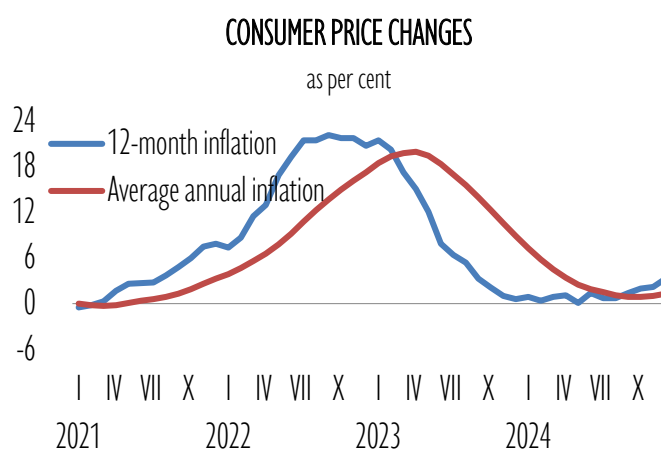


## On Consumer Prices in 2024 and December 2024

## The consumer price level in 2024 was most significantly affected by price increases for services and food

According to the Central Statistical Bureau, in December 2024, compared to November 2024, the consumer price level increased by 0.2%, which was the fastest price increase in December in the last three years. The average price level for goods did not change, but for services, it increased by 0.9%. The greatest impact on price changes was the increase in prices for food, services, and fuel, as well as the decrease in prices for clothing and footwear, personal hygiene products and beauty products, and housing-related energy resources.



In 2024, consumer prices overall increased faster than in the previous year. Consumer prices in December 2024, compared to December of the previous year, increased by 3.3%. This continued to be affected by world prices and the unstable geopolitical situation.

The increase in service prices had a significant impact on the overall price increase during the year. Service prices increased by 6.3% overall, which increased the overall consumer price level by 1.6 percentage points. In the services sector, the largest upward impact was the increase in prices for outpatient services, mainly due to an increase in the price of dental and medical specialist services. Recreational and cultural services (including television subscription fees, recreational and sports events, museum, theater, concert attendance), telecommunications services, housing management services, maintenance and repair of personal vehicles, waste collection, as well as catering services also had a significant impact. In turn, prices decreased significantly for passenger air transportation.

Food prices continued to increase in 2024. Overall, food and non-alcoholic beverage prices increased by 5.5% during the year, which increased the overall consumer price level by 1.4 percentage points. Prices increased in all main food product groups. The most significant impact on the increase in the average price level was the increase in prices in the dairy product group and the non-alcoholic beverage group.

Local changes in food product prices are largely determined by price fluctuations in the world, which in December 2024, compared to December of the previous year, increased by 6.7%. The sharpest price increases were for vegetable oils and dairy products, meat prices increased somewhat more moderately, while cereal and sugar prices decreased. The price increase for vegetable oils was determined by lower-than-expected production volumes and also concerns about the expected decline in output in major producing countries, while for dairy products – by strong demand for immediate deliveries and limited stocks in major producing regions, especially in Western Europe. In turn, the price decrease for cereals was influenced by strong competition among exporters, especially the increase in export volumes from the Black Sea region and Russia, while for sugar – by an increase in production volumes in India, Thailand, and Brazil. It should be noted that in December 2024, compared to December 2019, food prices in the world increased by 26%, in Latvia during this period – by 51.4%. The average price level of alcoholic beverages and tobacco products increased by 6.6% during the year, which increased the overall price level by 0.5 percentage points. Prices of alcoholic beverages increased by 3.2%, while prices of tobacco products increased by an average of 13%. The most significant impact was the increase in prices of cigarettes.

The largest downward impact in 2024 was the decline in prices for energy resources related to housing – electricity, gas, solid fuel, and heat, which reduced the overall price level by 0.6 percentage

points. The largest impact was the practically continuous decline in heat prices in all months, except July–September. For heat energy, prices decreased by 9.5% in total during the year, which can be explained by the decrease in natural gas and wood chip prices, allowing several municipalities to reduce heat energy tariffs. Prices for solid fuel and electricity decreased more moderately – by 2.6% and 3.8%, respectively. The more rapid decline in electricity prices was significantly slowed down by the increase in the distribution system service tariff from January 1, with the end of state support to partially compensate for its price increase and the entry into force of new tariff values, as well as new regulations on the maximum permitted increase in the tariff for households. It should be noted that the average electricity price of the Nord Pool system for the Baltic region in 2024, compared to the previous year, had decreased by 7%, which was mainly driven by greater development of renewable energy resources – solar, wind, and hydroelectric power plants – as well as a slightly lower average natural gas price in Europe. In turn, natural gas prices decreased by only 0.6%, where the reduction in natural gas prices for the next trading period for services provided to households with a fixed price from May 1 had a greater impact than the increase in natural gas prices for the next period from November 1 and the increase in distribution system service tariffs from January 1.

Fuel prices in Latvia decreased by 0.8% during the year, which reduced the overall price level by 0.1 percentage points. The increase in fuel prices at the beginning and end of the year was offset by a more rapid price drop in May–June and August–September. Prices decreased for diesel fuel but remained practically unchanged for gasoline.

It should be noted that global oil prices in December 2024 had decreased by approximately 5.4% compared to December 2023. At the beginning of the year, global oil prices increased, mainly due to OPEC+ oil production cuts, Ukrainian attacks on Russian refineries, uncertainty surrounding the ceasefire between Israel and Hamas, and attacks by Yemen's Houthi rebels on cargo shipping in the Red Sea, raising concerns about oil supply disruptions. However, oil prices fell sharply in August–September, falling to around \$69 per barrel in the first half of September, reaching the lowest level since early December 2021. This was mainly driven by signs of a possible increase in oil supply on the market, with Saudi Arabia announcing an increase in production from December, as well as the expected resumption of oil production in Libya as the government settles internal disputes, as well as ongoing concerns about the slowdown in China's economy, which may not achieve growth targets, reinforcing concerns about a decline in demand from the largest oil consumer. However, oil prices rose again in October, with Brent crude rising to US\$81 per barrel at the beginning of the month, which was associated with increasing geopolitical risks in the Middle East, but by the end of the month the oil price fell again to US\$73 per barrel and remained there on average in the last months of the year, as Israeli responses were more restrained and proportionate than markets feared, raising hopes for further de-escalation of the regional conflict. In December, there were some signs of economic recovery in China, supported by recent government stimulus, but looking ahead, the oil market will face significant uncertainty, including the risk of oversupply, geopolitical tensions, and possible changes in oil policy under the next US presidential administration.

Overall, the average annual inflation rate in Latvia in 2024 was 1.3%. It is expected that the price level will remain stable in 2025. The main impact will be the new tax changes, both on the supply side in connection with the increase in taxes and tariffs, and on the demand side, with an increase in after-tax wages, which will increase the purchasing power of the population. In 2025, the average annual inflation rate will be higher than that observed in 2024 – around 2%. At the same time, price changes will continue to be significantly influenced by price fluctuations in the world, as well as by global developments, especially the geopolitical situation.