

BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

INCREASING TIGHTNESS IN THE MALTESE LABOUR MARKET

BOX 2: INCREASING TIGHTNESS IN THE MALTESE LABOUR MARKET¹

The Maltese labour market has become progressively tight, with labour shortages and skill mismatches consistently identified as the main limiting factors in production by Maltese firms in European Commission business surveys as well as the Central Bank of Malta Business Dialogue.

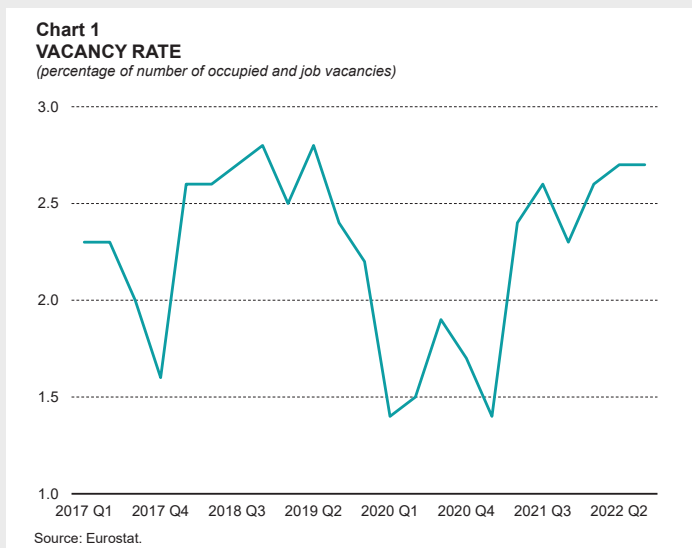
In particular, firms' replies to the Bank's Business Dialogue indicate that labour shortages have continued to be of a major concern for businesses who are facing staff turnover and upward wage pressures. Indeed, firms continue to plan additional recruitment, with 58% of the firms interviewed by the Bank in the fourth quarter of 2022 reporting that they would like to increase the size of their labour force, up by 10 percentage points from the previous quarter.²

This box complements this information by reviewing the latest developments in vacancy rates by sector and then expands on the implications for the labour market projections.

Vacancy rates³

Chart 1 shows the overall vacancy rate in Malta from the first quarter of 2017 until the latest available quarter. The vacancy rate in the third quarter of 2022 stands at 2.7%, the same as in the previous quarter, and 0.1 percentage point higher than in the first quarter of the same year. This is the second highest reading since the fourth quarter of 2018, and the second quarter of 2019, having stood at 2.8% in both periods. This confirms the concerns of Maltese employers interviewed by the Bank about labour shortages.

Despite the indication of tightness in the overall labour market, this phenomenon is heterogeneous at the sectoral level (see Chart 2). In the third quarter of 2022, the sectors with a vacancy rate higher than the economy average were the ICT, accommodation, arts and entertainment, construction, financial services, professional, wholesale



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² See [Central Bank of Malta Business Dialogue 2023 Vol. 3 No. 1](#).

³ The job vacancy rate measures the number of job vacancies as a percentage of total jobs (occupied and vacant). Data for Malta are available since 2017.

and retail trade and manufacturing sectors. Vacancy rates in these sectors stood at 5.7%, 4.6%, 3.9%, 3.6%, 3.3%, 3.2%, 2.9% and 2.8%, respectively. The sector with the lowest vacancy rate (1.3%) is the public administration, health and education sector.

Half of the sectors exhibit a vacancy rate higher than in the same quarter the year before and before the start of the

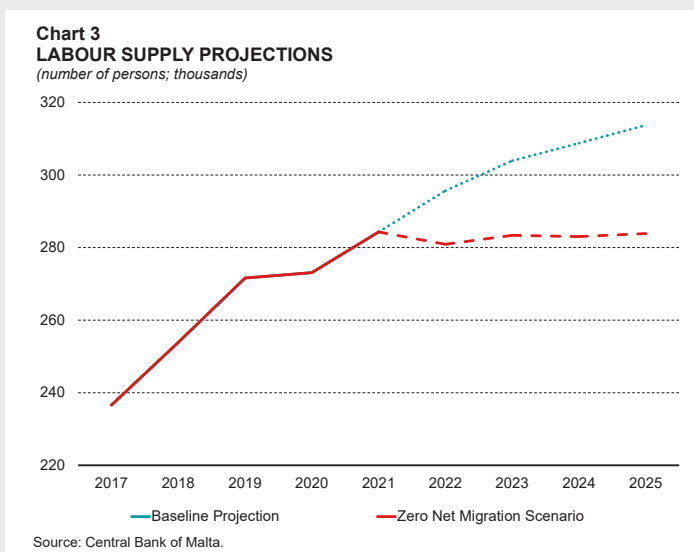
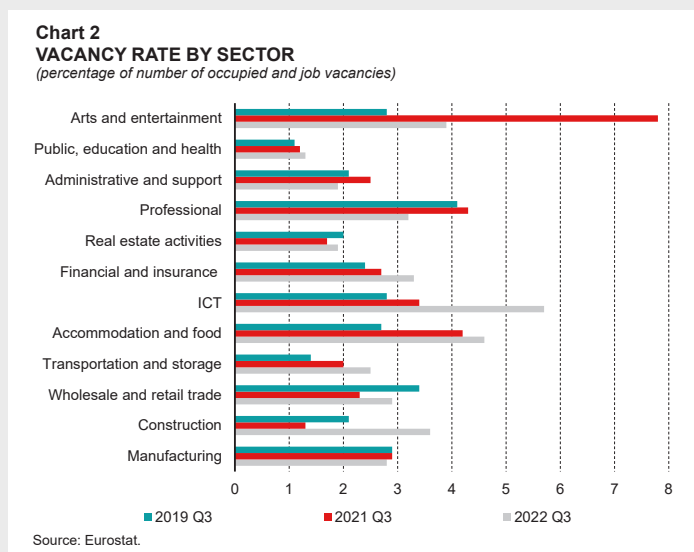
pandemic in the third quarter of 2019. These are the ICT, accommodation and food, construction, financial services, transportation & storage and the public administration, health and education sector. Most of these sectors are service-oriented, indicating above-average tightness in this segment of the labour market.

Projection implications

Inflows of foreign workers into the Maltese labour market help to ease tightness. Latest data on inward migrant flows has been stronger than expected, which has led to an upward revision in net migration of 2,500 persons cumulatively over the projection horizon, when compared to the Bank's December 2022 projections. In the latest macroeconomic projections, the Bank estimates migration flows to decline from 14,000 in 2022, to 8,000, 7,600 and 5,800 in 2023, 2024 and 2025, respectively.

A counterfactual scenario of zero net inward migration flows from 2022 until the end of the projection horizon, thus keeping the stock of inward migrants constant at 2021 levels, reveals the contribution of foreign workers to the labour market and their significance in easing labour market tightness in Malta.

Chart 3 shows that in such a scenario, the

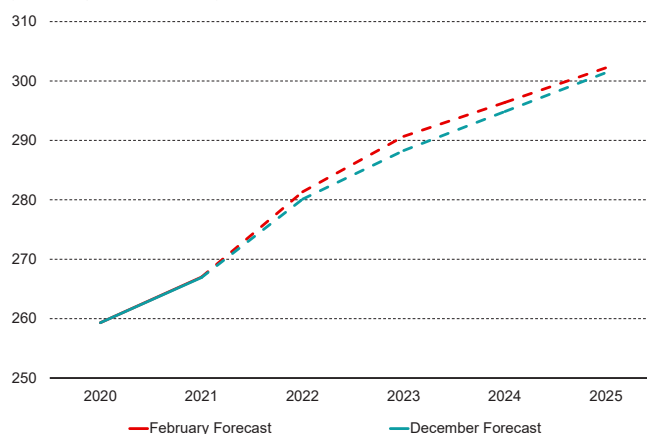


labour supply would plateau. On the other hand, the baseline projection of labour supply, which includes the above-mentioned Bank estimates of net migration flows, shows the positive contribution of foreign workers to labour supply, and hence potential growth, as this is projected to increase over the projection horizon in contrast to the counterfactual scenario, thereby reducing the degree of tightness in the domestic labour market.

Despite the relatively elevated vacancy rate, employment growth has remained strong, growing by 6.0% in the third quarter of 2022, and as shown in Table 1 in this publication, it is projected to remain robust in the coming years. In level terms, this represents an upward revision of around 6,000 persons cumulatively over the projection horizon, when compared to the Bank’s December 2022 projections (see Chart 4).

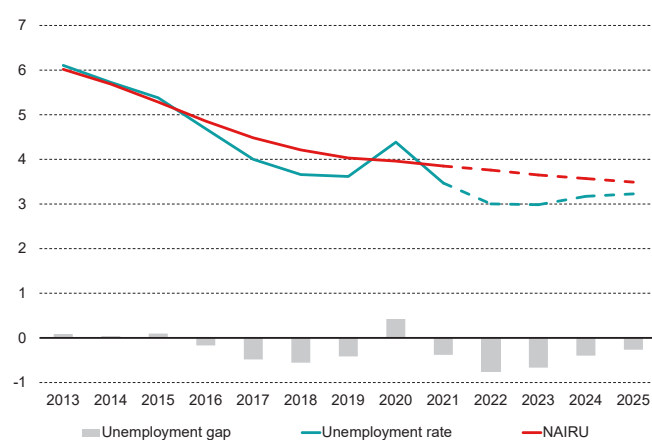
Despite the growing labour supply, the unemployment rate in Malta continued to decline, down from 4.9% in 2020 Q3, spurred by the COVID-19 pandemic, to a low of 2.9% in 2022 Q3. This is below the estimated NAIRU (see Box 1), which implies considerable labour market tightness in 2022. In view of the trend towards normalisation in activity during the projection horizon, we also expect some reversal to the tightness in labour market conditions. Hence, some decline in the unemployment gap is projected, as the unemployment rate is projected to increase to 3.2% by the end of 2025. Nevertheless, the unemployment gap is still foreseen to remain marginally negative by 2025, which implies that labour market tightness will remain a factor that could limit economic growth going forward, albeit gradually less so (see Chart 5).

Chart 4
TOTAL EMPLOYMENT
(number of persons; thousands)



Sources: National Statistics Office; Central Bank of Malta.

Chart 5
PROJECTIONS FOR THE UNEMPLOYMENT RATE AND GAP
(per cent)



Source: Central Bank of Malta.

In view of the relatively low unemployment rate and the number of vacancies remaining unfilled, one would expect strong upward pressure on wages.

However, as seen in Chart 6, real wage growth in the private sector is projected to remain relatively subdued in 2023 as real private compensation per employee is expected to grow by 0.6%. Thereafter, it is forecast to grow at rates

of 1.9% and 2.0% in 2024 and 2025, respectively, above the average annual rate of growth in real wages of 1.4%, calculated since 2001, and would have more than recovered the loss in real wages in 2022.

The fall in real private CPE in 2022, and its marginal growth in 2023 are driven by the high rate of inflation which is expected to offset the growth in nominal compensation per employee in the first two years of the forecast horizon. Prices are projected to grow at a rate of 4.5% in 2023, while nominal compensation per employee is forecast to grow by 4.8% in the same year. Transmission from prices to wages often occurs with a lag, explaining the higher growth in 2023, following an expected strong inflation reading in 2022.

