



## MALTA EMPLOYERS' ASSOCIATION

### **Proposals for the National Budget – 2005**

#### **Situation Analysis – Coming to Terms**

The Malta Employers' Association emphasizes the dire need for government to take concrete measures to address the state of public finances. A fiscal deficit of more than 6% (9% if one takes the set off of LM300m shipyard losses in 2003) that has persisted over a number of years has resulted in a high public debt – 70% of GDP - which constrains government to suffer a servicing requirement that is draining it of LM85m per annum, with the threat of higher interest rates increasing this amount even further. This effectively means that the deficit is serving primarily to service the public debt, and not to regenerate economic activity. Clearly this is a situation that cannot continue indefinitely, and the government may have to take hard decisions to address the issue. The convergence reports has set fiscal targets to address public finances. However, it depends too much on a reduction in capital expenditure, and relies heavily on the assumption that economic growth will in itself generate additional tax revenue to reduce the fiscal gap.

MEA has been contending that the economy cannot sustain the current magnitude of government spending. In its document: Generating productive Employment – A National Priority, the Association called for a strategy based on a phased reduction in employment in the public sector, complemented with sufficient incentives in the private sector to absorb the excess labour in the public sector. The resulting contraction in public sector employment and the expansion of the private sector will serve to reduce the fiscal deficit. Unless public sector employment is reduced from its current 35% of the gainfully employed, there is little chance of success of improving

public finances. The Civil service currently has a wage bill of LM200m, accounting for approximately one third of its total budgetary expenditure. An agreement has to be reached with unions to cap this expenditure for the foreseeable future. This may not necessarily imply a wage freeze, but wage increases should be linked only to establish realistic wage relativities in some sectors, and to targets related to the employment levels and measured efficiency. Wage moderation is a must to gain competitiveness, and to reach the targets that the government has set in the National Action Plan for Employment. If the current situation remains, then government will ultimately have no option but to increase taxation to settle its fiscal difficulties, and the deflationary impact of such a measure threatens to cause a further contraction of the private sector.

MEA has also urged government to cut welfare expenditure by prioritizing its spending and addressing areas of abuse. Many are receiving welfare benefits and actively employed in the informal economy. Others are enjoying a lucrative early retirement because they have been boarded out. Is there a single case of a boarded out person being reintegrated in the labour force? Expenditure on welfare benefits absorb 43% of government expenditure. This figure is too high and underscores the need for a reassessment of current schemes.

There is also the threat posed by a spiraling price of fuel, caused mainly by an increase in demand from China. It remains to be seen whether world supply will adjust to this situation to see a fall in price to early 2004 levels in the coming year. Although producers world wide are being affected by the increase in energy costs, Malta's infrastructure is more heavily dependent on oil as an energy source than other countries, therefore competitiveness may be affected. On the other hand, the international economy is passing through a recovery, yet Malta is lagging behind the economic growth experienced by many EU countries. Indeed it is the country that is registering the lowest real GDP growth in the EU. Pre-accession countries have an average 2.4% real GDP growth, whereas the new members are registering an average growth of 4.5%. In Malta, real GDP growth currently stands at less than 1%, and the country has hardly experienced any economic growth during the last three years. This is also being reflected in the prevailing negative current account balance.

These internal and external challenges call for a concerted effort by all social partners to regenerate our economy. Unfortunately the MCESD is currently at an impasse, with little chance of consensus between unions, government and employers on a package to make our economy competitive and to attract more investment. In the absence of a consensus, the MEA calls on government to take the necessary measures to stimulate economic growth. As much as the MEA supports the idea of a social pact, it acknowledges that the economy cannot remain at a standstill because of lack of consensus.

When the MEA issued its document ‘Generating Productive Employment – A National Priority’, it made it clear that *‘even if ...a social pact does not materialise,...the country will have to find solutions to its current problems just the same.’* Unless hard and concrete actions are taken in the immediate future, there is a strong probability that the situation facing the country will worsen exponentially. The Association still believes that the recommendations contained in its document offer tangible solutions to the country’s economic problems.

## **Proposals**

### **1. Wage policy**

The MEA is calling for a wage policy that includes:

- Awarding cost of living increases to minimum wage earners only.
- Capping of wage expenditure in the public service to LM200m per annum
- Any wage increases in the public sector to be given in the form of one time bonuses
- First four hours of overtime in any week to be paid at flat rates

### **2. Public holidays/Vacation Leave**

Malta has the highest vacation leave and public holiday entitlement in Europe. MEA is calling for a reduction in vacation leave or public holidays of two days per annum.

### **3. Control of Welfare Abuse**

The Association has repeatedly called for action to curb abuse of the welfare system. Unemployment and other welfare benefit systems have to be revised to encourage people to work rather than depend on the taxpayer.

### **4. Compulsory training to the unemployed**

Those registering for work should be offered training to facilitate re-integration in the labour force. Training offered will be compulsory, and those who refuse such training will be struck off the unemployment register.

### **5. Sustainable Welfare Systems**

Welfare systems have to be sustainable. The country has to come to terms with the fact that the current pensions system is not sustainable. MEA had submitted its proposals for pension reforms following research conducted among employers. These proposals called for encouraging an active ageing of the older population coupled with strategies for an enhanced labour participation to sustain a growing number of pensioners.

The current low labour participation rate is in itself one of the causes of the unsustainability of our welfare systems. Measures announced in the NAP Employment, to increase female participation in particular, should serve to tackle this issue.

### **6. Fuel Costs and Alternative Energy Sources**

A holistic environmental policy should be drafted and implemented which would safeguard the environment and encourage energy saving technology. Malta can easily promote the use of solar energy on the same lines as other Mediterranean countries. However marginal the effect on fuel consumption, the country cannot lose through the utilisation of such technologies.

Government is once urged to install solar panels, ideally locally produced, in its own buildings as energy saving devices.

Government should endeavour to cut on its own inefficiencies at Enemalta before passing any increased costs of energy on industry.

## **7. Clamping Overregulation**

Government needs to conduct a complete overhaul of its systems to reduce the excessive bureaucracy prevalent in many of its departments and authorities. These act as a barrier to business.

## **8. Education**

More investment in education is needed to cater for the human resources requirements of industry, assuming that Malta will manage to attract high value added investment. Government should shift expenditure on stipends (running at LM10m per annum) into more direct educational investment, such as equipment, books and incentives for research and innovation; education investment should be focused on disciplines that are required by the economy. It does not automatically follow that the stipend system is encouraging a higher percentage of students to pursue tertiary education. Other countries have a higher percentage of tertiary students and yet do not give stipends to students.

## **9. Tax evasion**

The Association favors measures to reduce tax evasion through simple and transparent systems.

## **10. Port Reform**

Government is urged to continue with the process of reforming the ports to offer a better, cheaper and more professional service as a means to improve Malta's competitiveness. This reform needs to be high on the national agenda.

## **11. Rent Law Reform**

Rent laws should also be reviewed. This will solve the injustice suffered by property owners as a result of outdated legislation and also increase the amount of property on the market, which, in itself will result in added revenue to government.