

GRDA NOTE

The impact of the Pandemic on Gozo Economy

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A Note on the Impact of the Pandemic on Gozo Economy

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Before the COVID-19 crisis, the Gozitan economy was growing at a substantial pace. Like the rest of the world, the Gozitan economy was significantly impacted by the pandemic. Economic activity was halted as a series of stringency measures were introduced. Several non-essential businesses were made to partially close, tourism was limited, and other activities including traditional events were largely restricted.

This short note attempts to identify some of the economic implications that the COVID-19 outbreak had on the economy of Gozo. The report underlines the government's response to the pandemic, provides an initial overview of the economic impact of pandemic and attempts to outline the way forward.

Government measures

Since the start of the pandemic, the Maltese government introduced several economic and liquidity support measures to mitigate the negative economic effects of the pandemic. One of the main measures introduced during the course of the pandemic was the wage supplement scheme. This scheme, administered by Malta Enterprise, targeted firms which were severely or adversely impacted by the imposed restrictions.

The scheme was initially introduced in March 2020 and subsequently extended for the summer months and later till the end of the year. Due to the special conditions Gozitan business face, the wage supplement for Gozitan enterprises was more generous when compared to those in Malta. In 2021, the wage supplement scheme was amended in way that it better reflects the impact that the pandemic has had on certain businesses. The scheme was calculated according to the drop in sales and not according to the NACE category. Initially the scheme covered the first three months of 2021 however, due to the prolongation of the pandemic it was extended until the end 2021.

Apart from the wage supplement scheme, other government support measures were introduced. This includes the introduction of government vouchers, support to people in quarantine leave and parents who could not work in order to care for their children, reduction of stamp duty on property purchases, support to bars and clubs and schemes to facilitate investment in teleworking systems and training and development of employees. In addition, liquidity enhancing measures were also launched, namely through tax deferrals and subsidized rent and electricity bills for businesses. Other measures targeted the recovery in the tourism sector. This includes schemes related to 'Free Individual Travel', vouchers to tourists in sport, diving

industries and over 65s, rebates for digital marketing services for guesthouses, hostels, two-star hotels and holiday furnished premises and the waiver of tourism licenses fees for 2021. Moreover, other measures specifically directed to Gozo were also launched throughout the course of the pandemic. This includes the Gozo teleworking scheme, which aims to encourage Malta-based business to offer teleworking facilities for Gozitan resident employees, the MICE in Gozo Scheme and the Gozo Back Office Employment Refund Scheme.

Notwithstanding the considerable government support, the Gozitan economy still faced several difficulties. According to a survey conducted by the Gozo Business Chamber earlier in September 2020, the majority of Gozitan enterprises outlined that they were severely affected by the pandemic.

A significant drop in tourism

Tourism is one of the main sectors of the Gozitan economy and thus plays a key role in Gozo's economic dynamics. It has a direct impact on hoteliers, restaurants, bars, transportation, arts and entertainment and traditional retail. It has also an indirect impact on other economic sectors.

Restrictions imposed due to the pandemic included the temporary closure of holiday accommodations, restaurants, bars and clubs whilst mass events were largely prohibited. During months where the number of cases were elevated, travel to and from Gozo was restricted to work, health and education purposes and other non-essential travel prohibited. This unprecedented shock had led to a significant loss of revenues to economic sectors directly and indirectly related to tourism.

Table 1: Total guests (residents and non-residents) by type of accommodation

Type of accommodation	Jan-Dec		change	
	2019	2020	amount	%
	Gozo and Comino			
Hotel	88,641	46,622	-42,019	-47.4
<i>of which:</i>				
5 Star	24,975	15,315	-9,660	-38.7
4 Star	30,385	17,982	-12,403	-40.8
3 Star	28,160	9,403	-18,757	-66.6
Other collective accommodation	10,433	5,572	-4,861	-46.6
Total	99,074	52,194	-46,880	-47.3

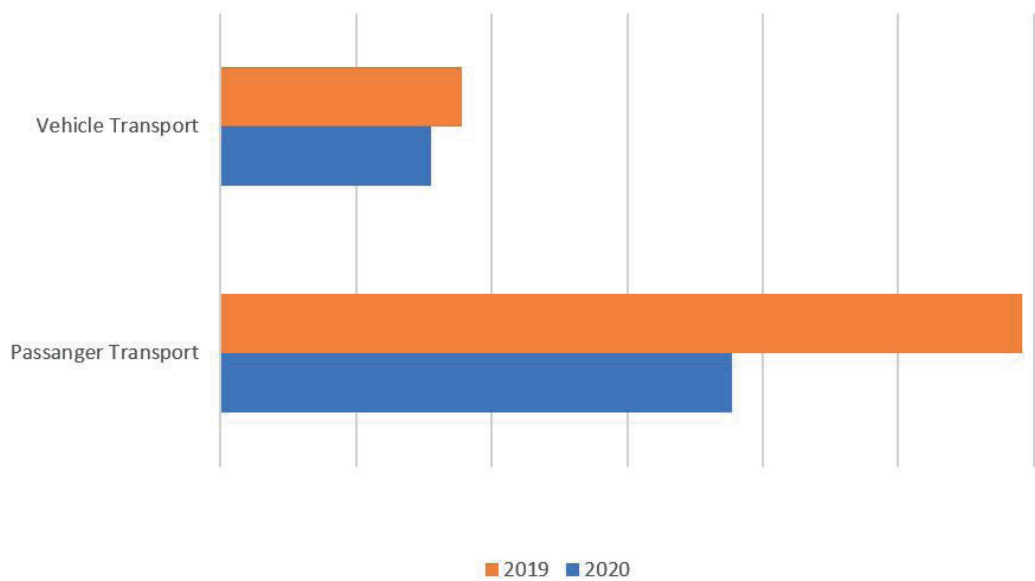
Source: National Statistics Office

¹ Source: <https://www.gozobusinesschamber.org/wp-content/uploads/2020/12/GO42A5.pdf>

The impact of the pandemic on tourism activity in Gozo is evident from monthly inbound tourism data as published by the National Statistics Office. In 2020, the number of guests in collective accommodation establishments in Gozo amounted to 52,194. This represents a drop of 46,880 or 47.3% when compared to the levels registered a year earlier (see Table 1). The decline was strong across the different types of accommodations, particularly 3-star hotels. Meanwhile, the drop in the number of guests in 5-Star hotels was less pronounced than the drop in other types of accommodation. The decline in the number of guests was also coupled by a drop in nights per guest.

In fact, the average length of stay dropped from 3.2 nights in 2019 to 2.5 nights in 2020. Overall, although the level of tourism activity declined significantly, the drop in Gozo was less pronounced when compared to that in Malta. The number of guests in Malta based accommodations dropped by 1,270,695 or 66.1% when compared to 2019. This is 18.7 percentage points more than the drop registered in accommodation in Gozo.

Chart 1: Sea Transport between Malta and Gozo



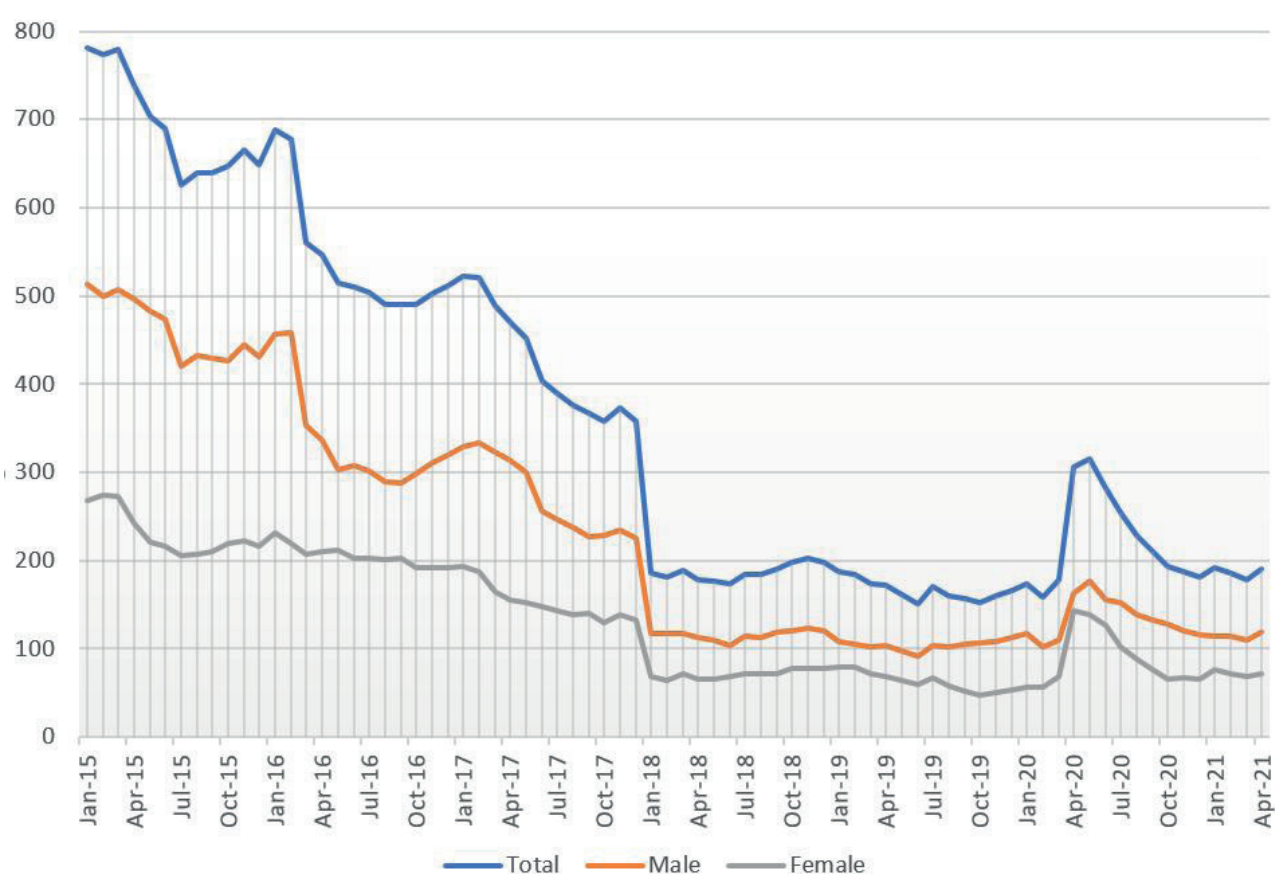
Source: National Statistics Office

The drop in tourism activity in Gozo is also clearly evident from data on passenger and vehicle transport between the two main islands (**Chart 1**). According to sea transport data, travelling between Malta and Gozo decreased significantly in 2020 when compared to the levels registered a year earlier. The number of foot passengers fell by 36% while vehicle transport dropped by 13% over the previous year. This largely reflects the imposed travelling restrictions, lower tourism demand and to a lesser extent an increase in teleworking activities.

An initial rise in registered unemployment followed by a gradual decline

The pandemic impacted on the labour market. Following years of persistent decline, the number of individuals registering for unemployment increased during the initial stages of the pandemic. The number of registered unemployed peaked in April and May. During this period, the increase in registered unemployment occurred across genders, however, the increase in females registering for work was more pronounced than that of males. Following the introduction of several economic support measures, the number of registered unemployment declined gradually.

Chart 2: Registered Unemployment in Gozo



Source: National Statistics Office

Full-time employment remained strong, yet primary part-time employment declined

Despite the significant economic shock, employment in Gozo remained strong. The number of individuals engaged in a full-time employment rose when compared to the levels registered a year. These positive developments partly reflect the government assistance offered during the course of the pandemic in particular, the wage supplement scheme. In fact, in 2020, the wage supplement scheme safeguarded 1,083 full-time jobs in Gozo (see Table 2). Other initiatives such as additional aid for parents

forced to stop work to take care of children and the quarantine leave scheme also helped in this regard. This rise in full-time employment was largely on the back of an increase in administrative and support service activities, human health services and construction. Meanwhile, small declines were registered in transportation and storage, agriculture forestry and fishing and, water supply, sewerage, waste management and remediation activities sectors.

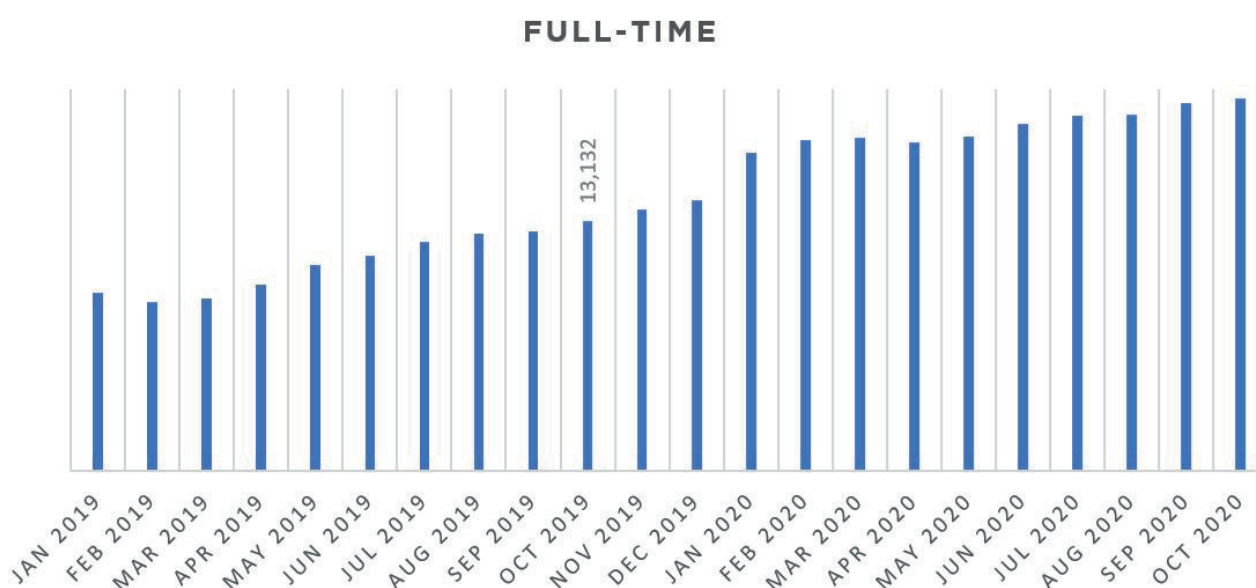
Table 2: Applications by Gozitan enterprises for the Wage supplement scheme (2020)

	Annex A (Severely impacted sectors)	Annex B (Adversely impacted sectors)	Total
Number of Applications	421	94	515
Total Employees	860	432	1,292
<i>of which:</i>			
Full time employees	673	410	1,083
Part time employees	187	22	209

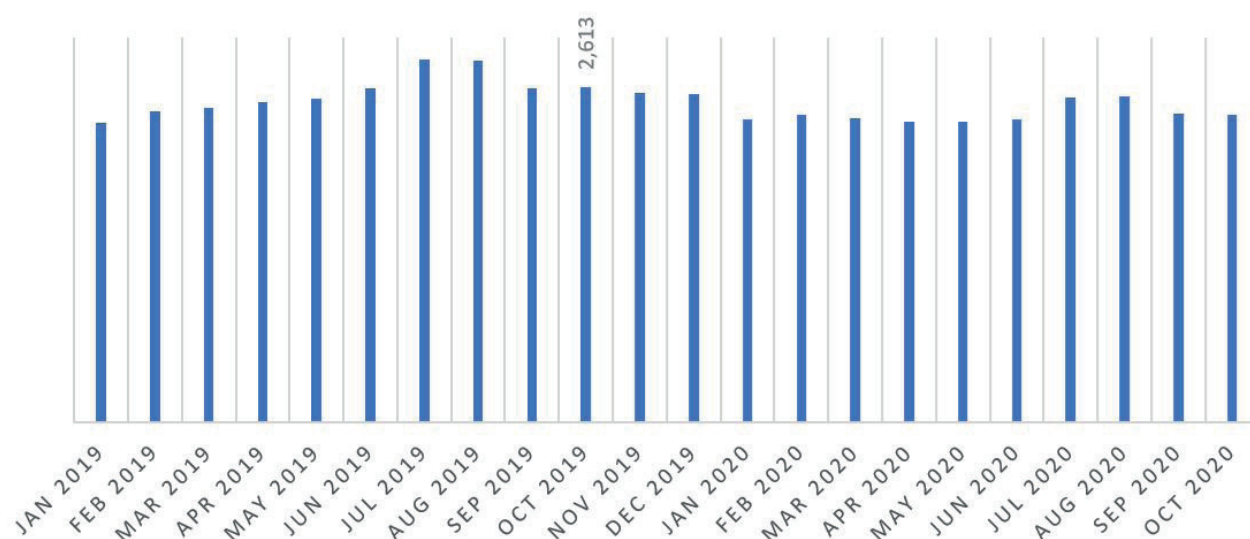
Source: PQ 18175 Legislation XIII

However, although full-time employment remained buoyant, primary part-time employment declined, notwithstanding the fact that the wage supplement scheme safeguarded 209 part-time jobs. This drop largely reflects a decline in the wholesale and retail trade, repair of motor vehicles and motorcycles and the accommodation and food services activities sectors.

Chart 3: Full-time and primary part-time employment



PART-TIME AS A PRIMARY JOB



Source: National Statistics Office

Construction and real-estate activities remained robust

Construction and real-estate activities are two important sectors of the Gozitan economy. These sectors generate a proportionately higher contribution to the Gozitan economy when compared to the share of these sectors in the economy of Malta. Over the last couple of years these two sectors have contributed considerably towards the rise in GDP growth. In 2019, construction and real estate activities grew by 27.6% and 14.1% respectively.

During the course of the pandemic, construction in Gozo remained robust as demand for residential property remained elevated. The number of final deeds and promise of sales surged during the second half of 2020 partly reflecting the introduction of lower stamp on duty. Residential property permits have also remained elevated during this period. Full-time employment in these two sectors remained high as it rose above the levels registered in 2019. Additionally, infrastructural projects in Gozo ramped up as work on road infrastructure projects and other major projects such as the Gozo Aquatic Center and the Gozo Museum gained pace.

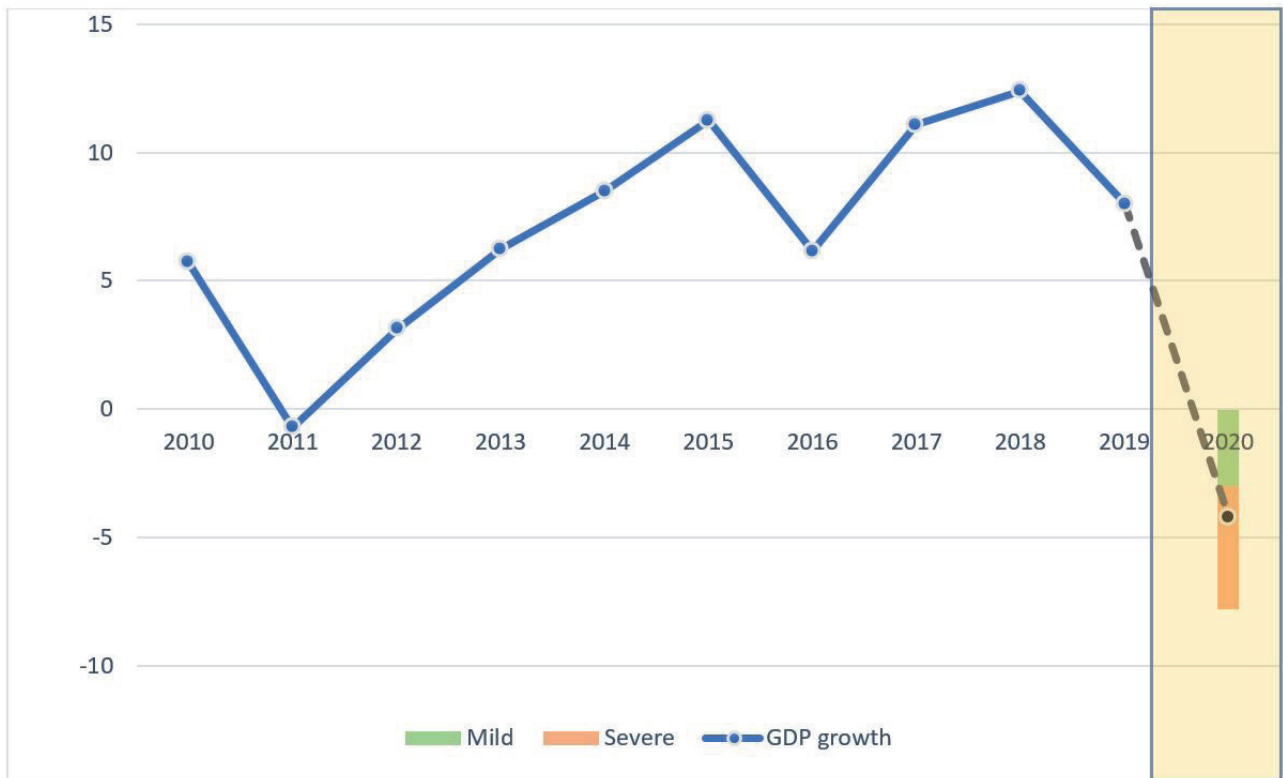
Overall impact on the economy²

The pandemic and the confinement measures taken to limit the spread of the virus has had a significant impact on the Gozitan economy. Following years of persistent economic growth, Gozo's GDP is expected to shrink in 2020 for the first time in nearly a decade (see Chart 4). The slump in domestic and foreign demand, coupled with

² The estimated decline in GDP was based on available data and other internal estimates. Hence, due to data availability constraints, these estimates should be interpreted with caution.

increasing uncertainty contributed towards this downturn in economic activity. Sectors related to tourism, in particular accommodation, food services and retail trade sectors have been largely hit by such unprecedented event. However, the significant drop in such sectors is expected to be partly offset by construction, public administration, and human health activities.

Chart 4: GDP at market prices (% growth)



Following a sizeable negative economic shock, Gozo’s GDP is expected to slightly recover in 2021, yet it is expected to be below the pre-crisis levels. The envisaged economic recovery is expected on the back of the gradual reopening of the economy coupled with fiscal support and recovery measures. Tourism is expected to be higher than that registered in 2020 boosting consumption. Activity in construction and real estate is expected to remain elevated during 2021 although some deacceleration is expected.



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