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Press Release

MEA reactions to the Convergence Report

The Malta Employers' Association expressed its satisfaction that the Government is determined to address the fiscal situation of the country. It issued this statement following a meeting that the Prime Minister held with the members of the MCESD about the Convergence Programme that was submitted to the EU earlier this month, for which the MEA was present.

The document shows a determination to address the main economic problems facing the country through macroeconomic policy objectives. It comes to terms with the fact that the economic outlook needs addressing with concrete actions, mainly to address the fiscal deficit and to generate productive employment while safeguarding the welfare system.

The contraction of GDP is a clear indication that the country needs to regain its competitive edge to attract more foreign direct investment. It is also significant that the report mentions the contraction in the number of gainfully occupied during 2003, and an increase in unemployment to 5.7%. The report refers to a fall in labour productivity due to a lower real GDP in 2003. Actually, the lower GDP is a *result* of the lower labour productivity. Employer bodies have long been insisting to introduce measures to address this issue.

The MEA expressed its reservations about whether the unemployment rate will actually fall in 2007, unless there are sufficient efforts to generate employment in the private sector. The general gist of the report makes too much emphasis on the notion that the Maltese economy will pick up as the economies of other EU countries experience a recovery. Although this is highly possible, it is not an automatic development, particularly if Malta fails to attract sufficient foreign direct investment and boost tourism revenue because other countries, among them new member countries, are more competitive. The convergence document needed more exposition on domestic, pro active measures, that will be adopted to make the best of the international recovery. Given the current state of the economy, the MEA warned that this is not the time to introduce taxes that would increase costs to employers. Regarding the eco tax, the MEA stated that everybody agreed that the environment needed to be safeguarded, since this is of general benefit to Maltese citizens and also has a direct influence on the tourism sector, which is a major employer. The Association calls for a balance between environmental concerns and competitiveness and augured that the commission that will be set up to investigate the matter will reach an acceptable compromise.

The convergence report is based on the assumption that government employment remains the same during the period, although it also mentions that the share of Government expenditure to GDP is expected to decrease from 52.4% to 44.4% by 2007, and that the containment in expenditure shall be attained through controlling recruitment with the Government. Employer bodies have been recommending a reduction in Government employment, amongst other cost cutting measures, as a means to address the deficit without resorting to added taxation.

An important component of Government capital expenditure will be the expenditure on the new hospital. Although this may be termed as a capital expenditure, it is to be noted that this investment will not be yielding a return. Rather the project will increase government recurrent expenditure, since it will definitely be more expensive to run than the current hospital.

The report underscores the need for a convergence programme that has the backing of all social partners. It should be used as a background on which the MCESD may formulate a tripartite agreement on how macroeconomic objectives may be attained, possibly through a social pact for the coming years. Employers hold that the main pillar of such an agreement will be incentivising entrepreneurship. The MEA has submitted to the MCESD its own report – Generating Productive Employment – A National Priority, which contains its recommendations on how to stimulate the economy.