

11 JULY 2024

Economic growth and the public's evolving priorities



ALEXANDER DEMARCO

This time last year I had written about the public debate on Malta's economic growth model

I had then argued that the debate had stemmed from constraints that had already become binding. Since then, it has become increasingly clear that policy measures are needed urgently to start addressing these binding constraints as changing the structure of an economy is not a process that can happen overnight.

The already high and rapidly growing population density is the main source of such constraints. This creates congestion, not only on roads, but also on healthcare facilities; the infrastructure for basic services such as water, electricity and sewage, as well as public spaces for recreation. Additionally, accommodating a growing population brings with it high levels of construction activity, which creates inconveniences, especially when coupled with weak enforcement, that impact the quality of life in terms of noise and dust, and after completion with additional congestion, noise and environmental degradation that raise citizen's already elevated stress levels.

Between 2003 and 2023, Malta recorded strong economic growth, especially after 2012, with growth being par-

ticularly job rich. During this 20-year period some 153,000 jobs were created, with around 85% of these generated after 2012. During this 20-year period, growth in employment income per head rose by almost 85%, far outpacing retail price inflation of almost 54%. This indicates that today those in employment are far better off financially than they were 20 years ago. Indeed, Malta's GDP per capita at PPS increased from 84.5% of the EU average in 2003 to 105% by 2023, with almost 90% of this increase occurring after 2012.

Given the demographics of the Maltese indigenous population, such increase in demand for labour inevitably led to inward migration of workers. But apart from the increase in employment, an important contributor to rising population density has been tourism. Between 2003 and 2023 the number of tourists visiting Malta increased from 1.1 million to practically 3 million, with 83% of this increase occurring after 2012.

The rise in tourism has also been a major contributor to growth in employment in the past 20 years, where NACE Sectors G to I, which includes Wholesale and Retail trade, as well as Transportation and Storage, apart from the Accommodation and Food Service activities, accounted for 30% of the increase in employment after excluding NACE O to Q dominated by the public sector. However, the average compensation per employed for this sector is only around 70% of the overall national average.

Additionally, the strong growth in tourism has generated significant demand for construction activity to provide residential accommodation to tourists through both

TABLE 1	2003-2012	2012-2023	2003-2023
% Growth in:			
Compensation per Employed	30.7	41.2	84.6
Retail Price Index	25.3	22.9	53.9
CBM Advertised Property Price Index	31.5	99.6	162.6
Number of Development Permits:			
Hotels, Restaurants, Bars & Tourism related	373	3160	3533
Warehousing, Retailing & Offices	1824	7686	9510
Residential Units	67265	84601	151866
2003			
Inbound Tourists (000's persons)	1126.6	1443.4	2975.7
GDP per capita at PPS (% of EU)	84.5	86.7	105.0

Sources: Websites of Eurostat, CBM & NSO.

TABLE 2	% Contribution to Employment Growth (excluding NACE O-Q) 2003-2023	Compensation per Employed in 2023 (euro)
NACE Code		
A	0.5	9035
B-E	-4.0	24649
F	7.2	15377
G-I	29.9	18616
J	7.9	34978
K	7.7	45205
L	2.9	14301
M-N	35.9	25690
R-U	12.1	32934
Overall Average		26445

Sources: Websites of Eurostat & NSO.

the expansion of hotels and apartments for rent with the emergence of online booking platforms. Indeed, while only 373 building permits were demanded and granted for tourism-related activity between 2003 and 2012, these shot up to 3,160 for the period 2013-2023, while residential building permits increased by 26% between these two periods (see Table 1).

This demand, coupled with a low interest rate environment that supported credit, has resulted in property price inflation of around 162% between 2003 and 2023. According to the CBM advertised price index, property prices increased by around 32% between 2003 and 2012, but then doubled between 2012 and 2023. Thus, while in the period 2003-2012 property prices grew at roughly the

same pace as the compensation per employed, in the subsequent period, property price inflation outstripped by a wide margin growth in compensation per employed.

For existing homeowners, accounting for over 80% of households, the rise in property prices has been a significant boost to their personal balance sheet, but for those renting or aspiring to become homeowners, housing affordability has become more challenging.

What emerges from the sectoral analysis of national accounts data on compensation to those employed, and on employment (Table 2), around three quarters of the growth in employment (excluding NACE O to Q dominated by the public sector) occurred in sectors where compensation per employed is below the na-

tional average. The remaining quarter was driven by NACE sectors J, K and R to U, namely Information and Communication, Financial Services, and Arts and Entertainment (comprising also the gaming sector), where compensation per employed is higher than the national average.

This would suggest that incentives and policy measures ought to be designed at aiming at less labour-intensive sectors, especially those whose wages are below those of the national average. For example, there is no financial sense in calls for reducing taxation on tourism-related services or continued subsidisation of their water and electricity consumption, especially at a time when demand for tourism is so strong.

Similarly, a low tax rate (15%) on rent to tourists in private residential apartments provides incentives for further investment in such activity. Such distortions only encourage more investment in construction of residential real estate for such purposes, amplifying already high population density. Some popular tourist destinations in Europe have also been affected by this phenomenon, in terms of both rising population density and crowding out locals from the property market. In response, some are now resorting to drastic supply measures on such activities to curb or reverse such negative side effects.

Focus on limiting growth in or reversing population density also requires a hard look at land use policies and serious impact assessments, accompanied by effective enforcement against illegalities by the relevant authorities, especially in cases of virgin land and projects involving massive developments that lead to severe population pressures. One trusts that the evolving priorities of the Maltese public from physiological needs to considerations that impact their quality of life and stress levels, should give policymakers the necessary impetus to review sooner rather than later the various incentive structures and take speedy adequate measures to address such evolving priorities.

Alexander Demarco is deputy governor of the Central Bank of Malta

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