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Inflation rate in January 2016

In January 2016, the growth rate of consumer prices index (CPI) for the last 12 months constituted 13.4 percent, by 0.2 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.

For the first time in the last 12 months, the annual inflation rate recorded a decrease. This development confirms the last forecast of the NBM on the gradual decrease of annual inflation, including due to the high basis of comparison.

The monetary policy continues to be affected by the complexity of risk balance and uncertainties associated with the development of internal and external environment. The external risks to inflation remain significant, given 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 with implications for the future development of inflation. At the same time, the main internal risks are associated with the postponement of fiscal policy approval in 2016 in the light of the fiscal policy behaviour.

Risks to inflation associated mainly with the depreciation of the national currency in the previous year are diminishing, but will continue be be present in the future periods, through the prices of imported goods and tariffs of regulated services, higher excise duty on some categories of goods and later through the second-round effects, and through the prices of other goods and services. Inflationary pressures are expected to be persistent in the following quarters, including due to unfavourable agri-meteorological conditions in the previous year. At the same time, analysing the risk balance, the annual growth rate of prices is anticipated to gradually decrease 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 2017.

In January, the annual inflation rate was 13.4 percent, decreasing by 0.2 percentage points compared to the previous month, but increasing by 8.7 percentage points compared to January 2015. Similarly to previous periods, the dynamics of annual core inflation and food prices 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 of *food prices*[1] increased to 6.0 percentage points, while that of core inflation generated a lower impact compared to the previous month, accounting for 4.3 percentage points. Significant positive contributions of core inflation and food prices are mainly the result of national currency depreciation and the drought recorded in 2015. At the same time, the contribution from regulated prices decreased to 2.9 percentage points, while the contribution of fuel prices remained at the level of December, constituting 0.2 percentage points.

Monthly inflation rate constituted 0.7 percent mainly due to the increase of food prices by 1.2 percent. Prices of non-food products and services increased by 0.2 and 0.4 percent.

The annual rate of core inflation was 14.2 percent in January 2016, decreasing by 0.4 percentage points compared to the previous month.

In January 2016, the annual rate of core inflation was 0.9 percent. The most significant positive contribution was generated by the change in prices for components "cigarettes" (2.3 percent), "education and training" (2.2 percent), "*household goods*"[2](1.1 percent) and "entertainment services" (0.9 percent).

Food prices increased by 1.2 percent in the reporting month compared to December 2015, due to higher prices of "fresh vegetables" by 7.9 percent, "fresh fruits" by 7.5 percent, "potatoes" by 3.2 percent, "non-alcoholic beverages" by 1.0 percent, "fish and preserved fish" by 0.8 percent and "milk and dairy products" by 0.7 percent. At the same time, these increases have been slightly mitigated by by the decrease in prices of "eggs" by 12.8 percent and "meat, prepared or preserved meat" by 0.6 percent.

Excluding seasonal factors, food prices increased by 0.5 percent compared to the previous month. Thus, positive contributions to the formation of the monthly rate of food prices were recorded by sub-groups "fresh fruits", "fresh vegetables" and "milling and bakery products". 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, and by the depreciation of the national currency against the US dollar by 2.0 percent in the last three months.

The annual growth rate of food prices was 14.6 percent, by 0.3 percentage points more compared to December 2015 and by 10.1 percentage points higher than in January 2015.

In January 2016, fuel prices decreased by 1.9 percent compared to the previous month. This development was mainly influenced by lower prices of "fuels" by 4.1 percent. However, the prices of "bottled gas" and "earth coal" went down by 1.5 and 0.6 percent, respectively. Prices of "firewood" increased by 1.9 percent, while the prices of "liquid fuel" remained at the previous month level.

The annual growth rate of fuel prices was 2.7 percent in January 2015, by 0.6 percentage points less compared to December 2015 and by 2.2 percentage points less than in January 2015.

During the reporting month, prices of regulated products and services increased by 0.2 percentage points compared to December 2015. This development was largely determined by the increase in prices of medicines by 0.3 percent and health services by 0.9 percent. At the same time, prices of vehicle insurance services increased by 32.3 percent in January 2016. Insignificant contributions to the monthly dynamics of prices of regulated services were generated by the dynamics of prices of rail transport services, which decreased by 0.7 percent, while those of air transport services increased by 5.0 percent.

The annual growth rate of prices of regulated goods and services was 13.1 percent, by 0.4 percentage points lower compared to the previous month and by 11.2 percentage points more compared to the value recorded in January 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.

[1]In accordance with the methodology of CPI calculation, the weighting coefficients are changed annually, on the basis of personal expenses structure, according to the research data on households budgets in the year t-2, adjusted to the expenses structure of National Accounts (reference metadatahttp://www.statistica.md/public/files/Metadate/IPC.pdf [1]). The transition to new weighting coefficients (the share of food prices increased to the detriment of share of core inflation) was performed to calculate the CPI in January 2016.

[2] The increase of component "household goods" refers to small tools and accessories (0.6 percent), information processing devices (1.7 percent), household textile articles (0.8 percent), refrigerators and freezers (1.7 percent), etc.

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