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Inflation rate in January 2017

In January 2017, the annual inflation rate was 3.0, increasing by 0.6 percentage points compared to the previous month and was below the lower limit of the range ± 1.5 percentage points from the 5.0 percent target.

The annual inflation rate recorded an increase in January 2017 after the downward trend of 2016. This development was determined by the dynamic of prices in January and by the effect of a low inflation level at the beginning of 2016.

The external inflationary risks are associated with the increase in international food, uncertainty of development of the oil and natural gas prices along with the acceleration in economic growth in the region. Potential internal risks and uncertainties to inflation arise from the persistence of a high liquidity level on money market, along with the impact of changes in excise duties and harvest in 2017, respectively. At the same time, the postponement of adjustments in tariffs for regulated services along with the expiry of custom duty on import of some products from Ukraine generate a disinflationary impact over the further development of inflation.

At the same time, annual inflation rate decreased in January 2017 by 10.4 percentage points compared to January 2016. Similar to the previous periods, annual dynamic of food prices[1] (1.5 percentage points) and of core inflation (1.2 percentage points) exerted the highest impact on inflation. This was determined by the pronounced seasonal factor, including the registration of the cold-weather conditions, which caused the increase in food prices, mainly for fruit and vegetables. At the same time, the inflationary impact was also caused by the upward trend of international oil prices. Their contributions were lower than the previous months. However, the contribution from regulated prices remained negative (minus 0.3 percentage points), while the contribution from oil prices increased up to 0.5 percentage points.

The monthly inflation rate recorded a level of 1.2 percent due to the increase in food prices by 2.2 percent and non-food prices by 0.9 percent and services by 0.3 percent.

The annual rate of core inflation recorded in January 2017 the level of 3.9 percent, decreasing by 0.6 percentage points compared to the previous month.

In January 2017, the annual rate of core inflation was 0.4 percent. The most significant positive contributions were generated by the change in prices for subcomponents "education and training" (1.9 percent), "catering" (0.8 percent), ""cigarettes" (0.7 percent). These developments were generated by the increase in fees for nursery and kindergarten, high food ratio in educational institutions and the change in excise duties for certain categories of goods.

In January 2017, food prices increased by 2.2 percent compared to the previous month, due to higher prices of "fresh vegetables" by 14.2 percent, "potatoes" by 9.8 percent, "fresh fruits" by 7.2 percent, "fats" by 1.2 percent and "fish and canned fish" by 1.1 percent. At the same time, these increases have been offset by the

decrease in prices of "eggs" by 1.5 percent.

Excluding seasonal factors, food prices increased by 1.0 percent compared to the previous month. Thus, the subgroups "fresh vegetables", "fresh fruits" and "potatoes" contributed positively to the monthly growth rate of food prices.

The annual growth rate of food prices was 3.8 percent, by 1.0 percentage points higher than in December 2016 and by 10.8 percentage points than in January 2016.

In January 2017, fuel prices increased by 4.1 percent compared to the previous month. The upward development was influenced by the increase in prices of "fuels", which increased by 6.0 percent. 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, being determined by the dynamic of oil prices on international market. The prices of "bottled gas" increased by 2.3 percent. At the same time, the prices of "earth coal" and "firewood" increased by 2.7 and 1.4 percent, respectively.

The annual growth rate of fuel prices was 7.9 percent in January 2017, by 6.3 percentage points higher than in December 2016 and by 5.2 percentage points than in January 2016.

In the reporting month, the prices of regulated products and services maintained the level of December 2016. At the same time, the prices for international rail transport services decreased by 6.0 percent, while those for air transport services increased by 2.3 percent. The prices of medicines decreased by 0.4 percent due to lack of pressures from the evolution of national currency against the U.S. dollar and as a result of the negotiations between the Government and big pharmacy networks. The prices of remote communication services increased by 0.3 percent as a result of the changes made by Moldtelecom S.A.

The annual growth rate of prices for regulated goods and services was minus 1.3 percent, decreasing by 0.2 percentage points compared to the previous month and by 14.4 percentage points compared to January 2016.

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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[1] According to the CPI calculation methodology, the weighting coefficients are annually modified based on the structure of household expenditure in accordance with data of researches on household budgets in year t-2 adjusted to the structure of monetary expenditure from National Accounts (metadata of reference http://www.statistica.md/public/files/Metadate/IPC.pdf [1]). The changeover to the new weighting coefficients (the weight of regulated prices and weight of core inflation increased to the detriment of the weight of food and oil prices) has been carried out in order to calculate the CPI of January 2017.

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