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## THE EVOLUTION OF INFLATION IN THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF COVID-19 AND THE WAR IN UKRAINE

### EVOLUȚIA INFLAȚIEI ÎN REPUBLICA MOLDOVA ÎN CONTEXTUL COVID- 19 ȘI RĂZBOIUL DIN UCRAINA

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**Abstract:** Scopul acestei cercetări este de a analiza evoluția inflației în contextul covid-19 și războiul din Ucraina, precum și factorii care duc la o creștere rapidă a inflației în Republica Moldova față de alte țări. De asemenea, identificarea politicilor de combatere a inflației. În această lucrare am folosit metode de analiză statistică precum: metoda interpretării informației și metoda cercetării operaționale.

**Keywords:** inflație, statistică, covid-19, război.

**JEL CLASSIFICATION:** B22, E5

#### INTRODUCTION

The COVID-19 pandemic and the energy crisis which began in 2021 starkly exposed the economic vulnerabilities of Moldova, which had been classified by the World Bank as the 4th poorest country in Europe in 2021 by GDP per capita (5,230.7 USD). The outbreak of war by Russia against Ukraine led to an additional disruption of international logistics chains and jeopardized the distribution of agri-food commodities globally, which further intensified the upward trend in global prices that started in 2021[2]. Whereas Moldova relied heavily on Ukrainian and Russian imports for foodstuffs and energy resources, the escalation of hostilities on 24 February 2022 disrupted imports, which in turn led to higher prices and greater economic vulnerability for the country population.

#### CONTENT

*Among the main factors that contribute to increasing prices in the Republic of Moldova the factors that contribute to increasing prices in the Republic of Moldova faster than in other countries, could be considered the following (Mold-Street, 2022):*

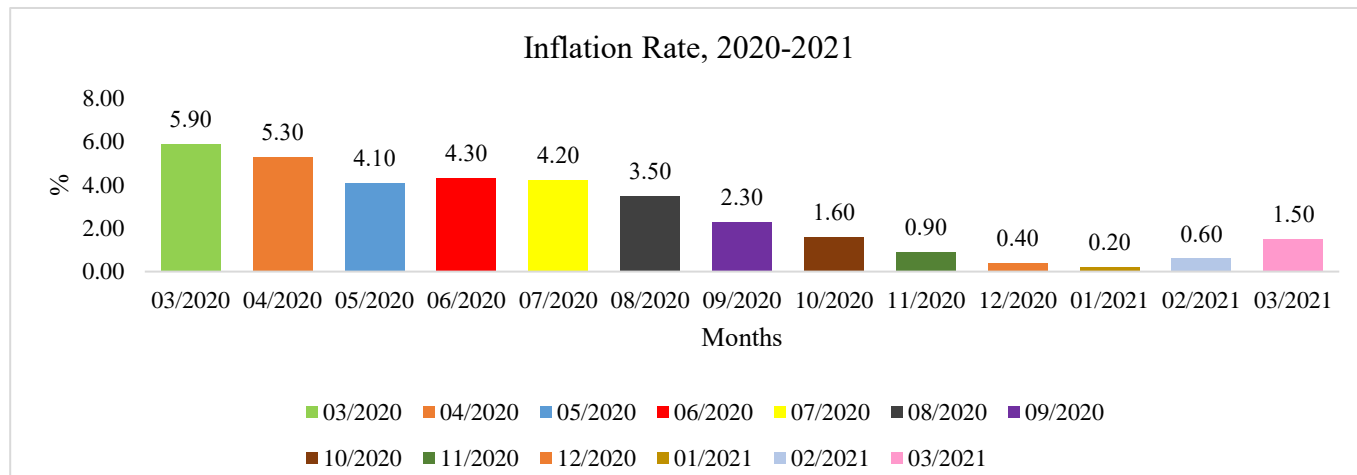
- 1. In Moldova, inflation was higher than in the states of the region even before the current crises.** The structure and level of development of the Moldovan economy has caused, in the last decade, that the average increase in prices exceeds the level of the majority of states in the region. Thus, after 2010, despite the tempering of inflationary dynamics, the Republic of Moldova recorded much higher price increases compared to other European states;
- 2. Imported inflation - the biggest price increases come from more expensive imports.** The main factor that caused the increase in inflation relates to the strong accentuation of global inflationary trends, which led to the increase in import prices;

3. ***In the structure of the personal budget, we spend 3 times more on food than in the European Union.*** Resulting from lower per capita incomes and consumption habits, in the Republic of Moldova food products have a much greater weight when calculating inflation;
4. ***The war in Ukraine accelerated the increase in prices, and Moldova depends the most on the Ukrainian and Russian markets, compared to other countries in the region.*** Even if there was pressure to increase the prices of food and energy resources until the invasion of Ukraine, after February 24 there was a substantial acceleration of price increases for these categories of products, which had an impact on import prices in the Republic Moldova, taking into account the energy dependence of 100% on imported energy resources;
5. ***The non-adjustment, based on political criteria, of the regulated tariffs in the past accelerated the current inflation.*** Another factor that accelerated this year's inflation refers to the populist decisions, over the past years, manifested both at the level of the central and local authorities, which for years in a row did not adjust the tariffs for various services and utilities as requested actual costs;
6. ***The small size of the market does not allow corporations to make economies of scale, which leads to higher prices per product unit.*** Having a small market, large corporations cannot generate economies of scale through large sales that reduce costs per unit, while limited access to financing forces most importers to work with minimal inventory levels.

### The evolution of inflation in the Republic of Moldova

**Figure 1. The evolution of inflation rate in the Republic of Moldova, 2020-2021**

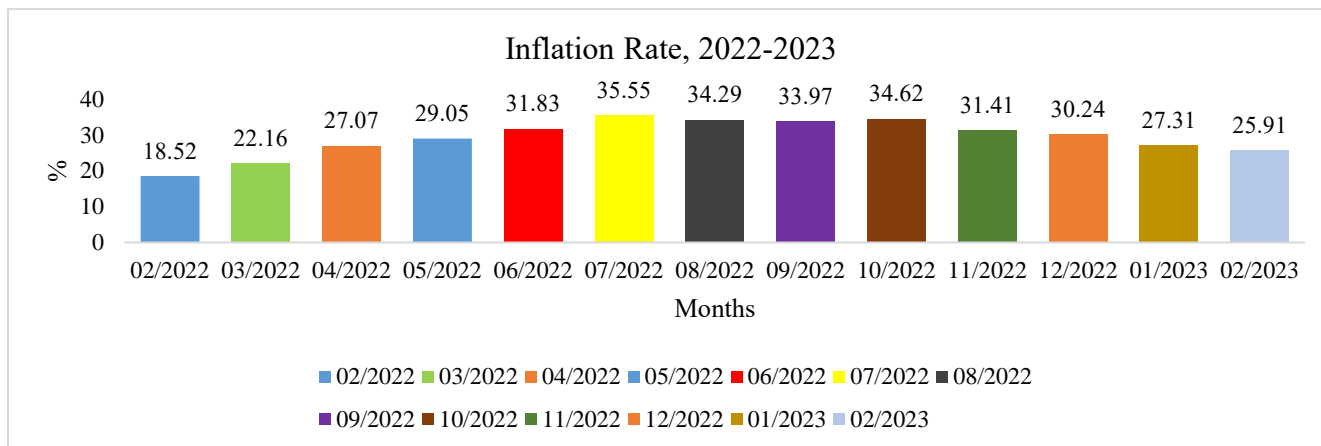
Source: Elaborated by the author, based on National Bank of Moldova, <https://www.bnm.md/ro/content/rata-inflatiei-0>, accessed on 14.03.2023



Referring to the Covid-19 period, we note that the inflation rate decreased throughout 2020 (Figure 1). If at the beginning of 2020, the annual inflation rate was 6.9%, 1.9 percentage points more than the related monetary policy target inflation set by the National Bank of Moldova, then at the end of the respective year the inflation level was only 0.4%, a fact that shows us that the economic agents practically did not carry out any transactions, as a consequence the economy of the country practically did not evolve, which evaluate negatively. Starting with February 2021, we can see that the inflation rate increased to 0.6%, and in March to 1.5%, however the inflation level is far from the optimal level established by the National Bank of Moldova, these negative consequences being caused by the pandemic. The negative impact exerted by the related COVID-19 restrictions led to disinflationary

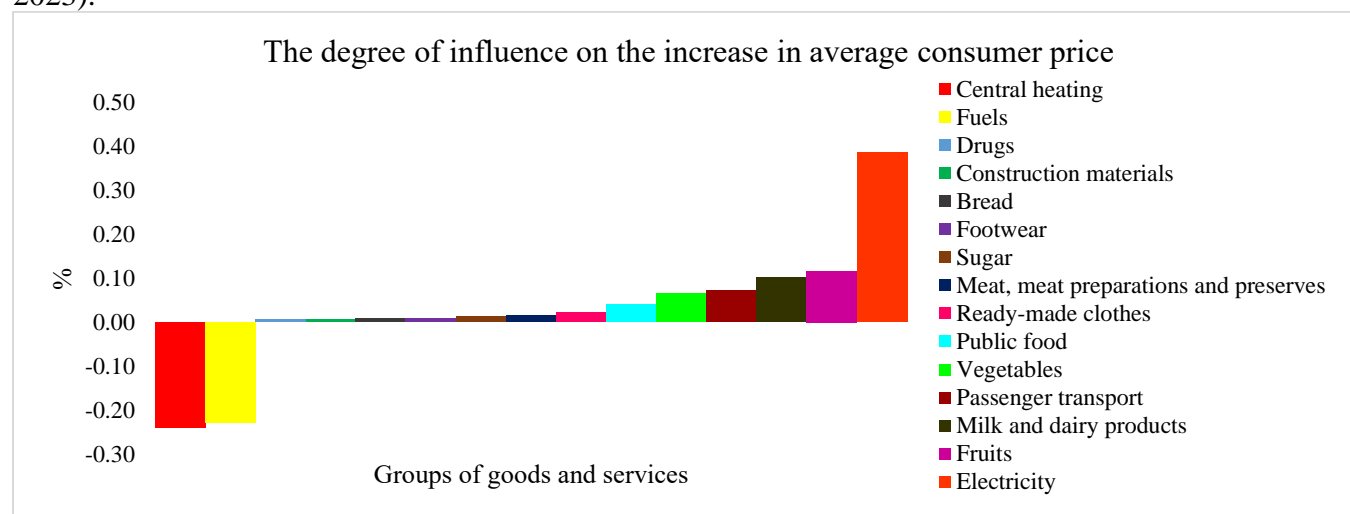
pressures from the domestic demand side, which, together with the drop in import prices and atypical weather conditions, supported the decline in the annual rate of food prices and core inflation (BNM, 2023).

**Figure 2. The evolution of inflation rate in the Republic of Moldova, 2022-2023**



Source: Elaborated by the author, based on National Bank of Moldova, <https://www.bnm.md/ro/content/rata-inflatiei-0>, accessed on 14.03.2023

Based on the analysis carried out, we observe a drastic increase in inflation since the beginning of the war in Ukraine (Figure 2). If in February 2022 the inflation rate was 18.52%, it increased until the end of the year by 11.72 percentage points, constituting 30.24%. The main cause of this growth is the increase in the price of energy resources, at the same time economic agents are obliged to rise the prices of other goods. Already at the beginning of 2023, we notice that the inflation rate has decreased by 2.93 percentage points, being 27.31%, and in February it was 25.91%. This decrease is due to the intervention of the National Bank of Moldova through the monetary policy to combat inflation (BNM, 2023).



**Figure 3. The degree of influence on the increase in average consumer prices (CPI) on the main groups of goods and services: December 2022 compared to November 2022**

Source: Elaborated by the author, based on National Bureau of Statistics, [https://statistica.gov.md/ro/evolutia-preturilor-de-consum-in-republica-moldova-in-luna-decembrie-2022-si-in--9485\\_60264.html](https://statistica.gov.md/ro/evolutia-preturilor-de-consum-in-republica-moldova-in-luna-decembrie-2022-si-in--9485_60264.html), accessed on 14.03.2023

The National Bureau of Statistics informs that average consumer prices in December 2022 compared to November 2022 increased by 0.8% (Figure 3). The increase in average consumer prices was determined by the increase in the prices of food products and services provided to the population by 1.2% each. The average prices of non-food goods in December 2022 remained approximately at the level of the previous month. In December 2022, compared to the current November, from food products, more pronounced increases in average consumer prices were marked for fruit - by 4.2%, sugar - by 2.6%, milk and dairy products - by 2.2 %, vegetables – by 1.7%, chicken eggs – by 0.8%. At the same time, during the reporting period, vegetable oil price reductions by 0.6% . were recorded For non-food goods, in December 2022 compared to November 2022, the average prices for clothing and construction materials increased more significantly - by about 0.5%. At the same time, the prices of fuels and fuels decreased - by 4.0% for services provided to the population in December 2022 compared to November 2022 for communal - housing services - on average by 1.7% were recorded (Todică Elizaveta, 2023).

**According to economists (Dardac Nicolae, 1994), the most common anti-inflationary policies are:**

1. *Monetary policy* is the set of actions to influence the demand and supply of money in order to achieve macroeconomic objectives and tasks of the monetary banking sector.
2. *The state's budgetary policy*, oriented towards reducing the budget deficit, towards maintaining a level of public expenditure, in the respective period, and towards raising, within certain limits, the level of taxes and fees, which would curb the increase in demand and prices;
3. *Aggregate supply stimulation policies* aim to reduce the pace of price growth. They materialize in price and income control methods and measures to stimulate production. Such effects are obtained because the adopted measures target the deep causes of the increase in the price level: *productivity, competition, costs, management*.
4. *Income policy*, this set of measures aims to establish control over price increases and wages. The main purpose of income policy is to normalize the increase in production costs and thereby stabilize the cost of goods, services and labor.

## CONCLUSION

In conclusion, we can mention that the main factor that led to the increase in inflation is related to the strong accentuation of global inflationary trends, which led to the increase in import prices. At the same time, we observe an increase in the monetary mass in circulation, which leads to an increase in inflation and from which it follows that inflation targeting in the Republic of Moldova is not carried out as it should be. The increase in the inflation rate has negative consequences, especially in the economic field, also affecting the way of life of the population. Therefore, all these negative records lead to an increase in the unemployment rate, which means that the labor force decreases and the economy does not develop. National Bank of Moldova must focus more on inflationary risks and future inflationary pressures than on current developments. Therefore, monetary policy decisions must aim at anchoring inflationary expectations and not tempering already materialized inflationary pressures.

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