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The evolution of inflation rate in December 2014

According to the data published by the National Bureau of Statistics (NBS), in December 2014, the consumer prices index (CPI) for the last 12 months constituted 4.7 percent, decreasing by 0.1 percentage points compared to the previous month and being maintained within the range of variation of ± 1.5 percentage points from 5.0 percent inflation target.

The dynamics of annual inflation rate in the fourth quarter of 2014 exceeded the expected value of the projections published in the Inflation Report of November 2014, the deviation being mainly determined by the higher than expected increase in food prices and component prices of core inflation due to the depreciation of the national currency against the U.S. dollar.

The balance of risks to inflation in the medium term continues to be influenced by a complex number of internal and external factors, with a gradual accentuation of the pro-inflationary risks. The probability of a recession in the economies of the euro area countries and the Russian Federation – the major trading partners of the Republic of Moldova, leads to risks of lower household and domestic exporters income on short-term through the external trade channel and remittances that may further influence the dynamics of the national currency exchange rate and, subsequently, the inflation dynamics. The intensification of geopolitical tension in the region may generate additional inflationary pressures.

In the context of national currency depreciation, more significant than the value used in 2012 for setting the tariffs for regulated services, there is a high risk that these will be revised upwardly in 2015. At the same time, the dynamics of energy prices on the international market may contribute to the decrease of fuel domestic prices and to the partial mitigation of pressures on the increase in gas and electricity tariffs.

The annual rate of inflation in December was 4.7 percent, by 0.1 percentage points lower compared to the previous month and by 0.5 percentage points lower than in December 2013. This dynamics was mainly due to the contribution from food prices and core inflation, of 1.9 and 2.1 percentage points, respectively. The regulated prices and fuels contributed to annual inflation by 0.3 and 0.4 percentage points, respectively.

The monthly inflation rate recorded an increase of 0.7 percent, mainly determined by the increase in food prices by 1.4 percent and non-food prices by 0.5 percent. At the same time, the tariffs for public services registered a modest dynamics, increasing by 0.1 percent.

The annual core inflation recorded a level of 6.3 percent in December 2014, increasing by 0.4 percentage points compared to the previous month.

In December 2014, the monthly core inflation rate was 0.7 percent. The most significant price increases related to core inflation were recorded by clothing, means of transport and auto parts, footwear and detergents.

Food prices in the reporting month increased by 1.4 percent compared to the previous month. This dynamics was driven by the increase in the prices of fresh vegetables by 8.0 percent, potatoes by 6.0 percent, eggs by

3.4 percent, fresh vegetables by 2.8 percent, milk and dairy products by 0.9 percent and milling products by 0.8 percent, being partly mitigated by the decrease in sugar prices by 1.4 percent.

Excluding seasonal factors, food prices increased by 0.5 percent compared to the previous month. This dynamics was mainly driven by the depreciation during the last months of the national currency against the U.S. dollar.

The annual growth rate of food prices was 5.1 percent, by 0.4 percentage points lower compared to November and by 2.5 percentage points lower than in December 2013.

In December 2014, fuel prices decreased by 0.4 percent compared to the previous month. This dynamics was mainly due to the decrease in fuel prices by 1.8 percent, as a consequence of the decrease in December of oil and diesel prices, following the decrease in oil prices on the international market. This dynamics was also due to the decrease in bottled gas prices by 1.0 percent. At the same time, firewood prices increased by 0.8 percent due to increased demand thereof caused by the lack of coal supply, due to the tense situation in Ukraine. The prices of earth coal and liquid fuel remained at the previous month level.

The annual growth rate in fuel prices was 6.4 percent, by 0.4 percentage points lower to the value recorded in November and by 3.0 percentage points higher than in December 2013.

In the analyzed period, the prices for regulated services increased by 0.1 percent compared to November, as a result of the increase in the prices of health services by 0.4 percent and medicines by 0.3 percent. At the same time, the services of international rail and air transport increased by 3.6 and 2.0 percent, respectively.

The annual growth rate in prices of products and regulated services was 1.5 percent, being similar to the previous month and by 1.5 percentage points lower to the value recorded in December 2013.

The National Bank of Moldova will continue to monitor the developments in domestic and international economic environment, including the dynamics of consumption, remittances, foreign exchange market indicators and changing foreign trade conditions, so that by the flexibility of specific operational framework of inflation targeting strategy to ensure price stability in the medium term.

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inflation rate [1]
core inflation [2]
regulated prices [3]

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