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# Inflation rate in August 2016

**In August 2016, the growth rate of consumer prices index (CPI) for the last 12 months was 3.6 percent, by 3.4 percentage points less compared to the previous month. After 18 months of stay outside the range, it returned within the range of ± 1.5 percentage points from 5.0 percent target.**

**It should be mentioned that the annual rate of inflation continued its downward trend since the beginning of this year. This confirms the latest forecast of the NBM on the gradual lowering of annual inflation under a modest domestic demand, adjustment of electricity tariff in April, lower food and energy resources prices at regional and global level, but also due to high base of comparison in 2015.**

**External risks associated disinflationary pressures are marked by weak economic activity in the euro area countries and the ongoing recession in the Russian Federation - the main external trade partners of the Republic of Moldova. The external risks are propagated through the remittances channel in favour of population and the external trade, leading to lower foreign currency income of population and domestic exporters in the short-term. Potential risks to inflation arise from increased volatility of international financial and foreign exchange markets, oil price developments, uncertainties associated with international prices for raw materials and food. The main internal risks are associated with the delay in tariff adjustment. At the same time, the existing weather conditions favour the growth of agricultural production compared to the previous year, which will negatively affect the growth of food prices over 2-3 consecutive quarters and will cause further decline in consumer inflation.**

In August 2016, the annual inflation rate was 3.6 percent, decreasing by 3.4 percentage points compared to the previous month and by 8.6 percentage points compared to August 2015. Similar to previous periods, the dynamics of annual food prices (2.6 percentage points) and core inflation (2.2 percentage points) exerted the greatest impact on the annual inflation rate under the influence of the depreciation of the national currency and the drought recorded in the previous year. However, their contribution was less than in the previous month. The contribution of regulated prices was slightly lower than in July, accounting for minus 0.4 percentage points, while the contribution of fuel prices remained at the previous month level of minus 0.3 percentage points.

Monthly inflation rate was minus 0.4 percent mainly due to the decrease of food prices by 1.2 percent. Their negative impact was partially mitigated by the increase in prices of non-food products by 0.1 percent and services by 0.2 percent.

The annual rate of core inflation was 7.5 percent in August 2016, decreasing by 1.3 percentage points compared to the previous month.

In August 2016, the annual rate of core inflation was 0.4 percent. The most significant positive contribution was generated by the change in prices of components "cigarettes" by 2.7 percent, "means of transport, auto parts" by 0.8 percent, "catering" by 0.8 percent, "culture and leisure" by 0.7 percent, "footwear" by 0.6 percent, etc. The decrease in prices of "building materials" by 0.2 percent and "daily household maintenance"

by 0.1 percent supported the slowdown in core inflation in the reporting period.

In August 2016, food prices decreased by 1.2 percent compared to the previous month, due to lower prices of "potatoes" by 13.4 percent, "fresh vegetables" by 10.1 percent and "fresh fruits" by 7.7 percent. However, these reductions were mitigated by higher prices of "eggs" by 2.1 percent, "meat, prepared or preserved meat" by 1.1 percent and "alcoholic beverages" by 0.8 percent.

Excluding seasonal factors, food prices increased by 0.3 percent compared to the previous month. Thus, positive contributions to the formation of the monthly rate of food prices were recorded by "fresh vegetables" and "meat, prepared or preserved meat".

The annual growth rate of food prices was 6.2 percent, decreasing by 1.7 percentage points compared to July 2016 and by 4.7 percentage points compared to August 2015.

In August 2016, fuel prices decreased by 0.5 percent compared to the previous month. Their downward trend was mainly influenced by lower prices of "fuels" by 2.8 percent. Their dynamics is the result of decreases in the prices of petrol and diesel fuel made by oil companies in the reporting month. This decrease is consistent with the new Methodology for the formation and application of petroleum prices set by ANRE and the trajectory of oil prices on the international market. According to the latest legislative amendments, ANRE will only set the ceiling retail prices of petrol and diesel fuel, but not those for liquefied gas. The latter will be determined by market operators based on another mechanism provided by the above-mentioned methodology. Thus, prices of "bottled gas" increased by 12.8 percent. At the same time, prices of "firewood" and "liquid fuel" remained at the level recorded in July 2016, while that of "earth coal" decreased slightly.

The annual growth rate of fuel prices was minus 5.5 percent in August 2016, by 0.5 percentage points lower compared to June 2016 and by 10.7 percentage points lower than in August 2015.

In the reporting month, prices of regulated services and products remained at the level recorded in July 2016. At the same time, prices for international rail services increased by 0.1 percent and those for air services by 4.6 percent. At the same time, apartment rental prices by students increased by 0.7 percent and those for water and sewerage services by 1.3 percent, the increase taking place exclusively in the central region of the country. Given the new legislative amendments on pharmaceutical activity adopted this spring, which are aimed to reduce the medicines prices for the final consumer, medicines prices recorded a slightly negative dynamic for the second consecutive month (minus 0.2 percent).

The annual growth rate of prices of regulated goods and services was minus 1.7 percent, by 8.6 percentage points lower compared to the previous month and by 15.1 percentage points compared to the value recorded in August 2015.

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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