

The evolution of inflation rate in May 2013

According to the data published by the National Bureau of Statistics (NBS), the consumer prices index (CPI) for the last 12 months constituted 5.7 percent in May 2013, increasing by 1.2 percentage points versus the previous month, being close to the inflation target of 5.0 percent.

The inflationary risks balance continues to be influenced both by internal and external factors, with a pronouncement of disinflationary factors. Disinflationary pressures are determined by the weak economic activity, mitigated increases in international oil prices, and by the reduction in international food prices due to favorable meteorological conditions for harvest in 2013.

The inflation development in April and May outlines the emergence of positive deviations between actual data and projections published in the Inflation Report no.2 of May 2013.

In May 2013, the National Bureau of Statistics has changed the procedure of reflecting the agricultural prices of new crop, which are marketed for the first time in a year (*products with strong seasonality*). These products are usually available for purchase for only a few months of the year (new potatoes, cherries, strawberries, etc.). In the previous periods, the products with strong seasonality were considered by the NBS as new products that came onto the market, which do not affect the CPI.

The annual inflation rate in May 2013 recorded the level of 5.7 percent, increasing by 1.2 percentage points compared to the previous month due to higher food prices. Accelerating growth rate of food prices is mainly determined by the NBS modification of the procedure of reflecting the agricultural prices of new crop, which are marketed for the first time in a year.

In 2012, the NBS decided to implement a new procedure, accepted at the international level, of reflecting the prices of the products with strong seasonality. Thus, in calculating the monthly increase in prices of these types of products, in May 2013, it has been used the first appearance price of these types of products and as a basis for comparison it has been used the last observed price in the previous year. This new methodology has contributed significantly to the pronounced acceleration of food prices growth and overall CPI in May 2013. If the previous calculation procedure would have been used, then the prices in May 2012 would have been increased with about 1.3 percent and the monthly and annual inflation would have been increased with about 0.6 percent and 5.1 percent. Therefore, the sharp



increase in the annual inflation rate in May is not an intensification of inflationary pressures, but a statistical effect. This conclusion is supported by the persistent low core inflation.

The monthly inflation rate recorded a value of 1.2 percent, which is determined by the increase in food prices by 2.9 percent and non-food prices by 0.4 percent, the tariffs for public services remaining at the previous month level. Cumulative depreciation in the last three months of the national currency against the U.S. dollar has been partially mitigated by the disinflationary pressures.

The annual core inflation¹ recorded a level of 4.2 percent in May 2013, increasing by 0.3 percentage points as compared to the previous month.

In May 2013, the monthly core inflation rate was 0.5 percent, by 0.2 percentage points higher than the previous month. This development was driven mainly by higher prices of footwear, construction materials, detergents, knitwear and clothing. Similar to the previous period, the seasonal factor had a negligible development in the overall core inflation.

Foodstuff prices increased by 2.9 percent during the analyzed period compared to the previous month. This increase was mainly determined by higher prices of potatoes by 51.6 percent, fresh fruits by 13.0 percent and fresh vegetables by 5.6 percent, eggs by 4.2 percent, fish and canned fish by 2.0 percent and meat and meat products by 1.4 percent.

The prices increase in the aforementioned products was influenced in particular the change in the procedure for reflecting the prices of agricultural products with strong seasonality and the seasonal effect characteristic of Easter holidays.

In May 2013, fuel prices have decreased by 0.1 percent compared to the previous month. Prices for fuel and bottled gas have recorded null increases, and those for firewood and earth coal decreased by 0.2 and 0.1 percent, respectively, contributing insignificantly to the monthly evolution of fuel prices.

In May 2013, regulated prices recorded an increase of 0.1 percent as compared to the previous month, mainly due to higher prices for medicines by 0.6 percent. The increased prices of health services had a positive contribution, but less important, to the monthly regulated prices development.

The annual growth rate of regulated prices was 2.2 percent, decreasing by 0.9 percentage points compared with the previous month.

The National Bank of Moldova reiterates that it will continue to monitor vigilantly the developments in domestic and international economic environment, so that by an appropriate adjustment of monetary policy instruments to ensure the objective referred to in the Medium-term Monetary Policy Strategy in order to ensure and maintain price stability.

¹ The core inflation is calculated by the NBS by excluding the prices that are outside the influence area of monetary policy measures promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. From January 2012, the published data are calculated by the NBS according to the changes made to the Annex no.2 of the "Methodology for the calculation of core inflation index", approved by joint order N8-07-01203/6 of January 19, 2012 of National Bank of Moldova and the National Bureau of Statistics (the change regards the inclusion of prices for remote communication services and medicines into regulated prices).