



National
Productivity
Board

Annual Report 2023

Abstract Version

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FOREWORD

PERIT DAVID XUEREB

CHAIRPERSON NATIONAL PRODUCTIVITY BOARD

Over the past decade, the Maltese economy has experienced significant growth, which was also significantly higher than the growth observed in other European countries. Malta's economic growth was mainly driven by domestic demand and the export of services, including tourism, which was abruptly halted by the pandemic at the beginning of 2020. Nonetheless, Malta's economy not only showed its resilience during these difficult times but also demonstrated the ability to recover in the aftermath of the pandemic with a real economic growth in 2021 of 11.7%, twice as much as the 5.6% average seen in the twenty-seven countries of the European Union. This recovery was also sustained in 2022 with a real economic growth of 7.1%, notwithstanding the negative economic impact of the Russian-Ukrainian conflict, which gave rise to considerably higher than average inflation rates and supply chain issues.

This economic growth and prosperity have translated into an unprecedented period of sustained job creation, resulting in an unemployment rate of 2.9% in 2022, the lowest it has been in recent history. However, despite these recent successes and resilience shown, the Maltese economy is still exposed and susceptible to external shocks and hence continuous efforts need to be made to improve the country's competitiveness and productivity.

In recent years, there has been an increased focus on the dynamics surrounding employee wages across the globe, precipitated by rising inflation in the wake of the COVID-19 pandemic, significant geopolitical issues, and supply chain shortages. Policy scrutiny of such dynamics is of relevance given the need to strike a balance between ensuring that wages are high enough to keep up with rising inflation amidst labour shortages in key sectors, while also preventing a wage-price spiral which would further exacerbate inflationary pressures. An example of the increased focus on the wage-productivity relationship was the cornerstone of a recent agreement on the increase in the national minimum wage in Malta, where issues such as adequacy of the minimum wage as well as productivity were debated intensively by members of the Low Wage Commission and formed part of deliberations leading up to the final policy proposal which was adopted by the Government.

Within this national and global context, this year's national productivity board report focused on these wage-productivity dynamics. Specific importance was given to key economic sectors due to significant variation across sectors when it comes to both average wages as well as productivity. One of the key findings of this analysis is that the current trajectory of labour productivity and wages in Malta stands in contrast to the prevailing trends observed in other European Union countries as indicated by a lower relationship between productivity increase and wage increase in Malta when compared to the EU average. At its core, this challenge is rooted in the intricate relationship between labour productivity and wages, offering valuable insights into the potential for further wage growth, particularly in sectors acknowledged for their high productivity, such as Information and Communication Technology (ICT), Professional Services, Financial, and Insurance Activities.

While thanking the board members, social partners, and consultants with whom we worked throughout this year, I believe that this report offers a detailed, sectoral analysis on the wage-productivity dynamics that, together with the recommendations put forward, provide insights that can ultimately be used to finetune Malta's economic growth model.



FOREWORD

HON. ANDY ELLUL

PARLIAMENTARY SECRETARY FOR SOCIAL DIALOGUE

Productivity is at the core of Malta's economic prosperity, driving external competitiveness in an increasingly globalised marketplace while also boosting earnings and living standards for workers.

This latter point is the focus of this year's National Productivity Board Report, which delves into the determinants of wages and salaries across the key sectors of the Maltese economy over the last decade, with a particular emphasis on the link between wages and labour productivity. Rising geopolitical volatility across the globe has led to the onset of significant supply chain issues and shortages of key raw materials, which in turn have contributed towards spiralling inflation, placing the spotlight of public discourse firmly on the ability of families and workers to maintain existing standards of living.

Within this context, the Maltese government has worked tirelessly to stem the tide of rising living costs over the last few years, since this is an issue that impacts both workers and businesses alike, undermining our ability to compete on an international scale.

To counteract rising inflationary pressures, the Parliamentary Secretary for Social Dialogue in collaboration with the Social Partners represented on the Low Wage Commission, renewed the Low Wage Commission Agreement. This led to subsequent rises in the minimum wages, both for this year and over the coming three years

This is only one piece of the puzzle, and the timely recommendations set out in this year's report provide a clear pathway for the work that needs to be done to further safeguard and indeed cultivate people's livelihoods in a sustainable manner via productivity gains. A key element in this regard is continued investment in research, development, and innovation, since this will assist Maltese businesses in making a significant leap forward in terms of the quality of their products, processes, and services, enhancing not only their ability to compete effectively but also target new markets.

This must be complemented by continuous investment in education and training, not only to ensure that the younger generation are equipped with the requisite skills to be able to flourish in tomorrow's workplace, but also for the professional development of existing workers that will assist in boosting current productivity levels. Moreover, the report also calls for an increased focus on environmental, social and governance principles (ESG) across all sectors of the Maltese economy, since this will ensure that our current economic model, that has generated unprecedented levels of economic success and wealth for all Maltese citizens, will continue to act as a vehicle for enhanced prosperity and social mobility in the years to come.

Lastly, I fully share the authors' sentiments regarding the importance of social dialogue and working together with social partners in the formation of government policy related to wages and productivity, since this will ensure both the timeliness and relevance of the interventions as well as improved implementation. The Malta Council for Economic and Social Development (MCESD) has a crucial role to play in this context, and I look forward to continuing our work together over the coming years.

In conclusion, I would like to thank the authors of this report for their rigorous analysis and recommendations, together with the members of the National Productivity Board for their sterling input and insights as part of the development of this report.

1. COMPOSITION OF THE NATIONAL PRODUCTIVITY BOARD 2024

The National Productivity Board is an independent institution that helps to analyse developments and challenges related to economic productivity and competitiveness.

The Board comprises eleven members, including the Chairperson and ten other members. The Chairperson of the Malta Council for Economic and Social Development serves as the Chairperson of the Board by virtue of their position. The remaining ten members consist of a senior official nominated by the Minister responsible for Finance, a member nominated by the Governor of the Central Bank of Malta, four members nominated by workers' organisations represented by constituted bodies on the Council, and four members nominated by constituted bodies representing national employers' organisations on the Council.

Perit David Xuereb

Chairperson National Productivity Board

Mr Philipp Seifert

Malta Chamber of Commerce, Enterprise, and Industry

Mr Chris Attard

For.U.M.

Mr Kevin Vella

Ministry for Finance and Work

Mr Ian Borg

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Mr Kevin J. Borg

Malta Employers Association

Mr Josef Vella

UHM Voice of the Workers

Mr Mario Sacco

Confederation of Malta Trade Unions

Mr Victor Carachi

General Workers Union

Ms Abigail Mamo

Chamber of SMEs

Mr Kevin Callus

Malta Hotels and Restaurants Association

2. AN OVERVIEW OF THE NATIONAL PRODUCTIVITY BOARD

The National Productivity Board effectively fulfils the objectives outlined in the Council recommendation concerning National Productivity Boards. Its primary task is to diagnose and analyse productivity and competitiveness developments in Malta, considering both the euro area and the European Union as reference points. The analysis encompasses long-term drivers and facilitators of productivity and competitiveness, such as innovation, investment attraction, business environment, and human capital. It also examines cost and non-cost factors that can impact prices and the quality of goods and services, even in comparison to global competitors in the short term. The analysis relies on transparent and comparable indicators to ensure robustness and accuracy.

Additionally, the Board engages in independent analysis of policy challenges related to productivity and competitiveness. It assesses the potential effects of various policy options and makes explicit trade-offs when formulating policies.

Furthermore, the National Productivity Board is responsible for preparing the annual report, which is submitted to the European Commission on a yearly basis. This report, along with other national reports, contributes to the European Semester process.

3. A BRIEF OF THE ANNUAL NATIONAL PRODUCTIVITY REPORT 2023

The focus of this year's Annual National Productivity report is on assessing the relationship between wages and productivity in Malta. The report is structured into five chapters, covering aspects such as the economic overview of Malta, human capital and skills analysis, relevant research, innovation and digitalisation indicators and indices, an econometric model to assess the relationship, and ten S.M.A.R.T. recommendations derived from the analysis.

Economic Overview

The report begins with a thorough examination of the economic situation in Malta, comparing it to European counterparts. The study reveals that, on average, the Maltese economy consistently lags its European peers concerning labour productivity. Labor productivity, defined as nominal gross value added per total workforce in each economic sector, is identified as a key metric for assessment. Despite the economic challenges, Malta recorded positive developments in 2022, with low unemployment (2.9%) and real GDP growth (7.08%) surpassing the EU-27 average (3.41%). However, the report acknowledges the persistent economic challenges, including geopolitical conflicts, inflationary pressures, and supply chain disruptions, emphasising the need to consider these factors in formulating recommendations.

Human Capital and Skills Analysis

Chapter 2 delves into the crucial role of human capital in enhancing current and future productivity levels. The analysis emphasises the significance of appropriate human capital, skills, and educational attainment in fostering a workforce capable of meeting evolving productivity demands. By exploring educational achievements and their implications, this chapter provides insights into the foundational elements contributing to productivity in Malta.

Wages and Productivity Indicators

Chapter 3 assesses Indicators and indices with a relevant focus on research, innovation, and digitalisation, which play integral roles in shaping the productivity landscape. The chapter highlights the importance of understanding these indicators to navigate the complex relationship between wages and productivity effectively. Chapter 2 and 3 of the report sets the groundwork for the subsequent econometric analysis.

Econometric Model

Chapter 4 presents the core of the report, where an econometric model is utilised to assess the relationship between wages and productivity in Malta. Seven key economic sectors are selected based on their relevance to Maltese productivity: Manufacturing, Construction, Financial and Insurance Activities, Gaming, Information and Communication Technology, Professional, Scientific and Technical Activities, Accommodation and Food Service, and Wholesale and Retail. The model, estimated from 2012 to 2022, yields sector-specific insights, providing a nuanced understanding of the dynamics between wages and productivity. This data-driven approach enhances the report's credibility and allows for targeted recommendations.

S.M.A.R.T. Recommendations

The final chapter, Chapter 5, distils the insights gained from the econometric analysis into ten recommendations. These recommendations aim to facilitate and enhance the relationship between wages and productivity in Malta. They are carefully tailored based on sector-specific insights, addressing the challenges and opportunities identified in the econometric model. Additionally, the chapter evaluates the progress made on past recommendations from the National Productivity Board within the thematic area of wages and productivity. This retrospective analysis adds a layer of practicality and accountability to the recommendations, ensuring they align with the evolving economic landscape.

Additional Findings from the Annual National Productivity Report 2023

1. Labor Productivity and Wages:

The study reveals a positive and significant correlation between labour productivity and wages in key sectors of the Maltese economy. A €1 increase in productivity is associated with a €0.2-0.5 increase in average wages per worker. However, this relationship is weaker than the EU-28 average, suggesting that wages and productivity in Malta have been weakly linked. Potential factors include divergent productivity growth across sectors and the prevalence of collective bargaining, covering around 50.1% of workers. The accuracy of productivity indicators in the public sector, where collective bargaining is common, also poses challenges and influences wage-setting dynamics in the private sector.

2. Education and Wages:

The proportion of workers with tertiary education is positively and significantly correlated with higher average wages and salaries in Malta. However, the correlation is relatively small, with a 1% increase in the proportion of tertiary-educated workers associated with a 0.53% increase in average wages per worker. This suggests that higher education alone is not sufficient for higher wages; other factors, such as productivity, play a crucial role. Over-qualification is observed, with many workers holding higher education degrees but employed in low or medium-skilled jobs, highlighting the importance of aligning education with job requirements.

3. Foreign Workers and Wages:

The study finds no significant correlation between the proportion of foreign workers in a sector and per capita wages and salaries in Malta. The diverse skills and capabilities of foreign workers, coupled with variations in sectors employing low or high-skilled workers, contribute to this result. The national focus on attracting and retaining higher-skilled foreign workers to enhance productivity aligns with broader EU trends, but the presence of lower-skilled jobs, especially in social care, remains a reality.

4. Business Expenditure on R&D and Wages:

A positive relationship is identified between sectoral business expenditure on R&D and wages and salaries. A €1 increase in R&D spending per worker translates to a €4.40 increase in wages and salaries per worker. This emphasises the importance of continuous investment in R&D for boosting competitiveness, innovation, and improving living standards for workers. The short-term impact involves increased demand for skilled researchers, while the long-term impact links R&D success to improved productivity and competitiveness.

5. Domestic Investment in Fixed Assets and Wages:

Contrary to R&D spending, domestic investment in fixed assets is not correlated with wages and salaries across Maltese economic sectors. This reflects the dispersed nature of recent domestic investments across high- and low-income sectors. The type of investment matters, with a focus on physical assets like construction, machinery, and transportation equipment. Encouraging financial sector growth with bonds for environmental and green technology investments is suggested to diversify the nature of domestic investment.

6. Foreign Direct Investment (FDI) and Wages:

The study concludes that FDI per worker is positively and significantly related to wages and salaries. A €1 increase in FDI per capita corresponds to a €0.7 increase in wages and salaries which is primarily due to the fact that in recent years the majority of inward FDI to Malta has been in sectors with relatively high wages such as financial services and insurance. The findings align with European studies emphasising the wage premiums associated with FDI within sectors.

In conclusion, the report underscores the intricate relationship between various economic factors and their impact on wages and productivity in Malta. Policymakers can leverage these insights to formulate strategies aimed at enhancing labour market dynamics, education-to-employment pathways, innovation, and the attraction of foreign investment. The study's findings provide a robust foundation for informed decision-making to foster sustained economic growth and improve the overall well-being of workers in Malta.

4. S.M.A.R.T. RECOMMENDATIONS FROM THE ANNUAL NATIONAL PRODUCTIVITY REPORT 2023

1. Prioritise Consolidation and Specialisation in High-Productivity Sectors:

The primary recommendation emphasises the importance of consolidating and developing key productivity sectors such as ICT, financial services, and professional services. Policymakers are urged to support consolidation through tax incentives and regulatory measures, fostering a thriving business environment. Collaboration among companies within these sectors is encouraged to enhance global competitiveness.

2. Strategically Attract and Develop New Economic Sectors:

While strengthening existing sectors, there's a call to strategically diversify Malta's economy, particularly in niche areas within ICT and financial services. Policymakers are advised to develop a strategic plan for attracting industries aligned with Malta's strengths, ensuring long-term economic benefits through diversification.

3. Enhance Manufacturing Productivity through Investment and Incentives:

The recommendation focuses on encouraging investment in the manufacturing sector, including Research and Development (R&D) and Foreign Direct Investment (FDI). Strengthening existing incentive schemes for manufacturing enterprises is suggested to create a supportive environment for technological advancements and product innovation.

4. Promote Best Practices and Knowledge Sharing in Manufacturing:

Recognising successful enterprises in the manufacturing sector, the recommendation urges the replication of achievements through knowledge sharing and the adoption of best practices. Facilitating collaboration, information exchange, and mentorship programs can harness collective expertise, enhancing productivity and driving growth in the sector.

5. Elevate Skills and Working Conditions in Labor-Intensive Sectors:

This recommendation addresses labor-intensive sectors reliant on foreign workers, emphasising training initiatives and improved working conditions. The training policy for third-country nationals in accommodation and food services should be extended to other sectors within this category. Increased investment in education and skills development is recommended to elevate living standards.

6. Improve Productivity and Wages in Low-Skilled Jobs:

Acknowledging the importance of enhancing productivity in low-skilled jobs, measures like vocational training, skill development, and workplace improvements are recommended. The focus is on strategies tailored for low-skilled roles to simultaneously increase productivity, elevate wages, and improve living standards sustainably.

7. Promote Widespread Investment in Research and Development (R&D):

The recommendation underscores the significance of widespread R&D investment across sectors to enhance productivity, competitiveness, and wages. Current schemes promoting R&D spending should be encouraged, and incentives should attract innovative start-ups to Malta, fostering a culture of innovation.

8. Learn from Past Successes and Foster Innovation:

Building on R&D investment, the importance of learning from past successes in productivity enhancement is highlighted. Recommendations from previous reports should be integrated into current strategies to foster continuous improvement and innovation, strengthening Malta's commitment to economic growth.

9. Fine-tune Malta's Economic Growth Model:

Addressing the ongoing debate on Malta's economic growth model, the recommendation focuses on consolidating and strengthening highly productive sectors. Strategies should encourage growth and competitiveness in sectors like ICT, financial services, and professional services, while attracting FDI in complementary areas and investing in human resource development.

10. Embrace Social Partner Involvement and Collective Bargaining:

Recognising the role of social partners, this recommendation emphasises their active involvement in shaping policies for productivity and economic development. Collective bargaining is considered a crucial instrument for stability in labor relations, efficient resource allocation, and implementing changes aligned with the report's recommendations.

These ten recommendations provide a comprehensive framework for policymakers, businesses, and social partners to collaboratively address the productivity and competitiveness challenges in Malta. By focusing on sector-specific strategies, fostering innovation, and involving social partners, Malta can lay the groundwork for sustainable economic growth and development.

Authors of the report

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