3. PRICES, COSTS AND COMPETITIVENESS

Consumer price inflation, as measured by the HICP, stood at 2.0% in June, down from 2.3% in March. This was mostly driven by lower contributions from food and services inflation. Annual inflation based on the RPI – which only considers expenditure by Maltese residents – stood at 2.5% in June, down from 2.7% in March.

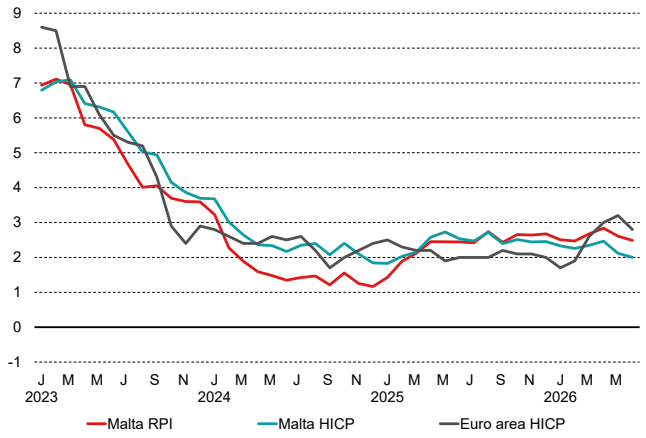
When measured over four quarters, ULCs increased at a slower pace in the second quarter of 2026. Growth amongst other input cost indicators regularly monitored by the Bank was mixed.

Inflation

HICP inflation decreases

Annual HICP inflation decreased to 2.0% in June, from 2.3% in March (see Table 3.1).[1] In this period, HICP inflation in the euro area was higher, standing at 2.8% (see Chart 3.1). This difference emanates from higher contributions from energy inflation in the euro area, which rose compared with March. Meanwhile, energy prices in Malta remained unchanged (see Chart 3.2).

Chart 3.1
INFLATION RATES IN MALTA AND IN THE EURO AREA
(annual percentage changes)



Sources: NSO; Eurostat.

Turning to inflationary developments in Malta, the slight decrease in HICP inflation since

Table 3.1
HICP INFLATION
Annual percentage change

	2025						2026					
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Unprocessed food	5.0	6.0	4.3	3.3	4.1	6.5	5.2	7.1	6.3	7.8	2.8	2.1
Processed food including alcohol and tobacco	3.0	2.8	2.9	2.8	2.8	2.3	2.6	1.5	1.6	1.7	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	0.8	1.5	1.1	0.6	0.6	0.9	0.7	0.6	0.7	0.6	0.5	0.7
Services (overall index excluding goods)	3.2	3.3	3.0	3.7	3.5	3.2	3.1	3.2	3.3	3.4	3.3	3.0
All Items HICP	2.5	2.7	2.4	2.5	2.4	2.5	2.3	2.3	2.3	2.5	2.1	2.0

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.

March mainly reflects a lower contribution from food and services inflation (see Chart 3.3).

Main components of inflation

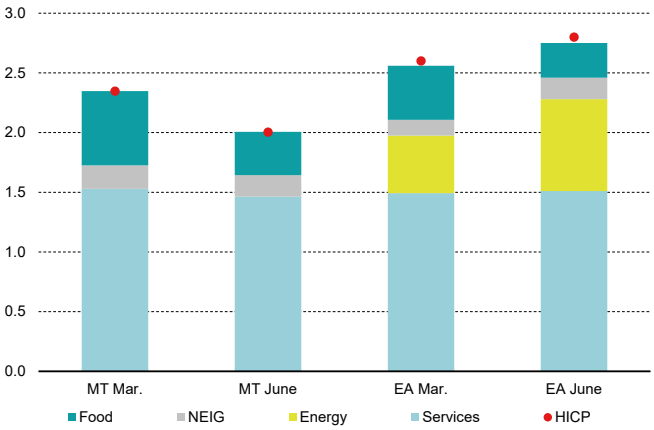
Unprocessed food prices increased at a much slower pace by an annual 2.1% in June, after rising by 6.3% in March, driven by lower inflation of meat and vegetables, and a faster contraction in fruit and nuts prices. Consequently, the contribution of unprocessed food to HICP inflation decreased to 0.1 percentage points from 0.4 percentage points in March.

Meanwhile, processed food inflation (including alcohol and tobacco) remained unchanged at 1.6% from March. Consequently, its contribution stood at 0.2 percentage points, unchanged from March. Overall, food inflation including alcohol and tobacco decreased to 1.8% in June when compared to 2.9% in March.

NEIG inflation remained unchanged at 0.7% in June. Prices of durable goods rose by 1.7%, from 1.5% in March. The prices of semi-durables contracted by 2.3% in annual terms, after a contraction of 1.7% three months earlier. Meanwhile, non-durables prices inflation increased by 1.7% in June, unchanged from March. The contribution of NEIG inflation to HICP inflation stood at 0.2 percentage points, unchanged from March.

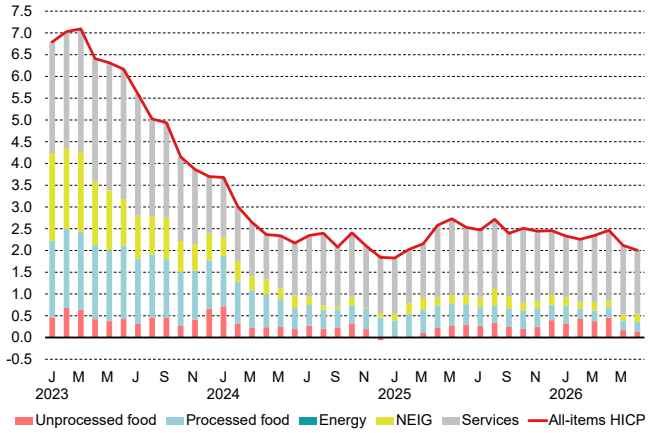
Services inflation declined from 3.3% in March to 3.0% in June. It contributed 1.5 percentage points to overall HICP inflation, in line with its contribution in March (see Chart 3.4). A higher contribution

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



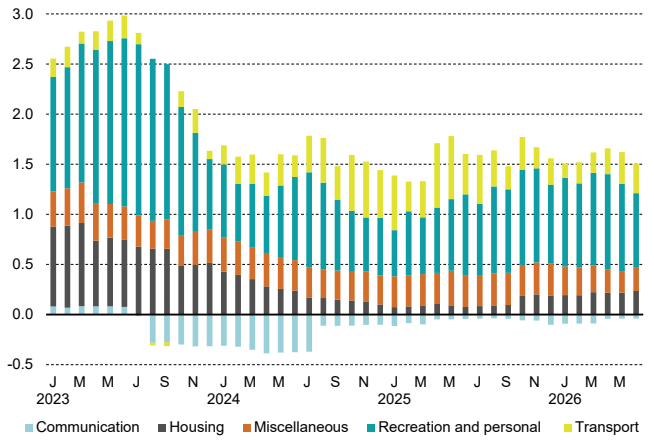
Sources: Eurostat; SDW; Central Bank of Malta calculations.

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



Source: SDW.

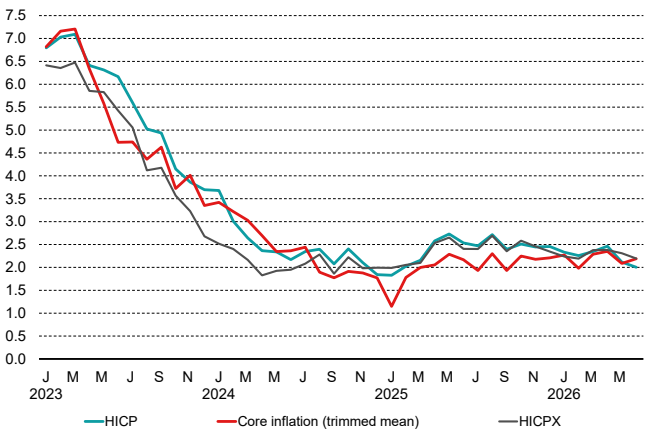
Chart 3.4
CONTRIBUTIONS FROM SERVICES TO HICP INFLATION
(percentage points)



Source: SDW.

from transport services inflation was offset by a smaller contribution from services related to recreation and personal care. Prices for the latter grew at a slower pace compared to March.

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



Sources: Eurostat; Central Bank of Malta estimates.

Core HICP inflation decreases slightly

The Bank's measure of core inflation, which excludes the more volatile items in each month, decreased slightly to 2.2% in June from 2.3% in March (see Chart 3.5).[2] An alternative measure of underlying inflationary pressures – HICPX – also decreased, standing at 2.2% in June, from 2.4% previously.

RPI inflation decreases

Annual inflation based on the RPI index stood at 2.5% in June, from 2.7% in March. The contribution of food decreased by 0.3 percentage points, while that of other goods and services declined by 0.1 percentage points. These offset higher contributions from transport inflation, household equipment, household maintenance, and that of beverages and tobacco inflation (see Table 3.2).

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]

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

	2025						2026					
	July	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Food	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.5	0.4
Beverages and tobacco	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Clothing and footwear	0.1	0.2	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.2	-0.3	-0.2	-0.2
Housing	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.5	0.5	0.5	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	0.1	0.1	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Transport and communications	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.4	0.4	0.3
Personal care and health	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Recreation and culture	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other goods and services	0.2	0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.2
RPI (annual percentage change)	**2.4**	**2.7**	**2.4**	**2.7**	**2.6**	**2.7**	**2.5**	**2.5**	**2.7**	**2.8**	**2.6**	**2.5**

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.

[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.

The housing market

Residential property prices continued to increase at a robust pace

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 remained broadly unchanged at 6.9% in the second quarter of 2026, from 6.8% in the previous quarter (see Chart 3.6).[4] Meanwhile, in the euro area, prices on average increased at an annual rate of 4.0%.

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.

Chart 3.6
MOVEMENTS IN RESIDENTIAL PROPERTY PRICES
(annual percentage change)



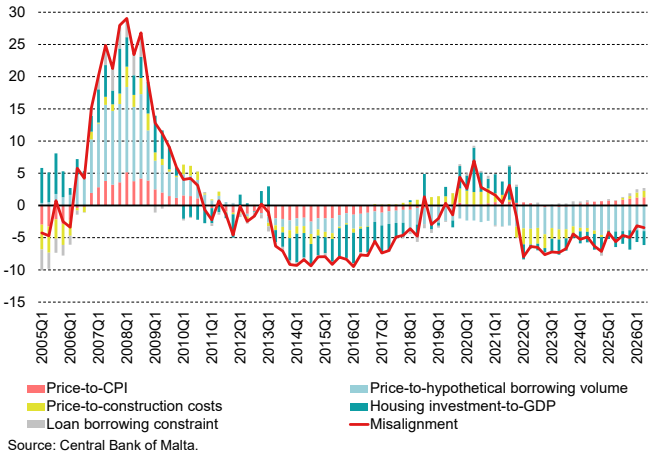
Source: Eurostat.

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 second quarter of 2026 (see Chart 3.7).[7] The

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



Source: 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 macroeconometric model of the housing market in Malta", *Annual Research Bulletin*, Central Bank of Malta, pp. 11-18.

negative readings in this indicator continue to be driven by the house price-to-hypothetical borrowing volume ratio and the housing investment-to-GDP ratios. 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 house price-to-construction costs ratio and the loan borrowing constraint. That said, the contribution of these indices has been steadily becoming more positive since the first quarter of 2025.

Property transactions increase over a year earlier

NSO data on residential property transactions show that 3,441 final deeds of sale were registered in the quarter under review, a 1.7% increase 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 5.8%. Most transactions (over 90%) concluded in the second quarter of 2026 involved purchases by individuals.

The year-on-year increase in deeds mainly reflected a larger number of transactions in the Northern district. Overall, across Malta, there was a year-on-year increase of 11.9% in value terms.

At 3,757 the number of promise-of-sale agreements was 2.6% lower than the number registered in the previous quarter and 1.6% less than those concluded a year earlier. The largest year-on-year decreases in the number of promise-of-sale agreements were recorded mainly in the Southern Harbour and Northern districts.

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 second quarter of 2026.[8] The range of estimates from various methods indicate that rents have increased at annual rates of between 7.1% and 7.6% in the quarter under review (see Chart 3.8).

Chart 3.8
ADVERTISED RENTAL PRICES
(annual percentage change)



Source: Central Bank of Malta.

Table 3.3
RESIDENTIAL PROPERTY TRANSACTIONS
Levels

	2024		2025				2026	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Residential transactions								
Promise of sale	3,106	3,490	3,460	3,818	3,337	3,954	3,859	3,757
Final deeds of sale	3,006	3,244	3,143	3,252	3,394	3,562	3,383	3,441

Source: NSO.

[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.

Rental prices exhibit a volatile quarterly pattern. In recent quarters, rental prices have been growing at a slower pace compared with the double-digit rates observed for most of the period between 2022 and 2024. Growth is getting closer to the average observed since 2018, which ranges between 5.0% and 6.3%.

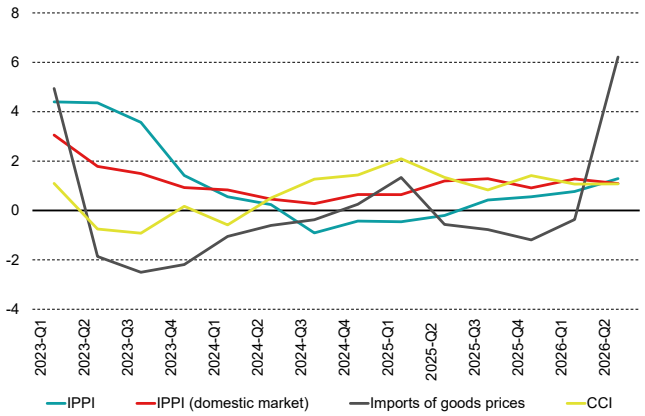
Cost indices

Producer cost indicators signal mixed 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 1.3% on average in the quarter under review, after having increased by 0.8% in the first quarter (see Chart 3.9).[9] Producer prices of intermediate goods increased at a much faster rate while growth in producer prices of consumer and capital goods was broadly unchanged.

Meanwhile, annual growth in the domestic producer price index decreased to 1.1% from 1.3% in the previous quarter.[10] On the other hand, the imports of goods deflator grew strongly by 6.2%, after having declined by 0.4% in the first quarter of 2026.[11] This may have reflected rising international energy prices, although domestic production costs may have been shielded from these price increases through government subsidies.

Chart 3.9
COST INDICATORS
(annual percentage growth)



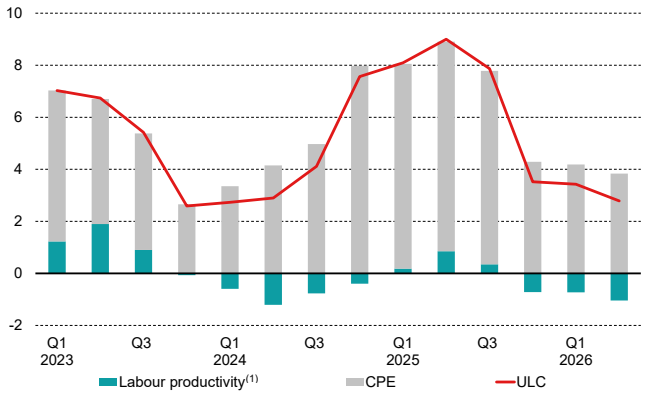
Sources: Central Bank of Malta estimates; Eurostat data; NSO data.

The construction cost index (CCI) for new residential buildings published by Eurostat remained unchanged at 1.1% in the second quarter of 2026.

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 2.8%. This followed an increase of 3.4% in the previous quarter (see Chart 3.10). It is the slowest year-on-year increase since the first quarter of 2024.

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

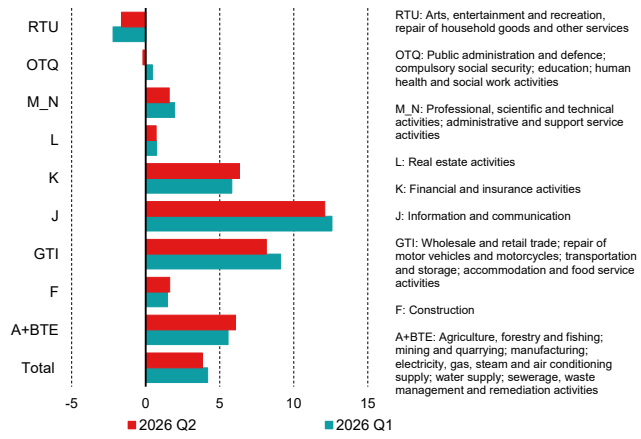


Sources: NSO; Central Bank of Malta estimates.
(1) A rise (drop) in productivity contributes negatively (positively) to ULC growth.

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

The decline in ULC growth reflects slower growth in compensation per employee and faster growth in productivity per person. The latter rose by 1.0%, from 0.7% in the first quarter. Meanwhile, compensation per employee rose by 3.8% in the second quarter, after having increased by 4.2% previously.

Chart 3.11
CPE BY SECTOR
(annual percentage growth; four-quarter moving average)



RTU: Arts, entertainment and recreation, repair of household goods and other services

OTQ: Public administration and defence; compulsory social security; education; human health and social work activities

M_N: Professional, scientific and technical activities; administrative and support service activities

L: Real estate activities

K: Financial and insurance activities

J: Information and communication

GTI: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities

F: Construction

A+BTE: Agriculture, forestry and fishing; mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities

Source: NSO.

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. Meanwhile, compensation per employee in the arts, entertainment and recreation sector continued to decline.