Опубликован на (https://www.bnm.md)

14.09.2015

The evolution of inflation rate in August 2015

In August 2015, consumer prices index (CPI) for the last 12 months constituted 12.2 percent, increasing by 3.6 percentage points versus the previous month, continuing to exceed the upper limit of the range of variation of ± 1.5 percentage points from 5.0 percent inflation target. The acceleration of annual inflation in August was mainly driven by the increase in electricity and gas tariffs.

The balance of risks to inflation in the medium term is influenced by a complex number of external and internal factors, with a prevalence of inflationary risks. Weak economic activity in the euro area countries and the recession of the Russian Federation - the main trading partners of the Republic of Moldova maintain the risk of lowering of foreign currency income of households and domestic exporters in short-term, through remittances and foreign trade channel. This may subsequently influence inflation and the escalation of geopolitical tensions in the region may cause additional inflationary pressures.

The situation in the domestic banking system, simulative fiscal policy, with the prevalence of social element in the structure of public expenditures contribute to the relatively high level of consumption, which influences the dynamics of consumer prices as from the end of the previous year. Additional adjustment of tariffs for regulated services, higher exercise duties on some category of goods and subsequently, the second-round effects of these increases, will generate additional inflationary pressures on prices. The annual growth rate of prices will continue its upward trend, including due to unfavourable agro-meteorological conditions of this year and a low base of comparison in the previous year.

In August, the annual inflation rate was 12.2 percent, increasing by 3.6 percentage points compared to the previous month, by 7.1 percentage points higher than in August 2014. Similar to the previous periods, the dynamics of annual core inflation and food prices had the greatest impact on the annual inflation rate. The contribution from core inflation increased up to 4.6 percentage points and that of food prices increased up to 3.8 percentage points. Significant positive contributions from core inflation and food prices are mainly the result of the national currency depreciation over the last year. At the same time, the contribution from regulated prices to annual inflation increased up to 3.3 percentage period during the reporting period and that of fuels, although positive, was less significant - 0.4 percentage points.

The monthly inflation rate recorded an increase of 2.9 percent, mainly due to the increase in tariffs for public services by 8.1 percent. The food and non-food prices have increased by 0.4 percent and 1.5 percent, respectively.

The annual rate of core inflation registered in August 2015 the value of 13.4 percent, increasing by 1.6 percentage points compared to the previous month.

In August 2015, the annual inflation rate increased by 1.7 percent compared to the value recorded in the previous month. The most significant positive contribution was generated by the change in prices for components "cigarettes"(7.0 percent), "means of transport, auto parts" (6.0 percent), "catering" (1.6 percent), "knitting" (1.4 percent) and "clothing" (by 1.2 percent).

Food prices in the reporting month increased by 0.4 percent compared to July, due to the increase in the prices of "eggs" by 10.8 percent, "sugar" by 3.3 percent, "potatoes" by 2.7 percent, "milling and bakery products" by 2.3 percent, "milk and dairy products" by 1.8 percent and "alcoholic drinks" by 0.8 percent and, at the same time, these increases have been mitigated by the decrease in prices of "fresh vegetables" by 8.4 percent and "fresh fruits" by 0.9 percent.

Excluding seasonal factors, food prices increased by 1.6 percent compared to the previous month. Therefore, the subgroups "milling and bakery products", "fresh vegetables", "potatoes", "milk and dairy products" and "fresh fruits" have had positive contributions to monthly growth rate of food prices. It should be mentioned that the increase in prices of products mentioned above was mainly influenced by dry weather conditions recorded in 2015, which have significantly reduced the development of crops during the reporting period and by the adjustment of electricity and gas tariffs starting with August 2015, thus contributing to the increase in production costs. At the same time, the depreciation of national currency against the U.S. dollar by 5.8 percent during the last three months amplified the inflationary pressures on food prices.

The annual growth rate of food prices was 10.9 percent, by 2.2 percentage points higher than in July 2015 and by 4.3 percentage points higher than in August 2014.

In August 2015, fuel prices remained overall relatively stable compared to the previous month. Thus, liquid fuels prices recorded null increases. At the same time, the prices of fuels and earth coal have increased by 0.8 percent and 0.1 percent, respectively, and this increase was offset by the prices of bottled gas and firewood, which decreased by 2.0 and 0.1 percent, respectively.

The annual growth rate of fuel prices was 5.2 percent, by 1.8 percentage points lower than in July 2015 and by 0.3 percentage points higher than in August 2014.

During the reporting month, the prices of regulated services recorded a more significant dynamics, increasing by 8.8 percent compared to the previous month. This dynamics was mainly determined by the increase in prices of electricity and gas services (32.9 percent and 14.9 percent). The prices of medicines continued to have a persistence recorded during the previous periods, increasing by 1.4 percent compared to the previous month. Negative contributions to annual growth rate of regulated prices were recorded due to the dynamics of prices for dental care services (0.5 percent), international rail transport services (0.4 percent), air transport services (6.9 percent) and dormitories rental rate (minus 3.1 percent).

The annual rate of increase in prices of regulated goods and services was 13.4 percent, by 9.1 percentage points higher compared to the previous month and by 10.8 percentage points compared to the value recorded in August 2014.

NBM will further monitor and anticipate the domestic and international economic environment developments, including household consumption dynamics, remittances, monetary and foreign exchange indicators and changing foreign trade conditions, so that by the flexibility of operational framework specific for the inflation targeting strategy to ensure price stability in the medium term.

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[1] *Core inflation is calculated by the NBS, excluding prices that are outside the influence of monetary policy promoted by the NBM, such as food and beverages, fuel, products and services with regulated prices. Data prepared and published from January 2012 are calculated by the NBS according to the modification of*

Annex no.2 of "Methodology for the calculation of core inflation index", approved by joint order of the National Bank of Moldova and National Bureau of Statistics N8-07-01203/6 of 19 January 2012 (the modification refers to the inclusion of prices for remote communication services and medicines in regulated prices).

[2] *as the effect of the increase in excise duty*

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inflation [3]
The annual core inflation [4]

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