



Annual Report 2023

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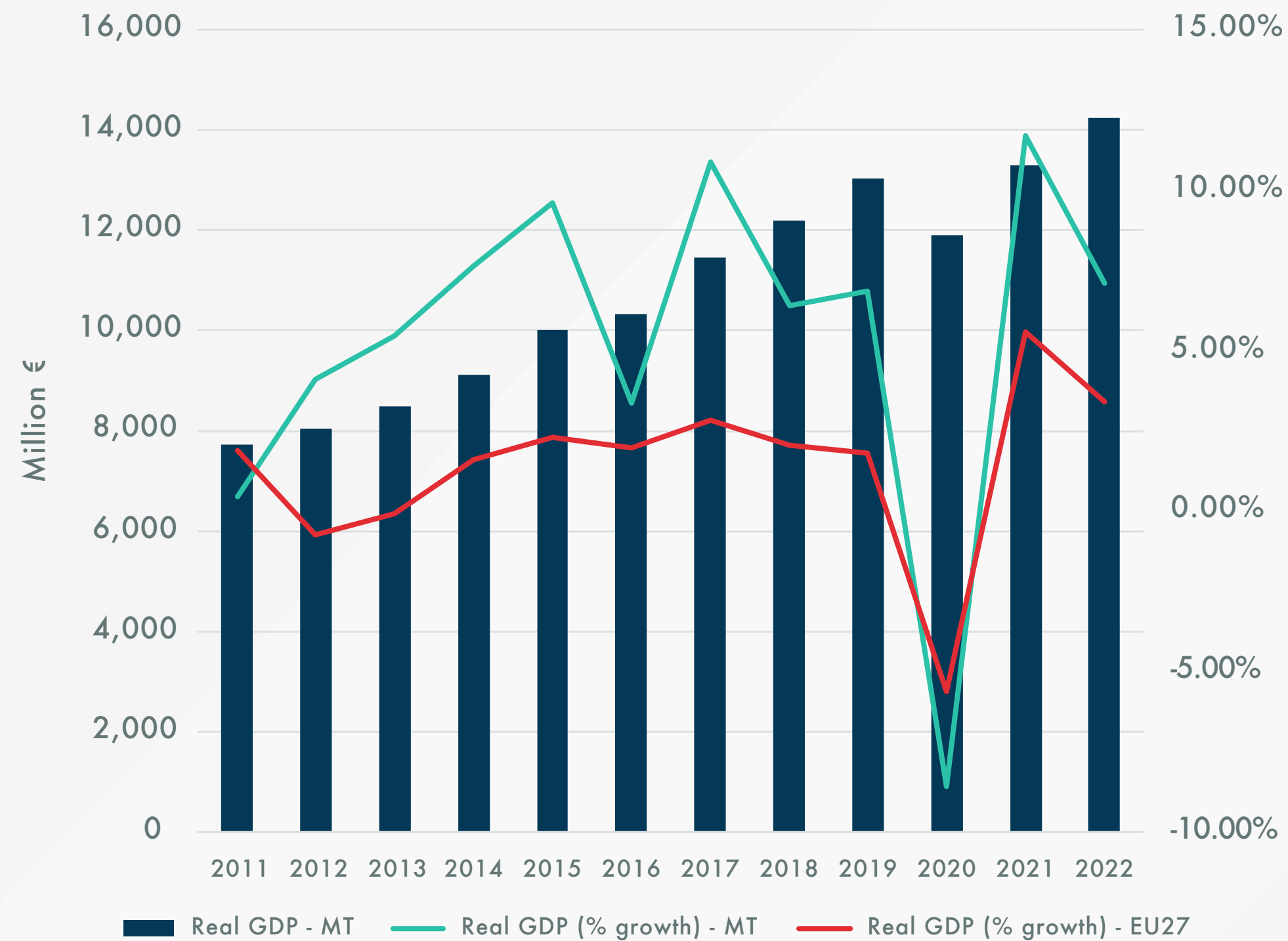
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CHAPTER 1

Developments in Malta's competitiveness and productivity

Gross Domestic Product

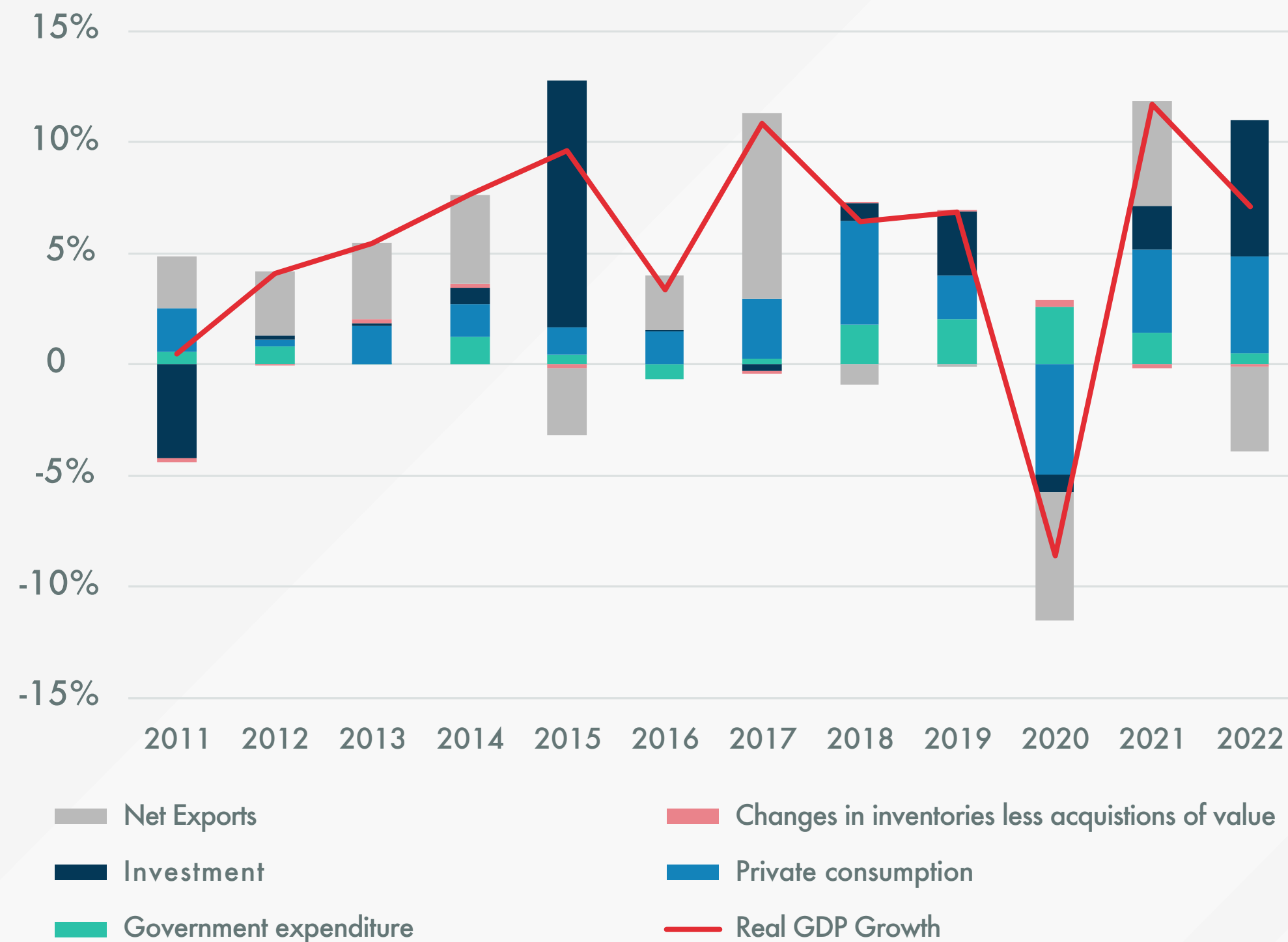


The Maltese economy contracted by 8.6% in 2020 relative to the EU27 average contraction of 5.6%.

Once the pandemic-related restrictions eased in 2021, the Maltese economy recovered strongly, such that pre-pandemic GDP levels were exceeded.

In 2021, Malta recorded real GDP growth of 11.7%, more than double the EU27 average of 5.6%

Gross Domestic Product and its main components

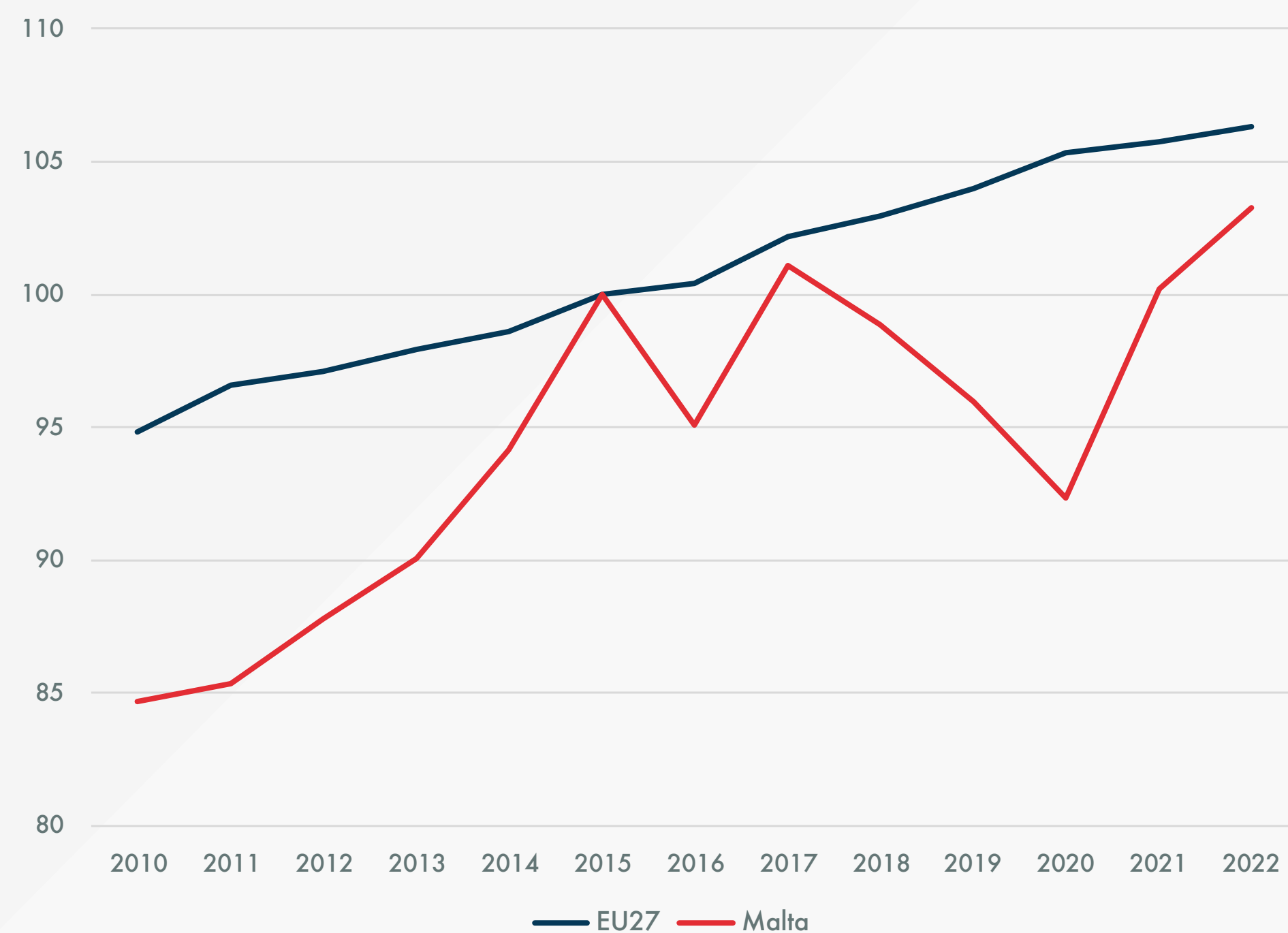


In the pre-pandemic period, 2011-2019, private consumption was one of the leading drivers of economic growth.

On the onset of the COVID-19 pandemic, households significantly decreased the level of private consumption. In 2020, even the net exports contributor to the economy contracted Malta's economic growth, in fact, the only contributor which grew was government expenditure resulting from the COVID-19 measures implemented during the year. In the subsequent year (2021), the economic recovery from the pandemic was mainly due to the recovery in private consumption and investment.

In 2022, the economy grew by 7%, mainly from private consumption and investment. These two components offset the negative change in net exports resulting from higher imports and lower exports.

Labour Productivity



REAL LABOUR PRODUCTIVITY PER HOUR WORKED (BASE YEAR 2015=100)

Comparing the real labour productivity per hour worked of Malta with the EU27 average, it seems that Malta is lacking slightly behind the EU27 average.

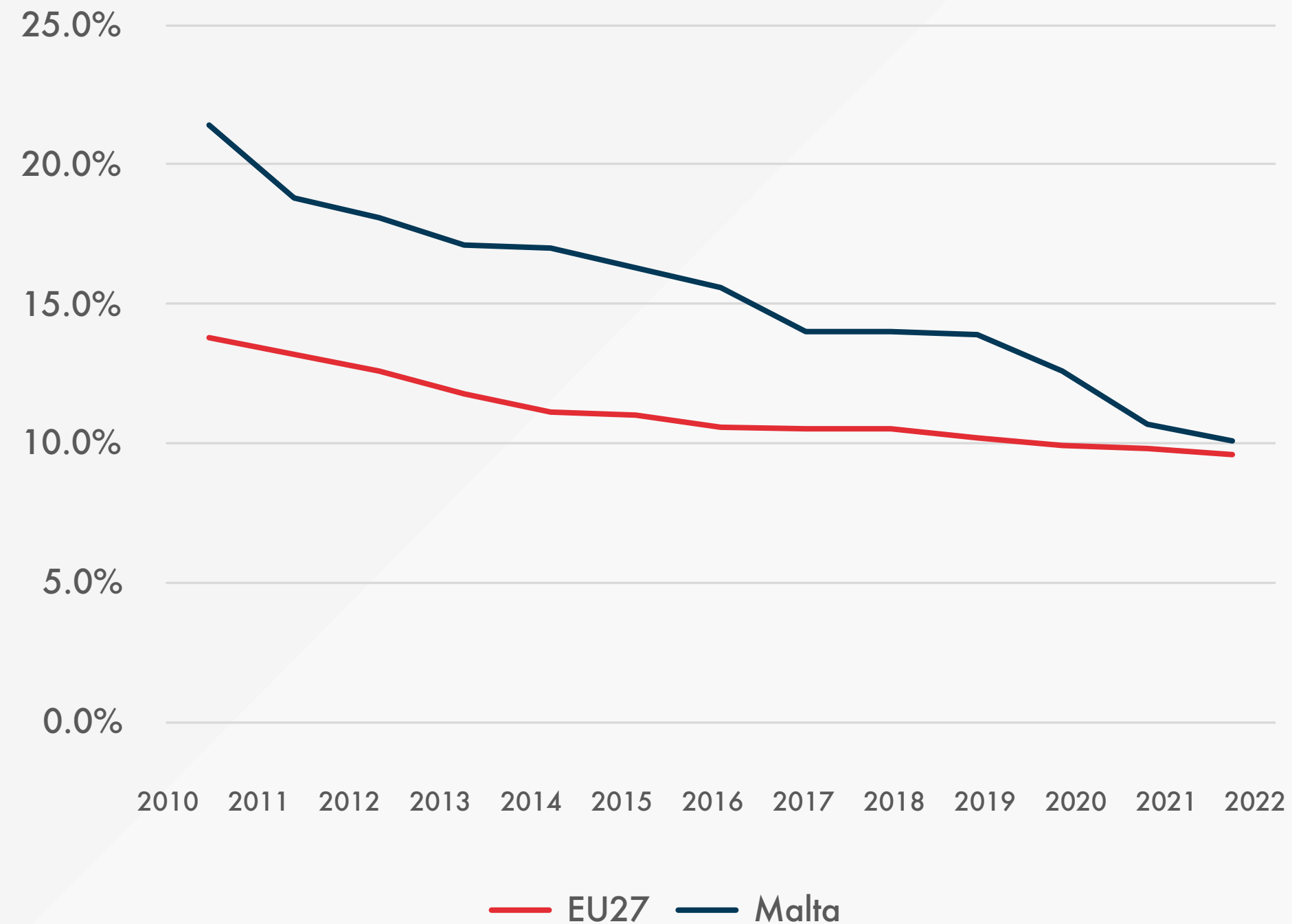
For the EU27 labour productivity increased gradually over the years, reaching its peak at 106.3 in 2022. This indicates that by 2022, labour productivity in the EU27 had increased to a level that was 6.3% higher than the base year 2015.

Similarly, to the EU27, labour productivity in Malta also increased over the years and reached 103.3 in 2022. This indicates that by 2022, labour productivity in Malta had increased to a level that was 3.3% higher than the base year 2015. Thus, by 2022, both the EU27 and Malta had labour productivity levels higher than the base year (2015).

CHAPTER 2

Human Capital and Skills

Early School Leaving Rate

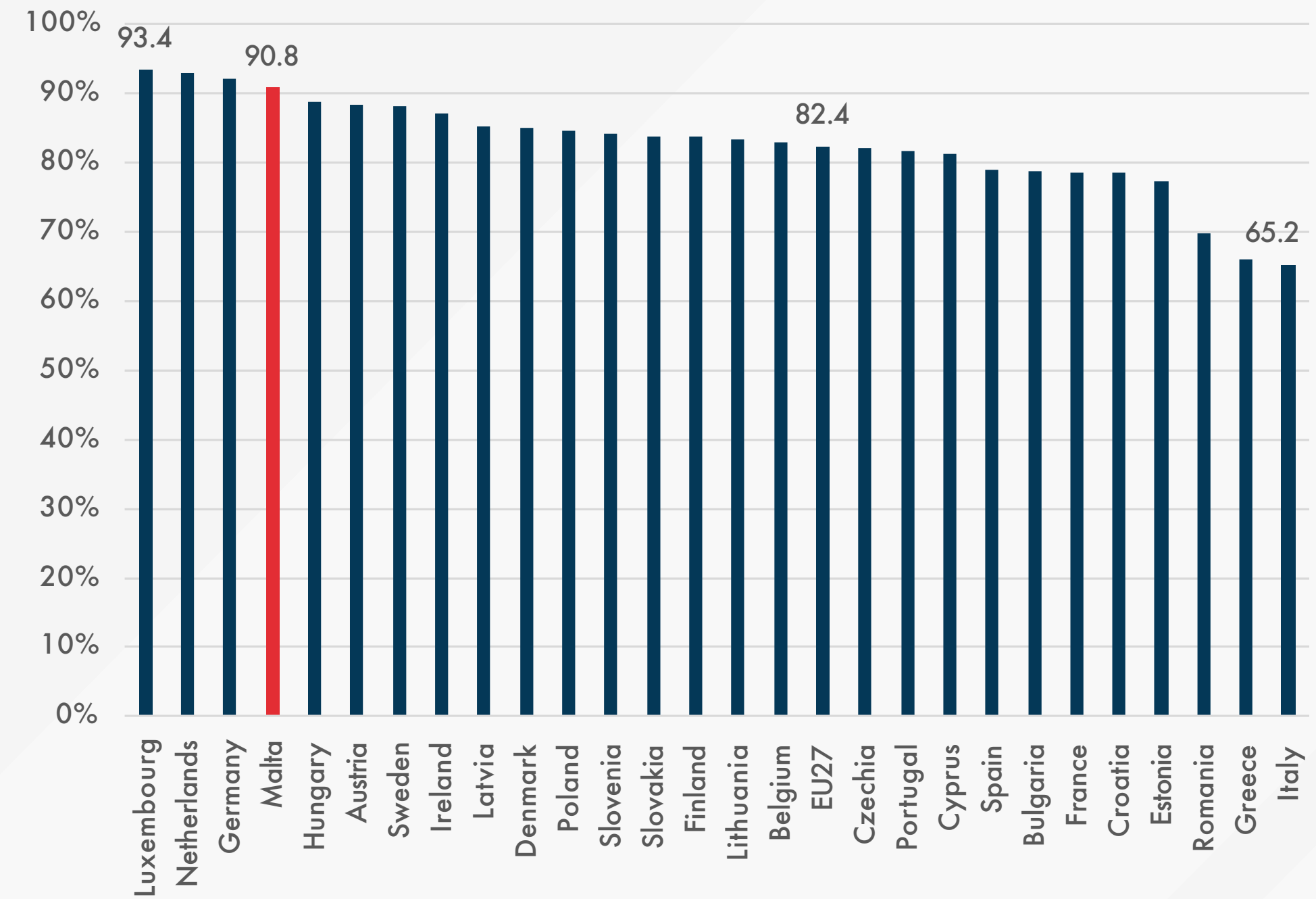


The share of “early school leavers” which are young people aged 18-24 leaving early from education and training has steadily decreased both in the EU27 and Malta. In the EU27, over the last 10 years, it declined from 12.6% in 2012 to 9.6% in 2022, a 3 percentage points decline.

in Malta, the decline in the early school leavers rate is more rapid, in fact it declined from 18.1% in 2012 to 10.1% in 2022, an 8 percentage points decline. Hence, in 2022, Malta’s early school leaving rate converged to the EU average.

EDUCATIONAL ATTAINMENT LEVELS, 2022 (ISECD 2011)

Employment rates by International Standard Classification of Education (ISCED)



Malta boasts one of the most impressive employment rates for recent graduates (90.8%) at levels 3 to 8, surpassing the EU27 average of 82.4% .

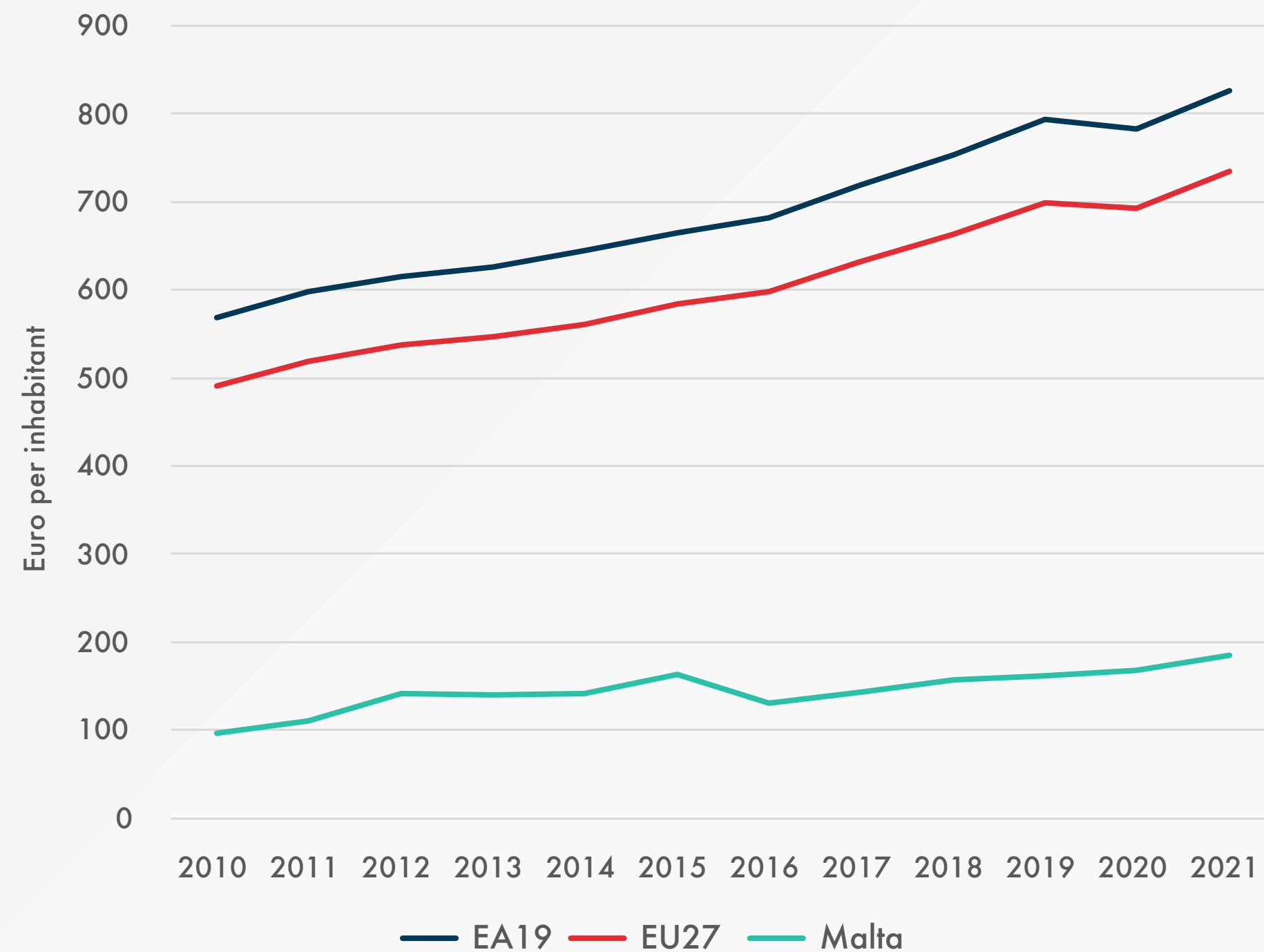
This shows that a significant majority of individuals who have recently completed their education and stepped into the job market have indeed secured employment.

EMPLOYMENT RATES OF RECENT GRADUATES (LEVEL 3-8),2022

CHAPTER 3

Research, Innovation and Digitalisation

Research & Development Expenditure

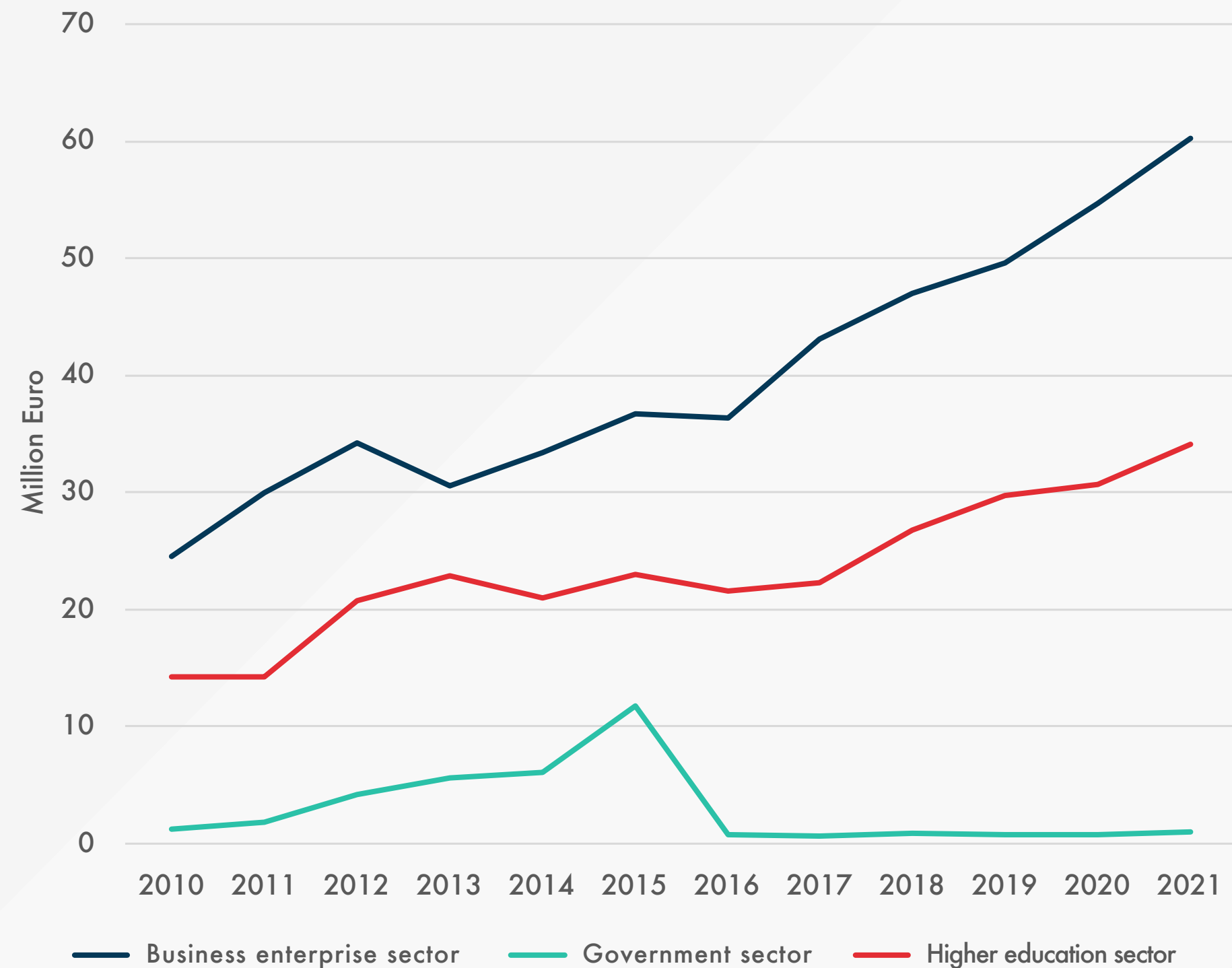


GERD PER INHABITANT, 2010-2021

Malta's Gross Domestic Expenditure on Research and Development (GERD) is analysed overtime. GERD captures total annual spending on R&D within the Maltese economy across all sectors.

The Figure shows the GERD per inhabitant. This figure notably emphasises that Malta's GERD per capita falls significantly below the average figures for both the EU and the Euro Area (EA). Specifically, in the year 2021, Malta's GERD per capita amounted to €184.70. In contrast, the corresponding averages for the EU and EA were €734 and €825.50, respectively.

Research & Development Expenditure



GERD BY SECTOR IN MALTA, 2010-2021

Specifically, assessing the GERD by sector between 2010-2021, it shows that the business enterprise sector has been the main driver of R&D in Malta, which has grown by over 101%, relative to 2011, reflecting the country's significantly increased R&D efforts over this period.

Higher education institutions in Malta have also contributed heavily to this growth in R&D spending, in fact, it registered a 139% increase between 2011 and 2021.

The only sector which is lacking improvement is the Government sector, which shrunk by 45%, however, this percentage may be misleading given that the higher education sector is largely dominated by publicly run institutions like the University of Malta, which is actively engaged in R&D

CHAPTER 4

An Investigation of the Relationship between Wages and Productivity

Introduction

- Key results from a rigorous quantitative analysis into the relationship between wages and salaries and productivity across various key sectors of the *Maltese* economy.
- Provide sector-specific assessment of actual vs. predicted wages.
- Findings form the basis of policy recommendations that are outlined in the report.

Brief description of econometric model

Method

- Econometric model has been designed, building on the work of other international studies within the literature (e.g., Stansbury and Summers, 2017; EPI, 2022).
- The regression model has been estimated using different panel data techniques to ensure robust results.
- In turn, the results have been analysed both at the aggregate and sectoral level.

Model



Sectors

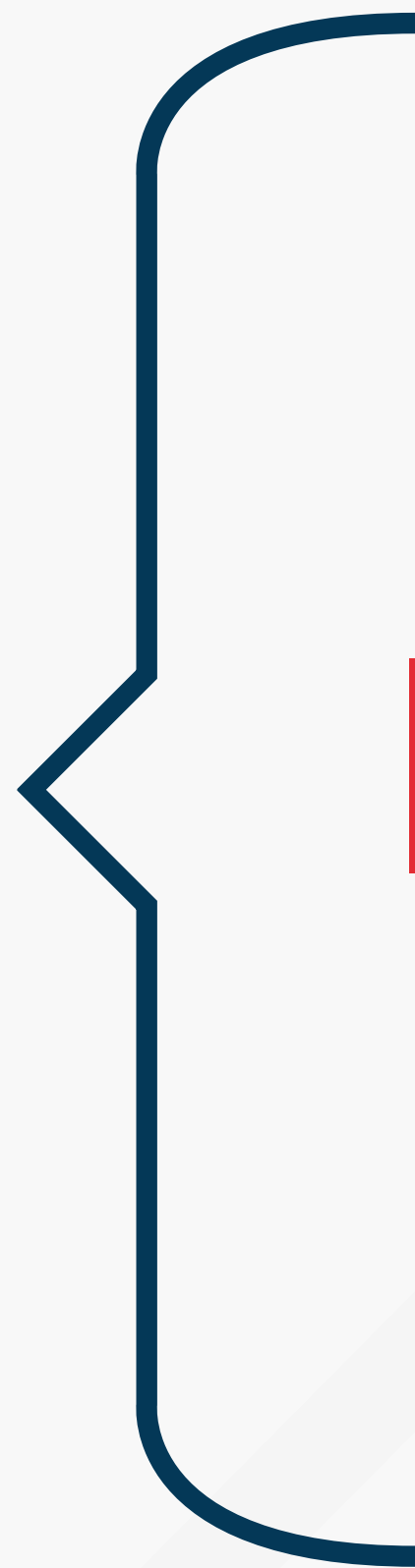


- Manufacturing
- Construction
- Financial and Insurance Activities
- Gaming (NACE R90-R92)
- Information and Communication Technology
- Professional, Scientific and Technical Activities
- Accommodation and Food Services
- Wholesale and Retail

Key Findings

The background features several overlapping, semi-transparent light gray geometric shapes, including triangles and polygons, creating a modern, abstract design. A prominent red line graphic starts from the bottom left, moves diagonally upwards to the right, then turns horizontally to the left, and finally turns vertically downwards at the bottom right corner.

Aggregate Results



Labour Productivity
Tertiary Education
RDI
FDI

Aggregate Results



(1) Actual Wages Below Productivity-Driven Wages

ICT (-33%)

Professional Services (-15%)

Financial and Insurance Activities (-13%)



(1) Actual Wages Equal to Productivity-Driven Wages

Manufacturing



(1) Actual Wages Above Productivity-Driven Wages

Accommodation and Food Services (23%)

Gaming (19%)

Construction (12%)

Wholesale and Retail (11%)

Challenges and Opportunities

The background features several overlapping, semi-transparent light gray geometric shapes, including triangles and polygons, creating a modern, layered effect. A prominent red line starts from the bottom left, extends diagonally upwards to the right, and then turns to extend horizontally towards the right edge of the frame.

Discussion



- Productivity and wages – flexible collective bargaining
- Education and wages – overqualification & need to diversify within high-productivity sectors.
- Foreign workers – focus on attracting higher-skilled workers who can enhance existing skills base.
- FDI, RDI – injection of capital to boost competitiveness & create higher-value jobs.

CHAPTER 5

**Policy
Recommendations**

2023 NPB Recommendations

The background features several light gray, semi-transparent geometric shapes, including triangles and polygons, arranged in a dynamic, overlapping pattern. A prominent red line starts from the bottom left, moves diagonally upwards to the right, then turns horizontally to the left, and finally turns diagonally downwards to the right, creating a jagged path across the lower portion of the slide.

- **Recommendation 1:** Improve Productivity and Wages in Low-Skilled Jobs
- **Recommendation 2:** Promote Widespread Investment in Research and Development (R&D)
- **Recommendation 3:** Learn from Past Successes and Foster Innovation
- **Recommendation 4:** Fine Tune Malta's Economic Growth Model
- **Recommendation 5:** Embrace Social Partner Involvement and Collective Bargaining

- **Recommendation 6:** Prioritise Consolidation and Specialisation in High-Productivity Sectors
- **Recommendation 7:** Strategically Attract and Develop New Economic Sectors
- **Recommendation 8:** Enhance Manufacturing Productivity through Investment and Incentives
- **Recommendation 9:** Promote Best Practices and Knowledge Sharing in Manufacturing
- **Recommendation 10:** Elevate Skills and Working Conditions in Labour-Intensive Sectors



National
Productivity
Board