

3. PRICES, COSTS AND COMPETITIVENESS

Consumer price inflation rose in the second quarter of 2025. Annual inflation, as measured by the HICP, stood at 2.5% in June, up from 2.1% in March. This was driven by larger contributions from food and services inflation. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – also increased, reaching 2.4% from 2.1% in March.

When measured over four quarters, ULCs increased at a faster pace of 7.4%, from 6.1% in the first quarter of 2025, mainly due to a fall in productivity. Meanwhile, annual growth in other input cost indicators regularly monitored by the Bank mostly show moderate increases or falling costs in annual terms, with the goods import deflator an exception. The latter had the highest inflation rate, of 2.8%.

Inflation

HICP inflation increases

Annual HICP inflation increased to 2.5% in June, from 2.1% in March (see Table 3.1).¹ By contrast, inflation in the euro area declined over the same period, standing at the ECB's inflation target of 2.0% in June (see Chart 3.1). Malta's higher inflation rate in June when compared with that in the euro mainly reflects differences in the contribution of food. Furthermore, while energy prices in Malta were unchanged, those in the euro area fell in annual terms.

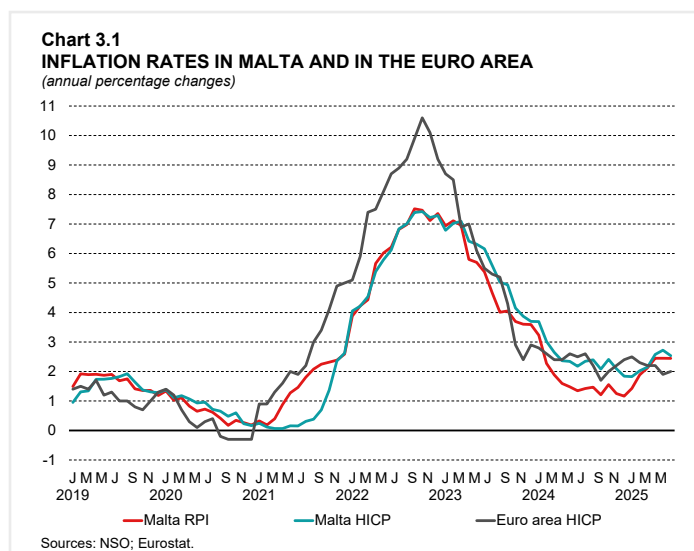


Table 3.1
HICP INFLATION
Annual percentage change

	2024						2025					
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Unprocessed food	5.8	3.9	4.5	7.0	4.3	-1.2	-0.3	-0.5	1.1	3.8	4.5	5.0
Processed food including alcohol and tobacco	3.0	2.8	2.7	2.5	2.6	2.8	2.4	3.4	3.5	3.5	3.6	3.5
Energy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEIG	0.7	0.4	0.2	0.7	0.1	0.4	0.6	0.9	1.0	0.7	0.8	0.8
Services (overall index excluding goods)	2.7	3.2	2.7	3.0	3.1	3.0	2.8	2.7	2.7	3.6	3.7	3.3
All Items HICP	2.4	2.4	2.1	2.4	2.1	1.8	1.8	2.0	2.1	2.6	2.7	2.5

Source: Eurostat.

¹ The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2025, the weight allocated to services stood at 45.1%, while that of NEIG was 27.1%. Food accounted for 21.7% of the index, while the share allocated to energy stood at 6.2%. These were revised from 44.7% for services, 27.5% for NEIG, 21.5% for food and unchanged at 6.2% for energy in 2024.

Turning to inflationary developments in Malta, the increase in HICP inflation since March reflects a higher contribution from food and services inflation, which offset a smaller contribution from NEIG inflation (see Chart 3.2).

In June, the annual rate of change of HICP excluding energy and food, stood at 2.4% in Malta, and thus marginally above the 2.3% recorded in the euro area.

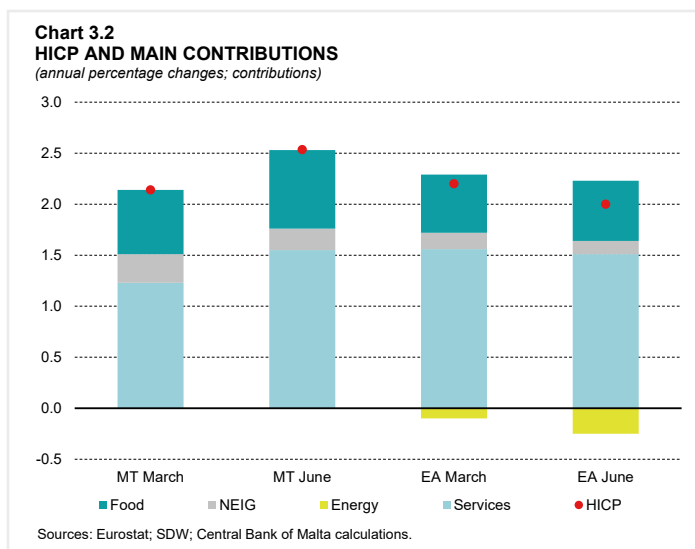
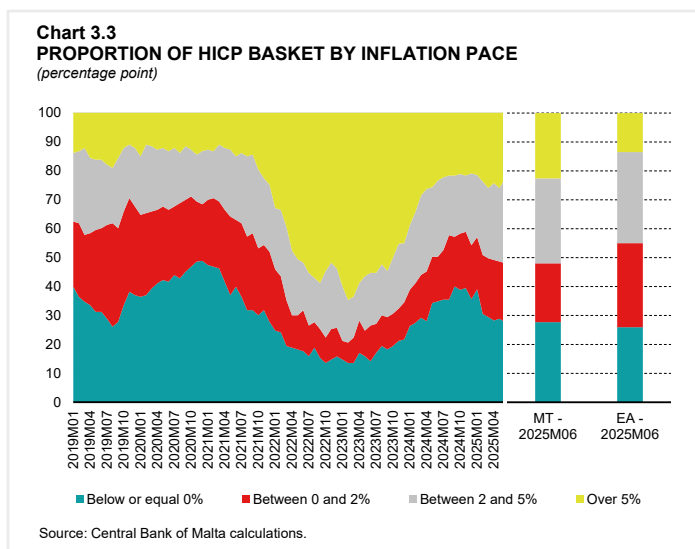


Chart 3.3 shows the distribution of price changes whereby sub-components of the HICP are categorised into four classes of inflation rates: i) below or equal to 0%; ii) between 0% and 2%; iii) between 2% and 5%; and iv) over 5%.² This analysis indicates whether developments in inflation are broad-based across HICP items or driven only by selected components of the consumption basket.



During the quarter under review, the largest changes occurred in the category holding products with inflation rates between 2% and 5%. The share of these products increased by 5.1 percentage points, to 29.4%, and such items represented the largest bracket. The increase in this bracket mainly reflects a rise in the inflation rate of selected food items including oils and fats and fruit and vegetable products, and in selected durable goods, such as household appliances. In the previous quarter, prices for these goods rose by less than 2%.

On the other hand, the share of subcomponents registering inflation rates of more than 5% experienced the largest decline during the second quarter of 2025. The decline in this bracket partly reflects a fall in inflation rate of non-alcoholic beverages, some confectionary items and a few

² The calculation of the shares in this chart does not take into account the weights of individual HICP sub-components. This analysis includes 177 sub-indices of the HICP for Malta and 289 sub-indices for the euro area based on the five-digit COICOP classification. On average since 2001, 30.7% of items in Malta's basket fell in the 0% or negative inflation rates interval, while this figure stood at 17.8% for the euro area. Around 47% of the Maltese basket fell in the 0-2% and 2-5% intervals – in almost equal parts. These shares stood at 39.2% and 32.6% respectively in the euro area. While 22.4% of the Maltese basket fell in the over 5% interval, only 10.4% of the euro area basket fell in this interval.

semi-durable goods such as household textiles. Compared to three months earlier, the share of items with price increases of more than 5% declined to 22.6%, from 26.0%.

The share of the bracket holding items with inflation between 0% and 2% was unchanged at around a fifth. The bracket holding items with negative inflation rates declined by 1.7 percentage points since March 2025, to stand at 27.7% in the second quarter of 2025. This reflects a number of items which have turned positive in June, such as food products including fresh fruit and vegetables, selected durable goods as well as services for maintenance and repair of dwellings.

When compared with the euro area, the share of items with negative rates or above 5% was higher. By contrast, the euro area had a higher concentration of items with inflation rates between 0 and 2% (see left panel of Chart 3.3).

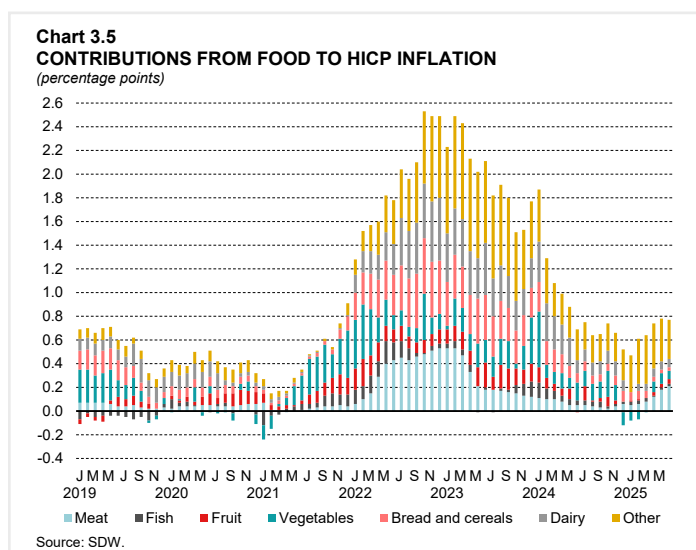
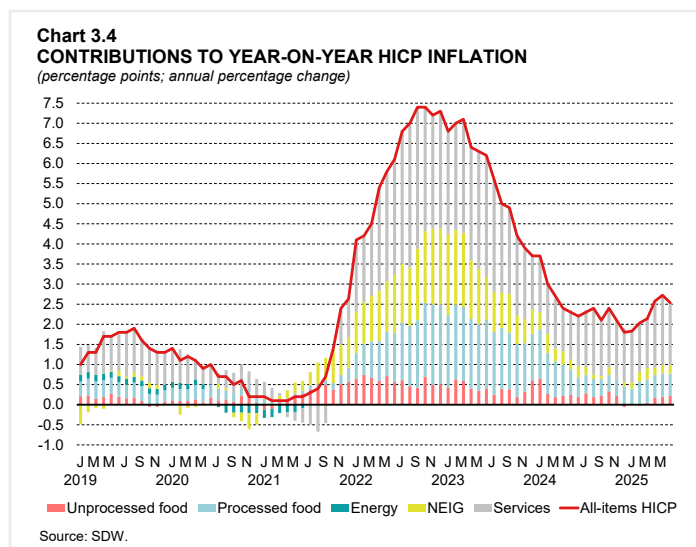
Main components of inflation

The increase in Malta's HICP inflation between March and June stemmed from higher food and services inflation (see Chart 3.4).

Unprocessed food prices increased by an annual 5.0% in June, after increasing by 1.1% in March. The spike resulted from faster growth in the prices of meat, fruit and vegetables (see Chart 3.5). Consequently, the contribution of unprocessed food to HICP inflation increased from 0.1 to 0.2 percentage points over this period.

Meanwhile, processed food inflation (including alcohol and tobacco) remained unchanged at 3.5%, with its contribution stable at 0.6 percentage points. Overall, food inflation including alcohol and tobacco increased to 3.8% in June as compared to 3.0% in March.

NEIG inflation declined to 0.8% from 1.0% in March, driven by slower growth in the prices of semi-durables, in particular clothing and footwear. In fact, the prices of semi-durables grew by 0.9% in annual terms, as opposed to a more pronounced increase of 2.1% three months



earlier. Meanwhile, prices of durables stabilised, following a contraction of 0.2% in March. By contrast, prices of non-durables rose at an unchanged rate of 1.7%. The contribution of NEIG inflation to HICP inflation stood at 0.2 percentage points, down from 0.3 percentage points in March.

Services inflation increased from 2.7% in March to 3.3% in June. Services inflation contributed 1.6 percentage points to overall HICP inflation after 1.2 percentage points in March (see Chart 3.6). Faster growth in the prices of recreation and personal care services was the main driver of the pick-up in services inflation. Their contribution to overall inflation rose by 0.3 percentage points over the quarter under view, reflecting higher inflation for accommodation and catering services.

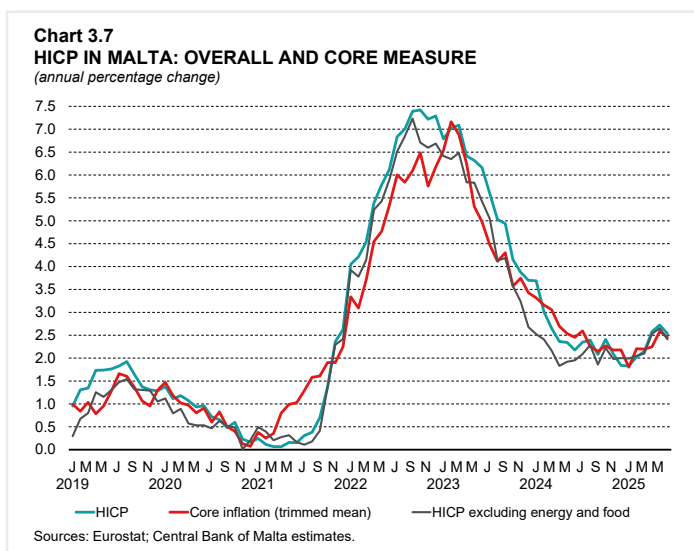
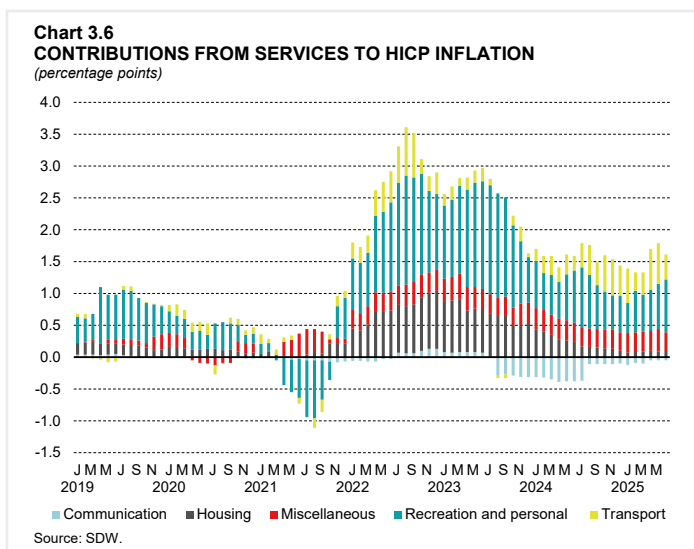
Energy inflation remained at 0.0% in June, as electricity, gas, and transport fuel prices remained unchanged from their level a year earlier, through continued government subsidies on retail utility prices.

Core HICP inflation increases

The Bank's measure of core inflation, which excludes the more volatile items in each month, increased to 2.5% in June from 2.2% in March (see Chart 3.7).³ An alternative measure of underlying inflationary pressures – HICP excluding energy and food – also increased, ending the quarter at 2.4%, from 2.1% in March.

RPI inflation increases

Annual inflation based on the RPI index increased to 2.4% in June from 2.1% in March. This mostly reflected a higher contribution from food prices. An increase in the contribution of recreation and culture services, and housing services



³ The Bank uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile subcomponents of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation Measures for Malta", *Quarterly Review* 2014(3), pp. 39-45, Central Bank of Malta.

Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION⁽¹⁾
Percentage points

	2024						2025					
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Food	0.6	0.5	0.5	0.7	0.5	0.3	0.3	0.5	0.6	0.7	0.8	1.0
Beverages and tobacco	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Clothing and footwear	0.1	0.0	0.0	0.0	-0.1	0.0	0.1	0.2	0.3	0.1	0.1	0.1
Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Water, electricity, gas and fuels	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Household equipment and house maintenance costs	0.0	0.0	-0.1	-0.1	-0.2	-0.1	0.0	0.1	0.1	0.0	0.0	0.0
Transport and communications	-0.2	0.0	-0.1	-0.1	0.1	0.1	0.2	0.1	0.2	0.5	0.3	0.2
Personal care and health	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Recreation and culture	0.1	0.1	0.1	0.2	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.3
Other goods and services	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
RPI (annual percentage change)	1.4	1.5	1.2	1.6	1.3	1.2	1.4	1.9	2.1	2.4	2.4	2.4

Source: NSO.

⁽¹⁾ Contributions may not add up due to rounding and methodological issues.

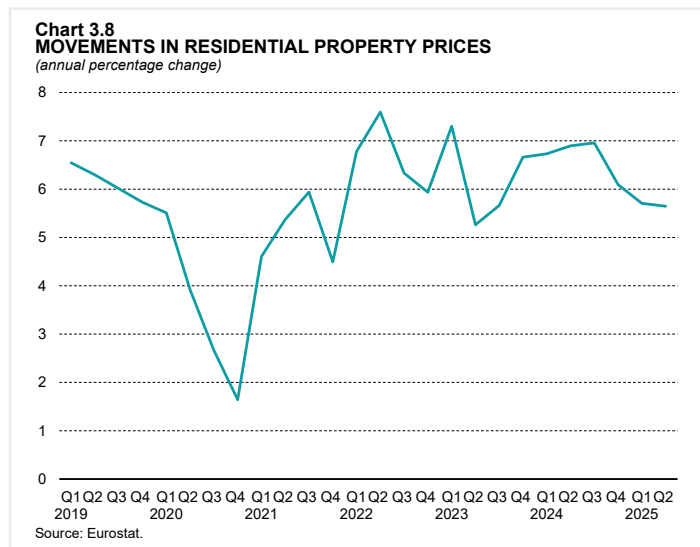
also contributed. These movements were partly offset by smaller contributions from clothing and footwear and from household equipment and maintenance costs (see Table 3.2).⁴ Most of the remaining components had an unchanged contribution.

The housing market

Residential property prices increase at a slightly slower rate

The NSO's Residential Property Price Index (RPPI) – which is based on actual transactions involving apartments, maisonettes, and houses – continued to show increases in annual terms. The annual rate of change eased marginally to 5.6% in the second quarter of 2025, from 5.7% in the previous quarter (see Chart 3.8).⁵ Meanwhile, in the euro area, prices on average increased at an annual rate of 5.1%.

Residential property prices in Malta continue to be supported by a number of Government schemes supporting demand for property, including the first-time



⁴ The RPI index differs from the HICP index in that RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta, such as accommodation services. See Darmanin, J. (2018), "Household Expenditure in Malta and the RPI Inflation Basket", *Quarterly Review* 2018(3), pp. 33-40, Central Bank of Malta.

⁵ 'Apartments' are defined as dwellings with self-contained rooms or a suite of rooms that have a separate entrance accessible from a common passageway, landing or stairway. 'Maisonettes' have a separate entrance that is accessible from the street and are either at ground-floor level with overlying habitation, or at first-floor level with underlying habitation. 'Houses' are dwellings with at least two floors, own access at street level and airspace, and with no underlying structures that are not part of the house itself. They are attached to other structures on both sides.

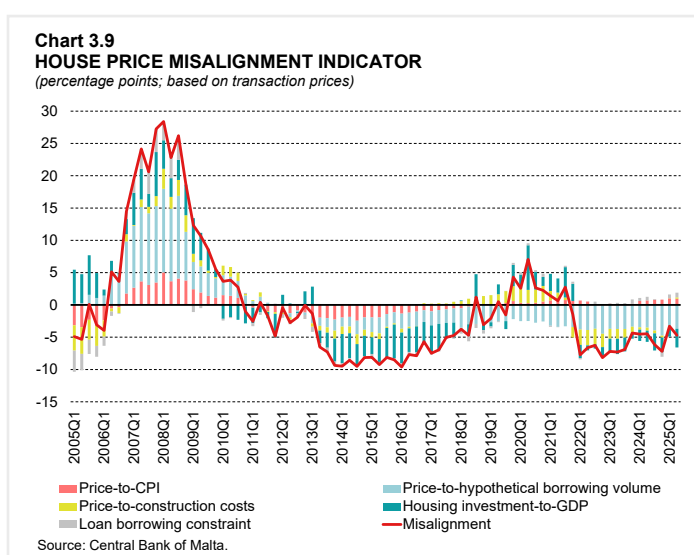
and second-time buyers' schemes, the purchase of properties located in Urban Conservation Areas (UCA) and in Gozo, as well as refund schemes for restoration expenses. Moreover, a dynamic tourism sector, and continued migrant worker flows continue to support demand for accommodation and hence, property prices.

Misalignment indicator continues to suggest prices are below fundamentals

As part of its ongoing macroeconomic analysis, the Bank calculates a house price misalignment index to provide an indication of the evolution of house prices against fundamentals.^{6,7} This indicator consists of five sub-indices that capture household, investor, and system-wide factors, with the weights being derived using principal component analysis.

According to this indicator, house prices, as measured by the NSO's RPPI, were around 5% below the level consistent with fundamentals in the second quarter of 2025. The degree of undervaluation increased somewhat when compared with the first quarter of 2025, but remains within the range observed in recent quarters (see Chart 3.9).⁸

The house price-to-hypothetical borrowing volume ratio and the house investment-to-GDP ratio had the largest contributions to the negative misalignment for this quarter. These offset positive contributions from the house price-to-CPI ratio, the loan borrowing constraint and the house price-to-construction ratio.



Number of final deeds increases both in quarterly terms and in annual terms

NSO data on residential property transactions show that 3,251 final deeds of sale were registered in the quarter under review, an increase of 3.4% compared to the number of sales concluded in the previous quarter (see Table 3.3). When compared to the number of deeds registered in the same quarter of 2024, final deeds of sale increased by 2.0%. Most transactions (around 90%) concluded in the second quarter of 2025 involved purchases by individuals.

The year-on-year increase in deeds in the second quarter of 2025 mainly reflected a larger number of transactions in the Northern Harbour. Smaller increases were recorded in the Western, South Eastern and Southern Harbour districts. These offset declines in the Northern district and

⁶ See Micallef, B. (2018), "Constructing an index to examine house price misalignment with fundamentals in Malta", *International Journal of Housing Markets and Analysis*, 11(2), pp. 315-334.

⁷ The actual numerical results presented in this section should not be overstated given the limitations in the construction of this indicator. For example, relevant variables such as foreign capital inflows are not included, and the unavailability of a long time series for the Housing Authority's rental index precludes the use of the price-to-rent ratio in the indicator.

⁸ A separate assessment based on advertised house prices can be found in Gatt, W., Micallef, B. and Rapa, N. (2018), "A macro-economic model of the housing market in Malta", *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

Table 3.3
RESIDENTIAL PROPERTY TRANSACTIONS

Levels

	2023		2024				2025	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Residential transactions								
Promise of sale	3,076	3,501	3,494	3,492	3,106	3,490	3,465	3,819
Final deeds of sale	2,870	3,202	3,161	3,187	3,006	3,244	3,143	3,251

Source: NSO.

in Gozo. In value terms, there was a year-on-year increase of 8.0%, although the increase in the case of individual buyers was slightly less significant, at 7.3%.

At 3,819 the number of promise-of-sale agreements was 10.2% higher than the number registered in the previous quarter and 9.4% more than those concluded a year earlier. Year-on-year increases in the number of promise-of-sale agreements were recorded across all districts with the exception of the South Eastern district. The largest increases were recorded in the Northern Harbour district and in Gozo.

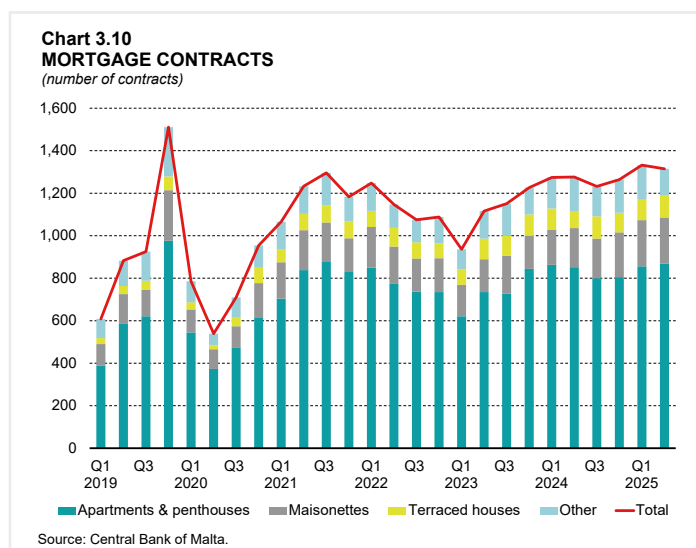
Mortgage transactions increase year-on-year⁹

In the second quarter of 2025, the number of new mortgage contracts stood at 1,315. When compared with the second quarter of 2024, they rose by 3.1% (see Chart 3.10). In absolute terms, the increases were observed mainly for maisonettes, terraced houses and apartments & penthouses which were counteracted by lower mortgages for other types of houses, including townhouses and houses of character, captured in the 'Other' category.

The total number of mortgage contracts in the second quarter of 2025 stood below the recent peak of 1,511 transactions recorded in the last quarter of 2019, but above the average of 987 transactions per quarter recorded since 2016.

Advertised rent inflation moderates

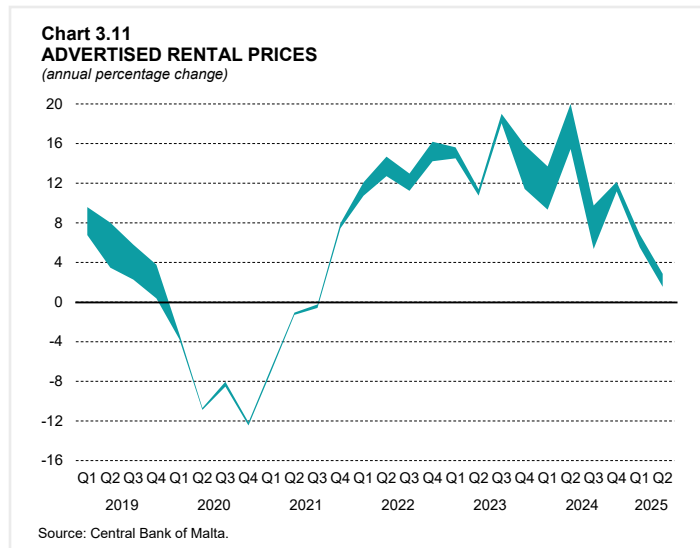
The annual rate of change of advertised rents collected by the Bank from internet sources moderated in the second quarter of



⁹ The data used in the section are collected by the Central Bank of Malta from four commercial banks and relate only to properties which have been purchased with a mortgage. The dataset excludes properties that have either been transacted using other means of financing, as well as mortgages that have been refinanced. The property types included are flats, penthouses, maisonettes, terraced houses, town houses, houses of character, farmhouses, bungalows, and villas. Other property types included in the previous section such as airspace, boathouses, garages, and plots of land are excluded.

2025.¹⁰ The range of estimates from various methods indicate that rents have increased at annual rates of between 1.5% and 2.9% in the quarter under review (see Chart 3.11). Compared with previous quarters, the range of estimated rent inflation is narrower.

In the quarter under review, the level of advertised rents was around 28% higher than its average in recent years.¹¹

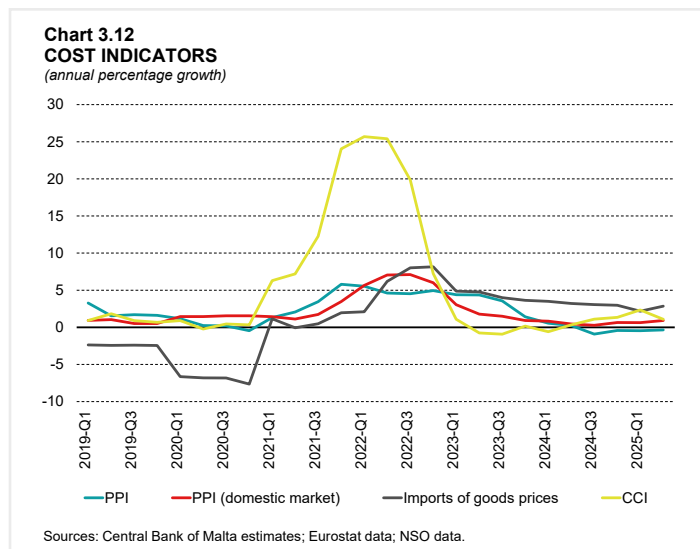


Cost indices

Most producer cost indicators signal moderate price increases

The industrial producer price index (PPI) is a measure of the prices of goods sold by producers in the industrial sector. Annual inflation according to this index stood at -0.3% on average in the quarter under review, from -0.5% in the previous quarter (see Chart 3.12).¹² The annual rate of change of producer prices of intermediate goods also became slightly less negative, standing at -3.6% in the second quarter of 2025, compared to -3.7% in the first. By contrast, producer prices of capital goods increased at a slightly faster rate of 1.3%, from 1.2% over this period, while the annual rate of change of producer prices of consumer goods reached 1.9% from 1.7% in previously. Energy producer price inflation remained unchanged.

Meanwhile, annual growth in the domestic PPI reached 0.9% from 0.6% in the previous quarter.¹³ The imports of goods deflator shows stronger growth of 2.8%, from 2.2% in the first quarter



¹⁰ The empirical analysis is based on hedonic regression models as described in Debono et al., (2020) and different indices are constructed using alternative methodologies, namely the time dummy method, the rolling time dummy method with a window length of two periods (Q=2) and the average characteristics method chained using the Laspeyres, Paasche and Fisher methods. The properties considered in this analysis include apartments, maisonettes, and penthouses.

¹¹ This index is available from 2017Q4.

¹² The industrial PPI measures the prices of goods at the factory gate and is commonly used to monitor inflationary pressures at the production stage. The index used here refers to the B-E36 aggregate of the EU's statistical classification of economic activities.

¹³ The domestic PPI refers to the producer prices relating to the domestic market only, whilst the PPI relates to the total market, i.e., including both the domestic and non-domestic markets.

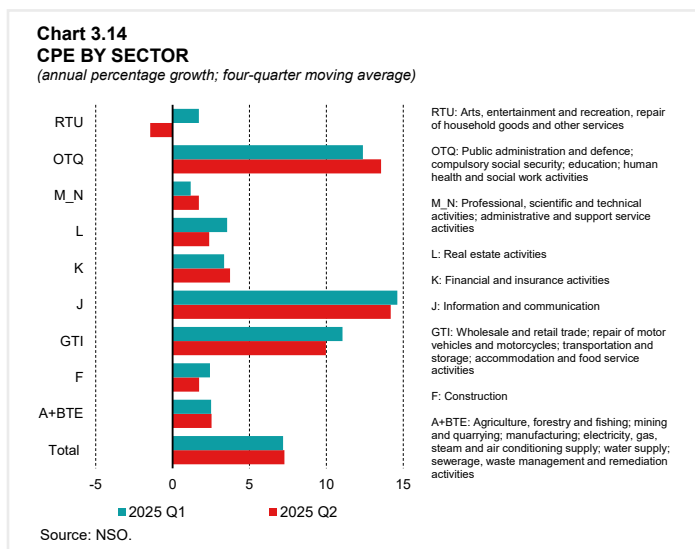
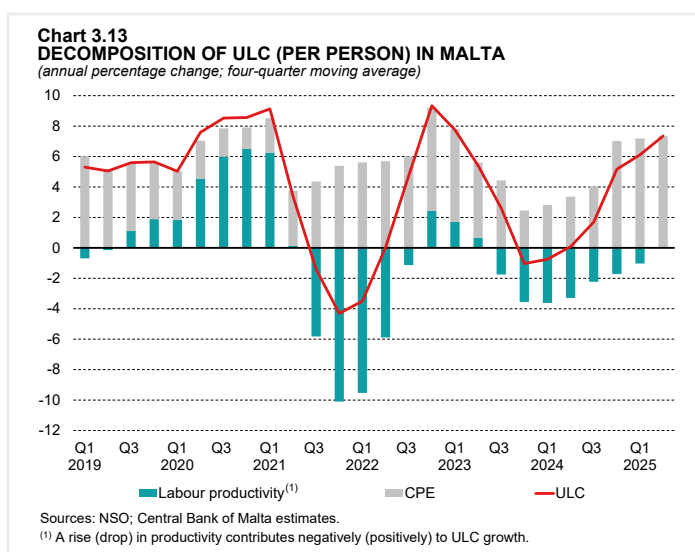
of 2025.¹⁴ The construction cost index (CCI) for new residential buildings published by Eurostat increased at slower rate in the second quarter of 2025, standing at 1.1% after it had increased by 2.3% in the previous quarter.

ULCs increase at a faster rate on a four-quarter moving average basis

In the second quarter of 2025, Malta's ULC index – measured as the ratio of compensation per employee to labour productivity – increased in annual terms but fell marginally on a quarter-on-quarter basis.

When measured on a four-quarter moving average basis in headcount terms, ULCs in Malta rose at an annual rate of 7.4%. This followed an increase of 6.1% in the previous quarter (see Chart 3.13). The pick-up in ULC growth reflects a fall in productivity per person and a slight pick-up in compensation per employee. The former contracted by 0.1% in annual terms, after having grown by 1.0% in the first quarter. Meanwhile, growth in compensation per employee increased slightly to 7.3% in the second quarter, from 7.2% in the first quarter of 2025.

When measured on a four-quarter moving average basis, growth in compensation per employee was fastest in the information and communication sector (see Chart 3.14). Wage growth was also significant in a number of other sectors, including the public administration sector and the sector comprising wholesale and retail trade. Overall, compared with the previous quarter, compensation per employee grew at similar rates in most sectors.



¹⁴ This index is derived from national accounts data published by the NSO.