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THE CHARACTERISTICS ASSOCIATED WITH THE SHORT AND LONG-TERM UNEMPLOYED IN THE MALTESE LABOUR MARKET

BOX 2: THE CHARACTERISTICS ASSOCIATED WITH THE SHORT AND LONG-TERM UNEMPLOYED IN THE MALTESE LABOUR MARKET^{1,2}

In recent years, Malta has experienced record low unemployment. While this was partly driven by robust economic growth, it also reflects the response of the labour market to enhanced labour market activation policies.

Organisation for Economic Co-operation and Development (OECD) (2013) defines activation strategies as those aiming to:

*“bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work”.*³

This box looks at the evolution of labour market policy (LMP) in Malta and how this contributed to the reduction in the number of unemployed. Then, utilising data from the LFS, context is given to the unemployed population in Malta as the short-term and long-term are grouped according to several characteristics. Finally, the box concludes by reflecting upon the Maltese labour market’s strengths and weaknesses and possible ways to address these going forward.

The evolution of LMP in Malta

To assess LMP during the past 12 years, this box utilises data on labour market interventions, which cover a range of government expenditure measures intended to correct disequilibria in the labour market.⁴ This type of expenditure targets specific groups such as the unemployed, those employed but at risk of job loss and assistance to people currently inactive.

LMP interventions are classified into three main types: 1) the category LMP services includes expenditure on job guidance and information, intended to facilitate job search; 2) LMP measures include policies intended to improve employability and other policies to “activate” the unemployed with the aim of finding regular employment; 3) the category LMP supports consists mainly of unemployment benefits.

Over the last 15 years, spending on LMPs as a percentage of GDP has risen from around 5% in 2006 to 14% in 2016, mostly following the introduction of several new policies in 2014 and thereafter. Since 2016, spending on LMP as a percentage of GDP has declined gradually and stood at around 8% of GDP in 2019. The composition of LMP also changed over time.

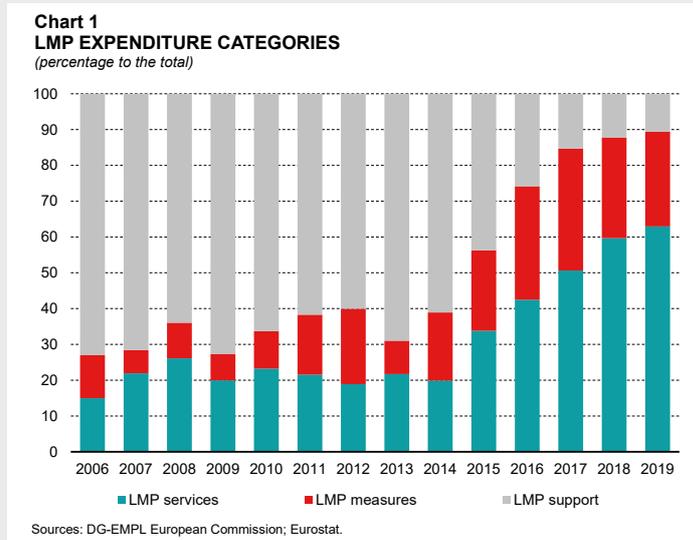
¹ Written by Ian Borg, Manager and Rafael Fearné, economist within the Economic Analysis Department.

² This box summarises the conclusions of “The characteristics associated with the short and long-term unemployed in the Maltese labour market”, Central Bank of Malta, [Policy Note](#) (2021).

³ See OECD (2013), [OECD Employment Outlook 2013](#), OECD Publishing, Paris.

⁴ The source of data on labour market policies is the European Commission – Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL). [https://webgate.ec.europa.eu/empl/redisstat/databrowser/view/LMP_PARTME\\$MT/default/table](https://webgate.ec.europa.eu/empl/redisstat/databrowser/view/LMP_PARTME$MT/default/table)

Chart 1 illustrates the shift in LMP in Malta by documenting the developments in the type of expenditure during the period 2006-2019. Expenditure on LMP support used to account for around 70% of total labour market expenditure until 2014. In 2015, this share declined sharply to around 43% and continued to decrease to just over 10% by 2019.



The decline in the share of this category coincides

with a period of robust economic growth and consequently, a drop in unemployment levels but also a change in policy focus. Indeed, expenditure on LMP services and LMP measures rose considerably as policy shifted towards “activation” policies that enabled job rich economic growth.

In the last decade, activation policies in Malta have involved a combination of different training and upskilling programmes along with initiatives to encourage those in unemployment and inactivity to enter the labour market. In the Budget 2014 moreover, the government announced several initiatives under the title of ‘Making Work Pay’ which spearheaded the change in spending on LMP. The goal of these policies was to address the poverty trap by making the prospect of being in employment more attractive than being dependent on social benefits. These policies led to a substantial increase in the expenditure on employment incentives and labour market services while at the same time, expenditure on support declined.

The shift in LMP appears to have had wide-ranging impacts on the labour market, in terms of raising participation rates and skills, the lowering of youth unemployment and the duration of unemployment. With regards to the latter, there has been much effort in re-integrating the long-term unemployed into the labour market. This includes policies such as the tapering of benefits scheme and the Work Programme Initiative. Indeed, while the overall unemployment rate declined between 2006 and 2019, the decline was more pronounced in the long-term unemployment rate than the short-term unemployment rate.

The characteristics of the short-term and long-term unemployed

To assess the characteristics associated with the duration of the unemployed in Malta, this analysis utilises anonymised micro-level information obtained from the LFS covering the period between 2010 and 2019. Unemployed persons in the LFS are categorised into three

broad groups: i) less than 6 months; ii) 6 months to a year; iii) over a year. The first two groups are classified as short-term unemployed while those who have been in unemployment for more than a year are classified as long-term unemployed.

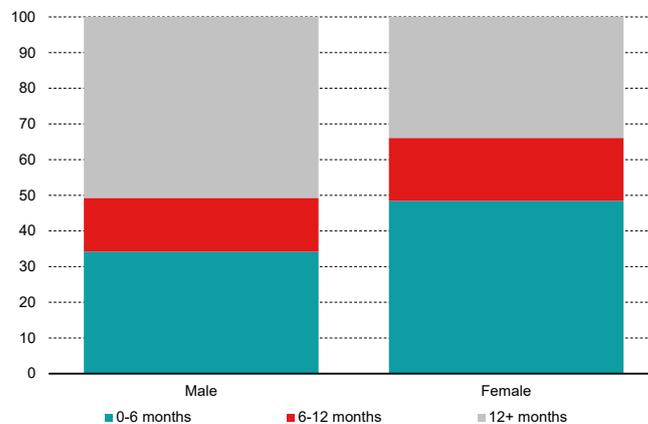
Chart 2 decomposes the unemployed population by gender. During the period 2010-2019, males tended to remain unemployed for longer periods of time than female workers.⁵ Indeed, the proportion of females unemployed for less than 6 months is around 13 percentage points higher than that of males.

Marital status also seems to matter for the duration of unemployment. Chart 3 shows that during the period under consideration, individuals whose marital status was classified as single tended to spend less time looking for a job than those who were listed as married or widowed/divorced. On the other hand, differences between the last two categories are rather small.

Chart 4 shows that individuals with no children tend to have higher durations of unemployment than those who do. In part, this might reflect the greater incentive for individuals with children to accept work given their relatively higher responsibilities. However, it might also reflect the institutions and incentives available in a country in particular those related to childcare.

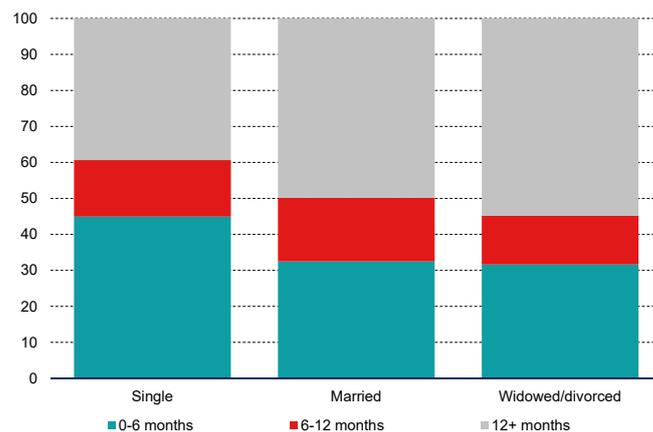
With regards to age, older cohorts tend to have higher job search duration than the younger cohorts (see Chart 5). Indeed, the percentage of persons with an unemployment duration of

Chart 2
DURATION OF UNEMPLOYMENT BY SEX
(percentage to total)



Sources: NSO; own calculations.

Chart 3
DURATION OF UNEMPLOYMENT BY MARITAL STATUS
(percentage to total)



Sources: NSO; own calculations.

⁵ Eligibility criteria for unemployment benefits require the person to be the head of household. Also, a couple must not exceed €23,300. Since males are traditionally heads of households this could have some bearing on the results.

between 0 to 6 months within the 15-24 age cohort is around 22 percentage points higher than that, for example, in the 25-34 age cohort. Meanwhile, the share of individuals classified as long-term unemployed increases with age.

As regards the impact of the level of education on job search, the results are mixed. Those who have only a primary level of education tend to have longer unemployment spells than those with higher educational attainment (see Chart 6). On the other hand, those who have vocational training as well as post-secondary education have longer unemployment duration than those with only a post-secondary education. In addition, individuals who have obtained post-graduate training, such as a Masters degree or PhD have longer durations of unemployment when compared with those with a first degree.

Finally, the LFS sheds some light on whether the duration of unemployment depends on the receipt of benefits. According to the ILO definition of unemployment, a person is classified as being unemployed when that person

Chart 4
DURATION OF UNEMPLOYMENT BY NUMBER OF CHILDREN
(percentage to total)

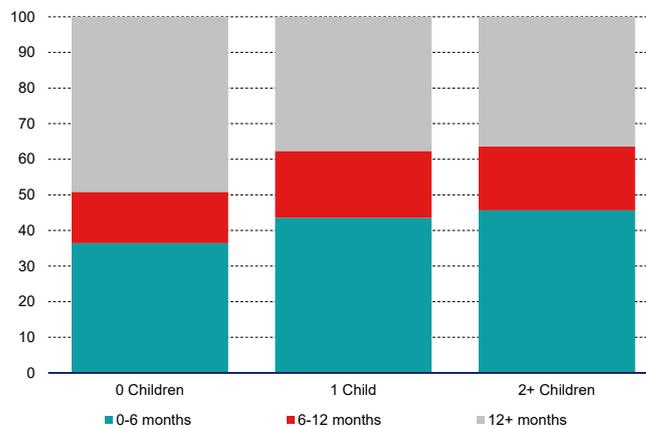


Chart 5
DURATION OF UNEMPLOYMENT BY AGE
(percentage to total)

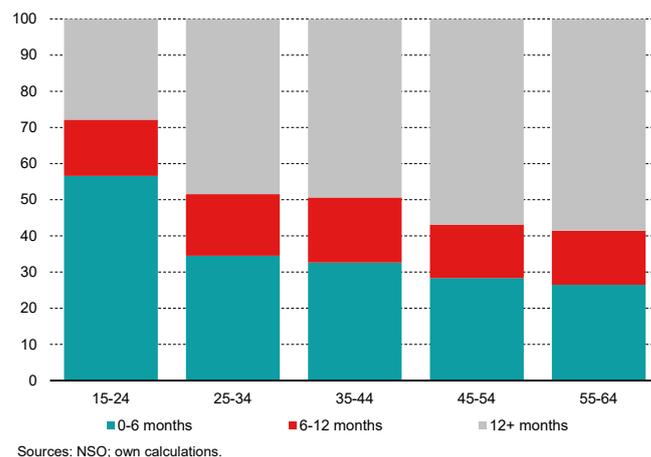
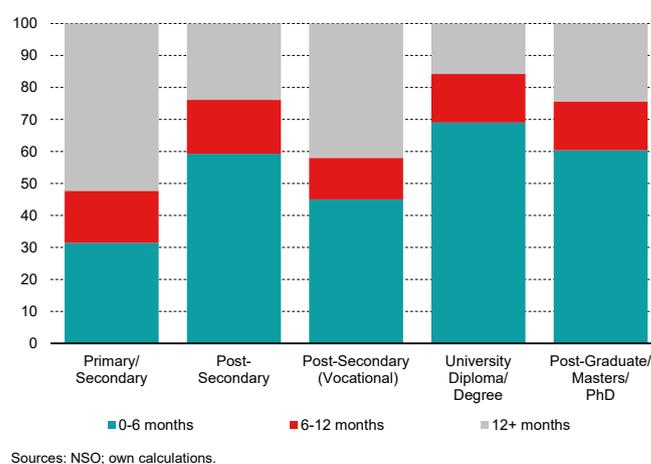
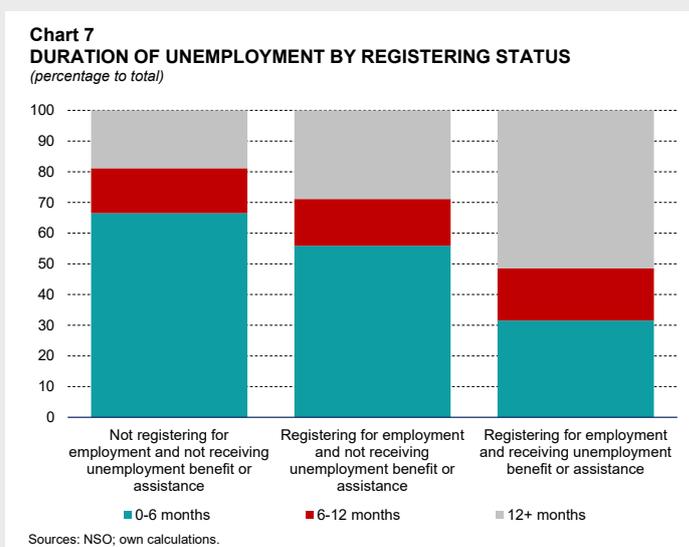


Chart 6
DURATION OF UNEMPLOYMENT BY EDUCATION LEVEL
(percentage to total)



is out of work, is available to work, and is actively looking for a job. In addition, the LFS prompts on whether an unemployed individual is registering for work with JobsPlus (as the Gov agency responsible for employment in Malta), and whether that person is in receipt of unemployment-related benefits.

This is particularly important to understand within the context of the assessment regarding the effectiveness of active labour market policies, as the latter's main aim is to enhance work incentives especially for persons receiving benefits. The findings from this analysis are consistent with the literature. The proportion of short-term unemployed workers is much higher for the group not registering for work or receiving benefits, with 68.3% of persons in this group having been unemployed for less than a year (see Chart 7). Meanwhile, 44.6% of those who were registering for work but who did not receive unemployment benefits are short-term unemployed and are just 33.6% of those who register and receive benefits classified in the same category. Hence, individuals who register for employment and receive unemployment benefits or other social assistance have a higher probability to remain longer in unemployment.



The future of LMP in Malta

The long-term unemployment rate, which is typically less dependent on cyclical factors than the short-term unemployment rate, has declined more strongly than the latter over the period 2014 to 2019, driven by the increased focus on labour market activation policies. To determine the strengths and weaknesses of Malta's labour market and its performance in comparison to its peers, one can refer to the European Skills Index.⁶

Chart 8, based on the European Skills Index 2020, indicates that in 2018, Malta performed very well in both pillar groups of skills matching (i.e. skills utilisation and skills mismatch) and ranked second out of 31 countries. Likewise, Malta had a score of 75 in labour market participation and a score of 81 in transition to work pillar groups which combined, make up skills activation. However, Malta lags in both pillars of skills development obtaining a score of 37 in the basic education pillar group and 36 in the training and other education

⁶ The European Skills Index is a composite indicator of skills developed by the European Centre for Development of Vocational Training (CEDEFOP). It measures a country's "distance to ideal" performance, which is the highest achieved performance by any country in the last seven years. It is composed of 15 individual indicators, aggregated into three pillars, namely: skills development, activation, and matching. The scores are averaged to form a final index ranging from 0 to 100. A score of 0 corresponds to the lowest performance, while a score of 100 corresponds to the best performance. See <https://www.cedefop.europa.eu/en/publications-and-resources/data-visualisations/european-skills-index> for further details.

pillar group, suggesting room for improvement in this area.

While LMP is limited in its ability to address challenges in basic education, it is well placed in creating incentives to improve on training and other education. Indeed, programmes such as the ICT4all, the Community Work Scheme, the Youth Guarantee Scheme, the Training Pays Scheme, and the Work Programme

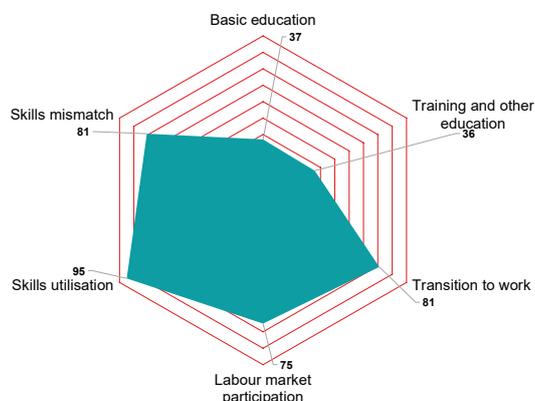
Initiative have been specifically targeted to improve skills and employability. However, problems related to skills gaps remain, as indicated by low scores in the skills development indicator.

In establishing policies, their correct design is paramount to their success. Firstly, it is important that all training undertaken is recognised and appropriately credited. This is in line with the European Commission's 2020 Skills Agenda which aims at a standard European approach to micro-credentials. Having tangible qualifications and credentials leads to improved job finding. Secondly, appropriate targeting is necessary to ensure positive employment effects.

Moreover, training schemes designed to upskill and improve the employability of the unemployed are often associated with what is known as the lock-in effect.⁷ This is the increased period of unemployment during the time the unemployed person is undertaking the training exacerbated by the fact that during this time individuals drastically reduce their job searching efforts. Such lock-in effects, especially during periods of strong growth, could discourage prospective participants from taking part in such schemes as they would be better off investing their time in job search. It is thus vital to combine training with other forms of LMP to limit the downsides related to such lock-in effects. For example, Switzerland made use of so-called "practice firms" to combine temporary employment with additional training programs, as well as dedicating time for actual job search (60/20/20 split of time). This allows unemployed workers to improve their skills with a reduced lock-in effect.⁸

Prior to the COVID-19 pandemic, the Maltese labour market achieved practically full employment and economic growth was facilitated by the importation of foreign labour given

Chart 8
MALTA'S PERFORMANCE IN THE EUROPEAN SKILLS INDEX
(percentage)



Source: CEDEFOP.

⁷ See Duell, N., P. Tergeist, U. Bazant and S. Cimper (2010), "Activation Policies in Switzerland", OECD Social Employment and Migration Working Papers, www.oecd.org/els/workingpapers, and Forslund, A., Fredriksson, P. & Vikström, J. 2011, "What active labor market policy works in a recession?", *Nordic economic policy review*, no. 1, pp. 171-201.

⁸ See Duell, N., P. Tergeist, U. Bazant and S. Cimper (2010), "Activation Policies in Switzerland", OECD Social Employment and Migration Working Papers, www.oecd.org/els/workingpapers

the demographic characteristics of the Maltese population. However, the fast pace of economic growth that Malta enjoyed over the past years can only be sustained by a shift in emphasis towards productivity, especially through the upskilling of the labour force. Upskilling and re-skilling will become an even more fundamental priority to recover from the deep economic shock arising from the pandemic especially as certain sectors are likely to be required to invest to adapt to new technologies and survive the digital transition process. Hence, there is now an opportunity and a strong need to upskill the labour force with a particular focus on transferable skills, i.e. skills that could be used in a variety of roles, thus making jobseekers more attractive to prospective employers.