

Chapter 3

Labour market patterns in Malta 2000 – 2019



3.1 Introduction

Developments in the labour market are closely linked to a country's macroeconomic performance. Labour supply is a key determinant of the economy's potential output. At the same time, the labour market generates the bulk of households' income (in 2019, it accounted for almost four-fifths of gross household income). In turn, this income finances private consumption and saving. Incentivising participation in the labour market is also a key policy used by governments to address poverty, promote social wellbeing, foster inclusion and prevent crime.

Moreover, the labour market exerts a significant impact on public finances, both on the revenue and the expenditure side of the budget. The labour market directly drives income taxes and social security contributions. However, since labour income also influences the level of consumption, developments in the labour market impact indirect taxes. On the other hand, weak labour market conditions often bring calls for higher public expenditure on social payments, to act as a safety net, and the launch of new public projects to stimulate demand. Overall, benign labour market conditions typically contribute to an improvement in the fiscal balance, whereas adverse developments in the labour market generally result in a deterioration.

The MFAC monitors Malta's labour market closely to assess both the official macroeconomic forecasts and the fiscal projections. This monitoring involves verifying the plausibility of the labour market forecasts such as for labour supply, sectoral employment growth, sectoral growth in wages and the unemployment rate, and evaluating their consistency with the forecasts for real GDP growth and the fiscal balance.

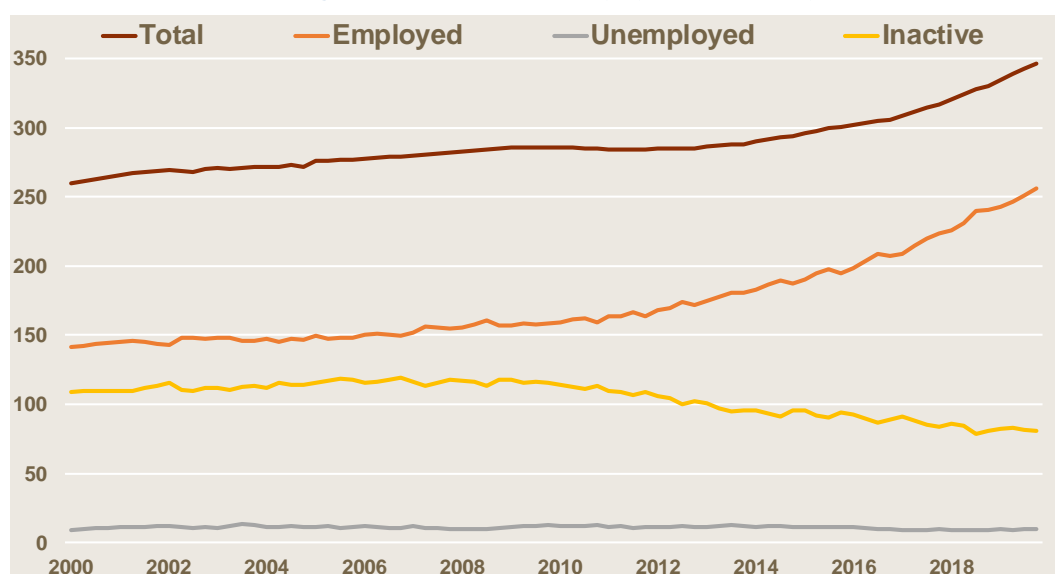
This Chapter provides an overview of Malta's labour market's salient developments over the twenty years 2000 to 2019. Unless otherwise indicated, the data reported in this Chapter is derived from the Labour Force Survey statistics.¹¹

¹¹ The European Union Labour Force Survey is conducted in all Member States of the European Union in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. It is a large household sample survey providing quarterly results on

3.2 Labour supply

In 2019, the population in Malta within the 15 to 64 age-bracket reached 346,500, expanding by around one-third during the last two decades. Population growth accelerated during the more recent years, as the number of foreigners residing in Malta increased (see Chart 3.1).

Chart 3.1: Population aged 15 – 64 in Malta by type of activity (thousands)



Source: Eurostat

This development was accompanied by a decline in the number of Maltese within the working-age who were inactive. Thus, Malta's labour supply grew more strongly during the second decade, both due to the influx of foreign workers and the increase in the number of Maltese joining the labour market, following the implementation of various active labour market policies throughout this period.

During the second decade, there was a steeper rise in employment.¹² This suggests that the creation of job opportunities was a catalyst for foreign workers and to

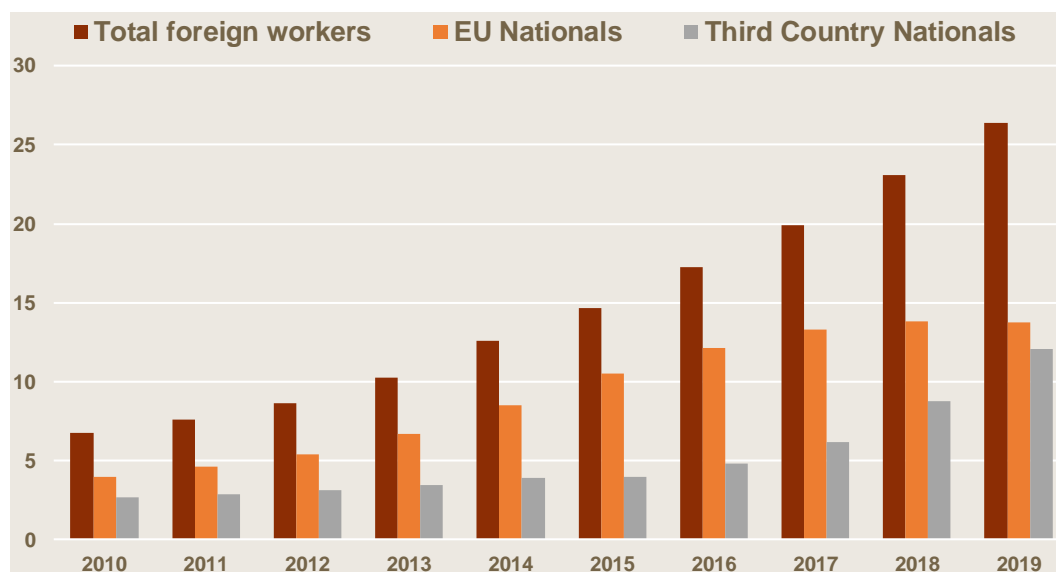
labour participation of people aged 15 and over as well as on persons outside the labour force. The Labour Force Surveys are conducted by the national statistical institutes across Europe and are centrally processed by Eurostat. The national statistical institutes are responsible for selecting the sample, preparing the questionnaires, conducting the direct interviews among households, and forwarding the results to Eurostat in accordance with the requirements of the regulation.

¹² Eurostat employment statistics are based on the Labour Force Survey. These are defined as persons who work for a public or private employer and who receive

encourage more Maltese to join the labour market.¹³ Meanwhile, the number of persons unemployed was generally low and relatively stable between 2000 and 2019.

Foreign workers accounted for slightly more than a quarter of employment in Malta in 2019, with their share rising steadily over time (see Chart 3.2). Indeed, their number grew approximately six-fold during the last decade, to reach 67,596 (see Chart 3.3).¹⁴

Chart 3.2: Share of foreign workers in total employment in Malta (%)



Source: Eurostat, Jobsplus

EU and Third Country Nationals practically equally drove the increase in foreign workers in Malta. Indeed, in 2019, 52% of foreign workers were EU nationals, while the rest of the world accounted for the other 48% (see Chart 3.4).

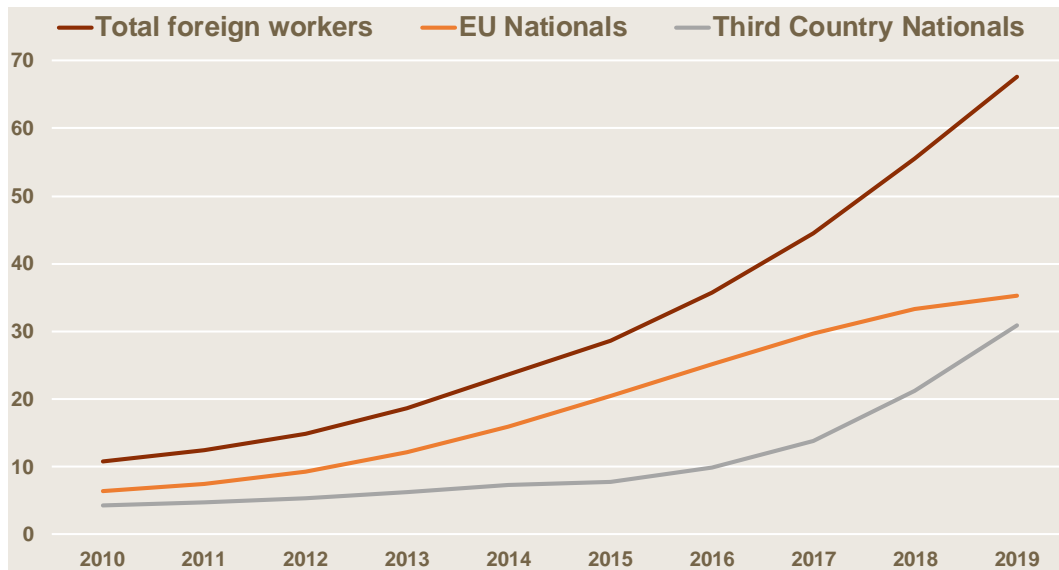
Asian workers accounted for the largest share of non-EU workers, with the second-largest group originating from European countries which do not form part of the EU. In 2019, 86.4% of Malta's total employment was on a full-time basis, whilst the rest had part-time jobs. Almost the same percentage, 86.2% of EU nationals were employed on a full-time basis, whereas in the case of Third Country Nationals, the rate was higher, at 97.3%.

compensation in the form of wages, salaries, fees, gratuities, payment by results or payment in kind.

¹³ The provision of free child-care services was another important policy which contributed to expand Malta's labour supply, particularly in the case of females.

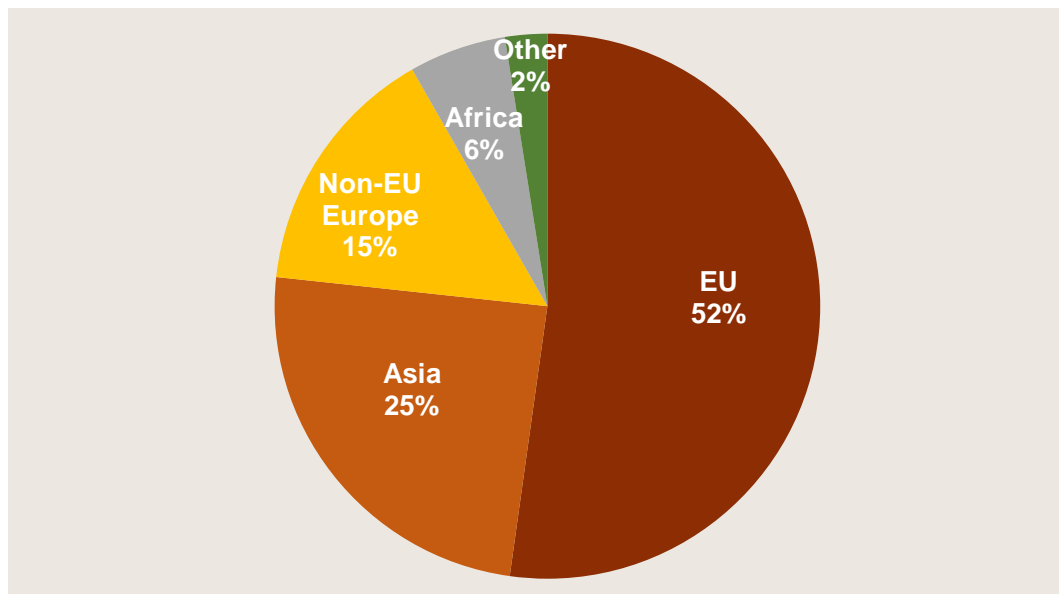
¹⁴ Statistics on foreign workers are based on administrative records maintained by Jobsplus.

Chart 3.3: Foreign workers in Malta (thousands)



Source: Jobsplus

Chart 3.4: Total foreign workers in Malta in 2019 by major groups (%)



Source: Jobsplus

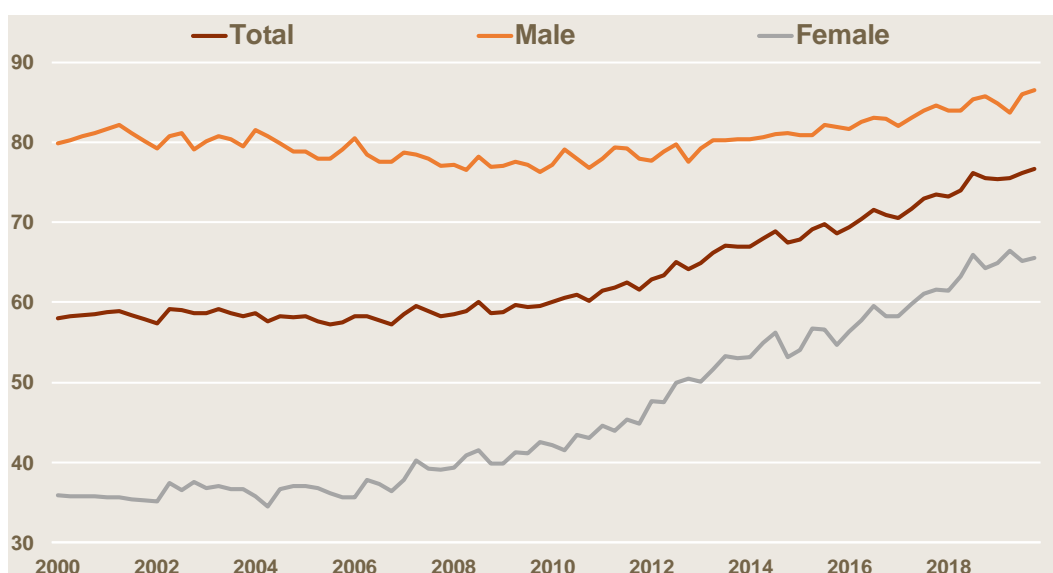
3.3 Activity rates

Over the past two decades, Malta's total activity rate increased by around 18 percentage points, to almost 77% by 2019. Since the higher participation in the labour market was accompanied by a similar rise in the employment rate, this enabled Malta to meet its Europe 2020 employment rate target. Indeed, Malta's employment rate

target of 70% was surpassed by 2016. By 2018, Malta's employment rate had also exceeded the EU target of 75%.

The activity rate overall increase was underpinned by a rapid rise in the female activity rate, predominantly during the last decade (see Chart 3.5). The female activity rate almost doubled during the twenty years, reaching 65.6% by 2019. In turn, the male activity rate, which for many years hovered close to 80%, also increased slightly in recent years. Overall, the gap between male and female activity rates has practically halved since 2000. Indeed, by 2019 the gap between male and female activity rates had narrowed to around 20 percentage points.

Chart 3.5: Activity rates by sex (%)



Source: Eurostat

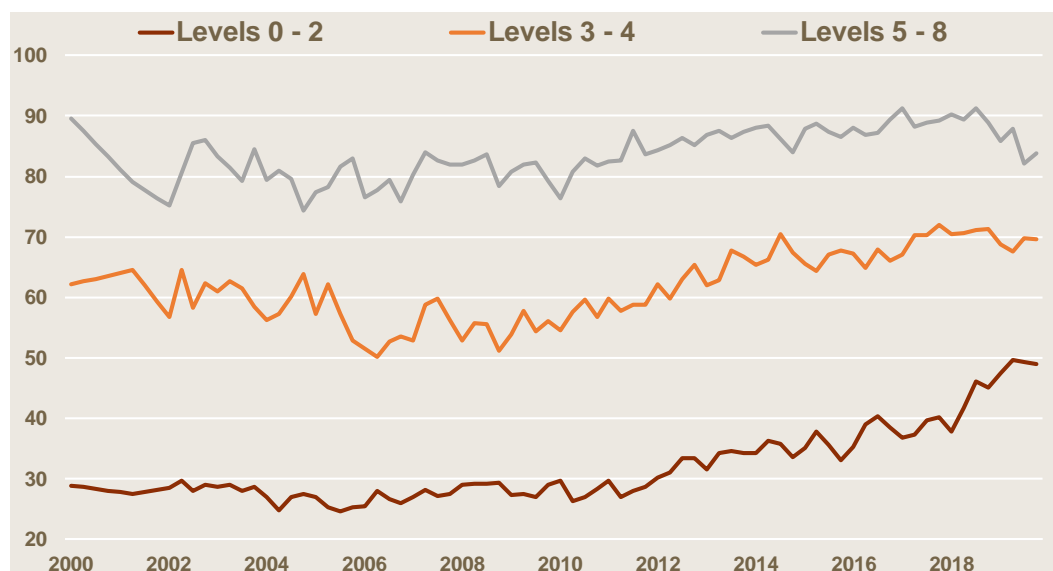
When examining Malta's female labour market, there is a clear positive correlation between education qualifications and activity rates. Indeed, the share of the more qualified females who participate in the labour market is much higher than that for females with lower educational background. The same pattern can be observed across the other EU Member States. However, in Malta, the difference in activity rates across education levels has narrowed in the more recent years (see Chart 3.6).

In 2000, the activity rate for females with education levels 5 – 8 was three times higher than that for females with education levels 0 – 2, but by 2019 this ratio had fallen below two.¹⁵ This reflected the significant improvement in female participation rate from the

¹⁵ Level 0: early childhood education; level 1: primary education; level 2: lower secondary education; level 3: upper secondary education; level 4: post-secondary

lower educational background, which at the start of the millennium mostly hovered under 30%, but which increased to 49% by 2019.

Chart 3.6: Female activity rates by level of education (%)



Source: Eurostat

3.4 Sectoral employment

When focusing on employment share across the various sectors, there were two dominant changes over the past two decades. The employment share within the manufacturing sector [C] declined steadily, from 21.7% in 2000 to 9.4% by 2019 (see Table 3.1 and Chart 3.7). Even though the contraction in employment within manufacturing, from 31,820, in 2000 to 21,990, in 2010, was partially reversed through an expansion in employment, to 23,510, as of 2019 (see Table 3.2).

On the contrary, the share of employment within the professional, scientific and technical activities, administrative and support service activities [M, N] rose significantly, from 5.8% to 16.5% during the same period. Indeed, whereas in 2000, employment within this sector stood at 8,530, by 2019, this rose to 41,360. This was in line with the re-orientation of the country towards a more service-based economy.

non-tertiary education; level 5: short-cycle tertiary education; level 6: bachelor or equivalent level; level 7: master or equivalent level; and level 8: doctor or equivalent level.

Table 3.1 Sector codes

A	Agriculture, forestry and fishing
B, D, E	Industry
C	Manufacturing
F	Construction
G, H, I	Wholesale and retail trade, transport, accommodation and food service activities
J	Information and communication
K	Financial and insurance activities
L	Real estate activities
M, N	Professional, scientific and technical activities; administrative and support service activities
O, P, Q	Public administration, defence, education, human health and social work activities
R, S, T, U	Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organisations and bodies

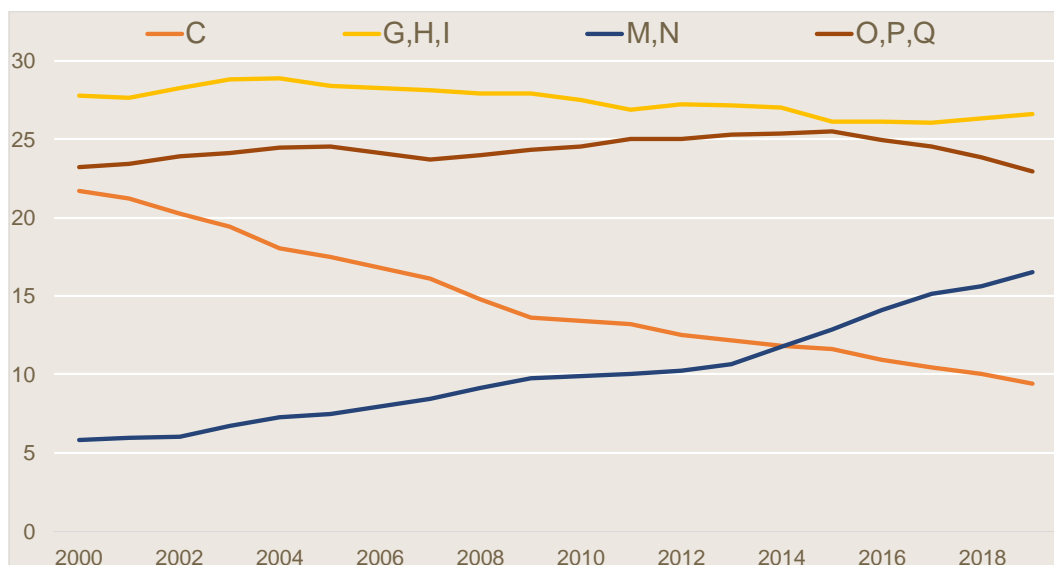
Source: Eurostat

Table 3.2: Employment levels in selected sectors (thousands)

	2000	2010	2019
Agriculture, forestry and fishing	2.20	2.60	2.62
Manufacturing	31.82	21.99	23.51
Construction	9.73	11.19	14.87
Wholesale and retail trade, transport, accommodation and food service activities	40.66	45.11	66.51
Information and communication	3.83	5.07	9.67
Financial and insurance activities	5.64	9.12	12.89
Professional, scientific and technical activities; administrative and support service activities	8.53	16.19	41.36
Public administration, defence, education, human health and social work activities	34.01	40.17	57.34
Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organisations and bodies	4.6	7.93	16.71

Source: Eurostat

Chart 3.7: Share of employment for the largest sectors (%)



Source: Eurostat

The other sectors maintained relatively stable employment shares. Wholesale and retail trade, transport, accommodation and food service activities [G, H, I] consistently accounted for the bulk of employment, averaging around 27.5% during this period. Indeed, the expansion in jobs within this sector, from 40,660 in 2000 to 66,510 in 2019, followed the overall employment growth trend. Similarly, public administration, defence, education, human health and social work activities [O, P, Q] maintained the second-highest share, with an average of 24.4% between 2000 and 2019. In this case, the headcount increased from 34,010 in 2000 to 57,340 by 2019.

The shares of the remaining sectors all remained below 10%. Between 2000 and 2019, employment within the financial and insurance activities sector expanded from 5,640 to 12,890. In turn, employment within the arts and entertainment and information and communication rose respectively from 4,600 to 16,710 and from 3,830 to 9,670.¹⁶

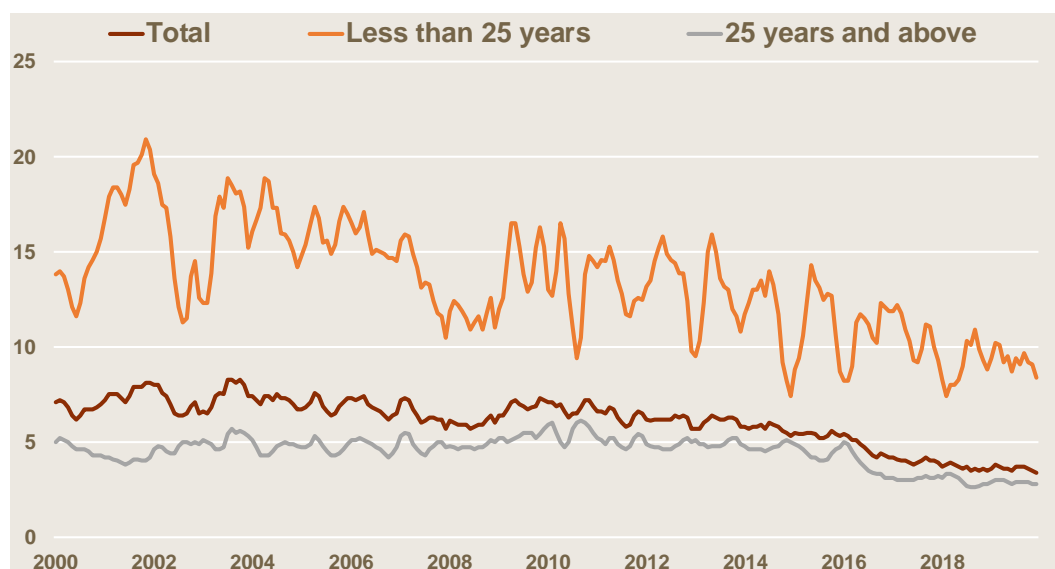
3.5 Unemployment

The monthly unemployment rate generally remained low between 2000 and 2019. During these years, the highest unemployment rate was 8.3% during some months of 2003 (see Chart 3.8). On the other hand, the lowest unemployment rate was 3.4% and

¹⁶ The rise in employment within these two sectors is in part related to the 'gaming sector' which over these years expanded considerably.

was recorded at the end of 2019. Between January 2000 and April 2016, the unemployment rate was always above 5%, but between May 2016 and December 2019, unemployment was always lower than 5%.

Chart 3.8: Unemployment rate by age group (%)



Source: Eurostat

Malta was consistently among the EU Member States with a lower unemployment rate (see Table 3.3). The reduction in Malta's unemployment rate observed over the second decade matches the pattern recorded across most EU Member States.

Focusing on the unemployment rate by age group, a regular pattern emerges whereby the younger population (less than 25 years old) consistently experienced a higher unemployment rate when compared to the rest of the population (25 years and above). The younger cohort's unemployment rate also experienced more monthly variations, probably reflecting the school leaving patterns as individuals end their scholastic year and experience a period of unemployment until they find their first job.

Annual average data on the number of registered unemployed, based on the administrative records of Jobsplus and its predecessor, the Employment and Training Corporation, also indicates two distinct phases.¹⁷

¹⁷ The administrative records are based on the people who formally register as unemployed under Part 1 and Part 2. Hence, the data is not directly comparable to that produced by the Labour Force Survey which has a broader classification. The Labour Force Survey considers as unemployed those without a job who were actively

Table 3.3: Unemployment rates in the EU – 27 in ascending order as at 2019 (%)

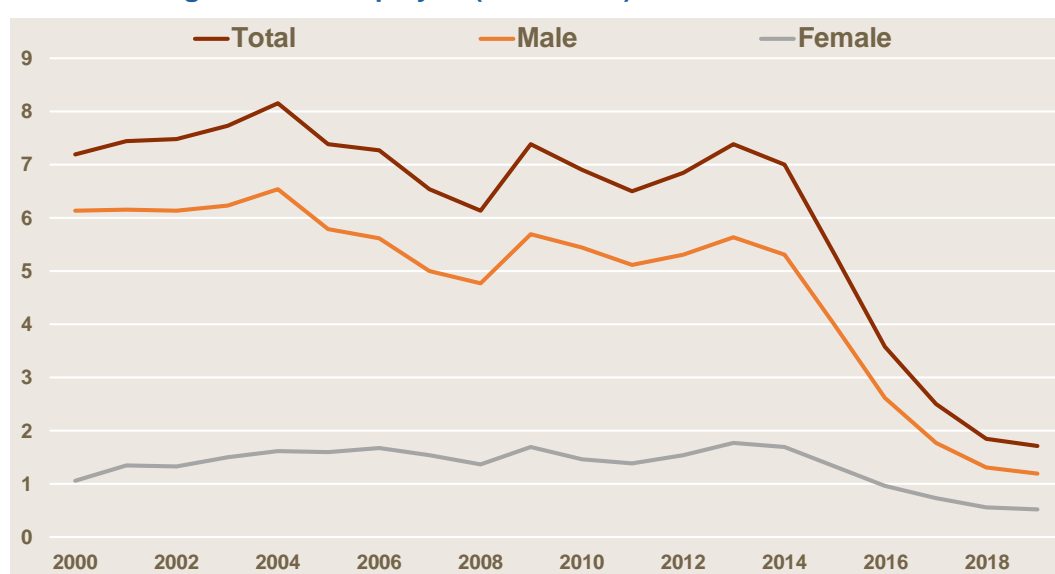
	December 2010	December 2015	December 2019
Czechia	6.8	4.5	1.9
Poland	9.6	6.9	2.9
Netherlands	4.7	6.4	3.0
Germany	6.5	4.5	3.1
Hungary	11.2	6.2	3.4
Malta	6.9	5.3	3.4
Slovenia	8.1	8.7	4.0
Romania	7.0	6.8	4.1
Bulgaria	11.9	8.0	4.3
Austria	4.4	5.7	4.3
Estonia	14.3	6.5	4.5
Ireland	15.3	9.0	4.6
Denmark	7.9	6.1	4.9
Belgium	7.7	8.8	5.2
Slovakia	14.0	10.8	5.7
Luxembourg	5.1	7.0	6.0
Finland	7.9	9.2	6.0
Sweden	7.6	6.7	6.0
European Union – 27	9.9	9.7	6.5
Croatia	13.1	16.0	6.6
Latvia	17.6	10.0	6.6
Lithuania	17.5	9.4	6.9
Cyprus	5.8	13.1	7.0
Portugal	12.4	12.4	7.0
France	9.6	10.6	8.2
Italy	8.2	11.6	9.8
Spain	20.2	20.6	13.6
Greece	15.2	24.5	16.8

Source: Eurostat

looking for a job over the previous four weeks and were available to start work within two weeks, irrespective of whether that persons registers for work or not.

Between 2000 and 2014, the total number of registered unemployed fluctuated between 6,500 and 8,000 persons (see Chart 3.9). However, in more recent years, the registered unemployed declined steadily and stood below 2,000 in 2019. Another clear pattern that emerges is that those registering for work were predominantly males throughout the twenty years. However, the gap has narrowed significantly over the last five years, notably as male unemployment declined significantly. This was facilitated by the various schemes that Jobsplus launched during this period, which aimed at training and helping the long-term unemployed and unskilled youths join the labour market.

Chart 3.9: Registered unemployed (thousands)



Source: *Employment and Training Corporation, Jobsplus*

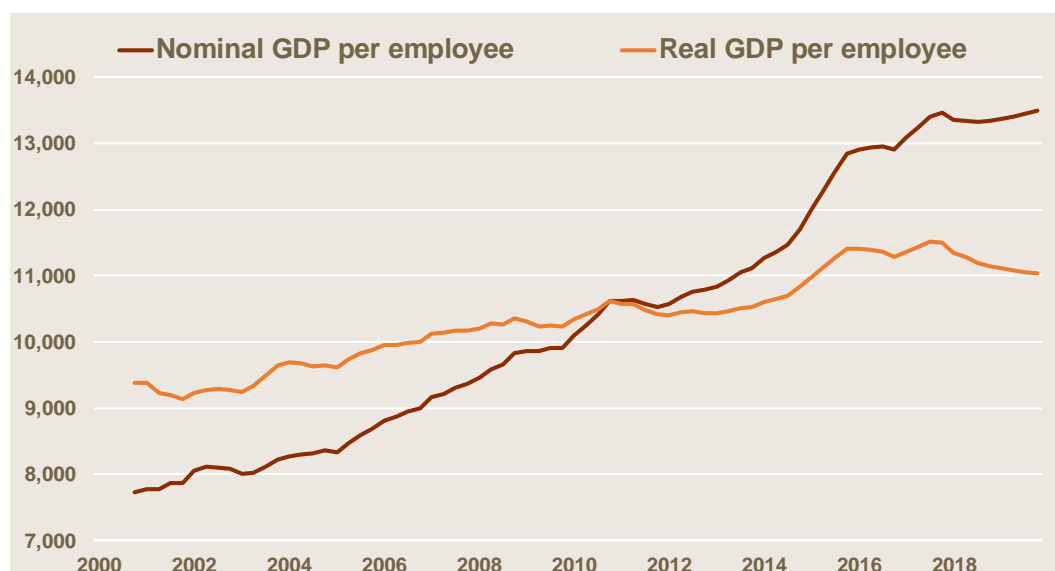
Around half of those registering for work during 2019 were 45 years and over. In turn, around two-thirds were male and one-third female. Slightly less than half had been registering for work for over a year. The most popular occupation sought was that of clerical support workers.

3.6 Labour productivity

Dividing nominal GDP and real GDP by the number of employees provides a crude measure of labour productivity, i.e. respectively, an estimate of each person's total output in monetary terms and volume terms. Over the two decades, quarterly GDP per employee increased by almost 75% in nominal terms, from slightly less than €8,000 in

2000 to around €13,500 in 2019 (see Chart 3.10). However, during this period, the increase in labour productivity (proxied by real GDP per employee) amounted to around 18%, or just under one per cent per annum, on average.

Chart 3.10: Quarterly moving average nominal and real GDP per employee (€)

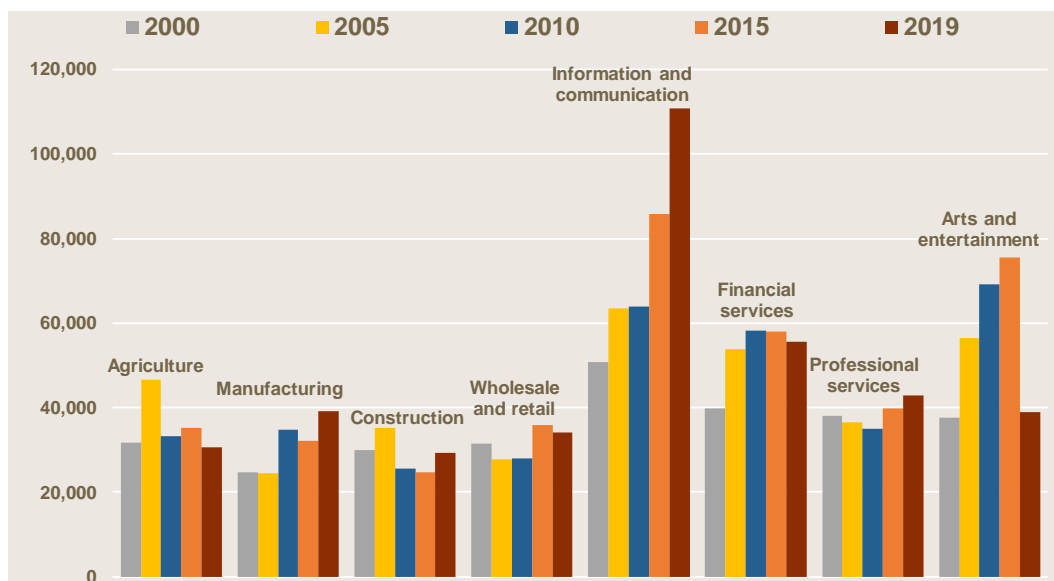


Source: Eurostat

Performance across the sectors was uneven. Economic theory suggests that the sectors where the capital per employee tends to be higher generally experience higher productivity. Indeed, capital deepening, which takes place through investment, tends to raise labour productivity.

The Information and Communication sector consistently recorded the highest gross value added per employee in real terms during the period under review (see Chart 3.11). This value also rose consistently in each of the interval periods considered. On the other hand, the arts and entertainment sector and the financial service sector, which respectively exhibited the second and third highest real gross value added per employee, experienced increases in 2005, 2010 and 2015, but then suffered a reduction in 2019. The setback was more pronounced in the case of the arts and entertainment sector. On the other hand, the real gross value added per employee in the manufacturing sector increased by almost 60% between 2000 and 2019. In turn, the construction sector had the lowest real gross value added per employee in 2019, which practically stood at the same level as in 2000.

Chart 3.11: Yearly real gross value added per employee by sector (€)



Source: Eurostat

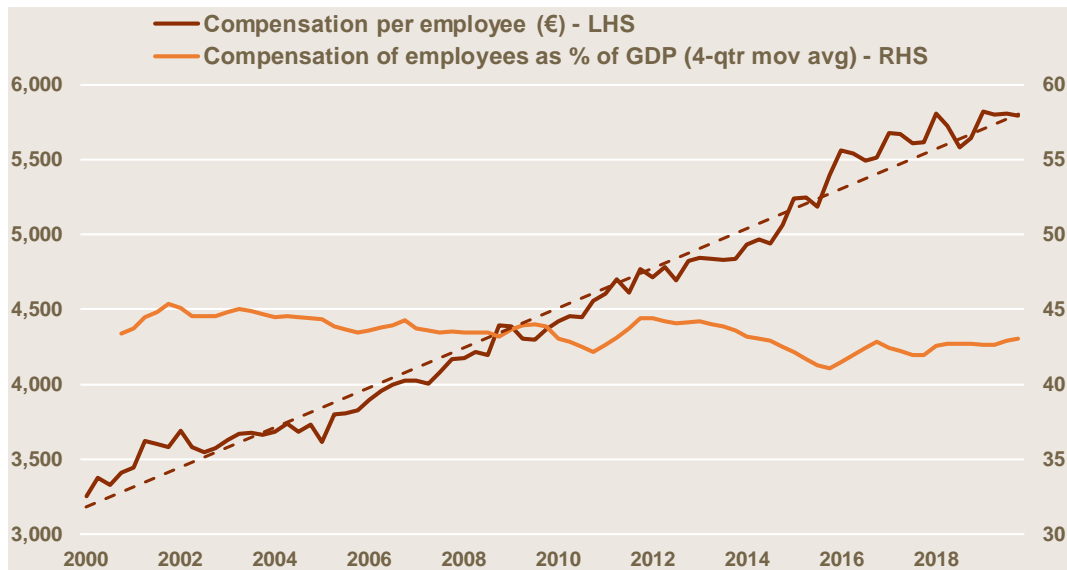
3.7 Compensation of employees

In nominal terms, compensation of employees increased by slightly more than 70% over the two decades, to almost €6,000 per quarter (see Chart 3.12). The rise followed the linear trend rather closely. Compensation of employees hovered close to the average of 43.5% of nominal GDP throughout the twenty years.

At a sectoral level, there were differences in terms of the annual compensation per employee. In 2019, the financial and insurance activities sector [K] recorded the highest earnings per employee, amounting to €40,507 (see Table 3.1 and Chart 3.13).¹⁸ This was followed by the arts and entertainment sector and the information and communication sector, with an average compensation per employee slightly above €30,000. On the other hand, compensation per employees in the wholesale and retail trade, transport, accommodation and food service activities sectors [G, H, I] which together account for the bulk of employment, stood at just under €17,000 per annum.

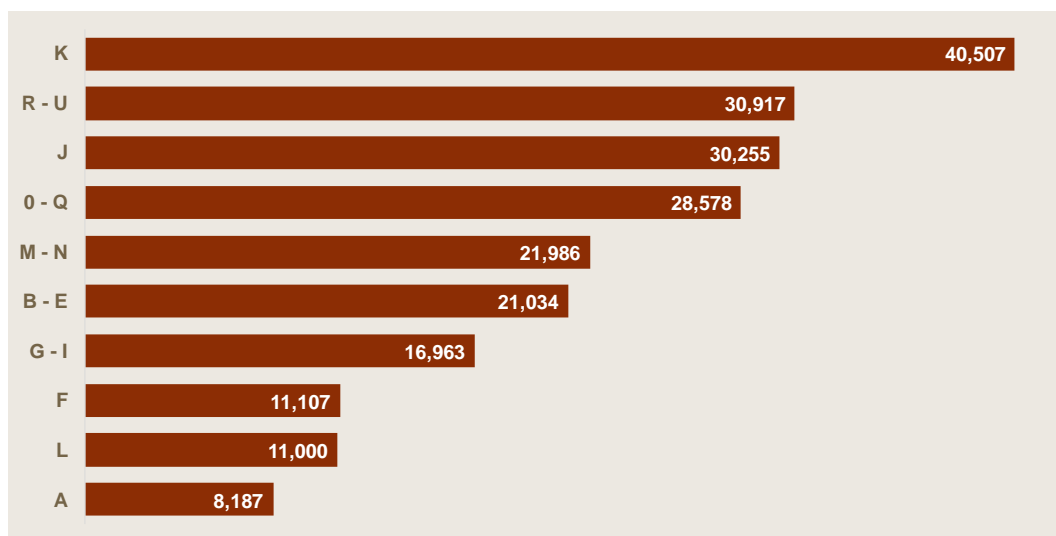
¹⁸ Compensation of employees is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter during the accounting period. Compensation of employees consists of wages and salaries, and of employers' social contributions. This value is not identical to the salary indicated in the employees' payslip.

Chart 3.12: Quarterly compensation of employees (€, % of GDP)



Source: Eurostat

Chart 3.13: Compensation per employee by sector (€)

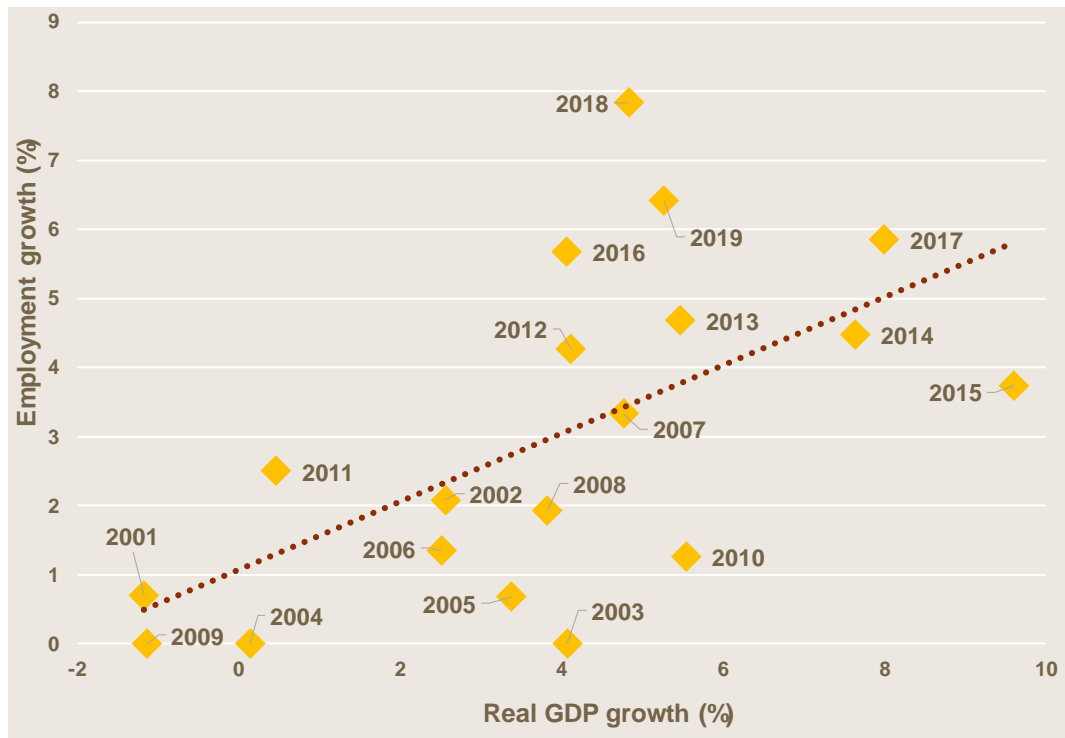


Source: Eurostat

3.8 Relationship between the labour market and GDP

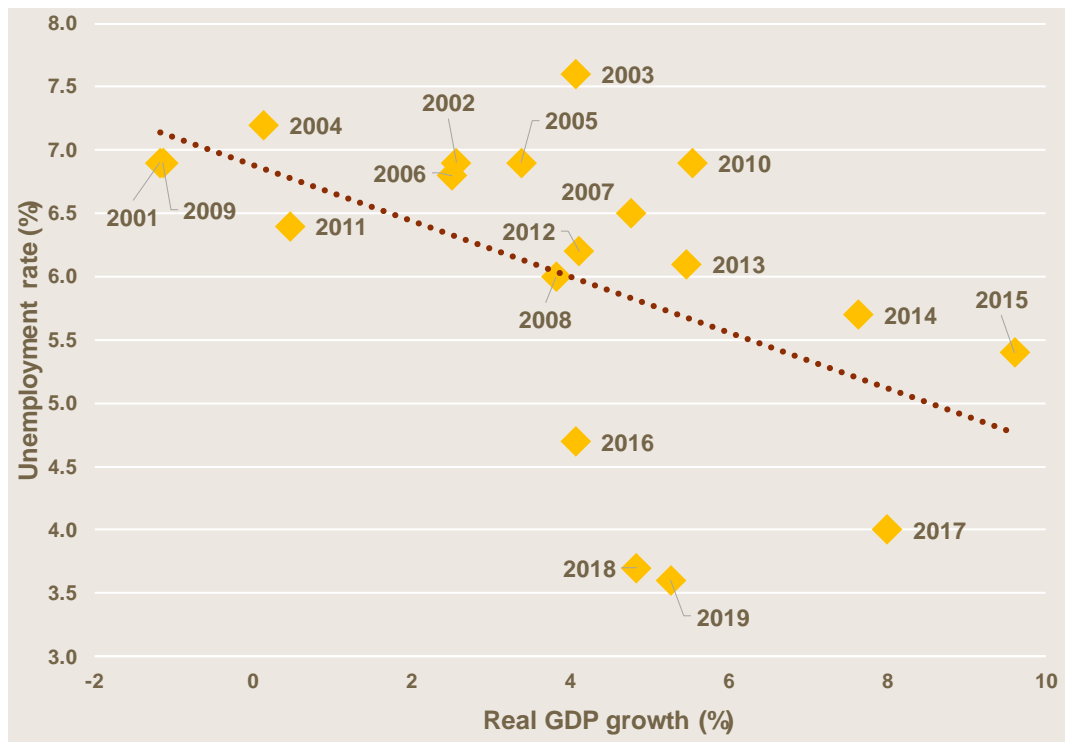
Typically, employment grows when the economy expands, and vice-versa. This positive relationship is visible when plotting the yearly growth rates in employment against real GDP growth in Malta over the period 2000 to 2019 (as indicated by the upward sloping dashed line of best fit) (see Chart 3.14).

Chart 3.14: Employment and real GDP growth (%)



Source: Eurostat

Chart 3.15: Unemployment rate and real GDP growth (%)



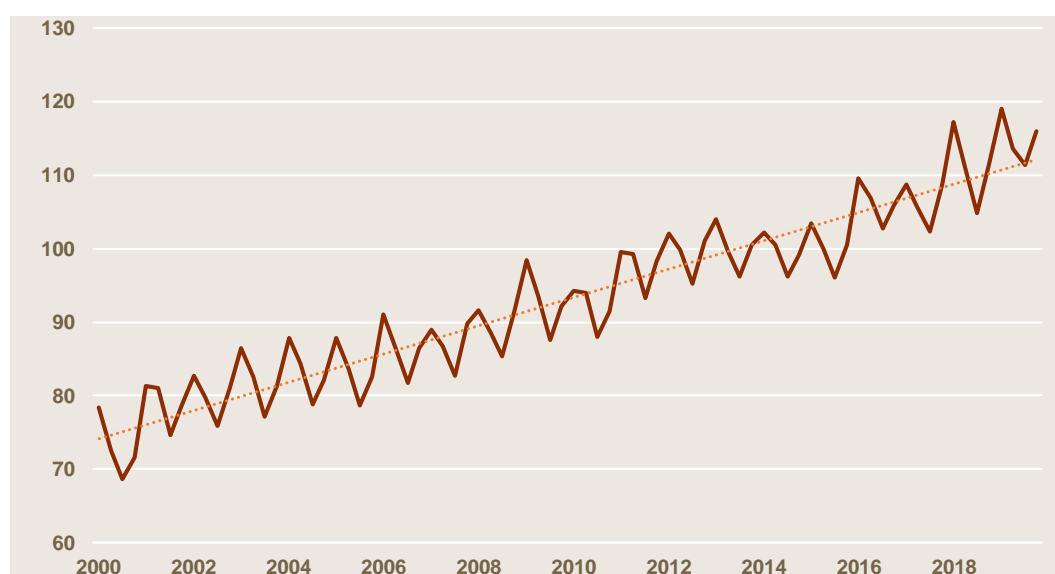
Source: Eurostat

On the other hand, the unemployment rate usually is inversely related to real GDP growth, as suggested in the economic literature by Okun's law.¹⁹ Slow or negative real GDP growth can push up the unemployment rate, either through job losses or because of fewer job opportunities compared to the number of new entrants in the labour market. The negative relationship is visible when plotting the unemployment rate against real GDP growth in Malta over the period 2000 to 2019 (as indicated by the downward sloping dashed line of best fit) (see Chart 3.15).

3.9 Unit labour cost

Nominal unit labour cost measures the average cost of labour per unit of output. It is calculated as the ratio of labour costs to labour productivity (using real GDP and total employment as input). The unit labour cost thus represents a link between productivity and the cost of labour in producing output. Throughout the twenty years, Malta's nominal unit labour cost has followed a generally stable upward trend (see Chart 3.16).

Chart 3.16: Nominal unit labour cost based on persons (Index 2015 = 100)



Source: Eurostat

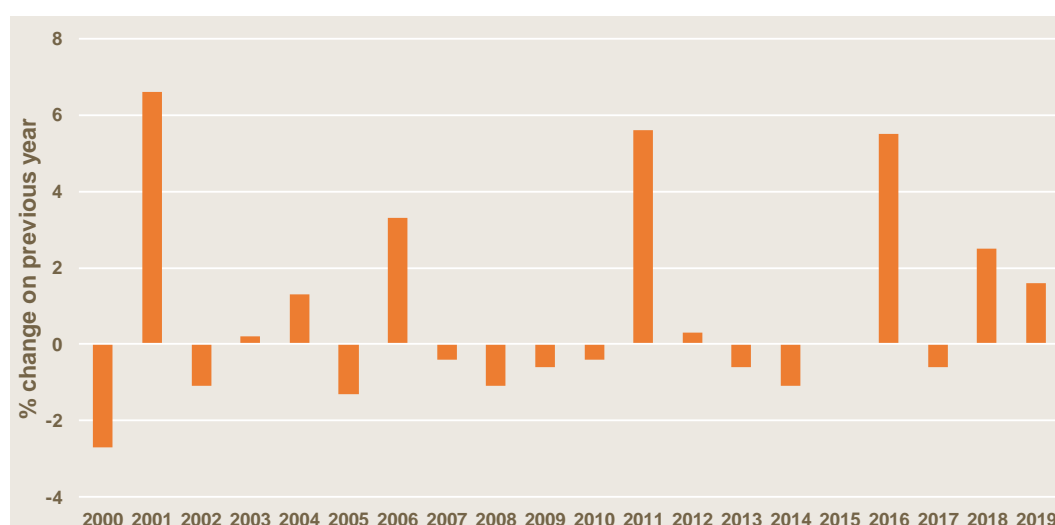
Developments in the labour market can impact the relative competitiveness of a country. This can be assessed by looking at the unit labour cost performance related to the euro area. This indicator measures the trading position of an individual country

¹⁹ Okun, A.M, "Potential GNP: Its Measurement and Significance", Proceedings of the Business and Economic Statistics Section, American Statistical Association, 1962.

relative to its partners in the euro area, accounting for variations in relative price levels based on the unit labour cost, as well as market exchange rates. A decrease in the relative unit labour cost index is regarded as improving a country's competitive position relative to their trading partners in the euro area and vice-versa.

The period between 2000 and 2019 was characterised by years of small improvements in price competitiveness (as indicated by a fall in the unit labour cost relative to the euro area), which were, however, more than offset by more substantial increases (i.e. loss of competitiveness) in some years (see Chart 3.17).

Chart 3.17: Unit labour cost performance related to the euro area (%)



Source: Eurostat

3.10 Conclusion

Malta's labour market has been very dynamic. Rising labour demand was matched by an expansion in labour supply. Decisive work incentive policies contributed to improving the standard of living of Maltese households through greater labour market participation. In this respect, the policies of granting tax breaks to women returning to work and the provision of free child-care appear to have been very successful in leading to a cultural change vis-à-vis the previously very low female participation rate. Meanwhile, sectoral transformations and economy-wide wage dynamics have helped the unemployment rate in Malta to remain low. Such benign labour market conditions have sustained economic growth over the years. They also contributed positively to the general improvement in public finances.