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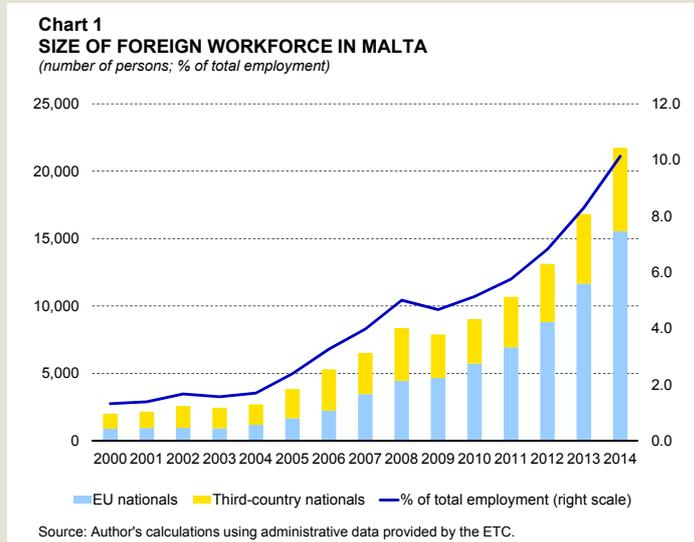
ASSESSING THE ECONOMIC IMPACT OF FOREIGN WORKERS IN MALTA

BOX 3: ASSESSING THE ECONOMIC IMPACT OF FOREIGN WORKERS IN MALTA¹

Between the late 1940s and the beginning of the 1980s a substantial part of the Maltese population emigrated. In fact, a United Nations study prepared around the time of independence² had recommended mass emigration as “the only feasible solution in the long run” for the economic development of Malta.³ The subsequent rapid expansion of the Maltese economy⁴ led to a growing demand for labour which dampened the incentives for Maltese to emigrate and led many former emigrants to return. Thus the Maltese islands became recipients of net inward migration. The amount of non-Maltese inward migration remained quite low and a significant number of these were people who came to retire in Malta, with limited economic activity on the islands.

The size and characteristics of the foreign workforce in Malta

Migration of persons of working age to Malta started to become noticeable only in the 2000s. ETC administrative data indicate that in 2000 there were close to 900 EU citizens working full-time and/or part-time in Malta (see Chart 1). This was significantly smaller than the amount of third-country nationals working in Malta at that time. By the time of Malta’s accession to the EU, the number of third-country nationals had risen by 35.8% and still outnumbered the number of workers from the EU. Just three years after, this had changed, with workers from EU countries beginning to outnumber those from third-countries. The number of foreign workers declined slightly in 2009 as a result of the economic downturn, just like it had done in the two years before EU accession when the Maltese economy was restructuring. After this short interlude, the size of the foreign workforce showed an ever-increasing annual rate of growth, principally fuelled by EU citizens, whose number more than trebled to over 15,500 by 2014. Even though the number of third-country nationals doubled over this period, by 2014 they amounted to 6,190 or just



¹ Prepared by Dr Aaron G. Grech. Dr Grech is the Chief Officer of the Economics and Statistics Division. He would like to thank Mr Clyde Caruana (ETC) and Mr Marvin Gaerty (Commissioner for Revenue) who provided data essential for this research. The views expressed are those of the author and do not necessarily reflect those of the Central Bank of Malta.

² Stolper, W.F., Helberg, R.E.R. & Callander, S.O. (1964), Economic adaptation and development in Malta, *Report prepared for the Government of Malta under the United Nations Programme of Technical Assistance of the Department of Economic and Social Affairs*.

³ A number of economic studies of Maltese emigration can be found in Delia, E.P. (2006), *Papers on Malta's Political Economy*, Midsea Books.

⁴ See Grech, A. G. (2015), *The evolution of the Maltese economy since independence*, Central Bank of Malta.

28% of the foreign workforce in Malta. Just before EU accession their share had peaked at 63%.

Chart 1 shows that the share of foreign full-time workforce has expanded significantly since EU accession. Until then, the increase in the foreign workforce was relatively moderate, from 1.3% in 2000 to 1.7% in 2004. By 2008, this share had more than doubled to 5%. This share then remained unchanged till 2010, as the economic downturn seems to have been more sharply felt by foreign employees. Whereas the employment of Maltese citizens continued relatively unabated during 2009, the employment of foreigners fell by 7%, mostly among third-country nationals. The economic recovery led to renewed demand for foreign workers, to the extent that by 2014 their share had doubled again to over 10% of the total workforce. Labour Force Survey data indicate that across the EU, the share of foreign workers ranges from less than 1% in Poland and Hungary to over 50% in Luxembourg. The estimate provided here⁵ puts Malta above the EA average (8%), and slightly below Italy (10.3%) and Spain (10.6%). The importance of the foreign workforce in Cyprus in relative terms (over 19%) is about double that in Malta, mostly on account of a higher incidence of third-country nationals working there. Even in Italy and Spain the bulk of migrant workers are from non-EU countries. This is not the case in Malta, where most migration was from the EU.

Immigration has helped accommodate the rising demand for labour in Malta. In the absence of immigration, in the last eight years Malta's working age population would have declined by 1%, instead of rising by 3%. ETC data suggest that between 2010 and 2014 the number of full-time and part-time jobs rose by over 25,500, which was nearly equally divided between Maltese and foreign workers. The growth in the foreign workforce occurred despite the fact that the rise observed in the number of employed Maltese during 2010 to 2014 was nearly double that seen between 2004 and 2008. Rising female participation has more than offset the effects of a smaller working age population of Maltese citizens, with Maltese women taking up nearly two-fifths of the increase in jobs seen between 2010 and 2014. Foreign women took up another fifth, whilst Maltese men accounted for a tenth of the rise as against the 30% share of foreign men.

As can be seen in Chart 2, the foreign workforce is quite heterogeneous in terms of its occupational composition. The probability that an EU worker is a manager or a clerical support worker is more than twice the same probability for a Maltese. At the same time, the odds that a third-country national is employed in an elementary occupation are four and a half times that for the average Maltese. This is in line with the perception that foreign workers are employed at either end of the labour market – the higher end where skills are scarce and the lower end where jobs are no longer that attractive for Maltese workers. While some occupations, such as service and sales workers and plant and machine operators, are clearly dominated by native workers, there are others where the relative importance is similar. The composition of the foreign workforce has changed significantly. Whereas nearly 50%

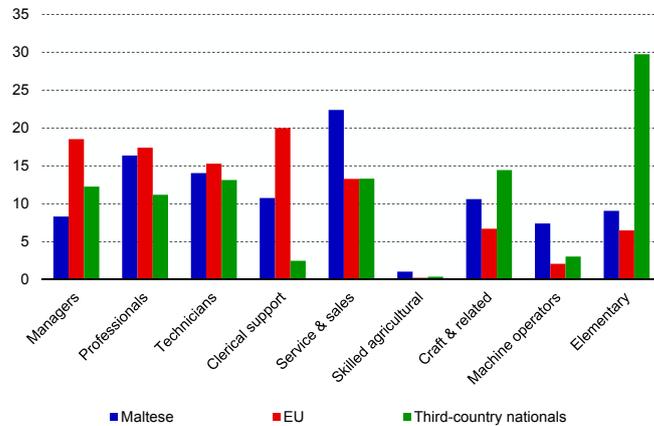
⁵ An ad hoc module of the Labour Force Survey published by the NSO in 2015 suggests a slightly smaller share of economically active migrants (at 8.7% in 2014). However the module defines migrants as persons who did not reside in Malta for at least one year, thus differing from the administrative data used here which are based on citizenship. It also excludes those living in collective or institutional households.

of the rise in EU nationals working in Malta involved managers, professionals and technical staff, less than 30% of the rise in third-country nationals was in these categories.⁶ Thus while in 2000, nearly three quarters of foreign workers were managers, professional and technical staff; by 2014 this had fallen to less than a half. Conversely, the proportion of the foreign workforce engaged in elementary occupa-

tions and in clerical & support duties rose from 7.5% in 2000 to 28.3% in 2014. These two trends, a declining share of higher-end and a rising proportion of lower-end occupations differ from those observed amongst Maltese workers. Here the proportion of managers, professional and technical staff has risen from 32.5% in 2000 to 38.7% in 2014, while those engaged in elementary occupations and in clerical & support duties have fallen from 24.6% to 19.8%. As a result, whereas in 2004, only 3.5% of managers, professional and technical staff employed in Malta were foreign, by 2014 this had risen to 12.1%. More impressively, dependence on foreign workers in elementary occupations and in clerical & support duties has risen from 0.5% to 14.1%.

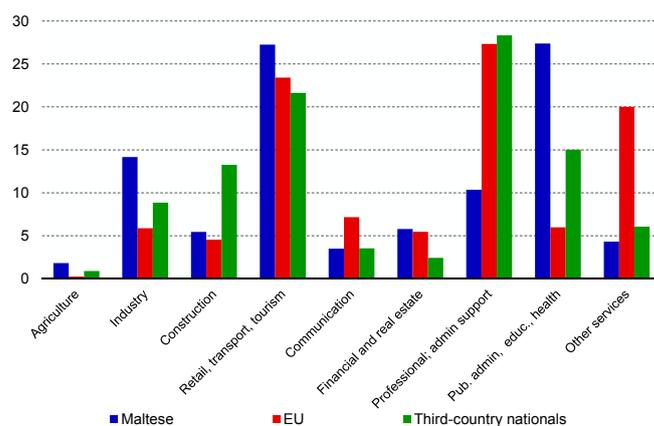
Industry and the public sector are dominated by the Maltese, whereas foreign workers are more likely to be employed in other services (mainly remote gaming), professional services & administrative support and in tourism (see Chart 3). Taken together, three sectors, namely other services, tourism, and professional services & administrative support accounted for nearly half of all foreign employees

Chart 2
OCCUPATIONAL STATUS BY NATIONALITY IN 2014
(% of total employment by nationality)



Source: Author's calculations using administrative data provided by the ETC.

Chart 3
EMPLOYMENT BY SECTOR AND BY NATIONALITY IN 2014
(% of total employment by nationality)



Source: Author's calculations using administrative data provided by the ETC.

⁶ Note that during this period, the number of Maltese engaged in these occupations rose by 34.8%, and these high end jobs accounted for 85.6% of total employment growth.

in 2014. Dependence on migrant workers amounts to nearly 29% of the entire workforce in other services, 23% in professional services & administrative support, 21% in tourism, 18% in real estate, 16% in information & communication and 13% in construction. It is important to emphasise that the fact that a sector is heavily dependent on foreign workers should not be misconstrued as evidence that these have elbowed out Maltese employees. For instance, the rise in migrant workers amounted to half of the increase in the full-time workforce in entertainment & recreation during the decade to 2014. In professional services & administrative support, the growth of the Maltese workforce constituted nearly two-thirds of the total increase. In contrast, in sectors like tourism, construction and industry there is evidence that the growth in employment since the downturn of 2009 was mainly taken up by migrant workers.

About 37% of the rise in third-country nationals working in Malta observed between 2009 and 2014 was in the administrative support sector. The second-largest contributor was the health and social care sector, at 13% of the total rise, while another 11% was generated by retail trade. As regards EU nationals, the growth in employment was less concentrated, with the three top sectors amounting to just 44% of the entire growth (as against 61% for third-country nationals). Administrative support services accounted for 18% of the post-recession increase, while the other services sector constituted 15%. The professional services and the tourism sector each made up 11% of the rise in the EU workforce since 2009.

The impact of the foreign workforce on potential output, wages and public finances

Standard theory posits that immigrants increase the supply of labour and lower wage growth, and since in the short run the capital stock cannot adjust, there is a fall in labour productivity. Recent Maltese data seem to display these developments. The capital-output ratio has fallen from 1.9 in 2010 to 1.8 in 2014, whereas in the previous four years it had remained stable. Real labour productivity declined by 2.9% between 2010 and 2014, as against a 1.7% rise in the previous four years. Average wage growth slowed down to 8.8% between 2010 and 2014, as against 16.2% in the previous four years. However one has to note that during those previous four years, there was also a substantial rise in foreign workers in Malta, in relative terms as important as in the last four years. This suggests that one must interpret these trends with caution.

Moreover there are a number of ways in which foreign workers could raise productivity. These workers could enhance the human capital stock by bringing with them new skills and knowledge which could be shared with the local workforce. They also may increase the incentive for local workers to acquire new skills, in order to compete with them. The availability of skilled foreign workers enables the development of new industries, which otherwise would be bottlenecked by skills shortages. The development of these new sectors, in turn, creates incentives for native workers to acquire the required skills and leads to a more diversified and skilled economy.

For the purposes of this article, we will however assume that migrants have the same labour productivity as Maltese workers. On this basis we compute what gross value added in each sector would have been in the absence of any foreign workers from 2000 onwards

and then compute the resulting nominal and real GDP growth. Note that in the absence of sectoral deflators, we have had to assume that deflators would not have changed as a result of the reduced relative size of certain sectors. Using these estimates of GDP growth we studied the impact of the rise in economic migration on potential output, using a constant-returns-to-scale Cobb-Douglas production function.⁷ The contribution of total factor productivity and capital were assumed to be unaffected by the absence of foreign workers, implying increased per capita investment and productivity.

The contribution to potential growth of foreign workers under these assumptions (see Table 1) is increasing over time, from 0.2 percentage points in the pre-accession period to 0.5 percentage points in the post-accession period till the economic downturn. In the following five years (2010 to 2014), despite the doubling of the relative share of foreign workers in total employment, their relative contribution to potential growth is estimated to have risen to just over 0.6 percentage points. This is slightly below the contribution of 0.8 percentage points which a recent study⁸ has attributed to the rise in female participation during the same period. These two factors, increased female participation and the rise in the foreign workforce, between them explain nearly the whole of the contribution to potential growth attributed to the labour input during this period.

Besides the supply side impact of foreign workers, another important consideration is their effect on wages and the demand for labour. While the rise in the share of foreign workers between 2010 and 2014 coincided with a drop in wage growth, the latter is similar to that experienced between 2002 and 2006, when the rise in foreign workers was much more muted. Administrative data on emoluments declared for tax purposes suggest that growth in per capita emoluments of foreign workers declined significantly over the period 2000 to 2014. In the period prior to EU accession, on average there was a 5.7% rise in per capita emoluments of foreign workers, as against 3.6% for Maltese employees. In the following five years, the annual average growth observed amongst Maltese workers exceeded that

Table 1
IMPACT ON POTENTIAL OUTPUT GROWTH, WAGES GROWTH AND
DIRECT TAX REVENUE

	2001-04	2005-09	2010-14
Potential output annual average growth			
Contribution of foreign workers	0.2 p.p.	0.5 p.p.	0.6 p.p.
Per capita emoluments annual average growth			
Maltese employees	3.6%	4.1%	3.3%
Foreign employees	5.7%	3.6%	2.1%
Direct tax revenue			
Rise in share of direct taxes paid by foreign workers	0.1 p.p.	4.1 p.p.	3.4 p.p.

Source: Author's estimates using ETC and Inland Revenue Department data.

⁷ For more details, see Grech, A. G., & Micallef, B. (2014), Assessing the supply side of the Maltese economy using a production function approach, Central Bank of Malta *Quarterly Review* 2013:4.

⁸ See Micallef, B. (2015), Estimating the impact on potential output of structural reforms to increase the female participation rate, *Central Bank of Malta Policy Note*.

of foreign employees. While the annual average growth in per capita emoluments declined in the period 2010-2014 for Maltese employees, the decline was much more pronounced amongst foreign workers. These trends need to be interpreted with caution. In the preceding section, we noted how despite the fact that the majority of foreigners are engaged in managerial, professional and technical occupations, since 2004 there has been a steady increase in the number engaged in elementary jobs. This implies that a significant component in the slowdown in the growth of per capita emoluments could reflect this growing share of lower-paid occupations. Similarly the slowdown in per capita emoluments of Maltese workers could reflect the increasing proportion of part-time employment, particularly amongst women.

Sectoral developments in wages are also difficult to interpret. In certain sectors, such as financial services, information & communication, real estate and professional & administrative support services a large net inflow of foreigners between 2010 and 2014 has coincided with a significant rise in wage growth. Conversely, there is evidence that in some sectors which faced less buoyant conditions and where most growth in employment was amongst foreigners (in construction and tourism), wage developments were quite muted.

A much more tractable question is the extent of the contribution of foreign workers to public finances. Inland Revenue administrative data indicate that whereas in 2000, revenue from foreign workers accounted for just 2.4% of personal income tax and national insurance contributions, by 2014 this share had risen to 10.1%. The amount of direct tax revenue collected from foreign workers increased by nine times during the period 2000 to 2014, whereas that from Maltese workers doubled. Information given in parliament on the use of the public hospitals by foreigners shows that this has risen from approximately 1,500 patients in 2008 to less than 2,300 in 2012, less than the growth in the foreign workforce during the time. Similarly data on student enrolments shows that during the same period the number of foreign students (excluding those in tertiary education) rose from around 1,650 to less than 2,000, again significantly below the growth in direct tax revenue paid by foreign workers. Migrants also do not appear to be weighing down on the social benefit budget (with just 130 on unemployment benefits, for instance). This suggests that in addition to their significant contribution towards economic growth, foreign workers have also contributed significantly to improve the state of public finances in Malta.