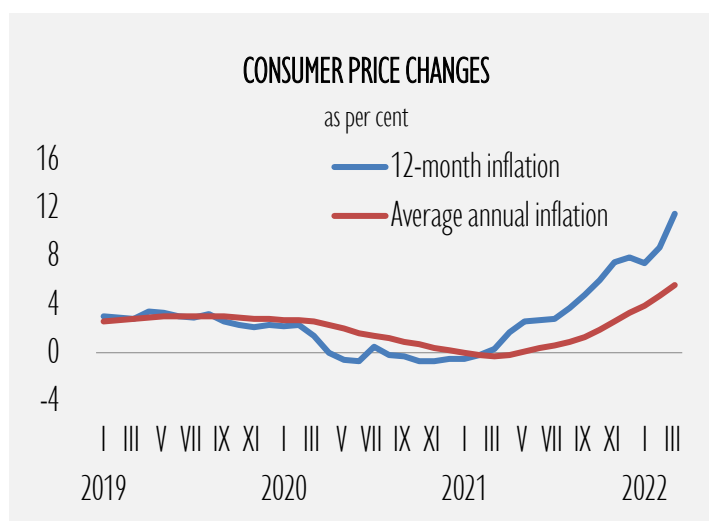


On Consumer Prices in March 2022

In March 2022, price growth has been more rapid than characteristic for the month

According to the Central Statistical Bureau (CSB), in March 2022, compared to February, the consumer price level increased by 3.3%. It rose by 4.1% and 1% for goods and services, respectively.

In recent years, the consumer price level in March has increased by 0.7-1.2 percent, except in 2020, when consumer price inflation was lower due to Covid-19. The rise in prices in March can primarily be attributed to the seasonal rise in prices for clothing and footwear and the increase in excise duty rates. March saw a sharp rise in prices, which continues to be affected by a sharp rise in world prices.



In March 2022, the largest upward effect was observed for the rise in fuel prices, which increased by 17.1%, thus elevating the overall consumer price level by 1.3 percentage points. High fuel prices continue to be affected by the sharp rise in world oil prices. World oil prices rose by an average of 19.5% during the month, with Brent rising sharply to \$130 a barrel at the beginning of the month, mainly due to the US decision to ban Russian energy imports due to its invasion of Ukraine and Britain's announcement to abandon Russian oil imports by year's end. In the middle of the month, the price of oil fell to the level of February, fuelled by China's new restrictions on Covid-19 and concerns about its impact on oil demand. Nevertheless, prices rose again on the imposition of an oil embargo on Russia, as well as concerns about the sharp rise in inflation and the slowdown in world economic growth following the war in Ukraine. Oil prices fell to \$108 a barrel at the end of the month due to the current progress in peace talks between Russia and Ukraine and renewed concerns about China's energy demand in the wake of the Covid-19 outbreak, which has sent millions of people in Shanghai into a lockdown, as well as the US announcement of oil reserves stabilization. At the same time, the persistence of high oil prices is supported by the OPEC + agreement to continue moderately increase oil production, despite calls from several countries to increase oil production faster. It should be noted that at the beginning of April the price of Brent oil dropped to USD 100 per barrel and the further impact on Latvian fuel prices could be more moderate than in March.

In March 2022, the sharp rise in prices was also affected by the rise in food prices, which was mainly determined by the already rapidly rising world prices and the Russian invasion of Ukraine. In Latvia, food prices increased by 2.6% and the overall consumer price level rose by 0.7 percentage points. The largest impact yielded the rise in prices for dairy products, meat, coffee, bread and cereals, and fresh vegetables. World food prices have been rising again since the beginning of this year, following a slight decline in December last year. In March 2022, world food prices rose markedly (by 12.6%), with the food price index rising to an all-time high. In March, prices rose in all major food groups, reaching all-time highs in the vegetable oil, cereals, and meat price indices. The price of sugar also increased significantly; however, the increase was more moderate for dairy products. The rise in prices was mainly driven by declining export supplies in the context of the ongoing conflict in the Black Sea region, in particular Ukraine's inability to export sunflower oil, wheat, and poultry. Prices also continued to be affected by weak output in other major food-producing countries, supply concerns, rising global import demand, and soaring crude oil prices.

The rise in prices for electricity (by 14.7%), solid fuels (by 4.3%), and heat (by 0.9%) also had an upward effect in March, elevating the overall consumer price level by 0.6 percentage points.

In March 2022, with the cessation of season sales, prices rose for clothing and footwear. Prices for clothing and footwear rose by 7% over the month, increasing the overall consumer price level by 0.4 percentage points.

In March 2022, prices for services increased by 1%, thus elevating the overall consumer price level by 0.3 percentage points. The largest upward effects were observed in the rise in prices for outpatient services, complex leisure services, catering and transport services, and motor insurance.

A significant increase in prices for personal care and beauty products was observed (by 8.1%), which increased the overall price level by 0.2 percentage points. Prices also rose for alcoholic beverages and tobacco products (by 0.9%), increasing the overall price level by 0.1 percentage point.

In March 2022, compared to March of the previous year, consumer prices increased by 11.5%. The average annual inflation was 5.6 percent.

Price changes are anticipated to significantly exceed the level of seasonal fluctuations in the coming months. The main impact on price developments will continue to be related to rising world prices for energy and food, which will be largely affected by geopolitical tensions in the region due to Russia's aggression in Ukraine. Their second-round effects on the prices of industrial goods and services are also anticipated. Overall, average annual inflation in 2022 is expected to be significantly higher than in 2021 and could exceed 10 percent.