

Business Today



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In collaboration with:



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Economists fear forthcoming recession

Charlot Zahra

Asked to comment on the interim forecast statistics issued by the European Commission (EC) on Monday, two economists warned Business Today that the Maltese economy could be facing a recession by the end of the year.

Veteran economist Karm Farrugia said we are in danger of falling into a recession "soon if no action is taken and we continue to remain complacent, making people believe we can talk ourselves out of the clutches of a recession in the belief that our economy is ultra-resilient."

In the interim economic forecasts issued by the European Commission on Monday, the Commission projected that Malta's Gross Domestic Product (GDP) would plummet from 2.1 per cent last year to 0.7 per cent in 2009.

This contrasted sharply with the forecasts made by Finance Minister Tonio Fenech in his Budget Speech for 2009, who was projecting a GDP growth rate of 3.0 per cent for 2008, which would drop to 2.5 per cent this year.

In its report, the European Commission said that the pace of

economic expansion "eased in the first three quarters of 2008, driven by declining net exports".

In his comment to Business Today, Farrugia said he was "not surprised at all" with the European Commission's lugubrious forecast for 2009.

"That's why it is imperative that the government announces a strong stimulus plan before we are caught up in an inevitable recession. Why should we be different from anybody else?" he asked.

"Let's wait until we are told of the results during last year's final quarter - Government already knows it, I believe," the veteran economist told Business Today.

On his part, senior economist and Labour MEP candidate Edward Scicluna said that it was "annoying" for most economic observers having to rely on the European Commission for reliable computed statistics and forecasts.

"There is no reason whatsoever for the Ministry of Finance not to come out clean and clear with regards to reliable public finance and economic forecasts.



"These statements of 'wait and see', or 'we want to be cautious and will not comment' are not acceptable," Scicluna told Business Today yesterday.

"Can you imagine a business firm basing its investment on the government figure when two weeks later the EU comes out with totally different figures?" Scicluna

asked.

"We are not talking of marginal changes but difference of nearly two percentage drop in the GDP. The decline in exports and tourism earnings started in the beginning of 2008. Every quarter reported a significant drop on last year," he explained.

In November 2008, exports alone

plummeted by 30 per cent, so this should have been factored in the last Budget estimates. "We want reliable data, not the government's wishful thinking on the subject," Scicluna told Business Today.

Asked about the possibility of a recession in view of the country's worsening financial situation, Scicluna told Business Today: "When you have a growth rate of less than one percentage point as the average annual rate it is not surprising that one or possible two quarters will see a fall in the GDP.

"If these happen to be consecutively then technically we would be declared in a recession. I would then think this could happen in the second part of the year," Scicluna warned.

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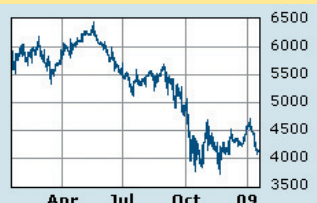
World Business Highlights

Chrysler Trades 35% Stake to Fiat for Access to Small Cars, World Markets Chrysler LLC, rescued last month with \$4 billion in federal loans, is trading a 35 percent stake to Italy's Fiat SpA as the two companies work to create viable carmaking operations.

State Street Plunges Most Since 1984 on Fund Costs, Job Cuts, Bond Losses State Street Corp., the world's largest money manager for institutions, fell the most since 1984 in New York trading after unrealized bond losses almost doubled and it propped up funds to protect investors.

Bank of America Leads Financial Shares Lower on Concern Losses Will Mount U.S. bank stocks fell, led by Bank of America Corp., on concern that losses will continue to mount after the lender last week posted its first loss since 1991.

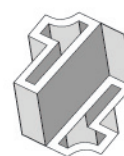
FTSE 100



The 44th President of the United States, Barack Obama, takes the oath given by US Supreme Chief Justice John Roberts, Jr. (not in photo) yesterday, during the inauguration ceremony in Washington

Markets

Security	Closing Prices in Euro Tue 13-Jan-09	Closing Prices in Euro Tue 20-Jan-09	% Change from previous wk
Bank of Valletta p.l.c.	3.000	2.994	-0.200%
HSBC Bank Malta p.l.c.	2.750	2.700	-1.818%
Lombard Bank p.l.c.	3.000	3.000	0.000%
Middlesea Insurance p.l.c.	2.550	2.550	0.000%
Simonds Farsons Cisk p.l.c.	1.900	1.900	0.000%
GO p.l.c.	1.760	1.870	6.250%
IHI p.l.c.	0.870	0.870	0.000%
Plaza Centres p.l.c.	1.730	1.730	0.000%
FIMBank p.l.c. (US\$)	\$1.450	\$1.450	0.000%
Malta International Airport p.l.c.	2.490	2.490	0.000%
GlobalCapital p.l.c.	1.991	1.991	0.000%
Datatrak Holdings p.l.c.	0.190	0.190	0.000%
San Tumas Shareholdings p.l.c.	3.100	3.200	3.226%
Medserv p.l.c.	3.997	3.997	0.000%
Grand Harbour Marina p.l.c.	1.980	1.980	0.000%
6pm Holdings p.l.c. (GBP)	£0.700	£0.700	0.000%
Crimsonwing p.l.c.	0.497	0.497	0.000%
MaltaPost p.l.c.	0.817	0.820	0.367%
RS2 Software p.l.c.	0.799	0.799	0.000%



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