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Inflation rate in October 2015

In October 2015, the growth rate of consumer prices index (CPI) for the last 12 months constituted 13.2 percent, by 0.6 percentage points more compared to the previous month, exceeding further the upper limit of the range of variation of ± 1.5 percentage points from 5.0 percent inflation target.

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.

Additional adjustments of tariffs of regulated services, higher excise duties on some categories of goods, and then, second-round effects of these increases, will generate additional inflationary pressures on prices. The annual growth rate of prices will continue to upward trend, including due to unfavourable agri-meteorological conditions of this year and the low base of comparison in the previous year.

In October, the annual inflation rate was 13.2 percent, increasing by 0.6 percentage points compared to the previous month, by 8.4 percentage points higher than in October 2014. Similarly to previous periods, the dynamics of annual core inflation and food prices exerted the greatest impact on the annual inflation rate. The contribution of core inflation increased to 4.8 percentage points, while that of food prices up to 4.7 percentage points. Significant positive contributions of core inflation and food prices are mainly the result of national currency depreciation and the drought recorded this year. The contribution of regulated prices was slightly higher than the previous month (3.4 percentage points), while the contribution of fuel prices remained at the level recorded in September 2015 (0.1 percentage points).

Monthly inflation rate increased by 1.8 percent mainly due to the increase of food prices by 3.5 percent and non-food prices by 1.3 percent. Prices of services increased by 0.3 percent.

The annual rate of core inflation registered in October 2015 the value of 14.1 percent, up by 0.5 percentage points from the previous month.

In October 2015, the annual rate of core inflation was 1.3 percent. The most significant positive contribution was generated by the change in prices for components "clothing" (2.4 percent), "catering" (1.9 percent), "footwear" (1.8 percent), "cigarettes" (1.7 percent) and "household goods" (1.6 percent)[1].

Food prices increased by 3.5 percent in the reporting month compared to September 2015, due to higher prices of "fresh vegetables" by 26.1 percent, "eggs" by 13.3 percent, "sugar" by 3.9 percent, "fresh fruits" by 3.5 percent, "fats" by 3.0 percent, "milk and dairy products" by 1.7 percent and "meet, prepared and preserved meet" by 0.8 percent.

Excluding seasonal factors, food prices increased by 1.6 percent compared to the previous month. Thus,

positive contributions to the formation of the monthly rate of food prices were recorded by sub-groups "vegetables", "fats", "fresh fruits", "milk and dairy products", "milling and bakery products", "potatoes" and "sugar". It should be mentioned that the increase in prices of the aforementioned products was influenced mainly by the drought recorded in the summer 2015, which caused extensive damage to the agricultural production in the respective period. At the same time, the depreciation of the national currency against the USD by 5.0 percent in the last 3 months contributed to the increase of inflationary pressures on food prices.

The annual growth rate of food prices was 13.5 percent, by 0.9 percentage points more compared to September 2015 and by 8.7 percentage points higher than in October 2014.

In October 2015, fuel prices recorded overall a pronounced dynamics, being by 1.0 higher compared to the previous month. This development was mainly due to the increase of prices of "firewood prices" and "earth coal" by 2.0 and 1.4 percent, respectively. During the reporting period, the "fuel" prices decreased by 0.3 percent. It should be mentioned that the prices of "liquid fuel" and "bottled gas" remained at the previous month level.

The annual growth rate of fuel prices was 2.1 percent in October 2015, by 0.2 percentage points higher compared to September 2015 and by 5.8 percentage points higher than in October 2014.

During the reporting month, the prices of regulated services recorded a lower dynamics, increasing by 0.3 percent versus September 2015. Similarly to the previous periods, medicines prices have further increased gradually by 1.4 percent compared to September 2015. Insignificant contributions to the monthly dynamics of prices of regulated services was due to the dynamics of prices of funeral services (7.9 percent), dormitories rent (2.2 percent), paid medical services (1.0 percent), air transport services (minus 4.9 percent).

The annual growth rate of prices of regulated goods and services was 13.9 percent, by 0.3 percentage points higher compared to the previous month and by 11.5 percentage points compared to the value recorded in October 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] The increase of component "household goods" refers to electric cooking ranges (5.4 percent), toys, collected objects (3.4 percent), vacuum cleaners and parquet polishing machine (3.0 percent), washing machines, and dishwashers (2.0 percent).

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