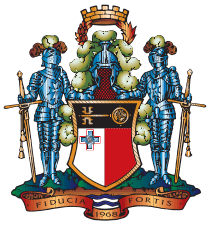

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INFLATION IN PASSENGER TRANSPORT BY AIR

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BOX 1: INFLATION IN PASSENGER TRANSPORT BY AIR[1]

Introduction

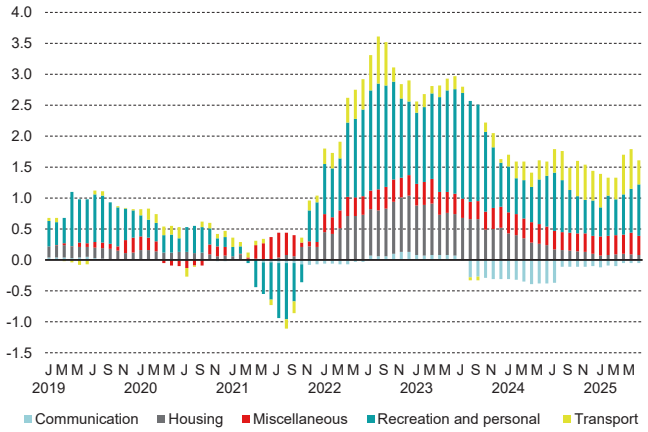
Services inflation is a key driver of overall HICP inflation in Malta. In recent months, transport services, particularly passenger transport by air, was a major contributor to services inflation. This could be due to strong demand for international travel and rising operational costs, while the timing of Easter impacted to an extent inflation in April. In view of the strong year-on-year rise in air fares (around 46% in April, 42% in May and 25% in June) and in their contribution to overall inflation, this box focuses on developments in prices for passenger transport by air. It explores the evolution of such prices, how these trends compare with those observed in the euro area and the main drivers behind these developments.

Services' contribution to HICP inflation

Chart 1a shows the contributions to overall inflation from the main sub-components of services inflation from 2019 until June 2025. From 2019 onwards, the recreation and personal sector was the main driver of services inflation, with an average contribution of 0.7 percentage points. This was followed by housing services with an average contribution of 0.3 percentage points, while transport services added a further 0.2 points. The contribution from transport services peaked in August 2022 with a contribution of 0.8 percentage points, which was consistent with the peak of overall inflation.

Since September 2022, the contribution of services to overall inflation declined considerably, which reflects the broader disinflationary process as recent inflationary shocks faded and the ECB tightened its monetary policy. The contribution of passenger transport by air inflation also declined and reached a trough of -0.05 percentage points in 2023. However, since 2024 we can observe a strong increase in the contribution of passenger transport by air inflation, which reached 0.6 percentage points in April 2025, before moderating to 0.4 percentage points in June. The strong contribution from passenger by air transport explains around a third of the contribution from services to overall inflation since April.

Chart 1a
CONTRIBUTIONS FROM SERVICES TO HICP INFLATION
(percentage points)



Source: SDW.

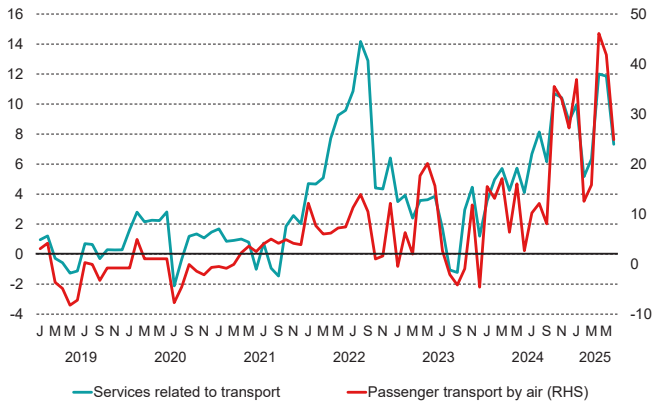
Inflation in passenger transport by air

Chart 1b compares the inflation rates of services related to transport and passenger transport by air from 2019 to mid-2025. The chart indicates that overall transport services inflation and air transport inflation have moved closely together

[1] Prepared by Maria Christine Saliba, Senior Economist and Eliza Farrugia, Economist within the Economic Projections and Conjunctural Analysis Office.

over the past years in part reflecting the significant weight of the latter.[2] Moreover, between 2019 and mid-2025, air transport inflation averaged around 7%, notably higher than its historical average of 3.1%. This suggests that inflation in air transport has been a key factor behind the broader upward trend in transport services inflation seen in the past three years.

Chart 1b
INFLATION OF TRANSPORT SERVICES AND PASSENGER TRANSPORT BY AIR
(annual percentage change)



Source: Eurostat.

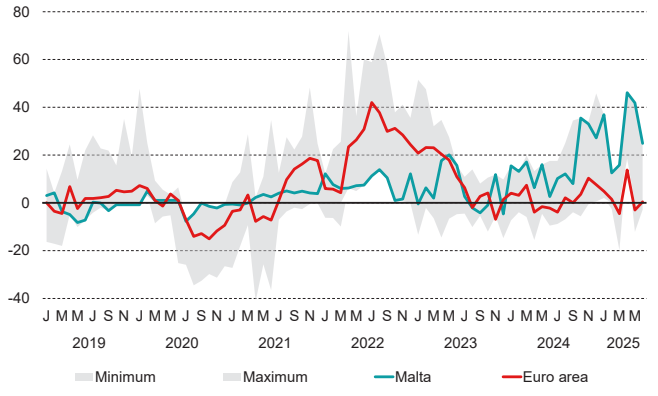
Air transport inflation exhibited high increases starting from 2022. Their inflation rate has surged quite considerably during 2025, surpassing 40% in April and May 2025, before retreating to around 25% in June 2025, which is still elevated from a historical perspective (the long-term average is 3.1%).

Inflation in passenger transport by air: comparison with the euro area

In order to shed light on the increases in passenger transport by air in a broader context, air passenger transport inflation trends in Malta are compared with those in the euro area. Seasonal peaks are visible in both Malta and the euro area, especially around major travel periods like the summer months and Easter. However, the timing and magnitude of the spikes differ, with Malta often showing sharper increases, due to the country's heavier reliance on air travel and tourism.

Chart 1c shows the evolution of air passenger transport inflation trends between Malta and the euro area from 2019 to mid-2025. This chart also includes the range

Chart 1c
INFLATION IN PASSENGER TRANSPORT BY AIR – EA AND MALTA(1)
(annual percentage change)



Source: Eurostat.

(1) Shaded area represents the maximum and minimum inflation rates reported for Cyprus, Greece, Malta, Portugal and Spain.

[2] This was not the case in 2022 as transport-related services inflation surged above air passenger transport inflation, in part due to significant increases in the prices of road passenger services. Towards the end of the year the gap between the two measures shown in the chart narrowed significantly as the introduction of free public transport caused the inflation rate for road passenger services to turn negative and that for overall transport services to moderate significantly.

of inflation rates of five euro area countries where tourism plays a significant role: Malta, Greece, Spain, Cyprus and Portugal. From 2019 to around mid-2021, both Malta and the euro area experienced relatively similar inflation rates for air passenger transport, within a contained range. From 2022, however, they begin to diverge. In the euro area, passenger transport by air inflation surged sharply in 2022 peaking at 42% in July, before gradually declining back towards zero by 2023. In contrast, that of Malta began to rise sharply in 2022 but became more pronounced from the start of 2024.

A spike in inflation in April 2025 can be observed in both Malta and the euro area. However, Malta recorded a significantly higher jump in passenger transport by air inflation which reached 46%, meanwhile it stood at 14% in the euro area. Moreover, inflation in this sub-component in Malta has been at double-digit rates since October 2024, while that in the EA was much more muted.

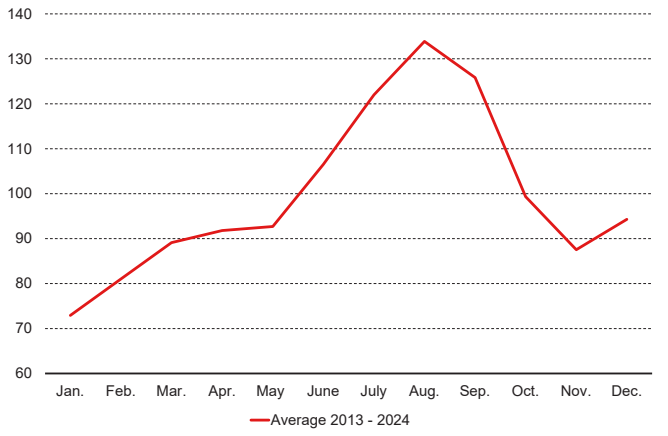
Within the euro area, countries such as Greece and Spain experienced large hikes at times similar to Malta in their inflation rates. Moreover, Malta followed by Greece, the Netherlands and Luxembourg were among the countries which experienced the largest increase in inflation for passenger transport by air in April 2025. In addition, while in the euro area, air passenger transport inflation dropped in May, that in Malta remained considerably high at 42% and 25% in June. This suggests that inflation in this subcomponent has remained more persistent in Malta than in the euro area.

Seasonal effects in inflation in passenger transport by air

To demonstrate seasonality in prices of passenger transport by air, Chart 1d shows how the "Passenger by air transport" price level index evolves during the year in relation to the average monthly price index over the period 2013-2024.The dataset highlights a pronounced seasonal pattern, with inflation rates peaking in the summer months, particularly in August.

Additionally, changes in the timing of holiday periods may also have an impact on the year-on-year inflation rates. A clear example is the timing of Easter, which may fall in either March or April. The effects of the timing of Easter may be especially pronounced for travel-related items such as airfares, given that these prices are recorded in the HICP when the service is used rather than when it is booked. Indeed, an analysis published by the ECB[3] in 2016, estimated

Chart 1d
SEASONALITY IN PASSENGER TRANSPORT BY AIR
(Index, 2015=100)



Source: Eurostat.

[3] See ECB (2016), "Harmonised Index of Consumer Prices – Easter effects and improved seasonal adjustment" in ECB *Economic Bulletin*, Issue 3/2016 – Box 1.

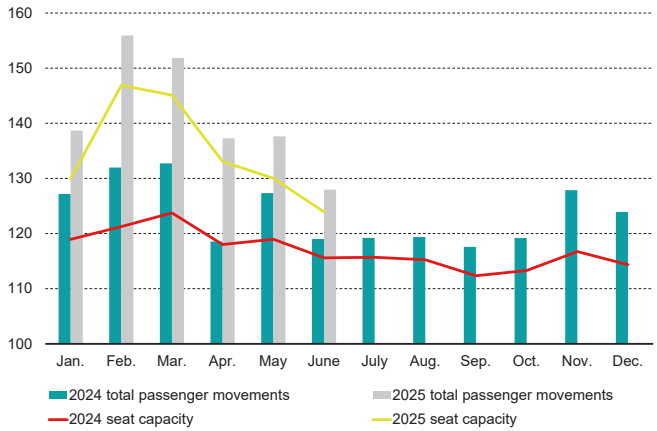
that services inflation for the euro area for March 2016 was impacted by a 0.1 percentage point increase as a result of the so-called Easter effect, whereby Easter fell in March in 2016 as opposed to April in the previous year. However, when conducting a similar analysis for Malta, this effect is less significant during the period between 2013 to 2025.

Main drivers of inflation in passenger transport by air

As noted earlier, the price level of passenger transport via air may be quite volatile and exhibits strong seasonal patterns. The upward trend apparent since 2022 may be attributable to both demand and supply side factors. On the demand side, tourism might have played an important role in this surge in inflation. During 2020 and 2021, inbound and outbound tourism experienced a marked decline as a result of the COVID-19 pandemic, however throughout 2022 tourism started to recover, gradually reaching the 2019 levels. Since the start of 2023, both inbound and outbound tourists by air have consistently surpassed 2019 levels. Notably, while most euro area countries have experienced a spike in air passenger transport inflation since 2022, this has now generally stabilised while it remains elevated in Malta. In particular, air passenger transport inflation in Greece which has experienced similar peaks as Malta, has started to normalise since February 2025. However, when comparing inbound tourism data for both countries, it is evident that Malta has experienced stronger growth in tourism levels relative to 2019. Growth in inbound tourism by air has averaged 38% in Malta since 2024 while it averaged 26% in Greece and this growth is even more pronounced since the start of 2025.

This rebound in tourism, combined with supply constraints in the aviation sector, contributed to sharp increases in airfare prices. The latter was aided by a notable recovery in air connectivity which as outlined in Sant (2025),[4] has reached 109 direct connections in 2024, up from 70 direct routes in 2020 and is set to exceed pre-pandemic levels in 2025. These developments in tourism are mirrored by the growth in total passenger movements seen in 2024 and 2025 relative to their 2019 levels. The difference compared to 2019 averaged 24% and 42% in 2024 and 2025, respectively. Meanwhile, seat capacity on average exceeded 2019 levels by 17% and 35% in 2024 and 2025, respectively. This is indicated in Chart 1e, which clearly shows that although seat capacity has increased markedly compared to 2024 it remained short of the

Chart 1e
PASSENGER MOVEMENTS AND SEAT CAPACITY
(Index 2019 = 100)



Sources: Malta International Airport; own calculations.

[4] See Sant, K. (2025), "An In-Depth Analysis of Malta's Air Connectivity in 2024" in CBM *Discussion Paper* DP/02/2025.

increase in passenger movements. The apparent mismatch in the growth in seat capacity when compared to demand could be contributing to higher price pressures. For example, in February 2025 seat capacity was 47% higher compared to February 2019 while passenger movements grew by 56%.

On the supply side, air passenger transport price levels have been impacted by jet fuel costs, which soared in 2022 as a result of the energy crisis. The price of jet fuel is dependent on the price of crude oil and these two generally move in tandem. Chart 1f highlights the movements in brent crude oil price since 2019, whereby prices reached a peak of USD 125.01 per barrel in May 2022 and started to gradually decline thereafter. These increases in costs have put upward pressure on air-ticket prices thereby fuelling further air passenger transport inflation. However, the recent decline in brent crude oil price has pushed down jet fuel costs. Indeed, according to the International Air Transport Association (IATA), as crude oil price declined substantially in 2024, averaging USD 81 per barrel, so did jet fuel prices which averaged USD 99 per barrel, reflecting a 12% year-on-year decline.[5] As oil prices are projected to decline further in 2025, this may contribute to gradually stabilise inflation for air passenger transport, especially if growth in demand for air travel moderates.

However, while jet fuel prices are declining, fuel costs still represent a cause for concern for airlines, particularly given the revision of the EU Emissions Trading System (ETS) for Aviation which aims to phase out free allowances by 2026 and introduced the uptake of Sustainable Aviation Fuels (SAF). The latter is notably more expensive than jet fuel, with estimates suggesting that in 2024 the average cost of SAF was 3.1 times higher than jet fuel costs and this is anticipated to increase further to 4.2 in 2025.[6] Such high prices are currently exacerbated by the low levels of production of SAF relative to demand needs. Additionally, insights gathered from CBM business dialogue confirms these increases in costs for airlines as well as further increases in input costs. Going forward, these cost increases together with strong demand for travel could further prolong the high inflation rates for air passenger transport seen particularly in the past year.

Chart 1f
BRENT CRUDE OIL PRICE
(USD/Barrel)

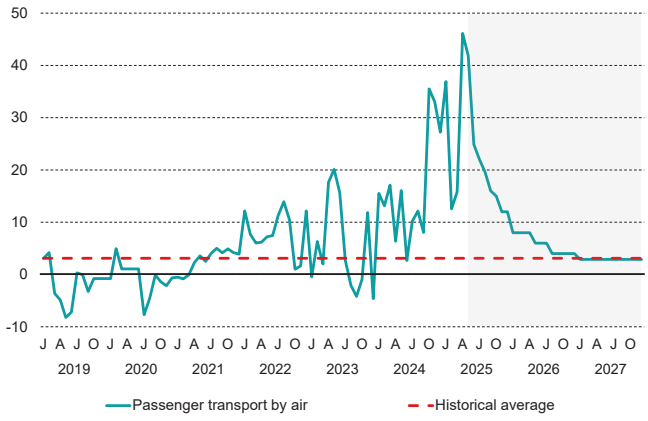
Source: LSEG Data & Analytics.

[5] See IATA (2025), "Fuel" in IATA – Global Outlook for Air Transport.
[6] See IATA (2025), "Airline Profitability to Strengthen Slightly in 2025 Despite Headwinds" in Press Release No. 24.

Forecast implications

Given these developments, particularly the relatively strong demand for travel, going forward we expect some persistence in air passenger transport inflation. This is projected to remain elevated until the first half of 2026 and gradually converge towards its long run average of around 3% in 2027 (see Chart 1g).

Chart 1g
PASSENGER TRANSPORT BY AIR INFLATION PROJECTIONS
(annual percentage change)



Sources: Eurostat; own calculations.