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Government abandons balanced budget plans

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Government has abandoned its quest for a balanced budget by 2011, as pledged by Finance Minister Tonio Fenech during last year's Budget speech.

Fenech is now projecting a budget deficit of 3.79 per cent for 2009 (€217 million), a slight increase to 3.93 per cent of GDP for 2010 (€233 million), and down to 3.2 per cent in 2011 (€200 million). Only in 2012 - with a projected deficit of 2.9 per cent (€190 million euros) – government deficit is forecasted to fall below the 3 per cent reference value as set out in the EU's Stability and Growth Pact.

The Finance Minister has also revised Malta's GDP-to-debt-ratio to 68.7 per cent in 2010, 68.2 per cent in 2011 and 67.2 per cent in 2012, always higher than the 60 per cent debt-to-GDP standard ratio set by the EU.

As to the GDP, the Finance Minister is now projecting a contraction of - 2 per cent for 2009, which is projected to change to a positive projection of + 1.0 per cent in 2010.

In the 2008 Budget Speech, Tonio Fenech had forecast that the Budget deficit for that year would have dropped by 2.0 per cent and to -1.2 per cent in 2009, and with a surplus of 0.2 per cent in 2010.

A year later, in the 2009 Budget Speech, the Finance Minister had substantially revised its Budget deficit forecast, with 2008 reaching -3.49 per cent, and 2009 reaching 1.65 per cent. Next year, government is expecting a deficit reduction of -0.40 in 2010.

The Finance Minister had been projecting a surplus budget by 2011, but even those forecasts were too optimistic, as both the European Commission's Spring Economic Forecasts in May and the IMF's interim report in July had revealed.

In the Spring Economic Forecasts, Malta's budget deficit was forecast at 3.6 per cent for year, falling to 3.2 per cent in 2010, just 0.2 per cent short of the threshold set by the EU.

As to the public debt figures, the EC had also forecast a growth beyond the 60 per cent limit set out by the Stability and Growth Pact, with 67.0 per cent for 2009 and 68.9 per cent for next year.

In its final report in September 2009, the International Monetary Fund (IMF) had warned that the fiscal deficit was expected to narrow marginally to 4.5 per cent of GDP in 2009.

However, excluding the substantial one-offs of 2008, the balance would deteriorate by over 0.5 percentage point of GDP, the IMF had insisted.

The IMF report had also a harsher forecast that Malta's budget deficit would only fall below the 3 per cent threshold set out by the EU's Stability and Growth Pact only in 2013, with public debt reaching 70 per cent of GDP.

Worldwide renowned Coca-Cola being bottled at the brand new General Soft Drinks plant in Marsa. Mizzi Organisation has successfully completed the €27 million project attaining recognition for best practices in the Coca-Cola system. See full interview with GSD Managing Director Brian Mizzi pages 6-7

Employers claim Budget measures "not enough"

The Malta Employers' Association (MEA) praised various budget measures taken to address various economic sectors, however they warned that "the main question is whether the thrust of these measures is sufficient to pull the economy out of the recession," MEA Director-General Joe Farrugia said.

Government had been "cautious" to introduce an innovative and wide ranging set of measures whilst keeping control of the fiscal deficit. "One questions whether a stronger stimulus package, even at the cost of a higher fiscal deficit for 2010, would have been a more effective strategy to steer the economy towards positive real GDP growth, especially given that the deficit is lower than the average for EU economies that are also facing a recession," Farrugia asked.

Government, the MEA said, had "been unable to provide a more powerful economic stimulus because of insufficient funds. "This is mostly due to the fact that Government's commitments to finance an overburdened public sector and welfare system have left it with no room to maneuver," the MEA Director-General charged. This situation had left "the economy vulnerable" and might delay economic recovery. However, the budget "does contain provisions to reduce recurrent expenditure," Farrugia explained.

The MEA warned that while control of inflation should be a priority, "the Price Watch Unit should focus exclusively on price monitoring" and not be used to "persecute legitimate traders, it must in no way hinder fair competition," the MEA Director-General insisted. It could also be used to investigate movements in prices of items in the basket of goods and services that make up the RPI, such as vegetables and fish. The €2.5 fund allocated to help enterprises in difficulty might be "insufficient" to deal with the demands of companies who were still facing the brunt of the recession during 2010. The MEA also slammed the granting of the subsidy granted by Government to partially alleviate the proposed new utility tariffs.

"Considering that the funds allocated to subsidise household utility rates amount to €10m leads to the conclusion that government has succumbed to political pressures at the expense of economic priorities," the MEA Director-General warned.

It reiterated its position that COLA would be "a factor that can threaten jobs, and that can also lead to further inflationary pressures in 2010".

Finally, the MEA also called on the Government to announce immediately the revisions in utility tariffs to consumers "to remove uncertainties during the upcoming Christmas season"

Tariffs causing 'unnecessary uncertainty'

The Malta Chamber of Commerce, Enterprise and Industry (MCCEI), in its post-budget reaction, warned that the manner in which the utility tariffs' issue has been handled has created uncertainty.

"This may unnecessarily dampen local economic momentum," MCCEI President Helga Ellul insisted. "In this sense, it would have been better had the matter been clarified before next January," she added.

The Chamber had welcomed "a firm commitment" in this Budget to stimulate investment and support companies – both large and small.

"This approach is welcomed as a follow-up to the targeted support measures that have been granted since the beginning of the year. The Malta Chamber believes that to create more jobs, the country must encourage employers to do so," the MCCEI said.

However, within the ambit of pre-Budget consultations, the Malta Chamber expressed its disappointment "that the social partners could not agree on a set of labour flexibility and other measures that could be introduced to mitigate the effect of COLA on employers' labour costs". "Consequently, the Budget Speech lacks measures necessary to justify the salary increase from a performance/productivity point of view," the MCCEI warned. ▸ page 10