inflationary prospect for 2022 at 5.7%. Indeed, in the first half of 2022, inflation stood at 5.0%. This suggests that for the second half of the year, the MFE is expecting slightly more elevated price levels with an implied inflation rate of 6.4%. The MFE is anticipating inflation to slow down slightly to 3.7% in 2023. The inflation rate during the first half of the year is slightly lower than experienced by the EA19 average, standing at around 7.0%.

In 2022, the acceleration in HICP is mostly attributed to unprocessed foods (11.1%) followed by processed foods (7.4%). Services and non-energy industrial goods follow by 5.8% and 4.7%, respectively. For 2023, inflation in unprocessed food is expected to stand at 5.0%, followed by processed food at 4.8%, services at 4.5% and non-energy industrial goods at 2.2%. For 2022 and 2023, energy inflation is expected to be 0.0%, given the government's commitment to control utility prices by absorbing energy price increases.

Box A: Energy and food-related support measures

In response to the increased energy and food prices as a result of the Russia-Ukraine war, together with the COVID-19 pandemic, the government has implemented support measures with the aim of shifting the burden away from Maltese households and businesses. A detailed account of the respective measures is found in Chapter 5 of this report.

In the pre-budget 2023 document and the DBP 2023, the MFE presented the simulated economic impact of what might happen to the Maltese economy if domestic enterprises and households were forced to absorb these price increases. This exercise was conducted using the MFE's Structural Annualised Econometric Model for Malta (SAMM).

Without the government support schemes, the estimated price increase for energy would have been the following: Gas (55.3%), Diesel (47.9%), Petrol (33.6%) and Electricity (130.2%). General food prices would also have increased by 1.5%. The SAMM model was used to simulate the impact on the Maltese economy without government intervention (See Table 3.2). Indeed, the impact on inflation would be an increase of 7.1 pp over the baseline growth, which in turn impacts aggregate demand and lowers real GDP by 2.3 pp compared to baseline growth.

Table 3.2 Main aggregate impacts in 2022 (pp)

HICP	7.1
Real GDP	-2.3
Wages	4.4
Real household disposable income	-1.6
Household consumption expenditure	-0.2
Employment	-0.3
Profits	-2.1
Investment	-1.1

Source: MFE

In addition, given wage stickiness in the short run, inflation would outpace the growth in wages, falling short by 2.7 pp. Also, employment growth would be expected to be slower by 0.3 pp. As a result, household disposable income would fall by 1.6 pp and in turn, lead to a decreased household consumption expenditure (-0.2 pp). In turn, the broader economy would also be expected to suffer as increased costs would lead to decreased profits (-2.1 pp) and aggregate investment spending (-1.1 pp).

It would have been useful had other policy scenarios been considered in the analysis. Nonetheless, the Council opines that the no policy scenario as presented by the MFE would have severely impacted the Maltese economy and therefore, justify the additional spending by the Government.

The forecast growth in the GDP deflator stood at 1.8% in 2021 and is expected to increase by 3.2 percentage points to 5.0% in 2022 and then subside slightly to 3.8% in 2023.[19] In general, for 2022 all the deflators for the various GDP components are expected to exhibit heightened growth in 2022 with the highest growth expected in the investment deflator (8.4%) and the lowest in the government consumption deflator (3.4%). In 2023, growth in the deflators is expected to decelerate but still grow within the range of 2.0% to 4.0%. In 2022, import prices are projected to increase slightly faster than export prices implying a deterioration in the terms of trade.

[19] The GDP deflator is a broad indicator of underlying domestic price developments and does not necessarily capture the same movements in prices as the HICP. As a result, these may be different. Nonetheless, when viewed in the longer term there is a notable degree of co-movement between the two indicators.