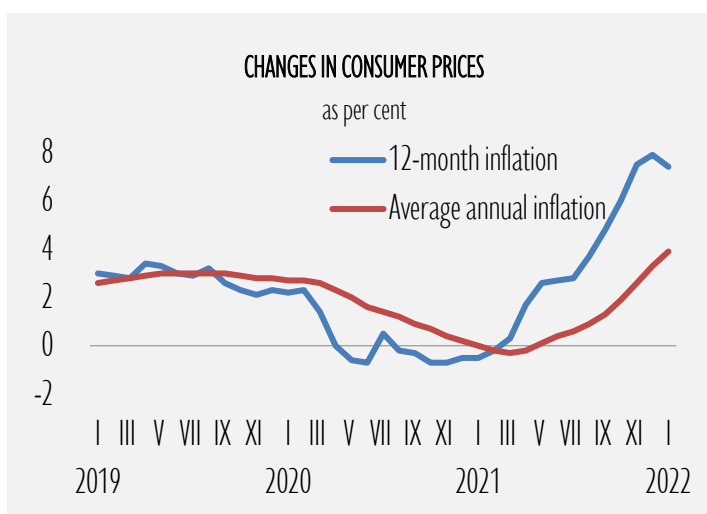


On Consumer Prices in January 2021

The level of consumer prices in January was affected by support to reduce the extraordinary rise in energy prices

According to the Central Statistical Bureau (CSB), in January 2022, compared to December 2021, the level of consumer prices remained essentially unchanged. It decreased by 0.2% for goods. However, the consumer price level for services increased by 0.5%.

Traditionally, prices have risen in January. In January 2021, the level of consumer prices was lower than in recent years, mainly due to the support measures introduced by the government to compensate for the sharp rise in energy prices from 1 January to 30 April 2021.



The largest downward effect in January provided the fall in electricity prices by 38.3%, which reduced the overall consumer price level by 1.4 percentage points. This was mainly due to the abolition of the mandatory procurement and capacity component from 1 January and the payment of transmission and distribution system services in the framework of state aid.

The fall in prices for clothing and footwear (- 3.4%) had a dampening effect in January on seasonal sales, reducing the overall consumer price level by 0.2 percentage points, respectively.

In January 2021, the largest upward effect yielded a 1.9% rise in food prices, elevating the overall consumer price level by 0.5 percentage points. Traditionally, in January a seasonal price increase for food can be observed. In particular, in January 2021, the sharpest increase this month since 2011 was recorded. The largest impact provided the rise in prices for fresh fruit and vegetables and the fall in prices for milk and eggs. It should be noted that world food prices rose again in January 2021 and January of the previous year. Over the month, world food prices rose by 1.1%. In January 2012, the rise in prices was driven by stable increases in vegetable oil and dairy prices, which were partly offset by the fall in sugar prices for the second consecutive month, while prices for meat and cereals remained virtually unchanged. The vegetable oil price index reached an all-time high in January 2021. The rise in prices continued to be driven by weak output in the main producing countries, supply bottlenecks, growing global import demand and rising crude oil prices. Dairy prices rose for the fifth consecutive month, with the sharpest increases in skimmed milk powder and butter prices due to declining export availability, especially from Western Europe, concerns about production volumes in Oceania, and delays in milk processing and transport due to labour shortages caused by Covid-19.

The increase in prices for natural gas for a part of the population is also compensated from 1 January 2021. However, considering the increase in tariffs from 1 January 2021, the price for natural gas increased by 31.9% during the month. Prices also increased for heating and solid fuels by 2.9% and 5.5%, respectively. Along with the rise in prices for natural gas it elevated the overall consumer price level by 0.5 percentage points.

A significant increase in prices for personal care and beauty products by 6.3%, which increased the overall price level by 0.1 percentage points, was also observed.

In January 2021, prices for services increased by 0.5%, elevating the overall consumer price level by 0.1 percentage point. The largest upward effect was observed in the increase in prices for waste collection, which was affected by the rise in the natural resources tax, for outpatient and catering

services. However, the largest downward effect provided the fall in prices of passenger transport services and pre-school education due to VAT reduction.

In January 2021, a slight rise in fuel prices was also observed. In Latvia, fuel prices increased by 1.5% over the month, and the overall consumer price level rose by 0.1 percentage point. High fuel prices continue to be affected by the sharp rise in world oil prices. It should be noted that world oil prices, after falling in the last months of the previous year, rose sharply again in January this year - by an average of 14.4% during the month, with Brent oil prices rising to the highest level in seven years at USD 90 per barrel. The rise in oil prices was affected by hopes for a global economic recovery that would boost oil demand, the OPEC + agreement to continue increasing oil production, unrest in the oil-producing country of Kazakhstan, and unrest over geopolitical tensions in Ukraine.

In January 2022, compared to January of the previous year, consumer prices increased by 7.4%. The average annual inflation was 3.9 percent.

Price changes are expected to 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, and their second-round effects on industrial goods and services are anticipated. From spring, consumer prices will stabilize. Nevertheless, given the expected price increase in the coming months and the base effect, overall average inflation in 2022 will be higher than in 2021. At the same time, it will still be determined by global price fluctuations.