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Media Release

The Budget is a reflection of Robust Economic Performance but a Longer Term Vision is Required – MEA

The National Budget 2019 reflects the rapid growth being experienced by the Maltese economy, at 6.7% in real terms in 2017, together with a healthy state of government finances which have registered a surplus over the past three years – 3.5% in 2018 and a projection of 1.9% in 2019 - and a fall in public debt to less than 50% of GDP, a trend which is expected to continue in 2019.

The budget has a number of good measures aimed at vulnerable groups, most notably pensioners. It remains to be seen whether these measures will improve the purchasing power and quality of life of this growing segment. The budget also seeks to spread a number of focused benefits that target low income families.

Perhaps the budget should have projected a more concrete vision for a sustainable economy over a number of years. The current pressure on wages due to a shortage of numerous skills in the labour force, together with the cost of additional optional leave days may result in a wage price spiral as companies will seek – where possible – to shift the added costs on consumers both business and final consumers. Thus, increased inflation - projected to increase to 1.9% in 2019 - caused by cost push factors carries the danger of eroding profitability and competitiveness, particularly in sectors which are price sensitive, such as export oriented manufacturing and tourism.

The MEA has also cautioned against growth which is the result of a sudden increase in population, adding that this required a comprehensive strategy to cater for the socio-economic impact of such a phenomenon, including investment in the necessary physical and social infrastructure to make such growth sustainable. The domestic labour market can generate three thousand jobs per annum, but the demand for labour is in the region of eleven thousand, thus the deficit can only be addressed through the importation of labour. The 1 day increase in optional leave will certainly have an impact on productivity and the Association still believes this was unnecessary, given that Malta already has among the highest number of days of optional leave and public holidays. One weakness of the budget is insufficient emphasis on education. We desperately need to enhance

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skills to increase output per capita, rather than increasing the labour force.

The measure to add a waste to energy plant is positive, but may still be insufficient to cater for the increased waste generated by industry and construction. The Association looks favourable at the setting up of Tech MT as a consolidation of different initiatives to promote innovation and technology and promote Malta in foreign markets. The Seed Investment Scheme and the idea of a Start-up Visa can be a good initiative to promote entrepreneurship.

On property and rent, the white paper on rent reform which has been issued this week complements the budget measures, and while it does not guarantee more affordable property, lays the ground for a more regulated framework in which the sector operates from which all stakeholders can benefit. The incentives to first time buyers and to buyers who are older than 40 years, and the planned increase in the stock of social housing is a step in the right direction.

The promise to strengthen the regulatory infrastructure to improve governance is commendable to improve Malta's international image. Tourism will remain one of the pillars of the economy, and perhaps it is time to focus less on numbers and more on attracting higher value tourists by improving quality of the product and the overall experience of visiting Malta.