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Media Release

A Pre-election Budget built on Strong Assumptions

The National Budget for 2022 has the characteristics of a pre-election budget which commits itself to increased expenditure, strengthening the social safety net whilst softening the tax burden in certain aspects, but which provides less clarity on the revenue side of the equation. It is based on a strategy to generate economic growth through an expansion in domestic demand in the short-term through tweaking of numerous social benefits and benefits to pensioners which will increase the disposable income of vulnerable groups. Whilst this is socially desirable and just, it may not provide guarantees for long-term economic sustainability. In anticipation of global inflation, government is also initiating a dialogue on a revision of the COLA mechanism to help low-income groups without burdening businesses with additional labour costs. Echoing the theme of MEA's 2021 national conference, the budget also aims to address the need to achieve economic growth as well as economic development through an upgrading of Malta's human resource, improved quality of life, and continued efforts to make work pay through tax deductions on part-time work and overtime. This is a commendable strategy, but has long been on the agenda of successive administrations without any significant results. The National Labour Market Policy has to translate into tangible actions that transform our labour force.

It is positive that government fiscal measures have been successful in keeping the economy running without loss of jobs, mostly through the wage supplements. Although the expenditure on such assistance will be drastically reduced during 2022, it will nonetheless be a major challenge for government to reduce the budget deficit to the targeted levels, given that the fiscal deficit in 2021 is expected to be in excess of 12% of GDP, even if the economy manages to grow at a forecasted rate of 6.5%.

Government has seemingly taken note of the criticism that it has received on environmental issues, and attempts to address them through various measures and projects announced in the budget, but there is no tangible commitment to steer away the economy from excessive construction to other sectors.

This is an ambitious budget that is built on strong assumptions and optimistic forecasts. The impact of inflation, the recovery of tourism to pre-Covid levels, together with how fast Malta can be removed from the FATF grey listing are amongst the variables that will determine the sustainability of our economy and public finances. The grey-listing certainly poses a threat to the financial services and gaming sectors, the two sectors with the highest value added in the economy. Tourism figures in September are still 45% of pre-Covid levels, while competing tourism destinations in the Mediterranean have recovered faster than Malta. The issues prevalent in the logistics sector also need to be addressed more concretely, given the global situation and its impact on importation and manufacturing. Overall, the budget is reliant on short term social measures, but is not as strong in addressing long-term structural issues needed to ensure the long-term socio-economic development of our society.