



Proposals for NATIONAL BUDGET 2024

**The rationalisation of the Maltese labour
force should be the major priority**

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1. Introduction

The main characteristics of 2023 has been continued economic growth, high inflation, shortage of human resources, skills gaps, and increasing public debt. Tourism numbers are up and, in some months, have exceeded 2019 levels. The infrastructure is straining under the weight of neglect, increased economic activity and a rising population.

A survey carried out by MEA in July this year found that 74% of companies are concerned that productivity is not matching wage inflation, and a further 73% report that a COLA of €13 will be problematic. On the other hand, the positive side is that few companies stated that they will resort to reducing the labour as a result of rising cost of labour and other materials and services. The real threat is most businesses expressed the likelihood of passing some or all of the inflationary pressure on their clients, both business and consumer. The effect on supply chains will result in secondary inflation with negative consequences on competitiveness.

The composition of inflation is also concerning, as at June 2023, the highest annual inflation rates were registered in Food (10.1 per cent) and Housing (9.4 per cent). With energy prices still subsidised, these rates are worrying and point to inflation rates that may persist in the coming two years, albeit not at the current rates.

An important question that is frequently being asked is whether the Maltese economy is 'overheating', which occurs when finite resources cannot meet demand. In the case of human resources, rising demand is being matched by imported labour. The percentage of foreign labour to the total labour force is now exceeding 30%. In the private sector this is much higher as most foreign employees are employed there. In fact, the MEA survey found that as much as 24% of respondents reported that more than 50% of their employees are non-Maltese. 9% replied that more than 75% of their employees are foreign.

This is a trend which, together with other demographic changes – e.g. the fertility rate – point towards critical changes in Malta's socio-cultural environment. MEA has, for years, been calling for a national strategy in order to have a structured approach to these shifts in the demographic environment (<https://maltaemployers.com/wp-content/uploads/Maltas-Demographic-Challenges.pdf>). In June 2023, we organised a

conference for all stakeholders at the parliament building about the declining fertility rate.

Another dimension of an overheating economy is the use and limitations of land resources, which in Malta, requires a stronger focus than most other countries. The inflation in housing is mostly the result of demographic pressures on limited land resources.

The major problems of overheating are connected to sustainability, well-being and distribution, since some population segments may actually end up worse off in spite of a growing economy. Mitigating the negative impact of growth should entail a concerted effort to redirect resources to maximise the value of our output in a sustainable manner. The budget should be a tool towards achieving this objective within a longer term perspective that requires the participation of the social partners, and stronger cohesion between the different ministries who increasingly appear to be working in silos.

2. The Public Deficit

The deficit has climbed to exceed €9bn and approaching 60% of GDP, which may place Malta under an excessive deficit procedure. There are no indications that Government spending will be curtailed, or that expenditure will be prioritised and channelled into areas that will improve the country's productivity through investment in technology. Government needs to send clear signs that it is truly committed to provide maximum value for the tax money collected.

It must also be transparent in its expenditure projects. For example, it will help to provide a professional analysis to justify how a cash rebate of €46m to a single movie production will result in a net benefit for the economy. Such studies should be made before these decisions are taken and made public. This will enable stakeholders to make an objective judgement.

3. Transparency and disclosure

This is a recurring appeal by the MEA as we believe it is fundamental to establish trust in the government

Members of parliament should not hold positions of trust, or any appointment on government entities. This may conflict with their duties in Parliament.

- There shall be full public disclosure of contracts, remuneration conditions, including bonuses and perks, of persons occupying positions of trust.
- All persons occupying a position of trust, including consultants with public entities and who have not been employed through a recruitment process should be subject to a periodic audit by an independent board to justify their position. The board shall include representatives of the Opposition. As with any company in the private sector company, they will report on time spent, activities and results achieved.
- Key positions in Authorities, including the Attorney General and the Police Commissioner need to be approved by a two thirds majority in Parliament.

- All contracts entered into by the Government with third parties will be made public within reasonable time but certainly not exceeding three months from the date of signing.
- The Director of Contracts should be given back the authority to take an active part in adjudication processes, and not to just act as a regulatory body. Tenders are to be adjudicated by independent adjudicators not by Ministries.
- Government will not enter into binding agreements (commercial or otherwise) with entities whose ultimate beneficial owners are unknown. Such agreements will be rendered illegal.

Direct Orders

- Government should ensure that the parameters that regulate direct orders are respected and enforced. The rules of public procurement are being flagrantly ignored with contracts amounting to millions of euros being awarded through direct orders. This is creating an unlevel playing field among businesses. At best, this creates serious suspicion and a sense of unfairness. At worst, it serves as a hotbed for corruption.
- Any direct orders that go against these regulations should be immediately be declared illegal and null and void.

Financing of Political Parties

One of the roots of corruption has been the link between business and the political parties. This is a chicken and egg situation – some businesses donate to win government contracts through ‘favours’, political parties need the funds for the running of their operation, including media and electoral campaigns. The financing of political parties requires stricter regulation. Parties need to be more transparent about the provenance of their finances.

Ideally, political parties should be state funded, and any form of donations, including through door to door collections should be declared illegal.

This is being proposed as a budget measure as it will entail a government expenditure.

4. A Rationalisation of Malta's Human Resources

Various surveys establish that one of the people's major concerns is the increase in population and its effects on various aspects of their well-being. Whilst it is inevitable that, as is being experienced in other EU countries, there is an influx of foreign workers due to demographic trends, in Malta it is also true that a good part of foreign employees is a direct result of squandering and misallocation of our own human resource.

It is being recommended to:

- Rationalise the public sector workforce following an audit of HR and Skills

This recommendation needs to be given immediate attention. The public sector requires a re-thinking to utilise its human resources in a manner that channels people where there is increasing demand for services – e.g. health – and a reduction in manpower where there are wasteful practices. In Gozo, the labour resource has been depleted due to unproductive employment in the public sector.

The Community Work Scheme should be discontinued and employees channelled into productive work in the private sector.

- Address the issue of young people going to work abroad

The extent and effect of this issue need to be studied carefully. We cannot afford to have a 'leaking bucket' labour force, with Maltese employees leaving the country to be replaced with foreign labour.

- Analyse the skills mismatch

Efforts to generate required skills in the labour force need to be intensified. Industry in general is experiencing a chronic shortage of people holding technical qualifications and graduates in STEM subjects.

- Avoid measures that lead to a contraction in the supply of labour hours

The addition of public holidays falling on weekends has resulted in an average reduction of 650k man days per annum – the equivalence of more than 3k full time employees which, given the shortage of manpower, have to be imported. This reduction in man days would have been better utilised if they were channelled into family friendly measures.

- Provide incentives to work beyond pensionable age

An immediate fiscal intervention that could increase the supply of labour hours is to incentivise the elderly to remain in the labour force on a voluntary basis. Currently there is a waste of labour as thousands of persons reach retirement age stop working because they forfeit their pension, or because of the tax disincentive.

It is recommended that:

- Persons who reach the age of 61 and have sufficient social security contributions will still be entitled to 50% of their pension if they continue working till the retirement age (i.e. 65 years)
- Persons who opt to work beyond the retirement age will have their pensions tax exempt.
- Although prima facie this appears to be a cost to government, in reality the added output, and the tax revenue generated, will compensate for the tax deductions.
- Given that Malta has an ageing labour force, these measures are necessary and will reduce dependency on foreign labour.
- Such measures will also provide options for employees to manage their retirement and also reduce the risks of poverty for this age group.
- The legislation on zero hours needs to be re-visited to allow more flexibility to pensioners who may prefer to be engaged on a zero hour basis.

5. Set up a Task Force to address the Population Crisis

Government should consider setting up a task force to look into the population situation and recommend short and longer term demographic strategies for Malta. This is a

fundamental proposal as there are growing signs that, for example, the infrastructure is not coping with more people living on the island. Power cuts, waste generation, traffic issues, drainage overflow are just a few symptoms of this situation.

6. COLA

Government needs to ensure that COLA is awarded net of deductions. If employers are obliged, through this mechanism to compensate employees for inflation, then such compensation has to be passed on entirely to the employee. Tax bands have to be adjusted accordingly.

The projected increase of €13 per week is unprecedented and will severely impact some businesses. For 2024, it is recommended further adjust tax bands in order that €3 of the full COLA will be compensated through tax deductions. Low income earners who do not reach the taxable threshold will be awarded a cash handout. This handout will be incorporated in the basic wage in 2025.

7. Construction

MEA has been recommending that there should be a re-orientation in the construction sector towards infrastructural projects, rather than on new buildings. It is evident that the current state of the infrastructure cannot keep up with the demand of increased buildings and the corresponding spike in population. In such a situation, infrastructure should take precedence.

There should also be added emphasis and enforcement on OHS in this sector to minimise accidents and casualties.

8. Tourism

In spite of encouraging numbers this year, the tourism industry requires a strategic direction to manage the coexistence of different segments which could have conflicting requirements. Over the past years, Malta is gaining a reputation of becoming a 'party island', and potentially attracting the type of tourism that other countries are trying to steer away from. The situation in Valletta, where the interests of entertainment outlets are in conflict to those of boutique hotels and the citizens is a case in point.

There needs to be investment in the general attractiveness of the country. The recent setting up of an underwater archaeological park in Gozo is a very positive example of upgrading the tourism product to attract high value tourism. However, this is in great contrast with other activities that are progressively tarnishing Malta's image.

There is a need for an effort to salvage what is left of the natural environment to upgrade the tourism product in a manner that benefits visitors and Maltese alike. The industry need to be informed of the numbers that we want to attract, and the composition of these numbers in terms of defined characteristics – e.g. segments, demographics, spending power etc. such a direction will enable operators in the industry to design their marketing strategies and business plans accordingly.

9. IIS Funds

IIS funds need to be made available again to provide incentives for companies to train their employees.

10. A National Maritime Strategy

The budget should address the need for the country to have a national maritime strategy. The maritime sector has tremendous strategic and economic potential which is as yet untapped.

11. Capacity Building for Social Partners

The assistance to social partners needs to be enhanced for them to be able remain relevant to their constituents. Services offered are more complex than they used to be, members are more demanding and international affiliations have become progressively more expensive. It is in the interest of healthy social dialogue to have stronger social partners.

12. Conclusion – the Well-Being Aspect

In conclusion, the budget, through government expenditure and revenue needs to prioritise the well-being of the Maltese. The MCESD could be an ideal forum to discuss and set up a well-being index that balances out the short and longer term interests of government expenditure and economic activity.