



Special Editorial

A focus on the Maltese economy

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This special edition of Xjenza Online carries eight articles on the Maltese economy, analysing its different aspects and using different approaches, with some studies utilising econometric techniques, while others relying more on a descriptive analysis. Seven out of the eight articles cover specific aspects of the economy, namely housing, education, inflation, competition regulation, the labour market, pensions, and the exchange rate of the domestic currency. One of the articles presents an overview of the Maltese economy, discussing its sustainability.

1 Retirement savings in Malta

The factors that influence individual willingness to participate in a workplace pension scheme, authored by Philip von Brockdorff and his co-authors, is the first article carried in this special edition. Workplace pension schemes provide an alternative, private source of retirement funds to employees, with the contributions typically made by both the employees themselves and their employers. The authors argue that this topic is of interest in light of concerns related to the sustainability of public pensions in Malta and within the EU, resulting ageing population. To investigate this issue, the authors conduct a series of computer-assisted telephone interviews across a sample of 164 workers in Malta who are members of a leading trade union. The results show that respondents' willingness to save in a workplace pension scheme is strongly driven by trust levels of the workers in such schemes. The authors carry out logistic regressions based on the results of the interviews and find that trust in such schemes is positively related with being male, relatively high income and high levels of risk tolerance, meaning the extent to which survey respondents are happy to accept risk as part of their financial decisions.

The authors derive a number of interesting implications from the results of the interviews and the regression exercises used to process these results. The main implications of their findings are that there is the need to encourage greater pension-related savings among younger workers, since they tend to be less likely to invest in workplace pensions schemes. The findings also point towards the need for any workplace pension schemes to cater for the growing diversity within the Maltese workforce, including women, given the different levels of trust in such schemes. The article also discusses the role of trade unions in fostering such schemes and ensuring that they appeal and are accessible to a diverse array of workers in the Maltese labour force.

2 The sustainable development implications of economic changes in Malta

Lino Briguglio discusses Malta's economic performance between 2012 and 2021, comparing the Malta changes with those of the other 26 European Union (EU) member states and with the EU average. The paper also considers social, environmental and political issues, again within an EU context, so as to place the economic dimension within a sustainable development context. The focus is however on economic aspects, with the other aspects being chosen mostly in view of the fact that they tend to drive, or to be driven, by changes in economic realities. The data presented and discussed in the paper, if synthesised, indicates that between 2012 and 2021, Malta has done relatively very well economically, mostly in terms of economic growth, fairly well in terms of social development and not well at all in terms of environmental and political governance. The paper argues that in matters relating to social and political governance, the situation appears to have, broadly speaking, improved since 2021. However,

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this is not the case in matters relating to the physical environment, and the situation would seem to have been worsened in some aspects. The paper ends with an optimistic remark that Malta's membership in the European Union, where sustainable development and democracy are assigned major importance, should dissuade maladministration excesses in matters relating to political and environmental governance.

3 The Economic Impact of the Office for Competition on the Maltese Economy

Gilmour Camilleri and his co-authors attempt to quantify the economic benefits of the workings of the Office for Competition to the Maltese economy. To do so, they used an input-output model, which enables them to assess the direct and indirect multiplier effects in terms of Gross Value Added that accrued on the Maltese economy as a result of the Office's control of concentrations between 2014 and 2018. The main conclusion of this study is that the estimated financial benefit to the Maltese economy in terms of GDP, averaged €10.2 million per year, of which €7.1 million are direct effects and €3.1 million are indirect benefits. These amounts equate to an average return ratio of 30:1 for every Euro allocated to the Office in terms of Gross Value Added. The return ratio aims to capture the benefit to the economy in relation to a euro of budget allocated to the Office to cover the cost of its operations, such as salaries, rent and other overhead costs.

Noting that this ratio is higher than those found in similar studies, the authors list a number of caveats relating to the results of the study, suggesting that these results should be interpreted with caution. However, the authors argue that notwithstanding these limitations, quantifying the benefits-to-cost ratio of competition authorities is a useful exercise as it informs the competition authorities about the estimated effect of their intervention.

Several policy implications can be derived from the study, including that such an exercise helps the Maltese authorities in gauging the rate of return from the annual budget allocated to the Office for Competition, which they can use to increase awareness of the benefits of competition law and policy. This study also helps the Office to conduct forecasts and estimates of pending market studies and market investigations, merger control and cases involving competition enforcement. Furthermore, it also aids in conducting annual costing estimates according to its targets and setting case priority based on expected economic impacts.

4 Educational Attainment and Gender Gaps in the Maltese Labour Force

Tiziana M. Gauci analyses the main trends in educational attainment in Malta during the decade between 2010 and 2021 and discusses factors that directly affect gender gaps in the Maltese labour market. Data indicates that educational attainment in Malta has improved substantially during the period under consideration, but pronounced gender gaps remain. The paper considers two major factors that would seem to affect gender gaps in labour force participation rates, namely parenthood obligations and choice of study areas at tertiary level. The author derives a number of policy implications from these findings, including that women should be encouraged to follow STEM subjects and that work-life balance initiatives are crucial for decreasing the gender gap in the labour force.

An important implication of this study is that women are more likely to experience longer out-of-work spells than men, because of the unbalanced division of housework and care activities between men and women in households. Consequently, differences in human capital between the genders are bound to increase with age. Moreover, career interruptions may entail negative consequences for women's careers paths, although the repercussions of these decisions vary depending on the length of the interruptions. The author argues that work-life balance initiatives should not only focus on women with young children but rather should be more open to encompass both men and women in fulfilling their caring responsibilities. An interesting argument by the author is that given that the changes in the labour market are largely technologically-driven, females who follow non-technical study areas tend to find themselves at a disadvantage when it comes to career advancement possibilities. The share of women in STEM occupations is often depleted even further through what is known as the "leaky pipeline" syndrome whereby women move away from STEM jobs, and opt for teaching professions, for example, because of challenges such as finding a work-life balance, among others.

5 Exchange Rate Pass-Through to Consumer Prices

The Exchange Rate Pass-Through (ERPT) is commonly defined as the extent to which exchange rate changes are reflected in the price levels of an economy. This matter has important implications in a number of policy-relevant areas. Glenn Abela and Noel Rapa use an econometric model to estimate the pass-through to consumer prices in Malta after adoption of the euro. Their results indicate

that the ERPT to overall Harmonised Index of Consumer Prices (HICP) is largely driven by the goods component while ERPT to services prices is largely insignificant across the period considered. They find that, in general, changes in currency exchange rates are reflected in local prices for up to a year after they occur. Pass-through to goods prices however, tends to be more persistent over time: exchange rate changes feed through to prices after one quarter and remain relevant even up to two years after the change. Their results are also mostly consistent with economic theory and with the empirical literature for euro area countries.

The study of ERPT to local consumer prices has important policy implications. Exchange rate movements are one of the channels through which monetary policy can affect consumer prices. In this light, factors that lead to different levels of exchange rate pass through have implications on the effectiveness of monetary policy in stabilising consumer price inflation. This is even more important for small and open economies within monetary unions, which on the one hand might have specific characteristics that considerably affect the extent of ERPT to consumer prices, whilst not having a fully independent monetary policy. Against this backdrop, further studies on the characteristics that can affect ERPT in Malta can shed more light on the effectiveness on monetary policy in stabilising consumer prices in our economy.

6 The Beveridge Curve in Malta

The Beveridge curve, which shows the relationship between unemployment and job vacancies, is the subject of Melchior Vella's paper, with an empirical analysis covering the period 1998–2022. The author argues that the rapid economic growth recorded between 2013 and 2022 has had a major impact on the labour market, with improvements in efficiency in the matching between supply of labour and employment. This suggests that the Maltese Beveridge Curve over the last decade has shifted inward. This hypothesis was tested empirically using the estimated job entry and exit rates derived from administrative data. The results show, among other things, that despite the record high ratio of job vacancies to unemployment, the labour market still maintained a sufficiently high job finding rate. The findings also indicate a shortage in the creation of new occupations by the economy, despite employers having a desire to hire more workers. In fact, years of high vacancies, such as 2017 to 2019 and 2012 to 2022 could have resulted in congestion effects created by the employers themselves, increasing search costs and thereby reducing the firms' returns from hiring additional workers, everything else remaining constant. One reason for this, proposed by the author, is that in

a small domestic market, the search by one employer is likely to crowd out other firms' chances of finding a suitable employee. However, this negative externality has not translated into a higher unemployment rates, as, according to the author, matching efficiency has also increased, likely reflecting the heavy reliance of immigration on the needs of the economy and the use of active labour market measures.

An important policy implication of this study is that in order to address the challenge at hand, policymakers and market participants should focus on strategies that mitigate congestion externalities. Policy initiatives could include investment in skill development and labour market information systems that provide data on job openings and workforce capabilities.

7 House purchase affordability for first-time buyers in Malta

The affordability of home ownership in Malta has in recent years become a major social and economic area of concern in Malta, especially for first-time buyers. In his study, Brian Micallef develops a housing affordability index that is specifically targeted for this category of buyers covering the period 2000–2022. The index refers to the ratio of household income to the minimum income required to qualify for a mortgage to purchase a property and thus takes into consideration the financing conditions faced by borrowers. He finds that property price-to-income ratios have trended upwards during the period under consideration. For example, for a two-wage earner couple, the ratio of property prices to the household income has increased from 3.7 in the early 2000s to 5.7 in 2022. For single individuals, property prices have risen from around 7 times their income to almost 11 times during the same period. A factor that affects housing affordability is the locality of the property.

The author points out that price-to-income ratios do not take into consideration financing costs, which until 2022 have trended downwards. Since 2022 a combination of factors – such as supply chain disruptions due to the COVID-19 pandemic, high commodity prices, the war in Ukraine and tight labour markets – have led to significantly higher inflation rates and a tightening of monetary policy. While in Malta policy rates tend to be imperfectly and sluggishly passed to the bank retail rates, higher interest rates are likely to exert additional pressure on housing affordability.

An implication derived by the author from the results of this paper is that assessments of affordability should move away from simply considering medians or averages and instead consider the different income groups and localities of the various properties. For example, the situ-

ation of first-time buyers can differ significantly from that of the median household. In addition, buyers face difficult trade-offs involving, for instance, decisions about location, property type and size. Such considerations will require additional granular data, some of which may not be available. The author argues that such information is crucial to ensure that housing policies in Malta are based on sound and accurate information and, equally importantly, designed to target those that truly require assistance.

8 Further evidence on core inflation in Malta

Very often inflation is measured by the overall index of consumer prices, but Reuben Ellul Dimech argues that what is known as core inflation is a better measure to explain the effective price pressures experienced in an economy. Traditionally, core inflation excludes volatile items like food and energy prices, providing a more stable measure of underlying inflation trends faced by consumers. On the other hand, the headline inflation rate covers all goods and services included in the official measure for inflation, which offers a comprehensive view of overall price changes in an economy. The author further argues that core inflation measures are useful in periods of heightened inflation caused by short-lived or transitory shocks. The author, using a dynamic factor model, produces estimates of core inflation for Malta based on data relating to the harmonised indices of consumer prices (HICP) for the period January 2006 to August 2022. The results indicated that the price inflation experienced in Malta, post-March 2021, was not transitory in nature.

According to Ellul Dimech, the core inflation measure has a number of desirable properties for policymakers. For example, in the case of Malta, this index did not have the sharp upward or downward swings found in Maltese overall HICP data. During the period under consideration, the results show that the underlying inflation remained high throughout 2020, while all other official inflation statistics showed effectively lower inflation rates. This would seem to indicate that households in Malta were experiencing higher inflationary pressures than official statistics suggests. The implication of this finding is that core inflation information is useful for policymakers and social institutions with an interest in price pressures and wage bargaining. This also suggests that collective wage-bargaining based on official statistics does not capture inflationary biases and could discriminate in favour or against households, depending on the deviation of official statistics from core inflation.

Overall

As can be seen from the above syntheses of the arguments put forward in the articles included in this special edition, a variety of themes relating to the Maltese economy were covered. The editors would like to thank all the authors of the articles, which have rendered this volume interesting to read and containing various useful economic policy implications. The editors are also very grateful for the valuable suggestions by the reviewers of the articles.