



MALTA EMPLOYERS' ASSOCIATION

35/1, South Street, Valletta VLT 1100, Malta.

Tel: (+356) 21 237585, 21 222992

Fax: (+356) 21 230227

E-mail: admin@maltaemployers.com

Web Site: <http://www.maltaemployers.com>

10th November, 2009

Media Release

MEA's reaction to the National Budget 2010

Overall, the budget contains a set of positive measures that address various economic sectors. The main question is whether the thrust of these measures is sufficient to pull the economy out of the recession. Government has been cautious to introduce an innovative and wide ranging set of measures whilst keeping control of the fiscal deficit. One questions whether a stronger stimulus package, even at the cost of a higher fiscal deficit for 2010, would have been a more effective strategy to steer the economy towards positive real GDP growth, especially given that the deficit is lower than the average for EU economies that are also facing a recession.

Government has been unable to provide a more powerful economic stimulus because of insufficient funds. This is mostly due to the fact that Government's commitments to finance an overburdened public sector and welfare system have left it with no room to maneuver. This situation has left the economy vulnerable and may delay an economic recovery. However, the budget does contain provisions to reduce recurrent expenditure. These include the commitment for a further reduction in public sector employment in 2010, which has gone down from 48,000 in 2002 to 41,000 in 2009.

The budget has substantial focus on SMEs. Many of the incentives offered are positive and should help in increasing their role in the Maltese economy. Many new jobs in the EU are being generated by SMEs and these are crucial to have a quick recovery. The €10m micro credit fund, and the tax credit scheme to those who upgrade their operations should be attractive to a number of small entrepreneurs. The benefits of these schemes should be communicated among potential recipients to ensure maximum take up.

The increase in MTA's marketing budget should be instrumental in reviving tourism. Some reductions in VAT, or removal of the room tax would have helped further to relieve operators of increasing costs. On the other hand, the increase in routes should help in increasing tourism figures and conference travel to Malta.

The Consumer protect unit should focus only on price monitoring and not be used to persecute legitimate traders. It must in no way hinder fair competition. It can also be used to investigate

movements in process of items in the basket of goods and services that make up the RPI, such as vegetables and fish.

MEA agrees with the numerous active labour market policy initiatives included in the budget. The boost in the ETC's budget to €3.3m, the extension of the community work scheme, and the schemes to enable school leavers to obtain minimum qualifications are important to tackle the issue of school drop-outs, which in Malta is serious problem. In particular, the work trial scheme should guide young people to join training schemes and to work in the formal economy.

The enhanced benefits for childcare, together with the extension of school opening hours to accommodate students with working parents should work towards increasing the female participation rate in Malta, which is key to economic growth and sustainable welfare systems. Malta should make the most of the €6m ESF funds to improve the quality of its labour force to take on higher value jobs.

Another positive element in the budget is the emphasis and allocation of funds towards research and innovation. The allocation of €7m for international competitiveness, in research and innovation; and e-business should be conducive to attract investment which can generate higher value added jobs. The R&D fund, and in particular the fund to set up the Genome databank is important in tapping the potential of the bio-technology industry and to attract research orientated companies. This will complement the €20m investment in the bio-technology park. The €46m investment in the new ICT department at the University is a welcome measure which should increase the supply and quality of ICT qualified graduates which will; be in higher demand once Smart City takes off.

The budget seeks to control inflation which in 2009, was higher than the EU average and has resulted in a relatively high COLA adjustment for 2010. MEA holds that while control of inflation should be a priority, the Price Watch Unit should focus exclusively on price monitoring and not be used to persecute legitimate traders. It must in no way hinder fair competition. It can also be used to investigate movements in prices of items in the basket of goods and services that make up the RPI, such as vegetables and fish.

The €2.5 fund allocated to help enterprises in difficulty may be insufficient to deal with the demands of companies who are still facing the brunt of the recession during 2010. Considering that the funds allocated to subsidise household utility rates amount to €10m leads to the conclusion that government has succumbed to political pressures at the expense of economic priorities. People would rather be working and earn a wage to pay the bills than be unemployed and have their bills subsidized. In this respect, government has opted to shift its intervention to protect purchasing power rather than employment. This measure also creates a dependency on subsidies which will be difficult to reverse, and will strain the fiscal situation in future, especially if the price of oil continues to increase.

MEA insists that COLA will be a factor that can threaten jobs, and that can also lead to further inflationary pressures in 2010. The impact of this on competitiveness can slow economic recovery. The granting of COLA during a recession period will have an effect on collective bargaining. Many employers will not be in a position to give COLA and collective agreement increases.

The revisions in utility tariffs should be communicated immediately to consumers to remove uncertainties during the upcoming Christmas season.

MEA also welcomes the mechanism for ECO Tax refunds which will reduce the costs to many employers, in recognition of the green schemes that are in force, and to which many companies have subscribed.

The increased expenditure in infrastructural projects in 2010, many of which are through EU funded projects, should provide an economic stimulus and improve the attractiveness of Malta as a tourist destination. The public private partnership schemes planned to upgrade residential roads should also work to this effect.

In conclusion, MEA believes that the national budget 2010 is more of an economic than a social budget, which is what is required in the current economic conditions. The budget addresses the need to create the necessary infrastructure to generate higher value jobs and to tackle the supply side of the labour market to steer human resources towards higher value added employment. In spite of this, many companies will still be vulnerable to increased labour costs which might threaten to increase unemployment in the coming year.