



## **MALTA EMPLOYERS' ASSOCIATION**

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7<sup>th</sup> August 2006

### **Media Release**

## **MEA issues initial reactions to the Pre-Budget Document – describes document as positive.**

The Malta Employers' Association has described the pre-budget document issued by the government as having numerous points that can serve as a basis for constructive discussion among the social partners to determine the best economic and social strategies for Malta. The Association notes that although the economy has shown an overall better performance during 2005 and the first quarter of 2006 than the previous couple of years, it remains highly susceptible to global forces and some crucial sectors, most notably tourism, are in clear need of a rethinking to reverse the current downward trends, both in absolute number of visitors and in terms of revenue generated.

However, it is also noted that the economy has shown signs of resilience in the face of major challenges and the constant need to restructure and to shift human resources from declining sectors to ones that offer better prospects for growth. The country has experienced layoffs from manufacturing companies, such as Denim, which threatened to result in a substantial increase in unemployment. However, unemployment has remained fairly stable, and indeed there has been a drop in some segments of the unemployed such as the over forties, partly due to schemes like TEES that have been organised by the ETC with funding from the European Union. Government employment has also been declining steadily, although the public sector remains overmanned and is a drain on public finances. MEA has long advocated a gradual reduction in public service employees to establish a healthy ratio between employment in the public and private sectors as a means to relieve the fiscal deficit through a lower wage burden, and redirecting these resources into a more productive private sector. This is a trend that needs to be sustained through increased investment and exports. The increase of 15% in investment expenditure during the first quarter, coupled with an increase in exports are developments that need to be sustained and supported by fiscal measures to further stimulate the economy. Budget measures also need to be supplemented with a resolve to implement necessary reforms in critical areas, such as the ports to increase competitiveness and employment. These reforms will in themselves reduce inflationary pressures on the economy which may threaten Malta's adoption of the Euro.

The document proposes measures that are in line with MEA's recommendations in previous years to incentivise people to work. Among these are the relaxation of income tax bands and the adjustment of social security payments for part timers to reflect the pro rata hours of work. The latter should help to encourage a higher female participation rate, which is an essential requisite for higher economic growth.

Another welcome action, particularly for micro enterprises will be the recognition of spouses in self employed businesses. The MEA is also looking forward to discuss changes in company taxes as a means to attract further investment to Malta, and to incentivise entrepreneurship.

The Association recognises that the expansionary nature of the pre budget document, though limited, is the result of the rather austere character of previous budgets that was necessary to contain the budget deficit to a targeted 3% of GDP. The projected LM8 million reduction in the tax bill, plus the slashing of the airport tax will be symbolic but nonetheless should have an impact on aggregate demand. The introduction of the energy benefit will be a boon for low income earners who are the hardest hit by the fuel charges resulting from the increase in international oil prices. The cost of living increase for 2007 will be dampened as LM0.50c of COLA for 2007 has already been included in the increase given for 2006.

MEA also agrees on the need for a separate strategy for Gozo, and it hopes that government will consult the constructive proposals that have already been submitted by the Association in this regard, which are not included in the pre-budget document.

The Association will be analysing the pre-budget document in more detail and will be submitting a more extensive reaction in the coming weeks.