Published on (https://www.bnm.md)

11.08.2016

Inflation rate in July 2016

In July 2016, consumer prices index (CPI) for the last 12 months constituted 7.0 percent, decreasing by 0.4 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.

It should be mentioned that the annual inflation rate continued its downward dynamic since the beginning of this year. This development is in line with the latest forecast of the NBM on gradual decrease of the annual inflation, due to a modest domestic demand, adjustment of electricity tariffs in April, decrease in food prices and energy resources regionally and worldwide and also due to the high base of comparison in 2015.

The external risks associated with disinflationary pressures are marked by the weak economic activity of the euro area countries and the recession faced by the Russian Federation - the main external trade partners of the Republic of Moldova. The external risks are propagated through the channel of remittances in favour of population and external trade, leading to lower foreign currency income of population and domestic exporters in the short-term, which reflects the further inflation development. Potential risks to inflation arise from the increased volatility of the international financial foreign exchange markets. The main internal risks arise from postponing the adjustment of regulated tariffs. At the same time, the existing meteorological conditions favour an increase in agricultural production compared to the previous year, which will influence negatively the growth rate of food prices during two-three consecutive quarters and will determine the further decrease of consumer inflation.

In July 2016, the annual inflation rate was 7.0 percent, decreasing by 0.4 percentage points compared to the previous month and by 1.6 percentage points lower than in July 2015. Similar to the previous periods, the annual dynamic of food prices (3.3 percentage points) and core inflation (2.6 percentage points) exerted the highest impact on annual inflation rate under the influence of the national currency depreciation during the last year and the drought of the previous year. However, the contribution from food prices increased, while that from core inflation - decreased compared to their contributions of the previous month. At the same time, the contribution from regulated prices was slightly lower to that of June and constituted 1.5 percentage points, while the contribution from oil prices was -0.3 percentage point, exerting a significantly lower impact on other subcomponents, being slightly lower than the contribution of June.

The monthly inflation rate recorded a level of March -0.9 percent, due to the decrease in food prices by 2.2 percent and non-food prices by 0.2 percent. Their negative impact was partially offset by the increase in tariffs for public services by 0.3 percent.

The annual rate of core inflation recorded in April 2016 the level of 8.8 percent, decreasing by 0.5 percentage points compared to the previous month.
In July 2016, the annual rate of core inflation was 0.1 percent. The most significant positive contributions were generated by the change in prices of subcomponents "education and training" by 3.9 percent, "cigarettes" by 1.1 percent, "daily household maintenance" by 0.2 percent etc. The decrease in prices of

"clothing" by 0.5 percent, "means of transport, auto parts" by 0.3 percent, "footwear" by 0.2 percent caused the slowdown in core inflation rate during the reporting period.

In July, food prices decreased by 2.2 percent compared to the previous month, as a result of the decrease in prices of "potatoes" by 33.2 percent, "fresh vegetables" by 16.2 percent, "fresh fruits" by 3.1 percent. At the same time, these decreases have been offset by the increase in prices of ""eggs" by 1.9 percent, "non-alcoholic beverages" by 0.6 percent, "fats" and "alcoholic beverages" by 0.3 percent, "meat" and "milling products" by 0.2 percent.

Excluding seasonal factor, food prices increased by 0.8 percent compared to the previous month. Therefore, the subgroups "fresh vegetables", "milling products", "fresh fruits" and "meat" contributed positively to the monthly growth rate of food prices. At the same time, the decrease was supported by the decrease in prices of "potatoes" and "eggs".

The annual growth rate of food prices was 7.9 percent, by 0.3 percentage points higher than in June 2016 and by 0.8 percentage points lower than in July 2015.

In July 2016, fuel prices decreased by 0.9 percent compared to the previous month. The downward development was mainly influenced by the decrease in prices of "fuels" by 2.3 percent. This development is the result of the decrease in oil prices carried out by the oil companies during the reporting period. This decrease is in line with the provisions of the new Methodology of forming and applying the prices for oil products set by NERA and the trajectory of oil prices on international market. According to the last legislative amendments, NERA will set only the retail trade prices of petrol and diesel fuels and not of those for trading the liquefied gas. The latter will be set by the market operators based on another mechanism provided by the aforementioned Methodology. Thus, "bottled gas" prices increased by 5.4 percent. At the same time, "firewood" and "liquid fuel" prices maintained the level of June 2016, while "earth coal" decreased insignificantly.

The annual growth rate of fuel prices was in July -4.9 percent, by 1.7 percentage points lower than in June 2016 and by 11.8 percentage points lower than in July 2015.

During the reporting month, the prices of regulated products and services increased by 0.1 percent compared to June 2016. This development was mainly determined by the increase in prices of remote communication services (0.5 percent) and health services (0.3 percent). The increase in prices of remote communication services was due to the adjustment of internet services tariffs made by one of the largest telecommunication operators in the country. The increase in prices of health services was carried out exclusively in Chișinău and could be associated with the entry into force of the new regulation regarding the remuneration of doctors from the Republic of Moldova. The stagnation in medicine prices in July may be attributed to the legislative amendments relating to pharmaceutical activity adopted in spring this year, made in order to decrease the medicine prices for final consumer. At the same time, the prices for international rail transport services recorded an increase of 0.5 percent, while those for air transport services decreased by 3.3 percent.

The annual growth rate of prices for regulated goods and services was 6.9 percent, by 0.5 percentage points lower compared to the previous month and by 2.6 percentage points higher compared to the value recorded in July 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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