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Media Release

Media Release: National Budget 2015
MEA - Government faces a Challenging Year Ahead

Government has a challenging year ahead to reach its fiscal and economic targets, given the expenditure projections laid out in the national budget. The objective to achieve growth friendly consolidation, with a stated target fiscal deficit of 1.6% of GDP in 2015, depends heavily on the outcome of critical decisions in public transport, Air Malta and the generation of energy. Government also faces an increased wage bill due to collective agreements plus an expanding labour force in the public sector.

The projected injection to Air Malta, estimated at €40m, together with the €30m subsidy for public transport and additional €70m to subsidise household and commercial energy rates, in addition to added pressure on expenditure on core services such as health and education will certainly make fiscal consolidation a difficult task.

The Malta Employers' Association welcomes the cuts in energy rates for industry, which will relieve many businesses of excessive energy costs. Yet, given the global scenario of plummeting oil prices, it is important not just to reduce the rates, but to position them at a level that make local enterprises competitive. Thus it is not the rates per se that are important but the rates relative to what competing companies are paying in other countries. We need to ask whether the new rates bring commercial energy tariffs close to the EU average.

Another consideration with respect to energy rates is their fiscal sustainability, given that as yet, the reductions are not resulting from cheaper generation of energy, but through subsidies and, this far, in the absence of clear time-lines for the operation of the new power station.

The impact of the budget measures on consumer expenditure will depend on the effect of the low COLA increase on one hand, and the substantial income tax reductions on the other which are expected to inject €19m in the economy. The rise in social housing rents, coupled with anticipated increases in prices of other services may negatively affect that segment of low income earners not covered by collective agreements or other wage adjustments. The decrease in income taxes will raise purchasing power of middle income earners who will end up with lower deductions for the upper marginal income, overtime and taxable allowances.

In the circumstances, the one-time bonus of €35 to employees will partially hedge vulnerable groups against expected inflationary pressures during the coming months.

The reform of the eco-tax on electronic equipment by September 2015 is a step forward which will relieve domestic operators from an unfair competitive advantage compared to on-line purchases. With respect to the increase in indirect taxation, the Association cannot understand the rationale behind taxing wine – a product in which local industry has invested heavily, and which faces strong competition and disadvantages due to diseconomies of scale.

The budget includes positive active labour market incentives which are contributing to increasing the number of persons willing to work. The compulsory Youth Guarantee programme for young unemployed and single mothers will hopefully renounce their dependency on social benefits to seek productive employment. Yet concurrently many people – including employees in the private sector - are now aspiring for public sector jobs which are generally perceived to be less onerous than jobs in the private sector.

However, the measure to link benefits with the youth guarantee for young people and single parents is a bold step to channel recipients of social benefits into vocational training and productive employment.

The in-work benefit as announced will incentivise workforce participation, but it remains to be seen whether the benefit will disincentivise some employees from working overtime so as not to lose the benefit. The MEA appreciates the incentives to employers to hire single parents, and other initiatives to make work pay, but still maintains that the benefit tapering system can create issues at the workplace. The MEA remains, in principle, against the concept of treating social benefits as an opportunity cost to gainful employment.

The announcement that there shall be a fresh call for TAF funds is welcome and one which businesses should respond to in the coming weeks. It is also expected of government to issue its concrete plans for the utilisation of EU funds for the period 2013 – 2020 as these should constitute a substantial injection into the economy.

The Association will evaluate the impact of the revised payment for maternity leave but agrees that the setting up of a separate fund will remove a competitive disadvantage which female job applicants face relative to the opposite sex. However, the Association stresses that maternity leave payment as proposed will still be paid by the employers.

The MEA has always expressed itself in favour of integrating disabled persons in the labour force, but it urges Government to consult with employers before enforcing quotas. There are questions that need to be answered. How can companies employing 20 persons have 2% of its workforce classified as disabled persons? What about unregistered disabled persons? What about partially disabled persons, are they also to be considered for the quota purposes? The MEA will be available for constructive consultation on this matter.

The Association is pleased that government is opting to incentivise third pillar pensions in preference to a mandatory second pillar. This is consistent with what was proposed in the previous budget. MEA retains its position that it sees no need to introduce second pillar pensions in the foreseeable future in Malta and burden employers and employees with additional contributions.

During the last budget speech, government had envisaged the drafting a Charter of Workers' Rights in collaboration with Unions and employers on the lines proposed by the Association. Yet there has been a change in direction in favour of introducing blacklisting regulations to tackle so-called precarious employment. MEA believes that the charter would have been a better option to tackle illegalities. The intention to harmonise contracted employees' income with government scales has various implications to be discussed. The rates at which numerous contracts have been awarded cannot cover the increased labour cost to implement this measure. This is why the MEA had proposed setting a minimum tendering rate of €7.50 per hour in 2013.

There were some recommendations which MEA expected to be taken up by government. Among these was to establish a system of set-offs between government departments for amounts due by government to relieve companies of liquidity problems.

The Minister's repeated assertion about government's belief in the private sector, and the idea of Project Malta to promote private public partnerships is encouraging as many companies in the private sector will be willing to participate in such projects. The references to schemes related to access to finance need to be more concrete and better defined in the coming months. The measures addressed towards the film industry and i-gaming should be conducive to an expansion in these sectors. The idea to promote medical tourism in Gozo should be explored further and the general infrastructure in Gozo will have to be analysed and improved to facilitate the promotion of this value added activity. The budget also mentioned some innovative ideas to alleviate transport-related problems which have to be evaluated further to assess their practicality.

The budget contains numerous targeted measures aimed at different sectors of society, but the fundamental question that the coming year will face is whether there will be a sufficient increase in economic growth to generate the revenues necessary to achieve the consolidation targets. The economy is showing conflicting signs, with real GDP growth at 3.2%, positive credit ratings, buoyant tourism and financial services sectors, and low unemployment on one hand, coexisting with a 7% decrease in industrial production on the other. The long term growth and sustainability of the economy will depend on a shift from growth which is mainly generated by government activities and domestic consumption towards a stronger effort to generate export led growth.