PRICE CONTROL IN THE EAST-EUROPEAN REGION[*]

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Hungary is the first country in the region and the EU to have recently introduced official price regulation. But Hungary is not the only European country where the government intervenes in market prices. It has been applied in Croatia, Slovenia and Serbia, and Poland has taken a different approach to the problem of price volatility. Despite the fact that, according to economists, price regulation may be justified only for a short period, it has been used in our country for a long time. Furthermore, in October 2022, the Hungarian government decided to extend it to additional basic foodstuffs. However, with this decision, the government does not help to reduce inflation, it only covers it up.

Keywords
price control, market intervention, inflation rate, European Union

Introduction

Hungary is the first country in the region and the EU to have recently introduced official price regulation. In 2013, an official price was already set for bottled gas, and then the Hungarian government saw the need to regulate the price of several products due to the epidemic situation. Currently, for the first time in a year, an official price is applied to fuel and to several products: granulated sugar, flour, cooking oil, pork legs, milk, and the latest product to be subject to an official price is firewood, following the energy crisis. It was imposed for a period of three months, but will be extended again and again as the period expires.

1. Price control in the East-European Region

But Hungary is not the only European country where the government intervenes in market prices. It has been applied in Croatia, Slovenia and Serbia, and Poland has taken a different approach to the problem of price volatility.

In Serbia, official prices similar to the Hungarian regulation were introduced in 2021, and the rationale is the same, i.e. to curb inflation. The products are also the same, except for chicken breast. However, the important difference is that, on the one hand, the Serbian government introduced it for a shorter period of 2 months, but after that period it was maintained, and on the other hand, if the market was already overburdened by the maintenance of the legislation, the government removed the official price for the product (Government of the Republic of Serbia 2022).

In Croatia, only fuel is subject to an official price, for a period of one month. After one month, the official price was abolished, but if the legislator saw fit, it was

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reintroduced, again for a period of one month (Government of the Republic of Croatia 2022).

Slovenia used a similar method to Hungary, fixing fuel prices for a period of 3 months. However, it was phased out before the end of the period, on the grounds that it placed a disproportionate burden on the country's economy (Government of the Republic of Slovenia n.d.).

In Poland, however, the inflation problem has been approached from a different angle. Instead of using official prices, the Polish government saw the solution in tax cuts, with larger reductions in taxes on food, fuel, natural gas and electricity.

It can therefore be seen that it is mainly in the Central and Eastern European region that there is a preference for the institution of price regulation by public authorities. In my opinion, when applying it, particular attention should be paid to the effects of official prices on the market, so that they can be adjusted and corrected if necessary. This is the case with the Serbian and the Slovenian solutions, where the negative impact was stronger than the positive one, and the official price for the product was abolished and removed. For similar reasons, in Croatia it is only applied for short periods of one month. From this point of view, in the long term, the Hungarian economy is the most exposed to the negative effects of price regulation, as it is the least monitored, examined and corrected for its impact on the economy. Compared to the Hungarian solution, other countries are more attentive to the effects of price regulation on the economy and are willing to change it if it is perceived to be inappropriate.

In Hungary, official price controls are currently in place for 11 products, and according to radio statements by the Hungarian Prime Minister, the range of products is expected to be extended, with plans to set official prices for more products, including eggs, cheese and bread, according to press reports.

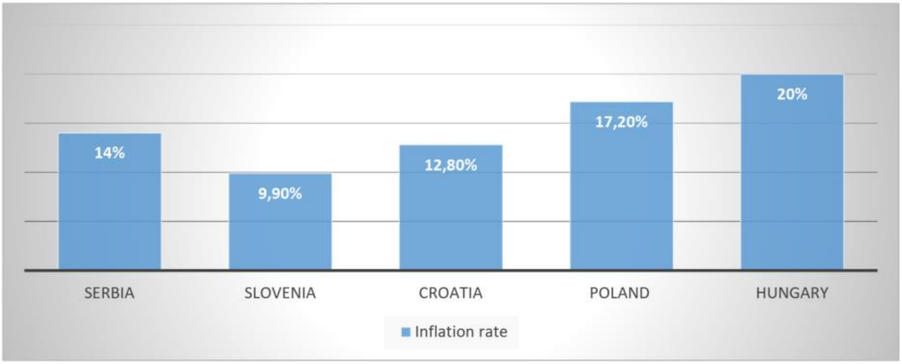
The exceptional situation, the energy crisis, has led to the introduction of a "price cap" on gas not only for Member States (although they have exclusive competence to introduce official prices) but also as a common measure for the whole EU, but negotiations are still ongoing. The EU attaches the importance of ensuring the availability of the gas it needs at an affordable price, which is why a common "official" price has been considered (European Council & Council of the European Union n.d.).

2. Inflation in the East-European Region

After looking at the different methods of official price controls in the CEE countries, let's look at the inflation rates in these countries.

In Hungary, the inflation rate is more than 20% based on September 2022 data, with an exact value of 20.1%, but the inflation curve has not yet started to decline, so inflation is expected to rise further. Meanwhile, the country's central bank has raised its base rate to 13%. Meanwhile, Hungary's southern neighbour, Serbia, has an inflation rate of 14%, also based on September data, with the country's central bank base rate raised from 3.5% to 4%. In Slovenia, inflation is 9.9%, but it is worth noting that, unlike the other countries, inflation has fallen from 10% to 9.9%, albeit minimally, compared to the previous reading, while the base rate has been raised to 2% from 1.25%. In Croatia, the inflation rate is 12.8%, also with a rising inflation curve, but the base rate is also significantly lower than in Hungary, at 2.5%, which has not been raised since the previous survey. Poland is in second place after Hungary, with an inflation rate of 17.2% and a base rate of 6.75%, which is also the second highest base rate of all the countries surveyed, and interestingly only half of the rate in Hungary. Although no price controls have been applied in Poland, the inflation data shows that excessive tax cuts are not the right solution either (tradingeconomics.com).

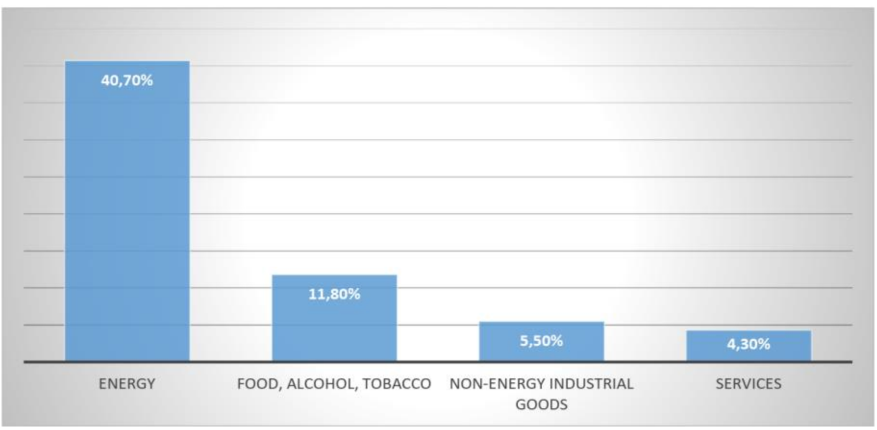
Figure 1: Inflation rate in selected European countries (September 2022)



Source: author's compilation (based on data from tradingeconomics.com)

For comparison, look at the Eurozone, where inflation was 9.9% in September 2022, up from 9.1%, and the base rate was 2% in October, up from 1.25%. Looking at the main components of euro area inflation, energy had the highest annual rate in September (40.7%, compared with 38.6% in August), followed by food, alcohol & tobacco (11.8%, compared with 10.6% in August), non-energy industrial goods (5.5%, compared with 5.1% in August), and services (4.3%, compared with 3.8% in August) (Eurostat 2022).

Figure 2: Inflation in the Eurozone (certain categories of goods and services) September 2022



Source: author's compilation (based on data from Eurostat and tradingeconomics.com)

These are also the areas where inflation is the highest in the states surveyed, but at different rates of course. In the European Union ranking, Hungary is ahead of only three countries: Estonia with 24.1%, Lithuania with 22.5% and Latvia with 22%. "The sharply higher-than-average inflation trend in Estonia can be ascribed to a slew of factors including a scarcity driven surge in electricity prices and an exceptionally strong rebound of the Estonian economy after the pandemic leading to labour shortages and higher wages. According to Estonia's central bank, the country's economic output stood about 7 percent above pre-pandemic levels at the end of last year. Germany, the region's economic powerhouse, by contrast had failed to return to pre-pandemic size at the time. [...]" (Dexbury & Treeck 2022). Estonia's membership of the eurozone means it can't change interest rates independently to suit its own economic needs, such as raising borrowing costs now to choke off economic activity and so prices.

Instead, the Germany-based European Central Bank (ECB) makes decisions for all euro countries after discussions among the governors of the 19 member countries. That means interest rates may not rise as much as Estonia might want, as more indebted eurozone members with lower inflation – such as Italy – are likely to resist (Dexbury & Treeck 2022). This is also true for the other two Baltic countries. Statistics show that France has the lowest inflation at 6.2%, followed by Malta (7.4%) and Finland (8.4%).

3. Summary of the price regulation decision

In summary, countries that are more careful about the changes that may be needed to their official prices do not experience the same level of inflation as countries that maintain the measures without changes and for significantly longer than Hungary. It is unfortunate that a significant increase in the central bank base rate is accompanied by a significant increase in official prices, as it can have the opposite effect, with the benefits being lost and the negatives being felt by the economy of the country concerned, which other countries with official price controls are trying to address.

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