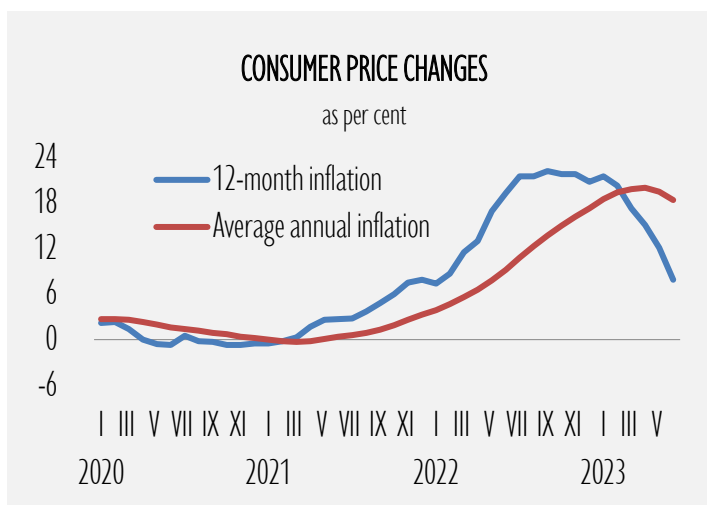


On Consumer Prices in June 2023

In June 2023, the sharpest monthly price decline since August 1993 has been observed

According to the data of the Central Statistical Bureau (CSB), in June 2023, compared to May, the level of consumer prices decreased by 1.4%. It decreased by 2% and 0.5% for goods and services, respectively.

The month of June is characterized by an increase in prices, which is traditionally determined by the increase in consumer prices for food. This year, prices fell very sharply in June, which was the sharpest monthly price decline since August 1993. The sharp decrease in prices was influenced by the drop in prices for energy resources, while prices for food practically remained at the level of the previous month.



In June, the most significant negative impact on consumer prices stemmed from a decline in prices for housing-related energy resources, resulting in a 1.1 percentage point reduction in the overall consumer price level. This decrease encompassed all major categories of energy resources, with the most substantial influence coming from a remarkable 14.2% drop in thermal energy prices. This significant reduction was primarily driven by the adjustment of thermal energy tariffs in Riga. Furthermore, the decline in prices for energy resources associated with heat supply, including wood chips and natural gas, is expected to contribute to the ongoing decrease in thermal energy prices in July. This is based on information indicating approved reductions in thermal energy tariffs in several municipalities starting from July 1, 2023. Additionally, the price of electricity experienced a notable decline in June, with a decrease of 5.4%.

Fuel prices extended their decline for the fourth consecutive month in June, registering a 2.2% reduction that contributed to a 0.2 percentage point decrease in the overall consumer price level. Both diesel and gasoline prices saw declines during this period. Despite a significant drop in the previous month, world oil prices experienced a modest 1% decrease in June, with Brent crude oil averaging around \$75 per barrel for the second consecutive month. Several factors, including concerns about China's economic slowdown, a decline in U.S. exports, and the decisions of European central banks to raise interest rates, fueled apprehensions of a potential recession and reduced demand for crude oil. This decrease in demand occurred despite the OPEC+ agreement reached on June 4, 2023, to cut oil production by an additional 1.4 million barrels per day and Saudi Arabia's announcement of production cuts scheduled for July.

As a result of promotions, prices for clothing and footwear decreased by 2.8% in June, which reduced the overall level of consumer prices by 0.15 percentage points.

The surge in food prices has come to a halt, with food prices remaining virtually unchanged for the second consecutive month. In June 2023, food prices experienced a slight decline, mirroring the previous month's 0.1% decrease. The most notable contributing factor to this decline was the drop in fresh vegetable prices, while conversely, potato prices witnessed the most substantial increase. It's worth noting that global food product prices continued their downward trajectory, declining by 1.4% in June and marking a significant 20.9% decrease over the year. This June price reduction was driven by declines in sugar, vegetable oils, cereals, and dairy product prices, while meat prices remained relatively stable. Notably, sugar prices saw a sharp drop, the first in four months, but they remained 29.7% higher than the previous year. The decline in sugar prices was influenced by favorable prospects for the 2023/2024

sugar cane harvest in Brazil and decreased demand, especially from China. The price index for vegetable oils hit its lowest point since November 2020, experiencing a 45% year-over-year decrease due to weak global import demand and ample export supplies. June saw continued price decreases for all major cereal types, with wheat declining by 1.3%, driven by Northern Hemisphere harvests, abundant supplies from Russia, and improved conditions for US harvests. Overall, world grain prices were 24% lower than in the previous June. The decline in the dairy product price index persisted in June, primarily influenced by falling cheese prices, attributed to increased export opportunities resulting from seasonally high milk production in Western Europe and reduced retail sales. Powdered milk prices experienced a slight drop due to decreased demand in North Asia and higher deliveries from New Zealand. Conversely, butter prices rose due to heightened immediate delivery demand, especially from the Middle East, and increased retail sales in Western Europe. Among meat products, June witnessed rising prices for poultry and pork, nearly offset by declines in beef and sheep meat prices. Poultry prices increased for the third consecutive month, driven by sustained high import demand, particularly from Asia, and concerns regarding potential supply disruptions due to widespread bird flu outbreaks. Pork prices were influenced by prolonged tight supplies in leading production regions, notably the EU. Conversely, increased deliveries from Australia and Oceania contributed to the decline in beef and mutton prices.

Also, a significant price drop in June for personal hygiene products and beauty care products by 3.5% was observed, which reduced the overall price level by 0.1 percentage points.

The most substantial upward impact on consumer prices in June came from a 0.5% increase in service prices, contributing to a 0.1 percentage point rise in the overall consumer price level. Leading this positive effect was the uptick in transportation service costs, driven in part by higher prices for international flights. Additionally, notable increases in prices were observed for outpatient and catering services, housing rent, and comprehensive recreation services. Conversely, prices for sewage services and accommodations saw significant declines during this period.

In June 2023, compared to June of the previous year, consumer prices increased by 7.9%. Annual average inflation was 18.4%.

In the future, the main influence on price changes will continue to be related to energy resource and food price fluctuations in the world, and their secondary influence on the prices of industrial goods and services will also be observed. Considering the tense geopolitical situation and the base effect of inflation dynamics, in 2023 the average annual inflation is expected to be within 9%.