



# Proposals for **NATIONAL BUDGET**

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## **2022**

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## **1. Introduction**

In its proposals for the 2021 budget, the Malta Employers' Association had emphasised that it was difficult to forecast government expenditure and revenue for 2021 given the state of uncertainty that prevailed due to two critical issues: the COVID pandemic and the Moneyval assessment. It was recommended that any budget projections would be based on different scenarios and outcomes presented by these two issues.

As things stand today, one can conclude that the outcomes of the first half of the year fell quite short of the rather optimistic statements and projections that were made when the budget for 2021 was announced. In spite of expectations that the economy will be up and running as usual by May 2021, we face a situation wherein not only is COVID still with us, but the economic recovery of the country from the effects of the pandemic has been significantly hampered by a misplaced attempt to kick-start the English Language sector and the response of general tourism market to a sudden spike in cases and eventual hospitalisation rates. In addition, the initial relief when Malta passed the Moneyval test turned to bitter disappointment when the country ended up on the FATF grey list. Consequently, against a hope that the economy will have been on the way to a somewhat normal situation by the end of 2021, the reality is that COVID is still a threat to our tourism sector, and the impact of the greylisting will be felt across the economy in the coming months.

## **2. Covid 19**

The pandemic remains a threat worldwide and will affect our economy irrespective of how well it is managed locally, as new strains emerge and Malta will remain forever subject to Covid developments elsewhere and travel restrictions imposed by other countries. On the domestic front, government effectiveness to address the pandemic consists of a tripod which rests on:

- The diffusion of the vaccine
- Fiscal Support Measures
- Controlling the spread of the virus

To its credit, Malta has managed a very effective vaccination rate which is the highest in Europe. This is the result of effective campaigns and a relatively smooth distribution of the vaccine.

The package of fiscal support measures has also been well-designed and has reached its primary objectives of retaining people in employment and keeping businesses running. However, this has been extended beyond what was initially envisaged thereby causing a strain on both businesses and government finances. It is understood that such an injection cannot be sustained indefinitely so much so that the IMF has urged government to scale back these measures whilst, at the same time, avoiding “cliff-edge” effects and plan adequately for the future. There have been some business closures, together with a postponement of many investment projects, but most are still operating, albeit at reduced profitability. Unemployment has remained stable, and many enterprises from different sectors are facing labour shortages. More on this below.

It is the last item that has rendered the tripod unstable. The mistake committed in 2020 when tourism opened up for mass events, and which subsequently crippled the summer tourist season last year, has been repeated this year when we opened our doors to young, unvaccinated students in language schools – which cohort of people is, by definition, amongst the least disciplined and least likely to conform with protocols and regulations at all times. These strategic errors have potentially cost the rest of economy hundreds of millions and inflated the government deficit and public debt due to shortfall in tax revenues, which in 2021 were projected, unrealistically, to reach 2019 levels. In addition, government has been constrained to extend its fiscal measures for much longer than envisaged. The increase in the fiscal deficit to a staggering 12% of GDP in

2021 may imply painful actions to recover, unless the economy manages to make an impressive comeback in the coming two years.

### 3. FATF

For years, the MEA has been sending out warning signals about Malta's deteriorating international reputation. The greylisting by the FATF was completely avoidable if government had taken up the clear and unequivocal advice given by the social partners and civil society about the need to improve governance systems. The MEA pronounced itself openly about parliamentary reform, the appointment of persons of positions of trust, better transparency in public procurement and other aspects of good governance, which, if heeded, would certainly have averted this humiliation. As stated in its media release, MEA firmly believes that: *'There have been too many shady deals involving politicians, phantom jobs in the public sector, and a general reluctance to hold perpetrators to account'*. (<https://www.maltaemployers.com/wp-content/uploads/0907211-1.pdf>) This has to change.

A survey conducted by MEA found that: *'88% of respondents believe that the FATF Grey listing will leave a negative impact on the Maltese economy, with 64% anticipating strong repercussions. 71% anticipate that the grey listing will affect their business directly. The results show that we are on a clock, as 63% of respondents reported that the grey listing will be affecting them within the coming 6 months'*. (<https://www.maltaemployers.com/wp-content/uploads/Malta-FATF-survey-Final-Report-23.07.2021.pdf>)

The way out of the grey listing is not simply by increasing legislative measures and more restrictive compliance systems, which are already affecting businesses through added bureaucracy and costs. We have laws in abundance. This is no longer about ticking

boxes - there has to be a determined, uncompromising effort to clean up this blemish in our history and source of added complications for business within the shortest time possible.

As things stand, we have politicians who are prepared to stubbornly safeguard their political survival, even at the risk of placing Malta on an extended stay on the FATF grey list. This is what has led the MEA Director General to declare that: ***'If a politician, through his actions, increases the risk of Malta remaining in the FATF grey list by just 1% and this incurs the probability of affecting the least of our members by 1% of his business, then that politician should either resign or be removed.'*** (Net Live 2<sup>nd</sup> August, 2021). Business and employees should not pay the price of political incompetence and intransigence.

What most businesses desire is to operate and compete in an environment that offers a level playing field among willing participants. The vast majority of investors are resentful of the link between business and politics. The situation not only creates situations of unfair competition but risks placing the entire business community in bad light. A reform is necessary to sever this link between party financing and business interests. MEA has submitted proposals for political reform, including party financing. (<http://maltaemployers.com/wp-content/uploads/Parliamentary-Reform.pdf>) In August 2020, it had also recommended an exercise at MCESD to obtain the opinions of the social partners on this and other governance issues. Regrettably, this exercise has not been conducted.

Although the impact of the FATF grey listing on the economy cannot be determined with any degree of certainty, there are worrying signs. Although Malta's A2 rating has been maintained, Moody's outlook for Malta has changed from stable to negative, which is a warning sign about the sustainability of our economic model, something which has been highlighted in our national conference: Balancing Economic Growth with Quality of Life

– A National Challenge. Praemium, a Global digital investment platform has recently stated that it will terminate all business for Malta based relationships as a result of the grey listing.

#### **4. Labour Supply**

Government fiscal injections during COVID have been successful in containing unemployment. As mentioned earlier. The prevailing situation is that many businesses are facing chronic labour shortages. MEA has issued a position paper about this situation with numerous recommendations: (<https://www.maltaemployers.com/wp-content/uploads/Position-Paper-Shortage-of-employees-Aug-2021.pdf>)

In principle, the paper underscores the need to free and incentivise underutilised labour and channel it into more productive employment in the private sector. This will have a double effect on the government budget as it will reduce recurrent expenditure on one hand whilst increasing tax revenue from productive economic activities on the other.

Among the recommendations mentioned one finds:

- Phasing out the Community Work Scheme
- Reviewing Identity Malta's processes to facilitate TCNs to work in Malta
- Giving 50% of pension to those who work in the period between pensionable age and retirement age
- Work on strengthening the Employer Brand of Malta on a national level to attract and retain talent and resources – “A great place to work”
- A rationalisation of the labour force in the public sector
- Utilising asylum seekers and refugees who are currently in Malta.

**An essential short-term recommendation is to reverse the talent drain from the private sector prior to an election.** Many companies report that this migration is already occurring, which is a tragic waste of human resources that will become more scarce as the population ages, and as other developed countries with a similar problem compete to draw employees to contribute their productive capacities to other economies. There are productive jobs available in public transport, tourism, construction, care working, enforcement structures and many other areas which could be taken up by people who are currently underemployed and with a relatively low standard of education, if they undergo some training.

The future of the Maltese economy will depend on the management of its human resources and the budget should plan for this in an appropriate manner.

- A concerted effort to reduce the incidence of early school leaving
- Channelling students into career-oriented disciplines - e.g. STEM subjects. Weaning students away from what are considered to be 'soft options' in their studies.
- Enhanced and updated career guidance to shed light on the opportunities/skills offered/ demanded today and the immediate future
- Wider application of Work Based Learning in all its forms
- Validation of informal learning
- Stronger input of industry in the design of courses. Making academia conscious of numerous career paths available for different courses, and design courses accordingly.
- Reducing the gender pay gap by addressing the occupational stereotyping that still prevails in choice of career
- Directing the Maltese labour force into higher value-added activities. As far as possible, resorting to imported labour in lower value-added activities.
- Giving priority to growth in economic sectors that are less labour intensive.

- Incentivising and implementing labour saving automation and digitisation technology as a means of transferring labour into more productive jobs. Why do we still have meter readers when we are supposed to have automated smart meters?
- Strengthening entrepreneurship, social skills, work ethic.
- Recovering our mastery of the English language.
- Addressing brain drain – designing policies to retain Maltese and foreign people to work in our country. Other EU countries will be attracting Maltese labour to fill their vacancies.
- Government may seek bilateral agreements with third countries to supply specialised labour.
- Utilise asylum seekers and refugees who are currently in Malta. Many of them have been in Malta for years and are easier to integrate than TCNs, even from an administrative perspective.

The above points are included in our position paper and should be taken up to shape our labour market to match current and future economic and social requirements.

## **5. An Evolving Workplace**

Employers acknowledge that the place of work is evolving. New forms of work and work organisation are emerging which required flexibility in the part of all social partners. It is essential to recognise the importance of allowing such change to reflect the exigencies of individual enterprises and avoid legislative measures that may work for some enterprises but be harmful to others.

MEA has delved into the situation prevailing in many sectors concerning teleworking and remote working arrangements (<http://maltaemployers.com/wp->

<content/uploads/Position-paper-on-Teleworking-Oct-2020.pdf>), and the results are strongly indicative of the need for customised solutions that may address the need of the enterprise and also its employees. Many companies are conscious that a flexible work arrangement, where possible, is a means of attracting the best talent to work for them. The provision of flexible work incentives to the business community in a sustainable manner may also serve as a longer-term platform encourage the usage of the talent pool we have whilst promoting wellbeing in the community. This requires a shift in mentality which will entail more a more results-oriented approach rather than hours-based approach we are used to.

The same can be said for zero-hour contracts. A solution has to be found to eliminate every potential for exploitation of such forms of work, while retaining the flexibility for companies to meet emerging customer requirements. This is particularly the case for project-based work.

In any case, this is certainly not a time to introduce measures that raise costs to enterprises but to support them to have a more flexible workforce that addresses the needs of the evolving workplace and also the business needs.

## **6. Climate Change & Environmental considerations**

In the light of:

- (a) the fact that the environment has a direct bearing on the quality of life and workers' morale and physical and mental health - therefore productivity,

- (b) the EU's new Fit for 55 plan which will have a bearing on carbon footprint limits and targets which are bound to have an effect on our members' operations,
- (c) the budget needs provisions that reflect government's strategy to address its own Low Carbon Development Strategy in the coming years.

## **7. Innovation and digitalisation**

The budget should include multi-faceted measures, targeting businesses, educational institutions and even households, to continue to transform the economy to be more directed towards innovation and digitisation.

## **8. A Budget within a Context**

Under normal circumstances, proposals for the national budget would focus on concrete fiscal measures to channel government expenditure into the most productive use to stimulate economic growth and well-being. However, the current situation also calls for a re-thinking of fundamental issues that are essential for our country to function as a healthy democracy that enjoys the respect of the international community. Essentially, we need to clean-up our act, regain credibility, restore our reputation and rebrand. It is critical to accept the real reasons for the grey listing. Any attempt to deflect from the real causes by attributing the grey listing to tax evasion by Maltese businesses is short sighted and will backfire.

The 2022 National Budget must be designed to address present and emerging structural threats to our economy, besides the FATF grey listing and COVID. Amongst them there are:

- A rising deficit and public debt situation which is not exclusively Covid related

- Revenues from passport sales will decline or halt completely
- The recovery of the tourism sector is more sluggish than expected – even relative to competing countries in the Mediterranean,
- The problem of correspondent banking – especially following the grey listing
- The Tax reform on a global level which may render Malta less competitive in attracting financial services
- Infrastructural bottlenecks – e.g. the electricity distribution system which has been the cause of multiple power cuts in Malta and Gozo during the summer months.
- Labour and skills shortages

In this context, we need to refocus on what Malta really stands for and believes in. It is not just a question of fiscal measures but of putting emphasis and onus in our core values.

## **9. Conclusion**

There is a need for a change in culture and to suppress the temptation to go for a populist budget which is customary on the eve of an election. This is not the time to have a three-hour speech about five a side football pitches and building of pavements. What is expected by the business community is a budget that concisely and concretely tackles the serious structural flaws in our economy which, though resilient, also has limits to the blows it can take in the prevailing political and economic environment.