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Inflation rate in May 2016

In May 2016, the growth rate of consumer prices index (CPI) for the last 12 months was 7.9 percent, by 0.4 percentage points less compared to the previous month, remaining further on the upper limit of 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 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 with implications for the future dynamics of inflation. Potential risks to inflation arise also from increased volatility in international prices of raw materials and uncertainties associated with oil quotations.

In May, the annual inflation rate was 7.9 percent, decreasing by 0.4 percentage points compared to the previous month, decreasing by 0.2 percentage points compared to May 2015. Similar to previous periods, the dynamics of annual food prices and core inflation exerted the greatest impact on the annual inflation rate under the influence of the depreciation of the national currency in the previous year. The contribution from food prices is lower than the previous month, while the contribution of core inflation remained at the level of April 2016 (2.9 percentage points). At the same time, the contribution from regulated prices was similar to the previous month and constituted 1.7 percentage points, while the contribution from fuel prices, similar to previous periods was negligible, but negative.

The monthly inflation rate recorded a level of 0.2 percent due to higher prices of non-food goods by 0.4 percent and services rendered to population by 0.1 percent. It should be mentioned that in May 2016 food prices remained at the previous month level.

The annual rate of core inflation was 9.8 percent in May 2016, increasing by 0.1 percentage points compared to the previous month.

In May 2016, the annual rate of core inflation was 0.4 percent. The most significant positive contribution was generated by the change in prices for components "footwear" by 1.2 percent, "education and training" by 0.7 percent, "building materials" by 0.7 percent, "means of transport, auto parts" by 0.5 percent, "clothing" by 0.4 percent, etc.

Food prices in the reporting month remained at the previous month level, due to higher prices of "potatoes" by 15.1 percent, "fresh fruits" by 3.6 percent, "fish and canned fish" by 1.1 percent, "sugar and its

substituents" by 0.6 percent and "alcoholic beverages" by 0.5 percent. At the same time, however, these increases were mitigated by lower prices of "fresh vegetables" by 7.2 percent and "milk and milk products" by 1.0 percent.

Excluding seasonal factors, food prices also remained at the previous month level. Thus, positive contributions to the formation of the monthly rate of food prices were recorded by sub-groups "eggs", "meat and meat products" and "milk and dairy products". Also, the decreasing vector was supported by lower prices for "fresh vegetables" and "potatoes".

The annual growth rate of food prices was 8.1 percent, decreasing by 1.2 percentage points compared to April 2016 and by 0.9 percentage points compared to May 2015.

In May 2016, fuel prices increased by 0.5 percent compared to the previous month. Their upward evolution was mainly influenced by higher prices of "fuels" by 1.0 percent. Their dynamics is the result of increases in the prices of petrol and diesel made by oil companies at the end of May 2016.

At the same time, prices of "coal earth" fell by 0.5 percent and prices of "firewood", "bottled gas" and "liquid fuel" remained at the level of April 2016.

The annual growth rate of fuel prices was minus 3.1 percent in May 2016, by 0.8 percentage points more compared to April 2016 and by 8.4 percentage points less than in May 2015.

During the reporting month, prices of regulated products and services increased by 0.1 percent compared to April 2016. This development was largely determined by the increase in prices of "medicines" by 0.4 percent and "transport services" by 0.2 percent.

The annual growth rate of prices of regulated goods and services was 7.5 percent, by 0.1 percentage points lower compared to the previous month and by 3.8 percentage points more compared to the value recorded in May 2015.

In this context, analysing the risk balance, the annual growth rate of prices is anticipated to gradually increase, and inflation is expected to return within the range of ±1.5 percentage points from the 5.0 percent target in the third quarter of 2016.

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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