



# Proposals for NATIONAL BUDGET 2019

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## **1. Wage inflation**

The full employment situation in Malta is enviable and evidence of a robust economy. One factor which has contributed to Malta's economic resiliency and relative stability over the years is wage moderation. COLA is a disputed measure which pegs wage increases to inflation, rather than productivity. In 2019, employers will be paying an additional €1 per week as part of the minimum wage agreement signed in 2017.

Concerns about wage inflation are linked to:

- Wage demands that are linked to market shortages.
- The fact that, in a diversified economy, the value added differs significantly between sectors. Low value added sectors which employ thousands of employees are prone to lower profitability margins in order to retain employees. This cannot continue indefinitely.
- Wage demands that are being fuelled by rising property prices and rental rates. A worrying trend is that foreign employees are not staying in Malta due to the high cost of renting apartments.

Employers make it clear that labour costs are linked to productivity, and that they cannot be expected to compensate for inflation resulting from a property boom.

## **2. Public Holidays and other Additional Entitlements**

The MEA reiterates its position that, in a country which boasts the highest number of public holidays and optional leave, further addition to optional leave is unnecessary, populist and possibly unsustainable. There is also the added concern of other measures that are in the pipeline that will lead to further absence from the workplace. The Association is calling for reasonableness and, together with other employer bodies, has asked for a list of all measures that are intended to be introduced within this legislature in order for a balance to be reached through a set of compensatory

measures to retain sustainable and competitive enterprises, which is the main pillar of long term growth. This package is being negotiated with government.

### **3. SME Test**

Hardly any SME tests have been conducted on measures that will have an impact on costs to business. MEA expects that in order to protect SMEs, an SME test will be conducted at the proposal stage to minimise any negative effects on businesses.

### **4. Collective Bargaining in the Public Sector**

The increase in employees in the public sector is creating pressures on the private sector, with the result that labour market shortages are being resolved through the engagement of more foreign employees. Collective bargaining in the public sector is having an impact in the private sector, as evidenced in the drain of employees who have migrated to the public sector – at times at lower wage rates – over the past eighteen months.

MEA proposes that representatives from the private sector are involved in collective bargaining in the private sector. Alternatively, any package negotiated in the public sector should be discussed with private sector representatives before given the green light. This will ensure that any repercussions on the private sector will be anticipated and catered for.

Some sectors are being directly hit by these outcomes. As a result of the agreement between the MUT and Government, independent schools can only match the government package by increasing fees substantially. Otherwise many teachers in these schools will apply for positions in the government schools. Increasing fees will result in a drop in their school population and threaten their existence. It is understood that discussions are underway between these schools and government to mitigate

these negative effects. Collective bargaining between the MUT and Independent schools is currently at a standstill and Government needs to commit itself to allocate funds to assist this sector.

Another development which is raising alarm in the private sector is the claim by the MUMN for early retirement schemes for nurses. If government gives in to this claim, it will surely be followed by other similar claims in other sectors, as nursing is certainly not the only stressful job there is. In a country where one of the major challenges faced in the labour market is the low labour participation rate and the early exit from the about force - as highlighted in the Country Specific recommendations by the EU - this request should be shot down. What is required is more incentives for employees to stay longer in employment.

## **5. Incentives for employees to stay longer in employment.**

It is being proposed that employees who have the option to retire at the age of 61, and whose pensionable age is higher will be given half the pension if they choose to work the period beyond the age of 61 and the retirement age. Although this will incur a cost, these costs will be neutralised through the following benefits:

- A higher retention rate of employees in employment will result in higher N.I. and tax revenues to government. This will be a powerful active labour market measure.
- The lower opportunity cost between retiring and staying in employment will encourage more persons to keep on working. Currently the majority of employees who reach 61 years and who would have paid sufficient N.I. contributions choose the pension, as the difference between the pension and their wage is insufficient to entice them to remain in employment. For example, an employee with a monthly gross income of €2.3k and a take home pay of €1850 might find it more attractive to take a pension of approx. €900 than work for the marginal monthly €950 (the wage minus the foregone

pension). If this measure is implemented, the marginal difference between remaining in employment and taking the pension at 61 years will go up to €1400 (Wage €1850 + ½ pension 450 = €2300 vs €900 pension).

- A higher retention of employees between 61 years and the retirement age increases the probability that they will work even beyond the retirement age, as there will be no break in employment.
- The increased participation of elderly persons in the labour force will reduce the pressure of addressing labour market shortages by non-Maltese workers. Therefore issues of congestion, rising costs of property and rent will be marginally addressed by this measure.
- In a way, this will also be a social measure as employees working beyond 61 will be given a slight reprieve to save up for retirement as their income will be supplemented by the half pension.
- It is a controllable and contained measure, as it applies only to a limited time window, i.e. between the pensionable age and the retirement age. It could also be linked to the current shortage of labour and thus limited to a specific time span.

## **6. Education**

- Unemployed persons and migrants should be asked to attend mandatory numeracy and literacy courses
- There should be more effort to encourage students to participate in apprenticeship schemes. There is a shortage of skilled persons and technicians at MQC levels 4 and 5 in the labour market.
- The process for the accreditation of non-formal learning recognition to establish pathways for achieve higher MQF Levels should be intensified.

## **7. The Rental Market and Social Housing**

Before any actions about social housing are taken, there should be a thorough exercise to determine whether the current stock of social housing is being used for its intended purpose. It is well-known that in the past social housing has been allocated more on the basis of political favours than genuine entitlement.

The MEA also believes that any entitlement to social housing cannot be permanent and should be subject to a periodical review. The rent may be revised according to family income.

An important consideration in the design of social housing schemes is the impact on disposable income relativities. Given the narrow wage differentials in Malta, it would be better for a person to take on an unskilled job and be entitled to social housing than to have a higher paid occupation and be forced to purchase property or rent at market rates. A means testing mechanism can be established as per the social benefits application.

Social housing units need to be designed to provide minimum accommodation to encourage people to move out if they have the opportunity.

## **8. Transport**

There has been poor take up of the incentives for companies to provide their own transport to employees, which will have a positive impact on traffic congestion during rush hours. One reason for this is that employers will be held liable for any accidents occurring during transport to and from work if they are providing it. The social security act should be amended to remove this obstacle to introducing company transport.

Government should intensify incentives for a higher take-up of electric cars through better subsidies and a wider diffusion of charging points. Some countries are setting

2030 as a target to remove all diesel vehicles from the roads, and to have all vehicles electric by 2040. With the high density of vehicles and the resulting air and noise pollution, Malta could be at the forefront of these developments provided that stakeholders are consulted. Gozo could be an ideal test market for conversion to electric vehicle technology.

There is a need for a long term strategy for transport in Malta, given the current situation which can only be expected to get worse in the coming years.

## **9. Blue Economy**

It is proposed to allocate funds to develop further the concept of the Blue Economy, given the opportunities that exist for Malta, and that the EU is assigning part of its budget for this purpose in the upcoming programming period.

## **10. Positions of Trust**

The MEA reiterates its position on the appointment of persons holding so-called positions of trust. It is regretful that the number of persons in such positions has increased and there is hardly any transparency as to how these positions are created and how they are allocated.

In its memorandum to political parties, the Association made the following recommendations about engaging persons in positions of trust:

- It is understandable that any party in government needs to appoint persons in positions of trust, but the number of such appointments should be subject to a ceiling. These appointments should not be perceived to be the result of political favours.

- Members of parliament should not hold positions of trust. This may be in 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 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 from the opposition. As with any private sector company, they will report on time spent, activities and results achieved.
- Key positions in Authorities should be approved by a two thirds majority in parliament.

## **11. Direct Orders**

A worrying practice that has crept in is public procurement which bypasses the tendering process by granting direct orders. This is creating an uneven playing field among business operators and a sense of mistrust of procurement procedures. Government must commit itself to adhere to the tendering process in its procurement.

## **12. Employment of Third Country Nationals**

Significant progress has been made in the employment of TCNs as this is seen as a necessary condition to maintain the current economic growth. The 'Temporary Authorisation to Work' measure introduced recently by Identity Malta, is a step in the right direction which enables TCN applicants who are still abroad to start working immediately once they have finalised their application in Malta.

- Identity Malta should extend the temporary work permit to applicants who are already in Malta not only the ones who are still abroad, at least from the time they receive the blue card.

- Government should finalise agreements with non-EU countries that are a source of supply of labour for Malta (e.g. Philippines and Serbia). It is essential that such agreements guarantee legal standards but leave conditions of employment subject to negotiation between employers, employees and unions. At all costs, any anomalies which may subject employers to criminal proceedings under a broad and vague application of human trafficking legislation should be addressed.
- There are still cases whereby the recruitment process takes more than three months to complete. Identity Malta needs to be more accessible to its clients.
- There should be a facilitation of electronic submission of applications.

Government should use ambassadors' offices to recruit people to address labour shortages.

### **13. SMEs**

SMEs – micro-businesses in particular – are a major driving force of our economy.

- Government could increase direct assistance for enterprises to comply with digitisation, especially when they need to restructure to comply with emerging regulations on ecommerce.
- There should be a single identification business number to all business units registered in Malta. This will significantly reduce bureaucracy.

### **14. Energy**

Commercial rates of energy in Malta are higher than domestic rates, and are also higher than the EU average. This effectively means that businesses have, for decades, been subsidising domestic energy rates. With the current international prices of fuel, combined with the benefits of having the interconnector and the gas power station, it is being proposed to streamline these divergent rates over a five year period

to have a uniform rate of energy in Malta. In many EU member countries the commercial / industrial rates are in fact the same as domestic rates.

Night tariffs for businesses should be introduced.

### **15. Child care Facilities**

Government may consider the extension of child care facilities to cover night shifts in industrial zones.

### **16. Compliance with CRPD criteria**

Government should introduce incentives for businesses to comply with the criteria of the Commission for the Rights of persons with Disability. Structural changes in business premises can entail substantial expense for many companies. There should also be a fast lane for processing applications for such alterations to business premises.