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Media Release

MEA's Proposals for National Budget 2017

Introduction: How thick is the Ice?

The major macro-economic indicators for the Maltese economy are positive and clearly above the EU average. Real GDP growth is expected to be in excess of 4.1% this year, unemployment is at a record low of 5.1%, and the labour activity rate has also increased. The growth is spread across all major economic sectors, including manufacturing which has registered an increase in Gross Value Added of 7%. Tourism arrivals have also increased dramatically due to a general improvement of the product and marketing efforts combined with windfall arrivals resulting from instability in other major tourist destinations like Egypt and Turkey. Equally important, government is succeeding in attaining its fiscal targets, with a declining fiscal deficit together with a fall in the debt to GDP ratio. Inflation is also in control at close to 1%.

Malta is passing through a boom period and the major challenges being faced are to keep the economy from over-heating and to manage sustained growth. The main question is: We are skating smoothly on the ice, but how thick is the ice we are skating on? Is this an economy on steroids, or is this level of growth sustainable in the medium to long-term?

The budget needs to project beyond the coming calendar year to address proactively some major fault lines underlying our economy, namely:

- That our economy will probably not be eligible to further EU structural funding post 2020.
- The possibility that the tax incentives which have been critical in attracting our financial services and gaming sectors will be removed or toned down.
- Maintaining positive tourism figures once there is more stability in the Mediterranean region.
- Increasing Malta's economic output capacity.
- Reconciling economic growth with objectives related to environmental constraints and quality of life.
- Ensuring that Malta's reputation of good governance does not deteriorate.
- The drop in national revenue once the gold rush from the sale of Maltese citizenship subsides.

- Ensuring that the Banking Sector continues to be in a position to service international business.

The current positive macro-economic indicators may be hiding these fault lines so increasing expectations from the general population. The heading of the pre-budget document: Prosperity with Social Justice addresses an important concept linked to economic growth – distribution of wealth. This concern is generally being raised due to the following factors:

- The disparity in gross value added between different sectors is leading to widening wage differentials between sectors.
- There are vulnerable groups that may be experiencing a decline in their purchasing power. Two main segments that fall in this category, which have been identified by the Caritas Report, are pensioners and single parent families.
- Rental costs are increasing due to higher demand by foreign workers and residents and are thus eroding the disposable income of persons and families who do not own their own homes.
- Incidences of quick cash payouts that irritate honest working people (e.g. the €80k payment to the Monti hawkers).
- Displays of ostentatious consumption by wealthy foreigners (and some local ones) increases the feeling of relative poverty, especially within the low income segment.
- A two tier labour market: employees in the public sector (including parastatal companies) have guaranteed lifetime employment and guaranteed working conditions, as has happened at Enemalta and will probably occur at Air Malta. Employees in the private sector do not have such luxuries.

The knee jerk reaction to this situation is to intervene with the wage determination mechanism, but government should give due consideration to the fact that a major reason why Malta has managed to successfully weather the brunt of an international recession, and rebound with the current rate of economic growth, has been a strategy of wage moderation and responsible employment practices and job creation by the private sector. Some countries in the EU have higher wages than Malta, but they also have higher unemployment, meaning that a larger section of the working population is deprived of these higher wages, thus making them more emarginated and unable to access the labour market. In principle, the MEA has advocated policies that minimise the number of persons on low wages rather than raising wages artificially. Vulnerable groups, such as pensioners and single parent families should be assisted through focused social interventions. Home ownership and long-term savings should be encouraged and incentivised.

The Malta Employers' Association is in no way advocating a freeze in wages and salaries, but any increases should reflect corresponding changes in productivity and competitiveness of our industries. It will be a mistake on the government's part to meddle with the operation of the labour market and collective bargaining process. There is no question that wage inflation is currently a reality, even in low skilled jobs. This is a result of labour shortages in various sectors of the economy, as well as the creation of more high value added jobs by the private sector.

On the one hand, government has been successful in increasing the supply of labour through a set of active labour market policies and curbing abuse of the welfare system. Yet the increase in public sector employment is also a drain on human resources which would be better employed in the private sector. Many companies report of employees who resign to take up jobs in the public sector, which may not be productive in all cases. For example, employers in manufacturing and tourism sectors in Gozo have been particularly affected by resignations from within their labour force to take up jobs in the public sector.

One factor which is having an impact on the economic and social scenario in Malta is the changing demographic. The increased population resulting from the foreign labour force - estimated to exceed 30k in 2016 – is contributing to domestic demand, but also exerting pressure in terms of increased rental costs, traffic generation and pressure on educational and health infrastructure, amongst others.

In a country with limited resources and output capacity, we will have to make choices as a society, as some activities may interfere or even disrupt others. A classic case is the threat to sea cleanliness posed by the pollution being generated by fish farms. Will we have to choose between fish farms or quality tourism, or can there be a happy coexistence between the two activities? The same can be said about Malta's carrying capacity as a tourist destination in terms of available accommodation, flight capacity, and environmental sustainability. The major future challenge may well be one not of utilising existing resources to full capacity, but rather of how to establish the best mix of economic activities to maximise sustainable economic performance together with environmental and quality of life considerations. In the same way that ten years ago we had to restructure the economy because of circumstances which were forced upon us, namely the outsourcing of our low end manufacturing sector to low cost destinations, we will have to take important decisions which can well mean the deliberate phasing out or reduction of activities which yield a low return or which have an adverse effect on our society's quality of life.

The full proposals may be downloaded from [here](#).