



# Proposals for NATIONAL BUDGET 2023

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## Time to Sober Up

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## 1. Introduction

The war in Ukraine has shattered any hopes of blue skies after COVID, and plunged the global community into uncertainty, shortages, and fear of an escalating and drawn-out conflict. This uncertainty is now further exacerbated by the unfolding situation in Taiwan. Shortages and supply-chain disruptions have inevitably raised prices of basic commodities.

Maltese businesses are now facing pressure from two fronts. On the one hand, the rising costs of raw materials and labour is pushing costs up and straining already weak profitability margins. On the other, there is the inflationary impact on aggregate demand as consumers struggle to rationalise consumption in anticipation of a drop in real disposable income resulting from the inflationary spike. The degree of uncertainty surrounding the expectation of further price increases, together with the fact that many people and organisations in Malta are bracing themselves for increased costs of energy and cereals – currently stalled by a well-timed temporary government intervention - once subsidies are removed.

One priority for the economy in such circumstances is the avoidance of a wage-price spiral that will pour gasoline on the fire and erode competitiveness.

In the run up to the general elections, the Malta Employers' Association has presented the political parties with numerous recommendations that can be incorporated in the National Budget. These can be accessed [here](#).

## **2. The National Debt**

During 2022, Malta's national debt to GDP ratio will reach the maximum 60% limit permissible under the EU's Stability and Growth Pact. This is expected and mainly due to extraordinary government spending which was necessitated to mitigate the negative impact of the Covid pandemic by way of wage-subsidy schemes and increased expenditure on health. This proved to be providential for the majority of enterprises in Malta. Nevertheless, increased expenditure of a less urgent indispensable nature was also recorded in the employment drive undertaken in the private sector this year in the run-up to the general election. This measure, on the other hand, proved detrimental to the private sector, particularly to those employers which lost precious human resources to the government and suffered wage inflation pressures in the process.

Government had an element of fiscal manoeuvrability as the debt/GDP ratio stood at just 40.7% before the pandemic. What is a cause for concern is the increased level of recurrent expenditure which may make bringing the deficit back down to 2019 levels a challenge. The redundancy/redeployment measures promised to hundreds of Air Malta employees will certainly influence this challenge unnecessarily, in the view of the MEA, because these resources could be easily absorbed in the private sector. It is doubtful whether government revenues will increase at a rate sufficient to match its expenditure commitments. The budget should focus on cutting wasteful government expenditure to bring finances back on track.

## **3. Shelve plans for Airy fairy projects**

The current strain on public finances calls for a rationalisation of expenditure to bring the deficit to manageable and sustainable levels. Promises of large infrastructural projects – the Gozo Tunnel, the Metro and others – often accompanied by extravagant and expensive PR campaigns will have to be shelved in favour of more pressing

infrastructural priorities, such as the distribution of electricity, infrastructure for electric mobility, and outdated and worn drainage systems in many parts of Malta.

#### **4. Disclosure**

MEA supports government efforts to promote tax compliance and curb evasion. However, these efforts need to be complemented by others to establish more credibility in government.

As has been repeatedly emphasised in its position papers, MEA is calling for better governance and full disclosure of government contracts, and expenditures on specific projects. Some minor examples: why is it being refused to disclose the expenditure of the Movie Awards event? Is it true that a minister has employed a personal photographer at a package of 32k for a four day week? In addition, there are more serious matters where government should come clean – AUM, Vitals and others.

Government should publish a list of all persons holding positions of trust and their remuneration packages.

A fundamental requisite for tax compliance is trust in the institutions because the MEA believes that there are two sides to the fiscal morality coin. Fiscal morality also entails judicious expenditure of public funds. It is high time that Government seeks to enforce the debit aspect of fiscal morality and seriously clamps down on any wastage of public funds and abuse of social benefits, particularly ensuring that tax-payers' funds are used diligently and not squandered on inefficient recipients. The public needs to be given more confidence that the funds it is contributing by way of taxes are being used wisely, not squandered but the current lack of transparency in itself is counter productive to the efficient collection of tax.

This applies also to the financing of political parties. If companies are expected to submit audited accounts, the political parties should set an example and not be exempted.

The current size of Parliament and Cabinet also does not inspire tax compliance, as it is generally perceived to be wasteful.

## **5. A focus on Economic transformation**

There needs to be a stronger direction on economic transformation in a manner that steers the economy towards more productive, higher value added and sustainable activities. Currently, there are approximately as many people employed in construction as there are in manufacturing. This situation reveals a strong dependency of economic growth on construction. The environmental impact of such a dependency is being felt on people's well-being, as well as the attractiveness of Malta as a quality tourism destination or even as a place to work for expats. A shift towards a stronger, higher value-added manufacturing and services will create jobs without compromising the natural environment. There are other areas with significant growth potential, such as the maritime and aviation sector.

## **6. Tourism**

The growth and sustainability of the tourism sector is heavily dependent on numerous variables that lie outside of the control of the operators in the industry. Unbridled construction and congestion is leading to a deterioration of Malta as an attractive destination. This concern is also being voiced by numerous expats who are leaving Malta to work in other countries.

The aviation tax is another threat that will make Malta more expensive to reach by air travel relative to other destinations that can be accessed by trains and roads.

There is also no clear national strategic direction for the industry. The industry is being driven by individual interests which are fragmented, and at times, conflicting. A clear case is the level of noise pollution in Valletta, and the debacle in Comino.

The industry lacks guidance on fundamental strategic issues: Shall we focus on quantity and increase our bed stock and catering facilities, or shall we look more towards attracting the high end sector which is more demanding but may require fewer arrivals with higher specifications and possibly reducing the demand for bed stock and other facilities? There needs to be an indication where to position ourselves between these two poles.

## **7. Pensioners and vulnerable groups**

The increase in the cost of living affects vulnerable groups more severely, pensioners in particular. MEA proposed measures to encourage a higher activity rate among pensioners in the labour force. In the private sector, more employers are offering more flexible work arrangements to enable employees reaching pensionable age to remain in productive employment to supplement their pension income, and to work flexibly for them to enjoy their leisure time and enhance their quality of life.

The activation of this segment also acts to reduce the pressure on the labour market to import foreign labour. Government should consider:

Awarding people who reach the age of 61, and who would have paid the NI contributions, half of the pension they would be entitled to until they reach retirement age, if they continue working.

Further supplementing pensions after the age of 75 years, as persons in that age group face higher costs of health and other services. This could be restricted to persons who would have remained in employment for three years after their retirement age as an incentive to work longer.

This may entail an expense, but it is certainly a more targeted and effective measure than issuing cheques indiscriminately before elections. The expense will be met through increased participation and productivity of a larger section of the Maltese population.

## **8. Collective bargaining**

The COLA increase may result in industrial relations friction due to the fact that number of collective agreements – including the one in the public sector – have wage increases in the collective agreement that are inclusive of COLA. This practice has enabled many companies in the private sector to plan their costs for an extended period. The surge in COLA, which was not anticipated up till a year ago many result in pressures to revise current agreements, as there may be employees who will only be awarded the COLA for 2023. As an employer, the public sector should ensure that existing agreements are adhered to, and not set precedents that could have serious consequences on the survival of enterprises in the private sector.

It needs reminding that unions have always refused to peg wages to productivity increases. The current spike in COLA will inevitably lead to a deterioration in competitiveness and/or further price increases to compensate for declining profit margins. Adding to this burden will only make the situation worse, and may also result in layoffs. The MEA is mindful of the potential long-term damage which could be inflicted by artificial wage increases. Wage increases that are not matched by productivity and



which would need to be absorbed internally may deprive companies from precious capital and resources that would otherwise be channelled towards, training, innovation and technology. These investments are indispensable for the resilience and long-term prospects of our companies.

## **9. A Wage regulation order for Food Delivery Operators**

A lot is being reported about alleged abuses in the food delivery sector. This is an activity which has expanded during the pandemic, and the demand for these services has remained high even after catering establishments opened their doors to customers, with thousands of Third Country Nationals involved. The Malta Employers' Association has always been outspoken against abuses in the labour market, which may come from employers and also employees. In this case, it is government that changed the rules to allow TCNs to become self-employed, which was not possible before the pandemic.

Given the unregulated manner in which many of these TCNs are operating, it is being suggested to set up a committee within the Employment Relations Board to address the situation and design a wage regulation order for this sector that seeks a balance between the welfare of the food deliverers, the companies providing the service and the clients.

## **10. Labour Supply and Skills Shortages**

MEA has already presented a position paper in August 2021 with recommendations to reduce skills shortages prevalent in many economic sectors.

Many of these recommendations are still valid. For example, there is certainly no need to trap more than a thousand people in the Community Work Scheme when there are

so many companies in the private sector who would be willing to take these people on and even train them.

MEA has also been critical of the shifting of redundant Air Malta employees to the public sector. As already stated above, many of them can be absorbed in productive jobs in the private sector.

MCAST should not lose its focus of generating much needed qualified persons at MQF levels 3-5. Venturing into post graduate qualifications is wasteful when Malta already has a university to cater for such levels of study.