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THE LENGTH OF STAY OF FOREIGN WORKERS IN MALTA

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BOX 3: THE LENGTH OF STAY OF FOREIGN WORKERS IN MALTA[1]

Introduction

Over the last few years Malta has experienced an extraordinary inflow of foreign workers. Studies have shown that the related population increase had a positive and significant macroeconomic impact.[2]

However, the economic implications go beyond the direct effect related to the increase in the working age population. In particular, it is also important to understand the length of stay of foreign workers in Malta, as this has implications in terms of the economic integration and assimilation of migrants (the convergence of their wage levels to those of the native population). The length of stay of foreign migrants also has implications for the housing market, the composition of the labour market, wages, productivity levels and consumption patterns.

Eurostat data show that in 2015 Malta had the second highest immigration rate, of 29%, among 29 European countries. Simultaneously, at 13.5%, Malta's re-migration rate, that is the outmigration of foreign nationals, was the third highest among these countries. This indicates that Malta experiences a dual phenomenon of substantial inflows and outflows of migrants.

Length of stay of foreigners in the Maltese labour market

In this analysis, the length of stay of foreigners in the Maltese labour market is based on an individual's first engagement and the last termination of his/her employment. This information is sourced from an anonymised longitudinal administrative dataset compiled by Jobsplus, the national employment agency. The data set covers the period 2002-2017. The first engagement and last termination dates in the dataset are in annual frequency, which precludes the exact identification of their duration in Malta. Consequently, estimates of the length of stay are computed in ranges. For example: an individual who was first employed in 2005, and had his last termination in 2008, is said to have a length of stay of between three and four years. It is assumed that after the last termination the individual has left the labour force permanently. After calculating the length of stay for each individual in the data set, the author computes the exit rate.

The exit rate expresses the number of those that exit the labour market as a percentage of the number of entrants in a particular year. For example, if 1,000 foreigners were engaged in 2004 out of which 500 exited the Maltese labour market in 2004, it would imply an exit rate of 50% in that year. If a further 250 persons left in 2005, it would imply that by 2005 the exit rate for the 2004 cohort had reached 75%, meaning that three quarters of the foreigners who joined the Maltese labour market in 2004 exited it between one and two years after they were first engaged.

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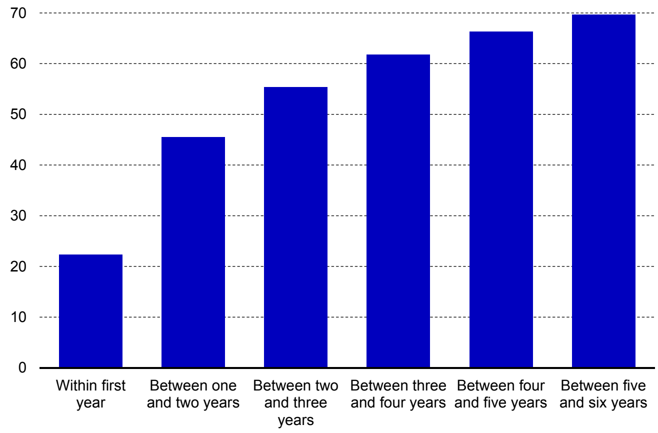
1 Prepared by Ian Borg. Mr Borg is the principal economist coordinating macroeconomic projections at the Economic Analysis Department of the Central Bank of Malta. Any errors, as well as the views expressed here, are the authors' sole responsibility.

2 Grech, Aaron G. (2015), "Understanding the Macroeconomic Impact of Migration in Malta." Central Bank of Malta, *Policy Papers*, No. 04/2015. Grech, Aaron G. and Ian Borg (2018), "Revisions in population projections and their implications for the growth of the Maltese Economy." *Annual Report* 2017, pp. 46-51.

Chart 1 shows the average exit rate over the full time horizon considered. On average 25% of those that were engaged exited the labour market within the same year, whereas 45% of foreign workers exited after a period of between one and two years. Only 30% of non-Maltese workers remain in the Maltese labour market for more than six years after their first engagement.

Chart 1
AVERAGE EXIT RATES
(exits as a percentage of new entrants)



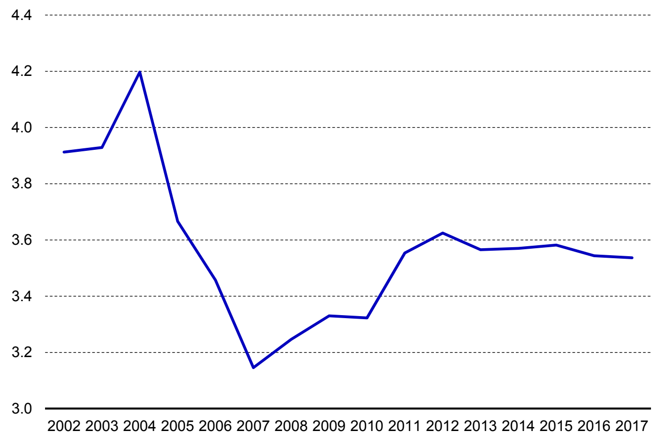
Sources: Jobsplus; author's calculations.

Malta's out-migration rate is more pronounced than that observed in other advanced economies. According to the Organisation for Economic Co-operation and Development (OECD), between 20% and 50% of immigrants either return to their home country or move to third countries five years after their arrival.[3] By contrast, around 50% of foreign workers in Malta exit the Maltese labour market within two years of their arrival.

One would expect that the length of stay of foreign workers in Malta would respond to changes in economic conditions. For example, during a period of economic recession, foreign workers might be more inclined to return to their home country. The Maltese economy has indeed experienced significant cyclical and structural changes during the period under consideration, as outlined by Micallef (2016) and Micallef and Ellul (2017).[4]

Chart 2 depicts the weighted average length

Chart 2
WEIGHTED AVERAGE LENGTH OF STAY
(exits as a percentage of new entrants)



Sources: Jobsplus; author's calculations.

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[3] OECD (2008), "Return Migration: A New Perspective." In International Migration Outlook 2008, OECD Publishing, Paris.

[4] Micallef, Brian and Reuben Ellul (2017),"Medium-term estimates of potential output growth in Malta." In Challenges and opportunities of sustainable economic growth: the case of Malta (Aaron G. Grech and Sandra Zerafa, eds.), pp. 15-28, Central Bank of Malta.

of stay in years.[5] This was historically high in the early 2000s, reaching 4.2 years in 2004. During this period the number of new entrants was relatively low at around 1,200 per annum on average. Since 2005, the number of new entrants started to rise while at the same time the weighted length of stay declined to around 3.2 years in the period 2007-2010. After this period, the number of new entrants accelerated sharply. In the meantime, the weighted length of stay stabilised at around 3.5 years, which is close to the historical average length of stay, estimated for the period 2002-2017.

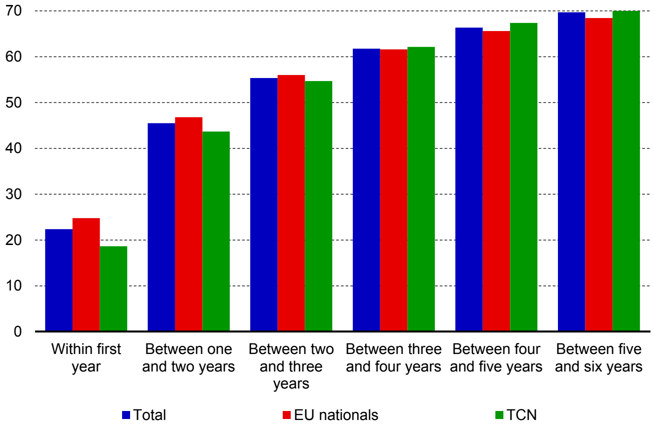
Thus, the weighted average length of stay in Malta has been subject to some fluctuations over time. However, it has remained somewhat stable since 2011. Nevertheless, its economic impact has increased from a long-term perspective. Looking at the number of leavers within the same year of engagement, the average number of leavers between 2002 and 2012 stood at around 840 per annum, around 0.5% of the labour supply. For the period 2013 to 2017, the absolute number of leavers was around 2,850 per annum, or 1.5% of the labour supply. As at 2017, the number of persons that left within the first year of employment was close to 4,000, or around 1.8% of the labour supply.

Characteristics that determine the length of stay

The dataset contains a number of individual characteristics, which allows a deeper assessment of the determinants of the length of stay of foreign workers in Malta. The characteristics available are the following: 1) nationality; 2) age; 3) employment status (occupation); 4) size of employer; and 5) economic sector.

Partly due to Malta's access to the European single market, around 70% of foreign workers in Malta originate from countries in the European Union, while 30% are third country nationals (TCNs). Furthermore, EU nationals find it easier to re-migrate, either to their respective home country or elsewhere. Chart 3 shows that while the two groups' exit rates tend to converge at longer durations, in general EU nationals tend to stay for shorter periods in the Maltese labour market. This is in line with expectations, given that the cost of migration and re-migration is relatively low for EU nationals, both

Chart 3
NATIONALITY DIFFERENCES
(exits as a percentage of new entrants)



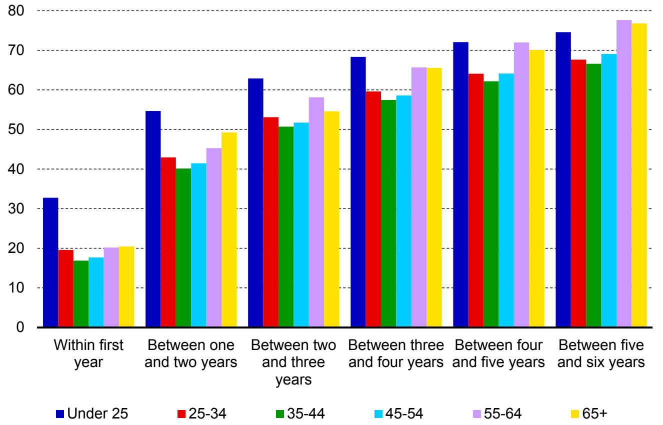
Sources: Jobsplus; author's calculations.

[5] The weighted length of stay converts the ratio of those that stayed in the Maltese labour market to the number of entrants per annum, to years. Since the full length of stay of individuals that have not yet left in the later periods is not observed, their "potential" length of stay is projected using that of the previous year. For example: for those entering the labour force in 2002 one can observe the percentage of those that left after 16 years, but for those engaged in 2003 only the percentage of those that left after 15 years is observed. We project the potential length of stay of the 16th year for 2003 entrants based on that of persons engaged in 2002. This is done for each successive year.

due to relatively shorter distances involved, but more importantly due to free movement within the European Union.

Age differences play a role in determining the length of stay of foreign workers in Malta. Chart 4 shows that the percentage of those under 25 that exit within the first year is around 12 percentage points higher than that for the other cohorts. In addition, the percentage of those under 25 that exit between one and two years after they were first engaged is around 6 percentage points higher. The gap closes down for employment durations exceeding five years. While the exit rate for those aged between 25 and 34 is only marginally higher than that for those aged between 35-44 and 45-54, it is lower than that of older workers, although the latter's high exit rate may be biased due to the small number of observations. Therefore, in general, we find a U-shaped relationship between age and exit rates whereby the youngest cohort and those close to retirement tend to have higher exit rates than those in intermediate age groups.[6]

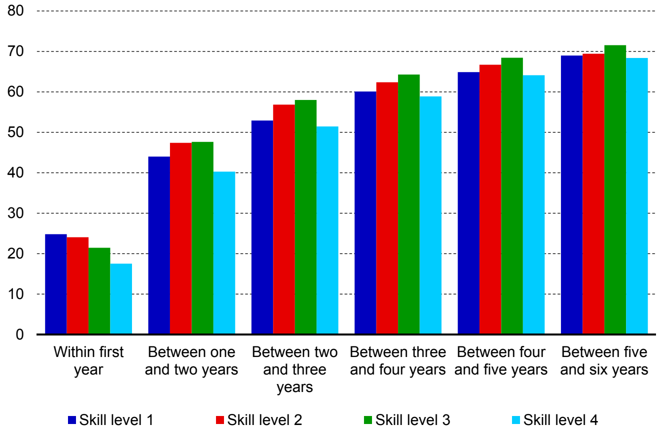
Chart 4
AGE DIFFERENCES
(exits as a percentage of new entrants)



Sources: Jobsplus; author's calculations.

Another important aspect is the possible selection of migrant workers on the basis of their skill level. In Malta, skill seems to be positively correlated with length of stay. Chart 5 shows that those categorised as skill 1 (lowest skilled workers) have the highest exit rate or the shortest duration of stay, while skill 4 have the lowest exit rate. However, those in skill 2 and skill 3 (which can be considered as medium-skilled) have higher exit rates when compared with both skill 1 and skill 4 persons. Thus, while in general the

Chart 5
SKILLS DIFFERENCES
(exits as a percentage of new entrants)



Sources: Jobsplus; author's calculations.

[6] For example, Goss and Paul (1986) argue that while age increases the psychological costs related to the migration decision, older workers tend to have more experience which in turn increases their geographic mobility.

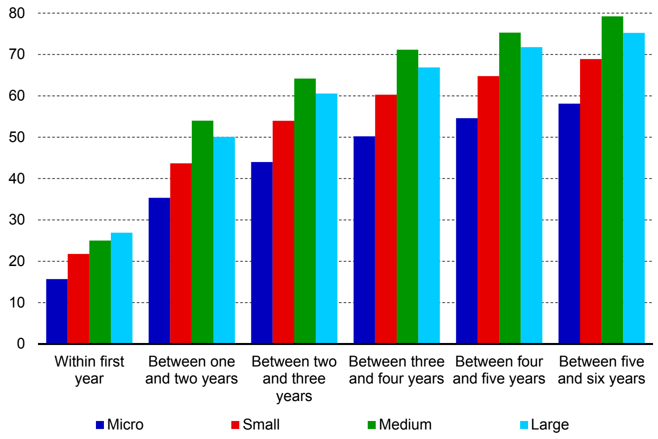
highest skilled foreign workers tend to have a longer length of stay than least skilled ones, the results are mixed when medium-skilled employees are included in the analysis.

The type of occupation foreign workers are engaged in is also related to the length of stay. Foreign workers employed in services and sales have the highest exit rates at the shortest duration, which probably reflects the fact that some are engaged in the accommodation sector, which is highly seasonal. At longer horizons, exit rates across different occupations tend to converge, although managers maintain the lowest exit rates, while those employed as plant and machine operators have the highest exit rates.

Maltese firms are predominantly small and medium-sized enterprises (SMEs).[7] Chart 6 shows that micro firms, i.e. firms employing less than ten workers, have the lowest exit rates across the different durations. Moreover, small enterprises, i.e. firms employing between 10-49 workers, have the second lowest exit rates across all durations. On the other hand, while medium-sized enterprises have a slightly lower exit rate when compared with large enterprises for duration of less than one year, they have a higher exit rate for longer lengths of stay.

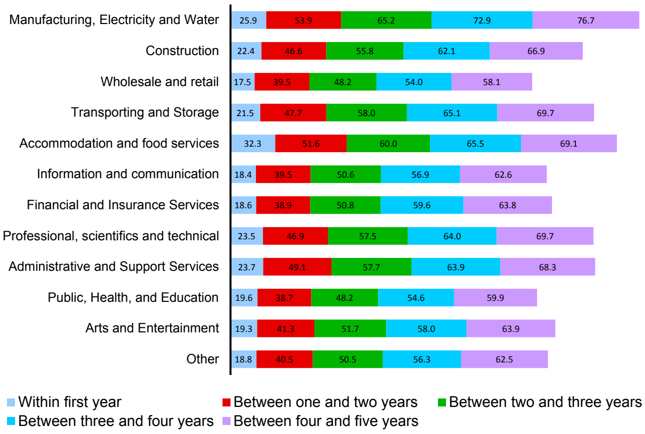
Chart 7 clearly shows that there are also sectoral heterogeneities, where for the shortest duration, foreign workers in the wholesale and retail sector have the lowest exit rate at 17.5%, while at 32.3% the accommodation sector has the highest exit rate. For longer durations, the sectoral

Chart 6
DIFFERENCES BY SIZE OF EMPLOYER
(exits as a percentage of new entrants)



Sources: Jobsplus; author's calculations.

Chart 7
SECTORAL DIFFERENCES
(exits as a percentage of new entrants)



Sources: Jobsplus; author's calculations.

[7] Grech, Aaron G. (2018), SMEs' contribution to the Maltese economy and future prospects." Central Bank of Malta, *Policy Papers*, No. 10/2018.

pattern of the length of stay changes slightly. At horizons of between four and five years, the exit rate varies between 76.7% in the sector comprising manufacturing and utilities, and 58.1% in the wholesale and retail sector.

Sectoral heterogeneities can be explained either by certain fundamental factors, such as wages or other more idiosyncratic sectoral factors. Examples of the latter would include the seasonality in the accommodation sector and the project-based work in the construction sector, which might lead to shorter durations.

Economic and policy implications of the estimated length of stay

The relatively short length of stay of foreign workers in Malta may limit the scope for them to experience economic assimilation, understood as the convergence of their wage levels to the native population. Indeed, some studies find that although immigrants in the United States initially earn less than the native population, their earnings rise significantly as they obtain experience in the US labour market.[8] It is likely that since foreign workers tend to be relatively young and stay for a short period of time, the rate of economic assimilation in Malta is rather low.

The process of constantly selecting and hiring workers, as a result of the high level of labour turnover, puts significant pressure on the human resource departments of firms. Furthermore, firms are unable to hire foreign workers who have already obtained experience in the Maltese job market, and are instead constrained to consistently hire workers who are not already resident in Malta. Since foreign workers tend to exit the labour market very rapidly, it poses limitations on learning-by-doing in Malta which in turn could act as a drag on future labour productivity growth.

From a macroeconomic perspective, the increasing reliance on a segment of the labour force that tends to exit rather quickly can impact the cyclicality of the supply side of the economy. In particular, as the working age population becomes more reliant on migrant flows, any cyclicality in migration would affect potential output. For example: a negative shock to foreign demand might put the economy into recession, thereby decreasing the demand for labour. To the extent that foreign workers decide to exit the Maltese labour market in search for opportunities elsewhere, this would reduce the labour supply, the working age population and employment simultaneously. On the one hand, the economic cost in terms of unemployment and social benefits would be limited during the downturn. On the other hand, the adjustment during the recovery phase may be prolonged as this would require inward migration in the context of a declining indigenous working age population, which could have adverse longer term effects on potential output.

There are also broader implications for the Maltese economy such as the quantity and nature of housing that is demanded. If a larger proportion of the workforce is transient, the demand for smaller properties available for rent is likely to increase. Given that most properties in Malta were not built for such kind of demand, this could create housing shortages and raise rents. If most workers are not intending to build a career in the country,

[8] See for example Borjas, George J. (1987), "Self-Selection and the Earnings of Immigrants." *American Economic Review*, 77, pp. 531-553.

this has implications on their relative consumption of goods and services, their demand for saving products and also for the ability of firms to motivate them. In an environment where staff tends to leave after a year or two, the incentives for employers to train and provide a career to non-natives employees inevitably declines. To overcome this challenge, policymakers might need to look at ways of how to encourage migrants to lengthen their stay and entice employers to invest in training. One could also assess whether retention policies, particularly for highly-skilled workers, could cater for certain incentives such as retirement income schemes, private health insurance or assistance with transport and accommodation.

The presence of large flows of foreign workers also has implications for certain sectors where traditionally demand evolved rather slowly, notably public transport, education and the rental market. Enhancing these sectors, both in terms of supply and in terms of their responsiveness to demand, could play a role in lengthening the stay of foreign workers in Malta.

A relatively short length of stay by migrants, however, could also have its advantages. Despite the costs related to hiring and training, new employees are likely to bring forth new ideas, which can have positive effects on innovation and productivity. Moreover, a relatively short length of stay could also have a positive impact on public finances, in that it limits pressure on health and pension costs.

Further research is warranted on this topic, in particular as regards the factors driving foreign workers to relocate to Malta, their aspirations and the reasons for exiting the Maltese labour market. This would better equip policymakers in identifying the appropriate measures to prolong the length of stay should this be deemed to be desirable.