

3. PRICES, COSTS AND COMPETITIVENESS

Consumer price inflation, as measured by the HICP, stood at 2.3% in March 2026, down from 2.5% in December 2025. This was mostly driven by lower contributions from food. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – stood at 2.7% in March, unchanged from December.

When measured over four quarters, ULCs increased at a slower pace in the first quarter of 2026. Annual growth in other input cost indicators regularly monitored by the Bank was mixed.

Inflation

HICP inflation decreases

Annual HICP inflation decreased to 2.3% in March, from 2.5% in December (see Table 3.1).¹ In this period, HICP inflation in the euro area was higher, standing at 2.6% (see Chart 3.1). This difference emanates from higher contributions from energy inflation in the euro area, which rose compared with December. Meanwhile, energy prices in Malta remained unchanged (see Chart 3.2).

Turning to inflationary developments in Malta, the slight decrease in HICP inflation since December mainly reflects a lower contribution

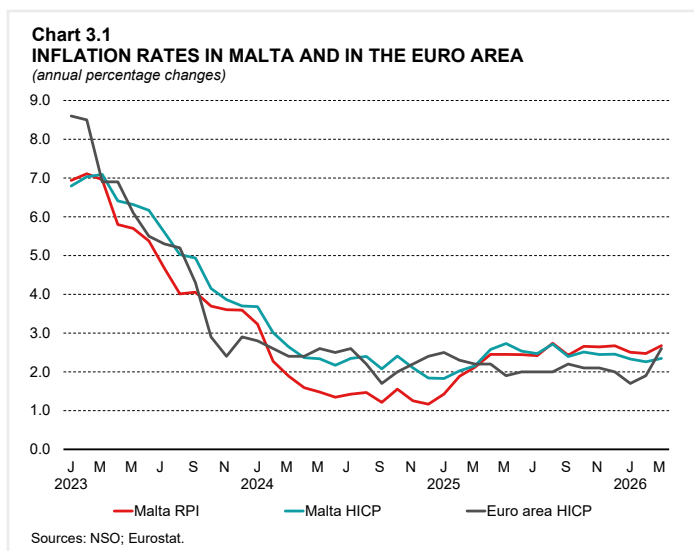


Table 3.1
HICP INFLATION

Annual percentage change

	2025										2026	
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Unprocessed food	4.2	5.0	5.4	5.0	6.0	4.3	3.3	4.1	6.5	5.2	7.1	6.3
Processed food including alcohol and tobacco	3.3	3.4	3.2	3.0	2.8	2.9	2.8	2.8	2.3	2.6	1.5	1.6
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	0.8	0.8	0.8	1.5	1.1	0.6	0.6	0.9	0.7	0.6	0.7
Services (overall index excluding goods)	3.6	3.7	3.3	3.2	3.3	3.0	3.7	3.5	3.2	3.1	3.2	3.3
All Items HICP	2.6	2.7	2.5	2.5	2.7	2.4	2.5	2.4	2.5	2.3	2.3	2.3

Source: Eurostat.

¹ The HICP weights are revised on an annual basis to reflect changes in overall consumption patterns. In 2026, the weight allocated to services stood at 45.6%, while that of NEIG was 26.8%. Food accounted for 21.6% of the index, while the share allocated to energy stood at 6.0%. These were revised from 45.1% for services, 27.1% for NEIG, 21.7% for food and 6.2% for energy in 2025.

from food and NEIG inflation (see Chart 3.3).

Main components of inflation

Unprocessed food prices increased by an annual 6.3% in March, after rising by 6.5% in December. Consequently, the contribution of unprocessed food to HICP inflation remained unchanged at 0.4 percentage points.

Meanwhile, processed food inflation (including alcohol and tobacco) decreased to 1.6% in March from 2.3% in December. Consequently, its contribution declined to 0.2 percentage points from 0.4 percentage points in December. Overall, food inflation including alcohol and tobacco decreased to 2.9% in March when compared to 3.5% in December.

NEIG inflation decreased to 0.7% from 0.9% in December, driven by a faster contraction in the inflation of semi-durable goods, in particular reflecting a decline in the prices of clothing and footwear. Prices of durable goods rose by 1.5%, unchanged from December. The prices of semi-durables contracted by 1.7% in annual terms, after a contraction of 0.9% three months earlier. Meanwhile, non-durables prices inflation increased from 1.4% in December to 1.7% in March. The contribution of NEIG inflation to HICP inflation stood at 0.2 percentage points, unchanged from December.

Services inflation increased slightly from 3.2% in December to 3.3% in March. It contributed 1.5 percentage points to overall HICP inflation, in line with its contribution in December (see Chart 3.4).

Chart 3.2
HICP AND MAIN CONTRIBUTIONS
(annual percentage changes; contributions)

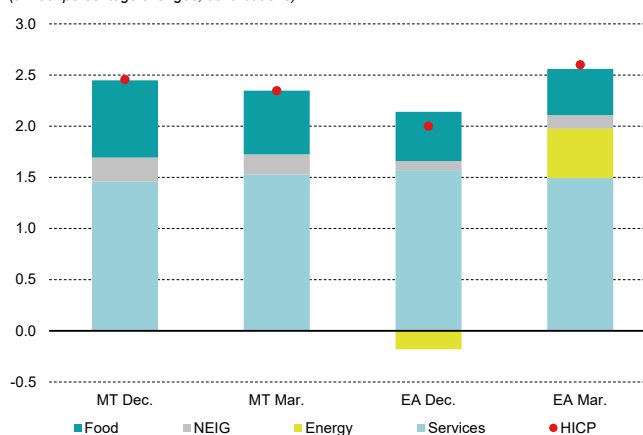


Chart 3.3
CONTRIBUTIONS TO YEAR-ON-YEAR HICP INFLATION
(percentage points; annual percentage change)

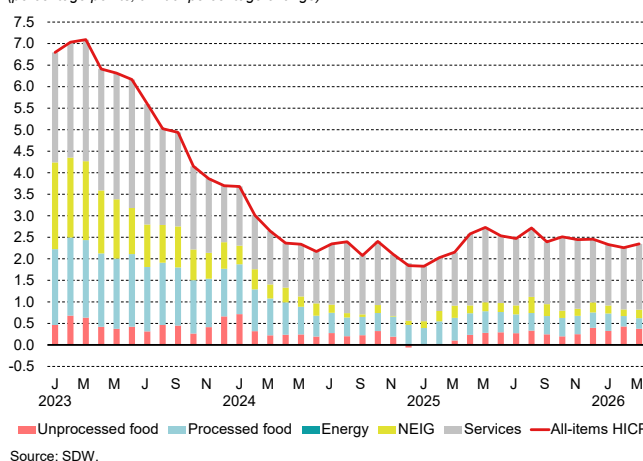
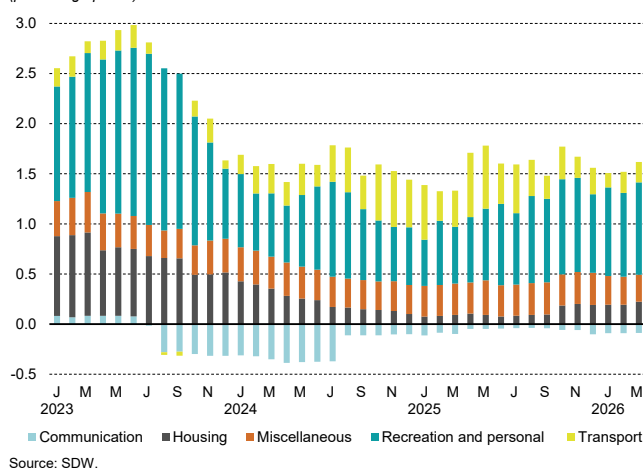


Chart 3.4
CONTRIBUTIONS FROM SERVICES TO HICP INFLATION
(percentage points)



This mainly reflected faster growth in the prices of services related to recreation and personal care and housing.

Energy inflation remained at 0.0% in March, 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 slightly

The Bank's measure of core inflation, which excludes the more volatile items in each month, increased slightly to 2.3% in March from 2.2% in December (see Chart 3.5).² An alternative measure of underlying inflationary pressures – HICP excluding energy and food – also increased slightly, standing at 2.4% in March, from 2.3% previously.

RPI inflation remains unchanged

Annual inflation based on the RPI index stood at 2.7% in March, unchanged from December. The contribution of beverages and tobacco decreased by 0.1 percentage points, while that of clothing and footwear became more negative. These offset a higher contribution from housing inflation (see Table 3.2). The remaining components had an unchanged contribution.

Chart 3.5
HICP IN MALTA: OVERALL AND CORE MEASURE
(annual percentage change)

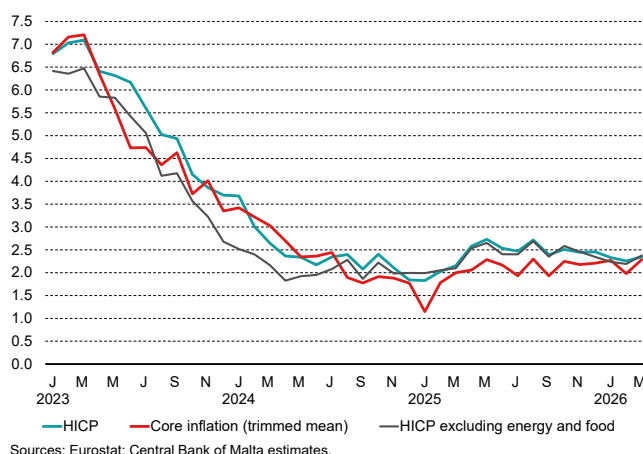


Table 3.2
CONTRIBUTIONS TO YEAR-ON-YEAR RPI INFLATION⁽¹⁾
Percentage points

	2025										2026	
	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Food	0.7	0.8	1.0	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Beverages and tobacco	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Clothing and footwear	0.1	0.1	0.1	0.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.2
Housing	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.5
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	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.3
Transport and communications	0.5	0.3	0.2	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2
Personal care and health	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Recreation and culture	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Other goods and services	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.3
RPI (annual percentage change)	2.4	2.4	2.4	2.4	2.7	2.4	2.7	2.6	2.7	2.5	2.5	2.7

Source: NSO.

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

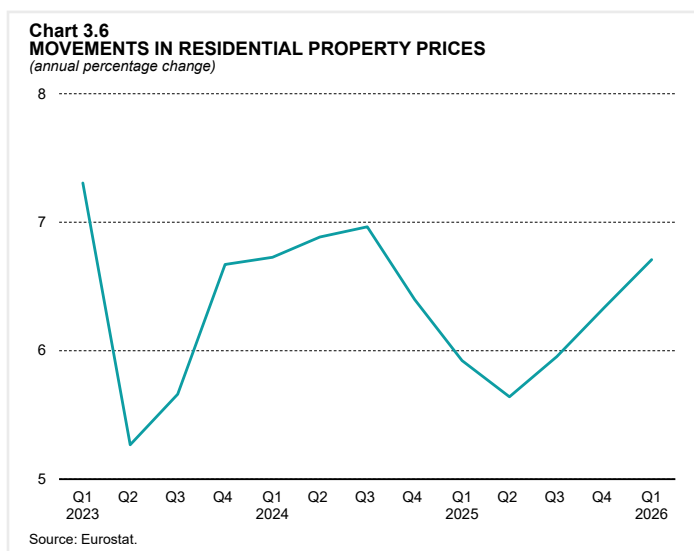
² The Bank uses a 'trimmed mean' approach to measure core inflation, whereby the more volatile subcomponents of the index are removed from the basket of consumer goods so as to exclude extreme movements from the headline inflation rate. See Gatt, W. (2014), "An Evaluation of Core Inflation Measures for Malta", *Quarterly Review* 2014(3), pp. 39-45, Central Bank of Malta.

The profile of RPI inflation has varied from the HICP indicator in recent months, owing to methodological issues. For instance, the weights used in the RPI index differ from those used for the estimation of the HICP. RPI weights are based on expenditure by Maltese households, while HICP weights also reflect expenditure patterns by tourists in Malta, such as accommodation services.³

The housing market

Residential property prices increase at a slightly faster rate

The NSO's Residential Property Price Index (RPPI) – which is based on actual transactions involving apartments, maisonettes, and houses – continued to increase at a robust pace. The annual rate of change rose to 6.7% in the first quarter of 2026, from 6.3% in the previous quarter (see Chart 3.6).⁴ Meanwhile, in the euro area, prices on average increased at an annual rate of 4.6%.



Residential property prices in Malta continue to be supported by several factors. A dynamic tourism sector and migrant worker flows continue to support demand for accommodation and hence, property prices. Various government schemes aimed at first-time buyers in the property market also contributed to supporting demand.

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 infer the evolution of house prices against fundamentals.^{5,6} 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 below the level consistent with fundamentals in the first quarter of 2026, though by less than in the previous quarter (see Chart 3.7).⁷ The negative readings in this indicator continue to be driven by

³ See Darmanin, J. (2018), "Household Expenditure in Malta and the RPI Inflation Basket", *Quarterly Review* 2018(3), pp. 33-40, Central Bank of Malta.

⁴ '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.

⁵ 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.

⁶ 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.

⁷ 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.

the house price-to-hypothetical borrowing volume ratio and the housing investment-to-GDP ratio. The former represents households' affordability, while the latter indicator represents the relative level of dwelling investment compared against economic activity. These offset positive contributions from the house price-to-CPI ratio, the loan borrowing constraint and the house price-to-construction costs ratio.

Property transactions increase over a year earlier

NSO data on residential property transactions show that 3,383 final deeds of sale were registered in the quarter under review, a 5.0% decrease 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 2025, final deeds of sale increased by 7.6%. Most transactions (around 90%) concluded in the first quarter of 2026 involved purchases by individuals.

The year-on-year increase in deeds in the first quarter of 2026 mainly reflected a larger number of transactions in the Northern and Southern Harbour districts. In value terms, there was a year-on-year increase of 22.5%, which was mostly driven by a strong increase in the value of transacted properties carried out by non-individual buyers.

At 3,862 the number of promise-of-sale agreements was 2.3% lower than the number registered in the previous quarter but 11.7% more than those concluded a year earlier. Year-on-year increases in the number of promise-of-sale agreements were recorded across all districts. The largest increases were recorded in the Southern Harbour and Northern Harbour districts.

Chart 3.7
HOUSE PRICE MISALIGNMENT INDICATOR
(percentage points; based on transaction prices)

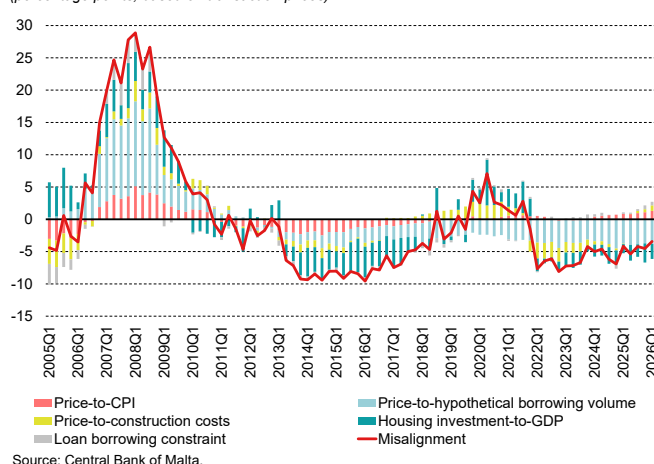


Table 3.3
RESIDENTIAL PROPERTY TRANSACTIONS

Levels

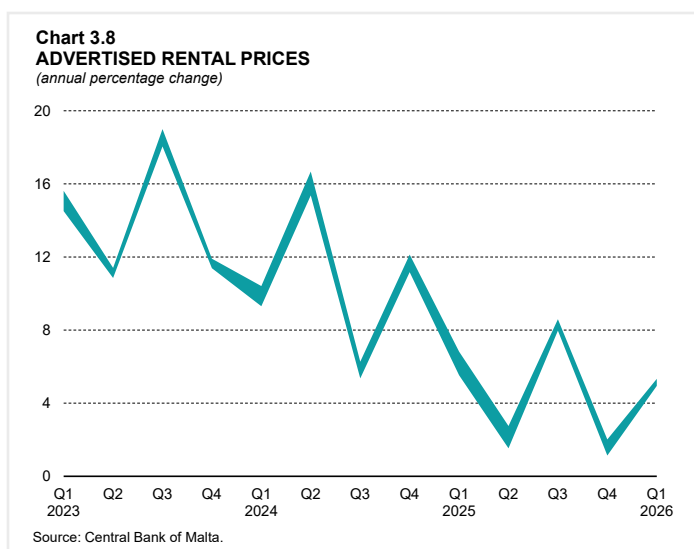
	2024				2025				2026
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	
Residential transactions									
Promise of sale	3,489	3,106	3,490	3,459	3,818	3,337	3,954	3,862	
Final deeds of sale	3,187	3,006	3,244	3,143	3,252	3,394	3,562	3,383	

Source: NSO.

Advertised rent prices grow at a faster pace

The annual rate of change of advertised rents collected by the Bank from internet sources grew faster in the first quarter of 2026.⁸ The range of estimates from various methods indicate that rents have increased at annual rates of between 4.9% and 5.3% in the quarter under review (see Chart 3.8).

Rental prices exhibit a volatile quarterly pattern. In recent quarters, rental prices have been growing at a lower pace compared with the double-digit rates observed in 2023 and in the first half of 2024.

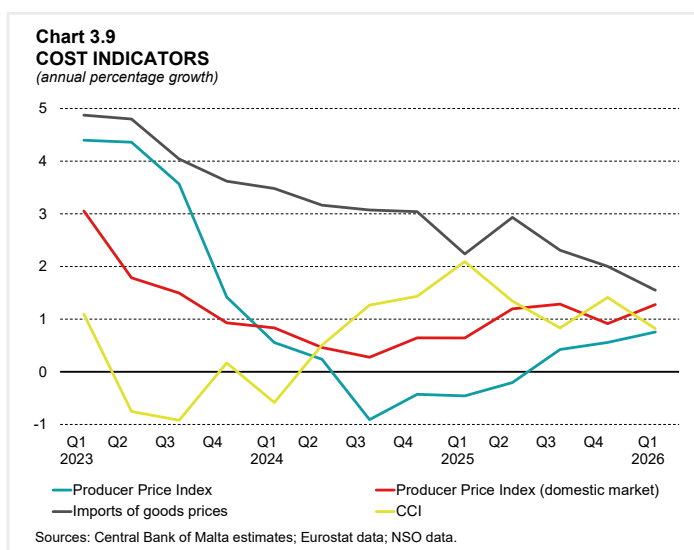


Cost indices

Producer cost indicators signal mixed price growth patterns

The industrial producer price index (IPPI) is a measure of the prices of goods sold by producers in the industrial sector. Annual inflation according to this index stood at 0.8% on average in the quarter under review, after having increased by 0.6% in the fourth quarter (see Chart 3.9).⁹ The annual rate of change of producer prices of intermediate goods turned positive and increased at a faster rate. This offset slower growth in producer prices of consumer and capital goods.

Meanwhile, annual growth in the domestic producer price index increased to 1.3% from 0.9% in the previous quarter.¹⁰ On the other hand, the imports of goods deflator shows weaker growth of 1.5%, from 2.0% in



⁸ 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. This index is available from 2017Q4.

⁹ The IPPI 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.

¹⁰ The domestic producer price index refers to the producer prices relating to the domestic market only, whilst the producer price index relates to the total market, i.e., including both the domestic and non-domestic markets.

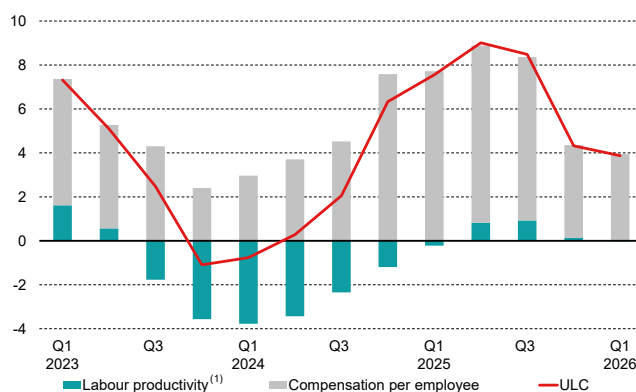
the fourth quarter of 2025.¹¹ The construction cost index (CCI) for new residential buildings published by Eurostat increased at a slower rate in the first quarter of 2026, standing at 0.8% after it had increased by 1.4% in the previous quarter.

ULCs increase at a slower rate

Malta's ULC index – measured on a four-quarter moving average basis in headcount terms – rose at an annual rate of 3.9%. This followed an increase of 4.3% in the previous quarter (see Chart 3.10). The slight decline in ULC growth mainly reflects slower growth in compensation per employee. The latter rose by 3.9%, from 4.2% in the fourth quarter. Meanwhile, productivity per person experienced no growth in annual terms, after having contracted by 0.1% in the fourth quarter.

When measured on a four-quarter moving average basis, growth in compensation per employee was fastest in the information and communication sector (see Chart 3.11). Wage growth was also significant in the sector comprising wholesale and retail trade. Overall, compensation per employee in most sectors grew at a similar rate as in the previous quarter, with the exception of the arts and entertainment sector. In the latter, compensation per employee increased by 0.3%, when compared to a contraction of 1.1% in the previous quarter.

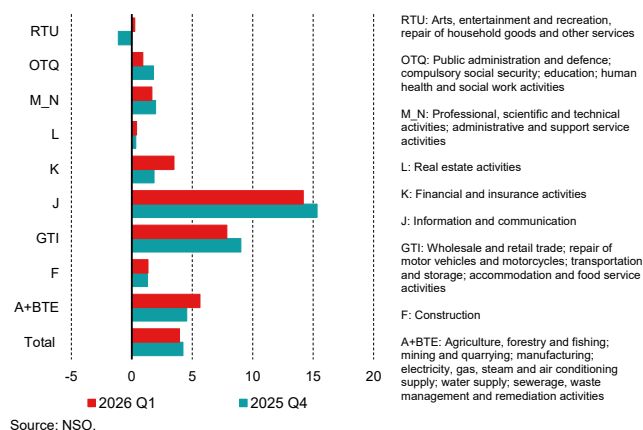
Chart 3.10
DECOMPOSITION OF ULC (PER PERSON) IN MALTA
(annual percentage change; four-quarter moving average)



Sources: NSO; Central Bank of Malta estimates.

⁽¹⁾ A rise (drop) in productivity contributes negatively (positively) to ULC growth.

Chart 3.11
COMPENSATION PER EMPLOYEE BY SECTOR
(annual percentage growth; four-quarter moving average)



¹¹ This index is derived from national accounts data published by the NSO.