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Inflation rate in April 2016

In April 2016, consumer prices index (CPI) for the last 12 months constituted 8.3 percent, decreasing by 1.1 percentage points versus the previous month, continuing to exceed the upper limit of the range of variation of ± 1.5 percentage points from 5.0 percent inflation target.

It should be mentioned that 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 the gradual decrease of the annual inflation, also due to the high base of comparison in 2015.

The external risks to inflation remained significant, disinflationary, 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, which reflects the future dynamics of inflation. However, potential internal risks to inflation arise from the volatility of international prices for raw materials and the oil prices uncertainties.

In April 2016, the annual inflation rate was 8.3 percent, decreasing by 1.1 percentage points compared to the previous month and by 0.7 percentage points higher than in April 2015. Similar to the previous periods, the annual dynamic of food prices and core inflation exerted the highest impact on annual inflation rate under the influence of the national currency depreciation during the last year and the drought of the previous year. However, their contribution was lower than that of the previous month. Thus, the contribution from food prices decreased to the level of 3.8 percentage points, while that of core inflation - to the level of 2.9 percentage points. At the same time, the contribution from regulated prices decreased to the level of 1.7 percentage points, while the contribution from fuel prices was minus 0.3 percentage points, reaching the level of the previous month and exerting a significantly lower impact on other subcomponents.

The monthly inflation rate maintained the level of March 2016 (0.0 percent), due to the increase in food prices by 0.9 percent and the decrease in tariffs for public services by 1.5 percent. It should be mentioned that in April 2016, the non-food prices maintained the previous month level.

The annual rate of core inflation registered in April 2016 the value of 9.7 percent, decreasing by 0.5 percentage points compared to the previous month.

In April 2016, the annual rate of core inflation was 0.3 percent. The most significant positive contributions were generated by the change in prices of the components "cigarettes" (1.0 percent), "footwear" (0.8 percent), "education and training" (0.7 percent), and "clothing" (0.4 percent). The decrease in prices of "furniture" and "construction materials" (by 0.2 and 0.1 percent, respectively) mitigated, to a greater extent, the increase of the core inflation monthly rate.

Food prices increased in the reporting month by 0.9 percent compared to March 2016, due to the increase in

prices of "fresh fruits" by 5.9 percent, "fresh vegetables" by 5.0 percent, "sugar and its substitutes " by 1.2 percent and "alcoholic beverages" by 0.7 percent. At the same time, these increases were mitigated by the decrease in prices of "eggs" (minus 6.4 percent) and "milk and dairy products" (minus 1.2 percent).

Excluding seasonal factors, food prices increased by 0.4 percent compared to the previous month. Therefore, the subgroups "fresh vegetables" and "potatoes" contributed positively to the monthly growth rate of food prices. It should be mentioned that the increase in prices of the aforementioned products was mainly influenced by the occurrence of seasonal products (new potatoes, strawberries). At the same time, prices of "milk and dairy products" and "meat and meat products" decreased for the third consecutive month.

The annual growth rate of food prices was 9.3 percent, by 0.8 percentage points lower than in March 2016 and by 1.5 percentage points higher than in April 2015.

In April 2016, fuel prices decreased by 0.1 percent compared to the previous month. This evolution was mainly influenced by the decrease in prices of "earth coal" by 1.7 percent. At the same time, prices of "fuels", "firewood", "bottled gas" and "liquid fuel" maintained the level of March 2016.

The annual growth rate of fuel prices was in April minus 3.8 percent, maintaining the level of March 2016 and by 9.1 percentage points lower than in April 2015.

In the reporting month, prices of regulated products and services decreased by 2.1 percent compared to March 2016. This evolution was mainly determined by the decrease in electricity prices by 9.9 percent, under the Decision of 12 March 2016 of the Council of Administration of NERA that updated the tariffs in force for electricity supply and distribution. The legislative amendments to pharmaceutical activity adopted by the Parliament of the Republic of Moldova caused for the first time in last three years the decrease in medicine prices by 1.7 percent. At the same time, prices for international rail transport services recorded a decrease of 1.4 percent and those for air transport services - of 0.2 percent.

The annual growth rate of prices for regulated goods and services was 7.6 percent, by 3.2 percentage points lower compared to the previous month and by 3.8 percentage points higher compared to the value recorded in April 2015.

In this context, analysing the balance of risks, the annual growth rate of prices is projected to decrease gradually, with the return in the third quarter of 2016 within the range of variation.

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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