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Media Release

A Budget of Fiscal Consolidation – Malta Employers' Association

The Malta Employers' Association described the budget as having fiscal consolidation as a major priority. The budget is an attempt to reconcile the necessity to reduce the fiscal deficit to the criteria set by ECOFIN while simultaneously trying to introducing numerous targeted micro-initiatives to achieve its fiscal targets without slowing down the economy.

On the one hand, the budget aims to reduce government expenditure by reducing the number of persons in employment in the public sector, setting efficiency targets and cutting abuses. On the other, the budget includes numerous initiatives which will actually increase government expenditure in areas such as education and health, and also in distributive components in welfare spending aimed at improving the welfare of vulnerable groups. MEA stated that this is a challenging balancing act which reflects the direction which governments all over Europe are taking to deal with unsustainable levels of debt.

The budget includes a number of positive measures, most notable in investment in education and training. The training incentive to persons earning a minimum wage should encourage people earning a minimum wage to seek education as a way towards higher value added employment and earnings. The higher allocation to University, MCAST, church schools and tax incentives to parents with children in private schools establishes education as a major priority, although an increase in expenditure should be accompanied with defined targets. Other positive measures in the investment in human resources are the increased expenditure on the Employment Aid Scheme, STEPS and the setting up of an interactive centre for Sciences. There is also an allocation of funds for projects linking education with the creative industry and the setting up of the creativity trust.

The MEA also noted increased expenditure in child care services, and incentives for second income earners through the option to pay reduced N.I. rates. It is not specified whether the reduced N.I. applies to employers' contributions as well.

The MEA noted with satisfaction that the micro credit scheme will be in operation in 2011. The Association said that this is overdue and should be implemented without further delay, together with other incentives to SMEs, among them the Gateway to Export Scheme; the Quality improvement programme; and EUOSTARTS. The tax incentives to investment in quality should also help numerous companies.

The Association also welcomed the scrapping scheme old motor vehicles to incentivise take up of new cars. This measure will also have an environmental impact and is a much needed measure to establish a level playing field between new car importers and the importation of second hand cars.

In spite of the positive trends in tourism during 2010, the MEA said that the increase in VAT on hotel accommodation is untimely, given that the sector is still recovering from two bad years and that austerity measures being taken abroad, particularly in the UK, may have a negative impact on tourism in 2011.

The MEA concluded by stating that the budget for 2011 is by no means an expansionary budget, as government is struggling to achieve expenditure cuts as painlessly as possible. It is evident that a number of measures proposed by the social partners, such as partial payment for maternity leave, were not taken on board because they were not affordable in the present circumstances. However, the budget also contains incentives and initiatives to maintain the momentum in economic growth experienced in 2010, and it is only through such growth that the fiscal targets can be achieved.