



THE MALTA CHAMBER

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Curb Inflation, Increase Competitiveness and Productivity – The Malta Chamber

The Malta Chamber of Commerce, Enterprise and Industry believes that with the persistently high inflation that the country is experiencing, it is imperative to find ways of improving the purchasing power of lower income groups without fuelling a wage inflation spiral across the board.

The discussion that should be taking place with social partners at the moment and given top priority is how to, tangibly, counter inflation. For as long as a large enough portion of the population can still afford to pay more for services, any increases in costs, including wages, will result in an increase in prices, and low income earners will find it even more difficult to keep up. Worse still, increasing wages across the board without corresponding increases in productivity, will see our competitiveness on exports being eroded and lost. The effect of this will be seen over the course of a couple of years, as larger exporters will gradually shift part of their operations to more competitive locations and shed jobs in the process. Make no mistake here – the first jobs to go are always the lower level ones, the ones of the very same people some naively think they are helping by artificially increasing minimum wages.

The Cost-of-Living-Adjustment (COLA) is there specifically to protect the purchasing power of minimum wage earners. The minimum wage has increased by €9.90 in 2023 and is expected to increase by another €13.00 in 2024. These are significant increases that are not being matched by productivity increases. There is also another mechanism that was introduced in 2017 in agreement with the social partners that provides for increases of an additional €3.00 per week per year in the minimum wage payable to employees in the first two years of employment. The 2017 mechanism together with COLA have safeguarded the income of minimum wage earners in steady employment and ensured that they do not stay on the minimum wage for long. In fact, Malta has the lowest percentage of full-time workers on minimum wage in the EU.

Performance-based pay, in the form of commissions, production bonuses and performance bonuses, is also a significant component of pay packages in the private sector. This incentivises improvements in productivity which we so badly need to remain competitive – this is what policy makers should be focusing on. Basing policy considerations strictly on basic pay grossly underestimates both labour costs for employers and take home pay.

Our inflation rate has been kept at compatible levels to the EU average through a blanket, full subsidisation of energy costs. It must be noted that our inflation rate, excluding energy, is substantially higher than the EU average, particularly in services. This is a reflection of our very tight labour market which is demanding higher wages to employ and retain capable workers, and where the employer cannot afford the premium, necessitating the employment of people in jobs for which they lack the

desired skills and qualifications. The latter effectively translates into wage inflation as well, because the employer ends up getting much less value for the same pay. Piling more artificial increases in wages on top of all this will fuel the inflation spiral even more.

Therefore, it comes as no surprise that while other countries express hope that inflation is being tamed, our own Finance Minister says that it will remain with us for longer. It certainly will if policy makers and decision takers ignore fundamental economic principles and put our country on the path of implosion.

Increasing minimum wages is not a silver bullet. The risks of fuelling higher and more persistent inflation are high. Some countries in Europe have rushed to increase the minimum wage in 2022, only to be faced with a painful recession in 2023 that is pushing struggling companies in many sectors to cut down jobs. The world is extremely unsettled, and we need to proceed with extreme caution because we can never guess what the next adverse development will be. In such circumstances, committing to a series of wage hikes over the next few years will accelerate inflationary expectations and restrict our policy responses to potential future developments. It is naive at best, suicidal at worst.

What Government can do to help low-income earners and avoid fuelling inflation further is to revise the lower income tax bands so as to ensure that the increases in minimum wage that came into force since the start of the inflation crisis in 2022 are fully tax exempt. It does not make sense to compensate people for increases in the cost-of-living through COLA, only to divert part of those increases to the Government coffers. All social partners, whether representing employers or employees, are in agreement on this.

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