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Inflation rate in October 2016

In October 2016, the annual inflation rate accounted for 2.5 percent, decreasing by 0.5 percentage points compared to September. It is for the second consecutive months outside the lower limit of the range of ± 1.5 percentage points from the 5.0 percent target.

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 oil prices evolution and the uncertainties for the international prices of raw materials and food products. Potential internal risks and uncertainties to inflation arise from the impact of changes in excise duties in 2017 and of harvest in 2017, respectively.

The annual growth rates of prices are expected to decrease in the next months. This will be determined by the prevalence of the disinflationary factors caused by modest internal demand in 2016 and the effects of this good crop year.

Thereafter, the annual inflation rate is expected to be within the target range during the first quarter of 2017 and is in line with the inflation forecast published in the Inflation Report no.4, 2016.

In October 2016, the annual inflation rate was 2.5 percent, decreasing by 0.5 percentage points compared to the previous month and by 10.7 percentage points than in October 2015, respectively. Similar to the previous periods, the annual dynamic of core inflation (1.8 percentage points) and food prices (1.4 percentage points) exerted the highest impact on annual inflation rate determined by the pronounced seasonal factor, the national currency depreciation during the last year and the drought of the previous year. It should be mentioned that their contributions are lower than the previous month. At the same time, the contributions from regulated prices and oil prices were negative: minus 0.5 and minus 0.1 percentage points, respectively.

The monthly inflation rate recorded a level of 1.3 percent, due to the increase in food prices by 2.4 percent and non-food prices by 0.6 percent and services by 0.5 percent.

The annual rate of core inflation recorded in October 2016 the level of 5.9 percent, decreasing by 0.8 percentage points compared to the previous month.

In October 2016, the annual rate of core inflation was 0.6 percent. The most significant positive contributions were generated by the change in prices of the subcomponents "cigarettes" by 2.8 percent, "footwear" by 2.0 percent, "clothing" by 0.9 percent, "daily household maintenance" by 0.7 percent etc., due to change in excise duties on cigarettes and to seasonal effect. The decrease in prices of "education and training" has mitigated the influence of these components over the core inflation rate during the reporting period.

In October 2016, food prices increased by 2.4 percent compared to the previous month, due to higher prices of "eggs" by 21.4 percent, "fresh vegetables" by 19.2 percent, "potatoes" by 6.4 percent, "milk and dairy products" by 0.9 percent and "fish and canned fish" by 0.7 percent. At the same time, these increases have been mitigated by the decrease in prices of "fresh vegetables" by 3.4 percent.

Excluding seasonal factors, food prices increased by 0.4 percent compared to the previous month. Therefore, the groups "potatoes", "eggs" and "fish and canned fish" contributed positively to the monthly growth rate of food prices. The increase in prices of "eggs" was driven by the increase in their export, which reduced their supply on domestic market.

The annual growth rate of food prices was 3.5 percent, by 1.1 percentage points lower than in September 2016 and by 10.0 percentage points than in October 2015.

In October 2016, fuel prices increased by 1.7 percent compared to the previous month. Their upward evolution was influenced by the increase of all subcomponents. Their dynamic is the result of the increase in petrol and diesel prices carried out by the oil companies during the reporting year and is in line with the provisions of the new Methodology of forming and applying the prices for oil products set by NERA, as well the trajectory of oil prices on international market and the national currency depreciation. According to the last legislative amendments, NERA will set only the retail trade prices of petrol and diesel fuels and not the liquefied gas prices. Thus, "bottled gas" prices increased by 4.4 percent. At the same time, "firewood" prices increased by 2.0 percent. This evolution was driven by the increased demand along with the beginning of heating season and the authorities' actions in stopping the cutting down forests. At the same time, prices of "liquid fuel" and "earth coal" increased by 2.3 and 0.7 percent than the previous month, respectively.

The annual growth rate of fuel prices was minus 1.1 percent in October 2016, by 0.7 percentage points higher than in September 2016 and by 3.2 percentage points lower than in October 2015.

In the reporting month, the prices of regulated services increased by 0.2 percent compared to September 2016. Thus, the tariff on "centralized heating" increased by 7.1 percent and "hot water operating" by 8.2 percent, while the medicine prices decreased by 1.7 percent.

The increase in tariff on "centralized heating" by 7.1 percent is the result of the NERA decision of 16 September 2016 to set the tariff for heat delivered to Chișinău consumers in the amount of MDL 1068.22 Gcal, increasing by MDL 81.22 or by 8.2 percent than the tariff in force since 2011. The tariff for "hot water operating" has been adjusted by 8.2 percent, as a result of the adoption of new heating tariff. These tariff increases determined the increase by 1.0 percent of the component "house maintenance expenditure".

The decrease in medicine prices occurred due to the decrease in prices for 160 medicines of social importance by 40.0 percent, as of 12 October 2016.

The prices for international rail transport services and air transport services recorded a decrease of 1.2 and 0.9 percent, respectively. At the same time, state houses rental increased by 0.6 percent, while the tariffs for health services - by 0.8 percent.

The annual growth rate of prices for regulated goods and services was minus 2.1 percent, by 0.1 percentage points lower compared to the previous month and by 16.0 percentage points lower compared to October 2015.

NBM will further monitor and anticipate the domestic and international economic environment developments, 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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