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Media Release

A Timely and Focused Fiscal Package - MEA

The incentives announced by government are a timely intervention given the extent of the COVID crisis. The indications are that government finances will suffer a deficit of 5.5% in 2020; many tourism related businesses are at a standstill and the figures will remain low during the summer months in spite of the opening of the airport. Many people and families are presently suffering from a drop in income. Consumer population is down by about 70k persons compared to June 2019. On the other hand bank deposits in June have increased by ten times as a result of withheld consumption. Travelling abroad by Maltese amounts to €600m, a considerable amount of which will be postponed this year. There is therefore an element of pent-up demand and precautionary funds that can be channelled to revive the domestic economy. The fact that Malta has a resilient and diversified economy also allows government for more sector specific interventions.

It is understandable that in view of these developments, government is introducing measures to stimulate domestic demand combined with a spread of incentives to support businesses and encourage further investment to have a faster recovery once the COVID outbreak subsides.

These focused measures address both businesses and consumers and focus mainly on the tourism related businesses. The measures will not restore the economy to pre-Covid levels of activity, nor are they expected to, if one is realistic. Yet they will certainly boost economic activity and sustain both businesses and consumers in the coming months. The period July to September is critical for the country, as many businesses will decide whether to scale down or to retain their operations. The voucher scheme will not only inject funds where they are most needed, but also reassure those consumers who are holding back expenditure due to safety perceptions.

The fact that among the measures mentioned, there are many that address longer term investment is an encouragement to businesses to think post Covid, for example the investment in the Life Sciences Park and the Marsa SME Industrial Park.

Some points of criticism:

- The reduction of the wage supplement to €600 may result in an increase in redundancies
- Shifting companies from the benefits of Annex A to Annex B is premature at this stage, as many businesses are retaining their employees by digging into internal resources.
- The grants to the construction industry to invest in modern equipment should be extended also to other sectors who need similar incentives to be able to shift to more environmental friendly technology.
- The reduction in utility rates should be permanent, even if not at 50%, and extended to households.

Nonetheless, overall it is a positive package that addresses the concerns of various stakeholders. The effectiveness of this package will depend on the business response to these fiscal injections, and also on the need to strictly enforce public health measures to keep the numbers of infected persons to a minimum and thus prevent a relapse which will be damaging and costly. Government is urged to maintain contact with the social partners to exchange information so that the situation will be monitored continuously, and further measures that extend beyond September 2020 may be discussed to reflect the prevailing situation.