

On Consumer Prices in December 2022 and 2022 Overall

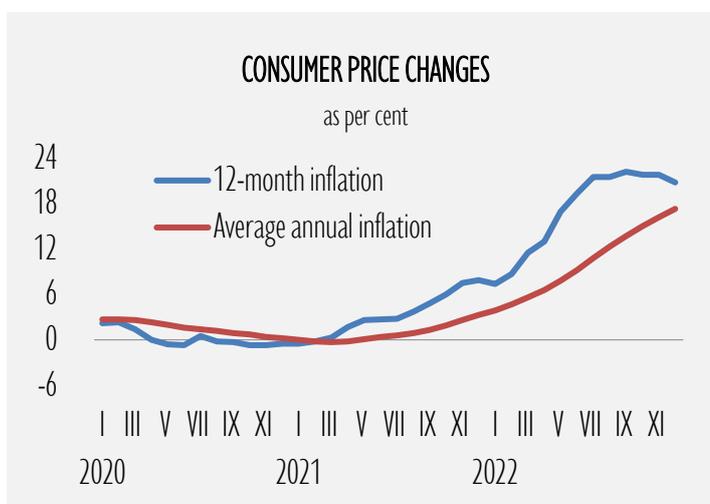
Inflation last year was affected by the increase in world prices for energy resources and food; in 2023, the price increase will stabilize

According to the data of the Central Statistical Bureau (CSB), in December 2022, compared to November 2022, the level of consumer prices decreased by 0.5%, which was the sharpest price drop in the month of December in the last eight years. The average price level for goods decreased by 0.9%, while for services it increased by 0.9%. The largest impact on price changes yielded the fall in prices for fuel and clothes and shoes, as well as the rise in prices for food and electricity.

In December 2022, the level of consumer prices increased by 20.8%, compared to the corresponding period last year. Overall, the average annual inflation in Latvia in 2022 reached 17.3%. In recent years, the sharpest price increase was due to a rapid rise in global energy and food prices, exacerbated by the Russian invasion of Ukraine and subsequent sanctions, which lead to shortages of energy, food, and manufacturing raw materials.

The largest impact on the average level of consumer prices during the year provided the increase in the prices of food products, which is related to the increase in the prices of these goods in the world. The prices of food and non-alcoholic beverages in Latvia increased by 29% during the year, elevating the overall level of consumer price level by 7.4 percentage points. Prices increased for all food products, the largest positive effect provided the increase in the prices of bread and cereals, milk, cheese and eggs, as well as meat and its products. Local changes in food prices largely determine global price fluctuations. Already since the middle of 2020, global food prices have risen sharply, caused by a rapid increase in import demand, delays in processing and transportation due to labour shortages caused by Covid-19, and rising crude oil prices. The situation was worsened by Russia's invasion of Ukraine in February 2022, raising concerns about future global food supplies, as both Ukraine and Russia are major producers of agricultural products. Global food prices rose sharply in the first months of the year, with the food price index hitting a new all-time high in March. During the year, the most rapid price increase was observed for dairy products and cereals, more moderate for meat and sugar, while vegetable oils fell sharply. Since April 2022, food prices in the world have been gradually decreasing. Therefore, food prices experienced a moderate drop during the year - by 1%. However, due to the rapid increase in previous years, prices still remain elevated. The decline in prices since April was driven by weak demand and a strong US dollar, as well as uncertainty in the market about the future direction of demand due to high inflation and the economic slowdown. In December 2022, compared to December 2019, food prices in the world increased by 31%; in Latvia - by 39.8% during the same period.

The increase in the prices of housing-related energy resources – electricity, gas, solid fuel, and thermal energy – had a major positive effect, which increased the overall level of consumer prices by 6.5 percentage points. The support measures introduced by the government to compensate for the rapid increase in the prices of energy resources from January 1, 2022 to April 30, 2022 and from October 1, 2022 to April 30, 2023 (for natural gas from July 1, 2022), were of great importance, partially compensating households for electricity, natural gas, and heat energy payments and thus slowing down the even faster rise in prices in this group of energy resources. The largest impact during the year yielded the practically constant increase in heat energy prices by 75.7%, which can be primarily attributed to the increase in the prices of natural gas and wood chips. As the prices of wood products used for heating rose rapidly on the market, the increase in the prices of solid fuel was significant, reaching 105.2% during the year, and the most rapid increase was observed in April-July 2022. Natural gas tariffs were



increased between January 1, 2022 and July 1, 2022. Overall, the price of natural gas increased by 133.7% during the year. This process was affected by the rapid rise in natural gas prices on the stock exchange since the fall of 2021. In 2022, the price increase continued, which was largely related to the Russian invasion of Ukraine and the subsequent sanctions, when several countries closed or limited the import of Russian gas. In addition, a gas supply interruption was initiated by Russia itself. On the other hand, the increase in electricity prices had a relatively minor impact - by 22.9% during the year. This indicator was significantly affected by the support provided by the state, both by compensating payments for distribution and transmission services at the beginning of the year, by cancelling the mandatory procurement component (MPC) from September 1, 2022 and by partially compensating the price for households for the first 100 kWh from October 1, 2022. The price of electricity increased very rapidly in May-August 2022, in response to the increase in natural gas prices in the world, unfavourable weather conditions for electricity production in Europe, and capacity limitations of the cross-sections of the electricity transmission system between Latvia and other countries. The set of the mentioned circumstances determined a rapid rise in electricity prices on the stock exchange. The increase in prices was also influenced by the price increase from September 1, 2022 for JSC "Latvenergo" customers who use payments with a fixed tariff.

Prices for services increased by 11.5% during the year, elevating the overall level of consumer prices by 3 percentage points. The largest impact yielded the increase in the price of housing-related services (water supply, sewerage services, waste collection), catering services and outpatient services, mainly dental and specialist services. Prices also increased significantly for recreational and cultural services (including recreational and sports events, television subscription fees, visits to cinemas, theatres, concerts), maintenance and repair of personal vehicles, motor vehicle insurance, as well as mobile phone services.

Fuel prices in Latvia increased by 17.9% during the year due to the rise in world oil prices, elevating the overall consumer price level by 1.2 percentage points. Fuel prices rose particularly rapidly in the first half of the year, as the rise in global oil prices, after falling in the last months of 2021, was very rapid in the first months of 2022. The price of Brent oil reached 130 USD per barrel, which was mainly influenced by the invasion of the oil-producing country Russia in Ukraine and the response of other countries: the ban imposed by the United States on the import of Russian energy resources, the announcement by the United Kingdom about the refusal of the import of Russian oil until the end of the year, as well as the discussions of the EU member states on the embargo determination of Russian oil imports. Global oil prices had fallen since the middle of the year, with Brent falling to around \$77 a barrel in mid-December, a 12-month low. This was mainly driven by concerns about insufficient demand for oil as growth slowed in all major economies, also affected by decisions by central banks to raise interest rates to combat rising inflation. Overall, world oil prices rose by around 9% in December 2022, compared to December 2021.

Also, a significant increase in prices for alcoholic beverages and tobacco products, goods related to home furnishings and household appliances, personal hygiene goods and beauty care products, clothes and shoes was observed, elevating the overall consumer price level by 1.6 percentage points.

In 2023, consumer prices will stabilize. The consumer price level will be largely affected by fluctuations in the prices of energy resources and food in the world, and their secondary effects on the prices of industrial goods and services. Considering the uncertain geopolitical situation and the base effect of inflation dynamics, in 2023, the average annual inflation is expected to be within 9%.