



Proposals for **NATIONAL BUDGET 2020**

Contents

Introduction	2
1. A National demographic Strategy	6
2. Retention of Retired Persons in Employment	6
3. Matching Required skills and Education	6
4. Rationalising the Public Sector	7
5. Modernising the Public Sector Salary Structure	7
6. Persons on Positions of Trust.....	8
7. Identity Malta.....	8
8. Agreement with other Countries re-TCNs	8
9. Increase in Labour Costs.....	9
10. Directive on Work Life Balance	9
11. SME Tests.....	10
12. Direct Orders	10
13. A level playing field between Companies	10
14. Transport	10

Introduction

It is customary to present government with a set of short term measures, as part of the usual consultation process with the social partners, for consideration in the national budget. The Malta Employers' Association believes that, in as much as this consultation is important, more than ever before such proposals have to fit within the wider context of a longer term vision for the economy and our society. We urge government to consult the position papers issued by MEA which included numerous proposals to have a sustainable business environment which also generates the well-being of Maltese citizens. Among others, we refer to the:

- [Memorandum to Political Parties 2012](#)
- [Memorandum to Political Parties 2017](#)
- [Malta's Demographic Challenges 2017](#)
- [Survey on Wage Inflation 2019](#)

Malta is scoring positively on the major macro-economic indicators: relatively low inflation; quasi full-employment; the highest economic growth rate – at 5.4% - in the Eurozone; a falling public debt which currently stands at 46% of GDP. Rating agencies hold us in high esteem and confirm that Malta has a growing and robust economy.

There is a stronger push by academicians and practicing economists that these economic indicators on their own do not portray the full picture of economic and social well-being, and new models are being proposed that factor in other important dimensions. Even employers are being faced with such challenges, as the nature of the workplace and the employer/employee relationship is being extended to include factors such as work life balance, minimisation of work related stress, health and a better work environment, among others. Many employers are rising to this challenge through the introduction of flexible working times and other benefits and measures that address these issues.

These are important as ultimately, the whole objective of an upbeat economic performance is the improvement of the quality of life of citizens and the sustainability of enterprises. Government cannot ignore the strain that economic expansion is creating on economic, social and environmental sustainability.

We believe that the underlying fundamental issue from which many of these issues emerge is the rapid demographic transformation of our country. MEA's appeal to conduct a comprehensive study to look into the implications of a rapidly expanding population in Malta has thus far been ignored, and it is incredible that, over a period of two years since we issued our paper, the negative consequences in many areas that were indicated in that document are already being felt. It is visible in traffic congestion, in emerging social tensions, in bottlenecks in many public services such as education, health and others.

It is having an impact on business as well. The boost in domestic aggregate demand is, of course, having a beneficial effect on many enterprises. Initially, businesses were managing to cater for increased demand by utilising spare capacity – following the international recession - and increasing efficiencies. However, in recent years many have been building productive capacity, which is one reason for the labour shortages being experienced in practically all economic sectors. We emphasise the need for a longer term strategy that quantifies the expected population increase with a view to design the appropriate economic and social infrastructure to minimise any negative impact of such demographic expansion.

One area where this is certainly necessary is in the construction sector. The exponential increase in building permits and construction activity is and will continue to result in an expansion in the number of housing units and commercial space. This number needs to be quantified and compared to projected population increases. This will safeguard the interests of developers against an oversupply of properties and productive capacity, and will also assess the environmental impact of projected development holistically. As things stand, it appears that there is a strong speculative attitude which believes that any supply of building will create its own demand. In a country where the environmental

cost of development is much higher than that in other countries due to its land limitation, this is misguided and dangerous.

Whilst it may be forgivable that individual operators in this sector set short term private gains as their main objective, government cannot have the same mind set. It is duty bound to act to safeguard the common good, especially where short term gains for a few carry long term, at times irreversible, negative consequences for everyone. The lack of national planning is evident in the lack of space to dispose of construction waste. This should have been planned for before the explosion in construction permits.

Tourism is another critical industry that is feeling the brunt of this situation. The sheer volume of people – not only tourists, as our incoming figures include all travellers, including working foreigners – is affecting the quality of the experience of visiting Malta. Hoteliers attest that the emphasis on quantity, as against quality of visitors is deterring high value tourists from Malta. Unbridled construction activity, noise pollution, crowded beaches and others are all factors that are affecting the tourism product negatively. This welcome to all approach may well be attracting segments that are actually not profitable to service, and that may end up deterring other higher value added segments from visiting our country.

The financial services sector is suffering from reputational damage, and there is also the added threat of tax harmonisation which may negatively impact this sector in the near or more distant future.

Malta is facing emerging competition in the gaming sector. Recent legislation in Sweden is intended to attract Swedish gaming companies to operate in their home country. The larger operators complain of escalating costs of labour, office rent, and rental costs of employees. The survey on wage inflation conducted recently by MEA reveals that 74% of respondents claim that increases in labour costs are affecting competitiveness and that labour cost increases are outpacing productivity. For companies in the manufacturing sector, this figure increases to 84%. Employers are also concerned at the increasing rate of labour turnover in many sectors, which is also partially fuelled by wage inflation.

The increase in wages is not spread evenly across all economic areas and occupations. Changing wage relativities are resulting in wider income disparities and creating poverty pockets especially in low skilled occupations in some sectors, occupied mostly by third country nationals.

The following are some of the recommendations resulting from the Wage inflation survey which can be considered as part of the National Budget exercise:

1. A National demographic Strategy

Government, together with the social partners needs to formulate a national demographic strategy to address the sustainability and the social and economic impact of a continued increase in the population. Economic growth strategies should be based on efficiencies and higher output per person, rather than on an increase in working people.

2. Retention of Retired Persons in Employment

Government should provide stronger incentives for elderly persons to remain in the labour force. In its recommendations to the National Budget 2019, MEA proposed to award half pension to those employees who remain working between pensionable age and retirement age. This will be a temporary measure in itself, as eventually the pensionable age and retirement age will be the same, at 65 years. However, it will help to address short to medium term labour market shortages.

3. Matching Required skills and Education

Although considerable progress has been made in this respect, employers and educational authorities need more focused strategies to match educational qualifications with labour market requirements. This could also include the nature and duration of some courses. For example, why should it take 5 years to produce a teacher when before it took much less? This is inflating teachers' expectations,

and also disincentivising young persons from taking up the profession, choosing other areas instead.

The concept of introducing VET and Applied subjects in compulsory education is positive and should contribute to remove the stigma that vocational education is somehow inferior to more academic subjects. This needs to be supported by adequate human and material resources and course content should ensure that these subjects are as challenging as other disciplines.

- Unemployed persons and migrants should be asked to attend mandatory numeracy and literacy courses.
- There should be more effort to encourage students to participate in apprenticeship schemes. There is a shortage of skilled persons and technicians at MQC levels 4 and 5 in the labour market.
- The process for the accreditation of non-formal learning recognition to establish pathways for achieve higher MQF Levels should be intensified.

4. Rationalising the Public Sector

The public sector needs to rationalise its operations and release underutilised labour to the private sector.

5. Modernising the Public Sector Salary Structure

The public sector salary structure needs to be modernised to motivate highly skilled and professional employees. Fundamentally: less people, better paid, more productive. The reform should include remuneration to members of parliament, with MPs being prohibited from occupying any positions in the public sector, thus removing a conflict of interest between legislative and executive roles. In the longer term, parliament should be reformed to include full time parliamentarians.

6. Persons on Positions of Trust

Persons on a position of trust need to be accountable and their remuneration package made public. The sheer number of persons in such positions, and the manner in which some positions of trust have been filled raise serious governance issues.

7. Identity Malta

Identity Malta needs the necessary resources to expedite applications. MEA has worked closely with Identity Malta to simplify the processes, but it is evident that Identity Malta cannot keep up with the sheer volume of applications with its current resources. Efficiencies may also be gained through the automation of certain aspects of their processes.

MEA is fully in favour of enforcement to ensure that all TCNs are working with the required permits, but there also needs to be an effort to improve efficiencies so as not to push TCNs or Employers into illegality due to unreasonable delays in issuing permits.

8. Agreement with other Countries re-TCNs

Government needs to clarify any agreements with other countries to ensure that persons from countries like the Philippines come to work here on clearly defined terms. Maltese employers cannot be accused of human trafficking for offering conditions of employment that fully respect local legislation and that do not discriminate between Maltese and foreign employees.

9. Increase in Labour Costs

Government should not introduce any measures that inflate labour costs further. The results of this study show that the Maltese labour market is highly responsive to changes in demand and supply through labour mobility, wage fluctuations and other conditions of employment. The fact that increases in labour costs are not being matched by productivity makes any measures that increase labour costs further - such as the additional annual leave to compensate for public holidays falling on weekends - dangerous to the sustainability of many enterprises. The cost of additional annual leave to compensate for public holidays falling on weekends is approximately 1.25% of annual working time. Unless this is recuperated from efficiencies, on a labour force of 200k it will require an additional 2500 employees to compensate. Given the current situation in the labour market, most of these additional employees will be non-Maltese.

Even if the loss of the 600k man days per annum is somehow justifiable, these days would be better utilised if they are focused on employees who have more need for them – e.g. family reasons. As things stand, employees in many companies are approaching management to request compensation instead of the additional leave days.

10. Directive on Work Life Balance

Any measures that will be introduced to comply with the Directive on Work Life Balance have to be financed by the State, and not the employer.

11. SME Tests

Hardly any SME tests have been conducted on measures that will have an impact on costs to business. MEA expects that in order to protect SMEs, an SME test will be conducted at the proposal stage to minimise any negative effects on businesses.

There should be a single identification business number to all business units registered in Malta. This will significantly reduce bureaucracy.

12. Direct Orders

A worrying practice that has crept in is public procurement which bypasses the tendering process by granting direct orders. This is creating an uneven playing field among business operators and a sense of mistrust of procurement procedures. Government must commit itself to adhere to the tendering process in its procurement. MEA has been highlighting this in recent years but no progress is being made.

13. A level playing field between Companies

The preferential tax rates given to foreign investors work against local investors, especially those catering for the domestic market. Unregulated imports from Sicily is also affecting local producers badly. This should be addressed.

14. Transport

The heavy investment in road networks should alleviate traffic congestion, which is also affecting the workplace through late arrivals, lack of parking space, stressed

employees etc. This is something which requires a long term action plan and which considers different options for improvement. A radical overhaul of public transport through the consideration of metro systems or other means should be subject to cost benefit analysis exercises to weigh the feasibility and effectiveness of different options.

Government should intensify incentives for a higher take-up of electric cars through better subsidies and a wider diffusion of charging points. Some countries are setting 2030 as a target to remove all diesel vehicles from the roads, and to have all vehicles electric by 2040. With the high density of vehicles and the resulting air and noise pollution, Malta could be at the forefront of these developments provided that stakeholders are consulted. Gozo could be an ideal test market for conversion to electric vehicle technology.

Government should also support innovative, industry led initiatives to minimise traffic congestion. For example, incentivising car pooling networks can be effective in reducing the number of vehicles on the road during peak hours.