

BOX 1: DEVELOPMENTS IN MALTA'S TOURISM INDUSTRY AND HOTEL SECTOR¹

The tourism industry in Malta has witnessed strong growth over recent years, with 2024 shaping up as a record-breaking year. NSO data indicate inbound tourists increased by 8.1% between 2019 and 2023 to stand at around 3 million (see Table 1). Furthermore, inbound tourists between January and August of 2024 amounted to 2.4 million, 21.1% more than the corresponding period of last year. Tourist expenditure also continues to rise, driven by both the increased volume of visitors and higher spending patterns, particularly among certain tourist demographics. NSO data shows that total expenditure by tourists in Malta increased by 20.3% between 2019 and 2023. In the first eight months of this year, this figure increased by 23.3% over the same period a year earlier, to stand at €2,176 million. The increase was broad-based across all expenditure categories. Over the same period, expenditure per capita increased to €904, from €888 a year earlier while expenditure per night increased to €141 from €130. These figures had also exhibited steady growth in the period 2019-2023. Despite these positive trends, challenges persist, especially in managing seasonal fluctuations, rising operational costs, and shifts in tourist preferences.

Tourism in Malta has evolved, with noticeable shifts in the tourist age profile and spending habits. The youth segment, drawn by Malta's growing reputation as an entertainment destination, has grown significantly. This group tends to have lower expenditure levels compared to more affluent tourists, affecting the profitability of the hospitality sector, especially luxury hotels.

According to contacts in the five-star hotels segment, despite the rise in tourist numbers, there has been a decline in the average spending power of tourists. Contacts in the five-star segment argued that this trend has prompted many tourists to opt for more budget-friendly accommodation, resulting in a shift in occupancy patterns across different hotel classes. For instance, tourists who would traditionally choose five-star hotels are now opting for four-star accommodations. This competitive pressure is also spilling on three-star establishments.

Table 1
TOURISM DEVELOPMENTS

	2019	2023	% change	2023 (Jan.-Aug.)	2024 (Jan.-Aug.)	% change
Inbound tourists	2,753,239	2,975,670	8.1	1,986,260	2,405,568	21.1
Nights	19,338,860	20,241,803	4.7	13,579,112	15,393,206	13.4
Average length of stay (nights)	7.0	6.8	-3.2	6.8	6.4	-5.9
Total expenditure (€ 000)	2,220,627	2,671,431	20.3	1,764,704	2,175,592	23.3
Expenditure per capita (€)	807	898	11.3	888	904	1.8
Expenditure per night (€)	115	132	14.9	130	141	8.8

Source: NSO.

¹ Prepared by Warren Deguara, Martina Cassar and Demi Mock – Principal Economist and Economists, respectively within the Economic Projections and Conjunctural Analysis Office.

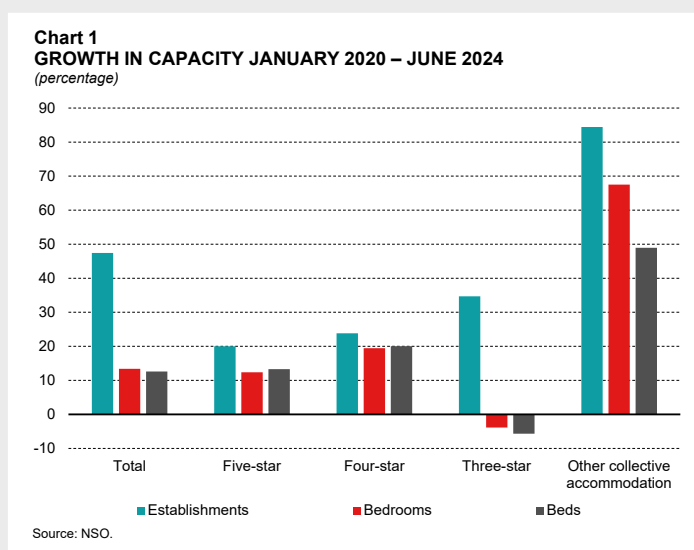
Performance of hotels in different classes

Contacts in the five-star hotel segment have outlined various challenges in the sector, most notably a decline in demand as tourists downgrade to lower-tier hotels. This is partly due to reduced disposable income among travellers because of the high inflation rates observed over the past couple of years, as well as increased competition from new hotels. Occupancy rates in this sector have been stable, increasing steadily throughout the summer, but profits are under pressure due to downward pricing adjustments and rising operational costs, including labour and input costs such as food and maintenance. Moreover, five-star hoteliers lament that the winter months are even more challenging as occupancy rates drop significantly, and thus argue that efforts need to be made to promote Malta as a winter destination as well. Staff retention remains a challenge, with many hotels having to offer significant wage increases to attract and retain talent, despite stagnant productivity levels.

Additionally, contacts in five-star hotels have said that they are facing stiffer competition. Indeed, NSO statistics show that the number of total accommodation establishments increased from 215 in January of 2020, to 317 in June of this year, that is a 47.4% increase (see Chart 1). The strongest increase was observed in the 'Other Collective Accommodation' category (84.4%) followed by the three-star tier (34.7%). Moreover, bedrooms and bed capacity over the same period increased by 13.4% to 21,237 and 12.6% to 48,687, respectively. The strongest increase in these cases were again observed in the 'Other Collective Accommodation' followed by the four-star tier. The number of five-star establishments, bedrooms and beds increased more moderately over the same period.

Company contacts in the five-star hotel segment also highlighted that the overall ambience and conditions in some tourist hotspots, such as St Julian's, have deteriorated, with sanitation and traffic issues negatively impacting the appeal of five-star accommodations in these areas.

The four-star hotel segment has seen relatively stable performance, with steady occupancy rates during the peak season. However, similar to the five-star category, these hotels face increasing pressure during the off-peak months. Contacts mention rising input costs and labour shortages that are also affecting profitability. In response to these challenges, many four-star hotels have increased room



rates and focused on maintaining profitability through cost management. This is substantiated by accommodation HICP figures which show that accommodation prices increased substantially during peak months, when compared to a year earlier.

One of the key issues reported by contacts within the four-star hotel segment is that negative price pressures in five-star hotels is spilling over into the four-star segment. This has led to heightened competition, forcing many mid-tier hotels to reposition themselves in order to maintain their market share. Despite these challenges, the segment remains resilient, particularly during the summer months when tourist numbers peak. Investments in infrastructure, such as room refurbishments and new facilities, have helped maintain competitiveness, though concerns about over-supply in the market remain.

Three-star hotels have been one of the more resilient segments in the Maltese hotel industry. As more tourists prioritize budget accommodation, this segment has seen increased occupancy rates and stable revenue streams. The key drivers of success for three-star hotels have been competitive pricing and the ability to attract younger, more cost-conscious tourists. However, like other segments, three-star hotels face challenges related to rising operational costs, including wage increases which continue to add pressure on profit margins. Yet, three-star hotels have managed to maintain profitability by leveraging high occupancy rates during peak seasons.

Opportunities facing the hotel industry

Hoteliers argue that there is a significant opportunity to expand Malta's tourism appeal during the winter months by promoting the island as a destination for business conferences and large-scale events. This would help mitigate the seasonal fluctuations that currently affect hotel occupancy rates and profitability. Nevertheless, significant investments need to be carried out for Malta to be able to accommodate events that attract a large mass of visitors. Hoteliers argue that this needs to be a public-private initiative.

With increasing awareness of environmental issues, there is an opportunity for hotels to invest in sustainability initiatives, such as solar panels and energy-efficient infrastructure. This can not only reduce operational costs but also attract environmentally conscious tourists. Moreover, many hotels are planning significant investments in refurbishment and new facilities, which can enhance their appeal to tourists and improve profitability. Continued investment in high-quality infrastructure will be essential for maintaining competitiveness in a saturated market.

Challenges outlined by contacts within the hotel industry

Across all hotel segments, rising operational costs, including wages and input materials, have continued to create significant challenges. Many hotels have had to continuously adjust prices and strive to strike a sustainable balance between competitiveness and profit making. Higher room rates especially during peak months are vital to offset elevated costs, but competitive pressures and reduced tourist spending power make it difficult to maintain profitability.

Recruitment and retention of skilled workers also remain persistent challenges. Hotels are facing high employee turnover, particularly in specialized roles.