

Malta Employers' Association -Annual General Conference
A Post Recession Scenario for Malta
22nd May, 2009

Address by Mr. Pierre Fava
President

It is my pleasure to welcome you to this Annual General Conference organized by the Malta Employers' Association. The theme selected for this year's conference – A Post Recession Scenario for Malta – is an attempt to look beyond a reality which we are all facing today. The contraction of the global economy has affected all business sectors in Malta. Exports are down, tourism figures have declined over those of last year, and consumer confidence is not what it was a year ago. From a situation of practically full employment a year ago, unemployment has surpassed the 7,000 figure.

These selected figures certainly present a bleak outlook of the current economic situation, as our economy is suffering from the fallout of the collapse of the financial markets last year, which brought many companies and entire economies crashing down like a house of cards. The silver lining to this situation is that, compared to other economies, Malta has not been as adversely affected as other major economies, and this is through no coincidence. The prudence of our financial institutions, together with a culture which is not overly depending on borrowing and overspending contributed to the relative stability that has shielded our economy from the full impact of the recession. The country also passed through a period of fiscal consolidation during which it managed to satisfy the Maastricht criteria to adopt the Euro as its currency. If we had not adopted the Euro, the repercussions of the recession on the Maltese would have been far worse than what has actually been experienced thus far.

It is often asked whether our economy is affected by a time lag, and how long does it take for the ripples that originate from the epicenter of economic shocks to reach our shores. It is my opinion that with today's communication technology, just in time systems and on line purchasing, the time lag factor is much less pronounced than it used to be. When consumer demand fell drastically in the United States last year the effect on the automotive producers was almost immediately felt by component manufacturers operating in Malta. Similarly, the impact on tourism was almost instantaneous, as many companies cancelled pre-booked conferences in Malta, and holiday makers postponed or cancelled their travelling plans as a result of falling disposable incomes in our major markets. One should expect that any positive vibrations should likewise affect us within a relatively short period of time. A number of economic markers are cautiously indicating that the recession is bottoming out, and there are strong indications that the world economy is likely to steer towards a slow recovery in the last quarter of this year.

Why have we selected this topic for this year's conference? The answer is that we believe that Malta can emerge a winner from this recession. To do so, we need to be proactive enough to anticipate the external events that affect us, and - at national level -

adopt a common front in formulating national strategies that empower us to overcome obstacles to economic growth and social progress. During the past months, we have experienced cases of success and disappointment in the social dialogue process. The manner in which the issue of the utility rates was handled created a sense of uncertainty which could have been avoided. On the plus side, the task force appointed to deal with difficulties being faced by exporting companies is a clear example of how a focused, consultative approach can be of mutual benefit to all social partners. The operation of this task force has managed to save hundreds, if not thousands of jobs during a critical period.

This is a time for meaningful debate, not divisiveness. Unfortunately, the two are often confused in the political sphere, and it is indeed regretful that, even in the run-up to the upcoming elections for MEPs, the election of candidates is being dragged down to a fist fight between the political parties, rather than grasping this opportunity to present a national team that can really push the Maltese agenda forward.

Social dialogue also has an important role in the battle against the global recession, and this part can only be played well if the national interest takes precedence over sectoral ones. Employers have reason to be concerned when disputes within the trade union camp end up on their lap, as happened recently at the Freeport. It is difficult to envisage reviving any discussions that may lead to a social pact, as has been suggested recently by some opinion leaders, if there is hostility and discord among trade unions. If any discussions on a national agreement between the social partners are to have substance, they must address critical issues such as the sustainability of public finances in light of collective bargaining and manpower levels in the public sector, upgrading labour legislation to reflect current needs, and competitiveness.

The state of public finances must also be addressed. MEA has pronounced itself in favour of temporarily postponing the ambition of balanced budget in light of the international economic situation. However, we do fear that government may find it next to impossible to go back on the track towards a sustainable deficit if it gives in to unions' demands on wage increases and manning levels in the public sector, and in the absence of tangible efforts to reduce inefficiencies. The revelation that we can offer the same educational services with 44% of current expenditure, and with 38% in the Health sector is clearly an indication that government expenditure can be reduced with improved efficiency, and by establishing priorities for public sector projects.

Our future's success depends on the formulation of national strategies, and on the efforts of individual enterprises. Our secretariat, through their constant contacts with employers, report that, although business activity has slowed down, our members are not lying idle. I can mention as positive examples the cases of a manufacturing company that has reported sending one of its engineers to follow post graduate studies abroad, in spite of reduced orders. A media communications company, also facing a curtailment of work has produced a promotional, multimedia catalogue which is the envy of well established media communications companies abroad, and has recently managed to beat international competition to secure contracts. These are just two examples among

many. Maltese entrepreneurs in general are rising to the occasion and are responding to the recession in a positive way by investing in their human and capital resources, and research. The success of private investment initiatives depends on quality public investment. The utilization of EU funds should be focused on education and upgrading the infrastructure to enable private investment to flourish.

One of the key elements that will determine the success or otherwise of our economy in the coming years is the investment in human resources. The ongoing economic transformation will inevitably result in the shedding of jobs and the generation of new ones. The new jobs will not be the same as the old jobs, and our labour force must be flexible to adapt to the changing demands of industry. Much is being done in this direction. An increasing percentage of young people are pursuing studies at tertiary level, and EU funds are being channeled into MCAST and ETC schemes which are offering better opportunities for career diversification and life long learning. The well-attended information session which we held this week with ETC on the Training Aid Framework, Employment Aid Programme and the Training Subsidy Schemes is a clear demonstration of the how EU financing is creating exciting opportunities for employers and employees for human resources development. The investment in education and training is also enabling job mobility which, in many respects, can be compared to the oil that keeps the engine that is the labour market running smoothly. Nonetheless, these successes exist side by side with the grim reality of young people who are exiting the educational system unskilled and unqualified.

Amongst the challenges facing the labour market is the fact that Malta has both the lowest female participation rate, and also the lowest average exit age from the labour force. Simply put, we need more people to go out to work! This can be turned into an opportunity as an important source of economic growth is through an increase the number of productive hours. We welcome the numerous incentives to individuals and employers to increase the female participation rate and also the number of retired persons who opt to continue working. Labour statistics reveal that employers are responding positively to these measures as numerous retired persons are being retained in employment, and the female participation rate is on the rise, particularly in the younger cohorts.

In conclusion, I state my support for the statement make by His Excellency, President Dr. George Abela when he addressed the EDRC conference last week. Dr. Abela stated that 'Great things can be achieved by small countries', and it is the belief of the Malta Employers' Association that we can make a difference. We can use our limited resources to continue to improve the standard of living of our citizens. We can use our distinctive qualities to brand Malta as a reliable destination for investment. This conference will look into how different sectors can re-invent themselves to overcome the challenges of the recession. From Green Jobs to Islamic Finance to Medical tourism, we have invited experts in their respective field to provide insights into how Malta can emerge a winner from the recession. It is my sincere wish that this conference, rather than being an end in itself, will act as a catalyst for all of us to pool our creative resources to make our nation realise its full potential. I end this introduction

with a quote by economist Paul Romer : ‘A crisis is a terrible thing to waste’. Indeed, we are passing through a phase which, if used productively and creatively, can enable us to identify opportunities which will enable our economy to emerge stronger and more dynamic than ever.