THE CONTRIBUTION OF THE TOURISM INDUSTRY TO THE MALTESE ECONOMY
Ensuring sustainable growth in tourism

Over the decades, tourism has experienced continued growth and deepening diversification to eventually become one of the fastest growing economic sectors in the world. The World Travel and Tourism Council describe tourism as one of the world’s largest industries, supporting 277 million jobs and generating 9.8 per cent of the world’s GDP.

Tourism has become one of the major players in international commerce while also representing one of the main income sources for many developing countries. This growth moves in parallel with increasing competition among destinations. Such dynamics have transformed tourism into a key driver for socio-economic progress.

The tourism sector in Malta needs to consolidate upon its growth performance, exploit fresh opportunities in new and emerging markets while effectively addressing upcoming challenges to sustain its future growth. Tourism being a main contributor to the Maltese economy growth, my Ministry saw this as a highly appropriate time to commission a detailed and independent study on the impact of tourism activity on the Maltese economy.

This exercise that was entrusted to a specialised consultancy firm breaks down and analyses the general outlook of tourism indicators year after year, compares our performance on a regional level and identifies areas of opportunities for further growth. The study furthermore focuses on key requirements for the economy to attain even better value added activity from tourism.

Now that both this study and the updated Tourism Policy for Malta covering the period 2015-2020 have been duly published, the next step is to align both documents within the context of an implementation and action plan for the industry.

Dr. Edward Zammit Lewis
Minister for Tourism
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PREAMBLE

In January 2014, the Ministry of Tourism commissioned E-Cubed Consultants to conduct economic research in order to examine the contribution of Tourism Activity to the Maltese Economy in 2014, produce indications of potential demand in 2015 and 2016, and derive conclusions which would be relevant for the purposes of policy formulation and implementation.

E-Cubed Consultants is pleased to present this report to the Ministry of Tourism as part of the deliverables of this assignment. It contains a non-technical exposition of the key findings of this research, presented in a manner which illustrates the economic contribution of tourism activity and focuses on its principal driving factors in the medium term.

The research was led by Dr Gordon Cordina supported by Amanda Borg and Maria Cini.

This work has benefited from the insights and information provided by various key players in the field, including the Ministry of Tourism, the Malta Tourism Authority, the Malta Hotels and Restaurants Association, the Gozo Tourism Association, the National Statistics Office, Valletta Cruise Port and a number of business operators.

It is augured that this research contributes to a continued better appreciation of the crucial contribution of the tourism industry to the Maltese economy, of the key elements in government policy and business decisions that are generating its ongoing success, and of the roles which all stakeholders, including human resources, must play for its continued growth. This is within the context of a sector where economic, social and political developments which lie outside Malta’s control often have significant impacts, and could affect the livelihood of one in every seven workers in our country and the prosperity which such employment brings to society as a whole.

Gordon Cordina
Lead Author
This report evaluates the contribution of the tourism industry to the Maltese economy, illustrates key developments in the industry in 2014 and derives indications of potential demand for the industry expected for 2015 and 2016. It furthermore provides a number of implications for policy formulation and implementation that stem from its findings.

In 2014, international tourist arrivals stood at 1,689,809 while tourists’ expenditure stood at €1.5 billion. This activity is estimated to have sustained around 20,500 jobs directly, and a further 7,300 jobs through supporting activities. One in every seven jobs in Malta is thus a result of tourism expenditure. This implies that every €10 million spent by tourists sustain 137 jobs. In 2014, as a result of the 6.1% increase in tourism expenditure, 500 new jobs were created.

Indicators for this industry show sustained growth over the past five years which was reinforced in 2014 and which was in excess of that of the overall economy. Malta is estimated to have gained market share in 2014, both with respect to other competitor destinations in the Mediterranean, as well as in comparison to the growth in outbound tourists in source markets.
The analysis proceeds with a focus on a number of aspects on the performance, competitiveness and economic contribution of the tourism industry in 2014. In 2014, total tourist arrivals increased by 7% with an average length of stay of 8 days while expenditure increased by 6.1% with a per capita expenditure of €904. Expenditure in Gozo amounts to around 50% of Gozo GDP generating up to 20% of the total employment in Gozo.

Figures also show that tourism in Malta is highly seasonal. Nevertheless, the share of length of stay and expenditure in off peak season show a slight increase. In Mediterranean context Malta is performing well even though it was negatively affected by political developments in Libya and Russia. However these elements were compensated by increases in other markets.

The contribution of tourism to the Maltese economy was translated into higher profitability levels in 2014 which spanned all hotel categories. There has also been significant growth in private accommodation business. Average wages in the industry, which are typically among the lowest in economy, increased at a faster pace in 2014 than the average of other economic sectors.

Tourism is also contributing to the utilisation of EU funding from the 2007-2013 Programme, with a budgetary allocation of over €116 million aimed at product and competitiveness improvements.

The last section provides an indication on future demand. Taking into consideration all the factors influencing demand from economic to political developments, conservative estimates indicate an expected increase in tourist arrivals of 4.1% in 2015 and 7.5% in 2016.

This analysis concludes by indicating potentials for further increased in tourist arrivals and expenditure through a number of actions including easing connectivity, investment in accommodation including a quality 3-star element, and improvement in product quality and distinctiveness. Specific niches should be targeted, including a potential focus on domestic tourism.
INTRODUCTION

This report presents a non-technical exposition of the findings of independent research commissioned by the Ministry of Tourism. This report is to be prepared in the context of:

a. The significant growth in tourism activity especially in 2013 and 2014, and the need for policy to ensure that the economic contribution emanating from it is being optimised;

b. The need for policy to continue to ensure that tourism activity continues to grow sustainably in the medium to long term;

c. The need to ensure coherence between the sustained and sustainable growth of tourism activity, the optimisation of the economic contribution of the sector, and the aims and objectives of Government as articulated in the Draft National Tourism Policy 2015-2020 issued for consultation by the Ministry for Tourism in January 2015;

d. The need to entrench tourism as a pillar of the expected future development of the Maltese economy, directly and indirectly by supporting areas of economic activity requiring a congenial living environment for foreign visitors.

The principal focus of discussion and analysis regarding tourism in Malta is based on international tourism, involving a stay of at least one night in a collective or private accommodation. This is here extended to the concept of visitors, which could be a tourist or a same-day visitor, on a trip to a place other than the usual environment.
This would lead the analysis to also consider:

i. Cruise liner passengers staying for a period of less than 24 hours;

ii. Domestic tourism, particularly with respect to stays by Maltese residents in collective or private rented accommodation (especially in Gozo), whereby Maltese tourists would be viewed to contribute to the Maltese economy through their expenditure.

From a methodological perspective, the work presented in this report largely relies on available secondary sources. The approach has sought to bring together information from various sources to present a coherent analysis of the size and contribution of tourism activity in Malta. In addition, a number of estimates are based on expert opinions provided by operators in the policy and business fields associated with the tourism industry. Among the key variables focused upon in terms of the assessment of the contribution of the sector is employment, which is considered as a fundamental indicator of economic performance, and in some respect superior to Gross Domestic Product, which may be affected by elements of profit fluctuations which are not of direct interest to the Maltese economy within a number of sectors of activity.

The importance of the regional dimension of tourism, particularly with respect to the economy of Gozo, is also highlighted.

From the perspective of performance, the study focuses on the indicators of arrivals, nights stayed and expenditure, placing these within the context of market share developments within the Mediterranean context and growth in source countries to the extent made possible by available data. Special focus is made on developments in seasonality and concentration of markets and connection points to the country. Further aspects of interests presented here include developments in profitability, human resources, accommodation stock and utilisation of EU funding by the tourism industry.

In order to achieve these aims, this report is structured as follows. Following this introduction, the contribution of the tourism industry to the Maltese economy is evaluated, from a medium term perspective and in terms of the specific growth registered in 2014. This is followed by a focus on headline benchmark performance indicators specific to the industry and its competitiveness. A more in-depth analysis is presented in the next two sections, illustrating developments in key indicators of economic contribution and competitiveness. These elements are the basis for the derivation of indications of potential demand for the industry expected for 2015 and 2016. In conclusion, the report provides a number of implications for policy formulation and implementation that stem from its findings.
01.
TOURISM
WITHIN THE OVERALL ECONOMIC CONTEXT IN MALTA

The tourism industry plays an important role in the Maltese economy. It is a crucial driving force of the national economy making essential contribution towards economic growth.
The economy is divided into various sectors each of which is directly or indirectly influenced by tourism. There is no specific sector for tourism as it is a horizontal theme with implications on a number of facets of the economy. However, accommodation and food, wholesale and retail, transport and recreation are the four sectors experiencing major direct impacts from tourism. Together they account for 31% of the economy’s approximately 189,000 full-time equivalent jobs in 2014, as shown in Figure 1.

Tourism also impacts on other sectors of economic activity, though these effects are not amenable to statistical estimation at this stage. These include education and health, as well as real estate activities, especially within the context of rentals for short stays of non-collective accommodation. This study recognises these effects but does not include a specific estimation for them due to insufficient data. As such, the results presented here can be considered to be on the conservative side.

In order to discern the impact of tourism expenditure on the economy, the implications for such expenditure on the turnover of the sectors which are mostly impacted by it are investigated first.
In 2014, the tourism sector has generated around €1.5 billion in tourism expenditure, according to Inbound Tourism statistics published by the National Statistics Office. Results of Survey work conducted by the Malta Tourism Authority enables this expenditure to be categorised into various elements which subsequently allow for an economic analysis of its effects. These elements include expenditure prior to departure which is sub-divided into package and non-package including flights, accommodation, transfers and vehicle transfers and expenditure during stay. The latter is in turn sub-divided into 5 categories; food and drink, transport, shopping, recreation and others. The latter includes, amongst other things, vehicle fuel, parking fees and internet access.

On the basis of this data, and after making adjustments for expenditure elements which do not impinge on the Maltese economy, such as revenues of foreign carriers, the share of turnover of the sectors mostly impacted by tourism which can be attributed to tourism expenditure itself can be derived. This also includes estimates for expenditure associated with cruise visitors and domestic tourism, but these are relatively minor elements compared to the expenditure by international tourists, as is discussed in detail further on in this report.
The results of this analysis are presented in Figures 2 through 5. The diagrams indicate how the €1.5 billion tourism expenditure is estimated to be distributed among economic sectors in Malta. As can be expected, the majority of expenditure generated within the accommodation and food industry, which is mainly comprised by hotels and restaurants, is generated by international tourism. Around three-quarters of the approximately €0.9 billion turnover of the entire sector is attributable to tourism. This however entails that the sector depends on the resident market for a quarter of its activity, which indicates the potential which domestic tourism can play in the local economy.

The transport sector and the wholesale and retail sectors generated turnovers of approximately €1.3 billion and €1.2 billion respectively. With respect to the transport sector, 23% is attributed to tourism, covering in the major part air transport, but also important elements of land and water transport, as can be expected. Around one-quarter of the turnover of the wholesale and retail trades sector is attributable to tourism expenditure. This is an important result, reflecting an often-ignored aspect of tourism activity in Malta in sustaining a variety of retail outlets, including smaller and more specialised ones.

The recreation and entertainment sector in Malta has a turnover of approximately €2.2 billion, which includes a substantial portion associated with remote gaming activities. Not surprisingly, only 5% of this is generated by tourism expenditure, although it still amounts to €110 million.

It is to be furthermore remarked that the remote gaming sector is highly cosmopolitan and has important connections with tourism in terms of tourists visiting expatriates family members and friends, as well as specific gaming-centred events.

The sectoral turnover effects documented above account for a total of €1.41 billion. The difference between this figure and the €1.53 billion expenditure by international tourists in Malta reflects expenditure elements which do not impact on the local economy, and adjustments for cruise visitor and domestic tourism.

Expenditure represents spending on output demanded and produced, which in turn is utilised towards the employment of factors of production including labour. A direct relationship between turnover and employment for each of the sectors majorly impacted by tourism expenditure can therefore be deduced. This results in a number of jobs which can be directly associated with tourism expenditure. As such tourism expenditure is estimated to sustain around 20,500 jobs in the Maltese economy. This means that 11% of jobs created are directly supported by the tourism sector, as shown in Figure 6.

Figure 06
CONTRIBUTION TO JOBS

TOURISM (DIRECT) 11%  OTHER 89%

source E-Cubed estimates

1 Sectoral turnover figures are sourced from Eurostat on the basis of data available for 2013 and partial estimates for 2014.
Being the sector with over 70% of its turnover generated from tourism, the accommodation and food sector sustains the highest number of jobs created by tourism with almost 11,000 jobs.

Figure 7 presents the distribution of these 20,500 jobs across the main economic sectors prone to major influence from tourism.

Another significant number of jobs, almost 7,000, are sustained by tourism expenditure in the wholesale and retail trade sector. As expected, tourism is also estimated to sustain jobs in the transport sector, and to a lesser extent, in the recreation and entertainment sector.

It is to be reiterated that these numbers only include estimates for jobs being created directly within businesses that are the direct recipients of expenditure by tourists.

This means that every €10m tourism expenditure sustains 137 jobs and every 10,000 tourists sustain around 121 jobs. However, this has potential for further job creation through the input-output effects. This type of analysis would study the flow of goods and services between different sectors. This means that in addition to jobs created in the tourism sector other jobs are created in other sectors of the economy. This is the result of an increase in demand for inputs to increase output for the tourism sector to cater for the rise in demand reflected through expenditure growth.

source: E-Cubed estimates
Table 1 presents an estimate of input-output effects associated with tourism expenditure in Malta. For each of the three sectors where tourism exercise a major impact on turnover, an estimate of intermediate consumption net of utility costs is derived. In the Accommodation and Food sector, for instance, the intermediate consumption net of utility costs, is estimated at €550 million from a total turnover of €900 million. Considering that around three quarters of this is associated with tourism activity, the expenditure which this sector effects in the rest of the economy is estimated at €410 million. At a benchmark value of approximately one job being sustained in Malta for each €90,000 of annual turnover the expenditure effected by the accommodation and food sector can be estimated to generate around 4200 jobs. A similar approach is followed for the other two sectors included in the analysis shown in Table 1. In this manner, it is estimated that tourism expenditure would generated approximately 7,300 jobs through this second round expenditure effect, in addition to the 20,500 jobs generated through direct expenditure. Thus, the 27,800 jobs estimated in total constitute 1 in every 7 jobs in the Maltese economy.

### Table 01

<table>
<thead>
<tr>
<th>SECTORS WITH IMPORTANT TOURISM CONTRIBUTION</th>
<th>INTERMEDIATE CONSUMPTION (PURCHASES OF GOODS AND SERVICES FROM OTHER FIRMS, NET OF UTILITIES)* (€M)</th>
<th>ESTIMATED INTERMEDIATE NET CONSUMPTION ATTRIBUTABLE TO TOURISM* (€M)</th>
<th>ESTIMATED JOB CREATION*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation and Food</td>
<td>550</td>
<td>410</td>
<td>4200</td>
</tr>
<tr>
<td>Transport</td>
<td>800</td>
<td>180</td>
<td>1900</td>
</tr>
<tr>
<td>Wholesale and Retail</td>
<td>450</td>
<td>110</td>
<td>1200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1800</strong></td>
<td><strong>700</strong></td>
<td><strong>7300</strong></td>
</tr>
</tbody>
</table>

source: E-Cubed estimates

The approach followed here is a somewhat simplified version of the multiplier analysis typically associated with input-output studies. It depicts a situation where the tourism sector contributes approximately 15% of economic activity in Malta. While this result is significant, clearly placing tourism as a main pillar of the Maltese economy, it is to be remarked that other studies have typically derived even higher rates of the contribution of the sector. As a reference point, according to World Travel and Tourism Council (2011), tourism contributes directly to 13% of Malta’s GDP. The total contribution when considering also indirect and induced effects amounts to 25% of GDP.

One reason for the higher estimates derived by other studies would be that they would have been based on an economic structure which was significantly different from that at present, which is nowadays characterised by the growth of a number of new economic sectors such as those based on IT, remote gaming and financial services. Another important issue is the fact that the use of input-output studies in the context of major sectors of activity may not always be appropriate, in that such models assume linear relationships across the entire value of economic activity generated by the sector. In other words, in the absence of the tourism industry in Malta, it may well be that part of the employment which is dedicated to service the industry would be redeployed elsewhere rather than being unemployed. For this reason, a simplified and more conservative approach is deliberately chosen in undertaking this study, which is however made more relevant through the use of latest available statistics.
On the basis of the foregoing analysis which depicts the general role of tourism expenditure in generating economic activity in Malta, a more detailed focus on developments in 2014 and related results can be presented.

In 2014, total inbound tourists increased by 107,656 (7%) tourists while tourism expenditure increased by €88,386 (6.1%). On the basis of the relationships between tourism expenditure and job creation derived in the foregoing analysis, this 6.1% increase in tourism expenditure experienced in 2014 is estimated to have created 500 new jobs. As Figure 10 shows, the distribution of these jobs consisted of approximately 260 new jobs in the accommodation and food sector, 185 new jobs in the wholesale and retail sector, 40 new jobs in transport sector and 20 new jobs in the recreation and entertainment sector.

This implies that every €10m increase in tourism expenditure created 67 additional jobs and every 10,000 extra tourists created 57 additional jobs in 2014. This does not include the potential for further job creation through input-output and induced multiplier effects.

Following this assessment of the contribution of tourism expenditure to the Maltese economy, this report delves into the specific performance of the sector and the main drivers behind it. The next section describes developments in a number of main benchmark indicators, following by more detailed assessments of underlying factors in the subsequent ones.
The recent emphasis on economic growth based on “new economy” sectors in Malta in recent years may have given some commentators the mistaken impression that tourism is a “sunset” sector in Malta which can be relied upon for drive future growth. Developments over the past five year period, as reinforced in 2014, attest otherwise.
Figure 11 presents a set of medium term indicators indicating main trends of tourism activity in relation to the overall economy. Arrivals grew by around 25% over the period, and expenditure followed an even steeper upward trend. Although employment in the sector has not been keeping up with the increase in arrivals and expenditure for a number of years, it staged a recovery in 2014. In comparison to the real GDP, indicators show a sustained growth in excess of that of the overall economy.

Malta is also proving to be competitive and attractive as a tourist destination also in comparison to other Mediterranean countries, as shown in Figure 12.

In 2014, tourist arrivals in Mediterranean countries in peak season increased by 5.0%. This compares with a 6.7% growth in arrivals in Malta in the same year.
Malta is also competitive during off-peak season when considering that Malta’s performance is 1.2 pp higher than that of the other Mediterranean countries. Growth in arrivals for Malta increased by 7.4% in comparison to the 6.2% in the other Mediterranean countries. Malta’s strong growth, but also within the context of a strongly-growing Mediterranean tourism activity, in spite of often adverse political events, point to an element of resilience in tourism activity and its potential for growth in Malta.

Another indicator of competitiveness and market share can be attained through the comparison of the growth rates between arrivals of tourists in Malta from specific countries and the change in total outbound tourism from the same countries (including domestic tourism, which is a relevant competition factor in countries such as Italy). Data with respect to the latter is limited, but on the basis of information available, it can be discerned that Malta has gained an increasing share within its main source markets in 2014, and even from countries with a decline in outbound tourism. This means that Malta can be attractive enough to increase its market share with increase in arrivals from slow growing markets or markets in decline. This is evident from the inflow of tourists of Italian nationality. Although Italy experienced a decline of approximately 10% in outbound (including domestic) tourists, Malta still gained market share as the inflow of Italian tourists increased by around 12%. Apart from Italy, Malta’s increase in market share can be attributed to the increase in inflow of tourists from all other countries listed below except for tourists coming from Germany and Ireland. Overall outbound tourism in major selected market sources was flat but arrivals to Malta from these markets rose by an average of 6%.
In order to better understand development in tourist spending and the related potentials, an analysis was carried out on the expenditure per night and growth in number of nights spent by nationality. The analysis shows that expenditure per night tends to be lower for the larger tourism markets, and conversely higher for markets where Malta is not yet well-developed as a tourism destination, as shown in Figure 14. The latter includes the United States and Switzerland as prime examples, but also a number of countries which are currently statistically classified under the “Other Markets” category, which in total account for a substantial number of arrivals and nights, but some of which are as yet incipient as source markets. Partly due to this, the growth dynamic and potential is concentrated in the smallest and largest source markets, as shown in Figure 15. This means that there is still opportunity for expansion in markets which are as yet smaller but which entail higher expenditures.
Figure 15
ANALYSIS OF NIGHTS AND GROWTH IN NUMBER OF NIGHTS

source: Inbound Tourists News release, NSO
03.
TOURISM ACTIVITY
IN MALTA IN 2014
AND MAIN DRIVING FACTORS

This section of the report continues to develop on
the main developments characterising the tourism
industry in Malta in 2014.
This time by not only going deeper into determinants and effects, but also by extending the scope of analysis to include:

1. **Inbound Tourism** referring to activities of non-resident visitors within the country of reference on inbound tourism trips;

2. Visitors or same day visitors, on a trip to a place other than the usual environment, thus including cruise line passengers and crew;

3. Domestic tourism particularly with respects to stays by Maltese residents in collective or private rented accommodation, especially in Gozo.

As mentioned in the previous section, international tourists increased by 7% in 2014. Yet, there are other factors to consider in analysing the performance of the tourism sector within the Maltese economy. The total nights spent by international tourists is one such important aspect to consider since the longer the nights spent in Malta the higher the spending. This ultimately contributes to generate further growth within the tourism sector.

The total nights spent by international tourists amounted to 13,552,112 nights in 2014, as shown in Figure 16. This represents an increase of 5% while the average length of stay remained stable, edging slightly downwards, to just over 8 days. Additionally, expenditure per capita has decreased marginally to €904 from €910 per person. On the other hand expenditure per night increased slightly by €1.26 per night from €111.74 to €113.00.

As noted previously tourists’ expenditure can be divided between expenditure prior departure and expenditure during stay. This is inherent in MTA survey data. Expenditure prior to departure is furthermore sub-divided into two: expenditure on package holidays and non-package expenditure on the basis of Inbound Tourism data compiled by the National Statistics Office. Figure 17 provides an estimated analysis of total expenditure at item level detail by considering how much of this total expenditure is spent on travel packages and non-package items prior and during stay. The total package element in the expenditure, which included purchasing of flights, accommodation and excursion as a whole package, accounts for 37% of the total expenditure.
3.1 SEASONAL ANALYSIS OF INTERNATIONAL TOURIST ACTIVITY

The tourism sector in Malta is inherently seasonal with the highest number of tourists coming in August, the peak of the summer tourist season in Malta. Although being recognised as a summer destination, it is necessary for Malta to diversify its tourism product offering as much as possible throughout the year in order to sustain growth, avoid excessive peak pressures on infrastructures and provide more stable employment and income generation opportunities for the Maltese population. Figure 18 is indicative of the seasonal nature of tourism expenditure in Malta, and shows that expenditure in 2014 appears to have increased uniformly on a monthly basis as compared to the previous year.

On the other hand when analysing non-package expenditure data by item it seems that tourists spend more on food and drinks than on accommodation and flight. They account for 18%, 15% and 13% respectively. The remaining 17% is spent on shopping, recreation, transport and other items.

source NSO Inbound Tourism Statistics, MTA survey data
Expenditure in the peak season accounts for almost 73% of the entire tourists’ expenditure given that over 67% of the tourists visiting Malta come during the peak season (Figure 19 & 20). They cover for over 70% of the total nights spent in Malta.
Figures 20 and 21 indicate an element of progress in overcoming seasonality. Although the share of total arrivals, between peak and non-peak, remained constant, there was a slight increase in total expenditure and total nights during off-peak season as a proportion of the year total in 2014 as compared to 2013. Nevertheless, the diagrams above show that seasonality is still highly evident.

Innovating the tourism industry with the intent to overcome fluctuations in tourist arrivals and make Malta attractive all year round will strengthen competitiveness and boost the tourism sector, achieving a sustainable and economically successful industry.

3.2 THE MEDITERRANEAN CONTEXT

Malta performed well in terms of growth in tourism performance in 2014 when compared to other Mediterranean Destinations. Figure 22 below reveals that growth in tourism in Malta stood at 7% in 2014. This rate of growth is considered to be above the average for the Mediterranean countries implying that Malta performed well in comparison to other competitor countries. The country experiencing the largest growth in the Mediterranean was Portugal at around 12% whilst that with the smallest growth was Cyprus at 1.5%. This variation indicates an element of risk in the market, as positive performance was by no means guaranteed for Mediterranean in 2014. It also indicates elements of competitiveness for countries which did well during the year, including Malta.
3.3 ANALYSIS BY MAJOR SOURCE MARKETS

Despite the positive performance, it must be mentioned that Malta’s performance was affected by shocks to Libyan, Russian and specific EU markets. Such negative shocks have negative implications on tourists arriving from such countries. In fact, in 2014 tourist arrivals from Libya, Germany, Russia and Spain declined. As depicted in Figure 23, this decline was compensated for by growth in traditional markets as well as significant diversification in other markets. The latter furthermore feature elements of longer haul tourists, and potentially longer stays and higher expenditures per arrival.

3.4 CONCENTRATION ANALYSIS BY AIRPORT

An analysis of the distribution of tourist arrivals by airport, developed through the use of data obtained from the Malta International Airport, reveals that the top five airports namely Gatwick, Frankfurt, Rome Fiumicino, Heathrow and Manchester account for 27% of total passenger movements in 2014. As illustrated in Figure 24, 15 airports account for 50% of passenger movements.
Furthermore, 80% of the increase in passenger movements in 2014 that amount to circa 100,000 tourists as depicted in Figure 25 emanate from the 15 airports that account for 50% of passenger movements. A key message that emanates from this figure is that as top airports approach flight capacity limits, further diversification may be needed.
3.5 CRUISE VISITORS

Table 2 presents data on cruise visitors by country of origin sourced from Valletta Cruise Port. In 2014, visitors, including passengers and crew estimated to land on shore, totalled 538,766 persons with an average expenditure of €40.23 per capita. This activity thus left a total expenditure amounting to around €21.7 million in the Maltese economy during the year. When compared to the previous year, the number of visitors in 2014 increased albeit declines in visitors from Spain and the UK. In the case of Germany, visitor numbers increased. However, per capita expenditure decreased significantly causing total expenditure from German tourists to decline by €0.75 million, in comparison to the previous year. Such a decrease in expenditure was outweighed by increases in per capita expenditure primarily by French tourists.

In terms of expenditure, it is estimated that cruise line operators in addition spend between €40 million and €60 million on supplies and services. Given that there were 303 ship calls in 2004, it can be concluded that a call by a vessel on average leaves €260,000 in the Maltese economy. Furthermore, in terms of visitor numbers, it is estimated that overnight cruise passengers rose from 8,838 to 24,724 in 2014. This reflects an increase in this type of activity particularly concerning tourists from Germany.

The implications of this analysis shed light on the fact that Malta must continue to attract more cruise ship calls, as well as business where passengers would spend an overnight stay in Malta. This contributes to increase expenditure and reaps more indirect and second round effects on the rest of the economy.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>TOTAL SPENT €m</th>
<th>VISITORS</th>
<th>PER CAPITA SPEND €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>2.94</td>
<td>1.95</td>
<td>0.99</td>
</tr>
<tr>
<td>Germany</td>
<td>4.36</td>
<td>5.11</td>
<td>(0.75)</td>
</tr>
<tr>
<td>Italy</td>
<td>2.73</td>
<td>3.26</td>
<td>(0.53)</td>
</tr>
<tr>
<td>Spain</td>
<td>0.36</td>
<td>0.82</td>
<td>(0.46)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.33</td>
<td>2.46</td>
<td>(0.13)</td>
</tr>
<tr>
<td>Australia</td>
<td>0.84</td>
<td>0.62</td>
<td>0.22</td>
</tr>
<tr>
<td>Canada</td>
<td>0.79</td>
<td>0.56</td>
<td>0.23</td>
</tr>
<tr>
<td>Japan</td>
<td>0.10</td>
<td>0.13</td>
<td>(0.03)</td>
</tr>
<tr>
<td>United States</td>
<td>3.00</td>
<td>2.83</td>
<td>0.17</td>
</tr>
<tr>
<td>Others</td>
<td>4.22</td>
<td>3.41</td>
<td>0.82</td>
</tr>
<tr>
<td><strong>Total/Average</strong></td>
<td><strong>21.67</strong></td>
<td><strong>21.16</strong></td>
<td><strong>0.51</strong></td>
</tr>
</tbody>
</table>

*Data was collected through a survey conducted by Valletta Cruise Port*
3.6 DOMESTIC TOURISM AND VISITORS TO GOZO

Tourism has an important regional dimension. It contributes more heavily, in relative terms to the Island of Gozo, which at the same time enjoys a relatively lower level of income than the main Island of Malta. At the same time, the element of Gozo tourism indicates the potential importance of domestic tourism. Such tourism has important potential implications for the local economy, as it may substitute the leakage of expenditure and income via the expenditure by Maltese residents abroad. Furthermore, there is greater potential to extract income generating revenue from a domestic tourist who would typically be faced with lower travel cost than an international one. This analysis estimates the element of domestic tourism to Gozo and the associated expenditure. Subsequently, it derives more general conclusions on the impacts of tourism on the region of Gozo.

There were a total of 2.3 million passengers on ferry crossings in 2014. The majority of these crossings were by international tourists and visitors, as shown in Figure 26.

After accounting for these, and on the basis of estimations of crossing made by residents for work and similar purposes, it is estimated that in 2014, there were 377,630 Maltese tourists and visitors to Gozo.

On the basis of expenditures by tourists on accommodation, food and shopping, it is conservatively estimated that each resident tourist spends just over €41 per trip. This entails an expenditure of €28 million in 2014. Domestic tourism is furthermore estimated to have grown by around 5% in 2014. This is a positive sign which denotes that domestic tourism continues to grow in Gozo.

Furthermore, domestic tourism has other facets which may further develop in future, particularly as new resorts develop on the Island and the demand for off-season short breaks continues to increase. Outbound tourists and visitors amounted to 430,000 in 2014, also up by 5% over 2013. This is a potentially lucrative market for local tourist business to target for further activity growth.
From a regional perspective, the contribution of the tourism industry to Gozo in terms of expenditure which amounted to around €180 million per annum is equivalent to just under 50% of Gozo GDP. As illustrated in Figure 27, the largest expenditure contributor emanates from the international longer stay visitors that in total spent €122 million in 2014. This implies that international longer stay tourists stay for a longer period of time in Gozo spending more than day trippers or domestic tourists. They play a significant role in generating direct and indirect economic effects within the Gozitan economy.
Out of the 6,900 private sector jobs in Gozo, 30% can be attributed to the tourism sector as shown in the pie chart below, equivalent to 20% of all jobs on the island. This is based on an estimation methodology similar to that applied for the entire economy in the first section of this report.

**Figure 28**
CONTRIBUTION TO JOBS IN GOZO
6,900 PRIVATE SECTOR JOBS IN GOZO

Source: E-Cubed estimates
SELECTED ASPECTS
OF THE CONTRIBUTION OF TOURISM TO THE
MALTESE ECONOMY IN 2014

This section discusses further aspects of the competitiveness and contribution of the tourism industry in 2014, mainly from the perspective of resource utilisation. It examines developments in profits, wages, human capital aspects, investment in physical infrastructure and EU funding.
4.1 ACCOMMODATION SECTOR PROFITABILITY AND WAGES

Improved profitability permeated the entire sector in 2014, including lower class categories of accommodation, namely 3 star, as shown in Figure 29. It can be noted that growth in gross operating profit in comparison to the previous year increased significantly in the 3 star category implying a recovery from relatively very low margins in the previous period. It also indicates the potential for this sector to successfully thrive in a financially sustainable manner as a quality offering targeting a specific segment of the market. It thereby also helps to diversify Malta’s tourism offer, to an extent mitigating the risks of external shocks.

Figure 30 provides an analysis of the Average Annual Salary by economic sector. This analysis focuses on annual basic salaries and excludes extra payments such as overtime, bonuses and allowances. Average wages in the tourism industry are among the lowest in comparison to the other sectors of the economy. This is due to the fact that most persons employed within the sector fall within the low skilled worker category and there is also a relatively high prevalence of part-time workers. It is interesting to note that wages increased by 3.4% in the tourism industry in comparison to 2.3% for the economy average.
4.2 THE QUALITY OF HUMAN CAPITAL

There is a large proportion of part-time workers within the sector in comparison to the other sectors of the economy. This is due to the seasonal nature of this sector which peaks during the summer months thereby employing workers on a part-time basis. Figure 31 illustrates the proportion of full-time to full-time equivalent employees (FTE)\(^4\) for the different sectors of the economy. As shown on the Figure below, the Accomodation and Food sector has the lowest proportion of full-time to FTE employees (at around 70%), indicating a higher proportion of part-time workers when compared to the rest of the economy.

It is to be furthermore noted that sectors most closely associated with tourist expenditure tend to employ a relatively high number of expatriates as compared to other sectors in the economy. The quality of human capital can also be discerned from the number and type of students preparing for career or career advancement in the sector. The majority of students enrolled in tourism related programmes of study are less than 20 years of age. This means that studies tend to be at further level and are on a shorter term basis as students complete their studies earlier than courses in other fields of study.

More males are enrolled at vocational further level whilst the trend is reversed for higher level courses. This is consistent with enrolments in other fields of study that attract more males for vocational courses and more females within academic and higher level programmes. As depicted in Figure 32, only 27% of students are enrolled at Malta Qualifications Framework (MQF) level 5 or higher. This has implications on the human capital that will be available to work within this sector in the coming years which tends to be qualified at lower levels and consequently lower paid in comparison to the other sectors of the economy.

\(^{4}\) FTE = Full time + 0.4 × Part time employees

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**source** Gainfully Occupied Population, National Statistics Office
In comparison to the entire workforce, the number of tourism studies students is low as shown in Figure 33 below. The proportion of students enrolled as a percentage of FTE employees in the Accommodation and Food sector stands at around 5% in comparison to 16% for the whole economy. This is potentially a cause for concern indicating that skills renewal and upgrading in the tourism sector is not at par with the rest of the economy. It may also imply a competitive disadvantage, especially in the long term, with the consequent risk that the sector would increasingly prove to be less attractive to Maltese nationals aspiring for jobs which are typically associated with higher levels of qualifications. The situation is also not consistent with aspirations for product improvement and increasing expenditure yields per tourist visitor.

4.3 HOTEL BEDSTOCK AND NON-COLLECTIVE ACCOMODATION

The availability of hotel bed-stock followed seasonal patterns for refurbishment and reinvestment. As shown in Figure 34, this trend is evident year in year out with the number of bed places peaking in the summer months. It is also the case that the number of bed places was generally lower in 2014 as compared to 2013, mainly on account of refurbishment and reinvestment in upper category hotels. This is shown in Figure 35.

**Figure 32**
STUDENTS ENROLLED IN TOURISM STUDIES (2013)

**Figure 33**
STUDENTS ENROLLED AS % OF FTE

*Source: Education Statistics, NSO*
In terms of Nights spent by type of accommodation, Figure 36 reveals how the market shifted to private accommodation in 2014 up to 34.4% at the same time that occupancy rates in hotels increased to 62.8%.

The reason for the increase in private accommodation is due to internet bookings made directly through websites related to self-catering apartments which seem to be gaining popularity not only in Malta but elsewhere. This may create opportunities for better regulation of the sector.
Operational Programme 1 Priority Axis 2 aims to promote a sustainable and competitive tourism industry able to reach its maximum potential for growth and to re-affirm its central role in Malta’s economic activity.

This Priority Axis also aims to reach a number of operational objectives namely:

- Support the upgrading of the tourism product
- Promote the Maltese Islands as a prime and diverse tourist destination
- Improve the competitiveness of tourism and culture operators

The focus areas of intervention identified by this Priority Axis are:

- Product Development
- Niche Market Development and Branding
- Aid Schemes to Tourism / Cultural Undertakings

The financial allocation for this Priority Axis amounts to €120 million of which €102 million are Community Funding (European Regional Development Fund). The total funds committed amount to €116 million, as shown in the Table below resulting in 97% of funds allocated being committed which is a relatively good take-up.

<table>
<thead>
<tr>
<th>Table 03</th>
<th>PA 2 Projects by Beneficiary and Funds Committed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PA 2 Projects</strong></td>
<td><strong>Beneficiary</strong></td>
</tr>
<tr>
<td>Restoration &amp; Rehab of Historical Fortifications</td>
<td>Restoration Department</td>
</tr>
<tr>
<td>Fort St. Elmo Heritage Experience</td>
<td>Grand Harbour Regeneration Corporation</td>
</tr>
<tr>
<td>Tourism Zone Upgrade</td>
<td>Malta Tourism Authority</td>
</tr>
<tr>
<td>Grant Scheme for Sustainable Tourism Projects by Enterprises</td>
<td>Various</td>
</tr>
<tr>
<td>Other</td>
<td>Various</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

Source: PPCD, Annual Implementation Report
As shown in the above table, the largest amount of funds committed relate to the restoration and rehabilitation of fortifications. In total, Priority Axis 2 is absorbing 14% of OP1 funds. Indications are that Cohesion Fund and ERDF resources will not be similarly available to the tourism sector in the forthcoming EU budgetary period.

Other potential funding sources may need to be identified to sustain the competitiveness of the sector including those associated with European Social Funding, especially with regards to the formation of human capital, and possibly under initiatives associated with Blue Growth.
TOURIST ARRIVALS IN 2015 AND 2016: INDICATIONS OF DEMAND POTENTIAL

Building on the findings of the foregoing analysis, this section derives indications of potential demand in terms of tourist arrivals for 2015 and 2016. This is done on the basis of expected developments in a number of potential determinants of arrivals. Estimates derived are subject to downside and upside risks as documented further on.
5.1 DETERMINANTS OF INTERNATIONAL TOURIST ARRIVALS

The main determinants of international tourist arrivals include:

1. **Economic Growth/Spending Power in Source Countries**
   Higher economic prosperity in source countries is expected to cause an increase in tourist arrivals.

2. **Price Competitiveness/Exchange Rates**
   This factor is less relevant in the context of a weak euro since Malta’s exports of services are more attractive, of which tourism is a major component.

3. **Connectivity: availability of flights at affordable cost**
   Connectivity is an important determinant affecting tourist arrivals in a positive manner as more flights are available especially within the context of an island where the main modes of transport to the rest of Europe are air and sea.

4. **Market specific conditions/actions of tour operators**
   Market conditions in competitor countries and actions of tour operators may have positive as well as negative impacts on tourist arrivals.

5. **International marketing/promotional efforts by Malta**
   Advertising Malta as a tourism destination is expected to have a positive implication on tourist arrivals.

6. **Political developments in source countries**
   Upheaval in source countries dampens tourism arrivals from such countries as is the case of Libya and Russia.

7. **Perceptions regarding security in Mediterranean**
   Security issues in the Mediterranean may deter tourists from visiting Malta especially those coming from outside the EU.

5.2 THE IMPORTANCE OF ECONOMIC GROWTH FOR TOURIST ARRIVALS IN THE SHORT RUN

Arrivals from the UK, France, Belgium, Netherlands and Switzerland have a strong positive correlation with economic growth as depicted in Figure 37. This is derived on the basis of growth rates observed over the five year period between 2010 and 2014.
Arrivals from Italy, Spain, Ireland, Austria, Germany and Scandinavian countries, on the other hand, show little or no correlation with economic growth, as illustrated in Figure 38.
It can be stated that correlations show balance of probabilities regarding effects relevant in the short term whilst weak correlations to economic growth indicate other more relevant factors in the short term.

As shown in Chart 39, 43% of arrivals (UK, FR, BE, NL and SWITZ) have a strong correlation with economic growth. This means that economic performance in the UK has a direct implication on tourist arrivals in Malta. On the other hand, 36% of arrivals (AU, DE, IT, ES, IE and SCAND) are more strongly influenced by other factors in the short term rather than by economic growth in the source countries. Arrivals from Libya, Russia and other markets which make up the remaining 21% of tourist arrivals cannot be correlated to economic growth in the short run.

Tourism from Libya and Russia is expected to be affected by political developments. Strong growth in other markets can continue due to economic, market and connection factors.
5.3 OUTLOOK FOR TOURIST ARRIVALS – 2015 AND 2016

Figures 41 and 42 illustrate projections for economic growth and tourist arrivals for this year and the next for countries from which economic growth is found to be a relevant determining factor in the short term. Arrivals from the UK, France, Belgium, Netherlands and Switzerland are in this way modelled on the basis of economic growth forecasts.
Arrivals from Italy, Spain, Ireland, Germany and Austria, which are found to be not dependent on economic growth in the short run, are prudently expected to remain at 2014 levels as shown by the dotted line in Figure 43.

Arrivals from Libya and Russia are assumed at a 5-year historic low of 29,000. Arrivals from Scandinavia and Other Markets are illustrated in Figure 44 and are expected to maintain their historic trend growth.
The basis of outlook for Tourist arrivals are generally conservative but will require efforts to sustain expected growth, especially in “Other Markets”. The realisation of these projections will probably also require the further consolidation of growth in shoulder months.

On the basis of the foregoing approach, tourist Arrivals to Malta are expected to increase by 70,000 (+4.1%) over 2014 and by an additional 132,000 (+7.5%) over 2015, as illustrated in Figure 45.
Based on the UNWTO estimations, European tourism is expected to increase between 3% and 4% in 2015. According to Oxford Tourism Economics, tourism in the Mediterranean region is estimated to increase by 3.8% and 3.3% in 2015 and 2016 respectively.

The outlook for Malta for 2015 is comparable to these forecasts as illustrated in Figure 46. The potential for demand may be even higher for 2016, everything else remaining unchanged.

5.4 RISKS TO THE OUTLOOK

As is the standard approach in the specification of economic outlooks, this study concludes this section by specifying a number of upside and downside risks to the point estimates for 2015 and 2016 which have been provided.

The upside risks with respect to the outlook forecasted in the previous section include the following:

1. **Improvements in connectivity from established and new sources**
   Improving connectivity from established as well as new routes will have a positive impact on tourist arrivals especially from routes that have reached full capacity.

2. **Increase in collective and other forms of good quality accommodation**
   An increase in collective accommodation that is matched by quality is an attractive feature that may attract tourists to visit our islands.

3. **Enhanced exposure on social media**
   The effect of providing positive exposure on social media also helps to attract more tourists.

4. **Specific niches/events (business, gaming, medical, cruise, culture, etc)**
   Special organised events also attract more tourists to our islands.
The downside risks with respect to the outlook forecasted in the previous section include the following:

1. **Perceived security risks affecting Malta’s international image**
   Security risks in the wake of the crisis in Libya may affect incoming tourists to Malta most notably tourists coming from outside the EU.

2. **Improved marketing and competitiveness of competitors**
   Improved marketing and competitiveness of competitor countries hurts tourism in Malta as tourists seek alternative holiday destinations.

3. **Slowdown in growth of “Other Markets” where Malta’s market position has yet to be consolidated**
   As the “Other Markets” face a slowdown in growth Malta’s incoming tourists may be affected negatively since such markets are a potential source of tourism growth for Malta.

Other factors may have both upside and downside risks on the outlook forecasted as follows:

1. **Marketing activities by foreign tour operators**
   Marketing activities by foreign tour operators that focus on the Maltese islands and use appropriate marketing channels and target audience are expected to have a positive impact on tourist arrivals. On the other hand, if marketing activities of foreign tour operators leave Malta aside and promote other destinations this is expected to have a negative effect on incoming tourists to Malta.

2. **Specific events in source markets and competitor destinations**
   Events in source markets and competitor destinations have an effect on tourism in Malta. If there are positive shocks to the economies of source markets, this may potentially affect tourism in Malta. On the other hand, if competitor destinations are more competitive and attractive relative to the Maltese tourism product, tourist arrivals in Malta will be negatively affected.
CONCLUSIONS

The key facts and figures that emanate from the report can be summarized as follows.

In terms of economic importance, expenditure by the tourism sector creates 27,800 jobs which is equivalent to 1 in 7 jobs in Malta and 1 in every 5 jobs in Gozo. This figure includes both direct job creation as well as the additional 7,300 jobs that are created through purchases of operators. Tourism expenditure amounted to €1.5 billion in 2014 which is equivalent to €3,750 for every person in the Maltese population in a year.

With respect to economic performance, when compared to the previous year number of nights increased by 5% and tourism expenditure by 6%. The €88 million increase in tourism expenditure led to the generation of 500 new jobs.

The tourism market share also increased as arrivals increased by 7% over the previous year reaching 1.7 million visitors. This is mirrored by the fact that arrivals in Mediterranean destinations increased by 5.5% and notwithstanding the fact that outbound tourism in major selected source markets was on average flat in 2014.

In terms of diversification of markets, it is noted that in 2014, 50% of the growth in arrivals was generated by tourists from the UK and Italy, whose expenditure averaged a relatively low €750 per person. On the other hand, tourists from non-traditional markets also increased by a factor of 40%, and expenditure associated with these markets averaged a relatively high €1030 per person. Furthermore, the top 15 airports which include the UK and Italy accounted for 50% of all arrivals, attributable to 80% of the 2014 increase in arrivals. This may indicate a need for more diversification in terms of connection possibilities to access new markets also within countries which are traditional sources of tourism in Malta.

The sector has also benefited from improvements in seasonality performance. Expenditure in the off-peak season rose from 27.2% to 27.7% of the total for the whole year. Per capita expenditure also increased in the off-peak season which rose to €769 from €762. Cruise visitors amounted to 540,000 in 2014 increasing by 9% over 2013. There were a total of 303 ship calls amounting to around 80 million of expenditure. Furthermore, overnight passengers increased from 9,000 to almost 25,000.

The island of Gozo was visited by 944,000 international tourists in 2014 including day trips, one night and longer stays spending €158 million. Domestic tourism made up of Maltese visitors to the sister island reached 377,000, spending around €28 million. The tourism sector absorbed €120 million from the 2007-2013 funds absorbing 14% of OPI funds. Investment was largely used in product development.
The maximisation of the Economic Potential and Contribution can be reaped through increasing arrivals which are forecasted to increase by 4% and 7% in 2015 and 2016 respectively, as well as improving expenditure per arrival.

Increasing Malta’s connectivity from established and new destinations as well as investment in quality and diversified collective and other accommodation is essential to increase tourist arrivals. Improving expenditure per arrival can be obtained through careful diversification from lower yielding activities as well as sustaining the 3-star category as a quality product offering.

Further investment to create distinctive tourism offerings within Malta is furthermore essential. In this respect, there would not only be a focus on niches and activities but also in providing additional facilities within Gozo to effectively promote longer stays within the Island. The diversification of the tourism product is also consistent with the promotion of domestic tourism, which would help boost local income and ensure a better rate of return to investments being undertaken, especially through off-peak season activities.

The twin objectives of increasing arrivals and improving expenditure per arrival can furthermore be obtained through focus on markets with higher potentials and spending power such as Germany and Asia, focus growth on off-peak tourism based on niches/events, investment in skilling, multi-skilling and re-skilling as well as identification of alternative modes of investment financing.

Overall, the tourism sector is crucial to the Maltese economy. At the same time, it is subject to a number of shocks over which domestic policy makers and business investors have little control. Resilience against these vulnerabilities can be built through the concerted action of all stakeholders involved, including human resources, to gradually and progressively add value to Malta’s tourism product in a manner which guarantees market success. At the same time increasing levels of domestic incomes through product characteristics which go beyond the essential requirements of price competitiveness. The Draft National Tourism Policy 2015-2020 document issued for public consultation by the Ministry of Tourism makes extensive reference to these recommendations as important bases for the future sustained growth of the industry.