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Evolution of inflation rate in May 2018

In May 2018, the annual inflation rate recorded 2.8%, a level by 0.9 pp. lower than in the previous month, thus falling, as forecasted, below the lower limit of the variation range of ± 1.5 pp. from the 5.0% target.

According to statistical data on the evolution of the annual inflation rate for April and May, inflation has been closely following the projected trajectory, thus validating the forecast published in May 2018.

The evolution of inflation in May 2018 was driven by modest aggregate demand and the effect of a high base period recorded in 2017.

The highest contribution to the annual inflation rate (1.7 pp.) recorded food prices, whereas core inflation and fuel prices generated contribution of 1.1 and 0.5 pp., respectively. Regulated prices generated a negative contribution of -0.5 pp., by 0.1 pp. lower than in the previous month.

At the same time, in the reference month, the annual rate of core inflation recorded a level similar to the previous month of 3.5%.

The monthly inflation rate recorded virtually the same values as in the previous month. The 0.5% decrease in food prices was offset by the increase in non-food goods prices by 0.2% and in services by 0.5%, being determined by their shares held in CPI.

The monthly core inflation rate in May increased by 0.4%. The most significant price increases were recorded for "culture and recreation" component, being driven by the increase of 43.6% in prices for “tourism abroad” and for "cigarettes" by 1.2%. A decrease in prices was recorded in the “education and training” segment, which resulted from the drop in fees for “nurseries and kindergartens” by 2.4% and for "cars and trailers" by 1.5%.

The decrease in food prices by 0.5%, as compared to April 2018, was particularly driven by the fall in prices for "eggs" (-18.4%), "fresh vegetables" (-3.1%), "sugar" (-1.8 %) and "milk and dairy products" (-1.2%). At the same time, food prices increased as a result of higher prices set for "potatoes" (19.8%), "fresh fruit" (0.9%) and "alcoholic beverages" (0.4%). Excluding the seasonal factor, food prices dropped by 0.3% compared to the previous month.

In May 2018, fuel prices rose 1.8% over the level of the previous month. This development was mainly determined by the rise in prices for “fuels” by 3.6%, which generated a contribution of 1.9 pp. The price dynamics of fuels were driven by price increases for gasoline and diesel fuel in line with the oil price trend recorded on the international market. Prices for "bottled gas" and "coal" fell by 0.5% and 0.3%, respectively. Prices for "firewood" and "liquid fuel" remained at the level of April 2018.

In the reference month, prices for regulated services and products declined by 0.1% compared to the previous month. The development was driven by the decrease of 0.4% in drug prices and by 0.6% in the international rail transport services, the latter being mitigated by the 0.4% increase in air tariffs.

The annual growth rate of prices for regulated products and services recorded -2.2%, having decreased by 0.6 pp. compared to the previous month and by 9.3 pp. compared to May 2017.

For the coming months, the NBM anticipates a modest aggregate demand (yet remaining close to potential), which will continue generating disinflationary pressures.

At the same time, starting with the second half of the third quarter, it is being expected the intensification of risks associated with inflation projection as a result of rising international prices for oil and commodity, the uncertainties generated over the duration of this increase (which together with other factors could determine the modification of tariffs for regulated services in 2019), trade disputes among the main players of the world economy, price sensitivity of domestic agricultural products to weather conditions, as well as the uncertainties raised by the 2018 harvest.

Thus, analysing the balance of risks, it should be mentioned that there is a probability of the reversing of the inflationary trend starting with the end of the third quarter of 2018.

The NBM will continue to monitor internal and external economic developments and will employ the inflation targeting framework to maintain the medium-term price stability.

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