

BOX 2: THE INTERPLAY OF REFORMS AND FOREIGN LABOUR INFLOWS IN DRIVING LABOUR SUPPLY GROWTH IN MALTA¹

In just a decade, employment in Malta grew by two-thirds. In absolute terms the number of employed expanded by more than in the preceding 50 years taken together, with an annual average growth rate more than six times the historical average. This occurred at a time when the Maltese economy nearly doubled in real terms.

These developments were largely unanticipated. International Monetary Fund (2010), for instance, stated that employment rates were a challenge for Malta, and without an increase there could not be “catching up with incomes of richer European countries”.² Yet by 2023, Malta had not just exceeded the EU average employment rate, but had become the country with the second highest rate. Similarly, the European Commission’s Ageing Report issued in 2012 had projected that employment growth in Malta would slow down from 1.2% in 2010 to just 0.2% in 2020s. In reality, employment growth in the first years of the 2020s has averaged close to 5%, or 25 times more.

The reason why most analysts failed to project the rise in labour supply in Malta is because most models focus on past demographic data. Thus, the number of persons joining the labour market is typically based on the number of past births and some assumption on labour participation rates and migration flows.

Maltese migratory outflows and a slight pickup in the absolute number of births may increase somewhat the number of young Maltese available for work.^{3,4} Nevertheless this would still be something close to 1,500 less than the amount of Maltese who reach the early pension age of 61.

Foreign workers account for around three-quarters of the rise in employment since 2013. Yet, while the working age population of Maltese citizens, defined as those aged 16 to the early pension age, fell by nearly 15,000 in the decade to 2023, the actual number of Maltese in either full-time employment or working primary as part-time rose from 171,036 to 201,008. This increase in Maltese workers was the strongest ever recorded over a decade, in absolute terms as strong as that observed in the previous three decades taken together. Had the participation rate remained unchanged by 2023, instead the number of Maltese in employment would have been slightly below 160,000.

Policy reforms underpinning labour market supply changes

When one looks at the rise in the number of Maltese persons in employment, there are two striking trends. First, the number of workers aged above the early pension age has more than doubled. Second, the number of women below early pension age who were in employment rose by a quarter, though in absolute terms this was about twice the increase in older

¹ Prepared by Dr Aaron G. Grech, Chief Officer of the Economics Division at the Central Bank of Malta. The author would like to thank Mr Alexander F. Demarco, Mr Mark Musu and Mr Noel Rapa for their comments and Ms Marydiane Inguanez, Ms Doriana Bezzina and Ms Cecilia Falzon for data used in this analysis. The views expressed are those of the author and do not necessarily reflect the views of the Central Bank of Malta or any other institutions. Any errors are the author’s own.

² International Monetary Fund (2010), Malta: Article IV consultation – Staff Report, IMF *Country Report* No. 11/29.

³ In 2023, 2,256 Maltese citizens immigrated back to the islands, while just 1,767 emigrated.

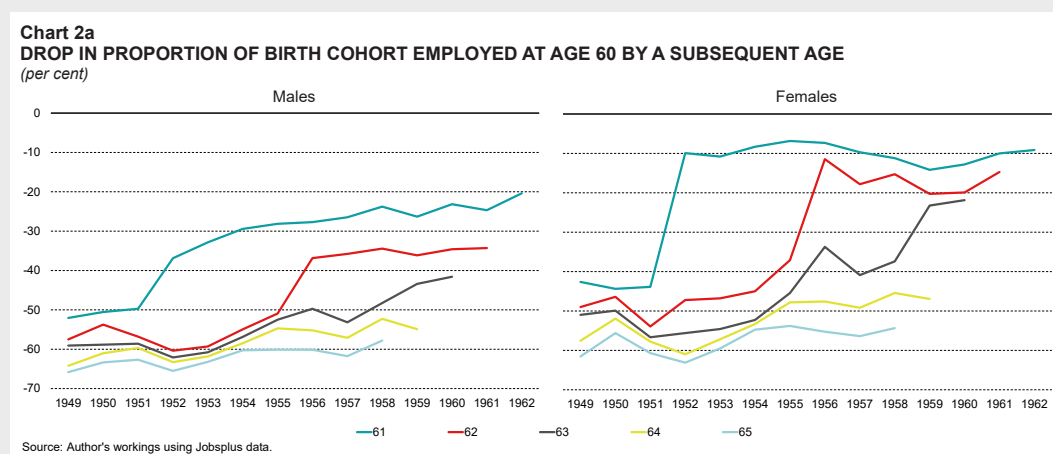
⁴ The fertility rate may have fallen, but the number of live births in 2023 was 4,374 as against 4,050 twenty years earlier.

workers. The number of Maltese working men below the early pension age, by contrast, rose by just under 2,000, or 2%, though they remained the single largest group in employment. In 2013 older workers constituted just 6% of the Maltese in employment, while working age women and men were 37% and 57%, respectively. By 2023 the ratios had changed to 11%, 40% and 49%, respectively.

The number of Maltese aged between 16 and the early pension age fell from 239,297 in 2013 to 224,449 a decade later. Legislated changes in the statutory pension age, which started to come into effect in 2012, helped to address this, boosting the number of Maltese potentially available for work to 244,117 in 2023. However, the increase in the statutory pension age by itself may not have led to a significant increase in the number of Maltese working past 61 years. This because anyone born from 1952 to 1961 could retire at age 61, provided they had a mere 35 years of contributions or social security credits. In 2022 when people born in 1961 would reach age 61, Eurostat data show that in 2022 the average career duration was 41 years for men and 34 years for women. Keeping in mind that many women would benefit from childcare credits, this meant that most people could retire at 61 with a full pension.

Utilising Jobsplus data one can study in detail the impact that pension policy had on the employment behaviour of adjacent birth cohorts. Up to those born in 1952, the pension age was 61 (see Chart 2a). As a result, about half of working men, and slightly less women, used to leave employment when they reached 61. The first year that the statutory age was increased, the drop in employment at age 61 reduced to 37% for men and to just 10% for women. In subsequent years, while the exit probability of women at age 61 remained stable (except for a brief upward blip during the pandemic), that of men nearly dropped by half to 20% for those born in 1962. Every time the statutory pension age increased again, to 63 for those born in 1956 and to 64 for those born in 1959, one notices that there is a change in the exit ages at the new statutory pension age.

In 2017, Government introduced a pension top-up scheme, through which persons are awarded an additional permanent increase in their pension if they retire post 61. The top-up is awarded till a person reaches age 65. The data suggest that this is proving effective, as the decline in exit probabilities for affected cohorts seem to be accelerating. For instance, the exit probability at age 61 had stagnated at around 28% for men born between 1954 and



1956, whereas after the introduction of the top-up, the exit probability steadily fell to just 20% for those born in 1962. Among women one also sees some significant impacts, for example while for those born between 1955 and 1957 the exit probability at age 63 was relatively stable, subsequently this nearly halved for those born in 1960.

Had labour market behaviour post the age of 61 remained unchanged, in 2023 there would have been about 8,600 less Maltese in employment aged above 61. Given that the change in the statutory pension age raised the potential supply of Maltese labour by some 19,700, the labour market behaviour response to policy changes seems to have been slightly less than half this potential rise. While that may seem small, one must consider that the participation rate of the affected cohorts of women was very low. In fact, in 2012 the employment rate of women aged 55 to 59 was just 28%, or about half that observed now. That means that in all probability the strength of the actual impact of pension age policy will come ever closer to its potential when in future years younger women reach retirement age.

Pension policies were just one of the many structural reforms that led to a rise in the number of Maltese in employment. Sant (2024) notes that the tapering of benefits scheme doubled the job-finding rate of those previously on social benefits, with the scheme estimated to have led to around 5,600 persons more in employment.⁵

In April 2014 Government introduced free childcare services to parents in employment or in education until their children become eligible to attend kindergarten classes. Before the free service was introduced, only 1,800 children attended childcare, ten years after there were 8,960.

Table 2a shows the employment rate of Maltese women by birth year. For instance, women born in 1983 had an employment rate of 76% when they were 26. On average, they had their

Table 2a
EMPLOYMENT RATE OF MALTESE WOMEN BY BIRTH YEAR

Annual percentage change

Age	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
26	76	77	78	80	80	79	81	81	83	85	86	85
27	76	75	77	80	82	80	83	82	84	86	87	88
28	75	76	77	81	82	81	84	83	86	86	88	87
29	75	75	76	82	82	80	84	83	85	87	87	87
30	75	76	76	82	82	81	84	83	86	86	86	
31	75	77	79	82	82	82	84	84	85	86		
32	75	77	79	83	82	82	85	85	86			
33	76	79	80	83	82	83	85	84				
34	77	79	82	82	84	83	85					
35	77	80	81	84	85	83						

Source: Author's workings using Jobsplus and NSO data.

Note: Cells marked in light blue are the mean age when women of that cohort have their first child and those in grey show when free childcare was introduced.

⁵ Sant Kurt (2024), "The impact of Malta's tapering of benefits scheme on employment outcomes", *International Social Security Review*, 77(3), pp. 31-57.

first child when they were 27, and their employment rate fell to 75.7%. Their employment rate dropped further when they were 28 and 29, but then started to rise again when they turned 30. However, it was not until age 34 that the employment rate of women born in 1983 rose beyond what it had been at age 26. For women born after 1986, the first to be fully covered by the scheme, evidence is mixed. There are slight

drops in employment rates for women born in 1988, 1991 and 1993, but the decline is minor and temporary, while for women born in 1986, 1987, 1989, 1990, 1992 and 1994 there is no noticeable decline. The introduction of free childcare appears to have broken the three to four-year break that some women had after they had their first child.

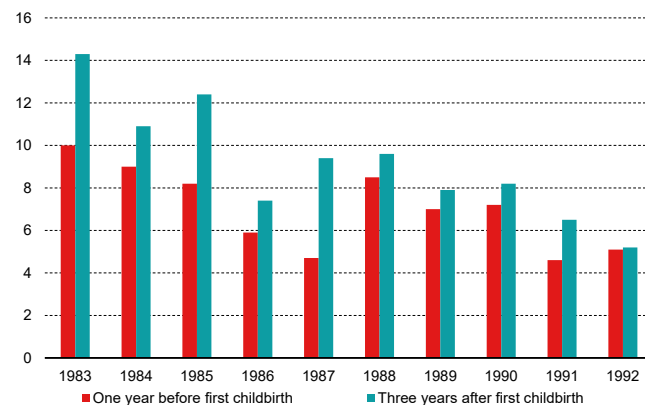
Chart 2b compares the employment rate gender gap for Maltese workers the year before, on average, women have their first childbirth and that three years after. It is quite evident that the introduction of the free childcare service helped greatly to halt the widening of the employment gender gap that accompanied the first childbirth in previous years. If one were to assume that employment behaviour between the ages of 26 and 40 for subsequent cohorts remained the same as that for that generation that did not benefit from free childcare services, there would have been 6,200 less women in employment.

Labour force ageing and the demand for foreign labour

A key reason for the increased demand for foreign workers was the rapid pace of structural changes in the Maltese economy. For example, whereas the manufacturing sector generated €1.1 billion in real value added in 2023, as against €1 billion ten years earlier, implying a healthy 24% growth, by 2023 the computer programming, consultancy and information services sector generated €1.4 billion real value added, having quadrupled in size. Advertising and market research in 2023 had a real value added that exceeded that of the retail sector, while legal and accounting activities generated more value added than the accommodation and food services sector, even though the latter has also grown very rapidly.

Table 2b shows how sectoral employment by nationality changed during the decade to 2023. The first thing to note is that the only sectors where the increase of Maltese workers was larger than that of foreign workers was in public administration, education and health. In the other sectors, only in financial services the increase in Maltese came close to that of foreign workers. Incidentally these sectors tend to be the most unionized in Malta, and the ones which tend to ask for some working knowledge of Maltese.

Chart 2b
EMPLOYMENT RATE GENDER GAP FOR MALTESE WORKERS BY BIRTH YEAR
(per cent)



Source: Author's calculations using Jobsplus and NSO data.

Table 2b
CHANGE IN SECTORAL EMPLOYMENT BY NATIONALITY

Number of persons

	Maltese	Foreign
Agriculture & fishing	191	444
Manufacturing	-3,448	7,322
Construction	-2,479	10,640
Retail, transport, accommodation & food services	-2,751	30,333
Information and communication	1,822	3,225
Financial services	3,229	3,586
Professional services and administrative support	15,087	24,492
Public administration, education & health	12,082	6,547
Arts & entertainment, other services	4,168	9,446

Source: Ministry for Home Affairs, Security and Employment (2025).

The Maltese have mostly flowed out of traditional sectors, such as manufacturing, construction, tourism, catering and retail, and instead new entrants have flocked to remote gaming, information technology, financial and professional services and health and education. These sectors typically pay more and are more in line with the educational attainment of younger Maltese. They are also sectors that globally are less male dominated.

Table 2c shows trends in Maltese nationals by different occupational categories. The main thing to notice is that over ten years the number of those working in elementary occupations fell by more than 6,800, or by nearly a quarter. Moreover, the share of those aged 50 plus rose from 36% in 2013 to 46% in 2023. The Maltese workforce has become relatively younger

Table 2c
AVAILABILITY OF MALTESE FOR DIFFERENT OCCUPATIONS

Number of persons

	Change in Maltese workers 2023 vs 2013	Share of Maltese aged 50+ 2013	Share of Maltese aged 50+ 2023
		%	%
Armed forces	245	9	7
Managers	5,350	39	37
Professionals	9,724	24	24
Technicians & associate professionals	10,167	21	26
Clerks and support workers	4,178	19	24
Services and sales workers	6,500	24	31
Skilled agriculture, fishery & forestry	1,377	48	70
Craft and related trades workers	-510	33	39
Plant and machine operators	192	27	33
Elementary occupations	-6,809	36	46

Source: Author's calculations using Jobsplus data.

only among the armed forces and managers. Among professionals a large influx of new Maltese professionals managed to halt ageing. In other occupational categories the decade to 2023 saw a substantial ageing of the Maltese workforce. In 2013 the category closest to the national ageing share was plant and machine operators, while in 2023 this place went to services and sales workers.

Looking at sectoral workforces in more detail, Table 2d looks at the evolution of the Maltese workforce aged over 50 as a percentage of the Maltese workforce and of the entire workforce in the Maltese economy. Thus while, the Maltese workforce has aged considerably and now those over 50 constitute 31% of all the Maltese in employment, as against 27% a decade earlier, Maltese older workers are a much smaller share of the entire workforce. The inflow of younger foreign workers has made up for the underlying ageing of the Maltese workforce in many sectors, particularly in construction, transportation, accommodation and food services, real estate, and administrative support services.

The oldest Maltese sectoral workforce is that in agriculture, followed by the administrative support services and the public administration sectors. The only sectors where the Maltese workforce has become younger than it was in 2013 are health and social work, where there has been a large intake of young Maltese, and in arts, entertainment and recreation, where the remote gaming sector is a magnet for new labour market entrants. That said, even though

Table 2d
AGEING OF SECTORAL WORKFORCE: MALTESE WORKERS AGED 50+

Per cent

	Maltese workforce		Entire workforce	
	2013	2023	2013	2023
Agriculture & fishing	60	68	59	58
Manufacturing, electricity & water	26	31	25	21
Construction & quarrying	33	34	30	15
Wholesale & retail	27	34	25	24
Transportation & storage	29	31	27	18
Accommodation & food services	26	32	21	11
Information & communication	14	15	12	10
Financial services	16	19	15	14
Real estate activities	32	36	30	25
Professional, scientific & technical activities	19	21	16	12
Administrative & support service activities	30	39	22	19
Public administration & defence	27	35	27	34
Education	26	29	24	25
Health & social work	33	28	30	18
Arts, entertainment & recreation	22	18	13	7
Other services	31	32	27	21
Overall	27	31	24	20

Source: Author's calculations using Jobsplus data.

there has been a slight increase in the over fifties over the last decade the 'youngest' Maltese workforce remains that of information and communication. Maltese workers in financial and professional services are also relatively much younger than the overall Maltese workforce.

Manufacturing has transformed greatly during the decade. While it continued to generate a per capita value added that compares well with the average, here dependence on foreign workers increased greatly. In comparison to other traditional sectors, the manufacturing workforce is more in line with overall demographics, but skilled manual workers within it tend to be relatively older. Automation and more resources devoted to training could help address this coming challenge, but there still could be demand for more skilled foreign workers by the sector.

Turning to other services sectors, accommodation and food services have been major drivers of the demand for foreign workers. Automation and new technologies are not expected to lead to much job displacement here, and so in the absence of a sharp reversal of trends in the interest of Maltese in the sector, it is highly likely that any expansion in demand will result in more inflows of foreign workers. On the other hand, digital developments are likely to affect considerably future demand for workers in administrative support roles, which were amongst the most commonly held by foreign workers.

By contrast, the local supply of persons interested in working in information and communication, financial and professional services, remote gaming and public administration, health and education will likely remain strong. These are also sectors where automation is unlikely to lower labour opportunities.

Concluding remarks

While it is unlikely that participation rates among those aged below 50 can continue to rise further, there is still ample scope for more older workers to remain in employment. Though Malta has the second-highest employment rate amongst those aged below 50, it still has the third-lowest rate amongst those aged above 50. If Malta had the employment rate amongst older persons as that found in the country with the second-highest employment rate, the local labour supply would be some 23,500 higher.

Yet, activating this cohort could prove to be difficult as its level of educational attainment is not a good match with that currently demanded by most businesses. Nearly 60% of those aged 50 to 74 in Malta have a lower secondary or less degree of education, as against 16% in the country with the second-highest employment rate in the EU among this cohort, i.e. Sweden. Thus, convergence in employment rates for this age bracket could take much longer than for earlier cohorts. It will be very important to invest much more in training and upskilling to ensure that this important pool of labour does not lie under-utilised.

Similarly shifting labour activation policies from facilitating the creation of jobs to the creation of skills will be key. The average number of hours spent by participants aged over 25 in education and training in Malta is less than half that spent by Germans and Swedes. In an ever-changing environment characterized by rapid technological developments, converging to the investment in training made by top EU countries will be crucial to enhance productivity and lessen demand for foreign workers.