



Evaluation of the Wage Supplement Scheme

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Executive Summary

The COVID-19 pandemic had a profound impact on economies worldwide, and Malta, as a small and open economy, was particularly vulnerable to these disruptions. Due to its heavy reliance on trade and tourism, Malta faced significant challenges as travel restrictions halted tourism, unemployment increased, and GDP contracted. In response to this crisis, the Maltese Government implemented a range of measures to mitigate the immediate economic shock while supporting long-term stability. A central component of these efforts was the Wage Supplement Scheme (WSS), designed to protect jobs and stabilize businesses during a time of unprecedented uncertainty. This report **evaluates the WSS which was partially funded through REACT-EU funds¹, examining its design, implementation, and effectiveness in helping Malta navigate the economic challenges of the pandemic and ensuring resilience in the face of such a global crisis.**

Prior to the pandemic, Malta's economy experienced robust growth, with an average annual nominal growth rate of 10% since 2013, significantly outpacing the EU average of 4%. By 2019, GDP growth had stabilized at 7%, positioning the economy strongly as it entered 2020. This growth was primarily driven by strong performances in sectors such as ICT, gaming, and financial services, alongside traditional industries like tourism. However, the pandemic exposed key structural vulnerabilities, notably the economy's heavy reliance on sectors prone to external shocks, including tourism, wholesale and retail, transportation, food services, and manufacturing, all of which were severely impacted. The disruption had significant implications for employment, with the unemployment rate rising to 4.9% in 2020, up from 4.1% in 2019. Despite these challenges, Malta's strong fiscal position and timely government interventions, including the WSS, helped sustain employment and facilitated a rapid recovery. With the implementation of the WSS unemployment dropped to 3.8% in 2021 and continued to decline to 3.5% by 2023, registering an improvement upon pre-pandemic levels. In contrast, the EU's unemployment rate was significantly higher and rose from 6.8% in 2019 to 7.2% in 2020. Meanwhile, the Maltese tourism industry experienced a strong recovery following the COVID period, with nearly three million inbound tourist arrivals in 2023, surpassing pre-COVID levels. Furthermore, the economy rebounded following the shock of the pandemic but this was only possible due to timely interventions such as the WSS which allowed firms to maintain their employment. This recovery underscores Malta's resilience and its responsiveness and adaptability in navigating the economic challenges posed by the pandemic.

The COVID WSS was launched by the Government of Malta in March 2020. Approved under the European Commission's State Aid Temporary Framework, as amended on 3rd April 2020, the scheme provided a basic wage cover to employers and employees until the end of May 2022. The maximum monthly subsidy per employee was set at €800, approximately 50% of the national average wage and slightly above the statutory minimum wage of €777.10 per month. The WSS aimed to preserve jobs and stabilize household incomes, delivering critical support to businesses suffering significant revenue losses due to mandatory closures and operational disruptions brought about by the pandemic. By targeting the hardest-hit sectors and implementing tiered assistance, the scheme ensured that public resources were allocated efficiently and equitably. This targeted approach minimized economic distortions and facilitated a faster and more resilient recovery once restrictions were lifted.

¹ Regulation (EU) 2020/2221 of the European Parliament and of the Council of 23 December 2020 amending Regulation (EU) No 1303/2013

Research highlights the significant impact of the COVID-19 pandemic on household income distribution across the EU, including Malta, amplifying pre-existing vulnerabilities and underscoring the importance of government interventions in mitigating economic shocks. Throughout Europe, fiscal measures such as wage subsidies and unemployment benefits played a crucial role in safeguarding household incomes, particularly for lower-income groups and workers in the hardest-hit sectors. In Malta, the WSS proved to be a vital policy instrument, helping to cushion income losses and prevent a sharper increase in poverty. A study by the Central Bank of Malta² evaluated the impact of the WSS at the household level. The findings revealed that, in a "no support" scenario, households in the lower half of the income distribution would have faced income losses ranging from 7.3% to 12.4%. However, with the implementation of the WSS, these losses were significantly mitigated, reducing the impact to between 3.3% and 5.3%. Additionally, evidence suggests that the pandemic period heightened anxieties and brought greater attention to mental well-being among the Maltese population.

The evaluation of the WSS focused on answering key evaluation questions aligned with the main evaluation criteria outlined in the European Commission's Better Regulation Guidelines, namely relevance, coherence, effectiveness, efficiency, impact and EU added value. Based on the Theory of Change (ToC) framework, successive judgement criteria were established in a logical sequence, identifying preconditions and conditions necessary to achieve the desired effects. A structured methodological approach, integrating both quantitative and qualitative methods, was employed to ensure a thorough and comprehensive analysis. The quantitative assessment involved examining micro- and macro-economic data alongside survey findings, using a counterfactual approach to compare outcomes between beneficiaries and non-beneficiaries of the scheme. Qualitative data was gathered through interviews with stakeholders and employers, complemented by focus groups with both beneficiaries and non-beneficiaries. This multifaceted approach provided robust findings, supported by a diverse and well-rounded evidence base.

The WSS was a **well-timed and highly relevant intervention**, effectively addressing immediate economic challenges while aligning with Malta's national and European policy frameworks. It supported critical objectives such as employment retention, wage protection, and labor market resilience, demonstrating strong adaptability to evolving needs. The scheme mitigated financial hardships for workers and enabled businesses to continue operations, with its **relevance further strengthened by collaboration with social partners**. The WSS was also coherent and complementary to other national and EU-level initiatives, aligning with the objectives of the ESF and REACT-EU.

The scheme demonstrated **significant effectiveness in preserving jobs and minimizing widespread layoffs, thereby mitigating the pandemic's social and economic impact**. Employment rates in Malta were maintained or recovered more rapidly compared to EU counterparts, and poverty increases, particularly among lower-income households, were notably restrained. By sustaining household incomes and stabilizing consumption, the scheme played a pivotal role in cushioning the economic shock. At its peak, the WSS supported approximately 77,200 employees, with its coverage gradually tapering as the scheme was phased out by mid-2022. High participation levels were recorded in sectors most affected by the pandemic, such as retail, accommodation and food services, and manufacturing. In 2021, the scheme supported 77% of firms and 72% of employees in the accommodation sector, 28% of firms and 34% of employees in wholesale and retail, and 24% of firms and 33% of employees in

² Central Bank of Malta. (2022). *Economic developments and outlook: COVID-19 and the Maltese economy*. <https://www.centralbankmalta.org/financial-stability-reports>

manufacturing. Overall, around €750 million in support was distributed to employers via the WSS, ensuring the continuity of wage payments in these sectors. Stakeholder feedback underscored the scheme's swift and collaborative implementation as a key success factor. Suggestions for improvement included integrating training and upskilling initiatives, particularly for sectors experiencing slower recovery.

The **WSS was widely regarded as a cost-effective intervention**. The rapid deployment of the scheme provided a critical lifeline during a period of great uncertainty, with stakeholders appreciating its swift rollout. However, there was a consensus by employers that a more tailored approach to phasing out the scheme could have been beneficial, particularly for industries still facing challenges after the initial restrictions were lifted. The financial support provided through the WSS was generally considered adequate, especially when combined with other aid measures such as training schemes and favourable loan conditions, which further amplified its impact. Overall, while the WSS was effective in mitigating the immediate impact of the pandemic, it was most successful when integrated into a broader package of tailored measures that addressed the specific needs of various industries. Despite its achievements, there were missed opportunities to maximize its long-term impact. Integrating training and upskilling programs could have generated more sustainable economic benefits for Malta in the long run. Thus, in view that this was a crisis reaction, such measures could have been considered in the second year of such schemes.

The analysis reveals that the primary economic shocks from the pandemic were linked to a decline in net tourism expenditure, while autonomous shocks to household consumption were less impactful. The WSS effectively mitigated the most severe impacts of the tourism shock, by preserving employment and Gross Value Added (GVA) in key sectors such as wholesale and retail, accommodation, and transport. In contrast, sectors less reliant on tourism, such as financial services and remote gaming, experienced little disruption and continued their pre-pandemic trends during the crisis. **Counterfactual analysis showed that without the WSS, key sectors would have faced substantial declines in GVA and compensation of employees**. Nonetheless, the recovery trajectory suggests that the WSS effects were mostly short-term, helping to prevent immediate losses but not significantly altering the long-term recovery paths for these industries. **The WSS also played a key role in alleviating the significant impact on mental health and societal wellbeing, as fear of financial instability and job insecurity heightened anxiety during this period**. Survey results highlight its effectiveness in preserving jobs, reducing poverty, stabilizing the economy, and safeguarding employee welfare. These outcomes were widely recognized, particularly among beneficiaries who directly benefitted from the scheme.

The **EU added significant value to the scheme** through its financial instruments such as the SURE loan and REACT-EU funding. These EU mechanisms provided crucial support, **allowing Malta to expand and sustain the scheme, thereby ensuring its continued effectiveness throughout the crisis**. The EU's financial interventions went beyond what individual Member States could have achieved, helping to stabilize national economies and mitigate potential spikes in unemployment and government debt. This experience underscores the importance of maintaining adaptable funding mechanisms, a principle now incorporated into the 2021-2027 EU programming period.

Following the evaluation of the scheme across key criteria, this study presents a set of recommendations aimed at informing future policy development. In order to enhance resilience against future crises, a crisis preparedness and response framework could be considered based on

lessons from the COVID-19 pandemic. Equally vital is the development of recovery strategies that integrate efforts to rebuild infrastructure, restore economic activity, and support affected communities.

Another important lesson which emerged from the COVID-19 pandemic event is the need to train employees to enhance their resilience against unexpected shocks while preserving their well-being and promoting mental health. Through targeted programs, employees develop the skills, knowledge, and mindset needed to adapt effectively during crises.

Furthermore, building on the success of the Wage Supplement Scheme (WSS), deeper engagement with stakeholders and accelerated digitalization efforts are critical for fostering national resilience. Strong social dialogue ensures inclusive policy design, strengthens trust among stakeholders, and enables rapid, coordinated responses to shocks. Similarly, investments in digital infrastructure, comprehensive data systems, and innovative technologies are crucial for streamlining operations and ensuring efficient resource allocation during crises.