



European Construction Sector Observatory

Country profile **Malta**

November 2020



In a nutshell

In 2019, Malta's gross domestic product (GDP) reached EUR 12.2 billion, exhibiting a 4.4% growth from previous year (EUR 11.6 billion).

Malta's GDP performed well in 2019, mainly driven by a substantial rise in gross value added in the services sector coupled with strong investment growth.

The **volume index of production**¹ in the broad construction sector witnessed an increment of 44.9% over the 2015-2019 period.

Volume index of production in the broad construction sector between 2015 and 2019

↑ 44.9%

At the same time, the **total turnover** of the Maltese broad construction sector in 2017 stood at EUR 1.8 billion, representing a growth of 81.2% as compared to 2011². Further, the turnover of the broad construction sector increased to EUR 2.2 billion in 2018³, exhibiting a growth of 121.9% from 2011. This was partly driven by an 138.4% increase in turnover in the manufacturing sub-sector over the 2010-2018⁴ period.

Total turnover in the broad construction sub-sector between 2011 and 2018

↑ 121.9%

The **gross operating surplus** in the broad construction sector reached EUR 635.6 million in 2017⁵, representing a 160.1% increment as compared to 2011⁶. Likewise, the **gross operating rate** of the broad construction sector, which is an indicator of the sector's profitability, stood at 34.6% in 2017. Additionally, the **construction cost**

index rose by 12.4 index points (ip) between 2010 and 2017, mainly due to an increase in labour costs index by 15.7 ip and increase in index of input prices for materials by 11.4 ip. The construction cost index further increased by 2.3 ip in 2019, from 2017 level. This was also driven by 3.5 ip increase in labour costs index and 1.9 ip increase in index of input prices for materials over the same period.

In terms of employment, 18,521 **persons were employed** in the broad construction sector in 2018⁷, marking 55.9% increment as compared to 2011⁸ (11,880 persons). This was mainly driven by a 128.7% increase in the number of persons employed in the real estate activities sub sector.

Presently, there are three main issues hampering the development of the Maltese construction sector. Firstly, the construction sector is hindered by the **shortage of skilled workers**. This is partly explained by the high proportion of low-skilled adults and ageing population. To cope with this issue, the Maltese construction sector tend to rely on foreign workers to fill labour shortages. In fact, the country's dependence on migrant workers has also increased. In 2019, around 30.0% of the total construction workers were migrants.

Secondly, the **lack of legal dumping solutions** for construction and demolition waste in Malta is a major roadblock for the construction sector. In October 2019, around 400 excavation and demolition contractors were unable to find legal dumping solutions. The construction sector thus had reached a standstill and Malta Development Association (MDA) appealed to the government to take immediate actions.

Lastly, the persisting issue of **late payments** has had an unfavourable impact on the construction

sector. This issue has been further exacerbated by the global pandemic COVID-19. With respect to the construction sector, around 45.0% of enterprises reported that customers are opting for a longer payment cycle, which negatively impacted their cash flows during the current crisis.



As an impact of the COVID-19 pandemic, around 60.0% of Maltese enterprises in construction sector reported that the amount due was not collected.

The Maltese construction sector has been impacted by the COVID-19 pandemic in several other ways. The construction sites have been reportedly shut down due to lack of materials. Several contracts in the construction sector have either been suspended for a prolonged period or terminated. Moreover, workers at construction sites have also been reported of getting diagnosed with COVID-19.

The construction sector in Malta is expected to rely on the development of the housing and infrastructure markets, where the government has been developing few initiatives. To tackle the increased demand for **housing**, in 2019, the

Maltese government announced the delivery of 1,700 new social housing units in the coming years. Moreover, the growing rental demand and increasing rent levels raise concerns over access and affordability for vulnerable families. The government has therefore approved a reform which regulates the rental housing market from 2020 onwards.

With regards to the **civil engineering** market, the Maltese government is actively involved in upgrading the infrastructure. It invested around EUR 64.0 million in 2019 in more than 14 projects to improve the safety, efficiency and sustainability of Malta's arterial road network. The government also aims to include investment in roads as part of its potential investment under the cohesion policy for the 2020-2021 period.

Regardless of these short-lived disruptions in 2020, the Maltese construction sector is expected to recover and regain its growth pace from 2021 onwards. With several private and public residential, non-residential and infrastructure construction projects lined up and awaiting completion in 2020 and 2021, the sector's long-term outlook remains promising.

Table of Contents

In a nutshell	2
1 Key figures	5
Construction market.....	5
Productivity	6
Turnover and profitability	6
Employment	7
2 Macroeconomic indicators	9
Economic development.....	9
Demography and employment.....	9
Public finance	9
Entrepreneurship and access to finance	10
3 Key economic drivers of the construction sector	11
Business confidence	11
Domestic sales	11
Export of construction-related products and services	12
Access to finance in the construction sector.....	12
Access to housing	13
Infrastructure.....	14
4 Key issues and barriers in the construction sector	14
Company failure	15
Trade credit	15
Late payment.....	15
Time and cost of obtaining building permits and licenses	16
Skills shortage	16
Sector and sub-sector specific issues	18
5 Innovation in the construction sector	19
Innovation performance.....	19
Eco-innovation and digitalisation	20
6 National and regional regulatory framework	21
Policy schemes.....	21
Building regulations.....	22
Insurance and liability related regulations	23
7 Current status and national strategies to meet Construction 2020 objectives	24
TO 1 – Investment conditions and volumes	24
TO 2 – Skills.....	25
TO 3 – Resource efficiency / Sustainable construction	26
TO 4 – Single Market	27
TO 5 – International competitiveness	28
8 Outlook	30

1

Key figures

Construction market

The **number of enterprises** in the broad construction sector in Malta stood at 6,531 in 2017⁹, representing a decline of 2.7% as compared to 2010, with the narrow construction sub-sector accounting for 59.8% of the total enterprises. This was mainly due to declines registered in the number of enterprises in the architectural and engineering activities (-4.9%) and the narrow construction (-3.2%) sub-sectors during the 2010-2017 period, which totalled 636 and 3,906 respectively in 2017¹⁰. In contrast, the number of enterprises in the real estate activities sub-sector increased to 1,989 in 2017¹¹, marking a 12.4% growth since 2010. In 2018¹², the number of enterprises in real estate activities sub-sector increased to 4,255 and 449, registering a growth of 88.7% since 2010 (Figure 1).

Number of enterprises in the real estate activities sub-sector between 2010 and 2017

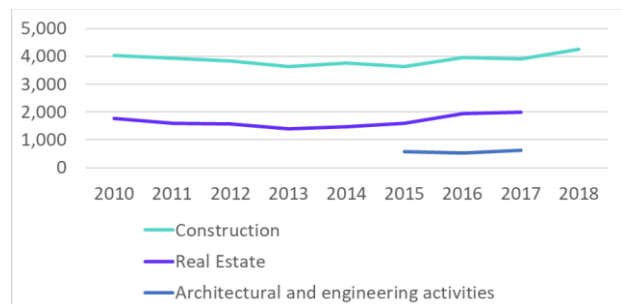
↑ 12.4%

In parallel, the **volume index of production** in the broad construction sector¹³ rose by 44.9% between 2015 and 2019. While it stagnated between 2015 and 2016 (Figure 2), it has significantly increased since 2017.

Volume index of production in broad construction sector between 2015 and 2019

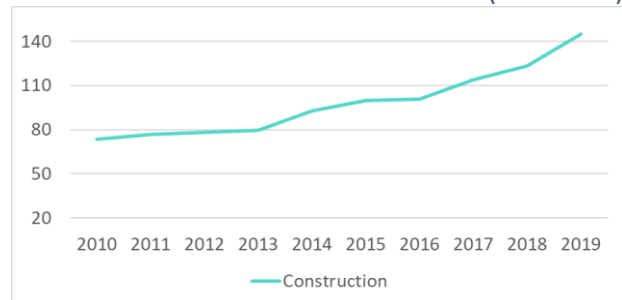
↑ 44.9%

Figure 1: Number of enterprises in the Maltese broad construction sector between 2010 and 2018¹⁴



Source: Eurostat, 2019.

Figure 2: Volume index of production in the Maltese construction sector between 2010 and 2019 (2015=100)



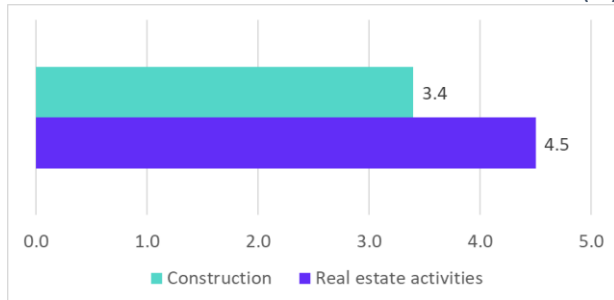
Source: Eurostat, 2020.

The **total added value at factor costs**¹⁵ of the broad construction sector amounted to EUR 834.7 million in 2017¹⁶, representing an increase of 146.2% as compared to 2010 (EUR 339.0 million). The narrow construction sub-sector accounted for 52.4% (EUR 437.4 million) of the total added value in 2017. This was followed by the real estate activities and architectural and engineering activities sub-sectors, which contributed up to 39.3% (EUR 328.3 million) and 8.3% (EUR 69.0 million) of the total in 2017.

The **gross value added** of the real estate activities sub-sector as a share of the GDP stood at 4.5% in 2019, below the EU-27 average of 9.7%. This was followed by the narrow construction sub-sector,

which accounted for 3.4% of the share, below the EU-27 average of 5.0% (Figure 3)¹⁷.

Figure 3: Gross value added as a share of GDP in the Maltese broad construction sector in 2019 (%)



Source: Eurostat, 2020.

Productivity

Apparent labour productivity¹⁸ in the broad construction sector increased to EUR 56,460 (+79.2%) in 2017 as compared to 2011¹⁹ (Figure 4). In the same period, the apparent labour productivity of the narrow construction and real estate activities sub-sectors increased to EUR 41,500 (+72.9%) and EUR 144,300 (+51.4%)²⁰. The apparent labour productivity for the architectural and engineering activities sub-sector in 2017²¹ stood at EUR 35,300.

As per the National Productivity Board Annual Report, published in November 2019, the Maltese construction sector is considered 'laggard' for having registered the lowest productivity in the economy in 2018^{22,23}.

Apparent labour productivity in the narrow construction sub-sector between 2011 and 2017

↑ 72.9%

Labour productivity in broad construction sub-sector in Malta in EUR

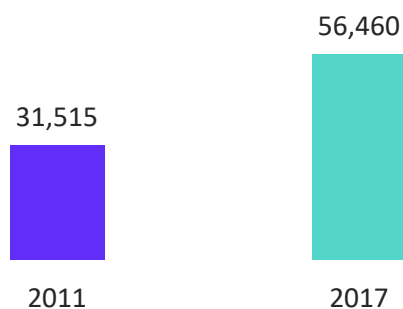
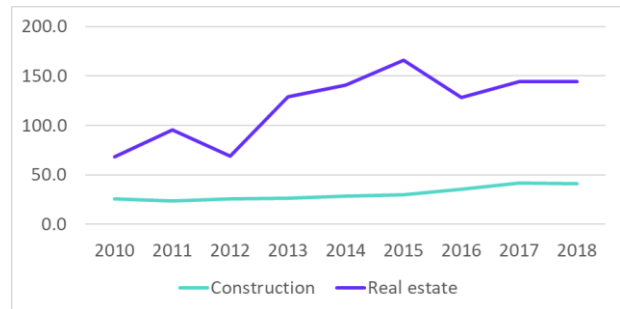


Figure 4: Labour productivity in the broad construction sector in Malta between 2010 and 2018 (EUR k)²⁴



Source: Eurostat, 2019.

Turnover and profitability

The total **turnover** of the broad construction sector amounted to EUR 1.8 billion in 2017, an 81.2% increase relative to 2011²⁵ (EUR 1.0 billion). Further, in 2018²⁶, it reached EUR 2.2 billion, representing a 22.4% annual increase and a 121.9% increase as compared to 2011. This growth was driven by 138.4% increase in the manufacturing sub-sector over the 2010-2018²⁷ period. It was followed by a 79.2% and 56.8% growth in the narrow construction and architectural and engineering activities sub-sectors over the same period²⁸. The real estate activities sub-sector posted a growth of 99.7% over the 2011-2018²⁹ period. The narrow construction sub-sector contributed 59.5% to the total turnover in 2018, followed by the real estate activities (22.5%), manufacturing (9.8%) and architectural and engineering activities (8.1%) sub-sectors.

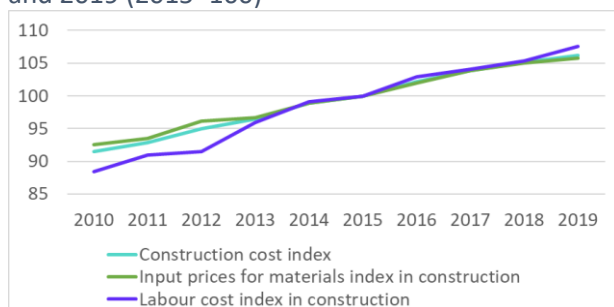
Following the increase in turnover, the **gross operating surplus** of the broad construction sector increased by 160.1% since 2011, amounting to EUR 635.6 million in 2017^{30,31}. More specifically, the gross operating surplus of the narrow construction and architectural and engineering activities sub-sectors increased by 85.0% and 47.9%, reaching EUR 300.6 million and EUR 38.3 million respectively over the 2010-2017³² period. The gross operating surplus of the real estate activities sub-sector increased by 181.2% as compared to 2011³³, reaching EUR 296.7 million in 2017³⁴.

Likewise, the **gross operating rate** of the broad construction sector³⁵, which gives an indication of the sector's profitability, stood at 34.6% in 2017³⁶. This represents an increase of 10.5 percentage

points (pp) since 2011³⁷. The real estate activities sub-sector enjoyed the largest profit margin on sales (65.7%) followed by the narrow construction (24.8%) and the architectural and engineering activities (22.8%) sub-sectors in 2017.

In parallel, **construction costs** have been continuously increasing since 2010. Specifically, between 2015 and 2019, the construction cost index rose by 6.2% (Figure 5), mainly due to an increase of 7.6% and 5.8% in the index of labour costs and input prices for materials respectively over the same period.

Figure 5: Construction cost index between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

Employment

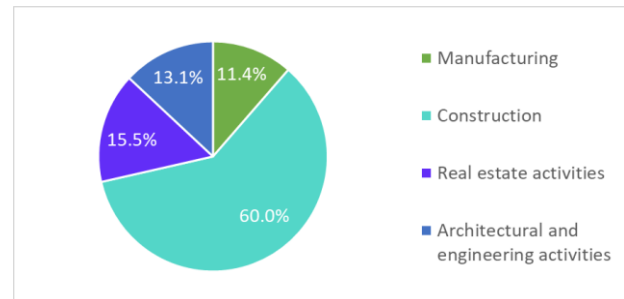
In 2018³⁸, 18,521 **persons were employed** in the broad construction sector³⁹, a 55.9% increase as compared to 2011⁴⁰. The narrow construction sub-sector employed 60.0% of the total workforce (i.e. 11,118 persons), followed by the real estate activities sub-sector, which employed 15.5% of the total workforce (i.e. 2,870 persons) in 2018. The architectural and engineering activities and manufacturing sub-sectors accounted for 13.1% (i.e. 2,419 persons) and 11.4% (2,114 persons) of the total workforce in 2018 respectively (Figure 6).

The number of persons employed in the real estate activities and the narrow construction sub-sectors increased by 128.7% and 4.6% over the period 2011-2018⁴¹. The number of persons employed in the manufacturing sub-sector increased by 53.3% over the 2010-2018⁴² period.

Number of people employed in the broad construction sector between 2011 and 2018

↑ **55.9%**

Figure 6: Percentage of people employed per construction sub-sectors in Malta in 2019



Source: Eurostat, 2020.

As for **employment by specific occupation**, in the manufacturing sub-sector, the demand for professionals and service and sales workers increased by 138.5% and 54.5% respectively, over the 2010-2019 period. Conversely, the demand for plant and machine operators and assemblers and clerical support workers witnessed the highest declines by 19.2% and 15.8% respectively, over the same period.

Similarly, in the narrow construction sub-sector, demand for technicians and associate professionals and craft and related trade workers increased by 250.0% and 58.1% respectively, over the 2010-2019 period. On the contrary, demand for elementary occupations and clerical support workers declined by 50.0% and 14.3% respectively, over the same period.

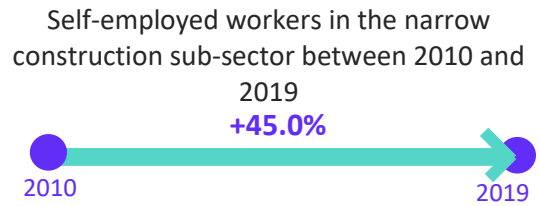
In the real estate activities sub-sector, the number of technicians and associate professionals increased by 275.0% over the 2010-2019 period, the largest increase amongst the sub-sectors.

The number of **self-employed workers** in the narrow construction sub-sector increased by 45.0% over the 2010-2019 period. This represented 15.8% of self-employed workers in the general economy in 2019, above the EU-27 average of 11.9%.

Similarly, self-employed workers in the real estate activities sub-sector increased by 225.0% over the same period. This represented 3.5% of self-employed workers in the general economy in 2019, which is also above the EU-27 average of 1.4%.

In parallel, **full-time employment** in the real estate activities sub-sector increased by 155.6% over the 2010-2019 period. Similarly, in the narrow

construction and manufacturing sub-sectors, it increased by 44.5% and 11.3% over the same period.



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Macroeconomic indicators

Economic development

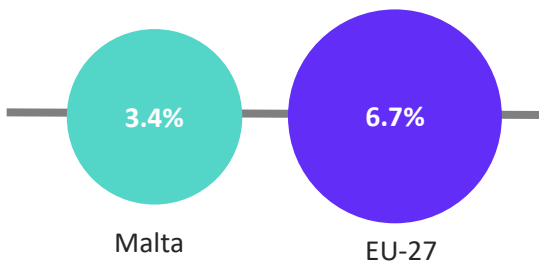
Malta's **economy**, in terms of GDP, has been growing continuously since 2010. In 2019, GDP reached EUR 12.2 billion, representing an increment of 66.3% as compared to 2010 (EUR 7.3 billion) and an annual increment of 4.4% (EUR 11.6 billion). This was driven by a significant rise in gross value added by services sector coupled with increasing public expenditure and strong investment growth.

With a potential GDP of EUR 11.7 billion in 2019, the **output gap** was positive (+3.8%). This gap indicates that the Maltese economy tends to overwork its resources, with actual outputs exceeding full capacity output. As a result, the **inflation rate** has been increasing moderately since 2015, reaching a level of 5.5% in 2019.

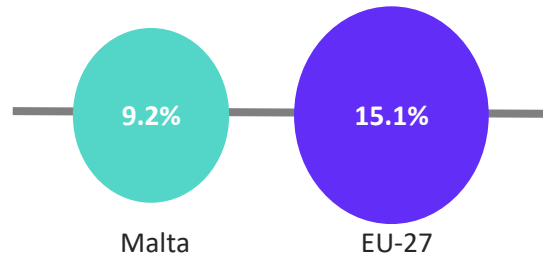
Demography and employment

Employment in the Maltese economy has been growing over the past few years. The **unemployment rate** reached 3.4% in 2019, below the EU-27 average of 6.7%⁴³. Similarly, youth unemployment (below the age of 25) stood at 9.2% in 2019, considerably below the EU-27 average of 15.1%.

Unemployment rate in 2019



Youth unemployment rate in 2019



In terms of demography, Malta's **total population** reached 493,559 in 2019. It is expected to reach 668,373 by 2050 (+35.4% between 2019 and 2050). In 2019, Malta's **working age population** made up 67.6% of the total population. It is expected to decrease by 2050, reaching 63.0% of the total population. Conversely, the share of **ageing population**, which stood at 18.7% in 2019, is expected to increase to 25.4% by 2050. This increase in ageing population may create more demand for hospitals, health care units and old age homes, thereby creating more opportunities for the broad construction sector in Malta.

The **migration rate** was positive in 2019, as it stood at 20,343, representing 273.9% increase compared to 2010 (74 migrants). This has helped mitigate the emerging skills gap and labour shortages.

Public finance

In 2019, **general government expenditure** in Malta accounted for 37.7% of its GDP, below the 2010 level of 41.1% and EU-27 average of 46.7%. However, this expenditure has been gradually increasing since 2017. Similarly, the **general government deficit** stood at -0.5% of GDP in 2019, well above the 2010 level of -2.4% and the EU-27 average of -0.6%. However, the deficit has been experiencing a gradual decline since 2017. Lastly, the **general government gross debt** accounted for 43.1% of GDP in 2019, well below the 2010 level of 67.5% and the EU-27 average of 77.8%. Gross debt has been consistently decreasing since 2013.

The gradual decline in government debt combined with fiscal surpluses is set to make Maltese public finances resilient in the short term. However, in the long term, the increasing ageing-related outlays on pensions and health care is expected to put pressure on Malta's public finances⁴⁴.

Therefore, policy measures are required in this area for addressing the growing pressure on public finances⁴⁵.

Entrepreneurship and access to finance

Malta ranks 32nd out of 141 countries with respect to its financial system, as per the 2019 Global Competitiveness Report⁴⁶.

The strongest indicators in Malta's financial system are domestic credit to private sector ranking 36th, market capitalisation ranking 47th and soundness of banks ranking 50th, out of the 141 assessed economies. On the other hand, Malta scored modestly in terms of banks' regulatory capital ratio which ranks 87th, venture capital availability which ranks 83rd and non-performing loans which ranks 67th, out of 141 economies⁴⁷.

One of the main issues in Malta's business environment is the limited access to finance, as a result of which the growth prospects of firms are limited.

Outstanding loans to Maltese non-financial corporations in the general economy in 2019 reached EUR 3,675.0 billion, representing a decline of 9.3% as compared to 2010.

Maltese businesses and small and medium enterprises (SMEs) in particular, have also reported

difficulty in accessing bank credit. This is a concern for around 13.0% of SMEs against 7.0% of SMEs in the EU-28⁴⁸. Moreover, around 73.4% of SMEs face difficulty in getting finance from banks, and 17.4% were refused credit by banks. Although the Malta Development Bank is setting up guarantee schemes to support lending to small and medium-size enterprises, banks have tightened the terms and conditions applicable to corporate loans⁴⁹.

According to the Survey on the Access to Finance of Enterprises (SAFE) 2019, around 13.0% of SMEs in Malta reported that access to finance is the most important concern, much higher than the EU-28⁵⁰ average (7.0%)⁵¹.

Regarding **entrepreneurship** in Malta, a broad range of policy measures have been introduced in recent years which encourage a culture of entrepreneurship from an early age. As a result, the environment for start-ups has improved remarkably. A few developments include the creation of incubation facilities, grant schemes, the possibility of equity funding, subsidised loans and credit guarantees that help start-ups in securing bank loans⁵².

However, in 2019 no governmental schemes were introduced. Several other schemes, such as – Entrepreneurship in Education (aiming to inculcate a culture of entrepreneurship in children); the Family Business Transfer Guarantee Scheme (helping the family businesses by grants); the LEAP2Enterprise scheme (helping disadvantaged people in setting up businesses) and the Investing in Crafts scheme (transferring skills from experienced personnel to apprentices) have been operating since 2018⁵³.

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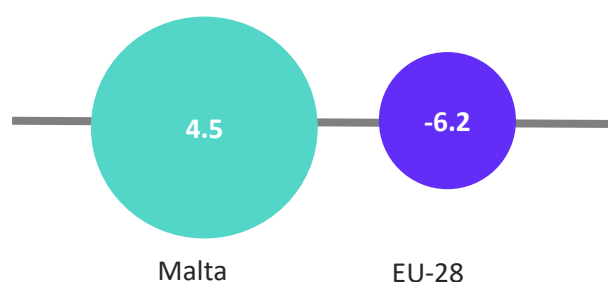
Key economic drivers of the construction sector

Business confidence

The **consumer confidence indicator** has improved as compared to 2010, going from -25.2 to 4.5 in 2019. This also stands well above the EU-27 average of -6.2. However, it has declined significantly as compared to the 2018 levels of 10.2. The **industry confidence indicator** has deteriorated, from 1.2 in 2010 to -6.7 in 2019. This is also below the EU-27 average of -4.8 in 2019. Lastly, the **construction confidence indicator**, reached 26.1 in 2019 from -30.2 in 2010. This also constitutes an improvement as compared to 2018 (21.3) and is also higher than the EU-27 average of 5.1.

In parallel, the **investment ratio** reached 19.2% in 2019, lower than in 2010 (22.9%). Conversely, **investment per worker**⁵⁴ in the broad construction sector increased from EUR 35,604 in 2010 to EUR 57,138 in 2017 (+60.5%).

Consumer confidence indicator in 2019



According to the Central Bank of Malta, in January 2020, business confidence for all economic sectors revived, except in broad construction⁵⁵.

The Maltese broad construction sector suffered significantly due to damage to the country's reputation brought on by recent political turbulence. This translated in private investors being less confident and keen in investing in the sector⁵⁶.

Moreover, the Maltese construction sector has further deteriorated since the onset of the global COVID-19 pandemic. Confidence in the sector has waned due to disruptions caused by the pandemic. For instance, building material suppliers have closed resulting in construction sites being shut down due to the lack of materials. In addition, amid the lockdown, construction sites are exposed to the high risks of changing weather conditions if left unattended for prolonged periods⁵⁷.

Domestic sales

The ranking of the **most domestically sold construction products** in Malta has changed since 2010. Namely, "Doors, windows and their frames" saw a 288.7% increase in the value of their domestic sales between 2010 and 2019, followed by "Windows, French windows and their frames, etc." which increased by 184.8%. Even though "Portland cement, aluminous cement, etc." ranked as number one in terms of domestic sales, it only increased by 49.0% between 2010 and 2019.

The top 5 most domestically sold construction products are presented in Table 1, including a comparison with the most sold in the EU-27. These represented 72.6% of total domestic construction product sales in 2019.

Table 1: Five most domestically sold construction products in Malta and in the EU in 2019

Malta				EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
1	Portland cement, aluminous cement, etc. (group 235112)	26.7	31.4	Other structures (group 251123)
2	Ceramic tiles and flags (group 233110)	20.3	23.9	Doors, windows, etc. (group 251210)
3	Other structures and parts of structures (group 251123)	5.9	7.0	Ready-mixed concrete (group 236310)
4	Particle board (group 162112)	2.9	3.5	Prefabricated buildings of metal (group 251110)
5	Marble, travertine, alabaster, etc. (group 237011)	2.3	3.3	Prefabricated structural components for building, etc. (group 236112)

Source: PRODCOM, 2020.

Export of construction-related products and services

The ranking of **most exported construction products** in Malta has changed since 2010. The share in the value of country's exports for "Wood marquetry and inlaid wood, etc." and "Builders' joinery and carpentry", which were almost zero in 2010, have increased to 4.3% and 0.5% in 2019.

The top 5 most exported construction products from Malta is summarised in Table 2. Together, these made up 86.4% of all construction product exports in 2019.

Table 2: Five most exported construction products in Malta and in the EU in 2019

Malta				EU-27
	Product	Value (EUR 000s)	Share in construction product export sales (%)	Product
1	Wooden frames for paintings (group 162914)	282.2	42.9	Ceramic tiles and flags (group 233110)
2	Doors, windows and their frames (group 251210)	127.9	19.4	Other structures and parts (group 251123)
3	Pallets, box pallets (group 162411)	64.8	9.8	Fibreboard of wood (group 162115)
4	Articles of asbestos-cement (group 236512)	56.0	8.5	Doors, windows and their frames (group 251210)
5	Other structures and parts of structures (group 251123)	32.0	4.8	Marble, travertine, alabaster (group 237011)

Source: PRODCOM, 2020.

Access to finance in the construction sector

Credit extended to the Maltese narrow construction sub-sector consistently declined between 2010 and 2016. However, it has started recovering gradually since 2017 and reached EUR 590.7 million in 2019, representing an annual increase of 8.5%, but a 47.0% decline since 2010.

Malta's performance is second weakest among the EU-28⁵⁸ member states in terms of access to finance.

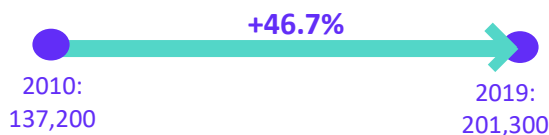
Debt financing is relevant for around 90.0% of Maltese SMEs, being the highest in the EU-28⁵⁹ where the average is 82.0%. Regarding the source of financing, bank loans and credit lines are mostly used in Malta. Around 58.0% of SMEs in Malta reported that bank loans were relevant for them, as compared to 45.0% of SMEs in the EU-28. Around 16.0% of them reported having used bank loans recently in Malta, fewer than the share of SMEs in the EU-28 (45.0%) and around 10.0% of SMEs in Malta rely on bank loans for financing. About 6.0% of Maltese SMEs did not apply for bank loans due to the fear of rejection, whereas the EU-28 average for the same stood at 4.0%. This tends to show that banks are generally reluctant to, and hence play a minor role, in providing finance to SMEs.

Credit lines, as a source of financing, were relevant for 71.0% of SMEs, out of which 50.0% said to have used it recently in Malta. In terms of external financing, around 9.0% of Maltese SMEs have applied for it, fewer than the EU-28 average of 14.0%⁶⁰.

Access to housing

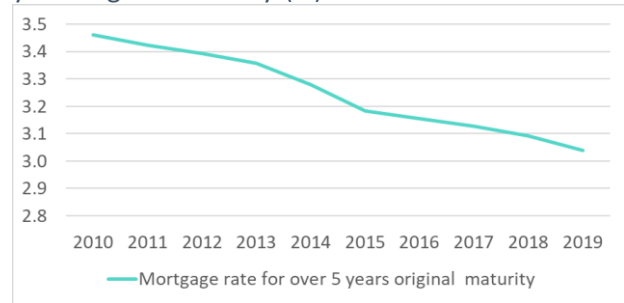
The **number of households** in Malta increased from 137,200 in 2010 to 201,300 in 2019 (+46.7%). At the same time, the **share of total population living in cities** reached 49.0% in 2018⁶¹, slightly higher than 2017 with 48.8%. This indicates a mounting pressure in the urban areas. Malta is also the most urbanised country in the EU-28^{62,63}. In parallel, the **mean equivalised net income** has also increased to EUR 17,246 in 2019, representing a 46.2% growth compared to EUR 11,794 in 2010.

Number of households in Malta



Moreover, lending to households for home purchases picked up, with total **outstanding residential loans** growing by 85.6%, from EUR 2.7 billion in 2010 to EUR 4.9 billion in 2018. This increase in residential loans is partly supported by the declining rates on mortgages. In fact, **interest rates on mortgages (for over five years' maturity)** declined from 3.5% in 2010 to 3.0% in 2019 (Figure 7).

Figure 7: Mortgage rates for loans for over five-year original maturity (%) between 2010 and 2019

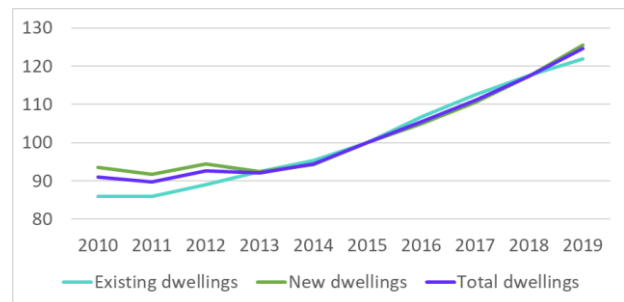


Source: Hypostat - European Mortgage Federation, 2020.

The **house price index** for total dwellings, has seen a consistent rise since 2013. In 2019, it increased by 24.6% as compared to 2015, driven by a 22.0% and 25.5% rise in the price index for existing and new dwellings respectively.



Figure 8: House price index in Malta between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

However, amid the COVID-19 pandemic, the situation in the housing market has changed significantly. For instance, a significant slowdown in annual price growth has been witnessed in the Maltese property market between the first quarter of 2019 and the first quarter of 2020⁶⁴. Around 69.0% of properties registered a decrease in overall value. Moreover, housing prices in Malta could fall by as much as 10.0% by 2021, due to the decrease in revenue flowing from rented properties⁶⁵.

Factors that primarily influenced housing demand in Malta in 2019 were the rising incomes, low interest rate, inward migration and budgetary measures incentivising property purchase for first-time buyers. In parallel with a growing demand, the supply of dwellings has been expanding particularly from 2015 onwards⁶⁶. Specifically, the

indexed value of residential **building permits** increased by 216.3% over the 2015-2019 period. That said, housing affordability has become a growing concern in the country, which drove the government to strengthen its actions in the field of social housing.

To cater to the increasing demand for housing, in 2019, the authorities announced that around 1,700 new social housing units would be delivered in the coming years⁶⁷.

Historically, Malta has been a country where majority of people own their homes. Around 79.8% of the population owned their houses in 2019. Nevertheless, the share of the population renting properties at market price in Malta has increased significantly in recent years (from 18.6% in 2016 to 20.2% in 2019). Specifically, owners with a **median equivalised income above 60.0%** in 2019, were 82.5% as compared to 80.8% in 2010. Similarly, owners with **median equivalised income below 60.0%** in 2019, stood at 66.2%, well below the 2010 level of 72.6%.

The increasing demand for rental properties has been driven by foreign employees and tourists looking for temporary and short-term stays. Large inflows of migrants primarily looking for rented accommodation is another driving factor. As a result, the indexed values for **actual rental prices** in Malta have increased by 11.1% over the 2015-2019 period⁶⁸.

The growing rental demand and increasing rent levels raise concerns over access and affordability for vulnerable families. Therefore, the Maltese government has approved a reform which regulates the rental housing market from 2020 onwards⁶⁹.

Malta offers good housing conditions in terms of quality. Indeed, the **overcrowding rate⁷⁰** in 2018

was at 3.4%, one of the lowest in the EU-28⁷¹, and below the EU-27 average of 17.1%. In 2019, however, it increased to 3.7%⁷². Similarly, the **severe housing deprivation rate⁷³** reached 1.2% in 2018, below the EU-27 average of 4.3%. In 2019, this also increased slightly to 1.3%⁷⁴. Likewise, the **housing cost overburden rate⁷⁵** was at 1.7% in 2018, well under the EU-27 average of 9.6%. This also increased to 2.6% in 2019⁷⁶.

Infrastructure

Malta ranks 47th out of 141 economies in terms of its infrastructure, according to the Global Competitiveness Report 2019. In particular, it ranks 22nd in terms of efficiency of air transport services and 27th in efficiency of seaport services. However, its performance with respect to quality of road infrastructure and road connectivity rank 106th and 115th respectively⁷⁷.

The government is actively involved in upgrading the infrastructure in Malta. Infrastructure Malta⁷⁸, a body officially appointed by the Ministry for Transport, Infrastructure and Capital Projects⁷⁹, invested EUR 64.0 million in 2019 in over 14 projects to improve the safety, efficiency and sustainability of Malta's arterial road network⁸⁰. Further, in 2020 the Ministry of Transport, Infrastructure and Capital Projects announced a EUR 3.5 million investment in financial schemes, in the form of grants, for incentivising and helping those who have invested or plan to invest in more sustainable means of transport⁸¹. These projects collectively aim at increasing road safety, encouraging sustainable transport, reducing travel times and cutting traffic pollution in Malta.

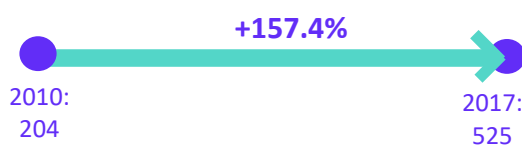
4

Key issues and barriers in the construction sector

Company failure

The fact that the number of company births exceeds the number of company deaths confirms the recent positive developments observed in the broad construction sector⁸². The number of company births in the narrow construction sub-sector grew from 204 in 2010 to 525 in 2017⁸³ (+157.4%), while company deaths increased from 143 to 301 (+110.5%) for the same period. Similarly, company births in the real estate activities sub-sector increased from 63 to 279 (+342.9%), whereas company deaths increased from 50 to 137 (+174.0%) over the same period. As for the architectural and engineering activities sub-sector, the company births increased from 74 in 2010 to 88 in 2015⁸⁴ (+18.9%) and company deaths increased from 12 in 2010 to 60 in 2013⁸⁵ (+400.0%).

Company births in narrow construction sub-sector in Malta



According to the **Doing Business 2020** report, Malta ranked **121st** out of **190** economies in terms of resolving insolvency, and was among the lowest performer among all EU member states^{86,87}.

While the number of company insolvencies in the Maltese construction sector is not available, it is expected to grow in 2020 following the COVID-19 pandemic. Interferences with supply chains,

shortages of skilled personnel, closures of sites, prolonged suspensions and terminations of contracts are foreseen as causing potential disruptions and impacts on the construction sector⁸⁸. Therefore, in July 2020, the European Commission approved an aid package of EUR 67.5 million for Malta, which aims to support SMEs affected by the global COVID-19 pandemic. The package provides access to working capital to these SMEs that are facing sudden liquidity shortages due to the pandemic⁸⁹.

Trade credit

According to the SAFE report 2019, trade credit is the third most important source of finance for SMEs in Malta, after credit lines and bank loans. More than half (56.0%) of the SMEs in Malta have reported that trade credit is a relevant source of financing, whereas it is 31.0% in the EU-28⁹⁰ average. Around 38.0% of Maltese SMEs reported using it recently in (April 2019 to September 2019), whereas the EU-28 average stood at 17.0%⁹¹.

Late payment

Payment delays are a frequent issue in Malta, which has a negative impact on the development of SMEs. According to the SAFE report 2019, around 34.0% of SMEs in Malta reported experiencing regular problems due to late payments, more than the double of the EU-28 average⁹² (15.0%). Around 25.0% of SMEs in Malta reported not having any issues with late payment, which is much lower than the EU-28 average (52.0%)⁹³.

Late payments affect Maltese enterprises in several ways. In 2019, around 26.0% of SMEs reported that late payment affected payments to suppliers,

against a 17.0% EU-28 average⁹⁴. Around 20.0% of SMEs reported that it affected investments or new hiring in the enterprises, in comparison with 10.0% of SMEs in the EU-28. Daily production and operations have also been hampered for around 18.0% of Maltese SMEs, double than that of the EU-28 average (9.0%). Around 17.0% of SMEs reported that late payment had caused delays in repayments of loans and that they had to use additional financing, higher than the EU-28 average of 8.0%⁹⁵.

The Maltese Finance Ministry has imposed a legal interest rate of 8.0% for commercial transactions in the event of late payment with effect from 1 July 2020⁹⁶.

Payment delays in B2B transactions in Malta have further deteriorated amid the global COVID-19 pandemic. Adverse impacts are generally visible in the broader economy with regards to late payments⁹⁷.



According to a survey conducted by the Malta Association of Credit Management (MACM), as of May 2020, around 45.0% of enterprises in the construction sector reported that payments from customers were taking longer than usual during the current crisis, which has resulted in a negative impact on cash flow⁹⁸.

Around 64.0% of enterprises in construction sector reported a "business as usual" attitude to payments among their customers. In terms of government aid for COVID-19, just 36.0% of enterprises applied for financial assistance to help with cash flow and working capital management⁹⁹. In terms of non-collected cash, around 60.0% of enterprises in the construction sector reported that the amount due was not collected¹⁰⁰.

Time and cost of obtaining building permits and licences

According to the World Bank Doing Business 2020 report, Malta ranked 57th with regard to "Dealing with construction permits"¹⁰¹.

Malta scores worse than the OECD high income average on all metrics related to dealing with

construction permits. In particular, the number of clerical procedures (16) and the number of days required to complete the formalities to build a warehouse¹⁰² (179) are higher than the OECD high income average of 12.7 procedures and 152.3 days respectively (Table 3). Moreover, the cost of completing the formalities to build a warehouse represented 2.3% of the value of the warehouse, higher than the OECD high income average of 1.5%¹⁰³.

Table 3: Construction procedures timing and costs in Malta

Procedure	Time to complete	Associated costs
Obtain fire and safety report for the plans of the building	7 days	EUR 450
Apply for building permit and await estimation of fees	15 days	EUR 50
Obtain a Permit Application Report (DPAR), attend hearing in front of the Environmental Planning Commission (EPC) and receive building permit	60 days	EUR 19,695
Obtain approval from Building Regulation Office prior to starting construction	7 days	no charge
Submit commencement of works notice and request for official alignment	1 day	no charge
Request and receive initial inspection by Planning Authority for road alignments and levels	10 days	no charge
Hire an agency specialised in safety	1 day	EUR 1,500
Request and receive inspection from OHSA during construction works	1 day	no charge
Request and receive inspection by the local council to release bank guarantee on roads	1 day	no charge
Receive final inspection for road alignments and levels from Planning Authority	1 day	no charge
Apply for a compliance certificate from Planning Authority	1 day	EUR 60
Request and receive inspection by Planning Authority for the compliance certificate	14 days	no charge
Obtain compliance certificate	7 days	no charge
Request and obtain water connection	20 days	EUR 4090
Apply and receive a sewage connection inspection	4 days	no charge
Hire a certified contractor to carry out the connection works and obtain connection to sewage	30 days	EUR 424

Source: Doing Business overview for Malta, World Bank, 2020.

Skills shortage

Labour shortages in the Maltese economy is a persisting challenge¹⁰⁴. The issue of labour shortage is exacerbated by the ageing population and a relatively high share of low-skilled workers in Malta (more information below)¹⁰⁵. The country,

therefore, relies heavily on foreign workers from within and outside the EU to mitigate the issue of labour shortages. Despite companies reporting difficulties in employing and retaining skilled workers, the country has not yet put in place a strategy to keep foreign workers in Malta for longer periods.

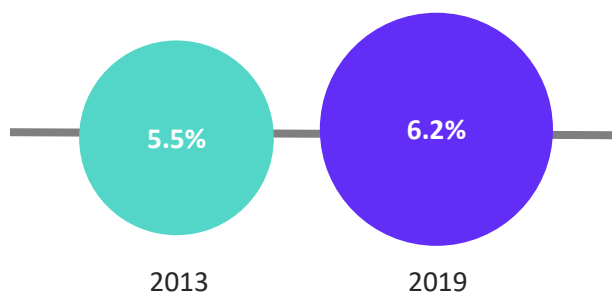


According to the Central Bank of Malta's 2019 quarterly review, the country's dependence on migrant workers in the construction sector has increased in 2019 (30.0% of the total labour force). Additionally, the review also highlights that employment of Maltese nationals has decreased in the construction sector, along with two other sectors (industry and tourism)¹⁰⁶.

Moreover, adopting measures to promote adult learning and upskilling remains low. The number of SMEs participating in training stood at 249 in 2019, which is also below the EU-28¹⁰⁷ average¹⁰⁸. There are however some positive developments, such as the share of **adult participation in education and training**, which has increased from 5.5% in 2013 to 2019 reaching 6.2%.

The share of companies which reported labour shortages as the greatest factor constraining business activities stood at 38.1% in 2018¹⁰⁹, the highest among the EU-28¹¹⁰. The share of low-qualified adults also remains one of the highest in the EU-28 (46.7% in 2018 against 21.9% in the EU-28)¹¹¹.

Adult participation in education and training in Malta



In 2019, the employment rate for recent tertiary graduates in Malta was the highest in the EU-28¹¹² (96.7% against 85.5% for the EU-28 average). However, the skills of tertiary graduates in Malta do not sufficiently match the labour requirements of the market¹¹³.

The number of **tertiary students in engineering, manufacturing and construction** in Malta reached 370 in 2018¹¹⁴, representing an increase of 77.9% over the 2010-2018 period. This increase was driven by the growth in students from engineering and engineering trades (+54.5%) and from architecture and building (+121.5%) over the same period.

The number of **job vacancies** in the narrow construction sub-sector declined by 38.1% annually reaching 292 in 2019, whereas in the real estate activities sub-sector, it increased by 25.8% annually reaching 59 in 2019. Similarly, the **job vacancy rate** in the narrow construction sub-sector reduced by 1.8 pp annually, reaching 2.8% in 2019, whereas in the real estate activities sub-sector, it increased by 0.6 pp, reaching 2.3% in 2019.

The onset of the global COVID-19 pandemic has further exacerbated the existing skills shortage in Malta. The workforce in the construction sector mostly comprises foreign workers, and most of them have either been quarantined or repatriated. As a result, the skills shortage has widened in the sector¹¹⁵.

The Maltese government has announced several employment-related measures as part of a financial package to help the economy amid the pandemic. For instance, as per the measure, '**Wage Supplement March-June 2020**', the government has announced financing full-time employees in business or self-employed persons working in the sectors hit hardest by the COVID-19 outbreak with EUR 800.0 per month from March 2020 to June 2020. Another measure, the '**Quarantine Leave Supplement**' awards EUR 350.0 as a grant to employers for each employee required to be on mandatory quarantine leave¹¹⁶.

Sector and sub-sector-specific issues

Material efficiency and waste management

Construction and demolition waste (CDW) increased by 69.2% from 1.3 million tonnes in 2016 to 2.2 million tonnes in 2017^{117,118}. This is driven by a considerable increase in activities in the Maltese construction sector over recent years¹¹⁹. Around 56.0% of this waste in 2017 was backfilled and 19.0% was disposed of in the sea. In addition, Malta has recorded an increase in the recycling rate of CDW by fostering the reuse of materials and preventing them from entering the CDW waste stream¹²⁰.

The Environment and Resources Authority (ERA), in collaboration with the Ministry for Environment, Sustainable Development and Climate Change has drafted a 'Construction and Demolition Waste Strategy for Malta, 2020-2025 – Managing Construction and Demolition Resources'. It aims at identifying options for the management of waste arising from construction activities and making the economy more circular by treating construction waste as a resource^{121,122}.

In October 2019, the Maltese construction sector faced imminent challenges as around 400 excavation and demolition contractors were unable to find legal dumping solutions at any price, according to Malta Development Association (MDA). The situation was labelled as an emergency and the MDA appealed to the government to take immediate action as the sector had reached a standstill in this regard¹²³.

Due to the lack of land facilities for CDW disposal in Malta, Infrastructure Malta^{124,125} ordered contractors to stop road works. However, the environment ministry insisted that there was still space for construction debris in several quarries, showing that the issue related instead to the difficulty to agree on market prices. The government hence reached an agreement with quarry owners to help reduce market prices¹²⁶.

Climate and energy

Emission of greenhouse gases (carbon dioxide and methane) from the narrow construction and the real estate activities sub-sectors in Malta amounted to 13,273 tonnes and 2,845 tonnes in 2018¹²⁷, representing an increase of 38.5% and 79.4% respectively.

The residential construction sector is a major contributor to greenhouse gas emissions in Malta, which come from energy consumption, fluorinated gases for cooling and waste disposal (including construction waste)¹²⁸.

In 2020, greenhouse gas emissions are projected to be 32.0% above the 2005 level. Malta will therefore miss the 2020 target. Moreover, with greenhouse gas emissions increasing in the country and the ongoing efforts to cut down emissions appearing insufficient, Malta is expected to miss its 2030 emission targets as well.

5

Innovation in the construction sector

Innovation performance



According to the European Innovation Scoreboard 2020, Malta is classified as a Moderate Innovator¹²⁹.

According to the report, its main strengths lie in intellectual assets, employment impacts, innovation-friendly environment and finance and support. It has scored particularly well in trademark and design applications, employment in fast-growing enterprises, broadband penetration and venture capital expenditures. On the other hand, finance and support, human resources, firm investments and linkages are amongst the country's weak innovation dimensions. It scores low in R&D expenditure in the public and business sectors, private co-funding of public R&D expenditure, new doctorate graduates and innovative collaboration of SMEs¹³⁰.

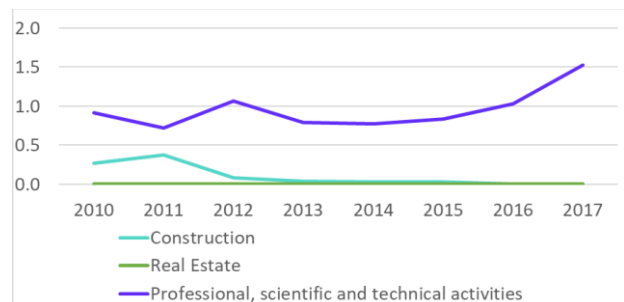
Malta's **public research and development (R&D) investment** has also been on a declining trend since 2015 and has placed it at the bottom of the EU-28¹³¹ ranking in this regard in 2018¹³². According to the Maltese authorities, Malta is expected to miss its 2020 R&D intensity target of 2.0% of GDP¹³³.

In the broad construction sector, **business enterprise R&D expenditure (BERD)**¹³⁴ has seen differing trends across the sub-sectors (Figure 9). BERD expenditure in the professional, scientific and technical activities sub-sector reached EUR 1.5 million in 2017¹³⁵, representing an increase of 67.0% since 2010. Conversely, BERD in the narrow construction sub-sector declined from EUR 0.3 million in 2010 to negligible levels in 2017¹³⁶.

BERD in the professional, scientific and technical activities sub-sector between 2010 and 2017

↑ 67.0%

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Malta between 2010 and 2017¹³⁷ (EUR million)



Source: Eurostat, 2020.

Similarly, total **R&D personnel**¹³⁸ (full-time equivalents – FTE)¹³⁹ in the broad construction sector has seen differing trends across the sub-sectors. The professional, scientific and technical activities sub-sector reported the highest levels of R&D FTEs, increasing from 17 in 2010 to 42 in 2017¹⁴⁰. However, R&D personnel in the narrow construction sub-sector declined from seven in 2010 to zero in 2017¹⁴¹.

Furthermore, Malta has filed no **construction-related patent applications**, since 2010 and no Maltese Construction and Materials firms rank within the top 1,000 EU companies by R&D (industrial sector ICB-3D), according to the 2019 EU Industrial R&D Investment Scoreboard¹⁴².

As per the 2019 Small Business Act for Europe (SBA) Fact Sheet, Malta's performance in innovation has fallen below the EU-28¹⁴³ average in the current reference period (2018 and the first quarter of 2019). Therefore, to enhance the country's performance in this area 'The **Business Enhance RD&I Grant Scheme**' was launched in the current reference period. With a total budget of EUR 20.0 million, it provides grants for a variety of research and innovation (R&I) activities including feasibility studies, R&D projects, research infrastructure and process innovation¹⁴⁴. However, the trend in uptake of such R&I schemes is low in

Malta, as most innovative companies are foreign owned¹⁴⁵.

Eco-innovation and digitalisation

According to the 2018 Eco-innovation Scoreboard, Malta ranked 25th position with a score of 59, below the EU-28¹⁴⁶ average score of 100¹⁴⁷.

Except on resource efficiency outcomes, Malta scored below the EU-28¹⁴⁸ average on four out of five indicators including eco-innovation inputs, activities, outputs and socio-economic outcomes¹⁴⁹.

According to the **European Commission Digital Economy and Society Index (DESI) 2020**, Malta ranks 5th, with a 62.7 score, higher than the EU-28¹⁵⁰ average score (52.5). As compared to the previous year, Malta has improved its rank and increased its score in connectivity, human capital, use of Internet services and integration of digital technology. However, with a slight increment in score, Malta's rank in digital public services remained the same in comparison with the previous year¹⁵¹.

Despite a huge gap between larger companies and SMEs, the levels of digitalisation in Maltese enterprises is high. Malta performs above the EU-28¹⁵² average for the digitalisation of enterprises. Moreover, the government has been supporting the development of digital economy through dedicated policy measures over recent years. The government is prioritising measures for building capacity in digital technologies. A new body, Tech.mt, was set up in March 2019 for promoting Malta as a 'tech centre for innovative technologies'¹⁵³.

In October 2019, the government also adopted an artificial intelligence (AI) strategy (A Strategy and Vision for Artificial Intelligence in Malta 2030), which aims to put Malta amongst the top 10 nations with the highest-impact national AI programme. The strategy proposes to increase investment and economic activity from local and foreign businesses, increase expenditure on research and development and help create new start-up enterprises¹⁵⁴.

The **Malta Council for Science and Technology (MCST)** plays a crucial role in innovation policy in Malta. It is the public body advising government on science and technology policy and is responsible for both the National Research and Innovation Strategy 2020. It also formulates policy recommendations in science and technology, representing the Maltese government in EU forums and manages national and EU Research and Innovation Funding Programmes¹⁵⁵. With reference to the construction sector, MCST aids in formulating innovation policies in projects. The **Ministry for the Economy, Investment and Small Business (MEIB)** is responsible for the implementation of a Digital Economy for Malta. It has the overall governance of the e-government vision, strategy and associated programmes¹⁵⁶.

According to a report from European Investment Bank (EIB), the percentage of firms adopting digital technologies (3D printing, drones and virtual reality) in the Maltese broad construction sector in 2019 was below the EU-28¹⁵⁷ average, except for the Internet of Things (IoT). The adoption rate of these technologies was particularly high in small-scale construction firms^{158,159}.

6

National and regional regulatory framework

Policy schemes

Regarding the housing market, the government has particularly focused on the rental market through several initiatives and planned reforms. Through its 2019 budget and white paper, the government has detailed some of the envisaged reforms relating to the housing rental market. These include stronger regulations such as the introduction of longer-term contracts, mandatory registrations of rental contracts and the obligation of a notice period to be provided by the owner on termination of lease. The government also announced the implementation of a rental reform from January 2020 onwards. It is expected to bring notable changes in the housing and rental sector of Malta¹⁶⁰.

The government has also introduced new rental laws to the Maltese property market. The **Private Residential Act 2019**, which applies to private residential leases¹⁶¹, has been decreed for safeguarding tenant and landlords upon entering a rental agreement. The new law covers deposit returns, lease duration and notice terms. As per the law, all private residential lease contracts entered into force, including renewal, must be in writing, and should include specific provisions, and should be registered with the Housing Authority¹⁶².

In January 2020, the Maltese Housing Authority launched a subsidy in relation to adaptation works in residences (owner occupied, privately rented or government rented residences). Owners having rented private dwellings can apply for assistance to eliminate dangerous structures only and on only one property. This will aid in bringing the premises up to a habitable and acceptable standard.

The maximum amount of assistance under this scheme is EUR 14,000.0 for owner occupied premises, EUR 10,000.0 for tenants and EUR 4,000.0 for landlords of rented properties. Owner occupiers may benefit from assistance for repair works relating to the structure and adaptations of residences, whilst tenants can benefit from assistance related to adaptations. This scheme is valid for works to be carried out on properties built 15 years ago. Moreover, the assets of applicants during the year preceding the date of application should not exceed EUR 60,000.0 and income should be below EUR 26,000.0. Beneficiaries under this scheme may benefit from additional improvements after five years, but only if the total sum does not exceed the maximum amount¹⁶³.

Regarding tenancy support, the Housing Authority has introduced the **Private Rent Housing Benefit Scheme**. It provides a benefit of rent paid on privately rented houses which are the applicants' primary residences, with the purpose of making the rent more affordable. In order to avail of the benefit of this scheme, the applicant must meet the following conditions: be a tenant recognised by the owner of the home on which the application is being made and must have already entered into a contract with the owner covering six months or more, or a temporary lease contract not exceeding 21 years, a copy of which should have been submitted to the Authority. Besides these, there are other obligations in relation to citizenship, tenure of residency and use of premises which need to be fulfilled. The rent benefit will be based on the annual income as well as the rent paid by the applicants¹⁶⁴.

With the success of the ‘affordable housing benefit scheme’ in the first year of its operation, the government announced its extension in the 2020 Budget. The scheme is expected to make a positive impact on the overall ‘at risk of poverty rate’, which is expected to decline by 0.2 pp annually¹⁶⁵.

In order to increase the availability of social housing whilst reducing the number of vacant dwellings, the Housing Authority introduced **Renting to help out (*Nikru biex nassistu*)** in December 2019. This scheme aims at encouraging private owners of vacant and finished residential property with one, two or three bedrooms to enter into a lease agreement with the Housing Authority for ten years. The Housing Authority will then sublet these properties to persons eligible for social accommodation. The authority will be entirely responsible for collecting rents and the contributions for the maintenance of the common parts from the sub-lessees. The Housing Authority will also be fully responsible for ensuring that sub-lessees fully comply with the rental conditions imposed on them¹⁶⁶.

According to Malta’s 2020 Draft Budgetary Plan, authorities are planning to introduce measures to address the issue of affordable housing by continuing the programme of building affordable homes and assisting households who are renting. It will also broaden the benefits targeting first-time buyers¹⁶⁷.

In the wake of the global COVID-19 pandemic, the Maltese government has introduced a social measure to increase rent subsidies for individuals who have lost their job due to COVID-19. The Housing Authority aims to make rent more affordable through this social measure. This shall be done by lowering the burden that households face in relation to rent expenses by raising the benefit cap¹⁶⁸.

Moreover, in June 2020, the Maltese government announced reducing the property stamp duty (property tax). The measure intends to strengthen the economy after the disruptions caused due to the COVID-19 pandemic and associated global recession. It aims at incentivising buyers and sellers, to encourage investment for themselves and for the economy, ensuring a continued stability of the private property market¹⁶⁹.

Building regulations

In Malta, the **Building and Construction Agency (BCA)** is the body responsible for the design, implementation and distribution of policies together with the consolidation and review of laws and regulations, in the form of a national building code¹⁷⁰.

These collectively aim to manage the building and the construction sector in Malta efficiently. The Agency is authorised to collaborate with other corporations, authorities, government and non-government entities and other individuals for conducting its functions, along with carrying out all the necessary preparations for setting up the Building and Construction Authority¹⁷¹.

The primary piece of legislation regulating construction activities is the **Building Regulation Act** (Act XII of 2011). The scope of the Act includes issuing licences and registration of masons, building contractors and tradespersons; monitoring application of building regulations; endorsing certificates of compliance; enforcing building control regulations; and providing technical assistance to the Building Regulation to prepare technical guidance documents¹⁷².

The regulation **Energy Performance of Buildings Regulations**, Subsidiary Legislation (SL) 513.01 under Legal Notice (LN) 47 of 2018, as amended by LN 134 of 2020, promotes the improvement of the energy performance of buildings within the territory of Malta. It considers outdoor climatic and local conditions, as well as indoor climatic requirements and cost-effectiveness¹⁷³.

Likewise, the regulation **Avoidance Of Damage To Third Party Property**, SL 513.06 under LN 136 of 2019, as amended by LN 180 of 2019, ensures that before starting any type of work comprising demolition, excavation or construction, methodologies that are technically secure are prepared to minimise the risk of damages to third-party property or injury to persons that may result through the proposed works¹⁷⁴. Since June 2019, the Maltese Ministry for Transport, Infrastructure and Capital Projects have passed a draft construction law, which requires a **Geotechnical Design Report**. The developer should ensure that an appropriate structural investigation of the zone to be excavated is carried out through the submission of the report mentioned above.

Moreover, the stipulation of stricter fines for contraveners is among the principal changes found within the new draft of the Avoidance of Damage to Third Party Property Act¹⁷⁵.

As per the new construction regulations passed by the Maltese government in June 2019, it has become mandatory for construction site managers to be architects. Site works can resume only after fulfilment of the conditions in the new regulation¹⁷⁶.

Insurance - and liability-related regulations

Due to the increase in the number of construction accidents, the Maltese government issued the **Avoidance of Damage to Third Party Property Regulations** in June 2019, by means of **Legal Notice 136**. These Regulations replaced **Legal Notice 513.02 of 2013** previously in force. The new regulations aim to minimise the risk of damage or injury to third parties during the execution of construction works. The new regulations are

applicable for excavation and demolition works affecting third-party property, works involving in the building of additional storeys over property occupied by third parties, and the construction of new buildings or storeys next to the third-party property¹⁷⁷.

The developer applying for permit is presently obliged to provide an insurance cover of not less than EUR 750,000, whereas previously the minimum amount was EUR 500,000. The insurance cover must be renewed until the work is completed¹⁷⁸.

Liability principles for architects, engineers and contractors are defined by **article 1638 of the Civil Code**, under which these are responsible for any defects in the final construction for up to 15 years from the day on which the construction was completed. Furthermore, action against any damages must be taken within two years from the day on which the defects occurred. The Civil Code also sets the obligation for the employer to examine the final delivered construction¹⁷⁹.


7

Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

Total investment by the broad construction sector¹⁸⁰ has displayed different trends since 2010 (Figure 10). In fact, investment by the narrow construction sub-sector dropped from EUR 54.3 million in 2010 to EUR 27.1 million in 2019 (-50.1%). Conversely, investment by the real estate activities sub-sector increased from EUR 227.4 million in 2010 to EUR 636.1 million in 2019 (+179.7%).

Investment in intellectual property by the narrow construction sub-sector decreased from EUR 2.4 million in 2010 to EUR 1.4 million in 2019 (-41.7%). Conversely, those increased in the real estate activities sub-sector from negligible levels in 2010 to EUR 2.7 million in 2019.

Total investment by the narrow construction sub-sector between 2010 and 2019  **50.1%**


Total investment by real estate activities sub-sector between 2010 and 2019  **179.7%**

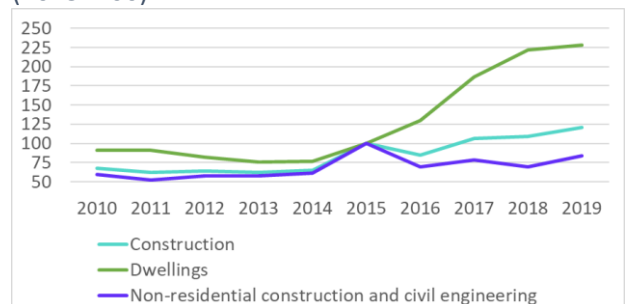
Figure 10: Investment by the Maltese construction sector between 2010 and 2019 (EUR million)



Source: Eurostat, 2020.

The investment index in the broad construction sector¹⁸¹ has experienced moderate growth since 2015, rising by 20.9% over 2015-2019 (Figure 11). The growth was mainly driven by investment in dwellings by the whole economy, which increased by 128.2%, partially offsetting a decline of 16.6% in investment in non-residential construction and civil engineering over the 2015-2019 period.

Figure 11: Investment index in the Malta construction sector between 2010 and 2019 (2015=100)



Source: AMECO, 2020.

In absolute terms, investment in the broad construction sector amounted to EUR 1.4 billion in 2019, out of which EUR 670.0 million was invested in dwellings and EUR 711.4 million was spent on non-residential construction and civil engineering¹⁸².

Total investment in dwellings by the whole economy between 2015 and 2019

 **128.2%**

Additionally, total **household renovation spending** in Malta has been consistently increasing since 2010, except for a slight drop in 2012. In 2019, it reached EUR 23.3 million, increasing by almost double (51.3%) as compared to 2010.

With regards to EU funding, Malta has submitted one major construction project for funding to the European Commission between 2014 and 2020, while the total budget set aside for transport infrastructure stood about EUR 42.0 million^{183,184}.

The Maltese government has also prioritised reducing the traffic congestion in urban areas. In this regard, the government therefore aims to include **investment in roads** as part of potential investment under the Cohesion policy for the 2020-2021 programming period. To address traffic congestion, the government invested EUR 700.0 million in a **seven-year road transport infrastructure project** to upgrade and refurbish the road network, starting in 2019¹⁸⁵.

Moreover, for supporting the development of transport infrastructure, the country's long-term **National Transport Strategy 2050** and the **Transport Master Plan 2025** have already been launched by the government. These strategies aim to achieve more sustainable mobility by improving the road network and reducing traffic bottlenecks, as well as achieve more sustainability in modes of travel¹⁸⁶.

The government had also launched the EUR 141.0 million **'#7roadproject'** for upgrading seven of Malta's major road networks that are most prone to congestion and accidents. The project aims to ensure a smoother and faster flow of traffic, thereby enhancing greater accessibility and mobility while parallelly reducing travel times. Work started in 2018 and all planned projects are expected to be finalised ahead of schedule by 2022¹⁸⁷.

Infrastructure Malta has also opened the first new road of the **Central Link Project** (launched in January 2020), a two-lane westbound carriageway bypassing three traffic light junctions. The EUR 55.0 million project aims to establish a quicker

and safer route with reduced traveling time and improved air quality along the principal arterial road corridor in Central Malta. Through this project, Infrastructure Malta is presently also building Malta's longest bi-directional track for cyclists and pedestrians. The Central Link Project is part-financed by the European Regional Development Fund (ERDF) and the Cohesion Fund of the European Union^{188,189}.

Regarding the biggest infrastructural investment in the Maltese road network – the EUR 70.0 million, Marsa Junction Project (a junction of seven flyovers) is now entering its final phases. Another set of three flyovers in the junction have opened recently in October 2020¹⁹⁰.

Later in October 2020, Infrastructure Malta will also open the northbound carriageway, as a result of which the agency will then be able to open the seventh flyover structure of the new Marsa Junction as well¹⁹¹. Besides construction of seven flyovers for the Marsa Junction Project, some ancillary works are also planned. Contractors are focusing on the access ramps that are required for connecting the flyovers to the roads converging at the junction. Other works such as new roads beneath the flyovers, a new 10-metre pedestrian and cycling underpass, water mains, walk-through culverts for electricity cables, etc. are to be completed. The project is co-financed by EU's Cohesion Fund and Connecting Europe Facility¹⁹².

TO 2 – Skills

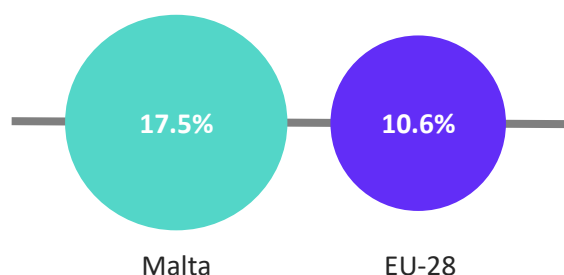
The overall responsibility for **vocational education and training (VET)** in Malta, lies with the Ministry for Education and Employment¹⁹³. The uptake of VET in Malta remains low. The share of **upper secondary students getting enrolled in VET** decreased slightly from 28.8% in 2017 to 27.1% in 2018¹⁹⁴, and remained well below the EU-28¹⁹⁵ average of 48.0%. However, the **employment rate of VET graduates** in Malta in 2018¹⁹⁶ stood at 91.0%, well above the EU-28 average (79.5%). However, the **adult participation in learning** in 2018¹⁹⁷ stood at 10.8% in Malta, slightly lower than the EU-28 average (11.1%)¹⁹⁸.

Expenditure on VET also increased by 76.0% between 2016 and 2018¹⁹⁹. The overall uptake of VET subjects in secondary schools have increased from 23.0% in 2016 to 55.0% in 2019²⁰⁰.

The European Structural Fund project ‘Achieving vocational excellence through enhanced work-based learning’ aims to build on Malta’s College of Arts, Science and Technology (MCAST) work-based learning in order to make VET more attractive to students. The project will involve developing and delivering a mentoring training programme for MCAST lecturers. It is estimated that around 600 students from MCAST following an apprenticeship programme will benefit from the project. Project implementation began in 2019 and is expected to be accomplished by 2022²⁰¹.

Apart from VET, Malta’s **public expenditure on education as a percentage of GDP** stood at 4.9% in 2017²⁰², slightly higher than the EU-28²⁰³ average (4.6%). However, the proportion of **early leavers from education and training** (aged 18-24) in 2018²⁰⁴ in Malta stood at 17.5%, well above the EU-28 average (10.6%) and National Europe 2020 target (10.0%). This area remains a priority for Malta. **Tertiary educational attainment** in Malta has also reached 34.2% in 2018²⁰⁵, but lies below the EU-28 average (40.7%)²⁰⁶.

Proportion of early leavers from education and training in 2018



Despite having positive results in the rate of early leavers from education and training and increases in tertiary education attainment from previous years, the educational outcomes and attainment rates in Malta are generally lower as compared to the EU-28 average. This highlights the challenges in the quality of investment in education²⁰⁷.

To tackle the early school leaving rate in Malta, the Ministry for Education and Employment (MEDE) has planned to launch a secondary school reform ‘My journey: achieving through different paths’. It aims to provide a system for all learners by addressing their different learning aptitudes, intelligence and patterns and creating an interest in learning²⁰⁸.

As part of Malta’s artificial intelligence strategy launched in October 2019, Malta aims to promote training, including a specific re-skilling programme, to help vulnerable workers acquire digital skills²⁰⁹. In line with this strategy, the **E-Construct programme** was launched in October 2019 with reference to Malta’s construction sector. It is a 30-hour pre-skilled card preparatory course which aims to teach the necessary skills to manage, promote and work in the construction sector. The training programme will focus on basic maths, safety at work, better use of information and communications technology (ICT) and several training workshops²¹⁰. It also includes a skills plan for the sector to support and emphasise the skill card system (introduced in 2016) and to retain existing human resources, while attracting new generations of talent in the sector. As of May 2020, this programme has reached over 232 workers²¹¹.

TO 3 – Resource efficiency / Sustainable construction

In May 2019, a national roundtable on **Financing Energy Efficiency in Malta** was organised in partnership with the UN Environment Finance Initiative and Malta’s Ministry of Transport, Infrastructure and Capital Projects. This event revealed the numerous structural barriers of the buildings sector in Malta, the investment needs and the necessary reforms required to boost renovation rates and raising awareness in developing investment projects and programmes in sustainable energy²¹².

The event also revealed that the buildings in Malta had close to half of the EU-28²¹³ average **building energy consumption**. Most energy consumption is in appliances such as heating and cooling, which are only used for a few months of the year²¹⁴. The skill shortages in the Maltese construction sector also lead to a limited expertise in energy efficiency²¹⁵. Therefore, the government has

initiated the process of establishing a new body governing buildings and the construction sector. A core group has been set up, with the objective of preparing building code and building standards regulation in Malta²¹⁶.

Moreover, within the framework of the Smart Financing for Smart Buildings Initiative²¹⁷, the European Investment Bank approved and signed a EUR 12.0 million funding agreement with Malta using European Structural and Investment Funds (ESIF) resources²¹⁸.

Malta has introduced the **Energy Performance of Buildings Regulations** (LN 47 of 2018 that outmoded LN 376 of 2012) to transpose and implement the Directive 2010/31/EU on the energy performance of buildings. The Regulations promote improvement of the energy performance of buildings within the territory of Malta, considering outdoor climatic and local conditions, along with indoor climatic requirements and cost effectiveness. The regulation also makes the Energy Performance Certificate (EPC) compulsory for any building to be constructed, sold or rented out²¹⁹.

Presently, there are more than 50,000 **Energy Performance Certificates** for buildings in Malta²²⁰. Better use of these certificates and a long-term renovation strategy for addressing both social housing infrastructure and the worst-performing buildings in the building stock would support the uptake of energy renovation in Malta. This may further help in boosting energy efficiency substantially²²¹.

However, presently, only 0.6% of residential buildings and 2.1% of non-residential buildings in Malta are renovated yearly. Energy-related 'deep' renovations are carried out on 0.1% of residential buildings and 0.4% of non-residential buildings each year. Consequently, these renovations result in only 10.0% energy savings for the residential sector on average and 15.0% for the non-residential sector. The country's low renovation rates have resulted in insufficient energy savings²²².

Low-income households in Malta are provided with financial support to make their dwellings more energy efficient. Despite this effort, Malta has made limited progress in focusing investment-related economic policies on resource and energy

efficiency. The country's efforts to increase energy efficiency is still insufficient to tackle the challenges it is presently facing. According to the **National Energy and Climate Plan (NECP) 2017**, Malta is not on track to meet the 2020 energy efficiency targets²²³.

As per the council recommendations of Malta's 2020 National Reform Programme, supporting the renovation of existing building stock coupled with targeted training schemes will help in improving the energy performance of buildings²²⁴.

With respect to the design of buildings, the Malta Planning Authority is promoting energy efficiency through several policies and guidelines. For instance, all developments under way are expected to make an optimum use of space and are to avoid making longer and dark corridors. The developments and construction are to be performed in a way that light easily permeates through the spaces. Specific energy conservation measures have also been considered like the use of renewable sources of energy²²⁵.

TO 4 – Single Market

Malta has performed satisfactorily with respect to the metrics of the EU Single Market Scoreboard in 2020, mostly regarding the transposition of law²²⁶.

As per the EU Single Market Scoreboard in 2020, Malta's score regarding the **transposition deficit** in 2019 was below the EU-28²²⁷ average (0.6%). Furthermore, the **conformity deficit** for the country stood at 0.6% in 2019, higher than last year (0.4%), but lower than the EU-28 average (1.2%)²²⁸. At the same time, the country's performance in terms of the **average delay for overdue directives** stood at 18.1 months in 2019, higher than last year (10.3 months) as well as the EU-28 average (11.5 months).

According to the SBA Fact Sheet 2019, the number of single market directives not yet transposed in Malta stood at three, lower than the EU-28²²⁹ average (7.4). This makes Malta third-best performer for this indicator in the EU-28.

In terms of **Internal Market Information Systems**, Malta performed well in 2019. Two out of four

indicators showed improved performance compared to the previous year. The number of pending cases under infringement in 2019 stood at 20, higher than 16 pending cases in the last year, but below the EU-28²³⁰ average (29 cases). This is due to the limited use of the EU Pilot tool which increased the number of infringement proceedings against several member states. Malta's trade integration in the single market for goods and services is above the EU-28 average²³¹.

Malta has significantly benefited from the single market, as the intra-EU goods trade increased by 42.0%, much higher than the EU-28²³² average. However, some indicators on compliance with single market rules in the area of goods highlight room for improvement. With a low level of notifications of technical regulations under the Transparency Directive, Malta is making limited use of this tool to allow dialogue with other Member States for improving the free movement of goods²³³.

As per the 2017 Malta Corruption Report²³⁴, land administration is characterised by moderate corruption risks and over 50.0% of citizens believe that bribery and abuse are common among officials issuing building permits. The country's public procurement sector also carries a high corruption risk for business. On awarding public contracts, enterprises have reported that favouritism by the public officials affects fair competition²³⁵.

However, Malta is actively pursuing effective and efficient public procurement with the recognition that it will support government's broad strategic goals and contribute to the fast-growing economy. The country has made significant progress in updating its public procurement process with several strategic initiatives either continuing or accomplished. The e-procurement system has also played a positive role in improving transparency and communication amongst bidders²³⁶.

Amid the COVID-19 pandemic, alongside other legal sectors, the Maltese public procurement sector has been affected. The Legal Notice 61 of 2020, to be read in conjunction with Legal Notice 65 of 2020, has also suspended all legal and judicial times and any other time limits including peremptory periods applicable to procurement proceedings²³⁷.

With regard to the implementation of Eurocodes, all EN Parts are published as National Standards, with EN 1990 and EN 1991-1-1 being translated in the national language. The use of the Eurocodes is voluntary in Malta. Conversely, National Annexes have not yet been published officially. The regulatory framework for their use in Public Procurement is not yet agreed upon by the Building Regulations Office (BRO). Hence, Eurocodes cannot yet be used for structural design²³⁸.

TO 5 – International competitiveness



As per the Global Competitiveness Index 2019, Malta ranked 38th out of 141 assessed economies²³⁹.

According to the Index, in terms of trade openness, Malta ranked 64th out of 141 economies. Specifically, in trade tariffs and prevalence of non-tariff barriers, Malta performed well, ranking 7th and 10th respectively out of 141 economies. However, in border clearance efficiency, the country ranked 60th. Malta performed worst in the complexity of tariffs, ranking 113th out of 141 economies²⁴⁰.

The **internalisation of construction products** in the Maltese construction sector has shown signs of decline in the past few years. The export values of all construction-related products decreased from EUR 2.4 million in 2010 to EUR 0.7 million in 2019 (-72.1%).

Export value of all construction-related products between 2010 and 2019

↓ 72.1%

In the context of **inward FATS (Foreign Affiliates Statistics)**²⁴¹, value added at factor cost and gross

premiums written in the manufacturing²⁴² sub-sector decreased by 15.2% and 7.6% respectively. Malta's **Foreign Direct Investment (FDI)** for the manufacturing and real estate activities sub-sectors in the EU-28²⁴³ countries increased by 13.7% and 8.2% respectively, over the period 2013-2017²⁴⁴.

According to the 2019 SBA Factsheet, Malta performs better than the EU-28²⁴⁵ average in most of the SBA principles under the **internationalisation**. Malta is among the top-scoring countries particularly in the availability of information, advance rulings, automation of formalities, extra-European online exports and SMEs importing goods from the extra-EU region. Nevertheless, the country scores below the EU-28 average for the national trade community's involvement, SMEs with extra-EU export of goods and border agency cooperation²⁴⁶.

Malta developed several policies and initiatives to support the internationalisation of its SMEs in recent years, addressing most of the SBA principles. In 2017, Malta launched the '**SME e-Commerce Grant**' with an annual budget of EUR 1.0 million. It offers grants to companies for

setting up online sales and booking systems and for helping them access overseas markets. As of May 2019, a total of 48 beneficiaries had received grants totalling EUR 223,000²⁴⁷.

The Malta Enterprise Corporation has re-launched the '**Certify tax credit scheme**' for the 2018-2020 period. It aims to encourage eligible private companies to continuously improve the quality of their products, services and processes through the attainment of industry recognised certifications. The scheme is intended to boost awareness of the added value that may be achieved through certification when competing in international markets^{248,249}.

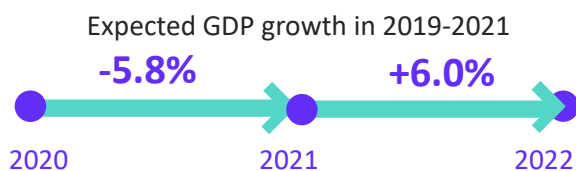
Similarly, the '**Cooperate for Growth**' scheme launched in 2018 and the first quarter of 2019 aims to support private companies that are willing to enter new markets, or introduce a new service or product in an existing international market^{250,251}. Although these programmes are not specifically tailored to construction companies, the Malta Developers Association explained that it sometimes participates in missions as a delegation together with Maltese construction enterprises.

8

Outlook

The Maltese economy is forecasted to contract in 2020, before witnessing a revival in 2021. This is mainly due to the COVID-19 pandemic and associated restrictions in the country²⁵².

Malta's **GDP** is expected to decline annually by 5.8% in 2020, reaching EUR 11.4 billion and then increase by 6.0% in 2021 to reach EUR 12.1 billion.



Mirroring the overall economy, the **volume index of production²⁵³** in the broad construction sector is projected to decline annually by 2.9 ip in 2020 and then increase annually by 3.6 ip in 2021.

In addition, the **investment index in the broad construction sector** is expected to decline annually by 2.4 ip in 2020, before increasing annually in 2021 by 3.0 ip. This trend is expected to be driven by yearly declines in the investment index on dwellings; non-residential construction and civil engineering by 4.6 ip and 1.7 ip in 2020 respectively. However, in 2021, the investment index on dwellings is expected to remain stable, while the one for non-residential construction and civil engineering is expected to increase by 4.1 ip.

The Maltese construction sector, which already suffers from issues such as late payments – causing liquidity squeeze in the sector, is also expected to be impacted by the COVID-19 pandemic in 2020. Particularly in the **house prices**, which had already started slowing down before the onset of the pandemic, have further declined. In the first quarter of 2020, Maltese house prices

decreased by 4.3% compared with the previous quarter²⁵⁴. This is due to a significant decline in demand, which also affected the rental sector²⁵⁵. However, as per Malta's 2020 Draft Budgetary Plan, improvements to the housing stock will be prioritised, with measures supporting household rental and property market²⁵⁶.

In June 2020, the Maltese government announced the cutting down of property stamp duty (property tax) as a part of the country's stimulus package, geared towards kickstarting the economy after the COVID-19 pandemic and associated global recession. This measure intends to incentivise buyers and sellers, to encourage investment for themselves and for the economy and ensure continued stability of the private property market²⁵⁷.

As for **infrastructure**, the Maltese government will continue with its upgrading programme by investing in roads and ensuring sustainable development and mobility in 2020²⁵⁸. Moreover, the government has asked the Chartered Institute of Building (CIOB) to expand membership to promote better construction quality regarding the infrastructure in the country²⁵⁹.



The construction sector is expected to be one of the drivers of the Maltese economy post COVID-19, as investors in the construction sector were looking at postponing investments and not cancelling them²⁶⁰.

Whilst the pandemic situation is expected to weigh on Malta's investment appetite in the construction sector for 2020, it is assumed that the impact on the longer-term outlook should remain limited²⁶¹.

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