

Empirical Estimates of Okun's Law in Malta

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Abstract

This study presents various empirical estimates of Okun's Law in Malta for the period 2000-2016. A better understanding of Okun's relationship is important for the design of macroeconomic policies as well as for forecasting purposes. In Malta, the relationship between output and unemployment is relatively weak compared to other European countries. Among the demand components, unemployment is most sensitive to private consumption and exports. The relationship is also asymmetric, with the response of unemployment to output tending to be more pronounced during recessions. Stability tests suggest that Okun's relationship is not stable, although the link has become more pronounced in recent years, while the unemployment rate consistent with full employment has been on a downward trend. Estimates from an unobserved components model suggests that Okun's Law is quite robust at cyclical frequency, with potential time-variation in the relationship being ascribed to the trend components.

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