Published on (https://www.bnm.md)

Monetary Policy Financial education Expand Hide

01.08.2017

Benefits of price stability

Ensuring price stability and keeping the inflation rate low is the most important objective of the National Bank of Moldova, as it contributes to the creation of a relatively stable economic framework that allows economic development and a sustained level of economic growth.

In this context, the National Bank of Moldova considers that a low, relatively stable and credible inflation target:

- will maintain nominal interest rates at low levels, which will stimulate long-term investment and allow economic agents to remain competitive at home and abroad;
- will discourage speculative activities and strengthen financial stability;
- will support lasting economic growth, job creation and increase productivity, which will improve people's quality of life;
- will protect people on fixed incomes and the socially vulnerable groups, who are particularly affected by high inflation rate by the erosion of investment income and social payments (pensions, allowances, etc.).

To define the phenomenon of a general increase in prices over a given period of time, the term inflation is used and the quantitative measurement of the economic phenomenon determines the inflation rate. The opposite situation where prices fall is defined as deflation.

To answer the question of whether the price increase (inflation) is sufficiently low and stable from one period to the next, it is necessary to use a mechanism that would quantify price fluctuations whether they change upwards or downwards.

In this context, inflation can be measured by several indicators such as GDP deflator, producer price index (PPI) or consumer price index (CPI), etc. The definitions and their calculation can be found on the website of the National Bureau of Statistics of the Republic of Moldova (www.statistica.md [1]).

The concept of price stability involves not only protecting the economy against inflation, but also controlling deflationary phenomena, which often signal economic decline.

The benefits resulting from price stability are multiple and have a direct effect on the welfare of the population and allow the sustainable development of the national economy, since price stability:

- leads to increased public confidence in the state and central bank policy, thus making the authorities' objectives more viable and monetary policy decisions more effective;
- and at the same time ensures the avoidance of situations of uncertainty regarding the evolution of prices in the near future, which allows citizens to behave rationally based on saving and realization of investment projects.

Finally, the achievement of the fundamental objective of the NBM contributes to the development of the economy in the conditions of the most active employment possible.

Tags

price stability [2]

inflation target [3]

deflator [4]

Source URL:
https://www.bnm.md/en/content/benefits-price-stability

Related links:

[1] http://www.statistica.md [2] https://www.bnm.md/en/search?hashtags[0]=price stability [3] https://www.bnm.md/en/search?hashtags[0]=inflation target [4] https://www.bnm.md/en/search?hashtags[0]=deflator