

Malta Economic Outlook

Summer Edition

kpmg.com.mt



Contents



3

Executive Summary

15

The Labour Market

5

Gross Domestic Product

18

The Property Market

11

Inflation

22

Labour Productivity

13

Interest Rates

Executive Summary

During the first quarter of 2023, the Maltese economy registered a growth in Gross Domestic Product (GDP) of 3.1% in real terms. Additionally, the Central Bank of Malta (CBM) projects real GDP growth to average 3.9% annually, between 2023 and 2025. While this is considered to be below the GDP growth rates achieved over the past decade, which averaged 6.0% annually between 2013 and 2022, the lower annual growth rates are more in line with a stabilisation phase for the economy rather than the active expansionary or recovery periods of the more recent years.

In June 2023, consumer inflation in Malta, as measured by the Harmonised Index of Consumer Prices (HICP) remained high at 6.2% [June 2022: 6.1%]. Consumer inflation in the EU declined from 9.6% to 6.4% between June 2022 and June 2023 – this was mainly attributable to the European Central Bank's (ECB) ongoing adjustments in interest rates over the past twelve months.

Despite a decline in the average EU inflation rate, the ECB continues to be concerned about the persistent high levels of inflation being felt through all of Europe, and as a result the ECB recently announced another round of interest rate hikes with the main refinancing operation (MRO), the interest rate on the marginal lending facility and the deposit facility rates standing at 4.25%, 4.50%, and 3.75%, respectively.

The labour market remains tight resulting in upward pressure on average salaries. Between March 2022 and March 2023, average gross salaries increased by 8.3% in nominal terms. During 2022, the number of foreign workers in Malta also continued to increase with the share of foreign workers in the Maltese labour force now standing at 34.3% by 2022.

The residential property market witnessed a jump in prices during 2023 Q1 with transacted prices increasing by 6.6% and advertised property prices increasing by 10.5% over the same period in 2022. Residential unit permits were generally in line with the number of quarterly permits issued between 2019 and 2023 Q1. During the period January to July 2023, final deeds of sale involving individuals as final buyers decreased by 13.6% in number, and 8.3% in value, compared to the corresponding period in 2022. On the other hand, the number of promise of sale agreements during the same period increased by 11.9% vis-à-vis the same period last year.

The KPMG Malta Economic Outlook concludes with a focus on labour productivity. In this section we find that labour productivity in Malta contracted by 1.9% in real terms during the first quarter of 2023. We also discuss why labour productivity matters and how this can be improved both at a firm and national level.

Main Economic Indicators

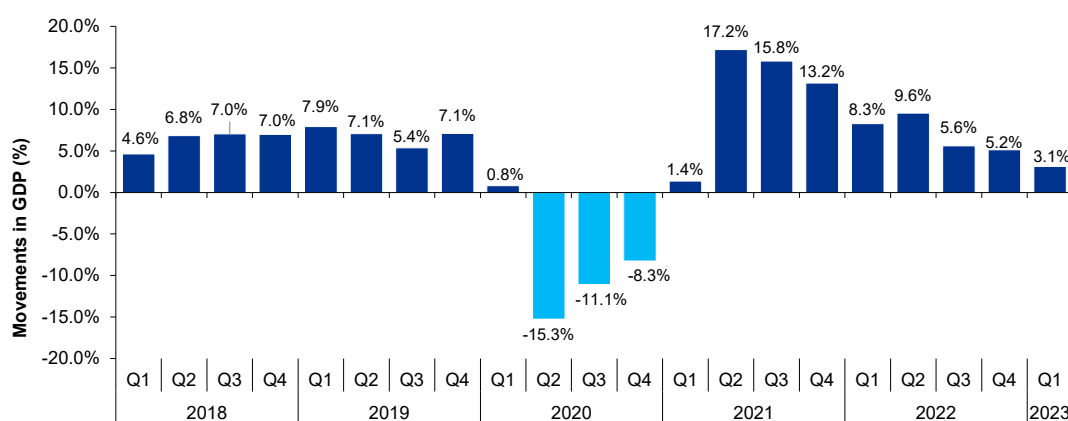
Gross Domestic Product

1.1 GDP Growth Rates

During the first quarter of 2023, the Maltese economy grew by 3.1% in real terms, over the corresponding period in the previous year [2022 Q1: 8.3%]¹.

The chart below shows the quarterly movements in GDP in real terms between 2018 Q1 and 2023 Q1. As can be noted, the years 2021 and 2022 were marked by a robust economic recovery, characterised by well above average quarterly growth rates. The lower annual growth rates in the more recent quarters indicate that the GDP is currently in a phase of stabilisation rather than active recovery.

Figure 1: Quarterly Movements in GDP in real terms: 2018 Q1 - 2023 Q1



Source: NSO data; KPMG Analysis

1.2 GDP Production Approach – Selected Sectoral Movements

The production approach to calculating GDP aggregates the output of the various productive sectors net of the cost of intermediate inputs. The following section gives an overview of the movements in the gross value added (GVA) of some of the major sectors, namely the manufacturing, construction, wholesale and retail, and accommodation sectors. The GVA at sector level is a measure of the contribution of an individual economic sector to the GDP.

¹ National Statistics Office – Gross Domestic Product: Q1/2023, News Release 095/2023 dated 25 May 2023.

1.2.1 Manufacturing

The manufacturing sector has demonstrated a steady recovery over most of 2022, with quarterly growth rates in GVA in real terms averaging 8.9% for the year. During the first quarter of 2023, the manufacturing sector experienced a noteworthy 13.8% growth in its real GVA over 2022 Q1.

The total manufacturing production index – which is a measure of economic activity in the manufacturing sector – grew by 11.8% in May 2023². In comparison, the average movement in the total manufacturing production index averaged 2.6% for 2022, and 13.7% for the period January to May 2023. The most significant increases in the manufacturing sector, were recorded among firms involved in the production of printing and reproduction of recorded media, and basic pharmaceutical products. Other strong increases in output were registered among firms that manufacture computer, electronic and optical products, wearing apparel and certain non-metallic minerals³.

1.2.2 Accommodation and Food Service Activities

The accommodation and food service activities sector similarly exhibited a strong positive recovery from the pandemic over the course of 2022 and registered a 43.5% growth in real GVA in 2023 Q1.

Between January and May 2023, a total of 997,640 inbound tourists visited Malta, which is 7.3% higher than the number of visitors in the corresponding months of 2019⁴. The surge in tourists during the early months of 2023, has raised expectations for a healthy forthcoming period.

1.2.3 Wholesale and Retail Trade

The wholesale and retail sector is split in three main categories, as per Figure 2 below. Quarterly growth in real GVA for the wholesale and retail sector overall averaged 9.3% over 2022. However, the sector registered a minor contraction of 1.7% during 2023 Q1.

The contraction in the sector was the result of a decrease of 9.8% in the real GVA of the wholesale trade, which accounts for circa 43% of the sector output. Retail trade grew at a moderate 5.0% during 2023 Q1, while the wholesale and retail of motor vehicles segment exhibited a marginal decline of 0.7%.

Figure 2: Wholesale and Retail Trade Sub-Segments based on GVA 2022



Source: NSO data; KPMG Analysis

² National Statistics Office – Index of Industrial Production: May 2023, News Release 120/2023 dated 11 July 2023.

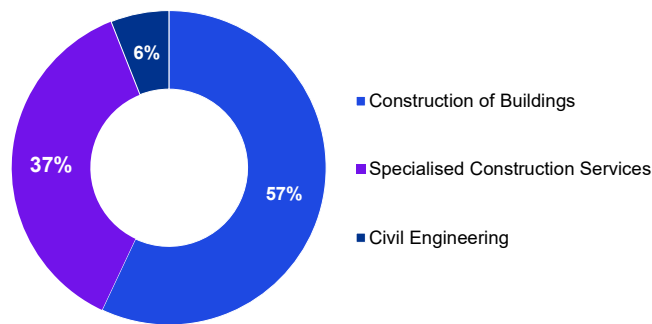
³ Central Bank of Malta – Economic Update 07/2023.

⁴ National Statistics Office – Inbound Tourism: May 2023, News Release 123/2023 dated 14 July 2023.

1.2.4 Construction

During 2023 Q1, the construction sector registered a contraction of 14.1% in its real GVA, vis-à-vis 2022 Q1. This marked the sixth consecutive quarterly contraction at sector level in real terms, when compared to the corresponding period in the previous years. The construction sector is made up of three main sub-segments with the following contributions to sector output:

Figure 3: Construction Sub-Segments based on GVA 2022



Source: NSO data; KPMG Analysis

The construction of buildings is by far the largest sub-segment of the construction industry and has registered its third consecutive contraction during 2023 Q1. The specialised construction services sub-segment registered a decline of 15.9% in its real GVA during 2023 Q1. Civil engineering, which accounts for just 6% of the overall output of the construction sector, was the worse hit sub-segment. The movement in the output of the civil engineering sub-segment is largely attributable to the drop in government expenditure on the construction of roads over the past two years⁵.



⁵ <https://timesofmalta.com/articles/view/budget-2022-roads-spending-to-drop-significantly.907339>

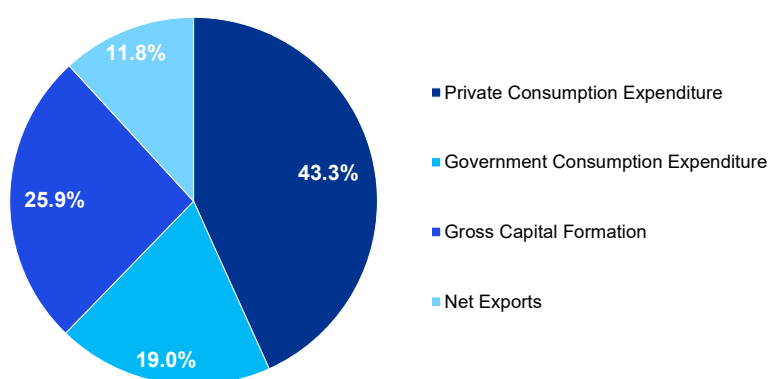
1.3 GDP Expenditure Approach

In the expenditure approach, GDP is defined as:

$$\begin{array}{ccccccc} \text{Private} & & \text{Government} & & \text{Gross Capital} & & \text{Net Exports} \\ \text{Consumption} & + & \text{Consumption} & + & \text{Formation} & + & \text{(i.e. Exports} \\ \text{Expenditure} & & \text{Expenditure} & & & & \text{less Imports)} \end{array}$$

The following chart shows the contribution of each expenditure component to GDP, based on 2022 figures. Private consumption expenditure⁶ is traditionally the largest GDP expenditure component by far and in 2022 contributed 43.3% to GDP. In 2022, this was followed by the contribution of gross capital formation, at 25.9%, which represents the investment expenditure contribution to GDP. Government consumption expenditure contributed 19.0% to GDP, while net exports contributed 11.8% to GDP.

Figure 4: Share of Expenditure Components to GDP based on GDP 2022



Source: NSO data; KPMG Analysis

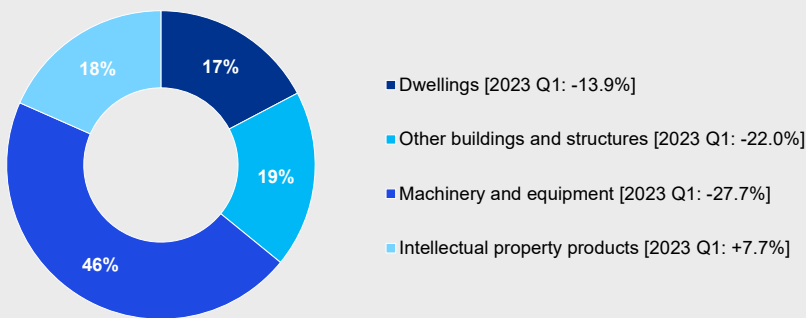
⁶ Consumption by households and non-profit institutions serving households (NPISH).

1.3.1 Gross Fixed Capital Formation

Gross fixed capital formation refers to the expenditure on fixed assets in an economy and in 2022 made up 95.3% of gross capital formation⁷ in the Maltese economy. In 2022, expenditure on gross fixed capital formation increased by 29.5% in real terms [2021: 11.0%], while during the first quarter of 2023 this contracted by 16.5%, to return to the levels witnessed in 2021 Q1.

The following chart shows the percentage contribution to gross fixed capital formation by asset class and the movement in expenditure in real terms in 2023 Q1 when compared to the corresponding quarter in the previous year.

Figure 5: Gross Fixed Capital Formation by Asset Class based on GDP 2022



Source: NSO data; KPMG Analysis

As can be noted, the contraction in expenditure in 2023 Q1 was evident across all fixed asset classes except for intellectual property products, which made up 18.4% of expenditure on gross fixed capital formation and increased by 7.7% over 2022 Q1.

The decrease in expenditure on gross fixed capital formation follows a year during which expenditure on machinery and equipment in real terms was circa 150% higher than the average for the period 2010-2021 in real terms.

On the other hand, the decrease in expenditure on dwellings and other buildings and structures was already evident in 2022 and was also reflected in the negative movements in the GVA of the construction sector over the past quarters mentioned earlier on in this section.



⁷ Other components of gross fixed capital formation are changes in inventories and net acquisitions of valuables.

1.4 GDP Outlook

Based on the latest projections by the Central Bank of Malta (CBM), Malta's GDP is anticipated to grow at a more moderate pace in real terms over the next years. The growth rate is expected to reach 4.0% in 2023 and average 3.8% over 2024 and 2025.

Net exports are predicted to be the primary driver of growth in 2023. This is attributed to an anticipated flattening in real imports, alongside a sustained growth in real exports. Conversely, domestic demand is expected to dampen growth during this period, with negative contributions from investment outweighing the positive contributions from government and private consumption⁸. However, despite relatively high inflation, private consumption growth is expected to remain robust, driving a positive impact on GDP.

Table 1: Projections for Real Economic Activity

<i>% Change on previous period</i>	2022	2023	2024	2025
GDP	6.9	4.0	3.8	3.7
Private consumption expenditure	10.1	4.6	4.5	4.0
Government consumption expenditure	2.4	4.4	4.0	4.1
Gross fixed capital formation	30.4	-21.5	1.5	2.8
Exports of goods and services	6.4	4.1	3.3	3.1
Imports of goods and services	9.7	0.2	3.2	3.0

Source: CBM Projections; KPMG Analysis



⁸ Central Banks of Malta – Outlook for the Maltese Economy 2023:2

Inflation

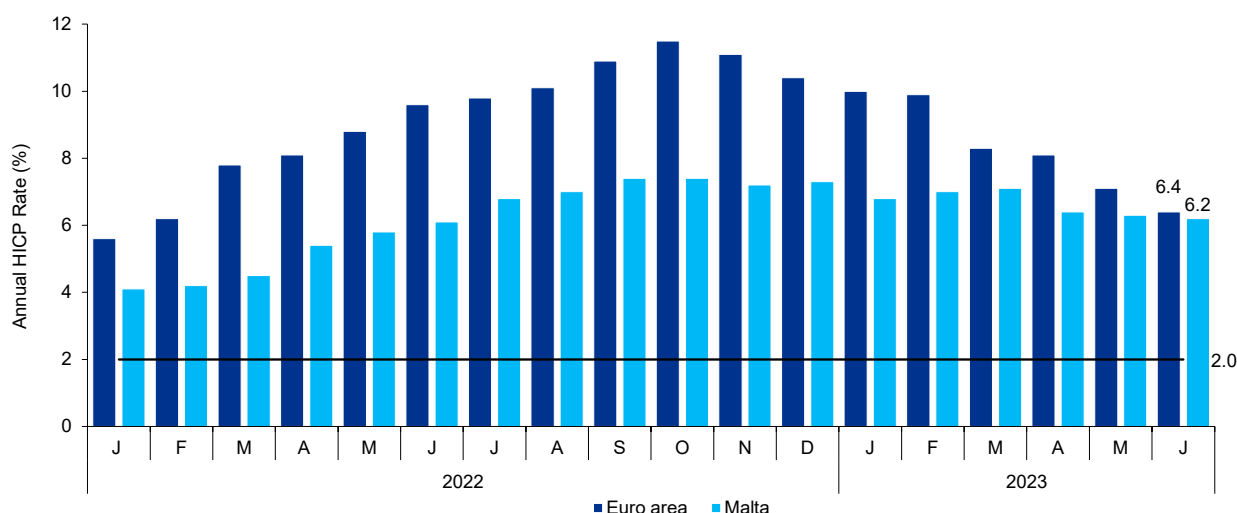
2.1 Consumer Inflation

In June 2023, the EU's Harmonised Index of Consumer Prices (HICP) stood at 6.4%, compared to 9.6% a year earlier. This decline can be considered testament to the effectiveness of the European Central Bank's (ECB) ongoing adjustments in interest rates over the past twelve months. The Vice-President of the ECB, Luis de Guindos, commented that while inflation is still relatively high, it has fallen from its peak of 10.6% in October of 2022⁹. The initial drop in energy inflation played a crucial role in this decline. Furthermore, it is worth mentioning that core inflation which excludes energy and food, has shown greater persistence in its levels than headline inflation.

In Malta, the consumer inflation rate stood at 6.2% in June 2023 [June 2022: 6.1%]. The largest annual increases were registered in the prices of food and non-alcoholic beverages (11.8%) and housing, water, electricity, gas and other fuels (7.6%) – which are respectively the first and fourth largest categories in terms of weighting.

Figure 6 illustrates the annual rate of change in monthly headline inflation in both Malta and the Euro area, which now stand relatively at par. The chart reveals that over the past eighteen months, Malta's inflation rate had, for the most part, been below that of the EU average. This is largely attributable to the Government's decision to subsidise energy costs.

Figure 6: Annual HICP Rate - January 2022 to Date



Source: Eurostat data; KPMG Analysis

⁹ <https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230707~8f8f9debc6.en.html>

2.2 Inflation Outlook

The CBM anticipates a notable decline in consumer price inflation by 2025. The projected rate is expected to decrease from an average of 5.3% in 2023 to an average of 2.3% by 2025, which is more in line with the ECB’s medium-term inflation target of 2.0%. This downward trend aligns with the reduction observed in consumer prices across most of the sub-components of the HICP.

Table 2: Inflation Projections				
	2022	2023	2024	2025
Overall HICP	6.1	5.3	2.9	2.3

Source: CBM Projections; KPMG Analysis



Interest Rates

Due to the sustained and concerning level of high inflation, the European Central Bank (ECB) has once again taken action to address the situation and increase interest rates. The primary objective behind the ECB's interest rate hikes is to bring the inflation rate back to its medium-term target of 2.0%. In the third quarter of 2023, the ECB increased their three key interest rates by 25 basis points which marked the ninth consecutive hike since July 2022¹⁰.

The ECB's three interest rates are the:



Main refinancing operations rate (MRO)

The interest rate banks pay when they borrow money from the ECB for one week which they must provide collateral for in order to guarantee that the money will be paid back¹¹.



Interest rate on the marginal lending facility

The interest rate banks pay when they borrow from the ECB overnight¹².



Interest rate on the deposit facility

The interest rate banks receive for depositing money with the central bank overnight¹³.

In August 2023, the MRO rate, as well as the interest rates on the marginal lending facility and the deposit facility, were raised to 4.25%, 4.50%, and 3.75%, respectively¹⁴. Despite a decline in the average EU inflation rate, the ECB continues to be concerned about the persistent high levels of inflation being felt through all of Europe, with Malta being no exception.

Locally, the recent ECB interest rate hikes have had minimal impact and have not brought about any significant changes in the banking landscape. As per the CBM's most recent quarterly review, issued in August 2023¹⁵ and covering developments in 2023 Q1, the overall weighted average interest rate on loans stood at 3.41% in the March 2023 quarter – compared to 3.32% in the December 2022 quarter. As can be seen from Table 3, the increases in loan interest rates were charged to non-financial corporations (NFCs), while households saw their interest rates decline marginally to 2.84%. This was the result of increased price competition in the home loan market as some of the more liquid institutions increase their efforts to put their deposits to a more profitable use.

Interest rates on deposits increased from 0.15% in the December 2022 quarter to 0.19% in the March 2023 quarter. The most significant jump in deposit interest rates occurred in time deposits of less than two years. This was the result of efforts by some financial institutions with an existent high loan-to-deposit ratio to attract more deposits so as to be in a better position to compete on loan pricing with their more liquid competitors.

¹⁰ <https://www.reuters.com/markets/europe/ecb-raises-key-rate-historic-high-keeps-options-open-2023-07-27/>

¹¹ <https://www.ecb.europa.eu/ecb/educational/explainers/tell-me/html/mro.en.html>

¹² https://www.ecb.europa.eu/ecb/educational/explainers/tell-me/html/marginal_lending_facility_rate.en.html

¹³ <https://www.ecb.europa.eu/ecb/educational/explainers/tell-me/html/what-is-the-deposit-facility-rate.en.html>

¹⁴ <https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.mp230727~da80cfcf24.en.html#/search/monetary/1>

¹⁵ Central Bank of Malta Quarterly Review 2023 Volume 56 No.3

While there may be some anticipated impact in the near future, some of the major Maltese banks generally refrain from borrowing from the ECB. Instead, they rely on their own customer deposit base at the average deposit interest rate, which is currently much lower than the ECB rates, to finance their loan book. This approach translates to the currently favourable interest rates on loan products on the local market¹⁶.

Table 3: Interest Rates on Selected Deposit and Loan Products in Malta		
	December 2022	March 2023
Total Deposits	0.15	0.19
<i>of which:</i>		
Overnight deposits		
Households	0.02	0.03
NFCs	0.03	0.07
Time deposits (Less than 2 years)		
Households	0.72	0.95
NFCs	0.74	0.95
Time deposits (More than 2 years)		
Households	1.73	1.73
NFCs	1.60	1.49
Total Loans	3.32	3.41
<i>of which:</i>		
Households	2.87	2.84
NFCs	4.15	4.45

Source: Central Bank of Malta; KPMG Analysis



¹⁶ <https://kpmg.com/mt/en/home/insights/2023/03/how-would-an-increase-in-deposit-and-loan-interest-rates-affect-you.html>

The Labour Market

4.1 Labour Market Conditions

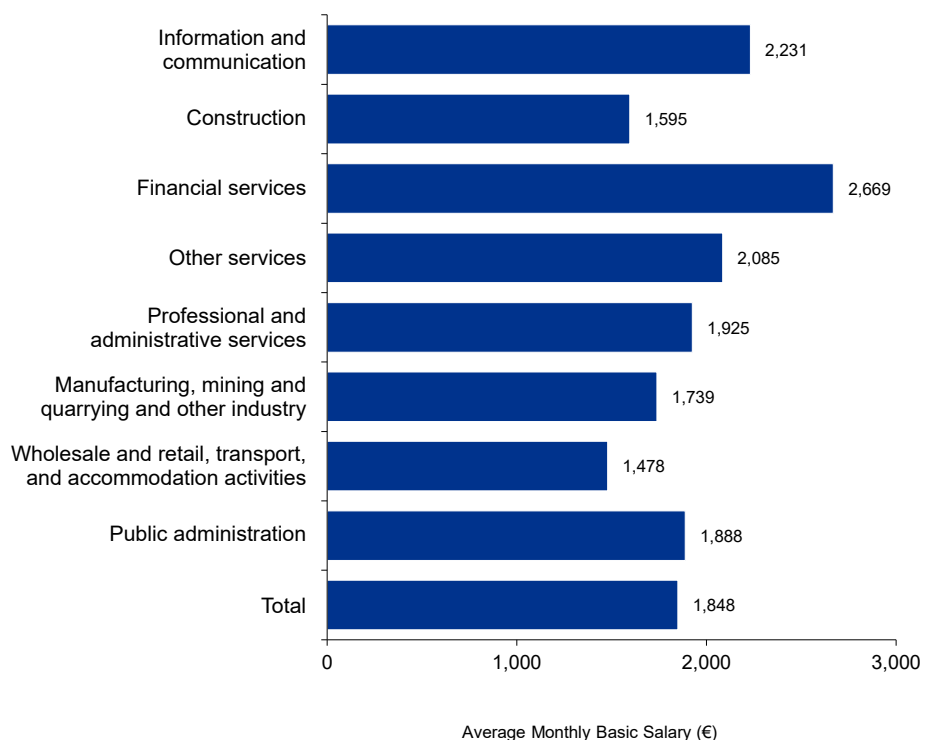
During the March 2023 quarter, labour market conditions remained tight with people in employment amounting to 291,756 – an increase of 5.3% over the corresponding period during the previous year¹⁷. The unemployment rate stood at 2.9%, down from 3.3% a year earlier.

4.2 Average Salaries by Industry

The average monthly basic salary in Malta stood at €1,848 during 2023 Q2. The average monthly basic salary refers to the salary received by employees before any social contributions and tax deductions and excludes payments for overtime, allowances and bonuses. Movements in the average salary for the Maltese economy overall also depend on changes in the composition of the labour force, towards or away from the better paying sectors.

The following chart compares the average monthly basic salary for employees across different industries. As can be noted, the highest average basic monthly salary by industry stood at €2,669 and was earned by employees working in the financial services sector. Conversely, employees working in the wholesale and retail, transportation and storage and the accommodation sectors earn the lowest average basic monthly salaries, which stands at €1,478.

Figure 7: Average Basic Monthly Salaries by Industry: 2023 Q2



Source: NSO data; KPMG Analysis

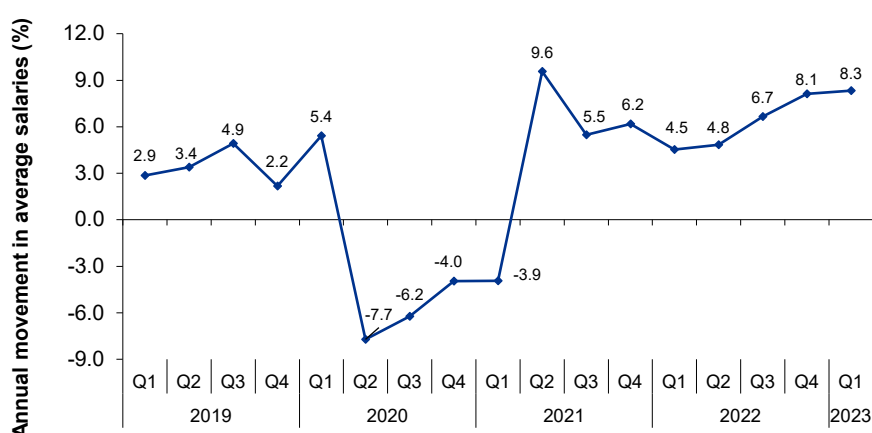
¹⁷ National Statistics Office – Labour Force Survey: Q1/2023, News Release 104/ 2023 dated 14 June 2023.

4.3 Movement in Average Salaries

The tight labour market conditions coupled with the current inflationary pressures have resulted in above average annual increases in the nominal average monthly basic salary. During the March 2023 quarter, the average monthly basic salary stood at €1,846, compared to €1,706 a year earlier, representing an annual nominal increase of 8.3%. In comparison, between 2019 Q1 and 2023 Q1, the average year-on-year movement in nominal salaries per quarter stood at 3.0%.

A survey commissioned by the Malta Employers' Association (MEA) during July 2023, revealed that almost two thirds of employers said that workers at all levels of their company were asking for higher wages, while only 45% said that this was the case in 2019¹⁸.

Figure 8: Annual Movement in Average Nominal Salaries: 2019 Q1 - 2023 Q1



Source: NSO data; KPMG Analysis

4.4 Foreign Workers

During 2022, the number of foreign nationals working in Malta increased by an additional 20,575 to reach 96,970 employees. Of these workers, 34.4% were EU nationals [2021: 41.9%]; 63.4% were third country nationals (TCNs) [2021: 55.7%], and the remaining 2.2% were other Europeans [2021: 2.4%]¹⁹.

The pandemic brought about a shift in the composition of foreign workers. Up to 2019, EU nationals made up more than half of foreign workers in Malta, while by 2021 the percentage of workers hailing from EU member states had decreased to 41.7%. This was attributable to both a downward shift in the number of EU nationals, which decreased by an absolute 3,189 employees between 2019 and 2021, as well as a significant increase in the number of TCN employees, which increased by 12,552 during the same period.

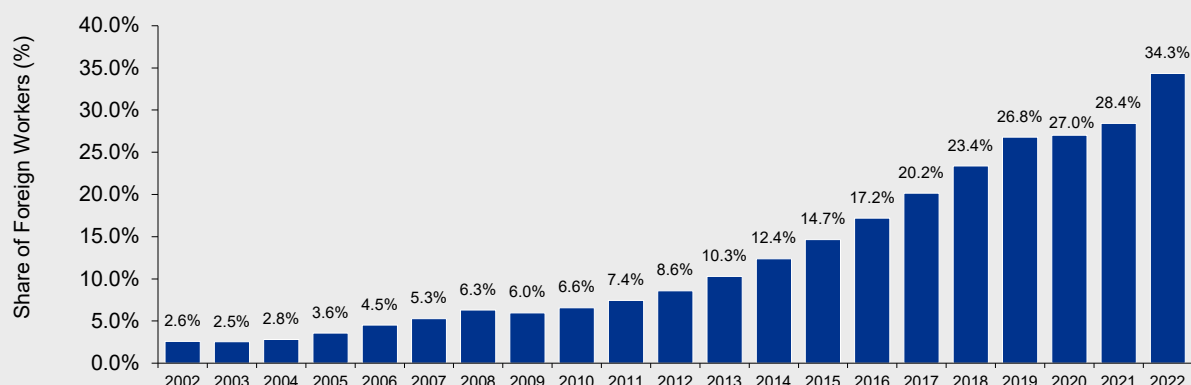
The composition of foreign workers matters particularly for labour productivity in view of the different type of jobs generally performed by each category. As per Jobsplus records, TCNs are employed mainly in elementary jobs or services and sales workers. In contrast, EU nationals were employed as clerks, support workers, or professionals.

¹⁸ <https://timesofmalta.com/articles/view/government-lead-way-new-economic-model-employers-association.1046857>

¹⁹ <https://jobsplus.gov.mt/resources/publication-statistics-mt-mt-en-gb/labour-market-information/foreigners-data> viewed on 01/08/2023

The following chart shows that the share of foreign workers in the Maltese labour force increased from just 2.6% in 2002 to 34.3% by 2022. The increasingly diversified composition of the Maltese workforce makes it all the more important for employers to have appropriate diversity and inclusion policies in place, which take into consideration any communication and cultural issues that may arise.

Figure 9: Share of Foreign Workers in Maltese Workforce: 2002-2022



Source: Jobsplus data; KPMG Analysis

4.5 Labour Market Outlook

The CBM expects the compensation per employee to grow by 5.5% during 2023 compared to 2.8% last year. As a result, the unit labour costs (ULC) defined as the amount a business pays its workers to produce one unit of output is projected to increase from 2.1% last year to 5.0% in 2023.

Table 4: Projections for the Labour Market				
	2022	2023	2024	2025
Labour market				
Total Employment (% change over previous year)	6.0	3.6	2.7	2.4
Unemployment rate (% of labour supply)	3.0	3.0	3.1	3.1
Compensation per employee (% change over previous year)	2.8	5.5	4.9	3.9
Unit labour cost (% change over previous year)	2.1	5.0	3.8	2.6

Source: CBM Projections; KPMG Analysis

The Property Market

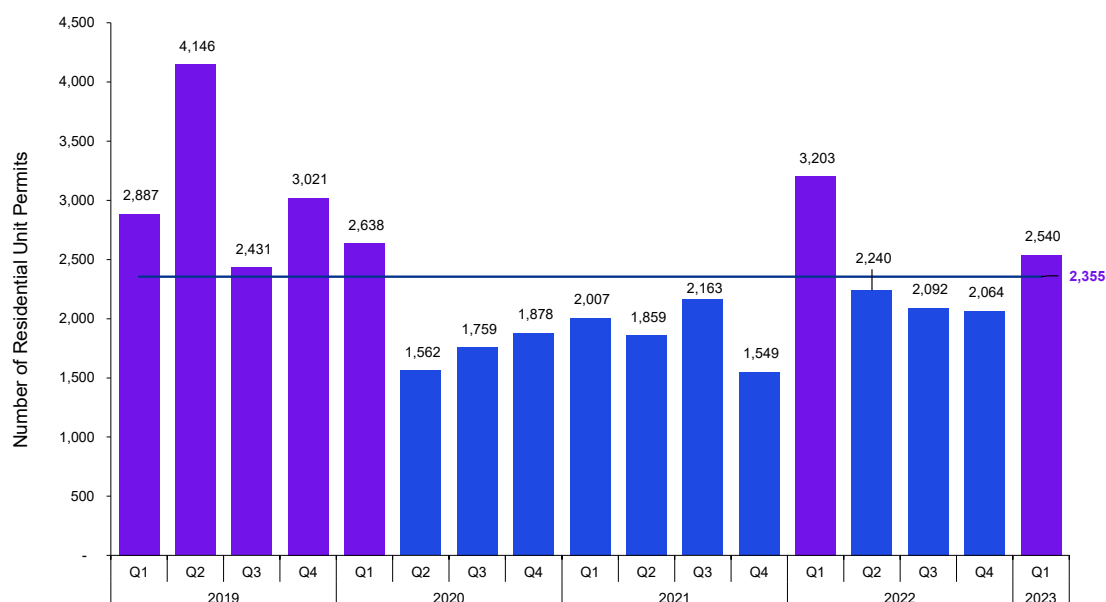
5.1 Residential Permits

During the period January to March 2023, a total of 2,540 residential unit permits were issued. This represents a decrease of 663 residential unit permits, or 20.7% less, in comparison to the number of permits issued during the corresponding period in 2022²⁰. It should be noted that the number of permits issued in 2022 Q1 was well above average, while the number of permits issued in 2023 Q1 was closer to the average for the past four years, as also evident in Figure 10 below. Preliminary data published by the Central Bank of Malta (CBM) for the months of April and May 2023, indicates that a total of 1,669 residential unit permits were issued during these months²¹ - a marginal increase of 1.3% over April and May 2022.

For the purpose of residential permit data, dwelling types considered are apartments, maisonettes, penthouses, terraced houses, bungalows, farmhouses and villas.

The following chart shows the number of permits issued quarterly for residential units over the period 2019 Q1 to 2023 Q1. The average number of residential unit permits issued quarterly over this period stood at 2,355 – the columns in purple denote quarters during which an above such average number of residential unit permits was issued, while the blue columns denote quarters during which a below average number of residential unit permits was issued.

Figure 10: Quarterly Residential Unit Permits - 2019 Q1 to 2023 Q1



Source: NSO data; KPMG Analysis

²⁰ National Statistics Office – Residential Building Permits: Q1/2023, News Release 084/2023 dated 15 March 2023.

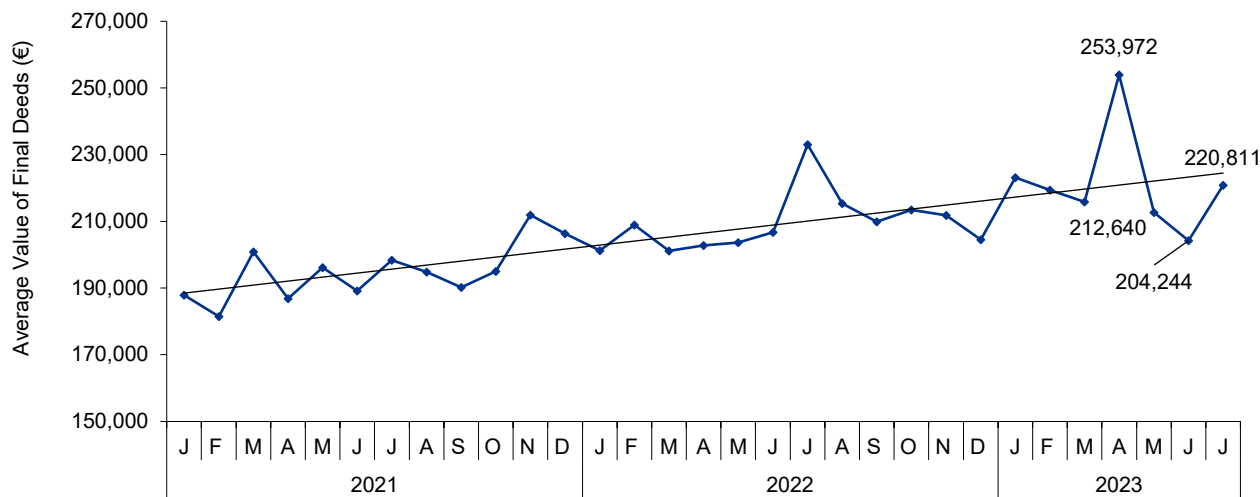
²¹ Central Bank of Malta – Economic Update 07/2023.

5.2 Final Deeds of Sale

During the period January to July 2023, the number of final deeds of sale involving individuals as final buyers decreased by 13.1%, while their total value decreased by 8.3%, when compared to the corresponding period in 2022. For the purpose of final deeds of sale data, the NSO defines residential property as airspaces, boat houses, bungalows, farmhouses, flats/ apartments, garages, gardens, houses, maisonettes, penthouses, plots of land, semi-detached villas, terraced houses, 'terran', urban tenements and villas, and the data is therefore not directly comparable to permit data.

The following chart shows the average value appearing on final deeds of sale relating to residential property and involving households as final buyers on a monthly basis between January 2020 and July 2023. While the data cannot be interpreted as a movement in average prices, since no details such as type of property or number of properties covered by the deed are available, it may shed light on the underlying trend.

Figure 11: Monthly Average Value of Final Deeds Involving Individuals as Buyers - January 2020 to June 2023



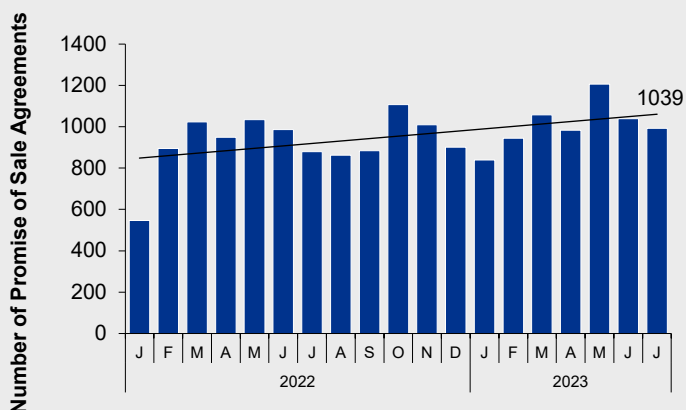
Source: NSO data; KPMG Analysis

5.3 Promise of Sale Agreements

During the period January to July 2023, a total of 7,066 promise of sale agreements involving individuals as final potential buyers were registered – representing an increase of 11.9% over the previous year. Increases in the number of promise of sale agreements were registered across all months of 2023.

For the purpose of promise of sale agreements data, the NSO defines residential property as airspaces, boat houses, bungalows, farmhouses, flats/ apartments, garages, gardens, houses, maisonettes, penthouses, plots of land, semi-detached villas, terraced houses, 'terran', urban tenements and villas, and the data is therefore not directly comparable to permit data.

Figure 12: Monthly Promise of Sale Agreements - January 2022 to June 2023



Source: NSO data; KPMG Analysis

5.4 Property Prices

The latest property price data relates to 2023 Q1 and points towards an upward movement in property prices. Eurostat data shows an increase in transacted property prices of 6.6% during the first three months of 2023, when compared to 2022 Q1. Central Bank of Malta data shows that during 2023 Q1 advertised property prices increased by 10.5% over the same period in 2022.



What to Watch?



Labour Productivity

Defining Labour Productivity

The Malta Employers' Association (MEA) has recently commented that wage increases in Malta are not in step with movements in labour productivity²². The Organisation for Economic Cooperation and Development (OECD) defines labour productivity growth as growth in GDP per hour worked in an economy²³. Labour productivity is generally determined by:



Physical capital

Such as investments in machinery and equipment.



Human capital

Which mainly refers to education and training.



Technological change

Defined as an increase in the efficiency of a product or process that results in an increase in output, without an increase in input.



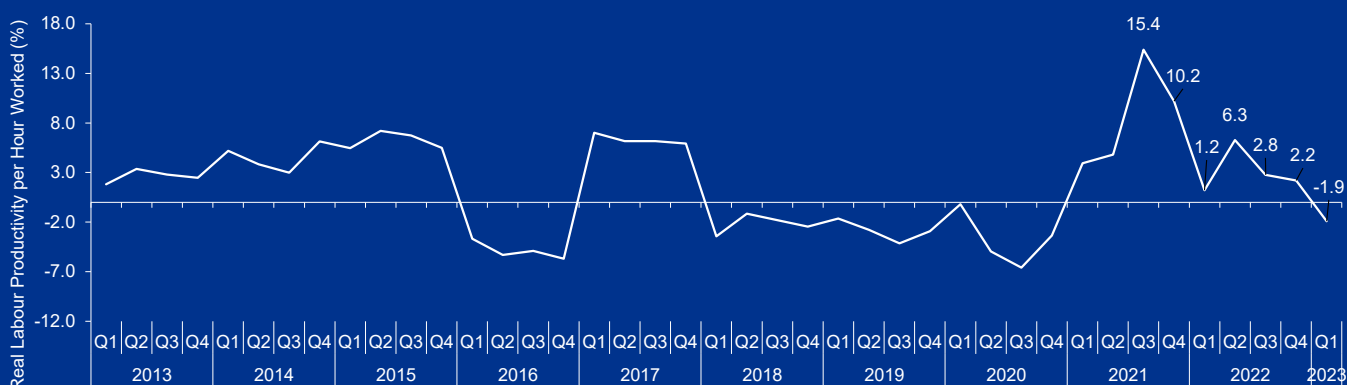
²² <https://timesofmalta.com/articles/view/productivity-no-match-wage-increases-survey.1046602>

²³ <https://data.oecd.org/lprdy/labour-productivity-and-utilisation.htm>

Movements in Labour Productivity

The following chart shows the percentage change in quarterly labour productivity in real terms in Malta over the corresponding quarter in the previous year, from 2013 Q1 to date. As can be noticed, labour productivity growth peaked during 2021 Q3 and has been increasing at a largely decreasing rate since. During 2023 Q1, labour productivity contracted by 1.9%. This trend was evident across Europe, with labour productivity in the EU contracting by 0.7% during 2023 Q1.

Figure 13: Movements in Real Labour Productivity in Malta [2013 Q1 to 2023 Q1]



Source: Eurostat data; KPMG Analysis

Why is Labour Productivity Stalling?

Over the past decade Malta has increasingly moved away from industry towards the services sector, where, with some notable exceptions such as financial services and i-gaming, the average value added per worker is relatively lower²⁴. The nature of the jobs performed by the labour force matters, in that the more elementary the job, the lower the value-added, and hence the lower the productivity of that job.

²⁴ International Labour Organization – World Employment and Social Outlook Trends 2020

Why Does it Matter?

Improvements in labour productivity are important to drive economic growth because it allows an economy to produce more with the same amount of resources or to produce the same amount of goods and services with less resources over time. This is particularly important when looking at ways of improving long-term sustainability without jeopardising our existent standards of living.

Increased labour productivity also allows Maltese firms to compete successfully on the international market, and in the longer run translates to higher wages and better working conditions for employees. Finally, increased productivity also yields higher tax revenues for the government.

How can we Improve Labour Productivity in Malta?

As commented earlier, labour productivity can be increased through improvements in physical capital, investment in human capital and technological advancements. Therefore, at firm level, labour productivity improvements can be attained by investing in digital tools (such as automated booking systems or automated purchase order tools) better machinery and equipment, and employee training.

On the other hand, at a national level, significant improvements in labour productivity can only be attained through a concentrated and sustained effort to divert our already limited resources towards higher value-added economic sectors. In order to achieve this, the authorities will need to plan long-term and:

- **Reassess Malta's Economic Model** and its alignment to such an objective.

- Create policies that incentivise a shift to higher value-added economic sectors.

- Improve Malta's educational system so that Malta's human capital (both that of today and that of tomorrow) are suitably (re-)skilled to be the creators of, as well as the operators in, higher value-added industries.



Contact:



Steve Stivala

Director

Advisory Services

stevestivala@kpmg.com.mt

+356 2563 1052

www.kpmg.com.mt

Follow KPMG in Malta:



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG, a Maltese civil partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

Document Classification: KPMG Public