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## Media Release

### **A Weak Infrastructure and a Wage Price Spiral are serious threats to Businesses - MEA**

The Malta Employers' Association has proactively conducted a wage inflation survey among a wide cross-section of employers from all sectors of the economy and representing all sizes of companies.

The Association considered the need for a similar study as urgent given the prevailing extraordinary conditions in the labour market characterised by scarcity of resources and tight competitive forces and a sustained strong reliance on imported labour to meet demand. These conditions were amply manifested by the study from which it emerged that the operations of over 90% of respondents depended on foreign workers, to varying degrees. Indeed, the survey revealed that in 24% of cases, respondents said that more than half their workforce was foreign - compared to a corresponding figure of 14% registered in a similar survey conducted in 2019.

A growing dependence on nomad workers, operating from outside of our shores, has also been witnessed, with 20% of business units tapping such a resourcing alternative.

The survey clearly points towards a classical wage-price spiral, whereby employers continued to sustain wage inflation over the past two years, and are attempting to neutralise the hit by increasing prices for their products or services. The survey also shows that this practice is expected to continue in the face of forecasted wage bill increases fuelling further cost-push inflationary pressures in the local economy.

It is also of great significance that this survey shows that 75% of respondents claim that the increase in their entities' wage bills is not being matched with commensurate productivity gains, greatly undermining the competitiveness position of their companies which, when taken collectively, will invariably impact national competitiveness.

Despite the challenges highlighted, the survey showed that 38% of the surveyed companies intend to increase their workforce over the next five-years. Almost three quarters of those which intended to extend their workforce further (73%) aimed to do so by importing labour.

In their bid to attract human resources, employers generally seek to offer both increased remuneration packages and enhanced flexible work arrangements. A greater push towards the provision of training opportunities has also been registered.

The report includes a number of recommendations from the MEA's part to address the situation. Amongst these is an urgent and clear action on the demographic profile being targeted by the country in the medium to long term; incentives for persons who reach pensionable age to remain in the labour force; increased investment in the transformation of our labour force (current and future) to one which is truly knowledge-based and adequately skilled; and an appeal to the government to refrain from introducing measures that increase labour costs to businesses. COLA increases have to reach employees net of taxation, otherwise the mechanism defeats the purpose of compensating employees for inflation, as part of the amount will be simply a transfer of employers' funds into tax coffers.

In the current circumstances, employers also expect heavy investment to have a reliable infrastructure. A weak infrastructure, currently being experienced in the energy distribution crisis, in addition to rising labour costs further erodes the economy's competitiveness. These factors combined are detrimental to all business sectors and tarnish Malta's attractiveness as an investment destination. This is why, as an initial token of goodwill, government should compensate those companies who have suffered loss of business due to the current power cuts.

The Association reiterates its calls for long-term economic growth strategies that are based on efficiencies and higher output per person, rather than on a simple extension of the workforce.