

19th October 2020

Media Release

A Budget based on Uncertain Outcomes

The National Budget 2021 has been prepared in a period of great uncertainty, mostly due to the COVID-19 pandemic. It is a global crisis that has affected all economies, and which has presented government with a fundamental dilemma, that of balancing between the priorities of public health and economic sustainability.

The Minister of Finance correctly thanked the business community for their resilience in retaining their employees to keep unemployment amongst the lowest in the EU. The fiscal packages announced during 2020 have been effective in sustaining the economy, and it is regretful that strategic decisions during the summer months resulted in an increase in COVID cases. Government is rightly utilising its fiscal manoeuvrability, due to surplus budgets in previous years and a fall in the Debt-GDP ratio, and, as expected 2020 and 2021 will incur substantial fiscal deficits which will increase the debt ratio to close to 60%. The extension of the COVID supplement to March 2021 is welcome and will certainly be influential in keeping unemployment relatively low in the coming months. This can be sustained through the €120m React EU funds and other funds which the EU has issued as a crisis response.

The budget consists also of a sprinkling of benefits and fiscal incentives targeting various sectors of society, with the increase in pensions and the VAT exempt thresholds being particularly effective. These measures and tax incentives will stimulate domestic demand. However, the increase in optional leave is a frivolous measure and will unnecessarily erode our national competitiveness.

This is not a 'voucher budget'. The vouchers are targeted interventions that have been effective in helping the catering sector, and the re-issuing of these vouchers is positive. However this measure, costing €30m, has to be seen against a backdrop of a national budget that exceeds €4bn.

Although the Minister referred to growth projections in 2021, with GDP growth expected to maintain a robust increase of 5%, it is difficult to forecast the outcome of the budget and overall economic performance in 2021 due to two main factors:

- The duration of the pandemic
- The outcome of the Moneyval evaluation

The impact of the pandemic will continue to keep the tourism sector at a standstill, and the extent of the recovery, if any, cannot be determined. The higher the numbers of cases and the longer the duration of the pandemic, the less likely tourism will recover. There is also the question of whether the construction industry can keep up its coming momentum in the coming year.

The outcome of Moneyval is also a critical factor which will determine the rate of recovery and of the financial services sector in 2021 and beyond. This assessment is creating uncertainty in many economic sectors, and there should be an effort to safeguard Malta's reputation.

The Covid crisis has also resulted in an increase in bank deposits, as many people have increased their precautionary reserves due to the prevailing uncertainty. Many investment projects have also been placed on the back burner, as businesses expect recovery to take more than twelve months. This has a plus side since there is a pent up demand which may push the economy towards pre-COVID growth, but it will depend on the speed at which the country emerges from the pandemic, and also through a determined effort to repair any reputational damage which Malta has suffered over the past years. Government will also have to address the issue of the correspondent banking in the coming months.

Overall the budget focuses on the immediate concerns due to the COVID pandemic through a set of carefully designed and targeted measures, but needs to be supplemented with a longer term vision for the country through identifying new economic sector that offer economic potential.