

GRDA NOTE



Outlook for Gozo 2022

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Innovation Hub, Xewkija - Gozo, Malta

Tel: +356 22156333

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Outlook for Gozo

Mario Borg

CEO

Gozo Regional Development Authority

Overview

Year 2021 was rather eventful for Gozo. Prior to the pandemic, Gozo was economically growing at an elevated pace, which at times outpaced that of mainland Malta. Yet, like every economy, the pandemic has had a significant negative impact on the Gozitan economy and social dimensions.

This short note will present a brief outlook of the main development and risks expected for 2022.

The Economy

Developments in 2020

The latest set of published data shows that the Gozitan economy dropped by 6.8% in 2020.¹ This was in line with the drop registered for the national economy. This occurred despite the fact that Gozo's economy is more reliant on tourism, a sector heavily impacted by the pandemic.

As expected, the main activities impacted most by the pandemic were the wholesale and retail trade sector and the accommodation and food service sector. These recorded a significant drop of 6.4%, the largest drop on record. However, this drop was partly offset by an increase in other industries namely, construction, public administration, and information and communication.

General Economic outlook

In line with the national economy, the Gozitan economic output is envisaged to return to similar levels as recorded prior to the pandemic. This largely reflects an improvement in the tourism sector, with internal tourism playing a key part in the recovery of the sector. Domestic demand was also boosted through government measures namely the vouchers scheme and – albeit to a lower extent- a ramp up of infrastructural projects.

¹ Source: National Statistic Office, News Release 230/2021.

https://nso.gov.mt/en/News_Releases/Documents/2021/12News2021_230.pdf

Subsequently, the Gozitan economy is set to continue to recover further, and by 2022 the level of GDP is expected to exceed that prevailing the pandemic. This is largely on the back of an increase in domestic consumption expenditure and higher expected private and public investment. The latter reflects the completion of large infrastructural projects such as the Gozo Museum and the Gozo Aquatic Centre while the increase in private investment reflects a base effect given that part of planned investment was postponed during the last years.

Labour market developments

Despite the pandemic, employment in Gozo remained robust. In 2020 full time employment reached 14,313, an increase of 3.8% when compared to the employment levels registered a year earlier.² This increase was more pronounced than the increase of 0.7% registered in mainland Malta. The surge in regional employment levels was broad, with almost all sectors registering an increase except for the manufacturing and to a lower extent real estate where a drop was registered.

Annual figures for 2021 are not yet published, however provisional January to July data show that employment in 2021 remained robust.³ This is corroborated by unemployment data which reached record low levels in 2021. Indeed, the persons registering for employment stood at 126 as at September 2021, 40% lower than that registered in the same month a year earlier.⁴

In 2022, the buoyant labour market environment is expected to persist. Employment is expected to grow by an average of around 2%, mainly driven by growth in private employment as public sector employment in Gozo is not expected to increase, reflecting efforts in fiscal consolidation at a national level. The tight labour market, with the private sector often noting shortage of workers especially unskilled and semi-skilled, is also expected to attract foreign workers, which during 2020 represented over 20% of the official work force in Gozo.⁵

Tourism developments

The last two years were exceptionally challenging for the tourism industry. Restrictions imposed due to the pandemic including the temporary closure of

² Source: National Statistic Office, News Release 230/2021.

https://nso.gov.mt/en/News_Releases/Documents/2021/12/News2021_230.pdf

³ Source: National Statistic Office, News Release 001/2022.

https://nso.gov.mt/en/News_Releases/Documents/2022/01/News2022_001.pdf

⁴ Source: National Statistic Office, News Release 212/2021.

https://nso.gov.mt/en/News_Releases/Documents/2021/11/News2021_212.pdf

⁵ For more information see: <https://grda.mt/wp-content/uploads/2021/11/Foreign-nationals-employed-in-Gozo-09.11.21.pdf>

of holiday accommodations, restaurants, bars and clubs whilst mass events were largely prohibited. During the initial stages of the pandemic, travel to and from Gozo was restricted to work, health and education purposes and other nonessential travel was prohibited. This unprecedented shock had led to a significant loss of revenues to economic sectors directly and indirectly related to tourism.

However, tourism activity in 2021 turned out much better than expected. Data covering January-September points towards an increase in accommodation of around 27.8% over the same period of 2020. This was evident across all types of accommodation.⁶

A further indicator is transport between Malta and Gozo which again showed a notable improvement in 2021 compared to 2020. The number of vehicles crossed increased by 136,466 or 11.8% while the number of passengers rose by 368,263 or 12.7%, the latter also reflecting the introduction of the fast ferry.⁷

The demand for tourism in Gozo was also boosted by the vouchers schemes and other smaller initiatives introduced by the Ministry for Gozo which offered incentives aiming to boost internal tourism.

During 2022, tourism is expected to continue to recover, although this largely depends on the evolution of the pandemic and on whether internal tourism remains strong. The introduction of the Fast Ferry service introduced earlier in 2021, will be an important factor towards the expected tourism recovery in 2022.

Real Estate

Activities in real Estate and construction during the last two years remained elevated. The reduced stamp duty for property in Gozo has been extended further as announced in the Budget for 2022. This will help to maintain certain momentum in this sector although official data from the Planning Authority in terms of planning applications is pointing towards a deacceleration. This moderation of activities, underpinned by lower demand especially for apartments, is expected to continue in 2022, albeit construction activities will remain high by historical levels. For the coming years, a shift is expected away from apartments and towards building with traditional features and restoration of existing one, especially in Urban Conservation Areas. Budget measures announced in this regard will help sustain this shift.

⁶ Source: National Statistic Office, News Release 214/2021.

https://nso.gov.mt/en/News_Releases/Documents/2021/11/News2021_214.pdf

⁷ Source: National Statistic Office, News Release 189/2021.

https://nso.gov.mt/en/News_Releases/Documents/2021/10/News2021_189.pdf

Cultural Activities

Due to restrictions imposed by health authorities, several cultural and sports activities were called off during the last two years while other took place on a reduced or restricted basis. In turn, this had a negative effect, both at an individual level and regional level.

On the back of a very successful vaccination campaign and increased acceptance that we need to 'live with the virus', 2022 is expected to see the return of cultural activities. Prime among these are the traditional religious activities including the 'festa'. These will be welcomed both in terms of identity as well as from an economic and social perspective.

Government Measures & Projects

From the outset of the pandemic, the Maltese government introduced several economic and liquidity support measures to mitigate its negative economic effects. One of the main measures introduced was the wage supplement scheme, initially introduced in March 2020 and subsequently extended beyond 2021. Due to the additional constraints faced by business operating in Gozo, the wage supplement for Gozitan enterprises was more pronounced than that in mainland Malta. Overall, the main sectors benefiting from this scheme were the accommodation & food services activities and wholesale and retail trade and slightly to a lower extent manufacturing.

Other COVID-19 support measures included the above-mentioned voucher scheme, which helped in boosting internal tourism. During the June 2020 Economic Recovery Plan, the government also announced other fiscal incentives to boost real estate activities by the introduction of lower stamp on duty.

Other fiscal measures as announced during the 2022 Budget Speech will have an impact on the Gozitan economy in 2022. These include financial incentives for property buyers in Gozo, additional outlays for the restoration and reconstruction of rubble and higher grants for scrappage of polluting vehicles amongst other smaller initiatives. Moreover, public investment in Gozo is expected to ramp up in 2022 as several public infrastructural projects are set to be completed. Chiefly among them is the Aquatic Centre and the Gozo Museum, both in Victoria. These two are very important investments as apart from the benefits derived in terms of social welfare, they will contribute to the economic development of Gozo enhancing its diversification and creating niche markets. Indeed, once fully completed, and operational, the two projects are expected to increase the potential and attractiveness of Gozo especially during non-peak months.

Main Risks

Overall, risks to economic activity in Gozo are judged to be on the downside in 2022. This mainly reflect national and international dynamics and developments. On the negative side, risks mainly emanate from a prolongation of the pandemic which in turn will impact the expected economic recovery, in particular tourism. An additional downward risk is lower government expenditure due to fiscal consolidation following the unprecedented support offered by the Government to the business during the pandemic. Other smaller downside risks reflect the June 2021 decision of the Financial Action Task Force (FATF) of adding Malta to the list of jurisdictions under increased monitoring which could have negative impact on regional demand due to possible lower investment at a national level. On the upside, a more robust recovery in tourism and higher investment and private consumption will boost recovery more than expected.



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DEVELOPMENT AUTHORITY

Tel: +356 22156333

Email: info@grda.mt

www.grda.mt

