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Inflation rate in June 2016

In June 2016, the growth rate of consumer prices index (CPI) for the last 12 months was 7.4 percent, by 0.5 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.

It should be mentioned that the annual rate of inflation continued its downward trend since the beginning of this year. This confirms the latest forecast of the NBM on the gradual lowering of annual inflation under a modest domestic demand, adjustment of electricity tariff in April, lower food and energy resources prices at regional and global level, but also due to high base of comparison in 2015.

External risks associated disinflationary pressures are marked by weak economic activity in the euro area countries and the ongoing recession in 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 dynamics of inflation. Potential risks to inflation stemming from major fluctuations in financial markets that might affect the oil market. The main internal risks are associated with the delay in tariff adjustment. At the same time, the existing weather conditions favour an increase compared to the previous year, agricultural production, which will adversely affect the growth of food prices over 2-3 consecutive quarters and will cause further decline in consumer inflation. Thus, analysing the balance of risks, there is an increased prevalence of disinflationary risks and it is anticipated a process of rapid reduction in the annual rate of price growth, also due to the high base of comparison in 2015.

In June 2016, the annual inflation rate was 7.4 percent, decreasing by 0.5 percentage points compared to the previous month and by 0.9 percentage points compared to June 2015. Similarly to previous periods, the dynamics of annual food prices (3.1 percentage points) and core inflation (2.9 percentage points) exerted the greatest impact on the annual inflation rate under the influence of the depreciation of the national currency and the drought recorded in the previous year. However, their contribution was less than in the previous month. At the same time, the contribution from regulated prices was slightly less than the previous month and constituted 1.6 percentage points, while the contribution from fuel prices was negligible, similar to previous periods, but negative.

Monthly inflation rate was minus 0.3 percent mainly due to the decrease of food prices by 1.1 percent. Their negative impact was partially mitigated by the increase in prices of non-food products by 0.3 percent. It should be mentioned that in June 2016, services prices remained at the previous month level.

The annual rate of core inflation was 9.3 percent in June 2016, decreasing by 0.5 percentage points compared to the previous month.

In June 2016, the annual rate of core inflation was 0.2 percent. The most significant positive contribution

was generated by the change in prices for subcomponents "daily household maintenance" by 0.6 percent, "personal items" by 0.4 percent, "household articles" by 0.4 percent, "footwear" by 0.4 percent. The decrease in prices of "means of transport, auto parts" (by 0.4 percent) supported the slowdown in core inflation during the reporting period.

In June 2016, food prices decreased by 1.1 percent compared to the previous month, due to lower prices of "fresh vegetables" by 14.1 percent, "potatoes" by 13.4 percent, "milk and dairy products" by 0.8 percent and "fresh fruits" by 0.1 percent. At the same time, however, these reductions were mitigated by higher prices of "eggs" by 24.0 percent, "fish and canned fish" by 0.8 percent, "sugar and its substituents" by 0.6 percent and "non-alcoholic beverages" by 0.5 percent.

Excluding seasonal factors, food prices increased by 0.1 percent compared to the previous month. Thus, positive contributions to the formation of the monthly rate of food prices were recorded by sub-groups "eggs", "meat and meat products", "milk and dairy products" and " milled products". Also, the decreasing vector was supported by lower prices of "fresh vegetables" and "potatoes".

The annual growth rate of food prices was 7.6 percent, decreasing by 0.5 percentage points compared to May 2016 and by 1.6 percentage points compared to June 2015.

In June 2016, fuel prices increased by 0.4 percent compared to the previous month. Their upward evolution was mainly influenced by higher prices of "fuels" by 3.2 percent. Their dynamics is the result of increases in the prices of petrol and diesel fuel made by oil companies during the reporting month. This increase is consistent with the new Methodology for the formation and application of petroleum prices set by ANRE (effective from 13 May 2016), and the trajectory of oil prices on the international market. According to this methodology, ANRE, every 14 calendar days, on Tuesdays, sets the ceiling retail prices of petrol, diesel fuel and liquefied natural gas, which can not be exceeded by market operators. Prices of "bottles gas" decreased by 15.3 percent. At the same time, prices of "firewood", "earth coal" and "liquid fuel" remained at the level recorded in May 2016.

The annual growth rate of fuel prices was minus 3.2 percent in June 2016, by 0.1 percentage points less compared to May 2016 and by 9.1 percentage points less than in June 2015.

During the reporting month, prices of regulated products and services increased by 0.1 percent compared to May 2016. This development was largely determined by the increase in prices of "medicines" by 0.7 percent. At the same time, prices for international rail services have increased by 1.4 percent, while those for air services decreased by 1.6 percent.

The annual growth rate of prices of regulated goods and services was 7.4 percent, by 0.1 percentage points lower compared to the previous month and by 3.5 percentage points more compared to the value recorded in June 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.

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