



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

Underlying drivers of inflation in Malta



Outline of the presentation

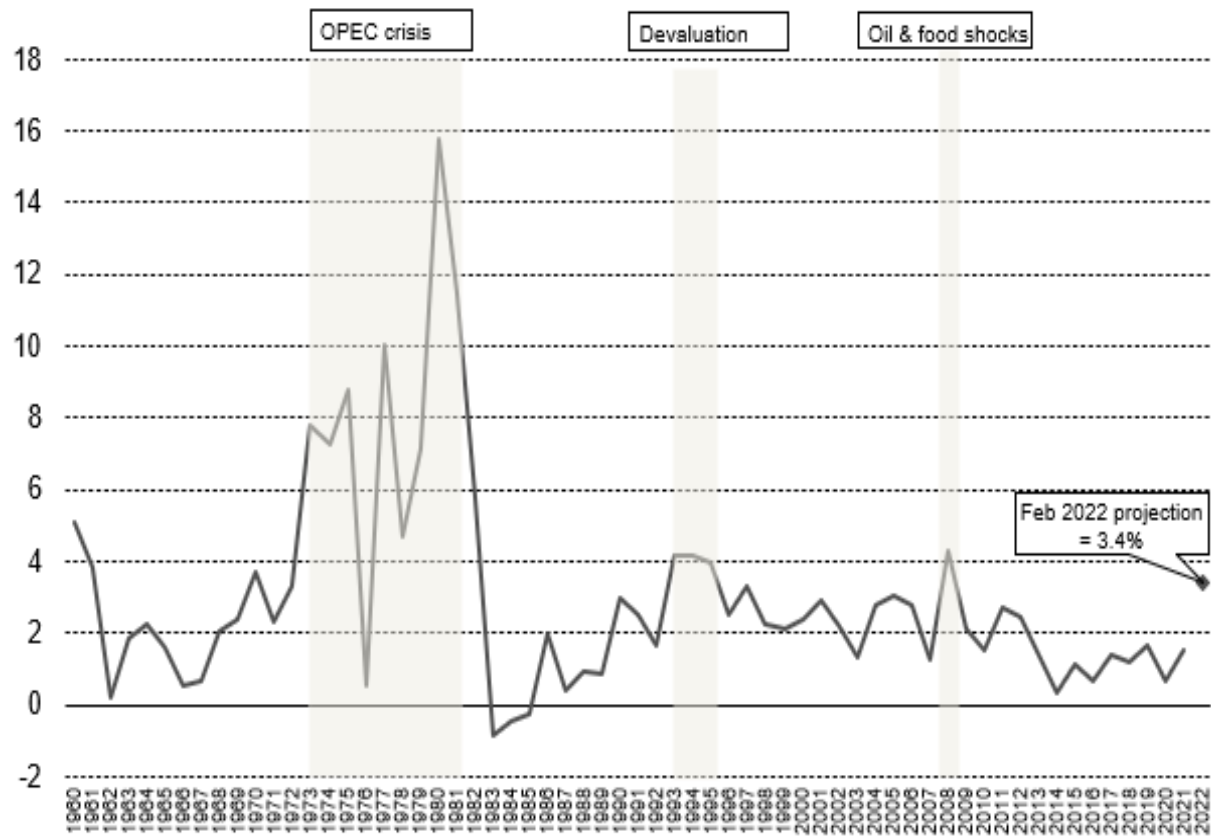
- Historical context
- Recent outcomes
- Inflation outlook

Historical context

Historical inflation rates

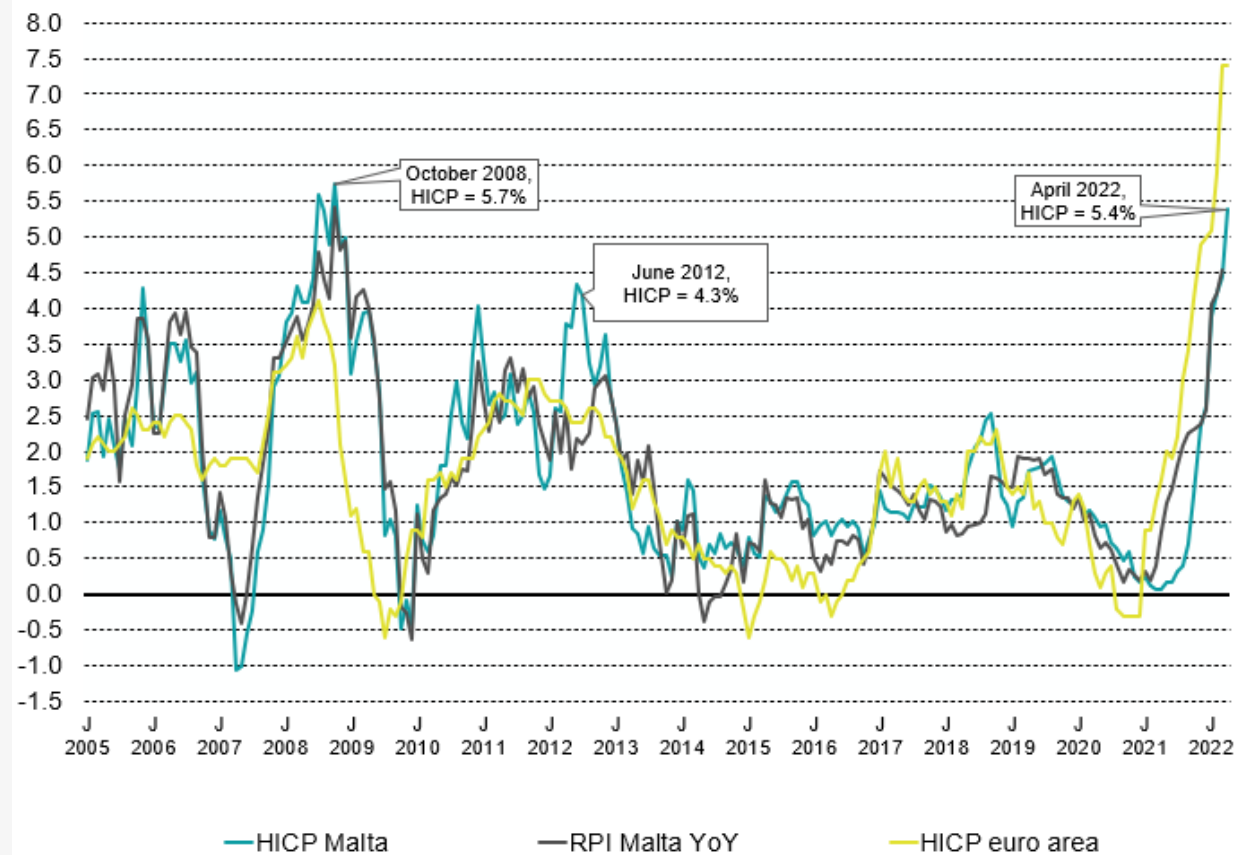
HISTORICAL INFLATION RATES - RPI

(annual averages, percentage changes)



RPI AND HICP IN MALTA

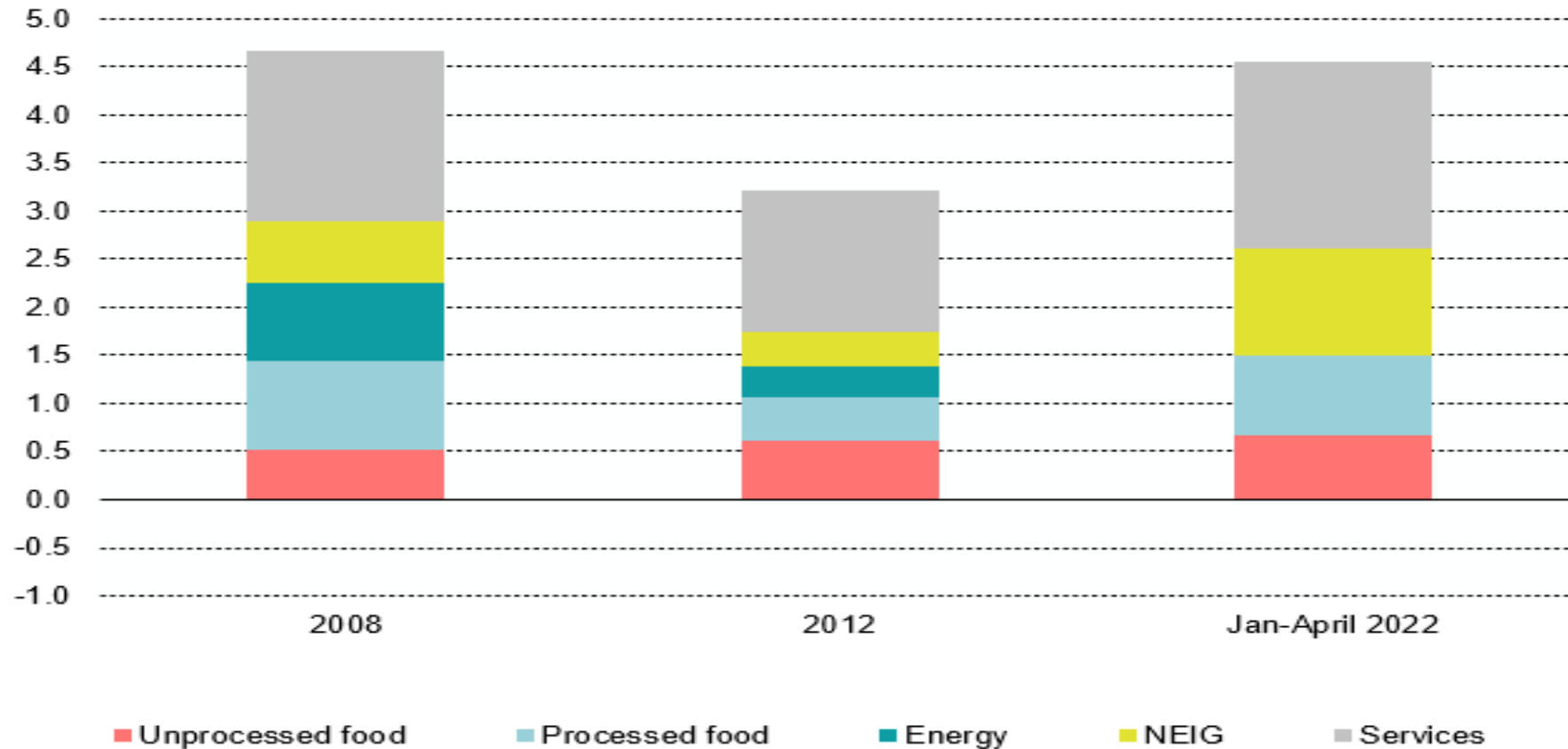
(monthly observations; annual percentage changes)



Sources: Eurostat, NSO

Main contributors to HICP during high inflationary periods

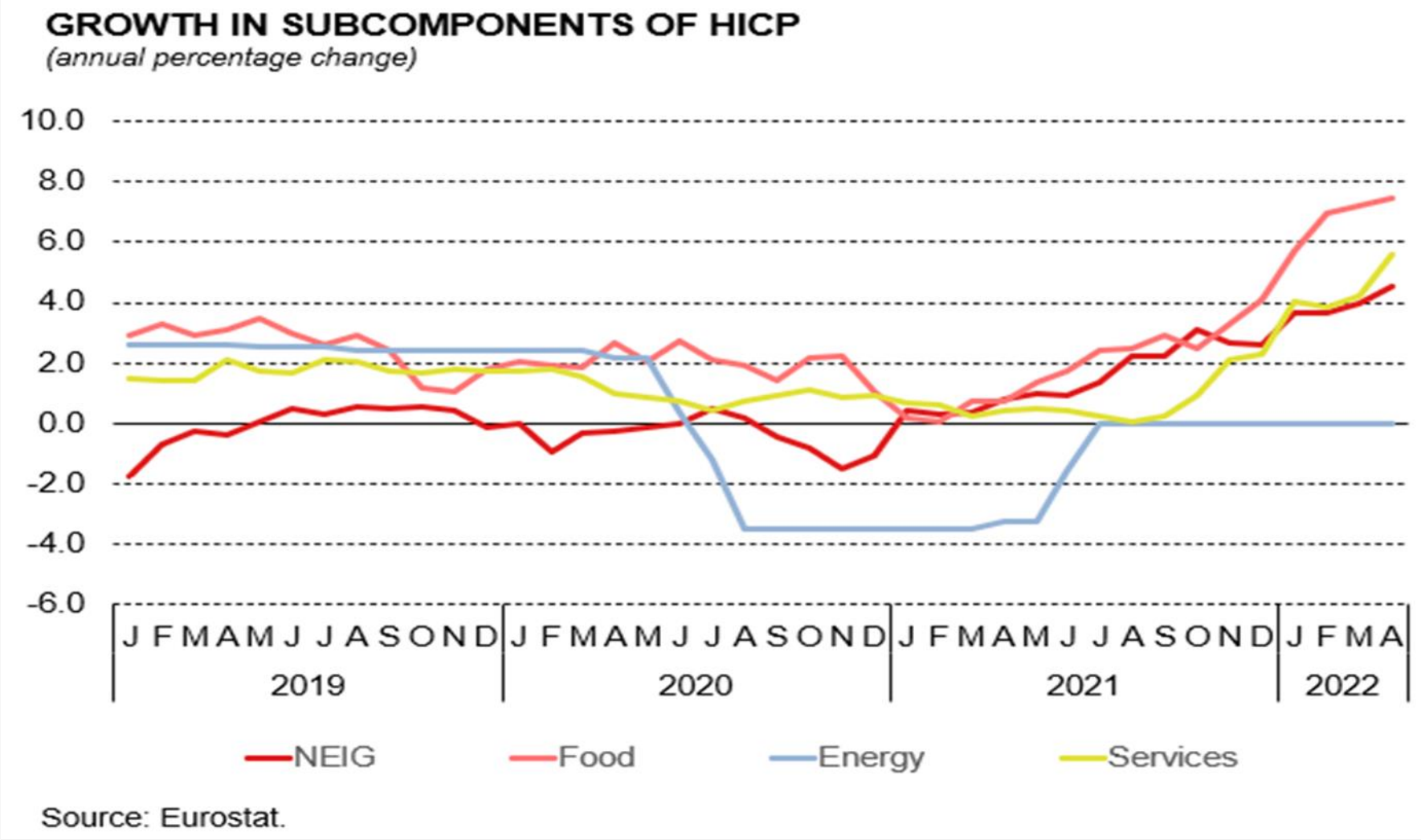
CONTRIBUTIONS TO HICP INFLATION OF HIGH INFLATIONARY PERIODS
(percentage points)



Source: Eurostat.

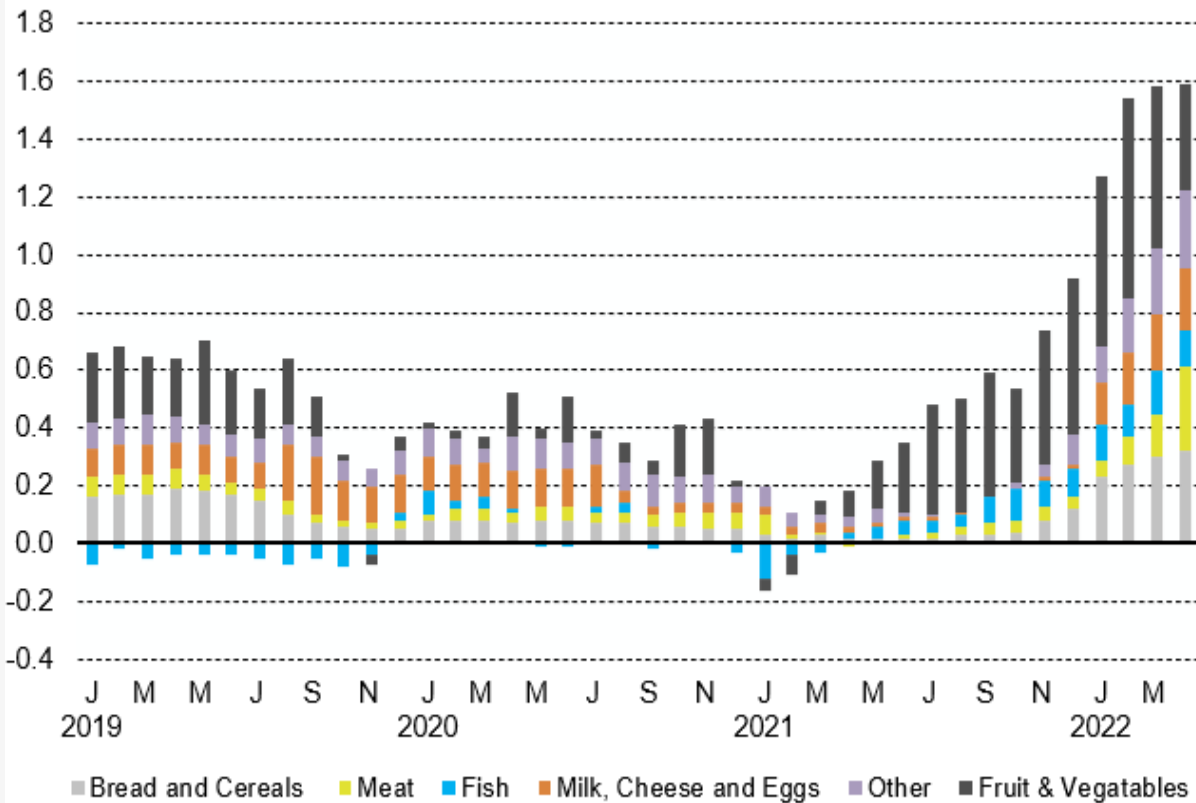
Recent outcomes

All subcomponents of HICP picked up, except for energy



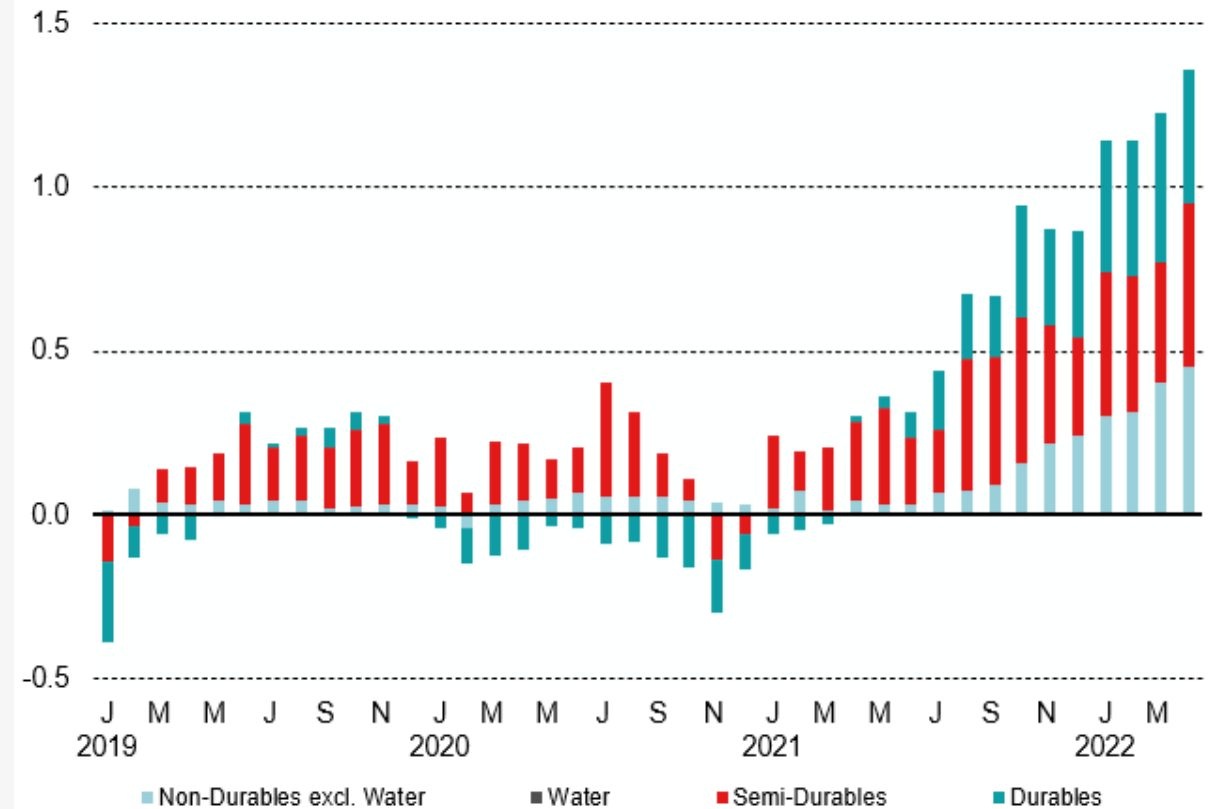
A broad-based pick-up in food and goods inflation

CONTRIBUTIONS OF FOOD TO HICP INFLATION
(percentage points)



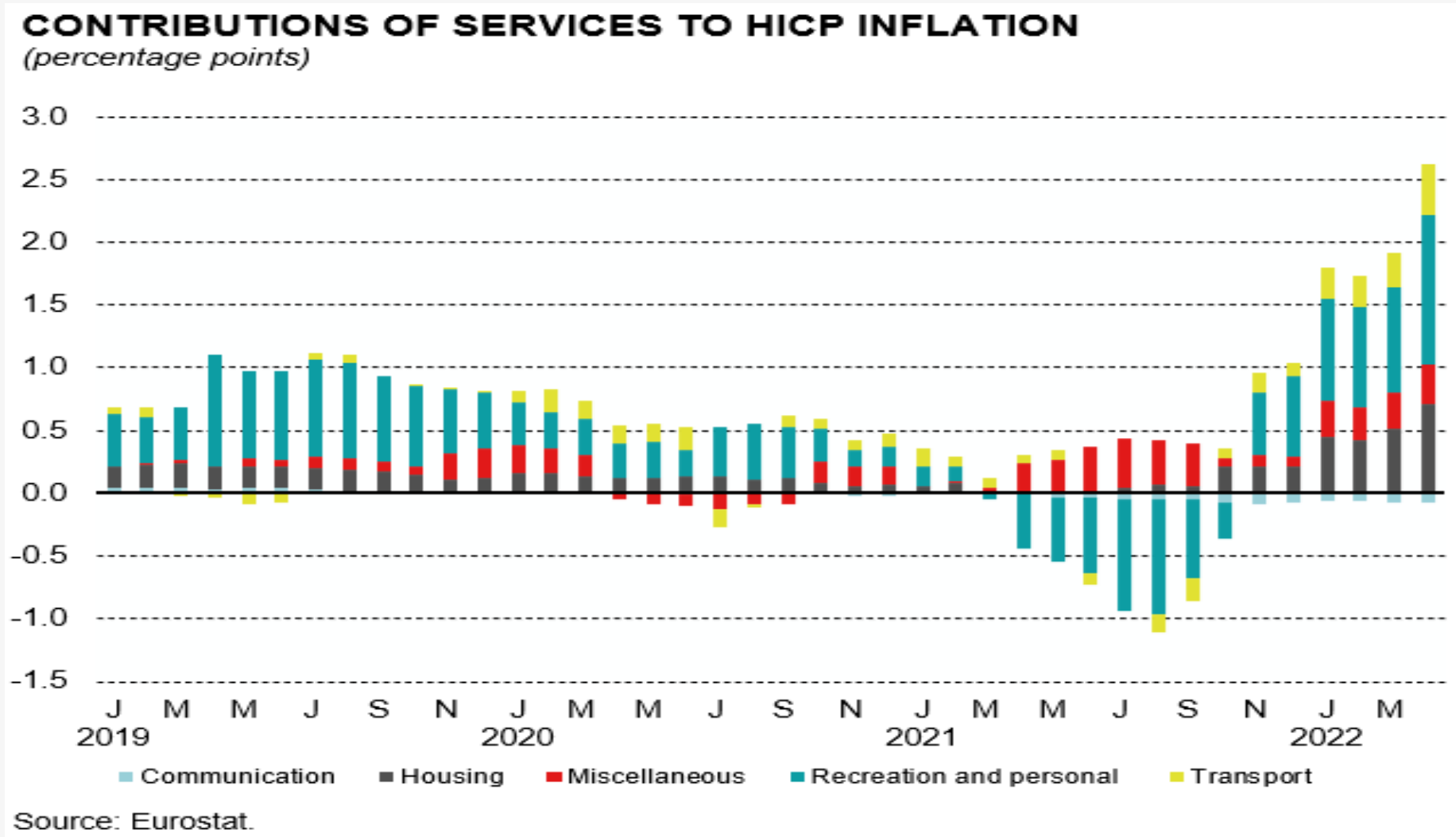
Source: Eurostat.

CONTRIBUTIONS OF NEIG TO HICP INFLATION
(percentage points)

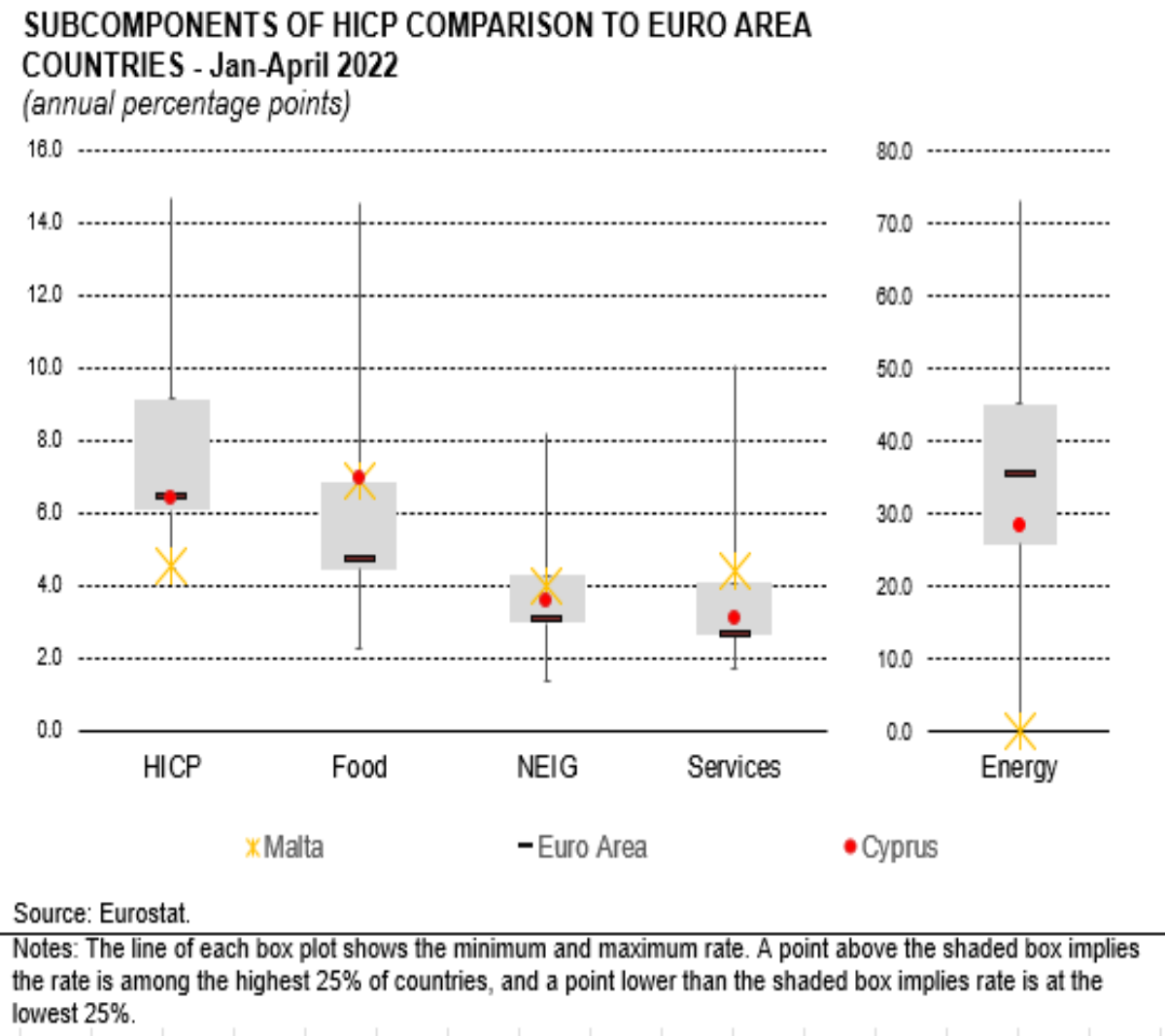
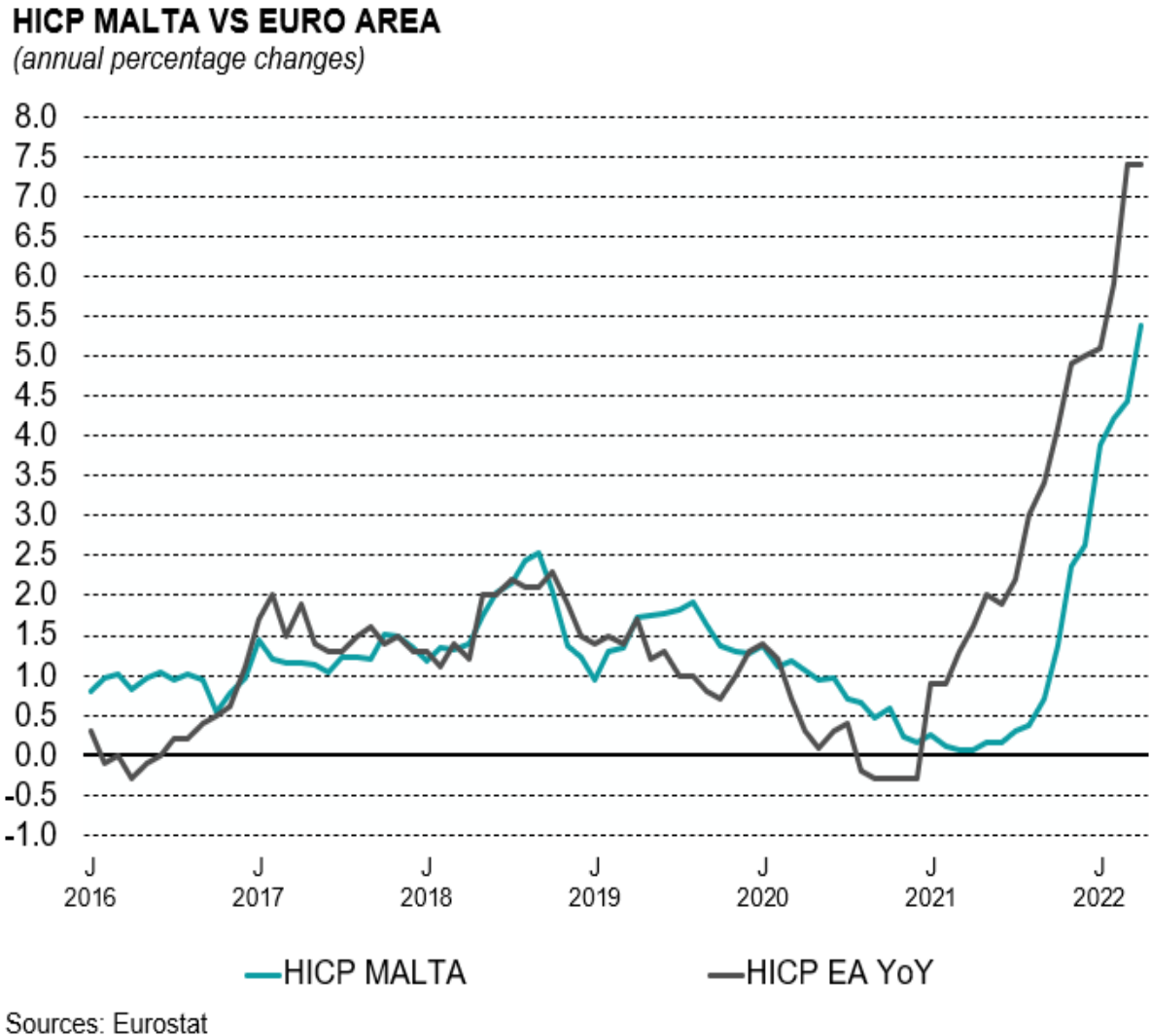


Source: Eurostat, CBM own estimates.

Services inflation – driven primarily by recreation and personal care

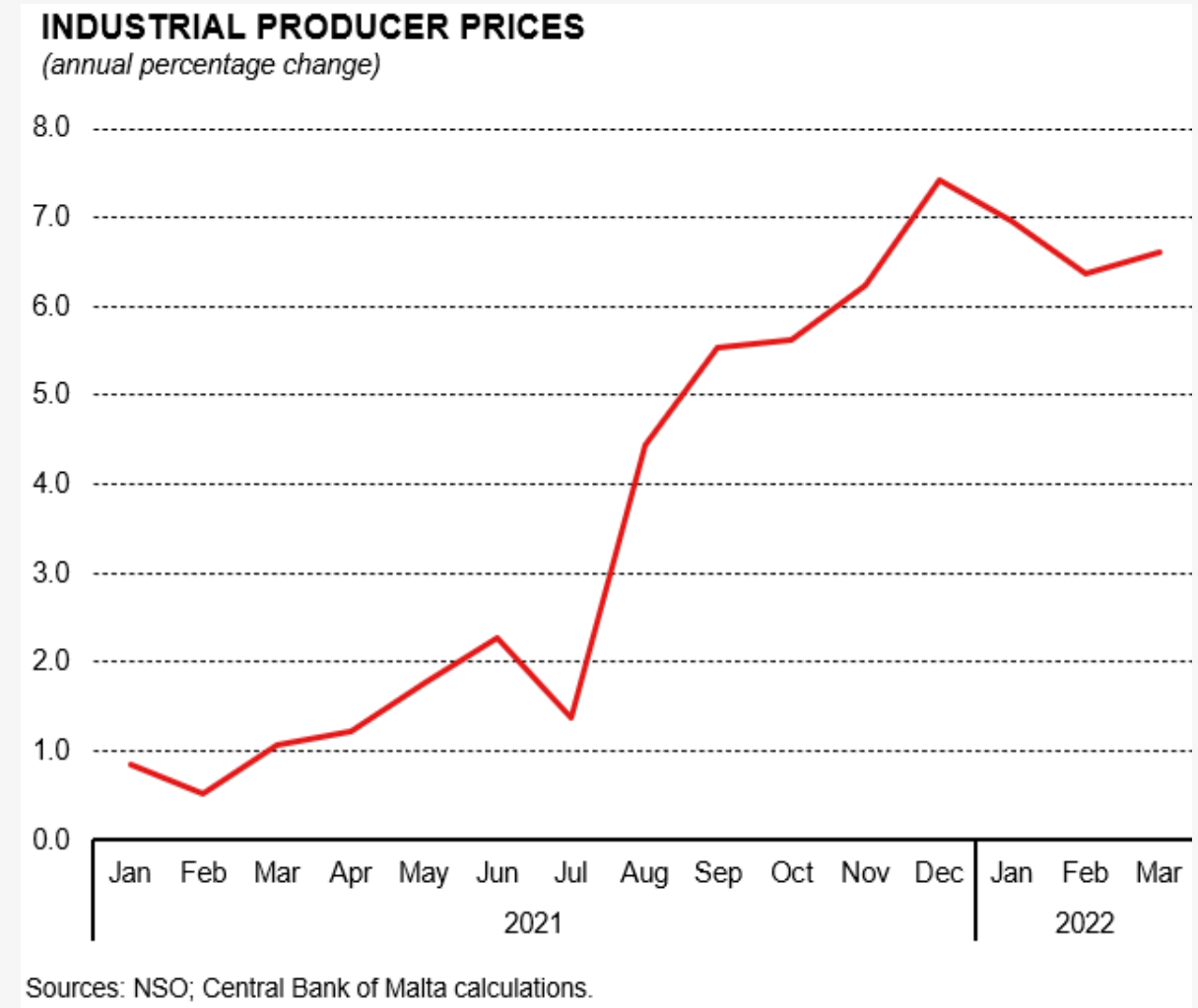
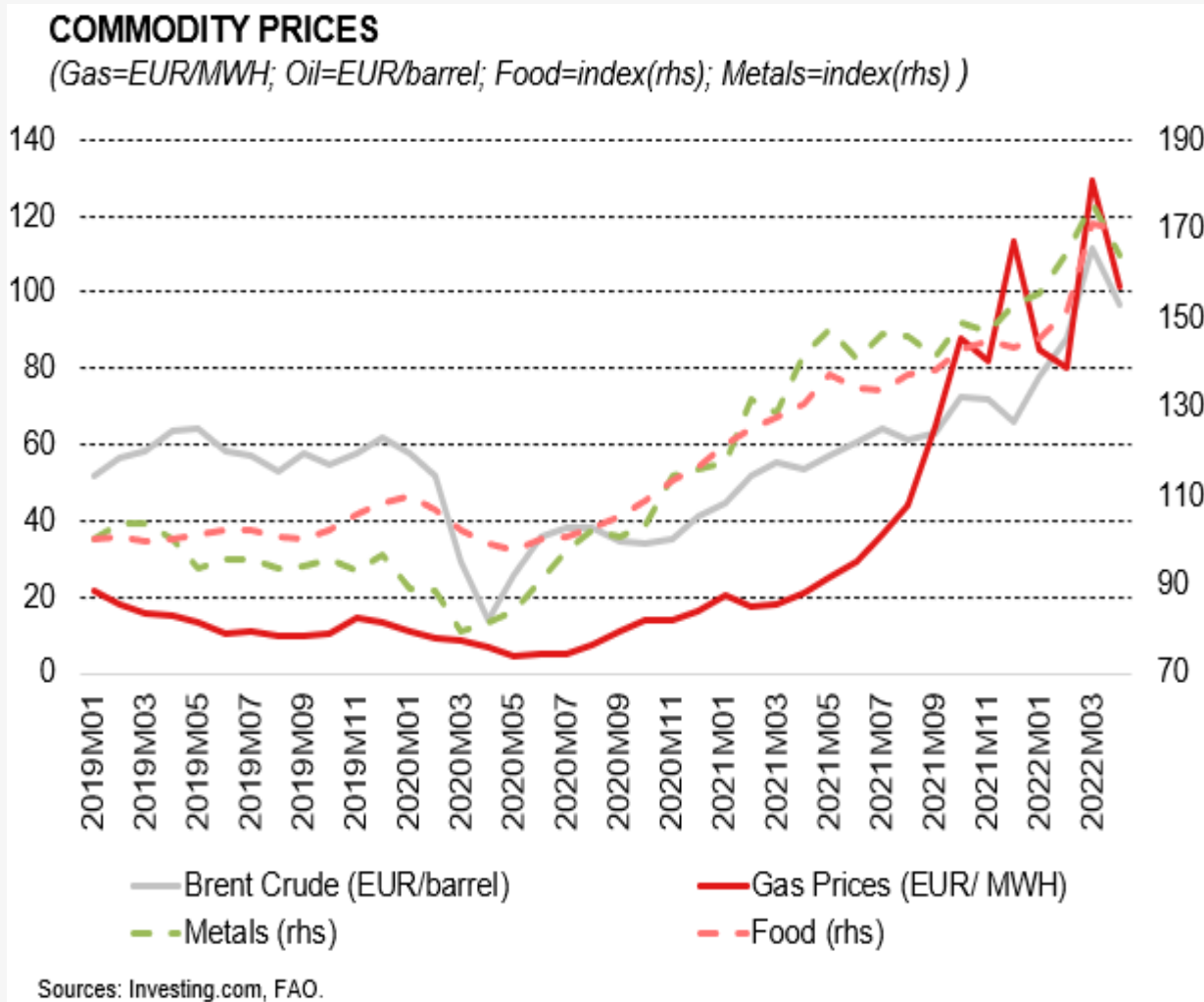


Malta's inflation rate below that of the euro area – due to energy



Inflation Outlook

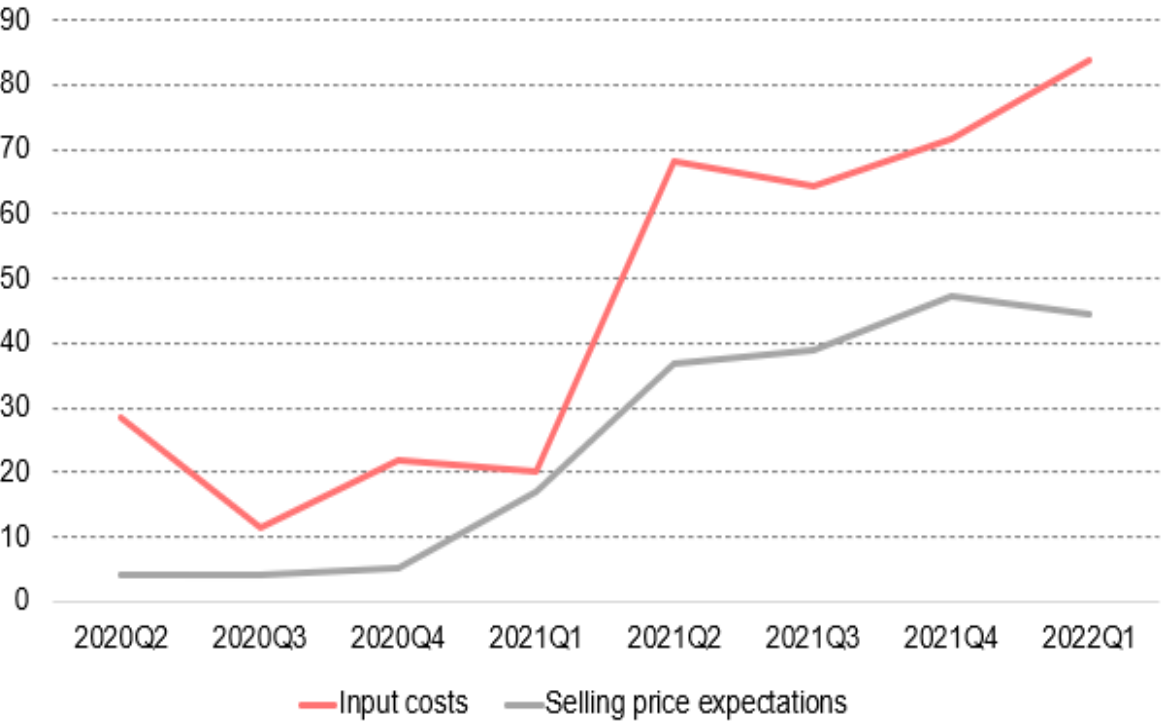
Commodity prices have soared leading to high import price pressures



Costs have increased and selling price expectations reach historical highs

SELLING PRICES & INPUT COSTS - BUSINESS DIALOGUE

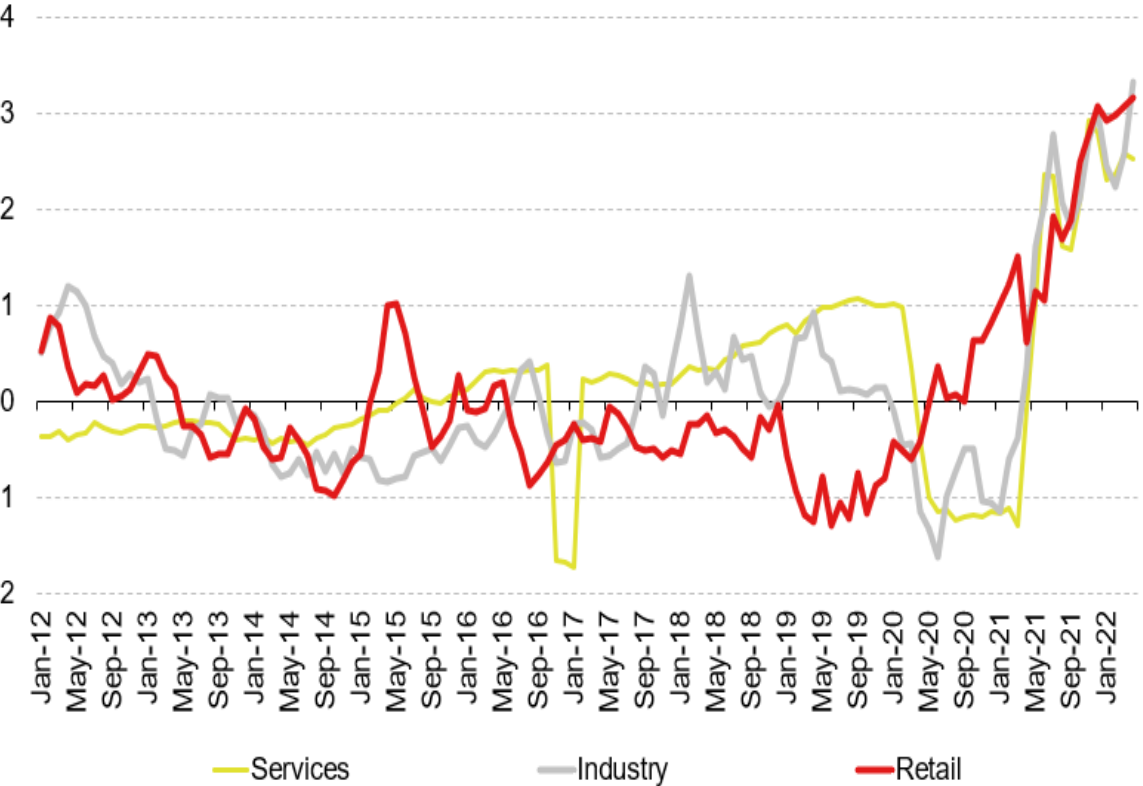
(percentage of firms replying an increase)



Sources: Central Bank of Malta.

SECTORAL SELLING PRICE EXPECTATIONS - ESI

(demeaned, 3-month moving average)

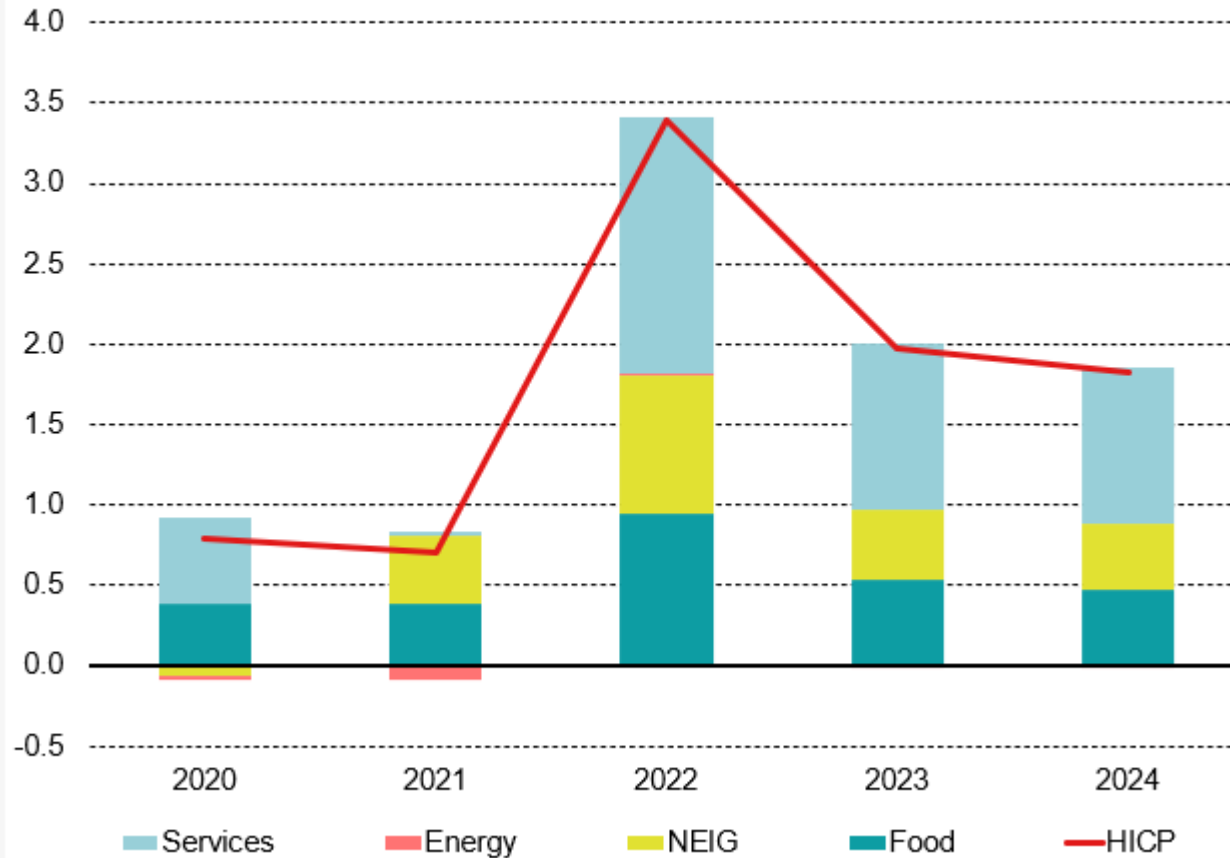


Source: European Commission

The Bank's latest projections for HICP (cut-off date is February)

HICP INFLATION PROJECTIONS

(annual percentage change; percentage point contributions)



Source: Central Bank of Malta.

- In the Bank's latest projections (cut-off date is February) HICP is projected to grow by 3.4% in 2022, 2.0% in 2023, and 1.8% in 2024.
- In 2022, HICP inflation is main driven by a sharp increase in services inflation, followed by food. Goods inflation also buoyant by historical standards.
- In the following two years, services inflation is expected to remain the main driver.
- Energy prices to remain stable.

Risks to the Bank's February inflation projections

- Risks to HICP inflation are judged to be to the upside:
 - Higher international prices of essential commodities are likely to exert upward pressure on the local producers of food and other basic commodities
 - Imported goods prices could increase further than envisaged due to the impact of supply bottlenecks and higher costs of production
 - Services inflation could pick-up more strongly than envisaged due to spillovers from higher food and wage costs

Main messages

- Historically, Malta's inflation rate is higher than that in the euro area, especially in periods of high inflation
- From a historical perspective current inflation is similar to 2008
- Contribution of food and services similar to 2008, but differences in NEIG and energy inflation
- Inflation in Malta at the lower end among EA member states, due to energy
- Current information points at inflation being driven mostly by commodity prices
- Moderation in wage increases and profit mark-ups would contain second round effects and hence contribute to make the rise in inflation temporary
- Inflation is expected to moderate in 2023 and 2024 to around the ECB inflation objective, but an upward revision is envisaged in the Bank's forthcoming projection in June