

On Consumer Prices in December 2021 and 2021 overall

## In 2021, the level of consumer prices was most significantly affected by the rise in world prices for energy resources and food

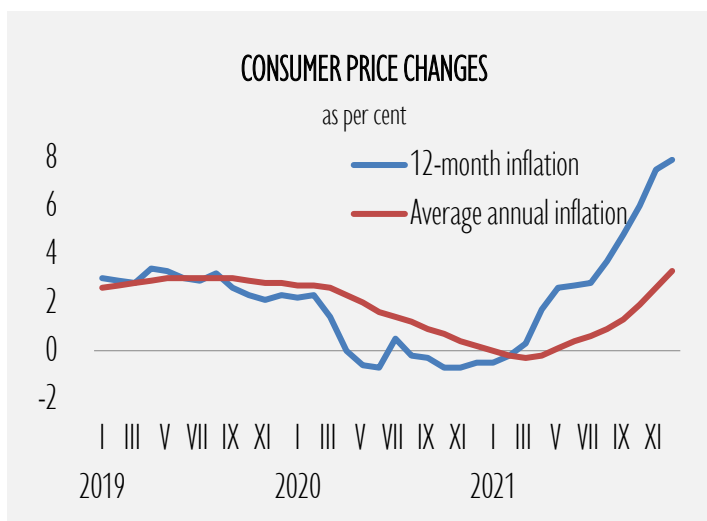
According to the Central Statistical Bureau (CSB), in December 2021, compared to November 2021, the consumer price level increased by 0.4%, representing the most rapid price increase in December over the last five years. The average price level for goods and services increased by 0.3% and 0.5%, respectively. The largest impact on price changes provided the rise in prices for food and electricity, as well as the fall in prices for fuel and clothing and footwear.

In December 2021, compared to December 2020, the average consumer price level increased by 7.9 percent, representing the largest price increase since March 2009.

The largest impact on the average consumer price level during the year yielded the rise in prices for electricity, gas, and other fuels, thus elevating the overall consumer price level by 2.4 percentage points. The rise in natural gas prices was primarily driven by rising world oil prices. Tariffs for natural gas were increased from 1 January and 1 July 2021. Overall, in 2021, the price of natural gas rose by 51.3%. The increase in prices for natural gas affected the rise in the price of heat energy, especially in the second half of the year, increasing by 21.9% annually. The sharpest price increase for heat energy was observed in September and November due to the tariff increase in Riga. However, the price of electricity increased by 32.7%, which was caused by the rise in prices for natural gas, as well as higher demand.

The rise in food prices had a large upward effect, with prices rising by 7.2% over the year. Consequently, the overall consumer price level increased by 1.9 percentage points. The increase was primarily affected by the sharp rise in world food prices. The largest upward effect yielded the rise in prices for dairy products, bread and cereals, fresh vegetables and potatoes. However, prices declined for pork. Changes in food prices are largely determined by fluctuations in world prices. World food prices rose sharply in all months of the year, with the exception of June, July, and December, reaching their highest level in a decade. World food prices rose by an average of 28% over the year. World food prices grew in all major food groups. Vegetable oils and sugar increased most rapidly. On the other hand, prices for dairy and meat products increased moderately. World food prices have risen sharply since mid-2020, driven by weaker supplies from major producing countries and a sharp rise in import demand for vegetable oils and sugar, as well as rising crude oil prices, shifting more production to biofuels. The slower rise in dairy prices was driven by weaker global import demand and growing exports from Oceania in the summer months, while meat prices fell since August this year, mainly due to falling pork prices due to lower Chinese purchases, especially from the European Union.

Due to the rise in world oil prices, prices for fuel in Latvia increased by 30.3% over the year, thus elevating the overall consumer price level by 1.6 percentage points. In December 2021, world oil prices increased by almost 50%, compared to December 2020, with prices rising almost continuously throughout 2021, with only a slight decline in April, August, and the end of the year. In October 2021, the price of Brent oil peaked at \$ 86 a barrel, i.e., the highest price since October 2014 and more than four times the record low of \$ 19 a barrel in April 2020, caused by a sharp drop in energy demand due to the Covid-19 pandemic. The sharp rise in oil prices in 2021 was driven by OPEC + 's decision not to change the planned modest increase in production, continuing limited oil supplies in spite of high oil prices and rising demand, as the economy recovered from the Covid-19 crisis.



Prices for services increased by 3.8% during the year, elevating the overall consumer price level by 1 percentage point. The increase can mainly be attributed to higher prices for outpatient services due to higher prices for dental services and services for medical specialists, recreational and cultural services (participation in leisure and sports events and television subscription fees), and catering services.

Due to the increase in the excise duty on alcoholic beverages and tobacco products, prices increased by 2.9% during the year, increasing the overall price level by 0.2 percentage points. The largest impact in this group of products provided the rise in prices for cigarettes, spirits, and liqueurs.

The most rapid annual rise in clothing and footwear prices since 1999 has been observed. Prices for clothing and footwear increased by 3.8%, elevating the overall price level by 0.2 percentage points. The increase was primarily driven by a sharp rise in prices in April and a slower fall in prices in the summer months, driven by rising demand due to the easing of measures restricting the spread of Covid-19. In December 2021, the lowest decline in clothing and footwear prices over the last fifteen years has been observed.

Overall, in 2021, the average annual inflation was 3.3%. Price changes are expected to exceed the level of seasonal fluctuations in the coming months as well. The main impact on price developments will continue to be related to rising global energy and food prices, and their second-round effects on industrial goods and services prices are anticipated. From spring (April-May 2022), consumer prices will stabilize. However, given the rise in prices in the first months of the year and the base effect, overall annual inflation will be higher in 2022 than in 2021. At the same time, it will still largely be determined by global price fluctuations.