

Thematic Chapter 1

2023

A scenic landscape of a hill in Malta. In the foreground, there are tall, dry grasses and some green plants. The middle ground shows a grassy slope with some rocky patches and a stone wall. In the background, a hill with a church on top is visible under a clear blue sky. The church has a red dome and a bell tower.

**Tourism sector developments in
Malta: A demand – supply
analysis**

1.1 Introduction

The tourism industry has long been regarded as one of the mainstay sectors of the Maltese economy. Whether for leisure purposes or business, Malta is considered an attractive touristic destination, offering different types of tourism and unique travel experiences. Malta's prominent geographical location in the Mediterranean, rich history and culture, its Mediterranean climate and beautiful coastline, amongst other characteristics, have been key to its attractiveness as an ideal tourist destination.¹

This chapter aims to evaluate Malta's tourism demand and supply trends and investigate potential short-term growth constraints through a demand-supply gap analysis. The Fiscal Responsibility Act mandates that the Fiscal Council assesses and endorses the macroeconomic and fiscal projections issued by the Ministry for Finance and Employment (MFE). Indeed, the short-term outlook for inbound tourism serves as the foundation for one of the MFE's key macroeconomic forecasting assumptions. For example, in the Draft Budgetary Plan (DBP) of 2023, inbound tourist levels were expected to reach 75.0% of 2019 levels in 2022, before surpassing 85.0% in 2023.² Given the importance of this sector, this assumption may significantly affect the overall outlook of the MFE for the Maltese economy, including budgetary projections.

The chapter is structured as follows: Section 1.2 presents an overview of the tourism sector and its importance for the Maltese economy. Section 1.3 analyses tourism demand in Malta from 2010 onwards through headline indicators for inbound tourist levels, nights spent, and tourist expenditure. Section 1.4 assesses tourism supply through scheduled data from the Malta International Airport (MIA). Section 1.5 presents the demand-supply gap analysis and attempts to explain any significant inconsistencies between demand and supply. The final section concludes.

1.2 The importance of the tourism sector in Malta

In this section, we evaluate previous research on Malta's economic dependence on tourism and compare salient indicators of the tourism sector with the European Union (EU).

¹ A tourist is defined by NSO as a visitor who stays at least one night in a rented and non-rented accommodation but less than twelve consecutive months for personal, business or other purposes in the place or country visited.

² The DBP 2023 can be accessed from [here](#).

In its annual research, the World Travel and Tourism Council (WTTC) analyses the economic impact of travel and tourism on various nations, including Malta.³ As depicted in [Chart 1.1](#), the contribution of the travel and tourism industry to Malta's economy is one of the highest compared to our foreign counterparts. In fact, the travel and tourism industry directly contributed to around 15.0% of Malta's GDP in 2019 according to WTTC estimates, compared to 9.6% for the EU average.⁴ In addition, almost one-fifth of all jobs in Malta (21.1%), compared to roughly one-tenth (9.9%) for the EU average in 2019, were in the travel and tourism sector. Furthermore, in Malta, this sector accounted for around 9.6% of all exports in 2019, compared to 6.1% for the EU average.⁵

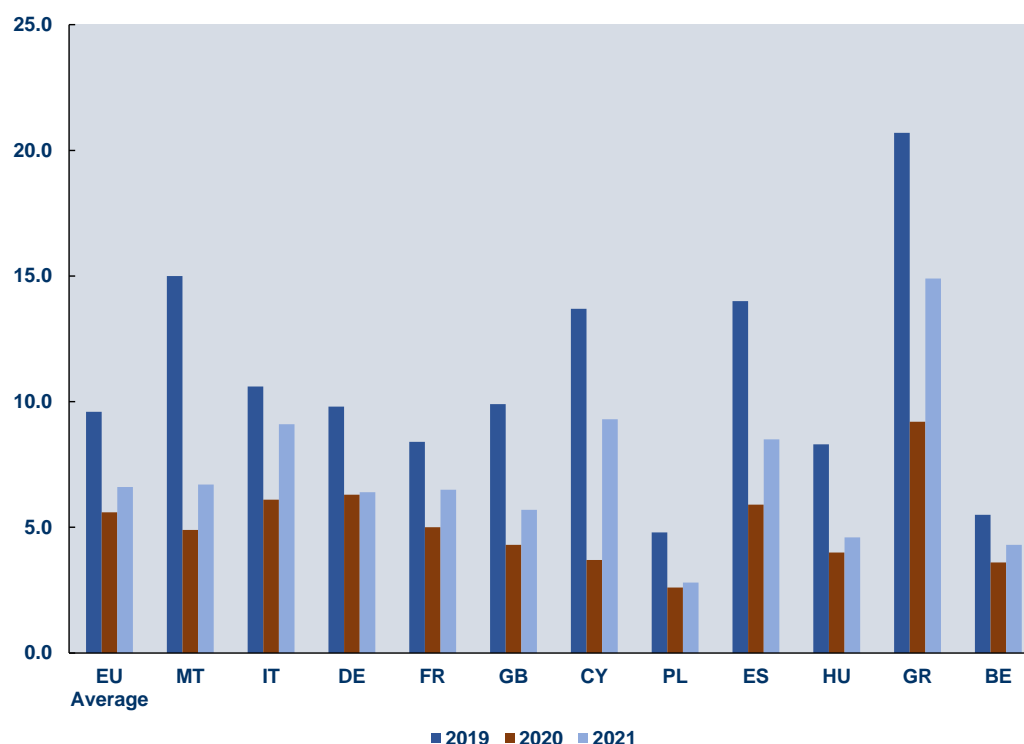
The COVID-19 pandemic negatively impacted to a significant degree travelling and tourism in Malta and other Member States. Most countries had to implement travel restrictions, quarantine measures and border closures to contain the spread of the virus, resulting in a massive decline in international travel. Indeed, in 2020, the travel and tourism industry contributed only 4.9% to Malta's GDP (relative to an EU average of 5.6%). Although tourism figures recovered slightly in 2021, they were still weak by historical standards as the pandemic ensued, and travel restrictions were still enforced globally over fears of the resurgence of the Omicron variant in Autumn of that year. In fact, the travel and tourism sector in 2021 is estimated to have contributed to around 7.0% of Malta's GDP (relative to an EU average of 6.6%). In 2020, the travel and tourism sector accounted for 18.1% of all jobs in Malta and increased slightly by 1.0 pp in 2021 to 19.1%.

³ WTTC produces reports on the economic and employment impact of the travel and tourism industry for 185 countries/economies and 25 geographic or economic regions in the world. These reports, which are prepared by WTTC in conjunction with Oxford Economics, aim to provide insights on the contribution of this sector to the economy.

⁴ The WTTC defines the direct contribution of travel and tourism to GDP to be the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services, activities of the restaurant and leisure industries directly supported by tourists excluding commuter services. In contrast to other studies carried out by researchers and academics, the WTTC's methodology does not use a fully specified input-output table for Malta for the derivation of multiplier estimates. Where data was incomplete, it used technical coefficients taken from input-output tables of other countries.

⁵ List of Country Acronyms: AU- Australia, AT- Austria, BE-Belgium, CY-Cyprus, FR-France, DE-Germany, GR-Greece, HU-Hungary, IE-Ireland, IT-Italy, MT-Malta, NL-Netherlands, PL-Poland, SNV-Scandinavia, ES-Spain, CH-Switzerland, GB-United Kingdom, US-United States of America, LY-Libya, RU-Russia.

Chart 1.1: Share of the Travel and Tourism sector as a percent of GDP



Source: World Travel and Tourism Council (WTTC)

A critical evaluation of the empirical estimates with regards to the contribution of the tourism sector to the Maltese economy is presented in a working paper by Cassar et al. (2016).⁶ The paper presents a critical assessment of three key studies which provide empirical estimates for the contribution of the tourism sector to the Maltese economy. Cassar et al. (2016), evaluate the strengths and weaknesses of the respective modelling frameworks in these key studies, which range from the construction of tourism satellite accounts to input-output models and computable general equilibrium modelling while also evaluating the overall quality of the data utilized (See Table 1.1). Based on the studies included in the analysis, Cassar et al. (2016) estimate that the contribution of tourism to the Maltese economy should account for approximately 5.7% of total Gross Value Added (GVA) when taking into account only the direct effects, rising to approximately 12.0% once indirect effects are included and to roughly 17.0% when accounting also for the induced effects.⁷ Also, compared

⁶ The working paper titled 'Understanding the Economic Contribution of Tourism in Malta: A Literature Review' can be accessed [here](#).

⁷ In input-output analysis, the direct effects refer to the output generated by activities that directly deal with tourism such as hotels, airlines, tour operators as well as restaurants and other activities that cater to tourists, indirect effects accrue due to activities undertaken by the sector and are a function of capital investment in tourism, while induced effects represent the wider contribution of tourism through the expenditures of those who are directly or indirectly employed by the tourism sector.

to manufacturing-based industries in Malta, tourism-based sectors (namely, accommodation, dining, and transportation services) create a comparatively larger value-added multiplier effect due to their close ties to other economic sectors. The paper notes that such multiplier effects are not among the largest in the Maltese economy; rather, they are closer to the median reported for service-based industries.

Table 1.1: Input-Output based estimates of the contribution of tourism to the Maltese Economy

	<i>Blake et al. (2003)</i> (% of GNP for 2001)	<i>Cassar (2015)</i> (% of total GVA for 2008)	<i>NSO (2016)</i> (% of total GVA for 2010)
<i>Direct & Indirect</i> (Based on Type I Multipliers)	12.3	12.5	11.5
<i>Direct, Indirect &</i> <i>Induced</i> (Based on Type II Multipliers)	17.1	17.7	N/A

Source: Blake et al. (2003), Cassar (2015), NSO (2016)

1.3 Tourism Demand

In this section, inbound tourism data is used to analyse the demand side of tourism in Malta.⁸ This analysis uses monthly data released by the National Statistics Office (NSO) on inbound tourism.⁹ Malta is accessible to visitors by both air and sea. Historical data shows that the percentage of visitors by sea does not exceed 2.9% of the total tourists arriving in Malta in any given year. As a result, for the purpose of this analysis the focus will be on air passengers.¹⁰ It is interesting to note that there have been significant improvements in air connectivity throughout the years. Notably, whereas in 2005, Malta had 84 direct flight connections, in 2019, the number of direct

⁸ Inbound tourism is defined as activities of non-resident visitors travelling to Malta outside their usual environment and staying for not more than twelve consecutive months for personal, business, or other purposes.

⁹ The last release considered for this analysis was NR020/2023 published on 13th February 2023. The definitions utilized in this chapter are the statistical definitions adopted by NSO.

¹⁰ The inbound tourists reported by NSO excludes overnight cruise passengers.

flight connections improved to 125. Indeed, in 2019, Malta was directly connected to 40 countries worldwide, relative to 27 country connections in 2005.¹¹

Data on inbound tourists, nights spent, and expenditure has been collected for the period 2010 to 2022.¹² This data is compiled through Tourstat, an ongoing survey carried out by the National Statistics Office (NSO) at the departure lounge of the Malta International Airport (MIA). In the following sections, we distinguish between the trends in tourism demand from 2010 to 2019 (pre-COVID) characterised by year-on-year increases in tourism demand. Indeed, 2019 was a record year for the tourism sector in Malta and is therefore used as a reference year when assessing the state of tourism in Malta pre-pandemic. The pandemic between 2020 and 2021 saw tourism demand plummet to record lows. As a result of the COVID-19 pandemic, the Government of Malta had to implement restrictive measures to mitigate the spread of the virus, causing flight disruptions and travel restrictions in 2020, with some of the measures carrying on throughout 2021. However, by mid-2022, all travel restrictions were lifted completely, which sparked a partial rebound for the tourism sector in Malta.

1.3.1 Inbound tourists

In 2010, total inbound tourists in Malta stood at 1.3 million, out of which 67.6% were first-time tourists, while the rest were returning tourists. Inbound tourism has been on an upward trajectory since 2010 and peaked in 2019 with approximately 2.8 million inbound tourists (See Chart 1.2). The percentage of first-time tourists also increased, standing at 74.6% in 2019. As a result of the COVID-19 pandemic restrictions, in 2020, inbound tourism declined to around 0.7 million. The number of tourists rose slightly in 2021 to 1.0 million and recovered substantially in 2022 to 2.3 million, accounting for around 83.1% of 2019 levels. In 2022, first-time visitors comprised 75.2%, while returning tourists comprised 24.8% of total tourists. The data is showing that growth in tourism pre- and post-pandemic came mainly from first-time visitors such that Malta may be facing some difficulties in attracting repeat tourists.

The majority of inbound tourists were aged between 25 and 64, accounting for an average of 68.2% of the total over the years. In 2010, 20.2% of all inbound tourists were under 24 years of age, while 11.1% were over 65. The proportion of people under

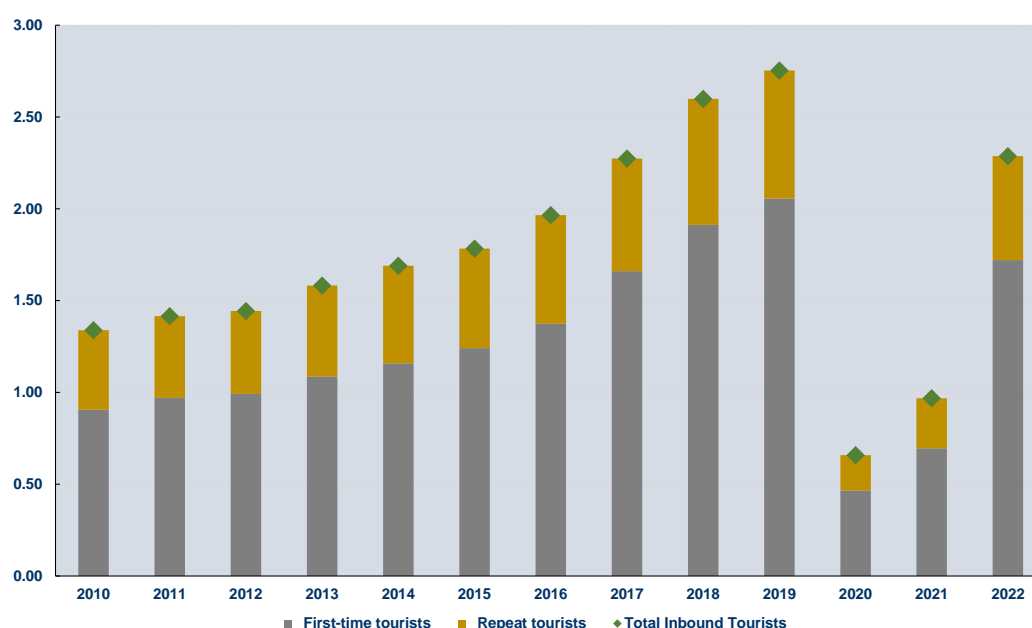
¹¹ This data was sourced from the MIA website.

¹² In 2015, the NSO changed the country of residence sectoral analysis, by removing Libya and Russia and adding Australia, Hungary, and Poland.

24 years remained rather stable across the period, slightly increasing to reach 23.6% in 2022 relative to 19.8% in 2019. On the other hand, the percentage of tourists aged 65 years peaked in 2015 at 14.1%, down to 10.2% in 2019 and continued to fall further during the pandemic years.

Tourists travelling to Malta from the United Kingdom (UK), Italy, Germany, and France were the most important markets for Malta, accounting for over 60% of all visitors in 2010 (See Chart 1.3). This percentage increased to 62.1% in 2011 but fell gradually thereafter, reaching 54.2% in 2019. During the pandemic, the percentage of tourists from these countries increased slightly to 56.7% in 2020 and 59.1% in 2021, before falling back to 54.8% in 2022. The reduction in the share of tourists from these four countries indicates that the tourism industry is becoming more diversified, thus reducing its exposure to unfavourable developments in a particular tourism market.

Chart 1.2: Inbound tourists by type (in millions)

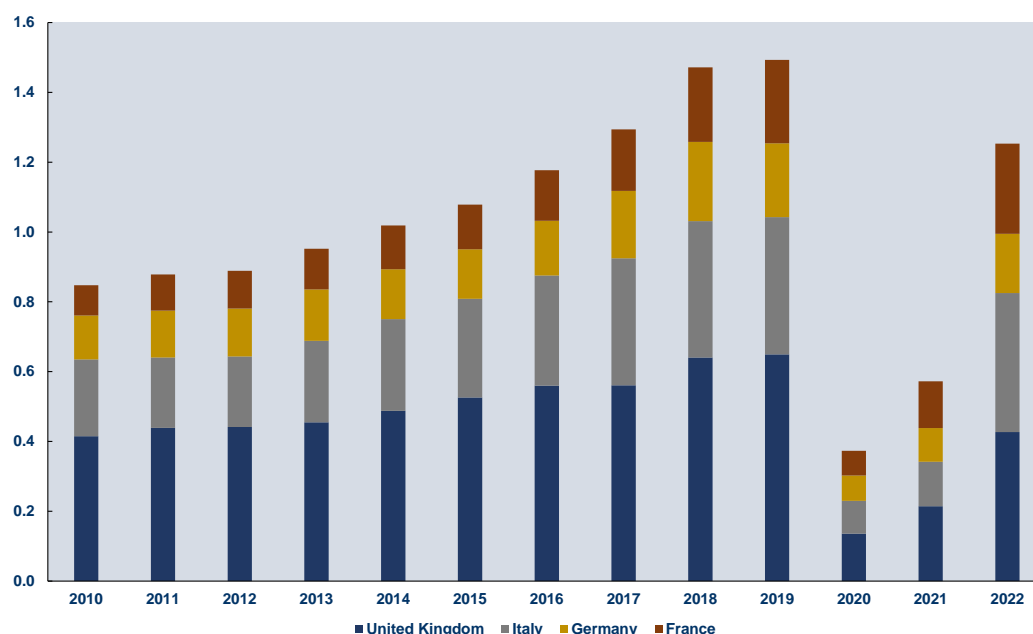


Source: NSO

The United Kingdom's trajectory is largely responsible for the downturn in the share of the top four tourist-producing nations. Although the UK accounts for the largest share of foreign tourists coming to Malta, the share of British tourists visiting Malta declined over time from 31.0% in 2010 to 23.6% in 2019. This percentage went down to 20.6% in 2020 before improving slightly in 2021 to 22.1% and decreasing again to 18.7% in 2022. Italian tourists accounted for a share of 14.0% in 2010, which share increased yearly to peak in 2016 and 2017 at 16.0% and then declined thereafter to 14.3% in

2019. This share remained stable in 2020 and increased to 17.4% in 2021. In 2010, German tourists accounted for 9.5% of all inbound tourists with the share falling slightly in 2019 to 7.7%. During the pandemic, this share increased slightly but fell again in 2022 to 7.4%. The French market accounted for an average of around 7.4% of total tourists between 2010 and 2017. In 2019, this share increased to 8.7%, recording further increases during the pandemic to reach 11.3% in 2022.

Chart 1.3: Number of tourists from the top four tourist- generating countries (in millions)



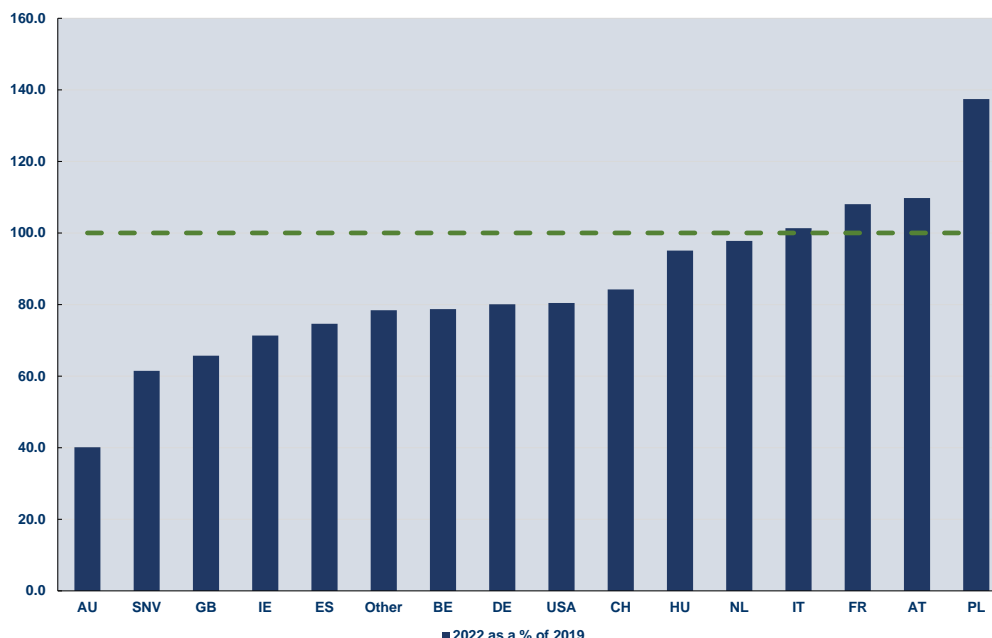
Source: NSO

A key development over recent years has been the increased diversification in the source markets for Malta's tourism industry. Data shows that the reliance of the tourism sector on the UK market has abated over time as other source markets have strengthened their position. On the other hand, the percentage of tourists from countries classified in the 'other' category has increased over time accounting for about 18.6% of total tourists in 2019 relative to the 13.2% share in 2010. This percentage declined slightly in 2020 and 2021, before returning to 2019 levels, at 17.5%, in 2022.

Furthermore, in 2022, the number of tourists from the UK had only recovered 65.7% of the 2019 levels. In contrast, other source markets have recovered more strongly post-pandemic, relative to the more traditional markets, as there has been an increase

in tourist arrivals from countries such as Poland (137.4%), Austria (109.8%), France (108.0%) and Italy (101.3%) relative to 2019 levels (See Chart 1.4).

Chart 1.4: 2022 levels of inbound tourism as a % of 2019 levels



Source: NSO

1.3.2 Nights Spent

The total number of nights tourists spent in Malta increased from 11.1 million in 2010 to 19.3 million in 2019, an increase of 73.0%.¹³ Following the decrease in inbound tourists in 2020, the total number of nights fell to 5.2 million. Tourists' total nights spent increased slightly in 2021 to 8.3 million and recovered substantially in 2022, reaching 16.6 million nights or 86.0% of 2019 levels.

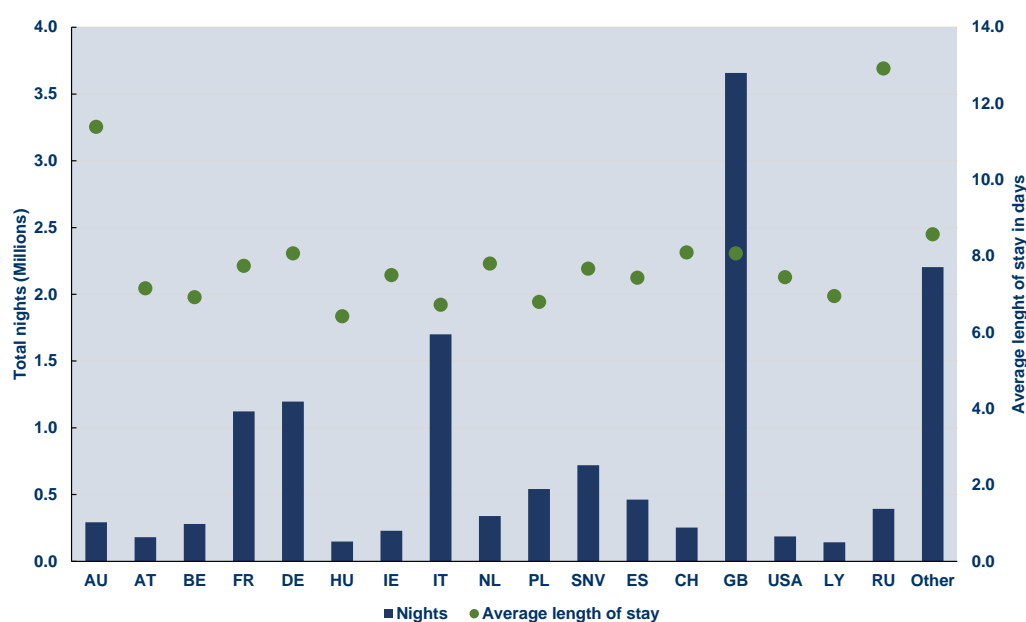
In line with inbound tourists' data, the UK continued to have the highest number of nights in Malta. Germany's and UK's share of total nights dropped in 2019 when compared to 2010 and remained at a similar level to 2019 in 2022. Italian and French tourists increased their share in 2019 when contrasted with 2010. During the pandemic, these shares continued to improve. At the same time, the share of nights spent for countries categorised as 'other' has increased, rising from 13.0% in 2010 to

¹³ Total nights spent is defined as the nights which a guest spends or is registered to spend in a rented or non-rented accommodation establishment.

20.5% in 2019. This dipped slightly during the pandemic and recovered in 2022 to the levels registered in 2019.

The average length of stay in 2010 was 8.3 nights per tourist. From 2013 onwards, the average length of stay decreased year-on-year to reach 7.0 nights in 2019. This decrease reflects how the tourist industry has evolved throughout the years. The introduction of low-cost airlines has made it possible to have more frequent flight connections, allowing travellers to take shorter trips. The average length of stay peaked in 2021 at 8.7 nights and fell again in 2022 to an average stay of 7.3 nights. Indeed, as is the case for most countries, during the pandemic, the average number of nights spent in Malta increased, mainly attributable to the lower frequency of flights available at the time.

Chart 1.5: Average number of nights and length of stay by country of origin (2010-2022)



Source: NSO

Some of the variations in length of stay commonly seen throughout the years result from the route connections available. The average duration of stay for visitors travelling from the UK, France, and Germany is comparable to that of the other nations at roughly 8.0 nights. Hungarian and Italian tourists have the shortest average stays, while Russian and Australian tourists have the longest average stays. Routes from Italy to Malta are substantially more frequent, allowing travellers from these countries to have shorter trips to Malta (See Chart 1.5).

1.3.3 Expenditure

Total tourism expenditure is divided into 'package', 'non-package', and 'other expenditure'.¹⁴ Total expenditure in 2010 amounted to €1,132.0 million and thereafter increased gradually to reach €2,220.6 million in 2019. The onset of the pandemic in 2020 translated into a significant decrease in the amount spent by tourists to €455.1 million. In 2021, expenditure grew slightly to €870.7 million, while a significant recovery was made in 2022, with tourists spending €2,012.5 million. Indeed, in 2022 expenditure had recovered around 90.6% of the 2019 levels. The tourists that spent more in 2022 when compared to 2019, were the Polish (142.6%), Dutch (119.8%), French (116.3%), Austrians (115.1%), and Italian tourists (105.1%).

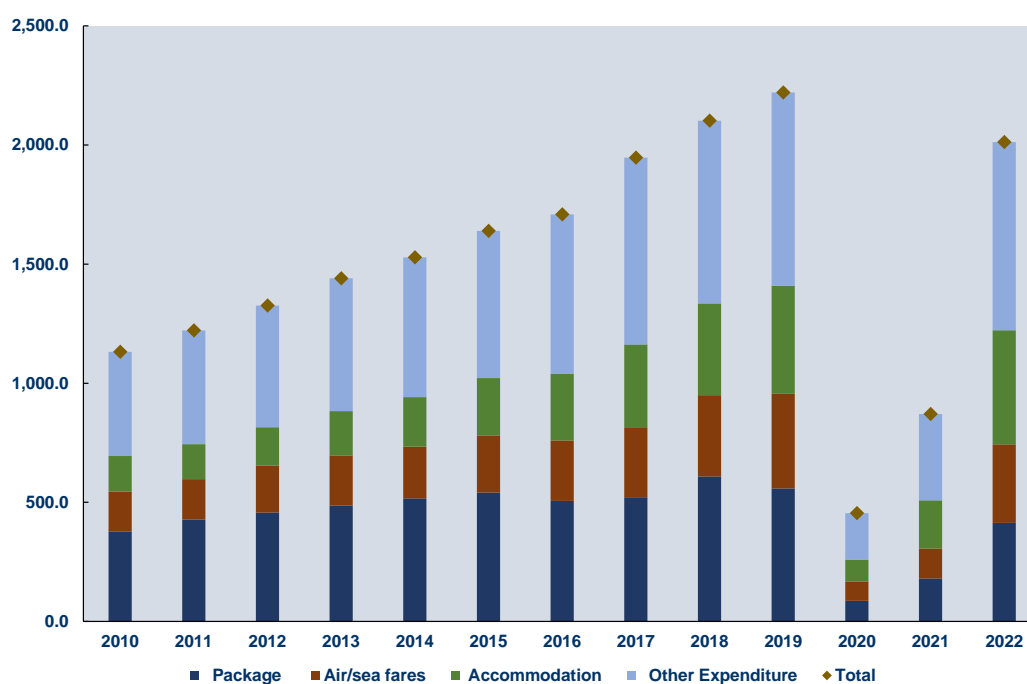
The majority of spending is on 'other expenditure', which between 2010 and 2017 accounted for an average of 39.0% of total spending. This spending slightly fell in 2019 to 37.0% and increased during the pandemic to around 43.0%. In 2022, spending on 'other expenditure' returned to the levels attained between 2010 and 2017 (See [Chart 1.6](#)). Indeed, 'other expenditure' recovered around 97.3% of 2019 levels in 2022.

Expenditure data shows that the tourism sector in Malta in the last decade shifted from 'package' holiday involving the traditional tourist operator to a 'non-package' holiday. From 2010 to 2015, 'package' spending made up, on average, 34.0% of overall spending and over time, fell to 25.0% in 2019. During the pandemic, the share of 'package' spending declined even further, reaching 19.0% in 2020. This share partially recovered in 2021 and 2022, reaching 21.0%. Total package expenditure in 2022 was estimated at 74.1% of 2019 levels. On the other hand, 'non-package' expenditure, comprised of air/sea fares and accommodation, made up about 28.0% of total spending in 2010. From 2016 onwards, 'non-package' expenditure began to rise year-on-year reaching 38.0% in 2021 and 40.0% in 2022. In absolute terms, non-package expenditure in 2022 accounted for 95.0% of 2019 levels. The shift that occurred throughout the years from package expenditure to non-package expenditure follows

¹⁴ Total expenditure is defined as the amount that is going to be paid for the acquisition of consumption goods and services, as well as valuables during tourism trips. It includes expenditures by visitors themselves, as well as expenses that are paid for or reimbursed by others. Package expenditure is the whole amount of money spent on transport, accommodation and other services such as rental of a car, activities or outings during the trip. Non-package expenditure is the amount spent on transport (air and sea fares) and accommodation reported separately. Other expenditure is the amount spent on shopping, souvenirs, tickets for concerts or sports events, entrance to museums or zoos and day excursions during a tourism trip. It also includes durables and valuable goods, that is, the amount spent on cars, computers, paintings, jewellery and art.

the increasing share of travel by low-cost airlines as well as digitisation which led to a more independent traveller. Between 2010 and 2015, air travel accounted for an average of 15.0% of total expenditure, slightly more than non-package accommodation costs. However, the trajectory set before 2015 shifted, and from 2016, lodging accounted for a more significant proportion of non-package spending. Indeed, accommodation increased considerably from 2016 onwards, standing at 20.0% in 2019. It accounted for 24.0% of total tourism expenditure in 2022, 11.0 pp higher than in 2010. Total accommodation expenditure in 2022 surpassed 2019 by 5.5%. Per capita expenditure on accommodation increased from €111 in 2010 to €165 in 2019 to €209 in 2022, an increase of 88.3% between 2010 and 2022. The increased operation of low-cost airlines made it possible to spend proportionately less on air fares and more on accommodation.

Chart 1.6: Types of Expenditure (EUR Millions)

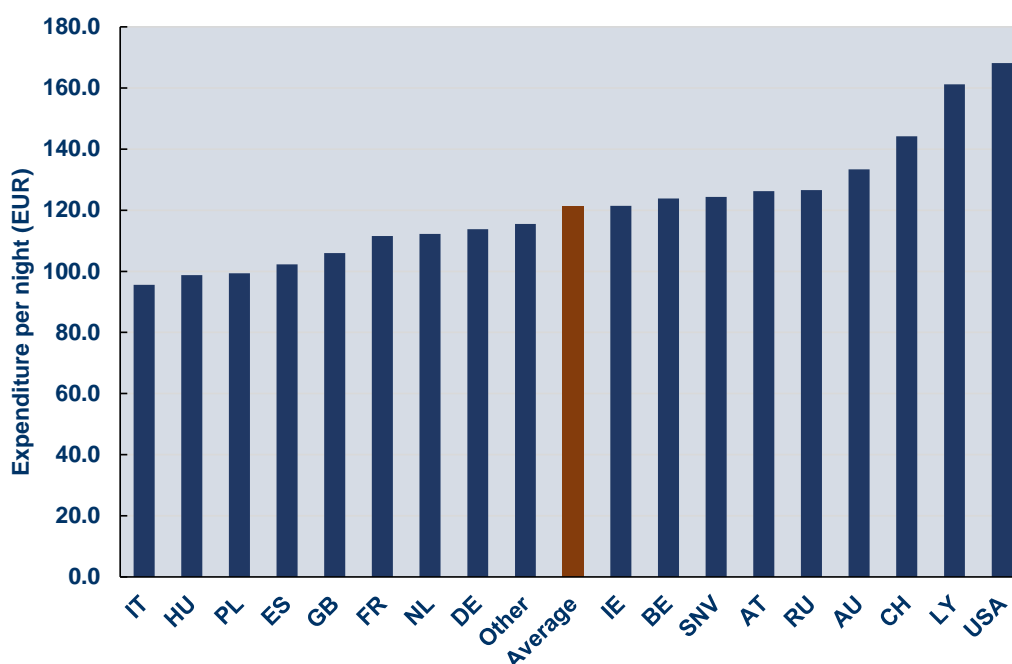


Source: NSO

Average expenditure per night provides a good indicator to discern differences in spending patterns among tourists from different source markets (See Chart 1.7). Tourists arriving from the United Kingdom, France and Germany spent an average expenditure of €106, €112, and €114, respectively per night in Malta, standing way below the average expenditure per night relative to the other tourist markets. Tourists arriving to Malta from Italy spent an average of €96 per night, the lowest amount of

expenditure spent per night among inbound tourists. On the other hand, tourists from the USA record the highest expenditure per night (€168 on average). The average expenditure per night increased by 6.0% between 2019 and 2022, which is in line with the rise in the average duration of stay (from 7.0 to 7.3 nights) between those years.

Chart 1.7: Average expenditure per night by county of origin (2010-2022)



Source: NSO

1.4 Supply Side of Tourism Developments in Malta

Visitors can travel to Malta by air from various countries within and beyond the European Union. In Malta, the MIA is the only airport that provides commercial flights for passengers to and from Malta. Over the years, several investments were made to improve the facilities at MIA to ensure that it can cater for the increasing demand.¹⁵

The supply side of the local tourism industry is represented by the total seat capacity of the airlines that service Malta. Flights operating from the rest of the world to Malta were identified using the flight schedules data provided by MIA for 2019 and 2022.¹⁶ The maximum seating capacity available for foreigners visiting Malta, i.e. the supply of

¹⁵ MIA was privatized in 2002.

¹⁶ Flight schedules can be found on the MIA website and accessed from [here](#). Historical scheduled data cannot be accessed from this source as they are overwritten with updated scheduled data.

tourists, was estimated by considering the number of flights departing from the different countries and arriving in Malta, multiplied by the seating capacity of each airline according to the aircraft being used and deducting outbound tourists from the total seat capacity. Indeed, outbound tourists are defined as Maltese residents travelling abroad for a period which is less than a year.¹⁷ Data on outbound tourism is published quarterly by the NSO. Flights were assigned depending on how the outbound tourism data was divided, based on the country the outbound tourist was returning from. The supply analysis of tourism is based on several assumptions, which also lead to certain limitations in this analysis (See Box A: Assumptions and Limitations).

Box A: Assumptions and Limitations

Assumptions:

- Complete schedules for 2019 were available from April onwards, while for 2022, schedules were available for all months.
- January to March data for 2019 was not available from the flight schedules; thus, data was extrapolated based on a sample week in March 2019 available on the MIA website.
- Schedules for 2019 are compiled differently from those of 2022 by the MIA, so they may not be entirely comparable. For example, in 2019, arrivals and departures were segregated into separate schedules; however, in 2022, there was no separation between arrivals and departures. The schedules simply listed the flights that were scheduled to fly each month.
- When an aircraft's seat capacity was not known, the flight number was obtained from the flight schedules and used to identify the aircraft that operated and its seating capacity.

Limitations:

- Tourism supply is based on air seat capacity, thus excluding other potential supply constraints – including labour shortages in the sector and accommodation capacity.
- Flight schedules show the flights planned for the forthcoming months and do not show the actual operated flights in 2019 and 2022. Indeed, there is the possibility that some of the scheduled flights did not take place. This

¹⁷ Outbound tourism is defined the activities of Maltese residents travelling to, and staying in places outside Malta (i.e., outside their usual environment), and staying for not more than 12 consecutive months for personal, business or other purposes.

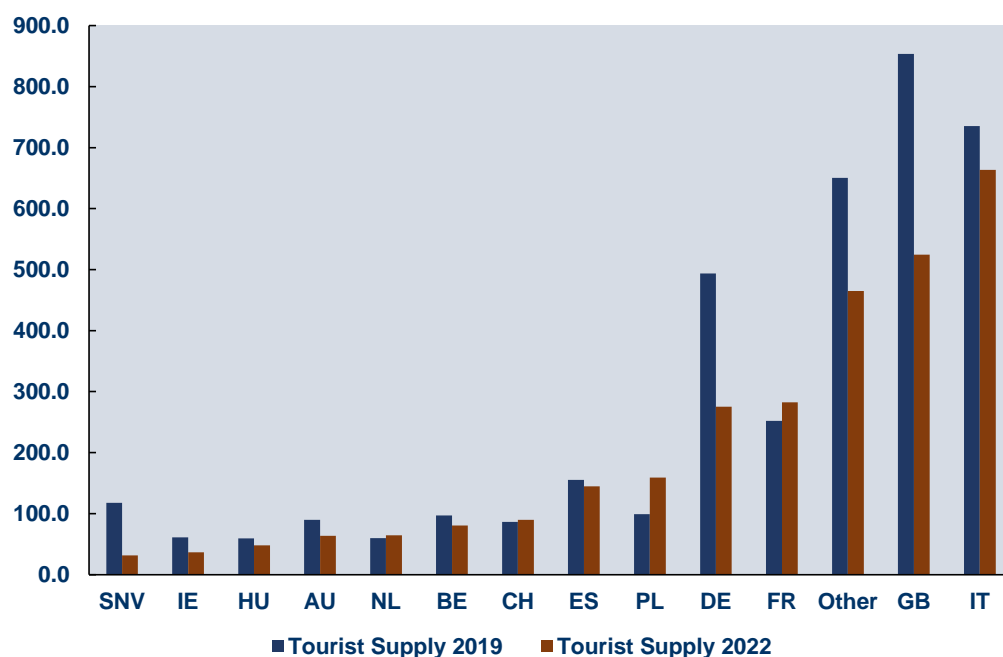
limitation could potentially lead to an overestimation of the seating capacity.

- Additional flights may have operated. This data does not capture chartered flights, leading to possible underestimation of the seating capacity.
- The analysis does not distinguish between direct flights and connected flights. Flights only capture the point of the last departure of the tourist and not necessarily the origin of the tourist.

In 2019, there were approximately 29,200 flights scheduled, while in 2022, there were 22,200 flights. Using the seating capacity for each aircraft, the total potential supply was estimated to be around 4.5 million in 2019 and 3.5 million in 2022, equivalent to 78.1% of 2019 levels. Outbound tourists amounted to 0.7 million and 0.6 million in 2019 and 2022, respectively. Netting off outbound tourism from the total seating capacity results in a calculated net supply capacity of 3.8 million and 2.9 million seats to accommodate inbound tourists in 2019 and 2022, respectively. This implies that the tourist supply for 2022 was around 76.8% of the supply in 2019.

As shown in [Chart 1.8](#), the United Kingdom and Italy accounted for the largest share of total seating capacity in both 2019 and 2022. Malta's connectivity to these countries is very strong both in terms of flight frequency and multiple connections. This also matches their importance as source markets observed when analysing tourism demand. However, the seating capacity for these two countries has not been fully restored following the pandemic. In particular, the United Kingdom's estimated tourist seating capacity fell from 0.85 million in 2019 to 0.52 million in 2022, equivalent to 61.4% of 2019 levels. Though less accentuated, Italy's total supply also fell by nearly 10.0 pp between 2019 and 2022. This means that both destinations, though still accounting for a total share of 36.0% of total aircraft seating capacity in 2022, represent 5.6pp less than the share recorded in 2019. The Scandinavian route connectivity suffered the most during the pandemic and was only at 26.7% of its level in 2019, with a seating capacity of 0.11 million in 2019 but only 0.03 million in 2022. In fact, there were only 220 flights scheduled to fly from Scandinavian countries in 2022, compared to approximately 764 flights scheduled in 2019.

Chart 1.8 Aircraft Tourist Seat Capacity in 2019 and 2022 (000's)



Source: Estimates based on MIA data

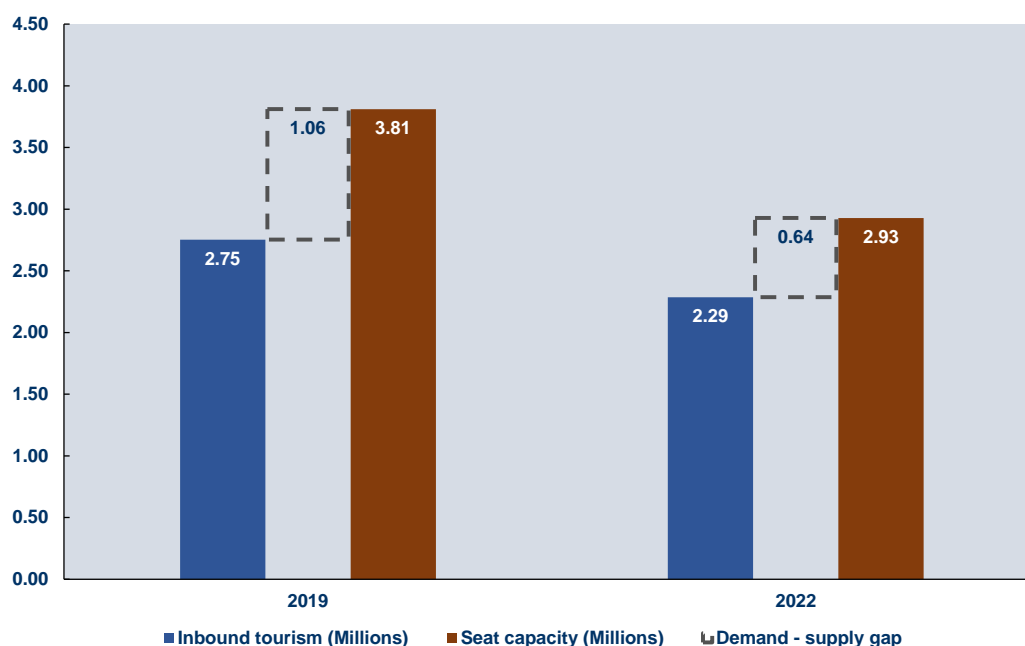
Tourist seat capacity has decreased between 2019 to 2022 for most countries (See [Chart 1.8](#)). In fact, only the tourist seating capacity available on flights from Poland, France, Switzerland and the Netherlands has increased during this period, surpassing the 2019 level of these countries by 23.4 %. In particular, seating capacity is 60.5% higher than in 2019 for Poland, resulting from improved flight frequency and a decrease in outbound tourism, leaving more seats available for tourists arriving from this country. A similar situation applies to Switzerland, though the magnitude is more contained, with seat capacity being 4% higher in 2022 than in 2019. On the other hand, the capacity for tourist seats on aircraft departing from France has grown mainly due to increased flight frequency. At the same time, the Netherlands saw an increase in tourist seating capacity partly because of fewer outbound tourists.

However, any gain in seat capacity brought on by decreased outbound travel may be temporary for 2022, as there was a decline in outbound tourism between 2019 and 2022, which can indicate that the number of Maltese travelling abroad was still below pre-pandemic levels because of restrictions in place for a portion of the year. Furthermore, whilst the overall decrease in seat capacity may be a temporary phenomenon until airlines adjust their flight capacities to pre-pandemic levels, or even beyond, depending on tourist demand, it may also be more permanent due to the higher fuel costs.

1.5 Demand-Supply Tourism Gap Analysis

This section aims to analyse the demand-supply gap in Malta's tourism sector based on the aforementioned flight capacity in relation to demand and assess how this gap has developed following the pandemic years by comparing it to the most recent (2022) data. Indeed, both inbound tourism (demand-side) and total tourist seating capacity (supply-side) have fallen in 2022 compared to 2019 (See Chart 1.9). The demand-supply gap, which in 2019 was estimated at 1.06 million, fell to 0.64 million in 2022. The gap has declined since the reduction in supply (-0.88 million seats) was more significant than the fall in demand (-0.47 million inbound tourists). The ratio of demand to supply thus increased in 2022 (78.1%) compared to 2019 (72.2%).

Chart 1.9 Demand – Supply gap in 2019 and 2022 (Millions)



Source: Estimates based on NSO & MIA data

Further analysis was carried out at the country level, and the respective ratios of demand and supply for 2019 and 2022 are displayed in Table 1.2. An important caveat is that the way the supply side of tourism was estimated captures only the origin of flights. This means that tourists arriving on such flights do not necessarily reside in the country from where the flight departed. On the other hand, the demand side captures the country of residence of tourists. Thus, the two estimates are not necessarily directly comparable since the supply side may be either overestimated (if tourists arriving from

the respective country do not reside there) or underestimated (if tourists arrive in Malta via connected flights). This caveat is only applicable to the analysis at the country level.

Table 1.2: Demand-Supply ratios of 2022 over 2019

	Tourist Demand 2022/ Tourist Demand 2019*	Tourist Supply 2022/ Tourist Supply 2019**	Demand / Supply 2019	Demand / Supply 2022
FR	108.04	112.06	94.90	91.50
DE	80.10	55.75	42.85	61.57
IT	101.33	90.21	53.42	60.01
GB	65.73	61.42	76.08	81.43
Total	83.05	76.85	72.25	78.07

* Tourist demand in 2022 as a proportion of the tourist demand in 2019

** Tourist supply in 2022 as a proportion of the tourist supply in 2019.

In the case of the first two columns, red indicates that the figures for 2022 were worse than in 2019, and blue indicates that the figures for 2022 were better than 2019. In the case of the last two columns, red indicates that demand was smaller than supply for the year, while blue indicates that demand was higher than supply for the year.

Source: Estimates based on NSO & MIA data

The tourist supply reached 76.9% of 2019 levels in 2022, while the tourist demand stood at 83.1% of 2019 levels. As featured in prior sections, the majority of foreign visitors arriving to Malta, have their country of residence in the United Kingdom, Italy, Germany and France. Hence, in our country analysis, we focus on these source markets.

Notably, the main tourist markets that experienced significant drops in demand were also those where seat capacity had significantly fallen (United Kingdom, Germany), emphasising the importance of connectivity for the local tourism industry. The decrease in seat capacity between 2019 to 2022 can constrain growth from tourist markets, especially as demand picks up further after the pandemic. Scandinavian countries are in a similar situation as seat capacity fell markedly between 2019 and 2022.

The total demand/total supply ratio captures the occupancy percentage of airline seating capacity. Only France's ratio fell between 2019 and 2022, with the demand-to-supply ratio being 94.9% in 2019 and 91.5% in 2022. The fall is primarily attributable to the higher increase in supply versus demand. On the other hand, Germany, Italy, and the UK all saw an increase in their ratios between 2019 to 2022. Germany's demand-to-supply ratio was 42.8% and 61.6% in 2019 and 2022, respectively. This rise is primarily a result of the decrease in the supply of tourist seat capacity between

2019 and 2022 being larger than the decline in demand. The ratio for the United Kingdom was 76.1% in 2019 and 81.4% in 2022 with demand from the United Kingdom recovering better than the supply. Due to the demand increasing more in 2022 than in 2019, Italy's demand-to-supply ratio increased from 53.4% in 2019 to 60.0% in 2022 as demand fulfilled supply to a better extent in 2022 than it did in 2019.

1.6 Conclusion

At the time of the Draft Budgetary Plan, the Ministry for Finance and Employment (MFE) expected that inbound tourism would increase to 75.0% of 2019 levels in 2022 and to 85.0% of 2019 levels in 2023. However, more recent data shows that 2.28 million foreign visitors arrived in 2022, equivalent to 83.1% of those registered in 2019. This means that the rate forecasted by MFE to be achieved in 2022 has already been surpassed such that in 2023, inbound tourism levels are also expected to fare better than expected. Also looking at the recovery of nights spent and expenditure by inbound tourists, reveals that nights spent recovered to 85.8% of 2019 levels in 2022, while total expenditure in 2022 recovered around 90.6% of the 2019 levels. Expenditure appears to have recovered better than total inbound tourism, reflecting an increase in the average length per stay in 2022 and consequently higher expenditure spent per night, compared to pre-pandemic levels; thus, each tourist is spending more to accommodate the increase in their lengths of stay.

The potential tourist supply was 3.8 million in 2019 and 2.9 million in 2022, indicating that only 76.8% of 2019 levels were attained in 2022. The demand-supply gap was projected at 1.06 million in 2019 and 0.64 million in 2022, resulting into a rise in the demand-to-supply ratio from 2019 (72.2%) to 2022 (78.0%). Thus, despite an overall decline in incoming tourists in 2022 compared to 2019, airline occupancy improved. Promoting more international travel to Malta is key, especially for nations whose shares were still below pre-pandemic levels in 2022, such as the UK, where the level achieved in 2022 was still a mere 65.7% of the level attained in 2019. Indeed, the tourism industry would gain if the demand-supply gap continued to close, and aircraft occupancy increased further, leading to greater efficiency.

Although the recovery in the tourism sector is well underway, and the prospects are that a full recovery of 2019 levels should be attained in the short-term, there are still certain risks from both the supply-side and demand-side that could have an impact on

the prospects for growth in the tourism sector in the short- to medium-term. Indeed, following the effect of the pandemic, the war between Russia and Ukraine and its progression may impact the tourism sector on the downside, both in relation to the higher costs and the risk status of travel. Furthermore, the high inflation experienced in various source tourist markets is impacting real disposable income and together with the effect of higher interest rates, may also result in a drop in demand for travel. Over the longer term, climate change and shifting weather patterns may also constitute a challenge for this sector, given Malta's reliance on summer tourism. Another risk is the tax on aviation fuel that is being proposed by the European Commission on flights operating within the EU, which could raise airline costs and more generally prices, which could, in turn, possibly lead to declining demand for flights within the EU.¹⁸

On the other hand, some constraints emanate from the supply side, given Malta's small size and dense population. Indeed, efforts to increase tourism and expand the physical capacity of popular tourist attractions may lead to a lower quality of life for residents. In addition, Malta's tourism industry is also increasingly reliant on foreign nationals due to labour market constraints; this makes the sector vulnerable and dependable on the attraction of foreign workers to Malta. Ongoing discussions with the European Commission on the future of the national airline pose some uncertainty to the outlook for the tourism industry, given the significance of flight supply capacity as outlined in this paper.

On a more positive note, in terms of cost competitiveness, Malta has low inflation compared to other EU countries, largely a result of the energy price subsidies provided by the Government, which has improved our appeal as a tourism destination among other European countries up to this date. Thus, given the intense competition from other Mediterranean destinations, it is crucial to keep inflationary pressures contained. In the long-term, lessening the sector's impact on the environment while still enhancing Malta's economic growth will be achieved by striving to make Malta appealing to high-end tourists by aiming for higher expenditure per capita and working toward having a more balanced seasonal tourism. This is to be combined with the introduction and reinforcement of advantageous aspects from a more sustainable strategy that includes, among other things, investment, quality, and rebranding that emphasizes distinctive selling points for Malta, like scenic locations, history and cultural events that enhance our non-cost competitiveness.

¹⁸ The EU Legislation that is in progress can be accessed [here](#).