

BOX 1: AN ANALYSIS OF FOOD INFLATION IN MALTA OVER THE LAST THREE YEARS¹

Introduction

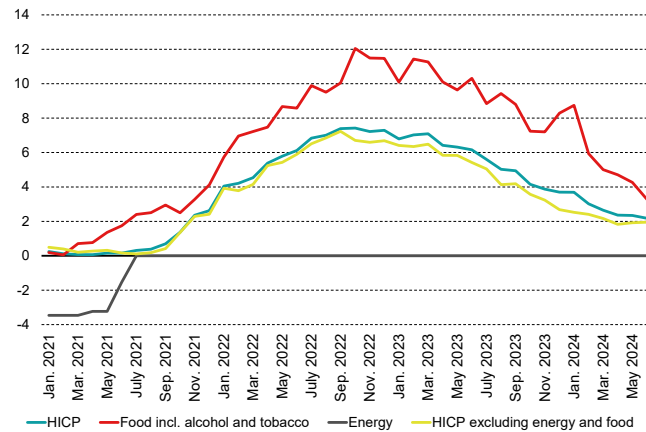
Food inflation (including alcohol and tobacco) was one of the main contributors to the strong rise in headline inflation since the end of 2021, although this followed a period of below-average inflation rates. It accounts for around 22% of expenditure in the overall HICP basket and is widely considered as a necessity, meaning that the surge in HICP food inflation had negative implications for household purchasing power, particularly those with lower incomes (Grech et al., 2024).² Food inflation reached a historical peak of 12.0% in October 2022 (see Chart 1). Since then, it has declined, falling to 3.3% in June 2024, close to its pre-pandemic long-term average of 3.2%.

This box examines the main factors behind recent food price developments, going over the factors that led to the increase and analysing the slowdown thereafter.

Recent developments in food inflation

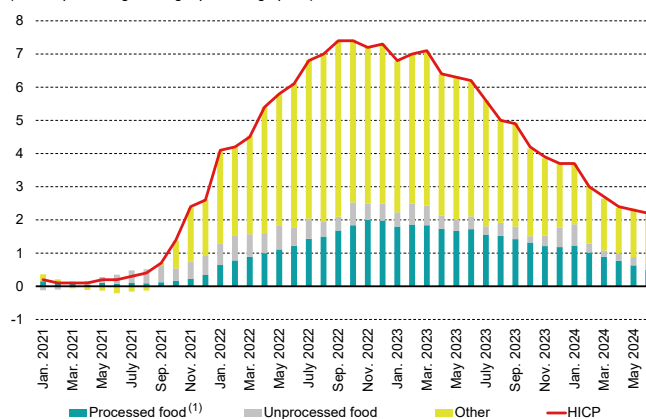
Chart 2 shows that the contribution of food prices to overall HICP rose from an average of 0.4 percentage point in 2021 to around two percentage points in 2022 and 2023. The strong rise in food inflation was observed for both main components: processed and unprocessed food. Processed food products account for the largest share of consumer expenditure on food (77% in 2024) with

Chart 1
DEVELOPMENTS IN CONSUMER FOOD PRICES
(annual percentage change)



Source: Eurostat.

Chart 2
HICP INFLATION AND ITS MAIN COMPONENTS
(annual percentage change; percentage point)



Source: SDW.

⁽¹⁾ Processed food includes alcohol and tobacco.

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² Grech, A.G., Borg, I. and Antonaroli, V. (2024). The cost of inflation: How has the recent surge in inflation impacted lower-income households in Malta? Central Bank of Malta *Policy Note* January 2024.

unprocessed food accounting for the rest. The largest contribution towards overall food inflation was recorded in processed food products. As from February 2024, food inflationary pressures started to ease with food inflation declining considerably. Indeed, as of June 2024, the contribution of food prices to overall HICP inflation stood at 0.7 percentage point.

The deceleration in food inflation reflects developments in most subcomponents, although the largest drops stemmed from meat, bread and cereals, and dairy products (see Chart 3). At the peak of food inflation in Malta, these three sub-components contributed 1.4 percentage points to overall HICP inflation. Moreover, the ‘other’ component also moderated markedly, mainly reflecting movements in the prices of ‘oils and fats’, as well as ‘sugar and confectionary items’. As of June 2024, their contribution eased to 0.3 percentage point. Fruit and vegetables prices have also eased during the period in consideration with their contribution falling to 0.1 percentage point in June 2024.

Chart 4 provides a comparison of Malta’s food

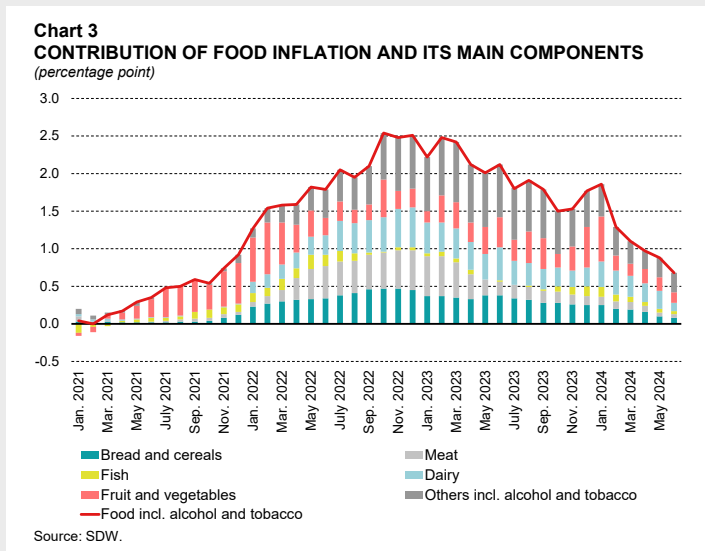


Chart 4
COMPARISON OF FOOD INFLATION
(annual percentage change)

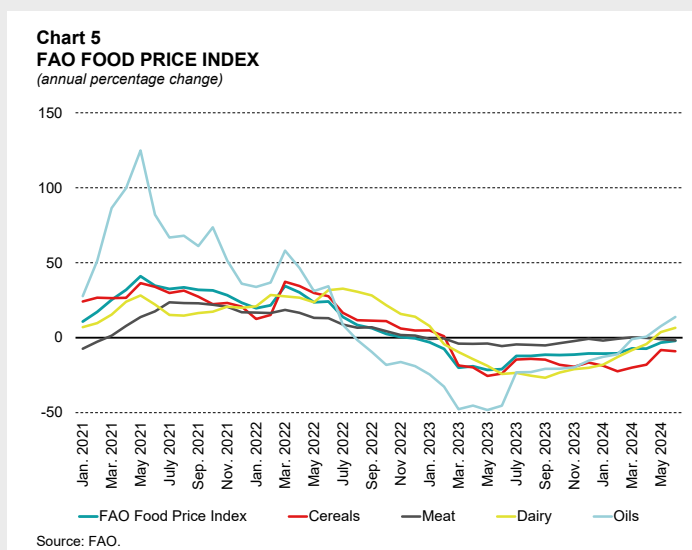


inflation with that of the euro area. The strong rise in consumer food inflation from around mid-2021 coincided with that in the euro area. While Malta's food inflation peaked in October 2022, though, food inflation in the euro area peaked in March 2023 at 15.5%. Kuik et al. (2024)³ note that the increase in euro area food inflation stemmed from the extraordinary surge in energy costs together with higher international food commodity prices. This was coupled with both the effects of re-opening following the removal of COVID-19 related restrictions, and the effects of global supply bottlenecks. Price pressures in the food sector intensified following the Russian-Ukraine conflict (Bodnár and Schuler, 2022).⁴

Given the spatial limitations for food production, Malta imports around 70% of its food products (Rapa, 2022).⁵ Consequently, the Maltese islands are particularly susceptible to developments in international food prices. Moreover, being an island in the periphery, transport costs are a key factor to retail prices. Meanwhile, food inflation in Malta tends to be more volatile than that of the euro area especially in case of unprocessed food inflation. Indeed, with regards to the latter, this has exceeded that of the euro area consistently since November 2023.

In case of processed food inflation, euro area inflation embarked on a downward trend following the peak reached in March 2023, reaching 2.4% in June 2024. In the case of Malta, processed food inflation remained higher than that in the euro area as from November 2023 onwards, although the gap between the two has narrowed considerably in recent months and stands at 0.4 percentage point in June.

The deceleration in food inflation in part reflects the slowdown in the global prices of food commodities, which led to lower imported prices. In June 2024, the Food and Agricultural Organisation (FAO) Food Price Index, which is a measure of international prices of a basket of food commodities, namely meat, dairy, cereals, oils and sugar, was down by 24.8% from its peak in March 2022, indicating easing price pressures (see Chart 5). All subcomponents recorded a decline, with the oils subcomponent almost halving followed by cereals which decreased by 32.3%.



³ Kuik, F., Lis, E.M., Paredes, J. and Rubene, I. (2024). What were the drivers of euro area food price inflation over the last two years? ECB Economic Bulletin Issue 2/2024.

⁴ Bodnár, K. and Schuler, T. (2022). The surge in euro area food inflation and the impact of the Russia-Ukraine war. ECB Economic Bulletin Issue 4/2022.

⁵ Rapa, A.M. (2022). Recent Developments and Forecasts of Food Prices in Malta. Box published in the Quarterly Review 2022:2 pp. 9-11.

Furthermore, a series of inflation-related support measures started being implemented towards the end of 2021 as outlined in Farrugia (2023).⁶ For example, in May 2022 the Maltese government launched a subsidy scheme directly impacting the prices of food, in particular the prices for importers of cereal, flour and animal feed. Malta's food inflation started to abate in the second quarter of 2023, although it remained high by historical standards while still exceeding that of the euro area and that of the main trading partners (Demarco, 2024).⁷

Another initiative was the introduction of the Stabbiltà scheme in February 2024. The Stabbiltà scheme refers to an agreement reached between the Government of Malta and major food importers to stabilise prices of around 450 food products, from 15 categories, over the period between February 2024 and October 2024.

Indeed, looking at the sub-indices of the products affected by the scheme, a deceleration can be observed for almost all products with some sub-indices even recording negative growth rates (see Table 1). Aggregating the sub-indices of the products affected by the

Table 1
INFLATION RATES OF SUB-INDICES AFFECTED BY THE STABBILTÀ SCHEME
(annual percentage change)

	Jan. 2024	Feb. 2024	Mar. 2024	Apr. 2024	May 2024	June 2024
Other bakery products	10.3	8.0	6.3	5.4	4.8	2.9
Pasta products and couscous	1.7	-0.2	-0.9	-2.4	-3.4	-3.0
Breakfast cereals	6.2	4.1	1.8	1.5	1.0	2.1
Beef and veal	5.0	4.8	4.2	3.8	3.2	2.6
Pork	6.2	5.1	4.0	3.2	2.3	1.5
Poultry	1.1	0.8	0.9	1.0	1.9	1.4
Dried, salted or smoked meat	4.1	4.9	5.2	4.1	1.9	2.5
Other preserved or processed fish and seafood and fish and seafood preparations	11.6	-1.5	-2.8	-3.9	-5.6	-5.9
Preserved milk	5.1	-4.4	-5.4	-8.0	-10.0	-10.1
Butter	-1.7	-4.7	-4.2	-3.7	-2.4	-2.7
Margarine and other vegetable fats	9.2	-4.8	-5.6	-5.4	-4.7	-4.1
Frozen vegetables other than potatoes and other tubers	13.5	7.3	7.0	6.6	5.1	4.9
Potatoes	17.5	10.9	8.2	3.6	-6.6	-2.1
Coffee	15.6	6.5	2.8	1.6	0.8	0.8
Tea	1.5	1.5	4.1	3.9	4.8	3.6

Source: Eurostat.

⁶ Farrugia, J. (2023). Support Measures and their Impact on Public Finances. Box published in the *Quarterly Review* 2023:3.

⁷ Demarco, A. (2024). The recent divergence of food inflation in Malta. The Malta Business Weekly Times Article. Available at: <https://maltabusinessweekly.com/the-recent-divergence-of-food-inflation-in-malta/24984/>.

scheme into an index, reveals that by June 2024 these products collectively were around 2 percentage points lower than their level in January 2024 (see Chart 6).

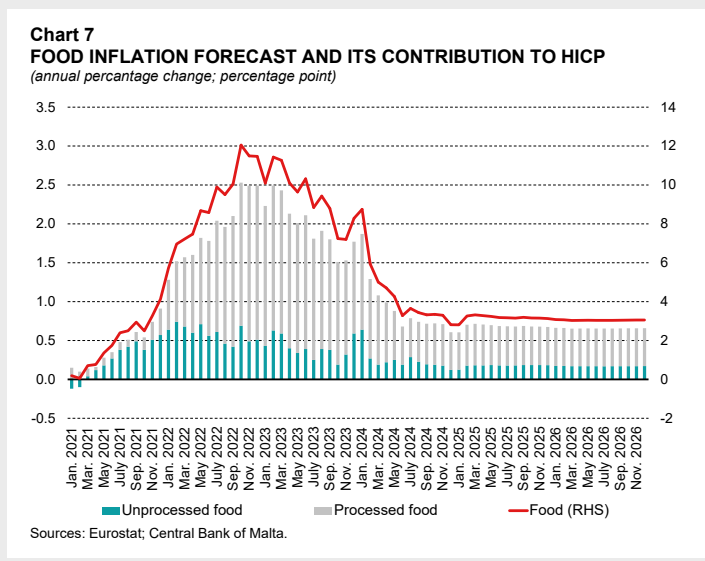
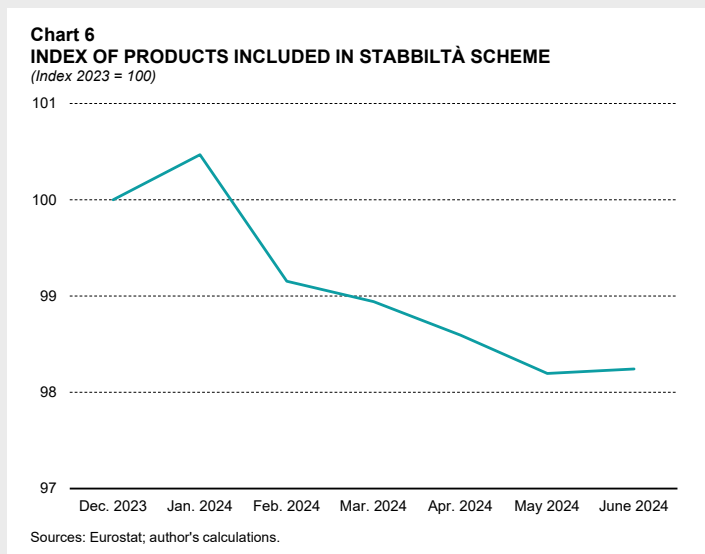
However, figures should be interpreted with caution as the sub-indices shown here include items which were not included in the scheme. For example, poultry products in official HICP statistics include all those

items related to poultry including chicken legs, chicken breast, minced chicken, and whole chicken. In the Stabbiltà scheme only a selection of these items was covered. Moreover, only certain brands were included in the scheme. Thus, these figures cannot be interpreted as showing the precise impact of the Stabbiltà scheme. That said, the reduction in food items included in Stabbiltà may have spilled over into other food items which are substitutes.

Food price projections

According to Eurostat's flash estimate for July 2024, food inflation (including alcohol and tobacco) rose to 3.6% from 3.3% in June. The latest projection exercise indicates that food commodities prices are expected to grow at a more moderated pace during the years to come. Hence, annual food price inflation is forecasted to ease gradually to 3.0% by 2026 (see Chart 7).

Processed food inflation is forecasted to remain on a downward path throughout the forecast horizon, moderating gradually until it reaches 2.9% in 2026, which is in line with technical assumptions for food commodities. On the other hand, unprocessed food inflation continues to exhibit significant volatility. Looking at the monthly profile, unprocessed food inflation is likely to linger



at around 4.0% until November 2024. It is then projected to decline to 2.5% in December 2024 and January 2025, following the strong increases recorded a year earlier. Subsequently, it is expected to stabilise at around 3.5% by the end of the forecast horizon, which is close to the historical average.

The contribution from processed food is expected to decrease to 0.5 percentage point by 2026, while that from unprocessed food is expected to ease to 0.2 percentage point, similarly in line with historical averages. Even though unprocessed food inflation is expected to remain higher than that of processed food, the contribution of the former is lower given the weights structure of the two sub-components.