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Media Release

MEA's Reaction to the National Budget 2009

Any evaluation of the national budget for 2009 has to be seen against the backdrop of a gloomy international economy and shifting challenges. Whilst the main concerns during the first quarter of 2008 were inflation fuelled by oil and commodity price increases, the collapse of the financial institutions in the US in since projects forecasts a slowdown in global economic growth with a weakened demand in major markets for Maltese goods and services, with forecasts for 2009 pointing towards deflationary pressures.

The most pressing priority under these conditions is to safeguard jobs and to prevent a deceleration of economic activity. Therefore it is a wise decision, under these circumstances, that the Government has opted to postpone the target of a balanced budget by 2010. However, during 2008, the fiscal balance was already deteriorating due to a surge in recurrent expenditure, and budgetary controls are still essential to ensure that the deficit can still be reigned in to targeted levels. It is essential that the impetus of government expenditure will be directed towards an expansion in activity in the private sector, rather than to feed the insatiable appetite of the public sector.

The easing of income tax bands, plus the COLA should increase disposable income and help to maintain consumer confidence which is justly affected by the bleak international events and also the prospects of higher utility tariffs. The real impact of this measure will depend on the extent to which utility tariffs will be revised, during 2009, to reflect the falling price of oil, and also on the rate of inflation, which is expected to be significantly lower than that experienced in 2008. This should also serve to soften wage demands from unions to compensate for a reduction in disposable income resulting from the revised tariffs.

The budget measures are spread to affect as many sectors of the economy as possible, and one of its flaws can be that the measures are spread too thinly and the government has clearly went for range rather than depth. Therefore there are no real spectacular measures and the overall result tends to be rather bland. The real question is: Will the proposed measures be sufficient to ward off a major economic slowdown?

However, the budget contains a much needed thrust to change a culture of dependence on fossil fuels towards a wider diffusion of alternative energy measures by both residential and industrial sectors. Although this direction is commendable, the tax on diesel and the cost of commercial vehicle licenses will affect many businesses – particularly those in the distributive trades – negatively. Families who also cannot afford to change their cars frequently will also be negatively affected by the change in the car registration taxes.

The budget rightly channels funds into the educational sector, but these allocations should be accompanied by specific targets related to the reduction of school drop outs and an increase in *employable* graduates from the tertiary institutions. The tax incentive to increase the female participation rate is welcome measure and a positive example of how one can introduce family friendly measures that are cost neutral to employers. The fact that government also intends to set up a community work scheme for long term unemployed is also welcomed by employers, as are the efforts to assist SME's by reducing bureaucracy, introducing start up incentives and assistance in sourcing new markets.