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Innovation Hub, Xewkija - Gozo, Malta

Tel: +356 22156342

www.grda.mt

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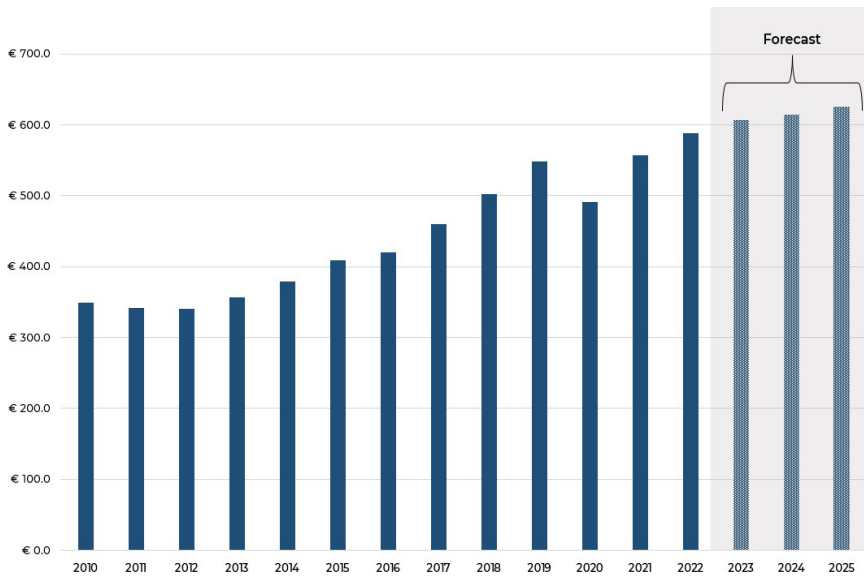
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Outlook 2023 - 2025

Macro-Economic

Chart 1: Real GDP (millions)

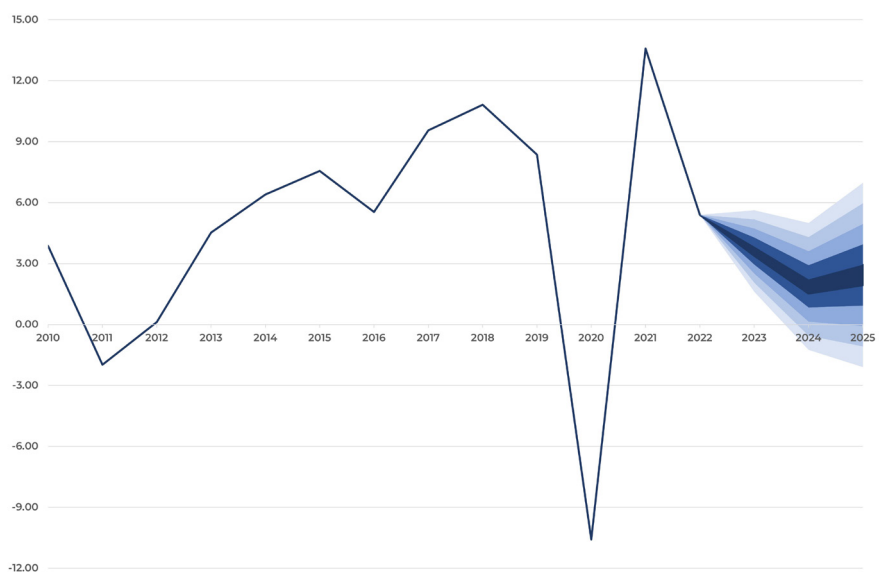


Data Source: NSO & Oxford Economics.

in Gozo. Positive growth was registered in 2021 and activity gained further momentum in 2022, attributed to the easing of restrictions and consequently a strong recovery in tourism arrivals, both local and international (see Chart 1).

According to Oxford Economics latest forecast, Gozo's real GDP is projected to grow by around 3.2% in 2023 and will exceed the levels registered prior to the pandemic (see Chart 2). The forecasted growth in 2023 is expected to be largely driven by an increase in tourism activity, strong domestic consumption and public investment.¹ In the outer years of the projection horizon, the Gozitan

Chart 2: Real GDP growth forecast (%) – Scenarios

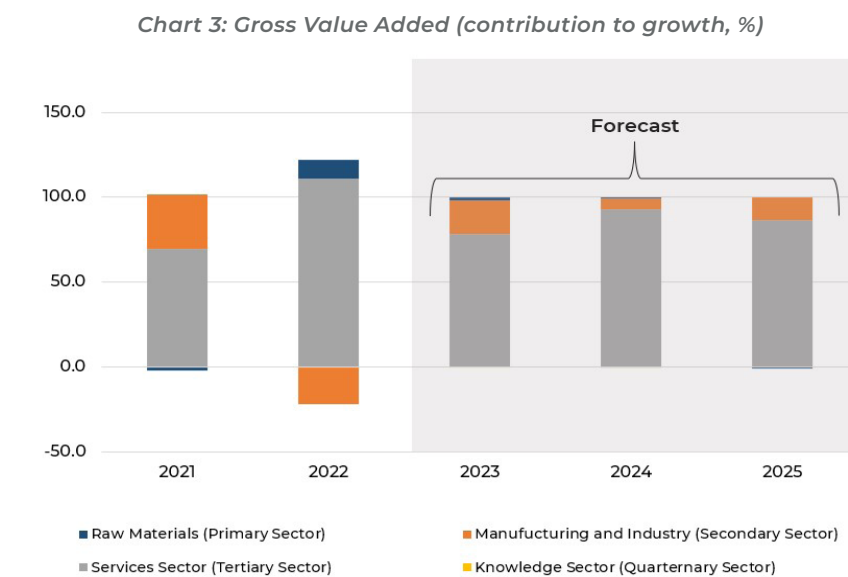


Data Source: Oxford Economics & GRDA.

¹ The baseline forecasts for Gozo are based on the regional macroeconomic model for Gozo developed by Oxford Economics' European Cities and Regions Service.

economy is set to continue on its growth trajectory albeit at a slightly more moderate pace.

From the output side, growth in 2023 is set to mainly emanate from the services sector (see Chart 3). The largest expected gains are set to stem from the sectors made up of accommodation and food services sector and administrative and support services activities. Positive contributions are also projected from the information and communication services, as well as professional, scientific & technical activities. Besides the services sector the manufacturing and industry sector is also expected to be a positive contributor to growth in 2023. Going forward, over the 2024-2025 projection horizon, growth is set to be broad based, predominantly from the services sector and to a lesser extent manufacturing and industry. Within the services sectors, the envisaged growth is primarily driven by accommodation and food services, supplemented by contributions from wholesale and retail sectors, as well as professional, scientific, administrative, and related activities. Meanwhile, the contribution of construction and real estate over the forecasted period should continue to moderate.



Data Source: Oxford Economics & GRDA.

Overall, risks to economic activity in Gozo are broadly balanced over the projection horizon (see Table 1). This mainly reflects national and international dynamics and developments. On the negative side, risks mainly emanate from stronger inflationary pressures which could lead to a stronger than expected impact on private and public consumption. An additional downward risk emanates from lower government expenditure due to fiscal consolidation given the government commitment to keep energy prices stable. On the upside, risks to the projections mainly emanate from higher private investment and consumption which could lead to a stronger than expected economic recovery, particularly in the outer years.

Table 1: Risks to the projection

| 2023 | 2024 | 2025 |
|---------------------------|---------------------------|---------------------------|
| 1. Inflation | 1. Inflation | 1. Inflation |
| 2. Tourism | 2. Tourism | 2. Tourism |
| 3. Private Investment | 3. Private Investment | 3. Private Investment |
| 4. Fiscal Consolidation | 4. Fiscal Consolidation | 4. Fiscal Consolidation |
| 5. Geopolitical situation | 5. Geopolitical situation | 5. Geopolitical situation |

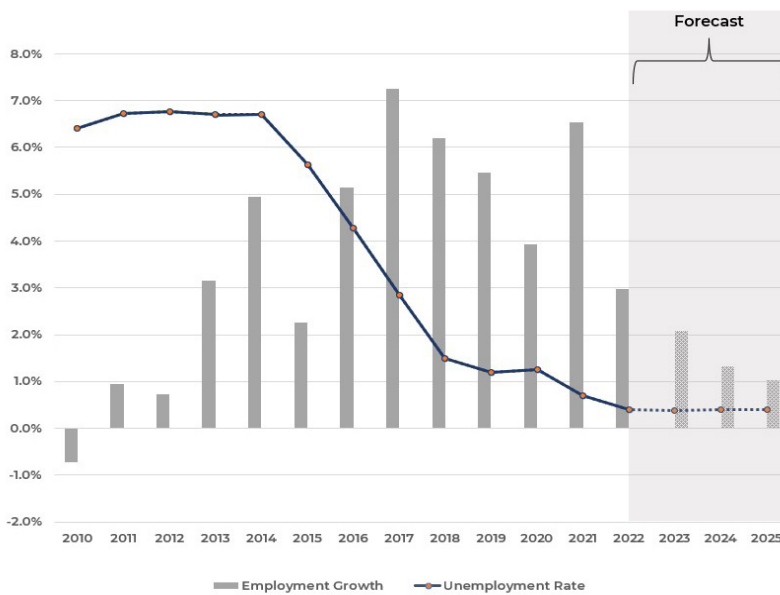
Strong Downside risk ■ Downside risk ■ Strong Upside risk ■ Upside risk ■

Data Source: GRDA workings.

Labour Market

Over the last years, even during the pandemic, the labour market in Gozo proved particularly resilient. Indeed, there was no material increase in unemployment during the months in which travel restrictions applied. In fact, in 2022, the number of registered unemployment in Gozo stood at only 63 individuals, a drop of 38.0% when compared to the levels registered a year earlier. This can be attributed to a number of factors including the wage supplement scheme and the relatively large share of public employment. However, it is to be noted that the share of public employment declined over the past years, from a share of 45.8% in 2010 to a share of 30.3% in 2021.

Chart 4: Employment growth (%)



Data Source: Oxford Economics & GRDA.

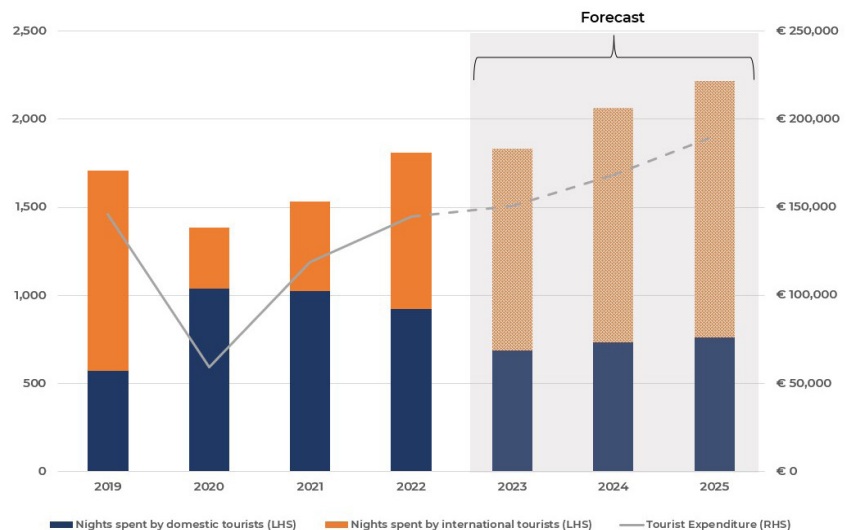
noting shortage of workers especially unskilled and semi-skilled which as a result could attract more foreign workers.

The buoyant labour market environment is expected to persist over the projection horizon as employment is set to grow by an average annual rate of 1.5% over the projection horizon, largely on the back of higher employment in the services sector. In 2023, employment is projected to grow by 2.1% and then gradually tapers off by the end of the projection horizon (see Chart 4). This outlook reflects the tight labour market conditions, with the private sector often

Tourism

During 2022 the tourism sector continued to improve following a significant decline in tourism activity as a result of the pandemic and the imposed restrictions. The number of tourists, nights stayed, and tourist expenditure rose significantly when compared with 2021 and also exceeded the number registered prior to the pandemic (see Chart 5)

Chart 5: Tourism indicators (in thousands)



Data Source: Oxford Economics & GRDA.

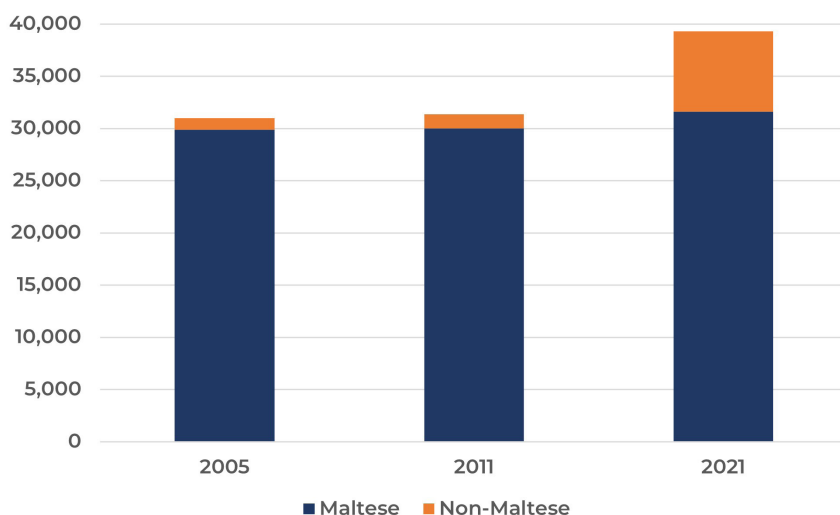
These developments largely reflect a strong increase in inbound tourism which rose by around 83.0% to reach 129,059 by end 2022. Nonetheless, the number of inbound tourists and nights spent by inbound tourists remained slightly below pre-pandemic levels. Meanwhile, domestic tourism declined slightly following elevated levels registered a year earlier.

Tourism activity is set to continue to grow in 2023, exceeding the levels recorded prior to the pandemic.² This increase largely mirrors the envisaged recovery in inbound tourism activity coupled with a strong domestic demand. The expected favourable tourism activity will consequently result in increased tourist expenditure, which will slightly surpass the levels recorded in 2019. Going forward, between 2024 and 2025, the elevated levels of tourism activity are set to persist as the number of inbound overnight visits and domestic tourism are both set to increase.

Selected Indicator: Demographic Developments and Outlook

According to the latest population census, Gozo had a total population of 39,287 individuals in 2021 (*see Chart 6*). This marked an increase of 25.2% when compared to the previous population census, which was carried out a decade earlier. The increase in the number of residents was

Chart 6: Gozo's total population by type of citizenship



Data Source: NSO Census of Population & Housing.

evident in all towns and villages within Gozo. Notably the localities of Żebbuġ and Munxar experienced substantial growth with an upsurge of almost 80% and 60% respectively.

The number of non-Maltese residents in Gozo has been gradually rising since Malta's joined the European Union in 2004. However, this growth has gained significant momentum over the last decade. By 2021, around 20.0% of the

Gozitan resident population held foreign nationalities, a notable increase from the 4.3% recorded a decade earlier. This shift was predominantly propelled by the substantial economic expansion that Gozo experienced during this period. In fact, on average, between 2012 to 2021, Gozo's real economy grew at an average annual pace of 5.2% with a growth which at times even outpaced that of mainland Malta. In contrast, in the preceding decade, Gozo's real economy experienced an average contraction of 0.1%.

The significant increase in economic activity led to a heightened demand for employment including foreign labour, particularly for roles that require lower skills levels. Gozo's employment

² Tourism forecasts were computed by Oxford Economics. The model framework used combines historical tourism data from the National Statistics Office with economic indicators from Oxford Economics' Global Economic Model.

grew from 9,657 in 2011 to 15,208 by end of 2021, an increase of 56.0%. The surge in employment opportunities was, in part, met by an influx of foreign workers, whose numbers grew from 409 in 2011 to 3,606 by end 2021.

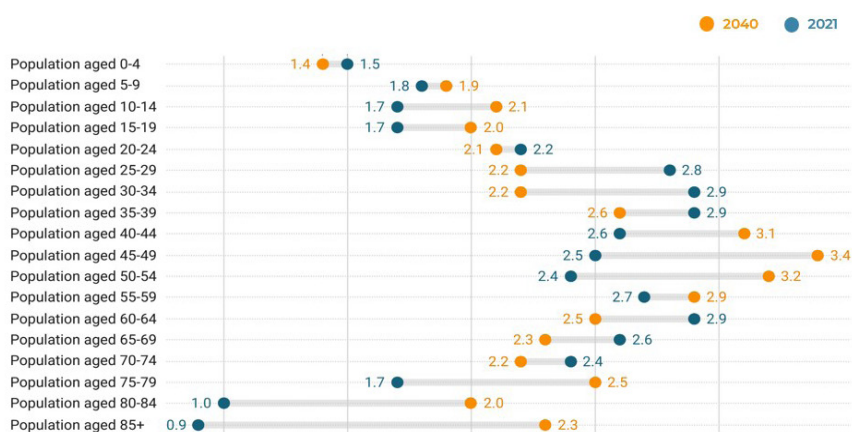
This increase was primarily driven by sectors such as construction, accommodation and food services and transportation.³

The increase in population observed over the last decade was also associated with a rise of 5.4% in the number of Maltese nationals residing in Gozo. This was driven by two main factors. Firstly, a greater number of Gozitan youths are now opting to reside in Gozo due to more job opportunities. In particular, demand for high skills sectors, such as the professional, scientific and technical sector and the information and communication sector, has significantly increased. In fact, between 2011 and 2021, employment in these two sectors tripled, from 503 to 2,445. This rise in demand for high skilled jobs had a positive impact on the number of Gozitans, in particular young graduates, that opt for a permanent dwelling in Gozo rather than in mainland Malta. Additionally, the flexibility of work arrangements, including teleworking and remote work, which became more prevalent during and post-pandemic, influenced young Gozitans to establish permanent residences in Gozo instead of mainland Malta.

Furthermore, the number of individuals who lived in Malta but acquired real estate in Gozo, and are classified as Gozitans for statistical reasons, has also risen. This additional trend has also played a role in augmenting the Maltese population in Gozo. This trend was largely motivated by fiscal incentives, such as the reduced stamp duty on residential properties in Gozo which was firstly introduced in 2018 and extended thereafter and further reductions in stamp duty rates and sellers' taxes as part of the government's economic recovery plan following the pandemic.⁴

Going forward, according to the latest population projections by Oxford Economics, Gozo's population is set to continue to grow, however at a much slower pace than that recorded over

Chart 7: Gozo's projected population change



the past decade. By the end of 2040, Gozo's population is expected to reach 42,900 individuals, an increase of 9.0% over the figures registered in 2021. The increase in population is set to be largely driven by the 65+ age cohort (see Chart 7). Simultaneously, a modest increase is expected in the number of individuals falling within the 0-14 age cohort as well as within the working-

Data Source: NSO Census of Population & Housing & Oxford Economics.

³ For a detailed overview of foreign nationals employed in Gozo see: <https://grda.mt/wp-content/uploads/2021/11/Foreign-nationals-employed-in-Gozo-09.11.21.pdf>.

⁴ For a detailed timeline of the measures taken over the years which encouraged demand for property in Gozo see: <https://grda.mt/wp-content/uploads/2021/11/Demand-on-Construction-Doc.pdf>.

age category. When compared to the levels registered in 2021, the number of people of working age is set to decline up to 2030 and is subsequently set to increase thereafter to just above 26,000 by the end of 2040.

GRDA Budget 2024 Proposals

The Gozo Regional Development Authority (GRDA) serves to address an important gap in the socio-economic development of Gozo by streamlining regional policies and their implementation. This ensures that Gozo's identity including its economic, social and environmental characteristics are reflected in national strategies and policies. The GRDA is presenting its submissions to the Minister of Finance in preparation for the 2024 Budget.

The submissions draw on the extensive research, consultations with and feedback from stakeholders which the GRDA carries out on an ongoing basis. Some of the proposals included in this year's submission also featured in last year's publication. The GRDA is reaffirming these measures as it firmly believes in the significance of implementing these proposals as they closely align with the Authority's vision for the Island. Finally, the submissions are complimentary with and in addition to the measures in the GRDA's Regional Development Strategy.

Proposal 1: Better targeting and alignment of the stamp duty reduction on residential property with Gozo's socio-economic and environmental needs

GRDA recommends that the stamp on duty reduction scheme, from the standard 5% to 2% of a property's value payable by buyers of residential immovable property in Gozo, is transformed into targeted incentives that are aligned with the achievement of policy objectives, namely: (i) encourage more upmarket property development in Gozo; (ii) limit eligibility of the scheme to low-end, dilapidated and vacant property which is repurposed into medium- to higher-end real estate in selected development zones; (iii) at the same time, subject small units to either higher stamp duty and/or additional fees to disincentivise the construction of small, low-end units; and (iv) promote green and efficient buildings.

Proposal 2: Ringfencing of revenue from the tourism eco-contribution to Gozo⁵

In line with the broad agreement that exists among tourism industry stakeholders around the policy objectives of the eco-contribution, the GRDA is in favour of the notion that the revenue generated from the eco-contribution tax should remain earmarked to upgrade the tourism product since it provides a signal and protects this priority industry which is crucial to Gozo's continued prosperity. Ensuring that the revenue collected is reinvested in the economic activity that has been singled out to be taxed ensures legitimacy and acceptance by the operators.

The GRDA proposes that the formula to apportion the funds between the two islands should also take into consideration Gozo's realities. It is being proposed that the formula should consist of an

⁵ This proposal was already featured in the GRDA's 2023 Budget proposals. For a detailed description of the proposal see: <https://grda.mt/wp-content/uploads/2022/09/Outlook-Pre-Budget-Document.pdf>.

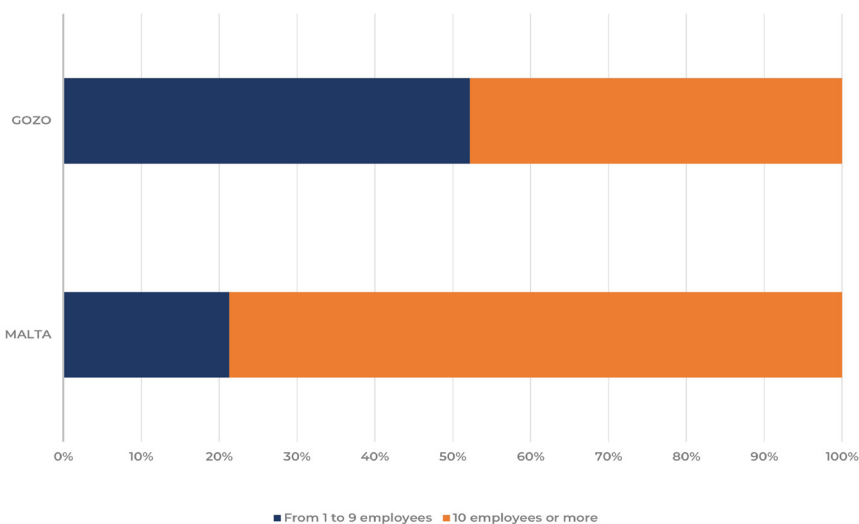
⁶ Source: Regional Statistics Malta 2023 Edition: <https://nso.gov.mt/wp-content/uploads/Regional-Statistics-Malta-2023-Edition.pdf>.

element that reflects the proportion of person nights which is topped up by a compensating factor that reflects the disadvantages in terms of same-day visitors, which in 2022 constituted 90.3% of annual total visitors to Gozo, and non-rented accommodation guests.⁶ Lastly, since budgets are fungible, it should be ensured that ringfencing does not result in offsets through cuts in other sources that are mobilised for the purpose of upgrading and maintaining the tourism sector.

Proposal 3: Review of training fiscal incentives to help Gozitan micro enterprises remove barriers to upskill and reskill their workforce

The GRDA has recently published a discussion paper on employment and skills in Gozo. This analysis delved into the key challenges of Gozo’s labour market with a particular emphasis on the demand and supply of skills.⁷ The analysis revealed significant disparities between Gozo’s business profile and that of mainland Malta (*see Chart 8*). Notably, microenterprises, comprising businesses with 1 to 9 employees, make up slightly more than half of the business population in Gozo, while in Malta, they constitute only one-fifth. This unique distribution poses considerable difficulties for upskilling and reskilling the workforce in Gozo due to the inverse relationship between company size and employee participation rates in learning opportunities. Capacity constraints, such

Chart 8: Profile of enterprises by size, 2019



Data Source: GRDA Discussion Paper on Employment and Skills in Gozo.

as limited resources and training difficulties typically experienced by microenterprises, exacerbate this challenge, leaving both employees and companies in Gozo highly vulnerable during periods of rapid change and economic uncertainty. To address the significant barrier of time investment, which hampers skills development for microenterprises, the GRDA proposes a review of the present training fiscal incentives. Acknowledging the substantial presence of microenterprises in Gozo and their inherent limitations in reskilling and upskilling their workforce, the GRDA suggests that training fiscal incentives for Gozo should encompass not only training costs but also compensate for the productive loss experienced by employees while participating in training. Importantly, this should be achieved without imposing the burden of training outside paid working hours upon the employees.

⁷ The discussion paper can be accessed from - <https://grda.mt/wp-content/uploads/2023/01/Employment-Skills-in-Gozo.pdf>.



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Tel: +356 22156342

Email: info@grda.mt

www.grda.mt

