



Proposals for **NATIONAL BUDGET 2016**

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Introduction

Managing the Economic Trade Cycle

The National Budget for 2016 is being presented against a backdrop of a global economy which is sluggishly emerging from the wreckage of the international recession, with many developed economies experiencing economic growth above the average experienced during the past seven years. The low price of global oil prices and spare capacity in many economies are enabling such expansion to occur with minimum inflationary impact. This fragile recovery is being threatened by political turmoil in many countries, and the stock market situation in China may also affect global economic performance in the coming months. Malta is, thus far, an oasis surrounded by political tensions in North Africa and the Middle East, yet our country is also witnessing first-hand the consequences of massive immigration which is afflicting many European countries.

Malta has had an overall positive economic performance during the past year, with the main economic indicators pointing towards low inflation, a sustained fall in unemployment and GDP growth which is higher than the EU average. Tourism figures are encouraging and generating an expansion in rental accommodation together with employment opportunities. The labour market is becoming characterised by skills shortages and labour mobility, combined with a strong influx of foreign workers. Employment in the public sector has increased and is in itself causing a drain on the human resource in the private sector.

The state of industrial relations is characterised by increased rivalry among unions that in some cases has been the cause of industrial unrest. This is a cause of concern among major manufacturing and service companies in Malta. MEA has been pushing

for an upgrade of the labour legislation to have a smoother and clearer resolution of such conflict.

Unfortunately, there has been a stronger emphasis on the so-called North South divide in Malta, also with respect to the labour market. The Association believes that there is only one labour market in Malta, and employers do not discriminate among employees of job applicants according to their village of origin. Regional issues have to be tackled cautiously.

There are indications that the Maltese economy is heading towards a boom period, which is positive in some aspects but also presents challenges. As the economy heats up, prices may tend to rise ahead of productivity gains and this may affect competitiveness. In the labour market, wage inflation due to labour shortages can affect vulnerable sectors such as manufacturing. Some economic sectors may afford to ride the inflationary effects of economic activity, but others may be more vulnerable due to international competition and low profit margins. A sudden increase in costs will limit their ability to retain competitive advantages.

The increase in economic activity will invariably generate a demand for all resources and can cause a strain on natural resources and the environment. The recent debate about the positioning of the foreign educational institution is a case in point. Traffic congestion is also being partly caused by increased economic activity. Radical, long term solutions may be required to resolve this issue.

Therefore there should be a strategy to reap the most out of this economic expansion, which is being brought about by the private sector, whilst minimising the inflationary and negative environmental side effects in order to make it sustainable. Sustained growth is also essential in retaining the improvements made during 2015 in the fiscal deficit, which is currently below 3%. This makes the role of social dialogue even more important, and MEA appeals for proper consultation with the social partners before the

introduction of budgetary measures that may have an impact on businesses and economic activity.

Proposals

1. Fiscal Convergence

Government should persist in its efforts to reduce the fiscal deficit and exploit the increased economic activity to steer the budget towards a surplus to reduce the debt. Areas like health and education may require added expenditure, yet this can be curtailed through efficiencies. Efficiencies in the public sector in general will also make it more sustainable, through a stronger focus on efficiencies in expenditure by addressing wastage, controlling the wage bill, establishing priorities, improving revenue collection systems and incentivising growth in the private sector.

2. Public Sector Employment

The increase in the wage bill during 2015 would have been much less if the employment in the public sector was controlled. There should be a concerted effort to improve efficiencies to transfer human resources from the public sector into the private sector, especially in an economic environment which is creating a demand for labour in many sectors of the economy. It is anomalous that half of vacancies in the private sector are being filled by foreigners whilst government has employed more than 5 thousand persons in two years. The 26.4% of labour engaged in the public sector, although stable, can and should be reduced further. This has been MEA's position for years.

3. Energy Prices

The commercial rates of energy must be revised to reflect the global price of oil and gas. In some sectors, energy costs are a determining competitive factor, even more than labour costs in some sectors. Companies have to benefit from the efficiencies of the interconnector and the fall in the price of fuel. Based on current oil prices, the cost of running the power station should have reduced further to the savings made over the last year. These additional savings, or part of, should be passed on consumers/businesses. This is even more so since the government partially privatised Enemalta with the purpose of reducing its debts, so additional profits are not needed to pay off debts.

4. Alternative Energy

It would be of long term benefit to the economy to transfer part of the savings on fuel prices to incentivise a stronger diffusion of alternative energy. Fuel prices may not stay low indefinitely, and a stronger infrastructure in alternative energy will hedge the economy against the volatility of energy prices.

The budget should include funds to re-activate incentives for the installation of photovoltaic panels by enterprises. There was a good take-up with previous schemes by businesses. Additional incentives should be introduced for the diffusion of electric vehicles.

5. Child Care

As with a number of active labour market policies that have been introduced, the availability of free child care has contributed towards a stronger labour participation rate. The service can be improved by considering the needs of an increasing number of families who are on shift work. These can be accommodated through an expansion of the hours during which child care is available, and through the setting up of more child care centres around Malta and Gozo.

6. Care of Elderly Parents

Family friendly measures are normally associated with child care. However, with an ageing population more families are pooling resources to cater for the needs of parents, through private homes for the elderly or even engaging care workers at home. It is being proposed to grant tax incentives for working persons who are paying for private services in elderly care. Such initiatives can relieve government institutions from carrying the full burden of caring for an increasing number of elderly persons, and also help in retaining people – mostly women - in the labour force

7. Pension Reform

MEA has recently submitted a comprehensive report about pension reform. The Association is strongly against the separation of the pensionable age and the retirement age. The increase in labour market participation of retired persons – which is happening – should be left up to negotiations between the employer and the employee.

Another fiscal issue which needs to be addressed is the contemplated payment of social security on a part time job, even if the job is the secondary employment. This could incur considerable costs to industries with high seasonality.

8. The Minimum Wage

The minimum wage should only be adjusted through the COLA mechanism. However, every effort should be made to minimise the number of employees actually living off the minimum wage. The minimum wage in Malta is certainly not the lowest in Europe, and the percentage of employees earning the minimum wage is very low. The operation of the labour market mechanism, combined with a relatively high incidence of unionised employees in Malta provides more opportunity for employees to improve their conditions of employment, particularly during times of low unemployment.

9. Creating a Culture of Good Corporate Governance

Government could be instrumental in create a culture of good corporate governance by setting up a Body of Approved Non-Executive Directors to sit on start-up companies, offering advice to new entrepreneurs as well as mentoring the executive directors/owners of these new businesses. These non-execs would be financed by Government to assist start-ups in making it into the business world, as well as creating the correct platform and set-up of company boards and good governance. These companies could also be looked up more favourably by banks, Malta Enterprise, and any other organisations that would normally assist such start-ups.

10. The Employability Index

The Association notes with satisfaction that government has taken the proposal to establish an employability index seriously and is expected to announce the results in the near future.

11. Imports from Sicily

There should be a level playing field between honest businessmen and others who are regularly transporting goods from Sicily for resale in Malta by the catamaran.

12. Children's Allowances and Education

The Minister of Education and Work is concerned about the level of truancy in schools, and that children can be absent for up to three days in a month without producing any form of certification. It is also established that the attendance rate in government schools stands at 80% compared to 95% in church and private schools. This is certainly contributing to a culture of absenteeism which is also affecting the work ethic when students start working.

MEA is proposing:

- a. All absenteeism from schools has to be certified. The current practice of allowing students to absent themselves three days a month without justification will be removed. Doctors who certify children who are not sick will risk having their warrant withdrawn.

- b. Depositing part of the children's allowance in a personal account which can only be used by the child for travelling abroad (for study or even leisure) after reaching the age of 14 years. In this manner there is a better likelihood that the funds distributed on children's allowances will be used to improve children's welfare (rather than, as happens in some cases, being spent by parents on cigarettes and nail technicians!). This will also address a social imbalance whereby children who have never travelled stand at a disadvantage compared to others who have visited other countries.

13. Education

Businesses should be encouraged to take on apprentices from sixth form and MCAST to introduce future employees to the world of work in a progressive manner as part of their studies. This would assist businesses in planning for future employment growth and also help students understand what is expected of them in their future employment. These schemes can be implemented through grants to companies.

14. Abuse of Social services

Government has managed to take tangible action to curb abuse of social services. This effort should be enhanced to move people out of their dependency on social services and into productive employment.

15. Set off between Government departments

It is common for companies to be owed money from one Government department whilst having outstanding payments themselves with other Government departments.

This causes a strain on the cash flow of many companies who are, in some instances, charged interest and penalties on outstanding payments, and at times even face criminal proceedings. It is proposed to establish a system under which set-offs can be arranged. This will be a big relief for many businesses as it improves their liquidity situation.

16. Revision of VAT thresholds

The VAT thresholds for exempt without credit supplies of goods and services have remained unchanged since the introduction of VAT in 1995. It is being proposed to revise these thresholds to reflect current values.

17. Traffic management

There is a need for a serious discussion and planning for a radical overhaul of the public transport system. With increased traffic, patching the system through attempts to improve the bus system can only lead to temporary short term improvements. What is clearly required is a re-thinking of public transport to include long-term investment involving sea transport, more efficient traffic management, and possibly a metro system through the utilisation of EU infrastructural funds. In the short run, government should explore incentives for better use of school transport and where possible, transport organised by the company.

The deteriorating traffic congestion is costly for businesses. Distribution is slower and more expensive, employees are finding it more difficult to report to work on time, and considerable productive hours are simply being wasted stuck in traffic.

18. SMEs

In addition to initiatives which have already been introduced to assist SMEs, government can include the following incentives in the next budget:

- urgent publishing of ERDF schemes – to include grant schemes for SMEs
- the need of a holistic comprehensive and exclusive SME website to facilitate information
- the need of a business clinic – to support SMEs in difficulties
- the establishment of an SMEs commissioner who will be acting as a small business envoy amongst others
- the need of another incubation centre for start-ups in artisan trades, innovative creations, and traditional icons
- The support for entrepreneurs developing a niche for local (villages and towns in Malta) branding

19. The next EU Programming Period

We are already two years into the programming period 2014-2020 without a coherent plan on how the funds are going to be utilised. In the coming months, government should step up its efforts to ensure that the funds are utilised and channelled into prioritised areas, such as research and innovation, infrastructure and human resources development.

20. Civil Society Funds

The budget should confirm the continued allocation of the civil society funds to social partners. The social partners and civil society require sustained support to engage in meaningful social dialogue which is of benefit to all society. Civil society funds should

be subject to rigorous audits to ensure that they are being used efficiently and in their intended activities.

21. Tax on Fringe Benefits

The tax on health insurance as a fringe benefit should be removed. It will incentivise health insurance which in itself relieves the state of the expense of a free public health sector.

22. NI Contributions by Employers

In cases where employees working part-time or reduced hours pay less than the minimum flat rate of National Insurance, the employer should not be obliged to pay the minimum rate. The employer should pay the equivalent of that paid by the employee.