

PRESS RELEASE

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2017 Budget Speech: A Preliminary Reaction by the Malta Chamber

The Malta Chamber of Commerce, Enterprise and Industry noted the underlying priorities of the 2017 Budget Speech, namely, fiscal consolidation, strong economic growth and better living standards for all.

These priorities are similar to the objectives the Chamber itself proposed during its active participation in this year's Budget consultation process. Here, in fact, it advocated further progress in fiscal consolidation and national competitiveness.

It is noted that this year's budget continues to build on previous year's efforts in a number of other areas including income support for low and middle-income earners and pensioners, further investment in human resources, environmental initiatives and transport infrastructure. It is also noted that, save for certain excise tax measures, the budget speech has spared major surprises and shocks on private economic operators.

Public Finances

The Chamber is encouraged by the remarkable rate of economic expansion over the past quarters and the manner in which this is supporting public finance consolidation. Indeed, the 0.7% deficit to GDP ratio for 2016 and 0.5% ratio for 2017 is encouraging, but as credit rating agencies have consistently remarked, the country must not allow for any complacency and must at all costs ensure that there are no slippages in at least three areas: namely,

- Public Finances including funds allocated for sectoral restructuring and the formation of new initiatives
- Continued reform programmes in pensions and healthcare
- The successful setting up of partnerships with the private sector

In this regard, it is understandable that society reaps a just benefit from economic prosperity through the redistributive role of Government and the annual Budget. Nevertheless, this redistributive exercise must be made in full recognition of the private sector and its wealth generation role in the economy. In this light, the Chamber commends the tax incentives granted on voluntary second-pillar pensions as it had itself recommended prior to the Budget.

Competitive-Enhancing Measures

The Chamber welcomes the efforts being made in the area of competitiveness, in particular:

- Access to finance via the seed-capital for setting up of the Development Bank
- Tax incentives on dividends from companies listed on the Malta Stock Exchange
- Tax deductions Employer-schemes for transport of workers
- Tax incentives on transfer of family businesses (for 2017)
- The attraction of an international accelerator for local start-up companies
- A proposal to support companies to facilitate the research and commercialisation of innovative products and services
- Various Malta Enterprise administered schemes for business
- The introduction of permitting (planning) fees applicable to industry
- Simplification of licencing and start-up procedures for business.

On the other hand, in terms of competitiveness, the Chamber believes that the following measures could be detrimental to the private sector. These are related to COLA, Energy Rates for business and proposed sick leave for parents with sick children as detailed hereunder.

COLA

The Chamber noted the announced figure for COLA next year. Generally speaking, €1.75 is not an unaffordable figure for employers but it departs from that which would have applied using the standard mechanism in that it includes an anticipated payment. With a view to avoid similar arrangements which could be burdensome on competitiveness, the Chamber renews its call for adjustments to the COLA mechanism in terms of the formula used and an updating of the Retail Price Index through a revised Household Budgetary Survey.

Energy

The Malta Chamber is disappointed to note that there were no measures to address the further lowering of energy tariffs for business, which was the Chamber's prime recommendation prior to this year's Budget. It is feared that this fact may support further erosion in Malta's competitive position in cost-sensitive sectors relative to other regions and states.

According to official statistics for Industrial Energy Rates for the second half of 2015 - as reproduced by Eurostat last August - electricity prices for industrial consumers including all taxes and levies in the EU28 averaged marginally lower than those available for Maltese industrial consumers. Moreover, Malta's average industrial rate as quoted by Eurostat is 36 per cent higher than the average rate available in countries competing for foreign direct investment, namely Bulgaria, Czech Republic, Estonia, Croatia, Lithuania, Hungary, Poland, Romania and Slovenia. In addition, it is worth noting that Malta is the only EU Member State where commercial rates are higher than domestic. This difference stands at 12 percent. On average, commercial rates in the EU28 are 43 per cent cheaper than domestic rates. It is clear that the current structure of energy rates in Malta runs counter to the principle that wealth is first to be created before distributed and does not bode well for continued economic expansion and wealth creation in the country.

Sick Leave

The Chamber understands the purpose for Government's proposal to extend sick leave to workers with sick children. This may serve to encourage further labour market participation. However, the Chamber wishes to point out that this measure needs to be designed and implemented carefully as it may lead to further abuse of sick leave. Employers will be contributing to the consultation process leading to this measure.

Towards Ensuring A Level Playing Field

The Chamber welcomed the announced setting up of a new unit to target tax evasion through a joint effort between Inland Revenue, the VAT Department and Customs. The Malta Chamber has been extremely vociferous in the past on this subject, as it consistently argued that tax evasion, deprived the state of substantial funds that could be used better, and it placed honest businesses at a disadvantage. It has always called for a competitive and liberalised environment, fairly and equitably regulated through market surveillance. Ultimately, the Chamber argued, this would result in upholding a competitive level playing field for all the business community. The Chamber welcomes this development and offers Government all the help at its disposal for the successful implementation of this measure.

Conclusion

In conclusion, the Chamber noted that the Budget Speech this year follows on those of previous years in a number of areas, although a decline in capital expenditure, albeit marginal, is once again noted for 2017. The Chamber welcomes the announced measures in the support of business competitiveness. At the same time, the Chamber notes with regret that yet another year has been lost in implementing specific measures it had itself proposed such as those for energy tariff reduction to the detriment of Malta's general competitiveness position. All in all, however, this Budget continues to acknowledge the private sector's important role in the economy. On its part, the Malta Chamber is committed to work towards supporting the growth of business, employment and prosperity in Malta.

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