monetary policy 2004 (i.e. from 0.7 to 0.8 percentage points), this would represent a slightly lower impact on overall inflation at the end of the year (6.7%, where the current prediction is 6.8%). Conversely, if the increase in food prices attributable to CAP is to take place this year, the year-on-year rate of growth in inflation should in December reach the upper limit of the programming interval (7.0%).

Expectations concerning the impact of CAP in the updated monetary policy 2003 were processed on the basis of documentation available at that time. However, since then market changes have occurred, such as changes in the

macroeconomic environment (exchange rate appreciation, the closure of a number of food processing firms due to non-compliance with EU hygiene standards, growing competition on the retail food market). The koruna's appreciation has made food products from abroad relatively cheaper and also neighbouring countries' expectations regarding the accession's impact on consumer prices are relatively low, which may equally dampen the growth in food prices.

In conclusion, it is necessary to emphasise that currently CAP reform is underway (including a reduction of intervention prices, restrictions to export support and a simplification of access to the European market for producers from other countries), which will have an impact on the market situation in the EU, and thus also in Slovakia. The impact of CAP on consumer food prices could therefore in the medium term (2006 to 2007) bring about a stagnation, or even a fall in food prices.

The National Bank of Slovakia will closely monitor the market developments in foods and in all its predictions take into consideration current development.