Mixed reactions to 2006 budget from social partners

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In October 2005, the Maltese government unveiled its 2006 budget, which addresses a number of key issues and introduces an array of measures. However, it was the government's pre-budget decision to increase the price of petrol and surcharges on water and electricity bills that took centre stage. The social partners have expressed diverging opinions on the effectiveness of the budget, with the General Workers' Union particularly vociferous in its criticisms.

In his 2006 budget speech in late October 2005, the Prime Minister affirmed that Malta's GDP grew by 1.7% in the first nine months of 2005, up from 0.2% in 2004, and that growth of 1.1% in 2006 was anticipated. He added that the Nationalist Party government's strategies to curb the public deficit have proved to be effective, as by the end of 2005 the deficit is due to drop to 3.9% of the GDP. It is envisaged that this downward trend will continue in order to attain the projected 2.8% target by 2006.

The budget includes the introduction of the following measures:

- a weekly wage increase of MTL 2.25;
- the revision of capital gains tax on the sale of property;
- new incentives, in the form of tax exemptions and refunds, for the film industry;
- tax credits for firms investing in research and development, setting up 'back office' operations and setting up e-businesses in Malta;
- better funding for both Malta Enterprise and for marketing and branding tourism;
- privatisation of the yacht marinas, Tug Malta, Malta International Airport and Bank of Valletta;
- further refunds on the purchase of solar energy products and equipment; and
- pricing policy for pharmaceuticals and increased assistance for childcare centres.

Views of main unions

The General Workers' Union (GWU), Malta's largest union, expressed its satisfaction that the government had met its request to provide further compensation to workers, other than the cost-of-living adjustment, which should make up for the price hikes in fuel and electricity bills announced prior to the budget. However, it expressed its disappointment about the amount of the wage increase, as it feels that it is inadequate to make up for rising costs in services that have to be paid by workers and pensioners as a direct result of soaring energy prices.

GWU stated that while some of the suggestions it had put forward to government have been included in the budget, such as its request to allot full compensation to pensioners to make up for cost-of-living increases, others were completely ignored.

According to GWU, tax increases have brought about a decrease in investment, thus putting an added strain on Malta's economic situation. This is also reflected in the government's projections for economic growth in 2006, which is far less than that of the other nine new EU Member States. Moreover, inflation in 2006 is predicted to exceed 3%, placing further constraints on workers and pensioners, particularly because Malta's competitiveness in the foreign market is on the decline. GWU claims that since the 2006 budget fails to address the problems that various economic sectors are facing, workers and pensioners will have to carry the country's burden.

The general secretary of GWU argued that the Prime Minister's proposals to create more jobs and attract foreign investment do not go far to meet the demands of an economy that has, for quite a while, been registering heavy job losses in industry. According to the union, the compensatory measures proposed by the government are far from adequate to make up for the financial burdens imposed on workers through the hefty rise in electricity bills.

The Confederation of Malta Trade Unions (CMTU) claimed that, when compared to previous budgets, the 2006 budget shows a clear vision for ironing out the problems that Malta is currently facing and includes plans to implement several suggestions made by the social partners in reaction to Government's pre-budget document.

According to CMTU, the 2006 budget should be considered in the light of the 38% increase in water and electricity bills announced a week prior to the budget. CMTU stated that, while the MTL 0.50 compensation would not suffice for the majority of workers and pensioners to cope with this increase, on the other hand, higher compensation would have put further financial constraints on employers. In line with GWU, CMTU had expected the government to alter the tax bands in order to ensure that the Maltese population's expenditure remains constant. CMTU believes that Government's success in bringing the country's deficit down to less than 3% of GDP will ensure a smoother transition when Malta adopts the euro in January 2008. CMTU views the 2006 budget as an attempt to boost the country's economy, pointing out that it has allocated more funding for education and the environment.

The Union of United Workers (UHM), the largest union within CMTU, stated that the 2006 budget should not be seen in isolation, but in the context of the government's long-term economic and social plan. UHM expressed its satisfaction with the decrease in the deficit and the government's decision to take on board several of the union's suggestions, especially that of promptly compensating workers and pensioners in light of increases in utility bills and the decision to refrain from announcing further tax increases. However, according to UHM, despite such compensation there will still be a decrease in the purchasing power of workers' pay packets. UHM commended the government's introduction of tax credits for companies investing in training and described the substantial amount invested in education as a prudent investment.

Employers' reactions

According to the Malta Employers' Association (MEA), the 2006 budget tackles various aspects of the economy. It contains a number of positive measures, particularly in the fields of education and the environment. However, MEA expressed concern over the compensation to workers, arguing that many companies are unable to carry this additional financial burden. MEA stressed that any compensation should not only reflect increases in the cost of living but should also take into account productivity. The impact of these increases in wages on employers should have been evaluated and analysed. MEA is also concerned about the current proposed pension reforms and the effect they may have on employers' expenditure.

The Malta Chamber of Commerce (COC) stated that the 2006 budget encompasses the realities of global economics. COC acknowledged the fact that the government is trying to improve the country's performance by reducing the deficit and by boosting the performance of various sectors, namely, the tourism and manufacturing industries, small and medium enterprises and education, all of which are major contributors to Malta's economy. COC also highlighted the fact that the government seems determined to put a break on its expenditure. On the other hand, in line with MEA, COC aired its concern about the effects of wage increases on the competitiveness of both the private sector and the country as a whole. According to the Chamber, wage increases must also be seen in context of the recent blow that the private sector has suffered as a result of the increase in electricity and fuel prices. COC stated that this measure was unnecessary, since not all workers pay electricity bills, and it could be the case that there are workers living under the same roof that are required to pay only one bill.

Focusing on the projected economic growth of the country in 2006, the Federation of Industry (FOI) commented that Malta's growth is lagging behind. It is less than the EU average of 2% and the average of 4% of the other nine new EU Member States. FOI acknowledged that the 2006 budget targets those areas that are experiencing difficulties, namely education, pensions, tourism and health amongst others. FOI is in favour of the government's proposals to encourage privatisation. However, it expressed concern about companies that will experience additional financial constraints since they will have to pay heftier taxes on fuel as a result of the increase in fuel prices. Moreover, in line with the other employers' associations, FOI stated that the wage increases announced in the 2006 budget will prove to be a major setback for manufacturing industry, as they will harm the competitiveness of local industry. FOI concluded that the wage increase was allotted without providing measures for increasing productivity and criticised the government for creating a precedent by giving an increase above the statutory wage increase based on the cost-of-living mechanism.

The Malta Hotels and Restaurants Association (MHRA) is worried that its hotels, especially those that have already finalised contracts with tourism operators for 2006, will have to carry an added burden due to the compensation for the increase in the prices of water and electricity. On the other hand, MHRA expressed satisfaction with the government's proposals to help the tourism industry by restructuring the Malta Tourism Authority (MTA), introducing the operations of low-cost airlines from Malta, preserving historical sites, and completing the ports connecting Malta and Gozo. MHRA was pleased with the proposed increase in tourist zones, as well as with the proposed allocation of funds for improving the tourist service. MHRA also welcomed the MTL 1.5 million allotted to the film industry.

The General Retailers and Traders Union (GRTU) stated that, following the government's announcement of increases in water, electricity and fuel prices a week prior to the budget, the 2006 budget did not include any drastic measures. According to GRTU, the 2006 budget enhanced business, which has become rather stagnant in recent times. GRTU also welcomed the government's decision to cut the capital gains tax on property from 35% to 12%. However, in line with other social partners, GRTU stated that the government should have altered the tax bands to increase consumption levels, even though, according to GRTU, the compensation for the rising cost of living will increase the people's spending power.

Commentary

The government tried to divorce the increases in the electricity bills from the budget by announcing them a few days before the budget. However the social partners could not help referring to these hefty increases, with GWU being the most vociferous in its protests and complaints. The government, for its part, claimed that its measures have to be evaluated in the light of its fiscal policy objectives and the constraints of external forces such as the rise of the price of fuel oil. Most of the social partners made their comments in the context of this scenario. Indeed, overall, with the exception of GWU, they were relatively mild in their criticism. On the other hand, GWU still insists that the government should have strived harder to alleviate the financial burdens on workers. Following an inconclusive meeting with the Prime Minister, it embarked on a campaign to make the government revise its measures, threatening to resort to industrial action if its demands are not met. (Manwel Debono and Charles Tabone, Malta Workers' Participation Development Centre)