



## PUBLISHED BY

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[www.grda.mt](http://www.grda.mt)

Publication date: September 2024.

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# Outlook 2024 - 2026 & Budget Proposals for 2025

## Macro-Economic Outlook

During 2023, activities in Gozo continued to expand resulting in economic growth. According to the Gozo Business Sentiment issued in June 2024<sup>1</sup> business conditions remained positive with almost 90% of enterprises reported either stable or improved business conditions over the period under consideration. This is expected to continue over the coming months, with 90% of businesses expecting their business conditions to remain either unchanged or to improve.



Data Source: Oxford Economics & GRDA.

This sentiment is confirmed by the latest projections produced by the GRDA in collaboration with Oxford Economics.<sup>2</sup> It is expected that Gozo's real Gross Domestic Product (GDP) increases by 3.8% in 2024 (see Chart 1). This envisaged growth is largely driven by an expected increase in tourism activity and strong domestic consumption. Beyond 2024, the Gozitan economy is set to continue to grow further however at a slightly more moderate pace. The growth is expected to be driven by strong tourism inflows and further outlays on public investment. Notably, infrastructural undertakings including but not limited to those financed through the Sustainable Urban Development Fund, are set to contribute to this growth trajectory.

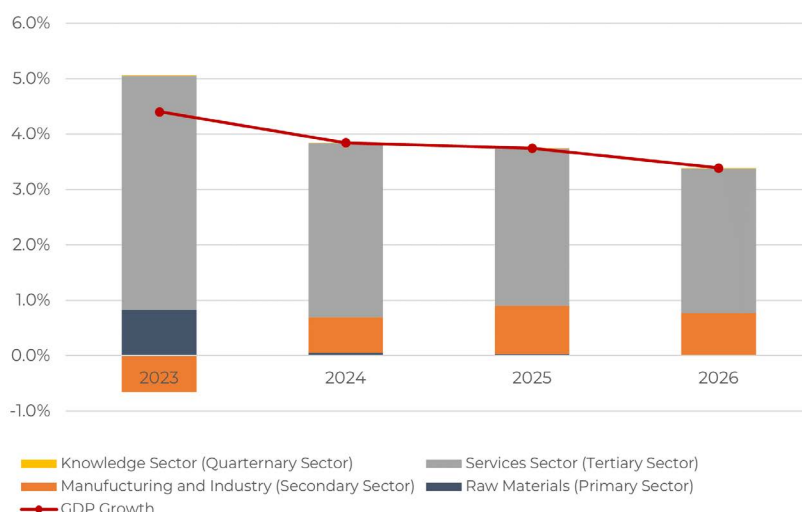
From the output side, growth in 2024 is set to mainly emanate from the services sector (see Chart 2). The largest expected gains are set to stem from the sectors comprising of the administrative, support and professional service activities. Positive contributions are also projected from the accommodation and food services, as well as wholesale and retail and transport activities.

<sup>1</sup> Gozo Business Sentiment 2024, Vol.1 Issue 1 - <https://grda.mt/wp-content/uploads/2024/06/GBC-2024-Vol.1-Issue-1.pdf>.

<sup>2</sup> The baseline forecasts for Gozo are based on the regional macroeconomic model for Gozo developed by Oxford Economics' European Cities and Regions Service.

Besides the services sector, the manufacturing and industry sector is also expected to be a positive contributor to growth in 2024 driven by expected growth in manufacturing and construction sectors. Going forward, over the 2025-2026 projection horizon, growth is set to be broad based, predominantly from the services sector and to a lesser extent manufacturing. Within the services sectors, the envisaged growth is primarily driven by accommodation and food services, administrative and support services, wholesale and retail, as well as construction and health related activities.

**Chart 2: GDP Growth (contribution by sector)**



Data Source: Oxford Economics & GRDA.

Compared to previous projections, GDP growth is now being revised upward, particularly in the outer years of the forecast horizon. This upward revision is largely driven by more optimistic expectations, due to a stronger-than-anticipated investment environment, backed by the results observed from the Gozo Business Sentiment survey, more positive demographic prospects, and a stronger domestic tourism.

The overall risks to these projections are tilted to the downside throughout the projection period, as shown in Table 1. This balance is influenced by both national and international factors and developments.

**Table 1: Risks to the projection**

2024	2025	2026
1. Inflation	1. Geopolitical situation	1. Geopolitical situation
2. Geopolitical situation	2. Tourism	2. Tourism
3. Tourism	3. Fiscal Consolidation	3. Private Investment
4. Private Consumption	4. Private Investment	4. Fiscal Consolidation
5. Labour Market	5. Labour Market	5. Labour Market

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

Source: GRDA workings.

**Negative Risks:**

- **Geopolitical Tensions:** Potential geopolitical tensions could result amongst others in heightened inflationary pressures and lower demand. These pressures may negatively impact both private and public consumption.

- Fiscal Consolidation: Downside risk stems from the possibility of reduced government spending. This reduction could occur as part of efforts to adhere to EU fiscal rules.
- Labour Market: Potentially weaker than projected labour market dynamics, reflected in both employment rates and wage growth.
- Private investment: Downside risk emanating from lower private investment in residential property.

Positive Risks:

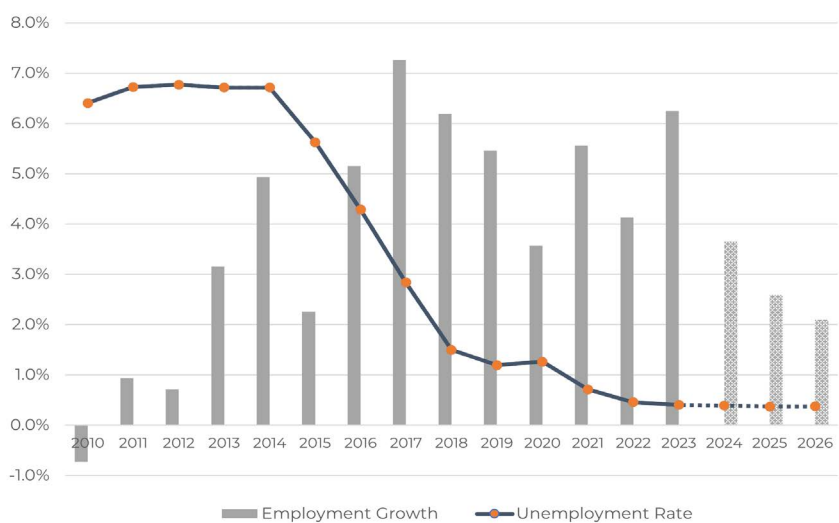
- Tourism Growth: The economic outlook could be bolstered by a higher than anticipated surge in inbound tourism.
- Private Consumption: Higher levels of private consumption.
- Public Investment: Higher than expected uptake and use of funds under the Sustainable Urban Development (SUD) can positively impact the outlook especially for the outer years.

## Labour Market Outlook

Gozo’s labour market maintained its strong momentum, with a steady increase in employment. 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 2.8% over the 2024-2026 projection horizon. This growth is largely on the back of higher employment in the services sector particularly those of administrative support and professional and technical activities.

In 2024, employment is expected to increase by 3.7%, in line with the insights from the latest Gozo Business Sentiment. Over the following years, this growth is projected to gradually slow, with rates of 2.6% in 2025 and 2.1% in 2026 (see Chart 3). These forecasts also account for the tight labour market conditions, with the private sector frequently reporting shortages, particularly in unskilled and semi-skilled workers.

**Chart 3: Employment growth & unemployment rate**



Data Source: Oxford Economics & GRDA.

## Tourism Outlook

In 2023, the tourism sector continued to recover following the decline experienced in previous years due to the pandemic and related restrictions. This improvement was driven primarily by a 23.0% increase in inbound tourism, reaching 158,378 by the end of the year, which also led to a 19.7% rise in nights spent by inbound tourists. However, both inbound tourist numbers and nights spent remained slightly below pre-pandemic levels. At the same time, domestic tourism surged by 22.5%, reaching historic highs.

According to the latest projections, tourism activity is expected to grow significantly this year, reaching record levels in both tourist numbers and nights spent (see Chart 4). This growth reflects the anticipated recovery in inbound tourism, which is projected to return to pre-pandemic levels by the end of 2024, while domestic tourism is also expected to remain robust. In the outer years of the projection horizon, tourism activity is set to continue rising, with inbound tourism flows expecting to maintain their upward trend.



Data Source: Oxford Economics & GRDA.

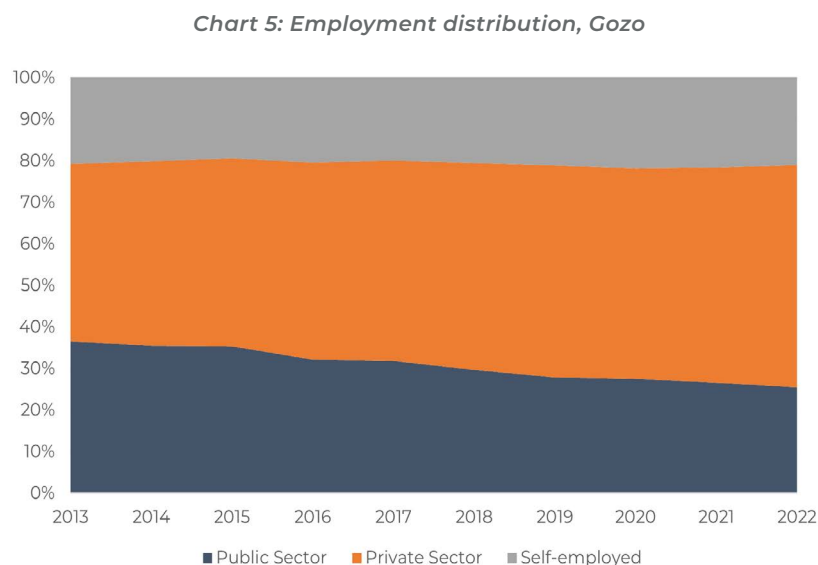
Tourism forecasts have been revised upwards compared to those made a year ago. In the previous round of projections, domestic travel was expected to gradually return to pre-pandemic levels, a trend seen in many European and global destinations. Overall, post-pandemic domestic travel has shown growth across cities and destinations. In cases where significant above-trend increases in domestic travel were recorded during 2020-2022, such as in Gozo, these gains were expected to be temporary, with a decline anticipated for 2023. However, Gozo defied this trend, with domestic visitor numbers rising sharply in 2023. Additionally, data from the first half of 2024 shows no signs of a sharp decline in domestic travel, resulting in domestic tourism levels being significantly higher than previously forecasted.

### Selected Indicator: Public Sector Employment in Gozo

Over the last fifty years, the public sector constituted a major source of employment in Gozo. The reasons are many and include a clear effort by the central government to provide employment in an island traditionally marked by outward migration due to very limited jobs opportunities. Lack of employment resulted in high uncertainty of income thus making public sector employment more attractive to the Gozitan population. This partly explains the value many Gozitans place on job security. Indeed, the latest State of the Nation survey revealed that job

security is a top priority for Gozitans, ranking just behind job satisfaction and income.<sup>3</sup> Another key factor is that public sector jobs are often associated with more flexible working conditions such as reduced hours and better family-friendly measures, which encourages more individuals to pursue employment in this sector.

The number of employees with the public sector in Gozo has stabilised over the last five years at around the 3,900.<sup>4</sup> Nevertheless, the share of public sector employment to total employment declined as the economy continues to generate more jobs in the private sector (see Chart 5). In fact, private sector employment, including self-employment, rose from 6,443 in 2013 to 11,642 in 2022, an increase of 81%.



Data Source: National Statistics Office

Meanwhile, over the same period, employment with the public sector rose by 7.5%. As a result, the share of public sector employment to total employment declined by 11.0 percentage points over this period to stand at 25.5% by end 2022.

Although the share of public sector employment has gradually decreased, it remains high compared to that observed in mainland Malta. In fact, as at end 2022, the share of public employment in Gozo was 9.0 percentage points higher than that in the mainland reflecting the factors listed above as well as indivisibility of costs. The high share of public sector employment in Gozo might dampen long term growth prospects. In fact, literature suggests that the over-reliance on public sector jobs could create distortionary effects including inefficient resource allocation and lower worker productivity.

The GRDA modelled the impact of a gradual increase of 1,000 employees over a ten-year period under two different scenarios: one scenario employment being the public sector while the other employment occurring in the private sector.<sup>5</sup> According to such estimates, a gradual increase of 1,000 public sector workers would have a smaller impact on the island's long-term growth potential when compared to the same employment increase but in the private sector.

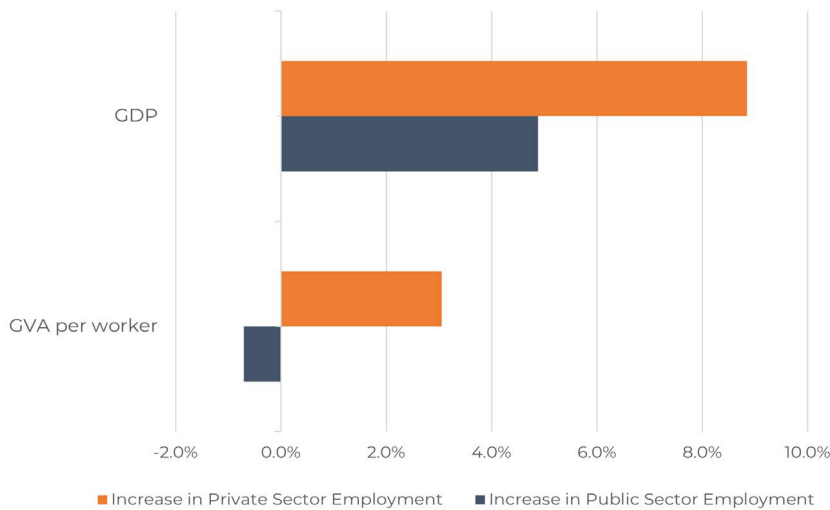
Specifically, the modelling exercise shows that a gradual increase of 1,000 public sector workers would result in a 4.9% rise in GDP over a 10-year period (see Chart 6). However, this increase in public sector employment would not contribute to higher productivity; in fact, productivity per worker would marginally decline. On the other hand, if this gradual increase

<sup>3</sup> <https://grda.mt/wp-content/uploads/2024/08/GRDA-Report-Stat-tan-Nazzjon-2024-1.pdf>

<sup>4</sup> The public sector is composed of the General Government sector (central government, local councils and extra-budgetary units) and Public Corporations.

<sup>5</sup> To model this impact, the GRDA made use of impact model for the Gozo economy provided by the Oxford Economics.

Chart 6: Long-term impact of a gradual increase of 1,000 employees



Source: GRDA estimates, Oxford Economics.

of 1,000 workers occurred in the private sector in industries such as professional, financial and insurance services, or IT, it would lead to an increase of 8.8% in GDP, 4.0 percentage points higher than that of the same increase in public sector employment. Additionally, productivity per worker would increase by 3.1%, a more positive outcome compared to the impact of an increase public sector employment.

## GRDA Budget 2025 Proposals

For the past years, the GRDA has prepared and published a small but specific number of proposals prior to the annual Government Fiscal Budget. These proposals reflected important considerations and look at the Gozitan dimension from a long-term perspective and in line with the GRDA role in contributing to the socio-economic development of Gozo. As per previous years, the GRDA has limited its yearly budget proposals to three in order to emphasise their importance.

The GRDA positively acknowledges that its proposal entitled *'better targeting and alignment of the stamp-duty reduction on residential property in Gozo'* that feature as part of in the GRDA proposals over the past last two years has been taken into consideration in the Budget Speech for 2024 and was fully implemented in February 2024.

The GRDA submissions for the 2025 Budget are as follows.<sup>6</sup>

### Proposal 1: Ringfencing of revenue from the tourism eco-contribution to Gozo

This proposal has been presented consistently over the past three years. The GRDA strongly advocates a more mature and extended regional approach to decision making. The use of some type of revenue in the region of its generation is a practical way to implement a more decentralised and regional approach. 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. Thus, the GRDA is again proposing that revenue generated from the eco-contribution in Gozo should be ringfenced to be used for the upgrading of the tourism product and infrastructure of Gozo.

<sup>6</sup> The submissions are complimentary with and in addition to the measures outlined in the GRDA's Regional Development Strategy.



## **Proposal 2: Review of training fiscal incentives to help Gozitan micro enterprises remove barriers to upskill and reskill their workforce**

Gozo has a significant presence of microenterprises, with around half of the businesses on the island employing fewer than nine people. This creates a vulnerability within the business ecosystem, especially during periods of change. Microenterprises face various challenges in upskilling and reskilling their workforce due to the inverse relationship between company size and employee participation rates in learning opportunities. Limited resources and training difficulties exacerbate this problem, leaving both employees and businesses in Gozo highly vulnerable.

To tackle the major barrier of time investment that hampers skills development for microenterprises, the GRDA proposes a review of the current training fiscal incentives targeted for training and upskilling of workers. Recognizing the significant 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 cover not only training costs but also compensate for the productive loss experienced by employees while participating in training. Crucially, this should be accomplished without requiring employees to undergo training outside of paid working hours.

## **Proposal 3: Changes in Local Plans for Terraced houses that form part of the Home Ownership Schemes in Gozo (Government Housing Estates)**

In line with its vision of Gozo an 'Island of Villages', the GRDA recommends preserving Gozo's distinctive urban character by protecting certain zones within the island's built environment. This recommendation stems from the recognition that certain areas are characterized by unique design, that exhibit harmony and coherence, which merit distinctive recognition and protection.

More specifically, the GRDA is proposing changes in the local plans for areas which form part of what are commonly known as Government Housing Estates. These zones are overwhelming characterised by rows of terraced houses, with their height in good proportion when compared to street width. These ratios and proportions give rise to streetscapes and skylines that fully respects the concept of a 'Island of Villages'.

Changes in the local plans for these zones will ensure that the existing height and streetscapes are retained. The GRDA strongly believes that this represents a positive step in line with Gozo Regional Development Strategy.



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